



GUIDELINES ON TAX TREATMENT FOR PRE-PETROLEUM AGREEMENT EXPENDITURE UNDER THE PETROLEUM (INCOME TAX) ACT 1967 (PITA)

1. INTRODUCTION

- 1.1 Petroleum income tax is a tax imposed on a Chargeable Person on income derived from petroleum operations under a petroleum agreement pursuant to section 3 Petroleum (Income Tax) Act 1967 (PITA).
- 1.2 Petroleum agreement refers to the interpretation as defined in subsection 2(1) of PITA.
- 1.3 Pre-petroleum agreement expenditure in the upstream petroleum industry refers to expenses for the acquisition of data and seismic studies aimed at obtaining information on the potential and earth's surface conditions of an area to be awarded by Petroliam Nasional Berhad (PETRONAS) to a potential Chargeable Person.

2. OBJECTIVE

This guideline is issued to provide clarification on the tax treatment of qualifying pre-petroleum agreement expenditure under the Petroleum (Income Tax) (Deduction for Pre-Petroleum Agreement Expenditure) Rules 2025 [P.U.(A) 119/2025].

3. QUALIFYING PRE-PETROLEUM AGREEMENT EXPENDITURE

The qualifying pre-petroleum agreement expenditure allowed as provided under P.U.(A) 119/2025 is as follows:-

- 3.1 acquisition of seismic data; and
- 3.2 seismic studies.

4. QUALIFYING CONDITIONS FOR PRE-PETROLEUM AGREEMENT EXPENDITURE

- 4.1. The pre-petroleum agreement expenditures listed in paragraph 3 are subject to the following conditions:
- 4.1.1. the qualifying pre-petroleum agreement expenditure incurred by:
- (i) any person who enters into a petroleum agreement executed on or after 1 January 2024; or
 - (ii) any person who is a partner in a partnership and the petroleum agreement is executed on or after 1 January 2024; and
- 4.1.2. the expenditure must be incurred in a contract area that is to be covered under a petroleum agreement executed with PETRONAS within a period of three (3) years immediately preceding the date of the petroleum agreement.
- 4.2. The Chargeable Person must obtain a confirmation letter from Malaysia Petroleum Management (MPM), PETRONAS confirming that the expenditure is a qualifying pre-petroleum agreement expenditure and is allowed as cost recoverable.
- 4.3. The qualifying pre-petroleum agreement expenditure shall be deemed incurred on the date the petroleum agreement is executed.

5. TAX TREATMENT

- 5.1. Qualifying pre-petroleum agreement expenditure shall be allowed for a period of ten (10) years of assessment, starting from the year the Chargeable Person reach the first sale or disposal of its chargeable petroleum from its petroleum operations and the amount of deduction shall be determined in accordance with the following formula:

$$\frac{A}{B}$$

where:

A is the qualifying pre-petroleum agreement expenditure; and
B is ten (10) years of assessment.

- 5.2. Qualifying pre-petroleum agreement expenditures that are not fully claimed in determining the Chargeable Person adjusted income under one petroleum agreement is not transferrable to another petroleum agreement.
- 5.3. The tax treatment for qualifying pre-petroleum agreement expenditure is as follows:

Example 1

Alpha Sdn Bhd (ASB) /Beta Sdn Bhd (BSB) executed a petroleum agreement with PETRONAS for Block A1 on 1.6.2024.

ASB/BSB Block A1 PSC had incurred expenses prior to the petroleum agreement execution. The list of expenses that have been allowed as cost recoverable by PETRONAS and have been verified as qualified to be claimed for pre-petroleum agreement expenditure is as follows:

Pre-petroleum agreement expenditure	Date of pre-petroleum agreement expenditure incurred	Amount (RM)
Seismic data acquisition – Block A1 PSC.	2.6.2021	900,000
<p>Seismic studies and data processing services – for Block A1 PSC (area: 100 km²) and Block A2 PSC (area: 150 km²) – amounted to RM1,270,000.</p> <p>Therefore, only the pre-petroleum agreement expenditure for Block A1 PSC is eligible to be claimed by the Chargeable Person, based on the following:</p> <ul style="list-style-type: none"> i. the area of the contract; and ii. incurred within 3 years prior to the date the PSC was executed with PETRONAS. 	2.6.2021	508,000

Pre-petroleum agreement expenditure	Date of pre-petroleum agreement expenditure incurred	Amount (RM)
$\text{RM } 1,270,000 \times \frac{100 \text{ km}^2}{250 \text{ km}^2}$ $= \text{RM } 508,000$		
Seismic studies and data processing services – Block A1 PSC.	2.6.2021	500,000
Subscription to geological and seismic data – Block A1 PSC.	1.8.2022	1,500,000
Total qualifying pre-petroleum agreement expenditure.		3,408,000

ASB/BSB – Block A1 PSC achieved its first sale or disposal of petroleum on 1.3.2029.

Tax Treatment:

The qualifying pre-petroleum agreement expenditure claimable by ASB/BSB – Block A1 PSC is RM340,800 per year, beginning from the year of assessment 2029 until 2038 (closing of accounts on 31 December each year), based on the following calculation:-

$$\frac{\text{RM } 3,408,000}{10 \text{ years}} = \text{RM}340,800 \text{ per year}$$

- 5.4. If the Chargeable Person that incurred qualifying pre-petroleum agreement expenditure carries out petroleum operations under two or more petroleum agreements, and the areas under each agreement are contiguous, the period of ten years of assessment shall commence from the year of assessment in which the Chargeable Person first sells or disposes of chargeable petroleum relating to the area under the petroleum agreement for which the qualifying pre-petroleum agreement expenditure was incurred.

Example 2

The facts of the case are the same as Example 1. Additional information is as follows:

ASB/BSB had previously entered into petroleum agreements with PETRONAS for Block C3 and Block D4, which achieved their first sale or disposal of chargeable petroleum from their petroleum operations in the year of assessment 2021 (closing of accounts on 31 December each year).

ASB/BSB – Block A1 PSC is contiguous to ASB/BSB – Block C3 and Block D4 PSC. Under subsection 2(4) of PITA, the Chargeable Person will be designated as ASB/BSB – Block A1, C3 and D4 PSC.

Based on the above facts, the first year of assessment for ASB/BSB – Block A1, C3 and D4 PSC is in the year of assessment 2021. However, the pre-petroleum agreement expenditure cannot be claimed in the year of assessment 2021 but that expenditure is only allowed to be claimed starting from the year of assessment 2029. This is because ASB/BSB – Block A1 PSC will achieved their first sale or disposal of chargeable petroleum in relation to its petroleum operations on 1.3.2029.

- 5.5. The Inland Revenue Board of Malaysia has the right to examine the qualifying pre-petroleum agreement expenditure claimed by the Chargeable Person.

6. NON-APPLICATION

The tax treatment for qualifying pre-petroleum agreement expenditure is not applicable to:

- (a) PETRONAS;
- (b) Malaysia – Thailand Joint Authority (MTJA);
- (c) A Chargeable Person who carries on petroleum operations in the Joint Development Area in the basis period for a year of assessment ; or
- (d) A Chargeable Person who carries on petroleum operations in an area under any agreement or arrangement made by the Government with the government of any territory outside Malaysia for the joint exploration and exploitation of petroleum in overlapping areas during the basis period for a year of assessment.

7. EFFECTIVE DATE

This guideline shall be effective from the year of assessment 2024 and subsequent years of assessment.

8. DISCLAIMER

The examples in this guideline are for illustrative purposes only and are not exhaustive.

INLAND REVENUE BOARD OF MALAYSIA

Date : 28 November 2025

s.k : LHDN.AG.600-1/5/57