

TECHNICAL

Direct Taxation

FRS 102: Inventories – Dialogue with the Ministry of Finance (MOF)

The Joint Tax Working Group on FRS (JTWG-FRS), comprises representatives from CTIM, MIA and MICPA, has attended a dialogue called by the MOF on 13 June 2013. The dialogue was held together with the Inland Revenue Board (IRB), to discuss the tax implications relating to the implementation of FRS 102: Inventories. We are pleased to update members on the matters discussed:-

Tax issues that may arise with the implementation of FRS 102

1) Inventories measured at net realisable value (NRV) / Fair Value

Section 35(3) of Income Tax Act 1967 provides that inventories are measured at the lower of cost and market value (MV), whereas FRS 102 requires inventories to be measured at cost or NRV, whichever is the lower.

NRV is the Estimated Selling Price less Estimated Costs of Completion and Estimated "Cost to Make Sale". Hence NRV is not equal to MV. If the NRV is lower than cost, tax adjustment is required by adding back the "cost to sell" to reinstate to Market Value (MV).

This means that the taxpayer has to maintain another set of records for its inventories for tax purposes.

To avoid the increase of costs of doing business, the JTWG-FRS proposes that the IRB adopts FRS 102 valuation of inventories since any difference will only be a timing difference. The IRB will discuss on the matter and revert to the JTWG-FRS.

2) Inventories purchased on deferred settlement term

For inventories purchased on deferred settlement term, FRS 102 requires that the difference between the purchase price for normal credit terms and the amounts paid be recognised as interest expense over the period of financing. Issue has been raised on what is the appropriate tax adjustment to the "imputed interest" cost on inventories purchased on deferred settlement term.

JTWG-FRS has proposed that tax deduction be allowed on the "imputed interest" as interest expense and not subject to Section 33(2) or thin capitalization rule since the "imputed interest" is in fact the cost of inventories for tax purpose.

The IRB agreed to consider the proposal by the tax practitioners and will look into the issues and revert to the JTWG-FRS.

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