



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

PROFESSIONAL EXAMINATIONS

FINAL LEVEL

ADVANCE TAXATION 1

JUNE 2017

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 booklet.
5. All workings **MUST** be shown as marks will be awarded.
6. Answers should be written in either black or blue ink.
7. No question paper or answer booklets are to be removed from the examination hall.

DO NOT TURN OVER THIS PAGE UNTIL INSTRUCTED BY THE INVIGILATOR

Question 1

The Fortune Property Trust (FPT) was incorporated in early 2010 with a view to invest at least 60% of its total assets in real estate or shares in real estate companies. It was approved by the Malaysian Securities Commission as a real estate investment trust sometime in late 2010. FPT closes the accounts to 31 December each year. The initial paid up capital was RM10 million and this was increased to RM12 million in 2015. For the year ended 31 December 2016, FPT's accountant produced the following statement of income:

Fortune Property Trust		
Statement of income for year ended 31 December 2016		
Income		RM'000
Rent		554,114
Dividends (Malaysian single tier)		16,298
Dividends (exempted)		9,779
Interest from debentures (not exempted)		3,260
Gains from realization of shares		<u>31,781</u>
	(a)	<u>615,232</u>
Expenses		
Interest charges		
For acquisition of real property		57,042
For acquisition of shares		7,009
Quit rent and assessment		28,113
Repairs and maintenance of property		45,796
Depreciation		37,402
Manager's fee - property management		27,811
Entertainment		27,826
Fire insurance on property		13,802
Staff salaries		28,163
Manager's remuneration		10,186
Advertising		35,039
Secretarial fee		3,260
Maintenance of shareholder register		2,855
Audit and accounting fees		6,518
Tax agent fees		1,631
Telephone, printing, stationary and postage		9,779
Donation (approved institution)		<u>10,000</u>
	(b)	<u>352,232</u>
Net profits	(a-b)	<u>263,000</u>

According to the accountant, for the year of assessment 2016, FPT is claiming capital allowance of RM25,466,000; and the Board of Directors are considering a distribution of RM200,000,000 to the unit holders. Of this proposed amount, FPT plans to distribute, among others RM100 million to unit holders who are Malaysian resident companies.

Required:

- (i) **Compute the chargeable income and the tax payable (if any) of Fortune Property Trust for the year of assessment 2016.** (12 marks)
- (ii) **Based on the provisions of the Income Tax Act 1967 (as amended) what would be your advice to the Board of Directors of Fortune Property Trust to strengthen their cash flow position?** (4 marks)
- (iii) **What is the treatment to be accorded under the Income Tax Act 1967 (as amended) to the recipients of the RM100 million from Fortune Property Trust?** (4 marks)

Note: The applicable tax rate for the year of assessment 2016 is 24%.

[Total: 20 marks]

Question 2

Excellent Manufacturing Sdn Bhd (“Excellent”) is a company resident and incorporated in Malaysia on 2 January 2016, and closes its accounts on 31 December annually. Excellent is principally engaged in manufacturing rubber product (a promoted product) and commenced its business on 5 March 2016.

On 2 May 2016, Excellent was granted Pioneer Status for a period of 5 years in respect of the promoted product and Production Day commenced on 1 June 2016. The income to be exempted under Pioneer Status is 70% of the statutory income derived from the production of the promoted product approved by MIDA.

Excellent’s financial information for the first financial period, i.e. 2 January 2016 to 31 December 2016 are as follows:

	Amount (RM)
Net profit before taxation	2,500,000
Non-allowable expenditures	600,000

Property, plant and machinery	Date acquired	Cost RM	Industrial building allowance / Capital allowance RM
Building	1 February 2016	4,000,000	520,000
Office equipment	3 March 2016	25,000	7,500
Furniture and fittings	5 March 2016	15,000	4,500
Plant and machinery 1	28 March 2016	941,177	320,000
Plant and machinery 2	2 May 2016	470,588	160,000
Plant and machinery 3	3 June 2016	705,883	240,000

The Income Tax Rate for a resident company for YA 2016 is 24%

Note: There are 366 days in 2016.

Required:

- (i) State which section in the Promotion of Investments Act (PIA) 1986 deals with the basis periods of the business of Excellent during the pre-pioneer, pioneer and post-pioneer period and state the basis periods applicable to those periods. Explain your understanding of the applicable section of the PIA 1986. (5 marks)
- (ii) Compute the adjusted income, capital allowance, statutory income, chargeable income, income tax payable and the pioneer exempt income of Excellent for the year of assessment 2016. (7 marks)
- (iii) Assuming that Excellent also derived income from non-pioneer activity alongside its pioneer activity, what would be the tax treatment of the balance of the 30% statutory income after the tax-exemption of 70% from the pioneer activity is computed on the basis that the non-pioneer activity is making taxable losses? In your answer, state the relevant section(s) of the PIA and your understanding of the treatment of the balance of 30% of the statutory income in relation to the Income Tax Act 1967 (principal Act). (4 marks)
- (iv) Briefly describe what is the tax treatment of qualifying capital expenditure and capital allowances of a company that has been granted pioneer status during the pre-pioneer period, pioneer period and post-pioneer period. In this case assume that the company is solely deriving pioneer business income. (4 marks)

[Total: 20 marks]

Question 3

- (a) The Mantin Co-operative Society ('the society') was registered with the Registrar of Societies eight years ago to cater for the farmers engaged in fruit farming in that area.

For the year ended 31 December 2016, the society's treasurer had produced the following income statement:

Mantin Co-operative Society		
Statement of income and expenditure for year ended 31 December 2016		
	RM'000	RM'000
Income		
Member's subscription	149	
Entrance fees	48	
Sale of fruits	5,282	
Rent	3,139	
Dividends (single tier)	5,756	
Interest on fixed deposit	<u>380</u>	14,754
Less: Expenditure		

Salaries and bonus	166	
Interest on members' loans	64	
Meeting allowances	48	
Travelling	62	
Entertainment	62	
Repairs and maintenance	84	
Donation to an approved institution	10	
Utilities	27	
Depreciation	<u>31</u>	<u>554</u>
Audited net profit		14,200
Less: Obligatory contributions		
Statutory reserve funds	181	
Co-operative education trust fund	249	
Co-operative development fund	337	
Co-operative development trust fund	<u>320</u>	<u>1,087</u>
Unappropriated profit for the year		<u>13,113</u>

The co-operative society's treasurer has provided you with the following additional information on member's fund as at 1 January 2016:

Member's fund as at 1 January 2016	RM'000
Paid up capital	4,500
Bonus shares (from asset revaluation surplus)	3,000
Statutory reserve fund	16,269
Reserves	10,846
Unappropriated profits	<u>8,385</u>
	<u>43,000</u>

The treasurer has mentioned that the society has an unabsorbed capital allowance brought forward of RM670,000, a current year capital allowance of RM336,000 as well as an unabsorbed loss from earlier years of assessment amounting to RM503,000.

Required:

Compute the chargeable income of Mantin Co-operative Society for the year of assessment 2016.

Note: You should show all your workings in arriving at your answer. Figures should be rounded up to the nearest RM1.

(16 marks)

- (b) Under Para 12 of Schedule 6 of the Income Tax Act 1967 (as amended) a Co-operative society is exempted from income tax.

Required:

State the two circumstances under which a Co-operative society would be exempted from income tax under the said provisions.

(4 marks)

[Total: 20 marks]

Question 4

- (a) LIMB Bank received interest income amounting to RM33,000 from its branch in Singapore. The interest was the result of LIMB Bank transferring cash amounting to RM650,000 when the branch was short of cash.

Required:

Explain the taxability of the interest income to LIMB Bank, with appropriate references made to the Income Tax Act.

(5 marks)

- (b) Bay Bank Bhd, a resident Malaysian bank has a subsidiary company, Bay Bank Ltd, in Country A. Bay Bank Ltd deducts withholding tax of 10% on its dividend payment to Bay Bank Bhd. Bay Bank Bhd received RM18,990 (after the withholding tax deduction). For that year, Bay Bank Ltd had to pay RM48,000 of tax in Country A from its profit before tax of RM240,000.

Required:

Calculate the dividend income from Bay Bank Ltd that is assessable to Malaysian income tax payable for Bay Bank Berhad in 2017.

(5 marks)

- (c) *Bai Bithaman Ajil* is a deferred payment sale. It functions similar to a *murabahah* contract, but with payment generally made on a deferred basis.

Required:

Explain the tax implications for any acquisitions under this Islamic finance instrument.

(4 marks)

- (d) Petroleum Income Tax Act (PITA) 1967 imposes petroleum income tax on petroleum operations. The provisions under PITA 1967 are mutually exclusive from those of the Income Tax Act (ITA) 1967.

Required:

Give two examples of petroleum related transactions that fall under the ITA 1967 and two examples of transactions that fall under PITA 1967.

(4 marks)

- (e) **Explain the basis period for petroleum companies assessed under the PITA 1967.**

(2 marks)

[Total: 20 marks]

Question 5

- (a) A “business trust” is a unit trust scheme established under the Capital Markets and Services Act 2007 (as amended).

Required:

In respect of the above statement, explain the nature of the tax incentive that is available under the Real Property Gains Tax Act 1976.

(2 marks)

- (b) Mr Edward Soh, a palm oil estate proprietor, passed away on 1 March 2013. His estate consisted of a residential house in Kulim and a palm oil estate in Kedah. The market values of the house and estate at the date of his death were valued at RM1.2 million and RM2.4 million respectively.

Mr Edward Soh had left a will and it was prepared on 1 April 2011. In accordance with the provisions of his will, the executor Janet Lim transferred the residential house to Mr Edward Soh’s son, Kevin Soh and this transfer was executed on 1 June 2015. The executor sold the palm oil estate to AB Estate Sdn Bhd on 1 August 2016 for RM2.6 million and the proceeds from the sale were distributed to the other three children equally according to the terms of Mr Edward Soh’s will.

The market value of the residential house as at 1 June 2015 was RM1.6 million. Kevin Soh, who had migrated to the United States, sold the house for RM1.8 million on 1 June 2016.

Required:

Compute the Real Property Gains Tax payable, if any, by the executor Janet Lim and Kevin Soh under the Real Property Gains Tax Act 1976.

(10 marks)

- (c) Zalik Holdings Sdn Bhd transferred a plot of land in Port Dickson to its wholly owned subsidiary Malik Sdn Bhd in exchange for shares on 14 January 2014. The transfer was aimed to bring about greater efficiency in operations in the group of companies. Zalik Holdings Sdn Bhd successfully claimed for exemption under Real Property Gains Tax Act 1976.

On 15 June 2016, Zalik Holdings Sdn Bhd sold the entire shareholding in Malik Sdn Bhd to KTJ Sdn Bhd, an unrelated company.

Required:

- (i) **State the exemptions that are available to Zalik Sdn Bhd under Real Property Gains Tax Act 1976. Discuss the tax consequence of Zalik Sdn Bhd selling the shareholding in Malik Sdn Bhd on 15 June 2016.**
- (ii) **Would there be any difference in the answer if Zalik Holdings had waited another year before selling its shareholding in Malik Sdn Bhd?**

(8 marks)

[Total: 20 marks]

Question 6

- (a) **Explain the responsibilities of an executor from a tax perspective, including the period of his/her administration.**

(4 marks)

- (b) Mr Pradesh, domiciled in Malaysia died on the 30.9.2016. Details of his income for the year ended 31 December 2016 are as follows:

	RM
Business (Malaysia) (gross)	160,000
Rental (Malaysia) (gross)	100,000
Rental from Australia (remitted to Malaysia)	48,000
Dividend (Malaysia) (gross)	110,000

Expenses relating to the business:

	RM
Allowable revenue expenses	45,000
Renovation expenses on business premise	30,000
Capital allowances for the year	25,000

Expenses related to the rental of Malaysian property:

	RM
Repairs and maintenance	5,000
Assessment and quit rent	3,000
Fire insurance	2,500

The following monthly annuity was paid by the executor from the income of Mr Pradesh's estate:

Mrs Victoria (wife)	RM2,000
Daughter	RM1,000
Son	RM1,200

The executor also distributed RM6,000 to Ms Priya, Mr Pradesh's sister from the estate.

Required:

- (i) **Compute the chargeable income of Mr Pradesh (to the date of death).**
- (ii) **Compute the chargeable income of the estate of the deceased person (Mr Pradesh)**

(16 marks)

[Total: 20 marks]

(END OF QUESTION PAPER)