



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

PROFESSIONAL EXAMINATIONS

INTERMEDIATE LEVEL

BUSINESS TAXATION

JUNE 2016

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 **FIVE** questions.
3. Answer **ALL** questions.
4. The Income Tax Act 1967 (as amended) is referred to as ITA.
5. Each answer should begin on a separate answer booklet.
6. All workings **MUST** be shown as marks will be awarded.
7. Answers should be written in either black or blue ink.
8. No question papers or answer booklets are to be removed from the examination hall.

DO NOT TURN OVER THIS PAGE UNTIL INSTRUCTED BY THE INVIGILATOR

Question 1

Green Garden Products Sdn Bhd (GGP) is a Malaysian resident company. As at 1 July 2014, GGP had a paid-up capital of RM2.2 million and the company closed its accounts to 30 June each year. The company is the sole distributor of the fertilisers, manufactured by a company in Taiwan.

The trading results for the year ended 30 June 2015 are as follows:

	Note	RM'000	RM'000
Sales Turnover			741,600
Less: Cost of sales	1		<u>(611,500)</u>
Gross profit			130,100
Add: Other income	2		
Dividend		147	
Insurance recovery		211	
Gain on disposal of lorry		50	
Rent		<u>36</u>	<u>444</u>
			130,544
Less: Expenses:			
Depreciation		770	
Salaries and wages	3	1,941	
Employees Provident Fund	4	398	
Interest expense	5	276	
Entertainment	6	380	
Repair and maintenance	7	284	
Bad debts	8	290	
Motor vehicle expenses	9	498	
Advertisement	10	511	
Professional fees	11	90	
Miscellaneous expenses	12	296	
Insurance	13	101	
Foreign exchange loss	14	40	
Donation	15	<u>100</u>	<u>(5,975)</u>
Net profit before taxation			<u>124,569</u>

Notes:**1. Cost of sales**

In March 2015, the company's store was partially damaged by a fire caused by a short circuit, and garden products worth RM92,000 stored in the store were destroyed. The products were insured and the insurance company reimbursed the loss [(Note 2)(ii)].

2. Other income:

i) Dividends of RM147,000 were received from share investments in Taiwan. The dividends were remitted to Malaysia in November 2014.

ii) Insurance recovery

a) The company received insurance compensation in respect of the goods destroyed during the fire in its store amounting to RM90,000 in settlement.

b) A director on whose life, a key-man term life policy was taken in 2006 died in a road accident during the year while on a business trip and the company recovered a sum of RM121,000 from the insurance company.

iii) Gain on disposal of asset

The company had disposed of a lorry in May 2015 for RM65,000. It was bought in November 2011 at a cost RM190,000 and was used for transporting company products.

iv) Rent

The company received rental from a four-storey shop house that the company bought with a bank loan in 2012. (Note 5) The company used the ground floor as office space and the first floor for its distribution activities. The other two floors were rented out to students. The total rent received during the year was RM36,000 which includes a refundable security deposit of RM7,200.

3. Salaries and wages:

Remuneration paid to three employees certified by the appropriate authorities as disabled amounting to RM96,000 are included in salaries and wages.

4. Employees Provident Fund (EPF)

A sum of RM12,000 being the employer's contribution for May 2014, was not remitted to the EPF because of a clerical error. The sum was remitted to EPF in September 2014.

5 Interest Expense

Loan interest for the four-storey shop house for the year 2015 was RM12,000. The balance of the interest was for a bank loan taken for the purchase of fertiliser products from Taiwan.

6 Entertainment

Entertainment expenditure includes the following:

- i) Marketing team's entertainment expenses amounted to RM112,000.
- ii) The company organised a family day on 24 November 2014, and incurred RM74,000 on entrance fees, food and drinks for the staff and their immediate family members at Genting Highlands.
- iii) The company's annual dinner for its employees amounted to RM117,000
- iv) The balance relates wholly to sales arising from the business.

7 Repair and maintenance

Repair and maintenance includes a sum of RM14,000 spent on renovating the company's restrooms to provide better facilities for disabled employees. The other expenses relate to maintenance of the building and production facilities.

8. Bad debts

Bad debts figure is arrived as follows:

	RM
i) Bad debt written off	112,000
ii) Provision for bad debts (specific)	52,000
iii) Provision for bad debts (general)	174,000
iv) Bad debts recovered (trade debts)	<u>(48,000)</u>
	<u>290,000</u>

The bad debts written off during the year include RM15,000 which was related to an advance made to a contractor for the renovation work at the office. The contractor subsequently disappeared and the amount was written off.

9. **Motor vehicle expenses include:**

- i) The company leased three vehicles from a leasing company. The lorry was used for the transport of goods to retailers. The cars were used by the company's marketing manager and director.

The lease details are as follows:

Vehicle type	Original cost of new vehicle RM'000	Payments up to year ended 30 June 2014 RM'000	Payments for the year ended 30 June 2015 RM'000
Lorry	130	38	38
Motorcar 1	145	23	23
Motorcar 2	320	41	41
Total		102	102

- ii) RM14,000 was paid as fines and compounds for traffic offences.
- iii) The balance of the costs refers to repairs and maintenance of the company's vehicles used for business purposes.

10. **Advertisement includes:**

	RM
i) Advertising the company's products in local magazines and newspapers	76,000
ii) Cost of product samples given to visitors at an approved trade fair in Singapore	33,000
iii) Expenses of advertising and maintaining sales office in Jakarta	186,000

11. **Professional fees comprise:**

	RM
i) GST training expenses for employees in accounting and ICT for GST	12,000
ii) Cost of legal action taken to recover debts on trading account	28,000
iii) Audit fees	26,000
iv) Tax filing fees	10,000
v) Secretarial fees	<u>14,000</u>
	<u>90,000</u>

12. **Miscellaneous expenses include:**

The company maintained a child care centre at the business premises where employees leave their children during office hours. Maintenance of the childcare centre is RM32,000.

13. **Insurance includes:**

- i) In 2014, GGP purchased a key-man endowment policy on the life of the sales director and paid a premium of RM12,000 in 2015.
- ii) The GGP also purchased another key-man term life policy on the life of the managing director for an annual premium of RM8,000.
- iii) Insurance paid to an insurance company incorporated in Malaysia amounted to RM81,000 on garden products imported from Taiwan.

14. **Foreign exchange loss comprises:**

	RM
Unrealized loss on import of stocks from Taiwan	22,000
Realized loss on import of stocks from Hong Kong	4,000
Realised loss on purchase of machinery from Belgium	<u>14,000</u>
	<u>40,000</u>

15. **Donations comprise:**

	RM
i) Cash donation to an approved organisation in February 2015	80,000
ii) Donation in cash to University Malaya Library	<u>20,000</u>
	<u>100,000</u>

Other information:

For the year of assessment 2015, GGP is entitled for capital allowance of RM806,000. During the year, the company also bought computers for RM120,000 for the company staff.

Required:

Compute the income tax payable of Green Garden Products Sdn Bhd for year of assessment 2015. Insert 'nil' when no adjustment is required.

[Total: 25 marks]

Question 2

- (a) Mill Sdn Bhd, a trading company closes its accounts to 31 October each year.

The following expenditure was incurred for the year ended 31 October 2015.

		RM
(i)	2 Vans	<u>280,000</u>
(ii)	Toyota Camry	
	Cost of car	178,000
	Less: Deposit (paid on 1 March 2015)	<u>(42,000)</u>
	Amount financed	136,000
	Hire purchase interest	<u>(16,000)</u>
	Amount repayable	<u>120,000</u>

The above amount is repayable in 48 equal monthly instalments of RM2,500 each, with effect from 1 April 2015.

The Toyota Camry was stolen on 28 September 2015. The company received an insurance compensation of RM133,500 after the relevant authorities confirmed that the car could not be recovered. There were five instalment payments made during the year ended 31 October 2015.

Required:

Compute the capital allowances, balancing allowance/charge and residual expenditure for the year of assessment 2015 for the vans and Toyota Camry. (Do not apply Para 71 of Schedule 3 ITA 1967).

(9 marks)

- (b) Honey Sdn Bhd was incorporated on 1 February 2012. Its accounts are made up to 31 July annually. The company bought a piece of land for RM800,000 for the purpose of constructing a factory. The following expenses were incurred in the construction of the factory:

Date	Expenditure	RM	
01-02-2012	Legal fees	20,000	(of which 5,000 is related to acquisition of site)
01-04-2012	Architect's fees	21,000	
16-04-2012	Payment to local authority for approval of plan	8,000	
30-10-2012	Construction costs	890,000	
30-11-2012	Wiring and plumbing	80,000	

The building was completed on 28 December 2012 and the company commenced its business on 18 January 2013. The building was wholly used as a factory until it was sold to Manis Sdn Bhd on 2 April 2015 for RM1.5 million including the land for RM400,000. Manis Sdn Bhd has been using the building since then, and 80% of it is used as a factory and the remainder as an office.

Manis Sdn Bhd makes up its accounts to 30 September annually.

Required:

Compute the industrial building allowance/balancing charge for each company for the relevant years of assessment up to year of assessment 2015.

(11 marks)

[Total: 20 marks]

Question 3

- (a) Explain briefly how a partnership is assessed for income tax and who is/are responsible for the filing of the partnership tax return form. (2 marks)
- (b) State the characteristics which must be present, in a relationship between persons before a partnership business is said to exist (as defined in the Income Tax Act 1967). (4 marks)
- (c) Ana and Zai are partners. Their business accounts show a net loss of RM102,000 for the year ended 31 December 2015.

Business expenses include:

	RM
Renovation of office	30,000
Depreciation	10,900
Entertainment of suppliers	14,800
Donations (approved)	8,000

The partnership agreement provided for an annual salary of RM48,000 to Ana, and RM44,000 to Zai, and interest on capital of RM2,100 to Ana. The profit-sharing ratio is 60% to Ana and 40% to Zai. Capital allowances for the year of assessment 2015 amounts to RM10,000.

Ana had adjusted rental income of RM60,000 for the year ending 31 December 2015. Zai received royalty of RM25,000 from publishing books which was approved by the authority.

Required:

- (i) **Compute the adjusted income/loss and divisible income/loss of the partnership for the year ended 31 December 2015.**
- (ii) **Compute the total income of Ana and Zai for the year of assessment 2015.**

(12 marks)

[Total: 18 marks]

Question 4

- (a) Polish Sdn Bhd, a company involved in the business of manufacturing “Swift” shoes, has a financial year to 30 September. It’s accounts for year of assessment 2015 reflected the following receipts and expenditure.
- i. The company gave Shine Sdn Bhd the right to use its patent for the production of Swift shoes. Polish Sdn Bhd was not allowed to grant the right to use the patent to any other person. For this Polish Sdn Bhd was paid a lump sum of RM100,000 and would receive a royalty of RM15,000 yearly from Shine Sdn Bhd.
 - ii. Polish Sdn Bhd took over the shoe making business from Glitter Sdn Bhd last year including their trade debtors, of which RM75,000 was recovered this year.
 - iii. The poor drainage practices of a neighbouring property developing company caused heavy silting of mud and flooded the factory of Polish Sdn Bhd. As a gesture of goodwill the property developing company paid RM250,000 for the replacement of damaged machinery and RM80,000 for the loss of production man hours.

Required:

Explain briefly whether each of the following transactions are taxable:

- | | | | |
|-------|----|--|-----------|
| (i) | a. | Lump sum of RM100,000, and | (2 marks) |
| | b. | Royalty of RM15,000 per annum | (2 marks) |
| (ii) | | Recovery of RM 75,000 from trade debtors | (2 marks) |
| (iii) | a. | RM250,000 for the replacement of the damaged machinery | (2 marks) |
| | b. | RM80,000 for the loss of production man hours. | (2 marks) |
- (b) Serene Sdn Bhd, a highly profitable trading company, embarked on setting up of a special retirement provident scheme for its employees where the company will make an additional contribution of 10% over and above the normal 12% contribution to the Employees Provident Fund (EPF) on their salaries, bonus and entertainment allowances.

Required:

As their tax consultant, advise them on the tax implications of the above proposal and your advice should encompass the status of the scheme (i.e. approved or unapproved), the deductibility of the additional contribution in either case, and any restriction that is imposed under the Income Tax Act 1967.

Ignore any tax implications for the employees.

(7 marks)
[Total: 17 marks]

Question 5

- (a) Maju Sdn Bhd which had been preparing its accounts to year-end 31 December changed its accounting year to 30 May as follows:

Accounting date	Adjusted Income / Loss (RM)
Year ended 31.12.2012	(5,000)
5 months ended 30.5.2013	8,000
Year ended 30.5.2014	10,800

On 1 September 2014, the company was acquired by Gemilang Berhad. In line with its new holding company's financial year-end of 28 February, Maju Sdn Bhd closed its accounts as follows:

Accounting date	Adjusted Income / Loss (RM)
1.6.2014 to 28.2.2015	(1,000)
Year ended 28.2.2016	13,200

Required:

- (i) Determine the basis periods and adjusted income/loss of Maju Sdn Bhd for the years of assessment 2012 to 2016. (7 marks)
- (ii) Explain what is meant by "failure year" and state which years are the failure years in the above scenario. (4 marks)

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- (b) Laman Langat Sdn Bhd acquired 15 acres of agriculture land located at Hulu Langat, Selangor in 2001 for RM5 million. The company intended to develop the land into a residential housing area. However, it was unable to do so because the process of conversion from agricultural to residential land was not approved by the local council. The land was shown as an item under fixed assets in the accounts of Laman Langat Sdn Bhd. In the meantime, the company derived sales from fruits amounted to RM25,500 for the year 2015. Part of the land was compulsorily acquired by the government in January 2015, for a new proposed water dam and the company was paid a compensation of RM2 million. The remaining land was subsequently sold in September 2015 for RM50 million. The company had no previous dealing in land and there was no organized activity to promote the sale of the land. There were also no minutes of any board meeting to note the change of the land from fixed assets to stock-in-trade.

Required:

State with reasons, whether the following are business income:

- (i) Compensation of RM2 million,**
- (ii) The receipts derived from the sale of fruits amounting to RM25,500**
- (iii) Receipt from the sale of land of RM50 million.**

(9 marks)
[Total: 20 marks]

(END OF QUESTION PAPER)