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

PROFESSIONAL EXAMINATIONS

FINAL LEVEL

ADVANCE TAXATION 1

DECEMBER 2015

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

Triton Steel Bhd (TSB) is a manufacturing company resident in Malaysia and is involved in the production of mixed products: promoted and non-promoted products. TSB is located in Port Klang and its accounting year-end is 31 December. The projected paid-up capital of TSB at the beginning of the basis periods for both years of assessment 2015 and 2016 is RM10 million. Due to the nature of the manufacturing activity, the company is entitled for tax incentives under the Promotion of Investment Act 1986. The projected financial information of the company for years of assessment 2015 and 2016 are presented in Tables 1 and 2.

Table 1: TSB (Promoted Product)

Year of assessment	**2015**	**2016**
	RM	**RM**
Adjusted Income/(Loss)	(310,000)	900,000
Capital Allowances	78,000	120,000
Qualifying capital expenditures for Investment Tax Allowance	490,000	600,000

Table 2: TSB (Non-promoted Product)

Year of assessment	**2015**	**2016**
	RM	**RM**
Adjusted Income/(loss)	700,000	(90,000)
Capital Allowances	120,000	50,000

An unabsorbed business loss of RM150,000 was brought forward from year of assessment 2014 in respect of the manufacturing of the non-promoted product.

TSB is applying for Investment Tax Allowances for years of assessment 2015 and 2016.

Required:

(a) **Compute the income tax payable by TSB for the years of assessment 2015 and 2016 after computing the relevant Investment Tax Allowances for each of the years.**

(18 marks)

(b) **Explain the rationale for TSB choosing the tax incentive of Investment Tax Allowance over other incentives available.**

(2 marks)

[Total: 20 marks]

Question 2

(a) Mr. Robert Tan was a dealer in electrical goods. He was married with four children. He died of a sudden heart attack in 2012.

He had prepared a will, in 2010 under which he had named his wife as the executor, with his four children as the beneficiaries. The will, also requires that she carries on the business after his death.

The amounts paid out to the beneficiaries for the year ended 31 December 2014 were as follows:

	Recipients	**Amount (RM)**
1	Annuity to wife	36,000
2	First child	82,150
3	Second child	123,224
4	Third child	123,224

The will, specifies that payment to the first child would be one quarter of the trust distributable income, and would be paid at the discretion of the executor; whereas the sum paid to the second and the third child shall be one half of the balance of the trust distributable income after an accumulation of RM30,000 for the last child, who in 2014 was only six years old.

The trust received income from some investments as follows during the year ended 31 December 2014:

	Particulars	**Amount (RM)**
1	Rent from a property in Malaysia	24,960
2	Interest from a fixed deposit in a local bank	6,396
3	Dividends (Malaysia)(single tier)	10,478
4	Dividend (Singapore)(remitted in 2014)	15,136

In June of 2014, a step-sister of the deceased filed a claim for a share of the income from the trust. Mrs. Tan engaged a lawyer to handle the case. After studying the claim very carefully, the lawyer suggested that the trust settle the claim out of court. On his advice, Mrs. Tan made a payment of RM65,000 to the step-sister of the deceased, and signed an agreement on October 2015 that she (the step-sister) shall relinquish all her rights to the trust income. The legal fee incurred was RM15,000.

During the year the Inland Revenue Board issued an additional assessment for the year of assessment 2013. Mrs. Tan had asked the lawyer to appeal against the assessment and at the hearing of the Special Commissioners of Income Tax, a decision was given in favour of the trust. The legal fee for attending the tax matter was RM10,000.

Mrs. Tan managed the business and also matters arising on account of the trust on a full time basis. She charged RM38,000 for managing the trust.

These various expenditures were charged to the trust business account under 'Expenses' and except for these charges, the tax agent has confirmed that the balance of the other expenses charged therein in arriving at the net profit of the business are in compliance with section 33(1) of the Income Tax Act 1967 (as amended).

For the year of assessment 2014, the trust is entitled to a capital allowance of RM69,856 and balancing allowance of RM34,927. It has a balancing charge of RM15,000 arising from the disposal of a trust business asset during the year. The trust has an unabsorbed loss of RM50,000 brought forward to the year of assessment 2014 and also an unabsorbed capital allowance brought forward of RM80,000. The results of the business for the financial year ended 31 December 2014 were as follows:

	RM
Gross income from business	815,490
Less: Expenses	349,278
Net profit	466,212

The trust distributable income for the year ended 31 December 2014 before accumulation for the fourth child was RM358,598

Required

In respect of the year of assessment 2014, compute the following:

(i) The chargeable income of the trust; and

(ii) The beneficiary's share of the trust total income.

Note: Assume that the Director General of Inland Revenue has allowed the application of section 61(2) of the Income Tax Act 1967 (as amended) to the trust income.

(10 marks)

(b) Mr. Felix Leong was a resident and citizen of Malaysia. He has three businesses – two in Malaysia and one in Singapore. He passed away suddenly on 30 September 2014 without a will. He left behind a wife, Madam Catherine Sung and a child, James Leong, aged 12 years old in 2014.

The three businesses close the accounts to 31 December each year. For the financial year ended 31 December 2014, the trading results were as follows:

Business		**RM**
Business 1 (Malaysia)	Adjusted income	119,660
Business 2 (Malaysia)	Adjusted loss	48,745
Business 3 (Singapore)	Adjusted income	19,943

Business 2 ceased operations in June 2014 as it was not profitable. He had a rental source from a property in Kuala Lumpur, investments in a public listed company and a fixed deposit in a local bank. The details of the income from these sources are as follows:

	RM
Rental income (year ended 31 December 2014)	24,000
Dividend income (single tier dividend paid in October 2014)	9,380
Interest (received in May 2014)	4,020

The administrator was Mr. Michael, a very close friend of the deceased. He administered and wound up the estate on 31 December 2014. During the period of the administration, he paid RM15,000 to Catherine Sung for her upkeep. Upon liquidation, the following distribution was made to the beneficiaries:

Recipient	**RM**
Catherine Sung, wife of the deceased	250,000
James Leong, child of the deceased	250,000

It is confirmed that at the time of his death, the deceased was domiciled in Malaysia.

Required:

For the year of assessment 2014, compute the chargeable income of:

(i) **Mr. Felix Leong;**

(ii) **The estate of the deceased;**

(iii) **Madam Catherine Sung, wife of the deceased; and**

(iv) **James Leong, child of the deceased.**

(10 marks)

[Total: 20 marks]

Question 3

(a) GST Leasing Sdn Bhd carries on the business of leasing of heavy machineries as well as hire purchase of motor vehicles. It closes its accounts to 30 June each year. For financial year ended 30 June 2015, it made the following information available to you:

Leasing business

The company has an adjusted income of RM170,000 and is entitled to a capital allowance of RM90,107 on the leased assets, and another RM57,569 on office equipment used in the business. It has an unabsorbed loss brought forward amounting to RM26,281 from the previous year of assessment.

Hire purchase business

This business has an adjusted income of RM108,000. The capital allowances due on the assets used exclusively in the business amounted to RM63,480.

Common user assets

The capital allowance on the common user assets (i.e. on assets used both in the leasing business and the hire purchase business) was RM9,930. It has been agreed with the Director General of the Inland Revenue, that the proportion of use is as follows: Leasing business: 70% and the hire purchase business: 30%

Other income

The company also derived an interest income of RM3,965 from a fixed deposit placed with a local bank. In addition, it received a single tier dividend income of RM6,700 from a local public listed company in May 2015. A property owned by the company yielded a net rent of RM29,798 for the financial year.

The company donated RM10,000 to an approved Malaysian charitable institution in February 2015.

Required:

The Managing Director of GST Leasing Sdn Bhd has asked you to compute the chargeable income for the year of assessment 2015 based on the information made available to you.

(10 marks)

(b) GST Leasing Sdn Bhd ('the lessor') had leased out a bulldozer ('the asset') to Tiong Fatt Construction Sdn Bhd ('the lessee) for five years. At the end of the 5th year i.e. the end of the lease period, the lessor agreed to sell the asset to the lessee for RM800,000. The market value of the asset at the relevant time was RM1 million.

Required:

What is the implication for the purposes of the Income Tax Act 1967 (as amended) and the Income Tax Leasing Regulations 1986 in the following instances?

(i) The asset was sold to the lessee for RM800,000;

(ii) The asset was sold to the lessee for RM1 million.

(10 marks)

[Total: 20 marks]

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Question 4

(a) What is the basis period for a year of assessment of a REIT?

(1 mark)

(b) KPJ Investment Fund (KPJIF) is a real estate investment trust approved by the Securities Commission and invests mostly in real properties and partly in securities. The accounts are made to 31 December and the results for the year ended 31 12.2014 are as follows:

Income		**RM**	**RM**
Rental income (gross)		720,000	
Dividend income (single tier)		54,000	
Debenture interest (not exempt)		8,000	
Gains from sale of securities		44,000	
			826,000
Expenses			
Rates and assessment		27,000	
Repairs and maintenance on let property		49,000	
Interest expenses on loans:			
Shares	12,000		
Real property	65,000	77,000	
Depreciation		16,000	
Management fees on let property		14,400	
Insurance premiums on let property		12,000	
Salaries and wages		92,000	
Entertainment of clients		12,000	
Management remuneration		96,000	
Advertising and promotion		60,000	
Secretarial fees		5,000	
Maintenance of register of shareholders		4,000	
Audit and accounting		10,000	
Tax compliance fees		2,000	
Donation to charity (approved)		10,000	
Telephone, printing, stationary and postage		11,000	
			497,400
Net profit			328,600

The capital allowance of the REIT is RM38,000. The dividend distributed by the REIT amounted to RM210,000.

Required:

(i) Compute the chargeable income and income tax payable by KPJ Investment Fund for the year of assessment 2014.

(15 marks)

(ii) The unit holders are resident individuals and companies, both resident and non-resident. What is the tax treatment applicable to the distributions made to the unit holders?

(4 marks)

[Total: 20 marks]

Question 5

David Lim transferred his oil palm plantation to his son, Jason on 10 March 2012 as a gift of love and affection. The market value of the land on the date of transfer was RM530,000. David Lim bought the land on 1 May 2003 for RM350,000.

Jason transferred half of the land to his cousin, Simon with consideration of RM240,000. The sale and purchase agreement was signed on 5 February 2014. The agreement letter was stamped on the same date. The market value for the half of the land at the time of the transfer was RM360,000.

Jason made the following expenses:

i. Quit rent of RM290 a year
ii. Maintenance and clearing of land - RM4,200 a year
iii. Legal fees incurred for the transfer of half of the land to Simon was RM2,400.

The legal fees and stamp duty incurred by David Lim at the time of acquisition of the whole land was RM3,800. The income received from the oil palm plantation was duly declared in his tax returns. Jason claimed all the expenses that were incurred on the said land.

Jason is also an administrator of the estate of his deceased mother, Anna who passed away on 11 October 2012. The property of his late mother is a bungalow house that was bought on 1 December 2004 at the price of RM620,000. The market value of the house at the time of her death was RM1,000,000.

On 15 October 2014, Jason sold the asset with a consideration of RM1,260,000 and the sale and purchase agreement was signed on the same date. He received the full amount of the selling price of the asset on 15 November 2014.

Required:

Calculate the real property gains tax payable by Jason.

[Total: 20 marks]

Question 6

Koperasi Pandai (KP) was first registered as a co-operative society on 1 January 2005. The audited accounts for the year ending 31 December 2014 contained the following information:

	RM
Income:	
House rental	60,000
Members' loan processing fees	700,000
Fixed deposit interest	80,000
Expenditure:	
Audit fee	(5,000)
Overseas leave passage	(6,000)
Depreciation	(34,000)
Donations (non-approved institutions)	(15,000)
Entertainment for non–staff	(8,000)
Employees provident fund	(41,000)
Utilities	(25,000)
Quit rent and assessment	(7,800)
Repairs and maintenance	(47,000)
Salaries	(336,000)
Transportation	(59,000)
Interest on members' savings and loans	(8,000)
Audited net profit	248,200
Dividends paid to members during the year	(60,000)
Contribution to Co-operative Education Trust Fund	(10,000)
Transfer to statutory reserve fund	(100,000)
Accumulated profit for the year before tax	78,200
Fixed assets and net current assets amounted to	**1,355,000**
Represented by:	
Paid up share capital	400,000
Members' fee capital	100,000
Share premium account	300,000
Statutory reserve fund	230,000
Accumulated profit	120,000
Members' savings accounts	80,000
Members' loan accounts	125,000
	1,355,000

Notes:

1. The members fund included RM100,000 from the issue of bonus shares out of a capital reserve.
2. Included in the transportation expenses are lease charges on a car of RM10,000. The accumulated lease payments previously claimed on the car was RM43,000.

Required:

(a) **Explain, with calculations, whether the income tax exemption available to co-operative societies applies to KP for year of assessment 2014.**

(6 marks)

(b) **Compute the chargeable income and the amount of income tax payable or repayable for each year of assessment concerned.**

(6 marks)

(c) **Explain the filing responsibilities of a cooperative society under the Income Tax Act 1967 (as amended).**

(4 marks)

(d) **Explain the treatment of:**

(i) **Dividends paid by Cooperative Societies to their members.**

(ii) **Interest received from money deposited with Cooperatives Societies.**

(4 marks)

[Total: 20 marks]

(END OF QUESTION PAPER)