

Tax compliance 101

LHDN shares tax compliance tips and definitions to help SMEs do better business while being compliant

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Tax compliance is a fundamental to doing good and sustainable business. That being said, a lot of businesses flounder when it comes to staying on top of their taxes.

Gains or profits from carrying on a business, trade, vocation, or profession are liable to tax. Whether a business is a sole proprietorship, a self-employed business or a partnership, businesses in all kinds of industries are subject to taxation.

However, necessary as they may be, taxes are sometimes complicated. So here are a few definitions and how-to's courtesy of Lembaga Hasil Dalam Negeri (LHDN) to kick start the new year for your business with taxes done right.

A company's responsibilities:

1. Declare any sales/ purchases, expenses and balance sheet, inclusive of any deductions and rebates
2. Keep the documents, records and business accounts for 7 years for LHDNM's audit purpose
3. Engage chartered accountants or licensed tax agents in preparing business accounts
4. To comply with the Notice of Installment Payment (CP500)
5. Inform in writing if the business end or change of partners
6. Sole Proprietorship/ Self Employed must complete and submit Form e-B via e-Filing
7. Partnership must:
 - complete and submit Form e-P via e-Filing (responsibility of the managing partner)
 - inform in writing if the partnership is converted into a sole proprietorship/ private limited company

What's gross income?

Gross income is an individual's income and receipts from nearly all sources. It is the starting point for determining the taxes that individual will pay. Sources of gross income or pay include salary, wages, tips, capital gains, dividends, interest, rents, pensions and alimony. Gross income of a business includes the following:

- Cash Receipts from sale of goods or from services provided.
- All debts incurred from sale of goods and services provided.
- Receipts in Kind
- Recovery of Bad Debts
- Insurance compensation received for business loss
- Withdrawal of business stock or stock taken for personal use



Business expenses

Allowable	Not Allowable
<p><i>Expenses incurred in the production of income</i> Example :</p> <ul style="list-style-type: none"> • Payment for wages/ salary • EPF Payment • Rental of business premise • Interest on business loan • Expenses for repair of premise and vehicles used for business purpose 	<p><i>Personal expenses</i> Example :</p> <ul style="list-style-type: none"> • Accommodation benefit • Payment of telephone bills <p><i>Purchase of personal assets</i> Example :</p> <ul style="list-style-type: none"> • Personal Car • Furniture <p><i>Initial Expenses</i> Example:</p> <ul style="list-style-type: none"> • Expenditure on incorporation of business venture • Advertisement expenses

Types and rate of Capital Allowance are as follows:

Types of allowances	Types of assets	Rate (%)
Initial Allowance	All types of assets	20%
	Motor Vehicles and Heavy Machinery	20%
Annual Allowance	Plant and Machinery	14%
	Office Equipment , Furniture and Fittings	10%
	Computer	40%

What's adjusted income?

Adjusted income is derived from gross income after deduction of business expenses such as:

- Allowable business expenses
- Allowable specific expenses
- Double deduction expenses al-

lowable under Income Tax Act 1967

- Export Allowances

Allowable specific expenses

Allowable expenses must have been incurred "wholly and exclusively"

for the purposes of the business to be allowable for tax purposes. This means that the costs must be incurred while actually performing the business or trying to attract more business. Specific expenses which are allowable include the

following:

- Expenditure incurred in providing equipment for disabled employee (OKU)
- Expenditure incurred in respect of publication in National Language.
- Donation to libraries
- Expenditure incurred in providing services, public amenities and contribution to a charity or community project.
- Expenditure incurred in providing and maintenance of a child care centre for the benefit of employees.
- Expenditure incurred in establishing and managing a musical or cultural group.
- Expenditure incurred in sponsoring any art or cultural event.

Capital allowance

The purpose of capital allowance is to give a relief for wear and tear of fixed assets for business. Some examples of assets that are normally used in business are motor vehicles, machines, office equipments and furniture.

In order to qualify, expenditure must be capital in nature and used for business purposes. Claims for capital allowance can be made in the relevant column provided in the Tax Return Form.

1. Is given as deduction from business income in place of depreciation expenses incurred in purchase of business assets.
2. Examples of assets used in a business are motor vehicles, machines, office equipment, furniture and computers.
3. Conditions for claiming capital allowance are:
 - Operating a business
 - Purchase of business assets
 - Assets are being used in the business
 - Owner of the assets
 - Rates are determined according to the types of assets.

Do note the following:

1. Deadline for submission of Form B, P and payment of tax payable (if any) is on 30 June every year
2. Refer to account's statement, supporting documents, other income statement and receipts
3. Fill in the correct business code when filling the Income Tax Return Form (ITRF). Business code guideline can be obtained at www.hasil.gov.my
4. Business accounts and supporting documents need not to be submitted during the form submission
5. ITRF should be sent even if the accounts shows losses **MSME**