



## **INLAND REVENUE BOARD OF MALAYSIA**

**DEDUCTIONS FOR  
PROMOTION OF EXPORTS  
PUBLIC RULING NO. 1/2013**

*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 of 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A Public Ruling may be withdrawn, either wholly or in part, by notice of withdrawal or by publication of a new ruling.

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

## **1. Objective**

The objective of this Ruling is to provides clarification on the tax treatment of expenditure eligible to a company as deduction for promotion of export under provisions of the Income Tax Act 1967 (ITA 1967), Promotion of Investments Act 1986 (PIA 1986) and Income Tax Rules as follows-

- 1.1. Section 8, 33 and 39 of the ITA 1967
- 1.2. Section 41 of the PIA 1986
- 1.3. Income Tax (Promotion of Exports) (Amendment) Rules 2001 [P.U.(A) 170/2001]
- 1.4. Income Tax (Promotion of Exports) Rules 2002 [P.U.(A) 115/2002]
- 1.5. Income Tax (Promotion of Exports) Rules (No.2) 2002 [P.U.(A) 116/2002]
- 1.6. Income Tax (Promotion of Exports) Rules (No.2) (Amendment) 2002 [P.U.(A) 355/2002]
- 1.7. Income Tax (Promotion of Exports) Rules (No.3) 2002 [P.U.(A) 117/2002]
- 1.8. Income Tax (Promotion of Exports)(Amendment) Rules 2003 [P.U.(A) 267/2003], and
- 1.9. Income Tax (Promotion of Exports) Rules 2007 [P.U.(A) 14/2007].

## **2. Interpretation**

The words used in this Ruling have the following meaning:

- 2.1. "Export quality" means :
  - (a) An existing product being exported, or
  - (b) A product which has not been exported but has acquired international quality certification such as European Conformity Mark (CE Mark), Hazard Analysis And Critical Control Points (HACCP), Japanese Industrial Standards (JIS), European Standard (EN), Quality Standard (QS) and International Organization for Standardization (ISO).
- 2.2. "Export" means direct export not including sales to Free Industrial Zones and Licensed Manufacturing Warehouses.

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- 2.3. "Agricultural produce" means products of agriculture, fisheries or marine products grown, cultured, reared, captured or extracted in Malaysia which are in their raw form, fresh, alive or dead and includes extractions thereof.
  - 2.4. "Resident of Malaysia" means company resident in Malaysia for the basis year for a year of assessment by virtue of section 8 of the ITA 1967.
  - 2.5. "Local professional services" refer to packaging design services provided by a company which is incorporated in Malaysia and has at least 60% Malaysian equity own by citizen Malaysia.
  - 2.6. "Statutory Income" in relation to a company, a source and a year of assessment, means statutory income ascertained in accordance with the ITA 1967.
  - 2.7. "Virtual trade show" means an international virtual trade show as verified by the Malaysia External Trade Development Corporation (MATRADE).
  - 2.8. "Trade portal" means a trade portal for the promotion of local products as verified by MATRADE.
  - 2.9. "Assessment" means any assessment or additional assessment made under the ITA 1967.
  - 2.10. "Basis year" in relation to a year of assessment for a business source is the basis period for that year of assessment.
  - 2.11. "Basis period" in relation to gross income from business source is ascertained by section 20 of the ITA 1967.
  - 2.12. "Representative of the company" means the direct relationship with the company as a director or an employee of the company.

### **3. Qualifying Company And Qualifying Product/Activity**

- 3.1. Deduction for promotion of export is available to a resident companies in Malaysia involved in manufacturing, trading and agricultural activities for the basis year for a year assessment.
- 3.2. Expenses incurred by a company in its business primarily and principally for the purpose of seeking opportunities or in creating or increasing demand for the export of goods or agricultural produce manufactured, produced, assembled, processed, packed and graded or sorted in Malaysia.
- 3.3. Expenses specified in subparagraph 3.2 refers to expenses incurred on or after 1 January 1986.

**Example 1**

A Sdn Bhd a company resident in Malaysia, carries on the business of manufacturing of chilli sauce. The company incurred expenses for seeking opportunities and expanding markets for the chilli sauce manufactured in Malaysia to countries abroad. The company qualifies for further deductions on expenses on seeking opportunities and expanding markets for the chilli sauce in ascertaining the adjusted income from a business.

**4. Overlapping Period**

For the purposes of allowing deduction for promotion of export, where the two basis periods overlap, the period common to both periods shall be deemed to fall in the first basis period only.

**Example 2**

B Sdn Bhd incurred the following expenses on expanding markets abroad for its products on the following dates :

Date	Type Of Expenses	Amount (RM)
5.01.2011	Publicity and advertisement	5,000
1.07.2011	Provision of samples for potential customer	10,000
30.10.2011	Export market research outside Malaysia	8,000
1.03.2012	Enter into contract negotiations with potential customer	12,000

} 18,000

Basis periods for the year of assessment 2011 and 2012 for the company are as follows :

Basis Period	Year Of Assessment
1.01.2011 – 31.12.2011	2011
1.04.2011 – 31.03.2012	2012

Overlapping period from 1.4.2011 to 31.12.2011 is deemed to fall in the first period i.e 1.1.2011 to 31.12.2011 (basis period for the year of assessment 2011).

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Expenses incurred on 5.1.2011, 1.7.2011 and 30.10.2011 amounting to RM23,000 (5,000 + 18,000) is given further deduction against the gross income of the company for the year of assessment 2011.

## **5. Types Of Deduction**

Deductions for promotion of exports are given in one of the following ways:

### **5.1. Single deduction**

Generally, expenses not wholly and exclusively incurred in the production of income is not allowable as a deduction against the gross income of a business under subsection 33(1) of the ITA 1967. However to promote exports the following expenses incurred by a company are allowed as a single deductions -

- (a) Registration of patents, trademarks and product licensing overseas under Income Tax (Promotion of Exports) Rules (No.2) 2002 [P.U.(A) 116/2002], and
- (b) Bringing potential importers to Malaysia as a follow-up to trade or investment missions under Income Tax (Promotion of Exports) Rules (No.3) 2002 [P.U.(A) 117/2002].

### **5.2. Further deduction**

Certain expenses that are allowable under subsection 33(1) of the ITA 1967 are given further deduction under the following provisions -

- (a) Section 41, PIA 1986 (see paragraph 6.2.1)
- (b) Income Tax (Promotion of Exports) Rules (Amendment) 2001 [P.U. (A) 170/2001], and
- (c) Income Tax (Promotion of Exports) Rules 2002 [P.U.(A) 115/2002] (see paragraph 6.2.2).

### **5.3. Double deduction**

With effect from year of assessment 2006, P.U.(A) 14/2007 allows for twice the amount of expenses on registration of patents, trademarks or product licensing overseas.

## 6. Types Of Qualifying Expenditure For Promotion Of Export

### 6.1. Single deduction

#### 6.1.1. Registration of patents, trademarks or product licensing overseas

Income Tax (Promotion of Exports) Rules (No. 2) 2002 [P.U.(A) 116/2002]

Single deduction for Registration of patents, trademarks or product licensing overseas under P.U.(A) 116/2002 has expired in the year of assessment 2005. With effect from year of assessment 2006 double deduction is given as described in paragraph 6.3 of this Ruling.

#### 6.1.2. Expenses bringing potential importers to Malaysia

Income Tax (Promotion of Exports) No. 3) Rules (2002 [P.U.(A) 117/2002]

Generally, expenses incurred by a company on bringing potential importers to Malaysia are not allowed as a deduction as the expenses are not wholly and exclusively incurred in the production of income.

However, from the year of assessment 2002, these expenses on bringing potential importers to Malaysia are allowable under the Income Tax (Deduction for Promotion of Export) (No. 3) Rules 2002 [P.U. (A) 117/2002] as a follow-up to the trade or investment mission organized by Government agencies or industrial / trade associations as verified by MATRADE shall be eligible for tax deduction in determining adjusted income of the company.

Visits by potential importers must fall within a period of 12 months after the mission overseas. The eligible expenses are hotel accommodation and sustenance. Actual expenses allowed are subject to :

- (a) A maximum of three nights hotel accommodation cost restricted to RM300 per night, and
- (b) A maximum of three days sustenance expenses restricted to RM150 per day.



6.2. Further deduction

6.2.1. Section 41, of the Promotion of Investments Act 1986 (PIA 1986)  
[Income Tax (Promotion of Exports) Rules 1986]

(a) Publicity and advertisement

- (i) Cost of advertisement in any media outside Malaysia. Example of media are television, web site, radio, newspapers, trade or general magazines, trade directories and guidebooks. For this purpose, media does not include advertising and publicity on billboards and vehicles, and
- (ii) Cost of brochures and pamphlets printed in or outside Malaysia for distribution overseas.

(b) Provision of samples

Expenses that qualify are those expenses related to the provision of free samples which are locally prepared for distribution to prospective customers outside Malaysia. These expenses include material cost, forwarding charges, freight, postage, insurance, packaging, import duty and taxes paid in the country of destination.

(c) Export market research / Export market information<sup>1</sup>

The expenses involved here are expenses directly related to carrying out export market research or obtaining export market information. Examples of such expenses are:

- (i) Expenses incurred in employing marketing consultants to carry out product market research and product testing overseas if they are related to the export market. If the appointed consultants are from abroad, payments made to the consultants are subject to withholding tax
- (ii) Cost of acquiring financial and status report of prospective buyers
- (iii) Cost of acquiring samples overseas to be brought back to Malaysia for study and modification in order to develop products for export, and
- (iv) Cost of acquiring secondary export marketing information such as market survey reports, manufacturer directories, importer directories and statistical publication.

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**Note**

<sup>1</sup>The above expenses shall not include air fare, accommodation and sustenance.

(d) Tender for the supply of goods

The expenses are those directly attributable to the preparation of tenders for the supply of goods or agricultural produce (not being goods on agricultural products of the same kind and specifications as those regularly manufactured, produced or supplied by the company) to prospective customers outside Malaysia. The expenses generally refer to -

- (i) Expenses in relation to purchase of tender documents such as cost of tender, freight and insurance
- (ii) Expenses for preparing samples according to tender specifications to be submitted with tender documents such as material and labour costs, and
- (iii) Cost of delivery of tender documents and samples to overseas destinations such as freight charges, postage charges, premium insurance, delivery of tender documents and samples packaging, and clearing fees.

**Example 3**

C Sdn Bhd established in 2009, is a manufacturer of frozen catfish and marketed locally. In the year 2011, the company decided to exports frozen catfish products and company incurred expenses on the preparation of tenders to customers outside Malaysia.

C Sdn Bhd, does not qualify for an additional deduction for expenses incurred in connection with the preparation of tenders to potential customers outside Malaysia because the product to be exported is the same product as previously produced by the company.

**Example 4**

Same facts as example 3 above. In the year 2012, C Sdn Bhd has produced a new product i.e. canned anchovies to be marketed overseas. For this purpose the company incurred expenses on preparation of tenders to customers outside Malaysia.

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C Sdn Bhd is eligible for further deduction on expenses incurred in connection with the preparation of tenders to potential customers overseas for the new product.

(e) Negotiating or concluding contracts<sup>2</sup>

Travel fare incurred by a representative of the company to a country outside Malaysia for the purpose of negotiating or concluding contracts for sales of goods or agricultural produce on behalf of the company qualifies for deduction.

The expenses allowed as further deduction are:

- (i) Return air fare for a representative of the company (economy class).
- (ii) Ground transportation (overseas), and
- (iii) Hotel accommodation and sustenance. Actual expenses allowed are subject to a maximum of RM200 per day. With effect from year of assessment 2002, the amount has been increased to -
  - Hotel - a maximum of RM300 per day, and
  - Sustenance - a maximum of RM150 per day.

**Note**

<sup>2</sup>Expenses can be claimed only for representatives of the company who carry out negotiations or signed contracts directly with foreign customers for products to be sold to them. Meetings and discussions with agents or distributors abroad in cooperation to expand markets in the country are not eligible for this double deduction.

**Example 5**

D Sdn Bhd is a resident company in Malaysia and carried on the business of manufacturing furniture for the domestic as well as overseas markets. To expand the market, in the year of assessment 2011 the company conducted a series of negotiations and signed a contract selling new products to new customers abroad. The following expenses were incurred :

No	Type of Expenses	Deduction	
		Section 33(1)	Additional
1	Travel fare (economy class) – (2 person)	13,000	13,000
2	Cost of accommodation (RM750 x 5 days x 2 person)	7,500	3,000 (restricted to RM300 x 5 days x 2 person)
3	Sustenance (RM300 x 5 days x 2 person)	3,000	1,500 (restricted to RM150 x 5 days x 2 person)
<b>Total</b>		<b>23,500</b>	<b>17,500</b>
<b>Qualifying expenditure</b>		<b>23,500 + 17,500= 41,000</b>	

The Company is eligible for deduction under subsection 33(1) of the ITA 1967 and further deduction of RM41,000 on the expenses incurred subject to the amounts as mentioned in the preceding subparagraph (e)(i), (ii) and (iii).

### Example 6

E Sdn Bhd claimed additional deduction for the cost of attending discussions with overseas agents in cooperation to expand markets in their countries.

The company is not eligible for further deduction for the expenses incurred overseas because that meetings and discussions are not for the purpose of selling the products to agents and potential customers abroad.

- (f) Participation in approved trade fairs or trade/industrial exhibitions<sup>3</sup>

Travel fare incurred by a representative of a company in respect of necessary trips taken to a country outside Malaysia for the purpose of participating in trade fairs or trade / industrial exhibitions also qualify for further deduction.

The expenses that qualify are -

- (i) Return air fare for a representative of the company (economy class)

- (ii) Ground transportation (overseas), and
- (iii) Hotel accommodation and sustenance. Actual expenses allowed are subject to a maximum of RM200 per day. With effect from year of assessment 2002, the amount is increased to -
  - Hotel - a maximum of RM300 per day, and
  - Sustenance - a maximum of RM150 per day.
- (g) Provision of exhibits for participation in approved trade fairs or trade/industrial exhibitions<sup>4</sup>

Expenses directly attributable to the provision of exhibits for trade fairs or trade/industrial exhibitions held outside Malaysia include the cost of transportation of exhibits such as packaging, insurance, freight, forwarding charges and clearing charges from Malaysia to country of destination and return excluding transportation in Malaysia.

**Note**

<sup>3&4</sup>Participation in trade fair or trade/industrial exhibition has to be approved by MATRADE.

- (h) Expenses directly incurred for participation in approved trade fairs or trade/industrial exhibitions other than the expenditure specified under paragraphs 6.2.1(f) and 6.2.1(g) above.

Expenses directly attributable to the provision of exhibits for trade fairs or trade/industrial exhibitions held outside Malaysia and approved by MATRADE, other than those expenses described in preceding subparagraphs (e), (f) and (g) qualify for further deduction too.

These expenses are -

- (i) Amounts paid to individuals recruited for the purpose of manning exhibition booths such as security guards, interpreters, receptionists and booth assistants
- (ii) Cost of utilities such as water, electricity and gas incurred during the trade fairs or exhibitions

- 
- (iii) Cost of rental, designing and construction of booth, professional display layout service, rental of furniture and fittings for the booth and dismantling of booth after the exhibition excluding the cost of any permanent structure
  - (iv) Cost of publicity and advertisement and cost of promotion gifts given out during the trade fair or trade/industrial exhibition such as badges, plastic bags and book markers, and
  - (v) Cost of communication such as postage, telephone, e-mail and facsimile incurred during the trade fair or trade/industrial exhibition.
- (i) Provision of technical information
- Expenses incurred in giving technical information to persons outside Malaysia relating generally to goods or agricultural produce of the company offered for sale, excluding expenses for giving technical information to customers who have made purchases. The expenses that qualify are :
- (i) Cost of material, labour and consultancy fees incurred in producing technical documents, and
  - (ii) Cost of forwarding documents.
- If the consultation fee is paid to non-residents in Malaysia, the payment is subject to withholding tax.
- (j) Public relations
- Payment on services rendered for public relations work to the public relation agencies or consultants outside Malaysia to enhance the export or to promote company's image in connection with the exports.
- (k) Maintaining sales office overseas
- Expenses incurred in maintaining sales office overseas for the promotion of export such as :
- (i) Maintaining rental of office space
  - (ii) Maintenance and repairs of office
  - (iii) Payment for remuneration of staff manning the sales office.

Employees remunerations in offices abroad which are eligible for additional deduction are the salary paid to employees who are appointed directly by the companies in Malaysia to promote the product in that foreign country.

#### Example 7

F Sdn Bhd is a manufacturing company resident in Malaysia and exports its products abroad. The company appointed foreign distributors to promote and sell its products in overseas countries. The foreign distributors employed employees for the purpose of promoting and selling products. Expenses incurred by the foreign distributors on the salaries and other related expenses of the workers were claimed by E Sdn Bhd.

F Sdn Bhd is not entitled to claim the salaries and other related expenses incurred by the foreign workers who are appointed by foreign distributors because the employees are not employees of F Sdn Bhd.

- (iv) Expenses incurred by employees in the overseas sales office on outstation travel for sales promotion such as -
- Return air fare (economy class)
  - Ground transport
  - Hotel accommodation and sustenance. Actual expenses are subject to a maximum of RM200 per day. With effect from year of assessment 2002, the amount has been increased to -
    - Hotel accommodation - maximum of RM300 per day, and
    - Sustenance - maximum of RM150 per day.
- (l) Professional fees incurred on packaging design  
[Income Tax (Promotion of Exports) Rules (Amendment) 2001  
[P.U.(A) 170/2001]

With effect from 1 January 2001, professional fees paid by a company in relation to packaging design of export quality products or engagement of local professional services qualify for further deduction. Qualifying expenditure is as follows -

- 
- (i) Cost of packaging concept or labelling
  - (ii) Cost of preparation of prototype
  - (iii) Cost of logo designing
  - (iv) Cost of brand name designing
  - (v) Cost of surface designing (graphic)
  - (vi) Cost of structure/flexible designing
  - (vii) Cost of photography and scanning
  - (viii) Cost of colour separation, colour proofing and plate making
  - (ix) Production cost for printing and cutting (die-cut) of sample
  - (x) Production cost for sample of box or container (plastic, steel and glass), and
  - (xi) Cost of acquiring stripe code .

6.2.2. Income Tax (Promotion of Exports) Rules 2002 [P.U.(A) 115/2002].

As a continuous effort to promote Malaysian products or agriculture produce in the international market, with effect from year of assessment 2002, the following expenses have been included as qualifying expenses for the promotion of exports and qualify for further deduction -

- (a) Participation in a trade portal
  - (i) Renewal of trade portal membership fee. (Initial registration fee or a onetime fee such as subscription or membership fee with a trade portal is not an allowable expenditure)
  - (ii) Cost of advertisement (banner/button advertisement, sponsored links/sections)
  - (iii) Consultation fees paid for the development of website
  - (iv) Cost of web development (website pages, creative design/layout)



- (v) Cost of web service (domain name registration, e-mail registration, web hosting services, server rental, web mail creation and hosting)
  - (vi) Cost of internet marketing services (e-mail marketing and search engine submission), and
  - (vii) Annual / maintenance fees for continuing the maintenance of website by the service provider including hosting charges, domain e-mail, e-mail services. Participation in each trade portal has to be verified by MATRADE.
- (b) Virtual trade shows

Virtual trade shows means participating in internet commerce excluding participation in trade fairs or trade/industrial exhibitions abroad as described in paragraph 6.2.1(f) of this Ruling. Qualifying expenditure is as follows :

- (i) Cost of developing virtual booth such as page setting and layout, product catalogue, image scanning, 3D product display, multimedia animation and creative design for templates
  - (ii) Cost of advertisement in virtual trade shows such as banner/button advertisement and sponsored links
  - (iii) Promotional materials related to virtual trade shows such as brochures/pamphlets
  - (iv) Cost of virtual conference / teleconferencing facilities
  - (v) Cost of online trade enquiry in virtual booth or virtual trade shows, and
  - (vi) Other expenses directly incurred for participation in virtual trade show.
- (c) Cost of maintaining warehouse overseas

Warehouse is a building as defined under paragraph 37C of Schedule 3 of the ITA 1967, while building is a structure erected on land (other than plant and machinery) as provided under section 2 of the ITA 1967.

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For the purposes of these Rules, warehouse means a building located outside the country for stockpiling before the goods are distributed or sold for export promotion but does not include vessel or containers for storage of liquid and mobile assets.

Expenses for maintaining warehouse overseas is -

- (i) Rental of warehouse
- (ii) Maintenance and repair of warehouse
- (iii) Remuneration of staff manning the warehouse, and
- (iv) Other expenses directly incurred for the maintenance of warehouse.

#### **Example 8**

G Sdn Bhd is a company resident in Malaysia and carry out the manufacturing of electrical components and exports most of the products manufactured. To ensure products are marketed outside the country quickly and meet customer demand, the company rented warehouses outside the country for the purpose of storing the products before being sold to customers.

The Company is entitled to claim further deduction on expenses incurred on the warehouse.

#### **Example 9**

H Sdn Bhd is a company that produces fatty acids that are exported abroad. To meet the overseas market and maintain quality of products, the company rented a mobile storage tank to store stock before it is distributed or sold to customers in the overseas markets.

H Sdn Bhd does not qualify for additional deductions on expenses related to the purchase or rental of the storage tank as storage tank does not fulfill the definition of warehouse as provided in ITA 1967.

6.3. Double Deduction

6.3.1 Registration of patents, trademarks or product licensing overseas

Income Tax (Promotion of Exports) Rules 2007 [P.U.(A) 14/2007]

With effect from the year of assessment 2006, the amount of expenses relating to the registration of patents, trademarks or product licensing overseas which previously qualified for single deduction under the Income Tax (Promotion of Exports) Rules (No.2) 2002 [P.U (A) 116/2002] is now given double deduction on expenses incurred for -

- (a) Registration fees, and
- (b) Other expenses directly incurred for the registration of patents, trademarks or product licensing such as stamp duty, legal fees and consultancy fees.

P.U.(A) 14/2007 replaces P.U.(A) 116/2002.

6.4. Summary of Deductions For Promotions of Export

No	Act or Rules	Details of Expenses	Entitlement
1.	Income Tax (Promotion of Exports) Rules 1986 (ITR 1986)	(a) Publicity & advertisement (b) Provision of samples (c) Market research (d) Preparation of tenders (e) Negotiating/concluding contracts or participation in trade fair / exhibitions – restrictions apply i.e. accommodation, travelling and sustenance cost. (f) Technical information (g) Provision of exhibits (h) Public relations work (i) Participation in trade fair or trade / industrial exhibitions [other than those in (e) & (g)] (j) Maintaining sales office	Futher deduction
	P.U.(A) 170/2001	Professional fees on packaging design	
	P.U.(A) 115/2002	(a) Participation in virtual trade show (b) Participation in trade portal (c) Maintain warehouses overseas	

No	Act or Rules	Details of Expenses	Entitlement
	ITR 1986	<p>1) Negotiating/concluding contracts or participation in trade fair/exhibitions:</p> <p>(a) Air fare equivalent to economy class</p> <p>(b) Accommodation &amp; sustenance RM200 per day for whole period</p> <p>2) Expenses incurred by employees in the overseas sales office on outstation travels for sales promotion. Such as:</p> <p>(a) Return air fare (economy class)</p> <p>(b) Ground transport</p> <p>(c) Hotel accommodation and sustenance. Actual expenses subject to a maximum of RM200 per day. With effect from year of assessment 2002, the amount has been increased to:</p> <ul style="list-style-type: none"> <li>▪ Hotel accommodation - a maximum of RM300 per day; and</li> <li>▪ Sustenance - a maximum of RM150 per day.</li> </ul>	Further deduction with restriction
2.	P.U.(A) 117/2002	<p>Provided for potential importers:</p> <p>(i) Accommodation – maximum RM300 per day for maximum 3 nights;</p> <p>(ii) Sustenance – maximum RM150 per day for maximum 3 days</p>	Single deduction with restriction
3.	P.U.(A) 14/2007	Registration of patents, trademarks or product licensing overseas	Double deduction

6.5. Special Provision For Pioneer Company / Company exempt under Income Tax Exemption Order.

6.5.1 Income Tax (Promotion of Exports) Rules 1986 and Income Tax (Promotion of Exports) (Amendment) Rules 2001

Pioneer companies are eligible to claim a deduction for promotion of export. However, the amount of expenses allowed as a deduction under these Rules during pioneer period will be accumulated and deducted from business adjusted income during the post pioneer period.

6.5.2 A tax exempt company is also eligible to claim a tax deduction for export promotion expenses under both the Income Tax Rules referred to in the preceding paragraph if there are special provisions that allow the expenses claimed after the exemption period.

For example, the Income Tax (Exemption) (No.17) Order 2007 [P.U.(A) 371/2007] provides that a BioNexus status company is eligible to claim expenditure incurred for promotion of export during the period of tax exemption after the exemption period expires.

#### **Example 10**

J Sdn Bhd which closes its accounts on 31 December each year, has been granted pioneer status with tax exemption of 70% for the period 1.4.2005 to 31.3.2009.

Information on pioneer income received and expenses incurred related to promotion of export on the following dates which are eligible for additional deduction is as follows :

Year of Assessment	Gross Income (RM)	Allowable Operational And Administrative Expenses (RM)	Date Of Incurring Promotion Of Export Expenses	Promotion Of Export Expenses
2005 Pre-pioneer periods (1.1.2005 – 31.3.2005)	-	-	-	-
2005 Pioneer periods (1.4.2005 - 31.12.2005)				
2006	-	-	-	-
2007	200,000	80,000	04.05.2007	20,000 <sup>5</sup>
2008	400,000	150,000	24.11.2008	5,000 <sup>6</sup>
2009 (Jan – Mach)	500,000	200,000	-	-
2009 (April – Dec)	800,000	300,000	02.08.2009	15,000

6.5.3 Company tax computation are prepared as follows:

**Year Of Assessment 2007**

<b>Pioneer Business</b>	<b>RM</b>
Gross income	200,000
Less:	
Allowable deduction including expenses on promotion of export [RM20,000]	<u>100,000</u>
Adjusted Income	100,000
Less: Capital allowances	<u>25,000</u>
Statutory income	75,000
Exemptions restricted to 70% of statutory income	<u>52,500</u>
Aggregate Income	<u>22,500</u>

**Note**

<sup>5</sup>Additional deduction of expenses incurred amounting to RM20,000 on 4.05.2007 is deferred and deducted in the year of assessment 2009 after the pioneer period ended.

**Year Of Assessment 2008**

<b>Pioneer Business</b>	<b>RM</b>
Gross income	400,000
Less:	
Allowable deduction including expenses on promotion of export[RM5,000]	<u>155,000</u>
Adjusted Income	245,000
Less: Capital allowances	<u>30,000</u>
Statutory income	215,000
Exemptions restricted to 70% of statutory income	<u>150,500</u>
Aggregate Income	<u>64,500</u>

**Note**

<sup>6</sup>Additional deduction of expenses incurred amounting to RM5,000 on 24.11.2008 is deferred and deducted in the year of assessment 2009 after the pioneer period ended.

**Year Of Assessment 2009**

**Pioneer Business (1.1.2009 – 31.3.2009)**

<b>Pioneer Business (1.1.2009 – 31.3.2009)</b>	<b>RM</b>
Gross income	500,000
Less:	
Allowable deduction	<u>200,000</u>
Adjusted Income	300,000
Less: Capital allowances	<u>25,000</u>
Statutory income	275,000
Exemption restricted to 70% of statutory income	<u>192,500</u> <u>82,500</u>



**Post-Pioneer Business (1.4.2009 – 31.12.2009)**

		<b>RM</b>
Gross income		800,000
Less:		
Allowable deduction	315,000	
[RM300,000 + RM15,000]		
Outgoings/expenses incurred	<u>25,000</u>	<u>340,000</u>
(20,000 + 5,000) <sup>7</sup>		
Adjusted Income		460,000
Less: Capital allowances		<u>15,000</u> <u>445,000</u>
Total statutory income		<u>527,500</u>

**Note**

<sup>7</sup>The amount of export promotion expenses accumulated during the pioneer period was RM25,000 [RM20,000 + RM5,000].

**7. Restriction On Deduction**

- 7.1. No deduction shall be allowed in respect of any outgoings, expenses or other payments -
- (a) Of the kind mentioned in subsection 39(1) of the ITA 1967, or
  - (b) Incurred by a company having a place overseas and subject to tax in that country.
- 7.2. The Director General of Inland Revenue is, however, empowered to disallow any amount of the expenses which, in his opinion, constitute as being in excess of what would reasonably be expected to be incurred in the ordinary course of the business.

**8. Claim Procedure**

- 8.1. Companies are advised to complete the respective prescribed forms as follows:
- (a) LHDN/BT/DD/POE/2003: Further deduction for promotion of exports
  - (b) LHDN/BT/DD/POE/PD/2003-1: Further deduction for professional fees on packaging design
  - (c) LHDN/BT/SD/POE/2003: Single deduction for promotion of export



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- 8.2. Completed forms together with supporting documents are to be kept by the company for audit purposes.

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