



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

PROFESSIONAL EXAMINATIONS

INTERMEDIATE LEVEL

BUSINESS TAXATION

DECEMBER 2018

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.

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Question 1

Fastrack Ultra Sdn Bhd (FUSB), incorporated in Malaysia, is engaged in the business of manufacturing footwear for export. FUSB's paid-up capital in respect of ordinary shares as at 1 May 2017 amounted to RM1,500,000. FUSB, is a tax resident and wholly owned by two individuals (husband and wife). FUSB's Statement of Profit or Loss for the financial year ended 30 April 2018 is as follows:

		Note	RM'000	RM'000
Revenue		(1)		27,498
Less:	Cost of sales	(2)		<u>(22,300)</u>
	Gross profit			5,198
Add:	Government Grant	(3)	100	
	Interest income	(4)	<u>39</u>	
				<u>139</u>
				5,337
Less:	<u>Expenses</u>			
	Loss on disposal of motor vehicles	(5)	21	
	Salaries and wages	(6)	1,480	
	Bad and doubtful debts	(7)	47	
	Marketing and advertisement	(8)	410	
	Export credit insurance premium	(9)	85	
	Motor vehicle expenses	(10)	350	
	Repair and maintenance	(11)	274	
	Professional and legal fees	(12)	37	
	Foreign exchange losses	(13)	70	
	Donations	(14)	65	
	Insurance premium (key man)	(15)	17	
	Miscellaneous expenses	(16)	129	
	Other business expenses	(17)	<u>1,182</u>	
				<u>(4,167)</u>
	Net profit before tax			<u>1,170</u>

Notes:

1. Revenue for YA 2018 includes a sum of RM125,000 received by FUSB as the first installment under an agreement signed with a shoe company in Sarawak. The amount received was for a license to use FUSB's patents and know-how for a period of two years (i.e. RM125,000 is received for the first year and another RM125,000 will be receivable for the second year).

In exchange for receiving the said sum, FUSB has agreed not to award any such license to other parties in Sarawak during the two years. However, FUSB is still allowed to license its patents and know-how in all the other states in Malaysia.

2. Included in the cost of sales are:
 - i. RM73,000 incurred for the cost of sport shoes donated to an orphanage in Malaysia. The market value of the donated shoes amounted to RM160,000;
 - ii. RM50,000 being the allowance for slow moving inventories for the current year. This is merely an estimate amount and is not identifiable to any specific stock item.
3. FUSB received a grant from the government to run a special skilled training program for the company's disabled employees. The company undertook it as part of its human capital development program.
4. Interest income consisted of:
 - i. RM12,000, for interest received on housing loan given to an employee of FUSB;
 - ii. RM27,000, for interest charged on trade debtors for overdue debts.
5. FUSB disposed one of its delivery vans, realizing a loss of RM21,000 on the disposal.
6. Salaries and wages comprise of:

		RM'000
i.	Salaries and wages	1,000
ii.	Salary paid to a disabled staff (certified by the relevant authority)	200
iii.	EPF Contributions (20% of salaries and wages in (i) and (ii) above)	240
iv.	Expenses incurred in providing equipment for disabled staff	40
		1,480

7. Bad and doubtful debts were in respect of:
 - i. Bad trade debts written off during the year amounted to RM60,000;
 - ii. Increase in general provision for trade debts for the year from RM50,000 to RM70,000;
 - iii. A sum of RM22,000 advanced to a supplier who required funds to meet some working capital requirements. However, the supplier was subsequently declared bankrupt during the year, thus the advance of RM22,000 was written off.
 - iv. Recovery of debts amounted to RM55,000 which were taken over from the vendor of the business which FUSB acquired several years ago.
8. Marketing and advertisement expenses include:
 - i. A sum of RM82,000 embezzled by former marketing director;
 - ii. A sum of RM66,000 in respect of products advertising in South Korea for purposes of promoting export of the company's branded footwear;
 - iii. A sum of RM15,000 incurred on the cost of online advertising to recruit staff;
 - iv. All remaining marketing and advertisement expenses qualify for deduction under Section 33(1).
9. The export credit insurance premium was in respect of premiums paid to a Malaysian insurance company approved by the Minister of Finance for the export of footwear.

10. Motor vehicle expenses include lease rentals in respect of a motor car of RM6,500 per month under an agreement for a period of 24 months commencing on 1 January 2017. The purchased price of a new car of similar model in January 2017 was RM145,000.

The remaining motor vehicle expenses all qualify for deduction under section 33(1).

11. Repair and maintenance expenses consisted of:

- i. RM90,000: repair and routine maintenance of the motor vehicles, office equipment and machinery;
- ii. RM184,000: upgrading of the company's building lobby.

12. Professional and legal fees were in respect of:

- i. RM13,000: Tax agent fees for filing annual income tax returns;
- ii. RM24,000: Legal fees for the acquisition of a new business.

13. Foreign exchange loss relates to an unrealized payment due to a supplier.

14. Donations and sponsorship expenses consisted of:

- i. RM25,000: cash donation to an approved institution;
- ii. RM40,000: sponsoring the construction of bus stops under the "Public Amenities for Community" program (project approved by the Minister of Finance & cost is certified by the relevant authorities).

15. Key man insurance was taken on the life of FUSB's shareholders (i.e. the husband and wife, both of whom are also the only directors of the Company). The beneficiary of the key man insurance policy is FUSB.

16. Miscellaneous expenses incurred are as follows:

	RM
Dinner to entertain suppliers of FUSB	16,000
Leave passage to facilitate FUSB's annual family day event in Langkawi	44,000
Food and refreshment provided at FUSB's AGM	27,000
Depreciation	<u>42,000</u>
	<u>129,000</u>

17. Other business expenses [all qualify for deduction under section 33(1)].

18. A new building which had not previously been used as an industrial building was purchased on 20 July 2017 for RM350,000, which includes RM50,000 for the cost of the land. In August 2017 FUSB commenced to use the building as a factory.

19. In the year of assessment 2018, the capital allowances in respect of FUSB's qualifying non-current assets (excluding the new factory) amounted to RM520,000.

20. Balancing allowance in respect of the motor vehicle disposed of [see note (5)] is RM21,000.

Required:

Compute the income tax payable by FUSB for the year of assessment 2018.

Notes:

1. Your computation should start with the 'Net profit before tax' figure and should include all items referred to in Notes 1 to 20, indicating 'NA' where no adjustment is needed.
2. Assume that there is no increase in chargeable income from the business compared to the immediate preceding year of assessment.

[Total: 30 marks]

Question 2

- (a)** Neptune Sdn Bhd (NSB) (accounting year-end 31 October) intends to provide its CEO with a new motor car (Mercedes) costing RM 250,000. NSB is considering the following options:

Option 1: Leasing a new car for RM 8,000 per month commencing from July 2017; OR

Option 2: Purchasing a new car with cash.

Required:

For the years of assessment 2017 and 2018 compute and explain the deductions or capital allowances available to NSB in relation to each of the above options.

(7 marks)

- (b)** Generally entertainment expenses rank for a 50% deduction for income tax purposes if they are wholly and exclusively incurred for the production of gross income from that source.

Required:

State any THREE (3) circumstances where a full [100%] deduction is available for entertainment expense.

(3 marks)

- (c)** Pluto Sdn Bhd conducts a manufacturing business and has also invested funds in fixed deposits and properties. The company has the following balances reflected in its financial statements as at 31 August 2018.

Liabilities:

	RM	Interest expense (RM)
Term loan balance	400,000	32,000
Bank overdraft	100,000	25,000

The bank overdraft was taken for general purposes, but Pluto Sdn Bhd had taken the term loan specifically for acquiring real properties costing RM450,000 for investment purposes.. The properties generated a rental income of RM 80,000 for the year ended 31 August 2018.

There are no other expenses directly attributable to the rental income aside from the interest expense. Pluto Sdn Bhd does not provide maintenance services for the properties which were rented out immediately upon acquisition.

Pluto Sdn Bhd also had invested RM 30,000 in fixed deposits which earned an interest income of RM 7,000 for the year ended 31 August 2018.

Required:

Compute the amount of interest expense that would be DEDUCTIBLE for the year of assessment 2018 in determining the adjusted income from the following sources. Clearly explain your workings:

- (i) **Manufacturing business of Pluto Sdn Bhd** (6 marks)
- (ii) **Rental income** (2 marks)
- (iii) **Fixed deposit interest income** (2 marks)

[Total: 20 marks]

Question 3

- (a) Good Idea Sdn Bhd (GISB), a tax resident company in Malaysia, engaged IT Giant Ltd (IT Giant), an IT solution company incorporated in the U.S.A, not tax resident company in Malaysia, to develop a comprehensive IT system for GISB's head office in Kuala Lumpur. The total value of the IT system is RM1.2 million and the details of the cost breakdown are as follows:-

Fees	RM
Computer hardware and peripheral devices	500,000
Professional services for software design and development	450,000
On-site installation fee	100,000
One-time software license fee	150,000
Total	1,200,000

Based on the agreed scope of work and project milestones, 80% of the software design and development work were performed in IT Giant's office in the U.S.A and the balance in GISB's head office. The entire project duration is 3 months and the project was completed on 30 June 2018. In addition to the above fees, IT Giant also billed GISB for reimbursement of RM30,000 for cost of air fare and RM20,000 for hotel accommodation in Kuala Lumpur. GISB made the full payment to IT Giant (net of withholding taxes) on 3 August 2018.

Assume that IT Giant does not have a permanent establishment in Malaysia.

Required:

(i) Discuss the withholding tax implications for all the above fees and disbursements/reimbursements paid to IT Giant, citing the relevant provisions of the tax legislation.

(9 marks)

(ii) Compute the withholding tax payable (if any) on EACH of the above payment made to IT Giant.

(4 marks)

(iii) Assuming that withholding tax is applicable, state the timeline to remit the withholding tax to the Inland Revenue Board and explain whether there will be any late payment penalty if GISB had remitted the withholding tax on 5 September 2018. Compute the late payment penalty if applicable.

(3 marks)

(b) Yuko-san is not a tax resident in Malaysia. She lives and works as a teacher in Japan. She was a university classmate of one of the directors of GISB. Yuko-san introduced a potential client to GISB, resulting in the Company securing a sales contract with the client. As a token of appreciation, GISB agreed to pay Yuko-san an introducer fee of RM10,000. Yuko-san “performed” the introducer services in Japan.

Required:

State and explain whether the above payment to Yuko-san is subject to withholding tax.

(4 marks)

[Total: 20 marks]

Question 4

(a) XYZ Sdn Bhd closes its accounts on 31st December each year.

Shown below is an extract of XYZ Sdn Bhd’s tax installment schedule under Section 107C for Year of Assessment 2018:

Instalment no.	Amount RM	Date paid
1	10,000.00	5 th February 2018
2	10,000.00	20 th March 2018
3	10,000.00	30 th June 2018
...
12	10,000.00	...

State whether each of the installments was paid late, and compute the amount of late-payment penalty, if any for:

(i) Installment 1

(ii) Installment 2

(iii) Installment 3

(5 marks)

(b) PQR Sdn Bhd makes up its accounts to 30th June each year.

On 10 May 2018 PQR Sdn Bhd submitted its form CP204 (original tax estimate form under Section 107C(1)) for Year of Assessment 2019.

Required:

State whether the Form CP 204 for YA 2019 was submitted within the time allowed under Section 107C?

Justify your answer with a reason.

(3 marks)

(c) ABC Sdn Bhd is a Malaysian tax resident company incorporated in 2018 and makes up its first set of accounts to 31st December 2018.

During the Year of Assessment 2018, ABC Sdn Bhd commenced business and purchased the following items in December 2018, all paid in cash / internal funds:

Item	Cost (RM)	Remarks
Computer	8,000	<ul style="list-style-type: none">➤ Bought second-hand from a local second-hand IT-refurbishing shop.➤ Purchase was supported by proper business invoices.
Stand-alone fax machine	350	<ul style="list-style-type: none">➤ Bought 'new' from a local IT shop.
Motor vehicle – Toyota Hilux	108,000	<ul style="list-style-type: none">➤ Non-commercial vehicle➤ Bought second-hand from a local second-hand car dealer.

Assumptions:

- All 'plant and machinery' above are used for the business.
- ABC Sdn Bhd is the owner of all the above items as at 31st December 2018.
- ABC Sdn Bhd will attempt to maximize capital allowance claims where possible.

The rates of initial and annual allowances are as follows:

	Initial Allowance	Annual Allowance
Heavy machinery and motor vehicles	20%	20%
Plant and machinery	20%	14%
Information and communication technology equipment and software	20%	20%
Office equipment, furniture and fittings	20%	10%
Small Value Assets	-	100%

Required:

- (i) **Compute the expected amount of Capital Allowance for the Year of Assessment 2018.**

Show all workings clearly.

(4 marks)

- (ii) **Assuming ABC Sdn Bhd only commenced operations in YA 2019 (and not in YA 2018), how would this affect the initial allowance and annual allowance claim for YA 2018 and YA 2019?**

Justify your answer. (Calculations are not required)

(3 marks)

[Total: 15 marks]

Question 5

Jamaliah and Wani are partners in JW Marvellous Cut (JWM), a conventional partnership operating a popular hair salon in Kota Kinabalu. The details of the partnership's income and expenses for the year ending 31 December 2018 are as follows:

		RM	RM
Hair styling fee income		530,000	
Sale of styling and colouring products		<u>60,000</u>	
			590,000
Less: Cost of sales			(40,000)
			<u>550,000</u>
Gross profit			550,000
<u>Less: Expenses</u>			
Air tickets for company trip to Thailand	Note 3	5,000	
Depreciation		10,000	
Food and drinks for staff of JWM		3,600	
Partners' salaries	Note 4	138,000	
Penalty for late renewal of business license		100	
Renovation written off (capital in nature)		9,900	
Repair and maintenance (revenue in nature)		2,200	
Saloon rental expense		60,000	
Staff salaries		<u>126,200</u>	
			(355,000)
			<u>195,000</u>
Net profit for the accounts			195,000

Notes:

1. Capital allowances for the Year of Assessment 2018 amount to RM 10,000.
2. Jamaliah's daughter, Siti, joined the partnership on 1st July 2018. The profit sharing for YA 2018 was agreed as follows:

	Jamaliah	Wani	Siti	Total
1.1.2018 to 30.6.2018	50%	50%	-	100%
1.7.2018 to 31.12.2018	40%	50%	10%	100%

3. Air tickets for company trip to Thailand was leave passage to facilitate a yearly event which involved the employer and the employees of JWM.
4. Partners' salaries are as follows:

	Jamaliah	Wani	Siti	Total
	RM	RM	RM	RM
1.1.2018 to 30.6.2018	30,000	30,000	-	60,000
1.7.2018 to 31.12.2018	30,000	30,000	18,000	78,000
Total for the YA	60,000	60,000	18,000	138,000

Required:

- (i) **State whether Siti is entitled to any capital allowance for YA 2018.**

Justify your answer.

(3 marks)

- (ii) **Compute the provisional adjusted income and divisible income of JWM for the year of assessment 2018.**

(4.5 marks)

- (iii) **Compute the statutory income of each partner for the year of assessment 2018.**

(7.5 marks)

[Total: 15 marks]

(END OF QUESTION PAPER)