



Crowe Perspective:

Maximising Your Individual Tax Reliefs

16 March 2022

Introduction

With tax filing season just around the corner, all individual taxpayers will have to report their income received from Malaysia that is taxable for the year of assessment (“YA”) 2021, to the Inland Revenue Board of Malaysia (“IRBM”). Those who submit their tax return manually are allowed a deadline of 30 April 2022 but a grace period is granted until 15 May 2022 to those who file their tax return online (“e-BE”). The grace period equally applies to the payment of the balance of tax payable.

There is no denying it – anyone who fails to submit the e-BE on time will be liable to a late filing penalty under subsection 112(3) of the Malaysian Income Tax Act, 1967 (“MITA”). Additionally, if he is late in paying the balance of tax due, he will be subject to a penalty under subsection 103(3) of the MITA on the tax that is paid late.

Taxpayers may recall the government initiatives announced in the last Budget 2022 and take advantage of any tax benefits granted. Concurrently, they should be aware of their rights and responsibilities as taxpayers. Any oversight, whether deliberate or unintentional or whether due to negligence or ignorance of the law, may result in penalties. Taxpayers will need to take the necessary action as prudent and responsible taxpayers.

So, let’s look at the issue of individual tax filing and how we can improve tax compliance as individual taxpayers.

The basics of personal tax deductions or reliefs



Personal relief is allowed as a deduction from the total income of an individual in arriving at chargeable income. This relief is only available to a Malaysian tax resident;



Generally, an individual is considered a tax resident if he/she is present in Malaysia for 182 days or more in a calendar year. Even if the individual is present in Malaysia for part or parts of a day, he/she is deemed to be present in Malaysia for a day;



There are two (2) types of tax deductions; one is a fixed amount which is granted automatically by the IRBM and the other is given based on an eligible expense incurred and claimed by the individual but restricted to an allowable amount that is supported by supporting documents required for IRBM's verification;



Personal relief can be claimed as long as the taxpayer qualifies for the relief at any time during a basis year for a year of assessment ("YA"). There is no time apportionment in claiming the relief;



IRBM has issued Public Ruling ("PR") No.4/2018 dated 13 September 2018 in relation to the personal reliefs under the title of Taxation of a Resident Individual Part 1- Gifts or Contributions and Allowable Deductions, as a guide for individual taxpayers; and



Maximizing personal reliefs by an individual resident can result in a significant difference to the taxpayer's taxes. Substantial tax savings are possible depending on their annual income.

For your information, the IRBM has replaced the above PR No.4/2018 dated 13 September 2018 with the new PR No.5/2021 dated 30 September 2021.

Moreover, there are now [twenty-six \(26\) types of tax reliefs](#) that are available for individual residents to claim in their tax returns for YA 2021.



Personal Tax Reliefs Claims – The Issues

As we have discussed the potential tax savings in our previous article, we will now discuss the tax payable situation if two individuals claimed the same tax reliefs when submitting their e-BE for a YA. The key difference here is that one individual has been issued with a Notice of Additional Assessment ('Form JA') due to no or insufficient supporting documents provided to the IRBM during a desk audit.

Now, let's have a look on the following scenarios: -

Scenario 1 - Zakri is a tax resident of Malaysia and earns RM125,000 a year. He is married and has a child above 18 years of age who is pursuing a Bachelor of Accounting and Finance degree in Taylor's University during 2021.

Zakri has opted for separate assessment and claimed the personal reliefs in his tax return for the YA 2021 as follows: -

- Self-relief of RM9,000;
- Child relief of RM8,000;
- Contribution to EPF of RM4,000;
- Contribution to SOCSO of RM250;
- Lifestyle relief and special lifestyle relief amounting to RM5,000 for the purchase of an iPhone bought during the year 2021; and
- Medical treatment for parents amounting to RM8,000.

Scenario 2 - Andrew is a tax resident in Malaysia and earns RM125,000 a year. He is married and has a child above 18 years of age who is currently pursuing a Bachelor of Culinary Arts degree in a university in the United States during the calendar year 2021.

Like Zakri, Andrew has opted for separate assessment and claimed the same tax reliefs in his tax return for YA 2021. However, some of the claims were added back by the IRBM for the following reasons: -

- Child relief of RM8,000 was reduced to RM2,000 as Andrew's child is studying in a university not approved by the Government of Malaysia.
- Lifestyle relief and special lifestyle relief were added back as the receipt for the expense was issued under the wife's name and she had claimed the same relief in her tax return; and
- Medical expenses of RM8,000 were incurred in respect of Andrew's mother-in-law.

Personal Tax Reliefs Claims – The Issues (cont.)

YA: 2021
 BASIS PERIOD: 1 JANUARY 2021 to 31 DECEMBER 2021

	Scenario 1		Scenario 2 (insufficient supporting documents)	
	RM	RM	RM	RM
Section 13(1)(a) Income : Cash remuneration				
Salary	100,000		100,000	
Bonus	25,000		25,000	
TOTAL INCOME		125,000		125,000
Less: PERSONAL RELIEFS				
Self	(9,000)		(9,000)	
Child - above 18 years and studying in an approved institutions	(8,000)		(2,000)	
Employee Provident Fund (EPF)	(4,000)		(4,000)	
Contribution to the Social Security Organisation (SOCSO)	(250)		(250)	
Lifestyle relief	(2,500)		-	
Medical treatment, special needs and carer expenses for parents	(8,000)		-	
Special lifestyle relief	(2,500)		-	
		(34,250)		(15,250)
CHARGEABLE INCOME		90,750		109,750
Tax on first RM70,000/RM100,000	4,400.00		10,700.00	
Tax on balance @21%/24%	4,357.50		2,340.00	
		8,757.50		13,040.00
Add: Penalty under Section 113(2) of MITA i.e. 45% of additional tax liability i.e. RM4,282.50 (RM13,040.00-RM8,757.50) x 45%				
			1,927.13	
				14,967.13
<i>Tax windfall: RM6,209.63 (RM14,967.13 - RM8,757.50)</i>				

Based on the calculations, Scenario 2 shows that Andrew will have to pay additional tax of RM6,209.63. This includes the penalty imposed under Section 113(2) of MITA for failure to report the correct amount of chargeable income. In the event of incorrect tax reporting as a result of audit findings, the penalty that may be imposed under subsection 113(2) of MITA could be equivalent to the undercharged tax amount i.e. 100% of RM4,282.50 (RM13,040.00 – RM8,757.50). However, for the purpose of this illustration, we have used the rate of 45% which is the rate stated in the Tax Audit Framework dated 15 December 2019 issued by the IRBM.

Personal Tax Reliefs Claims – The Issues (cont.)

The additional tax liabilities could have been avoided if Andrew had understood the conditions to claim the tax reliefs, which include having the correct supporting documents to support those claims.

For example, Andrew did not check the eligibility to claim the increased child relief of RM8,000 which turned out as ineligible because the university that his child is studying in is not approved by the Government of Malaysia. The list of courses and universities recognised by the Government is available on the website of the [Public Service Department](#) and [Malaysian Qualifications Agency](#).

In addition, Andrew was not aware of the conditions for claiming the lifestyle reliefs and medical expenses for parents. He proceeded to claim the medical expenses incurred for his mother-in-law and the lifestyle reliefs in his tax return. However, upon presenting the supporting documents to the IRBM for audit purposes, the IRBM deemed the documents insufficient and incorrect, and subsequently issued a Form JA.

Therefore, Andrew should have made initial preparations before filling in his tax return by understanding the mechanism for claiming the allowable deductions according to IRBM's interpretation. In our experience, the following simple steps should be considered as a guide when making the claims: -





Critical steps you should take when making claims

1 Read the PRs issued by the IRBM relating to the allowable deductions for a YA.

The PRs set out the interpretation of the Director General in respect of the particular tax law and their policy as well as the procedure applicable to it.

Reference can be made to the following PRs available in the IRBM's website:

- Part I - Gifts or Contributions and Allowable Deductions (Public Ruling No. 5/2021);
- Part II - Computation of Total Income and Chargeable Income (Public Ruling No. 5/2018); and
- Part III - Computation of Income Tax and Tax Payable (Public Ruling No. 6/2018).

2 Prepare a checklist of claimable expenses for the current calendar year.

Such expenses (if any) should be made before the end of that calendar year. For example, if a person wants to buy a tablet this year, he has to make sure he buys the tablet on or before 31 December 2022, makes a claim for the lifestyle relief in the e-BE for YA 2022 and submits the e-BE for YA 2022 by 30 April 2023.

3 Keep receipts and supporting documents for future reference and inspection by the IRBM if required.

For individual taxpayers, among the documents that need to be kept for the IRBM examination are: -

- Form EA/EC;
- Dividend vouchers;
- Insurance premium receipt;
- Book purchase receipt;
- Medical receipts;
- Receipt of payment of zakat;
- Child's birth certificate;
- Marriage certificate;
- Approved donation receipts;
- Other supporting documents; and
- Worksheet (if any).

4 Obtain a letter of confirmation or supporting documents from the relevant authorities for expenses incurred as stated in the PRs.

E.g. certification by medical practitioners registered with the Malaysian Medical Council (MMC) for the medical expenses incurred for parents, self, spouse or child or a letter of confirmation from the learning institution approved by the Malaysian Government for a child over the age of eighteen (18) years and pursuing a full-time course at the relevant University or college.

Important reminders

It is worth noting that the tax audit can be carried out comprehensively by the IRBM covering a period of up to three (3) YAs. However, the years of assessment covered in the notice of assessment may be extended to five (5) years of assessment depending on the audit issues found. The limit for this coverage period of 5 years does not apply to audit cases involving fraud, willful default or negligence as provided under subsection 91(3) of the MITA. This rule has been stated in the IRBM Tax Audit Framework dated 15 December 2019.

Additionally, Sections 82 and 82A of the MITA require taxpayers to maintain sufficient and complete records which must be kept for seven (7) years, starting from the year in which the tax return has been submitted. Failure (without reasonable excuse) to comply with an order to keep proper records and documentation may lead to a penalty of RM300 to RM10,000 or imprisonment for a term not exceeding one (1) year or both pursuant to Section 119A of the MITA.

Summary

Personal tax planning is all about understanding taxes you are liable to pay and looking at ways to minimise them. You can enjoy favourable tax savings when you maximise your claim of personal tax reliefs.

The tax regime is becoming increasingly complex, with more emphasis being placed on taxpayers' individual responsibilities. Therefore, it is pertinent that individual taxpayers understand the eligibility and conditions to claim personal tax reliefs. Some may consider this trivial, but with the increase of IRBM audits, it is worthwhile to understand the requirements before making any claims.

When in doubt, you should contact your professional tax advisors for the appropriate advice and guidance. They will update you on the recent tax law changes and help you to plan your taxes



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