



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

PROFESSIONAL EXAMINATION

INTERMEDIATE LEVEL

BUSINESS TAXATION

SEPTEMBER 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.

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Question 1

Stylon Sdn Bhd (SSB) is a Malaysian incorporated and resident company engaged in the manufacture of toys with the brand name KidKnow, which is registered in Malaysia. The foreign element in its RM 2.5 million ordinary share capital is 25%. The company exports 20% of its manufactured products. The company has provided the following information in respect of its accounts for the year ended 31 December 2023:

	Note	RM'000	RM'000
Turnover	1		75,202
Add: Other income			
Dividend Income	2	5,424	
Interest income	3	118	5,542
			80,744
Less: Cost of sales	4		43,693
Gross profit			37,051
Operating expenditure	5 -17		21,014
Profit before tax			16,037

Notes:

1. Turnover

This includes sales during the year 2023 to a major wholesaler in Myanmar amounting to RM 30 million. The payments received were banked into the bank account of SSB in Myanmar and were not remitted to Malaysia. Stylon does not have a place of business in Myanmar.

2. Dividend

The dividends were received from a foreign company which was in compliance with the economic substance requirements. The dividends were taxed at 10% although the headline tax rate in that foreign country was 20%.

3. Interest income

The above represents late settlement of trade debts by the customers of the company.

4. Cost of sales includes:

- The company's inventory which is stated after deducting a general allowance (provision) of 10% for obsolescence is as follows:
As at 31 December 2022 RM6.3 million
As at 31 December 2023 RM7.2 million.
- An export credit insurance premium of RM1.2 million paid to Malaysia Export Credit Insurance Berhad (MECIB)
- Depreciation charge for the year was RM15 million

5. Staff Remuneration and Benefits

	RM '000
a. Salaries	3,150
b. Entertainment allowances	900
c. Contribution to approved retirement schemes (24% of the salaries plus entertainment allowances)	972

In the year of assessment 2022, SSB constructed a childcare centre costing RM 18 million, the childcare centre is registered under the Child Care Centre Act 1984. The annual cost of operating the centre was expensed to the income statement for year-ended 31 December 2023 was RM600,000. (see Note 15 below).

6. Proprietary rights

a.

	RM '000
Purchase price	2,000
Legal fees and stamp duty	500
Royalties	28

This relates to the purchase of an industrial design from an independent entrepreneur for use in the manufacturing of the toys. For materiality purposes the whole amount was expensed to the income statement.

b. In order to export its products to Myanmar, SSB had to licence its KidKnow product with the Myanmar authorities amounting to RM6 million

7. Advertising – RM2,500,000

The company placed advertisement on advertisement boardings which were approved by relevant authorities in Malaysia and on the internet whose host website is located in Malaysia.

8. Donations made in Malaysia are as follows:

	RM '000
KidKnow toys donated to an approved orphanage	18
Cash donations to an approved institution	10
Medical equipment to a health care facility approved by the Health Ministry	36
Endowment payment to a public university	13
Gift of money for library facilities to a public university	110
Cash contribution to an approved research institute	10

9. Approved Research & Development expenditure

The above constitutes the following:

	RM '000
Quality control and routine testing of materials	30
Efficiency surveys	15
Payment to an approved research company	36

10. Travelling expenses

	RM '000
Staff travelling	60
Leave passage for three Directors and their families to Switzerland	80
Company trip involving the employer, employee and their families to Langkawi	45

11. Subscriptions

	RM '000
Annual subscription to the Malaysian Toy Manufacturer's Association	10
Entrance fees to Malaysian Institute of Accountants for 4 of their accountants	12
Corporate membership annual subscription for Royal Selangor Club	9

12. Redundancy payments – RM150,000

The above constitutes compensatory payment made to the workers of a production unit whose activities were no longer required for the manufacturing process and they had opted to be retrenched.

13. Insurance premiums on keyman policies – SSB is the beneficiary

	RM '000
Term life policy for a Financial Director	15
Whole life policy for the Chief Operating Officer	18

14. ISO certification expenditure – RM96,000

This represents expenditure incurred by SSB for the purpose of obtaining certification for recognized quality systems and standards in relation to the manufacturing of soft toys for toddlers. The certificate was issued on 3 January 2024.

15. The capital allowances claim by the company for year of assessment 2023 is RM16,448,000 excluding the child care centre building in Note 5 above.

Required:

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

(21 marks)

- (b) In respect of Notes 1, 2, 4(a) and 5 explain the rational for the adjustment that you have made in the tax computation

(9 marks)

[Total: 30 marks]

Question 2

- (a) Elite Sdn Bhd (ESB) is a Malaysian resident company operating a chain of restaurants in Malaysia. In January 2024, ESB made the following payments to its Australian parent company, Elite Ltd.:
- (i) Final loan repayment amounting to RM200,000 of capital and RM20,000 interest in respect of the loan provided by Elite Ltd (a non-resident in Malaysia) to finance ESB's expansion of its operations.
 - (ii) Royalty payment of RM50,000 for the use of the logo and technical know-how of its parent company.
 - (iii) Management fees of RM55,000 where the services were performed in Malaysia.

Required:

Determine, the applicability of withholding tax on the payment of the above items (i) to (iii) by Elite Sdn Bhd to Elite Ltd.

(7 marks)

- (b) Fergeson Ltd, a Denmark-based company (a non-resident in Malaysia), has been appointed by Menara Bhd, a Malaysian resident company as the contractor to build a 5km tunnel in Sabah. The project is expected to be completed within three years. On 6 March 2024, Fergeson Ltd submitted the first progress payment claim for services rendered amounting to RM950,000. Eighty percent of the employees hired for the project are foreigners while the remaining employees are Malaysians who are subject to monthly tax deductions. Fergeson Ltd is regarded to have a permanent establishment in Malaysia due to its presence here.

Required:

Determine the applicability of withholding tax for the above transaction. Compute the amount of withholding tax due to be deducted, if any.

(5 marks)

- (c) Andrea is an influencer. She spent her time traveling to different places and making videos for her TikTok account. She received payments from TikTok based on the number of views on her videos. Restaurants and café in Malaysia also invited her to review their food and paid her accordingly.

Required:

Explain with the reason(s) the type of income received by Andera from TikTok, restaurant, and café.

(4 marks)

- (d) Kenny and his younger sister, Kelly run a family business, Mahkota Enterprise. The business was solely controlled by Kenny, who made all business and financial decisions. Kelly helps out in the operation of the business and was paid a fixed monthly salary. However, Kenny shares a small portion of the profit from the business with Kelly when the business recorded a good profit. There was no agreement entered into between Kenny and Kelly. Kenny declares the business as a partnership business for income tax purposes.

Required:

Is Kenny correct to declare the income from the business as derived from a partnership business income? Give your reasons for your answer.

(4 marks)

[Total: 20 marks]

Question 3

Telco Sdn Bhd with an ordinary share capital of RM 4 million, changed its accounting year end from 30 April 2022 to 31 July 2023. The company closed its accounts on 30 April 2022 and on 31 July 2023 and subsequently closes its accounts on 31 July.

In May 2023, the company estimated its tax payable (CP204) for the year of assessment 2024 as RM 370,000. The original estimate submitted by e-filing to Inland Revenue Board (IRB) was subsequently revised (CP204A) to RM475,000 by e-filing on 18 January 2024. The deemed assessment (Return form C) for YA 2024 e-filing with the IRB is RM760,000.

Telco Sdn Bhd has two subsidiary companies which are:

- Dili Sdn Bhd, in which Telco Sdn Bhd holds 75% of the ordinary shares;
- Cemco Sdn Bhd, in which Telco Sdn Bhd holds 65% of the ordinary shares.

Each company has a 31 July year end. During the year to 31 July 2024, Telco Sdn Bhd launched an expansion programme which was treated as a qualifying project for the purposes of reinvestment allowance and for which set-off is at the standard rate. On 1 January 2024 two additional machines were purchased for the purposes of the expansion programme. Both these machines were acquired from the subsidiary companies. The following details are available:

Machine	Acquisition by Telco Sdn. Bhd		Original acquisition	
	Acquired from	Cost to Telco Sdn Bhd	Date	Cost
		RM		RM
Borer	Dili Sdn Bhd	70,000	11 August 2023	147,000
Grinder	Cemco Sdn Bhd	56,000	1 July 2020	112,000

Required:

- (a) Explain the compliance requirements by Telco Sdn Bhd for the change of its accounting date to 31 July 2023 in submitting Form CP204B and the penalty imposed for non-compliance. (4 marks)
- (b) State the due date for submission of the Tax Return Form C for the year of assessment 2024 and explain to Telco Sdn Bhd the penalty that would be imposed if it files the Tax Return form C for year assessment 2024 on 31 March 2025. (2 marks)
- (c) Explain the penalty that would be imposed on Telco Sdn Bhd if it fails to submit the Tax Return Form C for the year assessment 2024. (2 marks)
- (d) When should the estimate of tax payable (CP 204) and the revised estimate tax payable (CP204A) under S107C of the ITA, be filed for the year of assessment 2024 and what is the minimum estimate tax payable for the year estimate 2024 be? (4 marks)
- (e) Compute the balance of tax payable and the tax underestimation penalty, if any for year of assessment 2024 by Telco Sdn Bhd to the IRB at the time of the submission of the tax return. (4 marks)
- (f) Explain the 'control transfer' implications of the acquisition of assets from the two subsidiaries. (4 marks)

[Total: 20 marks]

Question 4

ABC Manufacturing Sdn Bhd is a company that produces and sells electronic gadgets. In 2023, the company undertook various activities and incurred the following expenses.

1. New Machinery

A new machinery was purchased for RM500,000. It is expected to have a useful life of 15 years and significantly boost the company's production capacity.

2. Repairs and Maintenance

Routine maintenance and repairs amounting to RM50,000 was spent on existing machinery to ensure smooth operations and avoid breakdowns.

3. Employee Training

A comprehensive training program for its employees, costing RM30,000, to improve their technical skills and productivity.

4. Research and Development

An investment of RM200,000 in a research and development project to develop a new product line. If successful, it is expected to provide significant future benefits.

The company is currently disputing an additional tax assessment of RM100,000 for the year of assessment 2022 issued by the Inland Revenue Board, and has filed an appeal believing the additional assessment to be incorrect.

Required:

- (a) **Explain whether each of the above expenses is tax deductible, considering whether it is classified as a capital or revenue expenditure, using principles established from relevant tax cases.**

(12 marks)

- (b) **Explain what the company must demonstrate to successfully appeal the tax assessment based on the tax case of NV Alliance Sdn Bhd v IRB.**

(3 marks)

[Total: 15 marks]

Question 5

David and Joshua are partners in DJ Grocery, a grocery shop in Malacca that they started in 2015. Despite the end of the pandemic, the business is still struggling.

The partnership agreement states the following:

Partners	Capital contribution (RM)	Annual interest on capital contribution (%)	Monthly salary (RM)	Share of profit / loss (%)
David	80,000	8	8,000	60
Joshua	60,000	8	6,000	40

On 1 April 2023, David left the partnership and Steven joined as a new partner. A new partnership agreement states as follows:

Partners	Capital contribution (RM)	Annual interest on capital contribution (%)	Monthly salary (RM)	Share of profit / loss (%)
Joshua	80,000	8	8,000	60
Steven	50,000	8	6,000	40

The partnership's statement of profit or loss for the year ended 31 December 2023 is as follows:

	RM	RM
Sales		420,000
Less: Expenses		
Salaries for staff	141,000	
Salaries for partners	168,000	
Interest on capital	10,600	
Medical insurance for Joshua	5,500	
Lease rental for computers	7,400	
Transportation cost	72,000	
Depreciation	126,000	
Approved cash donation in June 2023	2,800	
Entertainment to suppliers	6,000	
Water and electricity	41,500	
		580,800
Net loss for the year		160,800

Capital allowance for the year of assessment 2023 is RM50,000.

Required:

- (a) Compute the partnership's provisional adjusted income and divisible income for the year of assessment 2023. Indicate 'nil' where no adjustment is required. (8 marks)
- (b) Compute the chargeable income of David, Joshua and Steven for the year of assessment 2023. (7 marks)

[Total: 15 marks]

(END OF QUESTION PAPER)