



FINAL EXAMINATION
MARCH 2024

COURSE TITLE	TAX AUDIT AND TAX INVESTIGATION IN MALAYSIA
COURSE CODE	ATAX3323
DATE/DAY	19 JUNE 2024 / WEDNESDAY
TIME/DURATION	09:00 AM - 12:00 PM / 03 Hour(s) 00 Minute(s)

INSTRUCTIONS TO CANDIDATES :

1. Please read the instruction under each section carefully.
2. Candidates are reminded not to bring into examination hall/room any form of written materials or electronic gadget except for stationery that is permitted by the Invigilator.
3. Students who are caught breaching the Examination Rules and Regulation will be charged with an academic dishonesty and if found guilty of the offence, the maximum penalty is expulsion from the University.

(This Question Paper consists of 6 Printed Pages including front page)

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This question paper consists of FOUR (4) questions. Answer ALL questions in the answer booklet given. [80 MARKS]

QUESTION 1

(20 Marks)

A tax audit is an examination of tax return by the Inland Revenue Board of Malaysia (IRBM) to examine your tax return a little more closely and verify that your income and deductions are accurate. There are two types of tax audits which are desk audit and field audit.

Required:

- i. Explain the difference between desk audit and field audit as mentioned above. (6 marks)
- ii. List down **SIX (6)** types of documentation that is expected to be furnished by taxpayers during tax audit. (6 marks)
- iii. Describe the processes of a tax audit carried out by IRBM from commencement till closure and settlement of the audit findings. (8 marks)

QUESTION 2

(20 Marks)

Encik Saiful Kamaruddin, a Malaysian tax resident, is being investigated by the Inland Revenue Board. He is the owner of SB Enterprise, the sole proprietor.

The following information has been established:

- a) The extracted balance sheet of SB Enterprise as of 31 December:

	2022	2023
	RM	RM
Capital	130,000	160,000
Profit and loss bf	80,000	55,000
Profit/(loss) for the year	(25,000)	15,000
Less: Drawing	(12,000)	(20,000)
	173,000	210,000

Represented by:		
Non-Current Assets	132,000	150,000
Current Assets	48,500	80,800
Less: Current Liabilities	(7,500)	(20,800)
	173,000	210,000

- b) Encik Saiful acquired a piece of land for RM102,000 in April 2020. He paid a down payment of RM22,000 and the balance with a bank loan. Details of the loan are as follows:

	2020	2021	2022
	RM	RM	RM
Principal (payment)	22,860	22,860	22,850
Interest (payment)	4,457	2,970	1,485

- c) In 2021, Encik Saiful purchased a house in Petaling Jaya for RM120,000 by cash. In 2023, he sold the house for RM130,000 but the market value of the house on that date was RM150,000. Using the sale proceed, he bought a second-hand car costing RM200,000. The balance of the payment was financed by a bank loan. No installment and interest were paid in 2023.
- d) The balances of other assets owned by Encik Saiful are as follows:

	2022	2023
	RM	RM
Balance as at 31 December:		
<u>Fixed deposit</u>		
Principal	40,000	30,000
Interest	2,000	1,600
Saving accounts	14,100	17,200
Bank Statement	20,000(Debit)	63,000(credit)
Shares (unit) in Temenggong Sdn Bhd [refer to item (v) below]	22,000 units	12,000 units

- e) Shares in Temenggong Sdn Bhd were purchased in the year 2022 for RM2.50 each. However, 10,000 units of the shares were sold in 2023 for RM2.25 each. Encik Saiful also incurred expenses of RM1,600 on the sale of these shares. He received dividends amounting to RM6,000 and RM4,000 from shares in Temenggong Sdn Bhd for the year 2022 and 2023 respectively.
- f) In October 2023, Encik Saiful received RM15,000 cash from his daughter as a birthday present.
- g) In the year 2023, Encik Saiful received RM13,000 from his friend, Encik Ismail for repayment of a loan. The loan amounting to RM25,000 was given out in the year 2021.
- h) In August 2022, Encik Saiful gave jewelry valued at RM18,000 to his wife as an anniversary present.
- i) Encik Saiful's personal expenses for the year 2022 and 2023 were as follows:

	2022	2023
	RM	RM
Household and domestic expenses	36,700	42,800
Holiday in New York	-	25,000
Income Tax	5,000	8,000

- j) Income declared by Encik Saiful for the year 2022 and 2023 was RM80,500 and RM105,500 respectively.

Required:

Using the capital statement (net worth) method, compute the amount of income deemed under declared by Encik Saiful for the year of assessment 2023.

QUESTION 3

(20 Marks)

With reference to the *Rangka Kerja Audit Cukai* (Tax Audit Framework) issued by the Inland Revenue Board and which came into effect on 1 May 2022, discuss ALL the following matters:

- a) The objective of a tax audit from the perspective of the Inland Revenue Board. (5 marks)
- b) The basis of selection of cases for a desk audit. (5 marks)
- c) The duties and responsibilities of the taxpayer. (5 marks)
- e) Penalties that may be imposed if there is a discovery of any under declaration or non-disclosure of income and the discretion that may be exercised by the Director General of Inland Revenue (DGIR). (5 marks)

QUESTION 4

(20 Marks)

- a) Briefly discuss why it is imperative to have an income tax audit system in place in the context of the self-assessment system, including the tracking of tax defaulters by the Inland Revenue Board of Malaysia through special programs. (5 marks)
- b) In selecting a company for a comprehensive review, several criteria are used based on which the company may be selected for an audit review.

Required:

Discuss briefly any **TWO (2)** criteria that may be used by the Inland Revenue Board of Malaysia for such a comprehensive review. (5 marks)

- c) Mr. Henry Wong ('Mr. Wong') carries on a business selling motor spare parts. He was audited on 1 March 2021 and the case was closed on 15 June 2021. He was found to have not declared an income of RM65,000 from a particular transaction on 1 July 2020 affecting the return for the year of assessment 2020. The Inland Revenue Board ('IRB') had wanted to impose a penalty of 15% under section 113(2) for non-disclosure but his tax agent, Chua & Kong Associates, argued that it was a case of interpretation – whether the income was capital or revenue. And based on a case law decision, Mr. Chua was of the view that the amount is a capital receipt and had advised the client to exclude the sum from his return of income. Mr. Wong subsequently filed the return on that basis.

The Revenue official acknowledged that the non-disclosure may not have been willful or intentional, or even a case of advice given without reasonable care.

Nevertheless, the IRB officer was not in agreement with the amount not disclosed as being capital in nature. The officer therefore prepared an additional assessment for the year of assessment 2020 but did not impose any penalty under section 113(2) of the ITA.

In May 2023, another audit exercise was commenced on Mr. Wong for the year of assessment 2022 and it was found that he had left out an income of RM102,000 from his accounts. This particular transaction was done in September 2022. When this was brought to his notice, Mr. Wong claimed that the non-disclosure was on the advice of his accountant. Chua & Kong Associates, however, explained that when the particular transaction was brought to the notice of Mr. Wong, he had explained over the phone that it was a transaction similar to the one on 1 July 2020. Due to time constraints, the tax agent accepted the explanation and filed the relevant tax return.

Following the audit in May 2023, Mr. Chua had written to the Revenue office that apparently the undisclosed sum of RM102,000 was not one that is similar to the transaction done on 1 July 2020, and he volunteered to rectify the matter on behalf of the client.

The IRB plans to raise an additional assessment for the year of assessment 2022 in respect of the undisclosed sum of RM102,000, and impose a penalty in the context of sections 114(1A) and 113 of the Income Tax Act, 1967.

Required:

With reference to the Rangka Kerja Audit Cukai issued by the Inland Revenue Board of Malaysia (effective from 1 May 2022), and section 114(1A) Income Tax Act, 1967 (ITA), read together with section 113 of the ITA, discuss the penalty imposition options for the Director General of Inland Revenue in this case of Mr. Henry Wong's 'non-disclosure' in both the instances; and whether the non-disclosure of the income of RM102,000 will be considered a first offence or a second offence. (10 marks)

*** END OF QUESTION PAPER***

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For Exam Unit Only School of Accounting and Taxation
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