



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

PROFESSIONAL EXAMINATION

FINAL LEVEL

ADVANCED TAXATION 1

DECEMBER 2020

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 template.
5. All workings **MUST** be shown as marks will be awarded.
6. All figures to be rounded to RM1.00.
7. For this examination question paper, you are to assume that the basis year ending 31 December 2020 has elapsed.

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Question 1

Paradigm Sdn Bhd ('PSB') is a new tax resident company in Malaysia which was incorporated on 1 January 2020 to manufacture a promoted product. A month later after the incorporation, PSB made an application to the authorities for investment tax allowance incentive.

On 1 March 2020, PSB was informed by the authorities that they qualified for investment tax allowance incentive for a period of five (5) years which will take effect from 1 April 2020. It prepares its annual Income Statement to 31 December.

You are a tax manager with SYNERGY Tax Consultant Sdn Bhd and had a meeting with the chief accountant on 10 March 2020. He provided you with the following projected tax information and the capital expenditures:

Year of Assessment:	2020	2021	2022	2023	2024
	RM '000	RM '000	RM '000	RM '000	RM '000
Adjusted income/(loss)	(2,000)	(1,000)	2,000	8,000	10,000
Interest income from a local bank	0	100	100	100	100
Capital expenditures:					
Land	5,000	0	0	0	0
Purchase of a new factory and extension to factory	6,000	0	5,000	0	0
Plant and machinery	2,000	2,000	1,000	1,000	1,000
Capital allowance and industrial building allowance for the year	1,460	1,140	1,730	1,720	1,860

Required:

Write a letter to the board of directors of PSB to advise them on the following tax matters:

- (a) The mechanism of investment tax allowance incentive. (5 marks)
- (b) The amount of chargeable income, exempt income and investment tax allowance for each of the years of assessment from 2020 to 2024. (12 marks)

For part (b), a tabular format must be used for your computation.

Three (3) marks are given for appropriate format of presentation and effective communication.

[Total: 20 marks]

Question 2

- (a) Explain briefly the scope of charge to Malaysian income tax under the ITA in respect of a person who is resident in Malaysia, and carrying on the business of banking.

(6 marks)

- (b) The Malaysian Royal Bank Bhd ('the Bank') was incorporated in 2010. It is a Malaysian resident principally engaged in the area of lending to the manufacturing sector. The accounts are closed to 31 December each year. The Bank had recently opened its first branch in Thailand ('the Thai branch') and has substantial lending operations to the car manufacturing sector in that country.

The Bank charged interest of RM480,000 in 2020 on account of a temporary loan it extended to the Thai branch for its immediate lending needs. The Bank also charged RM600,000 being management fees for assisting the Thai branch with initially putting in place operating and technical systems in compliance with Thailand's financial laws and regulations.

The interest payment (on the temporary loan) was accrued in November 2020 and will be remitted to Malaysia only in January 2021. The RM600,000 management fee was due for payment in September 2020 but was deferred, with the agreement of the Malaysian Board of Directors, pending stable cash flow conditions of the Thai branch, which only made a modest book profit of RM2 million for the year ended 31 December 2020.

Required:

With reference to the ITA, explain briefly the income tax treatment of the following with respect to the banking operations of the Malaysian Royal Bank Berhad for the year of assessment 2020:

- (i) The profit of RM2 million of the Thai branch;
- (ii) The interest of RM480,000; and
- (iii) The management fee of RM600,000.

(6 marks)

- (c) The Malviet Banking Corporation Bhd ('the Bank') is a locally incorporated resident bank (financial year end: 31 December) and has been in business for three (3) years. It has a branch operation in Saigon, Vietnam. The Bank has indicated that for the year ended 31 December 2020, the Malaysian operations' gross income was RM35,247,628 and the allowable expenses were RM21,148,577. The bank is entitled to claim a capital allowance of RM1,762,381 on qualifying capital expenditure on plant and machinery used in its Malaysian business for the year of assessment 2020.

The branch operations in Saigon was running at a loss, and the current loss in 2020 was RM7,049,526. The other non-banking income is derived from long term investments in local companies. During the year the Bank received single-tier dividends totalling RM570,000.

The Bank had made a donation of RM100,000 to a local approved charitable body in 2020.

Required:

With reference to the ITA determine the chargeable income of the Malviet Banking Corporation Bhd for the year of assessment 2020, computed in a manner prescribed in section 5.

(8 marks)

[Total: 20 marks]

Question 3

- (a) The NPMG Sdn Bhd ('the company') is a very large accounting practice in Malaysia employing more than five hundred (500) staff at its Kuala Lumpur office. The staff formed a fitness club and had it registered officially as NPMG Fitness Club ('the club') under the Society Act 1966. An elected Management Committee ('the committee') manages the activities of the club. Membership is open only to the company's staff. They pay an entrance fee of RM50 and an annual subscription fee of RM120 to take part or enjoy the club's activities and facilities.

The objective of the club was, among others, to keep the staff fit by engaging in various sports and other physical activities. As this proved to be subsequently not convenient to organise, the committee decided to set up a gymnasium for the members' use. The company allowed the club the use of a hall for this purpose as part of its corporate social responsibility program. The committee engaged an external gym operator, who was also their client, to operate the gym.

The gym operator set up the place with the necessary equipment and facilities. The operator charged the club members RM100 per month for its use. The operator pays RM900 per month as rental for the hall. This money is partly used by the committee to subsidise light refreshments provided for members who used the gym facilities.

Required:

With reference to the ITA, relevant Public Rulings issued by the Inland Revenue Board Malaysia and the relevant Income Tax Deduction Rules:

- (i) **Explain the NPMG Fitness Club's liability to income tax, if any, including the issue of deductibility of expenses and capital allowances.** (8 marks)
- (ii) **Advise the NPMG Fitness Club's Management Committee the principle, and the circumstances under which the income of the NPMG Fitness Club could be exempted.** (4 marks)

- (b) The Malaysian Proto Car Enthusiasts Club ('the club'), registered in 1988, is a club made up of members who own cars manufactured prior to the year 1950. The club's objective is to help members with the repairs, maintenance and exhibition of these rare cars at public events. The club operates from its own office building acquired with a bank loan in 1991.

The club had submitted the following accounts for the year ended 31 December 2020:

Malaysian Proto Car Enthusiasts Club		
Income and Expenditure account for year ended 31 December 2020		
	RM	RM
Income		
Membership subscription	184,800	
Membership entrance fees	39,600	
Sale of spare parts to members	24,000	
Malaysian dividends (single tier)	5,280	
Fixed deposit interest	<u>2,640</u>	256,320
Less: Expenditure		
Salaries	22,440	
Utilities	3,960	
Repairs of office equipment	13,200	
Bank interest and charges	10,028	
Interest on loan for premises	27,545	
Quit rent and assessment	6,600	
Minor repairs of premises	6,244	
Book keeping charges	6,000	
Depreciation	5,182	
Donation (approved charitable body)	<u>3,000</u>	<u>104,199</u>
Surplus of income over expenditure		<u>152,121</u>

Required:

With reference to the ITA, compute the chargeable income of Malaysian Proto Car Enthusiasts Club for the year of assessment 2020.

(8 marks)

[Total: 20 marks]

Question 4

Jason Wong, a Malaysian citizen, inherited a palm oil plantation in Perak from his father on 1 May 2018. His father had acquired the plantation on 7 April 2016 for RM650,000. The market value of the palm oil plantation was RM720,000 on 1 May 2018.

On 1 October 2019, Jason transferred the palm oil plantation to Wong Holdings Sdn Bhd ('WHSB') for a consideration of RM800,000 consisting of 800,000 shares of RM1 each in WHSB, a trading company jointly owned by Jason and his wife. The market value of the plantation as at 1 October 2019 was RM800,000.

The paid-up share capital of WHSB held by Jason Wong and his wife Renee Wong prior to the transfer of the palm oil plantation to WHSB was as follows:

	Number of ordinary shares of RM1 each
Jason Wong	200,000
Renee Wong	<u>200,000</u>
Total paid-up capital	<u>400,000</u>

Jason Wong sold his entire shareholding to Mr John Fernandez on 1 November 2020 for RM1.2 million. Mrs Renee Wong did not sell her shares.

Required:

- (a) Compute the Real Property Gains Tax (RPGT) payable, if any, on the disposal of the oil palm estate by Jason Wong to Wong Holdings Sdn Bhd under the RPGT Act 1976 (as amended). (8 marks)
- (b) Compute the RPGT payable on the disposal of sale of shares by Jason in WHSB. (10 marks)
- (c) Comment on the acquisition price of the palm oil estate that was sold to WHSB on 1 October 2019? (2 marks)

[Total: 20 marks]

Question 5

- (a) Mr T who was resident and domiciled in Malaysia passed away on 30 April 2020 soon after he had a sudden heart attack. His sources of income for the year ended 31 December 2020 are as follows:

		RM
(i)	Business A (Malaysia):	
	Adjusted income for the basis period ended 31 December 2020:	240,000
	Capital allowance for the year of assessment 2020:	20,000
(ii)	Business B (Malaysia):	
	Adjusted loss for the year ended 31 December 2020:	(60,000)
	Unabsorbed loss brought forward from the year of assessment 2019:	(30,000)
(iii)	Business C (Myanmar):	
	Adjusted income for the basis period 31 December 2020:	200,000
	An amount of RM160,000 (after tax suffered in Myanmar) was received in Malaysia on 1 July 2020.	
(iv)	Rent (net of allowable expenses) from a shophouse located in Kuala Lumpur	84,000
(v)	Dividend (Indonesia):	10,000
	It was distributed by an overseas company and remitted into Malaysia on 9 May 2020.	

Mr T donated RM20,000 in cash to an approved welfare home in Kuala Lumpur on 25 January 2020.

Serene is a niece of Mr T. She is the only executor appointed under the will of Mr T. She is a tax resident in Malaysia for the basis period for the year of assessment 2020. Commencing from the month of June 2020, Serene received an annuity of RM2,000 (monthly) from the estate of the deceased.

Required:

For the year of assessment 2020, compute the respective chargeable income of Mr T (the deceased) and the executor of the Estate of Mr T.

(15 marks)

- (b) **Discuss any possible differences in the tax treatments in respect of the executor for the year of assessment 2020 if Mr T had died not domiciled in Malaysia on 30 April 2020.**

(5 marks)

[Total: 20 marks]

Question 6

Shelter Investment Fund invests its funds substantially in listed shares, fixed deposits in local banks and landed properties in Malaysia.

The unit trust's statement of income and expenditure for the year ended 30 June 2020 is as follows:

	RM	RM
Gross income		
Interest from local banks		80,000
Rental from own building		150,000
Foreign dividend (received in Malaysia on 1 April 2020)		120,000
Gains from disposal of shares		350,000
Gains from disposal of land		<u>530,000</u>
		1,230,000
Less: Expenses		
Statutory audit fee	12,000	
Fund managers' fee	200,000	
Trustee's fee	45,000	
Maintenance of register of unit holders	120,000	
Salaries and wages	150,000	
Directors' fees	80,000	
Secretarial fee	15,000	
Quit rent and assessment (for own building let out)	3,500	
Maintenance expenses (for own building let out)	6,000	
Depreciation	18,000	
Postage and stationery	<u>2,000</u>	<u>651,500</u>
Net profit before taxation		<u>578,500</u>

Required:

- (a) Compute the tax payable for Shelter Investment Fund for the year of assessment 2020. (10 marks)
- (b) Explain the tax treatments of the special deduction for qualifying expenditure under Section 63A of the ITA available for unit trust. (5 marks)
- (c) Explain any FIVE (5) differences in tax treatments if Shelter Investment Fund is a resident real estate investment trust. (5 marks)

Note:

For part (b), you are **NOT** required to explain what the qualifying expenditures are.

[Total: 20 marks]

(END OF QUESTION PAPER)