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WHAT EVERY MSME OWNER SHOULD KNOW ABOUT SMALL ASSETS – KEY UPDATES UNDER PUBLIC RULING NO. 4/2026

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This article discusses the Inland Revenue Board of Malaysia ("**the Revenue**")'s newly published Public Ruling No. 4/2026 (published on 30 September 2026) ("**the Public Ruling**"), updating its guidance on the tax treatment of special allowances claimed on small value assets. The Public Ruling supersedes the Revenue's earlier Public Ruling No. 3/2021.

The Public Ruling sets out the circumstances under which a person who incurs qualifying capital expenditure on low cost assets used in his business may write off the full cost of each such asset in the year it is incurred, instead of claiming capital allowances over the life of the asset at the normal rates.

The Public Ruling is of particular importance to micro, small and medium enterprises ("**MSME**s")[1]. Subject to the caveat below, a company that qualifies as a micro, small and medium company for tax purposes may write off **the full cost of every qualifying small value asset, without any annual limit**, whereas other companies are capped at RM20,000 a year.

For a MSME fitting out an office, a restaurant or a workshop, this means that laptops, furniture, kitchen equipment and tools costing RM2,000 or less each can be relieved in full in the year they are bought, easing cash flow when the business needs it most. However, as explained below, MSME status for tax purposes turns on strict criteria, and a business that assumes it qualifies may find its claim reduced.

Background

Under the Income Tax Act 1967 ("**ITA**"), capital expenditure on plant and machinery used in a business is not deductible outright. Instead, relief is given by way of initial and annual allowances under Paragraphs 10 and 15 of Schedule 3 of the ITA, spread over a number of years of assessment ("**YA**(s)"). Paragraph 19A of Schedule 3 of the ITA departs from that general rule for small value assets: qualifying plant expenditure ("**QPE**") incurred on each such asset is given a special allowance at the rate of **100%**, so that the full cost is relieved in a single YA.

[1] Please note that the abbreviation "MSME" is used commonly and interchangeably with "MSMC", standing for Micro, Small and Medium Companies.

The special allowance was introduced from YA 2006. Since then, both the value of each asset that qualifies as a "small value asset" and the maximum total QPE that may be claimed in a YA have been revised upwards, as summarised below:

	YA 2006 -YA 2008	YA 2009 -YA 2019	From YA 2020
Value of each asset	Not exceeding RM1,000	Not exceeding RM1,000 (YA 2009 - YA 2014); RM1,300 (YA 2015 - YA 2019)	Not exceeding RM2,000
Annual cap: micro, small and medium companies (MSMCs)	Limited to RM10,000	Unlimited	Unlimited
Annual cap: other companies and LLPs	Limited to RM10,000	Limited to RM10,000 (YA 2009 - YA 2014); RM13,000 (YA 2015 - YA 2019)	Limited to RM20,000

Notably, the RM2,000 threshold applies to the value of **each** asset, not to the aggregate expenditure. An asset costing exactly RM2,000 qualifies; an asset costing RM2,001 does not, and must instead be claimed at the normal capital allowance rates.

Caveat: Latest Proposals in Budget 2027

Readers should note that the position set out in this article may change soon. Under the Budget 2027 proposals announced on 9 October 2026, the Government has proposed to:

- increase the value of each small value asset eligible for the special allowance from RM2,000 to **RM3,000**; and
- increase the annual cap on the total QPE claimable by companies other than MSMCs from RM20,000 to **RM30,000** per YA,

with effect from YA 2027.

These remain proposals, and will take effect only once the necessary amendments to the Income Tax Act 1967 are passed. Accordingly, this article proceeds on the basis of the law as it currently stands, as explained in the Public Ruling. Taxpayers planning significant asset purchases near the turn of the year should monitor the Finance Bill and any updated guidance from the Revenue.

What has Changed

The Public Ruling does not alter the RM2,000 threshold or the RM20,000 annual cap, which have applied since YA 2020. Its key updates are as follows:

- "Small and Medium Companies" have been renamed as "Micro, Small and Medium Companies" ("**MSMC**(s)") throughout the Public Ruling;
- limited liability partnerships registered under the Limited Liability Partnership Act 2012 ("**LLP**(s)") are now expressly defined;
- whether a company qualifies as an MSMC is now to be determined by reference to Public Ruling No. 8/2025 (Tax Treatment for Micro, Small and Medium Companies), including the additional ownership conditions introduced from YA 2024 under Subparagraph 19A(4)(d) of Schedule 3 of the ITA; and
- the Public Ruling now clarifies that a company which carries on a business but has no gross business income because of a current loss, or a temporary cessation of its operations, is not excluded from MSMC treatment (discussed below).

Who May Claim, and How Much

Any person carrying on a business may claim the special allowance, provided that the general requirements for capital allowances under Schedule 3 of the ITA are satisfied. The quantum of the claim, however, depends on the status of the claimant.

An MSMC which is resident and incorporated in Malaysia may claim the special allowance **without any limit** on the total QPE in a YA. All other companies, and all LLPs, may also claim the special allowance, but the total QPE claimable is **capped at RM20,000** per YA. Any excess above RM20,000 is not lost: it is instead claimable at the normal capital allowance rates under Paragraphs 10 and 15 of Schedule 3 of the ITA.

The Public Ruling further clarifies that a company will not qualify for the unlimited MSMC treatment if it has no gross income from a business source. This includes an investment holding company that is not listed on Bursa Malaysia, a company which only derives non-business source income such as interest or rent under Sections 4(c) and 4(d) of the ITA, and a dormant company. It is worth noting that a company that carries on a business will not be disqualified from making this claim

solely due to the absence of gross business income, whether such absence results from a current financial loss, or due to a temporary cessation of its business operations.

Who Qualifies as an MSMC?

The Public Ruling defers to the Revenue's earlier Public Ruling No. 8/2025 (published on 22 December 2025) ("**PR 8/2025**"), under which a company may claim the special allowance without limit only if it satisfies all four (4) of the following criteria:

Criterion	Details
Residence and Incorporation	Resident and incorporated in Malaysia.
Paid Up Capital	Paid up ordinary share capital not exceeding RM2.5 million at the beginning of the basis period for the YA.
Gross Business Income	Gross income from a business source or sources not exceeding RM50 million in the basis period for the YA.
Shareholding	(a) Not more than 50% owned, directly or indirectly, by a company with paid up capital exceeding RM2.5 million. (b) From YA 2024, not more than 20% owned, directly or indirectly, by foreign companies or non citizens.

Notably, shareholding is traced indirectly up to the ultimate holding company, and the 20% foreign ownership condition looks to the immediate shareholder. In PR 8/2025, a Malaysian company wholly owned by a Singapore company was held not to be an MSMC, **even though the Singapore company's ultimate shareholders were all Malaysian citizens**. LLPs are not entitled to claim without limit in any event.

The Five Steps

In the Public Ruling, the Revenue has prescribed five (5) steps for taxpayers to evaluate their entitlement to the special allowance:

Step	Action
1	Identify each asset with a value not exceeding RM2,000 that was not acquired on hire purchase.
2	Exclude assets with an expected life span of less than two (2) years.
3	Determine the total QPE claimable: unlimited for an MSMC; capped at RM20,000 per YA for any other company or LLP.
4	Claim normal capital allowances on assets valued above RM2,000 each, and on any assets removed in order to keep the total QPE within the RM20,000 cap (for non-MSMC).
5	Claim the special allowance on the remaining small value assets.

The Revenue has, by way of examples, demonstrated the operation of these steps in practice. A restaurant and catering company purchases thirteen (13) assets in YA 2025 costing RM26,050 in total. One convection oven costing RM3,000 is removed at Step 1 as it exceeds RM2,000, and a crockery set costing RM2,000 is removed at Step 2 as its life span is less than two (2) years. The remaining QPE amounts to RM21,050. **Where the company is an MSMC, it may claim the full RM21,050 as a special allowance.**

On the same facts, where the company is not an MSMC, the RM21,050 exceeds the RM20,000 cap. The company elects to remove a microwave oven costing RM1,800, reducing its special allowance claim to RM19,250. **The convection oven and the microwave oven, totalling RM4,800, are then claimed at the normal capital allowance rates.** Notably, the Public Ruling indicates that the choice of which asset to remove rests with the taxpayer.

By contrast, an unlisted investment holding company with paid up capital of RM2.5 million or less, deriving RM1.5 million in interest, dividend and rental income, is deemed to have no gross income from a business source. It is therefore neither an MSMC nor able to satisfy the general requirements for capital allowances, and **is not entitled to claim the special allowance at all.**

Legal Risks: What Practitioners and Taxpayers Need to Watch Out For

1. An election that binds

   A taxpayer may choose between the special allowance and the normal capital allowances. However, once a taxpayer has elected to claim normal capital allowances on an asset, that treatment must be applied consistently until the QPE is fully claimed, and the taxpayer cannot later switch to the special allowance. Conversely, an asset on which the special allowance has been claimed cannot subsequently be claimed at the normal rates. A taxpayer is **deemed** to have elected for the special allowance simply by computing the allowance at the special rate in his tax computation. The election may therefore be made by default, at the working paper stage, without any deliberate decision having been taken.

2. MSMC status must be tested every year

   Unlimited claims are available only to companies that qualify as MSMCs for the relevant YA. MSMC status depends on the company's paid up capital, its gross business income and its direct or indirect shareholding, each of which may change from year to year, for instance following a capital injection, a new corporate shareholder, or growth in revenue. A company that ceases to qualify as an MSMC becomes subject to the RM20,000 cap. Corporate groups should review the MSMC status of each subsidiary at the beginning of every basis period, and particularly in light of the ownership conditions introduced from YA 2024.

3. The hire purchase trap

   The special allowance does not apply to small value assets acquired on hire purchase. Such assets may only be claimed at the normal capital allowance rates. The method by which an asset is financed may therefore determine whether its cost is relieved in one YA or over several.

4. Short life assets are excluded

   Assets with an expected life span of less than two (2) years do not qualify as small value assets. These are instead dealt with on a replacement basis: the cost of the first purchase is not deductible at all, and only

the cost of subsequent replacements is deductible under Section 33(1)(c) of the ITA. Items such as crockery, small tools and utensils, which may appear to be obvious candidates for the special allowance, may fall outside the regime entirely.

5. Disposals may trigger a balancing charge

   Where a small value asset on which the special allowance has been claimed is subsequently disposed of for more than its residual expenditure (which, following a full write off, will ordinarily be nil), the excess is brought to tax as a balancing charge, capped at the total allowances previously claimed. In the Public Ruling, the Revenue has illustrated this with a gym operator which sold a piece of equipment originally costing RM1,300 for RM800; **the full RM800 was brought to tax as a balancing charge.** Where an asset is written off because it is obsolete or damaged and cannot be repaired or sold, its market value is treated as nil and hence, no balancing charge arises.

6. Strict record keeping

   Taxpayers must keep proper records that distinguish assets claimed under the special allowance from assets claimed at the normal capital allowance rates. Under Section 82A of the ITA, these records must be retained for seven (7) years from the end of the YA in which the return is furnished. Given that the deemed election is evidenced by the tax computation itself, a clear and contemporaneous fixed asset register is the taxpayer's primary defence in the event of a tax audit by the Revenue.

This article was written by our Tax and Customs Team, Sudharsanan Thillainathan, with the assistance of Daniel Lim (Pupil). It contains general information only. It does not constitute legal advice or an expression of legal opinion and should not be relied upon as such.