



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

PROFESSIONAL EXAMINATIONS

INTERMEDIATE LEVEL

BUSINESS TAXATION

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 **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

Superclean Sdn Bhd is a Malaysian resident company. As at 1 January 2014, it had a paid up capital of RM2.5 million and closes the accounts to 31 December each year. The company is a manufacturer of cleaning and chemical products both for domestic and industrial usage under license from Korea. It also exports the products to Indonesia, Thailand and Singapore which make up 20% of its annual sales. The trading results for the year ended 31 December 2014 was as follows:

Profit and Loss account for the year ended 31 December 2014

	Note	RM'000	RM'000
Sales			59,560
Less: Cost of sales			<u>(6,125)</u>
Gross profit			53,435
Add: Other income	1		
Dividends		14	
Interest		26	
Rent		135	
Insurance recovery		<u>35</u>	<u>210</u>
			53,645
Less:			
Salaries and Employees			
Provident Fund	2	950	
Entertainment	3	514	
Depreciation		609	
Repair and maintenance	4	280	
Bad and doubtful debts	5	1,117	
Motor vehicle expenses	6	107	
Advertisement	7	700	
Professional fees	8	55	
Compensation	9	30	
Insurance	10	85	
Foreign exchange loss	11	69	
Scholarships and donations	12	<u>113</u>	<u>(4,629)</u>
Profit before taxation			<u>49,016</u>

Notes:

1. Other income

- (i) A dividend was received on 1 August 2014 from an investment in a local company from which tax at 25% has been deducted at source.
- (ii) Interest of RM26,000 consists of RM16,000 interest on late payment charges received from customers while the balance was interest on deposits from Public Bank Bhd.
- (iii) Rental income was from the letting out of an office building bought several years ago. The gross rental received for the year ended 31 December 2014 was RM120,000 and a refundable security deposit of RM15,000.

- (iv) An insurance company paid RM5,000 for goods lost in transit. Another sum of RM30,000 was in respect of a keyman endowment policy on the life of one of the directors of the company who died during the year.

2. Salaries and Employees Provident Fund

Included in the amount was, salary of RM100,000 paid to a director having controlling interest in the company. Employees provident fund contribution of RM30,000 was paid to the said director. Other employees were paid EPF at 15%.

3. Entertainment

	RM
i. Company's annual dinner for staff	39,000
ii. Entertainment expenditure related wholly to sales	250,000
iii. Disbursement to the marketing team	140,000
iv. Company's family day expenses in Kota Kinabalu	60,000
• consisting of fare (RM10,000),	
• food and drinks (RM20,000) and	
• accommodation (RM30,000)	
v. Two free overseas trips for the director	<u>25,000</u>
	<u>514,000</u>

4. Repair and maintenance

General maintenance of the company's building amounted to RM246,000, while a sum of RM34,000 was incurred to construct a sheltered disabled friendly pathway from the car park to the office entrance for its disabled employees and senior citizens as part of its social responsibility program.

5. Bad and doubtful debts

	RM
Bad debts written off during the year	138,000
General provision for the year	770,000
Specific provision for the year	<u>209,000</u>
	<u>1,117,000</u>

6. Motor vehicle expenses

Motor vehicle expenses includes RM21,000 for maintenance and repairs, RM30,000 for insurance and road tax for the company's fleet of lorries while RM23,000 related to traffic compounds and fines.

The company extended its lease arrangement with a local motor firm for two vehicles. Details of the lease arrangement are as follows:

Vehicle type	Original cost of new vehicle	Payments up to year ended 31 Dec 2013	Payments for the year ended 31 Dec 2014
	RM'000	RM'000	RM'000
Long trailer	650	90	9
Luxury motor car	860	45	24
Total		135	33

7. Advertisement

Advertising the company's products in local newspapers, magazines and radio amounted to RM100,000 while RM400,000 was spent on promoting the company's products by giving free samples at trade exhibitions conducted all over the country. The company also presented its big account customers with wall paintings as gifts on the opening of its new branches. During the year, the cost of such paintings presented to the customers was RM200,000.

8. Professional fees

	RM
Fees to terminate the supply contracts with two customers	5,000
Collection of long outstanding debts	47,000
Legal fees on leasing arrangement of the luxury motor car	<u>3,000</u>
	<u>55,000</u>

9. Compensation

The company paid RM30,000 as compensation to one of its employees whose contract was not renewed under an arrangement preventing him from working in a similar trade for the next three years.

10. Insurance

Freight insurance includes RM6,000 paid to a Korean insurance company for the overland transportation of goods to the company's warehouse in Malaysia. The balance of the insurance charges of RM76,000 refers to fire and flood policies on the company's stock, plant and machinery.

11. Foreign exchange loss consists:

	RM
Unrealized loss on import of trading stocks	5,000
Realized loss on conversion of debtors accounts at year end	14,000
Realised loss on payments for goods from Korea	<u>50,000</u>
	<u>69,000</u>

12. Scholarships and Donations

The company sponsored 3 orphans from an orphanage to pursue a degree course at University of Malaya amounting to RM50,000. The balance refers to cash donation to the orphanage (RM40,000) and Hari Raya Ang Pow to the orphans(RM23,000).

Other information:

For the year of assessment 2014, the company is entitled to a capital allowance of RM478,000 on its assets used in the business. There was a balancing charge of RM38,500 on the disposal of one of its machinery during the year 2014.

Required:

Based on the information given, compute the chargeable income and tax payable by Superclean Sdn Bhd for the year of assessment 2014.

Note:

Your computation should start with the profit before taxation figure and follow the description used in the profit and loss account and where applicable the description used in the notes to the accounts. In making your tax adjustments to the entries, you should indicate 'Nil' where no adjustments are made or are not required. You do not need to explain the adjustments that you are making.

[Total: 25 marks]

QUESTION 2

(a)

Fashion Sdn Bhd (FSB), a company in the textile industry, made up its accounts to 31 March annually. The following information is for the company's non-current assets for the year ended 31 March 2014.

- (i) FSB purchased a production machine (heavy machine) costing RM1,200,000 on 26 December 2011. The installation cost and site preparation cost were RM300,000 and RM380,000 respectively, and it was put into use on 2 June 2013.
- (ii) A new car (for the Sales Manager) costing RM210,000 was purchased under hire purchase on 1 August 2012. FSB paid RM40,000 as deposit and the hire purchase term was for a period of 5 years commencing its first instalment on 30 September 2012. The cash price was RM184,000.
- (iii) On 22 December 2012, FSB purchased a second-hand lorry amounting to RM270,000 for its business. The lorry was totally damaged due to an accident which took place on 2 March 2014 and insurance compensation of RM210,000 was received by FSB on March 2014.

Required:

Compute the capital allowances, balancing allowances/charges (if any) for Fashion Sdn Bhd up to year of assessment 2014.

(15 marks)

(b)

Vegetable Sdn Bhd (VSB) operates a farm growing organic vegetables. Details of VSB's capital expenditure in the basis period for the year of assessment 2014 are as shown below:

Asset	Amount incurred
	RM
Land	220,000
Clearing and preparation of land	110,000
Construction of an estate office for the farm	95,000
Construction of a storage building to store machineries	40,000
Construction of living quarters for the farm's labourers	210,000

Required:

Compute the agriculture allowance for Vegetable Sdn Bhd for the year of assessment 2014.

(5 marks)

[Total: 20 marks]

QUESTION 3

- (a) LKY Sdn Bhd commenced operations on 1 April 2013 and accounts are made up to 30 June 2014 and thereafter to 30 June of each year.

Required:

What is the basis period for year of assessment 2014?

(2 marks)

- (b) Sandra and Joanne have been operating a hairdressing saloon in Petaling Jaya for the last eight years. The accounts are prepared to 31 December each year. The partnership agreement prepared by Sandra and Joanne provided for the following:

- (i) **Share of divisible income/(loss)**
- | | |
|--------|-----|
| Sandra | 1/3 |
| Joanne | 2/3 |
- (ii) **Ten per cent (10%) interest on capital for each partner**
- | | |
|-------------------------------|-----------|
| | RM |
| Sandra's capital contribution | 150,000 |
| Joanne's capital contribution | 300,000 |
- (iii) **Salary per month**
The partners are to be paid RM5,000 each.

On 30 September 2014, Sandra retired from the business due to ill-health. She withdrew her accumulated capital and profits from the business up to that date. On 1 October 2014 Patricia joined the business as a new partner.

The new partnership agreement between Joanne and Patricia was as follows:

- (i) **Share of divisible income/(loss)**
- | | |
|----------|-----|
| Joanne | 1/2 |
| Patricia | 1/2 |
- (ii) **Ten per cent (10%) interest on capital for each partner**
- | | |
|---------------------------------|-----------|
| | RM |
| Joanne's capital contribution | 300,000 |
| Patricia's capital contribution | 400,000 |
- (iii) **Salary**
The partners are to be paid RM5,000 each.

The partnership profit and loss account for the year ended 31 December 2014 is as follows:

	RM	RM
Sales		525,250
Less:		
Cost of sales		<u>(210,000)</u>
Gross profit		315,250
Less:		
Administrative expenses	125,000	
Depreciation	19,000	
Partnership salaries	120,000	
Partnership interest on capital	51,250	
Partnership expenses (revenue)	<u>22,000</u>	<u>(337,250)</u>
Net loss		<u>(22,000)</u>

Notes to the Accounts:

(i) The administrative expenses include:

	RM
General provision for doubtful trading debts	3,000
Donation to a church building fund	2,000
Entertainment of clients (non-business purpose)	4,000
Insurance premium on the life of Joanne*	6,000

* The insurance premium is payable in December each year for the benefit of Joanne and her family.

(ii) Capital allowances for the year of assessment 2014 was RM32,000.

Required:

Compute the statutory income of each partner from the partnership business for the year of assessment 2014.

(18 marks)

[Total: 20 marks]

QUESTION 4

(a)

(i) State the rate of withholding tax on interest income under Section 109 of the Income Tax Act, 1967 and when the tax should be collected.

(3 marks)

(ii) Benta Sdn Bhd is a company resident in Malaysia and a Malaysian incorporated company for Malaysian tax purposes. The company source of income is solely from manufacturing operations conducted from a factory in Batu Berendam, Melaka. Benta Sdn Bhd is a wholly-owned subsidiary of Berry Ltd, a company incorporated in Belgium. For the year ended 31 January 2014, Berry Ltd granted Benta Sdn Bhd a loan to finance its manufacturing operations. The total interest payable to Berry Ltd amounted to RM82,930 and the payment was charged to the income statement of Benta Sdn Bhd.

Required:

State, with reasons, whether the interest payment of RM82,930 is derived from Malaysia. Explain how and how much it would be taxed (if applicable) under the Section 109 of the Income Tax Act, 1967.

(5 marks)

(iii) Explain the consequences of not complying with the withholding tax provisions

(3 marks)

(b)

Berkat Sdn Bhd, a manufacturing company, prepares its accounts to 30 September each year. The company's tax payable for the year of assessment 2013 is RM267,000. In July 2013, the accounts department estimated the tax payable for the year of assessment 2014 to be RM249,000. The estimate originally submitted to the Inland Revenue Board was

subsequently revised to RM281,000 and submitted on the 20th of the relevant month prescribed by law. The tax payable as per the return filed by Berkat Sdn Bhd turned out to be RM366,000.

Required:

Compute the amount owing to the Inland Revenue Board by Berkat Sdn Bhd at the time of the submission of the tax return, and state when this amount is due and payable.

(5 marks)

(c)

The presence or absence of badges of trade helps determine whether gains arising from the disposal of an investment or gains from trade or an adventure or concern in the nature of trade.

Required:

Explain in detail any two (2) badges of trade.

(4 marks)

[Total: 20 marks]

QUESTION 5

(a)

Prudent Sdn Bhd has taken many insurance policies and the following insurance transactions were recorded in the Income Statement of the company for the year ended 31 December 2014.

Required:

Advise the company as to the taxability or deductibility of each of the transactions below:

(i) A receipt of RM50,000 being a claim in respect of loss of profits for the first quarter of the year.

(2 marks)

(ii) Premiums of RM3,000 paid on a whole life policy insuring the life of the key innovation officer whose demise would necessitate the winding-up of the company.

(3 marks)

(iii) The company did not want to set aside funds for retirement benefits in its accounts and therefore decided to take a policy with an insurance company whereby when any employee retires, the insurance company will provide the funds to pay his gratuity.

For the year ended 31 December 2014, the company;

- i. received RM120,000 from the insurance company and,
- ii. paid out gratuities of RM145,000

(2 marks)

(b)

The accountant of ABC Sdn Bhd has written to you (their tax agents) and enquired about the tax treatment for the following decisions that they need to make.

Required:

Explain the tax treatment of choosing either one of the actions in each of the following scenarios.

- (i) The company is deliberating between making a cash donation of RM60,000 to an approved research institute or an approved institution.
(3 marks)
- (ii) One of their subsidiary companies which operates a college is going to cease operations and the management is contemplating whether to down scale their operations and pay the retrenchment benefits to the lecturers as each course is terminated or to pay it after the business has completely ceased.
(2 marks)
- (iii) The company has incurred advertising expenditure of RM100,000 with the benefits from the advertising accruing over four years. It is contemplating whether to capitalise the amount and amortise it over four (4) years or to simply charge it out as an expense to the Income Statement for that year.
(3 marks)

[Total: 15 marks]