



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

PROFESSIONAL EXAMINATION

INTERMEDIATE LEVEL

BUSINESS TAXATION

DECEMBER 2023

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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.

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

### Question 1

- (a) Save Tax Advocates (STA), a partnership between Ambrose and Loke, has been in the business of tax compliance activities since 2000. The Income Statement of the partnership for the year ended 31 December 2022 is as follows:

#### Income Statement for year ended 31 December 2022

	RM	RM
Gross fees		66,025
Less: Expenses		
Office rental	6,000	
Utilities	3,200	
Partners' salary and staff wages	16,200	
Interest on partners' capital	1,425	
Interest on partner's loan to the partnership	2,000	
Depreciation	1,550	
Office maintenance	3,200	
Approved donations	15,000	<u>48,575</u>
Net profit		<u>17,450</u>

The partnership had capital allowances claim of RM 8,000 for the year of assessment 2022. Half the approved donations were paid in March 2022 and the balance in November 2022.

Partner	Salary per annum (RM)	Capital contribution (RM)	Profit sharing ratio
Ambrose	7,200	15,000	60%
Loke	6,000	10,000	40%

The partners had always received an interest of 5% per annum on their respective capital contributions. In addition, Ambrose was paid an interest of 10% per annum on a RM 20,000 loan to the partnership which was used for to finance its operations.

On 1 October 2022, Kavilan joined the partnership contributing a capital of RM10,000. He drew no salary but was paid an interest of 7% per annum on his capital contribution. A profit-sharing ratio of 5:4:1 for Ambrose, Loke and Kavilan respectively was introduced effective from 1 October 2022.

The partners have also provided the following information relating to brought forward figures from year of assessment 2021 in respect of their respective sole proprietor businesses which had ceased operations at the end of the year of assessment 2021:

Partner	Capital allowances (RM)	Business losses (RM)
Ambrose	450	380
Loke	800	650
Kavilan	NIL	1000

**Required:**

(i) **Compute the provisional adjusted income or loss and divisible income or loss for year of assessment 2022.**

(3 marks)

(ii) **Calculate total income of each partner for year of assessment 2022.**

(13 marks)

(iii) **Explain the utilisation of the brought forward capital allowances and adjusted losses from year of assessment 2021 against the income derived by the partners of this partnership business, indicating clearly if there is any time limit for carrying forward these capital allowances and adjusted losses.**

(8 marks)

(b) Kamal Sdn Bhd (KSB) commenced business on 1 October 2023 and is contemplating the option to close its first set of accounts on one of the following dates:

(i) 30 November 2023

(ii) 31 July 2024

(iii) 31 January 2025

**Required:**

**For each of the options, indicate the first basis period and the relevant year of assessment for that basis period.**

(3 marks)

(c) Baskin Sdn Bhd with a financial year end of 31 August is intending to change its year end to January. Its last normal accounts are to 31 August 2023 and the Directors are undecided as to close the new accounts to:

(i) 31 January 2024; or

(ii) 31 January 2025

**Required:**

**For BOTH options, state the:**

a. **The failure year**

b. **The basis period for the years of assessment 2024 and 2025**

(3 marks)

**[Total: 30 marks]**

## Question 2

- (a) Utara Indah Berhad (UIB) entered into an agreement with Lamor Corporation Plc (LCP), a company from Finland, for the construction of a water treatment plant in Bukit Jenun, Kedah. LCP, not a tax resident in Malaysia, set up a project management office in Pendang, Kedah. The total value of the contract is RM110 million of which RM38 million is the service portion and RM72 million being the cost of materials.

### Required:

- (i) Explain the withholding tax obligations of UIB under s.107A of the Income Tax Act, 1967 with regards to the payments and determine the amount to be withheld. (Ignore any double taxation agreement) (6 marks)
- (ii) Assuming that the construction project was started and completed in the year of assessment 2023, and that the chargeable income is RM11 million, compute the tax liability of LCP. (3 marks)
- (iii) For the purposes of the construction project, LCP paid RM3,795,000 to another company from Thailand, Phuket Construction Ltd (PCL) for the hire of equipment. PCL is not a tax resident in Malaysia.

Briefly explain whether the payment has Malaysian tax implications.

(3 marks)

- (b) Neutron Sdn Bhd (NSB) manufactures and distributes motorcycles in Malaysia. The financial year of NSB ends on 31 December. On 17 July 2023, NSB signed a deal with a Chinese motorbike manufacturer, Donfen Motor Corporation (DMC), a resident company in China, to work jointly on manufacturing electric motorcycles. The new joint venture company named as Neudon Joint Venture Co (NJVC) was incorporated in Malaysia with a focus on the manufacturing and distributing of electric motorcycles. NJVC is a Malaysian tax resident. NJVC has obtained a loan equivalent to RM44 million from a leading bank in China and the director of Donfen Motor Corporation has issued a letter of guarantee in his personal capacity to undertake the payment to the bank in the event of any default by NJVC. As agreed, NJVC paid a guarantee fee of RM4 million in one lump sum to the director concerned.

### Required:

State, with reasons, whether withholding tax is applicable in respect of guarantee fee paid to the director of DMC and the corresponding withholding tax rate based on the Income Tax Act 1967.

(5 marks)

- (c) Rose Ltd (RL), a company incorporated and operating in the United Kingdom (UK) and a non-resident for Malaysian tax purposes and has no permanent establishment or business presence in Malaysia. Mawar Sdn Bhd (MSB) is a Malaysian resident company. For the year ended 31 October 2022, RL provided architectural services to MSB for a fee of RM88,000 which was credited to the bank account of RL in the UK. MSB did not settle any withholding tax or penalties payable to the Inland Revenue Board Malaysia, but claimed a deduction for the RM88,000 for year of assessment 2022 in its tax computation.

**Required:**

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

(3 marks)

**[Total: 20 marks]**

### Question 3

Synergy Sdn Bhd (SSB) is a Malaysian tax resident company that was incorporated on 20 June 2016, with an initial paid-up capital of RM3 million. Its primary business activity is the manufacturing of solar panels, which commenced on 1 July 2019, after completing the construction of a factory building in Malacca. SSB's financial year ends on 31 March. SSB incurred the following expenses related to the construction of its factory

Date of completion	Expenditure	RM
1 September 2016	Land and related legal fees	1,800,000
15 May 2019	Construction factory building	2,600,000

82% of the total floor area of the factory building was utilized as manufacturing facility, 10% was designated for a canteen, and the remaining 8% was allocated for the office and showroom.

On 1 July 2020, SSB acquired two buildings for the purpose of its business. The first building, costing RM600,000, is being used for the storage of finished goods for export. Meanwhile, the second building, costing RM800,000, is being utilized for in-house approved research.

On 1 February 2022, SSB invested in a new machinery costing RM90,000, which was installed in its Malacca factory. There was an additional expenditure of RM300,000 for levelling of the land to prepare the site for the installation of this machine.

In September, 2022, SSB disposed of both the land and the factory building for a total consideration of RM5,000,000, which includes RM2,000,000 being the consideration for the land.

**Required:**

- (a) “Malaysia has been adopting self-assessment for its tax system for many years.” Explain what a self-assessment system for companies in Malaysia is. (3 marks)
- (b) Compute the industrial building allowances or charges for each of the relevant year of assessment (from YA 2020 to YA 2023) in respect of the factory building and the balancing allowance or balancing charge on the disposal of the factory building by SSB. (6 marks)
- (c) Compute the industrial building allowances for first year of assessment in respect of the following assets purchased by SSB.
- (i) **Building for storage of finished goods for export.** (2 marks)
  - (ii) **Building for in-house approved research.** (2 marks)
  - (iii) **Machinery and preparation of site to install the machinery.** (2 marks)
- (d) Explain the criteria that SSB must meet to qualify for double deduction for approved research activities under section 34A of the Income Tax Act 1967. (5 marks)

**[Total: 20 marks]**

**Question 4**

Greenacres Sdn Bhd is in the business of cultivating fruits. The adjusted income of the company for the year ended 30 June 2023, amounted to RM580,000. The information given below relates to the business activities of the company during the financial years 2022 and 2023.

Date	Expenditure	RM
July 2022	Cost of land	350,000
July 2022	Construction of:	
	Roads and bridges	36,000
	Farmhouse for business (Note 1)	38,000
	Living quarters for workers-2	70,000

**Notes:**

- The farm is situated in a remote area, thus the buildings on the farm have no value other than for the working of the farm.
- In July 2022, the company carried out the planting of crops and incurred RM19,000 on clearing land and RM121,000 on fertilizer and seedlings.
- In January 2023, the company carried out replanting of the same type of crops and incurred the following expenses:

	RM
Clearing Land	22,000
Fertiliser and seedings	122,000

4. In March 2023, Greenacres Sdn Bhd transferred or transmitted the following assets on which agriculture allowance has been claimed in the previous years.

<b>Assets</b>	<b>Date of Construction</b>	<b>Cost (RM)</b>
Store	1 January 2020	25,000
Living Quarters - 1	6 August 2020	60,000

The store and the living quarters 1 were disposed of for RM12,000 and RM38,000 respectively.

5. Greenacres Sdn Bhd received an agricultural subsidy of RM300,000 for its new planting expenditure for Year of assessment 2024. The company incurred the entire RM300,000 in the same year.

**Required:**

- (a) **Compute the agriculture allowance claimed by Greenacres Sdn Bhd for the year of assessment 2023. (Apportionment of allowance based on monthly basis)**  
(6 marks)
- (b) **Compute the Statutory Income of Greenacres Sdn Bhd for the year of assessment 2023.**  
(5 marks)
- (c) **Compute the agriculture charge on the basis that Greenacres made an election to spread the charge under paragraph 27 schedule 3 of the Income Tax Act, clearly indicating the years of assessment affected.**  
(2 marks)
- (d) **Explain the tax treatments for the agriculture subsidy for the year of assessment 2024.**  
(2 marks)

**[Total: 15 marks]**

### **Question 5**

Global Sdn Bhd has always made up its accounts to 30 June annually. The company received two notices of assessment for the years of assessment 2016 and 2020 both dated 14 May 2023. The returns for the years of assessment 2016 and 2020 had been submitted by the respective due date.

The company is of the view that the tax for the year of assessment 2020 is excessive whilst that for the year of assessment 2016 is as calculated in the company's own tax computation.

#### **Required:**

(a) **Advise Global Sdn Bhd regarding the two tax assessments bearing in mind the provisions relating to payment of tax, tax appeals and the statutory time bar.**  
(5 marks)

(b) **Describe how the appeal process will deal with a valid appeal lodged by Global Sdn Bhd in respect of the 2020 assessment.**

**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.**

(5 marks)

(c) **Global Sdn Bhd has just secured a large order from a customer and consequently expects its turnover in 2022/2023 to increase by 40%.**

**Advise Global Sdn Bhd of its responsibilities under the self-assessment system to provide a tax estimate for the year of assessment 2023 and state the penalty that will be imposed if Global Sdn Bhd fails to provide a reasonable estimate of its tax liability.**

(5 marks)

**[Total: 15 marks]**

**(END OF QUESTION PAPER)**