

- The following tax rates are to be used in answering the questions.

- Income tax rates**
- (a) Companies 24%
- (b) Small companies
Chargeable income: On first RM500,000 17%
Subsequent Balance 24%
- (c) Resident individuals

	Chargeable Income RM	Rate	Cumulative Tax RM
First	2,500	0	0
Next	2,500	0	0
On	5,000		0
Next	5,000	1	50
On	10,000		50
Next	10,000	1	100
On	20,000		150
Next	15,000	3	450
On	35,000		600
Next	15,000	8	1,200
On	50,000		1,800
Next	20,000	14	2,800
On	70,000		4,600
Next	30,000	21	6,300
On	100,000		10,900
Next	50,000	24	12,000
On	150,000		22,900
Next	100,000	24	24,000
On	250,000		46,900
Next	150,000	24.5	36,750
On	400,000		83,650
Next	200,000	25	50,000
On	600,000		133,650
Next	400,000	26	104,000
On	1,000,000		237,650
Exceeding	1,000,000	28	

- (d) Non-resident individuals 28%

- **Benefits-in-kind (BIK) scale rates as per Inland Revenue Board (IRB) guidelines**

Cost of car when new	Annual prescribed benefit of motorcar	Annual prescribed benefit of petrol
RM	RM	RM
Up to 50,000	1,200	600
50,001 - 75,000	2,400	900
75,001 - 100,000	3,600	1,200
100,001 - 150,000	5,000	1,500
150,001 - 200,000	7,000	1,800
200,001 - 250,000	9,000	2,100
250,001 - 350,000	15,000	2,400
350,001 - 500,000	21,250	2,700
500,001 and above	25,000	3,000

The value of the car benefit equivalent to half of the above rates is taken if the car provided is more than five years old.

- **Prescribed value of household furnishings, apparatus and appliances**

Category	Type of Benefit	Annual Prescribed value of BIK provided RM
1	Semi-furnished with furniture in the lounge, dining room or bedroom.	840
2	Semi-furnished with furniture as in Category 1 and one or two of the following: <ul style="list-style-type: none"> • air-conditioners • curtains and alike • carpets 	1,680
3	Fully furnished with benefits as in Category 1 and 2 plus one or more of kitchen equipment, crockery, utensils and appliances.	3,360

Other benefits

RM per month

Household servant	400
Gardener	300
Driver	600

- Rates of Capital Allowances**

	Motor Vehicles/ Heavy Machinery	Plant & Machinery	Others	Industrial Building
Initial allowance	20%	20%	20%	10%
Annual allowance	20%	14%	10%	3%

- Real property gains tax**

With effect from 1 January 2014 the tax rates that apply depending on the holding period from the date of acquisition of the asset at follows:

Period of Disposal	Company	Individual (Citizens or Permanent Resident)	Individual (Non-Citizens)
	(%)	(%)	(%)
Within 3 years	30	30	30
In the 4th year	20	20	30
In year 5	15	15	30
In its 6th year onwards	5	5	5

QUESTION 1

- a. RK Manufacturing Sdn Bhd ('the company') is a locally incorporated resident company carrying on the business of manufacturing and selling electronic components for smart phones. It has an issued share capital of RM2 million of which 73% are held by Malaysian citizens. The ultimate holding company is RK Manufacturing (India) Plc., a company incorporated and resident in India. The company closes the accounts to 30 June each year. For the financial period ended 30 June 2019, the company's statement of profit and loss is as follows:

RK Manufacturing Sdn Bhd			
Statement of profit or loss for the year ended 30 June 2019			
	Note	RM'000	RM'000
Sales			9,667
Less: Cost of sales	1		<u>3,879</u>
Gross profit			5,788
Add: Other income			
Malaysian single tier dividend	2		<u>54</u>
			5,842
Less: Expenses			
Remuneration	3	944	
Entertainment and marketing	4	240	
Depreciation		400	
Repair and maintenance	5	634	
Bad and doubtful debts	6	980	
Corporate Social Responsibility (CSR) expenses	7	460	
Professional fees	8	90	
Insurance	9	10	
Contribution to school library	10	<u>110</u>	<u>3,868</u>
Profit before taxation			<u>1,974</u>

The following additional information and notes are provided in respect of the financial statement of the company:

- The company provides for slow moving stocks. During the year, in the cost of sales account, it had provided RM130,000, and reflected in the subsidiary's account, as follows:

Account for slow moving stock	Amount (RM)
Balance brought forward	42,000
Add: Provision for the year	<u>147,000</u>
	189,000
Less: Provision written back	17,000
Amount written off	<u>40,000</u>
Balance carried forward	<u>132,000</u>

2. The company received a single tier dividend of RM54,000 from investment in a local listed company.
3. The company contributed 15% to the Employee's Provident Fund for its staff except for one director of which the contribution was 30%. This director received an annual salary of RM200,000. Also included in the account is a salary of RM24,000 paid to a disabled employee (certified as one by the Social and Welfare Department).
4. During the year, the company carried out several promotions. The company spent RM150,000 on free door gift, lucky draws and special gift for customers who made purchases above a certain amount in the same receipt. The director who planned these promotions and other marketing strategies was appreciated with two free return trips for him and his family to the United States and to Europe. The trips altogether cost RM90,000.
5. Under repairs and maintenance, the following expenses are charged:
 - a. RM200,000 on equipment to facilitate access to the office for a disabled employee in compliance with the specifications of the government agency.
 - b. The balance of RM434,000 refers to general repairs and maintenance of the company's plant, machinery, building and motor vehicles.
6. A loan was extended to a long time supplier to upgrade his supply line, but he is now facing financial difficulties and the likelihood of his repayment is considered slim. Accordingly, the accountant made a provision of RM320,000 with the approval of the Board of Directors.

A new supplier related to one of the directors was advanced RM540,000 against future supplies but he was adjudged a bankrupt during the year and this sum was then written off.

The management agreed to a provision of RM120,000 for trade debts in general, in view of the weak business outlook.

7. During the year, the company incurred the following expenses on the Corporate Social Responsibility (CSR) account:

Particulars of CSR expenditure	Amount (RM)
Establishing and managing a musical group with the approval of the relevant ministries	200,000
Provision of a child care centre for the company's staff	95,000
Translation of books in the National language for a local university with the approval of the Dewan Bahasa	130,000
Provision of practical training (Note 1)	35,000
Total	460,000

Note 1: The training was given to a resident individual who was not an employee of the company.

8. The professional fees and charges of RM90,000 incurred are as follows:

Professional fee and charges	Amount (RM)
Secretarial fees	12,000
Tax filing fees	14,000
Income tax appeal	54,000
Product licensing signed in Germany for the sale and distribution of its products in that country	10,000
Total	90,000

9. The company paid a premium of RM10,000 to a local insurance company in respect of a term life policy and an accident policy for its director who has contributed a lot to the company's growth.
10. The company incurred an expenditure of RM110,000 in respect of contribution to a public school library in Kajang.
11. Other information:
- The company had incurred during the year expenditure of RM500,000 on the development of a website which is electronic commerce enabled.
 - Capital allowance claim for the year of assessment 2019 amounts to RM270,000.

Required:

With reference to the Income Tax Act 1967 (as amended), compute the chargeable income of RK Manufacturing Sdn Bhd for the year of assessment 2019.

Note 1: You should indicate by the use of the word 'Nil' any item of income or expenditure referred to in the question for which you do not need to make any tax adjustments in arriving at the chargeable income. You do not need to explain the adjustment that you are making.

Note 2: All figures should be to the nearest RM1,000.

Note 3: Any apportionment of time period should be to the nearest whole month.

(16 marks)

- b. KK Plantations Sdn Bhd ('the company') is a Malaysian incorporated resident company engaged in the business of coconut plantation for several years. It closes the accounts to 30 June each year. For the financial period ended 30 June 2019, it incurred the following expenditure:

Particulars of agriculture expenditure	Amount (RM)
Construction of a mill for the extraction of coconut oil ('the mill')	530,000
Bungalow for the mill manager in the plantation ('bungalow')	280,000
Total expenditure	810,000

Required:

- i. Compute the agriculture allowance (if any) due to KK Plantations Sdn Bhd for the year of assessment 2019 in respect of the mill and the bungalow.
Note: See Table 1 for the agriculture allowance rates.

(2 marks)

- ii. Assuming the mill was demolished in May 2022, compute the agriculture charge (if any), to KK Plantations Sdn Bhd. Support your answer with reference to the Income Tax Act 1967 (as amended) and decided case law.

(2 marks)

(Total: 20 marks)

Table 1: Agriculture Allowance Rates

Particulars of agriculture expenditure	Agriculture allowance rates	
	Initial allowance (%)	Annual allowance (%)
Building for welfare or as living accommodation for farm employees	Nil	20
Other building	Nil	10
Other qualifying agricultural expenditure	Nil	50

QUESTION 2

- a. Mr. Alex Kong ('Alex') was a Malaysian resident. He operated three businesses two in Malaysia and one in Thailand. The accounts are closed on 31 December each year. He passed away in Bangkok on 30 September 2018, intestate. For the year ended 31 December 2018, the trading results were as follows:

Businesses	Income/ (loss)	Amount (RM)
Business 1 (Malaysia)	Statutory income	190,270
Business 2 (Malaysia)	Adjusted loss	(76,930)
Business 3 (Thailand)	Adjusted income	31,727

Business 2 ceased operations on 30 June 2018. Alex had other sources of income and the details are as follows:

Other income	Amount (RM)
Net rental from a residential property in Seremban.	36,400
Interest from a Malaysian bank (credited in October 2018)	6,393

Alex (who was domiciled in Malaysia at the time of his death), was survived by a wife, Madam Angela, and a daughter Merkel, aged 9 years on 1 January 2018. The wife has no sources of income. Upon Alex's death, Matthew Kong, the younger brother of Alex administered the estate till 31 December 2018.

He closed the business in Thailand, and remitted RM150,000 into the account of Madam Angela with a local bank. He paid an annuity of RM20,000 to Angela, sorted out the assets and liabilities of the businesses and successfully wound up the estate sometime in February 2019.

Required:

With reference to the Income Tax Act 1967 (as amended), compute the chargeable income for the year of assessment 2018 in respect of:

- i. The estate of Alex Kong (deceased). (4 marks)
 - ii. Madam Angela (assume child relief was claimed in the return of the deceased husband). (2 marks)
- b. NR Medical Centre Sdn Bhd is a local private hospital ('hospital'). The medical staff formed a club named NRMC Club ('club') to cater for the fitness activities of its members. The club engaged an independent gymnasium operator ('operator') to operate a small scale gymnasium ('gym') in the hospital premises itself. The premise was given to the club as part of the hospital's corporate social responsibility program.

The operator pays rent of RM800 per month for the premise, and charges the club members RM50 per month for the use of the gym's equipment and training facilities.

Required:

With reference to the Income Tax Act 1967 (as amended) and the relevant Public Rulings issued by the Inland Revenue Board Malaysia, explain the tax treatment for NRMC Club.

(3 marks)

- c. GM Durian Farmer's Co-operative Society ('the society') was registered under the Co-operative Societies Act 1993 in May 2012 and closes its accounts to 30 June each year. The society promotes to its members the scientific cultivation of high yield durian trees and assists with the maintenance and harvesting of the fruits for distribution to the local and foreign markets. The society's unappropriated profit for the year amounting to RM308,200:

The member's fund as at the beginning of the basis period was as follows:

	RM
Paid up share capital	100,000
General reserve	20,000
Statutory reserve fund	12,000
Unappropriated profit	210,000
Total	342,000

Required:

With reference to the Income Tax Act 1967 (as amended), explain the tax treatment on chargeable income of GM Durian Farmer's Co-operative Society for the year of assessment 2019.

(3 marks)

- d. Mr. Kumar acquired a residential property ('the property') in Kepong on 30 August 2015 for RM399,600. Stamp duty and legal fees amounted to RM6,992 and RM3,247 respectively. He renovated the property for RM41,435 a year later.

Mr. Kumar sold the said property for RM718,000 on 15 January 2019 and incurred the following expenses:

- i. Valuation fee - RM7,990
- ii. Brokerage fee - RM21,540

Mr. Kumar had forfeited a deposit of RM7,000 from a prospective buyer just prior to this successful sale. Interest on a mortgage loan amounted to RM14,000 and this was settled from part of the sale proceeds.

Required:

With reference to the Real Property Gains Tax Act 1976 (as amended), compute the chargeable gain to Mr. Kumar on the disposal of the residential property.

(8 marks)

(Total: 20 marks)

QUESTION 3

- a. AS Motor Fabric Sdn Bhd ('the company') is involved in the business of fabricating motor vehicle upholstery. The company acquires its raw materials consisting of cloth, vinyl and genuine leather from various local suppliers. In May 2019, one of its competitors ('the competitor') who deals exclusively in leather seats has ceased business. The company then negotiated with the competitor to acquire the business and made a payment of RM800,000 for a 'lock stock and barrel' takeover.

Included in the RM800,000 was a payment of RM500,000 for the stock of raw materials of high quality leather worth RM300,000; and RM200,000 for the benefit of two (2) unexpired contracts for the supply of premium quality leather on the same terms and conditions on which it was supplied to the competitor (which is very much lower than the current market value for the leather). The two (2) unexpired contracts have another six months, and nine more months to finish. The company, which closes the accounts to 30 June, plans to claim the sum of RM200,000 as the cost of purchase of raw materials.

Required:

Discuss whether AS Motor Fabric Sdn Bhd could claim the sum of RM200,000 as a deductible expense in arriving at its adjusted business income for the year of assessment 2019, under the Income Tax Act 1967 (as amended).

Note:

Candidates are encouraged to quote the relevant provisions of the law under the Income Tax Act 1967 (as amended) and relevant case laws in your discussion.

(5 marks)

- b. Bintang Lima Sdn Bhd ('the company') is a retailer of high end German used cars in Malaysia. Mr. Johnny Low (Mr. Low) is the manager of the company's outlet in Kajang. In the course of his work, Mr. Low is authorised to attend car auctions conducted by the local Customs Office, bid and acquire confiscated cars and prepare them for re-sale by the company.

During one of the auctions, he could not make any successful bids for cars. However, when a quantity of 2 million contraband cigarettes came up for auction, on an impulse he placed his bid and was successful. He used the company's funds (meant to be used for acquiring cars) to pay the Customs. Over the next several months, using his business networks, he disposed of all the cigarettes and made a handsome gain and quietly replaced the company's money in the till. This was the one and only time when he used the company's time, money and network to engage in such an act.

Required:

Briefly discuss whether the gains made by Mr. Johnny Low from the disposal of the cigarettes would be liable to income tax under the Income Tax Act 1967 (as amended).

Note:

Candidates are encouraged to quote the relevant provisions in the Income Tax Act 1967 (as amended) and relevant case laws in your discussion.

(5 marks)

(Total: 10 marks)

QUESTION 4

- a. Mr. Khalis has been employed as an account manager at Kyasara Sdn Bhd since 2 January 2011. On 1 October 2019, Kyasara Sdn Bhd decided to merge with another company named Maxell Sdn Bhd. As a consequence from that merger, the top management of Kyasara Sdn Bhd had terminated many employees including Mr. Khalis who was terminated on 30 November 2019. The company paid him a gratuity of RM280,000 in appreciation of his service. In addition, Mr. Khalis received RM110,000 as compensation for loss of employment and he withdrew RM140,000 from an unapproved fund whereby 60% of the fund was contributed by Kyasara Sdn Bhd.

His remuneration and benefits received until 30 November 2019 are as follows:

1. Monthly salary of RM8,010 (after deducting employee's EPF contribution of 11%).
2. Bonus paid in June 2019 amounted to RM10,000.

3. A monthly entertainment allowance of RM1,800, but he only spent 80% to entertain company's clients.
4. A monthly petrol allowance for official duties of RM480 and parking fees allowance of RM300.
5. Traditional medical treatment at an approved hospital costing RM650 was paid by the company.
6. Mr. Khalis was awarded the performance incentive of RM2,500 for the year of assessment 2018, which was paid on 31 October 2019. This incentive was given due to his excellent service performance for the year of assessment 2018.
7. Mr. Khalis obtained a housing loan amounted to RM600,000 on 1 January 2019. The interest on loan of 3% per annum was subsidised by his employer.
8. A new car costing RM250,000 with a driver were provided by the company throughout his service.
9. A fully furnished condominium with a rental value of RM2,500 per month (including furniture of RM800 per month) was provided until 30 November 2019. Mr. Khalis was required to pay a nominal monthly rental of RM500 to Kyasara Sdn Bhd.
10. A reimbursement of RM600 per month was made to pay for the salary of a servant employed by Mr. Khalis.
11. The company paid for Mr. Khalis's annual corporate membership fees of RM2,500 to Kota Kemuning Golf Centre.
12. In January 2019, the company paid RM18,000 for his family's vacation to Las Vegas. The expenses inclusive of air tickets, accommodations and meals which were RM8,000, RM6,000 and RM4,000 respectively.

Required:

Compute the statutory employment income of Mr. Khalis for the year of assessment 2019.

(15 marks)

- b. Encik Halim, a Malaysian citizen is a government officer at Accountant General's Department of Malaysia for the past 12 years. His top management had encouraged staff with more than 10 years of services to pursue postgraduate study abroad especially in Australia. Following this encouragement, 15 scholarships from the Ministry of Education were offered to eligible staff. Encik Halim was among the successful candidates during the scholarship interview pursue his study in Melbourne, Australia for 3 years commencing from 3 January 2017 until 31 December 2019.

Required:

Based on the provision of Income Tax Act (ITA) 1967, briefly explain whether Encik Halim is a resident in Malaysia for the years of assessment 2017, 2018 and 2019.

(5 marks)
(Total: 20 marks)

QUESTION 5

- a. Gurun Sdn Bhd (GSB) is a manufacturing company involves in the production of latex products at their factory in Sungai Petani, Kedah. For the last eleven months (October 2018 to August 2019), the company's turnover was RM450,000 and the turnover had increased currently by 30% by end of September 2019. In November 2019, GSB sold their goods as follows:
1. RM40,000 value of goods to MTCC Shop at Ayer Keroh, Melaka.
 2. RM75,000 value of goods exported to Sydney, Australia.
 3. A total of RM40,000 value of goods to Chenang Mall, Langkawi.

In complying with the requirements of the Sales Tax Act 2018, GSB seeks your advice on matters related to their business activities.

Required:

Explain briefly the followings:

- i. Status of GSB as a taxable person under Sales Tax Act 2018. (3 marks)
 - ii. The sales tax implications on the sale of goods by GSB in November 2019. (3 marks)
 - iii. The taxable period and the submission of sales tax (if any) to the Royal Malaysian Custom Department (RMCD). (2 marks)
- b. DeVillage Sdn Bhd (DSB) is a company providing accounting services to its client under the Service Tax Act 2018. In providing accounting services to its client, Puan Amla, DSB sought legal advice from Nazri & Co, a legal firm. On 1 October 2019, the legal firm issued an invoice amounting to RM2,800 (inclusive of service tax) for the legal advice given. Subsequently, on 20 October 2019, DSB charged Puan Amla for the accounting fees amounting to RM7,200 and additional cost of RM330 for the printing and documentations.

Required:

In complying with the requirements of the Service Tax Act 2018:

- i. Determine the amount to be stated in the invoice issued by DeVillage Sdn Bhd to its client, Puan Amla indicating all charges (including the service tax, if any). (2 marks)

- ii. Assuming that the service tax calculated in (i) above was paid to the Royal Malaysian Customs Department on 10 February 2020, calculate the debt due to the government. (Show your workings).

(2 marks)

- c. Encik Azhar and Encik Razif operates a partnership (the partnership) which provided accounting services. The terms of the partnership were as follows:

	Azhar	Razif
Profit sharing	50%	50%
Partners' salaries	RM50,000	RM80,000

On 1 January 2019, the partnership was converted into a limited liability partnership (LLP). The LLP has the same profit sharing and partners' salaries as the partnership. The LLP has continued to provide accounting services.

The partnership's office equipment and furnishings were transferred to the LLP on 1 January 2019. The original cost and the residual value of these assets were RM2,500,000 and RM1,500,000 respectively. The applicable annual allowance rate for these assets is 10%.

The partnership has an unabsorbed tax loss brought forward from the year of assessment 2018 amounting to RM300,000.

The statement of profit or loss of LLP for the financial year ended 31 December 2019 is as follows:

	RM'000	RM'000
Revenue from accounting service		6,000
Interest income on loan to a third party		500
Less: Expenses		
Partners' salaries (per LLP agreement)	130	
Holiday trip for Azhar	20	
Depreciation	100	
Entertainment of existing customers	100	
Other deductible expenses	4,500	(4,850)
Profit before tax		<u>1,650</u>

The LLP did not incur any additional capital expenditure qualifying for capital allowance for the year of assessment 2019.

Required:

Compute the chargeable income of the LLP for the year of assessment 2019.

(8 marks)

(Total: 20 marks)

QUESTION 6

- a. Tanjak Sdn Bhd (TSB) is a manufacturing company which produces metal mould. Recently, TSB was awarded a contract to produce a new product mould. The product requires a special system integration and configuration software. Thus, TSB appointed Golden Ltd, a company in Sweden, to develop the software. The software development was held in Sweden. The overall cost of developing the system was RM1.5 million of which RM400,000 was for the technical advice for the software development. The payment was made to Golden Ltd on 16 March 2019.

The new system requires a high-end computer specifications. TSB incurred a cost of RM750,000 to acquire the asset from Golden Ltd. TSB took up a bank loan from HSBC Bank in Singapore to finance the acquisition of the assets. The interest charged by HSBC Bank of RM35,000 was paid by TSB on 26 December 2019.

Required:

With respect to the above payment, discuss the withholding tax implications on such payments. Support your arguments with reasons, relevant section of Income Tax Act 1967, amount of withholding tax to be paid and the due date to remit the tax to the Inland Revenue Board (IRB) (if applicable).

(5 marks)

- b. Moltex Sdn Bhd, located at Merbok, Kedah, was incorporated on 1 November 2018. The company applied for pioneer status and was approved by MIDA on 1 January 2019. The production day was determined to be on 1 May 2019. The company prepares its account up to 31 October every year.

Details of the company's budgeted income and expenditure for the first year of assessment as pioneer status company are as follows:

Year of Assessment	2019
	RM
Business Income:	
Adjusted Income	35,000
Capital allowances	25,000
Other Income:	
Interest from CIMB	15,000
Donation to approved institutions	7,500

Required:

Compute the chargeable income and amount transferred to exempt income account for the year of assessment 2019.

(5 marks)

(Total: 10 marks)

END OF QUESTION PAPER