



PART I

TAX

REVIEW



1

**IRB
(INLAND REVENUE BOARD)
GUIDELINES AND RULINGS**

SUMMARY OF PUBLIC RULINGS ISSUED BY INLAND REVENUE BOARD

NO	TITLE	DATE OF ISSUE	OBJECTIVE
i	Public Ruling No. 3/2005 Living Accomodation Benefit Provided for the Employee by the Employer	11.08.2005	This Ruling Explains: a) the tax treatment of living accomodation provided for an employee by his employer; b) the method used to calculate the value of that benefit; c) the circumstances in which the value of that benefit can be reduced; and d) the expenses related to such benefit which can be deducted for income tax purposes and the method of calculation.
ii	Public Ruling No. 2/2005 Computation Of Income Tax Payable By A Resident Individual	06.06.2005	This Rulings explains the deductions that are allowable against the total income of an individual in computing his chargeable income for a year of assessment and the income tax computation for an individual for a year of assessment.
iii	Public Ruling No. 1/2005 Computation Of Total Income for Individual	05.02.2005	This Ruling explains how total income in respect of an individual is computed.
iv	Public Ruling No. 5/2004 Double Deduction Incentive on Research Expenditure	30.12.2004	This Ruling explains the particular activitie that qualify as research, the expenditure that qualifies for double deduction and the general procedure for the application for the double deduction incentive in respect of research expenditure.

NO	TITLE	DATE OF ISSUE	OBJECTIVE
v	Public Ruling No. 4/2004 Employee Share Option	09.12.2004	<p>This Ruling explains the tax treatment in respect of a benefit arising from an employee share option scheme (ESOS) received by an employee from his employer by reason of his employment. It also explains the following:</p> <ul style="list-style-type: none"> a) the circumstances in which the benefit from ESOS will arise; b) determination of the amount or value to be taken as gross income from a source of employment of an employee; c) employer's responsibilities upon launching an ESOS and employee's responsibilities on receiving ESOS benefit.
vi	Public Ruling No. 3/2004 Entertainment Expense	08.11.2004	This Ruling explains the tax treatment of entertainment expense as a deduction against gross income from a business.
vii	Public Ruling No. 2/2004 Benefits-in-Kind	08.11.2004	This Ruling explains the tax treatment in relation to benefits-in-kind (BIK) received by an employee from his employer for exercising an employment and the method of ascertaining the value of BIK in order to determine the amount to be taken as gross income from employment of an employee.
viii	Public Ruling No. 1/2004 Income from Letting of Real Property	30.06.2004	<p>This Ruling considers:</p> <ul style="list-style-type: none"> a) the treatment of rent as a non-business source of income under section 4(d) of the Income Tax Act 1967 (the Act)

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			<ul style="list-style-type: none"> b) the situations or circumstances where rent or income from the letting property can be treated as business income of a person under section 4(a) of the Act c) how all properties of a person are to be grouped in several categories in computing the statutory income under section 4(d) of the Act.
ix	Public Ruling No. 2/2003 "Key-man" Insurance	30.12.2003	This Ruling explains the deductibility of premium expense paid for a "key-man" insurance policy; and the taxability of insurance proceeds received on "key-man" insurance.
x	Public Ruling No. 1/2003 Tax Treatment of Leave Passage	05.08.2003	<p>This Ruling explains the tax treatment of:</p> <ul style="list-style-type: none"> a) leave passage provided for the employee by or on behalf of his employer as a benefit or amenity taxable under gains or profits from an employment; and b) expenditure incurred on leave passage provided to the employee by the employer in ascertaining the adjusted income of the employer.
xi	Public Ruling No. 2/2002 Allowable Pre-operational & Pre-commencement of Business Expenses for Companies	08.07.2002	<p>This Ruling applies in respect of pre-operational and pre-commencement of business expense allowable to a company under the following:</p> <ul style="list-style-type: none"> a) Income Tax (Deduction of Incorporation Expenses) Rules, 1974 [p.u.(A) 134 /1974] b) Schedule 4B, Income Tax Act 1967 – Qualifying Pre-operational Business Expenditure

NO	TITLE	DATE OF ISSUE	OBJECTIVE
			c) Income Tax (Deductions for Approved Training) Rules 1992 [P.U.(A)61 /1992] – as amended by Income Tax (Deductions for Approved Training) (Amendment) Rules 1995 [P.U.(A)111 /1995]; and Income Tax (Deductions of Pre-commencement of Business Training Expenses) Rules 1996 [P.U.(A) 160 /1996].
xii	Public Ruling No. 1/2002 Deduction for Bad & Doubtful Debts and Treatment of Recoveries	02.04.2002	This Ruling applies in respect of the deduction of bad and doubtful debts under section 34 and the treatment of recoveries under section 30 of the Income Tax Act 1967. It is effective for year of assessment 2002 and subsequent years of assessment.
xiii	Public Ruling No. 7/2001 Basis Period for Business & Non-Business Sources (Companies)	30.04.2001	This Ruling applies in respect of section 21A of the Income Tax Act 1967. It is effective for the year of assessment 2001 and subsequent years of assessment. This Ruling supersedes Public Ruling 2/2000 dated March 1, 2000 where it relates to companies.
xiv	Public Ruling No. 6/2001 Basis Period for a Business Source (Individuals & Persons other than Companies/Co-operatives)	30.04.2001	This Ruling applies in respect of sections 20 and 21 of the Income Tax Act 1967. It is effective for the year of assessment 2001 and subsequent years of assessment. This Ruling supersedes Public Ruling 3/2000 dated March 1, 2000.
xv	Public Ruling No. 5/2001 Basis Period for A Business Source (Co-operatives)	30.04.2001	This Ruling applies in respect of sections 20 and 21 of the Income Tax Act 1967. It is effective for the year of assessment 2001 and subsequent years of assessment. This Ruling supersedes Public Ruling 2/2000 dated March 1, 2000 where it relates to co-operatives.

NO	TITLE	DATE OF ISSUE	OBJECTIVE
xvi	Public Ruling No. 4/2001 Basis Period for a Non-Business Source (Individuals & Persons other than Companies)	30.04.2001	This Ruling applies in respect of sections 20 and 21 of the Income Tax Act 1967. It is effective for the year of assessment 2001 and subsequent years of assessment. This Ruling supersedes Public Ruling No. 1/2000 dated March 1, 2000.
xvii	Public Ruling No. 3/2001 Appeal Against an Assessment	18.01.2001	This Ruling applies in respect of section 99, 100, 101 and 102 of the Income Tax Act 1967. It is effective for the year of assessment 2001 and subsequent years of assessment.
xviii	Public Ruling No. 2/2001 Computation of Initial & Annual Allowances in Respect of Plant & Machinery	18.01.2001	This Ruling applies in respect of the computation of annual allowances for plant and machinery under paragraph 15, Schedule 3, Income Tax Act 1967 and the Income Tax (Qualifying Plant Annual Allowances) Rules 2000 [P.U.(A) 52/2000]. This Ruling is effective for year of assessment 2000 (current year basis) and subsequent years of assessment.
xix	Public Ruling No. 1/2001 Ownership of Plant and Machinery for the Purpose of Claiming Capital Allowances	18.01.2001	This Ruling applies in respect of ownership of plant and machinery for the purpose of claiming initial and annual allowances under paragraphs 10 & 15, Schedule 3 to the Income Tax Act, 1967. It is effective from the year of assessment 2000 (current year basis) and subsequent years of assessment.

The above Public Rulings are available on Inland Revenue Board's website at www.hasilnet.org.my.



Public Ruling No. 3/2005 **Living Accommodation Benefit Provided for the Employee by the Employer**

- 1.0 This Ruling explains:
 - i. the tax treatment of living accommodation provided for an employee by his employer;
 - ii. the method used to calculate the value of that benefit;
 - iii. the circumstances in which the value of that benefit can be reduced; and
 - iv. the expenses related to such benefit which can be deducted for income tax purposes and the method of calculation.
- 2.0 The related provisions for the benefit of living accommodation provided for the employee by his employer are sections 2, 13, 18, 32, 33 and 38 of the Income Tax Act, 1967 (ITA).
- 3.0 The words used in this Ruling have the following meanings:
 - 3.1 “Employer”, in relation to an employment, means -
 - a. where the relationship of master and servant subsists, the master;
 - b. where that relationship does not subsist, the person who pays or is responsible for paying any remuneration to the employee who has the employment, notwithstanding that that person and the employee may be the same person acting in different capacities.
 - 3.2 “Defined value”, in relation to living accommodation provided for an employee by his employer, means -
 - a. where the accommodation is not affected by any written law providing for the restriction or control of rents and the person so providing the accommodation holds the accommodation on lease the rent which is or would have been paid if the accommodation is or had been unfurnished and the lessor and lessee were independent persons dealing at arm’s length;
 - b. in any other case, the “rateable value” or, in the absence of a rateable value, the “economic rent”.

- 3.3 "Rateable value", in relation to premises, means the annual value as determined for rating purposes by the local rating authority such as City Hall, the Municipal Council and other similar authorities for the purpose of imposition of assessment rates.
- 3.4 "Market value", in relation to any thing, means the price which that thing would fetch if sold in a transaction between independent persons dealing at arm's length.
- 3.5 "Employee", in relation to an employment, means -
- a. where the relationship of master and servant subsists, the servant;
 - b. where that relationship does not subsist, the holder of the appointment or office which constitutes the employment.
- 3.6 "Gross income from an employment under paragraph 13(1)(a) of the ITA" includes wages, salary, remuneration, leave pay, fee, commission, bonus, gratuity, perquisite or allowance (whether in money or otherwise) in respect of having or exercising the employment.
- 3.7 "Employment" means -
- a. employment in which the relationship of master and servant subsists;
 - b. any appointment or office, whether public or not and whether or not that relationship subsists, for which remuneration is payable.
- 3.8 "Director", in relation to a company, includes -
- a. any person occupying the position of director (by whatever name called);
 - b. any person in accordance with whose directions or instructions the directors are accustomed to act; and
 - c. any person who is -
 - a manager of the company or otherwise concerned in the management of the company's business;
 - remunerated out of the funds of that business; and
 - either on his own or with one or more associates within the meaning of subsection 139(7) of the ITA, is the beneficial owner of (or able directly or through the medium of other companies or by any other indirect means to control) 20% or more of the ordinary share capital of the company.

- 3.9 “Service director”, in relation to a company, means a director who is employed in the service of the company in a managerial or technical capacity, and is not, either on his own or with any associate or associates, the beneficial owner of (or able directly or through the medium of other companies or by any other indirect means to control) more than 5% of the ordinary share capital of the company.
- 3.10 “Premises” means a building (or, where a building is divided into separate parts used or capable of being used as separate residential flats or otherwise as separate tenements, any one of those parts) and includes -
- a. any other building or part of a building used or intended to be used in conjunction therewith as domestic offices or for some other ancillary purpose; and
 - b. any land attached thereto for use by way of amenity as garden or grounds.
- 3.11 “Economic rent”, in relation to any premises or part of any premises, means the rent at which premises might reasonably be expected to be let if -
- a. the lessor covenanted to pay the cost of fire insurance, public rates and work of repair and maintenance; and
 - b. any written law providing for the restriction or control of rents were disregarded.
- 3.12 “Controlled company” means a company having not more than fifty members and controlled, in the manner described by section 139 of the ITA, by not more than five persons.
- 3.13 “Basis period” for a year of assessment in relation to an employment source of an individual is year ended 31 December.
- 3.14 “Year of assessment” (Y/A) means calendar year.
- 4.0 Tax treatment of living accommodation benefit provided
- 4.1 Living accommodation provided for the employee by his employer is a benefit-in-kind which is not convertible into money. This benefit which arises in respect of having or exercising an employment is to be included as gross income of the employee from the employment.
- 4.2 The value of this benefit is taxable specifically under paragraph 13(1)(c) of the ITA. The amount to be taken into account in the gross income from employment is the amount in respect of the use or enjoyment by the employee of living accommodation in Malaysia (including living accommodation in premises occupied by his employer) provided for the employee by or on behalf of the employer rent free or otherwise.

- 4.3 The value of the benefit to be treated as gross income from employment under paragraph 13(1)(c) of the ITA is the value of the unfurnished accommodation, without taking into account the value of other benefits or amenities provided. Therefore, if furniture is provided together with the accommodation, the value of this benefit (furniture) is to be included as gross income from employment under paragraph 13(1)(b) of the ITA.
- 4.4 The value of living accommodation benefit to be taken into account includes not only that benefit for the employee but also for his spouse, family, servants, dependants or guests.
- 5.0 Computation of value of living accommodation
- 5.1 The computation of the value of living accommodation provided for employees by employers can be divided into 3 categories as follows -
 - i. Living accommodation provided for the employee (other than officers of Government or Statutory Bodies) or service director by the employer;
 - ii. Living accommodation provided for the director (not service director) of a controlled company by the employer; and
 - iii. Living accommodation provided for the employee/service director/officer of the Government/Statutory Bodies.
- 5.2 First Category: Living accommodation provided for employee (other than officer of Government/Statutory Bodies) or service director by the employer
 - 5.2.1 The computation is in accordance with paragraph 32(2)(a) of the ITA. The amount of value of living accommodation to be taken into account in the gross income from employment is -

Defined value of the living accommodation Or 30% of the gross income from employment under paragraph 13(1)(a) of the ITA Whichever is the less

Example 1

Encik Ali, an accountant in a housing development company, has gross income from employment under paragraph 13(1)(a) of the ITA amounting to RM120,000 for the year ended 31.12.2005. His employer also provides for him rent free living accommodation throughout the year 2005. The defined value of the living accommodation is RM24,000.

Gross income from employment of Encik Ali under paragraph 13(1)(c) of the ITA for Y/A 2005 is calculated as follows:

$$30\% \times \text{RM}120,000 = \text{RM}36,000$$

Or

$$\text{Defined value of living accommodation} = \text{RM}24,000$$

Whichever is the less

Therefore, the value of living accommodation benefit received by Encik Ali for Y/A 2005 is RM24,000.

Example 2

Puan Bee, a senior manager in an oil production company, has gross income from employment under paragraph 13(1)(a) of the ITA amounting to RM240,000 for the year ended 31.12.2005. Her employer provides for her rent free living accommodation benefit in the year 2005. The premises is owned by her employer. The annual value of the premises for the year 2005 as determined by the local authority is RM12,000.

The gross employment income of Puan Bee under paragraph 13(1)(c) of the ITA for Y/A 2005 is calculated as follows:

$$30\% \times \text{RM}240,000 = \text{RM}72,000$$

Or

$$\text{Defined value for the living accommodation} = \text{RM}12,000$$

Whichever is the less

Therefore, the value of living accommodation benefit received by Puan Bee for Y/A 2005 is RM12,000.

(Note: Under the circumstances where no rent is paid for the living accommodation, the defined value is the rateable value as determined by the local rating authority for purposes of payment of assessment rates.)

- 5.2.2 In making the comparison between 30% of the gross income from employment under paragraph 13(1)(a) of the ITA with the defined value of the living accommodation, the comparison should be made in respect of the same period.

Example 3

On 1.7.2005, Encik See commences work with Syarikat XYZ Sdn Bhd, as a research officer. He is paid a salary of RM6,000 a month. Besides this, his employer also provides for him rent free living accommodation until the end of the year. The rent paid by the employer in respect of the living accommodation is RM1,000 a month.

Gross income from employment of Encik See under paragraph 13(1)(c) of the ITA for Y/A 2005 is calculated as follows:

$$30\% \times (6 \text{ months} \times \text{RM}6,000) = \text{RM}10,800$$

Or

$$\text{Defined value* of living accommodation} = \text{RM}1,000 \times 6 \text{ months} = \text{RM}6,000$$

Whichever is the less

Therefore, the value of living accommodation benefit received by Encik See for Y/A 2005 is RM6,000.

In this example, the comparison between 30% of the gross income from employment under paragraph 13(1)(a) of the ITA and the defined value of the premises is in respect of the same period that is from 1.7.2005 to 31.12.2005.

(Note: Defined value is the rent paid by the employer on that living accommodation).*

- 5.2.3 Paragraph 32(3)(c) of the ITA allows the value of living accommodation benefit to be reduced appropriately if:
- i. the living accommodation is shared with other employees;
 - ii. the employee is required to reside in the particular premises; or
 - iii. the employee is required or expected by the employer to use part of the living accommodation for the advancement of the employer's interests and in order that it may be so used, it is larger than the employee would otherwise need.

The defined value of the accommodation can be appropriately reduced to an amount which is just and reasonable in all the circumstances. Some examples of the basis of apportionment which can be used are:

- by ascertaining the ratio of the floor space used for the employer's business to the floor area of the premises: or
- by calculating the number of days in the year the premises is used for entertaining or accommodating the employer's customers.

5.2.4 In making the adjustment for the reduction of the value of living accommodation benefit, it is only the defined value which is adjusted and not the result of the 30% calculation on the gross income from employment under paragraph 13(1)(a) of the ITA.

Example 4

Cik Dee, an anaesthetist in a private hospital, has gross income under paragraph 13(1)(a) of the ITA amounting to RM120,000 for the year ended 31.12.2005. Cik Dee is provided rent free living accommodation benefit throughout the year 2005. This benefit is shared with another doctor who works at the same hospital. The defined value of that living accommodation is RM30,000.

Gross income from employment of Cik Dee under paragraph 13(1)(c) of the ITA for Y/A 2005 is calculated as follows:

$$30\% \times \text{RM}120,000 = \text{RM}36,000$$

Or

$$\text{Defined value of the living accommodation} = 1/2 \times \text{RM}30,000 = \text{RM}15,000$$

Whichever is the less

Therefore, the value of living accommodation benefit received by Cik Dee for Y/A 2005 is RM15,000.

Example 5

Encik Ee, a service director in a controlled company, has gross income from employment under paragraph 13(1)(a) of the ITA amounting to RM150,000 for the year ended 31.12.2005. He is also provided with the benefit of living accommodation rented by his employer at the rate of RM4,000 a month. The living accommodation is too large for his needs and he frequently entertains his employer's clients in the premises provided. He has ascertained that 1/3 of the premises is used for the official purpose of the company.

Gross income from employment under paragraph 13(1)(c) of the ITA which is taken into account on Encik Ee for Y/A 2005 is:

$$30\% \times \text{RM}150,000 = \text{RM}45,000$$

Or

$$\text{Defined value}^* \text{ of the premises} = \text{RM}4,000 \times 12 \times \frac{2}{3} = \text{RM}32,000$$

Whichever is the less.

(Note*: Defined value is the rent paid by the employer on that living accommodation)

Therefore, value of living accommodation under paragraph 13(1)(c) of the ITA is RM32,000.

5.3 Second Category: Living accommodation provided for directors of controlled companies by the employer

5.3.1 For this category, the computation is in accordance with paragraph 32(3)(a) of the ITA. The value of living accommodation to be taken into account as part of the gross income from employment is -

The defined value of the living accommodation

5.3.2 The computation is made without any -

- comparison with 30% of the gross income from employment under paragraph 13(1)(a) of the ITA.
- adjustment on the defined value of the premises in circumstances if -
 - the premises is larger than the director would otherwise need; or
 - the director is required to reside in the particular premises.

5.3.3 However, the defined value can be adjusted appropriately if the living accommodation is shared with other employees working in the same company.

Example 6

Encik Alf, a director (not a service director) of a controlled company has gross income from employment under paragraph 13(1)(a) of the ITA amounting to RM200,000 for the year ended 31.12.2005. He also enjoyed living accommodation benefit provided for by the employer. Rent paid by his employer towards the living accommodation is RM4,800 a month including rent on the furniture amounting to RM1,200 a month. Throughout the year 2005, the premises is shared with another director who is employed in the same company.

The computation of the value of living accommodation under paragraph 13(1)(c) of the ITA in respect of Encik Alf for Y/A 2005 is as follows:

$$1/2 \times (\text{RM}4,800 - \text{RM}1,200^*) \times 12 = \text{RM}21,600$$

(Note: The rent paid on the furniture is excluded from the computation of the value of living accommodation under paragraph 13(1)(c) of the ITA. The rent of RM1,200 each month is considered to be a benefit-in-kind and assessed under paragraph 13(1)(b) of the ITA. However, in determining the gross income from employment under paragraph 13(1)(b) of the ITA, the employer can opt to use the value as determined in the Public Ruling No. 2/2004 on Benefits-in-Kind).*

5.4 Third Category: Living accommodation for employee / service director / Government or Statutory Body officer

5.4.1 Where the living accommodation provided for any employee or director except a director (not a service director) of a controlled company, is -

- i. in a hotel, hostel or similar premises; or
- ii. any premises in a plantation or in a forest; or
- iii. any premises which although in a rateable area are not subject to rates,

the amount to be taken into account as value of living accommodation under paragraph 13(1)(c) of the ITA is -

An amount equal to 3% of the gross income from employment under paragraph 13(1)(a) of the ITA

For this category, the computation is in accordance with paragraph 32(2)(b) of the ITA.

5.4.2 For government officers in occupation of assisted accommodation for example, mess, chalet or hotel or premises rented from the private sector, the amount to be taken into account as living accommodation benefit under paragraph 13(1)(c) of the ITA is 3% of the gross income from employment under paragraph 13(1)(a) of the ITA without any deduction for rent charged by the Government.

5.4.3 However, where officers occupying government quarters have to pay economic rent based on the Government ruling, the value of accommodation on such government quarters will not be included as gross income from employment under paragraph 13(1)(c) of the ITA. However, any housing allowance received by the officer will be included as gross income from employment under paragraph 13(1)(a) of the ITA.

- 5.4.4 Where the premises is owned by a statutory body and it is being provided to the employee either rent free or at nominal rent, the amount to be taken into account as living accommodation benefit under paragraph 13(1)(c) of the ITA is 3% of the gross income from employment under paragraph 13(1)(a) of the ITA .
- 5.4.5 Where the premises is owned by the statutory body and the employee occupying it has to pay economic rent based on the Statutory Bodies ruling, the value of accommodation on the premises provided will not be included as gross income from employment under paragraph 13(1)(c) of the ITA.
- 5.4.6 Where living accommodation is provided in premises which is rented by the statutory body and the employee is not charged rent or charged nominal rent for occupying it, the value of such accommodation is 3% of the gross income from employment under paragraph 13(1)(a) of the ITA.
- 5.5 Living accommodation provided for part of the basis period
- 5.5.1 Where living accommodation in the first category to the third category is provided for a period of less than 12 months in a basis period, the amount to be taken into account as a benefit under paragraph 13(1)(c) of the ITA should be reduced appropriately.
- 5.5.2 The basis of reduction is the period for which the accommodation is provided and not the actual period of occupation.

Example 7

Where living accommodation that is provided to Encik Ali in Example 1 is for the period from 1.7.2005 to 31.12.2005, his gross income from employment under paragraph 13(1)(c) of the ITA for Y/A 2005 is calculated as follows:

$$30 \% \times \text{RM}120,000 = \text{RM}36,000$$

Or

$$\text{Defined value of living accommodation} = \text{RM}24,000$$

Whichever is the less

The lesser amount is RM24,000.

Therefore, value of living accommodation for the period from 1.7.2005 to 31.12.2005 is:

$$6/12 \times \text{RM}24,000 = \text{RM}12,000$$

Example 8

Where living accommodation that is provided to Puan Bee in Example 2 is for the period 1.4.2005 to 31.12.2005, and she only commences to occupy the premises from 1.7.2005, her gross income from employment under paragraph 13(1)(c) of the ITA for Y/A 2005 is calculated as follows:

$$30\% \times \text{RM}240,000 = \text{RM}72,000$$

Or

$$\text{Defined value of living accommodation} = \text{RM}12,000$$

Whichever is the less

The lesser amount is RM12,000.

Therefore, living accommodation benefit enjoyed by Puan Bee in this example is:

$$9/12 \times \text{RM}12,000 = \text{RM}9,000.$$

In this example, the reduction is made based on the period the accommodation is provided and not on the actual period of occupation.

- 6.0 Expenses related to living accommodation provided by the employer which are deductible and method of computation
- 6.1 Section 38 of the ITA allows deduction on the following expenses paid by the employee in respect of living accommodation provided:
- a. rent
 - b. any public rates or insurance premiums
 - c. expenses on repair or maintenance of premises.

Example 9

Gee, a manager in a private company, is provided unfurnished accommodation by his employer for the whole year of 2005. The employer has taken the premises on lease at the rate of RM1,000 a month and has required Gee to pay to him RM500 a month. Gee's gross income from employment under paragraph 13(1)(a) of the ITA for the year ended 31.12.2005 is RM30,000.

The adjusted income from employment for Gee for Y/A 2005 is calculated as follows:

	RM
Gross income under paragraph 13(1)(a) of the ITA	30,000
Gross income under paragraph 13(1)(c) of the ITA	
30% X RM30,000 = RM9,000	
Or	
Defined value of living accommodation =	
RM1,000 X 12 = RM12,000	
Whichever is the less	<u>9,000</u>
Gross income from employment	39,000
Less: rent paid (RM500 X 12)	<u>6,000</u>
Adjusted income from employment	<u><u>33,000</u></u>

- 6.2 Where gross income from employment includes the value of furniture provided by his employer in conjunction with living accommodation, rent paid by the employee for the furniture can be allowed as a deduction in computing the adjusted income from employment. The deduction for rent paid by the employee for the accommodation is calculated separately. Paragraph 38(1)(a) of the ITA applies.
- 6.3 Where the accommodation is provided furnished and is held by or on behalf of the employer on lease at what would be the economic rent, if the rent applicable to the furniture is to be disregarded, a proportion of the rent payable by the employee is allowed as a deduction in computing the adjusted income from employment. The deduction allowable is calculated as follows:

$$\frac{\text{Rent payable by /on behalf of employer}}{\text{Rent payable by employee}} \times \text{Economic rent}$$

- subparagraph 38(1)(b)(iv) of the ITA.

Example 10

Hedge, a director (not a service director) of a controlled company, has furnished accommodation provided by his employer for the whole year of 2005. He pays his employer rent of RM12,000 per annum. The employer has taken the accommodation on a lease at a rent of RM7,500 per month. The economic rent i.e the rent per month excluding the cost of the furniture is RM6,000. Hedge's gross income from employment under paragraph 13(1)(a) of the ITA for the year ended 31.12.2005 is RM200,000.

Hedge's adjusted income from employment for the Y/A 2005 is calculated as follows:

	RM	RM
Gross income under paragraph 13(1)(a) of the ITA		200,000
Gross income under paragraph 13(1)(b) of the ITA		
Furniture (RM7,500 - RM6,000) X 12	= 18,000	
Gross income under paragraph 13(1)(c) of the ITA		
RM6,000 X 12	= <u>72,000</u>	<u>90,000</u>
Gross income from employment		290,000
Less:		
House rent:		
<u>RM12,000</u> X RM72,000 = RM9,600 (subpara 38(1)(b)(iv) ITA)		
RM90,000		
Furniture:		
RM12,000 - RM9,600 = RM2,400 (para. 38(1)(a) of the ITA)		
Total expenses allowable		<u>12,000</u>
Adjusted income from employment		<u>278,000</u>

- 6.4 Where furnished accommodation is provided and paragraph 6.3 of this Ruling does not apply, a proportion of the rent payable by the employee is allowed as a deduction in computing the adjusted income from employment. The deduction allowable is calculated as follows:

$$\frac{\text{Rent payable by employee}}{\text{Aggregate of economic rent and rent appropriate to the market value of furniture}} \times \text{Defined value}$$

- subparagraph 38(1)(b)(v) of the ITA

Example 11

Jay, a director (not a service director) of a controlled company, is provided furnished accommodation for the whole year of 2005 with the requirement that he pays rent of RM8,400 per annum to his employer. The premises is leased from an associated company at an annual rate of RM18,000. The commercial rate is RM36,000 per annum while the annual rent for the furniture is RM12,000. Jay's gross income from employment under paragraph 13(1)(a) of the ITA for the year ended 31.12.2005 is RM120,000.

Jay's adjusted income from employment for Y/A 2005 is calculated as follows:

	RM
Gross income under paragraph 13(1)(a) of the ITA	120,000
Gross income under paragraph 13(1)(b) of the ITA	12,000
Gross income under paragraph 13(1)(c) of the ITA	
- defined value	<u>36,000</u>
Gross income from employment	168,000
Less:	
Rent	
$\text{RM}8,400 \times \text{RM}36,000 = \text{RM}6,300$ (subpara. 38(1)(b)(v) ITA)	
RM48,000*	
Furniture	
$\text{RM}8,400 - \text{RM}6,300 = \text{RM}2,100$ (paragraph 38(1)(a) ITA)	
Total expenses deductible	<u>8,400</u>
Adjusted income from employment	<u><u>159,600</u></u>

(Note* This figure of RM48,000 comprises rent of premises RM36,000 and rent of furniture RM12,000).

- 6.5 The deduction for rent paid in respect of living accommodation and furniture must not exceed the value of living accommodation and furniture taken into account in computing the gross income from employment - subsection 38(3) of the ITA.

Example 12

Kay, a production manager in a manufacturing company, is provided with furnished accommodation for the whole year of 2005. The defined value of the accommodation is RM16,200 while the value of furniture is RM2,400 per annum. Kay is required to pay rent of RM2,000 per month to her employer for the benefit of the accommodation and furniture. Kay's gross income from employment under paragraph 13(1)(a) of the ITA is RM60,000 for the year ended 31.12.2005.

Adjusted income from employment of Kay for Y/A 2005 is calculated as follows:

	RM
Gross income under paragraph 13(1)(a) of the ITA	60,000
Gross income under paragraph 13(1)(b) of the ITA	2,400
Gross income under paragraph 13(1)(c) of the ITA	
30% X RM60,000 = RM 18,000 or Defined value = RM16,200	
Whichever is the less	<u>16,200</u>
Gross income from employment	78,600
Less:	
Rent:	
<u>RM24,000</u> X RM16,200 = RM20,903 (<i>subpara.</i> 38(1)(b)(v) ITA)	
RM18,600	
Furniture:	
RM24,000 - RM20,903 = RM3,097 (<i>paragraph</i> 38(1)(a) ITA)	
= RM24,000 restricted to	<u>18,600</u>
Adjusted income from employment	<u>60,000</u>

- 7.0 In computing the value of living accommodation for administrative officers and staff of the public service, paragraph 13(1)(c) of the ITA must be computed based on 3% of the gross income under paragraph 13(1)(a) of the ITA which also includes allowances received in the course of performing official duties which are treated as wholly expended for income tax purposes.

Example 13

Encik Ali bin Abu, a senior Government officer is provided with rent free furnished living accommodation by the Government. Gross income from employment received by Encik Ali for the year ended 31.12.2005 are as follows:

- salary - RM108,600;
- annual bonus - RM5,255;
- special allowance - RM43,200;
- house maintenance allowance - RM3,000;
- entertainment allowance - RM55,200;
- domestic servant allowance - RM12,000;
- driver assistance allowance - RM14,793.

All these allowances have been treated as wholly expended in the course of performing his duties for tax purposes.

Adjusted/statutory income from employment of Encik Ali bin Abu for Y/A 2005 is calculated as follows:

	RM	RM	Sections of the ITA
Salary		108,600	para. 13(1)(a)
Special allowance	43,200		para. 13(1)(a)
House maintenance allowance	3,000		para. 13(1)(a)
Annual bonus	5,255		para. 13(1)(a)
Entertainment allowance	55,200		para. 13(1)(a)
Driver assistance allowance	14,793		para. 13(1)(a)
Domestic servant allowance	12,000	133,448	para. 13(1)(a)
Gross income under para. 13(1)(a)		242,048	
Gross income under para. 13(1)(b) Furniture		3,360	Public Ruling No. 2/2004
Gross income under para. 13(1)(c) $3\% \times 242,048$		7,261	subpara. 32(2)(b)(iii)
Gross income from employment		252,669	subsection 13(1)
Less: Expenses treated as wholly expended:			
House maintenance allowance	3,000		
Entertainment allowance	55,200		
Driver assistance allowance	14,793		
Domestic servant allowance	12,000	84,993	subsection 33(1), sections 38 & 38A
Adjusted/statutory income from employment		167,676	section 42

- 8.0 This Ruling is effective for the year of assessment 2005 and subsequent years of assessment.

**Director General
of Inland Revenue**

B

Public Ruling No. 2/2005 **Computation of Income Tax Payable by a Resident Individual**

- 1.0 This Ruling explains:
 - i. the deductions that are allowable against the total income of an individual in computing his chargeable income for a year of assessment; and
 - ii. the income tax computation for an individual for a year of assessment.
- 2.0 The provisions of the Income Tax Act, 1967 (ITA) related to this Public Ruling are sections 2, 5, 6 to 6C, 7, 18, 45 to 51, 110, 132, 133, Schedule 1, Schedule 6 and Schedule 7 of the ITA.
- 3.0 The words used in this Ruling have the following meanings:
 - 3.1 "Child" in relation to an individual or his wife, means a legitimate child or step-child or an adopted child of the individual or his wife.
 - 3.2 "Step-child" in relation to an individual or his wife, means a son or daughter of one's husband or wife by a former marriage.
 - 3.3 "Adopted child" in relation to an individual or his wife, means a child adopted by the individual or his wife under the Registration of Adoptions Act 1952 (Act 253) or in accordance with any law (not necessarily Malaysian law) where the adoption is recognised by the Director General.
 - 3.4 "Individual" means a natural person.
 - 3.5 "Wife" in relation to an individual, means a woman who (whether or not she has gone through any religious or other ceremony) is regarded by virtue of any law or custom as the wife of a man or as one of his wives.
 - 3.6 "Wife who elects" in relation to an individual, means the wife who elects that her total income be aggregated with the total income of her husband and the assessment be made in his name.
 - 3.7 "Total income" for a year of assessment is the aggregate income less business losses for the basis year, expenditure under Schedule 4, 4A and gifts of money, contributions in kind, manuscripts, artefacts and paintings under section 44 of the ITA.

- 3.8 "Disabled person" means any individual certified in writing by the Department of Social Welfare to be a disabled person.
- 3.9 "Medical practitioner" in relation to deductions on medical expenses for parents, means a medical practitioner (doctor) registered with the Malaysian Medical Council (MMC).
- 3.10 "Husband who elects" in relation of a wife, means the husband who elects that his total income be aggregated with the total income of his wife and the assessment be made in her name.
- 3.11 "Basis period" for a year of assessment for each source of income in relation to an individual is year ended 31 December.
- 3.12 "Year of assessment" means calendar year.

4.0 Allowable deductions

- 4.1 This Public Ruling is a continuation of the Public Ruling No.1/2005. Subsection 45(1) of the ITA states that the chargeable income of an individual is computed as follows:

	RM	RM
Total income		XX
Less: Deductions under		
section 45A ITA	XX	
section 46 ITA	XX	
section 46A ITA	XX	
section 47 ITA	XX	
section 48 ITA	XX	
section 49 ITA	<u>XX</u>	<u>XX</u>
Chargeable income		<u>XX</u>

Detailed explanation of the above deductions can be obtained beginning from paragraph 6 of this Ruling.

- 4.2 Taxation of husband and wife - section 45 ITA
- 4.2.1 Under the ITA, an individual and his spouse are taxed as two separate individuals. As such, income from all sources that are earned by the wife will be assessed separately from the income of her husband. However, if a married couple finds it beneficial in terms of a lower tax liability to have their total income aggregated, the ITA allows the wife or the husband to elect to have their total income aggregated in a combined assessment subject to the conditions as stated in paragraphs 4.2.3 and 4.2.4 of this Public Ruling.

- 4.2.2 If a wife elects to have her total income aggregated with the total income of her husband, the assessment shall be made in the husband's name - (paragraph 45(2)(a) of the ITA). Similarly, if a husband elects to have his total income aggregated with the total income of his wife, the assessment shall be made in the wife's name - (paragraph 45(2)(b) of the ITA).
- 4.2.3 A wife can elect to have her total income aggregated with the total income of her husband, if all the following conditions are fulfilled:-
- a. the wife and the husband were living together in the basis year for a year of assessment and did not in that basis year cease to live together or to be husband and wife of each other;
 - b. the wife must have total income to be aggregated with the total income of the husband; and
 - c. if the wife is not a resident for the basis year for that year of assessment, she must be a Malaysian citizen.
- 4.2.4 A husband can elect to have his income aggregated with the income of his wife, if all the following conditions are fulfilled:-
- a. the husband and the wife were living together in the basis year for a year of assessment and did not in that basis year cease to live together or to be husband and wife of each other;
 - b. the husband must have total income to be aggregated with the total income of the wife;
 - c. if the husband is not a resident for the basis year for that year of assessment, he must be a Malaysian citizen;
 - d. the aggregation can be made with one wife only; and
 - e. the election is valid only if no other wife/wives of his elects to combine her total income with his total income.

Example 1

Lim and his wife, both resident in Malaysia were living together in the basis year 2004. They have income from the following sources for year ended 31.12.2004. Lim elects for combined assessment.

Income	Wife (RM)	Lim (RM)
Employment	12,000	48,000
Dividend (gross)	Nil	3,000
Rent	3,000	12,000

The computation of total income of the husband and wife for the year of assessment 2004 is:

Income	Combined assessment	
	Wife (RM)	Lim (RM)
Employment	12,000	48,000
Dividend	Nil	3,000
Rent	<u>3,000</u>	<u>12,000</u>
Total income	<u>15,000</u>	<u>63,000</u>

The aggregate of the husband's and wife's total income is RM15,000 + RM63,000 = RM78,000 and is assessed in the wife's name.

Example 2

Suhaimi and his wife, Juriah, were resident in Malaysia for the basis year 2004. They have income from the following sources for the year ended 31.12.2004:

Income	Suhaimi (RM)	Juriah (RM)
Business (loss)	(15,000)	Nil
Employment	Nil	37,000
Rent	4,000	Nil

The computation of total income for the year of assessment 2004 for the purpose of aggregation is as follows:

Income	Suhaimi (RM)	Juriah (RM)
Statutory income from business	(loss 15,000) Nil	Nil
Statutory income from employment	Nil	37,000
Statutory income from rent	<u>4,000</u>	<u>Nil</u>
Aggregate income	4,000	37,000
Less: basis year loss	<u>4,000</u>	<u>Nil</u>
Total income	<u>Nil</u> (loss 11,000 c/f)	<u>37,000</u>

In this case, the aggregation of income of Suhaimi and Juriah is not allowed as Suhaimi has no total income to be aggregated with the total income of Juriah. Juriah is assessed separately in her own name. For Suhaimi, the loss (RM11,000) suffered by him is carried forward to the following year to be deducted from the business income only - (subsection 44(5) ITA).

Example 3

Khairul who is resident in Malaysia for the basis year 2004, has two wives, Asmah and Salmah. They are employed and have total income in the basis year 2004. Asmah makes an election in the Income Tax Form for the year of assessment 2004 that her income be aggregated with the income of her husband.

In this case, there are two assessments for the year of assessment 2004 -

- i. The assessment made in Khairul's name, together with his wife, Asmah; and
- ii. The assessment made separately in Salmah's name, as Khairul is eligible to elect for aggregation only with one wife.

- 4.2.5 The phrase "living together" means living together in intention. For example, a husband and a wife are treated as living together even though they are temporarily separated because one or the other is away on business or holiday. Usually a husband and wife are treated as living together unless they are separated -
- a. by a court order;
 - b. by a deed of separation; or
 - c. in such circumstances that the separation is likely to be permanent.
- 4.2.6 Where a husband and wife cease to live together as husband and wife due to any one of the three (3) circumstances mentioned in paragraph 4.2.5, the condition of "living together" for the purposes of aggregation of the total income of a husband with the total income of his wife is not fulfilled. Hence,
- i. the total income of the former wife cannot be aggregated with the total income of the former husband; and
 - ii. the former wife is taxed as a "femme sole" (that is as an individual) having her own income tax file.
- 4.2.7 In the case where either the husband or the wife passed away in the basis year for a year of assessment, their income for the basis year is assessed separately. If the husband passed away, the wife will be taxed as a "femme sole". The husband will still be taxed on his income from the beginning of the basis year up to the date of his death in the name of the executor of the

deceased person's estate (the husband). Similarly, in the case where the wife passed away, she will still be taxed on her income in the name of the executor of deceased persons's estate (the wife) from the beginning of the basis year up to the date of her death.

4.3 Procedure to elect for aggregation of income

4.3.1 When a husband and a wife obtain their Income Tax Forms for a year of assessment, it is necessary for both of them to decide on two important matters -

- i. Firstly, whether the husband and wife are to be assessed separately or to elect for combined assessment; and
- ii. Secondly, if they elect for combined assessment, who is going to make the election.

The election for combined assessment must be made at the time of submission of the Income Tax Form to LHDN, as follows:

- for business cases - before or on 30 June; and
- for cases other than business cases - before or on 30 April.

Example 4

Ong and his wife, both residents in Malaysia and were living together in the basis year 2004. They have income from the following sources for year ended 31.12.2004:

Income	Ong (RM)	Wife (RM)
Employment	36,000	18,000
Dividend (gross)	5,000	Nil
Rent	Nil	6,000

The total income for year of assessment 2004 is computed as follows:

Income	Ong (RM)	Wife (RM)
Employment	36,000	18,000
Dividend (gross)	5,000	Nil
Rent	Nil	6,000
Total income	<u>41,000</u>	<u>24,000</u>

In a normal situation, the total income for the year of assessment 2004 to be assessed in Ong's name is RM41,000 while the total income to be assessed in the name of his wife is RM24,000. However, if Ong or his wife elects for combined assessment, the total income to be assessed in the name of Ong's wife or in Ong's name is RM65,000 which is (RM41,000 + RM24,000).

4.3.2 Where the total income of the wife is aggregated with the total income of the husband, the wife shall be treated as having no chargeable income for that particular year of assessment. Similarly, where the total income of the husband is aggregated with the total income of the wife, the husband shall be treated as having no chargeable income for that particular year of assessment - (subsection 45(4) ITA).

4.3.3 Where the wife elects for combined assessment, the wife and the husband must fill in the relevant parts in their Income Tax Forms in order for the assessment to be made in the name of the husband. For example, where the wife elects for combined assessment for year of assessment 2004, the following action must be taken -

I. The wife must fill in the following parts in the Income Tax Form as follows:

Particulars	If Form BE	If Form B
Type of assessment	A7	A7
Assessed in the name of	A8	A8
Total income to be entered as "0"	C16	C32
Total income transferred to husband	C17a	C33a
Instalments/deductions transferred to husband	C33b	C17b

II. The wife is not required to fill in the following parts in the Income Tax Form:

Particulars	If Form BE	If Form B
Part C:		
Total income - self	C18a	C34a
Total income transferred from husband/wife	C18b	C34b
Total income	C18c	C34c
Reliefs and changeable income	Part D	Part D
Tax payable	Part E	Part E
Summary of tax and payments	Part F	Part F

- III. The husband is required to fill in the parts of the Income Tax Form as follows:

Particulars	If Form BE	If Form B
Total income - self	C18a	C34a
Total income transferred from wife	C18b	C34b
Total income	C18c	C34c
Instalments/schedular tax deductions transferred from wife	F3	F3

- 5.0 Ascertainment of chargeable income
- 5.1 After computing his total income, an individual must now compute his chargeable income by making claims for several deductions. However, deductions can only be claimed by an individual who is resident in Malaysia. There are two types of deductions as follows -
- i. deductions which are not based on the amount expended; and
 - ii. deductions which are only allowed when expended and claimed.
- 5.2 The residence status of an individual is determined by reference to the number of days the individual is in Malaysia in the basis year for a year of assessment. Appendix A of this Public Ruling explains the circumstances in which an individual is resident in Malaysia for a basis year for a year of assessment.
- 6.0 Deductions which can be claimed
- 6.1 A summary of the deductions which may be claimed by and given to an individual resident in Malaysia for a basis year of assessment is as follows:

6.1.1 Deduction for self and dependent relatives - para. 46(1)(a) ITA
Total deduction: RM8,000.
Details:
 Can be claimed by an individual who has total income and is assessed in his own name.

6.1.2 Medical expenses for parents - para. 46(1)(c) ITA
Total deduction: up to a maximum of RM5,000.
Details:

- i. Parents refers to natural parents or foster parents where the individual is an adopted child.
- ii. Receipt from the medical practitioner is required as evidence for certifying that the medical treatment has been provided to the parents.

- iii. In a case where the receipt is issued in the name of the patient, the individual who is making the claim, must obtain an endorsement on the receipt by the doctor to certify that the medical charges were paid by him. Medical expenses which qualify for deductions would include:
- a. medical care and treatment provided by a nursing home; and
 - b. dental treatment limited to tooth extraction, filling, scaling and cleaning but not including cosmetic dental treatment expenses such as teeth restoration and replacement involving crowning, root canal and dentures.

6.1.3 Basic supporting equipment expenses for disabled persons - para. 46(1)(d) ITA

Total deduction: up to a maximum of RM5,000.

Details:

Can be claimed by an individual or the spouse who has expended expenditure for the purchase of any necessary basic supporting equipment for the use by:

- i. the individual, if he/she is a disabled person; or
- ii. the spouse, if he/she is a disabled person; or
- iii. his/her child, if the child is a disabled person; or
- iv. his/her parent, who is a disabled person.

Basic supporting equipment includes haemodialysis machine, wheel chair, artificial leg and hearing aids but exclude optical lenses and spectacles.

6.1.4 Disabled person - para. 46(1)(e) ITA

Total deduction: RM6,000 with effect from the year of assessment 2005 and RM5,000 prior to the year of assessment 2005.

Details:

Can be claimed by an individual who has been certified in writing by the Department of Social Welfare as a disabled person.

6.1.5 Further education fees - para. 46(1)(f) ITA

Total deduction: up to a maximum of RM5,000.

Details:

- i. The individual must have expended fees for any course of study undertaken by him up to tertiary level (up to post graduate level) in any institution in Malaysia, recognised by the Government of Malaysia;
- ii. The course must be undertaken for the purpose of acquiring technical, vocational, industrial, scientific or technology skills or qualifications.

- iii. Scientific skills means the study of the nature or behaviour of the material and physical universe such as studies in the field of biology, physics, chemistry mathematics, IT, engineering and medicine.
- iv. Studies do not include studies in political sciences or social sciences. Courses such as management, accountancy and finance do not qualify as courses of study qualifying for the above deduction.

6.1.6 Medical expenses for serious diseases - para. 46(1)(g) ITA

Total deduction: up to a maximum of RM5,000.

Details:

- i. The individual must have expended expenses for the treatment of serious diseases on himself/herself, his/her spouse or his/her child.
- ii. The claim for medical expenses has to be evidenced by a receipt and a certification issued by a registered medical practitioner with the Malaysian Medical Council (MMC).
- iii. "Serious disease" includes Acquired Immunity Deficiency Syndrome, Parkinson's disease, cancer, renal failure, leukaemia and other similar diseases.
- iv. "Other similar diseases" in relation to serious diseases include heart attack, pulmonary hypertension, chronic liver disease, fulminant viral hepatitis, head trauma with neurological deficit, tumour in brain or vascular malformation, major burns, major organ transplant and major amputation of limbs.

6.1.7 Complete medical examination expenses - para. 46(1)(h) ITA

Total deduction: up to a maximum of RM500 and forms a part of the deduction of RM5,000 under paragraph 46(1)(g) ITA.

Details:

- i. The individual must have incurred expenses for complete medical examination on himself/herself, spouse or child;
- ii. "Complete medical examination" for the purposes of the deduction under this paragraph would mean full medical checkup as defined by the Malaysian Medical Council (MMC).
- iii. Where the expenses for complete medical examination up to a maximum of RM500 is already claimed, the deduction for medical expenses for serious diseases which can be claimed by the individual is limited to an amount of RM4,500.

6.1.8 Reading materials expenses - para. 46(1)(f) ITA

Total deduction: up to a maximum of RM700 with effect from year of assessment 2005 and RM500 prior to the year of assessment 2005.

Details:

Expenses expended in the basis year for the purchase of books, journals, magazines and other similar publications (in form of hardcopy or electronic) for enhancing the knowledge of the individual, his/her spouse or his/her child. Books would include school textbooks, periodicals, comics whether purchased locally or overseas but exclude newspapers or banned reading materials such as morally offensive magazines.

6.1.9 Interest expended on housing loan - section 46A ITA

Total deduction: up to RM5,000 for Y/A 2003; RM3,000 for Y/A 2004 and RM2,000 for Y/A 2005.

Details:

This deduction is in respect of interest expended on loan taken to finance the purchase of a residential property bought between 1 June 2003 and 31 May 2004. Refer to Appendix B for detailed explanation.

6.1.10 Wife - subsection 47(1) ITA

Total deduction: RM3,000. Further deduction of RM3,500 with effect from the Y/A 2005 and RM2,500 prior to the Y/A 2005.

Details:

- i Can be claimed by an individual if he has a wife living together with him in the basis year. A further deduction for the wife is given if she is a disabled person.
- ii An individual will still be entitled to the full deduction and further deduction, even though there is a divorce or death of the wife in the basis year.

6.1.11 Alimony payments to former wife - subsection 47(2) ITA

Total deduction: up to RM3,000. RM3,000 is part of wife's deduction under subsection 47(1) ITA.

Details:

- i An individual is entitled to claim alimony/maintenance payments made to a former wife if in that basis year he divorces his wife and is required under the law to make those payments.
- ii Voluntary payments of alimony to a former wife under a mutual agreement but without any formal agreement would not qualify for deduction.

6.1.12 Husband - section 45A ITA

Total deduction: RM3,000. A further deduction of RM3,500 with effect from the Y/A 2005 and RM2,500 prior to the Y/A 2005

Details:

- i. This deduction is given to a wife -
 - a. where the husband elects for a combined assessment with his wife and tax is assessed in the name of the wife; or
 - b. where the husband has no total income.
- ii. A further deduction is given if the husband is a disabled person.
- iii. The deduction can be allowed to one wife only.

6.1.13 Child - section 48 ITA

Conditions to be fulfilled to be entitled for deduction for child are:

- a. The individual or spouse must be resident in Malaysia;
- b. The individual or spouse pays wholly or in part for the maintenance of a child; and
- c. The child must be unmarried.

I. For child under the age of 18 in the basis year - para. 48(1)(a) ITA

Total deduction: RM1,000 for each child - (para. 48(2)(a) ITA).

II. For child who is 18 years of age and above - para. 48(1)(b) & (c) ITA

Total deduction: RM1,000 for each child - (paragraph 48(2)(a) ITA).

Details:

Additional condition to be fulfilled is that the child must be receiving full-time instruction.

III. For child who is over the age of 18 - para. 48(1)(b) & (c) ITA

- **Total deduction:** sums expended limited to RM4,000 for each child - subpara. 48(3)(a)(i) ITA.

Details:

The child is receiving full-time instruction at a university, college, or other similar educational establishment or is serving under articles or indentures with a view to qualifying in a trade or profession in Malaysia.

- **Total deduction:** RM1,000 for each child - para. 48(2)(a) ITA.

Details:

Where the child is receiving full-time instruction at a university, college, or other similar educational establishment or is serving under articles or indentures with a view to qualifying in a trade or profession outside Malaysia.

IV. Disabled child - para. 48(1)(d) ITA

Total deduction: RM5,000 for each child - para. 48(2)(b) ITA.

Details:

The individual/spouse is entitled for a deduction of an unmarried child who is physically or mentally disabled regardless of age and whether the child is receiving full time instruction.

Additional information pertaining to deduction for child

- Where a wife is assessed separately in her own name, she may elect by filling in the relevant parts in the Income Tax Form that the appropriate deduction for child be wholly allowed to her - (proviso to subsection 48(1) ITA).
- Where two or more individuals are each entitled to claim a deduction for payment made in respect of the same child, the deduction for the child to be allowed to each of the individuals is 50% of the allowable deduction - (subsection 48(4) ITA).
- “Full-time instruction” means the curriculum of the educational establishment requires the child to devote his full time to his studies. Where the child is required to spend part of his time away for reading or practice as in the case of musical studies, the deduction for child can be allowed if the course of study is a full-time course.
- “Other similar educational establishment” refer to an establishment which is similar to a university, college or school (where applicable).
- “Serving under articles or indentures” means the child who is studying and working at the same time under articles is required to devote the whole of his time to the training for a period of not less than two years.
- An individual or spouse is not entitled to claim a deduction for a child if the child is in receipt of his own income which exceeds the amount of deduction otherwise due. For example, where the child’s income is RM6,000, while the deduction that can be claimed by the individual or spouse is RM4,000, that individual or spouse is not entitled to the deduction for that child - (subsection 48(5) ITA).
- However, the following receipts are not treated as income of a child:
 - a. amount received as a scholarship, grant or allowance of a similar nature - (paragraph 24, schedule 6 ITA); and
 - b. payments received by a child who is serving an employer under articles or indentures. At the commencement of the training, an amount of premium is payable by the individual or the spouse to enable the child to undergo training with that employer. Payments received by the child from his employer is treated as a return of premium and not his salary.

6.1.14. Deduction for insurance premiums and contribution to an approved pension or employees provident fund - section 49 and 50 ITA

Total deduction: up to RM6,000 for Y/A 2005 and RM5,000 prior to Y/A 2005.

Details:

An individual can claim for deduction on:

- a. payment of premium on life insurance policy or deferred annuity;
- b. contribution to an approved provident fund/approved pension scheme, such as contribution made by the employee to The Employees Provident Fund (EPF) or contribution made to EPF by a self employed person within the meaning of the Employees Provident Fund Act 1991.
- c. "Insurance" and "deferred annuity" mean an insurance or deferred annuity contracted for by the individual,
 - i. on the individual's life;
 - ii. on the life of the wife; or where the individual is a female, on the life of her husband; or
 - iii. on the joint lives of the individual and his wife/wives or where the individual is a female, on the joint lives of herself and her husband or any other wife/wives of her husband;
 and, the insurance or deferred annuity must be contracted for with -
 - i. an insurance company for securing on death either a capital sum or a deferred annuity or both; or
 - ii. a government, a public body or the controlling authority of any nationalized insurance business.
- d. "Premiums" in relation to insurance includes contributions or instalment payable under a takaful scheme pursuant to the Takaful Act 1984. Premium on an insurance policy purchased from an overseas company not having a branch in Malaysia is also treated as an allowable premium.
- e. Only insurance premiums actually paid are available for deduction.
- f. However, deduction is not allowable for:
 - i. Premiums which are not in fact paid although treated by the insurance company as having been paid because of a non-forfeiture clause in the policy; and
 - ii. Premiums or arrears of premiums which are not in fact paid but carried forward as a debt and deducted from the capital sum due on the maturity or surrender of the policy.
- g. Only obligatory contribution to an approved provident/pension fund can be allowed as a deduction because of:
 - a contract of employment; or
 - any provisions of the rules and regulations of the scheme.

6.1.15 Premium for insurance on education or for medical benefits - subsection 49(1B) ITA**Total deduction:** up to RM3,000.

Details:

- i. An education policy must satisfy the following criteria -
 - a. The policy must be contracted by the individual for himself/herself, his/her spouse or child;
 - b. The beneficiary should be the child;
 - c. Where the insured is the parent, the child must be the nominee;
 - d. Where the child is the insured,
 - it is compulsory that the life of the person paying the premium (parent) must be covered (payor benefit rider);
 - the rider must also have the same duration as the basic policy;
 - where the rider is packaged together with the basic policy in a single premium, the whole premium paid will qualify for deduction; and
 - where the payor of the policy does not qualify for payor benefit, the premium paid for the basic policy will not qualify for deduction;
 - e. In respect of a takaful policy, the participant is the parent and proceeds of the policy must be made "hibah" (gift) to the child;
 - f. the maturity amount in respect of both conventional or takaful policy must be scheduled to be payable when the child is between the ages of 13 to 25.
- ii. A medical policy must satisfy the following criteria -
 - a. the expenses should be related to the medical treatment resulting from a disease or an accident or a disability;
 - b. the policy coverage should be for a period of 12 months or more;
 - c. the policy can be a stand-alone policy or as a rider to a life insurance policy. If it is a rider, only the rider premium can qualify for deduction;
 - d. where a dread disease cover is attached to a basic policy, the whole amount of the rider premium paid is allowed as a deduction;
 - e. where a dread disease cover is packaged together a term life/personal accident cover, 60% of the package premium is allowed as a deduction;
 - f. group medical policy where the employee pays the premium for the medical benefit also qualifies for deduction; and
 - g. premium waiver benefit rider and travel medical expenses insurance are not allowable as deduction.

6.1.16 Premium on insurance policy determined by EPF- subsection 49 (1C) ITA**Total deduction:** up to RM1,000.**Details:**

This deduction is in respect of premium paid for the purchase of an insurance policy determined by the Employees Provident Fund Board (EPF).

7.0 Deduction allowed according to the individual's status and circumstance

The amount of deduction which can be claimed and allowed to an individual who is resident in Malaysia for the basis year for a year of assessment depends on the status and personal circumstance of that individual in that basis year. The status and circumstance of an individual can be categorised as follows:

Status	Category
Single ¹	A. the individual is assessed in his/her own name
Married	B. the husband and wife are assessed separately Married
	C. the husband and wife are assessed jointly in a combined assessment
	D. the husband or wife has total income but the spouse has no total income. The individual having the total income is assessed
	E. the husband has total income but the wife has no source of income. The husband having the total income is assessed
	F. the wife has total income but the husband has no source of income. The wife having the total income is assessed

¹ single includes widower/widow or divorcee

7.1 Category A: Single (includes widower/widow or divorcee)

For an individual who is single and resident in Malaysia, the amount of deductions which can be claimed is as follows:

Deduction	Amount
7.1.1 Self and dependent relatives	RM8,000
7.1.2 Medical expenses for parents	Limited to RM5,000
7.1.3 Basic supporting equipment for self, parent, child	Limited to RM5,000
7.1.4 Disabled person	RM6,000
7.1.5 Education fees for self	Limited to RM5,000
7.1.6 Treatment of serious disease for self or child	Limited to RM5,000
7.1.7 Complete medical examination for self or child	Limited to RM500 ¹
7.1.8 Purchase of books and magazines for self or child	Limited to RM700
7.1.9 Interest on housing loan for self	Refer Appendix B
7.1.10 For a widower: deduction for wife who died in the basis year and further deduction for that wife if she is disabled; or For a divorcee: alimony to former wife	RM3,000 RM3,500 Limited to RM3,000
7.1.11 Child - a. below 18 years old. b. 18 years of age and above - Studying in school, college or university/ serving under articles/ indentures in or outside Malaysia. c. Over 18 years of age - Studying in college or university/serving under articles/indentures in Malaysia. d. Disabled child. When there is a divorce, two or more individuals are entitled to claim deduction in respect of the same child. The deduction for the child to be allowed to each of the individuals is 50% of the allowable deduction.	RM1,000 each child RM1,000 each child RM4,000 each child RM5,000 each child 50% of the allowable deduction
7.1.12 Insurance premium and EPF contribution for self	Limited to RM6,000
7.1.13 Insurance premium for education and medical benefits for self or child	Limited to RM3,000
7.1.14 Insurance premium through EPF for self	Limited to RM1,000

¹ Total deductions in paragraphs 7.1.6 and 7.1.7 are limited to RM5,000.

Example 5 - deduction for alimony paid to former wife

Lim was resident in Malaysia for the basis year 2004. He was divorced from his wife on 1.3.2004 in accordance with a Court Order. In 2004, Lim made alimony payments of RM10,000 to his former wife.

Lim is allowed a deduction for alimony payments to his former wife limited to a maximum of RM3,000 for the year of assessment 2004.

Example 6 - deduction for wife/further deduction for wife

Derek and his wife were resident in Malaysia for the basis year 2004. His wife who was disabled for some time died on 16.8.2004.

Even though Derek's wife died in 2004, he is still entitled to claim for the full deduction for wife amounting to RM3,000 and also for the further deduction for wife amounting to RM2,500.

7.2 Category B: Married - the husband and wife are assessed separately

Where the husband and wife have total income and each is being assessed separately in their own names as individuals, the amount of deductions which can be claimed by each individual is as follows:

Deduction	Amount	
	Husband	Wife
7.2.1 Self and dependent relatives	RM8,000	RM8,000
7.2.2 Medical expenses for parents	Limited to RM5,000	Limited to RM5,000
7.2.3 Basic supporting equipment for self, child or parent	Limited to RM5,000	Limited to RM5,000
7.2.4 Disabled person for self	RM6,000	RM6,000
7.2.5 Education fees for self	Limited to RM5,000	Limited to RM5,000
7.2.6 Treatment of serious disease for self or child	Limited to RM5,000	Limited to RM5,000
7.2.7 Complete medical examination for self or child	Limited to RM500 ¹	Limited to RM500 ¹
7.2.8 Purchase of books and magazines for self or child	Limited to RM700	Limited to RM700
7.2.9 Interest on housing loan for self	Refer Appendix B	

Deduction	Amount	
	Husband	Wife
7.2.10 Alimony to former wife	Limited to RM3,000	-
7.2.11 Child: <ul style="list-style-type: none"> a. under 18 years of age. b. 18 years of age and above - Studying in school, college or university/serving under articles/indentures in or outside Malaysia. c. Above 18 years of age - Studying in college or university/serving under articles/indentures in Malaysia. d. Disabled child. 	Husband or wife: RM1,000 each child Husband or wife: RM1,000 each child Husband or wife: RM4,000 each child Husband or wife: RM5,000 each child	
7.2.12 Insurance premium and EPF contribution for self	Limited to RM6,000	Limited to RM6,000
7.2.13 Insurance premium for education and medical benefit for self or child	Limited to RM3,000	Limited to RM3,000
7.2.14 Insurance premium through EPF for self	Limited to RM1,000	Limited to RM1,000

¹ Total deductions in paragraphs 7.2.6 and 7.2.7 are limited to RM5,000

7.2.15 By default the husband and wife are assessed separately in their own names except where they elect to be assessed together. In the case where the wife is assessed separately in her name, the husband is not allowed a deduction for the wife (subsection 47(4) ITA). However, the husband is still entitled to claim a deduction for payments of alimony made to a former wife (subsection 47(2) ITA). In the case where the husband is assessed separately in his name, the wife is not allowed a deduction for the husband.

Example 7 - deduction for alimony to former wife

Lim and his wife, Janet, were resident in Malaysia for the basis year 2004. Lim also has a former wife and he pays her an alimony of RM6,000 per annum. Lim and Janet have total income for the year ended 31.12.2004 as follows:

Income	Lim (RM)	Janet (RM)
Total income	150,000	100,000

Lim is not entitled to a deduction for wife for the year of assessment 2004 as Janet -

- is assessed separately in her name; and
- qualifies for deduction for self of RM8,000.

However, Lim qualifies for a deduction for alimony payments to his former wife, but is limited to a maximum of RM3,000.

For Janet, she is not allowed a deduction for husband for the year of assessment 2004 as Lim -

- is assessed separately in his name; and
- qualifies for deduction for self of RM8,000.

7.2.16 **Example 8 - deduction for treatment of serious disease**

Lee and his wife were resident in Malaysia for the basis year 2004 and were assessed separately. They were employed in the year 2004 and expended medical expenses as follows:

Expenses	Lee (RM)	Wife (RM)
On himself for treatment of cancer	3,000	3,000
On child for treatment of leukaemia	4,000	-

For the year of assessment 2004, Lee is entitled to make a claim for a maximum deduction of RM5,000 in relation to medical expenses expended by him on himself and their child. Meanwhile, Lee's wife is entitled to claim a deduction of RM3,000 expended by her on the child.

7.2.17 Where a wife is assessed separately in her own name, she must fill in the relevant parts of the Income Tax Form so that the appropriate deduction for the child be wholly allowed to her.

Example 9 - deduction for children

Manaf and his wife, were both resident and were employed in the basis year 2004. They have 3 children whose ages range from 4 to 12 years. Manaf's wife did not elect for combined assessment and she claimed the deduction in respect of all the 3 children. The couple have income from the following sources for the year ended 31.12.2004:

Type of income	Manaf (RM)	Wife (RM)
Statutory income from employment	48,000	120,000
Statutory income from rent	Nil	24,000

The computation of chargeable income for the year of assessment 2004 is as follows:

Type of income/deduction	Manaf (RM)	Wife (RM)
Statutory income from employment	48,000	120,000
Statutory income from rent	<u>Nil</u>	<u>24,000</u>
Aggregate income/total income	48,000	144,000
Less: deductions		
Self	8,000	8,000
Child	<u>Nil</u> <u>8,000</u>	<u>3,000</u> ¹ <u>11,000</u>
Chargeable income	<u>40,000</u>	<u>133,000</u>

¹ Deduction for children = 3 children X RM1,000 per child = RM3,000.

Example 10 - deduction for children

Nathan and his wife were resident in Malaysia and were employed in the basis year 2004. They have 7 children who are unmarried. Additional information relating to each child is as follows:

No.	Name of child	Age at 1 Jan.	Name of educational establishment	RM	Note
1.	John	25 yrs 3 mths	Univ. of W. Australia	15,000	-
2.	Patrick	23 yrs 9 mths	Univ. Bandung	10,000	-
3.	Ken	22 yrs 1 mth	Univ. Malaya	7,000	-
4.	Jane	20 yrs 5 mths	UKM	7,000	-
5.	Mike	18 yrs exact	SMK Taman Tun	3,000	-
6.	Pauline	16 yrs 2 mths	SMK Taman Tun	3,000	-
7.	Mary	14 yrs 10mths	nil	5,500	Down Syndrome

Nathan's wife did not elect for combined assessment. She made a claim for the 3 eldest children. Nathan and his wife have the following income for the year ended 31.12.2004:

Type of income	Nathan (RM)	Wife (RM)
Statutory income from employment	70,000	45,000
Statutory income from rent	Nil	12,000

The computation of chargeable income for the year of assessment 2004 is:

Particulars	Nathan (RM)		Wife (RM)	
Statutory income from employment		70,000		45,000
Statutory income from rent		<u>Nil</u>		<u>12,000</u>
Total income/Chargeable income		70,000		57,000
Less:				
Self	8,000		8,000	
Child:				
First	<i>nil</i>		1,000	
Second	<i>nil</i>		1,000	
Third	<i>nil</i>		4,000	
Fourth	4,000		<i>nil</i>	
Fifth	1,000		<i>nil</i>	
Sixth	1,000		<i>nil</i>	
Seventh (disabled child)	<u>5,000</u>	<u>11,000</u>	<u>19,000</u>	<u>6,000</u>
Chargeable income		<u>51,000</u>		<u>43,000</u>

7.2.18 For an individual and his/her spouse who are resident and did not elect for combined assessment, each of them is entitled to claim RM6,000 (RM5,000 prior to Y/A2005) for the payment of insurance premium and contribution to an approved provident fund.

Example 11 - deduction for insurance premiums and contribution to EPF

Jerry and his wife Joyce, who were resident were assessed separately for the year of assessment 2004. In that basis year, they made payments of insurance premiums and contribution to an approved provident fund as follows:

Type of payment	Jerry (RM)	Joyce (RM)
Insurance		
• Premium paid	2,500	1,800
• Sum insured	100,000	50,000
Contribution to EPF	5,000	3,600

The total payments expended in the basis year 2004 are as follows:

Premiums/contribution paid	Jerry (RM)	Joyce (RM)
Insurance premium paid	2,500	1,800
Contribution to EPF	5,000	3,600
Total paid	7,500	5,400

Even though Jerry and Joyce paid RM7,500 and RM5,400 respectively, the amount of deduction that can be claimed for insurance premiums and contribution to EPF by Jerry and Joyce is limited to a maximum of RM5,000 each.

- 7.2.19 Where an individual and his/her spouse is assessed separately, each of them is entitled to claim for the payment of premiums for insurance on education or for medical benefits up to an amount of RM3,000 - (subsection 49(1B) ITA).

Example 12 - deduction for education and medical insurance premium

Mat and his wife were resident in Malaysia for the basis year 2004. For year ended 31.12.2004, they have total income and paid insurance premiums as follows:

Income/payment	Mat (RM)	Wife (RM)
Total income	120,000	100,000
Education insurance premium	2,000	1,500
Medical insurance premium	1,500	1,800

Education and medical insurance premium that can be claimed by Mat and his wife in computing the chargeable income for the year of assessment 2004 are:

Income/payment	Mat (RM)	Wife (RM)
Total income	120,000	100,000
Less:		
Education Insurance premium	2,000	1,500
Medical insurance premium	<u>1,500</u>	<u>1,800</u>
Actual amount paid	3,500	3,300
Deduction allowed	<u>3,000¹</u>	<u>3,000¹</u>
Chargeable income	<u><u>117,000</u></u>	<u><u>97,000</u></u>

¹ The amount of education and medical insurance premiums that can be claimed by Mat and his wife respectively is limited to RM3,000 - subsection 49(1B).

- 7.2.20 Where an individual and his/her spouse are assessed separately, both are entitled to claim a deduction up to a maximum of RM1,000 each on the payment of insurance premium purchased through the EPF - (subsection 49(1C) ITA).

Example 13 - deduction of insurance premium through EPF

Wong and his wife, Alice who were resident in Malaysia for the basis year 2004, both have total income. They paid premiums for the purchase of insurance policies determined by the EPF amounting to RM1,200 each in the basis year 2004.

Wong and Alice are entitled to a deduction for the payment of insurance premium purchased through EPF up to a maximum of RM1,000 each for the year of assessment 2004.

7.3 Category C: Married - husband and wife are assessed jointly

An individual who has total income is allowed to elect to be assessed together with his/her spouse pursuant to paragraph 45(2)(a) and 45(2)(b) ITA on condition that the spouse also has total income. The amount of deductions which that individual is entitled to claim is as follows:

Deduction	Amount Husband or wife
7.1.1 Self and dependent relatives	RM8,000
7.3.2 Medical expenses for own parents	Limited to RM5,000
7.3.3 Basic supporting equipment for self, spouse, child or parent. The amount expended by the spouse is deemed expended by the individual.	Limited to RM5,000
7.3.4 Disabled person for self	RM6,000
7.3.5 Education fees for self	Limited to RM5,000
7.3.6 Treatment of serious disease for self, spouse or child. The amount expended by the spouse is deemed expended by the individual.	Limited to RM5,000
7.3.7 Complete medical examination for self, spouse or child. The amount expended by the spouse is deemed expended by the individual.	Limited to RM5,000 ¹
7.3.8 Purchase of books and magazines for self, spouse or child. The amount expended by the spouse is deemed expended by the individual.	Limited to RM700
7.3.9 Interest on housing loan for self and spouse	Refer Appendix B
7.3.10 If the individual is the husband - deduction for wife/wives/alimony to former wife; and further deduction if wife is disabled. Or	Limited to RM3,000 RM3,500
7.3.11 If the individual is the wife - deduction for husband; and further deduction if husband is disabled	RM3,000 RM3,500

Deduction	Amount Husband or wife
7.3.12 Child:	
a. under 18 years of age.	RM1,000 each child
b. 18 years of age and above - Studying in school, college or university/ serving under articles/indentures in or outside Malaysia.	RM1,000 each child
c. Over 18 years of age - Studying in college or university/serving under articles/indentures in Malaysia.	RM4,000 each child
d. Disabled child.	RM5,000 each child
7.3.13 Insurance premium and EPF contribution for self and spouse	Limited to RM6,000
7.3.14 Insurance premium for education and medical benefits for self, spouse or child	Limited to RM3,000
7.3.15 Insurance premium through EPF for self and spouse	Limited to RM1,000

¹ Total deductions in paragraphs 7.3.6 and 7.3.7 are limited to RM5,000.

- 7.3.16 In the case of a combined assessment, only the husband or wife in whose name the assessment is made can make a claim for the deduction for medical expenses expended in respect of his or her parents.

Example 14 - deduction for medical expenses for parents

Abu and his wife, were both resident in Malaysia for the basis year 2004. They have income from the following sources and expended expenses for year ended 31.12.2004 as follows:

Income/expenses	Abu (RM)	Wife (RM)
Statutory income from employment	70,000	Nil
Statutory income from rent	Nil	8,000
Medical expenses expended	3,800	2,000

Abu's wife elect for a combined assessment under paragraph 45(2)(a) ITA.

The deductions that can be claimed for the year of assessment 2004 are as follows:

Combined assessment		
Income/deduction	Abu (RM)	Wife (RM)
Statutory income from employment	70,000	Nil
Statutory income from rent	<u>Nil</u>	<u>8,000</u>
Total income	70,000	8,000
Less:		
Total income of wife		<u>8,000</u>
		Nil
Husband's aggregate total income	70,000 + 8,000 = 78,000	
Less: Deduction		
Self and dependent relatives	8,000	Nil
Medical expenses	3,800	Nil

Abu is only entitled to claim the deduction for medical expenses of RM3,800 expended by him on his parents. He is not entitled to the deduction for medical expenses of RM2,000 expended by his wife on her parents.

- 7.3.17 In respect of the deduction for basic supporting equipment, where there is aggregation of total income under subsection 45(2) of the ITA, the amount expended by the spouse is deemed to have been expended by the individual limited to a maximum of RM5,000. However, where the husband elects for combined assessment under paragraph 45(2)(b) ITA, the amount expended by the husband is deemed to have been expended by the wife who is allowed a deduction for the husband under section 45A ITA.

Example 15 - deduction for basic supporting equipment

Tan and his wife were both resident in Malaysia for the basis year 2004. They have income from the following sources and expenses expended for year ended 31.12.2004 are as follows:

Income/expenses	Tan (RM)	Wife (RM)
Statutory income from employment	60,000	30,000
Statutory income from rent	Nil	8,000
Purchased basic supporting equipment for child	1,000	6,000

Tan's wife elects for combined assessment under paragraph 45(2)(a) ITA.

The deduction allowed for the year of assessment 2004 is computed as follows:

Income/deduction	Combined assessment	
	Tan (RM)	Wife (RM)
Statutory income from employment	60,000	30,000
Statutory income from rent	Nil	<u>8,000</u>
Total income	60,000	38,000
Less:		
Total income of wife		<u>38,000</u>
		Nil
Husband's aggregate total income	60,000 + 38,000 = 98,000	
Less: Deduction		
Self & dependent relatives	8,000	Nil
Basic supporting equipment	5,000	Nil

The expenses expended for the purchase of basic supporting equipment by the wife are deemed to have been expended by Tan. However, the amount that could be claimed by Tan is limited to a maximum of RM5,000.

- 7.3.18 In respect of deduction for medical expenses for serious diseases, where there is aggregation of income under subsection 45(2) of the ITA, any amount expended by the wife who elects for combined assessment is deemed to have been expended by the husband. Similarly, where the husband elects for combined assessment, any amount expended by the husband is deemed to have been expended by the wife.

Example 16 - deduction for medical expenses for serious diseases

Amran and his wife, Nurul, were resident in Malaysia for the basis year 2004. They have the following income and expended expenses for the year ended 31.12.2004 as follows:

Income/expenses	Amran (RM)	Nurul (RM)
Statutory income from employment	60,000	30,000
Statutory income from rent	12,000	Nil
Medical expenses on Amran suffering from a serious disease	4,000	3,000

Amran's wife elects for combined assessment for the year of assessment 2004.

Deduction which can be allowed for the year of assessment 2004 is computed as follows:

Income/deduction	Combined assessment	
	Amran (RM)	Nurul (RM)
Statutory income from employment	60,000	30,000
Statutory income from rent	<u>12,000</u>	<u>Nil</u>
Total income	72,000	30,000
Less:		
Total income of wife		<u>30,000</u>
		<u>Nil</u>
Husband's aggregate total income	72,000 + 30,000 = 102,000	
Less:		
Self and dependent relatives	8,000	
Treatment of serious disease	5,000	

As Nurul has elected for aggregation of her total income with the total income of Amran, the amount expended by Nurul is deemed to have been expended by Amran. Therefore, Amran is entitled to claim a maximum deduction of RM5,000 that is RM4,000 expended by him and RM1,000 expended by Nurul.

- 7.3.19 Where there is aggregation of income under subsection 45(2) of the ITA, expenses expended on complete medical examination by the husband or wife are deemed to have been expended by the wife or the husband in whose name the assessment is made.

Example 17 - deduction for complete medical examination

Soon and his wife, Annie, were resident in Malaysia for the basis year 2004. For the year of assessment 2004, Annie elects to be assessed jointly with Soon. They paid complete medical examination expenses as follows:

Expenses	Soon (RM)	Annie (RM)
Complete medical examination	300	250

As Annie elected for combined assessment with Soon, the expenses of RM250 paid by Annie for complete medical examination are deemed to have been expended by Soon. As such, Soon is allowed a deduction of RM500 for the year of assessment 2004, that is RM300 expended by himself and RM200 which was expended by his wife.

- 7.3.20 In respect of deduction for the purchase of books, journals and magazines, where there is aggregation of total income under subsection 45(2) of the ITA, expenses expended by the husband or wife are deemed to have been expended by the wife or the husband in whose name the assessment is made. However, the amount of deduction allowed is limited to a maximum of RM700 which can be claimed by the husband or the wife in whose name the assessment is made.

Note: Prior to the year of assessment 2005, the amount of deduction was RM500.

Example 18 - deduction for the purchase of reading materials

Mahmud and his wife were resident in Malaysia for the basis year 2004. They have total income and expended expenses for the year ended 31.12.2004 as follows:

Income/expenses	Mahmud (RM)	Wife (RM)
Total income	60,000	50,000
School textbooks for child	2,000	Nil
Magazines	Nil	500

Mahmud's wife elects for combined assessment.

Expenses for the purchase of magazines paid by the wife are deemed to have been expended by Mahmud. However, the amount that can be claimed by Mahmud is limited to a maximum of RM500.

- 7.3.21 In the case of combined assessment, the deduction for wife under subsection 47(1) ITA or deduction for husband under section 45A, can be claimed by the husband or the wife in whose name the assessment is made.

Example 19

Firdaus and Faridah were resident in Malaysia for the basis year 2004. They were married on 30.6.2004 and have sources of income for the year ended 31.12.2004 as follows:

Income	Firdaus (RM)	Faridah (RM)
Business		
• Adjusted income	20,000	Nil
• Capital allowance	15,000	
Statutory income from employment	Nil	84,000
Statutory income from rent	12,000	Nil

Faridah elects for combined assessment with Firdaus for the year of assessment 2004.

In determining whether deduction for wife can be given to Firdaus for the year of assessment 2004, it is necessary to confirm that the wife is entitled to elect for combined assessment with the husband and this is determined as follows:

Income	Firdaus (RM)	Faridah (RM)
Statutory income from business (20,000-15,000)	5,000	Nil
Statutory income from employment	Nil	84,000
Statutory income from rent	<u>12,000</u>	<u>Nil</u>
Aggregate income/total income	<u>17,000</u>	<u>84,000</u>

As Faridah has total income, she is entitled to elect for combined assessment with her husband. Therefore, Firdaus qualifies for a deduction for wife of RM3,000.

Example 20

Yaacob and his wife, Ros, have income from the income from the following sources for the year ended 31.12.2004:

Income	Yaacob (RM)	Ros (RM)
Statutory income from employment	Nil	50,000
Statutory income from rent	7,000	Nil

Yaacob elects for combined assessment pursuant to paragraph 45(2)(b) ITA.

The computation of total income for the year of assessment 2004 is computed as follows:

Income	Yaacob (RM)	Ros (RM)
Statutory income from employment	Nil	50,000
Statutory income from rent	<u>7,000</u>	<u>Nil</u>
Total income	7,000	50,000
Less:		
Total income of husband	<u>7,000</u>	
	Nil	
Add: total income of husband		<u>7,000</u>
Wife's aggregate total income		<u><u>57,000</u></u>

Since Yaacob has total income, he is allowed to elect for combined assessment in the name of his wife - (paragraph 45(2)(b) ITA). As such, Ros qualifies for a deduction for husband of RM3,000 for that year of assessment - (subsection 45A(b) ITA).

- 7.3.22 Where the husband or the wife elects for combined assessment, only the wife or the husband in whose name the assessment is made qualifies for deduction for child provided all conditions as stated in paragraph 6.1.13 are fulfilled.

Example 21

Shah and his wife, Jehan, were resident in Malaysia for the basis year 2004. They have 5 children who are unmarried and information relating to each child is as follows:

No.	Name of child	Age at 1 Jan.	Name of educational establishment	RM	Note
1.	Yahya	23 years	Univ. of W. Australia	20,000	-
2.	Ismail	20 yrs 1 mth	Univ. Malaya	7,000	-
3.	Yusof	18 yrs 4 mths	UKM - Matriculation	2,000	-
4.	Malik	15 years	SMK Taman Tun	3,000	-
5.	Rozila	7 yrs 10 mths	Wisma Harapan	3,000	Down Syndrome

Shah elects for combined assessment. As such, Jehan is entitled to claim for deduction for child. Shah and Jehan have income for the year ended 31.12.2004 as follows:

Income	Shah (RM)	Jehan (RM)
Statutory income from employment	25,000	70,000
Statutory income from rent	Nil	12,000

The computation of chargeable income for Jehan for the year of assessment 2004 is:

Particulars	Shah (RM)	Jehan (RM)	
Statutory income from employment	25,000		70,000
Statutory income from rent	<u>Nil</u>		<u>12,000</u>
Total income	25,000		82,000
Less: Total income	<u>25,000</u>		
	<u>Nil</u>		
Add: Husband's total income			<u>25,000</u>
Jehan's aggregate total income			107,000
Less: Deduction			
Self		8,000	
Husband		3,000	
Child: First	1,000		
Second	4,000		
Third	1,000		
Fourth	4,000		
Fifth	<u>5,000</u>	<u>12,000</u>	<u>23,000</u>
Chargeable income			<u>84,000</u>

- 7.3.23 In respect of deduction for insurance premiums and contribution to approved employees provident fund, where the total income of the individual is aggregated with the total income of the spouse in a combined assessment, the individual in whose name the assessment is made is entitled to claim a deduction up to a maximum of RM6,000 (RM5,000 prior to the year of assessment 2005). Where an election for combined assessment is made by the spouse, any amount paid by the spouse is deemed to have been paid by the individual - (paragraph 50(2)(a) and subsection 50(3) ITA).

Example 22

Raj and his wife, Jothy were resident in Malaysia for the basis year 2004. Jothy elects for combined assessment with Raj. Raj and Jothy have total income for the year ended 31.12.2004 as follows:

Income	Raj (RM)	Jothy (RM)
Total income	120,000	10,900

Raj and Jothy also made the following payments for the year ended 31.12.2004:

Type of payment	Raj (RM)	Jothy (RM)
Insurance: Policy 1: Sum insured on his own life Premium paid	175,500 12,500	Not applicable
Policy 2: Sum insured on their joint lives Premium paid	100,000 5,200	Not applicable
Policy 3: Sum insured on his own life Premium paid	Not applicable	50,000 3,600
Contribution to EPF	3,600	1,200

The amount allowed to be claimed for the year of assessment 2004 is as follows:

Premium/contribution paid	Raj (RM)	Jothy (RM)
Insurance premium		
Policy 1:	12,500	
Policy 2:	5,200	
Policy 3:		3,600
Contribution EPF	<u>3,600</u>	<u>1,200</u>
Total payment	21,300	<u>4,800</u>

As Jothy has elected for combined assessment with Raj, the amount of insurance premium and EPF contribution paid by Jothy is deemed to have been paid by Raj - (paragraph 50(2)(a) and subsection 50(3) ITA). Therefore, Raj is deemed to have paid an amount of RM21,300 + RM4,800 = RM26,100. However, he is entitled to a deduction of only RM5,000.

7.3.24 In respect of deduction for insurance premium on education or for medical benefits, where the total income of the spouse is aggregated with the total income of the individual in a combined assessment, only that individual in whose name the assessment is made is allowed the deduction up to maximum of RM3,000 - (paragraph 49(1B)(b) ITA).

Example 23 - deduction for education and medical insurance premiums

Rudy and wife were resident in Malaysia for basis year 2004. For year ended 31.12.2004, they have total income and paid insurance premiums as follows:

Income/expenses	Rudy (RM)	Wife (RM)
Total income	80,000	70,000
Insurance premium on education	2,000	1,500
Insurance premium on medical benefits	1,800	1,500

Rudy's wife elects for combined assessment under paragraph 45(2)(a) ITA that her total income be aggregated with the total income of Rudy in an assessment to be made in her husband's name.

Rudy is entitled to claim deduction for the premiums paid by the wife. However, the deduction for education and medical insurance premiums that can be claimed by Rudy is limited to RM3,000 only. Similarly, where Rudy elects for combined assessment in the wife's name - (paragraph 45(2)(b) ITA), his wife is entitled to claim deduction for the premiums paid by Rudy. However, the deduction for the total insurance premiums is limited to RM3,000 only - (paragraph 49(1B)(b) ITA).

- 7.3.25 Where the total income of the spouse is aggregated with the total income of the individual in a combined assessment, the individual in whose name the assessment is made is allowed to claim the deduction for insurance premium on policy purchased through EPF limited to a maximum of RM1,000 - (subsection 49(1C) ITA).

Example 24 - deduction for insurance premiums through EPF

Chew and his wife lived together and were resident in Malaysia for the basis year 2004. Chew's wife elects for combined assessment. Her total income of RM20,000 is aggregated with the total income of Chew. They have insurance policies and paid premium as follows:

Premium paid	Chew (RM)	Wife (RM)
Education policy	Not applicable	1,500
EPF insurance policy	3,000	Not applicable

The tax treatment for the payment of premium on education insurance and insurance policy purchased through EPF for the year of assessment 2004 is as follows:

- a. Only Chew is allowed to claim for the deduction; and*
- b. The amount that is allowed to Chew is -*
 - i. RM1,500 for annual premium on education policy paid by wife - subsection 49(1B) of the ITA; and*
 - ii. RM1,000 for premium policy insurance purchased through EPF paid by himself - subsection 49(1C) ITA.*

7.4 Category D: Married - husband or wife has total income but the spouse has no total income

Where the husband or wife has total income but the spouse has no total income, the assessment must be made in the name of the husband or wife who has total income. The amount of deductions that can be claimed by the husband or wife who is assessed as an individual is as follows:

Deduction	Amount
7.4.1 Self and dependent relatives	RM8,000
7.4.2 Medical expenses for parents	Limited to RM5,000
7.4.3 Basic supporting equipment for self, spouse, child or parent. The amount expended by the spouse is deemed expended by the individual.	Limited to RM5,000
7.4.4 Disabled person for self	RM6,000
7.4.5 Education fees for self	Limited to RM5,000
7.4.6 Treatment of serious disease for self, spouse or child. The amount expended by the spouse is deemed expended by the individual.	Limited to RM5,000
7.4.7 Complete medical examination for self, spouse or child. The amount expended by the spouse is deemed expended by the individual.	Limited to RM5,000 ¹
7.4.8 Purchase of books and magazines for self, spouse or child. The amount expended by the spouse is deemed expended by the individual.	Limited to RM700
7.4.9 Interest on housing loan for self. The amount expended by the spouse is deemed expended by the individual	Refer Appendix B
7.4.10 If the individual is the husband - deduction for wife/wives/alimony to former wife; and further deduction if wife is disabled. Or	Limited to RM3,000 RM3,500
7.4.11 If the individual is the wife - deduction for husband; and further deduction if husband is disabled	RM3,000 RM3,500

Deduction	Amount
7.4.12 Child: a. under 18 years of age. b. 18 years of age and above - Studying in school, college or university/ serving under articles/indentures in or outside Malaysia. c. Over 18 years of age - Studying in college or university/serving under articles/indentures in Malaysia. d. Disabled child.	RM1,000 each child RM1,000 each child RM4,000 each child RM5,000 each child
7.4.13 Insurance premium for self and spouse. The amount of premium expended by the spouse is deemed expended by the individual. Contribution EPF for self.	Limited to RM6,000
7.4.14 Insurance premium for education and medical benefits for self, spouse or child. The amount expended by the spouse is deemed expended by the individual.	Limited to RM3,000
7.4.15 Insurance premium through EPF for self and spouse. The amount expended by the spouse is deemed expended by the individual.	Limited to RM1,000

¹ Total deduction in paragraphs 7.4.6 and 7.4.7 are limited to RM5,000

7.4.16 Claim for expenses in respect of -

- i. Basic supporting equipment (paragraph 7.4.3);
 - ii. Medical expenses for serious diseases (paragraph 7.4.6);
 - iii. Complete medical examination (paragraph 7.4.7); and
 - iv. Purchase of books and magazines (paragraph 7.4.8),
- the expenses expended by the husband or wife who has no total income are deemed to have been expended by the wife or husband who is assessed. However, the amount that can be claimed is subject to the respective limitations.

Example 25

John and his wife, Sally were resident in Malaysia for the basis year 2004. In that basis year, John, suffered from diabetes resulting in the amputation of his leg. John and Sally have total income and paid the following expenses for the year ended 31.12.2004:

Income/expenses	John (RM)	Sally (RM)
Total income	Nil (business loss)	120,000
Basic supporting equipment	500	2,000
Treatment of serious diseases	1,500	3,800
Complete medical examination	400	250
Purchase of books and magazines	100	450

Even though John has no total income to be aggregated with Sally's total income, all the expenses expended by John are deemed to have been expended by Sally. The total deductions that can be claimed by Sally are as follows:

Type of deduction	RM
<i>Basic supporting equipment</i>	2,500
<i>Treatment of serious disease</i>	Limited to 5,000
<i>Complete medical examination</i>	Nil - RM500 is part of the deduction for treatment of serious disease
<i>Purchase of books and magazines</i>	Limited to RM500

7.4.17 For an individual who is resident in Malaysia and has a wife who is living together with him in that basis year and the wife has no total income by reason of:

- i. loss from business; or
- ii. in respect of non-business source, the amount of expenditure exceeds the gross income,

the husband is still entitled to claim for a deduction for wife of RM3,000. Subsection 47(5) ITA ensures that the right of the individual to a deduction for wife is not deprived.

Example 26 - deduction for wife

Elman and his wife, Elli were resident in Malaysia for the basis year 2004. They have income for year ended 31.12.2004 as follows:

Income	Elli (RM)	Elman (RM)
Employment	80,000	Nil
Business (loss)	Nil	(15,000)

The computation of total income for the year of assessment 2004 is:

	Total Income (RM)
Elman	80,000
Elli	Nil

Even though, Elli is not allowed to be assessed jointly with the husband because she has no total income to be aggregated with that of her husband, however, her husband is still entitled to claim for a deduction for wife of RM3,000 for the year of assessment 2004 - subsection 47(5) ITA. If Elli is a disabled person and is certified by the Department of Social Welfare, Elman is entitled to claim a further deduction for wife of RM3,500.

- 7.4.18 The deduction for husband amounting to RM3,000 (with a further deduction of RM3,500 if the husband is disabled) is given to the wife where the husband has no total income because of business loss suffered or because the expenditure in relation to a non-business source exceeds the gross income. Where the husband has more than one wife, the deduction for husband can be allowed to one wife only - (proviso to section 45A ITA).

Example 27 - deduction for husband

Hafiz and his wife, Liza have income for the year ended 31.12.2004 as follows:

Income/loss	Hafiz (RM)	Liza (RM)
Employment	Nil	45,000
Rent (loss) Expenses exceed income	(6,000)	Nil

The computation of total income for the year of assessment 2004 is as follows:

	Total Income (RM)
Hafiz	Nil
Liza	45,000

Since Hafiz has no total income, Liza is allowed a deduction for husband amounting to RM3,000 for the year of assessment 2004 - (subsection 45A(a) ITA). If Hafiz is a disabled person and this is certified by the Department of Social Welfare, a further deduction of RM3,500 is given to Liza. If Hafiz has more than one wife, the deduction for husband is allowed to one wife only.

- 7.4.19 Where the spouse has no total income, the amount of insurance premium is paid by the spouse is deemed to have been paid by the individual in whose name the assessment is made - (paragraph 50(2)(b) ITA). The amount which qualifies for deduction is limited to a maximum of RM6,000 (RM5,000 prior to the year of assessment 2005).

Example 28 - deduction for insurance premium and EPF contribution

Ali and his wife, living together in the basis year 2004 were resident in Malaysia. Ali has no total income as his business suffered a loss, while his wife has total income of RM120,000. They paid insurance premiums and made contributions to EPF for the year ended 31.12.2004 as follows:

Insurance premium/EPF contribution	Ali (RM)	Wife (RM)
Policy 1:		
• Sum insured on himself	10,000	
• Premium paid	700	
Policy 2:		
• Sum insured on their joint lives		30,000
• Premium paid		2,000
Contribution to EPF		13,200

The amount of deduction for insurance premium and EPF contribution for the year of assessment 2004 can only be claimed by Ali's wife as:

- Ali has no total income; and
- his wife is entitled to deduction for husband under subsection 45A(a) ITA.

As such, the insurance premiums of RM700 paid by Ali is deemed to have been paid by the wife - (paragraph 50(2)(b) ITA). However, the amount that can be claimed by Ali's wife is limited to RM5,000 only. Therefore, the chargeable income of Ali's wife for the year of assessment 2004 is as follows:

Wife:	RM	RM
Total income		120,000
Less:		
Deduction for husband	3,000	
Self and dependent relatives	8,000	
Insurance premiums and EPF contributions		
• Self (2,000 + 13,200) =		15,200
• Husband		700
15,900 limited to	5,000	16,000
Chargeable income		<u>104,000</u>

7.4.20 Where the spouse has no total income, the amount of premiums on education and medical insurance policies expended by the spouse is deemed to have been expended by the individual in whose name the assessment is made - (paragraph 50(2)(b) ITA). The amount of deduction that can be claimed is limited to a maximum of RM3,000 - subsection 49(1B) ITA).

Example 29 - deduction for education and medical insurance premiums

Tay and his wife were resident in Malaysia for the basis year 2004. Tay has total income of RM150,000 while his wife has no total income as she suffered business loss. Tay and his wife paid premium on education and medical insurance policies as follows:

	Tay (RM)	Wife (RM)
Education policy - premium paid	2,000	1,500
Medical policy - premium paid	360	Nil

The amount of premium on education and medical policies paid by Tay and his wife for year of assessment 2004 is:

	RM
Tay	2,360
Wife	1,500

Tay can claim the premiums on the education policy paid by his wife. Therefore, the amount of education and medical insurance premiums that can be claimed by Tay in computing the chargeable income for the year of assessment 2004 is:

	RM	RM
Total income		150,000
Less: Self and dependent relatives	8,000	
Wife	3,000	
Insurance premiums:		
• Education (2,000 + 1,500) = 3,500		
• Husband <u>360</u>		
15,900 limited to	<u>3,000</u>	<u>14,000</u>
Chargeable income		<u>136,000</u>

- 7.4.21 Where the spouse has no total income because of business loss suffered or where the expenditure exceeds the gross income for a non-business source, the amount of premium paid on insurance policy determined by the EPF paid by the spouse is deemed to have been paid by the individual in whose name the assessment is made - (paragraph 50(2)(b) ITA). The amount of deduction allowed is limited to a maximum of RM1,000.

Example 30 - deduction for insurance premium through EPF

Velu and his wife were resident in Malaysia for the basis year 2004. They have a 12 year old child. For the year ended 31.12.2004, Velu has employment income of RM140,000, while his wife suffered business loss of RM10,000. In that year, Velu paid premiums for insurance policies as follows:

Type of payment	Paid by	
	Velu (RM)	Wife (RM)
Insurance policy on self	1,500	30,000
Medical insurance policy for self & wife	Nil	1,800
Education insurance policy - child	1,500	
Insurance policy through EPF	Nil	1,500

The deduction that can be claimed by Velu and the computation of chargeable income for the year of assessment 2004 are as follows:

	Wife (RM)		
Total income			140,000
Less: deduction			
Self and dependent relatives		8,000	
Wife		3,000	
Child		1,000	
Insurance premiums			
• Life - paragraph 49(1)(a) ITA	1,500		
• Medical & education - subsection 49(1B) ITA 1,800 + 1,500 = 3,300 limited to	3,000		
• Policy through EPF - subsection 49(1C) ITA 1,500 limited to	<u>1,000</u>	<u>5,500</u>	<u>17,500</u>
Chargeable income			<u><u>122,500</u></u>

- 7.5 Category E: Married - husband has total income but the wife has no source of income. The husband having the total income is assessed.

The husband who has total income but the wife has no source of income is entitled to claim deductions as follows:

Deduction	Husband
7.5.1 Self and dependent relatives	RM8,000
7.5.2 Medical expenses for parents	Limited to RM5,000
7.5.3 Basic supporting equipment for self, wife, child or parent.	Limited to RM5,000
7.5.4 Disabled person for self	RM6,000
7.5.5 Education fees for self	Limited to RM5,000
7.5.6 Treatment of serious disease for self, wife or child.	Limited to RM5,000
7.5.7 Complete medical examination for self, wife or child.	Limited to RM500 ¹
7.5.8 Purchase of books and magazines for self, wife or child.	Limited to RM700
7.5.9 Interest on housing loan for self.	Refer Appendix B
7.5.10 Wife/wives/alimony to former wife; and further deduction if wife is disabled.	Limited to RM3,000 RM3,500
7.5.11 Child: <ul style="list-style-type: none"> a. under 18 years of age. b. 18 years of age and above - Studying in school, college or university/ serving under articles/indentures in or outside Malaysia. c. Over 18 years of age - Studying in college or university/serving under articles/indentures in Malaysia. d. Disabled child. 	RM1,000 each child RM1,000 each child RM4,000 each child RM5,000 each child
7.5.12 Insurance premium and contribution to EPF for self.	Limited to RM6,000
7.5.13 Insurance premium for education and medical benefits for self or child.	Limited to RM3,000
7.5.14 Insurance premium through EPF for self.	Limited to RM1,000

¹ Total deduction in paragraphs 7.5.6 and 7.5.7 are limited to RM5,000

- 7.6 Category F: Married - wife has total income but the husband has no source of income. The wife having the total income is assessed.

The wife who has total income but the husband has no source of income is entitled to claim deductions as follows:

Deduction	Wife
7.6.1 Self and dependent relatives	RM8,000
7.6.2 Medical expenses for parents	Limited to RM5,000
7.6.3 Basic supporting equipment for self, husband, child or parent.	Limited to RM5,000
7.6.4 Disabled person for self	RM6,000
7.6.5 Education fees for self	Limited to RM5,000
7.6.6 Treatment of serious disease for self, husband or child.	Limited to RM5,000
7.6.7 Complete medical examination for self, husband or child.	Limited to RM500 ¹
7.6.8 Purchase of books and magazines for self, husband or child.	Limited to RM700
7.6.9 Interest on housing loan for self.	Refer Appendix B
7.6.10 Child:	
a. under 18 years of age.	RM1,000 each child
b. 18 years of age and above - Studying in school, college or university/ serving under articles/indentures in or outside Malaysia.	RM1,000 each child
c. Over 18 years of age - Studying in college or university/serving under articles/indentures in Malaysia.	RM4,000 each child
d. Disabled child.	RM5,000 each child
7.6.11 Insurance premium and contribution to EPF for self.	Limited to RM6,000
7.6.12 Insurance premium for education and medical benefits for self or child.	Limited to RM3,000
7.6.13 Insurance premium through EPF for self.	Limited to RM1,000

¹ Total deduction in paragraphs 7.6.6 and 7.6.7 are limited to RM5,000

- 7.6.14 In accordance with the provisions of ITA, the wife in this category is not entitled to the deduction for husband as the husband has no source of income.

8.0 Computation of Income Tax

8.1 After ascertaining the chargeable income, the next step is to compute the income tax payable by the individual/tax repayable to the individual. In the case of an individual who is resident, income tax shall be charged upon the chargeable income of the individual at scale rates as specified in Schedule 1 of the ITA - (see Appendix C).

8.2 The format for the computation of income tax payable/repayable is as follows:

	RM	RM
Chargeable income		<u>XXXXX</u>
Tax on the first XXXXX of chargeable income		XX.XX
Tax on the balance XXXXX of chargeable income @ XX %		<u>XX.XX</u>
Income tax charged		XX.XX
Less: Tax rebate		
• Individual	XX	
• Spouse	XX	
• Zakat and fitrah	XX	
• Personal computer	XX	
• Fees	<u>XX</u>	<u>XX.XX</u>
		XX.XX
Less: Tax credit		
• Tax credit from dividends	XX	
• Bilateral credit on foreign income where there is a double taxation agreement	XX	
• Unilateral credit on foreign income where there is no double taxation agreement	XX	<u>XX.XX</u>
Income tax payable/repayable		<u>XX.XX</u>

8.3 Tax Rebate

8.3.1 Tax rebate is a type of deduction of tax given to an individual who is resident in Malaysia for the basis year for a year of assessment to reduce the amount of income tax payable by the individual. The amount of tax rebate is deducted from the income tax charged in ascertaining the tax payable. There are two types of tax rebates allowed, as follows -

- i. tax rebate which is given if the conditions laid down are fulfilled, irrespective of any expenses. This type of tax rebate is known as the personal rebate; and
- ii. tax rebate which is given when a taxpayer expended the actual expenses. This type of rebate is the rebate for zakat or fitrah, personal computer not used for the purposes of the business and payment of fees (levy) for employment pass, visit pass (temporary employment) or work pass.

8.3.2 Pursuant to subsection 6A(4) ITA, where in a year of assessment the tax rebate is greater than the income tax charged, the excess is not to be:

- i. refunded to the taxpayer; or
- ii. carried forward as a credit to be allowed against the individual's tax liability for subsequent years of assessment.

8.3.3 Personal rebate - subsection 6A(2) ITA

An individual who is resident and has chargeable income for the basis year for a year of assessment is entitled to claim personal rebate as follows:

- i. for an individual who has been allowed a deduction for self and dependent relatives of RM8,000 under paragraph 46(1)(a) ITA and his chargeable income for the basis year does not exceed RM35,000, a rebate of RM350 is given to that individual.
- ii. for a husband who has been allowed a deduction for wife under subsection 47(1) or 47(2) ITA and his chargeable income for that basis year does not exceed RM35,000, a rebate of RM350 is given to that individual and RM350 for his wife.
- iii. for a wife who has been given a deduction for husband under section 45A ITA, (that is, husband has no total income or husband elects for combined assessment with his wife) and the chargeable income of the wife does not exceed RM35,000, a total rebate of RM700 is allowed that is a rebate of RM350 to her and RM350 for the husband.

Example 31 - personal rebate

Jane, who is resident in Malaysia for the basis year 2004 has employment income of RM40,000 for year ended 31.12.2004. In that year, she made contributions to the EPF amounting to RM440.

The chargeable income for the year of assessment 2004 is determined as follows:

	RM	RM
Total income		40,000
Less: Deduction		
Self and dependent relatives - para 46(1)(a) ITA	8,000	
EPF contribution - para 49(1)(b) ITA	<u>440</u>	8,440
Chargeable income		<u>31,560</u>

As Jane -

- is resident in Malaysia,
 - is entitled to a deduction for self and dependent relatives under paragraph 46(1)(a) of the ITA, and
 - has chargeable income not exceeding RM35,000,
- she is entitled to a personal rebate of RM350 for the basis year 2004.

Income tax payable by Jane for the year of assessment 2004 is -

	RM
Tax on the first RM20,000	475.00
Tax on the balance RM11,560 X 7%	<u>809.20</u>
Total income tax charged	1,284.20
Less: deduction	
Rebate for self - subsection 6A(2) ITA	<u>350.00</u>
Income tax payable	<u>934.20</u>

Example 32 - personal rebate

Lee and his wife, resident for the basis year 2004. They have total income and made contribution to the EPF for year ended 31.12.2004 as follows:

	Lee (RM)	Wife (RM)
Total income	39,000	24,000
Contribution to EPF	429	264

The chargeable income for Lee and wife for the year of assessment 2004 respectively is determined as follows:

	Lee (RM)		Wife (RM)	
Total income	39,000		24,000	
Less: deduction				
Self and dependent relatives	8,000		8,000	
Contribution to EPF	<u>429</u>	<u>8,429</u>	<u>264</u>	<u>8,264</u>
Chargeable income	<u>30,571</u>		<u>15,736</u>	

As Lee and wife respectively is -

- resident in Malaysia,
- entitled to a deduction for self under paragraph 46(1)(a) ITA, and
- has chargeable income not exceeding RM35,000,

Lee and wife are entitled to a personal rebate of RM350 each.

The income tax payable by Lee for the year of assessment 2004 is -

		RM
Tax on the first	20,000	475.00
Tax on the balance	10,571 X 7%	739.97
Total income tax charged		1,214.97
Less : Rebate for self - subsection 6A(2) ITA		<u>350.00</u>
Income tax payable		<u>864.97</u>

The income tax payable by wife for the year of assessment 2004 is -

		RM
Tax on the first	10,000	175.00
Tax on the balance	5,736 X 3%	<u>172.08</u>
Total income tax charged		347.08
Rebate for self - subsection 6A(2) ITA limited to		<u>347.08¹</u>
Income tax payable		<u>Nil</u>

¹ However, the grant of rebate to the wife is limited to her total tax charged. The excess of RM2.92 cannot be refunded to her and is thus forfeited.

Example 33 - personal rebate for self and spouse

Rashdan and wife were resident in Malaysia for the basis year 2004. Rashdan has total income of RM25,000 while his wife has total income of RM15,000. Rashdan's wife elects for combined assessment with her husband under paragraph 45(2)(a) ITA for the year of assessment 2004.

The chargeable income for the year of assessment 2004 is determined as follows -

	RM	RM
Total income of Rashdan		25,000
Total income of wife		<u>15,000</u>
Aggregate total income of Rashdan		40,000
Less: deduction		
Self and dependent	8,000	
Wife	<u>3,000</u>	<u>11,000</u>
Chargeable income		<u>29,000</u>

As Rashdan -

- is resident in Malaysia,
 - qualifies for deduction for wife under paragraph 47(1)(a) ITA, and
 - has chargeable income not exceeding RM35,000,
- he is entitled to a personal rebate of RM700 that is RM350 for self and RM350 for wife.

Income tax payable by Rashdan for the year of assessment 2004 is-

	RM	RM
Tax on the first 20,000		475.00
Tax on the balance 9,000 X 7%		<u>630.00</u>
Total income tax charged		1,105.00
Less: Personal rebate		
Self - paragraph 6A(2)(a) ITA	350.00	
Wife - paragraph 6A(2)(b) ITA	<u>350.00</u>	<u>700.00</u>
Income tax payable		<u>405.00</u>

Example 34 - personal rebate for self and spouse

Sai Yuk, who is resident in Malaysia for the basis year 2004 divorced his wife on 15.4.2004. Sai Yuk paid alimony of RM6,000 in 2004 to his former wife pursuant to a court order. The total income of Sai Yuk for the basis year 2004 is RM46,000.

The chargeable income for the year of assessment 2004 is determined as follows:

	RM	RM
Total income		46,000
Less: deduction		
Self and dependent relatives	8,000	
Alimony to former wife - para 47(2)(b) ITA	<u>3,000</u>	<u>11,000</u>
Chargeable income		<u>35,000</u>

As Sai Yuk-

- is resident in Malaysia,
 - is entitled to a deduction for former wife under paragraph 47(2)(b) ITA, and
 - has chargeable income not exceeding RM35,000,
- he is entitled to a personal rebate of RM700 that is RM350 for self and RM350 for wife.

The income tax payable by Sai Yuk for the year of assessment 2004 is -

	RM	RM
Tax on the first		1,525.00
Less: Personal rebate		
• Self - paragraph 6A(2)(a) ITA	350.00	
• Wife - paragraph 6A(2)(b) ITA	<u>350.00</u>	<u>700.00</u>
Income tax payable		<u>825.00</u>

Example 35 - personal rebate for self and spouse

Faiz and his wife Faizah were resident in Malaysia for the basis year 2004. The total income of Faizah for the basis year 2004 is RM44,000 while Faiz has no total income (since the gross income from the rental source is smaller than the amount of expenses).

The income tax payable by Faizah for the year of assessment 2004 is:

	RM	RM
Total income		44,000
Less: deduction		
Self and dependent relatives	8,000	
Husband - subsection 45A(a) ITA	<u>3,000</u>	<u>11,000</u>
Chargeable income		33,000
Tax on the first 20,000		475.00
Tax on the balance 13,000 X 7%		910.00
Total income tax charged		1,385.00
Less: Personal rebate		
Self - paragraph 6A(2)(a) ITA	350.00	
Husband - paragraph 6A(2)(c) ITA	<u>350.00</u>	<u>700.00</u>
Income tax payable		<u>685.00</u>

Example 36 - personal rebate for self and spouse

Nizam and his wife, Nik, were resident in Malaysia for the basis year 2004. Nizam has total income of RM15,000 while his wife has total income of RM30,000. Nizam elects for combined assessment with his wife under paragraph 45(2)(b) ITA for the year of assessment 2004.

As Nizam has elected to be assessed together with the wife for the year of assessment 2004, Nizam is treated as having no chargeable income for that year of assessment. The assessment for the year of assessment 2004 is in Nik's name. Nik's chargeable income for the year of assessment 2004 is computed as follows:

	RM	RM
Total income of individual		30,000
Total income of husband		<u>15,000</u>
Aggregate total income - para 45(2)(b) ITA		45,000
Less: deduction		
Self and dependent relatives	8,000	
Husband - subsection 45A(b) ITA	<u>3,000</u>	<u>11,000</u>
Chargeable income		<u>34,000</u>

As Nik -

- is resident in Malaysia,
 - is entitled to deduction for husband under subsection 45A(b) of the ITA, and
 - has chargeable income which is not exceeding RM35,000,
- she is entitled to a personal rebate of RM700 that is RM350 for self and RM350 for the husband.

The income tax payable by Nik for the year of assessment 2004 is -

	RM	RM
Tax on the first 20,000		475.00
Tax on the balance 14,000 X 7%		<u>980.00</u>
Total income tax charged		1,455.00
Less: Personal rebate		
• Self - paragraph 6A(2)(a) ITA	350.00	
• Husband - paragraph 6A(2)(c) ITA	<u>350.00</u>	<u>700.00</u>
Income tax payable		<u>755.00</u>

- 8.3.4 Tax rebate for zakat and fitrah payments - subsection 6A(3) ITA
- i. An individual taxpayer who is resident in Malaysia and has chargeable income is entitled to claim tax rebate for any zakat, fitrah and other Islamic dues, payment which is obligatory and which are paid to an appropriate religious authority established under any written law. The amount of the rebate allowed to the individual is limited to the total income tax charged for a year of assessment.
 - “The appropriate religious authority established under any written law” includes Pusat Pungutan Zakat and Majlis Ugama Islam Negeri.
 - “Written law” means legislative enactments or legislative instruments in force in Malaysia.
 - iii. For an individual and wife who are assessed separately, each will be given tax rebate for zakat paid by them respectively.
 - iii. In accordance with the provisions of the ITA, where -
 - the wife elects for combined assessment in the name of the husband; or
 - the husband elects for combined assessment in the name of the wife, only the actual zakat payment made by the husband or wife who is assessed is allowed tax rebate. Therefore, the zakat payment made by the wife or the husband who elects for combined assessment is not allowed as tax rebate against

the total tax charged of the spouse who is assessed. However, in practice, zakat payment made by the husband or wife who elects for combined assessment is allowed a tax rebate against the total tax charged of the spouse who is assessed.

- iv. In accordance with the provisions of the ITA, zakat paid by a wife who is unemployed and has no source of income or has no total income is not allowed a rebate against the tax charged on the husband. However, in practice, the zakat payment is allowed a tax rebate against the total tax charged of the husband.

Example 37 - zakat payment made to appropriate religious authority

Aboo and wife, were resident in Malaysia for the basis year 2004. Aboo's wife is unemployed. Aboo has total income and paid zakat for the basis year 2004 as follows:

	RM	RM
Total income		370,000
Zakat paid to:		
• Majlis Ugama Islam Selangor	5,000	
• Zakat collection centre in Pakistan	5,000	

The computation of zakat and income tax payable for the year of assessment 2004 is:

	RM	RM
Total income		370,000
Less:		
Self and dependent relatives	8,000	
Wife	<u>3,000</u>	11,000
Chargeable income		<u>359,000</u>

	RM	RM
Tax on 250,000		54,975.00
Tax on the balance 109,000 X 28%		<u>30,520.00</u>
Total income tax charged		85,495.00
Less: rebate for zakat ¹		<u>5,000.00</u>
Income tax payable		<u>80,495.00</u>

¹ Only rebate for zakat paid to Majlis Ugama Islam Selangor is allowed a rebate. Payment of zakat made to the zakat collection centre in Pakistan will not be allowed a rebate as that zakat collection centre is not established under any written law in Malaysia.

Example 38 - rebate for zakat to an individual

Zakri and his wife were resident in Malaysia for the basis year 2004. Zakri has total income of RM45,000 for the year ended 31.12.2004 whereas his wife is unemployed. Zakri made payments as follows:

- i. Contribution to the EPF of RM4,950; and
- ii. Zakat and fitrah of RM450.

The computation of rebate for zakat and income tax payable for the year of assessment 2004 is as follows:

	RM	RM
Total income		45,000
Less: deduction		
Self and dependent relatives	8,000	
Wife	3,000	
EPF contribution	<u>4,950</u>	<u>15,950</u>
Chargeable income		<u>29,050</u>
Tax on the first 20,000		475.00
Tax on the balance 9,050 X 7%		633.50
Total income tax charged		1,108.50
Less: Rebate		
Self - paragraph 6A(2)(a) ITA	350.00	
Wife - paragraph 6A(2)(b) ITA	350.00	
Zakat - subsection 6A(3) ITA	<u>450.00</u>	
	1,150.00	Limited to ¹ <u>1,108.50</u>
Income tax payable		<u>Nil</u>

¹ the excess rebate (RM1,150- RM1,108.50) = RM41.50 cannot be refunded or carried forward as a credit to be allowed against income tax liability charged on Zakri for subsequent years of assessment..

Example 39 - rebate for zakat where spouse has no source of income

Isa and his wife were resident in Malaysia for basis year 2004. Isa has total income of RM65,000 for year ended 31.12.2004 while his wife is unemployed. Isa and wife paid zakat as follows:

	RM
Isa	1,500
Wife	1,000

The income tax payable for year of assessment 2004 is:

	RM	RM
Total income		65,000
Less: deduction		
Self and dependent relatives	8,000	
Wife	<u>3,000</u>	<u>11,000</u>
Chargeable income		<u>54,000</u>
Tax on the first 50,000		3,475.00
Tax on the balance 4,000 at 19%		<u>760.00</u>
Total tax charged		4,235.00
Less: tax rebate		
Zakat - subsection 6A(3) ITA		
• Husband	1,500	
• Wife ¹	1,000	<u>2,500.00</u>
Income tax payable		<u>1,735.00</u>

¹ In practice, zakat paid by the wife is allowed a rebate against the total tax charged of the husband.

Example 40 - rebate for zakat where spouse has no total income

Alimin and his wife were resident in Malaysia for the basis year 2004. They have income and paid zakat for the basis year 2004 as follows:

	Alimin (RM)	Wife (RM)
Total income	Nil - (business loss 10,000)	45,000
Zakat	100	500

The computation of rebate for zakat and income tax payable by the wife for the year of assessment 2004 is as follows:

	RM	RM
Total income		45,000
Less: deduction		
Self and dependent relatives	8,000	
Husband - subsection 45A(a) ITA	<u>3,000</u>	<u>11,000</u>
Chargeable income		34,000
Tax on the first 20,000		475.00
Tax on the balance 14,000 X 7%		<u>980.00</u>
Total income tax charged		1,455.00
Less: tax rebate		
Self - paragraph 6A(2)(a) ITA	350.00	
Husband - paragraph 6A(2)(c) ITA	350.00	700.00
Zakat		<u>500.00¹</u>
Income tax payable		<u>255.00</u>

¹ Only the zakat which is paid by the wife is allowed a deduction against the tax charged on the wife. Zakat paid by the husband will not be allowed against the tax charged on the wife.

Example 41 - rebate for zakat in the case of separate assessment

Othman and his wife were resident in Malaysia for the basis year 2004. Othman has total income of RM50,000 while the total income of his wife is RM28,000. Othman paid zakat of RM300 while his wife paid zakat of RM200.

The computation of chargeable income and income tax payable by Othman and wife for the year of assessment 2004 is as follows:

	Husband (RM)	Wife (RM)
Total income	28,000	50,000
Less: deduction		
Self and dependent relatives	8,000	8,000
Chargeable income	<u>42,000</u>	<u>20,000</u>
Total income tax charged	2,435.00	475.00
Less: tax rebate		
Self - paragraph 6A(2)(a) ITA	Nil	350.00
Zakat - subsection 6A(3) ITA	<u>300.00</u>	<u>200.00</u>
Nil Income tax payable		<u>2,135.00</u>

¹ The rebate which can be claimed by the wife is limited to the amount of income tax payable.

Example 42 - rebate of zakat in the case of combined assessment

Mustaffa and his wife were resident in Malaysia for the basis year 2004. Mustaffa's wife has total income and elects for combined assessment with her husband. They have total income and paid zakat for the basis year 2004 as follows:

	Mustaffa (RM)	Wife (RM)
Total income	30,000	10,000
Zakat	500	100

The computation of rebate for zakat and income tax payable for the year of assessment 2004 is as follows:

	Mustaffa (RM)
Total income	30,000
Add: total income of wife	10,000
Aggregate of total income - paragraph 45(2)(a) ITA	40,000
Less: deduction	
Self and dependent relatives	8,000
Wife	<u>3,000</u>
Chargeable income	<u>29,000</u>
Tax on 20,000	475.00
Tax on the balance 9,000 X 7%	630.00
Total income tax charged	1,105.00
Less: tax rebate	
Wife - paragraph 6A(2)(b) ITA	350.00
Self - paragraph 6A(2)(a) ITA	350.00
Rebate for zakat ¹	<u>600.00</u>
	1,300.00 ² Limited to
Income tax payable	<u>Nil</u>

¹ In practice, the zakat paid by the wife qualifies for rebate against tax charged of the husband.

² The amount of rebate allowed is limited to the amount of income tax charged subsection 6A(4) ITA.

8.3.5 Tax rebate for purchase of personal computer - subsection 6A(3A) ITA

An individual who is resident is entitled to claim for a tax rebate in respect of the purchase of a personal computer which is not used for the purposes of his business. Personal computer includes laptop and desktop but does not include palmtop, Personal Digital Assistant (PDA) and its equivalent. However, the amount of tax rebate that can be allowed is limited to a maximum of RM500 for the husband or the wife and can only be given once in every five years. Prior to the year of assessment 2005, the tax rebate allowed to an individual who is resident in respect of the purchase of personal computer was RM400.

Example 43 - rebate for the purchase of personal computer

Lee purchased a personal computer for RM5,000 on 15 May 2004 for his personal use. On 2 January 2005, his wife purchased another personal computer for RM3,500. At the same time, Lee added some accessories and upgraded his computer at the cost of RM3,000.

For the year of assessment 2004, Lee is entitled to a rebate of RM400 in respect of the purchase of the personal computer for his personal use in computing the tax charged on him. However, for the year of assessment 2005, Lee and his wife, even though assessed separately, will not be granted the tax rebate for -

- *the amount expended on the accessories and upgrading of Lee's computer; and*
- *the purchase of another personal computer by the wife.*

Example 44 - purchase of personal computer under hire purchase

Siva purchased a personal computer under hire purchase arrangements. He paid an initial deposit of RM1,000 on 2 January 2005 and will pay monthly instalments of RM500 for a period of twelve (12) months. The instalment payments commenced on 2 February 2005 and will end on 2 January 2006.

Siva is entitled to a rebate of RM500 in computing the tax charged on him for the year of assessment 2005 in respect of the purchase of a personal computer. However, he is not entitled to any further rebate until the year of assessment 2010.

Example 45 - receipt for the purchase of personal computer issued in the name of child

Nora, who is resident in Malaysia for the basis year 2004, has employment income of RM50,000 for the year ended 31.12.2004. She expended expenses as follows:

- EPF contributions of RM5,500;
- maintenance of child over the age of 18 years studying at a local university - RM12,000; and
- purchased a personal computer - RM7,000 (receipt issued in the name of her child who is studying at the university).

The tax computation for the year of assessment 2004 is as follows:

	RM	RM
Employment/Total income		50,000
Less: deduction		
Self and dependent relatives	8,000	
Child RM1,000 X 4	4,000	
EPF contribution RM5,500 limited to	<u>5,000</u>	<u>17,000</u>
Chargeable income		33,000
Tax on the first 20,000		475.00
Tax on the balance 13,000 X 7%		<u>910.00</u>
Total tax charged		1,385.00
Less: Rebate		
Self - para 6A(2)(a) ITA	350.00	
Purchase of computer - subsection 6A(3A) ITA ¹	<u>400.00</u>	<u>750.00</u>
Income tax payable		<u>635.00</u>

¹ the rebate in respect of the purchase of personal computer is given to Nora even though the receipt is issued in the name of her child.

- 8.3.6 Tax rebate on fees paid by foreign workers - section 6C ITA An individual who is resident is entitled to a tax rebate in respect of fees (referred to as levy by the Immigration Department of Malaysia) paid to the government for the issue of an employment pass, visiting pass or work pass in the basis year for that year of assessment. If the payment for the fees exceeds the income tax charged, the excess shall neither be refunded to the individual nor be available as a credit to set off his tax liability for any subsequent year of assessment.

The fees paid for the basis year for a year of assessment is rebated prior to any set-off made under section 110 ITA.

This tax rebate is usually claimed by a non-citizen foreign worker who works in Malaysia with an employment pass or working pass issued by the Immigration Department of Malaysia.

Example 46 - tax rebate on fees

George, a foreigner is working in Malaysia on an employment pass issued by the Immigration Department of Malaysia on 1.1.2004. On his passport is clearly stamped the following particulars:

For employment as Site Engineer
 With Company ABC Sdn Bhd in Peninsular Malaysia only
 Employment Pass RM1,100
 Levy Paid RM1,200
 Receipt No. XXXXXX

George is entitled to claim a rebate of RM1,200 for the year of assessment 2004 in respect of the levy paid by him to the Immigration Department of Malaysia.

If the income tax charged on George for the year of assessment 2004 is RM1,000, the rebate he is entitled to claim for the year of assessment 2004 is computed as follows:

	RM
Total income tax charged	1,000.00
Less:	
Rebate sec 6C ITA - levy of RM1,200 is limited to	<u>1,000.00¹</u>
Income tax payable	<u>Nil</u>

¹ The balance of levy paid RM200 will not be available as a credit to set-off his tax liability for any subsequent year of assessment.

9.0 Deduction of tax credit from dividends - section 110 ITA

Upon payment of a dividend to a shareholder, the company shall deduct tax from the amount of dividend income declared. Tax deducted on the dividend income by the company is given as a tax credit to the shareholder or that individual in computing his income tax payable. Where the tax credit on the dividend exceeds the total tax charged, the excess shall be refunded to the individual.

Example 47

Razif and his wife, Rozie, resident in Malaysia for the basis year 2004, have income from employment and dividend and they made payments for the year ended 31.12.2004 as follows:

Income/payment	Razif (RM)	Wife (RM)
Employment	49,000	Nil
Gross dividend (Malaysia)	Nil	2,000
EPF contribution	5,500	Nil
Zakat to PPZ, W.P, Kuala Lumpur	300	Nil

Rozie elects for her total income to be aggregated with the total income of her husband in a combined assessment.

The computation of chargeable income of Razif for the year of assessment 2004 is:

Income/payment	Razif (RM)	Wife (RM)
Employment	49,000	Nil
Gross dividend	<u>Nil</u>	<u>2,000</u>
Total income	49,000	2,000
Less: Total income of wife		<u>2,000</u>
		<u>Nil</u>
Add: Total income of wife	<u>2,000</u>	
Aggregate total income of Razif	51,000	
Less: deduction		
Self and dependent relatives	8,000	
Wife	3,000	
EPF contribution RM5,500 limited to	<u>5,000</u>	<u>16,000</u>
Chargeable income	<u>35,000</u>	

The computation of tax repayable to Razif for the year of assessment 2004 is:

Income/payment	RM	RM
Tax charged on RM35,000		1,525.00
Less: deduction for rebate		
Personal rebate - para 6A(2)(a) & (b) ITA		
• Self	350.00	
• Wife	350.00	
Rebate for zakat	<u>300.00</u>	<u>1,000.00</u>
		525.00
Less: tax credit from dividend 2,000 X 28%		<u>560.00¹</u>
Tax repayable		<u>35.00</u>

¹ In the case of combined assessment, subsection 110(12)ITA enabled the excess of tax credit from the wife's dividend to be given to the husband.

Example 48

Amanda who is resident in Malaysia for the basis year 2004 has sources of income for the year ended 31.12.2004 as follows:

Income	RM
Employment	54,000
Gross dividend (Malaysian)	1,000

She also expended expenses as follows:

- contributions to EPF of RM5,940;
- maintenance of 2 children over the age of 18 studying at local universities - RM12,500; and
- purchase of a personal computer - RM5,000.

The computation of income tax payable for the year of assessment 2004 is:

Income/payment	RM	RM
Employment		54,000
Gross dividend (Malaysian)		<u>1,000</u>
Total income		55,000
Less: deduction		
Self and dependent relatives	8,000	
Child RM1,000 x 4 x 2	8,000	
Contributions to EPF RM5,940 limited to	<u>5,000</u>	<u>21,000</u>
Chargeable income		34,000
Tax on the first 20,000		475.00
Tax on the balance 14,000 at 7%		<u>980.00</u>
Total tax charged		1,455.00
Less: Rebate		
Self - paragraph 6A(2)(a) ITA	350.00	
Purchase of computer - subsection 6A(3A) ITA	<u>400.00</u>	<u>750.00</u>
		705.00
Less: tax credit from dividend (1,000 X 28%)		<u>280.00</u>
Income tax payable		<u><u>425.00</u></u>

10.0 Bilateral credit - section 132 ITA

10.1 Bilateral credit can be claimed by an individual who is resident in Malaysia when the same income is taxed twice for the same year of assessment, that is that income is taxed in the country in which the income arises and again in the country in which the individual receiving the income is resident, and Malaysia has entered into double taxation agreement with that country.

10.2 The computation of this credit is as follows:

Malaysian tax payable before Foreign income charged to tax twice
 bilateral credit X Total income for the year of assessment
 or
 Foreign tax charged in respect of the foreign income charged to tax twice
 whichever is the lower

11.0 Unilateral credit - section 133 ITA

11.1 Unilateral credit can be claimed by an individual whether or not he is resident in Malaysia when the same income is taxed twice for the same year of assessment, that is that income is taxed in the country in which the income arises and again in the country in which the individual received the income, and Malaysia has no double taxation agreement with that country.

11.2 The computation of this credit is as in paragraph 10.2 except that the credit allowed shall not exceed half the foreign tax payable on that income for that year.

12.0 Payment of husband/wife's tax in combined assessment

Where there is aggregation of the total income of the husband and the wife in a combined assessment, the individual in whose name the assessment is made is responsible to pay the tax. However, where necessary, the portion of tax applicable to either the wife's or the husband's income may be collected from either one of them in accordance with the following formula:

$$\text{Tax charged on the husband/wife} = \frac{\text{Total income of husband/wife}}{\text{Aggregate total income of husband/wife}} \times \text{Total tax charged on the husband/wife for the relevant year of assessment}$$

13.0 Proof of payment

Receipts and other supporting documents relating to claims made need not be submitted together with the Income Tax Forms. However, these receipts and documents should be kept in safe custody for a period of seven (7) years from the end of the year of assessment in which the Income Tax Form is furnished for audit purposes. Where there is a refund of excess tax, the original dividend vouchers shall be submitted to the LHDN together with the Income Tax Form.

14.0 This Ruling is effective for the year of assessment 2004 and subsequent years of assessment.

Director General
of Inland Revenue

APPENDIX A

DETERMINATION OF RESIDENCE STATUS

1. The residence status of an individual is determined by reference to the duration of stay of that individual in Malaysia for a basis year for a year of assessment. In certain situations, the duration of stay for the basis years preceding and basis years following a particular year of assessment has also to be taken into consideration.
2. There are 4 sets of circumstances in which an individual is resident in Malaysia for the basis year for a year of assessment. If in any particular basis year the individual does not fall within any of these sets of circumstances, then he is not resident for that basis year.
3. In calculating the number of days an individual is in Malaysia, any part of a day is counted as one full day.

Example 1

Woods arrived in Malaysia at 11.00 pm on 1.12.2004 and left Malaysia at 2.00 am on 11.12.2004.

Woods would have been in Malaysia for 11 days.

4. Circumstances determining residence status

There are 4 sets of circumstances which determine the residence status of an individual as provided for in section 7 of the ITA.
- 4.1 Paragraph 7(1)(a) ITA
 - 4.1.1 If an individual is in Malaysia in that basis year for a period or periods amounting in all to 182 or more days, he is resident in Malaysia for that basis year.

Example 2

Augustin was in Malaysia from 1.3.2004 to 30.9.2004 (214 days).

Augustin is resident in Malaysia for the basis year for the year of assessment 2004.

- 4.1.2 The period in which the individual is in Malaysia does not have to be consecutive days.

Example 3

Angeline was in Malaysia for the following periods:

<u>Period</u>	<u>Number of days</u>	<u>Total number of days</u>
1.3.2004 to 30.6.2004	122 days)	= 183 days
1.8.2004 to 30.9.2004	61 days)	

Angeline is resident in Malaysia for the basis year for the year of assessment 2004.

4.2 Paragraph 7(1)(b) ITA

4.2.1 If an individual is in Malaysia in a basis year for a period of less than 182 days but the period during which he is in Malaysia in that basis year is linked by or to:

- another period of 182 or more consecutive days in the basis year for the year of assessment preceding that particular year of assessment; or
- another period of 182 or more consecutive days in that basis year for the year of assessment immediately following that particular year of assessment;

therefore that individual is resident in Malaysia for the basis year for that year of assessment even though he is in Malaysia for a period of less than 182 days.

4.2.2 In calculating the period of 182 or more consecutive days, relaxation of the requirement is given where the period of “temporary absence” (period during which an individual is not in Malaysia) shall be taken to form part of the period:

- of less than 182 days; and/or
- 182 or more consecutive days,

for the purpose of linking the two periods provided that the individual must be in Malaysia immediately prior to and after that “temporary absence”.

“Temporary absences” allowed are -

- i. absence which is connected with the individual’s service in Malaysia such as attending conferences or seminars or study abroad;
- ii. absence owing to ill-health involving the individual or a member of his immediate family (immediate family means parent, spouse and children); and
- iii. absence in respect of social visits not exceeding 14 days in the aggregate (social visits include any form of vacation outside Malaysia besides vacation to home country).

Example 4

Benson was in Malaysia and England for the following periods:

<u>Year</u>	<u>Period of stay</u>	<u>Number of days</u>
2004	15.05.2004 - 23.12.2004 (in Malaysia)	222
	24.12.2004 - 31.12.2004 (in England)	8 (social visit)
2005	01.01.2005 - 02.01.2005 (in England)	2 (social visit)
	03.01.2005 - 31.03.2005 (in Malaysia)	88

Benson left Malaysia on 1 April 2005.

Benson is resident for the year of assessment 2005 for the following reasons:

- i. Benson's absence in Malaysia on 31.12.2004 and 01.01.2005 is regarded as "temporary absence";*
- ii. He fulfills the requirement of "temporary absence" in respect of social visit not exceeding 14 days; and*
- iii. He was in Malaysia before and after his "temporary absence".*

Example 5

Kim arrived in Malaysia on 5 January 2004. Her employment contract in Malaysia was for one year ending on 4 January 2005. On 23 December 2004, Kim left for Seoul to visit her family and never returned to Malaysia after that.

Even though Kim was away from Malaysia on social visit for less than 14 days, that period is not regarded as "temporary absence" since she was not in Malaysia after her absence. Therefore, she is not resident in Malaysia for the basis year for the year of assessment 2005.

Example 6

Using Example 5 above, Kim returned to Malaysia on 4 January 2005 before leaving for Seoul 2 days later.

The period between 23 December 2004 to 4 January 2005 (13 days) is regarded as "temporary absence" as Kim was present in Malaysia after her absence. She is resident in Malaysia for the basis year for the year of assessment 2005.

Example 7

Hughes has the following period of stay in Malaysia, Singapore and USA:

<u>Year</u>	<u>Period of stay</u>	<u>Number of days</u>
2004	01.12.2004 - 22.12.2004 (Malaysia)	222
	23.12.2004 - 28.12.2004 (Singapore)	6 (social visit)
	29.12.2004 - 29.12.2004 (Malaysia)	1
	30.12.2004 - 31.12.2004 (USA)	2 (social visit)
2005	01.01.2005 - 10.01.2005 (USA)	10 (social visit)
	11.01.2005 - 31.12.2005 (Malaysia)	355

Hughes is resident in Malaysia for the basis year for the year of assessment 2004 as the period between 30 December 2004 to 10 January 2005 is considered as "temporary absence". The period between 23 to 28 December 2004 is not considered as part of the period that linked the two years.

Example 8

Takayama commenced employment on 10 September 2004 and has the following period of stay in Malaysia and Japan:

<u>Year</u>	<u>Period of stay</u>	<u>Number of days</u>
2004	10.09.2004 - 14.12.2004 (Malaysia)	96
	15.12.2004 - 31.12.2004 (Japan)	17 (social visit)
2005	01.01.2005 - 03.01.2005 (Japan)	3 (social visit)
	04.01.2005 - 31.12.2005	362

Takayama is not a resident for the basis year for the year of assessment 2004 as he was out of Malaysia for 20 days (exceeding the limit of 14 days).

If Takayama had left Malaysia on 17 December 2004 and returned to Malaysia on 1 January 2005, the period from 18 December 2004 to 31 December 2004 can be regarded as "temporary absence".

Takayama cannot leave Malaysia again for the purpose of social visit until after 1 July 2005 (that is after a period of at least 182 consecutive days) since the period of "temporary absence" has been used up in the year 2004.

If Takayama had left Malaysia for the purpose of social visit before 1 July 2005, then the period between 1 January 2005 to 1 July 2005 cannot be regarded as consecutive. In this case Takayama will not be resident in Malaysia for the basis year for the year of assessment 2004.

4.3 Paragraph 7(1)(c) ITA

4.3.1 If an individual is in Malaysia in a particular basis year for a period or periods amounting in all to 90 days or more (the days need not be consecutive days), he is resident in Malaysia for that particular year of assessment if in each of any three out of four immediately preceding basis years he was:

- i. resident in accordance with section 7 of the ITA; or
- ii. in Malaysia for a period or periods amounting in all to ninety days or more.

Example 9

Jemina has the following periods of stay in Malaysia:

<u>Year</u>	<u>Period of stay</u>	<u>Number of days</u>
2000	01.05.2000 - 15.08.2000	107
2001	01.05.2001 - 20.05.2001	20
2002	01.01.2002 - 30.09.2002	273
2003	01.03.2003 - 30.10.2003	245
2004	01.04.2004 - 31.05.2004	(61)
	01.01.2004 - 20.02.2004	(51)
		= 112

The residence status of Jemina is as follows:

<u>Basis year</u>	<u>Residence status</u>	<u>Paragraph</u>
2000	Not resident	-
2001	Not resident	-
2002	Resident	7(1)(a) ITA
2003	ITA Resident	7(1)(a)
2004	ITA Resident	7(1)(c)

For the basis year 2004, Jemina is resident by virtue of paragraph 7(1)(c) as she -

- was in Malaysia for a period or periods amounting in all to 90 days or more in the basis year 2004 (112 days): and
- was resident (basis year 2002 and 2003) or was in Malaysia for 90 days or more in any three (basis year 2003, 2002 and 2000) out of four immediately preceding basis years.

Example 10

Watson has the following periods of stay in Malaysia:

<u>Year</u>	<u>Period of stay in Malaysia</u>	<u>Number of days</u>
2000	01.10.2000 - 15.10.2000	15
2001	01.03.2001 - 31.03.2001 (31) 01.06.2001 - 30.06.2001 (61)	= 92
2002	01.04.2002 - 15.07.2002	106
2003	01.10.2003 - 31.12.2003	92
2004	01.08.2004 - 30.11.2004	122

The residence status of Watson is as follows:

<u>Basis year</u>	<u>Residence status</u>	<u>Paragraph</u>
2000	Not resident	-
2001	Not resident	-
2002	Not resident	-
2003	Not resident	-
2004	ITA Resident	7(1)(c)

For basis year 2004, Watson is resident by virtue of paragraph 7(1)(c) of the ITA as -

- he was in Malaysia for a period or periods amounting in all to 90 days or more (that is 122 days); and
- for three out of four immediately preceding basis years, he was in Malaysia for a period or periods amounting in all to 90 days or more (basis years 2001, 2002, 2003).

- 4.3.2 An individual need not be resident in Malaysia for all three or four immediately preceding basis years. It will suffice if he is resident for two of those basis years and present in Malaysia for 90 days or more in one of the other basis years.

Example 11

Peters has the following periods of stay in Malaysia:

<u>Year</u>	<u>Period of stay in Malaysia</u>	<u>Number of days</u>
2000	01.05.2000 - 20.05.2000	20
2001	01.01.2001 - 31.12.2001	365
2002	01.01.2002 - 21.01.2002	21
2003	01.06.2003 - 31.08.2003	91
2004	01.01.2004 - 30.04.2004	120

The residence status of Peters is as follows:

<u>Basis year</u>	<u>Residence status</u>	<u>Paragraph</u>
2000	Not resident	-
2001	Resident	7(1)(a) ITA
2002	Resident	7(1)(b) ITA
2003	Not resident	-
2004	Resident	7(1)(c) ITA

For the basis year 2004 Peters is resident by virtue of paragraph 7(1)(c) of the ITA as:

- he was in Malaysia for a period or periods amounting in all to 90 days or more in that basis year; and
- In three out of four immediately preceding basis years he was resident (basis year 2002 and 2001) or was in Malaysia for 90 days or more (basis year 2003).

4.4 Paragraph 7(1)(d) ITA

- 4.4.1 An individual is considered to be resident for a basis year if he is resident for the immediately following basis year and had been resident for the three immediately preceding basis years. Therefore, an individual can be resident by virtue of paragraph 7(1)(d) of the ITA even though he might never actually have been in Malaysia at all during that basis year.

Example 12

Nicholas has the following period of stay in Malaysia:

<u>Year</u>	<u>Period of stay in Malaysia</u>	<u>Number of days</u>
2000	11.10.2000 - 31.12.2000	82
2001	01.01.2001 - 31.12.2001	365
2002	01.01.2002 - 30.09.2002	273
2003	01.04.2003 - 04.04.2003	4
2004	01.04.2004 - 31.12.2004	275

The residence status of Nicholas is as follows:

<u>Basis year</u>	<u>Residence status</u>	<u>Paragraph</u>
2000	Resident	7(1)(b) ITA
2001	Resident	7(1)(a) ITA
2002	Resident	7(1)(a) ITA
2003	Resident	7(1)(d) ITA
2004	Resident	7(1)(a) ITA

Example 13

Stanley has the following periods of stay in Malaysia:

<u>Year</u>	<u>Period of stay in Malaysia</u>	<u>Number of days</u>
2000	01.01.2000 - 31.10.2000	304
2001	01.01.2001 - 31.12.2001	365
2002	01.01.2002 - 21.01.2002	21
2003	Was not in Malaysia	
2004	15.05.2004 - 23.12.2004	206

The residence status of Stanley is as follows:

<u>Basis year</u>	<u>Residence status</u>	<u>Paragraph</u>
2000	Resident	7(1)(a) ITA
2001	Resident	7(1)(a) ITA
2002	Resident	7(1)(b) ITA
2003	Resident	7(1)(d) ITA
2004	Resident	7(1)(a) ITA

Even though Stanley was never actually in Malaysia for the basis year 2003, he is resident for that basis year as he -

- is resident for the basis year 2004, that is the following basis year; and
- is resident for each of the three immediately preceding basis years that is basis year 2000, 2001 and 2002.

APPENDIX B

**DEDUCTION FOR INTEREST EXPENDED
ON HOUSING LOAN**

1. Qualifying conditions

An individual who is resident in Malaysia shall be allowed a deduction in respect of interest expended to finance the purchase of a residential property subject to the following conditions:

- i. The residential property is the first residential property purchased to be occupied as his place of residence.

“First residential property” includes a second residential property purchased following the disposal of a low cost property by him.

“Low cost property” means the only residential property owned and held for not less than 5 years and costing not more than RM42,000.

Example 1

Ali bought a low cost residential property costing RM35,000 on 2 January 1996 and later sold it on 2 March 2003. Subsequently, Ali bought another residential property at a cost of RM130,000 from a housing developer. The Sale and Purchase Agreement was signed on 1 July 2003. Ali was resident in Malaysia for the basis year 2003.

Ali qualifies to claim a deduction on interest expenditure on loan taken to finance the purchase of the second residential property since the low cost residential property previously owned by him had been sold.

- ii. The residential property has to be purchased from a housing developer or a statutory body or a co-operative society.

“Residential property” means a completed house, condominium unit, apartment or flat which had been built as a dwelling house.

“Housing developer” means a housing developer licensed under the Housing Development (Control and Licensing) Act 1966.

“Statutory body” means a body incorporated by a State or Federal law.

“Co-operative society” means a co-operative society registered or deemed to be registered under the Co-operative Societies Act 1993.

- iii. The purchase price of the residential property shall not be less than RM100,000 and not more than RM180,000.

- iv. The Sale and Purchase Agreement must be executed within the period 1 June 2003 to 31 May 2004.

Example 2

Bakar, resident in Malaysia for the basis year 2003, bought a residential property costing RM150,000 from a co-operative society. The Sale and Purchase Agreement was signed on 1 May 2003. The purchase of the house was financed by a housing loan. Bakar started paying interest on the loan taken from July 2003.

Bakar does not qualify for deduction on the interest expended since the Sale and Purchase Agreement was signed before 1 June 2003.

Example 3

Chai Yean, resident in Malaysia for the basis year 2003, bought a residential property costing RM170,000 from a housing developer. The Sale and Purchase Agreement was signed on 1 July 2003. The purchase of the house was financed by a housing loan. Chai Yean paid interest on the loan starting from 1 September 2003.

For the year of assessment 2003, Chai Yean qualifies to claim for deduction on the interest expended from the month of September to December 2003 since the Sale and Purchase Agreement was signed after 1 June 2003 but not later than 31 May 2004.

- 2. Amount of deduction

The amount of interest allowable as a deduction is as follows:

- i. RM5,000 for the year of assessment 2003;
- ii. RM3,000 for the year of assessment 2004; and
- iii. RM2,000 for the year of assessment 2005.

Example 4

Daniel, resident in Malaysia for the basis year 2003, bought a residential property costing RM140,000 on 15 June 2003 from Perbadanan Kemajuan Negeri Selangor (PKNS). The purchase of the house was financed by a housing loan. He paid interest amounting to RM3,500 on the loan from July to December 2003.

Daniel qualifies to claim deduction of the whole RM3,500 in the year of assessment 2003.

Example 5

Following from Example 4, Daniel paid interest amounting to RM6,000 in the year 2004 and RM5,500 in the year 2005.

Daniel qualifies to claim only RM3,000 for the year of assessment 2004 and RM2,000 in year of assessment 2005.

3. Claim by two or more individuals

Where two or more individuals are each entitled to claim deduction for a residential property and the total amount of interest expended by those individuals exceed the amount allowable in that year, the amount allowed to each individual for each year of assessment is determined as follows:

$$\text{Amount of interest allowed for that relevant year} \times \frac{\text{Total interest expended by the individual in that relevant year}}{\text{Total interest expended by all such individuals in that relevant year}}$$

Example 6

Shakira and Amir shared the purchase of a completed residential property costing RM150,000 from a housing developer. The Sale and Purchase Agreement was signed on 31 July 2003. They took separate housing loans and paid interest on the loans respectively. The total interest expended and entitled to be claimed as a deduction by Shakira and Amir are as follows:

Year of assessment		Shakira (RM)	Amir (RM)	Total (RM)
2003	Expended	2,500	2,000	4,500
	Entitled to claim	2,500	2,000	4,500
2004	Expended	4,000	3,500	7,500
	Entitled to claim	$3,000 \times \frac{4,000}{7,500}$	$3,000 \times \frac{3,500}{7,500}$	
		= 1,600	= 1,400	3,000

If Shakira and Amir took up a single housing loan on their names (a single loan account on both names), each of them is also entitled to claim for a deduction on interest expended based on the amount of interest paid by them in accordance with the above formula.

4. Claim by husband or wife

Where a wife or husband elects for a combined assessment under subsection 45(2) of the ITA, the interest expended by the wife or the husband shall be deemed to have been expended by the husband of the wife who elects for combined assessment or the wife of the husband who elects for combined assessment.

Example 7

Suraya was resident in Malaysia for the basis years 2003 and 2004. She purchased a residential property costing RM150,000 from a housing developer on 1.10.2003 through a housing loan. She paid interest amounting to RM3,000 on the loan in year 2004. Suraya elects for a combined assessment in the name of her husband for the year of assessment 2004.

Interest of RM3,000 expended by Suraya for basis year 2004 is deemed expended by her husband and the husband is entitled to claim deduction on that interest for the year of assessment 2004.

5. Claim by husband or wife who has no total income

Where the wife or the husband has no total income, the interest expended by the wife or the husband shall be deemed to have been expended by the husband of that wife or the wife of that husband respectively.

Example 8

In the year 2004, Feizril and his wife, Shaliza each paid interest of RM1,500 on loan taken to finance the purchase of a residential property costing RM170,000 from a housing developer. Feizril has no total income for the basis year 2004.

The interest of RM1,500 paid by Feizril is deemed to be expended by his wife, Shaliza. In computing the chargeable income for the year of assessment 2004, Shaliza is entitled to claim a deduction totalling RM3,000 that is RM1,500 interest paid by her and RM1,500 interest paid by her husband.

6. Procedure for claim

The claim on the deduction on interest expended on housing loan can be made by filling in space D9, Income Tax Form B and BE.

APPENDIX C

TAX SCHEDULE FOR A RESIDENT INDIVIDUAL

RANGE OF CHARGEABLE INCOME	COMPUTATION RM	RATE %	TAX RM
0 - 2,500	First 2,500	0	0
2,501 - 5,000	Next 2,500	1	25
5,001 - 10,000	First 5,000 Next 5,000	3	25 150
10,001 - 20,000	First 10,000 Next 10,000	3	175 300
20,001 - 35,000	First 20,000 Next 15,000	7	475 1,050
35,001 - 50,000	First 35,000 Next 15,000	13	1,525 1,950
50,001 - 70,000	First 50,000 Next 20,000	19	3,475 3,800
70,001 - 100,000	First 70,000 Next 30,000	24	7,275 7,200
100,001 - 150,000	First 100,000 Next 50,000	27	14,475 13,500
150,001 - 250,000	First 150,000 Next 100,000	27	27,975 27,000
Exceeding 250,000	First 250,000 For every next ringgit	28	54,975

C

Public Ruling No. 1/2005 **Computation of Total Income for Individual**

- 1.0 This Ruling explains how total income in respect of an individual is computed.
- 2.0 The related provisions of the Income Tax Act, 1967 (ITA) for the computation of total income are sections 5, 42, 43 and 44.
- 3.0 The words used in this Ruling have the following meanings:
 - 3.1 “Residual expenditure” for a year of assessment in relation to a plant, machinery and industrial building purchased/constructed and used in/for the purposes of the business, is the cost of that asset after deducting all the initial, annual and notional allowances given on that asset.
 - 3.2 “Capital allowance” for a year of assessment in relation to plant, machinery or industrial building purchased/constructed and used in/for the purposes of the business, is the deduction in the form of initial allowance and/or annual allowance which is given on the cost of that asset in substitution for depreciation which is not allowable in computing the adjusted income of the business.
 - 3.3 “Initial allowance” for a year of assessment in relation to a plant, machinery and industrial building purchased/constructed and used in/for the purposes of the business, is the allowance given on the cost of that asset in the first year it is purchased/constructed and used in/for the purpose of the business and is computed as follows:
 - plant and machinery - 20% on the cost of the plant and machinery or at the rate prescribed by the Minister of Finance; and
 - industrial building- 10% on the cost of that building.
 - 3.4 “Annual allowance” for a year of assessment in relation to a plant, machinery and industrial building purchased/constructed and used in/for the purposes of the business, is the annual deduction on the cost of that asset which is computed as follows:
 - in respect of plant and machinery -
 - a. Motor vehicles and heavy machinery 20% on cost
 - b. Plant and machinery 14% on cost
 - c. Others (such as office equipment,
furniture & fittings) 10% on cost

- in respect of industrial building -
 - a. building constructed/ purchased 3% on cost
 - b. building which is purchased 3% on cost; or permitted fraction if that fraction is higher than 3% on cost
- 3.5 “Notional allowance” for a year of assessment in relation to plant, machinery and industrial building purchased/constructed and used in/for the purposes of the business, is the annual allowance which is computed on that asset but not allowed as a deduction from the business income due to the reason that it is not claimed or the asset is not used in the business.
- 3.6 “Balancing allowance” is the deficit that arises where the sale price of a plant, machinery or industrial building which is purchased/constructed and used in/for the purposes of the business is lower than the residual expenditure of that asset.
- 3.7 “Balancing charge” is the excess that arises where the sale price of a plant, machinery or industrial building which is purchased/constructed and used in/for the purposes of the business exceeds the residual expenditure of that asset. However, the amount of the balancing charge should not exceed the total capital allowances allowed.
- 3.8 “Permitted fraction” is the computation of the allowance on an industrial building which is purchased based on the following formula:

$$\frac{1}{(A + 50) - B + 1} \times \text{Cost of building}$$

Where:

A= year of assessment in which the building is constructed

B= year of assessment in which the building is sold

- 3.9 “Year of assessment” means calendar year.
- 3.10 “Source of income” means source of income chargeable to tax consisting of:
- a. gains or profits from a business;
 - b. gains or profits from an employment;
 - c. dividends, interest or discounts;
 - d. rents, royalties or premiums;
 - e. pensions, annuities or other periodical payments; and
 - f. gains or profits not falling under a. to e.

- 4.0 Determination of total income
- 4.1 In ascertaining the total income of an individual for a year of assessment, Section 5 of the ITA has stated clearly that -
 - a. First, the basis period for each of his sources for a year of assessment shall be ascertained; and
 - b. next, the following stages of income as specified below must be computed for each source of income in sequence as follows:
 - i. Gross income;
 - ii. Adjusted income;
 - iii. Statutory income;
 - iv. Aggregate income; and
 - v. Total income
- 4.2 The chargeable income stage and the manner in which income tax is computed for an individual will be discussed in another separate Public Ruling.
- 5.0 The flowchart format of computation of total income in relation to an individual is as in APPENDIX A.
- 6.0 Determination of basis period

For an individual, the basis period for a year of assessment in relation to each of his sources of income is year ending 31 December.
- 7.0 Computation of gross income
- 7.1 Section 22 of the ITA explains that for an individual, the gross income of that individual from a source for a basis period for a year of assessment is ascertained in accordance with the provisions of the ITA specifically provided for that source.
- 7.2 Components of gross income from a business source for a basis period for a year of assessment include:
 - a. Receipts in cash for goods sold or services rendered;
 - b. Debts arising in respect of goods sold and services rendered;
 - c. Receipts in kind;
 - d. Recovery of trading debts written off as bad debts; and
 - e. Insurance recovery for loss of business profits.

- 7.3 In respect of employment income, the components of gross income are as follows:
- a. Paragraph 13(1)(a) ITA
Wages, salary, remuneration, leave pay, fee, commission, bonus, gratuity, perquisite or allowance (whether in money or otherwise) in respect of having or exercising the employment;
 - b. Paragraph 13(1)(b) ITA
Value of benefit in kind (not convertible into money) provided for the employee by the employer, but excluding -
 - Medical/dental treatment benefit;
 - Child care benefit;
 - Local leave passages not exceeding 3 times in a year and one overseas leave passage limited to a maximum of RM3,000 in a year;
 - Benefits used by the employee solely in connection with the performance of his duties, such as uniform.
 - c. Paragraph 13(1)(c) ITA
Value of living accommodation in Malaysia provided for the employee by or on behalf of the employer rent free or otherwise;
 - d. Paragraph 13(1)(d) ITA
Amount received by the employee, whether before or after his employment ceases, from an unapproved pension/provident fund; and
 - e. Paragraph 13(1)(e) ITA
Amount received by the employee, whether before or after his employment ceases, by way of compensation for loss of the employment.
- 7.4 In respect of other non-business sources of income such as dividends, interest, rents, royalties, pensions/annuities and other income, gross income from each of the sources above is the amount consisting of any sums received or deemed to have been received for that basis period in relation to that source.
- 8.0 Computation of adjusted income/loss
- 8.1 Adjusted income of an individual from a source of income for a basis period for a year of assessment is the gross income from that source less all deductible expenses incurred in the production of income as provided for under the general and specific provisions of the ITA for that source.

8.2 Adjusted loss from a source of income for a basis period for a year of assessment will arise when the expenses deductible against that source exceed its gross income. However, the ITA provides that only adjusted loss from a business source in the basis year is given a deduction from all other sources of income. Adjusted loss arising from non-business sources is not deductible against any other sources of income and is thus forfeited.

8.3 The computation of adjusted income/loss in respect of a business source is as follows:

	RM	
Gross income from business		XX
Less: Allowable expenditure		
General provision -subsection 33(1) ITA		
• Expenses wholly and exclusively incurred in the production of gross income from the business	XX	
Specific provision- sections 34, 34A and 34B ITA		
• Specific expenditure deductible - section 34 ITA	XX	
• Approved research expenditure - section 34A ITA	XX	
• Contribution to an approved research institute or payment for the use of services of an approved research institute/company - Section 34B ITA	<u>XX</u>	<u>XX</u>
Adjusted income/loss from business		<u>XX</u>

8.3.1 Among the expenses which qualify for deduction under the general provision of subsection 33(1) of the ITA for a business source are as follows:-

- a. Wages and salary for staff.
- b. Interest payments arising from loans/overdraft taken and used solely for business purposes or spent on the purchase of assets used in the business.
- c. Rent payable on land or buildings occupied for purposes of the business.
- d. Repairs to premises, plant and machinery, furniture or fixtures used in the business.
- e. Insurance premiums paid in respect of policies insuring against indemnity or damage to or loss of business assets. However, where the businessman buys a life policy on himself or on any member of his family, the premiums are not allowable and are not deductible against the gross business income.
- f. Legal and other professional fees incurred in respect of the business for example where the services of a lawyer are engaged to enforce a trading contract or to recover trading debts.

- 8.3.2 Among the expenses deductible in the computation of adjusted income/loss under the specific provisions of section 34 of the ITA are as follows:
- a. Specific provisions for doubtful trade debts which are estimated to be irrecoverable (general provision for doubtful debts or non-trading bad debts written off are not deductible).
 - b. Irrecoverable bad debts written-off.
 - c. Contributions to EPF, pension scheme or provident fund approved by the Director General, subject to a maximum of 19% of the employee's remuneration.
 - d. Expenses incurred on the provision of any equipment to assist disabled employees in the performance of their duties.
 - e. Expenses incurred in respect of translation into or publication in the national language of books approved by the Dewan Bahasa dan Pustaka.
 - f. Expenses not exceeding RM100,000 incurred on the provision of library facilities and contributions to public libraries, schools and institutions of higher education.
 - g. Expenses incurred on the provision and maintenance of a child care centre for the benefit of the employees.
 - h. Expenses incurred on the provision of services, public amenities and contributions to a charity or community project pertaining to education, health, housing, infrastructure, information and communication technology, approved by the Minister of Finance.
 - i. Contributions to establishing and managing a musical or cultural group approved by the Minister of Finance.
 - j. Expenses not exceeding RM300,000 incurred for sponsoring any local or foreign arts or cultural activity approved by the Ministry of Arts, Culture and Heritage provided that the amount of expenditure incurred in sponsoring foreign arts or cultural activities shall not exceed RM200,000.
 - k. Expenses incurred on the provision of practical training related to the business of the person to a resident individual who is not an employee of that person.

8.3.3 Adjusted loss from a business source for a basis period for a year of assessment arises when the expenses deductible against the business source exceed its gross income. This adjusted loss can be deducted from all other sources of income that is at the aggregate income stage.

8.4 In respect of an employment source, the computation of adjusted income is as follows:

	RM	
Gross income from employment - paragraphs 13(1)(a) to (e) ITA		XX
Less: Allowable expenditure General provision - subsection 33(1) ITA		
Expenses wholly and exclusively incurred in the production of gross income from employment	XX	
Specific provision -sections 38 & 38A ITA		
Payment for rent of premises, furniture, public rates, insurance premiums on living accommodation provided by the employer to employees	XX	
Entertainment expenses (limited to the entertainment allowance received)	<u>XX</u>	<u>XX</u>
Adjusted income from employment		<u>XX</u>

8.4.1 Expenses allowable in computing adjusted income from an employment source are expenses incurred in the performance of work, such as:

- a. Travelling expenses which are incurred by the individual in the course of exercising his duties as an employee.
- b. Annual subscriptions paid to professional bodies where membership to such bodies is relevant to the performance of duties.
- c. Entertainment expenses which are incurred by the individual in entertaining existing clients on behalf of the employer, however, limited to the amount of entertainment allowance paid by the employer.

- 8.5 In respect of other sources of non-business income (such as dividends, interest, rents, royalties, premiums and others), the computation of adjusted income/loss from each source of income is as follows:

	RM
Gross income	XX
Less: Allowable expenditure	
General provision - subsection 33(1) ITA	
Expenses wholly and exclusively incurred in the production of gross income from that source	<u>XX</u>
Adjusted income/loss	<u>XX</u>

- 8.5.1 For these sources of income, where there is adjusted loss for a basis period for a year of assessment, this loss is not deductible against any other source of income and it is thus forfeited.
- 8.6 In computing the adjusted income for each source of income, there are several expenses prohibited by section 39 of the ITA. Examples of such expenses are:
- a. Domestic or private expenses for example wages paid to a domestic-helper, cost of travelling from home to place of business and drawings from business for private use.
 - b. Capital withdrawn or any sum used or intended to be used as capital for example payments for purchase of fixed assets or private assets such as private residence, cars and shares.
 - c. Any expenditure incurred in the provision of a benefit or amenity to an employee consisting of leave passages to local or overseas destinations.
 - d. In the case of business source only, 50% of any expenses incurred on entertainment including entertainment allowances paid to employees.
 - e. Depreciation of fixed assets.
 - f. Rentals of non-commercial motor vehicles in excess of RM50,000. In cases where the vehicle is new (not reconditioned) and has not been used for any purpose prior to the rental and the cost of the vehicle does not exceed RM150,000, then rentals in excess of RM100,000 are disallowed.
- 8.7 Records and documents relating to all claims of expenditure incurred in the computation of adjusted income for each source of income should be retained for a period of seven (7) years from the end of the year of assessment in which the Income Tax Form is furnished as proof in cases which are audited.

- 9.0 Computation of statutory income
- 9.1 Statutory income for a year of assessment should be computed in respect of each source of income (Section 42 of the ITA).
- 9.2 Statutory income from a business source for a basis period for a year of assessment is computed as follows:

	RM	
Adjusted income from business		XX
Add: Balancing charge		XX
Less: Balancing allowance		XX
Capital allowance	<u>XX</u>	<u>XX</u>
Statutory income		<u>XX</u>

Example 1

Encik A has a business source of income and information in respect of the business for year ended 31.12.2004 is as follows:

	RM
Adjusted income from business	100,000
Balancing charge	15,000
Capital allowance	20,000

Statutory income from business for the year of assessment 2004 is:

	RM
Adjusted income from business	100,000
Add: Balancing charge	<u>15,000</u>
	115,000
Less: Capital allowance	<u>20,000</u>
Statutory income	<u>95,000</u>

- 9.3 Statutory income from business for a basis period for a year of assessment can still arise even though there is adjusted loss in respect of a business source, if its balancing charge exceeds its capital allowance.

Example 2

Encik B has a business source and information in respect of the business for the year ended 31.12.2004 is as follows:

	RM
Adjusted loss from business	(50,000)
Balancing charge	10,000
Capital allowance	5,000

Statutory income from business for the year of assessment 2004 is:

		RM
Adjusted income from business	(loss 50,000)	NIL
Add: Balancing charge		<u>10,000</u>
		10,000
Less: Capital allowance		<u>5,000</u>
Statutory income		<u>5,000</u>

Note:

The loss of RM50,000 is loss incurred for the basis year. According to subsection 44(1) of the ITA, this loss can be deducted from the aggregate income for the basis period (1.1.2004-31.12.2004) for year of assessment 2004 by Encik B in computing his total income.

- 9.4 In computing the statutory income from a business source, where there is capital allowance which cannot be absorbed by the adjusted income from business, the unabsorbed capital allowance will be carried forward and allowed in computing the statutory income from business from the same source for the following year of assessment.

Example 3

Encik C has income from the following sources for the years ended 31.12.2004 and 31.12.2005.

	Year ended	
	31.12.2004	31.12.2005
	Year of assessment	
	2004 - RM	2005 - RM
Business:		
Adjusted income	3,000	10,000
Capital allowance for the year of assessment	4,700	5,000

Rents:

Adjusted income	24,000	28,000
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Statutory income from each source for the years of assessment 2004 and 2005 is computed as follows:

	Year of assessment	
	2004 - RM	2005 - RM
Business:		
Adjusted income	3,000	10,000
Less: Capital allowance	4,700	Y/A2005 5,000
Restricted to	3,000	b/f from
	<u>3,000</u>	Y/A2004 <u>1,700</u>
Capital allowance c/f to Y/A2005		1,700 ¹
	<u>3,000</u>	<u>6,700</u>
Statutory income	<u>Nil</u>	<u>3,300</u>
Rents:		
Adjusted /statutory income	<u>24,000</u>	<u>28,000</u>

Note:

¹ The capital allowance of RM1,700 which cannot be allowed against the business source will be carried forward to year of assessment 2005 and will only be allowed to be deducted from the same business source.

- 9.5 Statutory income from each non-business source for a basis period for a year of assessment is the total amount of income from that source after deducting any expenses which are deductible in accordance to the ITA. In other words, the statutory income from a non-business source is the adjusted income of that source for the basis period for that year of assessment. Therefore,

$$\text{Adjusted income from a non-business source} = \text{Statutory income from a non-business source}$$

Example 4

Encik D is a senior manager in Syarikat ABC Sdn Bhd. in Kuala Lumpur. He has employment income for year ended 31.12.2004 as follows:

	RM
Salary	120,000
Travelling allowance	24,000
Entertainment allowance	<u>12,000</u>
	<u>156,000</u>

Encik D made the following claims-

- a. Expended the full sum of RM24,000 of the travelling allowance provided to him by the employer for visiting factories of the company to ensure the smooth operations of the factories.
- b. Expended RM13,000 for the purpose of entertaining existing clients of the company.

Statutory income from employment for the year of assessment 2004 is:

	RM
Salary	120,000
Travelling allowance	24,000
Entertainment allowance	<u>12,000</u>
	156,000
Less: Expenses - subsection 33(1) & 38A ITA	
Travelling	24,000
Entertainment (limited to the entertainment allowance)	<u>12,000</u>
Adjusted/statutory income from employment	<u>120,000</u>

Note:

- i. Entertainment expenses incurred by Encik D in entertaining existing clients of the company are allowable as a deduction under subsection 33(1) of the ITA provided the entertainment is carried out in the performance of his duties. However, according to section 38A of the ITA, the amount of entertainment expenses that can be allowed is limited to the amount of allowance received.
- ii. Travelling expenses incurred by Encik D are allowed under subsection 33(1) of the ITA provided the amount is expended in the course of discharging his employment duties and certified by the employer. Private travelling expenses such as travelling between his residence and place of employment is not admissible.

Example 5

Encik E, a project manager in a project management company, has the following information regarding his income from the following sources for the year ended 31.12.2004:

Employment:	RM
Salary	84,000
Travelling allowance	12,000
Entertainment allowance	6,000
Rents:	
Gross income	24,000
Dividends:	
Gross income	1,000

Encik E made claims on expenses as follows: In respect of employment income:

- i. RM12,000 for visiting construction project sites; and
- ii. RM7,200 for entertaining the company's customers.

In respect of rental income: i. ii. i.

- i. RM6,000 on housing loan interest; and
- ii. RM1,200 on house assessment and quit rent.

In respect of dividend income:

- i. RM1,500 on loan interest taken to purchase the shares.

Statutory income for each source for the year of assessment 2004 is:

Employment:	RM
Gross income (84,000 + 12,000 + 6,000)	102,000
Less: Allowable expenditure - subsection 33(1) & section 38A	
Travelling	12,000
Entertainment (limited to allowance received)	<u>6,000</u>
Adjusted/statutory income from employment	<u>84,000</u>
Rents:	
Gross income	24,000
Less: Allowable expenditure - subsection 33(1) ITA	
Loan interest	6,000
House assessment and quit rent	<u>1,200</u>
Adjusted/statutory income from rents	<u>16,800</u>
Dividends:	
Gross income	1,000
Less: Allowable expenditure- subsection 33(1) ITA	
Loan interest	1,500
Adjusted loss	<u>(500)</u>
∴ statutory income from dividends	<u>NIL</u>

Note:

Adjusted loss (RM500) from the dividend source cannot be allowed against any other source of income and is therefore forfeited.

- 10.0 Computation of aggregate income
- 10.1 The computation of aggregate income is determined under section 43 of the ITA. The aggregate income of an individual for a year of assessment is computed as follows:
- a. Firstly, compute the aggregate of the statutory income from all business sources for a year of assessment;
 - b. Secondly, deduct the business loss brought forward from previous years which has not been deducted against any source of income; and
 - c. Thirdly, add to the sum arrived at with the following items received for the same year of assessment:
 - i. statutory income from each non-business source (employment, dividends, interest, discounts, rents, royalties, premiums, pensions, annuities and other income) that is derived;
 - ii. amount received in respect of qualifying prospecting expenditure under Schedule 4 of the ITA; and
 - iii. amount received in respect of qualifying farm expenditure under Schedule 4A of the ITA.

Example 6

Encik F has income from the following sources for the year ended 31.12.2004:

	RM	
Adjusted income from business		55,000
Capital allowance	10,000	
Balancing charge	2,500	
Adjusted income from employment		36,000
Adjusted income from rents		2,400

The computation of aggregate income for the year of assessment 2004 is as follows:

		RM
Adjusted income from business		55,000
Add: Balancing charge		<u>2,500</u>
		57,500
Less: Capital allowance		<u>10,000</u>
Statutory income from business		47,500
Statutory income from employment		36,000
Statutory income from rents		<u>2,400</u>
Aggregate income		<u>85,900</u>

Example 7

Encik G has income from the following sources for the year ended 31.12.2004:

	RM
Adjusted income from business I	40,000
Capital allowance	8,000
Balancing charge	10,000
Adjusted income from employment II	(7,500)
Capital allowance	5,000
Balancing allowance	2,300
Balancing charge	3,000
Employment - adjusted income	12,000
Rents: adjusted loss	(2,400)

Encik G also has business loss brought forward from the year of assessment 2003 amounting to RM5,500.

The computation of aggregate income for the year of assessment 2004 is as follows:

	RM
<i>Adjusted income</i>	40,000
<i>Add : Balancing charge</i>	<u>10,000</u>
	50,000
<i>Less : Capital allowance</i>	<u>8,000</u>
<i>Statutory income from business I</i>	42,000
<i>Adjusted income</i> (loss 7,500) ¹	NIL
<i>Add : Balancing charge</i>	<u>3,000</u>
	3,000
<i>Less : Capital allowance</i> 5,000	
<i>Balancing allowance</i> <u>2,300</u>	
	7,300 restricted to 3,000
<i>Capital allowance c/f to year of assessment 2005 = 4,300</i>	
<i>Statutory income from business II</i>	<u>NIL</u>
<i>Aggregate statutory income from businesses</i>	42,000
<i>Less:</i>	
<i>Loss b/f from an earlier year of assessment (subsection 43(2) ITA)</i>	<u>5,500</u>
<i>Income from business sources</i>	36,500
<i>Statutory income from employment</i>	12,000
<i>Statutory income from rents²</i>	<u>NIL</u>
<i>Aggregate income</i>	<u>48,500</u>

Note:

¹ The loss of RM7,500 is loss incurred for the basis year. This loss can be deducted in computing Encik G's total income.

² Rental loss of RM2,400 is not deductible.

- 11.0 Computation of total income
- 11.1 The manner in which total income is computed is explained under section 44 of the ITA. Total income of an individual for a year of assessment is his aggregate income for that year of assessment less certain deductions given following the order as stated in paragraphs 11.2 to 11.4 of this Public Ruling.
- 11.2 First deduction: Adjusted loss from business for a basis year (subsection 44(2) ITA)

Adjusted loss from a business source or sources for a basis year appropriate to that year of assessment is the first deduction to be allowed against the aggregate income in computing the total income for a year of assessment for an individual. Where the adjusted loss cannot be allowed wholly against the aggregate income from all sources, the balance of the loss that cannot be allowed is carried forward to the following year and can only be deducted from the aggregate of the statutory income from business sources.

Example 8

Encik H has income from the following sources for the years ended 31.12.2004 and 31.12.2005:

	Year ending	
	31.12.2004	31.12.2005
Business I:		
Adjusted loss	(10,000)	(5,000)
Balancing charge	5,000	Nil
Capital allowance	4,000	1,000
Business II:		
Adjusted income	5,000	8,000
Capital allowance	7,000	2,000
Rents:		
Adjusted income	24,000	28,000
Dividends - Adjusted income	2,000	1,000
Rents - Adjusted income	4,000	6,000

Total income for the years of assessment 2004 and 2005 is computed as follows:

	Year of assessment	
	2004 - RM	2005 - RM
Business I		
Adjusted income (loss 10,000)	Nil	(loss 5,000) Nil 10,000
Add: Balancing charge	<u>5,000</u>	Y/A2005 5,000
	5,000	
	<u>3,000</u>	Y/A2004 1,700
Less: Capital allowance	4,000	<u>Nil¹</u>
Statutory income from business I	1,000	Nil
Business II		
Adjusted income	5,000	8,000
Less: Capital allowance 7,000	2,000	
Restricted to <u>5,000</u>	<u>5,000</u>	
Capital allowance c/f 2,000		
Capital allowance b/f	2,000	4,000
Statutory income from business II	<u>Nil</u>	<u>4,000</u>
Aggregate statutory income from businesses	1,000	4,000
Less: Loss b/f	<u>Nil</u>	<u>3,000</u>
Income from business sources	1,000	1,000
Add:		
Statutory income from dividends	2,000	1,000
Statutory income from rents	<u>4,000</u>	<u>6,000</u>
Aggregate income	7,000	8,000
Less:		
Basis year loss - subsection 44(2)ITA 10,000		5,000
Restricted to <u>7,000</u>	<u>7,000</u>	
Loss c/f 3,000		
Total income	<u><u>Nil</u></u>	<u><u>3,000</u></u>

Note:

¹ Capital allowance of RM1,000 not allowed is carried forward to the following year to be deducted from the adjusted income from the same business source.

- 11.3 Second deduction: deduction for qualifying prospecting expenditure (Schedule 4 ITA) and deduction for qualifying farm expenditure (Schedule 4A ITA)

In computing the total income of an individual for a year of assessment, qualifying prospecting expenditure to winning access to deposits of minerals and qualifying farm expenditure are deducted from the aggregate income after allowing a deduction for the basis year loss under subsection 44(2) of the ITA.

- 11.4 Third deduction: gifts or contributions (subsections 44(6) to 44(11) ITA)

This third category consists of gifts or contributions made in the basis year in the form of cash, in kind, equipment, artefact, manuscript or painting.

11.4.1 Gifts of money

- i. Gift of money made in the basis year for a year of assessment to -
 - the Federal Government;
 - the State Government;
 - Local Authorities; or
 - an institution or organization approved by the Director General on the application of the institution or organization concerned. The Director General will publish the name of the institution or organization in the Government Gazette after the application is approved.

An individual who makes a cash donation to any of the bodies stated above is eligible to be given a deduction equal to the amount of donation made.

- ii. Gift of money not exceeding RM20,000 to build or equip public libraries and libraries of schools and institutions of higher education, provided a claim for the same expense is not made under paragraph 34(6)(g) of the ITA in computing the adjusted income from business.
- iii. Cash contributions to the cost of treatment for serious diseases for individuals, made through a fund or trust account established for helping individuals.

11.4.2 Gifts of artefact, manuscript or painting

- i. Gift of artefact, manuscript or painting made to the Federal Government or State Government, where an amount equal to the value of the gift as determined by the Department of Museum and Antiquities or the National Archives is given a deduction in computing the total income - subsection 44(6A) ITA.
- ii. Gift of painting made to the National Art Gallery or State Art Gallery where an amount equal to the value of the painting as determined by the respective Art Galleries is given a deduction in computing the total income - subsection 44(11) ITA.

11.4.3 Contribution for the benefit of disabled persons

Gift of money or contribution in kind (the value of which is determined by the relevant local authority) made in the basis year for the provision of facilities in public places for the benefit of disabled persons qualifies for a deduction - subsection 44(9) ITA.

11.4.4 Contribution to healthcare center

Gift of money or gift of medical equipment (the value of which is determined by the Ministry of Health) made in the basis year to a healthcare center approved by the Ministry of Health. However, the allowable deduction is restricted to a maximum of RM20,000 - subsection 44(10) ITA.

11.4.5 Proof of payment

Receipts in respect of gifts or contributions made should be kept in safe custody for a period of seven (7) years from the end of the year of assessment in which the Income Tax Form is furnished for audit purposes.

11.4.6 Manner in which deductions are allowed

In the computation of total income, deductions on gifts, donations or contributions are allowed only if there is aggregate income after the deduction of basis year loss under subsection 44(2) of the ITA, the deduction of expenses under Schedule 4 and 4A of the ITA. Where there is no aggregate income after allowing for the deduction of basis year loss under subsection 44(2) of the ITA, expenditure under Schedule 4 and 4A of the ITA, the donations or the balance of the donations that cannot be deducted are forfeited and not allowed to be carried forward.

Example 9

Using the information available in Example 8, if Encik H donates to an institution approved by the Director General as follows:

- RM1,000 in the year ended 31.12.2004; and
- RM6,000 in the year ended 31.12.2005.

Total income for the years of assessment 2004 and 2005 is computed as follows:

	Year of assessment	
	2004 - RM	2005 - RM
Aggregate income	7,000	8,000
Less:		
Basis year loss - subsection 44(2) ITA restricted to	<u>7,000</u>	<u>5,000</u>
	Nil	3,000
Donation -subsection 44(6) ITA	<u>Nil</u>	<u>3,000</u>
Total Income	<u><u>Nil</u></u>	<u><u>Nil</u></u>

Note:

- i. Donation of RM1,000 for the year of assessment 2004 cannot be deducted and is forfeited due to the reason that there is no excess income after allowing a deduction for the basis year loss under subsection 44(2) of the ITA.
- ii. Donation of RM6,000 for the year of assessment 2005 is only given a deduction up to RM3,000 that is up to the amount of excess income after allowing a deduction for the basis year loss under subsection 44(2) of the ITA.

- 12.0 This Ruling shall be effective for the year of assessment 2004 and subsequent years of assessment.

**Director General
of Inland Revenue**

COMPUTATION OF TOTAL INCOME FOR INDIVIDUAL

APPENDIX A

Business I		Business II		Employment		Other non-business sources - interest, dividends, rents, etc.			
Gross income	X	Gross income	X	Gross income	X	Gross income	X		
Less: Expenditure		Less: Expenditure		Less: Expenditure		Less: Expenditure			
• General - subsection 33(1)	X	• General - subsection 33(1)	X	• General - subsection 33(1)	X	• General - subsection 33(1)	X		
• Specific - section 34	X	• Specific - section 34	X	• Specific - sections 38 & 38A	X				
• Research - sections 34A & 34B	X	• Research - sections 34A & 34B	X						
Adjusted income	X	Adjusted income	X	Adjusted income	X	Adjusted income	X		
Add: Balancing charge	X	Add: Balancing charge	X						
Less: Balancing allowance	X	Less: Balancing allowance	X						
Capital allowance	X	Capital allowance	X						
Statutory income	X	Statutory income	X	Statutory income	X	Statutory income	X		
		↓				↓			
Aggregate statutory income from businesses		X							
Less: previous year losses - subsection 43(2)		X							
Income from business sources		X							
Note: ¹ Statutory income for non business sources must be computed separately for each source. ² Adjusted income = statutory income. ³ Unabsorbed basis year losses, expenditure under schedule 4 and 4A will be carried forward. ⁴ Unabsorbed donation will be forfeited.		↓				↓			
		Add: aggregate income from business sources / employment / interest / dividends / rents / royalties / etc				X		X	
		Add: amount received in respect of qualifying prospecting expenditure - schedule 4						X	
		Add: amount received in respect of qualifying farm expenditure - schedule 4A						X	
		Aggregate income						X	
		Less: basis year loss - subsec. 44(2) ³						X	
		Less: qualifying prospecting expenditure - schedule 4 ³						X	
		Less: qualifying farm expenditure - schedule 4A ³						X	
		Less: donation - subsec. 44(5) ⁴						X	
		Less: gifts of artefact, manuscript or painting - subsec. 44(5A) ⁴						X	
Less: gifts of money for provision of library facilities - subsec. 44(3) ⁴						X			
Less: gifts of money / in kind in providing facilities in public places for disabled person - subsec. 44(5) ⁴						X			
Less: gifts of money / in kind in providing medical equipment - subsec. 44(10) ⁴						X			
Less: gift of painting - subsec. 44(11) ⁴						X			
Total income						X			