



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

PROFESSIONAL EXAMINATIONS

INTERMEDIATE LEVEL

PERSONAL TAXATION

DECEMBER 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 paper or answer booklet is to be removed from the examination hall.

DO NOT TURN OVER THIS PAGE UNTIL INSTRUCTED BY THE INVIGILATOR

Question 1

Mr Raymond Tan, a tax resident aged 52 years, was a manager at Sunny Delights Bakery Sdn Bhd (SDBSB) from 1 July 2009. He was employed by SDBSB at a monthly salary of RM6,000. On 31 July 2016, Raymond decided to retire to concentrate fully on his business. Raymond received a bonus of RM12,000 for the year 2015 that was paid on 31 January 2016 and a gratuity of RM25,000 paid on 31 July 2016.

Raymond, in anticipation of his retirement, set up a bakery business named as 'Baked Treats' in Petaling Jaya in 2015. He provided the following details regarding his estimated income for the basis year 2016:

Business source :	RM
Adjusted net profit	61,000
Balancing charge	22,000
Capital allowance	13,000

There was an unabsorbed capital allowance of RM11,000 brought forward from year of assessment 2015.

The estimated income received in 2016 from other sources in 2016 were:

(i) **Dividends**

Dividends of RM12,500 was received during the year 2016. Mr Tan paid interest of RM412 for a loan taken to finance the investments.

(ii) **Rental**

Mr Tan rented out his bungalow in Penang and provided the following information for the year ended 31 December 2016.

Rental income:	RM
January 2016 to April 2016 (RM3,000 per month)	12,000
May to June 2016 (vacant)	Nil
July to December 2016 (RM3,500 per month)	21,000
Rental deposit – one month (refundable)	3,500

Expenses:	RM
Refund of one month deposit to previous tenant	3,000
Commission to real estate agent for finding new tenant	3,500
Interest on loan (January 2016 till December 2016)	12,400
Quit rent and assessment	1,600
Extension of kitchen	22,000
Fire insurance premium	1,780

- (iii) He received a monthly pension of RM2,200 from the government after working for 20 years with the Malaysian armed forces.

Raymond's wife, Beatrice is a housewife. Beatrice owns a property in Penang which she inherited from her father. The net rental income after deducting allowable expenses is RM43,600. She also received interest income from a fixed deposit account in RHB Bank amounting to RM2,457.

They provided the following additional information in respect of the year ended 31 December 2016:

		Raymond	Beatrice
		RM	RM
(i)	His 75 year old mother lives with him and has no income of her own		
(ii)	Employment Provident Fund	4,620	
(iii)	Private Retirement Scheme	5,000	6,000
(iv)	Insurance premiums		
	- Life	9,000	
	- Medical and Education	5,200	3,600
(v)	Educational expenses of son Peter doing Engineering degree in Australia	60,000	
(vi)	Expenses for daughter Rhianna in secondary school who is suffering from leukaemia	45,000	
(vii)	Donations to an approved organization:		
	- Cash	4,200	1,000
	- Food items	500	-

Required:

Compute the income tax payable for Raymond and his wife for year of assessment 2016. Beatrice elects for separate assessment and all child reliefs are to be claimed by Raymond.

[Total: 25 marks]

Question 2

Rony has been employed by Don Sdn Bhd since 1 January 2016 with an annual gross salary of RM120,000. He was paid a bonus of RM8,900 net of 11% Employees Provident Fund (EPF). Rony's salary package includes the following and it is applicable for the year 2016:

- 1) Offered 2,000 company shares at RM2 each, market value at date of offer was RM4 and market value at the date of acceptance was RM5.
- 2) A new Nissan car costing RM125,000 was provided on 1 April 2016.
- 3) During the year, Rony employed a domestic servant and he paid an annual salary of RM12,000. This amount was reimbursed by Don Sdn Bhd.
- 4) A gardener with an annual salary of RM 8,000 was provided by Don Sdn Bhd from 1 July 2015.
- 5) Don Sdn Bhd reimbursed RM24,000 to Rony being salary paid to his driver employed between from 1 April 2016 to 31 December 2016.
- 6) During the period 1 April 2016 to 31 December 2016, Don Sdn Bhd provided Rony with a fully furnished bungalow, the defined value was RM2,500 per month including furniture of RM500. Prior to this Rony was provided with hotel accommodation at RM 1,000 per month, the cost of which was fully borne by Don Sdn Bhd.
- 7) In 2016, the company paid the medical bills in respect of his wife and father amounting to RM1,000 and RM2,000 respectively.
- 8) Leave passage paid by Don Sdn Bhd for Rony's family are as follows:

Langkawi (3 Trips):		France (1 Trip)	
	RM		RM
Air fare:	2,000	Air fare:	7,000
Food:	1,000	Food:	1,000
Accommodation	2,000	Accommodation	2,000

- 9) Entertainment allowance of RM10,000 was paid to Rony of which he spent RM11,000 entertaining business clients.
- 10) Prior to joining Don Sdn Bhd, Rony received RM100,000 as compensation for loss of work after 11 years of service with Moon Sdn Bhd.

Required:

- (a) **Compute employment income for the year of assessment 2016.** (22 marks)
- (b) **Explain the treatment of "gratuity" for early retirement or termination of contract of employment in the year of assessment 2016 under the ITA.** (3 marks)

[Total 25 marks]

Question 3

Ms Edwina, a resident in Malaysia, is a pensioner after 30 years of employment with the Inland Revenue Board as Assistant Director of Intelligence and Profiling department. She received a monthly pension of RM4,955. To fill up her spare time, she writes a book on Malaysian Taxation System and received royalty of RM13,700 from her publisher. During 2016, she also receives RM14,400 fees from translation of literary works at the specific request of the Ministry of Higher Education. She incurred the following expenses in respect of the royalty income:

	RM
Stationery cost	500
Notebook computer	3,275
Proof reading and typesetting	2,420

Ms Edwina also derived the following income for the year ended 2016:

	RM
Foreign interest (remitted to Malaysia)	1,550
Interest from Malayan Banking Bhd for a 15 month fixed deposit	3,300
Annuity from Malaysian Life Insurers	2,000
Occasional television appearances	2,500

Ms Edwina owns a terrace house in Cheras that is rented out for the first time in 2016. The receipts and payments in respect of the house for the year are as follows:

	RM	RM
Receipts:		
Rental January to December	28,800	
Water and Electricity deposit	<u>1,200</u>	30,000
Payments:		
Quit rent and Assessment	1660	
Penalty for late payment of assessment	90	
Agent's fees to find tenant	1,100	
Interest on loan used to acquire the house	<u>22,400</u>	<u>(25,250)</u>
		<u>4,750</u>

Based on the above information you are required to:

- (a) **Compute the aggregate income of Ms Edwina under the ITA for the year of assessment 2016.**

(16 marks)

- (b) **State the circumstances under which gross income in respect of interest or royalty shall be deemed to be derived from Malaysia.**

(4 marks)

[Total: 20 marks]

Question 4

- (a) The Inland Revenue Board (IRB) issued Mr Kenneth Lim with the following tax installment schedule under Section 107B of the ITA for year of assessment 2015:

Installment no.	RM	Due Date
1	2,000.00	1 March 2015
2	2,000.00	1 May 2015
3	2,000.00	1 July 2015
4	2,000.00	1 September 2015
5	2,000.00	1 November 2015
6	2,000.00	1 January 2016
Total	12,000.00	

Kenneth only paid the first installment on 1 April 2015 but all other installments were paid on 15th of the respective due date of each month.

At the end of the basis period, Kenneth prepared his Form B 2015 and computed his actual tax to be RM30,000. As the actual tax (RM30,000) was very much higher than the tax installments (RM12,000) he had paid, Kenneth is very worried that the IRB will impose a penalty for underestimation of tax installments under Section 107B(4). Assume Kenneth did not appeal to revise the original tax installment schedule issued by the IRB.

- (i) **Advise Kenneth, with explanations and reference to the specific provision of the ITA, whether there are any late-payment penalties for the first installment payment and if there was penalty payments, compute the quantum payable.** (3 marks)
- (ii) **If applicable, compute the late-payment penalties for all the other 5 installments.** (1 mark)
- (iii) **Advise Kenneth on whether there were any penalties for the underestimation of installment payments. Justify your answer with the relevant provisions of the ITA.** (3 marks)
- (b) Encik Abu is a sole proprietor who earns only business income, and has no other sources of income. For the year of assessment 2015, the Inland Revenue Board had issued Encik Abu with a tax installment schedule under Section 107B. Encik Abu felt that the tax installments as directed by the IRB were excessive because his business had been negatively affected by fierce competition.
- (i) **If Encik Abu wished to appeal to the IRB to reduce the quantum of the tax installments, state the latest date (as provided by the ITA) Encik Abu must apply to the Director General of Inland Revenue?** (1 mark)

Assume Encik Abu had appealed successfully and IRB has agreed to reduce the total tax installments payable to RM60,000.

Encik Abu later prepared his actual tax computation for year of assessment 2015 and found that the actual chargeable income was RM461,400 and the corresponding actual tax was RM100,000 (before deducting the tax installments of RM 60,000 above).

(ii) **Compute the penalty under section 107B(4) which arose because actual tax payable exceeded the total tax installments.**

(3 marks)

(iii) **If Encik Abu had appealed to the IRB for his tax installments to be RM95,000 (instead of RM60,000), would there still be penalty under section 107B(4)?**

Support your answer either with a reason or with a calculation.

(2 marks)

(c) Mr Segaran, a tax resident, has been deriving business income from a partnership for many years, including 2014. However, Mr Segaran retired from the partnership in November 2014.

(i) **What is the name of the tax return form to be submitted by partnerships?**

(1 mark)

(ii) **What is the name of the tax return form to be submitted by Mr Segaran to report income for year of assessment 2014?**

(1 mark)

For the year 2015, Mr Segaran only derived rental income (regarded as a non-business source) and no other income.

(iii) **Based on the provisions of the ITA, what is the submission deadline for the tax return form for Mr Segaran to report his income earned in Year of Assessment 2015?**

Justify with reference to Mr Segaran's situation and to the relevant provision of the ITA. (Ignore any 'extension of time' granted by the IRB).

(3 marks)

Mr Segaran is not comfortable with electronic method of submission, and insists on submitting his tax return form (to report 2015 income) using an original signed form. However, Mr Segaran heard from his aunt that her company is forced to submit its tax return using electronic filing (e-Filing) because a manual tax return is no longer allowed.

(iv) **Discuss and clarify whether Mr Segaran is allowed to submit his year of assessment 2015 personal tax return using a manual signed return form.**

(2 marks)

[Total: 20 marks]

Question 5

- (a) Mr Russel Ho is an approved tax agent licensed under section 153 of the Income Tax Act 1967 and he is an associate member of the Chartered Tax Institute of Malaysia. He has been approached by Kulima Finance Sdn Bhd (KFSB) to be their tax consultant.

Russel's wife, Amelia has taken a loan from Kulima Finance Sdn Bhd for her boutique business in 2015.

Required:

- (i) **Discuss the ethical implications for Russel as a result of his wife's business engagement with a client company.**
 - (ii) **Advise Russel on the course of action he should pursue under the Rules and Regulations (on professional conduct and ethics) prepared by the Chartered Tax Institute of Malaysia disciplinary committee.**
- (b) Mr James Chan has been the tax consultant of Kulima Finance Sdn Bhd for the past 5 years and he receives a letter from Russel Ho informing him, that he Russel Ho has been engaged to be the tax consultant of KFSB from 1 January 2017.

Required:

Discuss the course of action to be taken by James Chan on receiving the communication from Russel Ho.

[Total: 10 marks]

(END OF QUESTION PAPER)