

Public Ruling No. 5/2000 (Revised)

KEEPING SUFFICIENT RECORDS (INDIVIDUALS & PARTNERSHIPS)

1.0 TAX LAW

This Ruling applies in respect of section 82 of the **Income Tax Act 1967** . It is effective for the year of assessment 2001 and subsequent years of assessment. This revised Ruling supersedes Public Ruling No. 5/2000 dated 1 March 2000.

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; and
- 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 is required under the Income Tax Act 1967 [hereinafter referred to as *the Act*] to keep and retain in safe custody sufficient records to enable the income or loss from the business for the basis period for any year of assessment to be readily ascertained.
- 3.2 This Ruling gives general guidelines on the records [*see paragraph 4.1*] that are to be retained for the purpose of income tax.
- 3.3 Records / Books of Accounts
 - 3.3.1 For a small business [*see paragraph 4.2*] , 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. The following requirements should be complied with:
 - A. The books of account 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).
 - B. 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.

C. Receipts issued should be serially numbered.

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.

D. A valuation of the stock in trade or work in progress should be made at the end of each accounting period and the appropriate records maintained

3.3.2 *Sufficiency of records*

Records in manual or electronic form should be sufficient to explain each transaction and to enable a true and fair profit & loss account and balance sheet to be prepared.

3.3.3 *Records maintained in electronic form*

If computers are used to record the transactions, original source documents such as invoices and receipts should be retained in their original form. Where the original documents are in electronic form, the documents can be retained in such form.

However, the records should be kept in an electronically readable form and in such manner as to enable the records to be readily accessible and convertible into writing.

3.3.4 *Place for keeping records*

Records that relate to any business in Malaysia must be kept at the business premises of the sole proprietorship or the partnership in Malaysia. If records for business activities outside Malaysia are kept outside Malaysia, such records should be produced at the business premises in Malaysia, when requested by the Director

General [*the DG*] [*see paragraph 4.3*].

3.3.5 ***Period for keeping records***

A . Except where subparagraph B or C below applies, records are to be retained for at least 7 years from the end of the year to which any income from that business relates.

Example

The accounts of a partnership are prepared for the year ending 30.06.2002

The records of the partnership for the financial year ending 30.06.2002 should be retained until 31.12.2009 [i.e. 7 years from the end of 2002 (the year to which the records relate)] .

B. If the return for a year of assessment [Y/A] is not furnished within the time specified under the Act, the relevant records are to be retained for a period of 7 years from the end of the year in which the return is furnished.

Example

The financial year of a partnership is the year ending 31.03.2001.

The partnership furnishes its return for the Y/A 2001 on 23.05.2003.

The records of the partnership for the financial year ending 31.03.2001

should be retained until 31.12.2010 [i.e. 7 years from the end of 2003 (the year in which the return is furnished), and not from the end of 2001 (the year to which the records relate)].

C. Where there is an appeal against an assessment, the relevant records are to be retained until the appeal is finally determined.

3.3.6 ***Records to be kept in the national language or English***

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**

Some examples of the records to be kept are described below:

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 ***Small expenses without receipts***

For small expenses for which no receipts are obtained (e.g. taxi fares and parking fees), 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 ***Assets and liabilities used for both business and private purposes***

A. ***Motor vehicle***

If a motor vehicle is used for both business and private purposes, a record of business and private mileage should be kept. This should be used to allocate the expenses incurred on the vehicle between the two purposes

B. ***Shop premises***

If a part of a shop is 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. For certain expenses that may not be identifiable as relating to private use only (e.g. electricity and water), a fair estimation of private use should be noted when the expenses are recorded

C. *Overdraft / Loan*

If an overdraft or loan is used for both business and private purposes, details of private or non-business use (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 individual carrying on business as a sole proprietorship or a partnership may be required by the DG, at the expense of that individual, to have his accounts audited by a professional accountant.
- 3.6.2 The chargeable income of the individual may be determined according to the best judgement of the DG and an assessment made accordingly.
- 3.6.3 The individual may be prosecuted and, on conviction, may be liable to a fine of not less than RM300 and not more than RM10,000 or to imprisonment for a term not exceeding 12 months, or to both.

4.0 **INTERPRETATION**

For the purpose of this Ruling:

- 4.1 "Records" includes:
 - 4.1.1 books of account recording receipts and payments or income and expenditure;
 - 4.1.2 invoices, vouchers, receipts and such other documents as are necessary to verify the entries in any books of account; and

- 4.1.3 any other records as specified by the DG.
- 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.
- 4.3 "The Director General" means the Director General of Inland Revenue and includes any employee of the Inland Revenue Board duly authorised by him.

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