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

PROFESSIONAL EXAMINATIONS

FINAL LEVEL

ADVANCE TAXATION 1

JUNE 2015

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 **SIX** questions. **Candidates are ONLY REQUIRED TO ANSWER FIVE QUESTIONS**
3. The Income Tax Act 1967 (as amended) is referred to as ITA.
4. Each answer should begin on a separate answer booklet.
5. All workings **MUST** be shown as marks will be awarded.
6. Answers should be written in either black or blue ink.
7. No question paper or answer booklets are to be removed from the examination hall.

DO NOT TURN OVER THIS PAGE UNTIL INSTRUCTED BY THE INVIGILATOR

Question 1

Company Cosy Living Sdn Bhd, a property developer, commenced a housing project consisting of double terrace houses in Bandar Salak Tinggi in the year 2013. This housing project is scheduled to be completed in 2015. The original estimates for the year ended 30 June 2013 at the commencement of the project are subsequently revised in year 2014. The reasons for the revision are that building materials such as cement have increased. The following are details of the project:

	Total sales value	**Total cost of development**	**Total gross profit**
Estimates at 2013 (RM)	10,500,000	7,000,000	3,500,000
Revised Estimates at 2014 (RM)	10,600,000	7,500,000	3,100,000

Amount receivable	**Estimates at 2013 (RM)**	**Revised Estimates at 2014 (RM)**
2013	4,000,000	4,000,000
2014	4,000,000	3,600,000
2015	2,500,000	3,000,000

Required:

(a) **Assuming that the reasons for revisions are acceptable to the DGIR, calculate the tax that the company has to pay for years of assessment 2013 to 2015 under the following methods:**

(i) **The estimated gross profit**

(ii) **The cumulative progress billing**

(16 marks)

(b) **In your answer to (a) (i), state which method is more favourable to the company and explain your reasons for choosing that method.**

(4 marks)

[Total: 20 marks]

Question 2

Mr Lee and his friend Mr Ramu, both Malaysian residents, incorporated a company, Platinum Properties Sdn Bhd on 1 January 2010 and subscribed for 200,000 and 100,000 shares respectively. The principle activities of Platinum Properties are investing in properties. As at January 2013, a valuation was made on the land and also buildings owned by the company. The valuation report valued these properties at RM520,000.

Mr Lee has plans to migrate to Australia and Mr Siva, Mr Ramu's brother agreed to buy the shares of Mr Lee in the company. Mr Lee and Mr Siva signed an agreement on 1 April 2014 and Mr Siva paid for the purchases of the shares, at RM495,000, in full on 1st June 2014.

The company's Statement of Financial Position as at 31 December 2014 is as follows:

	Note	RM
Property, Plant and Equipment	1	400,000
Current assets		
Deposits		900
		400,900
Current Liabilities		
Other Creditors		800
Provision for Taxation		180
Amount due to Director	2	123,700
Share Capital		300,000
Ordinary shares of RM1 par value each		
Accumulated loss		(23,780)
		400,900

Notes:

1. **Property, Plant and Equipment consist of the following:**

	31 December 2013	adjustments	31 December 2014
	RM	**RM**	**RM**
Freehold land	220,000	-	220,000
Buildings	183,750	3,750	180,000
	403,750	**3,750**	**400,000**

Land and buildings were purchased on 1 July 2011 and the building is depreciated at the rate of 2% per annum, using a straight line basis.

2. The amount due to a Director is unsecured with no fixed repayment terms.

Required:

(a) **The transfer of shares from Mr Lee to Mr Siva will be liable to tax under the Real Property Gains Tax Act. Explain to Mr Lee the reason that he will be taxed under the Act.**

(5 marks)

(b) **Assuming that Mr Lee is liable to RPGT on the transfer of shares, compute the RPGT and show all workings.**

(9 marks)

(c) **Based on your answer in (b), advise Mr Lee and Mr Siva on their legal obligations pertaining to the transfer of shares.**

(6 marks)

[Total: 20 marks]

Question 3

Vista Investment Sdn. Bhd. is an investment holding company. The company's income statement for the financial year ended 31 August 2014 is as follows.

Gross income:	**RM**	**RM**
Interest	170,000	
Rental (maintenance or support services provided)	140,000	
Management services fees	80,000	
Distribution of income from REITS	20,000	
Realisation gains on investment	40,000	450,000
Expenses:		
Directors' fees	58,000	
Wages and allowances	30,000	
Office rental	25,000	
Agent commission (real property)	5,000	
Audit fees	6,000	
Secretarial fees	5,000	
Donation to an approved institution	6,000	135,000
Net profit before tax		315,000

The capital allowances for the sources of income for the year of assessment 2014 is RM10,000. Common expenses and capital allowances will be apportioned based on gross income from each source.

Required:

Calculate the chargeable income for Vista Investment Sdn. Bhd. for the year of assessment 2014 :

(a) **if the company is not listed on the Bursa Malaysia.**

(b) **if the company is listed on the Bursa Malaysia.**

[Total: 20 marks]

Question 4

Wiser Sdn. Bhd. is a company resident in Malaysia manufacturing quality rubber products which commenced business in 2009. The company closes its accounts at 31 December annually. In the year 2014 the company incurred expenses for seeking opportunities and expanding markets for rubber product in Indonesia. On 1.1.2014, the company has RM5 million paid-up ordinary share capital.

The information extracted from the income tax return form submitted to the Inland Revenue Board of Malaysia is as follows:

Year of Assessment 2014	RM
Adjusted income	1,345,090
Capital allowance	68,251
Capital allowance b/f	170,154
Balancing charge	3,503
Statutory income - Interest	20,000
Approved donation	10,000

The company incurred the following expenses on expanding markets abroad for its products and it claimed those expenses in its comprehensive financial statement for the year ending 31.12.2014:

Expenses	**RM**
• Expanding markets in Indonesia	
▪ Expenses incurred in employing marketing consultants to carry out product market research	43,000
▪ Cost of acquiring financial status reports of prospective buyers and acquiring secondary export marketing information.	78,562
• Cost of brochures and pamphlets for distribution in Indonesia	5,200
• Approved trade fairs and exhibition for 5 days in Indonesia:	
- Cost of transportation of exhibits.	4,400
- cost of publicity and advertisement and cost of promotion gifts	5,902
- cost of rental, designing and construction of booth	2,345
- cost of communication – postage, telephone, e-mail	3,000
- travel fares incurred for 4 company's representatives participating in the trade fairs	8.690
- hotel accommodation and sustenance for 4 company's representatives participating in the trade fairs	12,280

The company claimed the deductions for promotion of exports provided under section 41 and subsection 41(3) of the Promotion Investment Act 1986 for the expenses incurred in promoting its product for export. **(PU Order is not applicable)**

Required:

Compute the tax payable by Wiser Sdn Bhd for the year of assessment 2014.

[Total: 20 marks]

Question 5

(a)

Mr. Kenny Lim was a successful businessman. In 2010, he died in a motor accident, leaving behind a wife and four children. He had a will written in 2005 under which he had named his wife as the executor of his will with his four children as the beneficiaries. The will also requires that she carries on the fruit business after his death.

Under the will, the income paid out, distributed to, or accumulated for the beneficiaries for the year ended 31 December 2014 were as follows:

No.	Recipients	Amount (RM)
1	Annuity to wife	30,000
2	First child	62,400
3	Second child	93,600
4	Third child	93,600
5	Fourth child (sum accumulated)	25,000

The will had specified that payments to the first child would be one quarter of the distributable income, paid at the discretion of the executor; whereas the sum paid to the second and third child shall be one half of the balance of the distributable income after accumulation for the last child, who in 2014 was only twelve years old.

The trust received income from some investments as follows during the year ended 31 December 2014:

No.	Particulars	Amount (RM)
1	Rent from a property in Malaysia	19,200
2	Interest from a fixed deposit in a local bank	4,920
3	Dividends (Malaysia)(single tier)	8,528
4	Dividend (Taiwan)(remitted in 2014)	11,643

In May 2014, a lady from Taiwan claimed she was the mistress of the deceased, and filed a claim for a share of the income from the trust. Mrs. Lim was very angry, and engaged a lawyer to litigate the case. There was some legal difficulty and the lawyer advised Mrs. Lim to settle the matter through negotiation. After several rounds of talks, the lady from Taiwan agreed to drop her case for a lump sum payment of RM50,000. An agreement was signed and the payment was made in September 2014. The lawyer's fee was RM18,450. Mrs. Lim, a qualified manager, charged RM30,750 for managing the trust.

During the year, the trust made a donation of food packages to devotees of a Buddhist temple valued at RM5,000. In addition, a cash donation of RM35,000 was made to an approved charitable institution that takes care of autistic children.

These various expenditure were charged to the trust business account under 'expenses incurred' and except for these charges, the auditor has confirmed that the balance of the other expenses charged therein in arriving at the net profit of the business are in compliance with section 33 of the Income Tax Act 1967 (as amended). According to the auditor, the trading result of the business was as follows:

Fruit business : 1 January 2014 - 31 December 2014	**RM**
Gross income	627,300
Expenses incurred	268,675
Adjusted income	**358,625**

For the year of assessment 2014, the trust was entitled to a capital allowance of RM53,735 and a balancing allowance of RM26,867. It has a balancing charge of RM17,835 arising from the disposal of a trust business asset during the year.

The trust business performed badly in 2013 and as a result had a loss brought forward to the year of assessment 2014 amounting to RM6,765 and also an unabsorbed capital allowance brought forward of RM57,158.

The trust distributable income for the year ended 31 December 2014 before accumulation for the fourth child was RM274,604.

Required:

Compute the chargeable income of the trust and the beneficiary's share of the trust total income, assuming that the Director General of Inland Revenue has allowed the application of section 61(2) of the Income Tax Act 1967 (as amended) to the trust income.

(12 marks)

(b)

Mr. Vincent Tan, a Malaysian resident and citizen, was a businessman operating three businesses – two in Malaysia and one in Singapore. He passed away suddenly on 30 September 2014. He died intestate.

The three businesses closed the accounts to 31 December each year. For the year ended 31 December 2014, the trading results were as follows:

Business	**Particulars**	**RM**
Business 1 (Malaysia)	Adjusted income	89,300
Business 2 (Malaysia)	Adjusted loss	36,088
Business 3 (Singapore)	Adjusted income	14,883

The business income from Singapore was remitted to Malaysia in early December 2014. Business 2 ceased operations in June 2014 on account of the losses incurred.
Mr. Vincent Tan had a rental source from a landed property in Kuala Lumpur. He had invested in a local listed company, and received a single tier dividend, and interest from a short term fixed deposit placed with a Malaysian bank. The details of the other income, are as follows:

	RM
Rental income (year ended 31 Dec 2014)	18,000
Dividend income (Paid in October 2014)	7,000
Interest from fixed deposit (received in May 2014)	3,000

Upon his death, Mr. Vincent Tan had left behind a wife Madam Lucy and a son, Jimmy aged 10 years.

The administrator was Mr. Vincent Tan's close friend and business associate, one Mr. Govind Ram, who is also a lawyer. He administered the estate as a personal favour, from the date of death till 31 December 2014. He made an annuity payment of RM10,000 to the deceased's wife in November 2014 to temporarily cover her financial needs. At the time of his death, Mr. Vincent Tan was domiciled in Malaysia.

Mr. Govind Ram liquidated the estate and wound up the affairs as at 31 December 2014, and made a distribution of RM200,000 to Lucy, and another RM200,000 to Jimmy. As Jimmy was still a minor, the money was placed in trust under the name of Madam Lucy.

Required:

Compute the chargeable income of:

(i) Mr. Vincent Tan;

(ii) The estate of Mr. Vincent Tan (deceased);

(iii) Madam Lucy, wife of Mr. Vincent Tan (deceased); and

(iv) Jimmy, son of Mr. Vincent Tan (deceased)

(8 marks)
[Total: 20 marks]

Question 6

MC Sdn Bhd ("MCSB") is a company incorporated and tax resident in Malaysia. Its board of directors has recently approved an expansion plan to set up a production plant to manufacture industrial chemicals, a promoted product in Kuala Selangor. MCSB qualifies for either Pioneer status or Investment Tax Allowance ("ITA") for 5 years.

Its first set of accounts ends on 31 December, 2010 and thereafter to December 31 annually. The relevant projected adjusted income / (loss), capital expenditure and capital allowances are as follows:-

Year end 31 Dec	Land RM'000	Factory RM'000	Plant & Machinery RM'000	Furniture & Fittings (Office use) RM'000	Capital allowance RM'000	Adjusted income /(loss) RM'000
2010	10,000	10,000	15,000	500	7,000	(13,000)
2011	0	10,000	10,000	300	7,000	(7,000)
2012	0	2,000	0	0	11,000	21,000
2013	0	0	6,000	300	13,000	45,000
2014	0	0	0	0	11,000	28,000

Required:

(i) **Compute MCSB's statutory income, chargeable income, capital allowance and pioneer exempt income for the years of assessment 2010 to 2014, if it was granted Pioneer Status. (Note: The exemption for Pioneer Status is 70% of statutory income).**

(8 marks)

(ii) **Determine the chargeable income, ITA and losses for the years of assessment 2010 to 2014, if it was granted ITA. (Note: The rate of ITA is 60% of Qualifying Capital Expenditure and restricted to 70% of statutory income).**

(6 marks)

(iii) **Advise MCSB whether Pioneer Status or ITA incentive is more beneficial for the proposed expansion plan.**

(2 marks)

(iv) **Explain the differences between Pioneer Status and Investment Tax Allowance and their tax benefits.**

(4 marks)

[Total: 20 marks]