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*June 2018*

# Greetings from Deloitte Malaysia Tax Services

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[Inland Revenue Board of Malaysia](#)

## Takeaways:

1. [MFRS 15 'Revenue from contracts with customers': Potential impact on tax computation process](#)
2. [IRBM: Revised Tax Investigation Framework](#)

## Upcoming events:

1. [\(Penang\) Deloitte International Tax Symposium 2018](#)

## Important deadlines:

Task	2018 Due Date	
	30 June 2018	1 July 2018
1. 2019 tax estimates for companies with July year-end		✓
2. 6 <sup>th</sup> month revision of tax estimates for companies with December year-end	✓	
3. 9 <sup>th</sup> month revision of tax estimates for companies with September year-end	✓	
4. Statutory filing of 2017 tax returns for companies with November year-end	✓	
5. Due date for 2018 CbCR notification for companies with June year-end	✓	

## **MFRS 15 'Revenue from contracts with customers': Potential impact on tax computation process**

### **MFRS 15: Potential impact on tax computation process**

Companies currently are embracing the completely new approach to revenue recognition – Malaysian Financial Reporting Standard 15 ("MFRS 15") 'Revenue from Contracts with Customers'.

MFRS 15 is effective for reporting periods commencing on or after 1 January 2018 with early application permitted. It applies to new contracts created on or after the effective date and to existing contracts that are not yet complete as at the effective date.

Under the new MFRS 15, companies may be required to change the timing of or amount of revenue and expenses reported in financial statements for a variety of reasons. For example, revenue may be recognised over time or at a point in time depending on the circumstances and terms of contract. In some cases, companies that currently recognise revenue upon delivery may recognise revenue over time while some companies currently recognising revenue over time may recognise revenue at a point in time.

However, the basis of taxation is governed by the Income Tax Act 1967 ("the ITA") which contains specific rules for revenue recognition for certain items such as sales of stock-in-trade, services, use of property, and advance payments for services and use of property provided under Section 24, and likewise, Section 36 provides for special treatment / the basis on how the gross income from a business of a property developer and construction contractor is to be assessed. As the tax rules and regulations have not been amended (generally income is taxed in the basis period in which the right to the income becomes fixed and the amount can be determined), changes in the timing or amount of revenue recognised by companies under the new MFRS 15 could give rise to book-tax differences and affect the calculation of income taxes. Ultimately, taxable income may potentially be accelerated or deferred due to the changes in the timing or amount of revenue recognised by companies under the new MFRS 15.

### **Commentary**

Unless the Malaysian tax authorities decide to allow for convergence to the accounting standard, the same method will not be used / permitted for financial reporting and tax reporting purposes (i.e., no convergence of accounting and taxation principles). It is crucial for the taxpayer to take into account the adoption of the new MFRS 15 with proper tracking mechanism in order to make the necessary adjustments to arrive at their taxable income based on the ITA. That is, taxpayers affected by MFRS 15 need to be aware of its potential tax consequences when submitting their estimate / revised estimate of tax payable (CP204 or CP204A) beginning from the year of assessment 2018 (assuming no early adoption opted) for companies' basis periods commencing on or after 1 January 2018 . This will ensure that the companies' tax estimations are determined correctly taking into consideration book-tax differences.

With MFRS 15 under implementation, the tax authorities have constantly reminded taxpayers to keep records and documents for ascertaining chargeable income (i.e., cost of asset, invoices, contracts, etc.) for audit purposes; and that information relating to adjustments have to be clearly disclosed in the tax computation (i.e., financing components, income recognition, etc.).

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## **IRBM: Revised Tax Investigation Framework**

The Inland Revenue Board of Malaysia (“IRBM”) has recently released a revised Tax Investigation Framework [dated 15 May 2018](#) (“Revised Framework”). The Revised Framework is effective from 15 May 2018 and replaces the Tax Investigation Framework [dated 1 October 2013](#). At the moment, it is available in Bahasa Malaysia only.

### Remarks

The changes in the Framework, among others, include:

- 1) The addition of Subsections 39(1A) and 97A(2) onto the list of relevant ITA provisions [*refer to Paragraph 2.1.1 and 2.1.12 of the Revised Framework*];
- 2) A correction that the taxpayer’s right is to appoint a “registered tax agent” instead of “any qualified advisor” as provided in Section 153 of the ITA [*refer to Paragraph 8.2.3 of the Revised Framework*]; and
- 3) Updating of the amount of penalties [*refer to Paragraphs 10.1.1 to 10.2.2, 13.2 and 13.6*], and the payment procedure (in entirety) [*refer to Paragraph 11 of the Revised Framework*].

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We invite you to explore other tax-related information at:

<http://www2.deloitte.com/my/en/services/tax.html>

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