



FINAL EXAMINATION
MARCH 2024

| | |
|----------------------|--|
| COURSE TITLE | TAXATION 2 |
| COURSE CODE | ATAX3113 |
| DATE/DAY | 20 JUNE 2024 / THURSDAY |
| TIME/DURATION | 02:00 PM - 05:00 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 8 Printed Pages including front page)

*****DO NOT OPEN THE QUESTION PAPER UNTIL YOU ARE TOLD TO DO SO*****

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

QUESTION 1

(20 Marks)

JBC Sdn Bhd commenced business on 1 September 2020 and made up its account to 30 June annually. In July 2022, the company voluntarily decided to change its accounting date to 31 August. On 1 September 2023, the company was acquired by Toko Maju Bhd and was required to change its accounting year-end to 31 December to be coincide with the holding company's year-end.

The followings are details of JBC Sdn Bhd accounting period and adjusted income:

| Accounting Period | Adjusted Income/(loss) |
|-------------------------|------------------------|
| | RM |
| 01/09/2020 – 30/06/2021 | 30,000 |
| 01/07/2021 - 30/06/2022 | 46,000 |
| 01/07/2022 – 31/08/2022 | 40,000 |
| 01/09/2022 – 31/08/2023 | 25,000 |
| 01/09/2023 – 31/12/2023 | 20,000 |
| 01/01/2023 – 31/12/2023 | 28,000 |

Required:

- a) Discuss briefly the importance of determining the correct basis period for a business. (5 marks)
- b) Determine the basis periods and the adjusted income/(loss) for each relevant years of assessment for JBC Sdn Bhd. (Round up to the nearest ringgit). (15 marks)

QUESTION 2

(20 Marks)

- A. Tanjung Sdn Bhd, a Malaysian resident company, was awarded a mega project by the Johor state government to construct a theme park in Johor Bharu. The project involves a consortium of contractors and suppliers from Malaysia as well as from Singapore and Taiwan counterparts. The project started in January 2023 and is expected to complete in December 2026.

The following payments were made by Tanjung Sdn Bhd to its contractors and suppliers during the year 2023:

- i. RM15,000,000 lump sum payment to Bishan Pte Ltd, a Singapore company, consists of:
- | | |
|---|-----------|
| | RM |
| a) Payment for materials | 5,000,000 |
| b) Payment for lease of high-tech equipment | 2,000,000 |
| c) Contract service | 4,000,000 |

- ii. Payment of RM3,000,000 to Lion Plc Ltd, a Taiwanese company, for the use of patent and design in the project.
- iii. Payment of RM1,500,000 to Tebrau Sdn Bhd, a Malaysian resident company located in Singapore for consultancy services.

Required:

State with reason(s) whether the above payments are subject to withholding tax and state the amount of withholding tax to be paid (if applicable). (10 marks)

- B. Perabot Kayu Sdn Bhd is a licensed manufacturer and importer of wood-based furniture. In 2023 the following furniture were either purchased from Philippines suppliers or locally made by Perabot Kayu Sdn Bhd at its factory in Rawang:

| Type of furniture | Origin | Destination |
|-------------------|----------------------|---|
| Rattan furniture | Philippines | All sold to furniture outlets in Malaysia |
| Sofa | Philippines | 50% sold overseas 20% sold to individuals in Malaysia 30% still in stock |
| Bed-room | Locally manufactured | 30% sold in Langkawi 30% sold to furniture outlets in Klang Valley. 20% contributed to Old Folk Home in Selangor. |

Required:

Explain the sales tax implications on each of the above transactions. No computation is required. (10 marks)

QUESTION 3

(20 Marks)

- A. Happy Baby Maternity Home Sdn Bhd is a locally incorporated private maternity hospital ('the hospital') and closes the accounts to 31 December each year. On 1 January 2021 the hospital completed the construction of a maternity home at a cost of RM3,500,000 (including the cost of the land) and commenced operations immediately thereafter.

Owing to expanding needs, the hospital obtained a lease on an adjoining building and renovated it at a cost of RM500,000. One-fifth of the leased building is used as an administrative office for the hospital.

The detail of the expenditure on the constructed building is as follows:

Particulars of expenditure

| | RM |
|--------------------------------|---------|
| Cost of land | 121,197 |
| Legal fee for transfer of land | 12,120 |

| | |
|---|------------------|
| Cutting and leveling of land | 69,748 |
| Excavation and preparation of site for construction | 24,543 |
| Piling and foundation works | 43,934 |
| Construction of building | 3,109,078 |
| Construction of perimeter wall | 10,605 |
| Architect fee | 42,419 |
| Legal services for obtaining various building approval | 19,695 |
| Subcontract charges for installation of wiring and plumbing | 22,421 |
| Landscape charges | 24,240 |
| Total | 3,500,000 |

Required:

Compute the qualifying building expenditure of the constructed and leased buildings and the industrial building allowances due to Happy Baby Maternity Home Sdn Bhd for the years of assessment 2021 to 2023. (10 marks)

- B. Mr Gopinath ('Gopi') signed an agreement on 15 June 2021 to buy a piece of land for RM328,835. He settled the full payment on 26 January 2021 when he obtained a mortgage loan on the land. The vendor transferred the land to him on 14 November 2021. He incurred stamp duty of RM3,288 and legal fees of RM6,576 on the purchase.

Mr Gopi wanted to cultivate mango trees on the land. He spent RM46,976 on leveling, drainage and fencing of the land to facilitate the cultivation. In February 2011, the cultivated trees were partially damaged by a fire set by a neighbor, and he received compensation of RM28,750 for the damages. And in March 2023, he received insurance recovery of RM10,520 for damages due to flood.

The cultivation of the mango did not go too well and Mr Gopi advertised to sell the land. A buyer responded and paid a deposit of RM9,076 while waiting for his bank loan to be approved. The bank turned down the loan application and Mr Gopi retained the deposit. A dispute arose regarding the title to the land and Mr Gopi engaged a lawyer to defend his right to the land. The legal fee was RM3,852.

Another buyer agreed to buy the land for RM470,842 and he signed an agreement with Mr Gopi on 14 October 2023. The payment was settled on 13 November 2023 and the title was transferred to the buyer on 15 December 2023. In securing a buyer for the land, Mr Gopi had incurred the following expenditure:

- i. Valuation fee RM6,292
- ii. Advertisement: RM1,222
- iii. Brokerage fee RM:11,744
- iv. Legal fees RM9,400.

Required:

Compute the chargeable gain or loss for Mr Gopi in respect of the property disposed. (10 marks)

QUESTION 4

(20 Marks)

Malaysia Madani Sdn Bhd incorporated in Malaysia, is engaged in the business of manufacturing footwear for export. Malaysia Madani Sdn Bhd's paid-up capital in respect of ordinary shares as of 1 May 2018 amounted to RM1,500,000. Malaysia Madani Sdn Bhd is a tax resident company.

Statement of Profit or Loss for the financial year ended 30 April 2023 is as follows:

| | Note | RM'000 | RM'000 |
|------------------------------------|------|--------|---------------------|
| Revenue | (1) | | 27,498 |
| Less: Cost of sales | (2) | | <u>(22,300)</u> |
| Gross profit | | | 5,198 |
| Add: Government Grant | (3) | 100 | |
| Interest income | (4) | 39 | <u>139</u> |
| | | | 5,337 |
| Less: Expenses: | | | |
| Loss on disposal of motor vehicles | (5) | 21 | |
| Salaries and wages | (6) | 1,480 | |
| Bad and doubtful debts | (7) | 47 | |
| Marketing and advertisement | (8) | 410 | |
| Export credit insurance premium | (9) | 85 | |
| Motor vehicle expenses | (10) | 350 | |
| Repair and maintenance | (11) | 274 | |
| Professional and legal fees | (12) | 37 | |
| Foreign exchange losses | (13) | 70 | |
| Donations | (14) | 65 | |
| Insurance premium (key man) | (15) | 17 | |
| Miscellaneous expenses | (16) | 129 | |
| Other business expenses | (17) | 1,182 | <u>(4,167)</u> |
| Net profit before tax | | | <u>1,170</u> |

Notes:

1. Revenue for YA 2023 includes a sum of RM125,000 received by Malaysia Madani Sdn Bhd as the first installment under an agreement signed with a shoe company in Penang. The amount received was for a license to use Malaysia Madani Sdn Bhd's patents and know-how for a period of two years (i.e. RM125,000 is received for the first year and another RM125,000 will be receivable for the second year).
2. Included in the cost of sales are:
 - i. RM73,000 incurred for the cost of sport shoes donated to an orphanage in Malaysia. The market value of the donated shoes amounted to RM160,000;
 - ii. RM50,000 being the allowance for slow moving inventories for the current year. This is merely an estimated amount and is not identifiable to any specific stock item.

3. Malaysia Madani Sdn Bhd received a grant from the government to run a special skilled training program for the company's disabled employees. The company undertook it as part of its human capital development program.
4. Interest income consisted of:
 - i. RM12,000, for interest received on housing loan given to an employee.
 - ii. RM27,000, for interest charged on trade debtors for overdue debts.
5. Malaysia Madani Sdn Bhd disposed one of its delivery vans, realising a loss of RM21,000 on the disposal.
6. Salaries and wages comprise of:

| | RM'000 |
|--|--------|
| i. Salaries and wages | 1,000 |
| ii. Salary paid to a disabled staff (certified by the government) | 200 |
| iii. EPF contributions (20% of salaries and wages in (i) and (ii) above) | 240 |
| iv. Expenses incurred in providing equipment for disabled staff | 40 |
7. Bad and doubtful debts were in respect of:
 - i. Bad trade debts written off during the year amounted to RM60,000;
 - ii. Increase in general provision for trade debts for the year from RM50,000 to RM70,000;
 - iii. A sum of RM22,000 advanced to a supplier who required funds to meet some working capital requirements. However, the supplier was subsequently declared bankrupt during the year, thus the advance of RM22,000 was written off.
 - iv. Recovery of debts amounted to RM55,000 which were taken over from the vendor of the business which Malaysia Madani Sdn Bhd acquired several years ago.
8. Marketing and advertisement expenses include:
 - i. A sum of RM82,000 embezzled by former marketing director;
 - ii. A sum of RM66,000 in respect of products advertising in South Korea for purposes of promoting export of the company's branded footwear;
 - iii. A sum of RM15,000 incurred on the cost of online advertising to recruit staff;
 - iv. All remaining marketing and advertisement expenses qualify for deduction under Section 33(1).
9. The export credit insurance premium was in respect of premiums paid to a Malaysian insurance company approved by the Minister of Finance for the export of footwear.
10. Motor vehicle expenses include lease rentals in respect of a motor car of RM6,500 per month under an agreement for a period of 24 months commencing on 1 January 2018. The purchased price of a new car of similar

model in January 2018 was RM145,000. The remaining motor vehicle expenses all qualify for deduction under section 33(1).

11. Repair and maintenance expenses consisted of:
 - i. RM90,000: repair and routine maintenance of motor vehicles, office equipment and machinery.
 - ii. RM184,000: upgrading of the company's building lobby.
12. Professional and legal fees were in respect of:
 - i. RM13,000: Tax agent fees for filing annual income tax returns;
 - ii. RM24,000: Legal fees for the acquisition of a new business.
13. Foreign exchange loss relates to an unrealized payment due to a supplier.
14. Donations and sponsorship expenses consisted of:
 - i. RM25,000: cash donation to an approved institution;
 - ii. RM40,000: sponsoring the construction of bus stops under the "Public Amenities for Community" program (project approved by the Minister of Finance & cost is certified by the relevant authorities).
15. Key man insurance was taken on the life of Malaysia Madani Sdn Bhd's shareholders (i.e. the husband and wife, both of whom are also the only directors of the Company). The beneficiary of the key man insurance policy is Malaysia Madani Sdn Bhd.
16. Miscellaneous expenses incurred are as follows:

| | RM |
|---|--------|
| Dinner to entertain suppliers | 16,000 |
| Leave passage to facilitate annual family day event in Bali | 44,000 |
| Food and refreshment provided at AGM | 27,000 |
| Depreciation | 42,000 |
17. Other business expenses - All qualify for deduction under section 33(1).

Required:

Compute the income tax payable by Malaysia Madani Sdn Bhd for the year assessment 2023.

*** END OF QUESTION PAPER ***

APPENDIX:

The following tax rates, allowances and values are to be used in answering the questions.

Income tax rates

Resident company

| Paid up ordinary share capital | First RM150,000 | RM150,001 to RM600,000 | Excess over RM600,000 |
|---------------------------------------|------------------------|-------------------------------|------------------------------|
| RM2,500,000 or less | 15% | 17% | 24% |
| More than RM2,500,000 | 24% | | |

Non-resident

| | |
|------------|-----|
| Company | 24% |
| Individual | 30% |

Capital allowances

| | Initial allowance (IA) Rate % | Annual allowance (AA) Rate % |
|--|--|---|
| Industrial buildings | 10 | 3 |
| Plant and machinery – general | 20 | 14 |
| Motor vehicles and heavy machinery | 20 | 20 |
| Office equipment, furniture and fittings | 20 | 10 |

Sales tax 10%

Service tax 6%

Real property gains tax

| | Companies | Individuals (Noncitizens & Non PR) | All other persons |
|--|-------------------|---|----------------------------------|
| | Rate % | Rate % | Rate % |
| Category of disposal | | | |
| Disposal within three years after the date of acquisition | 30 | 30 | 30 |
| Disposal in the fourth year after the date of acquisition | 20 | 30 | 20 |
| Disposal in the fifth year after the date of acquisition | 15 | 30 | 15 |
| Disposal in the sixth year after the date of acquisition or thereafter | 10 | 10 | 0 |