



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

PROFESSIONAL EXAMINATIONS

FINAL LEVEL

ADVANCE TAXATION 1

DECEMBER 2017

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) Robert Lim is **the administrator** of his father's estate who passed away on 15 November 2015. His father owned a bungalow house with land in the vicinity of Bangsar which he bought on 7 December 2010 for RM900,000. The market value of the house at the time of his death was RM4.2 million.

On 17 June 2017, Robert sold the house **as the administrator** for RM5.5 million. Prior to the sale, Robert spent RM120,000 renovating the house as it was in a state of disrepair and paid RM1,600 for assessment and quit rent. He also incurred RM25,000 on legal expenses and RM110,000 on agents fees for selling the property. He received the full amount of the sales proceeds on 24 September 2017.

Required:

Based on the information given above, calculate the real property gains tax payable by Robert Lim under the Real Property Gains Tax Act 1976 (as amended) for year of assessment 2017.

(11 marks)

- (b) Encik Abdul Rahman is a wealthy car dealer whose business is located in Johor Baru. He transferred to his daughter, one of his condominiums on 1 July 2017.

He had bought the condominium on 1 June 2014 for RM600,000. He incurred legal fees of RM12,000 and stamp duty of RM11,000 at the time of purchase. The market value of the property at the time of the transfer was RM800,000.

Required:

What are the real property gains tax implications of the transfer of a condominium by Abdul Rahman to his daughter?

(4 marks)

- (c) **State the duties of a disposer on the disposal of a chargeable asset under the Real Property Gains Tax Act 1976?**

(5 marks)

[Total: 20 marks]

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Question 2

GLS Shipping Ltd ('the company') is a foreign resident company involved in transportation of goods and passengers by sea. The company earned RM1,350,000 from the loading of cargos from ports in Malaysia for the year ended 31 December 2016.

The company obtained a certificate from its country of origin (which is acceptable to the Director General of Inland Revenue of Malaysia) which certifies the following information:

Particulars	RM Equivalent
World gross freight earnings for the year ended 31 December 2016	5,849,600
Adjusted income for the year ended 31 December 2016 for income tax purposes	4,050,000
World capital allowance for the year of assessment 2016	950,000

During the year 2016, the company made a donation of RM5,000 to an approved Malaysian charitable body. The country in which the company is a resident has a double tax agreement with Malaysia, under which the company would be entitled to a 50% tax credit in Malaysia on any taxes charged on its income.

Required:

- (i) **Compute the Malaysian income tax payable by GLS Shipping Ltd under the 5% method; and**
(10 marks)
- (ii) **Compute the Malaysian income tax payable by GLS Shipping Ltd under the Acceptable Ratio Certificate Method.**
(10 marks)

Note:

The income tax rate applicable to a non-resident for the year of assessment 2016 is 24%.

[Total: 20 marks]

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Question 3

- (a) In the late 1990s the Malaysian Indian Restaurant Operator's Association ('the association') was set by a group of leading local businessmen engaged in the restaurant business specialising in South Indian food. Their main aim was to promote and safeguard the interest of its members particularly in the legal and socio-economic context. Additionally, it was also to establish a platform for further research and development principally in the area of creating and expanding new concepts in banana leaf meals to other non-traditional markets.

It is a fairly active association and carries out several activities for its members both from a business and social perspective.

Recently, its secretary, accompanied by its treasurer, has approached you to discuss the preparation of the association's tax computation for the year of assessment 2016. During the course of the discussion, they were able to furnish you the following information.

1. The membership fees collected for the year ended 31 December 2016 was RM180,000. The secretary further mentions that the association closes the accounts to 31 December each year.
2. The association conducted three seminars on the recent budget with particular focus on the new goods and services tax and two workshops for its members. The workshop dealt with strategies to operate a successful restaurant and was designed particularly for new members. A talk was also held to discuss finance and marketing opportunities. According to the secretary the fees collected from the participants was RM90,000. The seminar, workshops and the talk were held at a hotel and the cost of the hall and related expenses (including food and drinks) was RM6,984 while a sum of RM14,905 was paid to the invited speakers.
3. The association arranged a cultural show for the Deepavali festival under the theme of '*Deepavali – the Light of the Future*' in a grand manner. The secretary mentioned that the show was a huge success and he was very happy with it. The ticket sales achieved was RM50,000. The various expenses related to the celebration, including payment to the guest artists, were RM21,737. The treasurer confirms that all the expenses were properly recorded and vouched for by its internal auditor, a retired gentleman who formerly worked with an international accounting firm, Price Iccwater & Co.
4. According to the treasurer, some excess funds of the association were either invested in local companies quoted on the Bursa Malaysia or for reasons of liquidity, kept in a fixed deposit. In September 2016 the association received a single tier dividend of RM24,000 from such an investment. The fixed deposit interest received in June and December 2016 totalled RM2,000.
5. The association's committee members also visited an old folk's home on Thaipusam day to comfort the inmates. During the visit they made a donation of RM5,000 to the home. You were able to verify with the treasurer that the home is an approved charitable body and that an official receipt has been duly issued to the association for the sum donated.

6. The treasurer further informs you that the office and administrative expenses are made up of the following:

No.	Particulars	Amount (RM)
1	Salary and wages	90,000
2	Employee's provident fund	15,000
3	Stationery	8,900
4	Utility expenses	7,452
	Total	121,352

7. The association has its own building and during the year it painted the exterior of the building at a cost of RM3,831. The quit rent and assessment on the building was RM1,089 and RM1,728 respectively for the year ended 31 December 2016.
8. You were able to verify, based on the information provided by the treasurer that on the assets used by the association, capital allowance of RM1,500 could be claimed for the year of assessment 2016.

Required:

Compute the chargeable income of the Malaysian Indian Restaurant Operator's Association for the year of assessment 2016 based on the information provided.

(15 marks)

- (b) **With reference to the ITA, explain briefly how the resident status of a trade association is determined and the law under which this is determined.**

(5 marks)

[Total: 20 marks]

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Question 4

Advance Manufacturing Sdn Bhd (“AMSB”) is a Malaysian resident company incorporated on 5 November 2012, with a paid-up share capital of RM18 million. AMSB is proposing to set up a production plant to manufacture engineering plastic products in Pasir Gudang. AMSB has been advised by the Malaysian Investment Development Authority (MIDA) that the proposed project is eligible for a tax incentive as a promoted product under “General” category.

AMSB made up its first set of accounts to 31 December 2013 and thereafter to December 31 annually. The relevant projected financial information for the first 5 years of operations are as follows:

Year end 31 Dec	Adjusted income/(loss) RM'000	Capital allowance RM'000	Land cost RM'000	Factory cost RM'000	Plant & Machinery costs RM'000	Office equipment, furniture & fittings cost RM'000
2013	(5,000)	10,000	15,000	15,000	20,000	650
2014	(8,000)	11,000	0	12,000	18,000	400
2015	38,000	9,000	0	5,000	10,000	0
2016	60,000	8,000	0	0	0	300
2017	20,000	7,000	0	0	0	0

Assume that the tax relief period is with effect from 1 January 2013. The income tax rate is 25% for YA 2013 to 2015, 2016 to 2017 is 24%.

Required:

- (i) **Compute AMSB’s statutory income, chargeable income, tax payable, capital allowance and pioneer exempt income account for the years of assessment 2013 to 2017, if AMSB opts for Pioneer Status. (Note: The exemption for Pioneer Status is 70% of statutory income).**
(8 marks)
- (ii) **Determine the chargeable income, tax payable, Investment Tax Allowance (“ITA”), losses and ITA exempt income account for the years of assessment 2013 to 2017, if AMSB opts for ITA. (Note: The rate of ITA is 60% of Qualifying Capital Expenditure and restricted to 70% of statutory income).**
(6 marks)
- (iii) **Advise AMSB the preferred tax incentive between Pioneer Status and ITA for the proposed plan based on your above calculations.**
(2 marks)
- (iv) **Assume that you are the tax consultant of AMSB, its Board of Directors would like to know the features of Pioneer Status claim prior to the projection of its financial information. List down the features of Pioneer Status claim.**
(4 marks)

[Total: 20 marks]

Question 5

M Sdn Bhd manufactures motor components and entered into the following leasing arrangements for the following assets in 2016. This company has a 31 December year end.

- i. Asset A was leased from H Leasing Sdn Bhd on the 1 April 2016 with rentals at RM3,000 per month for the first 24 months and RM3,300 each for the final 12 months.
- ii. Asset B was leased from a Korean company, Jimin Ltd on 1 August 2016. M Sdn Bhd has to pay monthly lease rental of USD1,500 for 48 months.
- iii. Asset C was acquired in 2 February 2014 for RM220,000 but in June 2016 the asset was sold to Patch Leasing Bhd for RM108,000 with the condition that the asset be leased back to M Sdn Bhd. The lease rental is RM4,600 (RM3,600 is the capital cost and RM1,000 is the interest cost) and the lease period is for 30 months. M Sdn Bhd had claimed capital allowances on this asset before it was sold to Patch Leasing Bhd.
- iv. A company car, BMW was leased on the 1 November 2015 for RM156,000 for a period of 12 months.

Required:

Explain the tax implications of the leasing arrangements of each assets by M Sdn Bhd for year of assessment 2016. Please show all calculations.

[Total: 20 marks]

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Question 6

Wira Investment Sdn Bhd ("Wira")'s principal activity is holding of investments. Wira's income statement for the financial year ended 31 December 2016 is as follows:

Gross income	RM	RM
Rental (Note 1)	60,000	
Interest (exempt)	126,000	
Dividend (exempt)	150,000	
Distribution of income from unit trust	30,000	
Management services fees	12,000	
Gains on impairment of investment	40,000	
		418,000
Expenses		
Audit fees	15,000	
Salaries and allowance	48,000	
Secretarial fees	2,400	
Professional fees (Note 2)	6,600	
Quit rent and assessment (rented out property)	5,000	
Repair and maintenance (Note 3)	8,000	
Printing and stationery	1,000	
Travelling expenses	3,500	
		89,500
Net profit before tax		328,500

The capital allowances for the sources of income for the year of assessment 2016 is RM20,000. Common expenses and capital allowances will be apportioned based on gross income from each source.

Note 1

Wira provides maintenance and support services comprehensively and actively to its tenant for the derivation rental income.

Note 2

Professional fee	RM
Accounting fee	3,600
Legal fee for purchase of property	3,000
	6,600

Note 3

Repair and maintenance	RM
Repair of office equipment	2,500
Maintenance of rented out property	5,500
	8,000

Required:

- (i) **Determine whether Wira is an investment holding company under Section 60F of the ITA.**
(2 marks)
- (ii) **Calculate the amount of permitted expenses which is determined in accordance with the prescribed formula under Section 60F(1) of the ITA.**
(8 marks)
- (iii) **Assuming that Wira is now an investment holding company listed on Bursa Malaysia and subject to income tax provision under Section 60FA of the ITA.**

Calculate the chargeable income for Wira for the year of assessment 2016.

(10 marks)

[Total: 20 marks]

(END OF QUESTION PAPER)