

PART A : PREPARING FOR THE CHANGEOVER

Questions And Answers- Compiled By Lembaga Hasil Dalam Negeri (IRB)

Q1: What will happen in the year 2000?

A1: In the year 2000, there will be a change in the basis of assessment from the preceding year basis to the current year basis. The Income Tax Act 1967 will have to be amended to facilitate the change.

The year of assessment 2000 will be in respect of :-

- (a) the basis period ending in the year 1999 (preceding year basis); or
- (b) the basis period ending in the year 2000 (current year basis).

The year of assessment following the year of assessment 2000 on preceding year basis shall be the year of assessment 2000 on current year basis.

Q2: In the year 2000 will I be liable to tax on my income earned in 1999?

A2: You are liable to tax on your income earned in 1999 for the Year of Assessment 2000 on a preceding year basis but as a result of the waiver, you would not have to pay any tax on the 1999 income.

Q3: Will Return Forms be issued for Year of Assessment 2000 (Preceding Year)?

A3: The Return Form for Year of Assessment 2000 will be issued as usual at the beginning of year 2000 (February). Taxpayer will be required to complete and submit Return Form for the Year of Assessment 2000 declaring the income arising from the year 1999. Tax that would have been chargeable will be waived .

Q4: When will the Return Form to declare the income for year 2000 be issued?

A4: The Return Form for the Year of Assessment 2000 requiring taxpayer to declare his income for the year 2000 will be issued at the beginning of the year 2001.

Q5: If my tax for Year of Assessment 2000 on income earned in 1999 is waived, why do I need to file a return for the Year of Assessment 2000?

A5: The return is required by IRB to determine whether you are entitled to the waiver and if you have business income, to compute the capital allowances and losses (if any) due to you.

Q6: Will Notices of Assessment be issued?

A6: Notices of Assessment will be issued for taxable cases. For companies, tax computations will be issued for purposes of confirming the exempt account.

Q7: Will tax have to be computed for the Year of Assessment 2000?

A7: The Return Forms for the Year of Assessment 2000 submitted to IRB has to be accompanied by accounts and tax computation.

Capital allowances will be allowed in arriving at the statutory income of the company, whether or not claimed. Tax liability will be determined and any tax

payable will be waived from tax.

Q8: What income are not included in the waiver?

A8: The waiver of tax for Year of Assessment 2000 is not given across the board to all income arising from 1999.

The following income and categories of taxpayer are subject to tax :-

a. Dividend

b. Income which is subject to final withholding tax (interest, royalties, technical fees).

c. Non-citizens and non-resident individuals who commenced or ceased employment in 1999.

Q9: How would dividend income be taxed?

A9: Dividend income will be subject to tax in the Year of Assessment 2000. The tax on dividend can be worked out as follows :-

Example (1)

In 1999, Mr. Tan receives dividend income only. His dividend income will be subject to tax for Year of Assessment 2000. His tax is computed as follows:-

	RM
Gross Dividend (tax deducted at source: RM8,960.00)	32,000
Less: Approved Donations	200

	31,800

Less: Personal Relief	15,000

	16,800
	=====
Tax on First 10,000	250
Tax on balance @ 6%	408

	658
Less: Tax deducted at source	8,960

Tax Repayable	8,302
	=====

Example (2)

In 1999 Mr. Tan receives rental income of RM120,000 besides the dividend income of RM32,000. Tax on rental income will be waived. The computation of tax for Year of Assessment 2000 is computed as follows:-

	(A)	(B)
	(With Dividend)	(Without Dividend)
	RM	RM
Gross Dividend (tax deducted at source RM8,960.00)	32,000	-
Rental	120,000	120,000
Total	152,000	120,000
Less: Approved Donations	200	200
	151,800	119,800
Less: Personal Relief	15,000	15,000
Chargeable Income	136,800	104,800
Tax First 100,000	16,750	16,750
Tax on balance @ 29%	10,672	1,392
Tax Payable	27,422 =====	18,142 =====
Therefore Tax on Dividend (A)-(B) (27,422 - 18,142) =		RM 9,280
Less: Tax deducted at source		<u>8,960</u>
Tax Payable		320 =====

Q10: What happens to dividend received as part of business income?

A10: Dividends of such nature is still subject to tax for Year of Assessment 2000 and Section 110 credit (tax deducted at source) will be set-off accordingly.

Example (1)

ABC Sdn. Bhd. is an investment dealing company. Dividends are assessed as part of the business income. Tax on business and interest income is waived. The computation of tax on dividend income for Year of Assessment 2000 is as follows:-

Year of Assessment 2000 (preceding year)

	(A)	(B)
	(With Dividend)	(Without Dividend)
	RM	RM
Business (Statutory Income)	100,000	100,000
Dividend	60,000	-
Interest	40,000	40,000
Total	200,000	140,000
Tax @ 28%	56,000 =====	39,200 =====
Therefore Tax On Dividend (A)-(B) (56,000 - 39,200) =		RM 16,800
		<u>16,800</u>
Tax Payable		NIL =====

Example (2)

XYZ Bhd is an investment dealing company and also receives rent from its properties. Dividend income is taxed as part of business income. For the Year of Assessment 2000, the tax computation on dividend income is as follows:-

Year of Assessment 2000 (preceding year)

	(A)	(B)	
		With Dividend	Without Dividend
		RM	RM
Business (Statutory Income)		20,000	20,000
Dividend	75,000		
Less: Interest expense	25,000	50,000	
Rental		40,000	40,000
Total		110,000 =====	60,000 =====
Tax @28%		30,800	16,800
Therefore Tax on Dividend (A)-(B) (30,800 - 16,800) =			RM 14,000
Less: Tax deducted at source			<u>21,000</u>

Tax Repayable			7,000 =====
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Q11: When would a non-citizen or non-resident individual be taxed on his employment income?

A11: A non-citizen or non-resident individual will be subject to tax for the Year of Assessment 2000 (preceding year) if he commences or ceases his employment in 1999. The tax on such income can be worked out as follows:-

Example (1)

Mr. Olivier Laurent is a Canadian citizen and has been working in Malaysia since 1992. He ceases employment in June 1999 and his salary for the period 1.1.1999 to 30.6.1999 is RM76,000. His tax for the Year of Assessment 2000 is computed as follows:-

	RM	RM
Employment income		76,000
Less: Personal Relief		
Individual	5,000	
Wife	3,000	
Child	1,600	
Insurance / EPF	<u>5,000</u>	<u>14,600</u>
Chargeable Income		61,400 =====
Tax on First 50,000		4,750
Tax on balance @ 21%		2,394
Tax Payable		7,144 =====

Example (2)

Mr. Normura arrives in Malaysia on 1 October 1999 and commences employment in Malaysia from 2 October 1999 to 31 December 1999. He receives a salary of RM45,000 from October to December 1999. Mr. Normura is a non-resident for the basis year 1999 and his tax for Year of Assessment 2000 is computed as follows:-

Tax chargeable RM45,000 @ 30% = **RM13,500**

Q12: How will companies that change their financial year be affected in the waiver year?

A12: The basis period for a Year of Assessment 2000 considered for the

waiver will follow that of the financial year of the company. Any company making up accounts of more than 12 months will however be only given a waiver of tax for profits up to 12 months only. The balance will be taxed.

Example

PQR Bhd. makes up its account for the following periods:-

1.7.1997 - 30.6.1998 (12 months)

1.7.1998 - 31.12.1999 (18 months)

1.1.2000 - 31.12.2000 (12 months)

The waiver of tax on profits of company PQR is as follows:-

Basis Period	Year of Assessment
1.7.1997 - 30.6.1998	1999 (taxed)
1.7.1998 - 30.6.1999	2000 (waived) (Preceding Year Basis)
1.7.1999 - 31.12.1999	2000 (taxed)
1.1.2000 - 31.12.2000	2000 (taxed) (Current Year Basis)

Q13: What happens if a company commences business in 1999 and closes its first accounts in year 2000?

A13: For example, if a company commences business on 1.7.1999 and makes up its first accounts of 12 months to 30.6.2000, such a company would not be entitled to the waiver.

Q14: What happens to business losses and unabsorbed capital allowance brought forward to Year of Assessment 2000 (preceding year)?

A14: Based on the Return Forms and accounts submitted for the Year of Assessment 2000 (preceding year) the company's tax will be computed as usual, where unabsorbed business losses and capital allowances brought forward would be allowed. Any tax payable will then be waived.

However, if the results are that there are losses to be carried forward, such losses and capital allowances would be carried forward to the Year of Assessment 2000 (current year).

Q15: Will dividends distributed out of income where tax has been waived be exempt from tax in the hands of the shareholders?

A15: An amount equal to the chargeable income upon which tax is waived shall be credited to an exempt account to be kept by the company for distribution of exempt dividends. If the shareholder is a company then any dividend paid out of such exempt dividend income will also be exempt in the hands of the shareholders.

Q16: Will dividends distributed from an exempt account in respect of income where tax has been waived, be subject to tax if such dividends are paid in 1999?

A16: Any dividend distributed from the exempt account will not be subject to tax for the year of assessment 2000 (preceding year).

For example, DEF Bhd's accounting period is 30 June. Tax on income arising in basis period ending 30.6.1999 for Year of Assessment 2000 is waived and the company makes a dividend distribution out of the exempt account on 30.10.1999. Such dividend distribution would also be tax exempt in the hands of the shareholders for the Year of Assessment 2000 (preceding year).