



**RFSB**  
**V.**  
**DIRECTOR GENERAL OF INLAND REVENUE**  
**MOF.PKCP.700-7/1/2121-2125**



In 2008, the Taxpayer gave interest free loans amounting to RM4,091,272.00 to its directors which was financed through the Taxpayer's internal funds. However, no repayments had been made by the directors in respect of the said loans.

The Director General of Inland Revenue (DGIR) issued an audit finding stating that the Taxpayer was deemed to have interest income on loans given to the directors under Section 140B of the Income Tax Act 1967 (ITA 1967). On 2.8.2021, the DGIR issued the Notices of Assessment (Form J) for the years of assessment (YAs) 2015 to 2019 together with the respective taxes and penalties. The primary issue in the appeal was whether Section 140B ITA 1967 that came into force in 2014 was applicable to loans or advances made by the Taxpayer in YA 2008.

The argument by the DGIR that the Taxpayer was deemed to have interest income from the loans given to its directors using the internal funds of the company and therefore would be subject to tax under Section 4(c) ITA 1967 and Section 140B ITA 1967. Based on the Public Ruling 08/2015: Loan or Advances to Director By A Company, the deemed interest income was calculated based on the balance of the outstanding loan or advances at the end of each calendar month including any existing balances from the loan or advances made before YA 2014. Since the loans remain unpaid in YAs 2015 to 2019, the Taxpayer should be treated as having deemed to have the interest income for YAs 2015 to 2019.

On 19.9.2025, the Special Commissioners of Income Tax (SCIT) had allowed the Taxpayer's appeal and held that the Taxpayer had successfully proved its appeal as required under Paragraph 13 Schedule 5 of ITA 1967. The SCIT ruled that the Notices of Assessment for YAs 2015 to 2019 together with the imposition of penalties were to be set aside.

***Editorial Note:***

- *The DGIR has the right to file an appeal against the decision of the SCIT within 21 days from the date of the decision.*