



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

PROFESSIONAL EXAMINATIONS

FINAL LEVEL

ADVANCE TAXATION 2

JUNE 2016

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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

- (a) The Inland Revenue Board completed a tax audit on your client, Baruniaga Sdn Bhd. In your client's subsequent meeting with the Inland Revenue Board (IRB) the IRB issued a computation on how it has arrived at the amount deemed as undisclosed income. Your client did not agree with the IRB's computation.

**Required:**

**Advise your client on what should be done next.**

(10 marks)

- (b) Mr Ng has a disabled child while Mr Low is the primary caregiver for his disabled brother. Both individuals have the same income. The income tax rules provide a preferential deduction for individuals who care for disabled children and as a result, Mr Ng's income tax liability is less than Mr Low's income tax liability.

**Required:**

**Discuss the concept behind the design of the tax rules in the situation explained above.**

(5 marks)

- (c) "Income tax should be both equitable across all individuals and less complicated."

**Required:**

**In respect of the above statement, explain why these two objectives are considered as conflicting tax policy goals.**

(5 marks)

**[Total: 20 marks]**

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## Question 2

Malaysia Light Products Sdn Bhd (MLP) is a Malaysian tax resident company carrying on the business of transportation services and closes its accounts on 31 December each year. It is a subsidiary of a British company Brit Light Train Services Plc (BLT) whose design and technology is used by MLP in its transportation business.

MLP is proposing to undertake a new transportation project. MLP's accountant has informed you that the projected financial position, including the projected Qualifying Capital Expenditure (QCE), for the project for the years of assessment 2016 to 2020 is as follows:

Year of assessment	2016	2017	2018	2019	2020
	RM	RM	RM	RM	RM
Adjusted income/(loss)	(400,000)	(600,000)	(900,000)	(700,000)	(500,000)
Capital allowances	255,000	455,000	615,000	815,000	735,000
Projected QCE in the project	600,000	1,100,000	1,500,000	2,000,000	1,800,000

The projected QCE relates mainly to plant and machinery. According to the accountant, the company's Board of Directors (BOD) had discussed the acquisition of the assets for the project using the following options:

- a) An operating lease
- b) A finance lease
- c) Hire purchase financing

Alternatively, the BOD is considering acquiring the assets for cash and funding these by one of the following methods:

- a) Obtaining a loan from the holding company BLT;
- b) Obtaining a loan from a local bank;
- c) Borrowings from the directors; or
- d) Issuing additional shares to existing shareholders

### Required:

With reference to the ITA, you are required to advise the accountant on the following issues:

- (i) **The income tax implications of acquiring the plant and machinery through a lease (operating or finance lease) or hire purchase arrangement.** (6 marks)
- (ii) **The income tax implications of financing the acquisition of the plant and machinery by way of borrowings or through an issue of shares.** (8 marks)
- (iii) **The choice of an advantageous incentive under section 127 or Schedule 7B of the ITA.** (6 marks)

### Note:

*You are not required to support your answer with a full comparative computation but will need to substantiate your arguments with reference to the provisions of the tax legislation. Appropriate case law could be cited].*

**[Total: 20 marks]**

### Question 3

Benson Sdn Bhd was approved as a Regional Distribution Centre (RDC) by Malaysian Investment Development Authority (MIDA) on 1 April 2011 as an RDC. The annual sales values of the company for year ended 30 September 2011 to 2015 were as follows:

Year ended 30 September	Local sales RM million	Drop shipment RM million	Direct Export export sales RM million
2011	25	25	30
2012	20	35	35
2013	30	40	30
2014	35	45	35
2015	45	60	55

- (a) **State what are the specific conditions (in relation to thresholds for sales) that have to be achieved in order for an RDC to qualify for the exemption made available to RDCs**  
(3 marks)
- (b) **Explain when Exempt period commences for a Regional Distribution Centre (RDC)**  
(4 marks)
- (c) **State the year of assessment in which the exempt period commences, and the first year of assessment in which Benson Sdn Bhd can claim the exemption, giving a brief explanation**  
(5 marks)
- (d) The following information is forecasted for the year ending 30 September 2016.

Qualifying activities	RM '000
Direct export sales	2,200,000
Drop shipment export sales	1,400,000
Local sales	800,000
Adjusted income	1,300,000
Capital allowances	50,000

**Required:**

- (i) **Compute the statutory income of Benson Sdn Bhd for the year of assessment 2016**  
(1 mark)
- (ii) **Determine the amount of income that is credited to the exempt account of Benson Sdn Bhd for the year of assessment 2016**  
(6 marks)
- (iii) **Compute the statutory income after exemption of Benson Sdn Bhd for the year of assessment 2016**  
(1 mark)

**Note:**

*Candidates should use the law prevalent in Year of Assessment 2015 in computing the forecasted tax figures for Year of Assessment 2016.*

**[Total: 20 marks]**

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#### Question 4

Rajen, a Malaysian resident, is an enterprising person with varied business interests.

- (a) He owns a Toyota Camry (WUW 7005) for private use. In February 2015, he obtained a taxi licence and converted his private car into a taxi, upon incurring RM2500 as fees paid to the Road Transport Department for conversion of the use of the car as a taxi.

(3 marks)

- (b) Rajen, a personal financial consultant owns a partnership firm (Rajen Brothers, a Malaysian resident partnership) and exercised his profession partly at his office in Puchong Jaya and partly at his home in Subang Jaya. In 2015, he claimed a deduction for the travelling expenses incurred between his home and office and to meet clients in various locations.

(4 marks)

- (c) Rajen, who is financially astute, has ample spare cash to take advantage of viable investments as they become available. Between January to April 2015, Rajen bought 3 units of old shop-lots for RM400,000 each in the central business district of Kelana Jaya for the purpose of renting them out. As the shop-lots were in a dilapidated condition, he spent RM400,000 in total in restoring them. The shop-lots were rented to Grant Sdn Bhd in June 2015. In December 2015, Rajen incurred RM200,000 on further repairs to the shop-lots

(5 marks)

**Required:**

**Advise Rajen on the *tax deductibility* of each of the transactions outlined above.**

- (d) Rajen Brothers paid insurance premium of RM8,700 in 2015 in respect of a 'key-man' insurance which was taken out on its managing partner.

**Required:**

**Advise Rajen Brothers on the *tax deductibility* of the transaction outlined above.**

*[The answer should include the conditions that should be fulfilled for key-man insurance premium]*

(8 marks)

**Note:**

*You should quote relevant provisions of the law and cite cases where appropriate to support your arguments*

**[Total 20 marks]**

## Question 5

Z Bhd is a company listed on the Malaysian stock exchange. Z Bhd is the holding company for the Z group. Z Bhd also has a large business which involves buying and selling glass and operates from a showroom that Z Bhd has owned for many years.

Z Bhd owns directly 100% of the shares in One Sdn Bhd, Two Sdn Bhd, Three Sdn Bhd, Four Sdn Bhd and Insurance Bhd. One Sdn Bhd operates a private school. Two Sdn Bhd sells timber. Three Sdn Bhd has a manufacturing business which it commenced eight years ago. Approximately three years ago Three Sdn Bhd commenced an ambitious plan to expand its business which continues to require significant capital expenditure; Three Sdn Bhd is claiming reinvestment allowance on the capital expenditure. Four Sdn Bhd is incurring a loss. Insurance Berhad has a general insurance business. All the above companies close their accounts on 30 September.

### Required:

- (i) Mr. X is the finance director for Z Bhd. Mr. X meets you to explain that Z Bhd is considering transferring its glass business to One Sdn Bhd.
- a. **Mr. X asks for your advice on the Malaysian tax issues associated with the proposed transfer of the glass business from Z Bhd to One Sdn Bhd. Where you consider relevant your advice should cover Income Tax, Real Property Gains Tax, Stamp Duty and Goods and Services Tax.** (9 marks)
- b. **Mr. X tells you that when One Sdn Bhd acquires the glass business, the amount owing to Z Bhd will be left outstanding as an inter-company account. This outstanding amount may be settled later through the issuance of shares by One Sdn Bhd. Mr. X asks you if there are any tax consequences associated with this.** (2 marks)
- (ii) Mr. X expects Four Sdn Bhd to make a large tax loss in the year ending 30 September 2016. Mr. X seeks your advice on whether Four Sdn Bhd's tax loss can be surrendered to Two Sdn Bhd or Three Sdn Bhd or Insurance Bhd.

**You are required to advise Mr. X on this matter.**

(4 marks)

- (iii) Mr. X informs you that in order to increase production efficiency, Three Sdn Bhd is proposing to enter into a three-year technical assistance agreement with an unrelated company resident in the UK. Three Sdn Bhd will be required to make a payment at the end of each calendar quarter to UK Co based on the technical assistance provided.

**Mr. X asks for your advice on the withholding tax obligations applicable to this agreement.**

(5 marks)

**[Total 20 marks]**

## Question 6

- (a) Trader A completed the repair of Customer B's computer on 25 April 2016. When Customer B came to collect the computer on 5 May 2016, Trader A issued a tax invoice. Customer B paid in full for the repair of the computer on 10 May 2016.

**When is the time of supply?**

(2 marks)

- (b) Trader A had paid for 2,000 pieces of item X. Each item was priced at RM100.00 exclusive of sales tax. Trader A had purchased the items from a sales tax licensed manufacturer prior to the effective date and paid the sales tax charged. Assume Trader A was registered for GST on 1 January 2016 and item X was a taxable good with a sales tax rate of 10%

**What is the amount of the special refund claimable by Trader A if Trader A had in stock 300 pieces of Item X on the effective date?**

(2 marks)

- (c) Trader A had purchased item X from Trader B who was not a sales tax licensed manufacturer when the goods were sold to Trader A. Assume Trader A had in stock 300 pieces of item X on the effective date.

**(i) What is the amount claimable by Trader A?** (2 marks)

**(ii) State two other conditions for the items to be eligible for the special refund.**

(2 marks)

**(iii) What is the last date to claim the special refund?** (1 mark)

**(iv) What is the objective of providing for the special refund?** (1 mark)

- (d) **Who is a tax agent under the GST Act 2014?** (2 marks)

- (e) Trader C who is not registered for GST makes taxable supplies totaling RM500,001 from 1 January 2016 to 27 May 2016. In the absence of any request by Trader C to be registered on a particular date, **when will Trader C normally be registered under the Goods and Service Tax Act 2014?**

(2 marks)

- (f) Trader D delivers goods to his customer on 16 May 2016. He subsequently issues a tax invoice on 10 June 2016.

**State the time of supply for GST purposes.**

(2 marks)

- (g) Trader C ordered goods from overseas from Supplier D. Supplier D's invoice shows USD1,000. Assume an exchange rate of USD1 = RM3. Upon arrival of the goods in Malaysia, when Trader C made a declaration of goods imported, he was charged import duty at the rate of 10%. Trader C enjoyed a 50% import duty exemption.

**What is the value of the goods imported for GST purposes?**

(2 marks)



(h) On 5 April 2016, Trader E received goods and a tax invoice for RM5,300 (including GST) from Supplier F. On 12 April 2016, Trader E issued a tax invoice amounting to RM10,600 (including GST) and delivered the goods to Customer G. On 20 April 2016, Trader E received a commercial invoice from Supplier H in Singapore for consultancy services; the value on the invoice is SGD10,000 (assume exchange rate SGD1 = RM2).

**(i) Based on the above transactions, what is Trader E's output tax for the taxable period ending April 2016?**

(1 mark)

**(ii) Based on the above transactions, what is Trader E's input tax for the taxable period ending April 2016?**

(1 mark)

**[Total: 20 marks]**

**(END OF QUESTION PAPER)**