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

PROFESSIONAL EXAMINATION

INTERMEDIATE LEVEL

BUSINESS TAXATION

SEPTEMBER 2026

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

Perkasa Sdn Bhd (PSB) is a Malaysian incorporated and resident company engaged in the business of manufacturing; with sales to both the local and export markets. It has a paid-up ordinary share capital of RM 2.5 million. It is not a member of any group of companies and its equity is owned 90% by Malaysians. The company has provided the following information in respect of its accounts for the year ended 30 June 2026:

	Note	RM'000	RM'000
Turnover			46,854
Add: Other income			
Rental Income	1	2,424	
Interest income	2	12,911	15,335
			62,189
Less: Cost of sales	3		28,882
Gross profit			33,307
Operating expenditure	4-14		16,587
Profit before tax			16,720

Notes:

1. **Rental Income**
The rental income was derived from the letting of a building to Bersaka S/B. This building was purchased during this financial year for RM 50 million. Bersaka S/B used the building for the following purposes.

	%
Factory	80
Research & Development centre	12
Office	8

PSB does not provide maintenance and support.

2. **Interest income**
The above arose from the placement of deposits in commercial banks.

3. **Cost of sales** includes withdrawal of inventory amounting to RM 756,000. The market value of the inventory was RM 1.2 million.

4. **Legal and Professional Fees**
   a) Payment to Aska Pte. Ltd., a non-resident company for Malaysian tax purposes, for consultancy services provided in the Netherlands of RM 200,000. Taxes were not deducted nor paid to the IRB on this payment.
   b) Legal expenses incurred in contesting a suit of wrongful dismissal filed by a production worker - RM 14,000.
   c) Secretarial fees -RM 8,000.
   d) Tax compliance fees of RM 9,000 plus tax advisory of RM 10,000.

5. **Interest expense** – RM 4.5 million
This relates to a loan of RM 60 million which was used in equal proportions for the purchase of inventory and the building rented out (in Note 1) and for working capital purposes.

6. **Export expenses** -RM 980,000
   a) The company participated in an international trade fair held in Putrajaya for the promotion of its exports with both the trade fair and the participation of PSB being approved by the Minister of International Trade & Industry including cost of exhibits of RM 30,000.

b) Expenses incurred on a potential importer who was invited to Malaysia as a follow-up to trade and investment mission organized by a government agency for 4 nights. Proof of participation as verified by the Malaysia External Trade Development Corporation (MATRADE).

Hotel	- RM 3,000
Sustenance	- RM 1,350

7. **Depreciation** charge for the year was RM 3,702,000.

8. **Foreign Exchange Gains / Losses**
These include:
   a) A loss of RM 15,000 on the purchase of a fixed asset.
   b) For correct reflection of the financial status of the company, conversion at year-end amounted to a net gain of RM 21,000.
   c) Purchase of inventory resulted in a loss of RM 12,000.

9. **Freight charges** consist of:
   a) Sea transportation of inventory from their warehouse in Sarawak to a customer in Kuala Lumpur - RM 12,000.
   b) A faulty plant in the Sarawak warehouse was sent by ship to the company's maintenance hub in Kuala Lumpur - RM 10,000.
   c) Air freight for manufactured goods sent from Sarawak to customers in the Peninsula - RM 19,000.

10. **Social activities** – As part of its CSR responsibilities the company employed the following persons:
   a) A senior citizen aged 62, with a monthly salary of RM 4,500, employed since December 2025.
   b) An ex-convict (as confirmed by Malaysian Prison Department), employed since July 2025 on a full-time basis earning RM 3,500 per month.

11. **Theft** – this entails two circumstances:
   a) Cash defalcated by a temporary staff was engaged to undertake the duties of an accounts clerk who was on a long medical leave - RM 5,000.
   b) Misappropriation of funds by a Director of the company – RM 50,000.

12. **Remuneration**
This includes salaries paid to 3 disable staff amounting to RM 180,000.

13. **Zakat**
The company paid zakat perniagaan of RM 550,000.

14. **Miscellaneous expenses** incurred on the building rented out.

	RM
Quit rent and assessment	640,000
Fire insurance premiums	350,000
New air conditioners	1,300,000

15. **The capital allowances** claim for the company for year of assessment 2026 is RM 707,000 excluding the industrial building a
allowance claim for the building in Note 1.

Required:

(a) Based on the information given, compute the chargeable income of Perkasa Sdn Bhd for the year of assessment 2026 indicating clearly any amount of allowances that may be carried forward to year of assessment 2027.

(20 marks)

(b) In respect of Note 1, explain the eligibility of Perkasa Sdn Bhd to claim industrial building allowances.

(5 marks)

(c) In respect of Notes 3 explain the rational for the adjustment that you have made in the tax computation and the tax rate applicable to PSB for the year of assessment 2026.

(2 marks)

(d) Explain the tax rate that you have applied to the chargeable income of PSB for the year of assessment 2026.

(3 marks)

[Total: 30 marks]

Question 2

Alpha Sdn. Bhd. (ASB) is a Malaysian tax- resident manufacturing company with a financial year ending 30 June. Its paid-up ordinary share capital exceeds RM2.5 million. ASB wholly owns Synergy Sdn. Bhd. (SSB), which is also a Malaysian tax- resident company.

On 20 September 2025, ASB sold a Honda Accord, a non-commercial motor vehicle, to SSB for RM120,000, although its market value was RM135,000. The vehicle was originally purchased by ASB on 1 May 2023 for RM175,000 and had been used solely for business purposes since acquisition.

During the year- ended 30 June 2026, ASB made a payment of RM90,000 to Premier Advisory Ltd. (UK), a non-tax resident company for technical advisory services, comprising RM70,000 for services performed in Malaysia and RM20,000 for services performed outside Malaysia.

During the same year, ASB also incurred the following expenses

- RM80,000 for entertainment provided to potential customers during promotional events.
- RM35,000 for cash incentives paid to employees for achieving sales targets.

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Required:

(a) Compute the capital allowances for ASB and SSB for all relevant years of assessment arising from the transfer of the Honda Accord.

(10 marks)

(b) Explain whether the payment to the non-resident company is subject to withholding tax under Section 109B of the Income Tax Act 1967. Compute the withholding tax payable and explain the consequences for non-compliance.

(6 marks)

(c) Explain whether the expenses incurred by ASB for entertainment provided to potential customers and cash incentive paid to employees are deductible for income tax purposes. Support your answer with relevant provisions of the Income Tax Act 1967 and the principles established in NV Alliance Sdn Bhd v Ketua Pengarah Hasil Dalam Negeri.

(4 marks)

[Total: 20 marks]

Question 3

Top-Ace Sdn. Bhd. (TA) is a newly incorporated company in Malaysia with a paid-up ordinary share capital of RM3 million. The company is principally engaged in the manufacturing of electrical components and commenced business operations on 1 August 2026. TA's first set of financial statements is for the period from 1 August 2026 to 31 July 2027.
In accordance with the provisions of the Income Tax Act 1967, the company submitted Form CP204 to the Inland Revenue Board of Malaysia (IRB), estimating its tax payable for its first Year of Assessment (YA) 2027 at RM300,000. On 9 September 2026, there is a significant increase in sales arising from higher market demand for its products. The company plans to revise its estimated tax payable for YA 2027 to RM1 million.

Required:

(a) Explain the significance of the tax residence status of Top-Ace Sdn. Bhd. under the Income Tax Act 1967.

(10 marks)

(b) Discuss the obligations of Top-Ace Sdn. Bhd. on the submission of the revision of the estimated tax payable for YA 2027 to the IRB.

(5 marks)

[Total: 15 marks]

Question 4

AT Partnership was established on 1 January 2025 by two partners, Ashley and Tarren. The partnership is engaged in a wholesale business supplying food products to supermarkets and retail stores in Malaysia. The partnership agreement provides that profits and losses are shared equally between the partners.

For the financial year ended 31 December 2025, the partnership recorded an accounting net profit of RM110,000 before tax. Expenses included in the account are:

- Partners' salaries of RM240,000, i.e. RM120,000 each
- Partners' interest on capital contribution of RM60,000, i.e. RM30,000 each
- Depreciation RM140,000
- Entertainment expenses of RM30,000 are wholly related to sales
- General provision for doubtful debts RM50,000
- Office renovation RM100,000
- Office maintenance RM70,000

AT's capital allowance for the year of assessment 2025 is RM100,000

Each partner also derives income from other sources for the financial year ending 31 December 2025:

- Ashley has a sole- proprietorship business in Kuala Lumpur and suffered a substantial loss; the current year's business adjusted loss is RM200,000.
- Ashley's adjusted rental income from a condominium in Selangor is RM3,600.
- Tarren receives a single-tier dividend from resident companies in Malaysia of RM12,000.

In 2025, both Ashley and Tarren are Malaysian citizens and single. Ashley is a tax resident in Malaysia, while Tarren was working in Singapore for most of the year and was present in Malaysia for only 50 days. Tarren was not a tax resident in Malaysia since 2023.

Required:

Compute the provisional adjusted income and divisible income of the partnership, and the tax payable respectively by Ashley and Tarren for the year of assessment 2025.

[Total: 15 marks]

Question 5

(a) **Briefly explain SIX (6) of the tests used to determine whether an expense is capital or revenue in nature.**

(6 marks)

(b) SP Products Sdn Bhd paid a franchisee fee of RM500,000 to a local franchisor, Cincau Soya Bhd, for use of the business name 'Cincau Soya', franchisor business systems and products of the franchisor.

Required:
Explain to the directors of SP Products Sdn Bhd whether the above payment is tax deductible.

(4 marks)

(c) Yum Yum Sdn Bhd (YYSB) owns a chain of popular and famous restaurants. It has a paid up share capital of RM3 million. In the year ended 31 December 2025, the company incurred legal expenses in respect of the following:

- Defence against a suit brought by a customer of YYSB who alleged discrimination by the restaurant staff.
- Legal action taken against a contractor for supplying sub-standard food ingredients to the company.

Required:

Explain, with reasons, whether each item of the legal expenses is tax deductible in arriving at the adjusted income of Yum Yum Sdn Bhd.

(i) **Defending against a suit brought by a restaurant customer who alleged discrimination by the restaurant staff.**

(6 marks)

(ii) **Legal action taken against a contractor for supplying sub-standard food ingredients to the company.**

(4 marks)

[Total: 20 marks]

(END OF QUESTION PAPER)