



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

PROFESSIONAL EXAMINATION

INTERMEDIATE LEVEL

BUSINESS TAXATION

JUNE 2023

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

Green Equipment Sdn Bhd (GESB) has its principal activity in the manufacturing of electric vehicle charging equipment. As of 1 December 2021, the company had a paid-up ordinary share capital of RM10 million, with 60% ownership held by two Malaysians, and the remaining owned by a Japanese company.

GESB's Statement of Profit or Loss for the financial year ended 30 November 2022 is as follows:

	Note	RM'000	RM'000
Turnover			28,450
Less: Cost of goods sold	(1)		<u>(9,760)</u>
			18,690
Add: Other income	(2)		<u>270</u>
			18,960
Less: <u>Expenses</u>			
Audit fee	(3)	55	
Advertising and promotions	(4)	150	
Allowance for doubtful debts	(5)	20	
Business travelling		240	
Loan interest	(6)	600	
Legal and professional fee	(7)	75	
Depreciation		2,160	
Repairs and maintenance	(8)	570	
Staff benefits	(9)	3,500	
Miscellaneous expenses	(10)	<u>60</u>	
			<u>(7,430)</u>
Net profit before tax			<u>11,530</u>

Notes:

- Cost of sales included the following:
 - Unrealised loss from foreign exchange for the sale of the charging equipment amounting to RM62,000.
 - Insurance premium paid for insuring imported raw materials of RM120,000.

- Other income consisted of:

		RM'000
i	Compensation was received from a competitor in exchange for agreeing not to enter their market	56
ii	Gain on disposal of a warehouse (see note 11)	22
iii	Rental income from a property situated in Malacca (see note 6)	78
iv	Interest income from a subsidiary company (see note 6)	80
v	Waiver of debts by creditors where the related expenses were previously not tax deductible.	<u>34</u>
		<u>270</u>

- The audit fee included a special fee of RM20,000 for a due diligence study to acquire a supplier of raw materials.
- Included in the advertising and promotion expenses is an amount of RM45,000 incurred for participating in an overseas trade exhibition for the promotion of exports approved by the Minister.

5. Allowance for doubtful debts:

		RM'000
i	Increase in general allowance (trade)	110
ii	Decrease in specific allowance (non-trade)	(20)
iii	Bad debt recovered (previously the bad debts written off was not tax-deductible)	(70)
		<u>20</u>

6. The interest expense is in respect of an RM8 million bank loan which was utilised as follows:

		RM'000
i	Working capital	3,000
ii	Machinery and office equipment	2,000
iii	A loan advanced to a subsidiary company (see note 2)	2,000
iv	Property in Malacca (see note 2)	1,000
		<u>8,000</u>

7. Legal and professional included:

		RM'000
i	Tax due diligence fee for the acquisition of a competitor.	23
ii	Technical fee paid to a non-tax resident company. Withholding tax has been complied.	30
iii	Legal fee for application of a bank loan (see note 6).	12
iv	Cost of developing a new website.	10
		<u>75</u>

8. Repairs and maintenance included:

		RM'000
i	Initial major repair on a heavy machinery that was in a dilapidated condition when it was purchased.	60
ii	Ten air conditioners cost RM1,000 each.	10
iii	Renovation of the company's existing factory.	500
		<u>570</u>

9. Included in staff benefits were the following:

i	Salaries and wages of RM3,200,000. This includes a salary of RM200,000 paid to research personnel for an approved research project.
ii	Overseas leave passages of RM40,000.
iii	Compensation to retrenched staff of RM54,000.
iv	Remuneration paid to employees who are disabled of RM56,000. This includes equipment that was provided to them of RM4,000.

10. Miscellaneous expenses included:

		RM'000
i	Fire insurance for property in Malacca (see note 2)	12
ii	Donation of a van to Persatuan Bulan Sabit Merah, an approved body	34
iii	Entertainment for suppliers	14
		<u>60</u>

The balance of miscellaneous expenses is qualified for tax deduction.

11. Other information:

- i. Balancing charge from the disposal of the warehouse is RM45,000 (see note 2);
- ii. Unabsorbed business losses brought forward from the year of assessment 2021 were RM220,000;
- iii. Capital allowances were computed at RM980,000 for the year of assessment 2022. This amount does not take into account the capital expenditures incurred as in note 8.

Required:

(a) Compute the tax payable of GESB for the year of assessment 2022.

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.

(24 marks)

(b) Explain the income tax treatments for the following income and expenses:

(i) Rental income from a property in Malacca of RM78,000 and its related expenses (Note 2).

(3 marks)

(ii) Loan interest of RM600,000 (Note 6).

(3 marks)

[Total: 30 marks]

Question 2

(a) Explain THREE (3) differences between a limited liability partnership and a limited liability company.

(6 marks)

(b) Daily Sdn Bhd (DSB) with a year end 31 December was converted to a limited liability partnership known as Daily PLT on 1 July 2021. Stated below are information regarding the conversion.

- Daily Sdn Bhd closed its final account on 30 June 2021.
- Unabsorbed capital allowances as at 31 December 2020 amounted to RM70,000. Qualifying capital expenditure and residual expenditure of general plant and machinery as at 31 December 2020 were RM700,000 and RM321,000 respectively. No additional assets acquired during the six-month period ended 30 June 2021.
- Daily PLT makes up its first accounting period to June 2022.
- The adjusted income of Daily Sdn Bhd from 1 January 2021 to 30 June 2021 amounted to RM110,000. The company claimed capital allowances for the year of assessment 2021.
- The adjusted income of Daily PLT for the year of assessment 2022 amounted to RM400,000. No additional assets were acquired during the year.

Required:

- (i) Explain the basis period for the year of assessment 2021 and 2022 for Daily Sdn Bhd And Daily PLT. (2 marks)
- (ii) Compute the chargeable income of Daily Sdn Bhd for the year of assessment 2021 and explain the tax treatment of any unabsorbed capital allowances for the year of assessment 2021. (8 marks)
- (iii) Compute the chargeable income of Daily PLT for the year of assessment 2022. (4 marks)

[Total: 20 marks]

Question 3

- (a) (i) Synergy Sdn Bhd (SSB) was incorporated with a view to undertake the activity of producing supplementary products from waste animal products. The waste animal products were to be obtained from various suppliers.

5 May 2020

The Board of Directors of SSB held a meeting to discuss the feasibility of the whole project.

10 August 2020

SSB commenced construction work for a factory and placed an order for the relevant plant and machinery.

25 January 2022

SSB conducted interviews for potential technical and administrative staff.

1 June 2022

SSB received the raw materials for the supplementary products, a week's production trial runs were conducted and then immediately normal production commenced.

15 June 2022

SSB made an official announcement of commencement of production of supplementary products from waste animal products in the public media.

- (ii) Protonergy Sdn Bhd (PSB) was set-up with an objective to produce cement. The management decided to procure the primary raw material i.e. limestone on their own without purchasing it from suppliers.

29 January 2021

PSB purchased an existing factory and obtained the relevant machinery.

12 October 2021

PSB signed an agreement with a quarry company to mine the limestone at some of their sites.

7 July 2022

The Management of PSB directed their staff to blast the limestone hills, collect the detached masses of limestone, transport them by using small trolleys to the factory and stored them for the manufacturing of cement.

1 September 2022

The processing of the limestone into cement was commenced.

26 November 2022

PSB sold its first batch of cement in bags.

Required:

For each of the above cases, firstly, determine the date of commencement of business and secondly, discuss the differentiating theme in the two cases.

(5 marks)

- (b) Lyntonergy Sdn Bhd (LSB) has been in business of manufacturing ice cubes for many years. In recent years it experienced a drop in demand for its products and suffered losses. This drop in demand commenced in year of assessment 2019 when its tax computation reflected unabsorbed capital allowances and business losses and this continues to this day.

The Board of Directors of LSB are contemplating to cease the business of manufacturing ice cubes and leaving the company dormant for a year or two and then commence a different business.

Required:

Advise the Board as to whether the new business can utilise the brought forward capital allowances and business losses assuming it generates profits and if the new business is not profitable in the initial years, can the unabsorbed balances be carried forward indefinitely.

(5 marks)

- (c) Neutronergy Sdn Bhd (NSB) manufactures cars in Johor Bahru. Some of the cars are driven over to Singapore and sold there. NSB does not have any form of business presence in Singapore. The proceeds from the sale of cars in Singapore are credited to the bank account of NSB in Singapore.

Required:

Explain with reasons as to whether the proceeds from the sale of cars in Singapore will be deemed to be derived from Malaysia.

(5 marks)

- (d) Nanenergy Sdn Bhd (NSB) is a public transportation company engaged in the business of operating trains in the major cities of Malaysia. In a tragic train accident, the driver of one of the colliding trains, died in the accident. As the company was not financially strong, the Management decided to not pay a compensatory sum to the widow of the driver although this was the standard practice amongst companies operating in the transportation industry. The widow sued the company to recover the payment for compensation and succeeded in her legal attempt. NSB had to pay the widow the compensatory award and incurred legal fees in contesting her claim in court.

Required:

Discuss the validity of the claim by NSB for a tax deduction in respect of the payment of compensation and the legal fees.

(5 marks)

[Total: 20 marks]

Question 4

- (a) (i) **What are the factors that will determine whether a payment is subject to withholding tax under s. 107A or s. 109B, where a payment is made in respect of assistance and advice to a non-resident in relation to a contract project?**

(2 marks)

- (ii) Imperia Agrofarm (a Malaysian resident company) received technical advice on farm management from Kiwifarm Plc, a company not resident for Malaysian tax purposes. The duration of the advisory project was 4 months and was primarily conducted in New Zealand with staff of Kiwifarm Plc, coming to Malaysia for one month to explain to the contractors the details of the project. The total sum paid to Kiwifarm Plc for the project was RM330,000 and it was settled on 8 December 2022.

Required:

Compute the withholding tax under s. 109B on this payment and state the last date for settling the withholding tax.

(3 marks)

- (iii) Wesfarmers Bhd a Malaysian resident company has a branch in Australia. The branch pays RM88,000 to a Japanese technological company [non-resident for Malaysian income tax purposes] for installation of machinery in its factory in Australia.

Required:

State whether withholding tax under s. 109B is applicable on this payment and explain why.

(2 marks)

- (b) Zenith Sdn Bhd purchased a machine costing RM220,000 on 9.9.2020. After being used, the machine was sold to Tinta Sdn Bhd for RM101,000 on 17.7.2022. Both companies are under the control of Asiata Bhd and the accounts of both the companies close on 31 December every year.

Required:

- (i) Calculate the initial allowances, capital allowances and the residual expenditure of the assets for Zenith Sdn Bhd at the end of the relevant year of assessments. (3 marks)
- (ii) Determine the disposal price for Zenith Sdn Bhd in respect of the assets disposal in 2022. Briefly explain your answer. (3 marks)
- (iii) Calculate the balancing allowance or balancing charge in respect of the asset disposed of in 2022. Briefly explain your answer. (2 marks)

[Total 15 marks]

Question 5

Rose Beauty Sdn Bhd (RBSB) manufactured cosmetic product since 15 April 2015. The company closes its accounts on 30 June every year. On 31 May 2021, RBSB's estimated tax payable for year of assessment 2022 amounted to RM240,000. The estimated tax payable was subsequently revised to RM310,000 and submitted on 20 December 2021. The actual tax payable for the year of assessment 2022 as per the return filed by RBSB turned out to be RM470,000.

Based on the information provided above you are required to:

- (a) State and explain the deadline by which RBSB should furnish its initial estimated tax payable for the year of assessment 2022. (2 marks)
- (b) When can the revised estimated tax payable be filed for the year of assessment 2022. (2 marks)
- (c) Prepare a payment schedule regarding the estimated tax payable for year of assessment 2022 in terms of the amount and the dates prescribed by law for each of the instalment payments required to be made. (6 marks)
- (d) Compute the amount of penalty due to the underestimation of tax payable. (3 marks)
- (e) State and explain the filing deadline for the tax return (Form C) for the year of assessment 2022. (2 marks)

[Total 15 marks]

(END OF QUESTION PAPER)