



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

PROFESSIONAL EXAMINATIONS

INTERMEDIATE LEVEL

BUSINESS TAXATION

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 **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

Joyclean Sdn Bhd, a company resident in Malaysia, manufactures and exports household cleaning products. The company is a 100% Malaysian owned and a Malaysian registered proprietor of the brand 'Joyclean'. It has a paid-up capital of RM 3million as at 01 July 2016.

The income statement of the company for the year ended 30 June 2017 is as follows:

	Note	RM	RM
Revenue			9,269,750
Less: Cost of sales	1		(5,946,540)
Gross profit			3,323,210
Add: <u>Other income</u>			
Interest income	2	12,500	
Compensation	3	45,320	
Insurance recovery for stolen goods		35,000	92,820
			3,416,030
Less: Administrative Expenses			
Provision for doubtful debts	4	32,150	
Depreciation of factory, plant and machinery		185,550	
Donation	5	50,000	
Training expenses	6	27,960	
Entertainment	7	27,850	
Advertisement and promotion	8	86,850	
Professional fees	9	48,860	
Staff remuneration, benefits etc.	10	886,900	
Travelling expenses	11	86,564	
Upkeep and maintenance	12	143,210	
Fines and penalties	13	65,560	
Loss on foreign exchange	14	16,980	
			(1,658,434)
Profit before taxation			1,757,596

Notes:**1. Cost of sales includes:****i. Provision for stock obsolescence:**

	RM
Balance b/f	40,000
Provision for the year	85,000
Amount written off	<u>(65,000)</u>
Balance c/f	60,000

- ii. The company incurred and paid RM43,000 in obtaining a certification for a recognized quality systems and standards. A certificate was issued in the basis period for the year of assessment 2017.
- iii. The company's warehouse was broken into and goods valued at RM35,000 were stolen.

2. Interest income was received from short term loan to a supplier.**3. Compensation**

The compensation was received from one of Joyclean's dealers for early termination of a contract.

4. Provision for doubtful debts comprises of:

	General	Specific	Total
	RM	RM	RM
Balance b/f	55,000	45,000	100,000
Add: Provision for the year	35,000	23,300	58,300
Less: Provision written off	<u>(15,000)</u>	<u>(11,150)</u>	<u>(26,150)</u>
Balance c/f	75,000	57,150	132,150

5. Donation

The company gave a cash contribution of RM50,000 to Bakti, an approved organization.

6. Training expenses comprises of:

	RM
i. The company sent employees to participate in a training programme approved by the Malaysian Industrial Development Authority.	15,960
ii. The company participated in a training scheme for unemployed graduates under Skim Latihan 1Malaysia where it paid monthly training allowances for 3 trainees and paid fees to the trainers. The trainees were also paid for food, accommodation and travelling expenses. The expenses for each trainee did not exceed RM5,000.	12,000

7. **Entertainment expenses comprises of:**

		RM
i.	Disbursement of entertainment expenses of the marketing team	12,000
ii.	Hampers to existing customers in conjunction with the festival season	4,300
iii.	Chinese New Year dinner for the employees	11,550

8. **Advertisement and promotion expenses comprises of:**

		RM
i.	Advertising company brand name in the Hong Kong media	28,000
ii.	Cost of running a booth at an approved international trade fair	34,200
iii.	Free samples to prospective customers in Hong Kong	24,650

9. **Professional fees comprises of:**

		RM
i.	Secretarial fees (incurred and paid)	6,800
ii.	Taxation consultancy fees	10,500
iii.	Advise on a legal action against supplier regarding raw materials supplied	17,560
iv.	Statutory audit fees	14,000

10. **Staff remuneration, benefits etc.:**

		RM
i.	Recruiting of new employees	33,800
ii.	Family trip for its employees to Sunway Resort:	
	• Travelling cost	3,000
	• Meal and accommodation	22,560
iii.	Staff medical and dental	32,300
iv.	Scholarships of RM5,000 each to four children of employees earning less than RM3,000 pursuing full time courses at Malaysian universities	20,000
		20,000
v.	Staff salaries and wages	775,240

11. **Travelling expenses includes:**

		RM
i.	Local travelling expenses claimed by the marketing staff	25,700
ii.	Business trip to Taiwan	26,364
iii.	Travelling cost for the purpose of participating in approved international trade fair by the company's representative. Total of 4 days accommodation and sustenance	34,500

12. **Upkeep and maintenance expenses comprises of:**

		RM
i.	Repair and spare parts for vehicles, plant and machinery	12,210
ii.	Renovation of staff facilities	21,000
iii.	Estimated cost for the extension of factory	110,000

13. **Fines and penalties comprises of:**

		RM
i.	Fines and compounds for traffic offences	15,300
ii.	Penalty for late payment of income tax	50,260

14. **Loss on foreign exchange comprises of:**

		RM
i.	Unrealised loss from sale of goods	12,140
ii.	Realised loss from purchase of machinery	4,840

15. **Vendor Development Programme**

The company is an anchor company which implemented the Vendor Development Programme to develop local vendors.

The company had obtained Ministry of International Trade and Industry certification to claim qualifying expenses. It incurred RM200,000 on product development and business process reengineering costs.

16. **Other information:**

The company has unabsorbed capital allowance and unabsorbed loss brought forward from the year of assessment 2016 amounting to RM136,300 and RM90,650 respectively. Capital allowance and industrial building allowance for the year of assessment 2017 amounted to RM125,600 and RM49,500 respectively.

Required:

Compute the chargeable income and income tax payable by Joyclean Sdn Bhd for the year of assessment 2017.

Note:

You are required to start with the profit before taxation figure. Every item mentioned in the notes to the accounts must be listed in your computation irrespective of whether or not an adjustment is necessary. Where no adjustment is required, indicate 'Nil' in the appropriate column.

[Total: 25 marks]

Question 2

- (a) Jason and Junie are partners in a conventional partnership business selling plants and handicraft. The details of the partnership's income statement for the year ended 31 December 2017 are as follows:-

	RM	RM
Sales		5,300,000
Less: Cost of sales		<u>(3,100,000)</u>
Gross profit		2,200,000
Less: Expenses		
- Partners' salaries	162,000	
- Interest on capital	175,000	
- Depreciation	80,000	
- Entertainment of suppliers	50,000	
- Approved donation	10,000	
- Other tax deductible expenses	<u>300,000</u>	<u>(777,000)</u>
Add: Interest income on a loan to third party		<u>120,000</u>
Net profit for the year		<u>1,543,000</u>

Notes:

- Capital allowances for the year of assessment 2017 is RM45,000.
- Unabsorbed business adjusted losses brought forward from the year of assessment 2016 and available to the partners are as follows:-

	RM
Jason	115,200
Junie	76,800

- The partnership agreement provides for the following:-

Interest on capital	10% per annum for each partner
Capital contribution:- Jason (no change during the year) Junie <ul style="list-style-type: none"> • As at 1 January 2017 • Additional capital on 1 April 2017 	RM1,000,000 RM600,000 RM200,000
Salaries:- <ul style="list-style-type: none"> • Jason • Junie 	RM7,500 per month RM6,000 per month
Share of divisible income/(loss):- <ul style="list-style-type: none"> • Jason • Junie 	60% 40%

- For the year ending 31 December 2017, Jason received RM24,000 rental income from the letting of his own property.

Required:

- (i) **Compute the provisional adjusted income and divisible income of the partnership for the year ended 31 December 2017.** (6 marks)
 - (ii) **Compute the total income of each partner for the year of assessment 2017.** (11 marks)
- (b) **With reference to the scenario above, briefly explain the tax treatment for a Limited Liability Partnership (“LLP”):-**
- (i) **Interest income from a loan to a third party;**
 - (ii) **Partners’ salaries; and**
 - (iii) **Distribution of profits**

(3 marks)

[Total: 20 marks]

Question 3

Setia Sdn Bhd is an engineering company with a financial year end of 31 December. Assets that were brought forward from the year of assessment 2016 are as follows:

	Cost (RM)	Residual expenditure brought forward (RM)
Heavy machinery	120,000	48,000
Furniture	23,000	16,100

The furniture, purchased more than two years ago, was disposed of on 17 July 2017 for RM23,700.

In the year 2017, Setia Sdn Bhd purchased additional assets for the business as listed below:

- 1. A machine was acquired in January 2017 on the following hire-purchase terms:

	RM
Cash price	170,000
Hire purchase price	190,000
Deposit paid	70,000
Amount financed	100,000
Term of repayment	24 months

The instalments are payable monthly commencing in January 2017.

2. A new Honda CR-V was purchased on July 2017 for RM168,000 for business purpose during the financial year ended 31 December 2017.
3. A computer was acquired in August 2017 for RM8,000. However, it was found to be unsuitable and was disposed of on 16 September 2017 for RM5,500.

The rates of initial and annual allowances are as follows:

	Initial allowance	Annual allowance
Heavy machinery & motor vehicles	20%	20%
Plant and machinery	20%	14%
Computers, information technology and computer software	20%	40%
Office equipment, furniture and fittings	20%	10%

Based on the information provided;

- (a) **State the qualifying plant expenditure for each of the assets acquired during the year.**
(3 marks)
- (b) **Calculate the initial allowance and capital allowance for all business assets for the year of assessment 2017 and state the residual expenditure of each asset at the end of the year of assessment 2017.**
(5 marks)
- (c) **Calculate the balancing allowance or balancing charge in respect to the assets disposed of in the year 2017.**
(4 marks)
- (d) **Discuss on the impact on capital allowance in the following situations:**
 - (i) **If machinery or plant is acquired on hire-purchase**
 - (ii) **If an asset is given as a gift**
 - (iii) **If disposal of an asset is a controlled transfer**
(8 marks)

[Total: 20 marks]

Question 4

Intana Bhd (Intana) is a company resident in Malaysia. In the year 2017, Intana purchased a machine from Jackhon Ltd (Jackhon), a company not resident in Malaysia. Since Intana required technical services from Jackhon for the installation of the machine in Malaysia, Jackhon sent an employee to Malaysia to provide the technical services to Intana. For the technical services provided in Malaysia, Jackhon was paid RM23,000. In its tax return for the year of assessment 2017, Intana claimed the RM23,000 payment to Jackson.

Required:

- (i) **In relation to the RM23,000, determine the class of income received by Jackhon, and explain whether withholding tax is applicable.**
(6 marks)
- (ii) **Calculate the withholding tax (if any) on the payment for the technical services rendered by Jackhon.**
(3 marks)
- (iii) **Assume withholding tax is applicable, discuss Intana's withholding tax obligations as well as the consequences of failure to comply with the relevant withholding tax provision when Intana had claimed a deduction of RM23,000 in its tax return for the year of assessment 2017.**
(8 marks)

Candidates are required to cite the relevant provisions of the tax legislation

[Total: 17 marks]

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Question 5

You are the accountant of Vari Sdn Bhd. (Vari), a company with an authorised share capital of RM 3 million and a paid-up share capital of RM 2.5 million. Vari operates two businesses; i.e. a trading business and a manufacturing business, and closes both business accounts on 31 October each year.

You are currently reviewing the draft tax computation of Vari for year of assessment 2017 which was prepared by your staff.

In your review, you noted the following tax treatments to be erroneous.

- The staff claimed a deduction for the incorporation expenses incurred by Vari prior to commencement of operations on two grounds; firstly its paid-up share capital did not exceed RM2.5 million and secondly it did not claim the expense in the year of incorporation as the company did not have sufficient income to absorb the incorporation expenses.
- The staff utilised the balancing charge arising from the disposal of a trading business asset to reduce the adjusted loss from the trading business as follows:

	RM
Adjusted loss (trading business)	380,000
Add: Balancing charge	<u>2,960,000</u>
Adjusted loss (after balancing charge)	2,580,000

- Following from Note 2 above, the computation for the trading business continued as follows:

	RM
Adjusted loss (after balancing charge)	2,580,000
Less: Capital allowance – brought forward	
• manufacturing business	500,000
• trading business	300,000
Capital allowance – current year (of trading business)	<u>1,060,000</u>
Aggregate statutory income from business	720,000

- Following the aggregate statutory income from business of RM720,000 (from Note 3 above), the computation continued as follows:

	RM
Aggregate statutory income from business	720,000
Add: Single tier dividend	35,000
Interest income	340,000
Rental income	<u>225,000</u>
	1,320,000
Less: Brought forward adjusted loss: (of manufacturing business)	<u>700,000</u>
Aggregate income	<u>620,000</u>

5. From the aggregate income (from Note 4 above), the computation continued as follows:

		RM
Aggregate income		620,000
Deduct:		
Current year adjusted loss (of the manufacturing business)	15,000	
Cash donation to an approved old folks home	60,000	
Gift of a van to an approved old folks home	<u>120,000</u>	<u>195,000</u>
Total income		<u>425,000</u>

Required:

- (a) Identify the errors in each of the above treatments and explain why it is an error.
- (b) Compute the correct statutory income from the respective businesses, the aggregate statutory income from business, the aggregate income and the total income of Vari Sdn Bhd for the year of assessment 2017.

[Total: 18 marks]

(END OF QUESTION PAPER)