



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

PROFESSIONAL EXAMINATIONS

INTERMEDIATE LEVEL

PERSONAL TAXATION

JUNE 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 paper or answer booklet are to be removed from the examination hall.

DO NOT TURN OVER THIS PAGE UNTIL INSTRUCTED BY THE INVIGILATOR

Question 1

Raymond is an accountant with Capital Consulting Sdn Bhd, a Malaysian-based company since January 2010. On 1 January 2017, he was promoted and transferred to the head office located in Penang. For the year ended 31 December 2017, he was paid a gross salary of RM120,000. His Employees Provident Fund contribution during the year was RM15,400. He was entitled to a bonus of RM20,000, which was paid in November 2017.

The company provided Raymond with a new Toyota car costing RM170,000. One-third of the car usage was related to private usage. During the first month in Penang, he was provided with accommodation in a hotel at the cost of RM200 per night which was paid by the company. Raymond was given entertainment allowance of RM1,000 per month and parking allowance of RM200 per month. During the year, he was given leave passage worth RM18,000 for him and his family to visit Seoul, Korea.

Raymond is married to Sarah. Sarah worked as an Information Technology specialist with the Malaysian government department from 1991. She received RM9,200 per month as gross salary. However, she opted for early retirement at the age of 50 years on 30 September 2017 and received a gratuity of RM85,000.

Sarah decided to work full time at the bookstore which she opened in partnership with her brother in 2015. She shared the profits and losses of the business on an equal basis. In 2017, Sarah's adjusted income from the partnership business amounted to RM16,000, while the partnership business had a balancing charge of RM10,000 and capital allowances of RM50,000.

She also received a monthly pension of RM4,200 from the government. In 2017, she wrote a book and received RM29,000 as a royalty. She also incurred RM3,000 for editing and RM1,500 for printing which are related to the cost of publishing the book.

Sarah paid a membership fees of RM450 per annum, to the Institute of Information Technology Malaysia. She paid medical insurance premiums of RM3,400. Her contribution to the Employee Provident Fund was RM3,300.

Other information:

Raymond and Sarah have two children. The older child is Diana. She is nineteen years old, pursuing a course in Actuarial Science at a private institution. The younger child Charles is disabled. He is fifteen years. He studies in a special school catering for disabled children in Subang Jaya.

For the relevant year, Raymond bought a computer for Diana at RM4,200. He also bought books for RM768. Sarah's mother has no income of her own. Sarah spent RM8,000 on her mother's medical expenses. During the year, Raymond and Sarah respectively gave cash of RM5,000 and RM1,000 as donations to approved charitable institutions.

Note:

Raymond and Sarah are resident taxpayers under sec 7 of the ITA. They did not elect for combined assessment but Raymond will claim the child relief.

Required:

Compute the income tax payable by Raymond and Sarah for year of assessment 2017. Reference should be made to the tax provisions under the ITA

[Total: 30 marks]

Question 2

- (a) Mr Poorapura aged 61, is a resident, married to a housewife and employed as a branch manager in Bandar Sunway, Petaling Jaya with effect from 1 October 2016. Details of his remuneration package and expenditure from 1 January to 31 December 2017 are as follows:

Income and benefits received from employment:	RM
Gross salary during the year 2016 and until March 2017 was RM8,000 per month	
Effective from April 2017, gross salary has been increased by 10% per month.	
One month bonus was paid based on 2016 salary, of which 50% was paid in December 2016 and the balance in January 2017	To be computed
Accommodation:	
Fully furnished accommodation, monthly rental value	2,500
Value of furniture per month	500
Entertainment allowance	24,000
Driver provided between 1/4/17 to 30/9/17	
Gardener provided between 1 October 2017 onwards	
Travelling allowance	7,000
Innovation award (in cash)	1,900
Employer's EPF (15%)	16,080
Six-year-old car, Market value RM40,000,	Original Cost 75,000
Reimbursement of domestic help's monthly salary by his employer. The domestic help was directly employed by Mr Poorapura	1,000 per month
Other Expenditure reimbursed by Employer during the year:	
Medical expenses paid for Mr Poorapura (non-serious disease)	6,800
Medical expenditure for Poorapura's wife (serious disease)	50,000

Expenditure incurred by Poorapura during the year:	
Travelling expenses incurred on official duty	5,000
Entertainment expenses incurred on company clients	20,000
Purchase of smart phone	1,800

Other Income:

Part time employment income earned from another employment as a restaurant chef consisted of RM30,000 salary and tips amounting to RM1,000.

Required:

Compute the statutory employment income for Poorapura for the year of assessment 2017.

Notes:

1. Where relevant, your computation should state an item of income / expenditure as NIL.
2. Marks will be awarded for the use of accurate technical terms to describe the figures calculated at various stages of your tax computation.

(16 marks)

- (b) Puan Siti, was recently appointed as the assistant to the Human Resource Manager. She is unsure whether to withhold any money from employees who cease employment during the year of assessment 2018.

Required:

Advice Puan Siti on under what circumstances an employer is required to withhold money due to an employee under the ITA.

(4 marks)

[Total: 20 marks]

Question 3

Miss Tiara owns two shop houses and a residential house which were all rented out during the year 2017. The receipts and payments in respect of each of the properties for the period 1 January 2017 to 31 December 2017 are as follows:

1. Shop house in Cheras – rent at RM5,400 per month

	RM	RM
Receipts:		
Rental - January to November		59,400
Water and electricity deposit		2,200
Rent deposit forfeited		<u>5,400</u>
		67,000
Payments:		
Assessment and quit rent	3,520	
Penalty for late payment of assessment	190	
Interest on loan used to acquire the shop house	42,400	
		<u>46,110</u>
		<u>20,890</u>

2. Shop house in Ampang – rent at RM2,700 per month

	RM	RM
Receipts:		
Rental for January, February, November and December		10,800
Rent deposit (refundable)		<u>5,400</u>
		16,200
Payments:		
Fire insurance	1,550	
Repairs	3,900	
Agent's fees to find tenant	900	
Cost of improvement to property	35,300	
		<u>41,650</u>
		<u>(25,450)</u>

3. Residential house in Bangi – rent at RM2,100 per month (not previously rented out)

	RM	RM
Receipts:		
Rental commenced on 1 September 2017		8,400
Advance rental for January and February 2018		<u>4,200</u>
		12,600
Payments:		
Assessment and quit rent for full year	3,600	
Agent's fees to find tenant	1,800	
Repairs undertaken in February 2017	6,110	
		<u>11,510</u>
		<u>1,090</u>

Required:

- (i) Explain the difference between the letting of real property under paragraph 4(a) of the ITA; and the letting of real property under paragraph 4(d) of the ITA. (2 marks)
- (ii) Determine the adjusted rental income / (loss) for Ms. Tiara for year of assessment 2017. (10 marks)
- (iii) In relation to rental of properties, briefly explain the tax chargeability of the receipts and the deductibility of expenses stated below:
- a. Rental income received in advance and the related expenses.
 - b. Deposit received as a guarantee for any damages to the properties.
 - c. Revenue expenditure incurred during temporary non-occupation of the properties.
 - d. Expenditure incurred to obtain the first tenant.

(8 marks)

[Total: 20 marks]

Question 4

- (a) Pursuant to Section 91 of the ITA, there is a ‘time bar’ for the Inland Revenue Board to raise an assessment or additional assessment.

Required:

- (i) Describe precisely what is the period of the ‘time bar’?
(ii) Under what circumstances can the IRB extend the ‘time bar’ beyond the period in (i) above. (4 marks)

- (b) Individuals carrying on business are required to keep certain ‘records’ in accordance with Section 82 of the ITA.

Required:

- (i) Describe precisely for how long such ‘records’ are required to be kept. (4 marks)
(ii) Encik Taufik is operating a small retail business selling slippers of various colours and designs. His **annual sales** was **RM 180,000**. Encik Taufik claims that he does not need to issue printed receipts if his annual sales was below a certain threshold.

Advise Encik Taufik of his obligations under the ITA in relation to the printing of the receipts.

(3 marks)

- (c) Miss Jeevamari received a schedule of tax installments under Section 107B for year of assessment 2017.

Installment no.	Amount (RM)	Due Date	Installment (RM) was paid on:
1	3,000.00	1 March 2017	3,000 paid on 29 March 2017
2	3,000.00	1 May 2017	3,000 paid on 3 June 2017
3	3,000.00	1 July 2017	2,000 paid on 16 July 2017 1,000 paid on 16 August 2017
4	3,000.00	1 September 2017	1 September 2017
5	3,000.00	1 November 2017	1 November 2017
6	3,000.00	1 January 2018	1 January 2018
Total	18,000.00		

Required:

For each of the following installments, state whether or not it was paid late, and compute the late-payment penalty where applicable:

- (i) Installment 1
(ii) Installment 2
(iii) Installment 3

(4 marks)

[Total: 15 marks]

Question 5

- (a) Mr. Kenny is engaged in the business of selling fruits. In 1997, Mr. Kenny acquired some shares in M-Bank Berhad which he held until 2017. He later sold these shares which resulted in a gain of RM70,000.

Required:

Advise Mr. Kenny whether the gain of RM 70,000 is taxable under the ITA.
Support your answer with relevant explanation or tax principle.

(3 marks)

- (b) Mr. Indran is a Malaysian citizen but NOT a Malaysian tax resident. During the year, he earned some interest income derived from Indonesia which was equivalent to RM10,000. Out of this amount:

- RM7,000 was remitted back to Malaysia.
- The remaining RM3,000 was left in Indonesia.

Note: Ignore the effects of taxation in Indonesia.

Required:

State, with reasons, whether or not the following would be taxable in Malaysia:

- (i) **RM3,000 of the interest not remitted to Malaysia.**

(3 marks)

- (ii) **RM7,000 of the interest remitted to Malaysia, in view that he is a non-tax resident.**

(3 marks)

- (iii) **Would the answer to (ii) be different if Mr. Indran was a Malaysian tax resident?**

(1 mark)

- (c) Mr. Anand, a Malaysian tax resident and citizen, inherited a house in Kota Kinabalu from his late father in 2017. The market value of the house was RM500,000 in 2017.

Required:

State, with a reason, whether or not the house received by Mr. Anand is assessable to tax under the ITA.

(3 marks)

- (d) Ms. Irene operates a hair salon and is the sole proprietor of the business in Malaysia. She wishes to adopt '30th. September' as the accounting year-end for reporting her business income tax.

Required:

Is this allowed for income tax reporting? Explain your answer.

(2 marks)

[Total: 15 marks]

(END OF QUESTION PAPER)