



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

PROFESSIONAL EXAMINATION

FINAL LEVEL

ADVANCED TAXATION 1

SEPTEMBER 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 30 September 2024 has elapsed.

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

## Question 1

- (a) (i) Under what circumstances a trade union would be considered non-resident for tax purposes? (1 mark)
- (ii) Explain the tax implication on investment income derived by a Trade Union. (2 marks)
- (iii) What is the definition of a “trade association” as provided in the ITA? (2 marks)
- (iv) What are the differences in the tax treatment of business income arising from trading with non-members and members of a Trade Union? (2 marks)
- (v) What is the tax treatment on special donations received by trade associations for specific purposes such as for altering or reconstructing a building and expenditure incurred thereon? (2 marks)
- (vi) What are the applicable tax rates for Year of Assessment 2024 on resident trade associations and non-resident trade associations? (1 mark)
- (b) The Power Plant Employees Trade Union (Trade Union), founded on February 2, 2000, stands as the premier organization for power plant workers in Malaysia. The members, who represent the elite workforce in the Malaysia’s power plants, benefit from unparalleled protection and advocacy. The Trade Union is solely to champion the rights and interests of these vital employees, ensuring they receive the recognition and treatment they deserve.

The Trade Union closes its accounts on 31 December.

The income derived and expenses incurred for the year ended 31 December 2023 are as follows:

Income		RM
Membership Subscription Fees		200,000
Trade Union Activities		300,000
Sale of Trade Union Publications (members only)		100,000
Seminar Fees		
Donations by Members		150,000
Dividend (Gross)		<u>200,000</u>
Gross Income		950,000
Less:		
Expenditure		
Office rental	12,000	
Employee wages	100,000	
Contribution to Employer EPF	5,000	
SOCSSO	1,000	
Rental of Seminar Hall	50,000	
Transport	20,000	
Consultant’s Fees	100,000	
Legal & Representation Fee	20,000	
Stationery	<u>5,000</u>	<u>313,000</u>
Surplus of income over expenditure		637,000

Notes to accounts:

1. The common expenses that relates to the Trade Union activities are employee wages, employee contribution to EPF & SOCSO, transport and stationery.
2. The capital allowance is RM250,000.

**Required:**

**Compute the tax payable for Year of Assessment 2023.**

(10 marks)

**[Total: 20 marks]**

## Question 2

- (a) With reference to the ITA explain briefly how would one determine whether an entity is an investment holding company or not?  
(2 marks)
- (b) With reference to the ITA, explain FOUR (4) differences in the treatment for income tax purposes between an investment holding company not listed on the Bursa Malaysia and an investment dealing company.  
(4 marks)
- (c) Company A, B, C and D are Malaysian incorporated resident companies for income tax purposes, principally engaged in the activity of holding of investments and are not listed on the Bursa Malaysia. For the year ended 31 December 2023, the relevant companies derived gross income from various sources, as indicated below:

Source of income	Companies			
	Company	Company	Company	Company
	A	B	C	D
	(RM'000)	(RM'000)	(RM'000)	(RM'000)
Rent (business)	110	26	Nil	66
Rent (non-business)	Nil	Nil	97	26
Dividend	6	74	13	13
Interest	43	55	7	26
Management services	12	5	13	16

**Required:**

**With reference to the ITA and the information provided in respect of the companies A, B, C and D, determine whether the relevant companies qualify as an investment holding company.**

Note: You must show your workings in your determination of whether the relevant company is an investment holding company or not.

(4 marks)

- (d) Madani Fast Buck Investment Holdings Sdn Bhd ('the company') is a Malaysian resident company and is part of a group of companies that have a wide-ranging business. This particular company was incorporated in 2017 with the intention to invest excess funds from the other companies in the group to earn a profit from such investments.

Accordingly, the company's income consists mainly of interest from fixed deposits with local banks, dividends from short term investments in local companies listed on the Bursa Malaysia and rental income from a shophouse. With regard to the shophouse, the company does not provide any maintenance or support services to the tenants.

Part of the funds used for the purchase of the shophouse and money invested in the shares of listed companies were borrowed from a bank and on which interest charges were incurred. The shophouse cost RM2,535,000 and the aggregate of the cost of shares in the listed companies is RM2,028,000. The company occasionally realises some shares to maintain cash flow and, in the process, had made some gains on its disposal.

The company, which is not listed on the Bursa Saham, closes the accounts to 31 December each year. For the year ended 31 December 2023, the financial statement was as follows:

<b>Madani Fast Buck Investment Holdings Sdn Bhd</b>			
<b>Financial statement for the year ended 31 Dec 2023</b>			
<b>Gross income</b>	<b>RM</b>		<b>RM</b>
Fixed deposit interest			257,920
Rent - shophouse			241,800
Dividends (Malaysian single tier)			39,000
			538,720
Add:			
Gains from realization of investment			159,900
Total			698,620
<b>Less: Expenses</b>			
Director's remuneration	114,400		
Staff salary	69,229		
Secretarial fee and tax filing fee	15,000		
Audit fees	45,500		
Interest charges (investments)	91,000		
Printing and stationary	4,615		
Maintenance of office	65,000		
Office rent	115,180		
Quit rent and assessment (shophouse)	4,680		
Entertainment	6,920		
Depreciation	9,835		541,359
Net profit			157,261

**Required:**

**With reference to the ITA, compute the chargeable income of Madani Fast Buck Investment Holdings Sdn Bhd for the year of assessment 2023.**

Note: You are not required to show your workings in arriving at the expenditure to be deducted pursuant to section 60F(1) in arriving at the total income.

(10 marks)

**[Total: 20 marks]**

### Question 3

Active Holdings Sdn Bhd (AHSB) is an investment holding company and tax resident in Malaysia. The company owns several real properties in Malaysia and overseas.

In a recent meeting, the board of directors of AHSB decided to reduce bank borrowings for one of its major properties, Star Mall. The board of directors agreed to transfer Star Mall to its listed real estate investment trust in Bursa Malaysia, Quick REIT on 6 June 2024.

The projected financial statement for Quick REIT for the year ended 31 December 2024 is as follows:

	RM'000	RM'000
Rental income from Star Mall		4,000
Rental income from other properties in Malaysia		6,000
Interest income (Note 1)		1,000
Single-tier dividends from public listed companies on Bursa Malaysia		<u>800</u>
		11,800
Less: Expenses		
Operating expenses (all tax allowable)	1,540	
Accounting and audit fees	100	
Tax filing fees	20	
Secretarial charges	30	
Manager's remuneration	1,080	
Maintenance of unit-holders	500	
Maintenance for building let-out	3,680	
Advertising and related expenses (fully deductible)	230	
Donation (Note 2)	100	
Depreciation	<u>500</u>	<u>(7,780)</u>
Profit before taxation		<u>4,020</u>

Additional information for the year of assessment (YA) 2024:

1. It was the first time it received interest income from fixed deposit placements with local banks in Malaysia.
2. Cash donation made to the State Government of Selangor.
3. The capital allowance for the current year of assessment is RM182,000.
4. It will be the first time for Quick REIT to distribute 90% of its total income for YA 2024 to its unit holders (resident and non-resident companies and individuals) in Malaysia before 28 February 2025.

**Required:**

- (a) **Compute the tax payable of Quick REIT for YA 2024 under the ITA.**  
(8 marks)
- (b) **Advise Quick REIT on the tax implication if it distributes 90% of its total income for YA 2024 and the distribution made to its unit holders in Malaysia.**  
(8 marks)
- (c) **Discuss the difference in the tax treatment between the distribution of income made by Quick REIT from taxable income and exempt income.**  
(4 marks)

**[Total: 20 marks]**

#### Question 4

- (a) Mr Donald Lim and Madeline Leong were married in 1998 and have three children together. Sometime in 2021, Mr Donald, a businessman, died in a plane crash. He had a will prepared by his lawyer in the year 2000 establishing a Trust, where he named his wife as the executor, with his children and the wife as beneficiaries of the trust.

Madeline carried on her husband's business after his death, closing the accounts to 31 December each year. For the year ended 31 December 2023, the accounts, prepared by a chartered accountant, showed a gross income of RM888,069 and recorded expenses of RM380,363.

Madeline had authorised the following charges in the accounts of the business:

1. A trust management fees of RM38,610 paid to herself for running the business.
2. Loss of RM4,916 on the disposal of an asset. Capital allowance was previously claimed on this asset.
3. Depreciation charges of RM54,000 on assets used in the business.
4. A cash donation of RM10,000 to a local approved charitable institution.

From a property held under the Trust, Madeline received a net rent of RM26,255; and interest of RM6,965 from a fixed deposit with a local bank. A single tier dividend of RM11,583 was received from investment originally made by her husband in companies listed on the Bursa Malaysia.

In respect of the operations and assets used in the business, Madeline's accountant had provided the following information:

1. Balancing charge on an asset disposed of during the year: RM25,250.
2. Capital allowance for the current year of assessment: RM76,073.
3. Unabsorbed loss of RM9,577 brought forward from the previous year of assessment.

Donald's Will had provided for the following:

1. An annuity of RM30,000 to his wife.
2. A payment of one-quarter of the distributable income to the eldest child - but at the sole discretion of his wife. Madeline, and the child, who are both Malaysian tax resident, paid the child RM100,000 in the year 2023 from the trust distributable income of RM452,903 (before accumulation for the last child).
3. The second child would receive the balance of the available distributable income.
4. The last child, who is now a teenager, would have a sum of RM25,000 accumulated in the child's account until the child reaches the age of 21 years.

**Required:**

**With reference to the provisions of the ITA, compute:**

- (i) The chargeable income of the Trust; and
- (ii) The statutory income of each of the children.

Notes:

1. The Director General of Inland Revenue has not allowed the application of the proviso to section 61(2).
2. All figures should be computed to the nearest RM1.00

(16 marks)

- (b) With reference to the ITA, discuss the concept of 'trust annuities', its deductibility in arriving at the trust total income, and its derivation in instances where a trust is resident in Malaysia; and in instances where it is not a resident in Malaysia.

(4 marks)

**[Total: 20 marks]**

### Question 5

- (a) (i) What are the tax exemptions applicable and conditions that are imposed on income derived by religious institutions in Malaysia?

(3 marks)

- (ii) What are the conditions under which charitable institutions can engage in business activities, and what restriction does the LHDNM impose on the use of their accumulated funds for these activities?

(2 marks)

- (iii) What type of cash donations qualify for a tax deduction of 10% of the aggregate income, and which type of donations are fully deductible without any restriction?

(3 marks)

- (b) MyCARE Madani (MyCare) is a foundation established on 1 Feb 2020 and approved by Lembaga Hasil Dalam Negeri Malaysia as a Charitable Institution under Section 44(6) of the ITA on 1 March 2020. It closes its books on 31 December. The objective of MyCARE is provide love and care for homeless citizens who are deprived of proper food, basic clothing and accommodation. In an effort to raise additional funds in line with its charitable activities, MyCare also aims to engage in business activities.

MyCare provided the following information:

Year	Balance b/f (accumulated fund) RM	Receipts/Public Donations during the year RM	Operating Expenditure RM	Charitable Expenditure RM	Balance c/f RM
2021	-	400,000	90,000	200,000	110,000
2022	110,000	350,000	50,000	250,000	160,000
2023	160,000	300,000	60,000	200,000	200,000

Note: The Charitable Expenditure are expenses incurred for providing food, clothing, shelter/temporary accommodation, medical expenses, and other related incidental expenses in line with MyCARE's objectives.

**Required:**

- (i) Whether, MyCare is able to fulfill the threshold as stipulated, to sustain its approved status for year of assessment 2022 and 2023.

(8 marks)

- (ii) The quantum of funds that can be utilized as working capital for carrying on a business for Year of Assessment 2022 and 2023.

(4 marks)

**[Total: 20 marks]**

### Question 6

Dynamic Sdn Bhd (DSB), a tax resident company in Malaysia and has operated its manufacturing business of computer microchips in Penang since its incorporation in 2018. It closes its annual accounts on 31 October.

DSB plans to expand its manufacturing business by modernising and automating its production lines which involves an initial capital investment of RM50 million over the next five years. The business's production capacity is expected to increase by 30% annually. The company directors knew DSB would be eligible for the reinvestment allowance (RA) claims after the pioneer tax incentive expired in the year of assessment (YA) 2023.

The following projected incomes and expenditures of DSB for YAs 2024 to 2026:

Year of Assessment (YA)	2024	2025	2026
	RM'000	RM'000	RM'000
Adjusted income/(loss) from manufacturing business	(2,000)	4,000	8,000
Balancing charge	100	-	-
Industrial building allowance and capital allowance	420	950	1,900
Capital expenditure incurred for qualifying project:			
Machinery (inclusive of leased assets of RM600,000 for each of the YAs 2025 and 2026)	-	2,600	3,100
Heavy machinery (RA was claimed by its subsidiary company earlier)	-	3,200	-
Extension to the existing factory building	4,000	-	-
New factory land	3,000	-	-
Completion of a new factory building in 2026	-	-	8,000
Interest income from fixed deposits from local banks in Malaysia	800	-	-
Dividends received from its overseas subsidiary companies (net of 15% overseas tax)	1,000	-	-

#### Required:

- (a) Compute Dynamic Sdn Bhd's chargeable income and exempt income for each of the years of assessment 2024 to 2026.

(10 marks)

For part (a), a tabular format must be used for your computation. All detailed workings must be shown to support your answers. Show clearly the amount of qualifying capital expenditure, reinvestment allowance, industrial building allowance and capital allowance, and business losses including the amount to be carried forward.

- (b) Advise Dynamic Sdn Bhd on the different tax treatments of the business losses under pioneer status and reinvestment allowance during and after the tax relief periods.

(10 marks)

[Total: 20 marks]

(END OF QUESTION PAPER)