



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

PROFESSIONAL EXAMINATION

FINAL LEVEL

ADVANCED TAXATION 1

JUNE 2021

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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 **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 template.
5. All workings **MUST** be shown as marks will be awarded.
6. All figures to be rounded to RM1.00.
7. For this examination question paper, you are to assume that the basis year ending 30 June 2021 has elapsed.

**DO NOT TURN OVER THIS PAGE UNTIL INSTRUCTED BY THE INVIGILATOR**

### Question 1

- (a) Explain briefly the treatment of income and expenditure of a Malaysian resident trade association for the purposes of the ITA.

(6 marks)

- (b) The Malaysian Hakka Merchants Association ('the association') is a locally registered resident association made up of Hakka merchants since 1990. The association promotes and safeguards the interest of its members who are engaged in various trades and businesses. Its main income is from entrance fees and subscriptions.

During the year ended 31 December 2020, it held a seminar on the national budget and conducted workshops on the challenges and opportunities under the current economic scenario. Members are charged a nominal fee to attend these.

It celebrated Chinese New Year in a grand manner. Tickets were sold to cover the cost of the celebrations and the excess were to be used for the association's operations and social aid disbursements.

The association had invested excess funds in local listed companies and derives single tier dividends. Some money is kept in short term fixed deposits from which interest are received.

The association is entitled to capital allowance of RM2,000 on its office equipment and one mini-lorry used exclusively for the association's purposes. The association made an official donation of RM10,000 to an approved local charitable institution.

The association closes the accounts to 31 December each year. For the year ended 31 December 2020, the association had submitted the following statement of income and expenditure:

<b>The Malaysian Hakka Merchants Association</b>		
<b>Accounts for the year ended 31 December 2020</b>		
<b>Income</b>		<b>RM</b>
Entrance fees		43,000
Subscriptions		250,000
Seminar and workshop fees		108,000
Chinese New Year Celebration ticket sales		70,000
Dividend (Malaysian single tier)		8,000
Fixed deposit interest		<u>2,000</u>
Total income		481,000
<b>Less: Expenses</b>		
Salary and wages	70,000	
Rental of seminar hall	9,000	
Speaker fees	20,000	
Chinese New Year celebration expenses	20,000	
Employees' Provident Fund	12,000	
Stationery	5,000	
Utility expenses	3,000	
Rental of office premises	6,000	
Donation	<u>10,000</u>	<u>155,000</u>
Surplus of income over expenditure		<u>326,000</u>

## Required

With reference to the provisions of the ITA and the Income Tax (Exemption) (No. 19) Order 2005, compute the chargeable income of the Malaysian Hakka Merchants Association for the year of assessment 2020.

(14 marks)

**[Total: 20 marks]**

## Question 2

- (a) Discuss the concept of 'mutuality' with regards to a co-operative society that deals with only its registered members, and the exemption afforded a co-operative society with reference to the ITA and the practice of the Director General of Inland Revenue, Malaysia.

(6 marks)

- (b) The Kuala Muda Co-operative Society ('the society') was registered in 2012. The members are made up of the prawn farmers in the Kuala Muda district of Kedah. The prawns are exported to Hong Kong through another co-operative society in Penang.

According to the treasurer of the society ('treasurer') the members' fund of the society was RM984,000 which specifically excludes reserves from revaluation of assets or provision for the diminution in value of assets. As required under the co-operative law, it had contributed a total of RM38,321 to the statutory reserve fund (RM30,656), education trust fund (RM5,110) and co-operative development fund (RM2,555).

The accounts are closed to 31 December each year. For the year ended 31 December 2020, the audited net profit was RM84,944 from business, rent and interest. The gross business income was RM134,400 and the related expenses and charges in producing the income was RM77,456. The expenses and charges include depreciation charges on the society's assets of RM2,456 and a cash donation of RM5,000 to a local approved charitable body running a free physiotherapy facility for aged farmers. The balance of the expenses is confirmed by the auditor as incurred wholly and exclusively incurred in the production of gross income. The capital allowances due to the society on assets used in the business for the year of assessment 2020 are RM6,500.

The society owns an old refrigeration facility that is rented out to farmers and the net rental income received during the year was RM24,000. Interest from short term fixed deposits received from a local bank totalled RM4,000.

The treasurer wants to discuss the income tax liability of the society for the year of assessment 2020.

## Required:

- (i) Compute the chargeable income of the Kuala Muda Co-operative Society for the year of assessment 2020.

(10 marks)

- (ii) Briefly discuss the result of your computation with the treasurer of the society.

(4 marks)

**[Total: 20 marks]**

### Question 3

Smarter Technology Sdn Bhd ('STSB') was incorporated on 1 June 2015. The paid-up ordinary share capital of STSB is RM2 million. It is 60% owned by Mr Haa and 40% owned by his wife, Ms Hee.

On 1 December 2017, Mr Haa transferred his residential house to STSB at market value for a cash consideration of RM800,000. It was the first property acquired by STSB. On that day, the total tangible assets including the residential house is RM1,800,000.

On 31 December 2018, a shophouse was transferred to STSB from an associated company for a cash consideration of RM4,000,000. The cash was from the partial withdrawal of a fixed deposit with a local bank. The market value of the shophouse on 31 December 2018 was RM4,200,000.

Just before 31 December 2018, STSB has assets as follows:

	<b>Assets</b>	<b>Market value (RM)</b>
1.	A residential house	900,000
2.	Fixed deposits with a local bank (Note)	4,500,000
3.	Plant & machinery and motor vehicles	300,000
4.	Investment in listed shares	200,000
5.	Scientific patents	500,000

Note:

RM4,000,000 was withdrawn on 31 December 2018 for the acquisition of a shophouse.

On 1 January 2021, STSB disposed its residential house for RM1.2 million to Mr Chong who is also a close friend of Mr Haa. On that day, the other tangible assets in STSB amounted to RM6,100,000 which includes the market value of the shophouse of RM4,400,000. A month later, Mr Chong purchased Ms Hee's 40% shareholdings in STSB for RM2.2 million.

**Required:**

- (i) **Explain whether Smarter Technology Sdn Bhd was a real property company on/before 31 December 2018 and 1 January 2021.**  
(10 marks)
- (ii) **Compute the real property gains tax of the following disposal to Mr Chong:**
  - a. **The residential house by STSB** (2 marks)
  - b. **The 40% shareholdings in STSB by Ms Hee** (3 marks)
- (iii) **Explain the RPGT implications to Mr Chong should he dispose his shares in STSB in later years.**  
(5 marks)

**[Total: 20 marks]**

**Question 4**

- (a) **Mega Jaya Holdings Sdn Bhd ('MJHSB')** was established in 2006 and the company is located in Setia Alam, Selangor. The principal activities of MJHSB are managing investments such as shareholdings and unit trusts.

Assuming you are a chartered accountant, explain to your client, namely MJHSB, the criteria for a company to be determined as an Investment Holding company under the Malaysian ITA.

(3 marks)

- (b) **Elaborate the special treatment of income, expenses and capital allowances under the ITA that are applicable to an investment holding company listed on the Bursa Malaysia.**

(7 marks)

- (c) **Cheng Ho Property Sdn Bhd ('CHPSB')** is an investment holding company that is not listed in the Bursa Malaysia. CHPSB reported the following gross income for the year of assessment 2020.

<b>Income</b>	<b>RM</b>
Interest	120,000
Management service fees	144,000
Rental	200,000
Income distributed from real estate investment trust	80,000
Income distributed from unit trust	60,000
Gains from realization of investments	400,000

CHPSB also reported the following expenses:

<b>Expenses</b>	<b>RM</b>
Directors' fees	96,000
Management fees	25,000
Accounting and audit fees	16,000
Salaries and allowances	64,000
Rent and utilities	124,000
Entertainment	12,000

**Required:**

**Determine the amount of permitted expenses which are allowed as a deduction from the aggregate income of CHPSB under sec 60F ITA 1967.**

(10 marks)

**[Total: 20 marks]**

### Question 5

Rasa Sayang Sdn Bhd ('RSSB') is a tax resident manufacturing company which was incorporated in Malaysia on 1 September 2020. On 1 October 2020, RSSB applied for investment tax allowance ('ITA') incentive from the Malaysian Investment Development Authority. It received approval for the ITA incentive on 1<sup>st</sup> January 2021.

You are a tax consultant with FIVESTARS Tax Consultants Sdn Bhd. You had a meeting with the accountant of RSSB and he provided you with the following projected tax information and the capital expenditures for the years of assessment from 2021 to 2025 as follows:

Year of Assessment	2021	2022	2023	2024	2025
	RM'000	RM'000	RM'000	RM'000	RM'000
<b>1. Business (manufacturing)</b>					
Adjusted income/(loss)	(500)	(2,000)	6,000	6,000	6,000
<b>2. Statutory income from rental of a shophouse.</b>	0	600	600	600	600
<b>Capital expenditures:</b>					
Plant & Machinery	10,000	4,000	1,000	0	0
Purchase of a new factory (excluding land at cost of RM4,000,000)	9,000	0	0	0	0
Industrial building allowance and capital allowances	4,050	2,900	2,450	2,250	2,250

**Required:**

**Write a letter to the board of directors of RSSB to advise them on the following tax matters;**

- (i) The period of the ITA incentive. (1 mark)
- (ii) The types of qualifying and non-qualifying capital expenditures. (3 marks)
- (iii) The rate of investment tax allowance and its deduction. (2 marks)
- (iv) The estimated tax payable, investment tax allowance and exempt income for each of the year of assessment from 2021 to 2025. (11 marks)

**For part (iv), a tabular format must be used for your computation. All detailed workings must be shown to support your answers. Show clearly if any, the amount of unabsorbed business losses, capital allowance, investment tax allowance to be carried forward to the post tax relief period. Assume a tax rate of 24% for all the years of assessment from 2021 to 2025.**

**Three (3) marks are given for appropriate format of presentation and effective communication.**

**[Total: 20 marks]**

## Question 6

Shipping operations is one of the specialized industries under the ITA. Income from "Shipping Operations" is assessed on a world income scope.

### Required:

- (i) **With reference to the respective provision in the ITA, explain the meaning of "world income scope" within the context of resident shipping operator.** (4 marks)
- (ii) **What is the scope of charge on income of shipping operator derived from undertaking of transportation of passengers or cargo by land or other businesses and investment activity?** (2 marks)
- (iii) **What are the two (2) methods of computing the chargeable income for Non-Resident Ship Operator and prepare a tax computation format or formula up to Statutory Income stage for both methods.** (6 marks)
- (iv) **What is the meaning of "Transshipment" and the tax treatment for non-resident shipping operators?** (1 mark)  
**What is the meaning of "Casual Call" and the tax treatment for non-resident shipping operator?** (1 mark)
- (v) **List the four (4) conditions for "Exemption of Shipping Income" under ITA and treatment of adjusted loss from a Malaysian Ship.** (6 marks)

### Note:

This question is based on short essay format. The objective is to test candidates on the fundamental aspects of tax treatment on income derived from Shipping Operations by Resident and Non-Resident Shipping Companies.

**[Total: 20 marks]**

**(END OF QUESTION PAPER)**