

Public Ruling No. 7/2001

BASIS PERIOD FOR BUSINESS & NON-BUSINESS SOURCES (COMPANIES)

1.0 TAX LAW

This Ruling applies in respect of section 21A of the **Income Tax Act 1967**. It is effective for the year of assessment 2001 and subsequent years of assessment. This Ruling supersedes Public Ruling No. 2/2000 dated 1 March 2000 where it relates to companies.

2.0 THE APPLICATION OF THIS RULING

This Ruling considers the determination of the basis period for a company:

- 2.1 commencing its operations;
- 2.2 changing the accounting date of its existing operations; and
- 2.3 joining a partnership.

3.0 HOW THE TAX LAW APPLIES

- 3.1 A company is chargeable to income tax in respect of all its sources of income for a year of assessment [hereinafter also referred to as *Y/A*].
- 3.2 The income from a source is determined in relation to the basis period for a year of assessment.

3.3 General

Except where paragraph 3.4 below applies, the basis year for a year of assessment [*see paragraphs 4.3 and 4.4*] is the basis period for that year of assessment in relation to all sources of income of a company.

Example

A company which has a business source and a dividend source prepares its accounts from 01.01.2001 to 31.12.2001.

The basis year ending 31.12.2001 is the basis period for the Y/A 2001 for

all of the company's sources.

3.4 Accounts made up for 12 months not ending on 31 December

Where the accounts of a company are made up for 12 months ending on a date other than 31 December in a basis year, that accounting period is the basis period for the year of assessment in which the accounts are closed for all its sources of income.

Example

A company makes up its accounts from 01.07.2001 to 30.06.2002. Its sources of income are business, rental and interest.

The period from 01.07.2001 to 30.06.2002 is the basis period for the Y/A 2002 for all its sources of income.

3.5 Commencement of operations

3.5.1 Accounts prepared for less than or more than 12 months ending on 31 December

Where a company commences operations [*see paragraph 4.5*] and its first accounts are prepared for less than or more than 12 months ending on 31 December, the basis period for the year of assessment is the period ending on 31 December.

Example 1

A company commences operations on 11.05.2001 and the first accounts are closed on 31.12.2001.

The accounting period 11.05.2001 to 31.12.2001 is the basis period for the y/a 2001.

Example 2

A company commences operations on 01.09.2001 and the first accounts are closed on 31.12.2002.

The period from 01.09.2001 to 31.12.2001 is the basis period for Y/A 2001.

The period from 01.01.2002 to 31.12.2002 is the basis period for Y/A 2002.

3.5.2 Accounts prepared for 12 months

Where a company commences operations and its first 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 commences operations on 01.07.2001 and its first accounts are prepared for the period 01.07.2001 to 30.06.2002.

The accounting period 01.07.2001 to 30.06.2002 is the basis period for the y/a 2002. There is no basis period for the y/a 2001.

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

Where a company commences operations and its first accounts are made up for less than or more than 12 months not ending on 31 December, the basis period for the 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 operations on 26.06.2001 and accounts are made up to 30.04.2002 (>10 months), and subsequently to 30.04.2003.

The basis period for the Y/A 2001 is 26.06.2001 to 31.12.2001.

The basis period for the Y/A 2002 is 01.01.2002 to 31.12.2002.

The basis period for the Y/A 2003 is 01.05.2002 to 30.04.2003.

Example 2

A company commences operations on 26.06.2001 and accounts are made up to 30.09.2002 (>15 months), and subsequently to 30.09.2003.

The basis period for the Y/A 2001 is 26.06.2001 to 31.12.2001.

The basis period for the Y/A 2002 is 01.01.2002 to 31.12.2002.

The basis period for the Y/A 2003 is 01.10.2002 to 30.09.2003.

3.5.4 Company with existing operations commencing new operations

Where a company which is already carrying on one or more operations commences a new operation, the basis period for the existing operations is also the basis period for the new operation.

Example

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

The basis period for its existing operations is the accounting year ending on 30 September. The basis period for the new operation for the Y/A 2001 is therefore 01.06.2001 to 30.09.2001.

3.5.5 Same accounting date as related companies in a group

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

Example

A company, being a member of a group of companies, commences operations 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 closes its accounts on 30 September each year.

The basis period for the Y/A 2001 is 15.01.2001 to 30.09.2001.

The basis period for the Y/A 2002 is 01.10.2001 to 30.09.2002.

3.5.6 Requirement under law of place of incorporation

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

Example

A company commences operations on 21.10.2001 and makes up its first accounts to 30.04.2002 as required by the law of the place of its incorporation.

The basis period for the Y/A 2002 is 21.10.2001 to 30.04.2002. There is no basis period for the Y/A 2001.

3.6 Change of accounting date

3.6.1 Normal accounts ending on 31 December

Where accounts are normally closed on 31 December and there is a change of accounting date, the basis period in the year of change is the year ending 31 December. The basis period for the subsequent year of assessment will also be the year ending 31 December unless there is a

12-month accounting period ending in that year, in which case that accounting period will be the basis period. Thereafter, the 12-month accounting period will be the basis period.

Example 1

A company which normally closes its accounts on 31 December 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 y/a 2001 is 01.01.2001 to 31.12.2001.

The basis period for the y/a 2002 is 01.10.2001 to 30.09.2002.

Example 2

A company which normally closes its accounts on 31 December changes its accounting date to 31 March and prepares accounts as follows: 01.01.2001 to 31.03.2002, and subsequently to 31 March each year.

The basis period for the y/a 2001 is 01.01.2001 to 31.12.2001.

The basis period for the y/a 2002 is 01.01.2002 to 31.12.2002.

The basis period for the y/a 2003 is 01.04.2002 to 31.03.2003.

3.6.2 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 [see paragraph 4.6].

Example

A company's accounts are normally prepared ending on 30 September. The company changes its accounting date and the accounts are now closed on 31 March. Accounts are prepared as follows: 01.10.2000 to 30.09.2001, 01.10.2001 to 31.03.2002 (6 months), and to 31 March for subsequent years.

The basis period for the y/a 2002 (the failure year) is 01.10.2001 to 31.03.2002 (6 months).

The basis period for the y/a 2003 is 01.04.2002 to 31.03.2003.

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

The period comprising 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 are now closed on 31 December. Accounts are prepared as follows: 01.07.2000 to 30.06.2001, 01.07.2001 to 31.12.2001 (6 months), 01.01.2002 to 31.12.2002, and to 31 December for subsequent years.

Since both the new accounting period 01.07.2001 to 31.12.2001 and the last accounting period 01.07.2000 to 30.06.2001 end in the same basis year:

The basis period for the y/a 2002 (the failure year) is 01.07.2001 to 31.12.2002 (18 months).

The basis period for the y/a 2003 is 01.01.2003 to 31.12.2003.

3.6.3 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 are now closed on 31 October. Accounts are prepared as follows: 01.08.2001 to 31.10.2002 (15 months), and to 31 October for subsequent years.

The basis period for the y/a 2002 (the failure year) is 01.08.2001 to 31.10.2002 (15 months).

The basis period for the y/a 2003 is 01.11.2002 to 31.10.2003.

B) New accounts ending in the third year

If the new accounting period spans 3 basis years, it is apportioned into 2 periods, and these 2 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 accounts are prepared for a period of more than 12 months from 01.12.2000 to 28.02.2002 (15 months), and to 28 February for subsequent years.

The accounting period 01.12.2000 to 28.02.2002 (15 months) is apportioned into 2 periods, so that:

The basis period for the y/a 2001 (the failure year) is the period 01.12.2000 to 31.07.2001 (8 months).

The basis period for the y/a 2002 is the period 01.08.2001 to 28.02.2002 (7 months).

- [In determining the basis periods for the situations in paragraphs 3.6.2 and 3.6.3 above, no accounting period or year of assessment should be left out and there should be no overlapping of basis periods. Any fraction of a month should be treated as falling into the first period.]

3.7 Company joining a partnership

If a company joins a partnership, the partnership will be regarded as a new operation of the company. The basis period for its existing operations is, therefore, also the basis period for the partnership source [see paragraph 3.5.4].

Example 1

A company (whose accounts are closed on 30 June) joins a new partnership which commences business on 18.02.2001. The first accounts of the partnership are prepared to 30.09.2001 and accounts are subsequently prepared to 30 September each year.

Notwithstanding the accounting period of the partnership, the basis periods for the company in respect of its partnership source are:

Y/a 2001: 18.02.2001 to 30.06.2001

Y/a 2002: 01.07.2001 to 30.06.2002

Example 2

A company (whose accounts are closed on 31 December) joins an existing partnership on 01.02.2001. The accounts of the partnership are normally made up to 31 March. The accounts for the partnership continue to be made up to 31.03.2001, and to 31 March for subsequent years.

Notwithstanding the accounting period of the partnership, the basis period for the company in respect of its partnership source for the y/a 2001 is 01.02.2001 to 31.12.2001.

Example 3

X Sdn. Bhd. (whose accounts are closed on 30 June) and Y Sdn. Bhd. (whose accounts are closed on 30 September) start a joint venture. The accounts of the joint venture are made up as follows: 01.04.2001 to 31.12.2001, and to 31 December for subsequent years.

Notwithstanding the accounting period of the partnership, the basis periods in respect of the partnership source are as follows:

<i>Y/A</i>	<i>X Sdn. Bhd.</i>	<i>Y. Sdn. Bhd.</i>
2001	01.04.2001 - 30.06.2001	01.04.2001 - 30.09.2001
2002	01.07.2001 - 30.06.2002	01.10.2001 - 30.09.2002
2003	01.07.2002 - 30.06.2003	01.10.2002 - 30.09.2003

- [Note: In all the situations in Examples 1, 2 and 3 above, the adjusted income from the partnership source for the relevant accounting periods should be apportioned accordingly.]

3.8 Treatment of adjusted income / adjusted loss in overlapping periods

Where the application of paragraph 3.5.3 or paragraph 3.6.1 results in an overlapping of two basis periods [*see Examples 1 & 2 in paragraph 3.5.3 and Examples 1 & 2 in paragraph 3.6.1*], the adjusted income or adjusted loss common to both basis periods is ignored in the second basis period.

Example

A company commences a business on 01.07.2001 and accounts are prepared as follows: 01.07.2001 to 31.03.2002, 01.04.2002 to 31.03.2003, and subsequently to 31 March.

- The adjusted income of the company's business is as follows:

<u>Accounting period</u>	<u>Adjusted income</u>
01.07.2001 to 31.03.2002 [A]	RM15,000
01.04.2002 to 31.03.2003 [B]	RM24,000

Applying paragraph 3.5.3, the basis periods for the company are:

<u>Y/A</u>	<u>Basis periods</u>
2001	01.07.2001 - 31.12.2001 (6 months)
2002	01.01.2002 - 31.12.2002 (12 months)*
2003	01.04.2002 - 31.03.2003 (12 months)*

[*Overlapping period: 01.04.2002 - 31.12.2002]

The adjusted income should be apportioned as follows:

<i>Y/A & Basis period</i>	<i>Apportionment</i>	<i>Adjusted income</i>
2001 [01.07.2001 - 31.12.2001]	01.07 - 31.12.2001: 6 / 9 x [A] (6 / 9 x RM15,000)	10,000
2002 [01.01.2002 - 31.12.2002]	01.01 - 31.03.2002: 3 / 9 x [A] (3 / 9 x RM15,000) 01.04 - 31.12.2002: 9 / 12 x [B] (9 / 12 x RM24,000)	5,000 <u>18,000</u> <u>23,000</u>
2003 [01.04.2002 - 31.03.2003]	Adjusted income of overlapping period (01.04.2002 - 31.12.2002) ignored in second basis period: (RM24,000 - RM18,000)	6,000

4.0 INTERPRETATION

For the purpose of this Ruling:

- 4.1 If changes of accounting date are made in two consecutive accounting periods and the determinations in paragraph 3.6 above cannot be applied because a year of assessment or an accounting period will be left out, the Director General will, upon application by the company, give specific directions.
- 4.2 In the case of apportionment of accounting periods, any fraction of a month is to be treated as falling into the first period [*see the Example in paragraph 3.6.3.B*].
- 4.3 "Basis year for a year of assessment" means the calendar year coinciding with the year of assessment.
- 4.4 "Year of assessment" means calendar year.
- 4.5 "Operations" include an activity which consists of:
 - 4.5.1 the carrying on of a business;
 - 4.5.2 the making of investments;

4.5.3 both the carrying on of a business and the making of investments; or

4.5.4 the making of investments prior to the commencement of a business or after the cessation of a business.

4.6 "Failure year" means the year in which there is failure to close the accounts to the normal accounting date (where that normal accounting date is not 31 December).

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