



GUIDELINES FOR INCOME TAX TREATMENT OF MALAYSIAN FINANCIAL REPORTING STANDARDS (MFRS) 5: NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

1. INTRODUCTION

MFRS 5 is to specify the accounting for assets held for sale (HFS) and disclosure of discontinued operations. MFRS 5 provides for the following:

- a) Classification and measurement of the assets held for sale in the balance sheet.
- b) Disclosure of the assets and liabilities in the balance sheet and notes to the financial statement.
- c) Disclosure of income, expenses and cash flow in the income statement for discontinued operations.

1.1 Definition of terms

- a) Asset means non-current asset which refers to plant and machinery or building that fulfills criteria of HFS.
- b) Discontinued operations
“Discontinued operation” is a component of an entity that either has been disposed of or is classified as HFS and:
 - i) represents a separate major line of business or geographical area of operations,
 - ii) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or
 - iii) is a subsidiary acquired exclusively with a view to resale.
- c) Disposed of has the same meaning as provided under paragraph 48 (building) and paragraph 61(plant & machinery) of Schedule 3 of Income Tax Act (ITA) 1967.

2. OBJECTIVE

This Guidelines is to determine the timing for calculation of balancing charge (BC) and balancing allowance (BA) for non-current asset which is classified as HFS under MFRS 5.

This guidelines is effective from YA2013 in line with the changes in certain provisions of Schedule 3 of ITA 1967 announced during Budget 2013.

3. TAX TREATMENT ON NON-CURRENT ASSETS HELD FOR SALE PRIOR TO YEAR ASSESSMENT 2013

Prior to implementation of MFRS 5, there is no clear distinction between asset held for sale and asset temporary disused unless provided in the disclosure or notes to account. Paragraph 56 Schedule 3 of ITA 1967 is only applicable for asset that is constantly maintained in readiness to be brought back into use for business purpose. Annual allowance is only available if the asset is maintained. If it is not maintained and no indication to be brought back into use for business purpose, then it is deemed as disposed of.

4. TAX TREATMENT

MFRS 5 : NON-CURRENT ASSETS HELD FOR SALE		
NO.	ISSUES	TAX TREATMENT
1.	<p>In the year the asset is classified as held for sale (HFS):</p> <p>Criteria of classification –</p> <p>The asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable. Highly probable is defined under Para 8 FRS 5. One of the criteria is the sale should be completed within one year. Para 9 Financial Reporting Standards (FRS) 5 states the events and circumstances that may extend the period of completion of sale beyond one year.</p> <p>i. Temporary disuse</p>	<p>Asset here refers to plant and machinery (P&M) and property. For property, it only refers to properties classified under owner occupied property (OOP). For tax purposes, property refers to building qualified as industrial building (IB) and P&M refers to P&M that is qualified for capital allowance (CA).</p> <p>For tax purposes, a temporary disused asset is</p>

MFRS 5 : NON-CURRENT ASSETS HELD FOR SALE		
NO.	ISSUES	TAX TREATMENT
		<p>not a non current asset held for sale. The tax treatment for temporary disused asset falls under Para 56, Schedule 3 of ITA 1967.</p> <p>Based on the criteria for classification, for tax purposes an asset classified as HFS does not fall within the meaning of temporary disuse under paragraph 56, Schedule 3 ITA 1967. For the purpose of Schedule 3, a temporarily disused asset is the asset that is constantly maintained in readiness to be brought back into use for business purpose.</p>
	ii. Ceased to be used	<p>Under paragraph 48(IB) and paragraph 61 (P&M) of Schedule 3, ITA 1967, disposal of assets includes assets ceased to be used. BC/BA will be calculated for the relevant asset.</p> <p>In line with self-assessment and to ease the burden of adjusting the tax computation when actual sale takes place, BA/BC will be computed in the year the asset is sold. This tax treatment will be applied only if the asset is sold within one year (one of the criteria for classification). This means BC/BA shall be computed –</p>

MFRS 5 : NON-CURRENT ASSETS HELD FOR SALE		
NO.	ISSUES	TAX TREATMENT
		<p>(i) in the same YA the asset is classified as HFS, if the sale is completed in the same basis period or</p> <p>(ii) in the subsequent YA when the sale is completed within a period of one year.</p> <p>However, there may be circumstances where a sale is completed after one year. Paragraph 9 of FRS 5 states that “events or circumstances may extend the period to complete the sale beyond one year”. Taxpayer should justify the failure to complete the sale within one year to LHDNM with supporting documents.</p> <p>Tax treatment on completion of sale within one year. Scenario 1: Disposal within the same basis period</p> <p>Company A’s basis period is 1/1/2013 to 31/12/2013. On 1/5/2013, the company classified an asset under MFRS 5 with a fair value (FV) of RM50,000. On 1/12/2013 the company sold the asset at RM45,000. The residual expenditure of the asset is RM30,000.</p> <p>Subject to paragraph 62 Schedule 3, FV at the date of classification i.e RM50,000 will be taken as market value</p>

MFRS 5 : NON-CURRENT ASSETS HELD FOR SALE		
NO.	ISSUES	TAX TREATMENT
		<p>of the asset as at the date of disposal. Since market value is higher than sale proceed, RM50,000 is taken as disposal value. BC is RM20,000 (RM50,000 – RM30,000).</p> <p>Scenario 2: Disposal in subsequent basis period (sale completed in more than 1 year but within the following year of assessment).</p> <p>Company A's basis period is 1/1/2013 to 31/12/2013. On 1/5/2013, the company classified an asset under MFRS 5 with a FV of RM50,000. On 1/6/2014 the company sold the asset for RM60,000. The FV(1) of the asset at 31.12.2013 is RM48,000 and the residual expenditure of the asset is RM24,000 after reducing a notional allowance for YA 2013.</p> <p>BC/BA shall be computed in YA2014. The market value of the asset shall be taken as RM48,000 and shall be compared with the sale proceed of RM60,000. Since the sale proceed is higher than market value, RM60,000 shall be taken as disposal value. BC is RM36,000 (RM60,000-RM24,000)</p>

MFRS 5 : NON-CURRENT ASSETS HELD FOR SALE		
NO.	ISSUES	TAX TREATMENT
		<p>Any expenses incurred on the asset such as quit rent and assessment, interest on loan, maintenance etc. after the classification are not allowable for deduction.</p> <p>Scenario 3: Disposal in subsequent basis period (sale completed in more than 1 year but not within the following year of assessment)</p> <p>Same facts as that of Scenario 2 except Company A sells the asset on 1/6/2015 for RM60,000.</p> <p>Asset is deemed sold in 2014. BC/BA shall be computed in YA 2014. No comparison between market value and actual sales proceed shall be made. FV at 31.12.2013 of RM48,000 shall deemed as disposal value for computing BC/BA. BC is RM22,000 (RM48,000 – 26,000).</p> <p>BC/BA shall be restricted to the amount of CA that has been claimed and allowable prior to sale.</p> <p>Any expenses incurred on the asset such as quit rent and assessment, interest on loan, maintenance etc. after the classification are not allowable for deduction.</p>

MFRS 5 : NON-CURRENT ASSETS HELD FOR SALE		
NO.	ISSUES	TAX TREATMENT
	iii. Reused	<p>Asset reclassified back to PPE</p> <p>Same facts as above but Company A failed to sell the asset. It reclassified the asset back to PPE on 1/12/2015 and the FV at that date is RM25,000.</p> <p>BA/BC shall be computed in YA 2013 in the same way as in Scenario 3 above.</p> <p>CA or IBA (only AA) shall be allowed on the asset if it continues to be used for business purposes. The qualifying capital expenditure shall be the FV of the asset at the date of transfer from HFS to OOP.</p>
	iv. Asset not qualified for CA and IBA	<p>The same tax treatment is applicable for expenses such as quit rent and assessment, interest on loan, maintenance etc. incurred on an asset (not qualified for CA and IBA) so long as it is used for business purpose before being classified as HFS.</p>

LEMBAGA HASIL DALAM NEGERI MALAYSIA

Date: 4 June 2013

s.k. LHDN.01/35/(S)/42/51/103-2(3)