

Personal Taxation: Stretching Your Reliefs

As the tax filing season draws closer, there are a whole lot of ways in which we can maximise our deductions. *By Thang Mee Lee*



Under the self-assessment system, the onus is on the taxpayer to declare the correct amount of income and to claim reliefs/deductions correctly in arriving at the chargeable income. This is important as penalties of up to 45% based on the under-declared tax liability can be imposed in the event of an understatement of chargeable income.

For the individual taxpayers, there is a host of personal reliefs that can be claimed. For this reason, taxpayers are advised to be

conversant with the reliefs available in order to minimise the tax liability.

However, it is equally important to understand the pre-requisite requirements to avail such reliefs as over-claiming of reliefs or making claims without the backing of relevant supporting documents will result in penalties in the event of a tax audit by the Inland Revenue Board.

So, are all individual taxpayers eligible to claim personal reliefs? The answer is no, as such reliefs are only available to tax residents of Malaysia. To qualify as a tax resident, the general rule is that the

individual must be present in the country for at least 182 days in a calendar year.

Most individual taxpayers are aware of the basic reliefs such as relief for self, spouse, child and insurance premiums. Besides these, perhaps the other widely claimed reliefs are that relating to purchase of books/publications and personal computer as well as medical expenses.

However, other reliefs are less well-known, notably the ones that have been introduced in recent years such as relief for amounts deposited into the Skim Simpanan

Pendidikan Nasional (SSPN) and contributions to approved Private Retirement Scheme or premium on deferred annuity scheme.

In terms of child relief, there is no limitation to the number of children but the relief is only given to dependent, unmarried children.

For a child who is below 18 years of age, the relief amounts to RM1,000 whilst for a child above 18 years old and who is pursuing full-time education at a recognised institute of higher learning either in or outside Malaysia, the relief currently given is RM4,000 (this will be increased to RM6,000, effective from the year of assessment 2013, as announced in the 2013 Budget).

Note that if the child is studying locally, the relief is available for full-time education at diploma level and above, or for those serving under articles leading to a professional qualification.

However, the relief is not applicable where the child undertakes a matriculation or pre-graduate course.

If the child is studying abroad, the full-time education pursued must be at least at a degree level. There is also a special relief of RM5,000 for an unmarried disabled child and if the child undertakes tertiary education in or outside Malaysia, the parent will be entitled to an additional relief of RM4,000 (to be increased to RM6,000, from the year of assessment 2013).

For taxpayers who undergo a complete medical check-up, a relief of up to RM500 can be claimed for such examination fees. This relief is part of the relief for medical expenses for the treatment of serious diseases incurred for the taxpayer, spouse or children of RM5,000 (maximum). A similar relief



of up to RM5,000 is also available for medical expenses for one's own parents.

These expenses cover dental treatment (but does not include cosmetic dental treatment) and care for parents who suffer from diseases, physical or mental disabilities. Such care can be provided at home, day care centres, home care centres or nursing homes but the claim must be certified by a medical practitioner.

In an effort to encourage savings for children's future educational needs, the relief for deposits made by a taxpayer for his child in a SSPN account has been given a big boost in the 2013 Budget, whereby the maximum relief is increased from RM3,000 to RM6,000.

As an example, by depositing RM6,000 into a SSPN account during the

year 2013, an individual whose top marginal tax rate at 26% would be able to enjoy tax savings of RM1,560 (i.e. RM6,000 x 26%) for the year of assessment 2013. This is quite an attractive incentive and should be considered by taxpayers with school-going children and the window to do so is up to the year of assessment 2017.



When the Private Retirement Scheme (PRS) was first launched in 2011, the relief for contributions to this scheme was combined with the relief of RM6,000 for life insurance premiums and contributions to other approved funds.

It was felt that this was not attractive enough given that most taxpayers would be eligible for the maximum amount of RM6,000 in respect to EPF contributions and life insurance premium alone. As such, with effect from the year of assessment 2012, a separate relief of up to RM3,000 is given for contributions to an approved PRS and deferred annuity premium.

The types of publications that qualify for the relief for purchase of books of RM1,000 (maximum) include magazines, journals as well as reading materials purchased online. However, the purchase of newspapers or banned publications would not qualify for the relief.

Unlike most reliefs, which are available annually, the relief for the purchase of a personal computer used for non-business purposes of

up to RM3,000 is given once every three years.

Where the computer is acquired on hire purchase, the full cost of the computer up to an amount of RM3,000 can be claimed in the year of purchase, notwithstanding that the hire purchase instalments have not been fully paid as at the end of the year concerned.

In respect of purchase of sports equipment, the relief of up to RM300 is only applicable in relation to defined sport activities under the Sports Development Act 1997 such as athletics, badminton, bowling, football, golf, basketball, tennis and table tennis. Sports attire such as swimsuits and sports shoes are not eligible for this relief.

Besides personal reliefs, individuals earning employment income can claim certain expenses incurred in the performance of work such as travelling expenses and annual subscription fees paid to professional bodies where membership to such bodies is relevant to the performance of duties.

In addition, entertainment expenses incurred in entertaining clients on behalf of the employer can be claimed, limited to the amount of entertainment allowance received from the employer.

To substantiate the claims, the taxpayer is required by law to keep records for at least 7 years from the end of the year of assessment in which the tax return is filed.

Proper retention of the relevant records and supporting documents e.g. receipts is essential for tax audit purposes under the self-assessment regime.

In the absence of the relevant supporting documents, the claims would be challenged by the Inland Revenue Board and this could result in additional taxes plus penalties where it is held that there is an under-statement of chargeable income.

Below are a few pointers in ensuring that your tax return is completed correctly:

- **Declare all taxable income derived from Malaysia, including franked dividends**
- **Know the types of personal reliefs and deductions available and the pre-requisite criteria to avail such reliefs/deductions**
- **Only claim reliefs/deductions that can be substantiated by the relevant supporting documents**
- **Keep all relevant records and supporting documents in an organised manner and for a minimum period of 7 years.** [S1](#)

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