

Tax Alert

Changes in Tax Treatment for Small or Medium Enterprise

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Changes in Tax Treatment for Small or Medium Enterprise

CLARIFICATION ON DETERMINING THE GROSS INCOME FROM BUSINESS SOURCES OF NOT MORE THAN RM50 MILLION OF A COMPANY OR LIMITED LIABILITY PARTNERSHIP (“LLP”)

The Inland Revenue Board of Malaysia has recently issued Practice Note No. 4/2020 dated 21 December 2020 to provide clarification on determining the gross income from business sources of not more than RM50 million of a company or LLP. This Practice Note is effective from Year of Assessment 2020 and it replaces Practice Note No. 3/2020.

We would like to highlight the following salient points in Practice Note No. 4/2020:

- **Additional criteria to qualify for preferential tax treatment**

- i) **Preferential tax rates (Paragraphs 2A and 2D, Part 1, Schedule 1 of the ITA 1967)**

Chargeable income	RM	Rate of income tax
For every ringgit of the first	600,000	17%
For every ringgit exceeding	600,000	24%

- ii) **No limit on special allowances for the purchase of Small Value Assets (SVA) (Paragraph 19A(3), Schedule 3 of the ITA 1967)**

Currently, a company or LLP resident and incorporated in Malaysia which has a paid-up capital in respect of ordinary shares of not more than RM2.5 million or a total capital contribution of not more than RM2.5 million at the beginning of the basis period for a year of assessment will be eligible for the above preferential tax treatment.

Effective from the year of assessment 2020, an **additional criteria** has been included where the company or LLP must also have gross income from **business sources not exceeding RM50 million**.

- **Clarification on issues arising on the implementation of the additional criteria extracted from the Practice Note:**

- i) **Business sources shall be determined as follows:**

- a) For companies/LLPs engaged in manufacturing/trading/service activities - based on sections 22, 24 and 30 of the ITA 1967; or
 - b) For companies/LLPs carrying out activities such as banking/insurance/developers/contractors - based on specific provisions under the ITA 1967 or specific regulations for certain industries.

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ii)

No	Issues	Tax Treatment
1.	Investment Holding Company under Section 60F of the ITA 1967 (not listed on Bursa Malaysia)	Deemed to have no gross income from a business source and is not eligible for the following tax treatment: <ul style="list-style-type: none"> • Tax rate on the first RM600,000 chargeable income at 17% (Flat rate of 24% applies) ; and • No limit on special allowances for the purchase of SVA
2.	Investment Holding Company under Section 60FA of the ITA 1967 (listed on Bursa Malaysia)	Deemed to have gross income from a business source and is eligible for the following tax treatment: <ul style="list-style-type: none"> • Tax rate on the first RM600,000 chargeable income at 17% ; and • No limit on special allowances for the purchase of SVA
3.	Company/LLP which does not have gross income from business sources but have other incomes i.e. rent and interest	Deemed to have no gross income from a business source and is not eligible for the following tax treatment: <ul style="list-style-type: none"> • Tax rate on the first RM600,000 chargeable income at 17% (Flat rate of 24% applies) ; and • No limit on special allowances for the purchase of SVA
4.	Company/LLP which carrying on a business but does not have gross income from business sources due to current year business losses	Company/LLP who carries out business activities and incurring expenses related to the business, but suffering losses due to not receiving any gross business income during the year is deemed to have gross income from a business source and is eligible for the following tax treatment: <p>i) Company</p> <ul style="list-style-type: none"> • Tax rate on the first RM600,000 chargeable income at 17%; and • No limit on special allowances for the purchase of SVA <p>ii) LLP</p> <ul style="list-style-type: none"> • Tax rate on the first RM600,000 chargeable income at 17%

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No	Issues	Tax Treatment
5.	Company/LLP which does not have gross income from business source due to current year business loss caused by temporary closure of business operation	Company/LLP that temporarily close its business operation but still incurring expenses related to the business is deemed to have gross income from a business source equivalent to NIL is eligible for the following tax treatment: i) Company <ul style="list-style-type: none">• Tax rate on the first RM600,000 chargeable income at 17%; and• No limit on special allowances for the purchase of SVA ii) LLP <ul style="list-style-type: none">• Tax rate on the first RM600,000 chargeable income at 17%
6.	Company/LLP which has gross income from foreign business sources	Gross income from foreign business sources shall be taken into account in determining gross business income not exceeding RM50 million
7.	Company/LLP enjoying certain incentives/tax incentives, i.e. pioneer status or investment tax allowance	Exempted gross income from business source shall be taken into account in determining gross business income not exceeding RM50 million.

You may refer to the Practice Note in the link below:

[Practice Note NO. 4/2020](#)

Contact us

Find out how Grant Thornton can help you with your taxation matters.



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