



**INLAND REVENUE BOARD OF MALAYSIA**

**REINVESTMENT ALLOWANCE  
PART 1 – MANUFACTURING  
ACTIVITY**

**PUBLIC RULING NO. 9/2017**

*Translation from the original Bahasa Malaysia text.*

**DATE OF PUBLICATION: 22 DECEMBER 2017**



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**DIRECTOR GENERAL'S PUBLIC RULING**

Section 138A of the Income Tax Act 1967 [ITA] provides that the Director General has the power to make a Public Ruling in relation to the application of any provision of the ITA.

A Public Ruling is published as a guidance for the public and officers of the Inland Revenue Board of Malaysia. It sets out the interpretation of the Director General in respect of the particular tax law and the policy as well as the procedure applicable to it.

The Director General may withdraw this Public Ruling either wholly or in part, by notice of withdrawal or by publication of a new Public Ruling.

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

## 1. Objective

The objective of this Public Ruling (PR) is to assist a company resident in Malaysia and engaged in manufacturing activities in ascertaining its eligibility to claim reinvestment allowance (RA) and provide clarification in relation to:

- (a) projects that qualify for RA;
- (b) expenditures that qualify for RA;
- (c) period of eligibility; and
- (d) computation of RA.

## 2. Relevant Provisions of the Law

- 2.1 This PR takes into account laws which are in force as at the date this PR is published.
- 2.2 The provisions of the Income Tax Act 1967 (ITA) related to this PR are section 133A and Schedule 7A.

## 3. Interpretation

The words used in this PR have the following meaning:

- 3.1 “Operation” means an activity which consists of the carrying on of a business referred to in paragraph 8 of Schedule 7A of the ITA; and
- 3.2 “Ceased to be used” in relation to an asset includes an asset classified as held for sale under paragraph 61A of Schedule 3 of the ITA.

## 4. Eligibility to Claim Reinvestment Allowance

RA is a special tax incentive available to a company resident in Malaysia which:

- (a) has been in operation for not less than 36 months; and
- (b) has incurred in the basis period for a year of assessment capital expenditure on a factory, plant or machinery used in Malaysia for the purposes of a qualifying project referred to in paragraph 8(a) of Schedule 7A of the ITA.

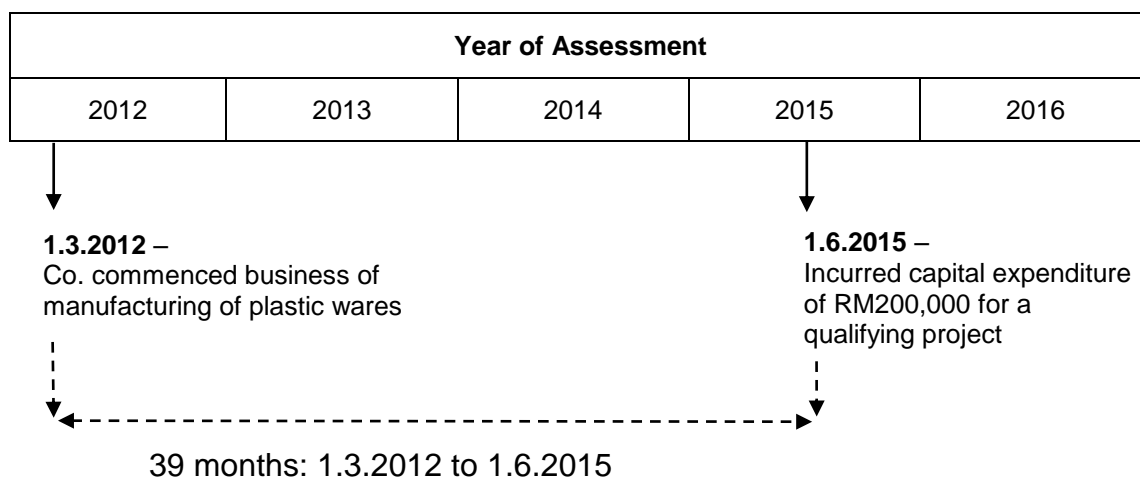
## 5. Minimum Period of Operation

A company has to be in operation for 36 months or more to be eligible to claim RA for a qualifying project. Period of operation is calculated from the day the company commenced its business of manufacturing.

**Example 1**

Company A commenced the business of manufacturing plasticwares on 1.3.2012 and closes its accounts on 31 December each year. The company incurred capital expenditure of RM200,000 on 1.6.2015 on a few high technology machines for the purposes of a modernisation project.

The scenario is summarised as follows:

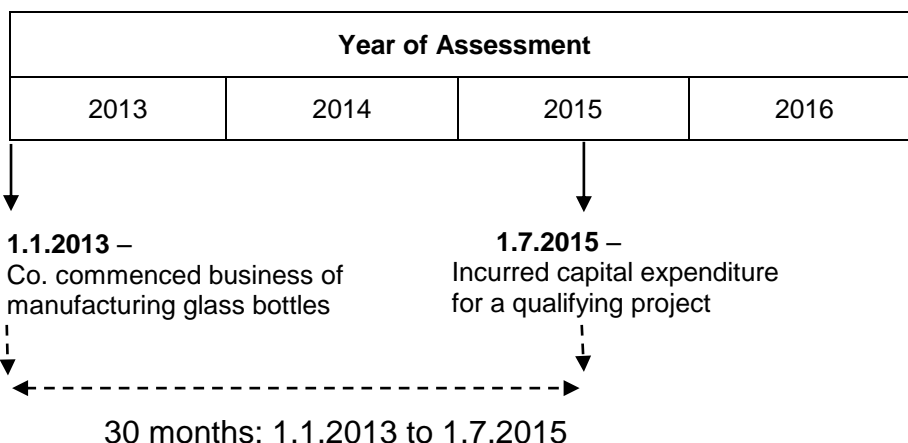


Company A is eligible to claim RA for the year of assessment 2015 on the capital expenditure of RM200,000 as the company had been in operation for more than 36 months (i.e 39 months).

**Example 2**

Company B commenced manufacturing of glass bottles on 1.1.2013 and closes its accounts on 31 December each year. Company B incurred capital expenditure of RM300,000 for the purposes of a qualifying project on 1.7.2015.

The scenario is summarised as follows:

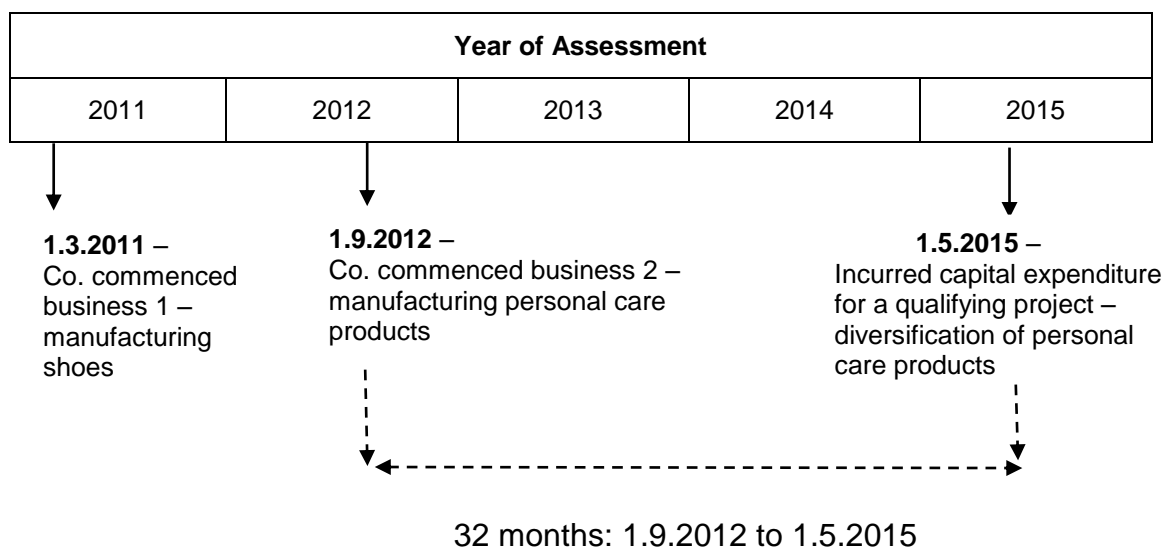


Company B is not eligible to claim RA for the year of assessment 2015 on the capital expenditure of RM300,000 incurred because as at 1.7.2015, the company had been in the business of manufacturing of glass bottles for less than 36 months (i.e. 30 months).

**Example 3**

Company C commenced the business of manufacturing shoes on 1.3.2011 and closes its accounts on 31 December each year. On 1.9.2012, Company C started another business manufacturing personal care products such as hair shampoo, conditioner and hair styling products which are not related to the manufacturing of shoes. Company C diversified into a wider range of personal care products such as body shampoo and body lotion and incurred qualifying capital expenditure of RM130,000 on 1.5.2015 for that purpose.

The scenario is summarised as follows:



In determining whether Company C has been in operation for not less than 36 months, the period of operation is calculated from the day the company commenced the activity of manufacturing personal care products which is from 1.9.2012. As the company has been in the business of manufacturing personal care products for less than 36 months (i.e 32 months), Company C is not eligible for RA on the capital expenditure of RM130,000 for the year of assessment 2015.

**6. Manufacturing**

**6.1 Meaning of manufacturing**

Manufacturing for the purposes of RA means –

- (a) conversion by manual or mechanical means of organic or inorganic materials into a new product by changing the composition, nature or

quality of such materials;

- (b) assembly of parts into a piece of machinery or products, or
- (c) mixing of materials by a chemical reaction process including biochemical process that changes the structure of a molecule by the breaking of the intra molecular bonds or by altering the spatial arrangement of atom in the molecule,

but does not include -

- (i) the installation of machinery or equipment for the purpose of construction;
- (ii) a simple packaging operations such as bottling, placing in boxes, bags and cases;
- (iii) a simple fixing;
- (iv) a simple mixing of any products;
- (v) a simple assembly of parts;
- (vi) any activity to ensure the preservation of products in good condition during transportation and storage;
- (vii) any activity to facilitate shipment and transportation;
- (viii) any activity of packaging or presenting goods for sale, or
- (vx) any activity that may be prescribed by the Minister, notwithstanding the above interpretation. Please refer to Appendix A for the list of activities as in the Income Tax (Prescription of Activity Excluded from the Definition of “Manufacturing”) Rules 2012 - [P.U.(A) 23/2012].

For the purpose of RA, **simple** means an activity which does not need special skills, special machines, special apparatus or special equipments especially produced or installed for carrying out that activity.

#### Example 4

Company D imports fully disassembled furniture from China in completely knocked down (CKD) form. The staff at the company’s factory assembles all the imported components into completed furniture. The assembling activity of the CKD parts into a piece of furniture does not require any special machine, apparatus, equipment or skills.



The activities of the company does not fall within the definition of manufacturing for the purposes of RA.

### **Example 5**

Company E has been in the business of supplying and fixing pipes since 1.3.2010 and closes its accounts on 31 August each year. The pipes are cut and welded according to customers' specifications. Due to increasing demand of its products, Company E purchased a new building on 15.6.2015 and used it as a workshop for its business.

Company E is not eligible to claim RA on the cost of the new building as the activity of the company does not fall within the definition of manufacturing for the purposes of RA.

## **6.2 Manufacturing activity**

Manufacturing activities for the purposes of RA has been defined in paragraph 9 of Schedule 7A of the ITA. The manufacturing activity would be considered completed once the finished product can be identified.

### **Example 6**

Company F has been in the business of manufacturing colour pencils since 1.2.2011 and closes its account on 30 September each year. On 1.6.2015 Company F acquired a new plant for an expansion project. Part of the plant comprises of machine A for folding the colourful boxes and putting the pencils into those boxes in which the pencils are sold. Another new machine (machine B) then packs these boxes into cartons.

For the purposes of RA, the manufacturing of colour pencils is completed after the process of putting the pencils into colourful boxes. Therefore, the capital expenditure incurred by Company F on machine A for folding the colourful boxes and putting the colour pencils into these boxes for its expansion project would qualify for RA.

However, as packing of the colourful boxes into cartons for marketing purposes does not fall within the manufacturing activity, the capital expenditure incurred on machine B would not qualify for RA.

## **6.3 Treatment of waste for use in the same manufacturing activity**

### **6.3.1 Treatment of waste for reuse**

Where, the waste material of a manufacturing activity is treated and recycled in the factory for use in the same manufacturing activity, treatment of the waste can be treated as part and parcel of the manufacturing activity for the purposes of RA.

### Example 7

Company G, a manufacturing company producing hydrochloric acid purchased and installed an equipment in the factory to treat the toxic industrial waste water.

The equipment to treat the toxic industrial waste water does not qualify for RA.

### Example 8

Company H, a manufacturing company producing hydrochloric acid expanded its existing business by purchasing additional machines to increase its production capacity. The company also purchased and installed an equipment in the factory to treat the toxic industrial waste water to be recycled for reuse in the process of producing hydrochloric acid

Company H has undertaken a qualifying project by expanding its existing business and since the treated water is reused in the process of producing hydrochloric acid, the company is eligible to claim RA on the cost of the -

- (i) additional new machines to increase its production capacity; and
- (ii) equipment to treat the toxic industrial waste water to be recycled for reuse in the manufacturing activity.

#### 6.3.2 Conversion of waste material and by-product

Instead of disposing of a treated waste or by-product, a company can convert the waste or by-product into a related product by way of bioconversion or other conversion methods. The activity involved in conversion is a manufacturing activity.

#### Note

The conversion of the waste or by-product into a related product would qualify as a diversification project. Please refer to subparagraph 7.3.4 and Example 15 for further explanation.

#### 6.3.3 Treatment of waste material before discharging from the factory

Treatment of waste material before discharging from the factory is not part of the manufacturing activity and not diversification for the purposes of Schedule 7A of the ITA. However, the treatment of waste material by itself (as explained in subparagraph 6.3.1 and

6.3.2) may be a separate and distinct qualifying project if it meets the necessary criteria.

### Example 9

Company J is a palm oil manufacturing company. It purchased equipment for toxic industrial waste water treatment to meet the requirements of the local authority in reducing pollution to the environment.

The treatment of industrial waste water is not part of the manufacturing activity but for the purpose of compliance with the relevant laws.

## 7. Qualifying Project

### 7.1 Meaning of qualifying project

Pursuant to paragraph 8 Schedule 7A of the ITA, a qualifying project means a project undertaken by a company in expanding, modernizing or automating its existing business in respect of manufacturing of a product or any related product within the same industry or in diversifying its existing business into any related product within the same industry.

A qualifying project should result in an increase in the production capacity or performance in the form of saving in the use of time, material or labour, or results in better quality products or any other improvement as compared to before undertaking the qualifying projects. This increase or improvement should be verified by the production engineer/technician or any other relevant person directly responsible or directly involved in production. For purposes of audit, the relevant documents/data that had enabled the engineer/technician to make a verification must be made available.

### 7.2 Meaning of project

7.2.1 A **project** in relation to a qualifying project for the purposes of Schedule 7A of the ITA is an undertaking by a company involved in manufacturing activity to implement a plan or a scheme. It is a well thought out plan or scheme designed to be implemented over a specific period of time, with a specific budget and target of achievement.

7.2.2 Documents that can be used to substantiate a project are:

- (a) project paper;
- (b) feasibility study;
- (c) market research;

- (d) business plan indicating the course of action taken or to be taken;
- (e) budget and financing arrangements;
- (f) directors' resolution and/or minutes of meetings; or
- (g) any other relevant documents relating to the project.

**7.3 Expanding, modernizing, automating or diversifying**

**7.3.1 Expanding** refers to an increase of a production capacity or expansion of factory area. This is often associated with an increase in demand for a product. This will result in increased production capacity for the manufacturing of a product or any related product within the same industry. This increased capacity should, under normal circumstances, be followed by increased capacity utilization, accompanied by a higher allocation and utilization of other resources. The result should be an increase in production output and sales in due course.

**Example 10**

Company K a manufacturer of car components, installs 3 additional production lines for the purpose of increasing the production capacity of its existing manufacturing activity. Production capacity increased from 12,000 units to 20,000 units per month.

Company K is undertaking an expansion project for the purposes of RA.

Other examples of expansion are as follows:

<b>Original Activity/Product</b>	<b>New Activity/Product</b>
rubber gloves	cotton gloves, woollen gloves
tyres for motor vehicles	tyres for aircraft, retreaded tyre, inner tubes
skin care products	cosmetic products
production of cooking oil	vegetable fats, butter, margarine
conventional TV	plasma TV, LCD TV
analogue camera	digital camera, video camera
mobile phones	mobile phones with photography and recording functions

costume jewellery, silver jewellery	gold jewellery, jewellery with crystals and precious stones
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Expansion includes backward integration. Backward integration involves production of components or raw materials used in an existing end product of the company.

**Example 11**

Company L, a garments manufacturer, goes into manufacturing of fabric.

The production of fabric is a qualifying project as it is backward integration and it is an expansion project for the purposes of RA.

- 7.3.2 **Modernizing** refers to the upgrading of manufacturing equipment and processes. A modernization project is usually undertaken to achieve greater efficiency in production, improvement in quality of product and / or reduction in costs.

**Example 12**

Company M, a manufacturer of rubber gloves, installs new sophisticated machines to its existing production line which cut down on the number of processes, production time and labour costs and improve the quality of the products.

Company M is undertaking a modernization project for the purposes of RA.

- 7.3.3 **Automating** is a process whereby manual operations are substituted by mechanical operations with minimal / reduced human judgment and control.

**Example 13**

Company N, a motorcycle manufacturer, invests in a robotic machine to do welding and spraying work previously done manually.

The welding and spraying work carried out by the robotic machine is an automation project for the purposes of RA.

- 7.3.4 **Diversifying** means undertaking a project to produce additional or new related products relating to the same industry. The additional or new products should be related or similar to the existing products in terms of the following characteristics:

- (a) major raw materials;
- (b) main components;
- (c) type, range, variety, class, category, group;
- (d) features, characters;
- (e) functions, purpose, usage; or
- (f) manufacturing process.

Some examples of activities or products that would qualify as diversification projects are as shown in the table below:

<b>Original Activity/Product</b>	<b>New Activity/Product</b>
rubber gloves	rubber shoes, rubber seals
tyres for motor vehicles	metal rim for wheels
skin care products	toiletries e.g. hair and body shampoo, sun block lotion
production of cooking oil	soap, wax, grease
conventional TV	VCD and DVD players
costume jewellery, silver jewellery	silver, gold, crystal ornaments

Some examples of activities or products that would not qualify as diversification projects are as follows:

<b>Original Activity/Product</b>	<b>New Activity/Product</b>
rubber gloves	laboratory equipment
tyres for motor vehicles	plastic floats
skin care and cosmetic products	garments
cooking oil	kitchen utensils
conventional TV	air-conditioner
costume jewellery, silver jewellery	cosmetic products

- 7.3.4.1 Diversification includes a forward integration project. Forward integration refers to moving from existing production of raw materials or intermediate products to the production of downstream products such as another intermediate product or an end product.

**Example 14**

Company O produces colouring and flavouring agents used in food and beverages. The company decides to go into production of cordials.

The production of cordials is forward integration and qualifies as a diversification project.

- 7.3.4.2 Conversion of waste material or a by-product by way of manufacturing activity into a new product is diversification for the purposes of Schedule 7A of the ITA.

**Example 15**

Company P, a company producing palm oil embarks on a project to utilize the empty fruit bunches of oil palm waste and converts the waste into palm-based fibreboard.

The manufacturing of this fibreboard from oil palm waste qualifies as a diversification project.

**Example 16**

Same facts as in Example 15 except that Company P decides to turn a by-product of palm oil refinery, namely palm fatty acid distillate, into animal feed.

The manufacturing of this animal feed qualifies as a diversification project.

**8. Capital Expenditure**

**8.1 Capital expenditure for the purposes of a qualifying project**

Capital expenditure refers to the capital expenditure on factory, plant or machinery incurred for the purposes of a qualifying project under Schedule 7A of the ITA. Such expenditure shall not include capital expenditure incurred on plant and machinery which is provided wholly or partly for the

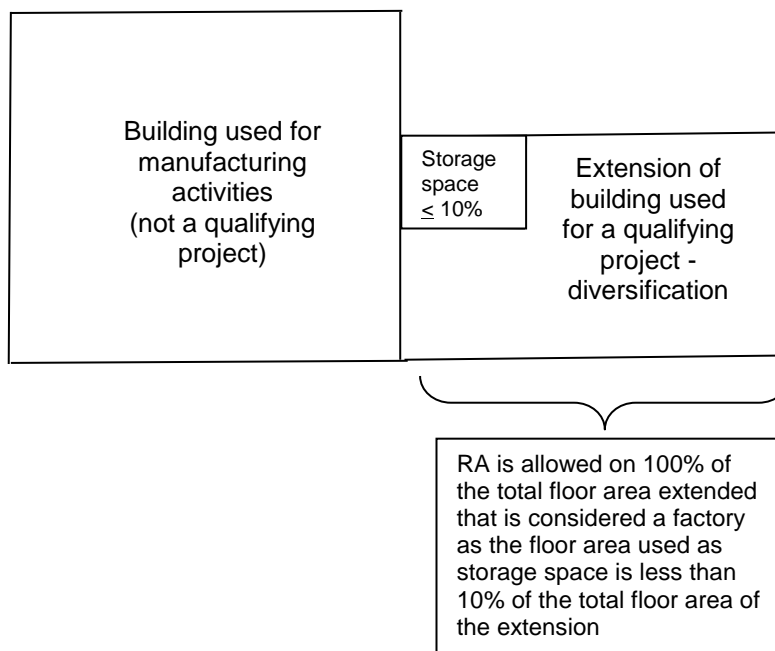
use of a director, or an individual who is a member of the management, or administrative or clerical staff.

## 8.2 Meaning of factory

### 8.2.1 A factory means –

- (a) portion of the floor area of a building or an extension of a building used for the purposes of qualifying project to place or install plant or machinery or to store any raw material, or goods or materials manufactured prior to sale; and
- (b) portion of the floor area of the building or extension of the building used for the storage of raw material, or goods or materials, or both, shall not be more than one-tenth of the total floor area of that building or extension,

This is summarised in the following diagram:



- 8.2.2 A company renting a factory may claim RA on qualifying expenditure incurred on the cost of extension to the factory if the extension is done for the purposes of a qualifying project.



### **Example 17**

Company Q rents out a factory to Company A1, a manufacturing company of plastic products. To accommodate new machines for an expansion project, Company A1 spent RM100,000 on extension to the rented factory.

The extension to the rented factory was to accommodate new machines for an expansion project. Therefore, the extension to the rented factory is a factory for purposes of RA.

- 8.2.3 A company moving from a rented factory to its own factory or buying over a factory which it previously rented does not meet the eligibility as a factory for purposes of RA unless the factory is used for the purpose of a qualifying project.

### **Example 18**

Company R has been doing manufacturing business in a rented factory in Klang for 3 years. In the fourth year of business the company decided to buy over the factory when the owner put it up for sale.

The building that was purchased is not a factory for purposes of RA as it is not used for a qualifying project.

### **Example 19**

Same facts as in Example 18 except that Company R decided to relocate by buying a bigger factory nearby. The company did not increase its production capacity, upgrade plant or machinery, or diversify its products.

The bigger building that was purchased is not a factory for purposes of RA as it is not used for a qualifying project.

- 8.2.4 Where a company is relocated to another factory (which may be bigger, smaller or of the same size as the existing one) and incurs qualifying expenditure on the new factory for the purposes of a qualifying project, the company is entitled to claim RA on the new factory. The capital expenditure that qualifies for RA would be the proportion of the floor area of the new factory that is utilised for the qualifying project calculated as follows:

$$\frac{\text{Portion of factory (additional floor area) used for qualifying project}}{\text{Total floor area of factory}} \times \text{Cost of new factory}$$

**Example 20**

Company S has been doing manufacturing business in their own factory in Rawang since 2010. The floor space used for manufacturing activity is 20,000 sq. metres. In the year 2014 the company decided to undertake an expansion project for which the company needed a factory twice as big as the old one. Company S bought a piece of land in Shah Alam to construct a new factory with floor space of 42,000 sq. metres for manufacturing at the cost of RM4 million.

As Company S has undertaken a qualifying project, it is eligible for RA on the new factory. However, since the cost of the old factory would not have qualified for RA, the company would not be given RA on the whole cost of the new factory but only on the proportion of the new factory that is used for the qualifying project. The qualifying expenditure eligible for RA would be:

$$\frac{42,000 - 20,000}{42,000} \times 100\% = 52.38\%$$

$$52.38\% \times \text{RM4 million} = \text{RM2,095,238}$$

**Example 21**

Company T has been doing manufacturing business in a rented factory of 15,000 sq. metres in KL since the year 2009. In March 2013 the company diversified into a related product but scaled down on the production of the existing product. For that purpose the company bought a piece of land in Petaling Jaya to construct a new factory of the same size as the existing factory. The new factory was completed in June 2016 at a cost of RM1.2 million, out of which only RM1 million relates to the portion of factory used for manufacturing activity. The floor area used for manufacturing is the same as in the old factory but now only 40% of the floor area is for manufacturing of existing product and 60% for the new product.

As Company T has undertaken a qualifying project, it is eligible for RA on the new factory. The qualifying expenditure eligible for RA would be:

$$60\% \times \text{RM1 million} = \text{RM600,000}.$$

### Example 22

Same facts as in Example 21, except that instead of constructing a new factory, Company T bought over the rented factory for RM1 million. Out of the total floor area of the building, 40% is used for manufacturing of existing product and 60% for the new product.

As Company T has undertaken a qualifying project, it is eligible for RA on the newly acquired factory. The qualifying expenditure eligible for RA would be:

$$60\% \times \text{RM1 million} = \text{RM600,000}$$

## 8.3 Plant and machinery

### 8.3.1 Meaning of plant and machinery

- (a) A plant means an apparatus used in respect of a manufacturing activity, which is directly used in carrying out that activity in a factory.
- (b) A machinery means a device or apparatus consisting of fixed and moving parts that work together to perform function in respect of a manufacturing activity, which is directly used in carrying out that activity in a factory.
- (c) Directly used in carrying out the manufacturing activity in a factory means that during the manufacturing activity, the plant and machinery used in the factory must:
  - (i) effect a change in material to form a product to be sold;
  - (ii) have an active or necessary role in the manufacture of the product for sale;
  - (iii) be used in handling, storage, or conveyance of materials or the product to be sold; or
  - (iv) be used to package the product for sale.

### Example 23

Company U, a manufacturer (accounts ending on 31 December) embarked on an expansion project in 2015 and acquired two forklifts for this purpose. Forklift A is used to unload the raw materials from the lorry outside the factory building to be weighed and inspected before being placed in storage. Forklift B is used in the factory to move the materials throughout the production line.

As Forklift A is not used in the factory, it is not a qualifying machinery for the purposes of RA. Forklift B is used in the factory for the conveyance of materials and product to be sold and would be considered a machinery for the purposes of RA.

### Example 24

Same facts as in Example 23 and the manufacturer also purchased computer equipment that is directly linked to the production equipment used in the actual manufacturing activity.

The computers would be eligible for RA as they are linked to the production equipment and have an active and necessary role in the actual manufacturing activity.

### Example 25

Same facts as in Example 23 and the company incurred capital expenditure on commercial vehicles for transporting the raw materials and products for sale.

Capital expenditure incurred on commercial vehicles is not qualifying expenditure for the purposes of RA as these vehicles are not used in the factory.

#### 8.3.2 Additional or replacement of plant and machinery

A company may make a purchase of a new or additional plant or machinery, or replace an existing plant or machinery or its parts, whether voluntarily or otherwise, for the purpose of its manufacturing activity. If they are not for the purposes of a qualifying project, the company would not be eligible to claim RA on the capital expenditure incurred.

### Example 26

Same facts as in Example 10. Company K replaced some existing machine parts that have worn out.

Company K is not eligible for RA as the expenditure was incurred for replacement of machine parts and not for a qualifying project.

#### 8.4 Meaning of incurred

For the purposes of RA, the word **incurred** is defined in accordance with paragraphs 46 and 55 of Schedule 3 of the ITA.

8.4.1 Paragraph 46 of Schedule 3 of the ITA refers to capital expenditure on a plant or machinery acquired under a hire purchase agreement.

8.4.2 A person who acquires plant or machinery under a hire purchase agreement will be eligible for RA on the capital portion of repayment. RA will be given for each year of assessment where there is repayment of hire purchase provided it does not exceed the period of entitlement of 15 years of assessment.

8.4.3 Paragraph 55 of Schedule 3 of the ITA refers to the date when capital expenditure on building, plant or machinery is deemed incurred. The expenditure is deemed incurred as follows:

- (a) on a building, on the day the construction of the building is completed;
- (b) on plant or machinery, on the day the plant or machinery is **capable of being used** for the purposes of a business;

#### **Example 27**

Company V, a rubber glove manufacturer imports a new machinery for its expansion project in March 2016. The machinery is installed in the factory in May 2016. The production commences after a trial run of the installed machinery which starts on 1.6.2016. The time period for the trial run and trial production is three months. After the trial production period is over on 31.8.2016, the commercial production starts on 1.9.2016.

The machinery is capable of being used for the purposes of the rubber glove manufacturing business on 1.9.2016. Therefore the capital expenditure is deemed to have been incurred on 1.9.2016.

- (c) in any other case, the day on which the amount of expenditure becomes payable; or
- (d) for the purposes of a business a person is about to carry on, when he commences to carry on the business.

### Example 28

Company W, a manufacturer of beverages, undertakes an expansion project which involves the construction of a new factory and installation of a new plant. Construction of the factory covers three basis periods commencing in the basis period ending 30.6.2013. The construction of the factory was completed on 30.3.2015 and the new plant was installed and capable of being used on 31.5.2015. Qualifying expenditure incurred is as follows:

Year Ended	On Factory (RM)	On Plant (RM)
30.6.2013	400,000	Nil
30.6.2014	700,000	Nil
30.6.2015	<u>900,000</u>	<u>500,000</u>
	2,000,000	500,000

As the factory and plant were completed and used in the same basis period ending 30.6.2015, the capital expenditure for the expansion project is deemed incurred in the same basis period. Company W is eligible to claim RA on the total capital expenditure of RM2,500,000 for the year of assessment 2015.

### Example 29

Company X (accounts ending on 31 December) embarked on an expansion project in the year 2014 and acquired a new machine on hire purchase for 36 instalments in October 2014. The company can claim RA on the capital portion of the hire purchase it incurred as follows:

Year of Assessment	No. of Instalments Paid	No. of Instalments that Qualify (Capital Portion)
2014	3	3
2015	12	12
2016	12	12
2017	9	9

**9. Tax Treatment**

- 9.1 An eligible company can claim RA of an amount equivalent to 60% of the capital expenditure incurred in the basis period for a year of assessment.
- 9.2 RA is to be deducted against the statutory income of a business but is restricted to 70% of the statutory income.

**Example 30**

Company Y commenced the business of manufacturing furniture on 1.1.2012 in a factory located in Muar, Johor. On 10.6.2015 the company incurred capital expenditure of RM200,000 on a few machines for the purposes of a qualifying project. The company closes its accounts on 31 December. The statutory income of the business for the year of assessment 2015 is RM150,000. Company Y has no other sources of income.

The computation for RA for the year of assessment 2015 is as follows:

	RM
Statutory income	150,000
Less: RA (60% X 200,000 = 120,000)	
RA restricted to (70% X 150,000)	<u>105,000</u>
Chargeable income	<u>45,000</u>

Unabsorbed RA carried forward - RM15,000

- 9.3 The statutory income referred to in paragraph 9.2 is the amount of statutory income of a person from a source in respect of the qualifying project.

**Example 31**

Company Z's business is selling of cosmetic products with the brand names Amy (A) and Bernie (B). Company Z manufactures brand A whereas it imports brand B from Korea.

Company Z carried out a modernization project for the manufacture of brand A and incurred capital expenditure of RM160,000 on machines for that purpose. The Profit & Loss accounts of Company Z for the year of assessment 2015 are as shown below:

	<b>Brand A</b>	<b>Brand B</b>	<b>Total</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>
Sales	600,000	400,000	1,000,000
Less: Cost of sales	<u>300,000</u>	<u>250,000</u>	<u>550,000</u>
Gross profit	300,000	150,000	450,000

Less: Operating expenditure	<u>200,000</u>
Net profit before tax	<u>250,000</u>

Capital allowances (CA) claimed –	RM
Exclusively for manufacture of brand A:	79,000
Common assets	<u>21,000</u>
	<u>100,000</u>

Computation of statutory income and RA for brand A and B, and chargeable income for the year of assessment 2015 are as follows:

	RM
Net profit as per accounts	250,000
Add: Non-allowable expenses	<u>50,000</u>
Adjusted income	300,000
Less: CA	<u>100,000</u>
Statutory income	<u>200,000</u>

Adjusted income of brand B:

Adjusted income X  $\frac{\text{Cost of sales of brand B}}{\text{Cost of sales of brand A \& B}}$

= RM300,000 X  $\frac{\text{RM250,000}}{\text{RM550,000}}$  = RM136,364

Less: Portion of CA on common assets

RM21,000 X  $\frac{\text{RM250,000}}{\text{RM550,000}}$  9,545

Statutory income of brand B RM126,819

Statutory income of brand A: RM 73,181 (200,000 – 126,819)

Less: RA (60% x 160,000) RM96,000

Restrict to (70% of 73,181) 51,227 51,227 (RA c/f 44,773)  
21,954

Statutory income of brand B: 126,819  
Chargeable income RM148,773



**Note**

The cost of sales is an acceptable basis in determining the portion of statutory income in relation to manufacturing of the goods. Any other allocation basis that is fair and reasonable in determining the statutory income may be used as long as it is consistently adopted.

- 9.4 RA may be deducted against 100% of statutory income if a qualifying project has achieved the level of productivity as prescribed by the Minister of Finance. The level of productivity will be measured by using a Process Efficiency (PE) ratio as shown in Appendix B and should be compared with the level prescribed by the Minister of Finance for the same year of assessment.

The percentage of statutory income that may be utilized for the deduction of RA are summarized as follows:

Activity of Company/Person	Percentage of Statutory Income to be Deducted	
	PE not achieved	PE achieved
Manufacturing	70%	100%
Agriculture	70%	Not applicable

9.5 Unabsorbed RA

- 9.5.1 Any unabsorbed RA in a year of assessment by reason of the restriction of the allowance to seventy per cent of the statutory income or of an insufficiency or absence of statutory income of a business (i.e manufacturing or agricultural activities) which undertakes a qualifying project can be carried forward to subsequent years of assessment. This unabsorbed RA can be deducted against 70% of the statutory income of the that business in the following years of assessment until the allowance is fully absorbed.
- 9.5.2 In the case where the current year RA is to be deducted up to 100% of the statutory income, the amount of RA brought forward may also be deducted up to 100% of the statutory income of the qualifying project.
- 9.5.3 A company that has met the prescribed level of productivity for a year of assessment, RA for the year of assessment is to be

deducted up to 100% of the statutory income of the qualifying project. If the statutory income of the qualifying project is not sufficient to absorb the amount of RA, the amount that cannot be absorbed is carried forward to the subsequent years of assessment and will be deducted up to 70% of the statutory income of the qualifying project. However, the RA can be deducted up to 100% of the statutory income of the qualifying project in the relevant year if the company achieves the level of productivity.

- 9.5.4 If the manufacturing activity ceases in a year of assessment, any unabsorbed RA brought forward cannot be deducted from the statutory income of the company.

#### **Example 32**

Same facts as in Example 31. Company Z discontinued manufacture of brand A on 1.1.2016 and solely imports brand B for sales.

The RA brought forward of RM44,773 cannot be deducted from statutory income of the company for the year of assessment 2016 and subsequent years of assessment since the manufacturing ceased on 1.1.2016.

- 9.6 A company can claim RA for more than one qualifying project for the same year of assessment.

#### **Example 33**

Same facts as in Example 10 and Company K invests in a robotic machine to do welding and spraying work previously done manually. Company K qualifies for RA as it undertook 2 qualifying projects i.e. expansion and automation for its manufacturing of car component business.

Company K can claim RA against 70% of the statutory income of that business from the respective qualifying project.

### **10. Qualifying Period**

- 10.1 A company is entitled to claim RA for 15 consecutive years of assessment.
- 10.2 A company has to make a claim for RA in the income tax return form (ITRF) and the qualifying period of 15 consecutive years of assessment commences from the year of assessment the company first makes the claim.



If a company incurred first QE in YA 2014 for a qualifying project but no RA claim is made, and chooses to make its first **claim** only in YA 2015, the qualifying period of 15 years of assessment is calculated from YA 2015.

**Example 34**

Company AA (accounts ending on 31 December) undertook a qualifying project in the year 2014 and incurred qualifying expenditure of RM100,000 in the year 2014 and RM1.5 million in the year 2015. The company decided not to claim RA for the year of assessment 2014 but made a claim only in the ITRF for the year of assessment 2015.

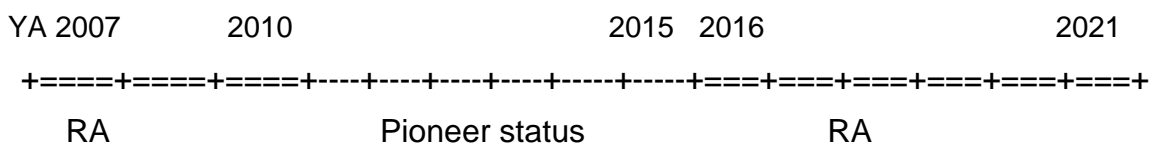
Hence the qualifying expenditure of RM100,000 incurred in year 2014 is forgone for purposes of RA. The qualifying period of 15 consecutive years of assessment starts from the year of assessment 2015 to the year of assessment 2029.

- 10.4 RA is given for a year of assessment. If the qualifying period of 15 consecutive years of assessment has commenced and the company wishes to enjoy a mutually exclusive incentive for any period of time during the qualifying period, then that period will lapse and the company will enjoy RA for the balance of the qualifying period.

**Example 35**

Company BB (accounts ending on 31 December), first incurred and claimed RA on capital expenditure for the purposes of a qualifying project in the year 2007. The qualifying period of 15 consecutive years of assessment commenced in the year of assessment 2007 and will end in the year of assessment 2021. Company BB was granted pioneer status for a promoted product for the period 1.7.2010 to 30.6.2015.

Since the company had enjoyed pioneer status for the years of assessment 2010 to 2015, that period will lapse and the company can only continue to enjoy RA for the years of assessment 2016 till 2021.



- 10.5 If a company has first made a claim for RA during the qualifying period of 15 consecutive years of assessment and the qualifying period ends in the year prior to year of assessment 2015 or in the year of assessment 2015, the company is entitled to make a further claim for RA in respect of capital expenditure incurred for a qualifying project undertaken in the basis period for the years of assessment 2016 to 2018 as follows:

YA in which the RA Incentive Period of 15 Consecutive YA Ended	YA in which Capital Expenditure Incurred Qualifies for Further RA
YA 2015 or prior YA	YA 2016, 2017 and 2018
YA 2016	YA 2017 and 2018
YA 2017	YA 2018

## 11. Disposal of Assets

11.1 An asset is **disposed of** when it is sold, conveyed, transferred, assigned, ceased to be used or alienated with or without consideration. An asset that has ceased to be used in a business includes an asset classified as held for sale. With effect from year of assessment 2016, once an asset has ceased to be used, it is considered disposed of. In a case of a factory, if there is a change in the usage of the floor area, that floor area is considered as ceased to be used.

### 11.2 Disposal of asset within 5 years

Where an asset is disposed of at any time within 5 years from the date of acquisition of that asset, the RA claimed shall be withdrawn irrespective of whether the disposal is between related or non-related parties.

In view of the self assessment system and for practical purposes, the relevant amount of RA shall be withdrawn in the year of disposal. Effective year of assessment 2015 the amount of RA withdrawn is deemed as part of the statutory income in the basis period for a year of assessment in which the asset is disposed of. The RA withdrawn should be equal to the RA which has been claimed in the preceding years of assessment and any unutilised RA will not be available to be carried forward.

### Example 36

Company CC has been in the business of manufacturing of wooden furniture since the year 2009 and closes its accounts on 31 December each year. On 1.1.2013 the company purchased a few new machines for RM200,000 for a qualifying project. RA claimed on the assets in the year of assessment 2013 is RM120,000 (60% x 200,000). Statutory income of the company for the year of assessment 2013 is RM1,000,000. In the year of assessment 2015 the company suffered business loss of RM60,000 and sold the machine in that year of assessment to a related company.

As the machine was sold within 5 years from the date of acquisition, RA claimed shall be withdrawn in the year of assessment 2015.

Computation of chargeable income for the years of assessment 2013 to 2015 are as follows:

**Year Assessment 2013**

	RM
Statutory income	1,000,000
Less: RA	<u>120,000</u>
Statutory income	<u>880,000</u>

**Year of Assessment 2014**

	RM
Statutory income	<u>Nil</u> (Loss 20,000)
Statutory/Aggregate income	<u>Nil</u>

Unabsorbed loss c/f – RM20,000

**Year Assessment 2015**

	RM
Statutory income	Nil (Loss 60,000)
Add: RA withdrawn	<u>120,000</u>
Statutory income	120,000
Less: Previous year loss	<u>20,000</u>
	<u>100,000</u>
Less: Current year loss	<u>60,000</u>
Chargeable income	<u>40,000</u>

**Example 37**

Same facts as in Example 36 except that Company CC incurred losses for years of assessment 2013 to 2015 consecutively and decides to dispose of the asset in the year of assessment 2016.

Since the RA claimed on the asset of RM200,000 has not been utilised in the years of assessment 2013 to 2015 before the asset is disposed of in the year of assessment 2016, Company CC should not include the total RA of RM120,000 as part of the statutory income in the year of assessment 2016 and that unutilised RA will not be available to be carried forward.

- 11.3 For the purposes of Schedule 7A of the ITA, **disposal** does not include destruction by fire, flood or any other such disasters. RA claimed for the

assets which are destroyed under such circumstances would not be withdrawn.

#### 11.4 Control transfer

11.4.1 Where assets are acquired from related parties, provisions of **control transfer** under paragraph 1B of Schedule 7A of the ITA shall apply. If a disposer has incurred capital expenditure on an asset for the purposes of a qualifying project and the asset is subsequently disposed of, the acquirer is not eligible to claim RA on the asset.

11.4.2 Controlled transfer transactions occur under the following circumstances:

- (a) the disposer of the asset is a person over whom the acquirer of the asset has control
- (b) the acquirer of the asset is a person over whom the disposer of the asset has control
- (c) some other person has control directly or indirectly over the disposer and acquirer of the asset, or
- (d) the acquisition is effected in consequence of a scheme of reconstruction or amalgamation of companies.

**Asset** means a factory, plant or machinery referred to in paragraph 1 of Schedule 7A of the ITA. In the case of an agricultural project, asset means a plant, machinery or building referred to in the definition of **capital expenditure** in paragraph 9 of the same Schedule.

**Control** in relation to a company means the power of a person to secure, by means of the holding of shares or the possession of voting power in or in relation to that or any other company, or by virtue of any powers conferred by the articles of association or other document regulating that or any other company, that the affairs of the first mentioned company are conducted in accordance with the wishes of that person.

11.4.3 However, in the case where the disposer acquires an asset not for the purposes of a qualifying project and that asset is subsequently disposed of to a related company, the acquirer is eligible to claim RA on the same asset if the asset is used for a qualifying project. The qualifying capital expenditure for RA for the acquirer in respect of the asset is the market value of the asset on the date of acquisition. The provision of control transfer will not regard the

amount paid to the related company as the capital expenditure incurred.

- 11.4.4 Where a company acquires an asset for a qualifying project but does not claim RA on the qualifying capital expenditure as the company chooses to claim a mutually exclusive incentive and subsequently disposes of the asset by way of control transfer, the acquirer is eligible to claim RA on the qualifying capital expenditure of the asset if it is used in a qualifying project of the acquirer. The qualifying capital expenditure is the residual expenditure of the asset.

**Example 38**

Company DD sold a machine to Company B1, a related company, for RM150,000 on 1.7.2015. Both companies close their accounts on 31 December. Although Company DD was eligible to claim RA on the machine at the time of purchase on 2.6.2013 at a price of RM200,000 as the machine was acquired for a qualifying project, Company DD had not done so as it was granted an incentive mutually exclusive to RA.

In this case, Company B1 is eligible to claim RA on the machine. The qualifying capital expenditure for Company B1 is the residual expenditure of the asset as ascertained under Schedule 3 of the ITA.

Company DD	RM
Cost of machine	200,000

**Year Assessment 2013**

Initial Allowance (20%)	40,000	
Annual Allowance (14%)	<u>28,000</u>	<u>68,000</u>
Residual expenditure		132,000

**Year Assessment 2014**

Annual Allowance	<u>28,000</u>
Residual expenditure	<u>104,000</u>



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The qualifying capital expenditure for Company B1 is the residual expenditure, that is RM104,000.

## 12. Non-Application

12.1 Effective year of assessment 2011, with the change from **period** to **basis period** in paragraphs 7(a) to 7(e) of Schedule 7A of the ITA, a company is only eligible to claim RA in the basis period for a year of assessment after the end of that basis period for that year of assessment during which the company has been granted or enjoys the following incentives:

- (a) Pioneer status under the Promotion of Investments Act 1986 (PIA)
  - (i) a company granted pioneer status under the PIA and is applying for or intends to apply for a pioneer certificate; or
  - (ii) a company granted pioneer certificate under PIA and the pioneer period has not ended;
- (b) Investment tax allowances (ITA) under the PIA
  - (i) a company has been granted ITA and ITA period has not ended; or
  - (ii) a company has been approved ITA and has not surrendered the ITA approval;
- (c) Incentive under Investment Incentive Act 1968 (IIA)
  - (i) pioneer status approval, labour utilization or local incentives and investment tax credit (ITC) of the IIA and the tax relieve period has not ended; or
  - (ii) approval under ITC of the IIA and incurred capital expenditure which qualified for ITC  
even though the IIA has been repealed;
- (d) Industrial adjustment allowance under the PIA in respect of a manufacturing activity or a manufactured product (approval granted prior to the coming into operation of section 27 of the Promotion of Investments (Amendment) 2007 Act [Act A1318];
- (e) Group Relief for companies under section 44A of the ITA;
- (f) Deductions under any rules made under section 154 of the ITA where the rules provide that RA should not apply to that company or person; and

- (g) Exemption from tax on income under exemption orders made under paragraph 127(3)(b) or subsection 127(3A) of the ITA where the orders provide that RA shall not apply to that company or person.

### Example 39

Company EE commenced the business of manufacturing wooden furniture on 1.1.2007 and closes its account on 31 December every year. Company EE purchased a few machines for RM350,000 and a new factory building for RM800,000 for an expansion project in 2015. A related company in the group of companies had surrendered losses of RM1.5 million to Company EE in 2015 under the group relief for companies. Company EE claimed RA on the machine and factory in the year of assessment 2015.

Even though Company EE is eligible to claim the group relief of RM1.5 million for the year of assessment 2015, Company EE will not enjoy the group relief as it has claimed RA in respect of the capital expenditure incurred for the expansion project for that year of assessment.

### Example 40

Company FF which closes its account on 31 December every year has been granted pioneer certificate and the pioneer period ends on 31.5.2015. Company FF purchases a few new machines for a qualifying project on 1.7.2015 and claims RA on the machines in the year of assessment 2015.

Company FF is not eligible for RA for the year of assessment 2015 as Company FF is enjoying pioneer status in the same year of assessment.

## 12.2 Retrospective application of paragraphs 7(b), (d) and (e) of Schedule 7A

- (a) Other than for paragraph 7(a), the change from **period** to **basis period** as described in paragraph 12.1 was made in Budget 2012 and the effective date of the change is backdated to year of assessment 2011 to be consistent with paragraph 7(a).
- (b) Where a company is affected as a result of the retrospective application of the legislation, the company has to amend the tax computation by withdrawing the RA claimed. Where a penalty has been imposed, appeal for waiver of the penalty would be given due consideration by the Director General of Inland Revenue.

## 12.3 A company claiming RA in a year of assessment is allowed to utilize brought forward unabsorbed allowances arising from a mutually exclusive incentive. Similarly, where a company has brought forward RA from the preceding year of assessment, the company is not precluded from claiming any other incentive that is mutually exclusive in a year of assessment.

However, the company has to deduct the allowance claimed for the current year first before deducting any RA brought forward.

#### Example 41

Company GG is in the business of manufacturing frozen food. For the year of assessment 2015, the company claimed an amount of RM70,000 as Allowance for Increased Export (AIE) [deduction against 70% of statutory income]. The company has brought forward unabsorbed RA of RM270,000 from the same business.

	RM	
Statutory income from business of frozen food	300,000	
Less: AIE (Claimed)	<u>70,000</u>	
	230,000	
Less: RA b/f (270,000)		
Restricted to		
[(70% X 300,000 = 210,000) - 70,000 AIE]	<u>140,000</u>	(130,000 c/f)
Chargeable income	<u>90,000</u>	

#### Example 42

Company HH is in the business of manufacturing automotive parts. The company incurred capital expenditure of RM450,000 for purposes of a qualifying project for the year of assessment 2015. The company has brought forward unabsorbed AIE of 70,000 from the same business.

	RM	
Statutory income from business	300,000	
Less: RA (60% X 450,000 = 270,000)		
RA restricted to (70% X 300,000)	<u>210,000</u> <sup>1</sup>	(60,000 c/f)
	90,000	
Less: AIE b/f (70,000)		
[(70% X 300,000 = 210,000) – 210,000 RA]	<u>Nil</u> <sup>2</sup>	(70,000 c/f)
Chargeable income	<u>90,000</u>	

<sup>1</sup>The restriction to 70% of statutory income is in line with the Income Tax Exemption Orders and Rules in relation to AIE.

<sup>2</sup>No AIE brought forward is deducted for the year of assessment 2015 as the amount of the statutory income that can be deducted for AIE brought forward [70% X 300,000 = 210,000<sup>1</sup>) has been fully utilized by RA. Unabsorbed AIE brought forward will be carried forward to the following year of assessment.

**Example 43**

Company JJ which closes its accounts on 31 December has been granted pioneer status for product A for a period of 5 years and the pioneer period ended on 30.3.2014. Company JJ has unabsorbed losses of RM150,000 during the pioneer period. In the year 2015 the company incurred capital expenditure of RM500,000 for a qualifying project for RA and achieved the level of productivity prescribed by the Minister. Company JJ is eligible to deduct RA of up to 100% of the statutory income for the year of assessment 2015.

**Year Assessment 2015**

	RM
Statutory income from the business	430,000
Less: RA (60% X 500,000 = 300,000)	<u>300,000</u>
	130,000
Less: Pioneer period losses (RM150,000) restricted to	<u>130,000</u> (20,000 c/f)
Chargeable income	<u>Nil</u>

**13. Special Tax Treatment during Transitional Period**

The following concessions have been allowed in respect of RA claims:

No.	Details	Current Law	Concession
1.	Definition of qualifying project	Effective from the year of assessment 2009, the definition of qualifying project excludes the processing of a product or any related product within the same industry.	If a company involved in a processing activity had made the first claim for RA prior to the year of assessment 2009, the company may continue to claim RA until the end of the qualifying period of 15 years of assessment.
2.	Definition of manufacturing	Effective from the year of assessment 2009, the definition of manufacturing was introduced.	If a company involved in manufacturing activities prior to the year of assessment 2009 and had made the first claim for RA prior to the year of

		<p>Any activities may be prescribed by the Minister, notwithstanding the definition of manufacturing i.e. a list of activities as in the Income Tax [Prescription Of Activity Excluded From The Definition Of Manufacturing] Rules 2012 - P.U.(A) 23 (Appendix A). These Rules are deemed to have effect from year of assessment 2009.</p>	<p>assessment 2009, the company may continue to claim RA until the end of the qualifying period of 15 years of assessment even though the activities do not fall under the definition of manufacturing for the purposes of RA and are excluded activities under the list prescribed by the Minister in Appendix A.</p> <p>Since the said Income Tax Rules were only issued on 9.1.2012, a <b>concession</b> is given whereby RA claim made for the years of assessment 2009 to 2011 is to be allowed even though the RA is for a manufacturing activity which was later found to be an activity listed in Appendix A. RA would no longer be allowed for the same activity from the year of assessment 2012 onwards. However any unabsorbed RA can be carried forward to the year of assessment 2012 and subsequent years of assessment.</p>
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3.	Incentives mutually exclusive to RA	RA would not apply to a company for the period during which the company has been granted or enjoys the incentives as listed in subparagraph 12.1 above.	<p>For a company with brought forward RA from the preceding year of assessment, the company is not precluded from claiming any other incentive that is mutually exclusive.</p> <p>Current year allowance has to be deducted before deducting any RA brought forward.</p>
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#### 14. Claim Procedure

14.1 A claim for RA must be made in the ITRF.

14.2 The original copy of the RA claim form is to be kept by the claimant together with all relevant documents related to the claim.

#### 15. Updates and Amendments

The contents of PR No. 6/2012 have been rewritten, rearranged and updated.

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

Appendix A

**List of non-qualifying activities for RA under  
paragraph 9(ii) of Schedule 7A of the ITA**

1. Ice making;
2. Cutting, sorting, cleaning, drying, grinding, mixing, grading or packaging herbs or spice, or any of its combination;
3. Production of aggregates, asphaltic concrete, pre-mix cement, ready mixed concrete or bitumen, or any of its combination;
4. Folding and shaping paper box, cardboard, plastic bag, envelopes or any other folding and shaping activity;
5. Laminating;
6. Quarrying,
7. Mining or extraction of mineral;
8. Processing of photograph, picture, slide or film, or any of its combination;
9. Baking except where the activity is carried on in a factory;
10. Distillation or filtration of water;
11. Treatment of waste water and solid waste;
12. Mixing or blending of petroleum product;
13. Cleaning, processing, packing or freezing of product, or any of its combination;
14. Painting, polishing or vanishing, or any of its combination;
15. Colouring, stamping or printing of logo on materials or clothing, or any of its combination;
16. Production of herbs and traditional medicine, or any of its combination;
17. Production of sawn timber, veneer, plywood including drying of the products, or any of its combination;
18. Photostatting;
19. Recycling activity which involves sorting, cutting or packaging, or any of its combination;
20. Ship building activity.

**Appendix B**

Computation of process efficiency (PE)

$$\text{PROCESS EFFICIENCY (PE)} = \frac{\text{TOTAL OUTPUT} - \text{BIMS}}{\text{TOTAL INPUT} - \text{BIMS}}$$

Note: BIMS is Bought-In Materials and Services

<b>A</b>	<b>Total Output</b>	<b>Notes</b>
1.	Net sales	Net sales = Gross sales less discounts, returns and rebates
2.	Closing stock of finished goods less opening stock of finished goods	
3.	Closing work-in-process less opening work-in-process	
4.	Own construction	Own construction is the total cost paid for any internal activity or project carried out by own resources for improvement or enhancement objective.  Example: Upgrading tools for moulding activity
5.	Income from sale of goods purchased in the same condition	Example: Company XYZ is a tyre manufacturer. At the same time it acts as an agent for other tyre manufacturers and sell the tyres in the same condition to its clients
6.	Income from services rendered	The type of services rendered should be related to the main activity of the company as listed in the company's Memorandum of Association or its Constitution.



<b>B</b>	<b>BIMS (Bought-In Materials and Services)</b>	<b>Notes</b>
1.	Materials consumed	
2.	Supplies, consumables, printing and lubricants	Supplies : All related supplies such as stationary, packaging materials, accessories, tools, parts for repairs and maintenance etc.  Consumables: All related items consumed in a production process
3.	Cost of goods sold in same condition	
4.	Utilities	Examples : water, electricity and fuel
5.	Payment to contractors	Example: Payment for subcontracting works
6.	Payment for industrial work done by others, storages and supplies	Example: Payment for maintenance of parts and machinery and for storage of materials or purchased goods.
7.	Payments for non-industrial services	Example: Acquisition of trademark or patent, payment for royalties, advertising fees, audit fees, legal fees, professional charges, postage, consultancy fees etc.

<b>C</b>	<b>Total Input</b>	<b>Notes</b>
1.	Materials consumed	
2.	Supplies, consumable, printing and lubricants	Supplies: all related supplies such as lubricants stationery, packaging materials, accessories, tools, parts for repairs and maintenance etc. Consumable: all related items
3.	Cost of goods sold in same condition	
4.	Utilities	Example: water, electricity and fuel
5.	Payment to contractors	Example: payment for subcontracting works
6.	Payment for industrial work done by others, storages and supplies	Example: payments for maintenance of parts and machinery and payments for storage of materials or purchased goods
7.	Payment for non-industrial services	Example : acquisition of trademark or patent, payment for royalty, advertising fees, audit fees, legal fees, professional fees, postage, consultancy fees etc.
8.	Salaries and wages (paid employees), including payment / fees to working / non-working directors	
9.	Payment-in-kind to paid employees, EPF, Socso, free wearing apparel etc.	
10.	Total depreciation	
11.	Bank charges	Example: Interest or charge paid to financial institutions
12.	Other payments (grants / donation and other expenditures) but excluding direct taxes	Example of grant: Scholarship grant given to staff and their immediate family members. Donation subject to those from approved list issued by Inland Revenue Board Malaysia

1. (a) Other operating income should be included as part of Total Output.  
Example: Sales of scraps and by-products.
- (b) Non-operating income should not be included as part of Total Output.  
Examples of non-operating income are as listed below:
  - I. Interest received
  - II. Rent received
  - III. Gain on investments
  - IV. Gain on sale of properties
  - V. Gain on sale or evaluation of securities, stock and bonds
  - VI. Gain on foreign exchange transactions
  - VII. Other income on transactions non-operating nature
2. Non-operating expenses should not be included as part of Total Input.  
Examples of non-operating expenses are as listed below:
  - I. Bad debts
  - II. Loss on sale of properties
  - III. Loss on sale or evaluation of securities, stock and bonds
  - IV. Loss on investments
  - V. Stock written-off
  - VI. Other losses on transactions non-operating in nature.