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Expanding Your Business? Maximize Your Savings with These Tax Incentives

Key Takeaway

- Businesses should assess eligibility, qualifying expenditure and incentive restrictions before claiming Schedule 7A or 7B allowances to optimise tax benefits and ensure compliance with IRBM requirements.

Introduction

The Inland Revenue Board of Malaysia ("IRBM") issued Practice Note No. 3/2026 on 29 September 2026 to clarify the differences between allowances claimed under Schedule 7A and Schedule 7B of the Income Tax Act 1967 (ITA). The Practice Note compares the eligibility requirements, qualifying capital expenditure, approval procedures, allowance rates, utilisation restrictions and applicable claim periods for the two incentives.

Particulars	Schedule 7a Reinvestment Allowance	Schedule 7b Investment Allowance For Service Sector
Purpose	Encourages reinvestment in manufacturing and agricultural activities.	Encourages investment in approved service-sector projects.
Eligible activities	i. Manufacturing projects may include the expansion, modernisation, automation or diversification of existing manufacturing operations. ii. Agricultural projects may include the expansion or modernisation of planting and plantation activities, together with specified agricultural infrastructure and facilities.	Approved projects involving transport, communications, utilities and other approved service subsectors.

Particulars	Schedule 7a Reinvestment Allowance	Schedule 7b Investment Allowance For Service Sector
Company requirements	i. Malaysian-resident company; ii. Has operated for at least 36 months; and iii. Incurred qualifying capital expenditure for the relevant project, subject to the applicable statutory provisions	Company and project must satisfy the applicable statutory conditions and ministerial approval requirements.
Application	Generally claimed through the income tax return, subject to HASiL verification.	Requires a written application and ministerial approval. Any remaining balance after the permitted period is disregarded.
Qualifying expenditure	Specified capital expenditure on plant, machinery and qualifying agricultural project items.	Qualifying expenditure on plant, machinery, fixtures, premises, buildings, structures and permanent works, subject to the applicable provisions.
Allowance rate	Generally 60% of qualifying capital expenditure.	Not less than 60% of qualifying capital expenditure, subject to the applicable statutory terms and approval.
Utilisation	Generally restricted to 70% of statutory income, with potential 100% utilisation for qualifying projects meeting prescribed productivity criteria.	Generally restricted to 70% of statutory income or another rate determined by the Minister.
Allowance period	Generally 15 consecutive years, subject to the applicable conditions.	Five years from the effective date determined by the Minister.
Unabsorbed allowance	May be carried forward for up to seven consecutive years after the relevant allowance period ends, after which any remaining balance is disregarded.	May be carried forward for up to seven consecutive years after the five-year

Restrictions Involving Other Tax Incentives

Tax Allowance	Restrictions / Relevant Provisions
Schedule 7A – Reinvestment Allowance (RA)	• Pioneer Status and Investment Tax Allowance under the Promotion of Investments Act 1986, in specified circumstances. • Certain historical incentives under previous legislation. • Group relief under section 44A of the ITA. • Certain deductions prescribed under rules made pursuant to section 154 of the ITA. • Specified exemptions under section 127 of the ITA where the applicable provisions exclude RA.
Schedule 7B – Investment Allowance for the Service Sector	• Restriction on claiming the allowance during a period in which the company has been granted an exemption under section 127 of the ITA.

Conclusion

Businesses should not determine eligibility solely by reference to the allowance rate or the nature of the capital expenditure. The qualifying activity, statutory conditions, approval requirements and restrictions involving other incentives must be considered together.

Early assessment and appropriate documentation can help businesses identify available tax benefits, improve tax planning and mitigate the risk of disputed claims.

For more details, please refer to :
Practice Note No. 3/2026, Comparison of Allowances Claimed under Schedules 7A and 7B of the Income Tax Act 1967, Issued by: Inland Revenue Board of Malaysia (“IRBM”), 29 September 2026

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