



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

PROFESSIONAL EXAMINATIONS

INTERMEDIATE LEVEL

BUSINESS TAXATION

JUNE 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 **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

Solar-Power Sdn Bhd (SPSB) produces solar batteries (i.e. batteries that can be re-charged by merely exposing them to sunlight). Kuasa-Suria Sdn Bhd (KSSB), a wholly owned subsidiary of SPSB is the sole distributor of SPSB's solar batteries in Malaysia and outside Malaysia.

The solar batteries are GST standard rated goods and both SPSB and KSSB are GST registered persons.

Kuasa-Suria Sdn Bhd's Statement of Profit or Loss for the year ended 31 December 2017 is as follows:

	Note	RM	RM
Sales revenue			26,400,000
Less: Cost of sales	(1)		<u>12,500,000</u>
Gross profit			13,900,000
Rental income	(2)	1,800,000	
Interest income	(3)	40,000	
Compensation received	(4)	300,000	
Recovery of bad debts	(5)	<u>270,000</u>	<u>2,410,000</u>
			16,310,000
Gain on sales of motor vehicles	(6)		<u>150,000</u>
			16,460,000
Less: Expenses			
Advertisement & Promotion	(7)	450,000	
Export credit insurance premium	(8)	125,000	
Depreciation	(9)	340,000	
Entertainment	(10)	155,000	
Salaries & contributions to EPF	(11)	5,795,000	
Motor vehicle expenses	(12)	240,000	
Repair expenses	(13)	550,000	
Bad & doubtful debts	(14)	240,000	
Professional fees	(15)	180,000	
Foreign exchange losses	(16)	80,000	
Donations	(17)	320,000	
Taxes: GST	(18)	620,000	
Insurance premium (key man)	(19)	20,000	
Leave passage	(20)	135,000	
Theft & embezzlement	(21)	250,000	
Miscellaneous expenses	(22)	590,000	
Other business expenses	(23)	<u>2,500,000</u>	<u>12,590,000</u>
Net profit before tax			<u>3,870,000</u>

### Notes:

1. Included in the cost of sales are:
  - i. RM60,000 incurred for the cost of solar batteries donated to private independent schools in Malaysia. The market value of the donated solar batteries amounted to RM120,000;
  - ii. RM100,000 being the provision for defective solar batteries.

2. Rental income from two properties (office buildings) that were rented to tenants, the particulars as follows:

<b>Location of property</b>	<b>Johor</b>	<b>Singapore</b>	<b>Total</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>
Gross rental income	600,000	1,200,000	1,800,000
Repair expenditures	100,000	330,000	430,000
Quit rent & assessment	60,000	100,000	160,000

The net rental income from the office building in Singapore was fully remitted to Malaysia.

The repair expenditure, quit rent & assessment were charged to “miscellaneous expenses” in KSSB’s Income Statement [see note (22)].

3. Interest income consisted of:-
- i. RM15,000, for interest received on housing loan given to a director of KSSB;
  - ii. RM25,000, for interest charged on trade debtors for late payment of their debts.
4. Compensation received were as follows:
- i. RM100,000 was in respect of a consignment of solar batteries that were damaged in a road accident while being transported to customers. The cost of the damaged solar batteries was included in the cost of goods sold [see Note (1)].
  - ii. In 2015, KSSB and Edaran Utara Sdn Bhd (EUSB) entered into an agreement, whereby the latter was KSSB’s sole sales agent in Kedah. In 2017, EUSB prematurely terminated the agreement and paid RM200,000 compensation to KSSB. The termination of the agreement resulted in KSSB losing about 2% of its market share in Malaysia.
5. In 2012, KSSB supplied solar batteries on credit to a retailer in Pahang. Due to financial difficulties faced by the retailer, in 2013, RM490,000 owing by the retailer was written off by KSSB as bad debt, which was allowed for deduction (being trade debt written off). However, in 2017, KSSB was able to recover RM270,000 of the debt from the retailer.
6. In 2017, KSSB disposed two of its lorries, realizing a gain of RM150,000 on the disposal [see note (9)].
7. Advertisement & Promotion
- i. RM25,000: promotional gifts (umbrellas bearing KSSB’s logo) were distributed to customers in Malaysia.
  - ii. RM10,000: promotional gifts (shopping bags without KSSB’s logo) were distributed to visitors at a trade fair in Kuala Lumpur.
  - iii. RM415,000: incurred cost of advertising the solar batteries in the local newspapers.
8. The export credit insurance premium was in respect of premiums paid to a Malaysian insurance company approved by the Minister of Finance (for the export of solar batteries).
9. Depreciation was in respect of office equipment; lorries (for transporting/delivering goods) and cars for the official use of KSSB’s marketing staff.

In 2017, the capital allowances in respect of these non-current assets amounted to RM750,000.

There was a balancing charge of RM210,000 in respect of the disposal of two lorries in 2017 [see note (6)].

10. Entertainment expenses consisted of the following:

		<b>RM</b>
i.	Annual dinner for employees of SPSB	35,000
ii.	Annual dinner for employees of KSSB	45,000
iii.	Dinner for potential customers to close transactions	25,000
iv.	Air fare to Japan for dealers who achieved sales targets	20,000
v.	Lunch & refreshment provided at KSSB's AGM	<u>30,000</u>
		<u>155,000</u>

11. Salaries & Contributions to EPF

		<b>RM</b>	<b>RM</b>
i.	Salaries: executive staff	1,600,000	
	Salaries: non-executive staff	<u>3,300,000</u>	4,900,000
ii.	EPF Contributions: executive staff (25% of salaries)	400,000	
iii.	EPF Contributions: non-executive staff (15% of salaries)	<u>495,000</u>	895,000
			<u>5,795,000</u>

12. Motor vehicle expenses:

Besides the motor vehicles owned and used by KSSB [see note (9)], the company also leased a new car (Nissan) for the use of its Marketing Manager. The cost of similar new car was RM255,000.

The 40 month lease commenced in July 2015, with a monthly lease payment of RM2,000. The monthly lease payments commenced in July 2015.

13. Repair expenses consisted of:

- i. RM300,000: repair and routine maintenance of motor vehicles and office equipment [see note (9)];
- ii. RM250,000: upgrading of the company's show-room.

14. Bad & doubtful trade debts were in respect of:

- i. RM90,000: bad trade debts written off;
- ii. RM80,000: provision for doubtful debts (general)
- iii. RM70,000: provision for doubtful debts (specific)

15. Professional fees were in respect of:

- i. RM45,000: Legal fees for collection of trade debts;
- ii. RM15,000: Company secretarial fees (statutory filings);
- iii. RM90,000: Tax agent fees: for tax planning;
- iv. RM30,000: Tax agent fees: for filing annual income tax returns and monthly GST returns.

16. Foreign exchange losses:

- i. RM50,000: unrealised loss on export of solar batteries
- ii. RM30,000: realised loss on export of solar batteries

17. Donations:
- i. RM100,000: cash donation to an approved institution; .
  - ii. RM190,000: cash donation to a political party;
  - iii. RM30,000: medical equipment (approved & cost certified by Minister of Health) donated to Government Hospital in Melaka.
18. Taxes are in relation to Goods & Services Tax (GST)
- i. RM600,000: input tax on acquisition of solar batteries
  - ii. RM20,000: output tax paid on behalf of customers
19. Insurance premium (key man) is for an insurance policy, the beneficiary of which is KSSB.
20. Leave passage expenses are in respect of the following:
- i. RM60,000: leave passage for employees for travel outside Malaysia;
  - ii. RM25,000: leave passage for employees for travel within Malaysia;
  - iii. RM50,000: leave passage to facilitate KSSB's annual family day event held in Penang.
21. Theft & embezzlement is in respect of:
- i. RM10,000: theft of cash by one of KSSB's junior cashier.
  - ii. RM240,000: embezzlement by KSSB's former Finance Director.
22. Miscellaneous expenses related to the office buildings in Johor and Singapore as follows:

		<b>RM</b>	
i.	Repairs to the office buildings	430,000	[see note (2)]
ii.	Quit rent & assessment to the office buildings	160,000	[see note (2)]

23. Other business expenses [all qualify for deduction under section 33(1)].
24. The accounting year end of both SPSB and KSSB is 31 December. As at 1 January 2017, KSSB's paid-up ordinary share capital was RM1.2 million, while SPSB's paid-up ordinary share capital was RM3.0 million.

**Required:**

**Compute the income tax payable by KSSB for the year of assessment 2017.**

**Note:**

Your computation should start with the 'Net profit before tax' figure, and should include all items referred to in Notes 1 to 24, indicating 'NA' where no adjustment is needed.

**[Total: 30 marks]**

## Question 2

- (a) Johan Construction Sdn Bhd engaged TH Builders Co, a non-resident Hong Kong based company to build a water theme park in Sarawak for RM840 million. Details of the contract payment made in 2017 are as follows:
- i. The design of the theme park was completed in Hong Kong for RM50 million.
  - ii. The service portion of the contract conducted in Malaysia was RM40 million.
  - iii. The materials portion was RM750 million.

The Hong Kong based company engaged a Malaysian company, Beautiful Gardens Sdn Bhd, to do the landscaping for the project for RM750,000.

Johan Construction Sdn Bhd reimbursed RM12,000 as accommodation charges for an engineering consultant from TH Builders during the period.

**Required:**

**Discuss the withholding tax implications of the above arrangements under the Income Tax Act 1967.**

**(8 marks)**

- (b) Sibü Medical Centre Sdn Bhd (SMC), a resident company, purchased an ultrasound equipment costing RM1.2 million from a British company which has no permanent residence in Malaysia for installation at its hospital in Sibü. According to the purchase agreement, the British company, a non-resident, was to install the ultrasound equipment and render technical services to the radiology department. The installation fee of RM60,000 and consultancy fee of RM120,000 along with the price of the equipment were paid in full on 14 May 2017.

**Required:**

**What are the withholding tax implications for the purchase and installation of the above equipment and when is the withholding tax to be paid?**

**(5 marks)**

- (c) ML Sdn Bhd, a company involved in lumber operations in Sarawak, was contracted to charter a barge from a Singapore company, a non-resident, for its transport operations. ML Sdn Bhd paid a monthly rental of RM40,000 to the Singapore company in 2017.

**Required:**

**What are the tax implications of the rental payments to the Singapore company under the ITA?**

**(5 marks)**

**[Total: 18 marks]**

**Question 3**

(a) State the conditions that must be fulfilled by a person to be entitled to:

- (i) Capital allowances; and
- (ii) Industrial building allowance.

**(4 marks)**

(b) Future Sdn Bhd (FSB) is a manufacturing company which closes its accounts on 31 December annually. In 2017, FSB purchased a piece of land in Malaysia and constructed a new factory on the land. The following expenses were incurred by FSB in the construction of the factory building:-

<b>Expenditure</b>	<b>RM</b>
Purchase of land	4,000,000
Legal fees relating to the purchase of land	100,000
Demolishment of an existing old factory on site	500,000
Plumbing and wiring	300,000
Construction cost:	
- Factory	5,000,000
- Office	400,000

The factory building was completed and brought into use in 2017.

**Required:**

**Compute, giving brief explanations, the qualifying building expenditure and the industrial building allowance for year of assessment 2017.**

**(5 marks)**

(c) Heavy Metal Sdn Bhd (HMSB) commenced business on 1 April 2014 and closes its accounts on 31 December every year. Since commencement, the following assets were acquired by HMSB:-

(i) **Heavy machinery**

On 1 June 2014, HMSB purchased and installed a heavy machine in its factory for a total cost of RM2 million. The cost of installation was ascertained to be 1/5 of the total cost.

(ii) **Motor car**

A new Mercedes car was purchased in March 2015 for RM250,000 for its Marketing Director. The car was stolen in August 2017 and HMSB received an insurance compensation of RM180,000 in December 2017.

(iii) **Office renovation**

In 2017, HMSB renovated its office and incurred the following expenses:-

<b>Expenditure</b>	<b>RM</b>
Renovation labour charges	200,000
Office furniture	300,000
Carpeting	100,000
<b>Total</b>	<b>600,000</b>

**Required:**

**Compute the capital allowances and balancing charge or balancing allowance (if any) on the qualifying expenditure for the above assets for the relevant years of assessment up to year of assessment 2017.**

**(11 marks)**

**[Total: 20 marks]**



**Question 4**

Mr Arief, Ms Afkar and Dr Aaron are business partners of APlus Software Consultant. The partnership closes its annual accounts on 31 December. On 31 May 2017, Dr Aaron ceased to be a partner due to ill health and Dr Alvin joined the partnership as partners on 1 June 2017.

The partnership accounts for the year ended 31 December 2017 is as follow:

	RM	RM
Consultancy fees		514,500
Less: Expenditure		
Staff salaries	31,900	
Cost of renovations to Arief's house	3,000	
Medical expenses of Dr Aaron	4,000	
Partners' salaries	84,000	
Interest on capital	10,100	
Depreciation	18,000	
Cash donation to an approved institution on 15 June 2017	9,000	
Donation in kind to an approved institution on 25 August 2017	<u>7,000</u>	
		<u>(167,000)</u>
Net profit for the accounts		<u>347,500</u>

The partnership agreement provides the following information:

1. Salary and interest on capital of partners:

	Arief (RM)	Afkar (RM)	Aaron (RM)	Alvin (RM)	Total (RM)
Salary	30,000	36,000	Nil	18,000	84,000
Interest on Capital	5,700	Nil	2,400	2,000	10,100

2. Partnership profit were shared as follows:

	Arief	Afkar	Aaron	Alvin
01.01.2017 – 31.05.2017	2/4	1/4	1/4	-
01.06.2017 – 31.12.2017	1/3	1/3	-	1/3

3. Capital allowances for the year of assessment 2017 were RM21,000.

**Required:**

- (i) **Compute the provisional adjusted income (or loss) and the divisible income (or loss) of the partnership.** (6 marks)
- (ii) **Calculate the statutory income of each partner from the partnership business and their respective total income for year of assessment 2017.** (5 marks)
- (iii) **Explain briefly how a partnership is assessed to tax and who is responsible for filing the partnership's income tax returns.** (4 marks)

**[Total: 15 marks]**

### Question 5

(a) Mercury PLT (accounting year-end 31<sup>st</sup> May), a Limited Liability Partnership is established and conducts a business in Malaysia. In relation to year of assessment 2017, discuss the law and the specific dates in relation to the following features;

(i) **Submission of tax estimates** (1 mark)

(ii) **Revision of tax estimates** (2 marks)

(iii) **Submission of tax returns** (1 mark)

(b) Venus Sdn Bhd which closes its accounts on 31 March is owned by Earth Sdn Bhd, Mars Sdn Bhd and Jupiter Sdn Bhd in the ratio of 70% : 20% : 10%. Each of the shareholders have a 31 December accounting year-end.

Earth Sdn Bhd itself is owned by Saturn Sdn Bhd 58%; Uranus Sdn Bhd 26% and Neptune Sdn Bhd 16%. The accounting year end for Saturn Sdn Bhd; Uranus Sdn Bhd and Neptune Sdn Bhd is 30 September.

(i) Venus Sdn Bhd disposed a machine on 15 April 2016 for RM 111,000 to Neptune Sdn Bhd. The machine was acquired from Saturn Sdn Bhd on 6 February 2014 for RM 80,000 who in turn had purchased it from an unrelated vendor on 8 October 2012 for RM 100,000.

**Required:**

a. **Compute the capital allowances claimable by and any balancing adjustments applicable to both Saturn Sdn Bhd and Venus Sdn Bhd for the relevant years of assessment. (Assume an AA rate of 10%).** (5 marks)

b. **Indicate whether Paragraph 71 of Schedule 3 is applicable to Saturn Sdn Bhd for disposing the asset within 2 years.** (1 mark)

(ii) Earth Sdn Bhd acquired a plant from Saturn Sdn Bhd for RM 78,000 on 15 November 2017. Saturn Sdn Bhd had bought the asset from Mars Sdn Bhd for RM 90,000 on 16 April 2017.

**Required:**

a. **State (by clearly indicating the steps taken to determine) the Disposer's Final Period in the above scenario.** (3 marks)

b. **Explain how the Deemed Disposal Date is ascertained.** (1 mark)

c. **Determine the qualifying expenditure for both Saturn Sdn Bhd and Earth Sdn Bhd and compute the capital allowances claimable by them (Assume an AA rate of 10%)** (3 marks)

**[Total: 17 marks]**

**(END OF QUESTION PAPER)**