

Public Ruling No. 5/2000

KEEPING SUFFICIENT RECORDS (INDIVIDUALS & PARTNERSHIPS)

1.0 TAX LAW

This Ruling applies in respect of section 82 of the Income Tax Act, 1967.

2.0 THE APPLICATION OF THIS RULING

This Ruling considers:

- 2.1 what constitute sufficient records that an individual needs to keep when carrying on a business as a sole proprietorship or a partnership;
- 2.2 the consequences of failing to keep sufficient records.

3.0 HOW THE TAX LAW APPLIES

- 3.1 An individual carrying on a business as a sole proprietorship or a partnership must keep and retain sufficient records to enable the income or loss from the business to be readily ascertained.
- 3.2 This Ruling gives general guidelines on the records that are to be retained for the purpose of income tax.
- 3.3 Records / Books of Accounts
 - 3.3.1 For a small business, a cash book may be kept, recording all bank account entries, cash receipts and cash payments. For a business other than a small business, it may be necessary to keep other books of accounts including a sales ledger, a purchases ledger and a general ledger. The type of books that should be kept will depend on the nature and the size of the business. These books of accounts should be written up at regular intervals. Appropriate entries for each transaction should be recorded as soon as possible (in any case not later than 60 days after the transaction). Supporting documents such as invoices, bank statements, pay-in slips, cheque butts, receipts for payments, payroll records and copies of receipts issued should be retained. Where the gross takings for a year exceeds RM150,000 from the sale of goods or RM100,000 from the performance of services, receipts issued must be serially numbered. A valuation of the stock in trade should be made at the end of the accounting period and the appropriate records maintained.
 - 3.3.2 These books and other records in manual or electronic form should be sufficient to explain the transactions and to enable a true and fair profit and loss account and a balance

sheet to be prepared.

- 3.3.3 If computers are used to record the transactions, original source documents such as invoices and receipts should be retained. Where the original documents are in electronic form, the documents can be retained in such form. The system documentation including the accounting manual, chart and code of accounts should be maintained.
- 3.3.4 Records and books of accounts should be kept at the business premises of the sole proprietorship or the partnership in Malaysia. If the records and books of accounts for operations outside Malaysia are kept outside Malaysia, the records and books of accounts should be produced at the business premises of the sole proprietorship or the partnership in Malaysia, when requested by the Director General.
- 3.3.5 Records and books of accounts are to be retained for at least six years from the end of the calendar year in which the accounts are closed. Where there is an appeal against an assessment, the relevant records and books of accounts are to be retained until the appeal is finally determined.
- 3.3.6 Records and books of accounts should be written in the national language or the English language. If the records and books of accounts are written in a language other than the national language or English, a written translation is to be provided, at the expense of the sole proprietorship or the partnership, when requested by the Director General.

3.4 Examples of Records/Accounts

3.4.1 Bank accounts

All bank statements or savings books, into which account money for the business has been credited or withdrawn, should be retained. It is good practice to maintain separate bank accounts for business and for personal use. If, for any reason, a separate account is not maintained for the business, a record should be kept to identify the transactions which are for business purposes.

3.4.2 Trading stock and work in progress

At the end of the accounting period, a physical stock-take should be made to ascertain the quantity and the cost of the stock in hand or the cost of work in progress >.

3.4.3 Private money used in the business

A record should be made of any private money that was brought into the business. Examples of private money would be a legacy or lottery winnings received. Evidence of such money should be retained.

3.4.4 Personal drawings

Money taken out of the business for personal or family use should be recorded.

3.4.5 Non-trade debtors and creditors

There should be separate records for non-trade debtors and creditors, i.e. persons owing money to the individual or to whom the individual owes money which is not related to the business.

3.4.6 Contract and subcontract payments

Details of contractors or subcontractors such as name, address, identity card number, amount and date of payment, and the nature of work done are needed to support the payments made.

3.4.7 Partners' capital and current accounts

Money brought into or taken out of the partnership business, the partners' share of profits, interest on capital, salaries and other benefits should be recorded.

3.5 Treatment of Certain Transactions

3.5.1 Sales

Sales would include goods taken from stock for personal use or family's consumption. Goods or services supplied to others, in exchange for their goods or services, should also be included in sales.

3.5.2 Receipts for small expenses

There may be incurred small expenses for which no receipts are received e.g. taxi fares and parking fees. In such cases, a record should be made as to the date incurred, the amount paid, and the purpose for which the expense is incurred.

3.5.3 Examples of assets and liabilities used for both business and private purposes:

A. Motor vehicle

A motor vehicle may be used for both business and private purposes. A record of business and private mileage should be kept. This will be used to allocate the expenses incurred on the vehicle between the two purposes.

B. Shop premises

A part of a shop may be used as private living quarters. A record of business and private expenses should be kept. If the expenses incurred on the premises can be easily identified as relating to private living quarters, then such records should be maintained. Certain expenses, however, may not be identifiable as relating to private use only e.g. electricity and water. In such situations, a fair estimation of private use should be noted when the expenses are recorded.

C. Overdraft / Loan

An overdraft or loan could be used for both business and private purposes. Details of private or non-business use of the overdraft or loan, including purchase of shares or non-business property and drawings for personal use, should be maintained.

3.6 The Consequences if Sufficient Records Are Not Kept

3.6.1 The Director General may require the individual carrying on a business as a sole proprietorship or a partnership to have his accounts audited by a professional accountant at his expense.

3.6.2 The chargeable income of the individual may be determined according to the best judgement of the Director General and an assessment will be raised accordingly.

3.6.3 The individual may be prosecuted and, on conviction, may be liable to a fine of not less than RM200 and not more than RM2,000 or to imprisonment for a term not exceeding six months, or to both.

4.0 INTERPRETATION

For the purpose of this Ruling:

- 4.1 "Records" includes original source documents.
- 4.2 "Small business" means a business with annual gross takings of not more than RM150,000 from the sale of goods or not more than RM100,000 from the performance of services.

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