

Public Ruling No. 3/2000

BASIS PERIOD FOR A BUSINESS SOURCE (INDIVIDUALS & PERSONS OTHER THAN COMPANIES/CO-OPERATIVES)

1.0 TAX LAW

This Ruling applies in respect of sections 20 and 21 of the Income Tax Act, 1967. It is effective from year of assessment 2000 for the basis period ending in the year 2000 and subsequent years of assessment.

2.0 THE APPLICATION OF THIS RULING

This Ruling considers:

- 2.1 the basis period for an individual or a person other than a company or a co-operative commencing a new business;
- 2.2 the basis period for an individual or a person other than a company or a co-operative changing the accounting date of his/its existing business;
- 2.3 the basis period for an individual joining a partnership.

3.0 HOW THE TAX LAW APPLIES

- 3.1 Income tax is chargeable for a year of assessment.
- 3.2 The basis year for a year of assessment for a business source is the basis period for that year of assessment

Example:

An individual prepares his accounts from 01.01.2001 to 31.12.2001.

The basis year ending 31.12.2001 is the basis period for the year of assessment 2001 for the individual's business source.

- 3.3 Where accounts are made up for 12 months ending on a date other than 31 December in a basis year, that period of 12 months is the basis period for the year of assessment in which the accounts are closed.

Example:

An individual makes up his accounts from 01.07.2000 to 30.06.2001.

The period from 01.07.2000 to 30.06.2001 is the basis period for the year of assessment 2001 for that individual's business source.

3.4 Commencement of Business

3.4.1 Accounts ending on 31 December

Where a business is commenced and the accounts are prepared from the date of commencement to 31 December of the same year, that accounting period is the basis period for the first year of assessment.

Example:

An individual commences business on 11.05.2001 and the accounts close on 31.12.2001.

The accounting period 11.05.2001 to 31.12.2001 is the basis period for the year of assessment 2001.

3.4.2 Accounts prepared for 12 months

Where a business is commenced and the accounts are made up for 12 months, that accounting period is the basis period for the year of assessment in which the accounts are closed.

Example:

An individual's first accounts are prepared from 01.07.2000 to 30.06.2001.

The accounting period 01.07.2000 to 30.06.2001 is the basis period for the year of assessment 2001. There is no basis period for the year of assessment 2000.

3.4.3 Accounts prepared for less than or more than 12 months and not ending on 31 December

Where a business is commenced and the accounts are made up for a period of less than or more than 12 months not ending on 31 December, the basis period for a year of assessment is the year ending on 31 December each year until accounts are made up for a 12-month accounting period.

Example 1:

An individual commences a business on 26.06.2000 and accounts are made up to 30.04.2001 (10 months) and subsequently to 30.04.2002.

For the year of assessment 2000 the basis period is 26.06.2000 to 31.12.2000.

For the year of assessment 2001 the basis period is 01.01.2001 to 31.12.2001.

For the year of assessment 2002 the basis period is 01.05.2001 to 30.04.2002.

Example 2:

An individual commences a business on 26.06.2000 and accounts are made up to 30.09.2001 (15 months) and subsequently to 30.09.2002.

For the year of assessment 2000 the basis period is 26.06.2000 to 31.12.2000.

For the year of assessment 2001 the basis period is 01.01.2001 to 31.12.2001.

For the year of assessment 2002 the basis period is 01.10.2001 to 30.09.2002.

3.5 Change of Accounting Date

3.5.1 Normal accounts ending on 31 December

Where accounts normally end on 31 December and there is a change of accounting date, the basis period in the year of change is year ending 31 December.

Example:

An individual normally prepares his accounts ending 31 December. He changes his accounting date to 30 September and prepares accounts as follows: 01.01.2001 to 30.09.2001, and subsequently to 30 September each year.

The basis period for the year of assessment 2001 is 01.01.2001 to 31.12.2001.

The basis period for the year of assessment 2002 is 01.10.2001 to 30.09.2002 .

3.5.2 Normal accounts not ending on 31 December and new accounts prepared for less than 12 months:

A. New accounts ending in the following year

The new accounting period is the basis period for the year of assessment in the failure year.

Example:

An individual's accounts are normally prepared ending on 30 September. He changes his accounting date and the accounts now close on 31 March. The accounts are prepared as follows: 01.10.1999 to

30.09.2000, 1.10.2000 to 31.03.2001 (period of 6 months), and to 31 March for subsequent years.

The basis period for the year of assessment 2001 is 01.10.2000 to 31.03.2001 (6 months).

The basis period for the year of assessment 2002 is 01.04.2001 to 31.03.2002.

- B. New accounts and the last accounts ending in the same year

The new accounting period together with the following accounting period is the basis period for the year of assessment in the failure year.

Example:

An individual's accounts are normally prepared ending on 30 June. He changes his accounting date and the accounts now close on 31 December. The accounts are prepared as follows: 01.07.1999 to 30.06.2000, 01.07.2000 to 31.12.2000 (6 months), 01.01.2001 to 31.12.2001, and to 31 December for subsequent years.

The new accounting period 01.07.2000 to 31.12.2000 and the last accounting period 01.07.1999 to 30.06.2000 ends in the same basis year.

The basis period for the year of assessment 2001 is 01.07.2000 to 31.12.2001 (18 months).

The basis period for the year of assessment 2002 is 01.01.2002 to 31.12.2002.

[The rationale for determining the basis periods for the above 2 situations is that no accounting period or year of assessment is lost and there is no overlapping of basis periods.]

- 3.5.3 Normal accounts not ending on 31 December and new accounts prepared for more than 12 months:

- A. New accounts ending in the following year

The new accounting period is the basis period for the year of assessment in the failure year.

Example:

An individual's accounts are normally prepared ending on 31 July. He changes his accounting date

and the accounts now close on 31 October. Accounts are prepared from 01.08.2000 to 31.10.2001 (15 months) and to 31 October for subsequent years.

The basis period for the year of assessment 2001 is 01.08.2000 to 31.10.2001 (15 months).

The basis period for the year of assessment 2002 is 01.11.2001 to 31.10.2002.

B. New accounts ending in the third year

Where the new accounting period spans three basis years, the new accounting period is apportioned equally and the two periods are taken to be the basis periods for the first 2 years of assessment commencing in the failure year.

Example:

An individual's accounts are normally prepared ending on 30 November. There is failure to close accounts to his normal accounting date and the accounts are prepared for more than 12 months from 01.12.2000 to 28.02.2002 (15 months) and to 28 February for subsequent years.

The basis period for the year of assessment 2001 is 01.12.2000 to 31.07.2001 (8 months).

The basis period for the year of assessment 2002 is 01.08.2001 to 28.02.2002 (7 months).

[The rationale for determining the basis periods for the above 2 situations is that no accounting period or year of assessment is lost and there is no overlapping of basis periods. Any fraction of a month is treated as falling into the first period.]

3.6 An Individual Joining a Partnership

- 3.6.1 If an individual joins a new partnership, the basis period for the individual in respect of the partnership source of income is as determined under subparagraph 3.4.1, 3.4.2 or 3.4.3.

Example:

An individual joins a new partnership which commences business on 18.02.2001. The first accounts are prepared to 30.09.2001 and subsequently to 30 September each year.

The basis periods for the individual's source from the partnership are:

Year of assessment 2001 18.02.2001 to 31.12.2001

Year of assessment 2002 01.10.2001 to 30.09.2002

3.6.2 Joining an existing partnership and partnership's normal accounting date is maintained

If an individual joins an existing partnership and the partnership accounts continue to be made up to its normal accounting date, the first basis period for the individual in respect of his partnership business is from the date the individual joins the partnership to the date of closing of the partnership accounts.

Example:

An individual joins an existing partnership EFG on 01.02.2000. The accounts of the partnership are normally made up to 31 March. The accounts for the partnership continue to be made up to 31.03.2000.

The basis period for the individual in respect of his partnership source is 01.02.2000 to 31.03.2000 for the year of assessment 2000.

3.6.3 Joining an existing partnership and partnership's normal accounting date changes

If an individual joins an existing partnership and the partnership changes its normal accounting date, the partnership is treated as a new partnership for the individual, and the basis period is as determined under subparagraph 3.4.1, 3.4.2 or 3.4.3.

3.6.4 A sole proprietorship becoming a partnership and accounts continue to be made up to the normal accounting date of the sole proprietorship

If an individual joins a sole proprietor of a business to form a partnership, the first basis period for the individual in respect of his partnership business is from the date the individual joins the partnership to the date of closing of the partnership accounts.

Example:

On 01.03.2000 Mr. J joins Mr. K, a sole proprietor of a hardware business, to form the partnership JK Hardware. The accounts of the sole proprietorship are normally made up to 30 June. The first accounts of the partnership JK Hardware are prepared from 01.03.2000 to 30.06.2000.

The basis period for Mr. J and Mr. K in respect of their partnership source is 01.03.2000 to 30.06.2000 for year of assessment 2000.

4.0 **INTERPRETATION**

For the purpose of this Ruling:

- 4.1 Where there is an overlapping period for two basis periods, the adjusted income or adjusted loss common to both basis periods shall be ignored in the second basis period.
- 4.2 If changes are made in two consecutive accounting periods and the above directions cannot be applied because a year of assessment will be lost, the Director General will, upon application by the individual or person, give specific directions.
- 4.3 In the case of apportionment of accounting periods, any fraction of a month will be treated as falling into the first period.
- 4.4 "Basis year for a year of assessment" means the calendar year coinciding with the year of assessment.
- 4.5 "Failure year" means the year in which there is failure to close the accounts to the normal accounting date and the normal accounting date is not 31 December.
- 4.6 "Persons other than a company or a co-operative" includes a Hindu joint family, a trust, an estate under administration, a club and an association.
- 4.7 "Year of assessment" means calendar year.

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