



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

PROFESSIONAL EXAMINATION

INTERMEDIATE LEVEL

PERSONAL TAXATION

JUNE 2021

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 **FOUR** 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

- (a) Dr Johnson is an American heart specialist. In December 2019, Dr Johnson was sent from the United States to Malaysia by Hancock Heart Foundation (HHF) in New York for a two-year employment contract to serve at the Malaysian Hancock Heart Foundation Bhd (MHHFB). HHF is the holding company of MHHFB.

The following details are provided by Dr Johnson for the year ending 31 December 2020:

1. His basic salary is RM100,000 per month. He is also given an extra 20% loading on his basic salary.
2. He was given an entertainment allowance of RM10,000 per month of which he spent RM24,000 on official entertainment in 2020.
3. In February 2020, he was reimbursed by MHHFB for expenses of RM42,000 incurred for moving from the United States to Malaysia.
4. MHHFB paid the monthly rental of RM12,000 for his fully furnished house of which RM2,000 was for the furnishing.
5. Since his arrival, Dr Johnson was given the use of a new car costing RM260,000. Petrol expenses were borne by MHHFB.
6. He was given leave passage costing RM22,000 by MHHFB to the United States in December 2020. He also went for a medical conference in Chicago. The cost of conference registration fee of RM23,000 was paid by MHHFB.
7. MHHFB paid for the entrance fee of RM30,000 to a local sports club for Dr Johnson.
8. He had undergone a back surgery in October 2020 and medical expenses amounting to RM92,000 were paid by MHHFB.
9. In 5 August 2019, the holding company, HHF offered Dr Johnson an 'employee share option' to acquire 20,000 ordinary shares in the holding company, at a nominal sum of RM4.00 (US\$1) per share. He is entitled for the option by HHF if he completes one year of service in Malaysia. The market value at the time when the share option was offered was RM10.00 (US\$2.50) per share. Dr Johnson exercised the option on 4 December 2020 when the market value was RM12.00 (US\$3.00) per share.
10. He received from MHHFB an iPhone worth RM5,500 as a gift for excellence service award.

Dr Johnson provided further personal details for the year ended 2020:

1. Dr Johnson is married to Janice who earned rental income of RM123,000 from her property in Glasgow, Scotland.
2. Dr Johnson and Janice have three children. Their eldest child, Alice aged 23, got married in 2019. Their second child, Rachel, 20 years is pursuing a medical degree in the US while their third child, Alexander, 19 years, is pursuing a hotel management degree at a local college. Alexander is physically disabled.
3. Dr Johnson bought a motorized wheel-chair costing RM8,500, for his son, Alexander.
4. During the year, Dr Johnson contributed to Employees' Provident Fund at 11% of his salary and he paid life insurance premium of RM8,900.
5. He was able to produce the receipts of the RM870 he spent on books and RM3,300 for the purchase of a smartphone for Alexander.
6. Dr Johnson donated RM10,000 cash to an approved charitable organization in Malaysia.
7. He paid annual subscription of RM100 to the Malaysian Medical Association.

Required:

In respect of year of assessment 2020, compute Dr Johnson's chargeable income and tax payable assuming Janice did not elect for combined assessment under sec. 45(2) ITA 1967.

Dr Johnson has made a claim for child relief.

Note:

Indicate Exempt/Nil where appropriate.

(22 marks)

- (b) Jason Lee has been employed by Heywood Electronics Sdn Bhd (HESB) in the Information Technology department since 1 July 2012. He is 49 years old. He was given notice of termination of employment on 1 August 2020 as HESB had suffered losses during the Covid-19 pandemic. He was paid RM180,000 as compensation for the loss of employment.

Required

Discuss the taxability of the sum received by Jason Lee from HESB, giving reasons to support your answer under the ITA.

(4 marks)

- (c) Kevin Koh, who has been working with AHL Construction Bhd ('the Company') retired from his employment on 30 November 2020 when the company went through a reorganization. He was 48 years old and had served the company since 1 January 2001. He was paid a gratuity of RM130,000 by the company on retirement. The gratuity paid to Kevin Koh was in compliance with the agreement concluded between the Company and him.

Required

Explain with reasons whether the sum received by Kevin Koh is taxable under the ITA.

(4 marks)

[Total: 30 marks]

Question 2

- (a) Axiana Group Berhad (AGB or the Company), a main telco provider in Malaysia, employed Garry as its Marketing Director since 2015. Details of his remuneration from AGB for the year of assessment 2020 are as follows:

1.

Salary and allowances	RM (per month)
Salary	25,000
Entertainment allowance	3,000
Travelling allowance	2,500

2. A fully furnished house was provided to him since 2015. AGB pays a monthly rental of RM3,500 for this house, which includes rental for furnishings of RM500 per month. Furnishings as per the IRB's public ruling is RM3,360 per annum.
3. Due to COVID-19 pandemic, Garry is currently working from home. To better support him to work from home, AGB has provided him with a new laptop, a printer and a scanner, which cost the Company RM8,500 in total. Also, his home internet bill

(registered under the name of the Company) of RM2,400 per annum was fully paid by AGB.

4. Car running expenses of RM12,000 was reimbursed by AGB in respect of a new Lexus car owned by Garry. This car is used mostly for meeting AGB's clients and attending some important meetings at branch offices. The IRB has agreed that the private usage of the car by Garry is 20%.
5. Childcare benefit for his only son (aged 5), Ryan, costing RM5,000.

While performing his duties in year 2020, Garry spent RM38,000 in entertaining clients of AGB and travelling expenses of RM26,000 for his official duties.

Other details of Garry's income and expenditure incurred during the year 2020 are as follows:

1. Interest income of RM3,000 from a fixed deposit with Maybank Berhad.
2. Dividend income
 - Dividend of RM8,000 from Genting Bhd, a tax resident company in Malaysia.
 - Dividend income of RM20,000 equivalent from Xiaomi Communications Co Ltd, China. He remitted RM10,000 to Malaysia on 15 August 2020.
3. Garry received a sum equivalent to RM30,000 from his investment with OCBC Wing Hang Unit Trust, Hong Kong. He remitted RM5,000 to Malaysia on 1 December 2020 and reinvested the remaining on the same date.
4. A distribution of income of RM18,000 from KLCC REIT listed on Bursa Malaysia. The income received is after deducting 10% withholding tax at source.
5. Annual subscription fee of RM2,000 to the Chartered Institute of Marketing (CIM). The CIM's membership is highly recognised in the marketing industry. However, it is not a mandatory membership for a director to practise in Malaysia.
6. He donated two sets of computer costing RM8,000 to an approved orphanage home.

Garry is a tax resident for the year of assessment 2020. His wife, Anna, does not have any income, both local and foreign, that is liable to Malaysian tax.

Required:

- (i) **With reference to the ITA, compute the chargeable income of Garry for the year of assessment 2020. All items stated in the question are to be included in the computation. Where the item is not taxable or deductible, indicate 'NIL' in the computation.** (16 marks)
- (ii) **Assuming Garry submitted his tax return Form BE for the year of assessment 2020 through e-filing on 28 April 2021. After deducting the Monthly Tax Deductions (MTD) from the tax payable for the year of assessment 2020, Garry has a tax paid in excess of RM12,500. The IRB made a tax refund to him on 2 September 2021. He has approached you on this refund matter.**

Explain to Garry whether this is a late refund for his case and compute the compensation for late refund, if any.

Note: Ignore any 'extension of time' granted by the IRB.

(5 marks)

- (b) Simon, an outsource IT Consultant based in Australia, recently signed a 8-month IT supports agreement (contract for service) with Raffles International School Malaysia (RISM). Based on the agreement, he must be in Malaysia for 8 months to take charge of the implementation of a new and sophisticated IT systems to support RISM’s new curriculum and also to train the users in the new systems. As per the agreement, RISM will pay him RM32,000 per month (approximately AUD10,000) for the services provided and the payment will be made directly to his bank account in Australia as requested by him.

Required:

Explain the tax treatment of the income earned by Simon from the above agreement. Cite any relevant provisions as per the ITA.

(4 marks)

[Total: 25 marks]

Question 3

- (a) Harry is married to Megan and they have two children, age 5 and 2 years old respectively. Both Harry and Megan are Malaysian tax residents.

Harry is the sole proprietor of a convenience store. For the year ended 31 December 2020, he earned a statutory income that amounted to RM123,200 from his convenience store business. Besides, he also received an adjusted rental income totalling RM30,000 from a residential property that he owns as an investment and an interest income totalling RM2,500 from his fixed deposit account in the year 2020.

The information of private expenses incurred by Harry in the year 2020 is as follows:

Expenses	RM
Payment for gym membership subscription fee	1,200
Purchase of smartphone	3,000
Premium on medical insurance for self	4,200
Tuition fees for pursuing a Master’s degree at a local university	20,000
Premium on life insurance for self	3,000

Details of Megan’s income from employment for the year of assessment 2020 are as follows:

- Salary for the year amounting to RM72,000.
- Bonus amounting to RM8,000.
- Gift vouchers amounting to RM200.
- Megan contributes 11% of her monthly salary towards the Employees’ Provident Fund (EPF), while her employer’s contribution is 12% of total salary per month.
- A new car costing RM100,000 was provided to Megan by her employer in December 2019. Fuel was provided by her employer.
- Meal allowance of RM1,200 per annum.
- Medical cost for Megan’s left hip injury amounting to RM35,000 (borne by Megan’s employer).

The information of private expenses for Megan in the year 2020 is as follows:

Expenses	RM
Cash donation to old folks home (approved institution)	500
Medical expenses for her father (supported by official receipt)	12,000
Broadband subscription per month (January 2020 to December 2020; under the name of Megan)	1,068
Books and magazines	800
Laptop	2,100
Kindergarten fees for her son (5 years old). The kindergarten is registered under the Education Act 1996.	13,200

In year 2020, Megan has made a withdrawal totalling RM35,000 from her EPF account to clear her housing loan.

Required:

(i) Compute the tax payable by Harry and Megan for the YA 2020.

- a. Under separate assessment. This is assuming that Harry claims child reliefs.
 - b. Under joint assessment. This is assuming that Megan opts for joint assessment with Harry. Start your computation from total income.
- (14 marks)

(ii) Advise Harry and Megan concerning the deadline of tax return submission under separate assessment and the offence (s) should they fail to submit their tax return on time.

(4 marks)

(iii) Harry intends to travel to Singapore to seek for business opportunity. What will be the impact on Harry should he fail to clear his balance of tax payment before leaving Malaysia?

(2 marks)

(b) Lily is a sole proprietor who sells fragrance rice at Kota Laksamana, Melaka. Her actual tax liability for YA2020 amounted to RM17,828, while the total tax instalments paid amounted to RM9,000. Calculate the penalty (if any).

(5 marks)

[Total: 25 marks]

Question 4

Max, a UK resident first came to Malaysia on 15 October 2016. He was employed as lecturer in a private university in Kuala Lumpur. Given below are details of Max's stay in and outside Malaysia since the day he arrived in Malaysia.

15 October 2016 to 28 December 2016	In Malaysia
29 December 2016 to 15 January 2017 (Note 1)	In UK
16 January 2017 – 31 July 2017	In Malaysia
1 August 2017 – 31 March 2018 (Note 2)	In China
1 April 2018 – 31 July 2018	In Malaysia
1 August 2018 – 30 September 2018 (Note 2)	In Japan
1 October 2018 – 30 September 2019	In Malaysia
1 October 2019 – 31 January 2020 (Note 3)	In Sydney
1 February 2020 – 15 December 2020	In Malaysia

Notes:

1. Max was in UK for medical treatment.
2. Max's visit to China and Japan were entirely for holidays.
3. Max was in Sydney, attending to his family business.
4. Max left Malaysia on 15 December 2020.

Required:

(i) Based on Max's pattern of stay, determine his residence status for Year of Assessment 2016 to Year of Assessment 2020 by clearly stating relevant sections.

(6 marks)

(ii) Max owns a property in Kuala Lumpur from which he is receiving rental income. For Year of Assessment 2020, the total rental income received by Max was RM14,000 and he incurred minor repair to his property where he spent RM1,300 for the repairs. He also paid RM200 fire insurance premium for the property and RM1,500 to install a new air-cond unit.

Determine the taxable rental income for Max for Year of Assessment 2020 and on tax forms (Resident/ Non-Resident) that should be used by Max and explain on his filing deadline.

(6 marks)

(iii) Given below are the terms of Max's employment contract for Year of Assessment 2019 and Year of Assessment 2020.

- Monthly salary of RM6,000
- Three months bonus each year
- Max's income tax is borne entirely by the employer.

Present Max's income tax computation for the Years of Assessment 2019 and 2020 assuming Max is a non-resident for tax purpose. Also explain what happens when Max has defaulted his tax payment/not furnished his return for both the Year of Assessments.

(8 marks)

[Total: 20 marks]

(END OF QUESTION PAPER)