



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

PROFESSIONAL EXAMINATIONS

INTERMEDIATE LEVEL

PERSONAL TAXATION

DECEMBER 2018

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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 **FOUR** 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 paper or answer booklet are to be removed from the examination hall.

**DO NOT TURN OVER THIS PAGE UNTIL INSTRUCTED BY THE INVIGILATOR**

## Question 1

Kenneth Poh (Kenneth) was employed by a Malaysian tax resident company Hong Lim Sdn Bhd (HLSB) as an information technology manager since 1 April 2010. During the period 1 January 2018 to 30 June 2018, Kenneth received the following income and benefits from HLSB:

1. Monthly salary of RM18,000 and monthly entertainment allowance of RM2,000. He incurred RM4,200 on entertaining the company clients. He also received a bonus of RM18,000 in January 2018.
2. An unfurnished house in Kulim (annual value of RM24,000) for which he paid RM200 per month to HLSB.
3. A new car costing RM169,000 for his use was provided since April 2015 (and until his termination), with petrol allowance of RM500 per month.
4. In February 2018, he was offered 15,000 HLSB's shares at a price of RM3.00 per share, when the market value then was RM4.20 per share. Kenneth accepted the offer in May 2018 when the market value was RM4.50 per share.
5. HLSB paid the medical expenses of RM8,500 upon his hospitalisation in February 2018.
6. HLSB also paid for his holidays trips (as part of his employment contract) – one trip to Hong Kong and another one trip to Cherating in Malaysia, the cost particulars of which are as follows:

Particulars expenses by trip	Destination	
	Hong Kong	Cherating (Malaysia)
Airfare	RM1,400	RM700
Accommodation	RM2,400	RM1,200

7. On 30 June 2018, Kenneth who was 45 years old, was terminated from his employment. Upon termination:
  - (a) He received a gratuity: RM100,000.
  - (b) He was paid a compensation for loss of employment: RM72,000
  - (c) He withdrew monies from his HLSB's unapproved staff fund (the fund) made up of the following:
    - (i) Own contribution to the fund : RM60,000
    - (ii) Interest on the total contribution to the fund: RM12,000
    - (iii) Employer's contribution to the fund: RM42,000

At the time of his termination Kenneth's account with the fund had a balance of RM114,000.

8. After his termination, Kenneth started his own business on 1 September 2018 in Kulim called KPIT Services, providing information technology services. His adjusted business income for the four months, September 2018 to December 2018 was RM34,000. He was entitled for a capital allowances of RM8,200 for the year of assessment 2018 on assets used in the business.

9. Kenneth is married to Angelina who is a disabled person. They have two unmarried children. Details of expenditure incurred on the children are as follows:
- (a) The elder son John is pursuing a degree in engineering at a University in the United Kingdom and is fully supported by Kenneth.
  - (b) His second child, a girl, is 19 years old, and is studying for a medical degree in a local university on a scholarship. Kenneth supplements the scholarship with RM1,000 per month.
10. Kenneth bought a new smartphone costing RM2,000 for his daughter in March 2018. He also spent RM820 on books for the family.
11. Kenneth contributed 11% of his salary and bonus to the Employees' Provident Fund while in employment; and paid insurance premium of RM3,200 on his own life to a local insurance firm.
12. He donated RM3,000 cash during the year to an approved Malaysian charitable body.

**Required:**

**Compute the chargeable income and the income tax payable by Kenneth Poh for the year of assessment 2018. His wife has no income of her own.**

**[Total: 30 marks]**

**Question 2**

- (a) Mr. Kiran Oza (Kiran) the sole-proprietor of a food catering business, provided the following information for the year ended 31 December 2018.

	<b>RM'000</b>
<b>Business income:</b>	
Gross income	1,800
Expenditure (see Note 1 - 4)	2,095
Capital allowances	70
Balancing Charge	100
Unabsorbed Capital Allowances brought forward	20
Unabsorbed business adjusted loss brought forward	95
<b>Other income:</b>	
Director fee (see Note 6)	360

**Notes:**

The expenditure of RM2,095,000 includes the following charges:

1. Salary of RM60,000 paid to the owner, Kiran.
2. Motor vehicle expenses amounted to RM60,000 and includes the driver's salary. The Inland Revenue Board has accepted that one quarter of the expenses are attributable to private purposes.
3. During the year Kiran incurred RM18,000 on a leave passage for him and his family to Singapore.

4. Other expenses include depreciation of RM10,000 and a cash donations to the State Government of RM28,000.
5. The balance of RM 1,919,000 are revenue expenses incurred wholly and exclusively in the carrying on of the business.
6. Kiran receives director's fee in Company A. He contributed 11% of the fees to the Employee's Provident Fund. A total of RM90,000 was deducted from the fees for the monthly tax deductions under the ITA.

**Required:**

- (i) With reference to the ITA, compute the total income of Mr Kiran Oza for the year of assessment 2018.**

(10 marks)

- (ii) With reference to the ITA, explain to Mr Kiran Oza the treatment of unabsorbed capital allowance and unabsorbed business loss in arriving at the total income for the year of assessment 2018.**

(4 marks)

- (b)** Maran Sdn Bhd (the company) is a Malaysian resident company. Two of its employees had tendered their resignations.

The first employee, Mr Moorthy, age 40, who is under the monthly tax deduction scheme, was leaving the employment to join another Malaysian firm on 1 September 2018.

The second employee, Mr Svenson, age 45, is an expatriate who has decided to leave Malaysia permanently to work in his home country of Sweden.

**Required:**

- (i) State whether the company needs to notify the IRB that Mr Moorthy is leaving the company. Justify your answer.**

(3 marks)

- (ii) In relation to Mr Svenson's cessation from employment, state what action does the company need to undertake as an 'employer' in order to comply with the ITA.**

(3 marks)

**[Total: 20 marks]**

### Question 3

Mr Raman, a Malaysian citizen, returned to Malaysia on 15 July 2017 from England (where he had been staying continuously for 5 years). Mr Raman commenced employment in Kuala Lumpur with a local company under a contract from 25 July 2017 to 14 May 2019. He was in Malaysia throughout this period.

Details of Mr Raman's employment income, perquisites and benefits-in-kind (BIK) for the year ended 31 December 2018 are as follows:

1. A gross salary of RM90,000 for the year with a one month productivity bonus. The bonus (based on his 2018 performance), was paid to him in February 2019. Mr Raman was entitled to a parking allowance of RM200 per month from the company.
2. In January 2018, he was transferred to Kuantan. The employer provided him accommodation in a hotel at RM200 per night. From February 2018 onwards, he was provided with a fully furnished house for which the employer paid a monthly rent of RM4,000 (inclusive of RM1,000 for furniture).
3. Mr Raman employed a maid for RM1,000 per month and she commenced work in April 2018. The cost of employing the maid was reimbursed by the employer. The employer also engaged a gardener for Mr Raman from 1 October 2018 and paid the gardener a monthly salary of RM800.
4. At a company dinner in December 2018, he was selected as the 'Innovative Employee of the Year' and received a prize money of RM2,400.

#### Other information:

5. Mr Raman invented and patented a machine that would improve material efficiency in recycled plastics. He spent RM3,000 buying mostly scrap materials for developing the machine. For the year ended 31 December, 2018 he was paid a royalty of RM22,000 by three manufacturers for use of the machine.
6. He also took part in an isolated scheme with a friend, selling a novel product and together they made a gain of RM170,000. His share of the gain was 30%.
7. He used RM30,000 of the money to buy medical equipment which he donated to a healthcare facility in Kajang that was approved by the Minister.

**Required:**

**With reference to the ITA:**

- (a) **Compute the Total Income of Mr Raman for the year of assessment 2018.**  
Assume that the gain stated in Point 6 above is regarded as taxable business income of Mr Raman for year of assessment 2018.  
(13 marks)
- (b) **Determine whether Mr Raman was a resident in Malaysia for the years of assessment 2017 and 2018.**  
Quote the relevant section and subsections of the ITA.  
(3 marks)
- (c) **Identify three (3) types of income that are specifically taxable on an individual who is not a tax resident in Malaysia that would otherwise be exempted if that individual was a tax resident.**  
(3 marks)
- (d) **Further to part (c) above, identify three (3) other income tax advantages of an individual being a tax resident in Malaysia.**  
(3 marks)

**[Total: 22 marks]**

#### **Question 4**

Encik Tamarin owned the following three (3) properties and the rental status of these properties for the year ended 31 Dec 2018 are as follow:-

<b>Rental: Apartment (1<sup>st</sup> time rental)</b>	<b>RM</b>
January 2018 to December 2018 (RM600 per month)	7,200
Rental Deposit – refundable	900
<b>Expenses</b>	<b>RM</b>
Commission to real estate agent for finding new tenant	600
Interest on loan (January 2018 till December 2018)	8,600
Quit rent and assessment	250
Extension of kitchen	2,500

<b>Rental: Bungalow</b>	<b>RM</b>
January 2018 to April 2018 (RM3,000 per month)	12,000
May to June 2018 (vacant)	Nil
July 2018 to December 2018 (RM3,500 per month)	21,000
<b>Expenses</b>	<b>RM</b>
Interest on loan (January 2018 till December 2018)	12,400
Quit rent and assessment	1,600
Fire insurance premium	1,780
Replacement of furniture (sofa)	480

<b>Rental: Factory</b>	<b>RM</b>
Vacant for the last 3 years	Nil
<b>Expenses</b>	<b>RM</b>
Advertisement cost	600
Interest on loan (January 2018 to December 2018)	12,400
Quit rent	1,600

**Required:**

- (a) **With reference to the ITA, compute the adjusted rental income that will be brought to tax for the year of assessment 2018.** (10 marks)
- (b) **With reference to the ITA, briefly discuss the deductibility of the expenses incurred on renovation, repair maintenance and replacement of furniture in the letting of the properties.** (6 marks)
- (c) In respect of expenses of a revenue nature that are incurred by an individual owner of a rented property assessed under the provisions of section 4(d), discuss briefly the deductibility of these expenses in arriving at the adjusted income when the properties are not generating any rental income under the following situations:
- (i) **Pre-commencement** (1.5 marks)
- (ii) **Short term or temporary period of no income** (4 marks)
- (iii) **Long period of not generating income** (1.5 marks)
- (d) John Marlow Sdn Bhd (landlord), a Malaysian resident company carrying on the business of grain distributors, owns one office lot within a large office building in Kuala Lumpur. In May 2018 the landlord entered into a tenancy agreement with Jothy & Co (tenant) a legal firm, for a period of two years at a monthly rental of RM3,000.

However, the tenancy agreement prescribed that the full rental for two years of RM72,000 be settled in one lump sum at the time when the tenancy agreement was signed i.e. May 2018.

The landlord does not provide any ancillary services to the tenant in relation to the rented property.

**Required:**

**How would the sum of RM72,000 be treated by the recipient, John Marlow Sdn Bhd?**

Clearly explain your answer, and cite the relevant section of the ITA or the relevant Public Ruling as applicable.

(5 marks)

**[Total: 28 marks]**

**(END OF QUESTION PAPER)**