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

PROFESSIONAL EXAMINATION

FINAL LEVEL

ADVANCED TAXATION 1

SEPTEMBER 2026

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.

DO NOT TURN OVER THIS PAGE UNTIL INSTRUCTED BY THE INVIGILATOR

Question 1

(a) Section 60F (1A) of the Income Tax Act 1967 provides as follows:

60F (1A) Notwithstanding any other provision of this Act, where in any year of assessment income of an investment holding company consists of—

(a) income from the holding of investment, it shall not be treated as income from a source consisting of a business; or

(b) income other than income from the holding of investment, it shall be treated as gains or profits under paragraph 4(f).

Required:

Discuss briefly the significance of the provisions of 60F (1A) for the taxation of income with respect to an investment holding company.

(6 marks)

(b) **Discuss the provision of Section 60F with reference to the scope of 'Permitted Expenses' and the restriction placed on the deduction of such expenses in arriving at the adjusted income and total income of an investment holding company under that section.**

(6 marks)

(c) The Madani Lotus Investment Company Bhd ('the company') is a Malaysian resident company. It is listed on the *Bursa Saham* and closes the accounts to 31st December each year. The company derived income from various sources, including rental from a commercial property acquired in the previous year and to which the company provides active maintenance and support services for the tenants.

For the year ended 31 December 2025, the company had provided the following statement of accounts:

The Madani Lotus Investment Company Bhd		
Statement of account for the year ended 31 December 2025		
	RM	RM
Gross income		
Rent from property	96,000	
Interest (exempt)	201,638	
Dividend (exempt)	240,045	
Distribution of income from unit trust	48,009	
Management fees received	19,204	
Gain from realisation of investment	64,012	668,908
Less: Expenses		
Audit fee	24,005	
Wages, salaries and allowance	75,886	
Secretarial fees	3,840	
Accounting fees	5,762	
Legal fees to acquire shop lot	4,801	
Stationery and postage	12,802	

Printing	1,600	
Telephone charges	5,602	
Repairs of property	8,802	
Repair of office equipment	4,001	
Travelling expenses	5,602	
Assessment	4,800	
Quit rent	3,200	160,703
Net profit		508,205

The capital allowance claimed on the assets used by the company for the year of assessment 2025 is RM25,000.

Required:

With reference to section 60FA of the ITA, compute the chargeable income for The Madani Lotus Investment Company Bhd for the year of assessment 2025.
[Note: No marks are allocated for workings]

(8 marks)

[Total: 20 marks]

Question 2

Diversity Sdn Bhd (DSB) is a Malaysian resident company in the manufacturing business and was incorporated in 2024. The company is engaged in manufacturing advanced electronic components for export markets, a promoted activity. It plans to undertake an expansion project and invest more than RM30 million in the acquisition of new production machinery, automation equipment, and factory facilities. The board of directors is evaluating which tax incentives under the Promotion of Investments Act (PIA) 1986 would provide greater benefits to the company. For it may qualify for either of the incentives under PIA 1986 as follows:

Option 1: Pioneer Status (PS)
70% of statutory income is abated for a duration of 5 years.
30% of statutory income is deemed total income.

Option 2: Investment Tax Allowance (ITA)
ITA of 60% on qualifying capital expenditure incurred within 5 years.
ITA can be offset against 70% of statutory income.

The projected tax information of DSB from the Years of Assessment (YAs) 2026 to 2030 is as follows:

Year of Assessment	2026	2027	2028	2029	2030
	RM'000	RM'000	RM'000	RM'000	RM'000
1. Business - Manufacturing					
Adjusted income / (Adjusted loss)	(3,000)	(5,000)	4,000	9,000	22,000
Capital allowances (including industrial building allowance)	3,000	2,800	2,500	3,000	4,000
Qualifying capital expenditure:					
Plant and machinery	5,000	3,000	7,000	8,000	10,000
Office equipment	100	100	0	0	0
Factory land	3,800	0	0	0	0
Factory building	9,000	0	0	0	0
2. Interest from a local bank in Malaysia	300	300	0	0	0
3. Rental income from a property in Penang (net of allowable expenses)	200	200	0	0	0

Required:

(a) Discuss THREE (3) advantages of DSB opting for the ITA incentive.

(10 marks)

(b) Compute the chargeable income for each of the years of assessment 2026 to 2030 for DSB. Assuming the company has opted for ITA. You are to support your answers with the relevant workings.

(10 marks)

[Total: 20 marks]

Question 3

(a) Mr Michael Tan (Michael) was a Malaysian resident individual carrying on a home renovation business. Michael died suddenly on 30 June 2025 when a wall of a home he was contracted to renovate collapsed on him. He left behind a wife and three children. Michael had not prepared a Will, and the wife, being not literate, did not apply for any letter of administration.

The accountant who handled the tax matters of Michael completed the return for the year of assessment 2025 and asked the wife to sign the return form. She signed the form, trusting the accountant, who had handled Michael's tax matters for the past several years.

Required:

Discuss the consequences of the wife of Michael Tan (deceased) signing the Return Form for the year of assessment 2025 in the context of the provisions of the ITA.

(5 marks)

(b) **With reference to the provisions of the ITA, discuss briefly the basis of assessment applicable to the income of a deceased individual, and the period of administration of the deceased's estate, including the time limit within which the Director General of Inland Revenue may raise an assessment on the executor of the deceased individual.**

(6 marks)

(c) On a late evening on 30 September 2025, Mr Pandy was driving home from work when a trailer swerved from the opposite lane and hit his vehicle head on. He died on the spot. Mr Pandy left behind a wife, Madam Kamala, and Mohan, a 5-year-old child.

Mr Pandy was a businessman operating three businesses, all of which closed their accounts on 31 December each year. Two of the businesses are in Malaysia while one was operated in India from where he procures his supplies for the Malaysian businesses.

His tax agent has furnished the following information pertaining to his business and other matters for the year ended 31 December 2025:

(i) Business 1 and 2 were operated in Malaysia and had a statutory income of RM193,198 and an adjusted loss of RM78,114 respectively. Business 2 was closed down permanently on 30 June 2025. The Indian operations showed a profit of RM32,215 but the profits derived there were not remitted to Malaysia.

(ii) Pandy had some residential properties from which the rental derived (net of allowable expenses) was RM36,000.

(iii) Dividends of RM10,152 and RM5,400 was received in May and October 2025 respectively from a local listed public company.

(iv) A total sum of RM6,600 was received for the year from a fixed deposit placed with a local bank. The interest was paid monthly to Pandy, and upon his death, to the estate. The fixed deposit was originally placed with the bank as security for loan and overdraft facilities extended to Pandy.

(v) An annuity of RM21,000 was paid to the widow to sustain herself pending the final settlement of the estate affairs and distribution.

Mr Pandy did not leave a Will. At the time of his death, he was domiciled in Malaysia.

Required:

Compute the chargeable income of the Estate of Pandy (deceased) for the year of assessment 2025.

(9 marks)

[Total: 20 marks]

Question 4

(a) **(i)** **Explain the meaning of a banking business for income tax purposes. State the relevant provisions of the ITA 1967 and briefly explain how the chargeable income of a bank is determined.**

(4 marks)

(ii) Interest income is a major source of income for banks.

a. **State the provision under the ITA 1967 that charges business income to tax; and**

b. **Explain why interest income derived by a bank is generally treated as business income.**

(2 marks)

(iii) Bad debts and impairment losses frequently arise in banking operations.

a. **State the provision governing deductions in arriving at adjusted income.**

(1 mark)

b. **Distinguish between specific bad debts written off and general provisions for doubtful debts.**

(3 marks)

(iv) Certain expenses incurred by Banks may not be deductible.

You are required to state the relevant provision and explain whether the following expenses are deductible:

a. **Fine for infringement of banking regulations, imposed by Bank Negara Malaysia, which is the regulator and supervisor for the banking license issued to the Bank;**

(1 mark)

b. **Interest expenses incurred in earning banking income.**

(1 mark)

(b) XYZ Bank Berhad reported the following results for the year ended 31 December 2025:

Particulars	**RM**
Interest income from loans	12,000,000
Loan processing fees	800,000
Interest expense on depositors' accounts	(4,500,000)
Staff salaries	(2,000,000)
Specific bad debts written off	(300,000)
General provision for doubtful debts	(500,000)
Fine imposed by Bank Negara Malaysia	(50,000)

Required:

Compute the Statutory Income of ABC Bank Berhad for the Year of Assessment 2025.

(8 marks)

[Total: 20 marks]

Question 5

Auto-Progress Sdn Bhd (AP) is a resident manufacturing company in Malaysia. The company is principally engaged in the manufacture of industrial plastic components for the automotive industry.

AP was granted Pioneer Status (PS) for five years, with its production day from 1 January 2021 to 31 December 2025. Upon expiry of the Pioneer Status incentive period, the company plans to claim Reinvestment Allowance (RA) under Schedule 7A of the Income Tax Act 1967 in 2026. It will continue its manufacturing operations in Malaysia and will undertake a major expansion and modernisation project to improve production efficiency and increase production capacity.

The company will incur the following capital expenditures in 2026:

Details	RM'000
Construction of a new factory building used for manufacturing activities (including RM1 million for the land cost)	5,000
Purchase new automated plant and machinery	3,000
Purchase a second-hand heavy machinery (after RA claimed by the holding company)	2,000
Purchase of a company car for the Managing Director	400

Required:

(a) Advise AP of its eligibility to claim RA in the year of assessment 2026.

(6 marks)

(b) Explain the eligibility of each capital expenditure incurred by AP above as qualifying capital expenditure for the purpose of claiming RA.

(14 marks)

[Total: 20 marks]

Question 6

(a) **(i)** The ITA 1967 contains special provisions relating to sea and air transport undertakings.

Required:

a. State the relevant provision applicable to airline operators.
b. Explain the purpose of this provision.
c. Briefly explain how the profits of a resident airline operator are taxed in Malaysia.

(3 marks)

(ii) Cekap Air Berhad derives the following income during the year:

- Passenger ticket sales;
- Cargo freight revenue;
- Excess baggage charges; and
- Charter flight income.

Required:

a. State the provision under which the above income is chargeable to tax.
b. Explain why the above receipts are regarded as business income.
c. State whether the above receipts form part of the airline operator's gross income.

(3 marks)

(iii) Malaysia Air Cargo Berhad provides integrated logistics services.

During the year, the company earned:

- RM25 million from cargo transported by aircraft; and
- RM3 million from cargo transported solely by lorry between Kuala Lumpur and Johor Bahru.

Required:

a. State the relevant provision in the ITA 1967 applicable to airline operators.
b. Discuss whether income of Malaysia Cargo, derived from cargo transported solely by lorry forms part of income from an air transport undertaking.
c. Explain the tax treatment of income derived from cargo transported solely by lorry.

(3 marks)

(iv) A non-resident airline operator occasionally lands in Malaysia to uplift passengers and cargo before continuing its international route. During the year, the airline made several casual calls at Kuala Lumpur International Airport (KLIA).

Required:

a. State the relevant provision in the ITA 1967 related to "casual call";
b. Explain the meaning of a "casual call" by a non-resident airline operator;
c. Discuss the tax treatment of income derived from passengers and cargo uplifted in Malaysia during such casual calls.

(3 marks)

(b) Eagle Air Services Berhad (Eagle Air) is a resident company carrying on an airline business. The following information relates to the year ended 31 December 2025:

Particulars	**RM**
Passenger ticket revenue	35,000,000
Air cargo revenue	8,000,000
Cargo transported by lorry within Malaysia	1,500,000
Excess baggage charges	300,000
Charter flight income	1,200,000
Aircraft fuel expenses	(14,000,000)
Staff salaries and crew expenses	(7,000,000)
Aircraft maintenance expenses	(2,500,000)
Depreciation of aircraft	(1,800,000)
Penalty imposed by aviation authority	(120,000)
Donation to an unapproved charitable body	(80,000)

Additional Information

1. Depreciation of aircraft is not deductible for tax purposes.
2. Aircraft maintenance expenses are wholly and exclusively incurred in producing airline income.
3. Assume no capital allowances are available.

Required:

Compute the Statutory Income of Eagle Air for the Year of Assessment 2025.

(8 marks)

[Total: 20 marks]

(END OF QUESTION PAPER)