



## **INLAND REVENUE BOARD OF MALAYSIA**

*Translation from the original Bahasa Malaysia text*

**CLUB, ASSOCIATION  
OR SIMILAR INSTITUTION**

**PUBLIC RULING NO. 1/2015**

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#### **DIRECTOR GENERAL'S PUBLIC RULING**

Section 138A of the Income Tax Act 1967 (ITA) provides that the Director General is empowered to make a Public Ruling in relation to the application of any provisions of the ITA.

A Public Ruling is published as a guide for the public and officers of the Inland Revenue Board of Malaysia. It sets out the interpretation of the Director General of Inland Revenue in respect of the particular tax law and the policy as well as the procedure applicable to it.

The Director General may withdraw either wholly or in part, by notice of withdrawal or by publication of a new ruling.

**Director General of Inland Revenue,  
Inland Revenue Board of Malaysia.**

**1. Objective**

The objective of this Public Ruling (PR) is to explain the taxation of a club, association or similar institution which is established and controlled by its members.

**2. Relevant Provisions Of The Law**

2.1 This PR takes into account laws which are in force as at the date this PR is published.

2.2 The provisions of the Income Tax Act 1967 (ITA) related to this PR are sections 2, 8, 20, 21, 53A and Part 1 of Schedule 1.

2.3 Relevant subsidiary laws referred to in this PR are P.U.(A) 190/2005 and P.U.(A) 360/2011.

**3. Interpretation**

The words used in this PR have the following meaning:

3.1 "Members" in relation to a body of persons, means those persons who are entitled to vote at a general meeting of the body at which effective control is exercised over its affairs.

3.2 "Body of persons" means an unincorporated body of persons (not being a company), including a Hindu Joint Family but excluding a partnership.

**4. Introduction**

4.1 A club, association or similar institution is formed not for commercial purposes but for social, recreational, sports, arts, science, literature or other leisure pursuits for the interest and benefit of their members. Examples of such club, association or similar institution include an athletic club, an antique car collectors club and a historical society. However, the activities of some clubs, associations or similar institutions are trade dealings which are conducted for a profit that is subject to tax as business profits such as a fitness centre or a professional football club.

4.2 A club, association or similar institution also includes a Joint Management Body, a Management Corporation and Residents' Association which are community associations of property owners. The growth and development of strata titled properties have posed challenges in the field of management of subdivided buildings like condominiums, apartments, townhouses, flats and etc. Joint Management Bodies and Management Corporations are formed by statute under the Strata Titles Act 1985 and the Strata Management Act 2013 for the proper maintenance and management of

buildings and the common properties. On the other hand, residents' associations are voluntary organisations that are registered as societies.

For further explanation, the guidelines titled "Tax treatment of charges for maintenance and joint property management received by developers, Joint Management Bodies and Management Coporations" dated 21.5.2012 (Bahasa Malaysia version only) can be obtained from the Inland Revenue Board of Malaysia's (IRBM) website at <http://www.hasil.gov.my>.

## **5. Ownership And Membership**

In order to distinguish whether a body of persons carrying on a club, association or similar institution is running a trading / business enterprise or for the benefit of its members, the ownership and membership of that body of persons and its dealings have to be examined as follows:

- (a) if the ownership of that body of persons is different from its membership, the club is likely to be a trading enterprise. On the other hand, if a club, association or similar institution is established and owned by its members for the benefit of its members, this would mean that all the assets belong to the membership which controls the club and its dealings. Such control may be exercised through an elected committee; and
- (b) transactions with members are not considered as trade dealings. Any surplus of receipts over expenditure in respect of income from transactions with members must be used for the benefit of all the members of the club, association or similar institution (e.g. to buy new equipment or to pay for social occasions open only to the membership). However, when a club, association or similar institution provides its facilities (e.g. restaurant or golf course) to non-members on a commercial basis, it is deemed to be carrying on a trade and therefore the income from trading with non-members is taxable.

## **6. Basis Of Assessment**

- 6.1 The basis year for a year of assessment is the calendar year coinciding with a year of assessment. The basis year for a year of assessment in respect of a club, association or similar institution is the basis period for that year of assessment. As an example, the income of a club, association or similar institution for the calendar year 2014 is taxed as income for the year of assessment 2014.
- 6.2 For the purpose of filing an Income Tax Return Form for a year of assessment, should the financial accounting period of a club, association or similar institution end on a date other than 31 December, necessary adjustments has to be made to ensure that the tax computation is for a basis period from January to December of a calendar year.

**7. Residence Status**

- 7.1 The residence status of a club, association or similar institution is determined in accordance with paragraphs 8(1)(b) and 8(1)(c) of the ITA.
- 7.2 A club, association or similar institution carrying on a trade or business is resident in Malaysia for the basis year for a year of assessment if at any time during the basis year the management and control of its business or of any one of its businesses are exercised in Malaysia [Paragraph 8(1)(b) of the ITA].
- 7.3 Any other club, association or similar institution not carrying on a trade or business is resident in Malaysia for the basis year for a year of assessment if at any time during the basis year the management and control of its affairs are exercised in Malaysia by its directors or other controlling authority, e.g. board of management [Paragraph 8(1)(c) of the ITA].

**8. Taxability Of A Club, Association Or Similar Institution**

- 8.1 Prior to the year of assessment 2009, there was no specific provision on the tax treatment of a club, association or similar institution. A club, association or similar institution has been subject to tax based on the following general taxation principles:
- (a) members fee and income from transactions with members are not subject to tax based on the principle of mutuality; and
  - (b) income derived from transactions with non-members is subject to tax.
- 8.2 With effect from the year of assessment 2009, section 53A of the ITA was introduced to enhance the transparency in the tax treatment of a club, association or similar institution. This provision applies to a club, association or similar institution which is established, controlled and conducted by its members not for the purpose of seeking profits.

**9. Tax Treatment**

- 9.1 Income from transactions with members:
- (a) a club, association or similar institution is conducted either for the benefit of their own members or for the public interest. If a club, association or similar institution is meant for the benefit of members only, any income arising from mutual dealings with the members is not subject to tax. Examples of mutual receipts from members of a club, association or similar institution include:

- (i) entrance fees and members' subscription fees;
- (ii) drinks and food sold at the club, association or similar institution bar and restaurant to its members;
- (iii) amounts paid by members to attend dinners or social functions organised by the club, association or similar institution; and
- (iv) amounts paid by members to attend a talk, presentation or workshop organised by the club, association or similar institution.

Income from transactions with members and any expenses or capital allowances attributable to such income are to be disregarded for the purposes of the ITA pursuant to subsection 53A(2) of the ITA; and

- (b) even though income derived from transactions with members are not subject to tax, not all transactions involving members are necessarily mutual receipts.

#### **Example 1**

A recreation club in Malaysia whose members comprise of tax agents enters into an agreement with an independent gymnasium operator to operate on the club's premises. The club receives rental from the gymnasium operator. The gymnasium operator imposes a fee for the use of its facilities in the gymnasium.

Income received by the club from the rental of the gymnasium is taxable, even though patrons of the gymnasium are club members.

#### **Example 2**

An association whose members comprise of expatriates and their wives, rents out part of its premise to one of its members to operate a café, being a profit making business activity. A monthly rental income of RM1,000 is received by the association and the income from the cafe is received by the member who operates the cafe.

The rental income received by the association from its member who operates the business of a cafe is not considered a mutual receipt as the member operates a business activity within the association's premise. The association will be taxed on the rental income derived from the letting out of part of its premise and the member will also be taxed on the income derived from operating a cafe.

9.2 Income from transactions with non-members:

- (a) although a club, association or similar institution is generally formed not with the aim to make profits, it may receive income from activities or transactions with non-members which are taxable income. Examples of such receipts include:
  - (i) proceeds from fundraising drives to the public, e.g. sale of homemade cakes, cookies or handicraft;
  - (ii) drinks sold to non-members visiting the club;
  - (iii) fees received for hiring out of the club's hall, facilities or equipment to the public;
  - (iv) amounts paid by non-members to attend dinners or social functions organised by the club;
  - (v) amounts paid by non-members to attend a talk, presentation or workshop organised by the club;
  - (vi) non-member proceeds from a raffle or lucky draw; and
  - (vii) selling souvenirs to non-members; and
- (b) the spouse, parents and children of members of a club, association or similar institution are considered non-members. Therefore, income derived from transactions with the spouse, parents and children of members are subject to tax.

**Example 3**

An association of retired armed forces officers built 100 units of link houses and 10 units of shop houses. The association offered the link houses for sale to its members and the immediate family of these members only whereas the shop houses were open to the public for sale. The immediate family comprising of the members' spouse, parents, siblings and children were extended the same purchase price that was offered to the members for the property.

The profits from the sale of the houses to the members' immediate families are taxable as the receipts are from transactions with non-members. Immediate families of members of the association are not considered members of the association.

9.3 Income from investment and external sources:

- (a) income from investments such as interest, rent, dividend being non-mutual receipts is taxable;
- (b) there may be a club, association or similar institution that enters into arrangements with external parties under which the external party



conducts or provides particular operations on the premises of the club, association or similar institution. These arrangements with the external parties may include installation of vending machines for drinks, catering, restaurant, bar, gymnasium and entertainment; and

- (c) if the club, association or similar institution enters into such an arrangement with the external party, the income derived by the external party from the patrons of the above mentioned facilities is in accordance with the contractual arrangements. The amounts paid to the club, association or similar institution by the external party for operating on their premises is income derived by the club, association or similar institution from external sources and not from members / non-members. Therefore, such income is fully taxable to the club, association or similar institution.

#### **Example 4**

A golf club made arrangements with external parties to:

- (i) operate a restaurant;
- (ii) operate a gymnasium; and
- (iii) install vending machines for drinks on the club's premises.

The income received by the club from the restaurant, gymnasium and vending machine operator is derived from an external source and is taxable;

- (d) a club, association or similar institution which is **not an approved** charitable institution under subsection 44(6) of the ITA may be in receipt of voluntary gifts of money from the general public which are used solely for charitable purposes. A club, association or similar institution not approved under subsection 44(6) of the ITA means that the club, association or similar institution will not be granted tax exemption on its income under paragraph 13, Schedule 6 of the ITA. Such sums of voluntary gifts of money that are utilised for charitable purposes are taxable but the amount expensed off to any specific charitable purpose is deductible (same as transactions with non-members). The balance of unutilised sums of voluntary gifts of money would be taxable as receipts of the club, association or similar institution; and
- (e) a club, association or similar institution which qualifies as an institution under subsection 44(7) of the ITA and approved for the purposes of subsection 44(6) of the ITA would automatically be granted a tax exemption on its income (including gifts of money) under paragraph 13, Schedule 6 of the ITA.

However, if it is found that the objective of a club, association or similar institution approved for the purposes of subsection 44(6) of the ITA has been contravened, the approved status of the club, association or similar institution would be withdrawn by the IRBM and the tax implications are as follows:

- (i) gifts of money received by the club, association or similar institution would be taxable; and
- (ii) an amount equal to the gift of money to the club, association or similar institution will not be allowed as a deduction against the aggregate income of a person (donor) making such gifts of money.

Further information on approved charitable institutions can be referred to the “Guidelines For Application Of Approval Under Subsection 44(6) of the Income Tax Act 1967” which can be obtained from IRBM’s website.

**9.4 Expenses incurred and qualifying capital expenditure for claiming capital allowances:**

- (a) outgoings or expenses incurred and qualifying capital expenditure attributable to income from transactions with non-members:

Some outgoings or expenses may be wholly incurred in deriving the club, association or similar institution’s taxable income from non-members. Such expenses can be allowed as deductions in determining the adjusted income of the club, association or similar institutions from transaction with non-members. Allowable deductions that may be included are outgoings or expenses incurred for earning dividends or bank interest, expenses incurred in organising a function for non-members only and expenses incurred in fundraising drives to the public.

Capital expenditure incurred on assets used in business transactions with non-members to derive income from non-members only will qualify for capital allowances;

- (b) outgoings or expenses incurred and qualifying capital expenditure for claiming capital allowances attributable to income from transactions with members:

The outgoings or expenses incurred by a club, association or similar institution in deriving income from transactions with members are not allowed as deductions and are to be disregarded for the purposes of the ITA. The expenses that are not allowable deductions may

include the cost of administration and operation solely for members, collecting subscription fees and increasing memberships.

Capital expenditure incurred on assets used in transactions with members to derive income from members only will not qualify for capital allowances; and

- (c) outgoings or expenses and capital allowances common to income from transactions with members and non-members:

If outgoings or expenses are incurred in deriving income from transactions with both members and non-members, the deduction of outgoings that can be allowed as a deduction will be restricted to the portion attributable to non-members. The same principle is applicable to claims for capital allowances. Therefore, the outgoings or expenses and capital allowances common to the income from transactions with members and non-members need to be apportioned into:

- (i) outgoings or expenses and capital allowances attributable to income from transactions with members; and
- (ii) outgoings or expenses and capital allowances attributable to income from transactions with non-members.

Generally, common expenses that may require apportionment include printing, postage, stationery, telephone, electricity, rent and bank charges.

The apportionment of the common expenses to ascertain the amount of outgoings or expenses to be allowed or capital allowances that shall be made to a club, association or similar institution shall be determined in accordance with the Income Tax (Deduction Relating to Transaction with Non-Members for Club, Association or Similar Institution) Rules 2011 [P.U.(A) 360/2011].

9.5 Determination of outgoings or expenses relating to transactions with non-members:

In ascertaining the adjusted income of a club, association or similar institution relating to transactions with non-members for the basis period for a year of assessment, the amount allowed as a deduction in respect of outgoings or expenses incurred by that club, association or similar institutions shall be determined in accordance with the following formula:

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

Where,

- A - is the amount of outgoings or expenses incurred by the club, association or similar institutions in the basis period for a year of assessment;
- B - is the gross income from transactions with non-members of the club, association or similar institutions in the basis period for a year of assessment; and
- C - is the gross income from transactions with both members and non-members of the club, association or similar institutions in the basis period for a year of assessment.

9.6 Determination of capital allowances relating to transactions with non-members:

In ascertaining the statutory income of a club, association or similar institution relating to transactions with non-members for the basis period for a year of assessment, the amount of capital allowances deductible from the adjusted income shall be determined in accordance with the following formula:

$$D \times \frac{E}{F}$$

Where,

- D - is the capital allowances allowed to the club, association or similar institutions for the basis period for a year of assessment;
- E - is the gross income from transactions with non-members of the club, association or similar institutions in the basis year for a year of assessment; and
- F - is the gross income from transactions with both members and non-members of the club, association or similar institutions in the basis period for a year of assessment.

9.7 Determination of gift of money relating to transactions with non-members:

Where a club, association or similar institution is entitled for a deduction under subsection 44(6) of the ITA for the basis period for a year of assessment, the portion of gift of money to be deducted from the aggregate income relating to transactions with non-members for the basis period for a year of assessment, shall be determined in accordance with the following formula:

$$G \times \frac{H}{I}$$

Where,

- G - is the gift of money made by the club, association or similar institution for the basis period for a year of assessment;
- H - is the aggregate income from transactions with non-members of the club, association or similar institution in the basis year for a year of assessment; and
- I - is the aggregate income from transactions with both members and non-members of the club, association or similar institution in the basis period for a year of assessment;

Provided that the amount to be deducted shall not exceed 7% of the aggregate income of the club, association or similar institution for the basis period of that year of assessment.

9.8 Illustrations for determination of tax payable by a club, association or similar institution:

**Example 5**

A senior citizens club in Kuala Lumpur has the following income and expenditure account for the year ended 31.12.2013:

Receipts	RM	Expenditure	RM
Members subscription fees	20,000	Maintenance of club house	6,000
Members entrance fees	8,000	Magazines and newspapers	360

Receipts	RM	Expenditure	RM
Sale of tickets for annual dinner: Members Non-members	10,000 8,000	Annual dinner: Members Non-members	12,000 4,000
Interest from fixed deposits	8,000	Depreciation	11,000
Rent from subletting of club premises	21,000	Postage and stationery	1,800
Total	75,000	Surplus	39,840
		Total	75,000

The gross taxable and non-taxable income are as follows:

Receipts	Gross Non-Taxable Receipts (Mutual Receipts) RM	Gross Taxable Receipts (Non-Mutual Receipts) RM
Members' subscription fees	20,000	-
Entrance fees	8,000	-
Annual dinner	10,000	8,000
Other income:	-	
- Interest from fixed deposits		8,000
- Rental from tenant		21,000
Total	38,000	37,000

Although the club is not profit seeking, the income from transaction with non-members is deemed to be a business source. The club is liable to tax on the gross receipts received from non-members.

**Computation of the tax payable for year of assessment 2013**

	RM
Sale of tickets for annual dinner to non-members	8,000
Less: Annual dinner expenses of non-members	<u>4,000</u>
	4,000
Interest	8,000
Rental	<u>21,000</u>
Chargeable income	<u>33,000</u>

	RM
Tax on the first RM20,000	300.00
Tax on the next RM13,000 @ 6%	<u>780.00</u>
Tax payable	<u>1,080.00</u>

**Example 6**

The Chinese Calligraphy Society in Malaysia has the following income and expenditure account for the year ended 31.12.2013:

Total Receipts	RM	Total Expenditure	RM
Members' subscription fees	5,000	Postage	300
Interest from fixed deposits	1,000	Bank charges	120
Annual dinner: Members – 8,000 Non-members – 2,000	10,000	Annual dinner: Members – 7,200 Non-members – 1,800	9,000
Sale of calligraphy works	8,000	Cost of calligraphy works	1,000
Rental from tenant	65,000	Utilities and rates	2,400
Fees charged to non-members for calligraphy classes	1,000	Repairs	5,000
		Wages & salaries	24,000
		Photocopying	180
		Depreciation	31,000

Total Receipts	RM	Total Expenditure	RM
		Excess of income over expenditure	17,000
Total	90,000	Total	90,000

The Chinese Calligraphy Society kept separate accounts in respect of income and expenditure related to its dealings and communications with members and non-members during the year ended 31.12.2013. The details of expenditure are as follows:

Expenses	Non-Allowable Deductions (Expenses Related To Transactions With Members)  RM	Allowable Deductions (Expenses Related To Transactions With Non-Members)  RM	Expenses Related To Rental  RM
Postage	240	60	-
Bank charges	100	20	-
Annual dinner	7,200	1,800	-
Photocopying	144	36	-
Utilities and rates	2,100	300	-
Repairs	-	-	5,000
Wages & salaries	23,500	500	-
Total	33,284	2,716	5,000



The gross taxable and non-taxable income are as follows:

Receipts	Non-Taxable Receipts (Mutual Receipts) RM	Taxable Receipts (Non-Mutual Receipts) RM
Members' subscription fees	5,000	-
Annual dinner	8,000	2,000
Sale of calligraphy works	-	8,000
Fees charged to non-members for calligraphy classes	-	1,000
Other income: - Interest from fixed deposits - Rental from tenant	-	1,000 65,000
<b>Total</b>	<b>13,000</b>	<b>77,000</b>

**Computation of tax payable for year of assessment 2013**

		RM
Sale of annual dinner tickets to non-members		2,000
Sale of calligraphy works to non-members		8,000
Fees charged to non-members		1,000
		<u>11,000</u>
Less: Allowable expenses		<u>2,716</u>
Adjusted income		8,284
Other income –		
Interest		1,000
Rental	65,000	
Less: Expenses	<u>5,000</u>	<u>60,000</u>
Aggregate income / Chargeable income		<u>69,284</u>
		RM
Tax on first RM50,000	2,850.00	
Tax on next RM19,284 @ 19%	<u>3,663.96</u>	
Tax payable		<u>6,513.96</u>

**Example 7**

A sports club has the following income and expenditure account for the year ended 31.12.2013:

Total Receipts	RM	Total Expenditure	RM
Members' subscription fees	180,000	Rental of hall for seminar	80,000
Seminar fees for non-members	60,000	Wages and salaries	250,000
Interest from fixed deposits	300,000	Administration and stationery	15,000
		Transportation for workers	15,000
		Excess of income over expenditure	180,000
<b>Total</b>	<b>540,000</b>	<b>Total</b>	<b>540,000</b>

The sports club's expenditure records related to transactions with members and non-members during the year ended 31.12.2013 are:

Expenses	Non- Allowable Deductions (Expenses Related To Transactions With Members) RM	Allowable Deductions (Expenses Related To Transactions With Non- Members) RM	Expenses Common To Income From Transactions With Both Members And Non- Members RM
Wages and salaries	-	-	250,000
Rental of hall for seminar	-	80,000	-
Administration and stationery	-	-	15,000
Transportation for workers	-	-	15,000
Total	-	80,000	280,000

The gross taxable and non-taxable receipts are as follows:

Receipts	Non-Taxable Receipts (Mutual Receipts) RM	Taxable Receipts (Non-Mutual Receipts) RM
Members' subscription fees	180,000	-
Seminar fees	-	60,000
Interest from fixed deposits	-	300,000
Total	180,000	360,000

**Computation of tax payable for the year of assessment 2013**

		RM	RM
Seminar fees		60,000	
Less:			
Rental for hall	80,000		
Common expenses <sup>1</sup>	<u>70,000</u>	<u>150,000</u>	
Adjusted business loss		(90,000)	
Adjusted income			NIL
Other income:			
Interest			<u>300,000</u>
Aggregate income			<u>300,000</u>
Less: Current year loss			<u>90,000</u>
Total income / Chargeable income			<u>210,000</u>
		RM	
Tax on first RM100,000	13,850.00		
Tax on next RM110,000 @ 26%	<u>28,600.00</u>		
Tax Payable			<u>42,450.00</u>

**<sup>1</sup>Apportionment of common expenses**

(refer to paragraph 9.5 for the formula)

$$280,000 \times \frac{60,000}{240,000 (180,000 + 60,000)} = 70,000$$

**Example 8**

The facts are the same as in Example 7 except that the transactions with non-members amounted to RM100,000 and the capital allowance claimed by the club for the year ended 31.12.2013 is RM12,000. The club also made a gift of money of RM10,000 to an institution approved under subsection 44(6) of the ITA.

The gross taxable and non-taxable receipts are as follows:

Receipts	Non-Taxable Receipts (Mutual Receipts) RM	Taxable Receipts (Non-Mutual Receipts) RM
Members' subscription fees	180,000	-
Seminar fees	-	60,000
Transactions with non-members	-	100,000
Interest from fixed deposits	-	300,000
<b>Total</b>	<b>180,000</b>	<b>460,000</b>

**Computation of tax payable for the year of assessment 2013**

		RM	RM
Transactions with non-members		100,000	
Seminar fees		<u>60,000</u>	
		160,000	
Less:			
Rental of hall	80,000		
Common expenses <sup>2</sup>	<u>131,765</u>	<u>211,765</u>	
Adjusted business loss		(51,765)	
Adjusted income			NIL <sup>7</sup>
Less:			
Capital allowance - 5,647 <sup>3</sup> (Capital allowance c/f 5,647)			NIL <sup>7</sup>
Statutory income			<u>NIL<sup>7</sup></u>
Other income: Interest			<u>300,000</u>
Aggregate income <sup>4</sup>			300,000
Less: Current year loss			<u>51,765</u>
			248,235
Less: Donations <sup>5</sup> (not exceeding 7% of aggregate income)			<u>8,621</u>
Total income / Chargeable income			<u>239,614</u>
		RM	
Tax on first RM100,000		13,850.00	
Tax on next RM139,614 @ 26%		<u>36,299.64</u>	
Tax Payable		<u>50,149.64</u>	

**<sup>2</sup>Apportionment of common expenses**

**Members portion**

$$280,000 \quad X \quad \frac{180,000}{340,000 (180,000 + 60,000 + 100,000)} = 148,235$$

**Non-members portion**

$$280,000 \quad X \quad \frac{160,000 (60,000 + 100,000)}{340,000 (180,000 + 60,000 + 100,000)} = 131,765$$

**<sup>3</sup>Apportionment of capital allowances relating to transactions with non-members**

(refer to paragraph 9.6 for the formula)

**Members portion**

$$12,000 \quad X \quad \frac{180,000}{340,000} = 6,353$$

**Non-members portion**

$$12,000 \quad X \quad \frac{160,000}{340,000} = 5,647$$

**<sup>5</sup>Apportionment of gift of money relating to transactions with non-members**

(refer to paragraph 9.7 for the formula)

$$10,000 \quad X \quad \frac{300,000^4}{348,000^6} = 8,621$$

**<sup>6</sup>Computation of aggregate income from members and non-members transactions for year of assessment 2013**

	RM
Members subscription fees, seminar fees and non-members transactions	340,000
Less: Common expenses	<u>280,000</u>
Adjusted income	60,000
Less: Capital allowances	<u>12,000</u>
Statutory income	48,000
Add: Interest income	<u>300,000</u>
Aggregate income	<u>348,000</u>

**9.9 Losses**

Losses arising as a result of transactions with members cannot be deducted against income arising from transactions with non-members. As income from transactions with members is to be disregarded for the purpose of the ITA, therefore losses arising from transactions with members are also to be disregarded for the purpose of the ITA.

**Example 9**

A club's income and expenditure account for the year ended 31.12.2013 shows that the expenses exceeded the receipts from mutual transactions with members resulting in members' loss of RM5,000. On the other hand, the receipts exceeded expenses from non-mutual transactions with non-members resulting in a surplus of RM3,000. The club actually has a net loss of RM2,000.

The club is taxable on the income from transactions with non-members amounting to RM3,000 for the year of assessment 2013. Losses from transactions with members cannot be offset against income from transactions with non-members. Such losses are to be disregarded for the purpose of the ITA.

**Example 10**

The facts are the same as in Example 9 except that the expenses exceeded receipts from transactions with non-members resulting in a loss of RM1,000.

The loss of RM1,000 arising from transactions with non-members in the year of assessment 2013 is carried forward to the subsequent year(s) of assessment to be offset against income from the same source (transactions with non-members).

**10. Tax Rates**

The taxable income of a club, association or similar institution is taxed at scale rates that are applicable to individuals as in Paragraph 1, Part I, Schedule 1 of the ITA. A club, association or similar institution is not eligible for personal reliefs that are applicable to individuals when computing their chargeable income.

**11. Record Keeping**

A club, association or similar institution are required to keep separate accounts in respect of income derived from transactions with members and with non-members. Records that distinguish between member and non-member functions have to be kept if a club, association or similar institution do not have a limitation on dealings with non-members.

**Example 11**

A football association buys badges for its members and promotional pins for non-members from the same supplier as part of a fundraising drive. The purchased items are included in one invoice.

The football association would have to separate the costs incurred in purchasing the above items for members and non-members in its records.

**12. Filing Of Income Tax Return Forms**

A club, association or similar institution in Malaysia is required to file an Income Tax Return Form (ITRF) i.e. Form TF for each year of assessment. The ITRF should be furnished to the Director General of Inland Revenue in the year following that year of assessment as follows:

<b>Source Of Income</b>	<b>Submission Date Of ITRF</b>
Non-business income	30 April
Business income	30 June

**13. Similarities And Differences Between A Club, Association Or Similar Institution And A Trade Association**

The distinct similarities and differences between a club, association or similar institution and a trade association are as follows:



<b>Particulars</b>	<b>Club, Association Or Similar Institution</b>	<b>Trade Association</b>
Registered	<ul style="list-style-type: none"> <li>• Societies Act 1966, or</li> <li>• Companies Act 1965 as a company limited by guarantee</li> </ul>	<ul style="list-style-type: none"> <li>• Societies Act 1966, or</li> <li>• Companies Act 1965 as a company limited by guarantee</li> </ul>
Objective	<ul style="list-style-type: none"> <li>• Non-profit club, association or similar institution formed for social, recreational and leisure purposes for the interest and benefit of members</li> </ul>	<ul style="list-style-type: none"> <li>• For safeguarding or promoting the business of its members (traders and businessmen), or</li> <li>• For developing and advancing the profession of its members (professionals)</li> </ul>
Establishment and Control	<ul style="list-style-type: none"> <li>• Established by members and controlled through an elected committee</li> </ul>	<ul style="list-style-type: none"> <li>• Established by members and controlled through an elected committee</li> </ul>
Members	<ul style="list-style-type: none"> <li>• Members are entitled to vote at the general meeting through which effective control is exercised over the club, association or similar institution</li> </ul>	<ul style="list-style-type: none"> <li>• Members are entitled to vote at the general meeting through which effective control is exercised over the trade association</li> </ul>
Income Tax Provision	<ul style="list-style-type: none"> <li>• Section 53A of the ITA</li> </ul>	<ul style="list-style-type: none"> <li>• Section 53 of the ITA</li> </ul>
Taxable income	<ul style="list-style-type: none"> <li>• Income arising from activities and transactions with non-members</li> </ul>	<ul style="list-style-type: none"> <li>• Any amount receivable on revenue account including entrance fees and members' subscription fees</li> </ul>
Non-Taxable income	<ul style="list-style-type: none"> <li>• Income arising from mutual dealings with members including entrance fees and members subscription</li> </ul>	<ul style="list-style-type: none"> <li>• Statutory income derived from members' subscription fees of a resident trade association is tax exempt [Income Tax (Exemption) (No.19) Order 2005, P.U.(A) 190/2005].</li> </ul>

**14. Updates And Amendments**

<b>Amendments</b>																	
<p>This PR replaces the PR No.5/2012 dated 25 June 2012</p>	<p>The contents of this PR are essentially the same as the previous PR with the following new paragraphs inserted:</p>																
	<table border="1" style="width: 100%;"> <thead> <tr> <th style="text-align: center;"><b>Paragraph</b></th> <th style="text-align: center;"><b>Explanation</b></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">6</td> <td>Basis of assessment</td> </tr> <tr> <td style="text-align: center;">7</td> <td>Residence status</td> </tr> <tr> <td style="text-align: center;">9.3(d)</td> <td>Clubs, associations or similar institutions which are not approved charitable institutions</td> </tr> <tr> <td style="text-align: center;">9.3(e)</td> <td>Club, association or similar institution which are approved charitable institutions</td> </tr> <tr> <td style="text-align: center;">12</td> <td>Due dates for the filing of Income Tax Return Forms (which replaces paragraph 10 of the previous PR)</td> </tr> <tr> <td style="text-align: center;">13</td> <td>Similarities and differences between a club, association or similar institution and a trade association</td> </tr> <tr> <td></td> <td>New Example 2 has been inserted for further clarification and Example 8 replaces Example 7 of the previous PR</td> </tr> </tbody> </table>	<b>Paragraph</b>	<b>Explanation</b>	6	Basis of assessment	7	Residence status	9.3(d)	Clubs, associations or similar institutions which are not approved charitable institutions	9.3(e)	Club, association or similar institution which are approved charitable institutions	12	Due dates for the filing of Income Tax Return Forms (which replaces paragraph 10 of the previous PR)	13	Similarities and differences between a club, association or similar institution and a trade association		New Example 2 has been inserted for further clarification and Example 8 replaces Example 7 of the previous PR
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**Director General of Inland Revenue,  
Inland Revenue Board of Malaysia.**