# Reducing tax on your rental income

**TAX MATTERS:** It pays to know what are deductible so as to reduce your taxes on rental income

**Classification:** This article covers the latest developments on tax treatment for rental income from real property under the Public Ruling No. 4/2011, effective for the year of

PART 1

LAST 3 DAYS

PART 2

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assessment 2011. In particular, we will focus on the classification of rental income as business source or non-business source, the grouping of business source and non-business source when computing the statutory income, the commencement date of letting of real property, and allowable and non-allowable expenses.

#### A. Advantages of rent as a business source

The advantages of treating the rent as a business source are as follows:

• It can claim capital allowance.

• Business source losses can be carried forward to the next period.

• Current year business source losses can be utilised to set off all sources of income.

To treat rent as a business source, section 4(a) of Income Tax Act 1967 (ITA) requires the tax person to provide "maintenance services or support services" in relation to the real property.

Maintenance or support services: Whe-

re, in conjunction with the letting of a property, a person also provides "maintenance services or support services", the letting of the property can be considered a business source of income under section 4(a) of ITA. The maintenance or support services should be "comprehensively" and "actively" provided.

'Comprehensivelyprovided': Maintenance services or support services comprehensively provided means services which

include: (a) doing generally all things necessary (e.g. cleaning services or repairs) for the maintenance and management of the real property such as the structural elements of the building, stairways, fire escapes, entrances and exists, lobbies, corridors, lifts/escalators, compounds, drains, water tanks, sewers, pipes, wires, cables or other fixtures and fittings;

(b) doing generally all things necessary for the maintenance and management of the exterior parts of the real property such as playing fields, recreational areas, driveways, car parks, open spaces, landscape areas, walls and

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fences, exterior lighting or other external fixtures and fittings.

However, if a person only provides security services or other facilities, it should not be considered as providing maintenance services or support services comprehensively.

**Services 'actively provided':** Services actively provided means the person who owns or lets out the real property:

(a) provides them himself; or

(b) hires another person or another firm to provide

the maintenance services or support services.

**Maintenance services or support services:** The following examples in Table 1 show where the letting of property is treated as a business source: See Table  $1_{m}$ 

Rent as a non-business source: If a person lets out the real property without providing maintenance or support services comprehensively and actively, the rental income is regarded as a non-business source of income and is charged to income tax

#### Table 1 - Rent as business source under s 4(a) of ITA

Mr A lets out 1 block of condominium	Maintenance of lift, cleaning, and provide security. Maintenance of playing fields and car parks.	
Mr A lets out 4-storey building consisting of 32 units	Maintenance of structure building, lift, cleaning and area outside the building.	
Mr A rents an office building comprising 42 units from Mr B, and sub-lets to a few tenants	Cleaning inside and outside of building, centralised air conditioner. Maintenance of car park and provide security services.	
Mr A owns 1 unit bungalow consisting of 15 rooms and lets out to students as hostel	Maintenance of internal structure of building, and provides cleaning in area outside the building.	

## Table 2 – Rent as non-business source under s 4(d) of ITA

of office building	Only provides security services.
Mr A lets out 5-storey building	Without providing maintenance services.
Mr A lets out 5-storey building	Maintenance service are provided by third party company (the tenant).
Mr A lets out 2 units of apartments	Maintained by the management corporation (MC). Pays maintenance fees to MC.

### Example 1: Rental as business source

Real Property s 4(a) source	Gross Income (RM)	Allowable Expenses (RM)	Capital Allowance (RM)
Building A	60,000	14,000	7,000
Building B	10,000	12,000	3,000
Total	70,000	26,000	10,000
Building B	Control of the Contro		

Both building are business source under s 4(a), therefore can be grouped as one business source and is calculated as follows:

Gross income from rental		70.000	
Less: Allowable expenses		26,000	
Adjusted income	44,000	20,000	
Less: Capital allowance (furniture		10,000	
Statutory income from rental		34,000	
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