



Updated Frequently Asked Questions:

Special Deduction for Corporate Taxpayers
and Others on Rental Reduction Provided to
Small and Medium Enterprises [SME]

28th of April 2020
(Refer to amendments in RED font)

Economic Stimulus Package



What is it?

Landlord of business premises who offers rental reduction or rental waiver to its SME tenants will be given a **special deduction equivalent to the amount of discount or amount of rental waived (rental relief)** for the month of **April 2020 to June 2020.**

The reduction of rental must be at least 30% from the existing rental rate of the determined period.



Who is eligible to claim the Special Deduction?

- I. Any taxpayers (corporate, individual, cooperative or other business and non-business entities), renting out their business premises to any qualified SME tenants;
- II. The rented premise must be used by its tenant for the purpose of business; and
- III. The landlord must be a taxpayer which has a rental income under subsection 4(a) and subsection 4(d) of Income Tax Act 1967.



What is the definition of SME for the purpose of claiming the Special Deduction?

The definition of SME for this purpose follows the National SME definition.

A business can qualify as SME if it meets either one of the two specified criteria, namely sales turnover or full-time employees, whichever is lower.

If a business fulfils either one criteria across the different sizes of operation, then the smaller size will be applicable.

Reference to the SME Corporation's Guideline for the New SME definition:

http://www.smecorp.gov.my/images/pdf/Guideline_New_SME_Definition_updated.pdf



What is the definition of SME for the purpose of claiming the Special Deduction? *Cont'd*

Definition by Size of Operation

Type of Enterprises	Sector	Criteria
Micro	All	Sales turnover of less than RM 300,000 OR less than 5 full-time employees
Small	Manufacturing	Sales turnover of from RM 300,000 to less than RM 15 million OR full time employees from 5 to 75
	Services & Other Sectors	Sales turnover from RM 300,000 to less than RM 3 million OR full-time employees from 5 to less than 30
Medium	Manufacturing	Sales turnover from RM 15 million to not exceeding RM 50 million OR full-time employees from 75 to not exceeding 200
	Services & Other Sectors	Sales turnover from RM 3 million to not exceeding RM 20 million OR full-time employees from 30 to not exceeding 75



Can a Company Claim the Deduction If The Tenant Is A Company Excluded Under National SME Definition Under SME Guideline?

- The landlord is not eligible for this special deduction.

A tenant is not considered as SMEs according to SME Guideline as follows:

1. Entities that are public-listed on the main board; and
2. Subsidiaries of:
 - a) Publicly-listed companies on the main board;
 - b) Multinational corporations (MNCs);
 - c) Government-linked companies (GLCs);
 - d) *Syarikat Menteri Kewangan Diperbadankan* (MKDs); and
 - e) State-owned enterprises.



Rental to Related Company

If my company rents out premise to a related company, does my company qualify to get the special deduction?

- If the tenant is a qualified SME under the SME Guideline, the company (landlord) would be eligible to claim the Special Deduction.
- However, if the SME falls under the categories of exclusion from National SME definition under SME Guideline, the Company (landlord) is not eligible for this special deduction.



Definition of Business Premise

All premises used for carrying out a business.

Examples:-

- Office, workshop, warehouse, childcare and rented lot/ bazar/ booth/ stall.
- However, rental of **residential house** used for both business and residential purpose **DO NOT QUALIFY** for the special deduction.



Cut-Off Date to Determine the SME Criteria of the Tenant

The following cut-off dates are used in determining the SME criteria:

SME Criteria	Period
Annual sales turnover	Annual sales turnover at the end of basis period of preceding year of assessment. Note: If SME's basis period ending 31/12/2019, sales turnover for that period must be used.
Number of full-time employees	Number of full-time employees at the end of basis period for the year of assessment prior to the year of assessment in which the small and medium enterprise claims deduction for rental expenditure for the qualifying months or on 1 April 2020.



Other Rental (E.g. Machines, Parking Spaces, Telecommunication Towers etc.)

Is the special deduction applicable to other rentals?

The special deduction is only applicable for rental of business premises. The rented business premises must be used for the purpose of carrying out a business.

What is the Minimum Rental Reduction Required?

The minimum rental reduction required must be at least 30% from the existing monthly rental rate.



What is the Special Deduction Amount?

The special deduction amount is equivalent to the amount of monthly rental reduction offered by the landlord to the eligible SME tenants.

Period of Eligibility for the Special Deduction

April 2020 to June 2020 only.



Example of Scenario

A Sdn. Bhd rents a shop lot to B which is an eligible SME for RM5,000 a month (RM60,000 yearly). A Sdn. Bhd. has agreed to offer rental reduction to B for the month April, May and June 2020 of RM2,500 a month.

	April, May, June 2020	Without Special Deduction (RM)	With Special Deduction (RM)
Monthly rental		5,000	5,000
Annual rental income		60,000	60,000
Rental reduction 50%	5,000 X 3 months X 50%	(7,500)	(7,500)
Annual gross rental income		52,500	52,500
Special deduction	2,500 x 3 months	nil	(7,500)
Taxable income		52,500	45,000
Tax payable @ 24% *	[Tax savings – RM 1,800]	12,600	10,800

- Assuming no other allowable expenses.

- * Current corporate tax rate.

- For other taxpayers such as individuals, the tax savings is according to the income tax bracket.



Different Month, Reduction of Rental Rate Fluctuates

If my company reduces the rental amount at a different rate every month, can my company claim this special deduction?

Yes. The Company have to ensure the rental reduction amount should at least 30% for every qualifying month (April, May and June 2020).

However, if the rental reduction for a particular month did not reach the minimum rate of 30%, special deduction will not be claimable by the Company for the failure month.



Advance Rental Received for April to June 2020.

If I have received rental payment for April to June 2020 earlier this year, can I still offer rental reduction and claim the special deduction?

Yes, for landlord that have received the rental payment for April, May and June 2020 in advance, the landlord can still offer rental reduction subject to the fulfilment of the conditions.



What are the Supporting Documents Required?

The supporting documents which are required to be kept by the taxpayers (landlords) who claim this special deduction are:

1. Valid tenancy agreement;
2. Rental income statement;
3. Details of the tenant as SME such as number of business registration, tax file number and etc.;
4. Details of the rental reduction.

* Item 3 and 4 will have to be provided in Working Sheet (HK) of Company Return Form.



HSS ADVISORY SDN BHD
(7 2 2 9 5 6 - M)

Tax & Business Advisors

**Level13A-03-03A,PJX-HM Shah Tower,
16A,Persiaran Barat,46050 Petaling Jaya,Selangor
Tel: +603-79320501**

Website: hssadvisory.com.my

**Email:admin@hssadvisory.com.my/
info@hssadvisory.com.my**

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