

CAS MALAYSIA PLT: BUSINESS HIGHLIGHTS

- **2** ISA 540 (Revised)
Auditing Accounting Estimates
and Related Disclosure
By Yong Hoi Ying

- **4** Professional Indemnity
Insurance
By Joey Yeow Yi Qian

- **5** Research and
Development Incentives
By Wong De Xuan

- **6** The tax Treatment of
Interest Income
*By Sharifah Nabila Binti Syed
Anuar*

- **7** Human Capital Investment
Through Education and Training
By Nur Atiqah Binti Alang

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FOREWORD

This year, we celebrate CAS Malaysia PLT 17th anniversary. We have developed our Business Plan for 2019. The plan remains very much focused on capacity building and strengthening quality practice management that are benchmarked against international best practice. We are committed to continue improving our client services, ensuring our valued clients receive the best possible advice and support from our professional team.

On people development, we are looking at improving the workplace environment by creating better work arrangements which allow for more breaks during working hours. Work life balance is our mission. Looking after the welfare of our people will have direct positive impacts on our client service.

We wish to thank you again for taking time to read our Business Highlight for the first half of the year. We hope you find the articles insightful and interesting.

A very good day and happy reading!

Today a reader, tomorrow a leader

Chen Voon Hann
Managing Partner
CAS MALAYSIA PLT
Chartered Accountants

ABOUT CAS INTERNATIONAL

CAS International is a network of accounting and consulting firms serving a wide range of clients.

Each member firm in CAS International is an independent legal entity in its own territory.

Member firms have access to an expert team of professional business advisors and provide well thought out and result-oriented solutions for clients.

Our partners and professional staff are highly qualified and possess expertise on a wide range of business subjects.

They also offer extensive experience in international business practices and local laws and customs and are always ready to refer clients to their wide network of local business contacts.

ISA 540 (REVISED) AUDITING ACCOUNTING ESTIMATES AND RELATED DISCLOSURES

ISA 540 (Revised) deals with a critically important area of financial statements – accounting estimates and related disclosures. Accounting estimates are a continually evolving area of accounting, and therefore a key focus area for the IAASB's efforts to improve audit quality. The revisions include:

- an enhanced risk assessment that requires auditors to consider complexity, subjectivity and other inherent risk factors in addition to estimation uncertainty. This will drive auditors to think more deeply about the risks inherent to accounting estimates;
- a closer link between the enhanced risk assessment and the methods, data and assumptions used in making accounting estimates, including the use of complex models;
- emphasis on the importance of the auditor's decisions about controls relating to accounting estimates;
- a separate assessment of control risk when assessing the risks of material misstatement (RoMM) at the assertion level for accounting estimates;
- emphasis on the auditor's further audit procedures need to be responsive to the reasons for the assessed RoMM at the assertion level, taking into account the effect of one or more inherent risk factors and the auditor's assessment of control risk;
- emphasis on the importance of applying appropriate professional scepticism when auditing accounting estimates to foster a more independent and challenging sceptical mindset in auditors.

ISA 540 (Revised) becomes effective for financial statement audits for periods beginning on or after 15 December 2019. For further understanding on ISA 540 (Revised), please refer to the diagram as in Table 1:





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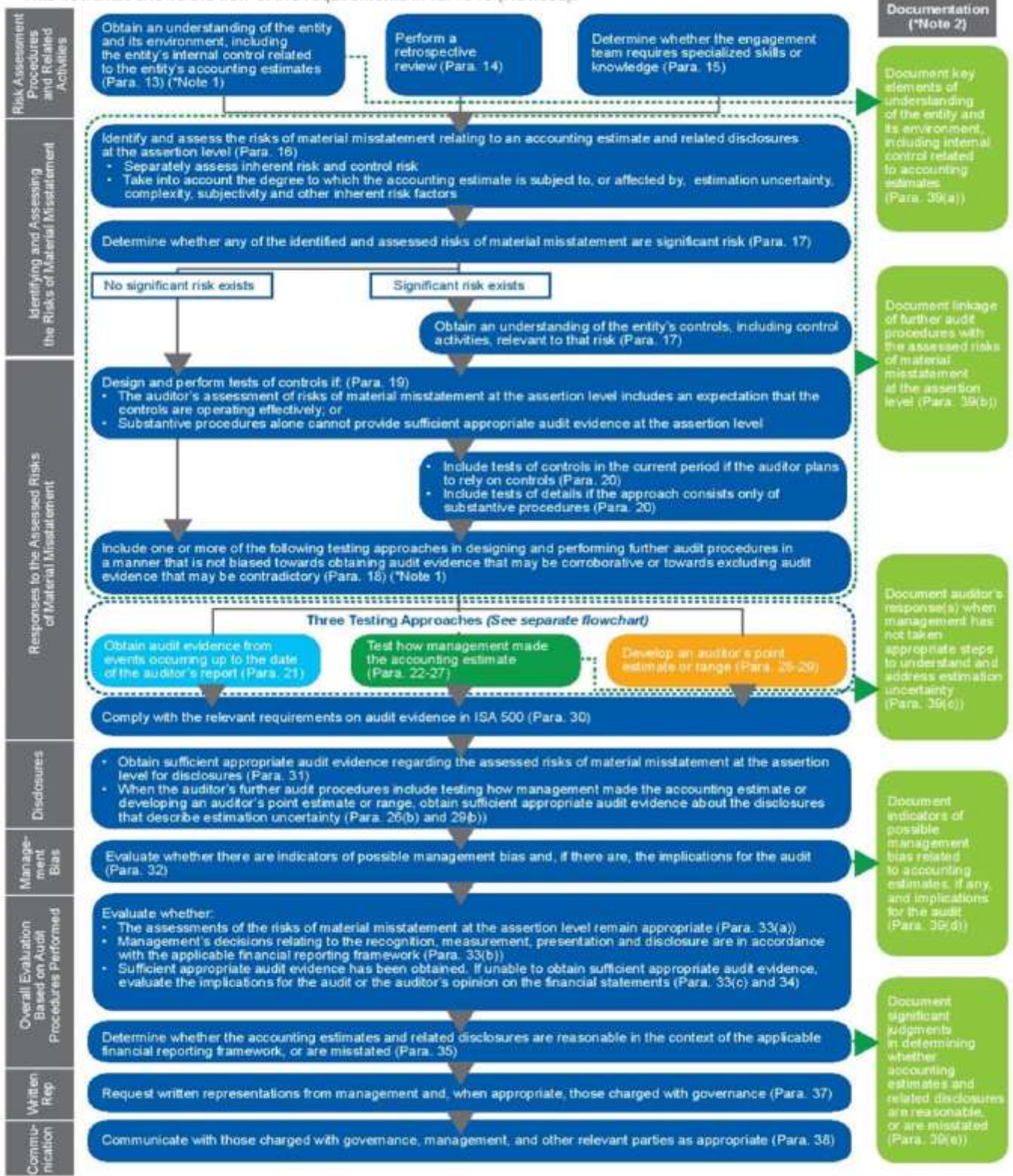
Table 1: This flowchart shows the flow of the requirement in ISA 540 (Revised):

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ISA 540 (Revised) — Requirements



This flowchart shows the flow of the requirements in ISA 540 (Revised).



PROFESSIONAL INDEMNITY INSURANCE

Introduction

Professional indemnity insurance (PII) is a policy taken to protect the insured against liability for the person's negligence.

The insurance may cover the cost of defending the suit and the cost of compensation. On the basis that the policy is taken to cover a personal liability or risk, the ruling provides that the premium paid on a professional indemnity insurance is not tax deductible as it is an expense to cover a claim made against the personal assets of the person. Therefore, it does not satisfy the test of "wholly and exclusively incurred in the production of income".

Prerequisite for a Professional to Carry On or to Practise a Profession

- 1) If a professional is registered with a professional body outside Malaysia, the professional body must be recognised by written law or statute in Malaysia.
- 2) Certain professions require a person to be a member of the professional body which represents the profession to enable the person to practise and maintain his profession.
- 3) There are some professions which require a person to be registered with a body corporate which governs the profession and is recognised by the Malaysian Government for purposes of practising and maintaining his profession.

Tax Treatment on Professional Indemnity Insurance Premium (PII)

- 1) A practising professional is allowed a tax deduction for PII premium if the professional carries on a business related to his profession.

- 2) In the case of a professional who is not practising his profession but (i) carries on other business or (ii) a professional who is practising his profession but under employment, the premium paid for PII is NOT ALLOWED as a deduction against the gross income from that business or employment.
- 3) Where a particular professional body allows its members to practise the profession in the form of a company and PII is purchased by the company, the PII premium paid by the company is allowed as a deduction against the gross income of the company if the company carries on a business related to that profession.
- 4) Where a professional who carries out his duty as a locum purchases a PII, the PII premium paid is NOT ALLOWED as a deduction from his income as a locum or any other income

Tax Treatment on Insurance Proceeds and Compensation

Where a professional has been allowed a deduction for the PII premium paid, any proceeds received in connection with the PII would be subject to tax. The proceeds are taxed under subsection 22(2)(a)(ii) of the ITA.

Method of proceeds of compensation:

- I. the insurance company pays the proceeds to the professional and the professional pays that amount to the claimant; or
- II. the insurance company pays directly to the claimant.

-under the first method of payment, the proceeds from insurance company is subject to tax, and when the company pays compensation to the client, the compensation is allowed for tax. -any shortfall compensation from the insurance company will be allowed for tax deduction under subsection 33(1) of the ITA. -the total amount of



compensation claimed from the insurance company is taxed in full even if the compensation paid to the claimant is lesser.

-Any proceeds received is not restricted to any expenditure incurred to pay compensation to the claimant. This means that the full amount of the proceeds will be taxed even though the payment of compensation is less than the amount of the proceeds received.

-In a case where the professional chooses not to claim a deduction for the IIP premium expense under S33(1) of the ITA, the proceeds received shall be subject to tax under subsection 22(2)(a)(ii) of the ITA.

Example:

Delisha, the sole-proprietor of a Megastore Pharmaceuticals [MP] business is a registered pharmacist with MPB. She paid PII premium amounting to RM1,200 each year since 2016. However, Delisha did not claim the premium expenses as a deduction under subsection 33(1) of the ITA against the gross income of MP's business.

In 2018, a dissatisfied client (the claimant) sued her for negligence in giving medication instructions. The dosage of the controlled drugs is one

tablet daily for five days but Delisha instructed the claimant to take five tablets daily for five days. The insurance company paid the proceeds amounting to RM75,000 to Delisha and she then paid the amount as compensation to the claimant.

Although Delisha chose not to claim the PII premium as an expense under subsection 33(1) of the ITA, the proceeds received amounting to RM75,000 would be subject to tax. Meanwhile, the amount of proceeds paid as compensation to the claimant is allowed as a deduction under subsection 33(1) of the ITA against the gross income of MP's business.

Sources: Public Ruling 1/2019 Professional Indemnity Insurance.

research grants, the Government has provided a suite of tax incentives as follows:

- double deduction
- exemption of income or additional relief for capital expenditure.

Double deduction is available for 'Approved R&D' expenses and payment for services by 'Contract R&D companies' and 'R&D companies'. The said exemption is available for 'Contract R&D Company' via pioneer status or additional relief via investment tax allowance. Also, the said relief is available for 'R&D Company' and 'in-

programme undertaken by a business entity.

A 'contract R&D company' is defined as a company which:

- provides R&D services
- in Malaysia
- only to companies other than its related companies.

An 'R&D company' is defined as a company which:

- provides R&D services
- in Malaysia
- to its related companies or any other companies.

RESEARCH AND DEVELOPMENT INCENTIVES



In an effort to springboard Malaysia higher up the value chain and increase the quality of its exports of manufactured goods, the Government has actively promoted and encouraged R&D activities in the country. In addition to

house R&D Company' via investment tax allowance.

'Approved R&D expenditure' entitled for double deduction are qualifying research expenditure related to a research

In-house research is defined as:

- R&D
- carried out in Malaysia
- within a company for the purpose of its own business.

There is no technical definition of 'interest'. Interest is generally taken to be passive investment income, being payment for the use of money or for indebtedness by reference to time.

Apart from obvious sources like interest on loans and borrowings, interest may also include late payment penalties, forbearance of debt-collection, credit period, inter-company indebtedness, etc.

In contrast, case law has established that a discount is not equal to interest although it may be calculated by reference to prevailing interest rates. A discount is said to arise upon maturity or fulfilment of any pre-condition, whereas interest accrues evenly over time.

Classification of interest income

- loans to employees
- term deposits of excess cash from working capital
- short-term deposits in money market
- outstanding loans after the death of the money lender, and
- a group treasury business [other than a Treasury Management Centre (TMC)]

is, as from YA 2013, specified by law to be interest income *per se*, and cannot be treated as business income.

This represents a significant development in the treatment of interest and withholding tax (as discussed below) and candidates should make sure that they are aware of this.

Thus, for 'R&D companies' or companies which carry out 'in house R&D' which fulfilled the relevant criteria, they are entitled to claim investment tax allowance or enjoy pioneer status treatment. Or else, 'Approved R&D' expenses or R&D services payment incurred which are qualified can be double deducted for tax purpose.

Sources: 1) IRB Public Ruling on R&D
2) Incentives for Research and Development by MIDA

provisions. A failure once companies and treasury manage- to comply will lead to punitive penalment centres (TMC)'. ties.

It is pertinent to bear in mind however This means that interest income, for that although the interest is treated as instance, from: income derived in Malaysia, it cannot • overdue trade debts be taxed by way of withholding provi-

- normal credit period sions.
- extended credit period, such as easy payment scheme The withholding provisions under s109

THE TAX TREATMENT OF INTEREST INCOME

Definition of interest

Interest is classified as income under s4 (c) of the Act together with dividends and discounts. However, interest is also capable of being classified as business income under s4(a). A succession of cases went to the courts in Malaysia involving this interest-*per-se-or-business*-income issue. Judicial pronouncements have generally determined that, where interest income is derived other than purely from investment transactions, or



Derivation rule of interest income and

when the placement of deposits is inciwithholding provisions dental to trade or dictated by trade, the

interest should be treated as part of

The determination of the source of business income. interest income is significant as only

interest derived from Malaysia is taxable in Malaysia. Foreign-sourced interest income is specifically tax exempt. With effect from year of assessment (YA) 2013, a new s4B was introduced to the Act to the effect that '... gains and profits

Additionally, where interest is paid to a from a business shall not include interest... other than interest... from the business of financial services, including deemed derived from Malaysia is subbanks, licensed money lenders, insurers, subject to withholding



- client account on pays interest
- fixed deposits necessarily placed as 'not known to him to be resident in trade security Malaysia. The payer is 'a person' while derived in Malaysia to any other person the recipient is 'any other person' – ie

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two separate entities are involved. Therefore, withholding tax is not applicable if the payer and the recipient are one and the same person, as in the case of a branch paying interest to the head office. Withholding tax also does not apply if the interest income is attributable to a business – ie a branch, permanent establishment, etc, carried out by the non-resident in Malaysia.

Non-application of withholding tax provisions in the two scenarios above does not mean non-assessability of the amounts; it merely means that the mechanism of payment by withholding does not apply.

The derivation rule for interest income is embodied in s15 of the Act captioned '*Derivation of interest and royalty income in certain cases*'.

It states, *inter alia*, that:

Gross income in respect of interest ... shall be deemed to be derived from Malaysia:

(a) *if responsibility for payment of interest... lies with the Government, a State Government or a local authority; or*

(b) *(i) if responsibility for payment of the interest... in the basis year for a year of assessment... lies with a person who is resident for that basis year; and (ii) in the case of interest it is payable in respect of money borrowed by that person and*

- *employed in or laid out on assets used in or held for the production of any gross income of that person derived from Malaysia or*
- *the debt in respect of which the interest is paid is secured by any property or asset situated in Malaysia, or*

(c) *if the interest... is charged as an outgoing or expense against any income accruing in or derived from Malaysia.*

Source: <https://www.accaglobal.com/ie/en/student/exam-support-resources/professional-exams-study-resources/p6/technical-articles/tax-treatment.html>

HUMAN CAPITAL INVESTMENT THROUGH EDUCATION AND TRAINING

Among a company's most valued assets is its workforce, known as human capital. Business owners and managers are wise to focus on nurturing their employees to maintain an engaged, productive and healthy team. One way to build a positive corporate culture and effectively manage human capital is to invest in them personally by providing opportunities for educational advancement and training in field-specific skills.

[Human Capital Definition in Economics](#)

A human capital investment definition helps you understand the importance of investing time and money into education and training opportunities. In business accounting terms, capital refers to the primary goods or borrowed funds that are used to start or operate a business. Capital goods represent a major investment, typically in things like equipment, vehicles or a building, whereas capital debt represents borrowed funds like a business loan or credit card debt.

Businesses also invest in human capital, through the hiring of a workforce to produce goods and manage operations. The true asset, however, is the quality of the skills and knowledge held by those employees and how they utilise them for the benefit of the employer. Additionally,

qualities such as good work habits, jobs and, in turn, become more



punctuality and overall health are important factors in the human capital component.

[Human Capital and Economic Growth](#)

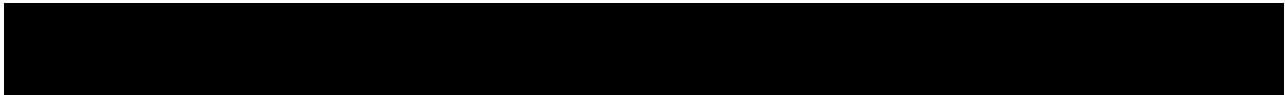
There is an increasing awareness among business owners that paying for their employee's education is an investment in human capital. For some, this may mean offering tuition reimbursement for business related courses at a local college. Companies may also sponsor seminars, training classes focused on developing specific technical skills, or even workshops on developing people skills such as problemsolving or managing conflict. Overall, these programmes work to improve the quality of work by employees and have also been shown to increase productivity. When employees feel that their employer is interested in helping them develop professionally, they are happier in their

productive.

Educational investment in employees also creates loyalty to the company. When a lower level staffer is provided with a clear path of professional development and can see themselves having the ability to rise to management positions, they are more likely to invest themselves in the company and work hard to achieve both personal and professional goals.

[Investment for the Individual](#)

Although much of the talk concerning human capital focuses on how a company's provision of education is an investment in human capital, individuals are the true owners of human capital. Every employee nurtures and maintains their own knowledge, set of skills and abilities to perform and produce. Whether an



employee or an entrepreneur, all individuals are in charge of their own personal growth and professional development. Seminars, networking groups and online courses are all ways to develop oneself. Self-initiative to learn and relearn is the secret to success.



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CAS EVENTS



ACCA CAREER FAIR 2019



CAS INTERNATIONAL AUDITING STANDARD (ISA) TRAINING



PARTNER VISIT FROM TAIWAN



CAS CHINESE NEW YEAR CELEBRATION



CAS HARI RAYA AIDILFITRI CELEBRATION

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