



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

PROFESSIONAL EXAMINATION

FINAL LEVEL

ADVANCED TAXATION 1

DECEMBER 2022

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Student  
Registration No.

Date

Desk No.

Examination Centre

Time allowed: 3 hours

#### INSTRUCTIONS TO CANDIDATES

1. This paper consists of **SIX** questions. **Candidates are ONLY REQUIRED TO ANSWER FIVE QUESTIONS.**
2. The Income Tax Act 1967 (as amended) is referred to as ITA.
3. Each answer should begin on a separate answer template.
4. All workings **MUST** be shown as marks will be awarded.
5. All figures to be rounded to RM1.00.
6. For this examination question paper, you are to assume that the basis year ending 31 December 2022 has elapsed.

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

## Question 1

You had a meeting with the financial controller, Adam from A-Manufacturing Sdn Bhd ('ASB') yesterday. ASB was incorporated and commenced its manufacturing business on 1 January 2020. The company is a tax resident in Malaysia and prepares its annual accounts on 31 December.

The company operates its business in Shah Alam, Selangor and is engaged in manufacturing plastic gloves. It plans to expand its business in 2023 to manufacture surgical gloves for the local and overseas markets. It will make an initial capital investment of RM20 million and claim reinvestment allowance ('RA') from the year of assessment ('YA') 2023 onwards.

Adam's projection of the company's business income and non-business income and relevant information for YAs 2023 to 2025 are as follows:

<b>Year of Assessment</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>1. Business income</b>			
Adjusted income / (Adjusted loss)	(3,000)	10,000	20,000
Capital allowance and Industrial building allowance	1,000	1,300	1,500
Capital expenditure incurred for RA:			
• Plant and machinery	4,000	3,000	10,000
• New factory (including the land cost of RM4 million and 20% of the floor space are used for office)	16,000	-	-
<b>2. Non-business income</b>			
Fixed deposit interest received from local banks	500	500	500
<b>3. Donation in cash to Selangor State Government</b>	100	100	100

**Required:**

- (a) Advise six (6) circumstances of the plant and machinery incurred by ASB which is not qualified for reinvestment allowance claim. (6 marks)
- (b) Compute ASB's chargeable income and exempt income account for YAs 2023 to 2025 and show all the relevant working of the qualifying capital expenditure for RA, reinvestment allowance, capital allowance and industrial building allowance and business loss. (14 marks)

For part (b), a tabular format must be used for your tax computation.

**[Total: 20 marks]**

## Question 2

(a) In respect of a 'club' operated for the benefit of its members, discuss the following with reference to the taxation of a club under the ITA:

(i) Concept of 'mutuality'. [You must cite any one relevant case law in support of your discussion]; and

(3 marks)

(ii) The treatment of outgoings and expenses incurred and the capital allowances attributable to transactions in instances where the club deals with both members and non-members.

(2 marks)

(b) The Heritage and History Club of Penang ('HHCP') takes much pride in the heritage and the history of Penang Island, and is active in doing voluntary work to preserve its old buildings and rich culture. To achieve this purpose, HHCP is assisted by the local businessmen who are members and contribute much to the cost of maintaining these buildings that includes the Khoo Kongsi, The Pinang Peranakan Mansion, the Cheong Fatt Tze Mansion as well the Goddess of Mercy Temple, which is Penang's oldest Taoist temple. HHCP keeps alive this heritage inherited from the early Chinese immigrants who settled on the island, constructed these building and which has links to the days of the East India Company trading between India and China, and Captain Francis Light who founded Penang in 1786.

HHCP also conducts workshops and island tours for visitors and tourists keen on experiencing first-hand the rich heritage and history of the island.

HHCP has produced the following accounts for the year ended 31 December 2022:

The Heritage and History Club of Penang		
Statement of income and expenditure for the year ended 31 December 2022		
	RM	RM
Subscription by members	292,820	
Workshop fees (non-members)	73,205	
Tour fees (non-members)	58,564	
Fixed deposit interest	<u>2,928</u>	427,517
Less: Expenditure		
Hall rental for workshops	4,392	
Worker and assistant wages	13,177	
Administrative staff salaries	43,923	
Maintenance historical artefacts	2,928	
Postage, courier and stationery	1,464	
Transportation and travelling expenses	4,392	
Charter cost for tours	2,000	
Donation to an approved body	20,000	
Other miscellaneous expenses	<u>2,928</u>	<u>95,204</u>
Surplus of income over expenditure		<u>332,313</u>

The HHCP is entitled to a capital allowance of RM18,000 for the year of assessment 2022.

**Required:**

**With reference to the ITA, compute the income tax payable by *The Heritage and History Club of Penang* for the year of assessment 2022.**

[Note: Marks will *not* be awarded for workings].

(15 marks)

**[Total: 20 marks]**

**Question 3**

- (a) Dr Visvanathan was a very successful medical practitioner. In early 2017, he had his annual medical check-up and one of the test results showed that he had cancer. An examination by an oncologist confirmed that it was Hodgkin's lymphoma, a cancer of the lymphatic system, and is spreading dangerously fast. It was not good news and he knew he had limited time. One of the first things he did was to consult his accountant and set up a trust under a Will ('The Visvanathan Trust').

Essentially under the trust deed, his properties and income were placed under the trust for the benefit of his wife, Madam Revathi, and their two children – Sumithra and Shobana.

Sometime in 2019 he succumbed to Covid-19 and passed away in November 2019.

For the year ended 31 December 2022, The Visvanathan Trust provided the following information for income tax purposes:

- Adjusted income from a Malaysian business was RM322,794. The business is entitled to a capital allowance of RM51,000 and a balancing charge of RM58,690 in respect of an asset disposed of during the year. There was an unabsorbed loss of RM22,009 brought forward from the previous year of assessment.
- The trust has a net rental income of RM72,000 from a property in India, but this sum was not remitted to Malaysia during the year.
- A commercial property in Klang rented out produced a net rental of RM44,000.
- From investments, and deposits with a local financial institution, the trust received a single tier dividend for RM29,345 and interest of RM14,672.

The terms of the Visvanathan Trust, among other matters, provided that Madam Revathi should receive RM70,000 per year as annuity; while Sumithra, the eldest daughter would receive three quarter of the distributable income. The balance will be paid to Shobana, the younger child.

In January 2022, Sumithra commenced employment with a firm in Cyberjaya and earned an annual salary of RM58,690. She contributed RM6,456 to the employees' provident fund ('EPF').

Shobana is studying medicine in India, and has no income of her own. She uses the rental income from the trust property in India to support herself. She has not been to Malaysia since her father's death.

The Visvanathan Trust was resident in Malaysia for the year of assessment 2022.

**Required:**

**With reference to the provisions of the ITA, and the information provided in respect of The Visvanathan Trust, compute the following for the year of assessment 2022:**

- (i) **The tax payable by The Visvanathan Trust;** (7.5 marks)
- (ii) **The tax payable or the tax refundable, as the case may be, in respect of**
- a. **Sumithra; and** (6 marks)
- b. **Shobana.** (2.5 marks)
- (b) **With reference to the provisions of the ITA and a trust body, discuss briefly the treatment of remuneration paid to a trustee of a trust and the taxability of that remuneration on the trustee.** (4 marks)

**[Total: 20 marks]**

**Question 4**

Organic Farmer's Cooperative ('Co-operative') is an agriculture cooperative society registered under the Cooperative Societies Act 1993 and incorporated under the Companies Act 2016, since 1 January 2015.

Among the key objectives of the Co-operative are to provide members, technical knowledge and advisory services related to organic farming and assist farmers who are members of the cooperative, as well as to identify potential markets for sale of locally sourced organic vegetables.

The membership is open to the public at large. Members are required to contribute entrance fee, and annual membership fee. Members also receive dividends which are paid, credited and distributed by the Co-operative.

The Co-operative also derived investment income from interest and rental. In order to further develop and promote organic farming, a "Co-operative Education Trust Fund" was created and the Co-operative transfers an annual amount to these funds.

**Required:**

- (a) (i) **With reference to the ITA, state the meaning of "Members' fund".** (2 marks)
- (ii) **The draft of the Cooperative's balance sheet as at 1.1.2022 is as follows:**

	<b>RM</b>
Paid-up Share Capital	300,000
Statutory Reserve Fund	300,000
Unappropriated profit	250,000
Member's savings accounts	45,000
Member's loan accounts	50,000

- a. **Compute the Members' Fund;** and (3 marks)
- b. **State whether Cooperative is subject to tax on its income for the Year of Assessment 2022 and state the rationale as well as quote the relevant provisions in the ITA.** (2 marks)

(iii) **Explain the Assessability on the receipts as listed below:**

- a. **Receipts dealing with Members;**  
 b. **Investment Income; and**  
 c. **Dividends received by members.**

(1 mark for each – Total 3 marks)

(iv) **Explain the treatment of deduction of the amount transferred to “Cooperative Education Trust Fund” and state the relevant provision in the ITA.** (2 marks)

(b) **Based on the information extracted from Cooperative's accounts, compute the chargeable income.**

**Organic Farmer's Cooperative  
Extract of Balance Sheet**

Members' funds

As at 1 Jan	RM'000
2018	200
2019	850
2020	300
2021	900

Audited Net Profit

Year Ended	RM'000
31 Dec 2018	300
31 Dec 2019	700
31 Dec 2020	200
31 Dec 2021	600

Payments to Co-operative Educational Fund

Year Ended	RM'000
31 Dec 2018	-
31 Dec 2019	100
31 Dec 2020	-
31 Dec 2021	100

(2 marks for each – Total 8 marks)

**[Total: 20 marks]**

### Question 5

Paul is a Malaysian citizen and acquired a plot of plantation land located in Bentong, Pahang for planting durian trees on 1 April 2018 for RM1 million. He had incurred the following expenses on the acquisition of the plantation land:

	<b>RM</b>
Legal fees	20,000
Stamp duty	24,000
Construction of road	400,000

In 2021, Paul had a legal dispute with the owner of the adjoining land over the claim that part of the land belonged to him. On 10 October 2021, he lost the legal case and incurred a legal fee of RM160,000.

Since the Malaysian Government has opened up the country's borders for travelling in 2022. Paul needs funds to revive and expand his travel agency business as it suffered business losses for more than two years. He transferred the plantation land to his company, Realty Sdn Bhd ('RSB') as he owned 80% of the paid-up share capital. The transfer was made on 12 December 2022 for a consideration comprising a cash payment of RM2.6 million and 400,000 shares at RM1 per share. The market value of the plantation land was RM3.2 million on 12 December 2022.

#### Required:

- (a) **Compute the real property gains tax ('RPGT') payable by Paul.** (6 marks)
- (b) **Discuss the RPGT treatments on how Paul can avoid the RPGT tax liability on the transfer of plantation land to RSB.** (10 marks)
- (c) **Advise the acquirer, RSB on its responsibilities for the RPGT compliance in respect of the acquisition made for the plantation land from Paul.** (4 marks)

**[Total: 20 marks]**

**Question 6**

- (a) (i) List three (3) types of permitted capital expenditure in relation to agriculture sector that qualifies for investment tax allowance. You are required to state the respective provision as provided for in the law;  
(1 mark for each – Total 3 marks)
- (ii) List any one of the two (2) types of non-qualifying capital expenditure for investment tax allowance purposes.  
(1 mark)
- (iii) Anita Sdn Bhd sought approval for investment tax allowance (60%) incentives and was approved on 31 March 2021.

An extract of information from the company's accounts are as follows:

	<b>Year Ending 30 April 2021</b>
	<b>RM'000</b>
Qualifying capital expenditure	1,500
Adjusted income from business	900
Capital Allowance	300
Dividend Income	20

**Compute total income and amount to be credited to the exempt account for the Year of Assessment 2021.**

(6 marks)

- (b) A manufacturing company that is engaged in promoted activity or manufactures a promoted product may be granted pioneer status.
- (i) **List three (3) types of industries that can seek pioneer status incentives.**  
(3 marks)
- (ii) **List the two (2) requirements for the extension of pioneer status incentives for another five (5) years.**  
(2 marks)
- (iii) Comfort Bicycle Sdn Bhd has been granted pioneer status for manufacture of portable foldable bicycles (promoted product) on 1 September 2019, for a period of five (5) years. The following information was extracted from the accounts for the year ending 30 April 2021 are as follows:

	<b>RM'000</b>
Pioneer Business Income	
Adjusted Income	500
Capital Allowance	50
Loss from Non-Pioneer business income	100

**Compute the chargeable income and amount credited into the exempt account of Comfort Bicycle Sdn Bhd for the year of assessment 2021.**

(5 marks)

**[Total: 20 marks]**

**(END OF QUESTION PAPER)**