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Every company, limited liability partnership, trust body or a co-operative society is required to furnish to the Director General of Inland Revenue an estimate of its tax payable at least 30 days before the beginning of the basis period for that year of assessment. For example, estimates of tax payable for year of assessment (YA) 2014 would have been furnished on 1 December 2013 for companies with financial year ending 31 December 2014. Such companies may revise the estimate by June 2014 (6th month) and September 2014 (9th month). Companies with financial year ending 30 June 2014 may revise the estimate of tax payable by December 2013 (6th month) and March 2014 (9th month). Some amendments in the Finance Act 2014 which was gazetted on 23 January 2014 have an immediate impact on the estimate of tax payable for YA 2014 onwards. Some of the amendments that may affect the estimates of tax payable for companies are as follows:

(a) **Compulsory acquisition of stock in trade (w.e.f. YA 2014)**

Prior to the amendment, compensation received from compulsory acquisition of stock in trade by the relevant authorities was not taxable as the company was not trading when its stock in trade was compulsorily acquired. Under the amendment, the amount receivable from stock in trade compulsorily acquired is included as gains or profits from a business.

(b) **Definition of entertainment (w.e.f. YA 2014)**

The definition of entertainment would now include (i) the provision of food and drink or hospitality or (ii) the provision of accommodation or travel in connection with (i) above, in promoting a trade or business. Promotional expenses that include the provision of food and drink would now be subject to strict deductibility rules on entertainment.

(c) **Interest expense deductible when due to be paid (w.e.f. YA 2014)**

Interest expense has always been claimed as a deduction in the accounts when it is payable. The amendment states that the interest is deductible only when it is due to be paid, that is, the date when the recipient of the interest has the legal right to receive the interest. Interest that is



accrued in the accounts but not payable as yet has to be added back in calculating the estimate of tax payable.

(d) Deemed gross income from loan / advances to director (w.e.f. YA 2014)

A company that grants loans or advances (which are financed internally) to directors of the company is deemed to have interest income arising from those loans / advances. The interest income is calculated based on the average lending rate published by the Central Bank of Malaysia. If interest is payable by the director on the loans / advances and the interest is charged at a rate that is less than the average lending rate, the net amount is the interest income for the company. Such gross income from loans / advances to directors has to be imputed in the estimate of tax payable.

(e) Interest on related-party loans (w.e.f. YA 2014)

Interest income receivable from loans to a related-party is brought to tax when the interest is obtainable on demand. Clarification is now provided by way of an amendment that the interest is deemed obtainable on demand when the interest is due to be paid. Such interest that is due to be paid is taxable even though the interest has not been received by the company.

Companies should bear in mind the above amendments to the Income Tax Act 1967 when making estimates of tax payable for YA 2014 and subsequent years of assessment and when making revisions to the estimates in the 6th and 9th months. In addition, companies with 31 January 2014 year-end may also need to consider making voluntary payment of tax before 31 January 2014 with a view to mitigating the potential penalty for under-estimation of tax payable for YA 2014.

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