

### 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 a source of income for a year of assessment (YA).
- 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, the correct claim for relief on research and development expenditure.
  - Providing a basis for the estimation of tax chargeable for the relevant YA.
  - 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
- Section 21A - Basis periods for a company, limited liability partnership or company with a share premium account
- 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

### 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 commencement of the first BP are not deductible in arriving at 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.

*1<sup>st</sup> 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 1<sup>st</sup> 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

### 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 <sup>rd</sup> 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 3<sup>rd</sup> year:  
Q February 2021 & June 2019

### What is Overlapping Period?

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

### 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 change of your end.

Without such notification on the change of accounting date, the existing year end continues to be presumed.

The change of accounting date involves variations in the accounting date which would be imposed on:

- Late payment of monthly instalments
- Late submission on tax return [S 21A(3A)]

Such penalties shall continue to be recoverable until the year end payable