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## FINANCIAL REPORTING STANDARDS IMPLEMENTATION COMMITTEE

### **FRSIC Consensus 1**

### ***Determination of Substantively Enacted Tax Rate for Year of Assessment 2008 and Thereafter***

#### **Introduction**

FRSIC Consensus 1 “Determination of Substantively Enacted Tax Rate for Year of Assessment 2008 and Thereafter” was developed by the Financial Reporting Standards Implementation Committee (“FRSIC”) and issued by the Malaysian Institute of Accountants (“MIA” or “Institute”) on 1 May 2007.

The Consensus contained herein is issued as part of the Institute’s initiatives to promote best practices in compliance with the highest standards in financial accounting.

**FRSIC CONSENSUS 1****DETERMINATION OF SUBSTANTIVELY ENACTED TAX RATE FOR YEAR OF ASSESSMENT 2008 AND THEREAFTER**

FRSIC Consensus is guidance issued by MIA and shall be regarded as best practice. It should be read in conjunction with the respective applicable accounting standards.

Members of MIA are expected to observe compliance to the consensus issued. In exceptional circumstances where departure is necessary, members shall be prepared to justify the departure.

FRSIC Consensus need not be applied to immaterial items. Nothing in the FRSIC Consensus is to be construed as amending or overriding the accounting standards or other statements adopted or issued by the MASB and other relevant laws.

**The Issue**

1. Paragraph 45 of FRS 112<sub>2004</sub> "Income Taxes" / MASB 25 "Income Taxes" indicates that deferred tax assets and liabilities should be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.
2. Paragraph 46 of FRS 112<sub>2004</sub> / MASB 25 indicates that "Current and deferred tax assets and liabilities are usually measured using the tax rates (and tax laws) that have been enacted. In Malaysia, announcements of tax rates (and tax laws) by the Government in the yearly Budget have the substantive effect of actual enactment, which may follow the announcement by a period of several months. In these circumstances, tax assets and liabilities are measured using the announced tax rate (and tax laws)."
3. In the Budget Speech 2007, the Government announced that the corporate tax rate would be reduced to 27% for year of assessment 2007 and 26% for year of assessment 2008. The proposed reduction in the corporate tax rate of year of assessment 2007 to 27% was included in the Finance Bill 2006, which has since been gazetted as Finance Act 2006 on 31 December 2006. However, the proposed further reduction to 26% for year of assessment 2008 is not reflected in the Finance Bill 2006 nor the Finance Act 2006 as it is expected to be included in the Finance Act 2007 to be issued at the end of 2007.

4. Companies shall apply tax rate of 27%, in line with the Finance Act 2006, to the temporary differences that are expected to reverse in year of assessment 2007 in computing the deferred tax balances.
5. The issue is which tax rate should be applied to the temporary differences that are expected to realised or reversed in year of assessment 2008 and years subsequent to year of assessment 2008 in arriving at the deferred tax balances when applying FRS 112<sub>2004</sub>/ MASB 25?

### **Consensus and Basis of Consensus**

6. Tax rate of 26% should be applied to the temporary differences that are expected to realised or reversed in year of assessment 2008 and years subsequent to year of assessment 2008 when applying FRS 112<sub>2004</sub> / MASB 25. This is on the basis that paragraph 46 of FRS 112<sub>2004</sub> / MASB 25 requires that in Malaysia, tax assets and liabilities are to be measured using the announced tax rate (and tax laws).
7. This is confirmed by the Ministry of Finance in letter to the MIA FRSIC that the corporate tax rate for 2008 and thereafter will be 26% as announced by the Minister of Finance in the Budget Speech 2007; and that the change in tax rate to 26% from the present 27% will be reflected in the Finance Bill 2007.
8. The Inland Revenue Board had also advised MIT/MIA/MICPA during the 2007 Post Budget Technical Dialogue on 5 October 2006 to use the proposed tax rate of 26% in the preparation of the initial tax estimates for year of assessment 2008.
9. This implementation guidance is also relevant when Malaysian companies report under International Financial Reporting Standards.

### **Date from which Effective**

10. This Consensus becomes effective on 1 August 2007. However, earlier application is encouraged.

**References**

FRS 112<sub>2004</sub> "Income Taxes"

The 2007 Budget Speech by YAB Dato' Seri Abdullah Bin Hj. Ahmad Badawi, Prime Minister and Minister of Finance.

Letter from Ministry of Finance of Malaysia dated 23 February 2007 (reference: CR(8.09)681/2-61(SJ.18)VOL.5(18)).