



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

PROFESSIONAL EXAMINATION

FINAL LEVEL

ADVANCED TAXATION 1

MARCH 2024

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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 March 2024 has elapsed.

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

**Question 1**

- (a) (i) Explain briefly;
- a. The tax treatment on income of resident Shipping and Airline operators, derived from businesses from transporting passengers or cargo by land other than shipping and airline businesses. (2 marks)
  - b. The tax treatment on income of non-resident shipping and Airline operators derived from Malaysia from the businesses of transporting passengers or cargo. (2 marks)
- (ii) Explain briefly the meaning of “casual calls”. (2 marks)
- (iii) Explain briefly the concept of "Transshipment" as provided for in the Income Tax Act 1967. (2 marks)
- (iv) What does "Gross Income derived from Malaysia" for the purpose of a sea or air transport business carried on by a non-resident mean under the Income Tax Act 1967? (2 marks)
- (b) (i) MITC Airways Ltd (MITC), is an airline company registered in Taiwan and was allowed to set up a representative office in Malaysia in January 2022. The airline commenced its operations in Malaysia with effect from 1 June 2022. LHDNM had confirmed that MITC is non-resident for Malaysian tax purposes.

The revenue generated from its operations as at 31 December 2022, are as shown in the table below:

Outside Malaysia			In Malaysia	
Flights to Malaysia	Return flights from Malaysia	Flights transit in Malaysia	Flights from Malaysia	Return flights to Malaysia
RM'000	RM'000	RM'000	RM'000	RM'000
5,000	4,000	3,000	2,000	1,000

**Required:**

- a. Compute chargeable Income. (2 marks)
- b. Compute income tax payable for Year of Assessment 2022. (2 marks)

- (ii) Naomi Shipping Lines Sdn Bhd (Naomi) operates a shipping business, specializing in the transportation of passengers or cargo by sea using ships. Additionally, Naomi leases ships on both voyage and time-based arrangements. According to LHDNM, Naomi has been confirmed as a tax resident under the Income Tax Act 1967.

On February 1, 2022, Naomi acquired and registered a ship named “Finding Nemo” under the Merchant Shipping Ordinance 1952. This vessel also flew the Bermuda Flag and is used for shipping operations in the European region. On 16 June 2022, Naomi leased on a bare boat basis a vessel “Queen Elizabeth IV” (registered in Netherlands) from Charles Shipping Pte Ltd, which is a tax resident in Netherlands on a bare-boat basis. Subsequently, the vessel “Queen Elizabeth” was sub-leased to a SRK Pte Ltd, company which is a tax resident in India on a time charter basis with Malaysia crew and used to carry spices from India to France.

**Required:**

- a. **Explain with justification, whether Naomi’s income using “Finding Nemo”, is subject to tax or considered non-taxable.**  
(2 marks)
- b. **Determine whether the lease payments made to Charles Shipping Pte Ltd are subject to withholding tax, and specify the applicable tax rate.**  
(2 marks)
- c. **Are the Malaysian crew members working on board the “Queen Elizabeth IV” subject to taxation on their employment income for the year 2022?**  
(2 marks)

**[Total: 20 marks]**

## Question 2

Speed-Leasing Sdn Bhd (SLSB), a newly incorporated leasing resident company in Malaysia with a paid-up ordinary share capital of RM40 million. SLSB closes its first set of accounts on 31 December 2023. The company's main source of business income is leasing and hire purchases.

In January 2023, SLSB secured its first high-tech machinery lease contracts totaling RM5 million with North Sdn Bhd (NSB) and its second office equipment lease contract worth RM2 million with South Sdn Bhd (SSB). The details of the two lease contracts are as follows:

### High-tech machinery (NSB)

This high-tech machinery is custom-made based on the specifications given by NSB and required major alteration before subsequent users can use it. NSB will use the machinery in its manufacturing operations.

### Office equipment (SSB)

This lease agreement does not give SSB the right to acquire or dispose of the asset during or upon the expiry of the lease term.

For the year ended 31 December 2023, details of SLSB's businesses are as follows:

<b>Details</b>	<b>Leasing (RM'000)</b>	<b>Hire-Purchase (RM'000)</b>
Adjusted Income	50,000	6,000
Capital Allowance (Common) – RM40,000 only		
Capital Allowance		
- Office Equipment	1,000	
- Leased Assets	8,000	
<b>Additional Information:</b>		
Gross Profit	70,000	10,000
Deductible expenses (Common) excluded from the Adjusted income – RM300,000		
Approved cash donation to charity home of RM100,000 only		

### Required:

- (a) Advise Speed-Leasing Sdn Bhd when a lease transaction being treated as a deemed sale and tax implications on the lessee and lessor. (8 marks)
- (b) Compute the tax payable of Speed-Leasing Sdn Bhd for the year of assessment 2023. (8 marks)
- (c) Discuss the tax implications of the lease of North Sdn Bhd and South Sdn Bhd. (4 marks)

**[Total: 20 marks]**

### Question 3

- (a) Ms Sheila, the only daughter of Mr Raman, inherited a large piece of land upon his death in 2020. Sometime in early 2022, an industrial estate developer, Maju Industrial Development Sdn Bhd ('the company') expressed interest in the land and offered her five semi-detached unit of factory buildings in exchange for the land. The land was valued at RM5 million at the time of offer. The company is seventy percent owned by Mr Lingam, who is also the uncle of Ms Sheila.

A joint venture agreement between the company and Ms Sheila is expected to be signed in January 2024. Ms Sheila will receive the five factory buildings upon its completion, sometime in the year 2027.

Ms Sheila, who works as a fashion model, is not sure of the tax implication of the offer from Maju Industrial Development Sdn Bhd, and has arranged to see you to discuss the matter to avoid any legal and financial pitfalls.

#### Required:

**With reference to the Real Property Gains Tax Act 1976, briefly advise Ms Sheila on the conceptual framework, principle and scope of charge, disposal of chargeable assets, market value and dealing with connected persons, and the tax implication of entering into the joint venture agreement with Maju Industrial Development Sdn Bhd.**

(10 marks)

- (b) Mr Martin Loo, a Malaysian citizen and a resident for income tax purposes, acquired a bungalow in Kajang for RM474,950 sometime in 2020 and incurred stamp duty of RM8,499. There were some defects in the construction of the house and the developer compensated him with a sum of RM41,524 some two years after the purchase. Martin also filed an insurance claim and received RM15,198 from a local insurance company for damages caused by flood waters.

Following the flood damage, Martin decided to renovate and extend part of the walls and the drainage system to prevent further flood, for which he spent RM67,850.

In late 2022 he wanted to sell the house and advertised it in the local papers. The advertisement cost was RM1,764. A prospective buyer viewed the house and paid a deposit of RM6,000 while he proceeded to make an application for a bank loan. The loan application was however not successful and Martin forfeited the deposit.

Meanwhile, Martin's ex-wife had filed a claim on the house and he had to settle the matter through a court case. At end of the litigation the court ordered that his ex-wife has no right of claim on the property. Martin had spent RM5,563 in legal fees.

In early 2023, he decided to migrate and put the house for sale as part of his departure plan. He engaged a professional valuer to value the house, and advertised the house for RM800,000. The valuation fee was RM9,092. There were no takers for some time; he became desperate and engaged a broker to sell the house. The broker advised him that it would be difficult to sell the house in the range of RM800,000 and advised Martin that based on his experience, he should take any offers between RM600,000 and 700,000. The house was finally disposed of for RM678,500 in January 2024 to a newly married couple. The broker charged Martin a fee of RM20,355 after completion of the disposal.

Mr Martin had sometime in 2019 sold a property and the Director General of Inland Revenue had determined the allowable loss to be RM8,834 for real property gains tax purposes.

**Required:**

**With reference to the Real Property Gains Tax Act 1976, compute the chargeable gain liable to real property gains tax of Mr Martin Loo.**

(10 marks)

**[Total: 20 marks]**

**Question 4**

- (a) Mr Richard Leong Kim Seng ("Richard") who was born in Singapore, is a Malaysian resident but is mostly domiciled in Singapore where he has a mistress. He has a business in Singapore which is managed by his mistress. And has two businesses in Malaysia which are managed by his Malaysian wife Caroline Lam Cheong Sin ("Caroline"). Richard travels to Singapore regularly to ensure the business there is run smoothly, but mostly to be with his mistress. On one such trip to Singapore, he passed away there on 30 September 2023. He had not prepared a Will. His accounts are kept by Mr Christopher Leong Siu Chong ("Christopher"), a chartered accountant running his own firm in Johore Bharu. Caroline appointed him to be the executor.

By the end of February 2024, Christopher worked on the details of Richard's estate, and then filed the prescribed form on 25 February 2024 notifying the Director General of Inland Revenue of Richard's death.

Christopher was able establish the following verified information pertaining to Richard's financial status as at 31 December 2023:

- Malaysian Business One had, for income tax purposes, a statutory income of RM199,550 while Business Two suffered a loss and the tax adjusted loss was determined as RM80,683. This business was then closed down in June 2023. The Singapore business managed by the mistress also suffered a loss of RM33,273. The gains or profits from the Singapore business had never been remitted to Malaysia.
- Richard had two landed properties in Malaysia and the rental income net of expenses for the 2023 was RM31,704.
- An investment in a local public listed company paid a single tier dividend of RM6,605 to Richard in August 2023.
- Interest of RM3,963 from a fixed deposit was received in July 2023. The deposit was then lifted to provide cash flow for the business.
- Richard had made a donation of RM20,000 in March 2023 to an approved Christian charitable body.

Richard has a daughter with Caroline. At the time of his death, the child was seven years old and has been certified as disabled by the Department of Social Welfare.

Christopher paid Caroline RM24,000 as annuity in November 2023 to cover her living expenses. By the end of February 2024, the finalization of Richard's estate was completed and a distribution of RM1,188,920 was made to the wife and the child, with legal arrangements for the mother to be the guardian of the child's property until the child reaches the age of 18.

**Required:**

**With reference to the provisions of the Income Tax Act 1967, and in respect of the year of assessment 2023, compute the chargeable income of:**

- (i) Mr Richard Leong Kim Seng, assuming a joint assessment and that he had claimed all relevant reliefs due to him;**
- (ii) The estate of Mr Richard Leong Kim Seng (deceased); and**
- (iii) Madam Caroline Lam Cheong Sin (wife of the deceased).**

**(15 marks)**

- (b) What do you understand by the term 'domiciled in Malaysia' in section 64(4) of the ITA?**  
**(1 mark)**

- (c) Assuming that Mr Richard Leong Kim Seng died domiciled in Malaysia, what is the significance for the determination of the chargeable income on the executor of his estate for the year of assessment 2023?**

**(4 marks)**

**[Total: 20 marks]**

**Question 5**

- (a) (i) Explain the principles of mutuality in the context of receipts dealing with members of cooperatives. (2 marks)
- (ii) Discuss the accessibility of business income of a cooperative society engaged in commercial activities. (2 marks)
- (iii) Provide two (2) out of the five (5) scope of special deductions applicable to cooperative societies. (1 mark each – Total 2 marks)
- (iv) As of January 1, 2022, the Taman Murni Residents Cooperative member's funds is RM600,000. The cooperative declared dividends to its members for the calendar year ending December 31, 2022.

**Determine whether these dividends are taxable in the hands of its members.**

(2 marks)

- (b) Rubber Estate Employees Cooperative (REEC) was registered as a cooperative on 1 Jan 2021 and its members comprise of employees of the estate. The objective is to assist and develop the economy status of its members. REEC also runs a provision store which sell groceries and other daily needs to estate employees and families living at the estate.

An excerpt of the audited accounts as at 31 December 2022, is as follows:

	<b>RM</b>
Year Ended 31 December 2022	
Income:	
Profit - Provision Shop	500,000
Malaysian Dividend - Gross	70,000
Less: Expenditure:	
Interest paid on Members' savings	(40,000)
Audited Net Profits (Before tax)	530,000
Dividends paid to members	(50,000)
Contribution to Education Fund	(100,000)
Transfer to Statutory Reserve Fund	(200,000)
Unappropriated Fund	<u>180,000</u>

The members' funds as at 1.1.2022 is as follows:

	<b>RM</b>
Paid Up share capital	500,000
Statutory Reserve Fund	180,000
Unappropriated profit	300,000
	<u>980,000</u>

**Required:**

- (i) State whether REEC is tax exempt for Year of Assessment 2022. (2 marks)
- (ii) Compute chargeable Income for Year of Assessment 2022. (10 marks)

**[Total: 20 marks]**



## Question 6

Albert is the managing director of Big Sdn Bhd (BSB). BSB is in the manufacturing business and the company is resident in Malaysia with its factory located in Shah Alam, Selangor. In February 2023, Albert noted the product produced by the company is eligible to claim pioneer tax incentive.

The board of directors of BSB decided and submitted an application to the Malaysian Investment Development Authority (MIDA). MIDA granted and issued a pioneer certificate to BSB and its production date stated in the pioneer certificate is 1 January 2024.

BSB prepares its annual income statement to 31 December. The accountant of BSB provided you with the following projected income and tax information:

Year of Assessment	2024	2025	2026	2027	2028	2029
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Manufacturing business: Adjusted income/(loss)	(2,000)	4,000	6,000	8,000	(1,000)	12,000
Industrial building allowance (IBA) and Capital allowance (CA)	1,000	2,000	2,100	2,200	2,000	2,000
Interest income from local banks	200	200	300	300	400	400
Cash donation to Selangor State Government	0	0	100	100	100	100

### Required:

Advise BSB board of directors on the following matters:

- (a) The tax treatments in accordance with the Promotion Investments Act 1986 and the Income Tax Act 1967 for the following:
- (i) The definition of the promoted product and promoted activity; (2 marks)
  - (ii) The basis periods for pioneer and post-pioneer; and (2 marks)
  - (iii) The pioneer losses for the years of assessment 2024 and 2028. (6 marks)
- (b) State the chargeable income and the exempt income respectively for the years of assessment 2024 to 2029. A tabular format must be used for computation and must show all the workings. (10 marks)

**[Total: 20 marks]**

**(END OF QUESTION PAPER)**