



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

PROFESSIONAL EXAMINATIONS

FINAL LEVEL

ADVANCE TAXATION 1

DECEMBER 2014

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 is to be removed from the examination hall.

DO NOT TURN OVER THIS PAGE UNTIL INSTRUCTED BY THE INVIGILATOR

Question 1

Semua Getah Sdn Bhd, a 100% Malaysian owned company principally involved in the manufacture and sale of rubber products. The company's financial year end is 30 September. The company's income statement for the year ended 30 September 2013 is as follows:

	<u>Note</u>	<u>RM'000</u>	<u>RM'000</u>
Revenue			26,250
Less: Cost of sales			<u>(13,605)</u>
			12,645
Add: Other income			
Dividend income	1	210	
Interest income from fixed deposit		46	
Rental income	2	25	281
			<u>13,026</u>
Less: Operating expenses			
Depreciation		1,725	
Donations - approved institutions	3	78	
Electricity and water		236	
Entertainment	4	174	
Finance charges	5	375	
Foreign exchange gain- unrealised		(80)	
Lease rental	6	93	
Provision for doubtful debts	7	241	
Quit rent and assessment on shop house		2	
Remuneration	8	4,014	
Repair and maintenance	9	255	
Staff advances written off		143	
Royalty and technical fees	10	278	(7,534)
Net profit before tax			<u>5,492</u>

Notes:

- (1) Dividend income comprises of

Note:		RM	RM	RM
		Gross dividend	Income tax at 25%	Net dividend
The	Chemico Sdn Bhd (see note)	150	-	150
exempt	Bestagro Trading Sdn Bhd	60	-	60
dividend		<u>210</u>	<u>-</u>	<u>210</u>

from Chemico Sdn Bhd was paid out of exempt income under para 28 of schedule 6 of the Income Tax Act, 1967.

- (2) Rental income is derived from the rental of a shop house.
(3) Donations comprise of furniture to Rumah Aman (orphanage), an approved institution amounting to RM78,000.
(4) Entertainment expenses- include cost of annual dinner for employees amounting to RM60,000.

(5) Finance charges comprise

	RM '000
Bank guarantee fee	10
Term loan interest	365

The following investments and borrowings are reflected in the Statement of Financial Position for the financial year ended 30 September 2013:

	RM '000
Investment in shop house	800
Investment in shares	500
Fixed deposits with licensed banks	175
Term loan	6,050

(6) Details for the lease rental of motor vehicles are as follows:

	<u>Year of commencement</u>	<u>Accumulated rental b/f</u>	<u>Current Year</u>	<u>Accumulated rental c/f</u>
		RM '000	RM '000	RM '000
Toyota Hilux (cost RM300,000)	2013	-	60	60
Toyota Hi-Ace (Van)(cost RM87,000)	2012	32.5	32.5	65
		32.5	92.5	125

(7) Provision of doubtful debts (trade)

	<u>General RM '000</u>	<u>Specific RM '000</u>	<u>Total RM '000</u>
Balance as at 1 October 2012	174	114	288
Add: Adjustment made to the income statement	111	210 (see note)	321
Less: Bad debts written off	159	83	242
Balance as at 30 September 2013	126	241	367

Note: Specific provision for the year is related to a long outstanding trade debt. Legal proceedings have been taken against the trade debtor to recover the debt:

(8) Remuneration

	RM '000
Salaries	3,300
EPF	514
SOCSSO	150
Salaries- disabled employees	50
	4,014

(9) Repairs and maintenance includes expenses related to spare parts and replacement parts for small loose tools for production use amounting to RM108,000.

(10) Royalties paid to Toyo Rubber Co Ltd amounting to RM278,000 on 29 September 2013. Withholding tax has been deducted and remitted to the Inland Revenue Board on 28 October 2013.

- (11) Capital allowances have been computed at RM945,000 for the year of assessment 2013, but without taking into account the following acquisition:

A heavy machine was bought in November 2012 for RM65,000. A deposit was paid on 5 November 2012 amounting to RM20,000. Monthly instalments are payable for 30 months at RM1,700. The first instalment commenced on 5 December 2012.

(12) Other information	RM
Balancing charge	45
Balancing allowance	33
Current year industrial building allowance	100
Unabsorbed capital allowances brought forward from the year of assessment 2012	200
Unabsorbed business losses brought forward from the year assessment 2012	100

Required:

Compute the chargeable income of Semua Getah Sdn Bhd for the year of assessment 2013.

When preparing your answer, please follow the order of the descriptions used in the notes to the profit and loss account indicating 'nil' or '-' in the appropriate column for every item that does not require any adjustments. Please show all calculations on answer sheet.

[Total: 20 marks]

Question 2

(a)

Thai Seafood Sdn Bhd ('the Malaysian company'), a Malaysian resident company, is a subsidiary of Thai Seafood Private Limited of Thailand ('the Thai company'). In early 2013, the Malaysian company borrowed RM10 million from the Thai company to purchase a shop lot, plant and machinery, equipment and furniture to set up a branch restaurant in Malaysia. The restaurant was opened for business in November 2013. The interest on the loan was RM800,000 for the year ended 31 December 2013.

The Malaysian company also borrowed from a Singapore bank a sum of RM8 million and that loan is guaranteed by the Thai company for which the Malaysian company pays a guarantee fee of 2% of the loan outstanding. For the year ended 31 December 2013 the guarantee fee paid amounted to RM140,000 and the interest payment to the Singapore bank was RM900,000.

Required:

- (i) Explain whether the interest paid is derived from Malaysia.**
- (ii) What is the position of the guarantee fee paid?**
- (iii) Indicate whether any withholding taxes are due on the payments and at what rate?**

- (iv) Explain the consequences of not complying with the provisions of the Income Tax Act 1967 (as amended) in respect of the interest payment made to Thai Seafood Private Limited of Thailand.

(15 marks)

Note: You may ignore the provisions of any Double Tax Agreement between the relevant countries.

(b)

Smoky Sdn December is a resident Malaysian company ('the Malaysian company') that plans to carry on the business of tobacco manufacturing. For this purposes, it contracted with a company in the United States ('the American company'). The agreement provided for the purchase and installation of plant and machinery as well as training of the local staff to operate those machines. For this purpose, an engineer from the American company would be here for three months to do the training. A subsidiary agreement was signed under which the American company would supply parts and services for five years at a discounted rate.

The details of the payments made are as follows:

Date payments made	Particulars of payment	Amount (RM'000)
March 2013	Supply of plant and machinery	450
April 2013	Installation of plant and machinery	130
June 2013	Training of employees	100
November 2013	Supply of spare parts	80
December 2013	Maintenance services (first year)	50
Total		810

Required:

Indicate the withholding tax implication for each of the above payments.

Note: You may ignore the provisions of any Double Tax Agreement between the relevant countries.

(5 marks)

[Total: 20 marks]

Question 3

(a)

Mr Rajan passed away on 1 January 2011. Upon his death two properties he had bought on 1 May 1999, was passed over to his executor, Mr Chandran on 1 June 2013. In accordance with the will of the deceased, the first property, a bungalow, was transferred to his only son, Mr Raman on 5 July 2013. The will provided for the second property, a semi-detached bungalow, to be sold to a third party and the proceeds be given to Mr Raman. The semi-detached bungalow was accordingly sold on 10 September 2013 for RM480,000 to Mr Segaran. The market value of the property at the date of death of Mr Rajan was RM640,000 for the bungalow and RM350,000 for the semi-detached bungalow.

Mr Raman planned to emigrate sometime in February 2014 and accordingly in December 2013, the bungalow was disposed of for RM850,000. Mr Raman had forfeited a sum of RM85,000 being the down payment in respect of the property earlier, before its final disposal.

Required:

Determine the acquisition date and the chargeable gain (after exemption if any) upon disposal of the bungalow and the semi-detached bungalow for purposes of the Real Property Gains Tax Act 1976 (as amended).

(12 marks)

(b)

Mr Jayaram signed an agreement with Ms Manohari on 16 June 2009 for the purchase of a bungalow. The full consideration of RM451,515 was made on 28 August 2010 and the property was transferred to Mr Jayaram on 21 November 2010. Mr Jayaram had incurred stamp duty of RM8,545 and legal fee of RM7,676 to acquire the property. Mr Jayaram extended the kitchen at a cost of RM65,418.

He received insurance money of RM14,485 for damages to the house when an electric pole fell on his house. Based on a legal suit filed, he also received a compensation of RM38,940 from the town board. He also incurred legal fee of RM5,295 defending the title to the property from his first wife (now divorced).

In 2013, Mr Jayaram decided to sell the house and appointed an agent to do so. The following expenditure was incurred: Valuation fee RM8,722; brokerage fee RM14,000 and advertisement charges of RM1,725.

A prospective buyer paid a deposit of RM12,000 but this was forfeited when he failed to follow up. The house was finally sold for RM591,878 to Ms Jayantimala vide a sale and purchase agreement dated 15 October 2013. Mr Jayaram received the full payment on 15 November 2013.

Required:

Determine the chargeable gain liable to tax under the Real Property Gains Tax Act 1976 (as amended) in respect of the property disposed of by Mr Jayaram.

(8 marks)

[Total: 20 marks]

Question 4

(a)

Glory Ceramic Sdn Bhd is a company involved in the manufacturing of advanced ceramic products. The company commenced operations since 2005 and closes its accounts to 31 December each year. On 1.1.2013, the company has RM7.5 million of paid-up capital in respect of ordinary shares.

The company claimed reinvestment allowance in the tax return on qualifying capital expenditure incurred on modernisation project undertaken in year 2013. The company incurred the following expenditure:

Expenditure on modernisation project	Cost (RM)
Purchase of hammer mill machine	120,000
Purchase of clay mixers	103,000
Purchase of ceramic spinning machine	50,000
Purchase of ovens	35,000
Purchase of mould machine	105,000
Purchase of machinery and equipment	110,000

The Company's Financial Accounts For The Year Ended 31.12.2013		
Income	RM	Notes
Sales	4,665,000	
Interest	15,000	
Realisation gains	<u>5,400</u>	1
Total	4,685,400	
Expenditure		
Cost of sales	3,395,000	
Transportation and distribution	250,000	2
Administration	124,000	3
Depreciation	77,000	
Donation	<u>20,000</u>	4
Total	3,866,000	
Net profit before tax	<u>819,400</u>	

Notes to the accounts:

1. The amount is the realisation foreign exchange gains on investment made in August 2013.
2. This expenditure includes flight ticket payment amounting of RM1,800 for director's wife who joined the company's official visit to Shanghai in September 2013.
3. The amount includes legal fees of RM6,000 on investment consultation in a company's business venture outside Malaysia.
4. The amount includes contribution of RM2,000 to a political party and the balance is donated to the National Cancer Council Malaysia, an approved institution.

Other information :

	Year of Assessment	
	2012 RM	2013 RM
Carry forward business losses	33,000	
Carry forward reinvestment allowances	211,000	
Capital allowances	Fully absorbed	235,000 **

** including assets for modernisation project.

Required:

Determine and calculate for Glory Ceramic Sdn Bhd for the year of assessment 2013 the followings:

- (i) Reinvestment allowance qualifying period**
- (ii) Total amount of the qualifying expenditure and the amount of reinvestment allowance.**
- (iii) Tax payable**
- (iv) Amount to be credited to exempt accounts.**

(10 marks)

(b)

Selangor (Architect) Association was established in 2011 to promote and foster unity and interaction among members of the association. The income statement of the association for the year ended 31.12.2013 is as follows:

Income:	RM
Members' subscription fees	503,006
Seminar fees	1,234,675
Management fees	121,412
Premise rental	<u>534,655</u>
	<u>2,393,748</u>
Expenditure:	
Salaries and wages	972,833
Seminar	991,366
Legal fees on rental premise	10,207
Office rental	45,798
Meetings	21,504
Transportation and travelling	96,598
Quit rent & insurance (rent)	<u>35,200</u>
Total	<u>2,173,506</u>
Surplus	<u>220,242</u>

Additional information:

Business losses carry forward to YA 2013	25,732
Capital allowances claimed in the current year	56,939
	RM

Common expenses:

Salaries and wages	972,833
Office rental	45,798
Meetings	21,504
Transportation and travelling	<u>96,598</u>
	<u>1,136,733</u>

Required:

Based on the above income statement, compute the tax payable by Selangor (Architect) Association for the year of assessment 2013.

(10 marks)

[Total: 20 marks]**Question 5**

Layar Lara Sdn Bhd is a company resident in Malaysia and owns two container ships, Kenaga I and Kenaga II. The ships are used in the company's business activity of transporting cargo by sea between Port Klang and China. The company also maintains a support vessel, Melor, which is used to transport goods, supplies and equipment to offshore oil platform. All vessels are registered under the MSO 1952.

Details of the adjusted income and capital allowances of the business for the year assessment 2012 and 2013 are as follows:

YA		Kenaga I	Kenaga II	Melor
2012	Adjusted income	1,000,000	-	300,000
	Capital allowances	750,000	500,000	200,000
2013	Adjusted income	1,750,000	(400,000)	100,000
	Capital allowances	700,000	500,000	200,000

Required:

(a) Determine, with explanations, Layar Lara Sdn Bhd's vessels that qualify for the tax exemption under s 54A of the Income Tax Act.

(5 marks)

(b) Explain TWO of the unique treatments for unabsorbed losses for shipping operations that qualify for tax exemption under s. 54A.

(4 marks)

(c) Compute the chargeable income for year assessment 2012 and 2013.

(11 marks)

[Total: 20 marks]