



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

PROFESSIONAL EXAMINATION

INTERMEDIATE LEVEL

BUSINESS TAXATION

DECEMBER 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

Maju Mampan Sdn Bhd, a resident company, is principally engaged in the business of manufacturing nutraceutical products. The company has a paid-up capital of RM2.8 million throughout the financial year 2022. The Income Statement for the year ended 31 October 2022 is as follows:

	Note	RM'000	RM'000
Sales			21,660
Less: Cost of sales	1		(16,820)
Gross Profit			4,840
Add: Other Income	2		193
			5,033
Less: Operating expenses:			
Remuneration	3	1,939	
Entertainment and Advertisement	4	293	
Finance Charges	5	70	
Professional and Legal Fees	6	161	
Rental of Premises	7	152	
Repairs and Maintenance	8	84	
Bad and doubtful debts	9	258	
Foreign exchange loss/gain	10	64	
Motor vehicle expenses	11	81	
Donations	12	168	
Extraordinary Expense	13	352	
Depreciation		182	
Amortization of goodwill		160	
			(3,964)
Profit before taxation			1,069

Notes:

- Cost of sales includes a provision of RM220,000 for stock obsolescence. In addition, RM87,800 was written off in respect of stock damaged during the financial year.

- Other income comprises of:

	RM'000
A single tier dividend from KPJ Healthcare Berhad	141
Dividend income derived a company in Australia (remitted to Malaysia)	52
	193

- Remuneration comprises of:

	RM'000
Staff remunerations	1,400
Contributions to Employees Provident Fund	300
Staff training conducted at a related company office in Australia (paid to the related company in Australia)	193
Leave passage for employees and family members to Pulau Tioman, Pahang for company's family day.	46
	1,939

4. Entertainment and advertisement comprise of:

	RM'000
Entertainment of existing customers	23
Meals with potential customers	25
Dinners with suppliers	42
Advertisement costs overseas to promote products of the company	133
Entrance fee of a golf club for the chief executive officer	30
Provision for sales incentives	<u>40</u>
	293

5. Finance charges includes the interest expense of RM5,500 which is attributable to a borrowing to finance an investment in the shares of KPJ Healthcare Berhad.

6. Professional and legal fees comprise of:

	RM'000
Statutory audit	53
Tax filing and secretarial fees	31
Tax advisory fees to settle an assessment by Inland Revenue Board for audit enquiry	22
Tax advisory fees for tax appeal of prior year assessment tax return	28
Legal fees for the issuance of letter of demand to recover amounts owed to a company by its employees for wage advances	12
Legal fees for drafting the renewal of tenancy agreement	15

7. Rental of premises includes the payment of RM18,000 to a company for the cancellation of a contract to install a high-tech security system.

8. Repairs and maintenance include a sum of RM15,000 in respect of additional tools which have a life span of two years.

9. Bad and doubtful debts comprise of:

	RM'000
Trade debts written off during the year*	114
General provision for trade debts	120
Specific provision for trade debts	<u>55</u>
	289
Bad debts recovered during the year	<u>(31)</u>
	258

*No action was initiated to recover the debt prior to the write off

10. Foreign exchange loss/gain comprise of:

	RM'000
Realised losses (trade and revenue in nature)	35
Realised gain (purchase of equipment)	(15)
Unrealised loss (trade and revenue in nature)	<u>44</u>
	64

11. Motor vehicle expenses include lease rentals in respect of a motor car of RM60,000 per annum. Maju Mampan Sdn Bhd has a four-year lease contract with a car rental company. The lease period commenced on 1 November 2021 the repayment starts on the same date. The price of the car when new in November 2021 was RM190,000.

12. Donations comprise of:

	RM'000
Donation to an approved Covid 19 Fund	98
Donation to a political party	<u>70</u>
	168

13. Extraordinary expense is in respect of retrenchment payments paid to several employees who had become redundant due to the Covid 19 Pandemic. The retrenchment exercise was carried out to reduce business operating expenses.

14. Other information:

- (i) A new factory which has not previously been used as industrial building was purchased on 18 February 2022 for RM770,000 which includes RM70,000 for the cost of the land. The factory commenced to be used by Maju Mampan Sdn Bhd on 1 April 2022.
- (ii) Capital allowances computed for the current year of assessment (excluding item (i) above) amounted to RM123,000 and the balancing charge amounted to RM15,000.

Required:

Compute the tax payable by Maju Mampan Sdn Bhd for the year of assessment 2022. 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) (i) Daffodil Ltd (DL), a company incorporated and operating in Alphaland and a non-resident for Malaysian tax purposes and has no permanent establishment or business presence in Malaysia.

Tulip Sdn Bhd. (TSB) is a Malaysian resident company with an annual gross business income of RM60 million.

For the year ended 31 December 2022, DL provided architectural services to TSB for a fee of RM100,000 which was credited to the bank account of DL in Alphaland from the returns TSB received from an investment in Alphaland.

Required:

Explain whether the amount of RM100,000 will be deemed to be derived from Malaysia?

(2 marks)

- (ii) Assuming the amount is deemed to be derived from Malaysia.

Required:

Explain why withholding tax is applicable and compute the amount of withholding tax on this payment to Daffodil Ltd.

(2 marks)

- (iii) Following from (ii) above, TSB did not settle any withholding tax or penalties with the Inland Revenue Board Malaysia, but claimed a deduction for the RM100,000 for year of assessment 2022 in its tax computation.

Required:

Compute the penalty for the incorrect return that will be imposed on TSB by the Inland Revenue Board Malaysia [based on the assumption that the penalty is 45%]

(2 marks)

- (b) Hibiscus Sdn Bhd (HSB) a Malaysian resident company with a 31 December year end is engaged in the plantation business. HSB had completed the construction of and commenced to use in its business, six units of quarters for workers in the plantation on 1 September 2019 costing RM80,000. On 30 September 2022, three of the units were sold for RM40,000 to Rose Sdn Bhd an adjacent estate owner.

Required:

- (i) **Compute the agricultural allowances for HSB in respect of the quarters for workers for the years of assessment 2019 to 2022.**

(2 marks)

- (ii) **Explain why an agricultural charge will be imposed on HSB in relation to the disposal of the quarters to Rose Sdn Bhd in the year of assessment 2022 and compute the charge assuming no elections were made by HSB.**

(2 marks)

- (iii) **For (ii) above, calculate the agricultural charge for the relevant years of assessment for HSB assuming an election was made for the spread back of the charges under Paragraph 27 of Schedule 3 of the ITA.**

(3 marks)

- (iv) **Compute the agricultural allowances that can be claimed by Rose Sdn Bhd for the year of assessment 2022 if its year end was;**

- a. **30 June**
b. **30 November**

(2 marks)

- (c) Orchid Sdn Bhd (year end 30 September) purchased a new car costing RM180,000 for its Managing Director on 15 December 2020. The company disposed the car for RM90,000 on 12 October 2021.

Required:

Compute the capital allowances on the car for the year of assessment 2021 and the balancing adjustment on the sale of the car if the disposal was for:

- (i) **reasons as the Director General thinks appropriate.** (3 marks)

- (ii) **NOT for reasons as the Director General thinks appropriate.** (2 marks)

[Total: 20 marks]

Question 3

- (a) Benny, Calvin, and Daniel are partners in a partnership engaging a restaurant business. The terms of the partnership agreement until 30 September 2022 were as follows:

Partners	Benny	Calvin	Daniel	
Profit-sharing ratio	40%	30%	30%	
	RM	RM	RM	Total (RM)
Capital contribution	120,000	90,000	90,000	300,000
Salaries per annum	72,000	60,000	48,000	180,000

On 30 September 2022, Daniel withdrew as a partner. A farewell party, costing RM9,000 was held on 15 September 2022 for Daniel. The expenses incurred on the party were borne by the partnership. For the financial year ending on 31 December 2022, the partnership also paid RM6,000 and RM4,000 for Benny's medical expenses and Calvin's life insurance premium respectively.

Before 1 October 2022, the interest on capital for each partner is 4% per annum. Effective 1 October 2022, it was revised to 5% per annum for Benny and Calvin. The profit-sharing ratio was also revised to 50% for each one of them. The other terms of the partnership remain as before.

The provisional adjusted income for the year ended 31 December 2022 was RM280,000 before taking into account the following items:

1. Depreciation of RM12,525 in respect of the restaurant's furniture of fittings.
2. Cash donation of RM3,000 to an approved institution on 31 August 2022.
3. Water and electricity of RM20,000.
4. Farewell party expenses of RM9,000.

The capital allowance on the restaurant's assets for 2022 was RM25,000.

Required:

- (i) **Compute the revised provisional adjusted income, divisible income for the partnership, and the total income of the partners for the year of assessment 2022.** (12 marks)
- (ii) **Explain the tax treatment for the cash donation of RM3,000.** (4 marks)
- (b) Fastest Sdn Bhd closes its accounts on 30 June each year. In 2022 Fastest Sdn Bhd changed its accounting year end to 30 September. The accounts are made up as follows:

- 1 July 2020 - 30 June 2021
- 1 July 2021 - 30 September 2022
- 1 October 2022 – 30 September 2023

Required:

Explain what is a failure year and how the Director General may direct the basis period for the year of assessment in the failure year based on the above situation.

(4 marks)

[Total: 20 marks]

Question 4

Global Sdn Bhd makes up its accounts to 31 December annually. The company received the notice of additional assessment (dated 14 May 2022) for the year of assessment 2021.

In the process of assessing the additional tax liability of Global Sdn Bhd, the Director General of Inland Revenue requested for several documents and information. The directors of Global Sdn Bhd were reluctant to compile with the DG's request. The directors of Global Sdn Bhd are of the view that the additional tax for the year of assessment 2021 is excessive. The directors are unclear on the appeal process and on what powers are vested in the Director General.

Required:

(a) **Advise Global Sdn Bhd regarding the payment of tax, tax appeals process that will be lodged for a year of assessment and the statutory time bar. Your answer should include details of what will happen when the Director General reviews and disposes of the appeal, and trace the passage of the appeal through the courts.**

(11 marks)

(b) **Explain any FOUR of the powers vested in the Director General of Inland Revenue.**

(4 marks)

[Total 15 marks]

Question 5

Mai Tan Sdn Bhd (MTSB) is a manufacturing and retail company which manufactures electrical appliances. MTSB's financial year end is 30 September. The company submitted an original tax estimate of RM150,000 for the year of assessment 2021. On 2 March 2021, before paying the fifth instalment, MTSB submitted a revised tax estimate of RM200,000. Due to a tsunami in Japan, there was an increase in orders for MTSB goods in June 2021 and the finance director felt that this may lead to a further increase in tax amounting to RM400,000. When MTSB filed their returns, the final tax liability amounted to RM450,000 for the year of assessment 2021.

In addition, MTSB was audited by the Inland Revenue Board and an additional assessment was raised due to certain tax adjustments made in respect of certain disallowed expenses, one of it being 50% of RM78,000 for catering services. The IRB argued that, as an entertainment expense item, 50% is disallowable. The RM78,000 catering services cost represents the catering (food and beverage) expense for the product launch of the latest range of electrical appliances.

Required:

(a) **Compute the monthly revised tax instalments for the year of assessment 2021 following the submission of the revised tax estimate in March 2021.**

(2 marks)

(b) **Explain the course of action which Mai Tan Sdn Bhd (MTSB) may take in respect of its revised tax estimate of RM400,000 in view of the unexpected increase in profits.**

(2 marks)

(c) **Compute the amount of penalty which will be levied, if no further revision was done on the tax estimate after 2 March 2021.**

(3 marks)

(d) Explain the deductibility of the catering services. You are required to quote relevant case laws to support your answer.

(8 marks)

[Total 15 marks]

(END OF QUESTION PAPER)