



GUIDELINE ON COMPENSATION ON LATE REFUND OF OVERPAYMENT OF TAX

1. Introduction

- 1.1 This guideline is to clarify on the payment of 2% compensation that will be paid to eligible tax payer for the late refund made by Inland Revenue Board of Malaysia (IRBM) starting from the year of assessment 2013 under Section 111D of the Income Tax Act 1967 (Act 1967). The late refund means refund which is made after the period of 90 days in the case of Return Form (Return) furnished via e-Filing and 120 days in the case of the Return furnished by post or by hand at the IRBM counter.

2. Taxpayers Who Are Eligible To Be Paid Compensation

- 2.1 Taxpayers who are eligible to be paid compensation are as follows:
- (a) Return is furnished before or on the 30th April for individual who has employment income.
 - (b) Return is furnished before or on 30th June for individual who has business income.
 - (c) Return is furnished within 7 months from the date following the close of accounting period for business/limited liability partnership/trust body/co-operative society.
 - (d) Return furnished must be correct and complete.
- 2.2 The entitlement of refund for over-payment of tax refers to the excess tax paid under Section 107 Act 1967. (Monthly Tax Deduction – MTD) Section 107B Act 1967 (Installment Payment Notice – CP 500) and Section 107C Act 1967 (Estimated Tax Payable by Companies/Limited Liability Partnership/Trust body/Coperative Society – CP 204/CP 205).

3. Calculation Of Compensation

- 3.1 The compensation is calculated based on daily basis starting from the first day:
- (a) After 90 days from the last date Return is required to be furnished via e-Filing based on the category of the tax payer, or

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- (b) After 120 days from the last date Return is required to be furnished by post or at the counter based on the category of the tax payer.

4. Taxpayers Who Are Not Eligible To Be Paid Compensation

Refund cases where compensation will not be paid are as follows:

- (a) Return submitted after the due date in accordance with the Act 1967.
- (b) Claim wrongly made

Example 1

A wrongly claims relief for a child studying in a higher learning institution abroad where the allowable deduction amount is RM1,000.00 but claimed for deduction amounting to RM4,000.00.

- (c) There's an appeal against the assessment.
- (d) No installment schedule issued by IRBM to the tax payer under Section 107, Section 107B and Section 107C Act 1967
- (e) Tax set off under Section 110 of the Act is in excess of tax payable.
- (f) There is a mathematical error.

Example 2

B claims for personal relief of RM9,000.00 and deduction for book relief amounting to RM100.00 in his Return 2013. His total claim in the tax summary was amounting to RM10,000.00 when his total should be RM9,100.00 only.

- (g) Failure to pay instalment in accordance with section 107, section 107B and section 107C Act 1967

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5. **Refund Less Than RM100.00 For Companies Or RM50.00 For Individual**
- (a) IRBM will notify the tax payer if the refund due to taxpayer is RM 100.00 or less for company or RM50.00 or less for individual.
 - (b) If no application for refund is made, the credit will be brought forward in the tax payer's ledger to the following year.
 - (c) If the tax payer applied for refund, such application must be made within the time as mentioned in the letter of notification.
 - (d) Taxpayer is eligible for compensation if the refund is made out of time as provided under Section 111D Act.

6. **Calculation Of Compensation On Late Refund Of Overpayment Of Tax**

- 6.1 Compensation of 2% shall be paid in accordance with the following formula:

$$A \times \frac{B}{C} \times 2\%$$

Where,

A : Amount of refund under Section 111 Act 1967.

B : Number of days calculated from the first day after the end of 90 days or 120 days from the last date of Return is required to be furnished until the refund is approved.

C : Number of days in a year (365 days).

Example 3

Mr. Abu has an employment income and furnished his Return BE 2013 on 30th April 2014 via e-Filing. The amount of tax payable was RM110,000.00 and the MTD for Year of Assessment (YA) 2013 was RM 150,000.00. Mr. Abu was entitled for refund of RM40,000.00. Approval by IRBM was on 31st August 2014. Compensation of 2% shall be calculated on the amount of RM40,000.00.

Calculation:

$$A \times \frac{B}{C} \times 2\%$$

Where,

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A : RM40,000 (MTD payments of RM150,000.00 less tax payable of RM110,000.00).

B : 33 days (Period: 30th July 2014 to 31st August 2014. The number of days for the purpose of compensation are calculated from the first day after expiry of 90 days from the last date the Return was required to be furnished via e-Filing until the date of such refund was approved).

$$RM40,000 \times \frac{33 \text{ days}}{365 \text{ days}} \times 2\% = \text{RM72.33}$$

Example 4

Mr. Ah Kau has a business income and had submitted Return 2013 at the counter (hard copy is complete and in order) on 3rd June 2014. The amount of tax payable was RM100,000.00 for YA 2013 and installment under CP500 amounted to RM120,000.00. Payment made in accordance to schedule CP 500 was RM120,000.00. The amount of refund to be processed was RM20,000.00 and approval by IRBM was on 15th December 2014. Compensation of 2% shall be calculated on the amount of RM20,000.00.

Calculation:

$$A \times \frac{B}{C} \times 2\%$$

Where,

A : RM20,000 (Payment of RM120,000.00 in accordance with schedule CP 500 less tax payable of RM100,000.00).

B : 48 days (Period: 29th October 2014 until 15th December 2014. The number of days for the purpose of compensation are calculated from the first day after expiry of 120 days from the last date the hard copy of Return was required to be furnished until the date of such refund was approved).

$$RM20,000 \times \frac{48 \text{ days}}{365 \text{ days}} \times 2\% = \text{RM52.60}$$

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7. Recovery Of Compensation And Increase Of 10% On Compensation

- 7.1 If an error was committed by IRBM, IRBM has the right to recover the compensation wrongly paid out.
- 7.2 If an error was committed by the taxpayer, IRBM has the right to recover the said amount of compensation together with an increase of 10% on the amount of compensation that was not supposed to be paid out.

Example 6

C received compensation of late refund of overpayment of tax amounting to RM300.00. After auditing was done it was discovered that the total income was reported less. Amount of compensation paid out (RM300.00) must be returned together with the increase of 10% amounting RM30.00 (RM300.00 @ 10%).

- 7.4 If the tax payer failed to return the total amount of the compensation which is wrongly paid including the 10% increase, IRBM will issue a letter of demand followed by civil action to the tax payer.
 - 7.5 If a cheque for refund is returned undelivered, the compensation is credited into the tax payer's ledger. Subsequently, if the tax payer makes an application for refund, IRBM will pay the tax payer the same amount of compensation which has been previously credited.
8. A flow chart of the work process of compensation payment on late refund of over payment of tax is shown in **Appendix A**.

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APPENDIX A

**CHART: PROCESS OF COMPENSATION PAYMENT ON LATE REFUND
OF OVERPAYMENT OF TAX**

