



CHARTERED TAX INSTITUTE OF MALAYSIA (225750 T)  
(Institut Percukaian Malaysia)

PROFESSIONAL EXAMINATIONS

FINAL LEVEL

ADVANCE TAXATION 1

JUNE 2016

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Student  
Registration No.

Date

Desk No.

Examination Centre

Time allowed: 3 hours

#### INSTRUCTIONS TO CANDIDATES

1. You may answer this paper **EITHER** in English **OR** in Bahasa Malaysia. Only **ONE** language is to be used.
2. This paper consists of **SIX** questions. **Candidates are ONLY REQUIRED TO ANSWER FIVE QUESTIONS**
3. The Income Tax Act 1967 (as amended) is referred to as ITA.
4. Each answer should begin on a separate answer booklet.
5. All workings **MUST** be shown as marks will be awarded.
6. Answers should be written in either black or blue ink.
7. No question paper or answer booklets are to be removed from the examination hall.

**DO NOT TURN OVER THIS PAGE UNTIL INSTRUCTED BY THE INVIGILATOR**

### Question 1

- (a) AIS Insurance Bhd (AIS), a Malaysian resident insurance company carries out Life Insurance and General Insurance businesses and prepares its accounts to 31 December annually.

**Required:**

**State the number and types of business sources for the insurance business of AIS under sec 60 of the ITA.**

(4 marks)

- (b) Below is the excerpt from AIS accounts, in relation to its Life Insurance business as at 31 December 2015.

	<b>RM '000</b>	<b>RM' 000</b>
Gross dividends from investments:		
- Life fund	6,000	
- Shareholders' funds	9,000	15,000
Interest:		
- Life fund	1,200	
- Shareholders' funds	1,800	3,000
Gross proceeds from realization of investments:		
- Life fund	25,000	
- Shareholders' funds	10,000	35,000
Commission paid to insurance agents:		
- Life fund	1,500	
- Shareholders' funds	1,700	3,200
Management fees:		
- Life fund	1,700	
- Shareholders' funds	2,300	4,000
Cost of realizing the investments:		
- Life fund	12,000	
- Shareholders' funds	8,000	20,000
Actuarial surplus arising from life fund and transferred to shareholders' fund		2,500

**Required:**

- (i) Calculate the adjusted income for the Life Insurance business of AIS for the year of assessment 2015.

(6 marks)

- (ii) Compare the tax treatment of current and unabsorbed business losses for Life and General Insurance businesses.

(6 marks)

- (iii) State two types of incentives given specifically to promote the insurance industry.

(4 marks)

**[Total: 20 marks]**

## Question 2

- (a) The profit and loss statement for the year ending 31 December 2015 of HD Unit Trust Fund, a unit trust, is as follows:

	RM '000	RM '000
Interest from bonds		150
Interest income from convertible loan stocks		250
Malaysian dividend (single tier)		600
Dividend from pioneer company		200
Gain on disposal of investments		<u>3,000</u>
		4,200
<b>Less:</b>		
Fund management fees	500	
Share registration expenses	30	
Audit fees	20	
Trustees' remuneration	10	
Bank charges	5	
Telephone printing and stationery	6	<u>(571)</u>
		<u>3,629</u>

### Required:

- (i) Calculate the adjusted income of HD Unit Trust Fund for the year of assessment 2015. (11 marks)
- (ii) Explain the taxability of unit holders of unit trust. (5 marks)
- (b) "Property Trusts invest primarily in income generating real estate but do not qualify as Real Estate Investment Trust or Property Trust Fund".

### Required:

In respect of the above statement, explain two of the tax treatment of expenses related to property trust funds.

(4 marks)

[Total: 20 marks]

### Question 3

Harum Tani Sdn Bhd is an agricultural company which plants *Harumanis* mangoes in Arau, Perlis. The company commenced operations on 1 January 2008 and closes its accounts to 31 December each year. The company qualified for reinvestment allowance for year of assessment 2011 for its expansion project. On 1 January 2015, the company had a paid-up capital of RM3.5million ordinary shares.

The company incurred the following expenditure on its expansion project in year 2015.

<b>Expenditure on expansion project</b>	<b>Costs (RM)</b>
Clearing and preparation of land	62,000
Automatic sprinkler system	110,000
Road construction	35,000
Construction of a building for the welfare of workers	45,000
Purchase of tractor	128,000
Planting	30,000

**Harum Tani Sdn Bhd**  
**Financial Account For The Year Ended 31.12.2015**

		<b>Notes</b>	<b>RM</b>
Sales			4,600,000
Less: Cost of sales			<u>3,450,000</u>
			1,150,000
Interest (fixed deposit with Maybank Berhad)			<u>2,750</u>
			1,152,750
Less:			
Transportation and distribution	250,000	1	
Administration	120,000	2	
Overdraft interest	20,000	3	
Depreciation	69,000		
Donation	<u>11,000</u>	4	<u>(470,000)</u>
Net profit before tax			<u>682,750</u>

#### Notes to the account:

1. The expenditure included a flight ticket amounting to RM5,000 incurred by a director on a family holiday to Ho Chi Minh City.
2. The administration cost includes an unrealised foreign exchange loss of RM3,000 arising from a Singapore Dollar customer's debt.
3. Overdraft Interest is from an overdraft facility taken from Maybank Berhad. The overdraft balance as at 31 December 2015 was RM200,000 and 20% from the overdraft balance was deposited as a fixed deposit in the same bank.
4. Donation includes RM1,500 paid to Kampung Hulu Arau Residents Association and the balance to an approved institution.

**Additional information:**

	<b>Year of Assessment</b>	<b>Amount (RM)</b>
Carry forward unabsorbed business loss	<b>2014</b>	35,000
Carry forward unutilised reinvestment allowance	<b>2014</b>	250,000
Total amount of capital allowance and agriculture allowance (given)	<b>2015</b>	170,000

**Required:**

**Compute the following for Harum Tani Sdn Bhd for the year of assessment 2015:**

- (i) **Qualifying period for reinvestment allowance.** (1 mark)
- (ii) **Total amount of qualifying expenditure and the amount of reinvestment allowance.** (2 marks)
- (iii) **Tax payable.** (17 marks)

**[Total: 20 marks]**

**Question 4**

- (a) Kimat Holdings Sdn Bhd (KHSB) operates a plantation and later embarked on the development of properties for sale whilst continuing to hold on to the plantation. KHSB closes its accounts to 31 December each year and maintained separate accounts for the two business activities, namely operations of plantation and development of properties.

KHSB was not successful in its application to convert part of the plantation into a housing development; hence the company was not able to subdivide the land. The Government later compulsorily acquired the plantation land in year 2013 and paid RM3.8 million as compensation to KHSB.

**Required:**

**Explain whether the compensation of RM3.8 million received from the Government is taxable under the Malaysian tax legislation.**

**Elaborate whether there are any differences in the tax treatment if the compensation was received in year 2015.**

Appropriate case law and tax legislation are to be cited to support your answer.

(5 marks)

- (b) Encik Ramli Ahmad and Mr Lim Seng are partners carrying on an oil palm estate in the district of Jitra in Kedah since 2 January 2008. The partnership was dissolved on 1 August 2012 as Mr Lim decided to migrate to Australia.

The partnership assets were distributed among the partners and Encik Ramli received a piece of estate land which was originally acquired by the partnership on 15 October 2007 for RM750,000. In 2009, the partnership had incurred RM60,000 on drainage and piping due to frequent flooding in the estate. The market value of the land on 1 August 2012 was RM1.9 million. Encik Ramli continued the oil palm estate business on his own.

On 1 November 2013, Encik Ramli transferred the land to a company controlled by him, Ladang Jitra Sdn Bhd (LJ) for a consideration of RM2 million. The consideration was satisfied by the issuance of RM1.8 million shares of RM1.00 each in LJ and cash of RM200,000.

LJ carried out improvement works at the estate by building a palm oil processing mill costing RM1.5 million. On 1 July 2015, Encik Ramli sold his shares in LJ for RM5 million. On 1 November 2015, LJ sold the land and building to an unrelated company for a consideration of RM6 million. Incidental expenses incurred in connection with the disposal were valuation fees RM80,000 and legal fees of RM25,000.

**Required:**

**Calculate the real property gains tax payable under the Real Property Gains Tax Act 1976 (as amended) on the respective disposals by Encik Ramli and Ladang Jitra Sdn Bhd.**

(15 marks)  
**[Total: 20 marks]**

## Question 5

Rani Metals Manufacturing Sdn Bhd ('the company') is a Malaysian resident company that was incorporated in 2008, with a large factory in Shah Alam, and closes its accounts to 31 December each year. The paid up capital was RM12 million. It had a mix of promoted and non-promoted products manufacturing operations.

The company's chief accountant was keen to apply for investment tax allowance for the years of assessment 2016 to 2020, but was also considering a choice of pioneer incentive.

He also revealed that the manufacturing of the non-promoted product incurred a loss of RM198,000 in the year of assessment 2015 and the loss would be carried forward to the year of assessment 2016.

The chief accountant projected the following financial information for adjusted income, capital allowance and additional capital expenditure on plant and machinery for the years of assessment 2016 and 2017 in respect of promoted product and non-promoted products below:

**Table 1**  
**Rani Metals Manufacturing Sdn Bhd: Promoted product**

<b>Year of assessments</b>	<b>2016</b>	<b>2017</b>
	<b>RM</b>	<b>RM</b>
Adjusted Income/(Loss)	(409,200)	1,278,000
Capital Allowances	102,960	170,400
Capital expenditure qualifying for Investment Tax Allowance	650,000	850,000

**Table 2**  
**Rani Metals Manufacturing Sdn Bhd: Non-promoted product**

<b>Year of assessments</b>	<b>2016</b>	<b>2017</b>
	<b>RM</b>	<b>RM</b>
Adjusted Income/(loss)	924,000	(127,800)
Capital Allowances	158,400	71,000

**Required:**

- (i) The Chief Accountant has asked you to compute the income tax that would be payable by Rani Metals Manufacturing Sdn Bhd for the years of assessment 2016 and 2017 assuming it succeeds in obtaining approval for the claim of Investment Tax Allowances for each of the abovementioned years of assessment.

(15 marks)

- (ii) The Chief Accountant has also asked you to briefly evaluate and justify a claim of Investment Tax Allowance when compared to making a claim for the Pioneer-status Incentive, for his presentation at the Board of Director's meeting in two weeks time.

(5 marks)

**[Total: 20 marks]**

## Question 6

The Herbal Tea Dealer's Association ('the association') was registered in 1995 and closes the accounts to 31 December each year and is a Malaysian tax resident association. Its main objective is to promote and safeguard the business interests of its members who are all dealers in herbal tea.

During the year ended 31 December 2015, the association held a 'Deepavali Night' show with a view to collecting funds for renovating its present association building.

**The association's accounts for the year ended 31 December 2015 is as follows:**

<b>The Herbal Tea Dealer's Association</b>		
<b>Accounts for the year ended 31 December 2015</b>		
<b>Income</b>		<b>RM</b>
Memberships' subscription fees		165,928
Seminar fees		82,965
Deepavali Night' ticket sales		49,025
Dividend (Malaysian single tier)		21,500
Fixed deposit interest		<u>2,000</u>
Total income		321,418
<b>Less: Expenses</b>		
Salary and wages	79,003	
Rental of seminar hall	6,170	
Speaker fees	13,167	
Deepavali Night' expenses	19,202	
Employee's Provident Fund	10,271	
Stationery	7,900	
Utility expenses	6,583	
Painting of premises	3,384	
Donation	6,420	
Assessment	1,580	
Quit rent	<u>748</u>	<u>154,428</u>
<b>Surplus of income over expenditure</b>		<b><u>166,990</u></b>

The association's accountant has furnished the following information:

- a) The capital allowance for the year of assessment 2015 is RM1,200 and relates to assets used for general purposes. There are no assets used for any special purposes.
- b) The 'Deepavali Night' expenses includes payments for the artists, food and drinks and were funded from ticket sales.

- c) To face the challenges of the changing business environment, the association held several seminars during the year to highlight to its members the business opportunities available in Malaysia and overseas for herbal tea products.
- d) The association donated RM6,420 during the year to an approved charitable body that cares for disabled children.
- e) The expenditure incurred on painting, assessment and quit rent are in respect of the association's building.

**Required**

- (i) **Compute the chargeable income of the Herbal Tea Dealer's Association for the year of assessment 2015.**  
(15 marks)
- (ii) **Explain briefly what you understand by the term 'Principle of Mutuality' and state the crucial test that you would apply in the determination of "mutuality status".**

*Note: You are encouraged to quote relevant tax cases in support of your explanation.*

(5 marks)

**[Total: 20 marks]**

**(END OF QUESTION PAPER)**