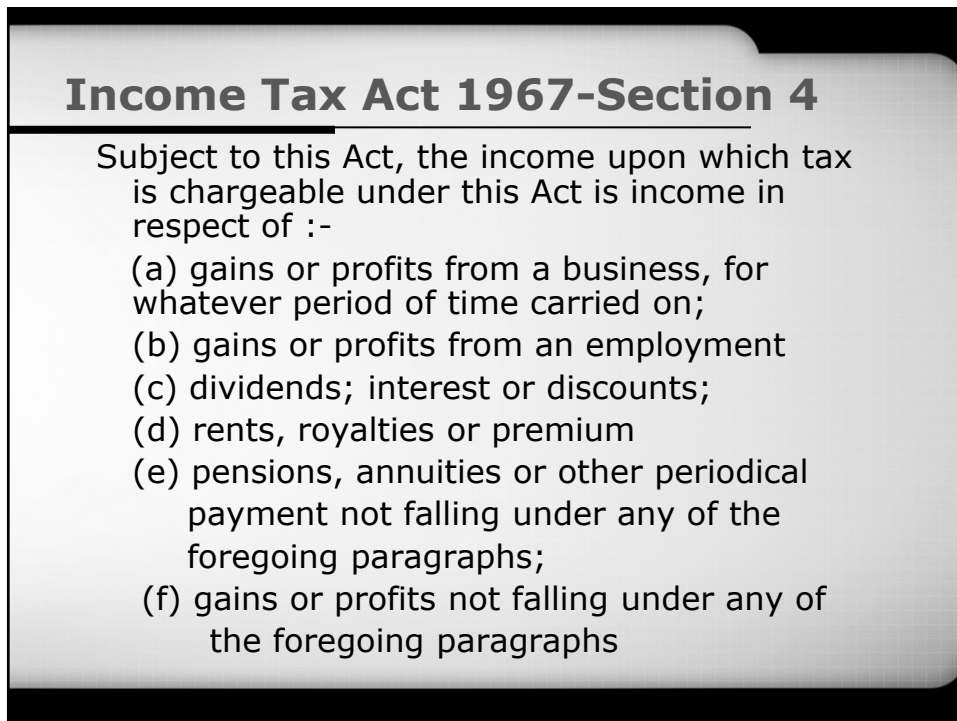


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2

1

## **Investment income**

### **Basis of Assessment**

- ❖ **Companies/trust bodies/co-operatives societies – accounting year end**
- ❖ **Others – Calendar year**

3

## **Dividend income**

### **Derivation**

- ❖ **Deemed derived from Malaysia if at the time of paying, crediting or distributing , the paying company is a resident company**

4

## **Type of Dividend income**

### **Tax exempt dividend income**

- ✓ tax incentives
- ✓ Single tier dividend system

5

## **Deemed Capital transactions**

- ❖ Distribution of assets from liquidation
- ❖ Right issues
- ❖ Share buy back by a listed company
- ❖ Capital reduction
- ❖ Bonus shares

6

## Dividend income

- ❖ Any expenses incurred for the dividend income = non business loss  
= permanent loss

7

## Changes Affecting Companies and Unincorporated Businesses

Description	New Legislation
Expenses in relation to exempt dividend	<ul style="list-style-type: none"> <li>➤ Any deductions incurred in relation to single-tier dividend are disregarded in computing the chargeable income of a person.</li> <li>➤ Where a taxpayer derives exempt and non-exempt sources of income, in ascertaining the amount of approved donation to be deducted against 10% of aggregate income, the aggregate income shall include both exempt dividend income and taxable income.</li> <li>➤ In this respect, the taxpayer shall be required to apportion the donation to the exempt dividend and taxable income. Thereafter, the portion of donation expenses attributable to the exempt dividend shall be disregarded in arriving at the chargeable income.</li> </ul>

8

## Changes Affecting Companies and Unincorporated Businesses

Tax Computation for YA 2017					
		Add	Less	RM	
Profit before tax				830,000	
Adjustment					
Donation		20,000			
Dividend income (single tier)			(800,000)		
Interest income			(200,000)		
		20,000	(1,000,000)		
				(980,000)	
Adjusted / Statutory Business Income				(150,000)	
Non business income					
Interest income				200,000	
Aggregate Income				50,000	
Less: Approved donation (note)				(1,176)	
Chargeable Income				48,824	

9

## Changes Affecting Companies and Unincorporated Businesses

Note: Computation of approved donation to be deducted against Aggregate Income					
Aggregate Income (taxable)			50,000		
Add: Dividend income (single tier)			800,000		
Total aggregate income			850,000		
Approved donation (10% of Total AI)			85,000		
OR					whichever is lower
Actual donation (approved body)			20,000		
Donation expenses attributable to:					
Aggregate Income (taxable) $(50,000/850,000 \times 20,000)$			1,176	as above	
Dividend income (single tier) $(800,000/850,000 \times 20,000)$			18,824	disregarded	
			20,000		

10

5

## Interest income - S4(a) or S4(c)

- ❖ Chargeable to tax under **S4(c)** unless
  - the debenture, mortgage or other source to which the interest relates forms part of the stock in trade of a business of a person
  - interest is receivable by a person from the business of lending money and that business is licensed under any written law. This applies to banking, insurance or money lending companies

**Wef  
YA2013**

PR3/2016

11

## Deemed Interest income from loan or advances to Director( from its internal fund) PR8/2015

### ❖ Interest income = $\frac{1}{12} \times A \times B$

**A**= outstanding loan at the end of the calendar month

**B**= average rate of commercial banks published by the Central Bank at the end of the calendar month or such other reference lending rate as may be prescribed by DG

**Where**

interest charged by company > formula

=>this section shall cease to apply

interest charged by company < formula

=>this section shall apply

12

### Deemed Interest income from loan or advances to Director( from its internal funds)

**“director”** means any person who

- (a) is occupying the position of director (by whatever name called), including any person who is concerned in the management of the company’s business; and
- (b) is, either on his own or with one or more associates within the meaning of subsection 139(7), the owner of, or able directly or through the medium of other companies or by any other indirect means to **control not less than 20% of the ordinary share capital of the company.**

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### Recognition of interest income

#### 1. BASIS PERIOD TO WHICH GROSS INCOME I.R.O. INTEREST IS RELATED

- ❖ Section 27 provides that income from interest, discount, rental, royalty or any pensions, annuity or other periodical payments to which para 4(e) applies and 1<sup>st</sup> become receivable in the relevant period are part of the gross income when **RECEIVED** + would be **TAXABLE** on a **RECEIPT BASIS**.

❖ PR 9/2015

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## Recognition of interest income (con't)

### 2. BASIS PERIOD TO WHICH INCOME OBTAINABLE ON DEMAND IS RELATED

❖ Section 29, an anti-avoidance provision provides that:

#### i. Loan transactions between unrelated persons

- Interest income will only be recognised as income if the said interest has been **received or obtainable on demand** by the lender
- Interest income is taxable in the YA the said interest is receivable as provided in Section 27)

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## Recognition of interest income (con't)

### 2. BASIS PERIOD TO WHICH INCOME OBTAINABLE ON DEMAND IS RELATED (CON'T)

#### ii. Loan transactions between related persons

- W.e.f. YA 2014, subsection 29(3) (except subpara 29(3)(aa) effective from YA 2015 onward) provides that interest income is **deemed to be received by the lender on the date interest is due to be paid by the borrower** whether or not the interest has been received.
- Example 8

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## Recognition of interest income (con't)

- ❖ Form C: Income of preceding year not declared
- ❖ PR 9 2015 income of preceding year not declared.pdf

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## Recognition of interest income (con't)

### 3. BASIS PERIOD TO WHICH GROSS INCOME I.R.O. INTEREST IS RELATED

- ❖ Subsection 27(2) provides that where gross income consists of interest etc is receivable iro two or more BP which overlaps the relevant period, the gross income is apportioned between the part of the overlapping period that overlaps the relevant period and the remaining parts of the overlapping period.
- ❖ Please refer to the diagram on page 13.

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## Recognition of interest income (con't)

### 3. BASIS PERIOD TO WHICH GROSS INCOME I.R.O. INTEREST IS RELATED (CON'T)

- ❖ If the interest income elapsed more than 4 years before the day which the receipt of the interest income 1<sup>st</sup> became known to the DGIR, the time limit to make an assessment is applicable by virtue of subsection 91(1).
- ❖ Provisios to subsection 27(2) determines the BP for which an assessment is made.

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## Recognition of interest income (con't)

### 3.1 PROVISIO (b) of SUBSECTION 27(2)

- ❖ Where **PART** of an overlapping period iro which interest income is receivable elapsed more than 4 years b4 the day which the receipt of the gross income 1<sup>st</sup> became known to the DGIR, the interest income for the elapsed period is deemed to have accrued evenly over the overlapping period which has not elapsed.
- ❖ Please refer to the diagram on page 14.

20

10

## Recognition of interest income (con't)

### 3.2 PROVISIO (c) of SUBSECTION 27(2)

- ❖ Where the **WHOLE** of the overlapping period iro which interest income is receivable elapsed more than 4 years before the day which the receipt of the gross income 1<sup>st</sup> became known to the DGIR, the interest would be treated as gross income for the BP for the YA which began 4 years before the beginning of the YA which includes the day which the receipt of gross income 1<sup>st</sup> became known to the DGIR.
- ❖ Please refer to the diagram on page 15.

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## Recognition of interest income (con't)

### ❖ Example 9

- a) Loan transactions between related persons
- b) Loan transactions between unrelated persons

### ❖ Example 10

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### The recognition and computation of interest receivable is as follows:

The recognition and computation of interest receivable is as follows:

Date the Loan and Interest is Deemed Obtainable on Demand – Subsection 29(3)	Date the Interest Income First Became Known to DGIR	Breakdown of Interest Income Receivable for Each Year of Assessment (RM)	Application of Proviso (b) of Subsection 27(2) and Year of Assessment for which Income is Taxed
31.12.2019	31.7.2020	2019 = RM150,000	2019 = RM375,000 (150,000 + 225,000)
		2018 = RM150,000	2018 = RM375,000 (150,000 + 225,000)
		2017 = RM150,000	2017 = RM375,000 (150,000 + 225,000)
		2016 = RM150,000	2016 = RM375,000 (150,000 + 225,000)
		2015 = RM150,000	RM900,000 accrued evenly over the overlapping period that has not elapsed i.e. 1.1.2016 - 31.12.2019 (4 YA) $\frac{RM900,000}{4 \text{ YA}} = 225,000/\text{YA}$
		2014 = RM150,000	
		2013 = RM150,000	
		2012 = RM150,000	
		2011 = RM150,000	
		2010 = RM150,000	

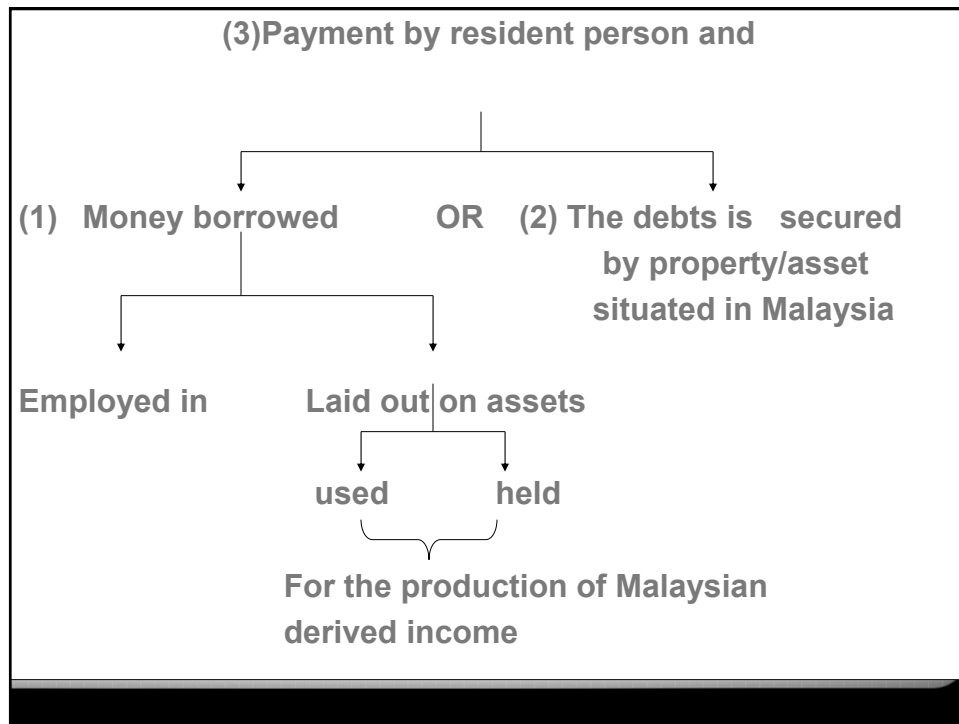
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### Derivation of interest income (S 15)

Interest shall be deemed to be derived from Malaysia:

- 1) If responsibility for payment of interest lies with the Government, a state Government or a local authority; or
- 2) If the interest is charged as an expense against any income accruing in or derived from Malaysia; or

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### **Interest income –Gross income**

- ❖ **Gross income when it 1<sup>st</sup> becomes receivable in the relevant period/when it has been received**
- ❖ **Received – entitled to the interest income accruing or derived from Malaysia and is able to obtain the receipt on demand {Example 9.10 (Pg 177)}**
- ❖ **Received in advance for more than a basis period – treated as gross income when received { Example 9.14, pg 179}**

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## Related parties loan transactions

❖ Wef YA2014, where a loan transaction involving:

(a) Persons one of whom has control over the other;

(b) Between persons both of whom are controlled by some other person

**=> Taxed on 'deemed received' basis, once it is due to be paid even though it is not received in that particular YA**

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## Interest income- deduction of expenses

❖ interest expenses if the loan is taken for advances to others

❖ Any excess of expenses over the interest income = non business loss  
= permanent loss

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## **Type of interest income**

- a) Taxable interest income**
- (b) Tax exempt interest income**

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## **Interest income – Exemption**

### **(a)(i) Any Individual**

- securities or bonds issued or guaranteed by the Government
- Debentures/Islamic Securities other than convertible loan stock, approved by the Securities Commission
- Bon Simpanan Malaysia issued by Central Bank of Malaysia

### **(ii) Resident Individual**

- Bank/finance company licensed or deemed to be licensed under the Banking and Financial Institutions Act 1989
- A bank licensed under the Islamic Banking Act 1983 etc

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## Interest income – Exemption

### (b) Any person

- Saving certificates issued by the Government
- Premium saving certificates under the scheme of Bank Simpanan Nasional
- Bonds & securities issued by Pengurusan Danaharta Nasional Berhad
- Non- convertible bonds

### (c) Non-resident company

- Securities issued by the Government
- Non-convertible Islamic Securities or debentures issued in Ringgit Malaysia & approved by SC
- Banks, finance or any institution approved by the Minister provided non-resident does not have a place of business in Malaysia

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## Interest income - example

Received by a company	RM
Interest income from deposits with a Labuan bank	20
Interest income from deposits with a Malaysian bank in Sabah	30
Profit from deposit with an Islamic Bank in KL (received by a company)	500

32

32

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## Rental income - Derivation

### a) Immovable properties

- Deemed derived if the landed properties are situated in M'sia
- Rental income i.r.o a building in Hong Kong -> Foreign source

### (b) Moveable properties

- depend on the place the property is used ; or
- the place where the business of the lessor is carried on

33

## Rental income - Derivation

- ❖ **Assessed on receipt basis but will be treated as gross income for the period when it first become receivable.( Eg 10.3., pg 185)**
- ❖ **Received –able to obtain the receipt on demand**
- ❖ **Advance rental – assessable in the year of receipt**

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## Assessment of rental income – Section 4(a) or 4(d)

Generally, rent is regarded as a non-biz source of income - Section 4(d).

Where the property is managed & the letting can be regarded as carrying on a biz  
→ section 4(a).

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## Assessment of rental income –Maintenance/support test

Section 4(a)-  
Para 4.2.1  
PR122018/



•Doing generally all things necessary (e.g. cleaning services or repairs) for the maintenance and management of the real property such as the structural elements of the building, stairways, fire escapes, entrances and exits, lobbies, corridors, lift/escalators, compounds, drains, water tanks, sewers, pipes, wires, cables or other fixtures and fittings; and

Section 4(a) –  
Para 4.2.1  
PR12/2018



•Doing generally all things necessary for the maintenance and management of the exterior parts of the real property such as playing fields, recreational areas, driveways, car parks, open spaces, landscape areas, walls and fences, exterior lighting or other external fixtures and fittings.



Eg 1 to 3 PR12/2018


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### Assessment of rental income – Maintenance/support test test


Section 4(a)-  
Para 4.2.1  
PR12/2018







Only provides security services or other facilities ->  
not providing maintenance/support services comprehensively.











Section 4(a) –  
Para 4.2.2  
PR12/2018



Services actively provided means the person who owns or  
let out the real property:  
a) Provides himself  
b) Hires another person /firm to provide  
the M/S services

6

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## Rental income = Non Biz Source

- ❖ **Without providing maintenance services/support services comprehensively and actively**  
( Eg 4 to 6 PR 12/2018)
- ❖ **maintenance services/support services are passively derived from the ownership of the real property**
- ❖ ( Eg 7 PR 12/2018)

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## Rental Income

	Section 4(a)	Section 4( d)
<b>Date of commencement</b>	Date the real property is made available for letting(*) <b>(Example 9 PR12/2018)</b>	Date the real property rented out for the first time <b>(Example 8 PR12/2018)</b>
(*)	Determined based on each property(Example 11,PR12/2018)	
<b>All real properties grouped as a single source (#)</b>	/ <b>(Example 13 PR12/2018)</b> Constitute a source once generated income	/ <b>(Example 14 PR12/2018)</b>
(#)	If mixture, assessed separately ( Example 15 PR12/2018)	

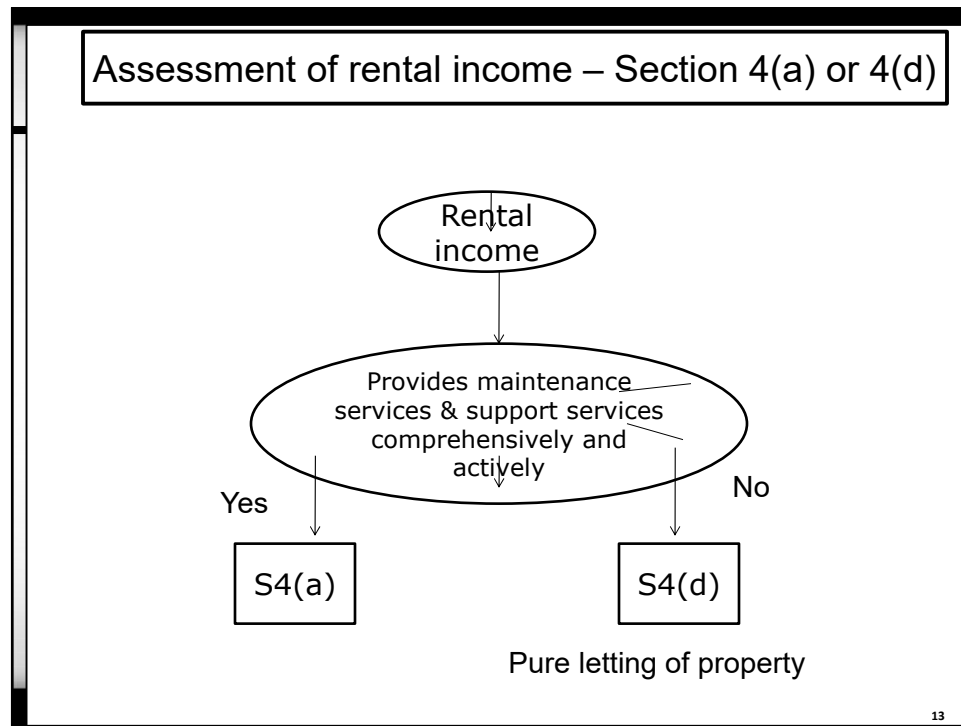
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## Rental Income

	Section 4(a)	Section 4( d)
<b>Pre-commencement expenses</b>	Allowed if the rental business source exists from 1.1 <b>(Example 15 PR12/2018)</b>	Disallowed <b>(Example PR12/2018)</b>

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### **Rental income- Deduction of expenses**

- ❖ Cost of repairs & maintenance of the property
- ❖ Insurance premium on fire/burglary
- ❖ Cost of supervision & rental collection
- ❖ Cost of obtaining tenant to replace the old tenant
- ❖ Interest paid on loan facility taken to finance the property(*Eg 24 PR12/2018*)
- ❖ Cost of renewing rental agreement & other miscellaneous expenses
- ❖ Assessment and quit rent

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## Rental income- expenses not allowable

X cost of obtaining the 1<sup>st</sup> tenant such as advertising, commission, legal expenses on the 1<sup>st</sup> tenant ( **Example 18 PR12/2018**)

X expenses before real property is let out (for non biz source)

( **Example 23 PR12/2018**)

**Note:** Expenses incurred during temporary non-occupation would continue to be deductible once the rental source exist and is ready to be let out  
(**Example 20 PR12/2018**)

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## Circumstances of temporarily non occupation

- ❖ **Repair or renovation of the building**
- ❖ **Absence of tenants for a period of 2 years after termination of tenancy;**
- ❖ **Legal injunction or other official sanction**
- ❖ **Other circumstances beyond the control of the person who lets out the real property**

(**Example 21 PR12/2018**)

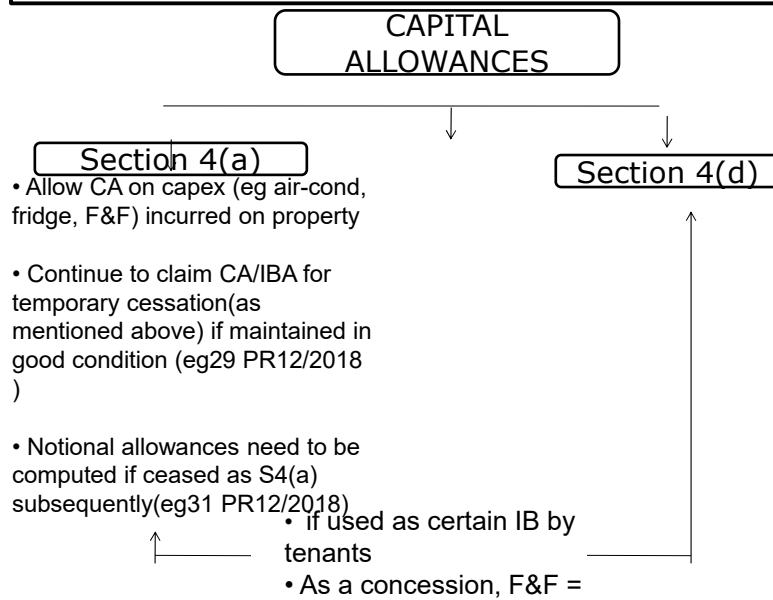
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## Rental income received in advance

- ❖ Treated as gross income when received
- ❖ Any expense incurred in relation to that rental income after that basis period is allowable in the basis period in which the income is assessed  
(Example 25 PR 12/2018)
- ❖ > one property and rental income received in advance for >property, expenses related to that source is deductible from other rental income if assessed as one source  
(Example 26 & 27 PR 12/2018)

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## Assessment of rental income –Capital allowances



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## Rental income

- ❖ > 1 property and change of S4(a) to S4(d); CA claimable on P & M for the real property which remains as 4(a)
- ❖ > 1 property and change of S4(d) to S4(a); CA claimable on P & M for the real property which is 4(a). QE = mkt value on the 1<sup>st</sup> day that they are used in the business (Example 32, PR12/2018)
- ❖ Letting of part of building used in the biz = part of income from the existing biz source.

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## RENTAL INCOME - Scenarios

1. Rental income of RM10,000 derived from letting out the excess space for two months
2. The whole rental income of RM120,000 is i.r.o a building in Hong Kong which was let. The whole amount was remitted to M'sia
3. A Sdn Bhs is a manufacturing company with financial year 31.12. During 31.12.2012, The rent received of RM 30,000 is from a shophouse bought by A Sdn Bhd at a cost of RM400,000. The whole cost of the purchase was financed by bank borrowing. Interest expense is RM180,000. The company incurred RM2,000 on quit rent and assessment.  
As at 31.12.2012, the company's bank borrowings was RM2million (Dec 2010 Q1(b))

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**Assessment of rental income – Section 4(a) or 4(d)**

	<b>Section 4(a)</b>	<b>Section 4(d)</b>
<b>CAPITAL ALLOWANCES</b> -Industrial B (if rent out as certain certain IB) -F&F, air cond etc	√ √	√ X (as a concession F&F = replacement basis)
<b>ADJUSTED LOSS</b> Can be offsetted against other income	√	X
<b>LOSSES TO BE C/F</b>	√	X
<b>UTILISE UNABSORBED LOSSES</b>	√	X
<b>ASSESSABILITY</b>	Block basis	Block basis

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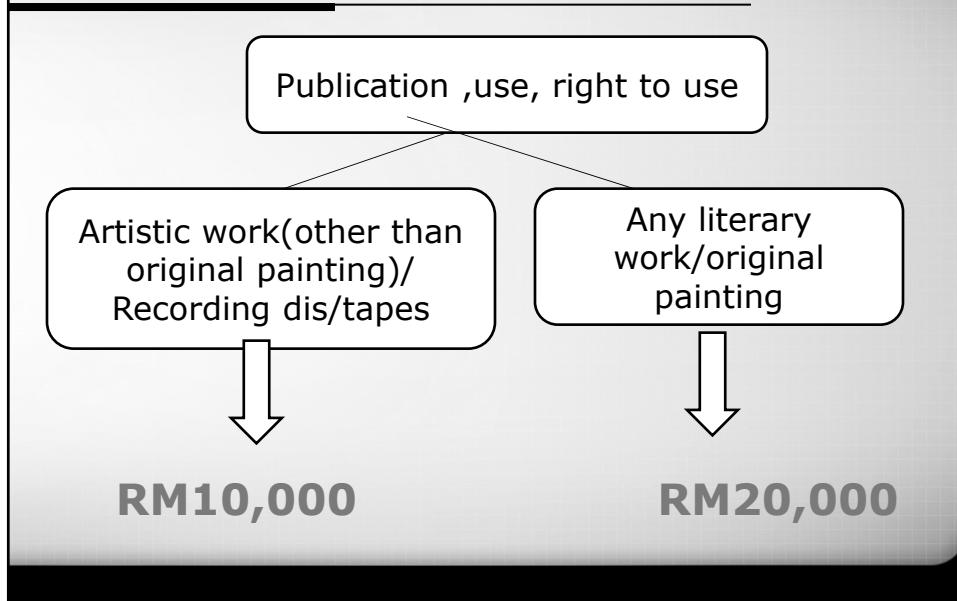
**Assessment of investment income  
– Section 4(a) or 4(c) (d)**

	<b>Section 4(a)</b>	<b>Section 4( C)/ 4(d)</b>
<b>Basis of Assessment</b>	Accounting year end	Calendar year
<b>ADJUSTED LOSS</b> Can be offsetted against other income	√	X
<b>LOSSES TO BE C/F</b>	√	X
<b>UTILISE UNABSORBED LOSSES</b>	√	X
<b>Capital allowances</b>	√	X ( except for building let out as IB)

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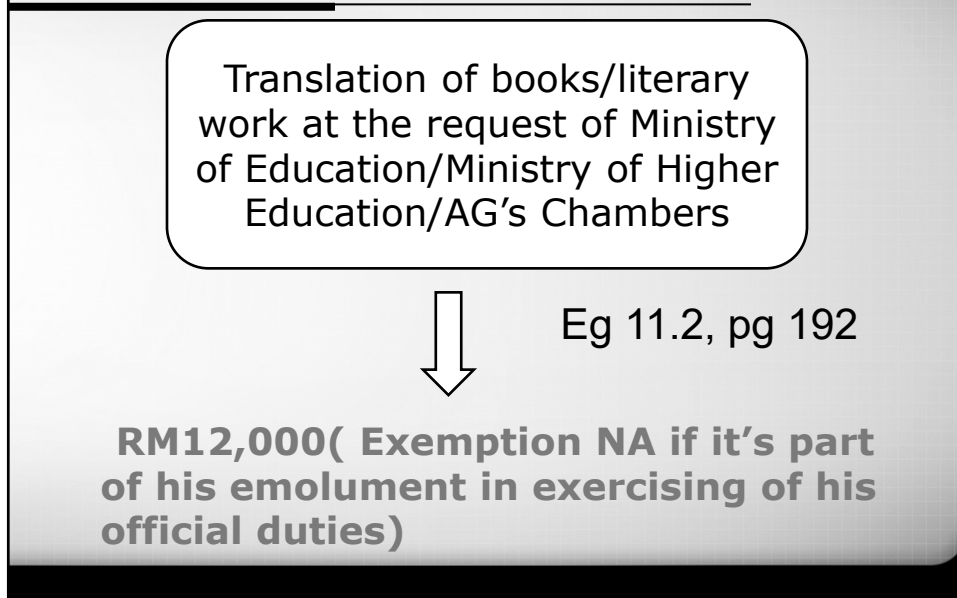
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## Exemption of royalty income- resident individual



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## Exemption of royalty income- resident individual



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### **Exemption of performance income-resident individual**

Performances in cultural  
performances approved by  
Minister



**shall not apply if it is part of his  
emolument in the exercise of his  
official duties**

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### **Exemption of musical composition -resident individual**

Musical composition =  
RM20,000



**shall not apply if it is part of his  
emolument in the exercise of his  
official duties**

54

## **Exemption of honorarium payment- individual**

Honorarium payment i.r.o services provided for validation, modernisation or accreditation of franchised educational programmes in higher educational inst & the services are verified by Lembaga Akreditasi Negara

shall not apply if it is part of his emolument in the exercise of his official duties

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## **Scientific Research**

- ❖ **50% of the statutory income in relation to the scientific research , commercialized and verified by Minister of Science, Technology and Environment, carried out by individual**
- ❖ **Exempted for 5 years**

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## Pensions

- ❖ Periodical payment made to an individual who has permanently ceased to exercise an employment.
- ❖ Involves 2 parties:
  - ✓ Recipient = employee, his wife, child, relatives or dependent of the pensioner
  - ✓ Payer = employer or the successor of the employer

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## Exemption of pensions-Conditions

- (a) pension is derived from M'sia i.e from Gvt or State Gvt
- (b) recipient = 55 yrs (male or female) or on reaching the compulsory age of retirement or due to ill health
- (b) paid out from an approved fund, scheme or society
- (d) services rendered in exercising a former employment in M'sia

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## **Annuities/Alimony**

**Annuities – a definite sum of money payable on a regular basis**  
- assessable under S 4(e)

**Alimony – a sum to support his ex-wife. No longer married**  
- assessed under S4(e)