



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

PROFESSIONAL EXAMINATIONS

INTERMEDIATE LEVEL

BUSINESS TAXATION

DECEMBER 2016

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

Boon Electronics Sdn Bhd (BESB), a manufacturing company is located in Kulim, Kedah Darul Aman. BESB was incorporated in year 2010 with a paid-up capital of RM5 million and it manufactures electronic parts for mobile phones. The profit and loss account of BESB for the year ended 31 May 2016 is as follows:

	Note	RM'000	RM'000
Turnover			23,100
Less: Cost of sales	1		<u>13,900</u>
Gross Profit			9,200
Add: Other Income			
Rental income	2	70	
Interest income	3	12	
Dividend income from subsidiary		<u>14</u>	96
			9,296
Less: Operating and administrative expenses			
Advertising costs	4	92	
Transport and maintenance		79	
Directors' remuneration	5	511	
Donations and contributions	6	76	
Website expenses	7	44	
Entertainment and free trips	8	84	
Bank charges		56	
Bank interest	9	32	
Foreign exchange loss	10	70	
Freight charges		87	
Provision for bad debts	11	56	
Professional fees	12	121	
Staff remuneration	13	1,712	
Provision for warranty	14	93	
Motor vehicle maintenance		67	
Telephone and fax charges		44	
Depreciation		144	
Compensation	15	130	
Loss on disposal of quoted shares		20	
Miscellaneous expenses	16	90	
			<u>(3,608)</u>
Net profit before tax			5,688

Notes to accounts

1. Cost of sales

- (i) Royalty payments to a German company are included in the cost of sales. The company has complied with the withholding tax provisions. Details of royalty payments are as follows:

	RM'000
Balance as at 1 June 2015	Nil
Add: Provision for the year	75
Less: Payment made	<u>(47)</u>
Balance as at 31 May 2016	<u>28</u>

- (ii) BESB acquired proprietary rights from a Japanese company for RM800,000 which are included in the cost of sales.

2. Rental income

The company owns a shopping lot in a mall which is rented out. During the year the company received RM70,000 in rental income. The operating expenses in the profit and loss account include three items relating principally to the rental activity:

	RM'000
Insurance expenses	3
Repairs	11
Maintenance fees	<u>6</u>
	<u>20</u>

The insurance expenses, repairs and maintenance fees were classified under miscellaneous expenses.

3. Interest income

The company charges interest for late payments from trade debtors.

4. Advertising costs

Expenses incurred are in respect of the following:

	RM'000
Advertising in catalogues	20
Participation in an approved trade fair in Hong Kong	57
Electronic signboard	<u>15</u>
	<u>92</u>

5. Director's remuneration

Remuneration of directors comprise of:

	RM'000
Salary and allowances	360
Bonus payment	130
Tour of China for three directors	<u>21</u>
	<u>511</u>

The directors of the company took their wives for a tour of China. It is estimated that one-third of the expenses were for the wives of directors.

6. Donation and contributions

	RM'000
Donation to an approved organization	13
Contribution to public library	25
Medical expenses for a director's daughter	<u>38</u>
	<u>76</u>

7. Website expenses

	RM'000
Cost of developing a website	30
Service charges	<u>14</u>
	<u>44</u>

8. Entertainment and free trips

	RM'000
Cost of Chinese New Year dinner for staff	35
Hampers for customers during festive seasons	8
Free trip for sales agents for achieving sales targets	25
Expenses incurred in launching new electronic products	<u>16</u>
	<u>84</u>

9. Bank interest

A loan for RM400,000 was obtained from a local bank on 1 June 2014. Half the loan was used to finance the acquisition of an investment in its subsidiary Lim Electricals Sdn Bhd. The balance was used to finance BESB's working capital. The interest rate on the loan imposed by the bank was 8%.

10. Foreign exchange loss

Foreign exchange loss account consists of:

	RM'000
Realised gain on purchase of machinery	(13)
Realised loss on purchase of stock	163
Unrealised gain on purchase of spare parts	<u>(80)</u>
	<u>70</u>

11. Provision for bad debts

	General RM'000	Specific RM'000	Total RM'000
Balance as at 1 June 2015	14	28	42
Add: Provision for the year	34	72	106
Less: Provision written off	<u>(20)</u>	<u>(30)</u>	<u>(50)</u>
Balance as at 31 May 2016	<u>28</u>	<u>70</u>	<u>98</u>

12. Professional fees

Professional fees comprise of:

	RM'000
Valuation fees of a building the company plans to buy	15
Annual general meeting expenses	18
Legal fee incurred due to tax investigation	35
Flexible work arrangement expenses (approved by Talent Corporation Malaysia Berhad)	17
Statutory audit fees	<u>36</u>
	<u>121</u>

13. Staff remuneration

Included in staff remuneration are special awards amounting to RM12,000 for employees who contributed innovative ideas to improve the production process. The company also maintained a childcare centre for the benefit of children of employees at a cost of RM60,000 for the year.

14. Provision for warranty

	RM'000
Balance as at 1 June 2015	1,100
Provision for the year	103
Amount expended	<u>(10)</u>
Balance as at 31 May 2016	<u>1,193</u>

15. Compensation

Compensation refers to payment to secure the early retirement of an employee whose work performance was deemed to be unsatisfactory and detrimental to the interests of the company.

16. Miscellaneous expenses

Included in the miscellaneous expenses is GST incurred as input tax on goods purchased for an amount of RM6,000 and output tax on goods sold of RM8,000. The company is registered for GST but failed to claim the GST due to a clerical error.

17. Capital allowance and balancing charge

	RM'000
Balancing charge	70
Capital allowance on machinery and motor vehicles	126

Required:

Starting with the 'net profit before tax' figure, compute the income tax payable by Boon Electronics Sdn Bhd for the year of assessment 2016.

[Total: 25 marks]

Question 2

Airplant Sdn Bhd (ASB) is a manufacturing company incorporated on 1 March 2013 and it closes its accounts on 31 December annually.

- (a) In 2016, ASB purchased a piece of land which was originally occupied by squatters and constructed a factory on the land. The following expenses were incurred by ASB in the construction of the factory:-

Expenditure	RM
Land	2,000,000
Legal fees and stamp duty for the acquisition of the land	25,000
Squatter compensation	150,000
Demolishment of squatter buildings	200,000
Cost of levelling land	100,000
Construction cost of factory	5,000,000
Drainage system	70,000

ASB has allocated 20% of the total area of the factory for staff canteen and restrooms.

(4 marks)

- (b) ASB has also installed the following two machines in its factory in 2016:-

	Machine A (RM)	Machine B (RM)
Cost of machine	200,000	400,000
Cost of preparing site for installation of machine	700,000	60,000

- (c) In the year 2013, ASB purchased a new machine from Japan for JPY2.5 million which was equivalent to RM100,000. However, due to the devaluation of the Japanese currency, ASB only had to pay RM90,000 and made a foreign exchange gain of RM10,000. ASB also incurred RM5,000 for freight charges. The machine was sold for RM100,000 in February 2016 with a net book value of RM40,000.
- (d) On 31 May 2016, ASB purchased a Honda Accord car for RM180,000 and registered the car in the name of its Sales Director. The car is used by the Sales Director to carry out his duties for ASB. In return, the Sales Director purchased in that year a lorry costing RM100,000 and registered the lorry in the name of ASB. The lorry is used to deliver finished goods from ASB's factory to its warehouse.

Required:

Compute the capital allowances, including industrial building allowances and balancing charge / balancing allowance (if any) for (a) to (d) above of the qualifying assets for the relevant years of assessment up to year of assessment 2016. Provide brief explanations in your workings.

Allocation of marks are as follows:

- (a) 4 marks
- (b) 9 marks
- (c) 4 marks
- (d) 3 marks

[Total: 20 marks]

Question 3

Encik Rany and Cik Ranita are partners in a tax advisory firm providing a wide range of tax services, including corporate reorganisation and tax risk management review. Encik Rany is the first named in the partnership agreement. The agreement provides for Encik Rany to be paid a salary of RM160,000 per annum, and interest on capital of RM900 per annum and for Cik Ranita to be paid a salary of RM110,000 per annum and interest on capital of RM1,600 per annum.

The profit and loss sharing ratios were 50% to Encik Rany and 50% to Cik Ranita from the commencement of the partnership until 30 June 2016. From 1 July 2016 the profit and loss sharing ratios were changed to 30% to Encik Rany and 70% to Cik Ranita. There was no change in the salary and interest on capital paid. The partnership closes its annual accounts on 31 December.

The income statement of the partnership for the year ended 31.12.2016 is as follows:

	Notes	RM	RM	RM
Gross profit	1			799,500
Less:				
Business expenses	2		179,000	
Partners' salaries:				
Encik Rany		160,000		
Cik Ranita		110,000	270,000	
Interest on capital:				
Encik Rany		900		
Cik Ranita		1,600	2,500	(451,500)
Net profit for the accounts				<u>348,000</u>

Notes:

- Gross profit includes a royalty income from book publication entitled Malaysian Taxation amounting to RM2,800 (net) received on 17 July 2016.
- Business expenses include:

	RM
Depreciation	28,600
Approved donation paid in May 2016	3,900
Payment of private expenses for Encik Rany	54,400
Cost of renovations of Cik Ranita's house	42,600

- Capital allowance for the year of assessment 2016 is RM33,500.
- Cik Ranita owns a condominium which was rented out in 2016. The adjusted rental income for the year ended 31 December 2016 amounted to RM7,800.

Required:

- (a) **Compute the partnership's provisional adjusted income and divisible income for the year ended 31 December 2016.**
(7 marks)
- (b) **Determine each partner's aggregate income from the partnership source for the year of assessment 2016.**
(9 marks)
- (c) **Explain briefly how a partnership is assessed to tax and who is responsible for the filing of the partnership return.**
(2 marks)

[Total: 18 marks]

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Question 4

- (a) Brilliant College Sdn Bhd (BC) has engaged the services of YT Consortium to construct a college building in Kuala Lumpur. The consortium is a partnership between Yahama Ltd a non-resident company and Golden Sdn Bhd, a Malaysian resident company with a profit sharing ratio of 60%:40%. The whole contract sum payable is RM1.5 million, of which 6% relates to the services portion payable on 15 December 2016.

Required:

Compute the tax that should be withheld by BC in making the payment of RM1.5 million to the consortium.

(5 marks)

- (b) Facts are the same as in (a) above.

Required:

- (i) **Under the law when is a payer required to remit tax withheld under section 107A to the IRB if the payment to Yahama Ltd was made on 15 December 2016.**

(2 marks)

- (ii) **State the last date by which BC must remit the amount of tax computed above to the IRB?**

(1 mark)

- (c) The consortium made the following payments for the purpose of the construction:

- i. The consortium hires a non-resident consultant engineer from the United Kingdom and charges BC for the cost incurred.
- ii. BC leases a machine directly from a non-resident company (lessor) and provides it to the consortium.

Required:

State the relevant withholding tax section and the percentage of withholding tax for the following payments:

- (i) **Consortium's charges to BC for the non-resident consultant engineer.**

(2 marks)

- (ii) **Lease payments BC makes to the non-resident lessor.**

(2 marks)

- (d) **State the consequences of non-compliance with the withholding tax provisions under the ITA.**

(5 marks)

[Total: 17 marks]

Question 5

- (a) Under the ITA, what constitutes “operations” in relation to a company? (4 marks)
- (b) Avenue Cap Sdn Bhd commenced business on 1 October 2016. The accountant is contemplating closing the first set of accounts of the company on one of the following dates.
- i) 30 November 2016
 - ii) 31 May 2017
 - iii) 31 January 2018

Required:

Determine the first basis period AND the year of assessment for Avenue Cap Sdn Bhd for each of the dates above.

(3 marks)

- (c) Boost Sdn Bhd closes its accounts on 31 October annually. The company leased the following new vehicles:

	Cost (RM)	Lease rental per month (RM)	Commencement of lease payment
Lorry	210,000	12,000	March 2015
Car (Toyota)	140,000	5,000	March 2015
Car (BMW)	250,000	8,000	December 2015

All the above leases will end in 2017. The company charges the whole lease rental to its income statement.

Required:

Compute and explain the adjustment that needs to be made in the tax computation of Boost Sdn Bhd in arriving at its adjusted income for the year of assessment 2016 for each of the above vehicles assuming that the tax computation commences with the profit before tax figure.

(13 marks)

[Total: 20 marks]

(END OF QUESTION PAPER)