

Guidelines On Treatment of Single Tier Dividend included in Actuarial Surplus That Is Transferred to Shareholders' Funds

The Inland Revenue Board (IRB) issued the *Guidelines On Treatment Of Single Tier Dividend Included In Actuarial Surplus That Is Transferred To Shareholders' Funds* on 27 July, 2012 to clarify the treatment of the subject matter.

The following is a summary of the contents:

1. Background

- 1.1 Actuarial Surplus (AS) is the surplus balance remaining in the Revenue Account of the Life Fund (LF) at the end of the accounting year, after deducting expenses and liabilities (as determined by an actuary) from the income received, for the purpose of distribution between shareholders and policy holders.
- 1.2 The portion of AS transferred to shareholders' fund (SF), as determined by an actuary, is subject to income tax.
- 1.3 AS consists of all incomes received by the Life Fund such as premiums, dividends, interest, rent and gains from the sale of investments. For the purpose of income tax, only incomes from investments, i.e. dividends, interest, rent and gains from the sale of investments, are subject to tax. Beginning from year of assessment 2008, single tier dividends are exempt from tax.
- 1.4 The current tax treatment is to charge income tax on the amount of AS that is transferred to the SF without regard for the category of income included therein at the time the AS is determined. This leads to single tier dividends included in the AS being subjected to tax.
- 1.5 To give effect to the exemption accorded to single tier dividend, single tier dividends included in the AS that is transferred from the LF to SF should be exempted from tax.

2. Determination of the amount of single tier dividend to be exempted:

- 2.1 The amount of AS transferred from the LF to the SF is the net amount after deduction of expenses and liabilities as determined by the actuary without regard to the legal provisions under the Income Tax Act 1967. It consists of AS for the current year as well as prior years. To exclude single-tier dividend from AS transferred to SH, the net single-tier dividends should be taken into account.
- 2.2 To calculate the portion of net single tier dividend in AS that is transferred to the SF, the following formulas are used:

- (i) To determine the amount of net single-tier dividend income:

$$\frac{A}{B} \times C = D$$

Where D = net single-tier dividend income
 A = AS for the current year
 B = total of AS for the current year and AS at the beginning of the year.
 C = portion of income from single-tier dividend

- (ii) To calculate the amount of net single-tier dividend income that is transferred to SF:

$$\frac{E}{F} \times D = G$$

Where G = amount of net single-tier dividend income transferred to SF

E = AS transferred
 F = total of AS transferred and bonus allocated to policy holders
 D = net single-tier dividend income

3. **Computation of AS transferred to SF that is subject to income tax:**

(a) Table showing the calculation of AS from the LF revenue account

	RM
Gross premium	XX
Deduct: Reinsurance	(XX)
Net Premium	XX
Deduct: Claims/ policy benefits paid and payable upon death/ maturity/ surrender/ cash bonus & etc.	(XX)
	XX
Deduct/ Add: (Increase)/ decrease in reserves (determined by actuary)	(XX)
Agency expenses and commissions	(XX)
Management expenses	(XX)
	XX
Net investment income	XX
Net income from other operations	XX
Surplus before tax	XX
Deduct: Tax	(XX)
Surplus for the year/ Actuarial Surplus	XX (A)

(b) Table showing the computation of AS that is transferred to SF:

	RM
AS not distributed at the beginning of the year	XX (B)
Add: AS in the current year	XX (B)
Deduct: Bonus distributed to policyholders	(XX) (F)
Deduct/Add: Transferred (to)/ from income statement (AS transferred to shareholders' fund)	(XX) (E) & (F)
Surplus not distributed at the end of the year	XX

(c) Table showing the computation of net income from investment (includes single tier dividends):

	RM
Interest	XX
Dividends	XX
Single tier dividends	XX (C)
Rent	XX
Deduct: Investment expenses	(XX)
Net investment	XX

(d) Table showing the computation of AS transferred to SF that is subject to income tax

	RM
AS transferred	XX (E)
Deduct: Amount of net single-tier dividend income transferred to SF	(XX) (G)
Income subject to income tax / Chargeable income (E – G)	XX

The computation of the amount deducted in respect of net income from single-tier dividend and the supporting documents must be prepared and reflected in the tax computation by the company. Relevant supporting documents must be kept for the purpose of audit by the IRB.

Below is an example of the computation of amount of AS transferred to SF which is subject to income tax.

Example

LIFE FUND REVENUE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2008

	RM (' 000)
Gross premium	521,856
Less: Reinsurance	<u>(36,378)</u>
Net premium	485,478
Less: Benefit paid and payable (surrender, death, maturity, cash bonus, others)	<u>(110,557)</u>
	374,921
Less: Commission and agency expenses	(84,225)
Less: Management expenses	<u>(48,428)</u>
	242,268
Investment income	29,097
Other operating income /(expenditure) – net	<u>34,137</u>
Surplus before taxation	305,502
Taxation	<u>(5,469)</u>
Surplus after taxation but before policy reserves	300,033
(Less)/add:	
(Increase)/decrease in policy reserves	<u>(274,015)</u>
Surplus arising during the year (A)	26,018¹
Transfer (to)/from income statement (E)	(2,000)²
Bonus allocated to participating policyholders (F)	(17,570) ³
Unallocated surplus at beginning of year (B)	<u>24,741⁴</u>
Unallocated surplus at end of year	<u>31,189</u> =====

**Investment Income
from 01/01/2008 to 31/12/2008**

RM ('000)

a) Interest from:	
<ul style="list-style-type: none"> • Fixed deposits/money market • Malaysia Government papers • Malaysian Government guaranteed loans • Cagamas papers • Debentures, bonds and loan stocks • Loans – (policy loans, other secured loans, staff loans) 	23,241
b) Gross dividends from:	
<ul style="list-style-type: none"> • Quoted shares (in Malaysia/outside Malaysia) • Unquoted shares • Unit Trust • Others (single-tier dividend) (C) 	2,112 ⁵
c) Rental (less rates and maintenance)	270
d) Accretion of discounts on:	
<ul style="list-style-type: none"> • Malaysian Government guaranteed bonds • Cagamas bonds • Unquoted bonds of corporations • Bank guaranteed promissory note 	1,401
e) Amortisation of premiums on:	
<ul style="list-style-type: none"> • Malaysian Government securities • Malaysian Government guaranteed bonds • Cagamas bonds • Quoted convertible loan stocks • Unquoted bonds of corporations • Negotiable certificate deposits 	(2,740)
f) Investment Income from investment-linked business	<u>4,813</u>
Total Investment Income	29,097 =====

(i) Computation of Amount of net Single-tier Dividend Income

$$\left[\frac{A \times C}{B} \right] = D$$

$$A = 26,018,000^1$$

$$B = 26,018,000 + 24,741,000^4$$

$$C = 2,112,000^5$$

$$\frac{26,018,000}{50,759,000} \times 2,112,000 = 1,082,567 \text{ (D)}$$

(ii) Computation of Amount of net Single-tier Dividend Income Transferred to SH

$$\left[\frac{E \times D}{F} \right] = G$$

$$E = 2,000,000_2$$

$$F = 2,000,000 + 17,570,000_3$$

$$D = 1,082,567$$

$$\frac{2,000,000}{19,570,000} \times 1,082,567 = 110,635 \text{ (G)}$$

Amount of AS transferred to SH subjected to income Tax

Amount of AS transferred =	2,000,000
Less : Net Single-tier Dividend income =	<u>(110,635)</u>
Amount of Chargeable Income =	1,889,365
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Inland Revenue Board

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