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

PROFESSIONAL EXAMINATION

FINAL LEVEL

ADVANCED TAXATION 1

MARCH 2025

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.

DO NOT TURN OVER THIS PAGE UNTIL INSTRUCTED BY THE INVIGILATOR

Question 1

(a) Mr Gopinath, a Malaysian resident, carried on the business of selling imported toys. In September 2024, he passed away suddenly leaving behind a wife, Madam Laxmi and two young children. Mr Gopinath had no Will and his wife did not apply for any letter of administration.

However, Gopinath's tax agent asked Madam Laxmi to sign the tax return for the year of assessment 2024. Madam Laxmi, a housewife, did as asked.

Required:

(i) **With reference to the Income Tax Act 1967 explain the consequences of Madam Laxmi signing the tax return for the year of assessment 2024.**

(2 marks)

(ii) **Assuming Mr Gopinath had prepared a Will, and appointed an executor under the Will, when will the period of administration in respect of Gopinath's estate commence, and for how long could this period of administration continue legally, citing a relevant case law in support of your answer?**

(4 marks)

(iii) **Explain the time limitation in respect of an assessment to be made upon the death of an individual.**

(2 marks)

(iv) **What is the legal implication for income tax when an individual died 'domicile in Malaysia'?**

(2 marks)

Note:
You are required to cite the relevant sections of the Income Tax Act 1967 for each of the answers (i) - (iv) above.

(b) Mr Karthik operates a business from the Ampang Point Shopping Mall in Kuala Lumpur dealing in gold and precious stones. He died in a car crash on his way home on 30 September 2024, leaving behind wife, Madam Keerthi and a son, Naveen Kumar aged 12. Madam Keerthi is a housewife with no income of her own.

Mr Karthik had not prepared a Will. His business records and tax affairs are managed by Messrs Nadarajah, Ong & Associates, a firm of Chartered Accountants. Madam Keerthi appointed Mr Nadarajah as the executor.

Mr Nadarajah filed the Form CP57 on 16 October 2024 notifying the Director General of Inland Revenue of Karthik's death. Based on the accounting and business records, the following information was ascertained for the year ended 31 December 2024:

- The business statutory income was worked out to be RM243,850;
- The rental income from a landed property net of allowable expenses was RM38,742;
- Mr Karthik had made a cash donation of RM15,000 to a charitable body and the official receipt is in the file kept by the firm;
- Mr Karthik was a resident, and domiciled in Malaysia at the time of his death.

Mr Nadarajah paid Madam Keerthi an annuity of RM36,000 from the business funds for her upkeep a month after Mr Karthik's death. Legal process with respect to the business and the property, including the tax matters, were completed by February 2025 and Madam Keerthi was paid RM3,545,596.00 in final settlement of the estate.

Required:

With reference to the provisions of the Income Tax Act 1967, and in respect of the year of assessment 2024, compute the chargeable income of:

(i) **Mr Karthik (assuming a joint assessment where he had claimed all relevant reliefs due to him);**

(ii) **The estate of Mr Karthik (deceased); and**

(iii) **Madam Keerthi.**

(10 marks)

[Total: 20 marks]

Question 2

Champ Sdn Bhd (CSB) is a resident company incorporated on 1 April 2024 in Malaysia. The company manufactures in Pasir Gudang, Johor. During the recent board of directors' meeting, the majority agreed that CSB should apply to the Malaysian Investment Development Authority (MIDA) to claim tax incentives, specifically either Pioneer Status (PS) or Investment Tax Allowance (ITA). The company is not eligible for the reinvestment allowance claim.

CSB may qualify for either PS or ITA, as it manufactures chemical products listed as promoted products under MIDA's guidelines. If its application is approved and the relevant tax incentive is granted, the company will benefit from paying reduced corporate income tax. In addition, the exempt business profits that CSB makes can be distributed as tax-exempt dividends to its shareholders.

CSB projected that it will be granted by MIDA, five years of tax incentive under the pioneer status from the years of assessment 2026 to 2030 as follows:

Year of Assessment	**2026**	**2027**	**2028**	**2029**	**2030**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Manufacturing business (PS incentive): Adjusted income/(loss)	10,000	8,000	6,000	(3,000)	20,000
Industrial building allowance (IBA) and Capital allowance (CA)	2,800	2,600	2,500	2,000	2,000
Trading business (No incentive): Adjusted income/(loss)	(1,000)	2,000	2,000	4,000	4,000
Capital allowance	100	100	90	80	80
Dividends received from resident companies in Malaysia	200	300	400	500	600
Cash donation to Johor State Government	-	100	100	-	100

Required:

Advise the board of directors on the following tax matters:

(a) The circumstances under which CSB should opt for the following tax incentives:

(i) Pioneer status; (3 marks)

(ii) Investment tax allowance. (3 marks)

(b) The mechanism of pioneer status to be claimed by CSB.

(4 marks)

(c) Compute CSB's chargeable income and the exempt income respectively for YAs 2026 to 2030. A tabular format must be used for computation and must show all the workings.

(10 marks)

[Total: 20 marks]

Question 3

(a) (i) Explain the tax treatment on income derived from;

a. Business of transporting passenger or cargo by sea or air undertaken by a resident sea and air operator.

(1 mark)

b. Business income of resident shipping and airline operators from business of transportation of passengers or cargo by land and investment activities.

(1 mark)

Note: You are encouraged to quote the relevant provision in the ITA 1967 and explain it in your own words.

(ii) A resident sea operator can avail to tax exemption as provided for in the ITA 1967. List the conditions that must be satisfied for tax exemption that is available in the ITA 1967.

(4 marks)

(iii) What is the scope of taxation of a non-resident person undertaking business of transporting passengers and cargo by sea or air?

(2 marks)

(iv) Based on your understanding, explain the meaning of "Transshipment".

(4 marks)

(b) (i) Explain the meaning of separate business source in the contexts of exemption of shipping profits carried on by a Malaysian Ship.

(1 mark)

(ii) Vee Kean World Shipping Limited (Vee Kean) is China tax resident shipping company and owns a ship by the name of "Feng Shui". The income derived from Malaysia in the year 2023 is as follows:

	RM
Passenger Fares	200,000
Freight Charges	100,000
Total	300,000

During the year 2023, Vee Kean produced a certificate issued by the Chinese Tax Authorities to Lembaga Hasil Dalam Negeri Malaysia and is as follows:

	RM (million)
Total World Gross Income	30
Taxable Income (World)	10
Capital Allowance	2

Required:

Compute the tax payable using the Ratio Certificate Method.

(4 marks)

(iii) Margaret Shipping Limited (Margaret) operates in the Southeast Asia Region including freight services to and from Malaysia. Lembaga Hasil Dalam Negeri Malaysia has confirmed that Margaret was non-resident for Malaysian tax purposes. During the year ended 31 July 2023, its shipping activities with Malaysia are as shown in the table below:

Required:

		RM
Inward shipments to Malaysia		
	Receivable in Malaysia	5,000
	Receivable overseas	6,000
Outward shipment from Malaysia		
	Receivable in Malaysia	12,000

a. **Compute the chargeable income using the 5 per cent method.**

(2 marks)

b. **Calculate the tax payable.**

(1 mark)

[Total: 20 marks]

Question 4

(a) Ms Sumathi had sold the following properties:

(i) The first property was sold under a written agreement dated 25 January 2025 and the full sale price was settled by the acquirer on 30 February 2025 when his bank loan was released;

(3 marks)

(ii) The second property was sold to her sister, Ms Shanti on 15 December 2024 and the purchase price was fully settled when the bank released to Ms Shanti the full loan on 15 February 2025 and this was transferred to Ms Sumathi the following day. Ms Sumathi's lawyers then processed the transfer of property to Ms Shanti in the following week. As this was a transaction between the two sisters, Sumathi did not bother to formalise the transaction with a written agreement; and

(3 marks)

(iii) A third property in Seremban in the State of Negeri Sembilan was sold to an acquirer under a written agreement dated 15 August 2024. However, the title to the property could be transferred only upon obtaining the approval of the Negeri Sembilan State Government. The State Government's approval was obtained on 17 January 2025. The acquirer then settled the full consideration of the purchase price to Ms Sumathi on 20 February 2025. Sumathi's lawyer completed the paperworks on 26 February 2025 and delivered the title papers to the acquirer on 27 February 2025.

(3 marks)

Required:

In any TWO (2) of the situations mentioned in (i) - (iii) above, state the date of disposal of the property by Ms Sumathi, and the date of the acquisition of the property by the acquirer, citing the authority for the determination of the date of disposal and acquisition under the Real Property Gains Tax Act 1976.

(Any two = 6 marks)

(b) Mr Arunasalam had acquired a landed property with a bungalow constructed on it, three years ago. The plot is at the edge of a hillside and provides a breath-taking view of the valley below. However, recently a mudslide from the hill behind the plot and a subsequent erosion of the adjacent land from a nearby stream had caused him much concern.

He had taken a bank loan to acquire the property and recently the bank revised the interest rate upwards and this is now posing some financial strain on him.

He is currently in the middle of a divorce proceedings with his estranged wife who has claimed conjugal rights to the property. He had spent legal fees on defending his full rights to the property on the grounds that the title document and bank loan is under his name, and the loan repayments are made by him solely.

With all these land problems, finance problems, and divorce problems piling up, he is very frustrated with life, and plans to sell off the property as soon as possible, and marry his mistress and migrate. However, his property agent had advised him that given the present situation of the property, with the mudslide and the soil erosions, it may not fetch its full market value.

Mr Arunasalam wants to 'upgrade' the property before it could be put on the market with a view to making a 'profit' upon its disposal.

He has approached you for advice on the expenditures that he could incur and claim, or cannot claim, for real property gains tax purposes.

Required:

Advise Mr Arunasalam the expenditures that he could incur and claim, and those that he cannot claim, for the purposes of determining his disposal price of the asset, citing the relevant provisions under the Real Property Gains Tax Act, 1976.

(5 marks)

(c) Mr Sudharsanan, a Malaysian citizen, is a business entrepreneur. On 15 November 2022 he acquired a matured oil palm plantation from Encik Sulaiman Daud for RM4.8 million having incurred the following expenses in the course of the acquisition: (a) Legal fees: RM57,600, and (b) Stamp duty: RM176,000.

On 20 September 2023, he transferred the oil palm plantation to his company, Sudhar Plantations Sdn Bhd (in which he holds 80% of the shares) in exchange for 7.2 million fully paid up Sudhar Plantations shares of RM1 each.

Shortly thereafter, to relief some financial pressure from his bank, he sold 5.2 million shares (out of the 7.2 million shares) in Sudhar Plantations for RM6,240,000 million in cash to a third party on 5 December 2024. The cash was used partly to settle outstanding balances on an overdraft account, and to make a fixed deposit to add on to the security of an extended loan.

Required:

With reference to the Real Property Gains Tax Act 1976:

(i) **Compute the real property gains tax payable (if any), in respect of the transfer of the oil palm plantation by Mr Sudharsanan to Sudhar Plantations Sdn Bhd in exchange for shares, explaining the determination of its acquisition price and the date of acquisition of the shares of Sudhar Plantations Sdn Bhd.**

(4 marks)

(ii) **Compute the real property gains tax payable (if any) by Mr Sudharsanan in respect of the sale of the 5.2 million shares in Sudhar Plantations Sdn Bhd.**

(5 marks)

[Total: 20 marks]

Question 5

(a) (i) What is the tax implication of income derived by unit trust and unit holders.

(2 marks)

(ii) How is the tax residence of a unit trust determined?

(1 mark)

(iii) What is the tax treatment on rental income derived by a unit trust?

(2 marks)

(iv) Explain the tax treatment on foreign sourced income received in Malaysia by a unit trust. (Note: you are required to provide the tax treatment before and after any amendments made to the tax treatment on foreign sourced income)

(4 marks)

(b) (i) What is the tax treatment on gains from realization of investments? You are required to take into consideration any recent changes in the tax laws or tax exemptions accorded for unit trust?

(7 marks)

(ii) Amanah Unit Trust was established with the objective of inviting the public to invest in unit trusts. The investments are managed by CSAM Investment Manager. Investments are mainly in government securities, bonds, fixed deposits and equities.

Summary of Statement of Income of Amanah Unit Trust for the year ended 31 December 2023

	RM
Income	
Dividend (single tier exemption)	50,000
Interest Income (Fixed Deposit) Domestic Bank	30,000
Interest from convertible loan stocks	20,000
Gains from disposal from disposal of unlisted shares	10,000
	110,000

Required:

Compute the aggregate income of Amanah Unit Trust for year of assessment 2023.

(4 marks)

[Total: 20 marks]

Question 6

Expand Sdn Bhd (ESB) is a manufacturing company and tax resident company in Malaysia, specialising in the production of hair oil products. From the years of assessment 2020 to 2024, the company benefited from the tax incentive under pioneer status (PS). However, ESB is aware that this incentive will not be extended beyond its expiration on 31 December 2024.

ESB has outlined plans to expand and diversify from its manufacturing hair oil products to herbal body products. The company intends to venture into herbal body products as part of its strategic move to enhance profitability. ESB wishes to claim reinvestment allowance (RA) for its herbal products business by investing over RM800 million during the tax incentive period. This substantial investment will cover the procurement of plant and machinery, the construction of a new factory and warehouse, the development of worker hostels, and the acquisition of land.

ESB projected incomes and expenditures for the YAs 2025 to 2028 as follows:

Year of Assessment (YA)	**2025**	**2026**	**2027**	**2028**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Manufacturing Business 1 (PS expired in YA 2024) Adjusted income/(loss)	2,000	4,000	6,000	8,000
Industrial building allowance and capital allowance	1,000	1,000	1,000	1,000
Manufacturing Business 2 (RA) Adjusted income/(loss)	20,000	(2,500)	3,000	10,000
Industrial building allowance and capital allowance	2,000	2,000	2,000	2,000
Capital expenditure incurred for the qualifying project:				
New factory (including land cost of RM3 million)	10,000	-	-	-
Heavy machinery (Operating lease)	8,000	7,000	6,000	5,000
Plants and machinery (Fully paid)	4,000	2,000	2,000	7,000
Warehouse land	-	-	3,500	-
Additional construction cost for storage area within the new factory for raw materials & finished goods (<10% of total factory area)	4,000	-	-	-
Other income:				
Interest income from banks (Malaysia)	-	-	200	200
Dividends from overseas companies remitted to Malaysia (net of 15% overseas tax)	1,000	1,000	-	-

Required:

(a) **Advise the eligibility of ESB to claim the RA incentive and the period of this tax incentive.**

(6 marks)

(b) **Discuss the tax treatment if ESB were to dispose of one of the machinery (used in the qualifying project) acquired for RM2 million in YA 2025 to a non-related company for RM1.5 million in YA 2028.**

(4 marks)

(c) **Compute ESB's chargeable income and exempt income for YA 2025 to 2028.**

(10 marks)

For part (c), a tabular format must be used for your computation. All detailed workings must be shown to support your answers.

[Total: 20 marks]

(END OF QUESTION PAPER)