



## e-TAX NEWS

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**To our valuable customers and business associates,**

### **Money received in advance for services to be rendered or the use or enjoyment of property to be dealt with**

Effective from the year of assessment (YA) 2016, any money received in advance for services rendered or to be rendered, or for the use or enjoyment of property dealt or to be dealt with shall be treated as gross income of that person for the relevant period in accordance to the amendments made to Section 24 of the Income Tax Act, 1967. The Inland Revenue Board ("IRB") has clarified that "security deposit", "forfeit deposit" and "return deposit" are not advance payments falling under the above new provision as it is not meant for future services, therefore it is not part of the income to be included as advance payment.

Please note that the above amendment is related to advance receipt for the provision of services and rental for the use of property but does not include the sales of goods.

### **Editor's comments**

Due to the above amendment to Section 24 of the Income Tax Act, 1967, there may be a potential timing difference in the recognition of advances received as revenue between the accounting standards and the tax treatment adopted. Therefore, sufficient documentation together with a detailed breakdown of the movement of money received in advance must be properly maintained in order to mitigate any potential tax risk associated to the above changes. In order to ensure the correct tax treatment is adopted and adjusted accordingly on the money received in advance, the following pointers must be taken into consideration:-

- Advances received by a company may derive from different sources of income which may include the sales of goods, for the provision of services and also rental of property, thus a clear segregation of the advances received from the sales of goods must be separately identified from others as the above amendment will not be applicable to any advance received for the sales of goods.

- As the above amendment is not applicable to refundable and security deposits, sufficient documentation must be maintained to justify the nature of the advances received where a refund clause must be clearly included in the supporting documents. The industry practices adopted and the informal arrangements with their clients over the years may not be acceptable by the IRB as refundable in nature. Therefore, it would be advisable to review the existing supporting documents to ensure the tax treatment adopted for refundable and security deposits is well supported.
- Advances received pre and post YA 2016 must be clearly identified and the movement is separately maintained as the above amendment only affected advances received post YA 2016.
- Due to the timing difference in the recognition of revenue between accounting standards and income tax purposes as highlighted above, a proper reconciliation of the above must be maintained to avoid any potential under recognition of revenue / income which may result in potential tax penalty.

If the above amendment to Section 24 is applicable, please be advised to ensure the relevant breakdown and movement of the money received in advance as highlighted above is readily available in order to ensure the correct tax treatment is adopted in the tax return for YA 2016 and onwards.

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