



## **GUIDELINES AND PROCEDURE FOR CLAIMING DEDUCTIONS FOR PROMOTION OF EXPORTS**

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### **1. INTRODUCTION**

This incentive is available to resident manufacturing, trading and agricultural companies which have incurred expenses primarily and principally for the purpose of seeking opportunities or in creating or increasing demand for the export of goods or agricultural produce manufactured or produced in Malaysia. Residence status of companies are to be determined in accordance with the provisions of section 8 of the Income Tax Act (ITA) 1967.

### **2. TYPES OF DEDUCTION**

#### **(i) Further deduction for promotion of exports**

Further deductions are given for expenses which are of a revenue nature and allowable under section 33 ITA 1967. Expenses that qualify for further deductions are provided under:

- (a) Section 41 of the Promotion of Investments Act (PIA) 1986; and
- (b) Income Tax (Deduction For Promotion of Exports) Rules 2002 [P.U. (A) 115/2002].

For details refer to paragraph 3.

#### **(ii) Further deduction for professional fees on packaging design**

Professional fees paid to a local company for packaging design is also eligible for a further deduction under the Income Tax (Promotion of Exports) (Amendment) Rules 2001 [P.U. (A) 170/2001]. Guidelines and claim forms are separately available and shall have effect from 1 January 2001.

#### **(iii) Single deduction for promotion of exports**

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With effect from the year of assessment 2002, expenditure on registration of patents, trade marks and product licensing overseas and hotel accommodation and sustenance for potential importers are available for single deduction under Income Tax (Deduction For Promotion of Exports) (No.2) Rules 2002 [P.U.(A)116/2002] and Income Tax (Deduction For Promotion of Exports) (No.3) Rules 2002 [P.U.(A) 117/2002] respectively.

For details refer to paragraph 4.

### **3. TYPES OF EXPENDITURE QUALIFYING FOR FURTHER DEDUCTION FOR PROMOTION OF EXPORT**

The following expenses have been listed as qualifying expenses for the promotion of exports under Income Tax (Promotion of Exports) Rules 1986.

(i) **Publicity and advertisement**

- (a) Cost of advertisement in any media outside Malaysia.  
Example: television, radio, newspapers, trade or general magazines, trade directories and guidebooks; and
- (b) Cost of brochures and pamphlets printed in or outside Malaysia for distribution overseas.

(ii) **Provision of samples**

Cost of free samples which is locally prepared for distribution to prospective customers outside Malaysia such as material cost, forwarding charges, freight, postage, insurance, packaging, import duty and taxes paid in the country of destination.

(iii) **Export market research / Export market information**

- (a) Expenses incurred in employing marketing consultants to carry out product market research and product testing overseas if they are related to the export market;
- (b) Cost of acquiring financial and status report of prospective buyers ;
- (c) Cost of acquiring samples overseas to be brought back to Malaysia for purposes of study and modification in order to develop products for export; and

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- (d) Cost of acquiring secondary export marketing information such as market survey reports, manufacturer directories, importer directories and statistical publication.

The above expenses shall not include air fare, accommodation and sustenance.

(iv) **Tender for the supply of goods**

- (a) Expenses in relation to purchase of tender documents such as cost of tender, freight and insurance;
- (b) Expenses for preparing samples according to tender specifications to be submitted with tender documents such as material and labour cost; and
- (c) Cost of delivery of tender documents and samples to overseas destinations such as forwarding charges, freight, postage, insurance, packaging and clearing fees.

(v) **Negotiating or concluding contracts**

- (a) Return air fare for a representative of the company (economy class) . Representative of the company means a director or an employee of the company;
- (b) Ground transportation (overseas); and
- (c) Hotel accommodation and sustenance. Actual expenses allowed are subject to a maximum of RM 200 per day. With effect from year of assessment 2002, the amount has been increased to :
  - Hotel - a maximum of RM 300 per day; and
  - Sustenance - a maximum of RM 150 per day.

(vi) **Participation in approved trade fairs or trade/industrial exhibitions**

- (a) Return air fare for a representative of the company (economy class). Representative of the company means a director or an employee of the company;
- (b) Ground transportation (overseas); and

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- (c) Hotel accommodation and sustenance. Actual expenses allowed are subject to a maximum of RM 200 per day. With effect from year of assessment 2002, the amount has been increased to:
- Hotel - a maximum of RM 300 per day; and
  - Sustenance - a maximum of RM 150 per day.

Participation in each trade fair or trade/industrial exhibition has to be approved by the Malaysia External Trade Development Corporation (MATRADE).

(vii) **Provision of exhibits for participation in approved trade fairs or trade/industrial exhibitions**

Cost of transportation of exhibits such as packaging, insurance, freight, forwarding charges and clearing charges from Malaysia to country of destination and return.

(viii) **Expenses directly incurred for participation in approved trade fairs or trade/industrial exhibitions other than the expenditure specified under (vi) and (vii)**

- (a) Amounts paid to individuals recruited for the purpose of manning exhibition booth such as security guards, interpreters, receptionists and booth assistants;
- (b) Cost of utilities such as water, electricity and gas incurred during the trade fairs or exhibitions;
- (c) Cost of rental, designing and construction of booth, professional display layout service, rental of furniture and fittings for the booth and dismantling of booth after the exhibition excluding the cost of any permanent structure;
- (d) Cost of publicity and advertisement and cost of gifts given out during the trade fair or trade/industrial exhibition such as badges, plastic bags and book markers; and
- (e) Cost of communication such as postage, telephone, e-mail and facsimile incurred during the trade fair or trade/industrial exhibition.

(ix) **Provision of technical information**

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- (a) Cost of material, labour and consultancy fees incurred in producing technical documents; and
- (b) Cost of forwarding documents.
- (x) **Public relations**

Cost of services of public relation agencies or consultants outside Malaysia to enhance or to promote company's image in connection with the exports.
- (xi) **Maintaining sales office overseas**
  - (a) Rental of office space;
  - (b) Maintenance and repairs of office;
  - (c) Remuneration of staff manning the sales office; and
  - (d) Expenses incurred by employees in the overseas sales office on outstation travels for sales promotion. Such as:
    - Return air fare (economy class);
    - Ground transport;
    - Hotel accommodation and sustenance. Actual expenses subject to a maximum of RM 200 per day. With effect from year of assessment 2002, the amount has been increased to:
      - Hotel - a maximum of RM 300 per day; and
      - Sustenance - a maximum of RM 150 per day.

As a continuous effort to promote Malaysian products or agriculture produce in the international market, with effect from year of assessment 2002, the following expenses [item (xii) - (xiv)] have been included as qualifying expenses for the promotion of exports under P.U.(A) 115/2002.

- (xii) **Participation in a trade portal**
  - (a) Renewal of trade portal membership fee. (Initial registration fee or a one time fee such as subscription or membership fee with a trade portal is not an allowable expenditure);

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- (b) Cost of advertisement (banner/button advertisement, sponsored links/sections);
- (c) Consultation fees paid for the development of website;
- (d) Cost of web development (website pages, creative design/layout);
- (e) Cost of web service (domain name registration, e-mail registration, web hosting services, server rental, web mail creation and hosting);
- (f) Cost of internet marketing services (e-mail marketing and search engine submission); and
- (g) Annual / maintenance fees for continuing the maintenance of website by the service provider including hosting charges, domain e-mail, e-mail services.

Participation in each trade portal has to be verified by MATRADE.

(xiii) **Virtual trade shows**

- (a) Cost of developing virtual booth such as page setting and layout, product catalogue, image scanning, 3D product display, multimedia animation, creative design for templates;
- (b) Cost of advertisement in virtual trade shows such as banner/button advertisement and sponsored links;
- (c) Promotional materials related to virtual trade shows such as brochures/pamphlets;
- (d) Cost of virtual conference / teleconferencing facilities;
- (e) Cost of online trade enquiry in virtual booth or virtual trade shows;
- (f) Other expenses directly incurred for participation in virtual trade show.

Participation in each virtual trade show has to be verified by MATRADE.

(xiv) **Cost of maintaining warehouse overseas**

- (a) Rental of warehouse;

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- (b) Maintenance and repair of warehouse;
- (c) Remuneration of staff manning the warehouse; and
- (d) Other expenses directly incurred for the maintenance of warehouse.

#### **4. TYPES OF EXPENDITURE QUALIFYING FOR SINGLE DEDUCTION FOR PROMOTION OF EXPORTS**

With effect from year of assessment 2002, certain types of expenditure incurred for developing overseas market are eligible for single deduction under P.U.(A) 116/2002. The eligible expenses are as follows :

(i) **Registration of patents, trade marks or product licensing overseas**

- (a) Registration fees;
- (b) Other expenses directly incurred for the registration of patents, trade marks or product licensing such as stamp duty, legal fees and consultancy fees.

(ii) **Hospitality for Potential Importers**

Single deduction for expenses incurred on potential importers invited to Malaysia as a follow-up to trade or investment missions overseas organised by the Government agencies or industrial/trade associations as verified by MATRADE. Visits by potential importers must fall within a period of 12 months after the mission overseas.

The eligible expenses are hotel accommodation and sustenance. Actual expenses allowed are subject to :

- A maximum of three nights hotel accommodation restricted to RM 300 per night ; and
- A maximum of three days sustenance restricted to RM 150 per day.

#### **5. SPECIAL PROVISION FOR PIONEER COMPANY**

- Income Tax (Promotion of Exports) Rules 1986; and
- Income Tax (Promotion of Exports) (Amendment) Rules 2001

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Pioneer companies are also eligible for the deductions. However, the amount of expenses specified under these Rules allowed as further deductions during the pioneer period will be accumulated and deducted against the adjusted income of the post-pioneer business immediately after the end of the tax relief period.

## 6. LIMITATION ON DEDUCTIONS FOR CERTAIN EXPENDITURE

The Director General of Inland Revenue is, however, empowered to disallow any amount of the expenses which in his opinion, constitute as being in excess of what would reasonably be expected to be incurred in the ordinary course of the business.

## 7. CLAIM PROCEDURE

- (i) Claim for deductions can be made by completing two (2) copies of the respective prescribed forms :
  - (a) LHDN/BT/DD/POE/2003 - Further deduction for promotion of exports
  - (b) LHDB/BT/DD/PD/2002 - Further deduction for professional fees on packaging design
  - (c) LHDN/BT/SD/POE/2003 - Single deduction for promotion of exports
- (ii) Original copy of the completed prescribed forms together with supporting documents is to be kept by the company for audit purposes.
- (iii) The duplicate copy [without any supporting document] is to be sent to:

Bahagian Teknikal,  
Lembaga Hasil Dalam Negeri.  
Tingkat 12, Blok 9,  
Kompleks Bangunan Kerajaan,  
50600 Jalan Duta,  
Kuala Lumpur.