Malaysia provides tax incentives to encourage marginal oil field development

On 29 March 2013, the Malaysian tax authority enacted the following three incentives to help develop smaller oil fields. The incentives are retroactively applicable from 30 November 2010.

Petroleum (Income Tax) (Accelerated Capital Allowances) (Marginal Field) Rules 2013 [P.U. (A) 119]

The Rules provide an accelerated 15% capital allowance for a five-year period plus an additional bonus allowance of 25% in the year of acquisition of qualifying plant machinery and equipment incurred for the purpose of carrying out petroleum operations in a qualifying marginal field to be written off over a period of 5 years. The Rules apply to qualifying plant expenditure incurred in the years of assessment 2010 through 2024.

Malaysian taxpayers who operate in a marginal field may amend their returns to claim accelerated capital allowances.

Petroleum (Income Tax) (Investment Allowances) Regulations 2013 [P.U. (A) 120]

To encourage the development of capital intensive projects, the Regulations grant a 60% annual investment allowance on qualifying capital expenditure incurred in conjunction with a qualifying project, such as projects in respect of enhanced oil recovery, high carbon dioxide gas, or an infrastructure asset as determined by a minister in a 10-year period. The investment is in addition to the normal 8% annual capital allowance and 20% of the bonus allowance (see endnote 3).
Petroleum (Income Tax) (Exemption) Order 2013 [P.U. (A) 122]

The incentive provides a petroleum income tax exemption on qualifying statutory income derived from petroleum operations in a qualifying marginal field. The amount of exempt statutory income is determined in accordance with a formula provided in this Order to arrive at the effective tax rate of 25% vs the 38% rate that applies to income from petroleum operations. This is in line with the Government's earlier announcements on tax incentives for marginal fields.

Endnotes

1. Equivalent to depreciation.
2. The qualified marginal field is a specific area determine by the Minister, and is a field in a petroleum agreement area that has potential crude oil reserves not exceeding 30 million stock tank barrels or natural gas reserves not exceeding 500 billion standard cubic.
3. Normal annual capital allowance rate is at 8% for a 10-year period and the bonus allowance is 20%.
4. Financial years ending in 2010 through 2024.
5. It is not yet confirmed which ministry would become an approving authority.
6. Adjusted income, i.e., revenue less allowable deductions, including capital allowances.
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