



**INLAND REVENUE BOARD OF MALAYSIA**

**INVESTMENT HOLDING COMPANY**

**PUBLIC RULING NO. 10/2015**

Translation from the original Bahasa Malaysia text

**DATE OF PUBLICATION: 16 DECEMBER 2015**



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HOLDING COMPANY**

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Published by  
Inland Revenue Board of Malaysia

Second edition

First edition on 10 March 2011

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

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

A Public Ruling is published as a guide 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 explain the tax treatment in respect of an investment holding company resident in Malaysia.

**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 paragraphs 4(a), 4(d), 4(f), 8(1)(b) and 8(1)(c), sections 43, 44, 60F and 60FA as well as paragraph 75 of Schedule 3 and paragraph 12B of Schedule 6.

**3. Interpretation**

The words used in this PR 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 rights in or over such land and includes any building on land.

**4. Definition of an Investment Holding Company**

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 other than gross income from a source consisting of a business of holding of an investment (whether exempt or not) is derived from the holding of those investments.

**5. Definition of 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 maintenance services or support services in respect of the real property.
- 5.2 "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.
- 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.

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

5.3.2 Maintenance services or support 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 PR.

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 PR No. 4/2011 entitled "Income From Letting Of Real Property". For years of assessment prior to the year of assessment 2011, PR 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 two (2) criteria:

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

### Example 1

Jordan Lee Investment Sdn Bhd (JLISB) started business in year 2012 and its main activity is investment in several companies and fixed deposit. For the year 2014, JLISB only receives dividend income from the investment in those companies and fixed deposit interest. JLISB closes its account on 31 December every year.

JLISB is an IHC for the year of assessment 2014 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 2011 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 2014, 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 2014 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 2013 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 2014. Apart from dividend income, PMSB also receives management fees from related companies amounting to RM20,000 in year 2014. 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 2014 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 and dividend under paragraph 4(c) of the ITA 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 2010 to 2014 are as follows. Rental income (business) decreases in the year of assessment 2013 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 2010	Year of assessment 2011	Year of assessment 2012	Year of assessment 2013	Year of assessment 2014
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
<b>Total gross income</b>	<b>100,000</b>	<b>100,000</b>	<b>90,000</b>	<b>70,000</b>	<b>120,000</b>
Percentage of income from holding of investment	$\frac{40,000}{100,000}$ 40%	$\frac{50,000}{100,000}$ 50%	$\frac{60,000}{90,000}$ 67%	$\frac{60,000}{70,000}$ 86%	$\frac{50,000}{120,000}$ 42%
IHC or not	No	No	No	No	No

In the year of assessment 2013, 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 1.5.2012, the tenancy of a major portion of the office lot ends and the company only manages to get new tenants on 1.5.2014 (absence of tenants for a period of 24 months). As a consequence, rental income (business) decreases in the years of assessment 2012, 2013 and 2014. The income of Nova Sdn Bhd for the years of assessment 2010 to 2014 are as follows:

Source of income	Year of assessment 2010	Year of assessment 2011	Year of assessment 2012	Year of assessment 2013	Year of assessment 2014
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 2012, 2013 and 2014, 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 2012, 2013 and 2014.

**Example 7**

Same facts as in Example 6 except that Nova Sdn Bhd only manages to get new tenants on 1.7.2014 (absence of tenants for a period of 26 months).

Nova Sdn Bhd is treated as a non-IHC for the years of assessment 2012 and 2013 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 more than 24 months falls in the year of assessment 2014. 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 2014.

- 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 2011 and its main activity is the holding of investments. In November 2012, SNSB sold all its investments except fixed deposit to be used as a capital to start a business of selling hand phones in 2013 as its main activity. In October 2013, SNSB invested again in several companies. SNSB's income for the years of assessment 2011, 2012, 2013 and 2014 are as follows:

Source of income	Year of assessment 2011	Year of assessment 2012	Year of assessment 2013	Year of assessment 2014
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	No	No

SNSB is an IHC for the years of assessment 2011 and 2012 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 2013 as its main activity is not the holding of investments but has changed to a business of selling hand phones. SNSB remains as a non-IHC in the year of assessment 2014 (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 2013 and 2014 if not less than 80% of its gross income is derived from the holding of investments.

## 7. Tax Treatment

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

Same facts as in Example 4. 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, which are not deductible under subsection 33(1) of the ITA.

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 and interest (whether such dividend or interest is exempt or not) and rent, and gains from realisation of investments for a basis period.

[Prior to the year of assessment 2014, C is the aggregate of the gross income consisting of dividend (whether exempt or not), interest and rent, and gains from realisation 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 rent for that basis period.

Note: "Dividend" includes income distributed by a unit trust.

### Example 10

Gross income of Suria Property Sdn Bhd for the year of assessment 2014 is as follows:

Income	RM
Dividend (tax exempt)	35,000
Interest	30,000
Interest (tax exempt)	8,000
Rental	50,000
Management service fees	35,000
Distribution of income from real estate investment trust (REIT)	20,000
Distribution of income from unit trust	15,000
Gains from realisation of investments	100,000

Suria Property Sdn Bhd is an IHC based on its main activity and the income from holding of investment that exceeds 80% of the company's income.

Expenses claimed are as follows:

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 dan C are as follows:

(a) The amount of permitted expenses:

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

Gross income from investment chargeable to tax:

Interest	30,000
Rental	50,000
Distribution of income from REIT	20,000
Distribution of income from unit trust	<u>15,000</u>
	<b>115,000 (B)</b>

Aggregate of gross income from investment (whether exempt or not), rental and gains from realisation of investment:

Dividend (tax exempt)	35,000
Interest	30,000
Interest (tax exempt)	8,000
Rental	50,000
Distribution of income from REIT	20,000
Distribution of income from unit trust	15,000
Gains from realisation of investments	<u>100,000</u>
	<b>258,000 (C)</b>

(b) The amount of permitted expenses determined in accordance with the formula is:

$$A \times \frac{B}{4C} = \text{RM}49,000 \times \frac{\text{RM}115,000}{4 \times \text{RM}258,000} = \text{RM}5,460$$

compared with 5% of gross investment income chargeable to tax:

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

Therefore, the amount of permitted expenses allowable as deduction is RM5,460.

- ii. The total income of Suria Property Sdn Bhd for the year of assessment 2014 is computed as follows:

I.	Interest	30,000
II.	Distribution of income from (REIT)	20,000
III.	Distribution of income from unit trust	15,000
IV.	Rental	50,000
V.	Management service fees	
	[income under paragraph 4(f) of the ITA]	<u>35,000</u>
		150,000
	Less:	
	Permitted expenses	<u>5,460</u>
	Total Income	<u>144,540</u>

### 8.3 Single-tier dividend income

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.

#### Example 11

Gross income of Muhibbah Sdn Bhd (an IHC) for the year of assessment 2014 is as follows:

Investment	Cost of Investment	Income	(RM)
Shares	600,000	Dividend (single-tier)	100,000
Fixed Deposit	100,000	Interest	15,000
Investment in Bintang REIT	500,000	Distribution of income from Bintang REIT	90,000
-	-	Management service fees	35,000
-	-	Gains from realisation of investments	150,000
Total	1,200,000	Total	390,000

Muhibbah Sdn Bhd has taken a loan to finance the shares, fixed deposit and investment in Bintang REIT. In the year of assessment 2014, the total interest paid in respect of the loan is RM50,000.

Expenses claimed are as follows:

Expenses claimed	(RM)
Director's fees	20,000
Salaries and allowances	15,000
Management fees	7,000
Audit fees	5,000
Maintenance of motor vehicle	2,000
Depreciation	1,000
<b>Total</b>	<b>50,000</b>

i. The amount of A, B dan C are as follows:

(a) The amount of permitted expenses:

	(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>	<b>(A)</b>

Gross income from investment chargeable to tax:

Interest from fixed deposit	15,000	
Distribution of income from REIT	<u>90,000</u>	
	<u>105,000</u>	<b>(B)</b>

Aggregate of gross income from investment (whether exempt or not), rental and gains from realisation of investment:

Dividend (single-tier)	100,000	
Interest from fixed deposit	15,000	
Distribution of income from REIT	90,000	
Gains from realisation of investments	<u>150,000</u>	
	<u>355,000</u>	<b>(C)</b>



- (b) The amount of permitted expenses determined in accordance with the formula is:

$$A \times \frac{B}{4C} = \text{RM}47,000 \times \frac{\text{RM}105,000}{4 \times \text{RM}355,000} = \text{RM}3,475$$

compared with 5% of gross investment income chargeable to tax:

$$(5\% \times \text{RM}105,000) = \text{RM}5,250; \text{ whichever is lower.}$$

Therefore, the amount of permitted expenses allowable as deduction is RM3,475.

- ii. The total income of Muhibbah Sdn Bhd for the year assessment 2014 is computed as follows:

	(RM)	(RM)
I. Gross interest	15,000	
Less:		
Interest expenses		
$\left( \frac{100,000}{1,200,000} \times 50,000 \right)$	<u>4,167</u>	10,833
II. Distribution of income from REIT	90,000	
Less:		
Interest expense		
$\left( \frac{500,000}{1,200,000} \times 50,000 \right)$	<u>20,833</u>	69,167
III. Management service fees		
[income under paragraph 4(f) of the ITA]		<u>35,000</u>
		115,000
Less:		
Permitted expenses:		<u>3,475</u>
Total income		<u>111,525</u>

**Note:**

Gross dividend (single tier) 100,000 (exempted)

Interest expense

$\left( \frac{600,000}{1,200,000} \times 50,000 \right)$  25,000 (disregarded)

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 PR 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 12

Era Baru Bhd is an IHC listed on the Bursa Malaysia. The income and expenses for the year of assessment 2014 are as follows:

Source of income	Gross income (RM)	Interest expense (RM)
Dividend (single-tier)	400,000	250,000
Interest	200,000	160,000
Rental	Nil	70,000

Interest expense is a direct expense and not a common expense.

Total gross income	RM600,000
Common expenses	RM150,000
Common capital allowances	RM80,000

The total income of Era Baru Bhd for the year of assessment 2014 is computed as follows:

	(RM)	(RM)	(RM)
I. Gross interest		200,000	
Less:			
Interest expense	160,000		
Common expenses			
$\left( \frac{200,000}{600,000} \times 150,000 \right)$	<u>50,000</u>		
	210,000		
restricted to	<u>200,000</u>	<u>200,000</u>	Nil
	10,000		
	(disregarded)		

	Common capital allowances $\left( \frac{200,000}{600,000} \times 80,000 \right)$	26,667 (disregarded)	
II.	Gross rental		Nil
	Less:		
	Interest expense	70,000 (disregarded)	
III.	Gross dividend (single tier)	400,000 (exempted)	Nil
	Interest expense	250,000	
	Common expenses $\left( \frac{400,000}{600,000} \times 150,000 \right)$	<u>100,000</u> 350,000 (disregarded)	
	Common capital allowances $\left( \frac{400,000}{600,000} \times 80,000 \right)$	53,333 (disregarded)	
	Total income		<u>Nil</u>

- (a) The excess of interest expense and common expenses amounting to RM10,000 for interest source and interest expense amounting to RM70,000 for rental source which cannot be absorbed are 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 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 13**

Investment Link Bhd is an IHC listed on the Bursa Malaysia. For the year of assessment 2014, 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 (single-tier)	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 2014 is computed as follows:

	(RM)	(RM)	(RM)
I. Gross management fees		200,000	
Less:			
Direct expenses	350,000		
Common expenses			
$\left( \frac{200,000}{1,500,000} \times 250,000 \right)$	<u>33,333</u>		
	383,333		
Restricted to	<u>200,000</u>	<u>200,000</u>	Nil
Current year business loss	183,333		
Common capital allowances carried forward			
$\left( \frac{200,000}{1,500,000} \times 200,000 \right)$	26,667		

II.	Gross interest		300,000	
	Less:			
	Direct expenses	150,000		
	Common expenses			
	$\left( \frac{300,000}{1,500,000} \times 250,000 \right)$	<u>50,000</u>	<u>200,000</u>	
	Adjusted income from interest		100,000	
	Less:			
	Common capital allowances			
	$\left( \frac{300,000}{1,500,000} \times 200,000 \right)$		<u>40,000</u>	60,000
III.	Gross dividend		1,000,000 (exempted)	
	Direct expenses	600,000		
	Common expenses			
	$\left( \frac{1,000,000}{1,500,000} \times 250,000 \right)$	<u>166,667</u>		
		766,667		
		(disregarded)		
	Common capital allowances	133,333		
	$\left( \frac{1,000,000}{1,500,000} \times 200,000 \right)$	(disregarded)		<u>Nil</u>
	Aggregate income			60,000
	Less: Current year business loss [subsection 44(2) of the ITA]		183,333	
		restricted to	<u>60,000</u>	<u>60,000</u>
	Loss carried forward		123,333	
	Total income			<u>Nil</u>

Capital allowances amounting to RM26,667 which cannot be absorbed by the management fees and current year loss of RM123,333 which cannot be absorbed by the aggregate income can be carried forward to subsequent years of assessment.

**Example14**

Resah Jaya Bhd is an IHC listed on the the Bursa Malaysia. For the year of assessment 2014, 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 2014 is computed as follows:

	(RM)	(RM)	(RM)
I. Gross management fees		50,000	
Less:			
Direct expenses	10,000		
Common expenses			
$\left( \frac{50,000}{250,000} \times 40,000 \right)$	<u>8,000</u>	<u>18,000</u>	32,000
II. Gross interest		200,000	
Less:			
Direct expenses	220,000		
Common expenses			
$\left( \frac{200,000}{250,000} \times 40,000 \right)$	<u>32,000</u>		
	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 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, that IHC is deemed to be an IHC listed on the Bursa Malaysia in the basis period for that year of assessment.

**Example 15**

Ganda World Bhd is an IHC listed on the Bursa Malaysia since 1.1.2009. With effect from 1.8.2014, 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 1.8.2014, the company is still considered a listed IHC for the year of assessment 2014 and section 60FA of the ITA is applicable to the company for that year of assessment.

**Example 16**

Dang Wangi Bhd, an IHC which closes its account on 31 December was listed on the Bursa Malaysia on 1.9.2014.

Although the company was only listed on the Bursa Malaysia on 1.9.2014, the company is considered a listed IHC for the year of assessment 2014 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, unless the IHC is listed on the Bursa Malaysia.



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. Updates and Amendments

	<b>Amendment</b>	
This PR replaces the PR No. 3/2011 dated 10.03.2011.	The contents of this PR are essentially the same as the previous PR with the following amendments:	
	Paragraph	Explanation
	8.2	Paragraph 8.2.3 in the previous PR is amended due to the amendment made to section 60F of the ITA by Finance Act 2014 [Act 761] which is effective from the year of assessment 2014.
		Example 10 in the previous PR is amended to provide further clarification in consequence to the amendment under Act 761.
	8.3	Example 11 in the previous PR is amended to provide further clarification in consequence to the amendment under Act 761.
		Example 12 in the previous PR is deleted.
9	Example 13 in the previous PR is amended and renumbered as Example 12 in this new PR to provide further clarification in consequence to the amendment under Act 761.	
	Example 14 in the previous PR is renumbered as Example 13 in this new PR.	



		Paragraph 9.5, Example 16, 17 and 18 in the previous PR are deleted.
		Paragraph 9.6 in the previous PR is deleted and renumbered as paragraph 9.5 in this new PR.

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