

Public Ruling No.2/2000

BASIS PERIOD FOR A BUSINESS SOURCE (COMPANIES & CO-OPERATIVES)

1.0 TAX LAW

This Ruling applies in respect of sections 20 and 21 of the Income Tax Act, 1967. It is effective from the year of assessment 2000 for the basis period ending in the year 2000 and subsequent years of assessment.

2.0 THE APPLICATION OF THIS RULING

This Ruling considers:

- 2.1 the basis period for a company or a co-operative commencing a new business;
- 2.2 the basis period for a company or a co-operative changing the accounting date of its existing business;
- 2.3 the basis period for a company joining a partnership.

3.0 HOW THE TAX LAW APPLIES

- 3.1 Income tax is chargeable for a year of assessment.
- 3.2 The basis year for a year of assessment for a business source is the basis period for that year of assessment.

Example:

A company prepares its accounts from 01.01.2001 to 31.12.2001.

The basis year ending 31.12.2001 is the basis period for the year of assessment 2001 for the company's business source.

- 3.3 Where accounts are made up for twelve months ending on a date other than 31 December in a basis year, that period is the basis period for that year of assessment in which the accounts are closed.

Example:

A company makes up its accounts from 01.07.2000 to 30.06.2001.

The period from 01.07.2000 to 30.06.2001 is the basis period for the year of assessment 2001 for that company's business source.

- 3.4 Commencement of Business

3.4.1 Accounts ending on 31 December

Where a business is commenced and its accounts are prepared from the date of commencement to 31 December the same year, that accounting period is the basis period for the first year of assessment.

Example:

A company commences business on 11.05.2001 and the accounts close on 31.12.2001.

The accounting period 11.05.2001 to 31.12.2001 is the basis period for the year of assessment 2001.

3.4.2 Accounts prepared for 12 months

Where a business is commenced and its accounts are made up for 12 months, that accounting period is the basis period for the year of assessment in which the accounts are closed.

Example:

A company's first accounts are prepared from 01.07.2000 to 30.06.2001.

The accounting period 01.07.2000 to 30.06.2001 is the basis period for the year of assessment 2001. There is no basis period for the year of assessment 2000.

3.4.3 Accounts prepared for less than or more than 12 months and not ending on 31 December

Where a business is commenced and its accounts are made up for less than or more than 12 months not ending on 31 December, the basis period for a year of assessment is the year ending on 31 December each year until accounts are made up for a 12-month accounting period.

Example 1:

A company commences a business on 26.06.2000 and accounts are made up to 30.04.2001 (10 months) and subsequently to 30.04.2002.

For the year of assessment 2000 the basis period is 26.06.2000 to 31.12.2000.

For the year of assessment 2001 the basis period is

01.01.2001 to 31.12.2001.

For the year of assessment 2002 the basis period is 01.05.2001 to 30.04.2002.

Example 2:

A company commences a business on 26.06.2000 and accounts are made up to 30.09.2001 (15 months) and subsequently to 30.09.2002.

For the year of assessment 2000 the basis period is 26.06.2000 to 31.12.2000.

For the year of assessment 2001 the basis period is 01.01.2001 to 31.12.2001.

For the year of assessment 2002 the basis period is 01.10.2001 to 30.09.2002.

- 3.4.4 A company or co-operative with existing business(es) commencing a new business

Where one or more businesses is / are already being carried on and a new business is started, the basis period of the existing business(es) is also the basis period of the new business.

Example:

A company has been in business for several years and makes up its accounts ending on 30 September each year. The company starts a new business on 01.06.2001.

The basis period for the new business is 01.06.2001 to 30.09.2001 for the year of assessment 2001.

- 3.4.5 Same accounting date as related companies in a group

Where a company commences a business and makes up accounts to the same day as that of the other related companies in a group, the first basis period for the new business is from the date it commences the business to the date the accounts are closed.

Example:

A company, being a member of a group of companies, commences a business on 15.01.2001 and closes its first accounts on 30.09.2001 to coincide with the financial year

ending for the group of companies and subsequently to 30 September each year.

The basis period for the year of assessment 2001 is 15.01.2001 to 30.09.2001.

The basis period for the year of assessment 2002 is 01.10.2001 to 30.09.2002.

3.4.6 Requirement under law of country of incorporation

Where a company commences a business and the country where it is incorporated requires it to close its accounts on a particular date, that accounting period is the basis period for the first year of assessment.

Example:

S Ltd. commences a business on 21.10.2000 and makes its first accounts to 30.04.2001 as required by the laws of the country of incorporation.

The basis period for the year of assessment 2001 is 21.10.2000 to 30.04.2001. There is no basis period for the year of assessment 2000.

3.5 Change of Accounting Date

3.5.1 Normal accounts ending on 31 December

Where accounts normally end on 31 December and there is a change of accounting date, the basis period in the year of change is year ending 31 December.

Example:

B Sdn. Bhd. normally prepares its accounts ending on 31 December. It changes its accounting date to 30 September and prepares accounts as follows: 01.01.2001 to 30.09.2001 and subsequently to 30 September each year.

The basis period for the year of assessment 2001 is 01.01.2001 to 31.12.2001.

The basis period for the year of assessment 2002 is 01.10.2001 to 30.09.2002.

3.5.2 Normal accounts not ending on 31 December and new

accounts prepared for less than 12 months:

A. New accounts ending in the following year

The new accounting period is the basis period for the year of assessment in the failure year.

Example:

A company's accounts are normally prepared ending on 30 September. The company changes its accounting date and the accounts now close on 31 March. The accounts are prepared as follows: 01.10.1999 to 30.09.2000, 01.10.2000 to 31.03.2001 (6 months) and to 31 March for subsequent years. *The basis period for the year of assessment 2001 is 01.10.2000 to 31.03.2001 (6 months).*

The basis period for the year of assessment 2002 is 01.04.2001 to 31.03.2002.

B. New accounts and the last accounts ending in the same year

The new accounting period together with the following accounting period is the basis period for the year of assessment in the failure year.

Example:

A company's accounts are normally prepared ending on 30 June. The company changes its accounting date and the accounts now close on 31 December. Accounts are prepared from 01.07.1999 to 30.06.2000, 01.07.2000 to 31.12.2000 (6 months), 01.01.2001 to 31.12.2001 and to 31 December for subsequent years.

The new accounting period 01.07.2000 to 31.12.2000 and the last accounting period 01.07.1999 to 30.06.2000 ends in the same basis year.

The basis period for the year of assessment 2001 is 01.07.2000 to 31.12.2001 (18 months).

The basis period for the year of assessment 2002 is 01.01.2002 to 31.12.2002.

[The rationale for determining the basis periods for the above two situations is that no accounting period or year of assessment is lost and there is no overlapping of basis periods.

3.5.3 Normal accounts not ending on 31 December and new accounts prepared for more than 12 months:

A. New accounts ending in the following year

The new accounting period is the basis period for the year of assessment in the failure year.

Example:

A company's accounts are normally prepared ending on 31 July. The company changes its accounting date and accounts now close on 31 October. The accounts are prepared from 01.08.2000 to 31.10.2001 (15 months) and to 31 October for subsequent years.

The basis period for the year of assessment 2001 is 01.08.2000 to 31.10.2001 (15 months).

The basis period for the year of assessment 2002 is 01.11.2001 to 31.10.2002.

B. New accounts ending in the third year

The new accounting period spans three basis years. The new accounting period will be apportioned equally and the two periods will be taken to be the basis periods for the first 2 years of assessment commencing in the failure year.

Example:

A company's accounts are normally prepared ending on 30 November.

There is failure to close accounts to its normal accounting date and the accounts are prepared for more than 12 months from 01.12.2000 to 28.02.2002 (15 months) and to 28 February for subsequent years.

The basis period for the year of assessment 2001 is 01.12.2000 to 31.07.2001 (8 months).

The basis period for the year of assessment 2002 is

01.08.2001 to 28.02.2002 (7 months).

[The rationale for determining the basis periods for the above 2 situations is that no accounting period or year of assessment is lost and there is no overlapping of basis periods. Any fraction of a month is treated as falling into the first period.]

3.6 A Company Joining a Partnership

3.6.1 Joining a new partnership

If a company joins a new partnership, the basis period for the company in respect of the partnership source is as determined in subparagraph 3.4.1, 3.4.2 and 3.4.3.

Example:

A company joins a new partnership which commences business on 18.02.2001. The first accounts are prepared to 30.09.2001 and subsequently to 30 September each year.

The basis periods for the company's partnership source are:

Year of assessment 2001 18.02.2001 to 31.12.2001

Year of assessment 2002 01.10.2001 to 30.09.2002

3.6.2 Joining an existing partnership and partnership's normal accounting date is maintained

If a company joins an existing partnership and the partnership accounts continue to be made up to its normal accounting date, the first basis period for the company in respect of its partnership business is from the date the company joins the partnership to the date of closing of partnership accounts.

Example:

D Sdn. Bhd. joins an existing partnership ABC on 01.02.2000. The accounts of the partnership are normally made up to 31 March. The accounts for the partnership continue to be made up to 31.03.2000.

The basis period for D Sdn. Bhd. in respect of its partnership source is 01.02.2000 to 31.03.2000 for the year

of assessment 2000.

3.6.3 Joining an existing partnership and partnership's normal accounting date changes

If a company joins an existing partnership and the partnership changes its normal accounting date, the partnership will be treated as a new partnership for the company and the basis period is as determined in subparagraphs 3.4.1, 3.4.2 and 3.4.3.

4.0 **INTERPRETATION**

For the purpose of this Ruling:

- 4.1 Where there is an overlapping period for two basis periods, the adjusted income or adjusted loss common to both basis periods shall be ignored in the second basis period.
- 4.2 If changes are made in two consecutive accounting periods and the above directions cannot be applied because a year of assessment will be lost, the Director General will, upon application by the company or co-operative, give specific directions.
- 4.3 In the case of apportionment of accounting periods, any fraction of a month will be treated as falling into the first period.
- 4.4 "Basis year for a year of assessment" means the calendar year coinciding with the year of assessment.
- 4.5 "Failure year" means the year in which there is failure to close the accounts to the normal accounting date and the normal accounting date is not 31 December.
- 4.6 "Year of assessment" means calendar year.

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