



Tax Espresso – Special Alert

IRBM issued FAQs pertaining to special deduction on rental reduction offered to SMEs tenants

The Inland Revenue Board of Malaysia (IRBM) has uploaded the [Frequently Asked Questions](#) (FAQs) to address concerns taxpayers may have pertaining to the special deduction on rental reduction offered to Small and Medium-sized Enterprise (SME) tenants, which was introduced under the PRIHATIN Package – additional measures for SMEs announced on 6 April 2020.

Landlords of business premises that offer reduction or relief of rental payment to SME tenants from April 2020 to June 2020 are allowed to claim a special deduction equivalent to the rental reduction amount for April 2020, May 2020 and June 2020, subject to the condition that the reduction should be at least 30% of the existing rental rate of the determined period.

1. Eligible Person

Any taxpayer (corporate, individual, cooperative or other business and non-business entities) with rental income arising from renting out business

premises to any qualified SME tenants (including related company) for their purposes of carrying out business.

The taxpayer's rental income shall be assessed to tax either under Section 4(a) or 4(d) of the Income Tax Act 1967.

Business premises means all premises used for carrying out a business (e.g. office, workshop, warehouse, childcare and rented lot / bazaar / booth / stall), but exclude rental of a residential house used for both residential and business purposes.

2. Definition of SME

The definition of SME by SME Corporation Malaysia is adopted for this purpose. A business can qualify as a SME if it meets either one of the two specified criteria, whichever is the lower:

- Annual sales turnover; or
- Number of full-time employees.

Type of enterprises	Sector	Annual sales turnover (RM) ^{Note 1}	Number of full-time employees ^{Note 2}
Micro	All sectors	< 300,000	< 5
Small	Manufacturing	300,000 to < 15 million	5 to < 75
	Services and other sectors	300,000 to < 3 million	5 to < 30
Medium	Manufacturing	15 million to ≤ 50 million	75 to ≤ 200
	Services and other sectors	3 million to ≤ 20 million	30 to ≤ 75

Note 1: Annual sales turnover of the basis period for the preceding year of assessment.

Note 2: Number of full-time employees at the end of the basis period for the preceding year of assessment, or on 1 April 2020.

If a business fulfils either one criteria across the different sizes of operation, then the smaller size will be applicable. For example, in the case of a manufacturing company with sales turnover of RM100 million, it will not qualify as SME but if it has a number of full-time employees of 150, the manufacturing company would still qualify as SME.

Rental of business premises to the following SMEs are not eligible for the special deduction: -

- a) Entities that are public-listed on the main board; and
- b) Subsidiaries of:
 - Publicly-listed companies on the main board,
 - Multinational corporations (MNCs),
 - Government-linked companies (GLCs),
 - Minister of Finance Incorporated (MKDs), and
 - State-owned enterprises.

Please refer to the [Guideline for New SME Definition](#) issued by SME Corporation Malaysia for more details.

3. Qualifying conditions and special deduction

- a) Rental reduction of at least 30% of the current monthly rental charged to the SME tenants. An example of the special deduction calculation is provided in the FAQs.

Our comment:

In a case where it was stated in the 3-year tenancy agreement that the monthly rental is RM10,000 and the tenant will be given a RM2,000 rental discount for the first 12 months (January 2020 – December 2020), would the 30% reduction in rental for April 2020, May 2020 and June 2020 be

determined based on the original rental of RM10,000, or the discounted rental of RM8,000?

From the reading of the FAQs, it appears that in order to be eligible for the special deduction for April 2020 to June 2020, the landlord must give a minimum rental reduction of 30% based on the current monthly rental charged of RM8,000 i.e. a rental reduction of RM2,400 per month starting from April 2020 to June 2020.

- b) The special deduction amount is equivalent to the amount of monthly rental reduction offered by the landlord to eligible SME tenants who use the rented premises for their purposes of carrying out business.
- c) Landlord who has received rental payments for April 2020, May 2020 and June 2020 in advance can still offer rental reduction to its SME tenant and claim for the special deduction, this is provided that the landlord fulfils all the conditions for claiming the special deduction.
- d) This special deduction is not applicable to rental of other than business premises such as machines, parking spaces, telecommunication towers etc.

4. Supporting documents

The taxpayers (landlords) who claim the special deduction are required to provide and keep the following supporting information and documents:

- i. Valid tenancy agreement;
- ii. Rental income statement;
- iii. Details of the tenant as SME such as number of business registration, tax file registration number, etc.; and
- iv. Details of the rental reduction.

Items (iii) & (iv) above have to be provided in the Working Sheet (Helaian Kerja) of the taxpayer's Income Tax Return Form.

5. Legislation reference

The special deduction will be legislated by way of Income Tax Rules.

Note: As of the date of this publication, the relevant Income Tax Rules has yet to be gazetted and released.

Please see [FAQs](#) for details and other related matters addressed.



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