

CHAPTER FIVE : OTHER SOURCES OF INCOME

Chapter Topic List:

- Introduction
- 1. Dividend
- 2. Interest
- 3. Rental
- 4. Royalty
- 5. Pension annuity

Learning Outcome:

On completion of this chapter, learners should be able to:

1. Explain the treatment of dividends, net dividends, gross dividends and imputation credits;
2. Explain the treatment of interest income including withholding tax and exemptions;
3. Calculate rental income and premiums – including consideration of whether expenses are allowable; and
4. Explain the treatment of royalties including exemption.

Introduction

All other sources of income besides employment income will be added to ascertain gross income, adjusted income, statutory income, aggregate income and total income till chargeable income.

Computation of income tax payable for YA XXXX

	RM	RM
Section 4(a) Gross Business Income	xx	
(-) Deductible expenses	<u>(x)</u>	
Adjusted income	xx	
(+) Balancing charge	x	
(-) Capital allowance	<u>(x)</u>	
Statutory income	xx	
(-) Unabsorbed business loss	<u>(x)</u>	
		xx
Section 4(b) Gross Employment Income	xx	
(-) Wholly and exclusively revenue expenses	<u>(x)</u>	
		xx
Section 4(c) Dividends, interest, discounts		xx
Section 4(d) Rents, royalties, premiums		xx

	RM	RM	RM
Section 4(e) Pensions, annuities, periodic payments		xx	
Section 4(f) Casual income		xx	
Aggregate income			xx
(-) Current year business loss			(x)
(-) Approved donation			(x)
(-) Personal reliefs			(x)
Chargeable income			<u>xx</u>
Income Tax payable at scaled rate/ fixed rate			xx
(-) Rebate			<u>(x)</u>
Net income tax payable			<u>xx</u>

1. Dividend

Dividend represents distribution or payment out of profits to the company's shareholders.

Resident company which pays, credits or distributes Malaysian derived dividend to its shareholders is required under Section 108(1) to deduct tax there from at the existing corporate tax rate. This is known as the tax imputation system.

The shareholders would be receiving only the net dividend from the company. Therefore the tax deducted earlier would be available as a tax credit and can be set off against the tax payable of the shareholders (Section 110 set off).

2. Interest

Interest refers to compensation for any delayed payment (loan) or refers to investment income.

Resident individual would suffer withholding tax at the rate of 5% on gross interest income from deposits with licensed banks and finance companies. In fact, the Minister of Finance has specially **exempted** the following interest income from income tax:

- (a) any bank or finance company licensed under the Banking and Financial Institution Act 1989 or Islamic Banking Act 1983 on saving or fixed deposit (tenure less than 1 year) not exceeding RM100,000;
- (b) any registered co-operative society;
- (c) Bank Simpanan Nasional;
- (d) Bank Pertanian Malaysia;

- (e) Lembaga Urusan dan Tabung Haji;
- (f) Malaysia Building Society Berhad;
- (g) Any other institution approved by the Minister.

If the savings exceeds RM100,000, the interest income earned on the excess of RM100,000 will be taxed at 5%, which is a final withholding tax.

3. Rental

Rental income can be derived from the following sources:

- i. letting out of land, commercial buildings or residential properties such as terrace houses, flats and condominiums;
- ii. letting out of ships, plant, machinery or motor vehicles.

Allowable expenses:

- i. cost of repairs and maintenance of the property;
- ii. insurance premium on fire/burglary;
- iii. cost of supervision and rental collection;
- iv. cost of obtaining tenant to replace the old tenant;
- v. interest paid on loan facility taken to finance the property;
- vi. cost of renewing rental agreement and other miscellaneous expenses.

Non-allowable expenses:

Cost of obtaining the first tenant, for instance advertising, commission and legal expenses on the first rental agreement is not allowed.

4. Royalty

Royalty includes:

- (a) any sums paid as consideration for the use of, or the right to use-
 - i. copyrights, artistic or scientific works, patents, designs or models, plans, secret processes or formulae, trademarks, or tapes for other means of reproduction where such films or tapes have been or are to be used or reproduced in Malaysia or other like property or rights;
 - ii. know-how or information concerning technical, industrial, commercial or scientific knowledge, experience or skill;
- (b) income derived from the alienation of any property, know-how or information mentioned in para (a) of this definition.

Exemptions for royalty income:

- i. Income of RM10,000 in respect of the publication of, or the use of, or the right to use any artistic work, and from royalty in respect of recording discs or tapes.
- ii. Income of RM12,000 for payment of books / literary translation at the request of Ministry of Education or the Attorney General's Chambers;

- iii. Income of RM20,000 from royalty of payment in respect of the publication of, or the use of or the right to use, any literary work, or any original painting.

5. Pension annuity

Pension is a periodical payment made to an individual who has permanently ceased to exercise an employment.

Exemption for pension income

To qualify for the exemption, these conditions have to be fulfilled:-

- i. pension is derived from Malaysia;
- ii. the recipient has reached the age of 55 or on reaching the compulsory age of retirement or the Director General is satisfied that the retirement was due to ill health;
- iii. the pension is paid out from an approved fund, scheme or society; and
- iv. in respect of services rendered in exercising a former employment in Malaysia.