

What's New?

Issue No. 35/2020 | 14 June 2020



Determining The Gross Income From
Business Sources Of Not More Than RM50
Million Of A Company Or LLP

11-10-2019: Budget 2020 Proposal



- Definition of SME to include a requirement of annual sales of not more than RM50 million, in addition to the paid-up capital requirement.
- Chargeable income to be increased from RM500,000 to RM600,000.
- *Effective date: Year of Assessment 2020*



Finance Bill 2019



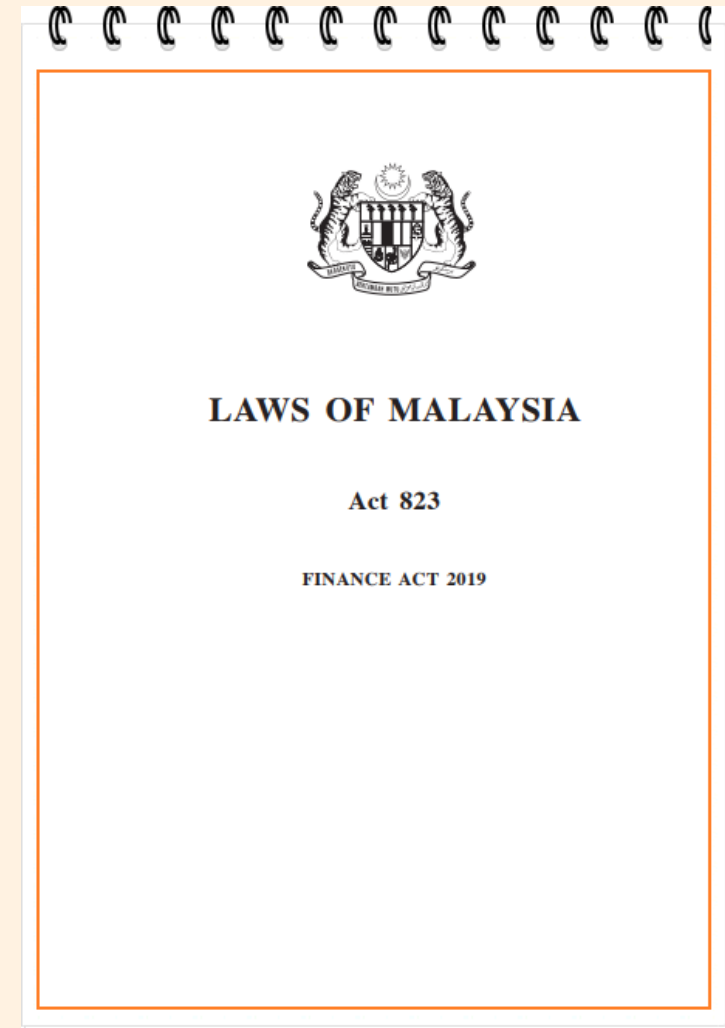
- seeks to amend paragraph 2A/2D of Part 1 of Schedule 1 to Act 53:
- to provide for an additional criteria to be subjected to the tax rate under paragraph 2A/2D of Part 1 of Schedule 1 to Act 53.
 - The additional criteria is that the company/limited liability partnership must also have a gross income not exceeding fifty million (RM50m) ringgit in a basis period for a year of assessment from all business sources.
- to increase the amount of chargeable income of a company/ limited liability partnership under that provision from five hundred thousand (RM500,000) ringgit to six hundred thousand (RM600,000) ringgit.



31-12-2019: Finance Act 2019



- The Finance Act 2019, Income Tax (Amendment) Act 2019 and Petroleum (Income Tax) (Amendment) Act 2019 (“Acts”) have been gazetted on 31 December 2019 with no changes from the amended Finance Bill 2019, Income Tax (Amendment) Bill 2019 and Petroleum (Income Tax) (Amendment) Bill 2019. The Acts come into operation on 1 January 2020.



What is New?



- SME enjoy **preferential tax rate** of **17%** on the first RM600,000 of their chargeable income.
- To qualify for this preferential tax rate, the business criteria for SME status are as follows: -
 - Have a paid-up capital of less than or equal to RM2.5 million ordinary shares at the beginning of the basis period for a year of assessment; **and**
 - Have a gross business income of RM50 million and below





Practice Note No. 3/2020

- Following the gazetted of the **Finance Bill 2019**, the Inland Revenue Board has issued Practice Note 3/2020 dated 18 May 2020 on Determining The Gross Income From Business Sources Of Not More Than RM50 Million Of A Company Or LLP (“Practice Note 3/2020”).

Note	Note Title	Issued
3/2020	CLARIFICATION ON DETERMINING THE GROSS INCOME FROM BUSINESS SOURCES OF NOT MORE THAN RM50 MILLION OF A COMPANY OR LIMITED LIABILITY PARTNERSHIP	18.05.2020



Practice Note No. 3/2020



- This Practice Note clarifies that the additional criteria for a company/LLP to have gross income from all business sources shall be determined as follows:
 - Subject to sections 22, 24 and 30 of the ITA 1967 - for companies/LLPs engaged in manufacturing/trading/service activities; or
 - Subject to specific provisions under the ITA 1967 or specific regulations for certain industries - for companies/LLPs carrying out activities such as banking/insurance/developers/contractors.



Issues arising on the implementation of the Additional Criteria



Company is an Investment Holding Company



- For a company which is an investment holding company and is:
 - subject to section 60F of the ITA 1967, a company which is an investment holding **not listed on Bursa Malaysia**, is **deemed to have no gross income** from a **business source** and **is not eligible** for tax treatment under paragraphs 2A or 2D, Part 1, Schedule 1 and subparagraph 19A (3), Schedule 3 of ITA 1967;
 - subject to section 60FA of the ITA 1967, a company which is an investment holding listed on Bursa Malaysia, is deemed to have gross income from a business source and is eligible for tax treatment under paragraphs 2A or 2D, Part 1, Schedule 1 and subparagraph 19A (3), Schedule 3 of ITA 1967



Company/LLP which does not have gross income from business sources but have other incomes such as rent and interest



- If other income such as rent and interest are not assessed as income from the source of a business under paragraph 4(a) of the ITA1967, the company/LLP which **does not have** gross income from **business sources** is **not eligible** for tax treatment under paragraphs 2A or 2D, Part 1, Schedule 1 and subparagraph 19A (3), Schedule 3 of ITA 1967



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.



Company/LLP enjoying certain incentives/tax incentives such as 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.



For further consultation, please contact:

Chin Chee Seng

Partner

+6012 365 4331

cschin@ccs-co.com

Jared Low

Assurance Manager

+6018 763 4813

jared@ccs-co.com

Wong Woei Teng

Audit Manager

+6017 237 8233

woeiteng@ccs-co.com

Vivian Lim

HR Manager

+6012 618 6220

vivian@ccs-co.com

Yap Huey Shan

Assistant Audit Manager

+6012 369 7222

hueyshan@ccs-co.com

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