



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

PROFESSIONAL EXAMINATION

INTERMEDIATE LEVEL

BUSINESS TAXATION

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 **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 template.
6. All workings **MUST** be shown as marks will be awarded.

DO NOT TURN OVER THIS PAGE UNTIL INSTRUCTED BY THE INVIGILATOR

Question 1

Resilience Sdn Bhd (RSB) is a Malaysian tax resident company incorporated in Malaysia. Its principal activity is in the manufacturing of solar water system. The paid-up ordinary share capital of the company on 1 October 2019 is RM2 million. This amount was increased to RM3 million on 1 January 2020. All the shares of the company are owned by Encik Resili who is also the sole director in RSB.

RSB's Statement of Profit or Loss for the financial year ended 30 September 2020 is as follows:

	Note	RM'000	RM'000
Turnover			18,957
Less: Cost of sales	(1)		<u>(12,414)</u>
			6,543
Add: Other income	(2)		<u>457</u>
			7,000
Less: <u>Expenses</u>			
Audit fee	(3)	34	
Salaries and staff welfare	(4)	2,200	
Foreign exchange realized loss (trade)		35	
Lease rental of machinery	(5)	40	
Retrenchment benefits	(6)	130	
Provision for doubtful debt	(7)	50	
Legal and professional fee	(8)	161	
Bank loan interest	(9)	1,280	
Repairs and maintenance	(10)	900	
Miscellaneous expenses	(11)	<u>160</u>	
			<u>(4,990)</u>
Net profit before tax			<u>2,010</u>

Notes:

1. Cost of sales included the following:
 - i. Depreciation of RM1,580,000.
 - ii. Raw materials used in an approved research project of RM45,000.
2. Other income consisted of:
 - i. Gross rental income from a property in Johor Bahru of RM320,000
Maintenance and support services have been actively and comprehensively provided to the tenant of this property.
 - ii. Overdue trade interest income of RM13,000.
 - iii. Interest income from fixed deposit in bank of RM90,000.
 - iv. Waiver of debts by creditors of RM34,000. Previously, the expenses were tax deductible.
3. The audit fee included a special audit fee of RM20,000 on a due diligent study to acquire a competitor.

4. Included in salaries and staff welfare were the following:
- i. Annual trip to Langkawi for company's employees of RM54,000.
 - ii. Salaries paid of RM50,000 for services of drivers and servants. These services were provided as benefits-in-kind (BIK) to senior executives. The BIK have been reported in the EA Form of the respective executives.
 - iii. Remuneration paid to disabled staff of RM30,000. The said staff have been certified by the relevant authorities as handicapped.
 - iv. Equipment for disabled staff of RM4,000.
5. Lease rental payment of RM40,000 made to a non-resident company for the leasing of machinery for the use of manufacturing process. The relevant withholding tax was not paid within the stipulated date to the Inland Revenue Board. On 1 June 2020, the company settled the outstanding withholding tax and penalty for late payment.
6. The company paid out RM130,000 as retrenchment benefits to its employees as a result of a cost reduction exercise.
7. Provision for doubtful debt comprised an increase during the year of a specific provision for doubtful debts (non-trade) of RM75,000 and a decrease of a general provision for doubtful debts (trade) of RM25,000.
8. Legal and professional included:

		RM'000
i	Advertisement in magazines	23
ii	Legal fee on increase in share capital	22
iii	Legal fee for application of a bank loan (see note 9)	16
iv	Consultancy fee paid to a Labuan company	100
		<u>161</u>

9. RSB took a bank loan of RM16 million which was utilized as follows:

		RM'000
i	Acquisition of trading stocks	4,000
ii	Acquisition of machinery	5,000
iii	Placement of fixed deposit in a bank (see note 2)	1,000
iv	Acquisition of property in Johor Bahru (see note 2)	6,000
		<u>16,000</u>

Assume that the bank loan interest of RM1,280,000 was incurred evenly throughout the financial year based on the above proportions.

10. Repairs and maintenance included:

		RM'000
i	Initial major repair on a machinery. It was in a dilapidated condition when it was purchased.	80
ii	Minor repairs on meeting rooms for directors and staff.	20
iii	Extension to the company's existing factory.	800
		<u>900</u>

11. Miscellaneous expenses included:

		RM'000
i	Quit rent & assessment for property in Johor Bahru (see note 2)	12
ii	Approved cash donation to Persatuan Orang Buta Malaysia	14
iii	Penalties and traffic summons	34
		<u>60</u>

The balance of miscellaneous expenses all qualified for deduction under section 33(1) of the ITA.

12. Other information:

- i. Unabsorbed business losses brought forward from the year of assessment 2019 were RM620,000;
- ii Capital allowances was computed at RM850,000 for the year of assessment 2020. This amount does not take into accounts the acquisitions of capital expenditures as in note 10.

Required:

- (a) **Compute the tax payable of RSB for the year of assessment 2020. Answers should be rounded-up / rounded-down to the nearest thousand.**

Note:

Your computation should start with the 'Net profit before tax' figure and should include all items referred to in Notes 1 to 12, indicating 'NA' where no adjustment is needed.

(26 marks)

- (b) Sisco Sdn Bhd (SSB) is a trading company. SSB insures its vans which are used for delivering goods.

In 2020, one of its vans was damaged in a minor accident, where the bumper of the van was dented. SSB claimed and received a total insurance compensation of RM1,500 for the damage / "minor repair" to the van.

Explain with reasons whether the insurance compensation is subject to income tax, and explain the tax treatment for the "minor repair".

(4 marks)

[Total: 30 marks]

Question 2

- (a) Businesses are encouraged to employ persons with disabilities so as to enable them to earn a decent living. In the light of the above the ITA contains provisions specifically related to employing such staff.

Required:

State one (1) expense relating SPECIFICALLY to disabled staffs which qualify for:-

- (i) a single deduction (1.5 marks)
- (ii) a double deduction (1.5 marks)
- (b) Zoe Sdn Bhd, a manufacturing company uses zinc roofing for its production area. Due to exposure to sunlight, some of the zinc sheets had shrunk and caused leaking. Management is contemplating whether-
- i. to replace only the shrunken zinc sheets; or
- ii. to replace the whole roof with tiles.

Required:

Discuss the deductibility of the expenditure in ascertaining the adjusted income of the company under the two options being contemplated by the Management.

Note:

Assume that tiles are generally regarded as a newer and better construction material compared to zinc for this scenario.

(4 marks)

- (c) Cleo Sdn Bhd(Cleo), a manufacturer of bottled drinks incurred the following expenditure in relation to entertainment for the year ended 31 December 2020.

Required:

Explain whether the expenditure is deductible in ascertaining the adjusted income.

- (i) Cleo embarked on the launching of a new bottled drink and incurred expenses on food and drinks for the product launching ceremony amounting to RM20,000. (2 marks)
- (ii) Cleo spent RM10,000 to provide hampers for its existing customers in conjunction with the Chinese New Year celebration to maintain existing business relationship. (2 marks)
- (iii) Cleo incurred RM25,000 being entertainment given to a potential customer in a closed transaction. (2 marks)

- (d)** The Management of Deo Sdn Bhd (year-end 31 December) needs to lease a car for one of its Directors and is evaluating two (2) of the following options:
- i. A second-hand car costing RM135,000 (original price of the car when new was RM149,000).
 - ii. A new car costing RM130,000.

The lease rental for either of the two cars is RM6,000 per month each, for 24 months and to commence from January 2021. The Management is of the opinion that there is no difference for tax purposes since the cost of both the cars does not exceed RM150,000 each, and hence, they believe that the restriction is RM100,000 for each car. Therefore, no restriction is applicable for years of assessment 2021 and 2022 since the total lease rental for each car is only RM72,000 per year.

Required:

Discuss whether the views expressed by the Management of Deo Sdn Bhd is correct in respect of the following:

- (i) The tax restriction on lease rentals is RM100,000 for each car. (1.5 marks)**
- (ii) The tax restriction on lease rentals is on a yearly basis. (1.5 marks)**
- (iii) No restrictions are applicable for both cars in respect of years of assessment 2021 and 2022. Show calculations of the restrictions, if any, for each car for years of assessment 2021 and 2022, to justify your discussion points. (4 marks)**

[Total: 20 marks]

Question 3

- (a) Jane and Janet are partners in a partnership business of supplying premium quality fresh fruits to major hypermarkets in Malaysia. The terms of the partnership agreement up to 30 September 2020 were as follows:

	Monthly salary (RM)	Interest on capital per annum (RM)	Share of profit / (loss) (%)
Jane	3,500	12,000	50
Janet	3,500	12,000	50

Jane left the partnership on 30 September 2020 and was replaced by Jackson. The new terms of the partnership agreement with effect from 1 October 2020 are as follows:

	Monthly salary (RM)	Interest on capital per annum (RM)	Share of profit / (loss) (%)
Janet	5,000	12,000	60
Jackson	4,000	8,000	40

For the year ended 31 December 2020, the partnership's statement of profit or loss is as follows:

	Note	RM	RM
Sales			1,200,000
Less: Cost of sales			(650,000)
Gross profit			550,000
Less: Expenses			
Depreciation		22,000	
Entertainment	1	17,000	
Staff salaries		60,000	
Partners' salaries		90,000	
Interest on partners' capital		23,000	
Repairs of office equipment		5,500	
Major extension of existing cold storage room		180,000	
Water and electricity		28,500	
Miscellaneous expenses	2	12,000	
			(438,000)
Net profit			112,000

Notes:

- Entertainment

	RM
Entertainment given to employees	12,000
Farewell party expenses for Jane on 30 June 2020	1,000
Gifts without the partnership's logo for customers' annual dinner	2,000
Hampers for major customers during the festival seasons	2,000
	17,000

2. Miscellaneous expenses included the following:

	RM
Partners' life insurance premiums: <ul style="list-style-type: none">▪ Janet RM3,000▪ Jackson RM2,500	5,500
A donation to an approved charity centre on 10 November 2020	2,000
Penalties for road traffic offence / speeding	1,000
All other miscellaneous expenses are tax deductible	

3. Capital allowance for the year of assessment 2020 was RM20,000.

Required:

- (i) **Compute the provisional adjusted income or loss and divisible income or loss of the partnership for the year of assessment 2020.**

All items stated in the question are to be included in the computation. Where an item is not taxable or deductible, indicate 'Nil' in the computation.

(9 marks)

- (ii) **Janet has no other income. Compute her aggregate income for the year of assessment 2020.**

(4 marks)

- (iii) **Assuming that Janet Jackson Partnership was converted to Janet Jackson PLT, explain any THREE (3) differences between a conventional partnership and a limited liability partnership.**

(3 marks)

- (b) Sam owned a seafood restaurant in Petaling Jaya. He recruited two (2) seafood expert chefs, Chef Chris and Chef John, and ten (10) kitchen assistants. He paid each of them a monthly fixed salary and allowance. He also verbally agreed that he will share 40% of the restaurant's net profit with Chef Chris and Chef John equally. This verbal understanding has been honoured by Sam for the past five (5) years even though there is no formal written agreement.

Required:

Explain whether a partnership is deemed to exist between Sam, Chris and John in the above scenario for tax purposes.

(4 marks)

[Total: 20 marks]

Question 4

(a) Kiara Sdn Bhd (KSB), a resident company, manufactures and sells car speakers. KSB closes its accounts annually on 31 July. During its financial year ended 31 July 2019, the company acquired the following assets:

- (i) On 22 January 2019 KSB incurred RM 120,000 to acquire a machine for its manufacturing operations. A further RM10,000 was incurred in respect of site preparation and cutting and levelling of land to install the machine. The machine was first put into use in the business on 11 February 2019.

Required:

Briefly explain the tax treatment with respect to the site preparation cost of RM10,000 for capital allowance purposes, and compute the capital allowances for the above machine for the year of assessment 2019. Assume the annual allowance for the machine is 14%.

(5 marks)

- (ii) A machine was purchased by KSB for RM60,000 on 1 January 2018 (the previous financial year), for business use. The machine was disposed of on 15 April 2019 for RM50,000 because the machine was not able to accommodate the growing production.

Required:

Compute the balancing charge for the above asset for the year of assessment 2019. Assume the annual allowance for the machine is 14%.

(5 marks)

(b) Supra Sdn Bhd (SSB) is an Engineering company with a financial year end of 31 December annually. On 8 August 2019, SSB bought a moulding machine from Daelim Company, a company resident in South Korea, for RM1,000,000. SSB paid an additional amount of RM20,000 to Daelim Company for the machine to be installed in Malaysia in November 2019. KSB did not remit any withholding tax to the Inland Revenue Board in respect of the purchase of the machine or the installation costs.

Required:

Briefly explain the tax treatment of the installation fee of RM20,000 for capital allowance purposes, and compute the capital allowances claimable by Supra Sdn Bhd for the above asset for the year of assessment 2019. Assume the annual allowance for the machine is 14%.

(5 marks)

[Total 15 marks]

Question 5

- (a) Sakti Sdn Bhd (SSB) makes up its accounts to 31 January annually. The company estimated its tax payable for the year of assessment 2019 as RM110,000 and paid monthly instalments to the Inland Revenue Board (IRB) in accordance with this estimate. SSB submitted its tax return for the year of assessment 2019 to the IRB by the filing due date. The tax return showed the actual tax for the entire year was RM190,000.

Required:

Compute the penalty payable by SSB in respect of the underestimation of its tax for the year of assessment 2019.

(4 marks)

- (b) The directors of two companies have approached you to ask about whether their companies are entitled to any compensation from the IRB for delays in refunding their overpaid taxes pursuant to section 111D of the ITA. The amount and date of refund is tabulated below:

Company	Tax refundable (RM)	Date when tax refund is made
IOL Sdn Bhd	30,000	25 August 2019
XTL Sdn Bhd	50,000	1 November 2019

Assume the following apply to the above scenarios:

- The deadline for submission and payment of tax was 30 June 2019.
- All companies used e-filing to submit their tax returns.

Required:

(i) **How much compensation (for late refund) can IOL Sdn Bhd expect to receive?**

(ii) **How much compensation (for late refund) can XTL Sdn Bhd expect to receive?**

(6 marks)

- (c) Mega Sdn Bhd, which had been preparing its accounts to year end 31 December, changed its accounting year to 30 September as follows:

Accounting Year
1.1.2018 to 31.12.2018
1.1.2019 to 30.09.2019

Required:

Determine the basis periods of Mega Sdn Bhd for the years of assessment 2018, 2019 and 2020.

(5 marks)

[Total 15 marks]

(END OF QUESTION PAPER)