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**TECHNICAL**

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**Direct Taxation**

**GUIDELINE ON COMPENSATION ON LATE REFUND OF OVERPAYMENT OF TAX**

The Inland Revenue Board (IRB) issued the above Guideline on 15 May 2014. The objective is to provide clarification on payment of compensation for late refund of overpayment of tax made by IRB, which is provided for under Section 111D of the Income Tax Act 1967 (ITA).

**Summary of contents**

The following are some salient points from the Guideline:

***Eligibility and Entitlement***

- The following summarizes the criteria for eligibility for compensation (Para 2.1):

<b>Eligible Taxpayer</b>	<b>Return must be furnished:</b>
Individual with employment income	Before or on 30 April
Individual with business income	Before or on 30 June
Business/ limited liability partnership (LLP)/ trust body/ co-operative society	Within 7 months from the date following the close of the accounting period of the business
The Return furnished must be complete and correct.	

- The entitlement for refund for overpayment of tax refers to excess of tax paid under the following sections of the ITA (Para 2.2):

<b>Section</b>	<b>Type of Payment</b>
107	Monthly tax deduction
107B	Installment Payment Notice – CP 500)
107C	Estimated Tax Payable by Companies/ LLP/ Trust Body/ Cooperative Society – CP 204/CP 205

***Timeline for calculation of compensation***

- Depending on the method of filing of tax return, compensation is calculated on a daily basis, starting from the first day after the period stated under “Timeline” as below (Para 3):

<b>Return filed:</b>	<b>Timeline</b>
Via e-Filing	After 90 days from the last date Return is required to be furnished based on the category of taxpayer;
By post or at the counter	After 120 days from the last date Return is required to be furnished, based on the category of tax payer.

**Calculation of amount of compensation (Para 6)**

- Compensation is calculated using the following formula:

$$A \times \frac{B}{C} \times 2\%$$

Where :

A : Amount of refund under Section 111 of ITA;

B : Number of days calculated from the first day after the end of 90 days or 120 days from the last date that the Return is required to be furnished until the refund is approved.

C : Number of days in a year (365)

(For calculation examples, please refer to Examples 3 and 4 in the Guideline.)

**Other matters**

The following matters are also dealt with in the Guideline:

- Taxpayers who are not eligible to be paid compensation (Para. 4) – list of circumstances under which compensation will not be paid.
- Refund less than RM100 for companies or RM50 for individuals (Para 5) – outlines the process to be followed by IRB in such cases.
- Recovery of compensation and increase of 10% on compensation (Para 7) – explains IRB's right to recover compensation wrongly paid out by IRB (error by IRB), and its right (where an error is committed by taxpayer) to recover the amount of compensation as well as impose a penalty of 10% on the amount of compensation that was not supposed to be paid out.

Appendix A in the Guideline shows a flow chart of the work process of compensation payment on late refund of overpayment of tax.

You may read the Guideline in full at the [IRB website](#) or the [Institute website](#).

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