

Public Ruling No. 5/2001

BASIS PERIOD FOR A BUSINESS SOURCE (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 for the year of assessment 2001 and subsequent years of assessment. This Ruling supersedes Public Ruling No. 2/2000 dated 1 March 2000 where it relates to co-operatives.

2.0 THE APPLICATION OF THIS RULING

This Ruling considers the determination of the basis period for a co-operative:

- 2.1 commencing a new business;
- 2.2 changing the accounting date of its existing business; and
- 2.3 joining a partnership

3.0 HOW THE TAX LAW APPLIES

- 3.1 A co-operative is chargeable to income tax in respect of all its sources of income for a year of assessment [hereinafter also referred to as *Y/A*].
- 3.2 The income from a source is determined in relation to the basis period for a year of assessment.

3.3 General

For a business source, except where paragraph 3.4 below applies, the basis year for a year of assessment [*see paragraphs 4.3 and 4.4*] is the basis period for that year of assessment.

Example

A co-operative prepares its accounts from 01.01.2001 to 31.12.2001.

The basis year ending 31.12.2001 is the basis period for the y/a 2001 for the co-operative's business source.

3.4 Accounts made up for 12 months not ending on 31 December

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

Example

A co-operative makes up its 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 y/a 2001 for that co-operative's business source.

3. 5 Commencement of business

3.5.1 *Accounts prepared for less than or more than 12 months ending on 31 December*

Where a co-operative commences business and its first accounts are prepared for less than or more than 12 months ending on 31 December, the basis period for a year of assessment is the period ending on 31 December.

Example 1

A co-operative commences business on 11.05.2001 and the accounts are closed on 31.12.2001.

The accounting period 11.05.2001 to 31.12.2001 is the basis period for the y/a 2001.

Example 2

A co-operative commences business on 01.09.2001 and the first accounts are closed on 31.12.2002.

The period from 01.09.2001 to 31.12.2001 is the basis period for Y/A 2001.

The period from 01.01.2002 to 31.12.2002 is the basis period for Y/A 2002.

3.5.2 *Accounts prepared for 12 months*

Where a co-operative commences business and its first 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

A co-operative commences business on 01.07.2001 and its first accounts are prepared for the period 01.07.2001 to 30.06.2002.

The accounting period 01.07.2001 to 30.06.2002 is the basis period for the y/a 2002. There is no basis period for the y/a 2001.

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

Where a co-operative commences business and its first accounts are made up for 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

A co-operative commences a business on 26.06.2001 and its accounts are made up to 30.04.2002 (>10 months), and subsequently to 30.04.2003.

The basis period for the y/a 2001 is 26.06.2001 to 31.12.2001.

The basis period for the Y/A 2002 is 01.01.2002 to 31.12.2002.

The basis period for the Y/A 2003 is 01.05.2002 to 30.04.2003.

Example 2

A co-operative commences a business on 26.06.2001 and its accounts are made up to 30.09.2002 (>15 months), and subsequently to 30.09.2003.

The basis period for the y/a 2001 is 26.06.2001 to 31.12.2001.

The basis period for the y/a 2002 is 01.01.2002 to 31.12.2002.

The basis period for the y/a 2003 is 01.10.2002 to 30.09.2003.

3.6 Change of accounting date

3.6.1 Normal accounts ending on 31 December

Where accounts are normally closed on 31 December and there is a change of accounting date, the basis period in the year of change is the year ending 31 December. The basis period for the subsequent year of assessment will also be the year ending 31 December unless there is a 12-month accounting period ending in that year, in which case that accounting period will be the basis period. Thereafter, the 12-month accounting period will be the basis period.

Example 1

A co-operative which normally closes its accounts on 31 December changes its 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 y/a 2001 is 01.01.2001 to 31.12.2001.

The basis period for the y/a 2002 is 01.10.2001 to 30.09.2002.

Example 2

A co-operative which normally closes its accounts on 31 December changes its accounting date to 31 March and prepares accounts as

follows: 01.01.2001 to 31.03.2002, and subsequently to 31 March each year.

The basis period for the y/a 2001 is 01.01.2001 to 31.12.2001.

The basis period for the y/a 2002 is 01.01.2002 to 31.12.2002.

The basis period for the y/a 2003 is 01.04.2002 to 31.03.2003.

3.6.2 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 [*see paragraph 4.5*]

Example

A co-operative's accounts are normally prepared ending on 30 September. The co-operative changes its accounting date and the accounts are now closed on 31 March. Accounts are prepared as follows: 01.10.2000 to 30.09.2001, 01.10.2001 to 31.03.2002 (6 months), and to 31 March for subsequent years.

The basis period for the y/a 2002 (the failure year) is 01.10.2001 to 31.03.2002 (6 months).

The basis period for the y/a 2003 is 01.04.2002 to 31.03.2003.

B) New accounts and the last accounts ending in the same year

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

Example

A co-operative's accounts are normally prepared ending on 30 June. The co-operative changes its accounting date and the accounts are now closed on 31 December. Accounts are prepared as follows: 01.07.2000 to 30.06.2001, 01.07.2001 to 31.12.2001 (6 months), 01.01.2002 to 31.12.2002, and to 31 December for subsequent years.

Since both the new accounting period 01.07.2001 to 31.12.2001 and the last accounting period 01.07.2000 to 30.06.2001 end in the same basis year:

The basis period for the y/a 2002 (the failure year) is 01.07.2001 to 31.12.2002 (18 months).

The basis period for the y/a 2003 is 01.01.2003 to 31.12.2003.

3.6.3 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

A co-operative's accounts are normally prepared ending on 31 July. The co-operative changes its accounting date and accounts are now closed on 31 October. Accounts are prepared as follows: 01.08.2001 to 31.10.2002 (15 months), and to 31 October for subsequent years.

The basis period for the y/a 2002 (the failure year) is 01.08.2001 to 31.10.2002 (15 months).

The basis period for the y/a 2003 is 01.11.2002 to 31.10.2003.

B) New accounts ending in the third year

If the new accounting period spans 3 basis years, it is apportioned into 2 periods, and these 2 periods will be taken to be the basis periods for the first 2 years of assessment commencing in the failure year.

Example

A co-operative's accounts are normally prepared ending on 30 November. There is failure to close accounts to its normal accounting date and accounts are prepared for a period of more than 12 months from 01.12.2000 to 28.02.2002 (15 months), and to 28 February for subsequent years.

The accounting period 01.12.2000 to 28.02.2002 (15 months) is apportioned into 2 periods, so that:

The basis period for the y/a 2001 (the failure year) is the period 01.12.2000 to 31.07.2001 (8 months); and

The basis period for the y/a 2002 is the period 01.08.2001 to 28.02.2002 (7 months).

- [In determining the basis periods for the situations in paragraphs 3.6.2 and 3.6.3 above, no accounting period or year of assessment should be left out and there should be no overlapping of basis periods. Any fraction of a month should be treated as falling into the first period.]

3.7 A co-operative joining a partnership

3.7.1 Joining a new partnership

If a co-operative joins a new partnership, the basis period for the co-operative in respect of the partnership source is determined as in the case of a new business [*see paragraphs 3.5.1, 3.5.2 or 3.5.3*].

Example

A co-operative joins a new partnership which commences business on 18.02.2001. The first accounts are prepared to 30.09.2001 and accounts are subsequently prepared to 30 September each year.

The basis periods for the co-operative's partnership source are as follows [see paragraph 3.5.3] :

Y/a 2001: 18.02.2001 to 31.12.2001

Y/a 2002: 01.10.2001 to 30.09.2002

3.7.2. *Joining an existing partnership and the partnership's normal accounting date is maintained*

If a co-operative joins an existing partnership and the partnership accounts continue to be made up to its normal accounting date, the first basis period for the co-operative in respect of its partnership source is from the date the co-operative joins the partnership to the date of closing of the partnership accounts. Thereafter, the basis period will be the partnership accounting period.

Example

A co-operative joins an existing partnership on 01.02.2001. The accounts of the partnership are normally made up to 31 March. The accounts for the partnership continue to be made up to 31.03.2001.

The basis period for the y/a 2001 for the co-operative's partnership source is 01.02.2001 to 31.03.2001.

The basis period for the y/a 2002 is 01.04.2001 to 31.03.2002.

3.7.3. *Joining an existing partnership and the partnership's normal accounting date changes*

If a co-operative joins an existing partnership and the partnership changes its normal accounting date, for the purpose of determining the basis period for the co-operative, the partnership is treated as if it were a new partnership and the basis period is determined as in the case of a new business [*see paragraphs 3.5.1, 3.5.2 or 3.5.3*].

Example 1

A co-operative (whose accounts are closed on 31 December) joins an existing partnership on 01.07.2001. The accounts of the partnership are normally made up to 31 December, but on admission of the new

partner, the accounting date is changed to 30 June. The partnership accounts are made up as follows:

01.01.2000 to 31.12.2000 (old partnership)
 01.01.2001 to 30.06.2001 (old partnership)
 01.07.2001 to 30.06.2002 (new partnership)
 01.07.2002 to 30.06.2003 (new partnership)

The basis periods for the partnership source are as follows:

Partner	Y/A	Basis period
The co-operative (new partner)	2001	None
	2002	01.07.2001 - 30.06.2002
	2003	01.07.2002 - 30.06.2003
Existing partners	2000	01.01.2000 - 31.12.2000
	2001	01.01.2001 - 31.12.2001*
	2002	01.07.2001 - 30.06.2002*
	2003	01.07.2002 - 30.06.2003

- [*Arising from change of accounting date (*see paragraph 3.6.1*)

Example 2

A co-operative (whose accounts are closed on 31 December) joins an existing partnership on 01.04.2001. The accounts of the partnership are normally made up to 30 June, but on admission of the new partner, the accounting date is changed to 31 March. The partnership accounts are made up as follows:

01.07.1999 to 30.06.2000 (old partnership)
 01.07.2000 to 31.03.2001 (old partnership)
 01.04.2001 to 31.03.2002 (new partnership)
 01.04.2002 to 31.03.2003 (new partnership)

The basis periods for the partnership source are as follows:

Partner	Y/A	Basis period
The co-operative (new partner)	2001	None
	2002	01.04.2001 - 31.03.2002
	2003	01.04.2002 - 31.03.2003
Existing partners	2000	01.07.1999 - 30.06.2000
	2001	01.07.2000 - 31.03.2001*
	2002	01.04.2001 - 31.03.2002
	2003	01.04.2002 - 31.03.2003

[*Arising from change of accounting date (*see paragraph 3.6.2.A*)]

3.8 Treatment of adjusted income / adjusted loss in overlapping periods

Where the application of paragraph 3.5.3 or paragraph 3.6.1 results in an overlapping of two basis periods [*see Examples 1 & 2 in paragraph 3.5.3 and Examples 1 & 2 in paragraph 3.6.1*], the adjusted income or adjusted loss common to both basis periods is ignored in the second basis period.

Example

The business of a co-operative commences on 01.07.2001 and accounts are prepared as follows: 01.07.2001 to 31.03.2002, 01.04.2002 to 31.03.2003, and subsequently to 31 March.

The adjusted income of the co-operative is as follows:

<u>Accounting period</u> -----	<u>Adjusted income</u>
01.07.2001 to 31.03.2002 [A] -----	RM15,000
01.04.2002 to 31.03.2003 [B] -----	RM24,000

Applying paragraph 3.5.3, the basis periods for the co-operative are:

<u>Y/A</u> -----	<u>Basis periods</u>
2001 -----	01.07.2001 - 31.12.2001 (6 months)
2002 -----	01.01.2002 - 31.12.2002 (12 months)*
2003 -----	01.04.2002 - 31.03.2003 (12 months)*

[*Overlapping period: 01.04.2002 - 31.12.2002]

The adjusted income should be apportioned as follows:

<i>Y/A & Basis period</i>	<i>Apportionment</i>	<i>Adjusted income</i>
2001 [01.07.2001 - 31.12.2001]	01.07 - 31.12.2001: $6 / 9 \times [A]$ ($6 / 9 \times \text{RM15,000}$)	10,000
2002 [01.01.2002 - 31.12.2002]	01.01 - 31.03.2002: $3 / 9 \times [A]$ ($3 / 9 \times \text{RM15,000}$) 01.04 - 31.12.2002: $9 / 12 \times [B]$ ($9 / 12 \times \text{RM24,000}$)	5,000 <u>18,000</u> <u>23,000</u>
2003 [01.04.2002 - 31.03.2003]	Adjusted income of overlapping period (01.04.2002 - 31.12.2002) ignored in second basis period: (RM24,000 - RM18,000)	6,000

4.0 INTERPRETATION

For the purpose of this Ruling:

- 4.1 If changes of accounting date are made in two consecutive accounting periods and the determinations in paragraph 3.6 above cannot be applied because a year of assessment or an accounting period will be left out, the Director General will, upon application by the co-operative, give specific directions.
- 4.2 In the case of apportionment of accounting periods, any fraction of a month is to be treated as falling into the first period [*see the Example in paragraph 3.6.3.B*].
- 4.3 "Basis year for a year of assessment" means the calendar year coinciding with the year of assessment.
- 4.4 "Year of assessment" means calendar year
- 4.5 "Failure year" means the year in which there is failure to close the accounts to the normal accounting date (where that normal accounting date is not 31 December).

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