

## PUBLIC RULING NO. 4/2020 TAX TREATMENT OF ANY SUM RECEIVED AND DEBT OWING THAT ARISES IN RESPECT OF SERVICES TO BE RENDERED



The Inland Revenue Board of Malaysia has released a Public Ruling (“PR”) No. 4/2020 on tax treatment of any sum received and a debt owing that arises in respect of services to be rendered, dated 16 June 2020.

Generally for tax purposes, business income is assessed to tax at the time of accrual i.e. where a debt arises when there is a contractual liability to pay, instead of at the time of receipt. The tax treatment of when should income from services be taxed has always been a contentious issue until the Income Tax Act (“the Act”) was amended.

The Finance Act 2015 introduced the following amendments/additions to Section 24 and Section 34 of the Act pertaining to income from services which took effect from YA 2016:

|                         | Prior to Year of Assessment (“YA”) 2016   | Effective from YA 2016   |
|-------------------------|---|--|
| <b>Section 24(1)(b)</b> | Debt owing in respect of services that have been rendered is brought to tax in the year of assessment in which the debt arises. | Debt owing in respect of services that have been rendered or <u>to be rendered</u> is brought to tax in the year of assessment in which the debt arises.                         |
| <b>Section 24(1A)</b>   | -   | Any payment received in advance is brought to tax in the year of receipt notwithstanding the service has not been rendered and no debt is owing in respect of such services.     |
| <b>Section 34(7A)</b>   | -   | A tax deduction is allowed if a refund is made on an advance payment which has been brought to tax in accordance with S24(1A) of the Act in the basis period the refund is made. |

Various examples have been included in the PR to explain the application of Section 24(1)(b) and Section 24(1A).

The PR also stipulates the following services where Sections 24(1)(b) and 24(1A) of the Act are not applicable:

- (a) Income from services which are governed under separate income tax rules (example construction contract and property development activities);
- (b) Services provided by a non-resident person under Section 4A of the Act (Special Classes of Income); and
- (c) Deposits that are refundable upon completion of the services.