



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

PROFESSIONAL EXAMINATIONS

INTERMEDIATE LEVEL

BUSINESS TAXATION

DECEMBER 2019

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

Silver Kris Sdn Bhd (SKSB), a tax resident company, was incorporated in Malaysia with a paid-up ordinary share capital of RM2.3 million. SKSB is a controlled company owned by Encik Perak and his wife, both of whom are also the directors. SKSB's Statement of Profit or Loss for the financial year ended 30 September 2019 is as follows:

	Note	RM'000	RM'000
Sales revenue			4,983
Less: Cost of sales	(1)		<u>(1,741)</u>
			3,242
Add: Other income	(2)		<u>58</u>
			3,300
Less: Expenses			
Staff remuneration and welfare	(3)	870	
Finance Charges	(4)	328	
Bad and doubtful debts	(5)	217	
Freight and insurance	(6)	110	
Foreign exchange loss	(7)	30	
Rental of premises	(8)	150	
Legal and professional fees	(9)	20	
Subscriptions and Donations	(10)	236	
Depreciation		79	
Entertainment	(11)	<u>5</u>	
Other business expenses	(12)	<u>451</u>	
			<u>(2,496)</u>
Net profit before tax			<u>804</u>

Notes:

- Cost of sales includes advertising costs amounting to RM15,000 for media announcement stating that a particular agent was no longer authorized to represent the company.
- Other income consisted of:
 - Dividend income of RM37,000 received from a Malaysian company, Bumi Hijau Berhad (see also note 4 below);
 - Interest income of RM21,000 from fixed deposits placed in a local bank;
- Staff remuneration and welfare includes:
 - The Employees Provident Fund contributions made by the company at the rate of 20% in respect of its key personnel amounting to RM180,000;
 - Consultancy fees of RM48,000 paid to a non-resident person for providing technical advice on product design rendered in Malaysia. Withholding tax was not remitted to the Inland Revenue Board;

iii. SKSB owns a building for purpose of providing child care facilities to its employees. The childcare centre building was purchased in April 2017 for RM280,000. The centre commenced to be used for the childcare centre for the employees in September 2017. During the financial year ended 30 September 2019, the following were incurred and included under "Staff remuneration and welfare":

- Cost of extension (RM90,000) to the original childcare centre building; and
- Cost of maintenance of the childcare centre (RM24,000).

4. Finance charges includes an interest expense of RM11,000 which is attributable to a borrowing to finance an investment in the shares of Bumi Hijau Berhad as in note 2(i) above.
5. On 8 February 2019 the directors of SKSB Sdn Bhd passed a resolution to write-off a debt amounting to RM217, 000 owed by the subsidiary of a listed company for goods supplied. The resolution was passed to facilitate SKSB's acquisition of the said subsidiary company.
6. Freight and insurance include premiums amounting to RM33,000 paid for a key-man insurance policy on the lives of the directors of the company. The beneficiaries of the key-man insurance is the company and not the directors.
7. The foreign exchange loss relates to an unrealised payment due to a supplier.
8. Rental of premises includes removal expenses amounting to RM17,000 from the existing place of business to a new and very much larger premises as the company expanded its business significantly.
9. Legal and professional fees include:

		RM'000
i.	Legal cost of securing a bank loan for the expansion of the company's business	7
ii.	Income tax return filing fees (fees have been fully paid)	9
iii.	Tax consultation fees for a report on the acquisition of a new business	<u>4</u>
		<u>20</u>

10. Subscriptions and donations comprise:

		RM'000
i.	Entrance fee to a trade association	13
ii.	Cash contributions to sponsor foreign arts approved by the Ministry of Culture, Arts and Tourism	214
iii.	Cash donation to public library	<u>9</u>
		<u>236</u>

11. Entertainment is made up of:

- i. Traffic fine / penalty of RM1,000.
- ii. Entertainment lunch totalling RM4,000 for existing customers.

12. Other business expenses [all qualified for deduction under section 33(1)].

13. Other information:

- i. Capital allowances brought forward from the year of assessment 2018 were RM530,000;
- ii. Capital allowances (excluding those related to the childcare centre) for the year of assessment 2019 amounted to RM195,000.

Required:

- (a) **Compute the Chargeable Income and Tax Expense of SKSB for the year of assessment 2019.**

Note:

Your computation should start with the 'Net profit before tax' figure and should include all items referred to in Notes 1 to 13, indicating 'NA' where no adjustment is needed.

(28 marks)

- (b) Where the adjusted loss from a business for a basis period cannot be deducted against the aggregate income from all sources for that year of assessment, the amount of unabsorbed loss can be carried forward and deducted from the aggregate of the statutory income from business sources for the following years of assessment.

Briefly explain whether there is any time-restriction in the carry forward of unabsorbed business losses.

(2 marks)

[Total: 30 marks]

Question 2

You are a tax senior in an accounting firm. Your manager and you have just concluded a meeting with the management of Excellent College Sdn Bhd. [ECSB], an accountancy college which started classes for Diploma in Accounting in Kuala Lumpur on 1 January 2019. The company is resident in Malaysia and also conducts training courses on an ad-hoc basis.

The client has raised a few tax issues relating to its operations and sought your advice on these matters. The issues are detailed below.

1. The CEO of ECSB was informed by his friend that the college will only have commenced operations when the first batch of students graduate. He wants to verify if the ITA has any specific provisions dealing with commencement of operations.
2. The college has incurred revenue expenditure relating to recruitment of lecturers but these were incurred from July 2017 to December 2018 and the management is not sure about the deductibility of these recruitment expenses.
3. A specific batch of lecturers were paid basic salary, bonus and their EPF contribution was 25% instead of the statutory EPF rate of 12%.

The amount paid for the year-ended 31 December 2019 in respect of this specific batch of lecturers were as follows:

	RM (millions)
Basic salary	2.5
Bonus	0.4
EPF (25% of RM 2.9 million)	0.725

4. As part of their CSR programme, ECSB employed some staff who were registered with the relevant authorities as “persons with disabilities”. Their remuneration were as follows for year-ended 31 December 2019.

	RM ('000)
Basic salary	72
EPF contributions	8.64

In addition ECSB incurred expenditure on the renovation of premises necessary to assist these employees in the performance of their duties of employment and to enhance the convenience and comfort of disabled persons.

5. ECSB experienced a disruption of classes due to unforeseen flooding in the vicinity of the college. ECSB had to cancel a 2-day training programme and had to refund the fees of RM 10,000. This unexpected event happened because the surrounding drainage system was clogged with mud and loose debris from a nearby construction site. Recognising that their activities contributed to occurrence of the floods, the construction company made a goodwill payment of RM 10,000 to ECSB.

Required:

- (a) State whether the ITA provides any guidance on the ascertainment of the commencement date of operations, determine when ECSB would be deemed to have commenced operations and state whether the information received by the CEO (regarding commencement) is correct (refer to Note 1).
(4 marks)
- (b) Explain whether the recruitment expenses incurred by ECSB will rank for a tax deduction (refer to Note 2).
(3 marks)
- (c) Discuss the deductibility of the remuneration paid to the specific batch of lecturers (refer to Note 3); and compute the amount to be adjusted in the tax computation assuming the whole amount was charged out to the income statement for the year ended 31/12/2019 and the tax computation commences with net profit before tax.
(7 marks)
- (d) Determine the tax deduction available to ECSB for the remuneration and renovation expenditure incurred in respect of the persons with disabilities in Note 4 (in your answer, quantification of the amounts deductible is not necessary).
(3 marks)
- (e) Explain the taxability of the RM 10,000 received by ECSB in Note 5.
(3 marks)

[Total: 20 marks]

Question 3

Johan and Chong are the two partners of a partnership, Johan & Co. This partnership was formed in 2002 and it is in the business of repairing cars.

The partnership agreement stated as follows:

	Salary per month (RM)	Share of profit / loss
Johan	8,000	60%
Chong	5,000	40%

On 1 October 2019, Chong left the partnership and Krishna joined the partnership as a new partner.

The new partnership agreement is as follows:

	Salary per month (RM)	Share of profit / loss
Johan	7,000	70%
Krishna	6,000	30%

The partnership's statement of profit or loss for the year ended 31 December 2019 was as follows:

	Notes	RM	RM
Income from service			746,000
Less: Expenses			
Staff salaries		230,000	
Partners' salaries		156,000	
Donation (unapproved)		1,500	
Rental of shop-house for business		65,000	
Entertainment	(1)	32,000	
Miscellaneous expenses	(2)	28,000	
Business travelling		13,000	
Depreciation		94,000	
Water and electricity		<u>22,000</u>	
			<u>(641,500)</u>
Profit before taxation			<u>104,500</u>

Notes:

1. Entertainment

	RM
Entertainment of staff	8,000
Refreshment provided to customers while waiting for their cars to be serviced	14,000
Gifts with business' logo to customers	<u>10,000</u>
	<u>32,000</u>

2. Miscellaneous

	RM
Parking summons	400
Red packet for staff (declared as taxable income in EA Form of respective staff)	18,000
Gangster protection fee (no receipt or supporting documents provided)	6,000
3 sets of tables and chairs (RM1,200 each) for use of the business	3,600
	<u>28,000</u>

During the year ended 31 December 2019, the partnership also incurred other capital expenditure for its business as follows:

	RM
Computers	15,000
Machinery	12,000

All assets were used for business and owned by Johan & Co as at the year end.

Required:

- (a) Compute Johan & Co partnership's provisional adjusted income for the year of assessment (YA) 2019. You are to indicate "Nil" for expenses that do not need any tax adjustment. (7 marks)
- (b) Compute the divisible income and the capital allowances to be allocated to each of the partners for the YA2019. (10 marks)
- (c) Assume that Johan is also a sole proprietor of a restaurant business. His business is not doing well in 2019. This resulted in a current year business adjusted loss of RM500,000 in YA2019.

Explain the tax treatment of this current year business adjusted loss (detailed calculations are not required).

(3 marks)

[Total: 20 marks]

Question 4

KenneX Sdn Bhd (KXSB) carries on business of providing industrial cleaning services and also sale of washing equipment. KXSB adopts 31 December as its financial year.

For YA 2019, KXSB received the following amounts from its customers:

Amount	RM	Date received	Description
(A)	10,000	December 2019	<ul style="list-style-type: none">• Advance receipt from a customer (non-refundable).• Being full payment by the customer for an order of equipment (goods) to be delivered in February 2020.• Invoice will only be issued in February 2020 after goods are delivered.• This amount is to be reflected as revenue in the accounts in 2020.
(B)	30,000	December 2019	<ul style="list-style-type: none">• Advance receipt from a customer (non-refundable).• Being full payment by the customer for cleaning services to be performed by KXSB in January 2020.• Invoice will be issued upon completion of services in January 2020.• This amount is to be reflected as revenue in the accounts in 2020.
(C)	5,000	December 2019	<ul style="list-style-type: none">• Refundable deposit collected from a customer.• The customer has not yet decided which model of equipment to purchase.• Invoice has not been issued for collecting this deposit.

Required:

(i) State, with reasons, whether the following are taxable on KXSB for Year of Assessment 2019.

- Amount (A) of RM10,000 (3 marks)
- Amount (B) of RM30,000 (4 marks)
- Amount (C) of RM5,000 (2 marks)

As at 31.12.2019, KXSB possesses the following motor vehicles (all acquired in 2019):

Motor Vehicle	Cost RM	Method of acquisition	Status when bought	Cash and/or Hire Purchase Instalments paid in 2019 RM
Toyota Camry	200,000	Cash	Brand new	200,000
Honda Civic	120,000	Cash	Brand new	120,000
Perodua Bezza	55,000	Cash	Second hand	55,000
Volvo XC40	280,000	Hire Purchase	Brand new	30,000

Assume all the motor vehicles are used for business.

(ii) For year of assessment 2019, compute the capital allowance on all the above motor vehicles.

(6 marks)

[Total: 15 marks]

Question 5

- (a) Kuda Auto Sdn Bhd (KASB), a company resident in Malaysia, was incorporated on 19 December 2018 and commenced operations on the same date. Since incorporation till now, the ordinary share capital of KASB has remained at RM1,000 (all held by the director Mr Kundasang).

KASB prepared its first set of accounts to 30 September 2019, and thereafter, closed its accounts to 30 September 2020 for the subsequent financial year.

Required:

State what is the basis period of KASB for:

(i) Year of assessment 2019

(ii) Year of assessment 2020

(2 marks)

- (b) Continuing from (a) above, the management of KASB had failed to furnish a tax estimate pursuant to s107C(4) for YA 2019 and YA 2020. The director, Mr Kundasang is worried that such failure would cause KASB to suffer a penalty for YA 2019 and YA 2020.

Required:

Advise KASB whether or not there will be any penalty for failure to furnish a tax estimate for YA 2019 and YA 2020. Justify your answer strictly in accordance with s107C of the ITA.

(4 marks)

(The rest of the page is blank)

- (c) Dong Gongon Sdn Bhd (DGSB), a resident company, was incorporated in Malaysia and has been operating in Malaysia for many years. DGSB's financial year is 31 March.

For YA2020, DGSB had submitted its original tax estimate of RM100,000 within the stipulated deadline and made no revisions. It is now time to furnish YA2021's original tax estimate. However, due to unfavourable business conditions, DGSB wishes to submit RM82,000 as the original tax estimate for YA2021.

YA	Basis Period	Tax estimate
2020	1.4.2019 to 31.3.2020	RM100,000
2021	1.4.2020 to 31.3.2021	RM82,000 (proposed by DGSB)

Required:

- (i) What is the deadline for DGSB to submit Form CP204 (original tax estimate) for the financial year ending 31 March 2021?
(2 marks)
- (ii) Based on the ITA, advise the management of DGSB whether it can submit RM82,000 as the original tax estimate for YA2021.
(4 marks)
- (iii) When is the due date for DGSB to pay the first tax instalment for YA 2021?
(1.5 marks)
- (iv) If a company does NOT have any tax payable for the past 3 consecutive years of assessment, is such company still required to submit an original tax estimate for the coming YA?
(1.5 marks)

[Total: 15 marks]

(END OF QUESTION PAPER)