



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

PROFESSIONAL EXAMINATIONS

INTERMEDIATE LEVEL

BUSINESS TAXATION

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 are to be removed from the examination hall.

DO NOT TURN OVER THIS PAGE UNTIL INSTRUCTED BY THE INVIGILATOR

QUESTION 1

Advert.Com Sdn Bhd, an advertising agency, prepared its profit and loss account for the year ended 31 October 2014 as follows:

	Note	RM000	RM000
Gross fees			14,200
Compensation	1		250
Rental from property in Singapore (remitted)			32
Dividend (net) from resident company			15
Interest for late payment from debtors			<u>30</u>
			14,527
Less: Consultancy fees	2	432	
Salaries and wages		3,200	
Employees Provident Fund contributions	3	820	
Research development	4	570	
Business development	5	606	
Depreciation		920	
Office rental		245	
Motor vehicles expenses		160	
Repairs and maintenance		570	
Bad and doubtful debts	6	3,631	
Insurance	7	40	
Travelling expenses	8	70	
Removal expenses	9	56	
Donation	10	45	
Miscellaneous expenses	11	78	
Foreign exchange loss	12	19	
Retrenchment benefits	13	<u>275</u>	
			<u>(11,737)</u>
Net profit before taxation			<u>2,790</u>

Notes:

1. Compensation
During the year, one of its many clients, a kitchenware company, terminated the contract which was to expire in the year 2015. Advert.Com received RM250,000 as compensation for breach of a contract.
2. The consultancy fee of RM432,000 was paid net of tax on 2 June 2014 to an overseas specialist in design development. Withholding tax of 10% was remitted to the IRB on 9 August 2014. As at 31 October 2014, the penalty remained unpaid.
3. Employees provident fund contributions comprise:

	RM
Employees Provident Fund	580,000
Advert.Com Provident Scheme	<u>240,000</u>
	<u>820,000</u>

Advert.Com Provident Scheme was for senior executives and was approved by the Inland Revenue Board (IRB).

4. Research and development comprises:	RM000
Cost of equipment used in research (approved)	220
Operating costs-raw material and maintenance costs	<u>350</u>
	<u>570</u>

5. Business development comprises:	RM000
Entertainment of clients and suppliers	232
Sponsorship of arts exhibition (local)	340
Company trip for the staff and family in Bali, Indonesia (3 days)	
- Air tickets (20 persons)	14
- Food and accommodation	<u>20</u>
	<u>606</u>

The arts exhibition was approved by the Minister of Culture, Arts and Tourism.

6. Bad and doubtful debts comprise:	RM000
Bad debts written off	
- trade	2,522
- non-trade	46
Bad debts recovered	
- trade	(207)
- non-trade	(58)
Legal expenses to recover	18
- non-trade debt	
Increase in specific provision	
- trade	966
- non-trade	24
Increase in general provision	
- trade	<u>320</u>
	<u>3,631</u>

7. Insurance includes RM28,000 paid as annual insurance premium for an endowment policy taken on the company's key personnel.

8. Travelling expenses include payments for 3 key personnel to attend an international trade fair in India approved by the Ministry of International Trade and Industry. The expenses comprise:

	RM000
Cost of air tickets	30
Cost of exhibits used	25
Accommodation and food (RM3,000 x5 days)	<u>15</u>
	<u>70</u>

9. Removal expenses comprise:	RM000
Transportation and labour costs	23
Cost of dismantling and installing office equipment	27
Electricity and telephone deposits	<u>6</u>
	<u>56</u>

The company had to move to other premises in other location as the landlord declined to renew the tenancy agreement.

10. Donation
During the year the company contributed cash amounting to RM145,000 to the University of Malaya's library. The company also contributed RM35,000 to a sports project organized by the Ministry of Health.

11. Miscellaneous expenses comprise:

	RM000
Entrance fees to agency association	11
Penalty for late payment of withholding tax	<u>67</u>
	<u>78</u>

12. The foreign exchange loss was incurred on the payment of the consultancy fees to the overseas consultants in Germany.

13. Retrenchment benefits were paid to the staff, Mr. Albert who opted for voluntary retrenchment, on 31 August 2014.

Additional Information:

- i) For the year of assessment 2014, there was a balancing charge of RM84,000 and capital allowances on plant and machinery amounting RM68,000.
- ii) During the year, Advert.com purchased 10 units of electronic billboards from China. The total cost of the billboards amounted RM44,000. All the billboards have been rented out.

Required:

Compute the income tax payable of Advert.Com Sdn. Bhd. for the year of assessment 2014. Every item mentioned in the notes to the accounts must be shown in your computation, indicating it with 'Nil' in the appropriate column where no adjustment is necessary.

[Total: 25 marks]

QUESTION 2

- (a) Metro Sdn Bhd (MSB) is a Malaysian resident company involved in the manufacture of plastic toys. MSB closes its account on 30 June every year. MSB has been in operation in rented premises.

On 10 July 2012, MSB decided to construct its own factory building. A total cost of RM3,722,000 was incurred to construct the factory, of which, RM1,900,000 was the cost of the land and RM 22,000 as stamp duty for the land. The construction of the factory was completed in May 2013.

One-ninth of the whole factory building was used as an administration office, two-ninth as canteen and remaining was used for production operations.

A store was built in the same compound of the factory area and completed on 12 November 2012 for RM350,000.

On 6 June 2014, the factory and store were sold to Star Sdn Bhd (SSB) for RM3,475,000 (inclusive of RM1,900,000 for the cost of the land) and RM300,000 respectively. The factory building was used as vocational training centre which is approved by the Ministry. SSB closes its accounts on 31 December annually.

Required:

Compute the industrial building allowance and charges (if any) for Metro Sdn Bhd for the relevant years of assessment until year assessment 2014.

(7 marks)

- (b) Milky Sdn Bhd (year ends 31 October annually) is a company involved in cocoa plantation business. The following costs were incurred for the purpose of its business (the business commenced on 1 July 2011).

Year ended	Capital expenditure	RM
31 October 2011	Cost of land	2,550,000
	Land clearing	750,000
	Construction of road	210,000
	Storage	180,000
31 October 2012	Construction of employees' living accommodation	420,000
	Planting	220,000

Due to some financial problems, Milky Sdn Bhd sold the plantation to Sweety Sdn Bhd (year ends 30 June annually) on 31 August 2014 for RM1,790,000.

Required:

Compute the agriculture allowance and charges for Milky Sdn Bhd for all the relevant years of assessment up to year of assessment 2014, assuming that the company did not make an election under Paragraph 27 of Schedule 3, Income Tax Act 1967.

(9 marks)

- (c) Ocean Sdn Bhd, which has a paid up capital of RM2.6 million, bought the following assets for year ended 30 September 2014, to be used in the business.

Computerised Printer	RM 4,600
12 units of small value assets (each costs RM960)	RM11,520

Required:

Compute the capital allowances due to Ocean Sdn Bhd for year of assessment 2014.

(4 marks)

[Total: 20 marks]

QUESTION 3

Sarah and Nadia operate a boutique called S&N Boutiques on a partnership basis. The accounts are prepared to 30 September each year. The profit and loss account for the year ended 30 September 2014 are as follows:

	Note	RM	RM
Gross Profit			1,432,000
Less			
Rental of premises		60,000	
Utility expenses		32,000	
Depreciation		25,000	
Repairs		30,000	
Insurance on Sarah's life		14,000	
Entertainment	1	22,000	
Interest on capital contributed		15,000	
Bank interest		16,000	
Salaries of partners		216,000	
Salaries of staff		250,000	
Renovation of boutique		40,000	
Donations	2	<u>12,000</u>	
			<u>(732,000)</u>
Net Profit			<u>700,000</u>

Note 1

The firm spent RM12,000 on the annual year end dinner for staff and the balance was spent on potential clients.

Note 2

A cash donation was made to a General Hospital to purchase medical equipment for kidney patients.

Sarah and Nadia contributed RM100,000 and RM150,000 respectively when they started the business in 2006. The interest on capital was agreed at 5%. Sarah and Nadia are paid salaries of RM8,000 per month. They share the profits on an equal basis.

The partnership paid the premium on Sarah's life insurance on 30 March 2014.

On 1 July 2014, Aini joined the business contributing a capital of RM200,000. The partnership agreement provided for the following:

	Sarah	Nadia	Aini
	RM	RM	RM
Partners salaries per month	8,000	8,000	8,000
Interest on capital per annum	5,000	7,500	10,000
Profit sharing ratio	0.5	0.25	0.25

Capital allowances for the firm's assets for the year were RM28,000.

Required:

- (a) How is the basis period determined for a partnership business? What is the basis period for S&N Boutiques for year of assessment 2014? (2 marks)
- (b) Compute the provisional adjusted income and divisible income of the partnership for the year ending 30 September 2014. (7 marks)
- (c) Compute the adjusted income and statutory income in respect of the partnership for Sarah, Nadia and Aini for the year of assessment 2014. (11 marks)

[Total: 20 marks]

QUESTION 4

- (a) (i) What are the types of special classes of income under Section 4A of the Income Tax Act, 1967 which are subject to withholding tax? (3 marks)
- (ii) Under what circumstances are special classes of income under the Section 4A of the Income Tax Act, 1967, deemed to be derived from Malaysia? (3 marks)
- (iii) Alpha Sdn Bhd, a company resident in Malaysia, manufactures industrial stamping products for export. In 2014, the company entered into an agreement with Haoji Stamping (Korea) Ltd for technical assistance, supply and installation of plant and machinery.

The following expenses have been incurred:

	RM
Technical advice and management	63,550
Supply of plant and machinery	310,880
Services in connection with installation of the plant	55,170

Required:

State with reasons whether each of the above expenses is subject to withholding tax. Where applicable, compute the amount of withholding tax for the expenses incurred.

(4 marks)

- (b) (i) **Under the self-assessment system, what is the prescribe period within which a company must furnish an estimate of income tax payable to the IRB and when can the company revise the estimate of tax payable?**

(2 marks)

- (ii) Berkat Sdn Bhd, a manufacturing company, prepares its accounts to 31 August annually. The company furnished its first estimate of tax payable of RM305,280 for the year of assessment 2014 to the IRB within the time prescribed by law.

Required:

State when and in what amount Berkat Sdn Bhd will be required to pay the amount of tax estimated for the year of assessment 2014.

(2 marks)

- (c) Cekap Sdn Bhd (CSB) has been engaged in retail trading for 15 years. In 2001, the company diversified into agricultural activities through the acquisition of oil palm plantation in Semantan, Pahang. The plantation is classified as a fixed asset in CSB's balance sheet. In 2011, CSB applied to the relevant authorities for conversion of the estate from agricultural to commercial use. After obtaining approval for the conversion in April 2013, CSB applied for a housing developer's licence. Before CSB could commence development works on the land, the company encounter financial difficulties and sold the land in February 2014 for a profit of RM9.9 million. CSB had no previous dealings in land.

Required:

State your arguments for and against the taxability of the profit on sale of the land by Cekap Sdn Bhd.

(6 marks)

[Total: 20 marks]

QUESTION 5

The accountant of Litmus Industries Sdn Bhd (year-end 31 December), a company involved in the business of trading of consumable products, has the following queries relating to its tax computation for the year of assessment 2014.

- (a) The Management is contemplating employing a foreigner to assist in the implementation of some new systems in the company. The potential candidate has agreed to accept a lower salary and instead has requested that the following benefits to be provided by the company.
- (i) An employer's contribution to the Employees Provident Fund of 20%
- (ii) For each year three leave passages to any local destinations and one overseas trip to his home country amounting to RM 2,800.

- (iii) The services of a servant and a driver
- (iv) A furnished home
- (v) An entertainment allowance of RM 2,000 per month

Required:

Advise the Management of Litmus Industries Sdn Bhd as to the tax deductibility of providing each of the above benefits instead of salary which is fully deductible.

(5 marks)

- (b) The company incurred the following entertainment expense for the year ended 31 December 2014.

- (i) Entertainment of suppliers
- (ii) Hampers for customers during festive seasons
- (iii) Company trip for staff and their families
- (iv) Gift with business logo for customers annual dinner
- (v) Wedding gift to customer

Required:

State whether the above entertainment expenditure ranks for a deduction in ascertaining the adjusted income of the company for year of assessment 2014.

(5 marks)

- (c) The company also purchased a machine and some stocks from overseas last year and recognised a foreign exchange gain amounting to RM1,000 and RM2,500 respectively in their accounts for the year ended 31 December 2013. The full payment was settled in 2014 whereby the company recognised a further foreign exchange gain of RM1,500 and RM1,250 for the fixed asset and the stocks respectively.

Required:

Determine the adjustments that must be done in the tax computation of Litmus Industries Sdn Bhd for year of assessment 2014 in respect of the above transactions assuming that they commence the tax computation with the profit before tax figure.

(5 marks)

[Total: 15 marks]