

PRACTICE NOTE NO. 2/2020

CLAIMING CAPITAL ALLOWANCE ON THE DEVELOPMENT COST FOR CUSTOMISED COMPUTER SOFTWARE UNDER THE INCOME TAX RULES 2019.

- 1.0 This Note is issued to provide guidance on the implementation of the Income Tax (Capital Allowance) (Development Cost For Customised Computer Software) Rules 2019 [P.U.(A) 274/2019] in respect of the development cost for customised computer software which qualifies for the purpose of claiming capital allowance effective from year of assessment (YA) 2018.
- 2.0 Application of these Rules shall be subject to the provisions under Schedule 3 of the Income Tax Act 1967.
- 3.0 Under these Rules, the development cost for customised computer software refers to the expenditure incurred in the production of new software or in the improvement of the existing software to be used for the purpose of a business.
- 4.0 The qualifying expenditure for the purpose of claiming capital allowance under these Rules consists of:
 - 4.1 Consultation fee
Consultation fee incurred on the development of the software specifically for the purpose of developing a new software system, modification or modernisation of the existing software excluding consultation fees related to initial procedure or planning stage such as feasibility study or preliminary study.
 - 4.2 Payments for the rights of software ownership
Payment for the right to use the software exclusively.
 - 4.3 Incidental fee
Payment incurred which enables the use of the software in a business and being capitalized such as change of requirement the software.
- 5.0 Payment for expenditure in paragraph 4.0 to non-resident recipients are subject to withholding tax under section 109 or 109B depending on their respective facts.
- 6.0 Capital allowance can be claimed from YA the customised computer software is capable of being used in a business.
- 7.0 The following are the examples in which capital allowances in respect of the development cost for customised computer software may be claimed:

YA development cost for customised computer software incurred	YA customised computer software is capable of being used in business	Implication / Tax Treatment
2018, 2019 & 2020	2020	<ul style="list-style-type: none"> • Cost incurred from YA 2018 is a qualifying expenditure. • Capital allowance can be claimed from YA 2020.
2017, 2018 & 2019	2019	<ul style="list-style-type: none"> • Cost incurred from YA 2018 is a qualifying expenditure. • Cost incurred before YA 2018 is disregarded. • Capital allowance can be claimed from YA 2019
2017 & 2018	2018	<ul style="list-style-type: none"> • Only cost incurred from YA 2018 is a qualifying expenditure. • Capital allowance can be claimed from YA 2018.

**Director General of Inland Revenue
Inland Revenue Board of Malaysia**

DATE OF ISSUE : 16 MARCH 2020