

LEARNING OBJECTIVE:

Definition of 'basis year'?

The period (not exceeding twelve months) for which the Group Holding Company of the particular PIC Group to which that subsection refers makes up its accounts.

Definition of 'basis period'?

The basis period for a company, co-operative or trust body is normally the financial year (FY) ending in that particular YA. For example the basis period for the YA 2021 for a company which closes its accounts on 30 June 2021 is the FY ending 30 June 2021.

Definition of 'accounting period'?

An accounting period is any time frame used for financial reporting. Transactions that fall within a given date range form part of the statements or reports for that Accounting period. An accounting period, or reporting period, is often 12 months.

Correct determination of basis periods

Determination of basis period of companies on commencement of business and change of accounting date?

Determining the basis period for a YA is important as it determines the period in which:

- income arising is recognised and duly reported;
- expenses are treated as incurred, thus deductible; and

Correct determination of basis periods (cont)

- capital expenditure on assets is treated as incurred, and prima facie eligible for initial allowance and annual allowance.

Correctly determining the basis period is therefore significant in the following aspects of tax management:

- Accurately determining the adjusted income, the correct claim for capital allowances and, thus, the chargeable income and tax liability for a YA
- Providing a basis for the estimation of tax chargeable for the relevant basis periods, and
- Identifying the compliance responsibilities for the respective YAs.

Relevant provisions and public rulings

The provisions of the *Income Tax Act 1967* relating to basis periods are as follows:

- Section 20 - Basis years
- Section 21 - Basis periods for persons other than companies, LLP, trusts etc; and
- Section 21A - Basis periods for a company, limited liability partnership (LLP), trust or co-operative society
- Section 42(2) - Overlapping periods
- Section 107C(4) and (4A) - Basis periods on commencement of operations
- Section 107C(11B) and 120(1)
 - (i) - Failure to notify constitutes an offence and revocability

INTRODUCTION

A company is chargeable to income tax in respect of all its sources of income for a year of assessment (YA).

The income from a source is determined in relation to the basis period for a YA.

BP sets the time frame for the ascertainment of income for each source.

Is governed under Section 20, 21 and 21A of the Act.

Reason for important?

- 1 Any *revenue expenses* incurred before the *DOC* is not deductible in arriving the adjusted income.
- 2 *Capital allowance* on qualifying capital expenditure would be available beginning from the first BP where the commencement date falls.
- 3 It results in the determination of the first YA.

Why are the commencement date & the year-end date are important?
June 16 & March 16

PR8/2014

Commencement of operation
Changes of accounting period

FORMAT

YA	BASIS PERIOD	ADJUSTED INCOME/(LOSS)
201X		
201X		
201X		
201X		
201X		
201X		

Section 21A(2)

- Where a company commences business on a day in a basis year.

- Accept the AP.

1st set of accounts consist of 12 months

Section 21A(5)

- Required by the law of the place to close its accounts on a specified day or

- Being a company within a company, is required to close its account on specified day to coincide with the group year end

- Accept the AP

Required by law

Section 21A(6)

- Where a company commences a new business and is currently carrying on one or more other businesses

- The new business will be treated as having the same basis period as the old business

- Accept the AP

New business source

Section 21A(4) - Amended**

- Is amended to simplify the BP on commencement

- The BP of the company depends on the closing date of the accounts

- Applicable to the 1st set of account closed in 2014 onwards

AP ending in the same year

- BP = AP

- Accept the AP

- March 2021

[21A(4)(a)]

Q March 2021

AP ending in the following year

- BP = AP

- Accept the AP

[21A(4)(b)]

Q February 2021

AP ending in the 3rd year

- BP = AP

- Accept the AP

[21A(4)(c)]

Example in the PR8/2014



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The concept of failure year:

YA 2021	1/5/2020 – 30/4/2021	Before changes
YA 2022 ✓	1/5/2021 – 30/4/2022	
YA 2022**	1/5/2022 – 31/12/2022	After changes

'Failure year' means the year in which there is failure to close the accounts to the normal accounting date.

Based on PR8/2014

What is the 'Failure Year'?

It is when the company fails to make up accounts for a 12-month accounting period, either

- less than 12 months or

- more than 12 months due to changes of the accounting date

Jan 2018 - Oct 2016

Changes in the AP

1	Ending in the same year	The new AP would be added with the following AP
2	Ending in the following year	No adjustment is needed
		Accept the AP
3	Ending in the 3 rd years	The AP will be apportioned equally between 2 YAs

Changes ending in the same year:

Q February 2021 & December 2019

Changes ending in the following year:

Q March 2021 & December 2018

Changes ending in the 3rd year:

Q February 2021 & June 2019

What is Overlapping Period?

Q Overlapping period is the period that appears in two year of assessment
March 2017

Tax implication for Overlapping Period

- Adjusted income/loss in the overlapping period will be taxed in the first Year Assessment (YA)

- The adjusted income of the following YA would be reduced by the adjusted income/loss of the overlapping period

- Sept15/March17

Notification on IRB

[21A (3A)]

With effect from YA 2019, the change of AP requires the notification to IRB within 30 days via form CP 204B either from the end of:

- New accounting year end; or

- Old accounting year end

Whichever is earlier

Q March 2021

Non-Compliance

[Section 120 (1) (i)]

Failure to notify the IRB on the change of accounting date constitutes an offence

Upon conviction, taxpayer would be liable to:

- A fine between RM200 and RM20,000; or

- Imprisonment for a term not exceeding 6 months; or

- Both

Penalty or presumption on existing year end

Section 21A(3A) mandatorily imposes the notification requirement to IRB on change of your end.

Without such notification on the change of accounting date, the IRB would presume the existing year end continues

The change of accounting date involve variation of month in YA, penalty would be imposed on:

- Late payment of monthly instalments [Section 107C(11B)]

- Late submission on tax return [Section 112C(3A)]

Such penalties shall continue to be recoverable as if it were tax due and payable



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