



CHARTERED TAX INSTITUTE OF MALAYSIA

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

PROFESSIONAL EXAMINATION

INTERMEDIATE LEVEL

BUSINESS TAXATION

MARCH 2024

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

Rite Sdn Bhd (the company) is a local resident company engaged in the manufacture of paper and wooden products for use in packaging various non-perishable goods. The manufactured products are sold locally and overseas. The company has a paid up capital of RM1 million at the beginning of the financial year 2023. The company closes its accounts to 31 December each year. The company has provided the following information in respect of the accounts for the year ended 31 December 2023:

| | Note | RM'000 | RM'000 |
|------------------------------|------|--------|----------------|
| Turnover | | | 627,000 |
| Add: Other income | | | |
| Dividends | 1 | 178 | |
| Gain from disposal of land | 2 | 80 | <u>258</u> |
| | | | 627,258 |
| Less: Cost of sales | 3 | | <u>37,000</u> |
| | | | 590,258 |
| Less: Interest charges | 1 | 1,500 | |
| Marketing and advertisements | 4 | 328 | |
| Bad and doubtful debts | 5 | 7,018 | |
| Commission | 6 | 344 | |
| Depreciation | 7 | 1,250 | |
| Entertainment | 8 | 1,359 | |
| Foreign exchange loss | 9 | 15 | |
| Freight and insurance | 10 | 1,460 | |
| Lease charges | 11 | 250 | |
| Motor vehicle expenses | 12 | 358 | |
| Remuneration | 13 | 1,952 | |
| Repair and maintenance | 14 | 741 | |
| Technical assistance fee | 15 | 230 | |
| Professional fees | 16 | 148 | |
| Donation | 17 | 10 | <u>16,963</u> |
| Net Profit before taxation | | | <u>573,295</u> |

Notes:

1. Dividend

The dividends received were paid by a Malaysian resident company. The dividends were declared on 30 November 2023 and dividend certificates were posted to shareholders on 15 December 2023. The company had borrowed from a bank to invest in the shares of the Malaysian company and for the year ended 31 December 2023, the interest charges on the borrowing amounted to RM1,500,000.

2. Gain from disposal of land

The company had bought a small piece of land in the year 2015 for RM300,000 with a view to construct a factory. Its application to build the factory was however rejected by the local authorities in 2023. It then sold off the land in April 2023 and made a profit of RM80,000.

3. Cost of sales

The company's premise was affected by a flash flood and RM12,000 worth of the paper materials for use in the manufacturing process was damaged. The company had written off this amount to the profit and loss account.

4. Marketing and advertisement

The company had made the following payments which were charged under marketing and advertisement:

| | RM'000 |
|--|---------------|
| Payment to a chemical engineer in Germany (a non-resident) for advising on new packaging material to resist water. The work was concluded in Malaysia. No withholding tax was deducted and remitted to the IRB | 30 |
| Compensation paid to a trader who had used the company's packaging material that was defective and suffered losses as a result. | 28 |
| Condolence message in the local newspaper on the death of managing director of a company. The company was a regular customer. | 35 |
| Miscellaneous advertisement for staff recruitment | <u>235</u> |
| | <u>328</u> |

5. Bad and doubtful debts

Bad and doubtful debts information is as follows:

| | RM'000 |
|--------------------------------------|---------------|
| Bad debts written off [see Note] | 4,815 |
| Increase in specific debts provision | <u>2,203</u> |
| | <u>7,018</u> |

Note:

Bad debts written off includes RM815,000 is in respect of debts taken over from a competitor business which was acquired two years ago. During the year, the company has written off a sum of RM4,000,000. This amount was part of an advance made in 2020 to a company in China for the supply of raw materials. The agreement signed in February 2020 stipulated that the company in China will supply the raw materials for a period of 10 years. However, three years into the agreement, the company in China could not supply the materials owing to a ban on felling trees by the Chinese government. The company in China then went into liquidation in February 2023, and the balance of the sum was written off.

6. Commission

The company obtained the services of an Indian information technology company for the setting up of an internal audit system. The program for the system was designed by software engineers in India and sent over to the company to be installed by local consultants to configure with the existing audit system. The fee of RM300,000 for the services was remitted to India in full in November 2023. The balance of RM44,000 is for commission payments made to local merchants.

7. Depreciation

This represents charges for wear and tear on the company's assets used in the business.

8. Entertainment

Entertainment expenditure constitutes the following expenditure:

| | RM'000 |
|---|---------------|
| Cost of maintaining sales supervisory team in Vietnam | 524 |
| Customer entertainment related to sales | 207 |
| Staff annual dinner | 293 |
| Disbursement of sales team entertainment expenses | 280 |
| Family day expenses for company employees | <u>55</u> |
| | <u>1,359</u> |

9. Foreign exchange account

| | RM'000 |
|---|---------------|
| Unrealized gain- purchase of raw materials from India | (80) |
| Unrealized loss - purchase of raw materials from China | 60 |
| Realized loss on repayment of foreign loan of which RM2,000 is the exchange loss on the interest portion of the repayment | <u>35</u> |
| Charged to profit and loss account | <u>15</u> |

10. Freight and insurance

Insurance premium includes a sum of RM350,000 paid to a Malaysian insurance company for the export of cargo to foreign destinations. The balance is paid to foreign shipping firms and other carriers as part of the export arrangements.

11. Lease charges

The company has a five year lease arrangement with a local company starting from 1 January 2022. The lease charges incurred were for three vehicles for short term use. The details of the vehicles and the leases charges are as follows:

| Vehicle type | Original cost of new vehicle | Payments up to 31 December 2022 | Payments during the year ended 31 Dec 2023 |
|--------------|------------------------------|---------------------------------|--|
| | RM'000 | RM'000 | RM'000 |
| Lorry | 546 | 58 | 140 |
| Motor car 1 | 312 | 60 | 30 |
| Motor car 2 | 110 | 40 | 80 |
| Total | | 158 | 250 |

The lorry is licensed by the appropriate authority for the commercial transportation of goods. The cars are used for the private transportation of the company's staff.

12. Motor vehicle expenses

This includes RM30,000 paid as fines and compounds for various traffic offences. The balance of the expenditure refers to repairs, road tax and insurance in respect of the company vehicles.

13. Remuneration

The amount charged includes RM128,000 paid to four physically disabled employees and a sum of RM230,000 embezzled by a former director. The balance of the charges refers to staff payroll.

14. Repair and maintenance

The company's store house was in need of repairs because it has leaks and causes some damage to the raw materials stored therein. The company obtained a quotation on 27 December 2023 from a contractor who estimated the cost of repair to be RM85,000. The full sum was advanced to the contractor who agreed to commence work on 6 January 2024. The balance of the repair and maintenance charges refers to repairs and maintenance of the factory plant and machineries.

15. Technical assistance fees

A Swedish company (a non-resident company) provided assistance to manufacture the paper boxes more efficiently by using a new computerized flow-through technology. The details of the payment are as follows:

| | RM'000 |
|--|---------------|
| Technical assistance fee | 219 |
| Traveling expenses of the Swedish engineers | 9 |
| Reimbursement of hotel accommodation in Malaysia | <u>2</u> |
| | <u>230</u> |

The full sum was remitted to the Swedish company on 30 December 2023

16. Professional fees

The company's accountant has furnished the following details as regards to professional fees:

| | RM'000 |
|--|---------------|
| Registration of trademark | 24 |
| Staff recruitment | 61 |
| Renewal of trademark | 10 |
| Legal fee for collecting trade debts | 37 |
| Legal fee for removing a director | 4 |
| Advice on the company's shareholding structure | <u>12</u> |
| | <u>148</u> |

17. Donation

The company had contributed to a community project, approved by the Minister of Finance pertaining to the education of three orphanages in the vicinity of its manufacturing operations. The contributions, both in cash (RM7,000) and in kind (books worth RM1,000) amounted to RM8,000. The balance of the donation (RM2,000) was made to an approved institution.

Required:

- (a) **Based on the information given, compute the chargeable income of Rite Sdn Bhd for the year of assessment 2023.**

(20 marks)

- (b) **In respect of the information given in the notes 1,5,6,10,15 and 17 indicate the adjustments made and explain the basis for doing so.**

(10 marks)

[Total: 30 marks]

Question 2

Supreme Sdn Bhd (SSB), a Malaysian company incorporated in 2010 and engaged in the manufacturing of biscuits with a factory in Malacca, estimates its income tax for the year of assessment 2023 to be RM120,000. However, the actual income tax payable for the same period is RM150,000.

Required:

- (a) Explain the power of the Director General of Inland Revenue Board of Malaysia in respect of the following:

- (i) **Submission of income tax return by SSB.**

(2 marks)

- (ii) **Issuing additional assessment to SSB.**

(2 marks)

- (b) Explain SSB's responsibilities in respect of the following for the year of assessment 2023:

- (i) **Keeping records of business transactions.**

(3 marks)

- (ii) **Income tax payments including the final tax.**

(3 marks)

- (c) Below are some of the receipts pertaining to SSB for the financial year that ended on 30 September 2023.

- (i) Bad debts recovered from trade debtors.

(2 marks)

- (ii) Compensation received for canceling a supplier contract, causing a 10% production drop. Business continues as usual with six other similar contracts.

(2 marks)

- (iii) Insurance recovery for the loss of trading stock due to a fire

(2 marks)

- (iv) Rental income received in Malaysia from a shop-house rented out in Singapore.

(4 marks)

Required:

Explain the tax implications for each of the above receipts.

(Subtotal: 10 marks)

Note: The distribution of marks is shown as above.

[Total: 20 marks]

Question 3

- (a) (i) Rotterdam Ltd (a non-Malaysian tax resident) was engaged by Raya Sdn Bhd to construct a factory in Kuala Lumpur. The project was undertaken by the Branch of Rotterdam Ltd in Malaysia over 11 months and had a contract value of RM 4 million as detailed below. (Ignore Double Tax Avoidance Agreement articles)

| | RM million |
|--|------------|
| Plant and machinery | 1.8 |
| Rental of equipment from a non-Malaysian tax resident lessor | 1.4 |
| Labour | 0.8 |
| Total | 4 |

Required:

Indicate whether each of the above payments attract withholding tax when payment is made by Raya Sdn Bhd, state the applicable rate of tax and compute the total amount of tax that must be withheld by Raya Sdn Bhd on making the payment for this contract.

(5 marks)

- (ii) Assuming that the equipment required was leased directly by Raya Sdn Bhd from the non-Malaysian tax resident lessor, who does not have a place of business in Malaysia and is provided to Rotterdam Ltd.

Required:

Compute the withholding tax applicable on the lease rental paid by Raya Sdn Bhd.
(2 marks)

- (iii) The Branch of Rotterdam Ltd made payment of loan interest of RM 50,000 and royalties for the use of industrial designs of RM 40,000 to its Head Office in the Netherlands. In addition it also paid fees for architectural drawings amounting to RM 70,000. The architects performed the services equally in Malaysia and the Netherlands over a period of 2 months.

Required:

Explain whether the payment of interest, royalties and fees for the architectural drawings will attract withholding tax and if so, compute the tax to be withheld by the Branch on payment to the Head Office.

(7 marks)

- (b) Amsterdam Sdn Bhd (ASB) with a financial year end of 31 March is intending to change its year end to September. The Board of Directors have decided to close the accounts for 2023 to 31 March, prepare six months accounts to 30 September 2023 and subsequently the next set of accounts to 30 September 2024.

Required:

- (i) **Indicate what is the failure year in this scenario.** (1 mark)
- (ii) **Will there be an overlapping period for any of the basis periods in the above scenario for ASB?** (1 mark)
- (iii) **State the basis periods for the years of assessment 2023 and 2024 for ASB** (4 marks)

[Total: 20 marks]

Question 4

Rose, Orked and Lily are in a (conventional) partnership of selling beauty products since 1 January 2011 and accounts are prepared to 31 December annually. Rose and Lily contributed capital to the partnership share their profit equally. Orked is a salaried partner who receive a fixed monthly salary amounted to RM4,800 in the year of 2023.

- (a) The partnership of Rose, Orked and Lily plan to convert their business into a limited liability partnership on 1 January 2024.

Required:

- (i) **Briefly explain any FOUR (4) differences between tax treatments of a conventional partnership and a limited liability partnership.** (8 marks)
- (ii) **Briefly discuss the deductibility of remuneration paid to partners of a limited liability partnership.** (2 marks)

- (b) The partnership of Rose, Orked and Lily incurred the following expenditure for the year of assessment 2023.

Required:

Explain whether each of the following expenditures incurred is deductible in ascertaining the partnership adjusted income for the year of assessment 2023:

- (i) Light refreshments such as tea, coffee, sandwiches provided to the customer while waiting to be serviced amounting to RM5,900. (1.5 marks)
- (ii) Hampers for its existing customers in conjunction with the Christmas celebration to maintain existing business relationship amounting to RM6,600. (1.5 marks)
- (iii) Free beauty classes provided to selected single mothers from marginalized communities to help them start their own business amounting to RM12,200 as part of the partnership social responsibility activities. (2 marks)

[Total: 15 marks]

Question 5

- (a) Guanxi Construction Ltd (GCL) a company in China has been appointed to build and complete the construction of a West Coast Expressway (E32) in Selangor. GCL will pay RM3.0 million to Jurong Ltd a company from Singapore for the rental of equipment to be used for the expressway project. Both Guanxi Construction Ltd and Jurong Ltd are non-residents for Malaysian tax purposes.

Required:

Discuss the withholding tax implications to Guanxi Construction Ltd in respect of the payment of rental of equipment to Jurong Ltd.

(5 marks)

- (b) Figgy Sdn Bhd is a fig plantation farm in Janda Baik, Bentong. It has incurred the following expenditures for the financial year ended 31 December 2023:

| | RM'000 |
|-------------------------------------|---------------|
| Expenditure on planting | 35,500 |
| Terracing of land to reduce erosion | 24,700 |
| Construction of roads and drains | 51,200 |
| Construction of labourers' quarters | 66,000 |
| Construction of an office building | 70,500 |
| Expenditure on replanting | 19,000 |

Required:

Compute the agriculture allowance of Figgy Sdn Bhd for the year of assessment 2023.

(4 marks)

- (c) Tax resident status is a fundamental concept that significantly impacts the tax obligations and benefits for companies.

Required:

- (i) **Explain the basis of determining the residence status of a company in Malaysia.**
(3 marks)
- (ii) **Discuss any THREE (3) of the significance of resident status for companies trading in Malaysia.**
(3 marks)

[Total :15 marks]

(END OF QUESTION PAPER)