



INLAND REVENUE BOARD OF MALAYSIA

**TAX TREATMENT OF ANY SUM
RECEIVED AND A DEBT OWING
THAT ARISES IN RESPECT OF
SERVICES TO BE RENDERED**

PUBLIC RULING NO. 4/2020

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DIRECTOR GENERAL'S PUBLIC RULING

Section 138A of the Income Tax Act 1967 [ITA] provides that the Director General is empowered to make a Public Ruling in relation to the application of any provisions of the ITA.

A Public Ruling is published as a guide for the public and officers of the Inland Revenue Board of Malaysia. It sets out the interpretation of the Director General in respect of the particular tax law and the policy as well as the procedure applicable to it.

The Director General may withdraw this Public Ruling either wholly or in part, by notice of withdrawal or by publication of a new Public Ruling.

**Director General of Inland Revenue,
Inland Revenue Board of Malaysia.**

1. Objective

The objective of this Public Ruling (PR) is to explain where in the relevant period -

- (a) any sum received by a person, notwithstanding that no debt is owing to the person; and
- (b) a debt is owing to a person

that arises in respect of services to be rendered is to be treated as gross income of the person from a business for the relevant period.

2. Relevant Provisions of the Law

- 2.1 This PR takes into account laws which are in force as at the date this PR is published.
- 2.2 The provisions of the Income Tax Act 1967 (ITA) related to this PR are paragraph 4(a), paragraph 23(a), paragraph 24(1)(b), subsection 24(1A) and subsection 34(7A).

3. Interpretation

The words used in this PR have the following meaning:

- 3.1 “Debt” means a debt in a liquidated sum whether or not –
 - (i) due; or
 - (ii) due and payable.
- 3.2 “Person” includes a company, a body of persons, a limited liability partnership and a corporation sole.
- 3.3 “Company” means a body corporate and includes any body of persons established with a separate legal identity by or under the laws of a territory outside Malaysia and a business trust.

4. Application of the Relevant Provisions of the Law

Pursuant to the Finance Act 2015 (Act 773), with effect from the Year of Assessment (YA) 2016 -

- (a) Paragraph 24(1)(b) of the ITA was amended to provide that a debt owing to a person; and

- (b) Subsection 24(1A) of the ITA was introduced to provide that any sum received by a person, notwithstanding that there is no debt owing to the person

that arises in respect of **services to be rendered** is to be treated as gross income of the person from a business for the relevant period.

Prior to the YA 2016, paragraph 24(1)(b) of the ITA only addressed a debt owing to a person in respect of any **services rendered** where the amount of the debt is treated as gross income of the relevant person from the business for the relevant period.

4.1 Debt owing to a person in respect of any services to be rendered

- (a) The amendment to paragraph 24(1)(b) of the ITA provides that where in a relevant period, a debt owing to a relevant person arises in respect of any **services to be rendered** in the relevant period or in any following basis period, the amount of the debt is to be treated as gross income of the relevant person from the business for the relevant period.
- (b) If there is a contractual obligation to pay, a liability would arise when there is a liability to pay for the services that have yet to be rendered. When a liability to pay arises in respect of services to be rendered in future by a person in the course of carrying on a business, a debt owing to the person would arise. A debt is said to arise whether or not due, or due and payable.
- (c) Therefore, a debt owing that arises in respect of services to be rendered would be treated as gross income of the person from the business in the relevant period i.e when the liability to pay arises.

Example 1

Popcorn Caramel Sdn Bhd (PCSB) signed a one (1) year contract valued at RM5 million with Aveeno Sdn Bhd (ASB) for services to be rendered by ASB for the period from 1.1.2020 to 31.12.2020. According to the agreement dated 1.4.2019, PCSB is required to make monthly advance payments from May to December 2019. ASB closes its accounts on 31 December annually.

If the payment is **not paid** in 2019 in accordance with the date specified in the contract, then the debt owing that arises in respect of the services that have yet to be rendered is treated as gross income of ASB's business for YA 2019.

Note: A debt owing would arise when a liability to pay exists i.e. on the date or the period the payment is due, or due and payable.

4.2 Any sum received by a person in respect of any services to be rendered

Pursuant to subsection 24(1A) of the ITA, where in the relevant period, any sum is received by a relevant person in the course of carrying on a business, in respect of any services to be rendered in the relevant period or in any following basis period, the sum is to be treated as the gross income of the relevant person from the business for the relevant period the sum is received, notwithstanding that “no debt is owing to the relevant person in respect of such services”.

In other words, “no debt is owing to the relevant person in respect of such services” means that a debt owing to the person has not arisen as the liability to pay in respect of such services has not arisen yet.

Example 2

Same facts as in Example 1 except that the services to be rendered are for a period of two (2) years i.e in 2020 and 2021. Payment is to be made in advance in accordance with the agreement -

- (a) Payment from May to December 2019 for services in 2020; and
- (b) Payment from January to August 2020 for services in 2021.

PCSB decided to pay for the services to be rendered in both 2020 and 2021 in advance in 2019.

The advance payment made in 2019 for the the services to be rendered in 2020 is in accordance with the agreement. ASB would be taxed on this advance payment in the YA 2019 under paragraph 24(1)(b) of the ITA as there is a debt owing to ASB when PCSB has a liability to pay ASB in 2019.

PCSB made the advance payment on its own accord in the year 2019 instead of year 2020 for services to be rendered in year 2021. ASB would be taxed on any sum received in the year 2019 in YA 2019 in respect of services to be rendered in the year 2021 under subsection 24(1A) of the ITA. Paragraph 24(1)(b) of the ITA is not applicable as there is no debt owing in respect of services to be rendered in the year 2021. The liability to pay for the said services only arises in the year 2020.

5. Tax Treatment Effective Year of Assessment 2016

The application of paragraph 24(1)(b) of the ITA would have to be considered first before applying subsection 24(1A) of the ITA. The tax treatment of a debt owing to a person and the sums received by a person are illustrated in the following examples.

Example 3

Galaxy Sdn Bhd (GSB) provides office cleaning services and closes its accounts annually on 31 December. On 1.10.2018, an agreement was signed with a regular client, Lavender Sdn Bhd (LSB).

According to the agreement, LSB is required to make an annual payment amounting to RM90,000 in advance on the agreed dates for services to be rendered for a period of three (3) years i.e. from 01.01.2019 to 31.12.2021.

Summary of the agreement between GSB and LSB

GSB closes its accounts	-	31 December
Agreement signed	-	1.10.2018
Period of service	-	1.1.2019 - 31.12.2021
Value of contract	-	RM270,000
Due date of payment	-	Refer to the Schedule

YA in which advance payment is treated as gross income of a business under paragraph 24(1)(b) of the ITA	2018	2019	2020
Due date of advance payment	14.12.2018	13.12.2019	15.12.2020
Amount of advance payment (RM)	90,000	90,000	90,000
Period of service	1.1.2019 – 31.12.2019 (YA 2019)	1.1.2020 – 31.12.2020 (YA 2020)	1.1.2021 – 31.12.2021 (YA 2021)

There is a contractual obligation to pay for the services to be rendered in YA 2019, YA 2020 and YA 2021.

By virtue of paragraph 24(1)(b) of the ITA, the debt owing that arises for the services to be rendered is to be treated as GSB's gross income from its business

in the period the liability to pay arises. Thus, the annual advance payment amounting to RM90,000 to be paid on the agreed dates is a debt owing arising in the YA 2018, YA 2019 and YA 2020 and is treated as the gross income of the business for YA 2018, YA 2019 and YA 2020 respectively.

Example 4

Same facts as in Example 3 except that according to the agreement, LSB will receive a discount of 20% provided that LSB pays a deposit of RM10,000. LSB agreed with the said offer and paid RM10,000 and an annual fee amounting to RM90,000 on 14.12.2018.

Summary of the agreement between GSB and LSB

GSB closes its accounts	-	31 December
Agreement signed	-	1.10.2018
Period of service	-	1.1.2019 - 31.12.2021
Value of the original contract	-	RM270,000
Contract value after 20% discount	-	RM216,000
Due date of payment	-	Refer to the Schedule

YA in which payment is treated as gross income of a business under paragraph 24(1)(b) of the ITA	2018	2019	2020
Due date of payment	14.12.2018	13.12.2019	15.12.2020
Deposit (RM)	10,000	-	-
Advance payment (RM)	90,000	90,000	26,000
Period of service	1.1.2019 – 31.12.2019 (YA 2019)	1.1.2020 – 31.12.2020 (YA 2020)	1.1.2021 – 31.12.2021 (YA 2021)

Based on the details of the agreement, payment for services for the period of 1.1.2021 - 31.12.2021 is reduced after taking into account the deposit and the discount received.

By virtue of the provisions of paragraph 24(1)(b) of the ITA, the deposit of RM10,000 received by GSB on 14.12.2018 is treated as GSB's gross income for YA 2018.

Example 5

Same facts as in Example 4 except that on 13.12.2019, LSB made an advance payment of RM116,000 which includes a payment of RM26,000 that was supposed to be due and payable on 15.12.2020 but was paid earlier i.e on 13.12.2019.

The tax treatment of the payments received by GSB pursuant to the provisions of paragraph 24(1)(b) of the ITA and subsection 24 (1A) of the ITA are as follows-

	YA 2019	Liability to pay / a debt owing	Paragraph 24(1)(b) ITA	Subsection 24(1A) ITA
Date of payment	13.12.2019			
Advance payment (RM)	90,000	arises / arises	√	x
	26,000	Has not arisen yet / Has not arisen yet	x	√

Example 6

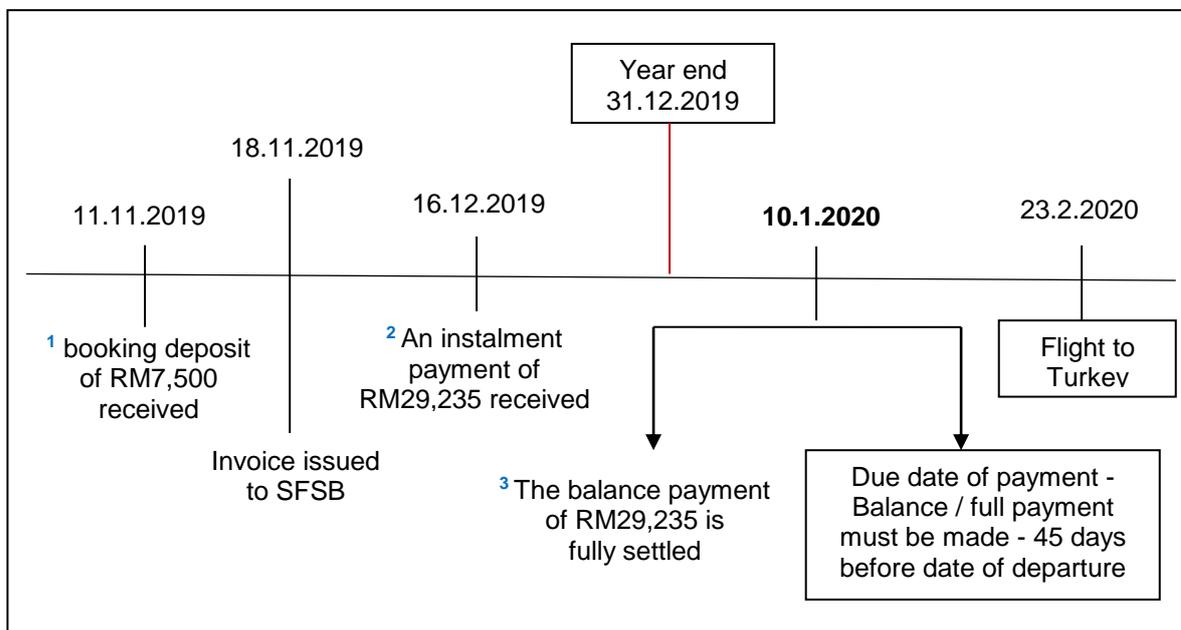
Green Holiday Sdn Bhd (GHSB), a travel and tour company, provides tour packages inclusive of hotel accomodation and flight ticket. GHSB closes its accounts on 31 December annually. According to the terms and conditions of GHSB's tour packages, after the payment of the initial booking deposit, the full payment or balance must be made forty five (45) days before the date of departure.

On 11.11.2019, GHSB received an initial deposit payment of RM7,500 (RM500 x 15) as booking fees from Syarikat Firas Sdn Bhd (SFSB) for its employees. The booking deposit for a group tour packages to Turkey on 23.2.2020 which is valued at RM65,970 (RM4,398 x 15) is for 15 persons.

GHSB issued an invoice dated 18.11.2019 which stated that the due date of payment of the balance amounting to RM58,470 (RM65,970 – RM7,500) must be settled by the due date i.e. 10.1.2020.

On 16.12.2019, SFSB made an instalment payment of RM29,235 and the balance of payment was fully settled on 10.1.2020 amounting to RM29,235.

Illustration of the tour package to Turkey is as follows –



Note¹: The liability to pay this deposit arises on the date of booking i.e 11.11.2019 for the tour services to be rendered in 2020. Therefore, under the provisions of subparagraph 24(1)b) of the ITA, the deposit is to be treated as gross income from GHSB's business for YA 2019 when the liability to pay arises.

The booking deposit is part of the tour package price and if the booking is canceled, the deposit is recoverable subject to the terms and conditions.

Note² : This instalment payment is to be treated as gross income from GHSB's business for YA 2019 under paragraph 24(1)(b) of the ITA as there is a debt owing to GHSB when SFSB has a liability to pay GHSB in the period from 18.11.2019 to 10.1.2020.

Note³ : In accordance with the provisions of paragraph 24(1)(b) of the ITA, the balance of payments that was fully paid on 10.1.2020 which is the date it is 'due and payable' will be treated as gross income from GHSB'S business for YA 2020.

Example 7

Seriemas Sdn Bhd (SSB) signed an agreement valued at RM60,000 with Best Control Sdn Bhd (BCSB), a pest control company for a period of three (3) years from 1.7.2018 to 30.6.2021. According to the agreement dated 2.4.2018, SSB is required to pay a deposit of 10% amounting to RM6,000 on 3.4.2018.

The balance of RM54,000 is to be paid in advance when the invoice is issued on every 1 June before the service is to be rendered during the contract period. BCSB closes its accounts on 30 June annually.

Summary of the agreement between BCSB and SSB on 2.4.2018

Year	2018	2019	2020
Amount of deposit (RM)	6,000		
Due date of payment	3.4.2018		
Amount paid in advance (RM)	18,000	18,000	18,000
Date invoice is issued	1.6.2018	1.6.2019	1.6.2020
Period of service	1.7.2018 – 30.6.2019 (YA 2019)	1.7.2019 – 30.6.2020 (YA 2020)	1.7.2020 – 30.6.2021 (YA 2021)

The tax treatment of the deposit and advance payments received by BCSB are as follows:

YA in which payment is treated as gross income of a business under paragraph 24(1)(b) of the ITA	2018	2019	2020
Amount of deposit (RM)	6,000		
Date of payment	3.4.2018		
Amount paid in advance (RM)	18,000	18,000	18,000
Date of invoice	1.6.2018	1.6.2019	1.6.2020
Period of service	1.7.2018 – 30.6.2019 (YA 2019)	1.7.2019 – 30.6.2020 (YA 2020)	1.7.2020 – 30.6.2021 (YA 2021)
Total sum received by BCSB (RM)	24,000	18,000	18,000

There is a contractual obligation to pay an advance payment when the invoice is issued on every 1st of June before the service is to be rendered in the following basis period.

This means that the advance payment of RM18,000 according to the date of the invoice issued is a debt owing that arises (due and payable) for each of the years ended 30.6.2018, 30.6.2019 and 30.6.2020. Thus, the debt is treated as BCSB's gross income from its business by virtue of paragraph 24(1)(b) of the ITA, although the services have yet to be rendered.

For the YA 2018, the deposit amounting to RM6,000 received by BCSB, in respect of services to be rendered in the following basis period is treated as BCSB's gross income from its business, by virtue of paragraph 24(1)(b) of the ITA as a liability arises on the date of payment i.e 3.4.2018.

Example 8

Same facts as in Example 7 except that SSB fails to make the payment of RM18,000 on 1.6.2019.

Based on the agreement, SSB is required to make a payment on 1.6.2019 and therefore a liability arises on that date and a debt owing to BCSB would also arise (due and payable) in respect of services to be rendered by BCSB. Therefore, in accordance with the provisions of paragraph 24(1)(b) of the ITA, the debt owing amounting to RM18,000 that arises is treated as gross income of BCSB from its business for YA 2019, although the services for the contract period (1.7.2019 to 30.6.2020) has yet to be rendered.

6. Tax Treatment Prior to Year of Assessment 2016

Prior to YA 2016, advance payments received was treated as gross income from a business when the service is rendered.

Example 9

High Security Sdn Bhd is a renowned security company in the Klang Valley.

In the year 2015, the company received advance payments of RM72,000 for future services to be provided for a period of six (6) years from YA 2015 to 2020. The company treated the payment attributable to the service rendered i.e. RM12,000 as gross income for the YA 2015.

The company had sought a confirmation in respect of the tax treatment from YA 2016 to 2020 of the balance of the advance payment amounting to RM60,000 (RM72,000 – RM12,000), for the services to be rendered to its clients.

As the advance payment was received prior to YA 2016, i.e. before the introduction of subsection 24(1A) of the ITA, the tax treatment prior to YA 2016 is maintained. This means that the balance of the advance payment of RM60,000 is treated as gross income when the service is rendered i.e. RM12,000 for each YA from YA 2016 to 2020.

7. Tax Treatment in Respect of a Refund of an Advanced Payment

Pursuant to subsection 34(7A) of the ITA, if a person refunds any sum of money received in respect of services that has yet to be rendered, and this sum has been treated as part of the gross income from a business in accordance with subsection 24(1A) of the ITA, the person may claim a deduction on the sum refunded in the basis period for the YA the refund is made.

Example 10

Same facts as in Example 2 except that on 1.2.2020, ASB terminated the contract for services to be rendered to PCSB in 2021. Therefore, the advance payment made by PCSB under the provisions of subsection 24(1A) of the ITA will be refunded by ASB to PCSB in 2020.

Pursuant to the provisions of subsection 34(7A) of the ITA, ASB may claim a deduction on the amount refunded in YA 2020, which is in the basis period for the YA the refund is made.

8. Services That are Not Subject to Paragraph 24(1)(b) and Subsection 24(1A) of the ITA

8.1 Paragraph 24(1)(b) and subsection 24(1A) of the ITA are not applicable to services that are governed by separate Income Tax Rules. As an example, business activities connected to services provided under a construction contract or property development, the tax treatment are subject to separate Income Tax Rules. For further information, please refer to PR No. 1/2009 titled "Property Development" and PR No. 2/2009 titled "Construction Contract".

8.2 Pursuant to subsection 24(8) of the ITA, section 24 of the ITA shall not apply to income under section 4A of the ITA. Income under section 4A of the ITA is in relation to services provided by a non-resident person. For further information, please refer to PR No.10/2019 titled "Withholding Tax on Special Classes of Income".

8.3 Deposits for any service received by a service provider upon the signing of an agreement where the deposits are refundable upon completion of the service, do not form part of the gross income of the service provider's business under section 24 of the ITA. Examples of such deposits are payments in connection with a security deposit and refundable deposit. Please refer to an Example 11 and 13.

8.4 Deposits are forfeitable if the terms and conditions of the agreement are not adhered to, where the deposits are not refundable by a service

provider upon completion of the service. Deposits that are forfeited would be part of the gross income of the service provider's business under the provisions of paragraph 4(a) of the ITA. Please refer to an Example 12.

Example 11

Graphic Sdn Bhd (GSB) signed an agreement with a catering company, Almadina Sdn Bhd (ASB) to provide food catering services amounting to RM500,000 for course participants. According to the agreement, GSB is required to pay a deposit of 10% amounting to RM50,000 upon signing the agreement. The said deposit would be refunded to GSB when the services have been provided by the catering company and full payment of RM500,000 has been paid by GSB.

The deposit would be forfeited if GSB fails to adhere to the terms of the agreement.

The deposit RM50,000 received by the catering company is not subject to paragraph 24(1)(b) and subsection 24(1A) of the ITA as it is a refundable deposit. **A refundable deposit** that can be returned is not part of the gross business income for the services to be rendered.

Example 12

Facts are the same as in Example 11 except that GSB failed to adhere with the terms of the agreement with the catering company. As such, the deposit of RM50,000 is not refunded to GSB as it is **a forfeitable deposit**.

Deposits that are forfeited and not refundable to GSB would be part of the gross income of the catering company's business under the provisions of paragraph 4(a) of the ITA.

Example 13

Danisha Sdn Bhd (DSB) rented a commercial building from Firas Sdn Bhd (FSB) for a period of 2 years effective from 1.6.2020. The monthly rental of RM1.5 million includes maintenance services and support services of the building to be provided comprehensively and actively by the landlord (FSB). Under the terms of the tenancy agreement, a security deposit equivalent to a month rental of RM1.5 million is to be paid by DSB to FSB. This security deposit is fully refundable to DSB at the end of the tenancy agreement, provided that no damages are done to the commercial building and there are no pending rental payments.

The security deposit received by FSB for the rental of its commercial building is not treated as FSB's gross business income in that period as



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the **security deposit** is not subject to paragraph 24(1)(b) and subsection 24(1A) of the ITA.

9. Disclaimer

The examples in this PR are for illustration purposes only and are not exhaustive.

**Director General of Inland Revenue,
Inland Revenue Board of Malaysia.**