



INLAND REVENUE BOARD OF MALAYSIA

**TAX INCENTIVES FOR CHILD CARE
CENTRE AND KINDERGARTEN
OPERATORS**

PUBLIC RULING NO. 4/2016

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DIRECTOR GENERAL'S PUBLIC RULING

Section 138A of the Income Tax Act 1967 [ITA] provides that the Director General is empowered to make a Public Ruling in relation to the application of any provisions of the ITA.

A Public Ruling is published as a guide 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 as well as the procedure applicable to it.

The Director General may withdraw this Public Ruling 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 Public Ruling (PR) is to explain the tax treatment on the incentives given to child care centre and kindergarten operators.

2. Relevant Provisions of the Law

- 2.1 This PR takes into account laws which are in force as at the date this PR is published.
- 2.2 The provisions of the Income Tax Act 1967 (ITA) related to this PR are section 33 and paragraph 55 of Schedule 3.
- 2.3 Relevant subsidiary laws referred to in this PR are as follows:
- (a) Income Tax (Exemption) Order 2013 [P.U.(A) 3/2013]
 - (b) Income Tax (Exemption) (No.3) Order 2013 [P.U.(A) 13/2013]
 - (b) Income Tax (Industrial Building Allowance)(Kindergarten) Rules 2013 [P.U.(A) 1/2013]
 - (c) Income Tax (Industrial Building Allowance)(Child Care Centre) Rules 2013 [P.U.(A) 2/2013]

3. Interpretation

The words used in this PR have the following meaning:

- 3.1 "Incurred" has the same meaning assigned to it in paragraph 55 Schedule 3 of the ITA.
- 3.2 "Disposed" means the disposal of the industrial building or the occurrence of any of the following events:
- (a) the sale, transfer or assignment of the building;
 - (b) the demolition or destruction of the building; or
 - (c) the building ceases to be used by the owner for the purpose of a business
- 3.3 "Qualifying building expenditure" means the capital expenditure incurred on the construction or purchase of a building which is used as an industrial building for the purpose of his business.

4. Introduction

A childcare centre is a premise where four (4) or more children under the age of four (4) years from more than one household are cared for by its workers for a fee. The purpose of establishing a child care centre is to help parents take care of their children while they are at work. The establishment of a child care centre must be registered with the Department of Social Welfare (DSW) and it is subject to the Child Care Centre Act 1984 (Act 308) under the Ministry of Women, Family and Community Development.

A kindergarten is a premise provided for 10 or more children aged 4 to 6 years with the aim of receiving education. The purpose of establishing a kindergarten is to give early preparation (pre-school education) to children before they enter formal schooling at the age of 7 years. A kindergarten is subject to the Education Act 1996 [Act 550] and must be registered with the State Education Department (SED) under the Ministry of Education (MOE).

Services of child care centres and kindergartens are important in ensuring children have appropriate care and pre-school education while parents are at work. Therefore, to encourage more operators to provide quality child care centres and kindergartens, tax incentives are given to existing and new child care centre and kindergarten operators.

5. Tax Incentives for Child Care Centre Operators

5.1 Exemption of Statutory Income

5.1.1 The tax incentive which takes effect from the year of assessment (YA) 2013 gives an individual or a company who is a child care centre operator a tax exemption in respect of his business statutory income for a period of five consecutive years of assessment commencing from:

- (a) the YA 2013 in relation to an existing child care centre; or
- (b) the first invoice issued by a child care centre that commences its business from the YA 2013

5.1.2 The tax incentive shall apply only to a child care centre registered with the DSW under the above mentioned act.

5.1.3 The statutory income referred to in subparagraph 5.1.1 in the basis period for each of the year of assessment that is exempted from tax shall be determined after allowing allowances which fall to be made under Schedule 3 of the ITA notwithstanding that no claim for such allowances has been made.

Example 1

Brainy Years is established since the year 2010 and is a child care centre registered with the DSW. The following information is submitted for the year ended 31.12.2013:

| | RM |
|-------------------|-----------|
| Adjusted income | 80,000 |
| Balancing charge | 10,000 |
| Capital allowance | 5,000 |

The computation of statutory income of Brainy Years for the YA 2013:

| | RM |
|--------------------------------|---------------|
| Adjusted income | 80,000 |
| Add: Balancing charge | <u>10,000</u> |
| | 90,000 |
| Less: Capital allowance | <u>5,000</u> |
| Statutory income from business | <u>85,000</u> |

Statutory income of Brainy Years for the YA 2013 amounting to RM85,000 is exempted from tax.

Brainy Years is given a tax exemption on its statutory income commencing from the YA 2013 to the YA 2017.

Example 2

Sara set up Kiddies Park, a child care centre in Ampang Jaya, Selangor. Kiddies Park is a child care centre registered with the DSW. The first invoice was issued by the child care centre on 1.9.2014. Kiddies Park closes its business accounts on 30 June each year.

Kiddies Park's business accounts are as follows:

| Accounting Period/Basis Period | YA |
|---------------------------------------|-----------|
| 01.09.2014 - 30.06.2015 | 2015 |

| | |
|-------------------------|------|
| 01.07.2015 - 30.06.2016 | 2016 |
| 01.07.2016 - 30.06.2017 | 2017 |
| 01.07.2017 - 30.06.2018 | 2018 |
| 01.07.2018 - 30.06.2019 | 2019 |

The tax exemption period for Kiddies Park is for five YAs commencing from the YA the first invoice is issued i.e. from YA 2015 to YA 2019.

Example 3

Huda and Maisara shared capital and labour to set up Crystal Kids, a child care centre in Subang Jaya, Selangor. The partnership has been established since 1.3.2009 and accounts are prepared ending on 31 December each year. Crystal Kids is a child care centre registered with the DSW.

The information and terms of partnership for the year ended 31.12.2013 are as follows:

| Partners | Annual salary (RM) | Yearly interest (RM) | Share of profit |
|----------|-----------------------|-------------------------|--------------------|
| Huda | 54,000 | 8,000 | 1/2 |
| Maisara | 48,000 | 8,000 | 1/2 |

Provisional adjusted income from the partnership for the year ended 31.12.2013 is RM130,800 and capital allowance for the YA 2013 is RM3,500.

| | | RM | RM |
|-----------------------------|---------|---------------|---------------|
| Provisional adjusted income | | | 130,800 |
| Less: Salaries | Huda | 54,000 | |
| | Maisara | <u>48,000</u> | 102,000 |
| Less: Interest | Huda | 8,000 | |
| | Maisara | <u>8,000</u> | <u>16,000</u> |
| Divisible income | | | <u>12,800</u> |

Partners' statutory income:

| | <u>Huda</u> | <u>Maisara</u> | <u>Total</u> |
|---|---------------|----------------|----------------|
| Salaries | 54,000 | 48,000 | 102,000 |
| Interest | <u>8,000</u> | <u>8,000</u> | <u>16,000</u> |
| | 62,000 | 56,000 | 118,000 |
| Allocation of divisible income (RM12,800/2) | <u>6,400</u> | <u>6,400</u> | <u>12,800</u> |
| Adjusted income | 68,400 | 62,400 | 130,800 |
| Less: Capital allowance (RM3,500/2) | <u>1,750</u> | <u>1,750</u> | <u>3,500</u> |
| Statutory income | <u>66,650</u> | <u>60,650</u> | <u>127,300</u> |

The statutory income of Huda and Maisara for the YA 2013 amounting to RM66,650 and RM60,650 respectively are exempted from tax.

- 5.1.4 If an asset that is used by a business for the provision and maintenance of a child care centre is also used in other business or other sources of income, the allowances which fall to be made under Schedule 3 of the ITA shall be apportioned according to a reasonable method based on its usage for each business or other sources of income.

Example 4

Melawati Enterprise carries on two businesses and closes its accounts for both businesses on 31 December. The businesses are:

Business A – a catering business

Business B – a child care centre

A van (vehicle licensed for commercial transportation of goods and passengers) priced at RM55,300 was purchased on 1.3.2013 for the use of both businesses.

The van is used equally in both businesses. Initial and annual allowances shall be apportioned among the two businesses.

The computation of capital allowances for the van (prescribed rate 20%):

| | RM | RM |
|------------------------------------|---------------|---------------|
| Qualifying expenditure | | 55,300 |
| YA 2013 | | |
| Initial allowance (RM55,300 x 20%) | 11,060 | |
| Annual allowance (RM55,300 x 20%) | <u>11,060</u> | <u>22,120</u> |
| Residual expenditure | | <u>33,180</u> |

The apportionment of allowances for both businesses for the YA 2013 is as follows:

| Business | A (50%) | B (50%) |
|-------------------|-------------------------------------|-------------------------------------|
| YA 2013 | RM | RM |
| Initial allowance | $11,060 \times \frac{1}{2} = 5,530$ | $11,060 \times \frac{1}{2} = 5,530$ |
| Annual allowance | $11,060 \times \frac{1}{2} = 5,530$ | $11,060 \times \frac{1}{2} = 5,530$ |
| Total | 11,060 | 11,060 |

5.1.5 Any amount of the adjusted loss incurred -

(a) from the YA in the basis period in which the business of a child care centre has commenced until the YA immediately before the exempt YAs; and

(b) during the exempt YAs,

shall be carried forward and allowed as a deduction from the statutory income of the business in its post-exempt YAs until the whole amount of the adjusted loss is fully utilized.

Example 5

Vital Years Centre, a child care centre registered with the DSW commenced its operation on 1.3.2011.

The information on income of Vital Years Centre for the year ended 31.12.2012 is shown below:

Adjusted loss RM15,000

Capital allowance RM2,200

The computation of Vital Years Centre's statutory income for YA 2012:

| | |
|-------------------------------|---------------------|
| | RM |
| Adjusted income | Nil (Loss RM15,000) |
| Capital allowance RM2,200 c/f | |
| Statutory income | <u>Nil</u> |

The statutory income of Vital Years are exempted from tax for a period of five consecutive years of assessment commencing from YA 2013 to YA 2017 and its statutory income is subjected to tax from YA 2018. Therefore, the adjusted loss of Vital Years Centre for YA 2012 amounting to RM15,000 shall be carried forward and allowed as a deduction against the business statutory income for YA 2018. The capital allowance of RM2,200 shall be carried forward to YA 2013.

The information on income of Vital Years Centre for the year ended 31.12.2013 is shown below:

| | |
|-------------------|------------|
| Adjusted loss | (RM12,000) |
| Balancing charge | RM5,500 |
| Capital allowance | RM1,800 |

The computation of Vital Years Centre's statutory income for the YA 2013:

| | | |
|-------------------------|--------------|---------------------|
| | RM | RM |
| Adjusted income | | Nil (Loss RM12,000) |
| Add: Balancing charge | | <u>5,500</u> |
| | | 5,500 |
| Less: Capital allowance | 1,800 | |
| Capital allowance b/f | <u>2,200</u> | <u>4,000</u> |
| Statutory income | | <u>1,500</u> |

The statutory income of Vital Years Centre for the YA 2013 amounting to RM1,500 is exempted from tax and the adjusted loss of RM12,000 together with the adjusted loss of RM15,000 for YA 2012 shall be carried forward and allowed as a deduction against the statutory income of Vital Years Centre in YA 2018 and subsequent YAs until the whole amount of the adjusted loss is utilized.

- 5.1.6 Such adjusted loss that was utilized to reduce the statutory income shall be disregarded for the purposes of subsections 43(2) and 44(2) of the ITA.

Example 6

Besi Waja Enterprise has the following sources of income:

Business I – a child care centre

Business II – a canopy rental business

Rental income – one-storey shop house in Setapak, Kuala Lumpur

The information on income of Besi Waja Enterprise for the years ended 31.12.2012 to 31.12.2019 are shown below:

| Year ended | 31.12.2012 (RM) | 31.12.2013 (RM) | 31.12.2014 (RM) | 31.12.2015 (RM) |
|------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| Business I statutory income | (Loss 20,000) ¹ | (Loss 15,000) ² | (Loss 6,000) ³ | 15,000 |
| Business II statutory income | (Loss 4,000) | 14,000 | 28,000 | (Loss 10,000) |
| Rental income | 12,000 | 12,000 | 12,000 | 12,000 |

| Year ended | 31.12.2016 (RM) | 31.12.2017 (RM) | 31.12.2018 (RM) | 31.12.2019 (RM) |
|-----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| Business I statutory income | 28,000 | 35,000 | 38,000 | 50,000 |

| | | | | |
|------------------------------|--------|--------|--------|--------|
| Business II statutory income | 40,000 | 50,000 | 65,000 | 68,000 |
| Rental income | 15,000 | 15,000 | 15,000 | 15,000 |

Besi Waja Enterprise is eligible for tax exemption on the statutory income of Business I i.e. the child care centre business from the YA 2013 to the YA 2017.

The computation of Besi Waja Enterprise's total income for YA 2013 to YA 2019 are as follows:

| YA | | Business I (RM) | Business II (RM) | Rental income (RM) | Agregate income (RM) |
|-------------|-----------------------|---------------------------------------|-----------------------------|-------------------------------|---------------------------------|
| 2012 | Statutory income | Nil (20,000) Loss c/f 20,000 | Nil (4,000) | 12,000 | 12,000 |
| | Less: Basis year loss | | | | <u>4,000</u> |
| | Total income | | | | <u>8,000</u> |
| 2013 | Statutory income | Nil (15,000) Loss c/f 35,000 | 14,000 | 12,000 | 26,000 |
| | Less: Basis year loss | | | | <u>Nil</u> |
| | Total income | | | | <u>26,000</u> |
| 2014 | Statutory income | Nil (6,000) Loss c/f 41,000 | 28,000 | 12,000 | 40,000 |
| | Less: Basis year loss | | | | <u>Nil</u> |

| YA | | Business I (RM) | Business II (RM) | Rental income (RM) | Agregate income (RM) |
|-------------|--------------------------|---|------------------------|--------------------------|----------------------------|
| | Total income | | | | <u>40,000</u> |
| 2015 | Statutory income | Nil [15,000 exempted from tax] | Nil (10,000) | 12,000 | 12,000 |
| | Less: Basis year loss | | | | <u>10,000</u> |
| | Total income | | | | <u>2,000</u> |
| 2016 | Statutory income | Nil [28,000 exempted from tax] | 40,000 | 15,000 | 55,000 |
| | Less: Basis year loss | | | | <u>Nil</u> |
| | Total income | | | | <u>55,000</u> |
| 2017 | Statutory income | Nil [35,000 exempted from tax] | 50,000 | 15,000 | 65,000 |
| | Less: Basis year loss | | | | <u>Nil</u> |
| | Total income | | | | <u>65,000</u> |
| 2018 | Statutory income | 38,000 | | | |
| | Less: Loss b/f | <u>38,000</u> Nil | | | |
| | | Loss c/f 3,000 | 65,000 | 15,000 | 80,000 |

| YA | | Business I (RM) | Business II (RM) | Rental income (RM) | Agregate income (RM) |
|-------------|--------------------------|------------------------|------------------------|--------------------------|----------------------------|
| | Less: Basis year loss | | | | <u>Nil</u> |
| | Total income | | | | <u>80,000</u> |
| 2019 | Statutory income | 50,000 | | | |
| | Less: Loss b/f | <u>3,000</u> 47,000 | 68,000 | 15,000 | 130,000 |
| | Less: Basis year loss | | | | <u>Nil</u> |
| | Total income | | | | <u>130,000</u> |

Note:

^{1,2&3} The adjusted loss from the business of child care centre from the YA 2012 to the YA 2014 shall be accumulated and carried forward and allowed as a deduction from the statutory income of the same business source in the YA 2018 dan YA 2019 i.e. in the post-exempt YAs.

The amount of adjusted loss that was utilized to reduce the statutory income from the business of the child care centre cannot be utilized again to reduce the aggregate statutory income of business and aggregate income of Besi Waja Enterprise.

- 5.1.7 If an individual or a company who is an operator of a child care centre also carries on a business other than the business of provision and maintenance of a child care centre, the income derived from that business shall be treated as a separate business source. Separate accounts shall be maintained for both business sources.
- 5.1.8 If the business of the child care centre ceases operation, the brought forward adjusted loss that is not utilized will be disregarded.

Example 7

Same facts as in Example 6. Business I ceased in the year 2019 and no income was received from that business for the YA 2019.

In this case, the loss of RM3,000 which was brought forward will be disregarded and shall not be given a deduction from other businesses.

5.2 Industrial Building Allowance

- 5.2.1 In addition to the above tax incentive, an individual or a company carrying on the business of a child care centre and who incurred qualifying building expenditure can claim industrial building allowance to reduce the operating costs and to improve the service quality of existing and new child care centres.
- 5.2.2 A building which is constructed or purchased is deemed an industrial building for the purpose of Schedule 3 of the ITA if:
- (a) the individual or company is the owner of that building; and
 - (b) that building is used by the owner for the purpose of a business of a child care centre registered with the DSW.
- 5.2.3 The above tax incentive takes effect from YA 2013 and only applies to the operator of a child care centre registered with the DSW.

Example 8

Children's House, a child care centre registered with the DSW is operated by Tina. Children's House is operating in a two-storey corner lot house in Sri Hartamas, Kuala Lumpur which was purchased by Tina.

The two-storey house is treated as an industrial building as it is owned by Tina who uses the house for the purpose of operating the child care centre which is registered with the DSW. Tina is eligible to claim industrial building allowance on the qualifying expenditure incurred on that house.

Example 9

Rantau Padu Sdn. Bhd. carries on the business of a child care centre which is registered with the DSW. The child care centre is operating in a building owned by Rantau Gemilang Sdn. Bhd. i.e. the holding company to Rantau Padu Sdn. Bhd.

Rantau Padu Sdn. Bhd. is not eligible to claim industrial building allowance because the company does not own the building.

Rantau Gemilang Sdn. Bhd. is also not eligible to claim industrial building allowance because the business of child care centre is not

operated by Rantau Gemilang Sdn. Bhd. but is operated by Rantau Padu Sdn. Bhd.

Example 10

Razein owns a shophouse in Bandar Salak Tinggi, Selangor. The shophouse is leased to Syarikat Restu Setia which used the premise to operate a child care centre.

Razein is not eligible to claim industrial building allowance because he does not carry on the business of a child care centre.

Syarikat Restu Setia is also not eligible to claim industrial building allowance as it is not the owner and does not incur any qualifying building expenditure.

- 5.2.4 An industrial building allowance given as in paragraph 5.2.1 is equal to 10% of the capital expenditure for a year of assessment and for each of the nine (9) subsequent YAs.

Example 11

Zarina commenced the business of Taska Permata Bestari on 1.3.2013 in a two-storey corner lot house in Bandar Baru Bangi, Selangor. The house was purchased by Zarina on 12.8.2012 at a price of RM600,000 (including legal fees and stamp duty).

For a business which is about to commence operation, the qualifying building expenditure shall be deemed to be incurred when the business commences – proviso to paragraph 55 Schedule 3 of the ITA.

Therefore, industrial building allowance is eligible to be claimed starting from the YA 2013, i.e. the YA when business commenced although the building was acquired on 12.8.2012.

The computation of industrial building allowance:

| | RM |
|--|---------------|
| Qualifying building expenditure (not including the land cost) | 475,000 |
| YA 2013 | |
| Annual allowance (RM475,000 x 10%) | <u>47,500</u> |

| | |
|--|----------------|
| Residual expenditure | 427,500 |
| YA 2014 - YA 2022 | |
| Annual allowance (RM475,000 x 10%) x 9 | <u>427,500</u> |
| Residual expenditure | Nil |

5.2.5 Other provisions relating to the industrial building allowances under Schedule 3 of the ITA are applicable for buildings used as a child care centre.

5.2.6 For an existing building which is used for the purpose of a child care centre, the owner is eligible to claim industrial building allowance on the residual expenditure of the building after taking into account the original cost of the building less notional allowances.

Notional allowance is calculated from the YA a building is constructed or purchased until the YA prior to the YA the building qualifies as an industrial building.

Notional allowance under paragraph 68 Schedule 3 of the ITA shall be computed at rates as follows:

- a) 2% till YA 2001
- b) 3% from YA 2002

Example 12

Sharmila carries on a child care centre business, Kiddies Centre since 1.9.2008 in a two-storey semi-detached house in Wangsa Melawati, Kuala Lumpur. Kiddies Centre is registered with the DSW. Sharmila purchased the house on 1.2.2008 for RM500,000.

The computation of industrial building allowance:

| | RM |
|--|---------------|
| Qualifying building expenditure (not including the land cost) | 320,000 |
| YA 2008 - YA 2012 | |
| Notional allowance (RM 320,000 x 3%) x 5 | <u>48,000</u> |
| Residual expenditure | 272,000 |

| | |
|--|----------------|
| YA 2013 - YA 2020 | |
| Annual allowance (RM320,000 x 10%) x 8 | <u>256,000</u> |
| Residual expenditure | 16,000 |
| YA 2021 | |
| Annual allowance (restricted to) | <u>16,000</u> |
| Residual expenditure | Nil |

- 5.2.7 If part of the building is used as an industrial building and the other part is not used as an industrial building, the whole building shall be treated as an industrial building if the capital expenditure incurred on the construction of the part which is not so used does not exceed 10% of the total cost of the construction of the building.

Example 13

A two-storey corner lot house is used as a child care centre. The whole house is used for the purpose of the business of child care centre except for a room on the ground floor which is used as an office.

The terrace house can be treated as an industrial building if the capital expenditure for the room used as an office does not exceed 10% of the total qualifying expenditure incurred for the terrace house.

- 5.2.8 If the capital expenditure incurred on the construction of the part not used as industrial building and the capital expenditure incurred on the whole building are not identifiable, ascertainment is made according to the respective floor areas or in such manner as the Director General may direct.

Example 14

Same facts as in Example 13. The terrace house used as a child care centre was purchased by the operator at a price of RM250,000 (not including the cost of land). A room in the house is used as an office. To enable the terrace house to be treated as an industrial building, the expenditure incurred on the part not used as an industrial building cannot exceed 10% of the total qualifying capital expenditure or purchase price of the house.

The computation is as follows:

$$10\% \times \text{RM}250,000 = \text{RM}25,000$$

Capital expenditure incurred on the room used as an office cannot exceed 10% of the qualifying capital expenditure i.e. RM25,000.

If the original cost of construction cannot be ascertained accurately between the part used as an industrial building and the part not used as an industrial building, the original cost can be ascertained according to the respective floor areas as follows:

Area of the whole house = 1,500 square feet

Area of the room used as an office = 120 square feet

The calculation of capital expenditure on office is:

$$\frac{120}{1,500} \times \text{RM}250,000 = \text{RM}20,000$$

The capital expenditure incurred on the office of RM20,000 does not exceed RM25,000 (10% of the cost of purchase of the terrace house). Therefore, the part used as an office shall be treated as part of the industrial building.

- 5.2.9 If a building which is used for the purpose of a child care centre business is also used for the purpose of a business other than the business of a child care centre, the allowance which shall be given under Schedule 3 of the ITA shall be apportioned on a reasonable basis by taking into account the extent to which the building is used as a child care centre and other business.

Example 15

Same facts as in Example 4. Melawati Enterprise operates two businesses and closes the accounts for both businesses on 31 December.

Business A – catering business (commenced on 1.4.2011)

Business B – child care centre business (commenced on 1.9.2012)

Melawati Enterprise operates both businesses in a bungalow house in Taman Melawati, Selangor. The bungalow house was purchased by the business owner on 15.2.2009 at RM275,000 (not including the cost of land). The catering business uses the ground floor of the

house while the child care centre business uses the first floor of the building.

Therefore, the industrial building allowance for the building shall be given to the child care centre business to the extent the building is used for the purpose of a child care centre business.

The price for the first floor used by the child care centre business is RM120,000 based on market price.

The computation of industrial building allowance is as follows:

| | RM |
|---|---------------|
| Qualifying building expenditure | 120,000 |
| YA 2009 - YA 2012 | |
| Notional allowance (RM120,000 x 3%) x 4 | <u>14,400</u> |
| Residual expenditure | 105,600 |
| YA 2013 - YA 2020 | |
| Annual allowance (RM120,000 x 10%) x 8 | <u>96,000</u> |
| Residual expenditure | 9,600 |
| YA 2021 | |
| Annual allowance (restricted to) | <u>9,600</u> |
| Residual expenditure | Nil |

- 5.2.10 If an industrial building used in a child care centre business is disposed of within two years from the date the qualifying building expenditure was incurred, all the allowances which have been allowed under Schedule 3 of the ITA will be withdrawn. A balancing charge in an amount equal to total allowances which have been given, shall be made on that business for the YA in the basis period for which the building was disposed of.

Example 16

Permata Hati, a child care centre registered with the DSW operates in a semi-detached house in Kuantan, Pahang. The house was purchased by the child care centre owner, Aniq Feisal, at a cost of RM367,000 (not including the cost of land) on 1.9.2013. However, Aniq had to sell the house due to financial crisis. The property was sold on 15.5.2015 for RM417,000 (not including the cost of land).

The computation of industrial building allowance:

| | RM |
|--|---------------|
| Qualifying building expenditure | 367,000 |
| YA 2013 | |
| Annual allowance (RM367,000 x 10%) | <u>36,700</u> |
| Residual expenditure | 330,300 |
| YA 2014 | |
| Annual allowance (RM367,000 x 10%) | <u>36,700</u> |
| Residual expenditure | 293,600 |
| YA 2015 | |
| Disposal for RM417,000 (15.5.2015) | |

The industrial building allowances which have been allowed are withdrawn and a balancing charge of RM73,400 (RM36,700 + RM36,700) shall be made in the YA 2015 because the building used for the child care centre business is disposed of within two years from the date the qualifying building expenditure was incurred. No balancing allowance will be computed.

6. Tax Incentives for Kindergarten Operators

Kindergarten or pre-school education is the main thrust in the preparation and development of the early stages of a child's mind before entering school. The intellectual, emotional and physical development of a child depends on the effectiveness of the education at this level. Therefore, tax incentives are given to existing and new kindergarten operators to encourage more operators to provide

quality kindergartens because it is important to ensure that children will receive proper pre-school education.

The tax incentives given to child care centre operators as in paragraph 5 above are also applicable to existing and new kindergarten operators with the condition that the kindergartens must be registered with the SED under the MOE. *Borang F-Perakuan Sementara Pendaftaran Tadika* (which must be renewed yearly) is accepted as a certificate of registration with the SED.

7. Non-Application

The tax incentives given under paragraph 5.1 of this PR are not applicable to operators of private pre-school whose activities are integrated with the private primary school.

8. Comparison between a Child Care Centre and a Kindergarten

Please refer to Appendix 1.

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

Comparison between a Child Care Centre and a Kindergarten

| Comparison Aspects | Child Care Centre | Kindergarten |
|---------------------------|--|---|
| Act | Child Care Centre Act 1984 (Act 308) | Education Act 1996 (Act 550) |
| Age | Under the age of 4 years | 4 to 6 years |
| Registered Agency | Department of Social Welfare Ministry of Women, Family and Community Development | State Education Department Ministry of Education |
| Operator | Individual, partnership and company | Individual, partnership and company |
| Tax Incentives | <p>I. Employers</p> <p>a) Additional deduction on expenses in respect of the provision and maintenance of a child care centre; and</p> <p>(b) Additional deduction in respect of child care allowances paid to employees.</p> <p>II. New and Existing Operators</p> <p>a) Tax exemption in respect of his business statutory income for a period of five consecutive years of assessment; and</p> <p>b) Industrial building allowance at the rate of 10% on building used as a</p> | <p>New and Existing Operators</p> <p>a) Tax exemption in respect of his business statutory income for a period of five consecutive years of assessment; and</p> <p>b) Industrial building allowance at the rate of 10% on building used as a kindergarten.</p> <p>Condition :</p> <p>New and existing kindergartens must be registered with the State Education Department.</p> |



**TAX INCENTIVES FOR CHILD
CARE CENTRE AND KINDERGARTEN
OPERATORS**

INLAND REVENUE BOARD OF MALAYSIA

**Public Ruling No. 4/2016
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| | | |
|--|---|--|
| | <p>child care centre</p> <p>Condition :</p> <p>New and existing child care centres must be registered with the Department of Social Welfare.</p> | |
|--|---|--|