



CHARTERED TAX INSTITUTE OF MALAYSIA (225750 T)
(Institut Percukaian Malaysia)
Registration Number: 199101015438 (225750-T)

PROFESSIONAL EXAMINATION

INTERMEDIATE LEVEL

BUSINESS TAXATION

JUNE 2022

Student
Registration No.

Date

Desk No.

Examination Centre

Time allowed: 3 hours

INSTRUCTIONS TO CANDIDATES

1. This paper consists of **FIVE** questions.
2. Answer **ALL** 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.

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Question 1

Tale Done Sdn Bhd has been a wholesale distributor supplying a wide range of electrical equipment to supermarkets and stores throughout Malaysia and South East Asia since 2018. The company has a paid-up capital of RM3 million throughout the financial year 2021. The Income Statement for the year ended 31 July 2021 is as follows:

	Note	RM'000	RM'000
Sales	1		28,850
Less: Sales return	2		<u>1,912</u>
Net Sales			26,938
Less: Cost of sales	3		<u>17,920</u>
			9,018
Less: Operating expenses:			
Remuneration	4	2,890	
Selling and distribution	5	720	
Professional fees	6	113	
Bank charges	7	310	
Repairs and maintenance	8	260	
Bad and doubtful debts	9	530	
Foreign exchange loss	10	124	
Loss on sale of van	11	21	
Contributions	12	648	
Depreciation		482	
Transport and travelling	13	352	
Miscellaneous	14	172	
Compensation	15	344	
Amortization of goodwill		180	<u>7,146</u>
			1,872
Add: Other income			
Dividends	16		<u>1,346</u>
Profit before taxation			<u>3,218</u>

Notes:

1. Sales
Goods valued at cost RM425,000 were taken for personal use of the directors. The market value of these goods was RM510,000.
2. Sales returns
Actual returns made by customers due to faulty goods were RM2,210,000. The amount in the accounts was erroneously recorded as RM1,912,000.
3. Cost of sales include:
 - Closing inventory was RM560,000 but the actual physical count at year end was RM680,000.
 - Provision for stock obsolescence was RM390,500.
4. Remuneration includes:
 - Salary of a blind executive at RM1,800 per month.
 - RM 610,000 being the company's contribution to the Employees Provident Fund.
 - RM144,500, being an amount allocated to the company's provision for retirement benefits account.

5. Selling and distribution expenses include:

- Cost of RM420,000 for participating in an international trade fair in South Africa which was approved by the Ministry of International Trade and Industry (MITI).
- Expenditure of RM72,500 incurred on advertising in Malaysia to promote products of the company.

6. Professional fees include:

	RM'000
Tax filing fees and Secretarial fees	41
Technical fees paid to Fantasy Ltd, a non-resident German company (which the withholding tax was not deducted) for work carried out in Malaysia	52
Legal fees for defending a charge concerning violation of the Companies Act in respect of the annual general meeting	20
	<u>113</u>

7. Bank charges include:

- Interest of RM47,000 paid to Reality Finance Bhd for a loan obtained which was invested in the purchase of 40,000 units of Mercury Bhd shares.
- Overdraft and short term loan interest incurred to finance the operation of the business amounting to RM195,000.
- The balance RM68,000 interest is related to a loan taken to purchase the machine used in the business.

8. Repairs and maintenance include:

	RM'000
Upgrading of fire safety system	25.5
Resurfacing of car park – replacement of broken tiles	81.5
Machinery and vehicle maintenance	132.0
Rewiring – replacement of wires that were bitten by rats	21.0
	<u>260.0</u>

9. Bad and doubtful debts comprise:

	RM'000
Bad debts written off during the year	214
Net increase in general provision	312
Net increase in specific provision	195
	<u>721</u>
Bad debts recovered during the year	(191)
	<u>530</u>

All the above are in relation to trade debts except that out of the RM214,000 bad debts written off RM67,000 is in respect of a loan made to an ex-accountant.

10. Foreign exchange loss/gain include:

	RM'000
Realised losses on stock purchases	65
Unrealised losses due to repayment of foreign loan for buying a machine	39
Realised loss on purchase of plant from Taiwan	35
Unrealised gain from trade creditors	(15)
	<u>124</u>

11. The van was purchased on 1 July 2018 at a cost of RM98,000 and sold on 1 August 2020 for RM26,500. The book value at the time of sale was RM47,500. The depreciation reflected in the Income Statement does not include depreciation for the van.

12. Contributions comprise:

	RM'000
Cash contribution to the National Public Library, Kuala Lumpur	298
Donation to an approved institution	200
Contribution to an approved research and development company	150
	<u>648</u>

13. Transport and travelling includes:

	RM'000
Freight charges	293
Travelling allowance for the company's directors	31
Leave passage to Tokyo for the finance manager and family	28
	<u>352</u>

14. Miscellaneous expenses include:

	RM'000
Medical insurance for the company's managing director	17
Fire insurance premium for company's premises	28
Losses due to theft of stock in trade	137
Insurance claim for damage to office equipment	(15)
Traffic fines paid for managers	5
	<u>172</u>

15. Compensation comprises:

	RM'000
Compensation to clients for damaged goods	29
Compensation to a sports company for agreeing to close down one of its branches in Malaysia	315
	<u>344</u>

16. Dividends were received from the following:

	Gross (RM'000)
Tear Sdn Bhd	
- Interim (4 January 2021)	500
- Final (1 March 2021)	600
Champ Pte Ltd (Singapore)	246
	<u>1,346</u>

These shares were acquired between 2010 to 2014 as investments, using the company's cash surplus. Dividend income from Champ Pte Ltd was remitted to Malaysia during the financial year.

17. Other information:

- (i) Business adjusted loss brought forward from previous year of assessment amounted to RM229,000.
- (ii) Capital allowances computed for the current year of assessment amounted to RM345,000.

Required:

Compute the tax payable by Tale Done Sdn Bhd for the year of assessment 2021. Every item mentioned in the notes to the accounts must be stated in your computation irrespective of whether an adjustment is required or not. Where no adjustment is required, indicate 'NIL' in the appropriate column.

[Total: 30 marks]

Question 2

- (a) Alvin, Calvin, and John operated a conventional partnership, ACJ Enterprise (AE) which provided taxation services in Johor Bahru. On 1 January 2021, AE was converted into a limited liability partnership (LLP), ACJ PLT. It continued its business with the same capital contribution, profit sharing ratio, and partners' salaries stated in the agreement of ACJ PLT is as follows:

Partners:	Alvin	Calvin	John
Profit-sharing ratio	40%	30%	30%

	RM	RM	RM	Total (RM)
Capital contribution	800,000	600,000	600,000	2,000,000
Interest on capital	56,000	42,000	42,000	140,000
Partners' salaries	120,000	100,000	100,000	320,000

The financial statement of ACT PLT for the year ended 31 December 2021:

	RM'000	RM'000
Sales		4,600
Less: Cost of sales		<u>1,200</u>
Gross profit		3,400
Interest from local banks		120
Dividends from resident companies		<u>130</u>
		3,650
Less: Expenses		
Partners' salaries	320	
Additional salaries to partners	160	
Contribution of EPF and SOCSO for partners	120	
Interest on partners' capital	140	
Operating expenditures (allowable deductions)	470	
Depreciation	<u>110</u>	<u>(1,320)</u>
Net profit before tax		2,330

Notes:

1. The unabsorbed business loss and unabsorbed capital allowance brought forward for the year of assessment 2020 from AE are RM80,000 and RM50,000 respectively.
2. ACJ PLT did not incur any qualifying capital expenditure for the year of assessment 2021.
3. The capital allowances for the year of assessment 2021 of ACJ PLT is RM100,000.

Required:

- (i) **Compute the tax payable of ACT PLT for the year of assessment 2021.** (9 marks)
- (ii) **Explain the tax treatments of the unabsorbed capital allowance and business loss of AE when it was converted to ACT PLT.** (3 marks)

- (b) Sonata Ltd a company from South Korea has been appointed to build and complete the construction of a bridge in Penang. It will pay RM2 million to Sonarita Ltd a company from Spain for the rental of cranes to be used for the bridge project. Both Sonata Ltd and Sonarita Ltd are non-residents for Malaysian tax purposes.

Required:

Discuss the withholding tax implications to Sonata Ltd in respect of the payment of rental of cranes to Sonarita Ltd. (5 marks)

- (c) Fastrack Sdn Bhd is a durian plantation company in Pahang. It has incurred RM5 million of the following expenditures for the financial year ended 30 June 2021:

	RM'000
Terracing of land to reduce erosion	2,000
Construction of roads and drains	1,000
Building of staff quarters	1,500
Building of an office building	500

Required:

Compute the agriculture allowance of Fastrack Sdn Bhd for the year of assessment 2021. (3 marks)

[Total: 20 marks]

Question 3

Benjy, Badrul, and Benno are partners in a partnership business named BOLDB Enterprise selling car accessories. The partnership accounts for the year ended 31 December 2021 are as follows:

	RM
Sales	4,300,200
Less: Cost of sales	<u>(3,588,800)</u>
Gross profit	711,400
Less: Partners' salaries	(162,000)
Interest on capital	(277,500)
Other tax-deductible expenses	(208,700)
Depreciation	<u>(31,000)</u>
Net profit for the year	32,200
Add: Rental income	<u>11,000</u>
	43,200
Less: Approved donation	<u>(30,000)</u>
Net profit for the year	<u>13,200</u>

The partnership agreement provides the following:

1. Monthly salaries of the partners are as follows:

	RM
Benjy	4,900
Badrul	3,100
Benno	5,500

2. Interest on capital was calculated at 10% per annum. The respective capital contribution of the partners is as follows:

	RM	RM
Benjy (no change during the year)		700,000
Badrul (no change during the year)		1,300,000
Benno		
As at 1 January 2021	400,000	
Additional capital on 1 April 2021	<u>500,000</u>	
As at 31 December 2021		900,000

3. Partnership profit were shared as follows:

Benjy	2/5
Badrul	2/5
Benno	1/5

4. Capital allowances for the year of assessment 2021 were RM89,000.
5. Unabsorbed business adjusted losses brought forward from the previous year of assessment and available to each individual partner are as follows:

	RM
Benjy	125,000
Badrul	125,000
Benno	62,500

Based on the information above, you are required to:

- (i) Compute the provisional adjusted income of BOLDB Enterprise Partnership for the year of assessment 2021. (5 marks)
- (ii) Compute the divisible income of BOLDB Enterprise Partnership for the year of assessment 2021. (2 marks)
- (iii) Compute the aggregate income and total income of each partner for the year of assessment 2020. (10 marks)
- (iv) Explain the tax treatment of the brought forward business adjusted losses for the partner(s) and whether there is any restriction in the carry forward of unabsorbed business adjusted losses. (3 marks)

[Total: 20 marks]

Question 4

- (a) (i) Ambrose arrived in Malaysia on 1 January 2021 to take up a position of Project Manager at a company in Kuala Lumpur earning a salary of RM25,000 per month.

Required:

State the deadline for Ambrose to inform the tax authorities that he is chargeable to tax in Malaysia.

(1 mark)

- (ii) Subsequent to his registration with the tax authorities, Ambrose shifted to another house in another state on 1 August 2021.

Required:

State when must the tax authorities be informed of his change in address.

(1 mark)

- (iii) **State the time frame for which Ambrose must retain all documents and records pertaining to his tax matters for any particular year of assessment.**

(1 mark)

- (b) Diamond Sdn Bhd was incorporated on 19 January 2021 with an issued share capital of RM 3 million. It commenced operations on 1 April 2021. The Directors are contemplating on the implementation of two alternatives i.e.:

Alternative A

To close the first set of accounts to 30 June 2021; OR

Alternative B

To close the first set of accounts to 30 June 2022.

Required:

For each of the alternatives indicate:

- (i) The first basis period and year of assessment. (4 marks)
- (ii) The last date to submit the income tax return form for the first year of assessment. (2 marks)
- (iii) The deadline for submitting the tax estimate for the first and second year of assessment, providing an explanation if none is required. (4 marks)
- (iv) When the first instalment of the tax estimate for year of assessment 2022 is payable. (2 marks)

[Total 15 marks]

Question 5

- (a) Sapphire Sdn Bhd was incorporated on 6 April 2020 with the intention of venturing into the business of manufacturing bottled drinking water. The company bought a piece of land on 12 April 2020 and immediately commenced the construction of a factory which was completed on 15 August 2021. In the interim they had advertised and interviewed candidates for the numerous positions in the company and the first batch of staff commenced their employment on 1 October 2021. The company purchased all necessary plant and machinery and everything was in place to commence production by 30 September 2021. The raw materials used in the production process arrived on 10 October 2021. The official opening of the factory was on 21 October 2021 and production commenced on 1 November 2021.

Required:

- (i) State the date on which Sapphire Sdn Bhd commenced the business of manufacturing bottled water. (1 mark)
- (ii) Explain whether the company can get a deduction for the recruitment expenses and the salaries paid to the staff prior to commencement of business. (2 marks)

- (b) (i) **Where a payment in respect of assistance and advice to a non-resident is made in relation to a contract project, what factors will determine whether the payment is subject to withholding tax under s107A or s109B?** (2 marks)

- (ii) Emerald Sdn Bhd received some architectural advice from Ruby Ltd a company not known to be resident for Malaysian tax purposes. The duration of the advisory project was 3 months and was primarily conducted in France with staff of Ruby Ltd coming to Malaysia for half a month to explain to the contractors the details of the project. The total sum paid to Ruby Ltd for the project was RM120,000 and it was settled on 12 December 2021.

Required:

Compute the withholding tax under s109B on this payment and state the last date for settling the withholding tax. (3 marks)

- (iii) Pearl Pte Ltd a Malaysian resident company has a branch in Jakarta. The branch pays RM50,000 to a Korean technological company [non-resident for Malaysian income tax purposes] for installation of machinery in its factory in Jakarta.

Required:

State whether withholding tax under s109B is applicable on this payment and explain why. (2 marks)

- (c) (i) Opal Ltd produces computer accessories and sells them worldwide. It appoints Topaz Sdn Bhd a Malaysian resident company to facilitate the sale of its products in Malaysia. Topaz Sdn Bhd in addition to promoting, advertising and creating lucrative distribution channels for the products also communicates with customers in terms of endorsement of and providing explanations about the products and engages in negotiations which result in the conclusion of contracts between the customers and Opal Ltd.

Required:

State whether Opal Ltd is deemed to have a place of business in Malaysia. (2 marks)

- (ii) Amethyst Ltd a foreign company owns oil palm estates in Malaysia. The ripe fruits are harvested from the company's oil palm estates in Malaysia and sent to the head office of the company in the foreign country for processing into palm oil and exporting the palm oil to other countries.

Required:

State whether any amount of the revenue in respect of the above events will attract any income tax implications in Malaysia and explain why. (3 marks)

[Total 15 marks]

(END OF QUESTION PAPER)