



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

PROFESSIONAL EXAMINATION

INTERMEDIATE LEVEL

BUSINESS TAXATION

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 **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

Fujirox Sdn Bhd ('FSB') is a Malaysian tax resident company with a paid-up ordinary share capital of RM2 million as at 1 January 2020. The company is involved in the business of manufacturing electronic products for the local and overseas markets.

The company's statement of profit or loss for the year ended 31 December 2020 is as follows:

		Note	RM'000	RM'000
Turnover		(1)		28,506
Less: Cost of sales		(2)		<u>(16,250)</u>
				12,256
Add: Other income		(3)		<u>200</u>
				12,456
Less: Expenses				:
Depreciation			800	
Salaries and wages	(4)		2,710	
Entertainment	(5)		83	
Professional fees	(6)		75	
Rental	(7)		1,200	
Repairs and maintenance	(8)		850	
Bad and doubtful debts	(9)		235	
Miscellaneous expenses	(10)		<u>650</u>	<u>6,603</u>
Net profit before tax				<u>5,853</u>

### Notes:

1. Turnover included the following:

		RM'000
i.	Unrealised foreign exchange gain in respect of sales of trading stocks.	180
ii.	Late payment interest charged on trade receivables.	22

2. Cost of sales included a provision of RM300,000 for stock obsolescence.

3. Other income comprised of:

		RM'000
i.	A compensation from one of its suppliers who did not meet its raw material specifications.	150
ii.	Gain on disposal of a machine (not heavy machinery). (FSB bought the machine at a cost of RM500,000 on 1 May 2018 for use in its business. This machine was disposed of in October 2020 for RM250,000 and replaced with a new modern technology machine for RM600,000.)	<u>50</u>
		<u>200</u>

4. Salaries and wages included:

		<b>RM'000</b>
i.	Salaries and wages - Staff - Directors	1,500 800
ii.	The Employees Provident Fund ('EPF') contribution is at the rate of 12% for staff and 25% for directors.	380
iii.	Practical training for non-employees who are residents in Malaysia at its headquarters in Shan Alam.	10
iv.	A payment was made to a manager to secure his early retirement for misconduct.	20
		<u>2,710</u>

5. Entertainment expenses included:

		<b>RM'000</b>
i.	Annual dinner for staff.	25
ii.	Hamper for customers during festival seasons.	8
iii.	Free trip as an incentive to sales agents for achieving sales target.	50
		<u>83</u>

6. Professional fees included:

		<b>RM'000</b>
i.	Secretarial fee	8
ii.	Tax filing fee	12
iii.	Statutory audit fee	30
iv.	Legal fee charged on renewal of a bank loan	25
		<u>75</u>

7. Rental expenses included a sum of RM30,000 paid in respect of the lease rental for a Mercedes-Benz used by the Marketing Director. FSB entered into this leasing agreement in December 2018 and the agreement is made for three years starting from 1 January 2019 with a monthly lease rental of RM2,500. This Mercedes-Benz costs RM360,000 when it was new.

8. Repairs and maintenance included the following:

		<b>RM'000</b>
i.	Repairs of factory roof	170
ii.	Maintenance of plant and machinery	120
iii.	Extension of the existing factory warehouse	400

9. Bad and doubtful debts included:

		<b>RM'000</b>
i.	Bad debt written off (trade)	65
ii.	Increase in general allowance (non-trade)	280
iii.	Decrease in specific allowance (non-trade)	(110)
		<u>235</u>

10. Miscellaneous expenses included the following:

		<b>RM'000</b>
i.	Cash donation to an approved institution	10
ii.	Fire insurance for trading stocks	120
iii.	Annual general meeting expenses	25
iv.	Compensation to a customer due to the negligence of an employee in the course of business	15
v.	Expenditure incurred for the participation in an international trade fair held in Malaysia which was approved by the Minister of International Trade and Industry ('MITI') for the promotion of exports	50
vi.	Acquisition of a new trademark	125

All the remaining miscellaneous expenses qualify for deduction under Section 33(1) of the ITA.

11. Capital allowances have been computed at RM1,094,000 for the year of assessment 2020. This amount has not taken into consideration the above notes, where relevant.

**Required:**

**(a) Compute the tax payable of Fujirox Sdn Bhd for the year of assessment 2020.**

**Note:**

Your computation should start with the 'Net profit before tax' figure and should include all items referred to in Notes 1 to 11, indicating '**NA**' where no adjustment is needed.

(25 marks)

**(b) Explain the income tax treatment of the following expenses:**

**(i) Practical training for non-employees who are resident in Malaysia at its headquarters in Shan Alam (Note 4);**

**(ii) Cash donation to an approved institution (Note 10);**

**(iii) Annual general meeting expenses (Note 10).**

(5 marks)

**[Total: 30 marks]**

## Question 2

Ahmad and Benny contributed capital of RM150,000 each in a partnership business named Alba Enterprise and were paid a salary of RM60,000 and RM84,000 per annum respectively. They were also paid an interest rate of 10% per annum on their respective capital contributions. The profit and loss sharing ratios for the partners are in proportion to their capital contributions. The accounts of the partnership were normally made up to 31 December. In relation to the partnership's business both Ahmad and Benny had a capital allowances brought forward of RM10,250 each.

On 30 September 2020, Ahmad retired and left the partnership. On 1 October 2020 Karuna joined the partnership as a new partner with a capital contribution of RM300,000. The terms of the partnership agreement were changed with effect from 1 October 2020 as follows:

1. All partners to receive interest on capital at 12% per annum.
2. Karuna and Benny are to be paid salaries of RM90,000 per annum each.
3. The profit and loss sharing ratios for the partners remain in proportion to their capital contributions.
4. Karuna has brought forward capital allowances and business losses of RM12,000 and RM10,900 respectively from another business venture of his.

The accounts for year ended 31 December 2020 reflected, amongst other details, the following:

	RM
Profit before tax	320,000
<b>After adding / (deducting):</b>	
Depreciation	(34,000)
Rental paid for premises	(20,000)
Interest income (accruing evenly throughout the year)	90,000
Settlement of income tax for Karuna	( 5,400)

Partners' salaries and interest on capital were charged against the partnership's business income. The partnership has capital allowances of RM60,000 for year of assessment 2020.

### Required:

- (i) **Compute the provisional adjusted income of Alba Enterprise Partnership for year of assessment 2020.**  
(8 marks)
- (ii) **Compute the divisible income of Alba Enterprise Partnership for year of assessment 2020.**  
(1 mark)
- (iii) **Compute the aggregate income of each partner for year of assessment 2020.**  
(10 marks)
- (iv) **Explain the tax treatment of the brought forward capital allowances and losses for Karuna.**  
(1 mark)

**[Total: 20 marks]**

### Question 3

- (a) Great Saga Berhad ('GSB') signed an agreement with Big Wall Ltd ('BWL'), a company from China, for the construction of a Highway in Kuala Lumpur. BWL set up a project management office in Kuala Lumpur, but it is not a tax resident in Malaysia. The total value of the contract is RM90 million of which RM40 million is the service portion and RM50 million is the cost of materials.

**Required:**

- (i) **Explain the withholding tax obligation of GSB under s.107A of the ITA with regard to these payments and determine the amount to be withheld. (Ignore any double taxation agreement.)** (6 marks)
- (ii) **Calculate the tax liability of BWL Ltd assuming that the construction project had started and was completed in the year of assessment 2020 and the chargeable income is RM23 million.** (2 marks)
- (iii) **For the purposes of the construction project, BWL paid RM1,400,000 to another company from China, China Construction Ltd ('CCL') for the hire of equipment. CCL is not a tax resident in Malaysia. Briefly explain whether the payment has Malaysian tax implications.** (3 marks)

- (b) Carriage & Cycles Sdn Bhd ('CCSB') assembles and distributes motor cycles. The financial year of CCSB ends on 31 December. On 17 July 2020, CCSB bought a specific machine for RM740,000 from Stuttgart Company, a company resident in Germany, and not tax resident in Malaysia. CCSB paid an additional amount of RM15,000 for the machine to be installed in Malaysia in September 2020. CCSB did not remit any withholding tax to the Inland Revenue Board in respect of the purchase of the machine or the installation costs.

**Required:**

**Compute the residual expenditure and the capital allowances claimable by CCSB for the above assets for the year of assessment 2020.** (4 marks)

- (c) Rose Mawar Sdn Bhd ('RMSB') operates a hair and beauty spa services centre. RMSB's financial year ends on 30th June. For the year of assessment 2020 RMSB incurred the following expenditure:
- (i) **Light refreshments such as tea, coffee, sandwiches provided to the customer while waiting to be serviced amounting to RM5,900.** (1.5 marks)
  - (ii) **Free beauty classes provided to selected single mothers to help them start their own business amounting to RM12,200.** (1.5 marks)
  - (iii) **Leave passages to Langkawi for the managing director and two other senior masseuses amounting to RM17,925. The cost is made up of air fare of RM2,125 and the cost of accommodation and food of RM15,800.** (2 marks)

**Required:**

**Explain whether each of the above expenditure is deductible in ascertaining RMSB's adjusted income for the year of assessment 2020.**

**[Total: 20 marks]**

#### **Question 4**

Penasonic Malaysia Sdn Bhd ('PMSB') is a Malaysian tax resident company that manufactures electrical products since 2009. The company closes its accounts on 30 June every year.

PMSB submitted the following tax information within the due dates to the Inland Revenue Board ('IRB') for the year of assessment 2020:

	RM
Estimated tax payable	120,000
Revised estimated tax payable	450,000
Actual tax payable	850,000

PMSB employed Mr Osako, a Japanese who arrived in Malaysia on 1 November 2020. He will be the new general manager of PMSB starting from 1 January 2021.

He will not be having any other source of income for the year 2021.

**Required:**

- (i) **Compute the outstanding tax payable (including any increase in tax due to underestimation of tax payable) by PMSB for the year of assessment 2020.**  
(4 marks)
- (ii) **Explain and state the deadlines for PMSB to submit the following for the year of assessment 2021 to the IRB:**
  - a. **Estimate of tax payable**
  - b. **Revised estimate of tax payable**
  - c. **Income tax return (Form C)**(5 marks)
- (iii) **For part (ii)(a) and (ii)(b) above, explain the restriction on the amount of estimated tax payable to be submitted to the IRB.**  
(2 marks)
- (iv) **Explain PMSB's responsibilities (under the ITA) as an employer with regards to Mr Osako's employment with PMSB.**  
(4 marks)

**[Total 15 marks]**

### Question 5

- (a) Moonlights Sdn Bhd ('MSB'), a Malaysian tax resident, was incorporated in Malaysia on 1 November 2020 with a paid up share capital of RM2 million. It started to recruit a few staff before it commenced its business of manufacturing lightings on 1 January 2021.

On 1 February 2021, MSB's board of directors made a decision to establish an in-house research and development ('R&D') with a total projected expenditure of RM1 million in 2021.

MSB will be conducting quality control ('QC') testing on its existing products. The QC testing will account for about 10% of the in-house R&D activities.

The projected expenditures for the year 2021 are as follows:

	RM
Raw materials for research	200,000
Research staff salaries	300,000
Research equipment	280,000
Rental of building for research	220,000

MSB understands that it may apply to claim double deduction for its research expenditures which is provided under the section 34A of the ITA.

**Required:**

- (i) **Explain the tax treatment of MSB's pre-commencement expenses:**
- a. **The incorporation expenses** (2 marks)
  - b. **The recruitment of staff** (2 marks)
- (ii) **Explain any THREE (3) conditions that MSB must fulfill to claim double deduction for its R&D expenditures.** (3 marks)
- (iii) **Compute the total projected expenditures that would qualify for double deduction.** (3 marks)
- (b) Maxim Sdn Bhd ('Company'), a Malaysian tax resident paid RM2,000 for its staffs medical insurance premium for the year 2020. The Company could not find the receipt as evidence for this payment. The Company decided to claim the expenses as part of its expenses in the tax return to the Inland Revenue Board.

**Required:**

- (i) **State and explain the tax offence committed by Maxim Sdn Bhd.** (1 mark)
- (ii) **Explain the possible actions that the Inland Revenue Board may take with regards to Maxim Sdn Bhd's tax offence and the penalties that may be imposed.** (4 marks)

**[Total 15 marks]**

**(END OF QUESTION PAPER)**