



**INLAND REVENUE BOARD MALAYSIA**

**INVESTMENT HOLDING COMPANY**

**PUBLIC RULING NO. 3/2011**

*Translation from the original Bahasa Malaysia text*

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#### **DIRECTOR GENERAL'S PUBLIC RULING**

A Public Ruling as provided for under section 138A of the Income Tax Act 1967 is issued for the purpose of providing guidance for the public and officers of the Inland Revenue Board Malaysia. It sets out the interpretation of the Director General of Inland Revenue in respect of the particular tax law, and the policy and procedure that are to be applied.

A Public Ruling may be withdrawn, either wholly or in part, by notice of withdrawal or by publication of a new ruling which is inconsistent with it.

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

1. This ruling explains the tax treatment in respect of an investment holding company resident in Malaysia.
2. The provisions of the Income Tax Act 1967 (ITA) related to this Ruling are paragraphs 4(a), 4(d), 4(f), 8(1)(b), 8(1)(c), sections 43, 44, 60F and 60FA and paragraph 75, Schedule 3.
3. The words used in this Ruling have the following meaning:
  - 3.1 "Resident" means resident in Malaysia as determined under paragraphs 8(1)(b) and 8(1)(c) of the ITA.
  - 3.2 "Real property" includes any land and any interest, option or other right in or over such land and includes any building on land.
  - 3.3 "Letting of real property" means granting the use of a real property or occupation of a real property under an agreement or a term of contract and includes the letting out of part of the real property that is owned or rented.
4. **Definition of an investment holding company**
  - 4.1 An investment holding company (IHC) means a company whose activities consist mainly in the holding of investments and not less than 80% of its gross income (whether exempt or not) other than gross income from a source consisting of a business of holding of an investment is derived from the holding of those investments.
  - 4.2 This definition is provided under subsection 60F(2) of the ITA from the year of assessment 2006.
5. **Definition of a business of holding of an investment**
  - 5.1 A business of holding of an investment means a business of letting of real property where a company in any year of assessment provides any maintenance services or support services in respect of the real property.
  - 5.2 This definition is provided under subsection 60F(2) of the ITA from the year of assessment 2006.
  - 5.3 Maintenance services or support services should be comprehensively and actively provided.
    - 5.3.1 Maintenance services or support services comprehensively provided means services which include:

- (a) doing generally all things necessary (eg. 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, lifts/escalators, compounds, drains, water tanks, sewers, pipes, wires, cables or other fixtures and fittings; and
- (b) 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; or

If a person only provides security services or other facilities, that person is not providing maintenance services or support services comprehensively.

5.3.2 Services actively provided means the person who owns or lets out the real property:

- (a) provides himself; or
- (b) hires another person or another firm to provide

the maintenance services or support services as mentioned under paragraph 5.3.1 of this Ruling.

5.4 From the year of assessment 2011, the determination of whether income from the letting of real property is a business source or a non-business source is explained in detail in the Public Ruling No. 4/2011 (Income From Letting Of Real Property). For years of assessment prior to the year of assessment 2011, Public Ruling No. 1/2004 has to be referred to.

## 6. Determination of an investment holding company

6.1 Generally, the determination of whether a company is an IHC depends on these 2 criteria:

- (a) its main activity is the holding of investments; and
- (b) not less than 80% of the company's gross income (whether exempt or not) is derived from the holding of those investments.

### Example 1:

Jordan Lee Investment Sdn Bhd (JLISB) started business in year 2006 and its main activity is investment in several companies and fixed deposit. JLISB receives dividend income from the investment in those companies and fixed

deposit interest in year 2008. JLISB closes its account on 31 December every year.

*JLISB is an IHC for the year of assessment 2008 since its main activity is the holding of investments and not less than 80% of its gross income (only dividend and interest) is derived from the holding of those investments.*

**Example 2:**

Sawit Sdn Bhd started business in year 2007 and its main activity is oil palm plantation. Apart from that, Sawit Sdn Bhd also invests in several companies and fixed deposit in several banks. In year 2008, the company receives interest amounting to RM10,000 from the fixed deposit. The company has not generated any income from the plantation activity. The company closes its account on 31 December every year.

*Even though the income of Sawit Sdn Bhd is 100% derived from the saving in fixed deposit, Sawit Sdn Bhd is not an IHC for the year of assessment 2008 since its main activity is not the holding of investments but oil palm plantation.*

**Example 3:**

Pelaburan Mekar Sdn Bhd (PMSB) started business in year 2008 and its main activity is the holding of investments in 10 related companies. PMSB receives dividend income amounting to RM10,000 from those investments in year 2009. Apart from dividend income, PMSB also receives management fees from related companies amounting to RM20,000 in year 2009. The company closes its account on 31 December every year.

*Even though the main activity of PMSB is the holding of investments, PMSB is not an IHC for the year of assessment 2009 since income from the holding of investments is less than 80% of its gross income.*

- 6.2 An additional criteria in determining whether a company is an IHC is that any amount of gross income from a business of holding of an investment is not computed as gross income from the holding of investments. Therefore only income from interest, dividend and rental under paragraph 4(d) of the ITA are computed as gross income from the holding of investments. An example of the computation for percentage of income from the holding of investments is as follows:

**Example 4:**

Source of income	Company A	Company B	Company C	Company D	Company E
Rent (business)	85,000	20,000	-	50,000	20,000
Rent (non-business)	-	-	75,000	20,000	30,000
Dividend	5,000	50,000	10,000	10,000	20,000
Interest	10,000	30,000	5,000	20,000	20,000
Management services fees	-	-	10,000	-	10,000
Total gross income	100,000	100,000	100,000	100,000	100,000
Percentage of income from holding of investment	$\frac{15,000}{100,000}$ 15%	$\frac{80,000}{100,000}$ 80%	$\frac{90,000}{100,000}$ 90%	$\frac{50,000}{100,000}$ 50%	$\frac{70,000}{100,000}$ 70%
IHC or not	No	IHC	IHC	No	No

- (a) Companies A, D and E are not IHCs since income from the holding of investments is less than 80% of gross income of those companies.
- (b) Companies B and C are IHCs since income from the holding of investments is not less than 80% of gross income of those companies.

6.3 If a company is a non-IHC in a year of assessment but gross income from rental (business of holding of investment) decreases in the subsequent year or years of assessment due to temporary cessation of tenancy because of the following circumstances:

- (a) repair or renovation of the building;
- (b) absence of tenants for a period of 2 years after termination of tenancy;
- (c) legal injunction or other official sanction; or
- (d) other circumstances beyond the control of the company;

the company is still deemed as a non-IHC for the subsequent year or years of assessment even though income from the holding of investment is not less than 80% of the gross income of the company.

**Example 5:**

Income of Mega Central Sdn Bhd for the years of assessment 2007 to 2011 are as follows. Rental income (business) decreases in the year of assessment 2010 since the premises is not let out for a few months while repair is being done to the premises.

Source of income	Year of assessment 2007	Year of assessment 2008	Year of assessment 2009	Year of assessment 2010	Year of assessment 2011
Rental (Business)	60,000	50,000	30,000	10,000	70,000
Rental (non-business)	10,000	20,000	20,000	20,000	20,000
Dividend	10,000	10,000	20,000	20,000	20,000
Interest	20,000	20,000	20,000	20,000	10,000
Total gross income	100,000	100,000	90,000	70,000	120,000
Percentage of income from holding of investment	$\frac{40,000}{100,000}$ 40%	$\frac{50,000}{100,000}$ 50%	$\frac{60,000}{90,000}$ 66%	$\frac{60,000}{70,000}$ 85%	$\frac{50,000}{120,000}$ 42%
IHC or not	No	No	No	No	No

*In the year of assessment 2010, due to the decrease of income from rental (business), income from the holding of investment is more than 80% of the gross income of the company. However the company is still deemed as a non-IHC since the decrease of income from rental (business) is due to the temporary cessation of tenancy because of repair works.*

**Example 6:**

Nova Sdn Bhd closes its account on 31 December every year. Rental income (business) is derived from the letting out of office lot in a 4-storey building. On 1.5.2009, the tenancy of a major portion of the office lot ends and the company only manages to get new tenants on 1.5.2011 (absence of tenants for a period of 24 months). In consequence, rental income (business) decreases in the years of assessment 2009, 2010 and 2011. The income of Nova Sdn Bhd for the years of assessment 2007 to 2011 is as follows:

Source of income	Year of assessment 2007	Year of assessment 2008	Year of assessment 2009	Year of assessment 2010	Year of assessment 2011
Rental (business)	160,000	160,000	50,000	30,000	50,000
Rental (non-business)	90,000	90,000	90,000	90,000	90,000
Dividend	90,000	90,000	90,000	70,000	80,000
Interest	30,000	40,000	50,000	30,000	40,000
<b>Total gross income</b>	<b>370,000</b>	<b>380,000</b>	<b>280,000</b>	<b>220,000</b>	<b>260,000</b>
Percentage of income from holding of investment	$\frac{210,000}{370,000}$ 57%	$\frac{220,000}{380,000}$ 58%	$\frac{230,000}{280,000}$ 82%	$\frac{190,000}{220,000}$ 86%	$\frac{210,000}{260,000}$ 81%
IHC or not	No	No	No	No	No

*In the years of assessment 2009, 2010 and 2011, income from the holding of investments is more than 80% of the company's gross income due to the decrease of income from rental (business) because a major portion of the office lot is not tenanted. Since the absence of tenants is for a period of 24 months, the tenancy is deemed temporarily ceased and therefore the company is still treated as a non-IHC for the years of assessment 2009, 2010 and 2011.*

**Example 7:**

Same facts as in example 6 except that Nova Sdn Bhd only manages to get new tenants on 1.7.2011 (absence of tenants for a period of 26 months).



*Nova Sdn Bhd is treated as a non-IHC for the years of assessment 2009 and 2010 as the absence of tenants in the 2 years of assessment (20 months) is still within the 24-month period. Whereas the remaining 6 months that results in the period of absence of tenants to be 24 months falls in the year of assessment 2011. As income from the holding of investments is more than 80% of gross income. Nova Sdn Bhd is an IHC for the year of assessment 2011.*

- 6.4 Any company which has been determined to be an IHC in the basis period for a year of assessment will be deemed to be an IHC in the subsequent years of assessment. However, this treatment is not applicable if the company is able to prove that it is no longer an IHC in the relevant year of assessment.

**Example 8:**

Syarikat Nassa Sdn Bhd (SNSB) commenced operation in year 2008 and its main activity is the holding of investments. In November 2009, SNSB sold all its investments except fixed deposit to be used as a capital to start a business of selling hand phones in 2010 as its main activity. In October 2010, SNSB invested again in several companies. SNSB's income for the years of assessment 2008, 2009, 2010 and 2011 is as follows:

Source of income	Year of assessment 2008	Year of assessment 2009	Year of assessment 2010	Year of assessment 2011
Business	-	-	30,000	10,000
Rent (non-business)	24,000	24,000	12,000	30,000
Dividend	10,000	-	-	24,000
Interest	5,000	5,000	13,000	15,000
Total gross income	39,000	29,000	55,000	79,000
Percentage of income from holding of investment	$\frac{39,000}{39,000}$ 100%	$\frac{29,000}{29,000}$ 100%	company's main activity – selling hand phones	company's main activity – selling hand phones
IHC or not	IHC	IHC		

*SNSB is an IHC for the years of assessment 2008 and 2009 since its main activity is the holding of investments and not less than 80% of SNSB's gross income is from the holding of those investments. However SNSB is not an IHC for the year of assessment 2010 as its main activity is not the holding of investments but has changed to selling of hand phones. SNSB remains as a non-IHC in the year of assessment 2011 (even though income from the holding of investments is more than 80% of its gross income) as SNSB is still carrying on the business of selling hand phones as its main activity.*

*Note: If the business of selling hand phones is not the main activity of the company but merely a sideline activity that is not carried out actively, the company is an IHC in the years of assessment 2010 and 2011 if not less than 80% of its gross income is derived from the holding of investments.*

## 7. Tax treatment for investment holding company

The tax treatment for an IHC depends on whether the IHC is or is not listed on the Bursa Malaysia. The special tax treatment for an IHC is provided under:

- (a) section 60F of the ITA for an IHC not listed on the Bursa Malaysia; and
- (b) section 60FA of the ITA for an IHC listed on the Bursa Malaysia.

## 8. Tax treatment for investment holding company not listed on the Bursa Malaysia – section 60F of the ITA

- 8.1 Any income derived from the holding of investments [interest, dividend, rental (non-business) and rental (business of holding of an investment)] is treated as a non-business source. Whereas income other than income from the holding of investments is treated as a source of income under paragraph 4(f) of the ITA.

### Example 9:

Facts are as in example 4 (Table). Assuming all the companies A to E are not listed on the Bursa Malaysia.

*Based on the determination of an IHC, companies B and C are IHCs. Since both companies are not listed on the Bursa Malaysia, the provision of section 60F of the ITA applies.*

*For companies B and C, dividend and interest are assessed as income under paragraph 4(c) of the ITA whereas rental (non-business) and rental (business of holding of an investment) are assessed as income under paragraph 4(d) of the ITA. Management services fees will be assessed as income under paragraph 4(f) of the ITA.*

8.2 Permitted expenses

8.2.1 In ascertaining the total income of an IHC for a year of assessment, an amount of permitted expenses determined in accordance with the prescribed formula is allowable as a deduction from the aggregate income of the IHC.

8.2.2 Permitted expenses incurred by an IHC consist of:

- (a) directors' fees;
- (b) wages, salaries and allowances;
- (c) management fees;
- (d) secretarial, audit and accounting fees, telephone charges, printing and stationery costs and postage; and
- (e) rent and other expenses incidental to the maintenance of an office.

8.2.3 The prescribed formula to determine the amount of permitted expenses which is allowable as a deduction is as follows:

$$A \times \frac{B}{4C}$$

where:

- A is the total of the permitted expenses incurred for a basis period reduced by any receipts of a similar kind;
- B is the gross income consisting of dividend, interest and rent chargeable to tax for a basis period;
- C is the aggregate of the gross income consisting of dividend (whether exempt or not), interest and rent, and gains from realization of investments for a basis period.

8.2.4 The amount allowable as a deduction should not exceed 5% of the gross income consisting of dividend, interest and rental for that basis period.

Note: With effect from the year of assessment 2011, "dividend" is deemed to include income distributed by a unit trust.

**Example 10:**

Gross income of Suria Property Sdn Bhd for the year of assessment 2011 is as follows:

Income	(RM)
Interest	30,000
Rental	50,000
Management services fees	35,000
Distribution of income from real estate investment trust (REIT)	20,000
Distribution of income from unit trust	15,000
Gains from realization of investments	100,000

Permitted expenses claimed are as follows:

Permitted expenses claimed	(RM)
Director's fees	24,000
Salaries and allowances	16,000
Management fees	5,000
Audit fees	4,000

i. *The amount of A, B and C is as follows:*

<i>Director's fees</i>	<i>24,000</i>	
<i>Salaries and allowances</i>	<i>16,000</i>	
<i>Management fees</i>	<i>5,000</i>	
<i>Audit fees</i>	<u><i>4,000</i></u>	
	<u><i>49,000</i></u>	<b>(A)</b>

<i>Interest</i>	30,000	
<i>Rental</i>	50,000	
<i>Distribution of income from REIT</i>	20,000	
<i>Distribution of income from unit trust</i>	<u>15,000</u>	
	<u>115,000</u>	<b>(B)</b>
<i>Interest</i>	30,000	
<i>Rental</i>	50,000	
<i>Distribution of income from REIT</i>	20,000	
<i>Distribution of income from unit trust</i>	15,000	
<i>Gains from realization of investments</i>	<u>100,000</u>	
	<u>215,000</u>	<b>(C)</b>

- ii. *The amount of permitted expenses determined in accordance with the formula is:*

$$\left[ A \times \frac{B}{4C} \right] = 49,000 \times \frac{115,000}{4 \times 215,000} = 6,552$$

*compared with 5% of dividend, interest and rental income.*

$$(5\% \times 115,000) = 5,750, \text{ whichever is lower.}$$

*Therefore the amount of permitted expenses allowable as a deduction is RM5,750.*

### 8.3 Single-tier dividend income

8.3.1 From the year of assessment 2008, single-tier dividend income is exempted from tax and any expenses related to the derivation of the dividend are to be disregarded. This also applies to an IHC. Therefore portion of the permitted expenses in relation to the single-tier dividend are to be disregarded in determining the permitted expenses that can be deducted from the aggregate income of the IHC.

8.3.2 From the year of assessment 2008, the statutory income from dividend (franked dividend) received by a company except an IHC which is listed on the Bursa Malaysia is deemed to be the total income or part of the total income of the company. Therefore if the source of income of an IHC is only dividend, the permitted expenses are not allowed as a deduction.

**Example 11:**

Gross income of Muhibbah Sdn Bhd (IHC) for the year of assessment 2011 is as follows:

Investment	Cost of investment	Income	(RM)
Investment 1	800,000	Dividend	120,000
Investment 2	600,000	Dividend (single tier - exempt)	100,000
Investment 3	500,000	Dividend (exempt)	80,000
Fixed deposit	100,000	Fixed deposit interest	15,000
Investment in Bintang REIT	500,000	Distribution of income from Bintang REIT	90,000
-	-	Management services fees	35,000
-	-	Gains from realization of investments	150,000
Total	2,500,000	Total	590,000

Muhibbah Sdn Bhd has taken a loan to finance investment 1, 2 and 3, fixed deposit and investment in Bintang REIT. In the year of assessment 2011, the total interest paid in respect of the loan is RM50,000.

Permitted expenses claimed are as follows:

Permitted expenses claimed	(RM)
Director's fees	20,000
Salaries and allowances	15,000
Management fees	7,000
Audit fees	5,000

Total	47,000
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i. The amount of permitted expenses determined in accordance with the formula is to be computed as follows:

a. Determine the amount of A i.e the permitted expenses excluding portion of the permitted expenses in relation to single-tier dividend:

	(RM)
Director's fees	20,000
Salaries and allowances	15,000
Management fees	7,000
Audit fees	<u>5,000</u>
	<u>47,000</u>

$$\left[ \frac{\text{Permitted expenses}}{\text{Permitted expenses}} \times \frac{\text{single tier dividend income}}{\text{total income}} \right]$$

$$\left[ 47,000 - \left( 47,000 \times \frac{100,000}{555,000} \right) \right] = 38,531 \quad \text{(A)}$$

Dividend	120,000
Fixed deposit interest	15,000
Distribution of income from REIT	<u>90,000</u>
	<u>225,000</u> (B)

Dividend	120,000
Dividend (exempt)	80,000
Interest	15,000
Distribution of income from REIT	90,000
Gains from realization of investments	<u>150,000</u>
	<u>455,000</u> (C)

b. Determine the amount of permitted expenses allowable as a deduction:

$$\left[ 38,531 \times \frac{225,000}{4 \times 455,000} \right] = 4,763$$

compared with 5% of dividend, interest and rental income.

$(5\% \times 225,000) = 11,250$ , whichever is lower.

Therefore the amount of permitted expenses that can be allowed for deduction is RM4,763.

ii. The total income of Muhibbah Sdn Bhd for the year of assessment 2011 is computed as follows:

	(RM)	(RM)
I. Gross interest	15,000	
Less:		
Interest expenses		
<u>100,000</u> X 50,000	<u>2,000</u>	13,000
2,500,000		
II. Distribution of income from REIT	90,000	
Less:		
Interest expenses		
<u>500,000</u> X 50,000	<u>10,000</u>	80,000
2,500,000		
III. Management services fees		<u>35,000</u>
		128,000
Less:		
Permitted expenses		<u>4,763</u>
Total income		123,237
IV. Gross dividend	120,000	
Less:		
Interest expenses		
<u>800,000</u> X 50,000	<u>16,000</u>	
2,500,000		
Statutory Income		<u>104,000</u>
(Deemed as part of the total income)		
Total income		<u>227,237</u>

**Example 12:**



Ruha Sdn Bhd (IHC) only has dividend income of RM20,000 for the year of assessment 2010. Interest paid for the loan taken to finance the relevant investment is RM8,000. The permitted expenses claimed are RM2,000.

*The total income of Ruha Sdn Bhd for the year of assessment 2010 is computed as follows:*

	(RM)
Gross dividend	20,000
Less:	
Interest expenses	<u>8,000</u>
Statutory Income (Deemed as the total income)	<u>12,000</u>

*As the statutory income from dividend is deemed to be the total income, permitted expenses claimed are not allowable as a deduction.*

8.4 If there is no aggregate income or the aggregate income is not sufficient to absorb the permitted expenses for a year of assessment, any excess of the permitted expenses cannot be carried forward to subsequent years of assessment.

9. **Tax treatment for investment holding company listed on the Bursa Malaysia – section 60FA of the ITA**

9.1 In order to determine whether a company is an IHC, paragraphs 4, 5 and 6 of this Ruling have to be referred to. Once a company is determined to be an IHC and that company is listed on the Bursa Malaysia, the tax treatment explained in this paragraph should be applied.

9.2 Any income derived from the holding of investments [interest, dividend, rental (non business and business of holding of an investment)] is treated as a business source under paragraph 4(a) of the ITA. Each source of income has to be assessed as a separate business source.

9.3 Even though those sources of income are treated as business sources, in ascertaining the adjusted income and statutory income of an IHC, the special treatment provided under section 60FA of the ITA has to be complied with.

9.3.1 In ascertaining the adjusted income of each business source for a year of assessment:

- (a) no deduction on expenses is allowed if that source does not produce any income;

- (b) the amount of allowable deduction for direct expenses is restricted to the amount of gross income from that source for that year of assessment. Any excess of that expenses is to be disregarded (cannot be absorbed by any other source of income or carried forward to subsequent years of assessment); and
- (c) the amount of allowable deduction for common expenses which is determined based on the gross income is restricted to the amount of gross income from that source for that year of assessment. Any excess of that expenses is also to be disregarded.

9.3.2 In ascertaining the statutory income from each business source for a year of assessment, the allowances under Schedule 3 of the ITA can be allowed but restricted to the amount of adjusted income from that source. If there is no adjusted income or the adjusted income is not sufficient to absorb those allowances, any excess of allowances cannot be carried forward to subsequent years of assessment.

**Example 13:**

Era Baru Bhd is an IHC listed on the Bursa Malaysia. The income and expenses for the year of assessment 2010 are as follows :

Source of income	Gross income (RM)	Interest expense (RM)
Dividend	400,000	350,000
Interest	200,000	160,000
Rental	Nil	70,000

Interest expense is a direct expense and not a common expense. The apportionment of interest expense that can be allowed against each source of investment income is computed based on the cost of each investment.

Total gross income	RM600,000
Common expenses	RM250,000
Common capital allowances	RM80,000

The total income of Era Baru Bhd for the year of assessment 2010 is computed as follows:

	(RM)	(RM)	(RM)
I. Gross interest		200,000	
Less:			
Interest expense	160,000		
Common expenses			
$\frac{200,000}{600,000} \times 250,000$	<u>83,333</u>		
	243,333		
restricted to	<u>200,000</u>	<u>200,000</u>	Nil
	43,333 (disregarded)		
Common capital allowances			
$\frac{200,000}{600,000} \times 80,000$	26,667	(disregarded)	
II. Gross rental		Nil	
Less:			
Interest expense	70,000	(disregarded)	
III. Gross Dividend		400,000	
Less:			
Interest expense	350,000		
Common expenses			
$\frac{400,000}{600,000} \times 250,000$	<u>166,667</u>		
	516,667		
restricted to	<u>400,000</u>	<u>400,000</u>	<u>Nil</u>
	116,667 (disregarded)		
Common capital allowances			
$\frac{400,000}{600,000} \times 80,000$	53,333	(disregarded)	
Total income			<u>Nil</u>

- (a) *The excess of interest expense and common expenses amounting to RM43,333 for interest source and RM116,667 for dividend source and interest expense amounting to RM70,000 for rental source which cannot be absorbed is to be disregarded and cannot be absorbed by any other source of income or be carried forward to subsequent years of assessment.*
- (b) *Capital allowances of RM26,667 which cannot be absorbed by interest source and RM53,333 which cannot be absorbed by dividend source also cannot be carried forward to subsequent years of assessment.*

9.4 If in a year of assessment, an IHC listed on the Bursa Malaysia also carries on a business activity (not as the main activity), any adjusted loss from that business source will be given the normal treatment in accordance with the provision of subsections 43(2) and 44(2) of the ITA. Therefore, the adjusted loss from that business source for a year of assessment can be deducted against the aggregate income for that year of assessment. Any excess of the adjusted loss that cannot be absorbed can be carried forward and deducted against the aggregate of statutory income from business sources for subsequent years of assessment.

**Example 14:**

Investment Link Bhd is an IHC listed on the Bursa Malaysia. For the year of assessment 2010, the gross income received and expenses incurred are as follows:

Source of income	Gross income (RM)	Direct expenses (RM)
Management fees	200,000	350,000
Dividend	1,000,000	600,000
Interest	300,000	150,000

Total gross income	RM1,500,000
Common expenses	RM250,000
Common capital allowances	RM200,000

*The total income of Investment Link Bhd for the year of assessment 2010 is computed as follows:*

	(RM)	(RM)	(RM)
<i>I. Gross management fees</i>		<i>200,000</i>	
<i>Less:</i>			
<i>Direct expenses</i>	<i>350,000</i>		
<i>Common expenses</i>			
	$\frac{200,000}{1,500,000} \times 250,000$	<u><i>33,333</i></u>	
		<i>383,333</i>	
	<i>restricted to</i>	<u><i>200,000</i></u>	<i>200,000</i>
<i>Current year business loss</i>	<i>183,333</i>		
<i>Common capital allowances carried forward</i>			
	$\frac{200,000}{1,500,000} \times 200,000$	<i>26,667</i>	
<i>II. Gross interest</i>		<i>300,000</i>	
<i>Less:</i>			
<i>Direct expenses</i>	<i>150,000</i>		
<i>Common expenses</i>			
	$\frac{300,000}{1,500,000} \times 250,000$	<u><i>50,000</i></u>	<u><i>200,000</i></u>
<i>Adjusted income from interest</i>		<i>100,000</i>	
<i>Less: Common capital allowances</i>			
	$\frac{300,000}{1,500,000} \times 200,000$	<u><i>40,000</i></u>	<i>60,000</i>

<i>III. Gross dividend</i>	<i>1,000,000</i>	
<i>Less:</i>		
<i>Direct expenses</i>	<i>600,000</i>	
<i>Common expenses</i>		
<i><u>1,000,000</u> X 250,000</i>	<i><u>166,667</u></i>	<i><u>766,667</u></i>
<i>1,500,000</i>		
<i>Adjusted income from dividend</i>	<i>233,333</i>	
<i>Less: Common capital allowances</i>		
<i><u>1,000,000</u> X 200,000</i>	<i><u>133,333</u></i>	<i><u>100,000</u></i>
<i>1,500,000</i>		
<i>Aggregate income</i>		<i>160,000</i>
<i>Less: Current year business loss</i>	<i>183,333</i>	
<i>[subsection 44(2)]</i>		
	<i>restricted to</i>	<i><u>160,000</u></i>
		<i><u>160,000</u></i>
<i>Loss carried forward</i>	<i>23,333</i>	
<i>Total income</i>		<i>Nil</i>

*The statutory income from dividend received by Investment Link Bhd is treated as a business source under paragraph 4(a) of the ITA. Therefore it is not deemed to be part of the total income of the company.*

*Capital allowances amounting to RM26,667 which cannot be absorbed by management fees and current year loss of RM23,333 which cannot be absorbed by the aggregate income can be carried forward to subsequent years of assessment.*

**Example 15:**

Resah Jaya Bhd is an IHC listed on the Bursa Malaysia. For the year of assessment 2010, the gross income received and expenses incurred are as follows:

Source of income	Gross income (RM)	Direct expenses (RM)
Management fees	50,000	10,000
Interest	200,000	220,000

Total gross income	RM250,000
Common expenses	RM40,000

The total income of Resah Jaya Bhd for the year of assessment 2010 is computed as follows:

	(RM)	(RM)	(RM)
I. Gross management fee		50,000	
Less:			
Direct expenses	10,000		
Common expenses			
<u>50,000</u> X 40,000	<u>8,000</u>	<u>18,000</u>	32,000
250,000			
II. Gross interest		200,000	
Less:			
Direct expenses	220,000		
Common expenses			
<u>200,000</u> X 40,000	<u>32,000</u>		
250,000	252,000		
restricted to	<u>200,000</u>	<u>200,000</u>	<u>Nil</u>
Current year loss	52,000 (disregarded)		
Aggregate income/Total income			<u>32,000</u>

The excess of expenses amounting to RM52,000 for interest source cannot be deducted against aggregate income or be carried forward to subsequent years of assessment.

- 9.5 A special provision in respect of section 60FA of the ITA provides that any adjusted loss and allowances under Schedule 3 of the ITA brought forward from the year of assessment prior to the introduction of section 60FA of the ITA (effective from the year of assessment 2006) can be absorbed from business sources for the year of assessment 2006 and subsequent years of assessment in accordance with sections 43 and 44 and paragraph 75, Schedule 3 of the ITA, whichever is relevant. For the purpose of computing the statutory income from each business source, the current year capital allowances shall be deducted from the adjusted income first and followed by the capital allowances brought forward from the previous year of assessment.

**Example 16:**

Sinar Pelangi Bhd (SPB) is listed on the Bursa Malaysia. SPB started business since 2003. SPB receives income from rental (business) and dividend. SPB is an IHC in year 2006 since its main activity is the holding of investments and income from the holding of investments is more than 80% of its gross income. The tax computation of SPB for the year of assessment 2005 shows an adjusted loss carried forward amounting to RM800,000 and capital allowances carried forward for rental source (business) amounting to RM150,000.

The source of income, direct expenses and capital allowances for the year of assessment 2006 are as follow:

Source of income	Gross income (RM)	Direct expenses (RM)	Capital allowances (RM)
Rental	300,000	200,000	30,000
Dividend	1,000,000	300,000	10,000

The total income of SPB for the year of assessment 2006 is computed as follows:

	(RM)	(RM)	(RM)
<i>I. Gross dividend</i>		1,000,000	
<i>Less: Direct expenses</i>		<u>300,000</u>	
<i>Adjusted income from dividend</i>		700,000	
<i>Less : Current year capital allowances</i>		<u>10,000</u>	690,000
<i>II. Gross rental</i>		300,000	
<i>Less: Direct expenses</i>		<u>200,000</u>	
<i>Adjusted income from rental</i>		100,000	
<i>Less: Current year capital allowances</i>		<u>30,000</u>	
		70,000	
<i>Capital allowances brought forward</i>	150,000		
	<i>restricted to</i>	<u>70,000</u>	<u>70,000</u>
	<i>Capital allowances carried forward</i>	80,000	<u>Nil</u>
<i>Aggregate of statutory income from dividend and rental</i>			690,000



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<i>Less: Loss brought forward</i>	800,000	
<i>restricted to</i>	<u>690,000</u>	<u>690,000</u>
<i>Loss carried forward</i>	110,000	
 <i>Total income</i>		<u>Nil</u>

- (a) *In accordance with the special provision, capital allowances of RM150,000 brought forward from the year of assessment 2005 can be deducted against the adjusted income from rental in the year of assessment 2006. Whereas the adjusted loss of RM800,000 brought forward from the year of assessment 2005 can be deducted from the aggregate of statutory income from dividend and rental.*
- (b) *The amount of capital allowances and adjusted loss brought forward which cannot be absorbed in the year of assessment 2006 amounting to RM80,000 and RM110,000 respectively can be carried forward to the year of assessment 2007 and subsequent years of assessment.*

**Example 17:**

Same facts as in example 16 except gross rental income for the year of assessment 2006 is RM220,000.

*The total income of SPB for the year of assessment 2006 is computed as follows:*

	(RM)	(RM)	(RM)
<i>I. Gross dividend</i>		1,000,000	
<i>Less: Direct expenses</i>		<u>300,000</u>	
<i>Adjusted income from dividend</i>		700,000	
<i>Less : Current year capital allowances</i>		<u>10,000</u>	690,000
 <i>II. Gross rental</i>		220,000	
<i>Less: Direct expenses</i>		<u>200,000</u>	
<i>Adjusted income from rental</i>		20,000	
<i>Less: Current year capital allowances</i>	30,000		
<i>restricted to</i>	<u>20,000</u>	<u>20,000</u>	<u>Nil</u>
	10,000	(disregarded)	
<i>Capital allowances brought forward</i>	150,000		
<i>Capital allowances carried forward</i>	150,000		
 <i>Aggregate of statutory income from dividend and rental</i>			690,000

<i>Less: Loss brought forward</i>	<i>800,000</i>	
<i>restricted to</i>	<u><i>690,000</i></u>	<u><i>690,000</i></u>
<i>Loss carried forward</i>	<i>110,000</i>	
<i>Total income</i>		<u><i>Nil</i></u>

- (a) *The amount of current year capital allowances amounting to RM10,000 which cannot be absorbed in the year of assessment 2006 is to be disregarded and cannot be carried forward to the year of assessment 2007 and subsequent years of assessment.*
- (b) *The amount of capital allowances and adjusted loss brought forward which cannot be absorbed in the year of assessment 2006 amounting to RM150,000 and RM110,000 respectively can be carried forward to the year of assessment 2007 and subsequent years of assessment.*

**Example 18:**

Atria Bhd (Atria), a property developer listed on Bursa Malaysia started business since 1999. Atria closes its account on 31 December every year. In the year 2003 the company ceased its property development activity and only received dividend and interest income. From the year of assessment 2003, Atria was subjected to section 60F of the ITA.

The tax computation of Atria in the year of assessment 2002 shows an adjusted loss from business carried forward amounting to RM750,000 and capital allowances carried forward of RM450,000.

In the year of assessment 2006, Atria received dividend income amounting to RM1,500,000 and rental of RM550,000.

*The adjusted loss amounting to RM750,000 and capital allowances of RM450,000 from the year of assessment 2002 cannot be carried forward to the year of assessment 2003 and subsequent years of assessment since Atria has become an IHC.*

*From the year of assessment 2006, the tax treatment under section 60FA of the ITA is applicable to Atria. However, the special provision in respect of the section 60FA of the ITA as explained in paragraph 9.5 of this Ruling is not applicable to Atria. Therefore the adjusted loss of RM750,000 and the capital allowances of RM450,000 from the year of assessment 2002 cannot be carried forward to be absorbed against business source for the year of assessment 2006 and subsequent years of assessment.*

- 9.6 For the purposes of section 60FA of the ITA, if an IHC is listed on the Bursa Malaysia for any period in the basis period for a year of assessment, the IHC is deemed to be an IHC listed on the Bursa Malaysia in the basis period for that year of assessment.

**Example 19:**

Ganda World Bhd is an IHC listed on the Bursa Malaysia since 1.1.2005. With effect from 1.8.2010 the company was not listed on the Bursa Malaysia due to certain reasons. The company closes its account on 31 December every year.

*Although the company was not listed on the Bursa Malaysia from 1.8.2010, the company is still considered a listed IHC for the year of assessment 2010 and section 60FA of the ITA is applicable to the company for that year of assessment.*

**Example 20:**

Dang Wangi Bhd, an IHC which closes its account on 31 December was listed on the Bursa Malaysia on 1.9.2010.

*Although the company was only listed on the Bursa Malaysia on 1.9.2010, the company is considered a listed IHC for the year of assessment 2010 and section 60FA of the ITA is applicable to the company for that year of assessment.*

**10. Capital Allowance / Industrial Building Allowance**

- 10.1 As a general rule, capital allowance and industrial building allowance are given on qualifying capital expenditure incurred by a person in relation to assets used for the purposes of his business. Whether or not rental income from the letting of real property is regarded as a business source of a person for a year of assessment would depend on the circumstances in the basis period for that year of assessment. This in turn would determine whether or not the person is eligible for capital allowances and industrial building allowance for his rental income.
- 10.2 Where rental income (from business of holding of investment) derived by a company from its building is treated as a business source and capital allowances and/or industrial building allowance have been claimed and subsequently the rental income is no longer treated as a business source because the company has become an IHC in a year of assessment, the company is not eligible for capital allowances in respect of its plant and machinery in that year of assessment.
- 10.3 However, pursuant to paragraph 60 of Schedule 3 of the ITA, the company is still eligible to claim industrial building allowance on its building provided the tenant uses the building as an industrial building.

**11. Effective date**

This Ruling is effective for the year of assessment 2006 and subsequent years of assessment.

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