

# **Chinese New Year Expenses Stressing You Out? Which Expenses Are Tax Deductible?**

Chinese New Year has always been a “sweet burden”. Although this most important Chinese festival of the year symbolises the arrival of a brand-new year, a myriad of expenses is incurred inevitably.

For a company or business, this “sweet burden” seems to be particularly heavy. In addition to distributing bonuses and red packets (ang pau) to employees, there is always an expectation that a lunar year-end feast or banquet will be held for the staff of a company. On this cheerful occasion, partners, suppliers and customers cannot be overlooked too. To maintain a good partnership, giving CNY gifts is something that many companies and businesses will normally do. Can you imagine what a huge amount these expenses could add up to?

However, do you know that all these expenses may be tax deductible?

## **How to determine whether tax deduction is possible**

Firstly, the expense must meet the definition of entertainment under section(s) 18 of the Income Tax Act 1967 (ITA). The provision provides that “entertainment” includes:

- the provision of food, drink, recreation or hospitality of any kind; or
- the provision of accommodation or travel in connection with or for the purpose of facilitating entertainment.

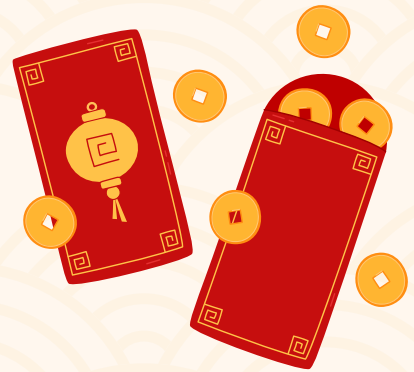
To be eligible for a tax deduction, entertainment expenses must be incurred for the purpose of producing business income. In other words, it must be incurred for the purpose of generating business income in order to receive a 50% or 100% tax deduction. S 39 of the ITA provides that a deduction equal to 50% of the expenses used in providing entertainment is permitted. However, if the entertainment expenses correspond to s.39(1)(l)(i) to (viii), then a 100% tax deduction may be obtained:

1. Employee entertainment
2. Entertainment provided in the day-to-day operation of the business
3. Gifts given out when participating in exhibitions and expositions abroad
4. The company’s products are sent out as samples
5. Entertainment provided during cultural or sporting activities open to the public
6. The giving of gifts with commercial trademarks in Malaysia
7. Entertainment is directly related to sales
8. Annual company tour within Malaysia

## Expenses that are 100% tax deductible

### Giving ang pau to employees

You can get 100% tax deduction when you give ang paus to employees! However, the condition is that the employer must declare the ang pau money in the employee's payroll and EA form. Otherwise, tax deduction will not be allowed.



### Employee banquets or dinners

Treating employees to a meal can be regarded as a form of entertainment expense, and it also meets the conditions of s.39(1)(l)(i) of the ITA, so it is 100% tax deductible.

### Distributing employee bonuses

The distribution of bonuses is an expense incurred in the production of business income and is therefore eligible for 100% tax deduction under s.33(1) of the ITA. However, the employer must declare this bonus in the employee's pay slip and EA form.



### Giving hampers, shopping vouchers, and providing food and drinks to employees

These expenses meet the conditions under s.39(1)(l)(i) of the ITA. Thus, are eligible for a 100% tax deduction.

## Hiring performers during a banquet held for employees

This is allowable under s.39(1)(l)(i) of the I  
Therefore, a 100% tax deduction can be obtained.



## Buying company amenities

Company amenities for Chinese New Year celebration comply with s.33(1) of the ITA and are eligible for a 100% tax deduction.

## Expenses that are 50% tax deductible

### Giving hampers or shopping vouchers to existing customers or suppliers

Under s.39(1)(l) of the ITA states that only 50% is deductible for such expenses.





## **Expenses that are not tax deductible**

### **Giving ang pau to customers or suppliers**

This expense is not allowable for a tax deduction under s.33(1) of the ITA as it is not an expense arising from the production of business income. As a result, this expense is 100% not tax deductible.



### **Hiring lion dance performers**

Similar to the above, if lion dance performers are hired for celebratory purposes, it is not in accordance with s.33(1) of the ITA. This essentially means it is not an expense arising from the production of business income and is therefore 100% non-tax deductible.

### **Buying firecrackers and fireworks**

Like the above two items, this expense does not comply with s.33(1) of the ITA as it is not an expense arising from the production of business income and is therefore 100% non-deductible.



If you have incurred the above expenses, it is important to know whether it is 100% tax deductible, 50% tax deductible, or not tax deductible at all. Different expenses will have different corresponding tax treatments. We must know exactly the correct treatment and declare them correctly. This will prevent the IRB from imposing penalties for incorrect claims of expenses.

**Reference: Public Ruling 4/2015 Entertainment Expenses**