



MALAYSIAN INSTITUTE OF ACCOUNTANTS
FINANCIAL REPORTING STANDARDS IMPLEMENTATION COMMITTEE
("FRSIC")

FRSIC Issue No. 10
Deferred Tax on Plantation Development Expenditure

The issue:

How does an entity compute deferred tax on plantation development expenditure ("PDE")?

Current accounting practice as observed by the Submitter:

Diverse.

Reasons for the FRSIC to address the issue:

The amortization method and the capital maintenance method of accounting for plantation development expenditure are peculiar to the plantation industry in Malaysia. Malaysia needs guidance as to what tax rate to use in the computation of deferred tax on plantation development expenditure.

Submitter's proposal or recommendation to address the issue:

Accounting for Deferred Tax on Plantation Development Expenditure

Tax treatment

PDE claimed as Agriculture Allowance over 2 years. Allowed PDE expenses exclude costs relating to upkeep to maturity. The claw-back period is 6 years.

What is considered PDE? These are capital expenditure in relation to initial planting and includes initial planting; clearing land cutting & preparation costs (not replanting - which are allowed on a current year basis).

Replanting expenditure is allowed as a deductible expense during the period when incurred [i.e. replanting expenditure is not entitled to Agriculture Allowance].

Upon sale of land and PDE, the taxable gains or losses is computed based on the sales proceed less the sum total of cost of land and PDE [even though the entity could have already claim the AA].

How should deferred tax on PDE be accounted for?

[Note: PDE amount is excluding expenses relating to upkeep up to maturity]

Based on the tentative clarification of IASB, the "tax base of an asset is determined by the amount

deductible by the entity if it sold or otherwise disposed of the asset for its carrying amount at the balance sheet date”.

Assume the scenario whereby the firm has no commitment to sell:

(a) Initial new planting cost (excluding expenses relating to upkeep till maturity)

<u>Freehold Land</u>	Deferred Tax	%
• Amortization	Yes	26%
• Capital maintenance	No*	0%

*SIC 21 applies here. Recoverable of the asset will be through sale. Carrying amount is equal to the tax base. Hence, there is no temporary difference.

<u>Leasehold Land</u>	Deferred Tax	%
• Amortization	Yes	26%
• Capital maintenance	Yes*	26%

*SIC 21 applies to non-depreciable assets. PDE on a leasehold land is not a non-depreciable asset because of the finite life of the land. At the end of the lease term, the PDE will have to be removed [through impairment] from the books of the company – and this “charge/impairment” will have to flow through the accounting income statement; thereby increasing the taxable income during that year. This increased taxable income attracts 26% tax charge.

Should the tax base be the tax written value or the original cost of the land and PDE? The original cost of the land and the PDE can only be the tax base if the entity intends to sell the land and PDE, otherwise, the tax base of the asset is the tax written down value of the asset.

(b) Revaluation surplus on the new planting cost

<u>Freehold Land</u>	Deferred Tax	%
• Amortization	Yes	26%
• Capital maintenance	Yes	0% (capital gains tax rate)

<u>Leasehold Land</u>	Deferred Tax	%
• Amortization	Yes	26%
• Capital maintenance	Yes	N/A (the accounting entries to record the revaluation surplus will be: Dr PDE CR Revaluation surplus)

Because the PDE sits on a leasehold land, at the end of its finite life, the revaluation surplus on the

PDE will be removed (impaired) from the books of the company – and this “impairment” charge does NOT go through the income statement. The accounting entries for the impairment would be:
Dr Revaluation surplus
Cr PDE

Because the “impairment” charge does not pass through the income statement, there is therefore no tax consequence on revaluation surplus of PDE that sits on leasehold land (even though there is a temporary difference).

Submitted on:

17 April 2007

Corresponding FRSIC Consensus:

PROJECT WAS DISCONTINUED.

The FRSIC's deliberation: The adoption of MASB ED 50 “Agriculture” would change the landscape and hence, it is likely that any consensus reached for this issue would be irrelevant by then.

[Last updated: 6 Feb 2014]