Answers

All statutory references are to the Income Tax Act 1967, as amended, unless otherwise stated.

1 Precise Sdn Bhd

(a) From Humble Self, Finance Director
To Soh Klever, Managing Director
Date 6 December 2010

Report on the tax implications of the expansion project

Set out below is my report on the tax implications of the expansion project, which commenced in June 2010 and will continue into 2011.

(i) Eligibility for reinvestment allowance

In order to qualify for the reinvestment allowance, a company must satisfy all of the following conditions:

– be a tax resident company;
– have been in operation for not less than 36 months;
– incurred capital expenditure on a factory, plant or machinery in the basis period for a year of assessment;
– such assets must be used in Malaysia; and
– for the purposes of a qualifying project, as defined, i.e. for manufacturing or processing by a company expanding, modernising or automating its existing business, or in regard to related products in the same industry [paragraph 8(a) of Schedule 7A].

(ii) Eligibility of Precise Sdn Bhd (Precise)

Given that Precise is a Malaysian tax resident company, and has been manufacturing industrial tools since 2005, and has been in operation for more than 36 months, the first two conditions are both satisfied.

Based on the information gathered, Precise has incurred RM4 million on additional factory space, and plant and machinery in the year to 30 September 2010 and will incur another RM9 million on further expansion in 2011. All of this capital expenditure is in connection with our manufacturing facility in Perak. Therefore, both the third condition of incurring capital expenditure, as well as the fourth condition of the assets being used in Malaysia are also satisfied.

As for the last condition, what Precise has embarked on is a project undertaken in expanding its existing business of manufacturing industrial tools. The project is therefore a qualifying project as defined, in that it is an expansion of manufacturing capacity.

Therefore, Precise is undoubtedly eligible for the reinvestment allowance in respect of the capital expenditure incurred under the expansion project.

(iii) Effect on the tax computations for the years of assessment 2010 and 2011

Based on the available data and forecast figures gathered, I have prepared a set of draft income tax computations for the years of assessment 2010 and 2011, which are given in full in the Appendix to this report.

Based on these computations, the tax impact of a claim for reinvestment allowance in respect of the ongoing expansion project can be summarised as follows:

Quantum of investment allowance and manner of absorption

The reinvestment allowance represents an additional tax deduction in arriving at the statutory income over and above the normal capital allowance deduction. The amount of the tax deduction is set at 60% of the qualifying capital expenditure incurred in the basis period for the year of assessment, but restricted to a maximum of 70% of the statutory income from the manufacturing business in each year of assessment. Any amount not absorbed may be carried forward to the next year of assessment to be similarly utilised against a maximum of 70% of the statutory income until it is fully absorbed.

Thus, as shown in the Appendix:

– For the year of assessment 2010, Precise is eligible for a reinvestment allowance of RM2,400,000 (being 60% of RM4 million), of which RM1,260,000 (being 70% of the statutory income of RM1·8 million) is absorbed; and the balance of RM1,140,000 is carried forward.

– For the year of assessment 2011, the reinvestment allowance for the year is RM5,400,000 (being 60% of RM9 million), to which can be added the RM1,140,000 unabsorbed amount brought forward. As this total amount is less than 70% of statutory income of RM9·6 million in the year of assessment 2011, the entire cumulative reinvestment allowance of RM6,540,000 may be utilised in this year.

Tax savings

As stated above, the amounts of RM1,260,000 and RM6,540,000 can be used to reduce the statutory income for the years of assessment 2010 and 2011 respectively. This translates directly into tax savings of RM315,000 (being 25%

of RM1,260,000) and RM1,635,000 (being 25% of RM6,540,000) in the two years of assessments in addition to capital allowances.

Thus, for an investment of RM13 million in the expansion project, Precise will be able to claim total tax deductions amounting to RM20·8 million: being capital allowance of RM13 million and reinvestment allowance of another RM7·8 million; resulting in total tax savings of RM5·2 million (25% of RM20·8).

Exempt account

As soon as an amount of reinvestment allowance is absorbed, the said amount may be credited into an exempt account and a tax exempt dividend may be paid out of the exempt account to the extent of the available credits therein. Such an exempt account must be maintained and kept updated to track the crediting of exempt income and the debiting of the distribution of exempt dividends, until the credits are fully utilised.

Shareholders who receive such tax exempt dividends are similarly exempted from income tax in respect of those dividends. A corporate shareholder may similarly credit such an exempt dividend into its exempt account and on-pay exempt dividend to its own shareholders. However, there is only a two-tier exemption allowed, i.e. the exemption benefit cannot be passed on to another subsequent corporate shareholder.

I hope you now have a clearer picture of the tax impact, or more accurately, tax benefits of the reinvestment allowance and its mechanism.

Appendix
Draft income tax computations for the years of assessment 2010 and 2011

	RM	YA2010 RM	YA2011 RM
Statutory income from business		1,800,000	9,600,000
Qualifying capital expenditure YA2010	4,000,000		
Reinvestment allowance at 60%	2,400,000		
Restricted to 70% of statutory income	1,260,000		
Less: reinvestment allowance absorbed		(1,260,000)	
Reinvestment allowance carried forward	1,140,000		
Qualifying capital expenditure YA2011	9,000,000		
Reinvestment allowance at 60%	5,400,000		
Reinvestment allowance brought forward	1,140,000		
	6,540,000		
Restricted to 70% of statutory income	6,720,000		
Less: reinvestment allowance absorbed			(6,540,000)
Reinvestment allowance carried forward	nil		
Net statutory income from business		540,000	3,060,000
Interest income		50,000	50,000
Aggregate income		590,000	3,110,000
Less: approved donation, restricted to 10% of aggregate income		(20,000)	(40,000)
Total/chargeable income		570,000	3,070,000
Tax charged at 25%		142,500	767,500

(b) Tax implications of the relocation and the attendant disposal of the business assets

(i) Balancing allowances and charges (under Schedule 3) for the year of assessment 2012

As the factory, plant and machinery will be disposed of to a subsidiary, the disposer has control over the acquirer. Thus the disposal will fall to be treated as a controlled sale.

The controlled-sale provisions would apply such that the assets will be deemed to be disposed of at Precise's residual expenditure.

There would therefore be no balancing allowance nor any balancing charge to Precise for the year of assessment 2012.

(ii) Reinvestment allowance granted in the years of assessment 2010 and 2011

As the assets are acquired during the basis periods for the years of assessment 2010 and 2011, and the said assets will be disposed of in 2012, the holding period will be less than five years. In circumstances where the disposal takes place within five years of the date of acquisition, the reinvestment allowance given 'shall be deemed to have not been given' [paragraph 2A of Schedule 7A]. Consequently, the reinvestment allowances given for the years of assessment 2010 and 2011 will be withdrawn or clawed back in the respective years.

Tutorial note: In practice, the tax authorities have agreed to expediently accept the withdrawal of the reinvestment allowance in the year of disposal i.e. in this case the year of assessment 2012, to avoid the reopening of the tax computations for the earlier years, i.e. the years of assessment 2010 and 2011.

(iii) Potential status of Precise Sdn Bhd as an investment holding company in the year of assessment 2013 and the classification of its sources of income

An 'investment holding company' means a company whose activities consist mainly in the holding of investments and not less than 80% of its gross income … is derived therefrom [s.60F].

With the cessation of the manufacturing business in 2012 from the year of assessment 2013 onwards, Precise will derive income from its investments in its subsidiaries, in the form of dividends, and from management fees. Precise will therefore qualify as an investment holding company based on the statutory definition, unless its management fees amount to more than 20% of its gross income.

As an investment holding company:

– the dividend income from Precise's subsidiaries, whether Malaysian or foreign, will be classified as 'dividends' [s.4(c)]; and
– the management fees will be classified as gains and profits from other sources [s.4(f)] as it is not a listed company.

None of Precise's income will be classified as coming from a business source, as it is not listed on the Bursa Malaysia.

2 Anak Sdn Bhd

Memorandum

To: Chief Accountant
From: Junior Accountant
Date: 6 December 2010
Subject: Various issues relating to the years 2010 and 2011 as requested

(i) Basis period of Anak Sdn Bhd (Anak) for the first year of assessment

As the company will not present any set of accounts covering a 12-month financial year ending on a day other than 31 December, the basis year (i.e. the calendar year) will be the basis period.

As 2010 is the year in which the business commences, the basis period for the first year of assessment will run from the day of commencement (1 May 2010) to 31 December 2010.

The first year of assessment is therefore the year of assessment 2010 with the basis period of 1 May 2010 to 31 December 2010.

(ii) Tax treatment of the following items from Anak Sdn Bhd's perspective:

– **Business assets taken over from Bapak Sdn Bhd (Bapak)**

As Anak is a subsidiary of Bapak, it is controlled by Bapak. The disposal of the business assets from Bapak to Anak is therefore subject to the controlled-sale provisions.

The effects are:

– Anak will be deemed to have acquired any assets which have qualified for capital allowances at the residual expenditure of Bapak at the end of the year of assessment 2009;
– Anak will be entitled to claim the capital allowance beginning with the year of assessment 2010;
– the allowances (initial and annual) should be calculated with reference to the original qualifying plant expenditure incurred by Bapak; and
– initial allowances will only be available to Anak in the case of the assets, if any, acquired by Bapak after the end of its last qualifying period.

– **Provision for retirement benefit of RM250,000 in the period ended 31 December 2010**

The provision made in the year of assessment 2010 is merely anticipated, contingent and estimated: the amount is not yet incurred. Therefore it does not rank for deduction in the year of assessment 2010.

– **Payment of retirement benefit of RM300,000 in the year ended 31 December 2011**

The RM300,000 will be an expense incurred in respect of an employee. Having employees is a normal and necessary incidence of carrying on the trading business. The payment of the retirement benefit does not secure any right nor create an asset of enduring benefit to Anak. Therefore, the payment of the retirement benefit to an employee is an expense or outgoing (i.e. not capital expenditure) wholly and exclusively incurred in the production of gross income from the trading business. As such it is tax deductible in arriving at the adjusted income for the year of assessment 2011.

– **The provision for doubtful debt for the trade debtor taken over**

A provision reasonably made for a specific trade debt is tax deductible [s.34]. However, the provision for the debt taken over from Bapak is not tax deductible to Anak because the gross income from these trade transactions never constituted a part of the gross income of Anak. On the other hand, the trade debt of RM20,000 which arose after Anak took over the trading business will have been included as part of the gross income of Anak. Therefore, the doubtful debt provision in respect of this debt is deductible because it is in respect of a specific debtor, the debt is trade in nature, and the provision is reasonably made based on the fact that the debtor is in financial difficulties and is likely to go under. A provision of RM10,000 (50% of RM20,000) is therefore tax deductible in the year of assessment 2010 as a provision for a specific trade debt.

(iii) Determination of the first year of assessment for which an estimate of tax must be provided, the date by which it must be provided and the date of the first instalment

The first year for which Anak must provide an estimate of tax is its first year of assessment i.e. the year of assessment 2010. The normal provisions for commencement cases will apply because as Anak has a paid-up capital of RM3 million, it does not qualify for the two-year break available for companies with paid-up capital not exceeding RM2·5 million. Thus, the estimate of tax must be made within three months of the commencement of operations, i.e. Anak's estimate of tax for the year of assessment 2010 must be provided by 31 July 2010.

The first instalment of tax is payable in the sixth month of the basis period, i.e. by 10 October 2010.

If Anak's paid-up ordinary share capital were less than RM2·5 million, it would not be required to provide an estimate of tax for the years of assessment 2010 and 2011. The first year of assessment in which it would be required to do so would be the year of assessment 2012; such an estimate of tax would need to be provided by 1 December 2011.

(iv) Tax treatment of the RM300,000 received in November 2011 by the distribution manager

An exemption applies in the case of a retirement gratuity where retirement is at the statutory compulsory age after having served at least ten years with the same employer. The distribution manager will be retiring at the age of 55 years, and he has worked continuously for 30 years with the same group of companies (Bapak and Anak belong to the same group of companies). Therefore, the gratuity of RM300,000 received by him in November 2011 will be fully exempted from income tax.

3 Miss Eko Frenly

(a) Tax deductibility of the cost of the feasibility study and the business plan against employment income

Based on the available information, Miss Eko Frenly's only income in 2007, the year in which the expenditure on the feasibility study and business plan was incurred is from her employment as a university lecturer. As a general principle, expenditure is only deductible from income if it is incurred in the production of that income, in the case of an employment this is usually equated to being incurred in the performance of the employee's duties. As there is no connection between Miss Frenly's employment as a lecturer and the proposed resort development, the costs of the feasibility study and business plan cannot be said to be incurred in the production of her employment income and so no deduction will be allowable.

(b) (i) Arguments for treatment as a capital gain

- At the time of acquisition, the coastal land was intended to be used as the fixed asset of the proposed resort project.
- The nature and location of the land further support that intended usage.
- The mode of finance, i.e. the use of her entire savings, shows that it is meant to be a long-term investment.
- The quick resale of the land, due to the lack of financial support brought on by the global financial crisis is a factor beyond her control.

Arguments for treatment as a revenue gain from an adventure in the nature of trade

- Although her stated intention is to use the land as her long-term fixed asset in the resort project, in actual fact, her action showed that a quick resale is likely.
- She used up all her savings on acquiring the land, so she had no more funds left for an emergency or for the development cost of the resort.
- A quick resale is essential to unlock her funds.

(ii) Conclusion

On balance, the argument for a capital gain is stronger, in particular she had the feasibility study commissioned to support the intended land-use. The abandonment by her prospective investors due to the global financial crisis, was something totally unforeseen and beyond her control.

Although she has a related interest in environmental issues, she does not have any related interest in development projects or in landed properties.

(c) Basis on which stamp duty will be payable by Green Sdn Bhd

Stamp duty is normally charged on the basis of the money value of the consideration between the two parties (willing-seller–willing-buyer) i.e. the transaction price. However, in this case the consideration for the transfer would appear to consist of two elements: the cash sum of RM1·2 million and the promise to appoint Miss Eko Frenly as technical adviser. In the circumstances, the Director General of Inland Revenue is likely to argue that the true consideration is greater than RM1·2 million and to require the stamp duty to be based on the market value of the property at the date of transfer, as determined by an independent valuation.

4 Cashrich Sdn Bhd

(a) Section 108 imputation account as at 31 December 2010

	RM
Balance as at 1 January 2010	100,000
Less: Tax deducted	
1 February 2010	
Dividend in cash (75,000 x 100/75 x 25%)	(25,000)
Qualifies to be a franked dividend under the transitional provisions to the single-tier system as paid in cash to ordinary shareholders.	
8 August 2010	Nil
Dividend not paid in cash, no franking allowed for *in specie* distribution	
Balance as at 31 December 2010	75,000

(b) Computation of tax payable for the year of assessment 2010

	RM	RM
Income		
Gross dividend		
(Franked, s.110 set-off: RM100,000)		
RM400,000 deemed total income		nil
Single-tier dividend: RM 150,000 (exempt)		nil
Interest from term deposits with a bank in Malaysia		50,000
Gross rent	120,000	
Less: Tax deductible rental expenses	(70,000)	
		50,000
Gain on sale of investment: RM180,000 capital gain (not taxable)		nil
Aggregate income		100,000
Less: A x B/4C (see working)		(26,125)
		73,875
Add: Franked dividend		400,000
Total income/chargeable income		473,875
Tax charged at 25%		118,469
Less: s.110 set-off		(100,000)
Tax payable		18,469

Working:
A (permitted expenses) = 165,000
B (gross income) = 400,000 + 50,000 + 120,000 = 570,000
C (aggregate gross income) = 570,000 + 150,000 (exempt single-tier dividend) + 180,000 (capital gains) = 900,000
Formula (A x B/4C) = 26,125
Restricted to 5% of gross income (B) = 570,000 = 28,500

5 Beezee Sdn Bhd

(a) Fees for marine investigations performed in the middle of the Pacific Ocean

The services are clearly technical in nature. However, the services were rendered outside Malaysia, so as such the technical fees were not derived in Malaysia, they will not be subject to tax in Malaysia. The RM500,000 is therefore not subject to withholding tax [s.109B].

(b) Commission to pilot for introducing the supplier of parts from India

Miss Saylavie has clearly performed a service of introducing the supplier to Beezee and the RM60,000 commission represents income to Miss Saylavie for the service rendered. However, it represents casual income to her as this is the only time she has rendered such a service and received such income. The commission will therefore be taxed as other income [s.4(f)].

The amount is derived from Malaysia, as it is paid by Beezee, a resident of Malaysia, and in this instance (not s.4(a) income) it does not matter where the service is rendered. So withholding tax is applicable at the rate of 10% [s.109F].

(c) Late payment charge paid to a foreign supplier for an overdue account

A late payment charge represents a payment for indebtedness, as such it is interest in nature. Interest paid to a non-resident by a resident is derived from Malaysia. So withholding tax is applicable at the rate of 15% [s.109].

(d) Payment for the supply and installation of machines in Malaysia

The 88% of the RM1 million payment, being for the supply of the machines i.e. sale of goods, is not subject to withholding tax in Malaysia.

The 12% i.e. RM120,000 for the installation and commissioning of the machines, is payment for a service, which is clearly technical in nature. The amount is derived from Malaysia as it is paid by Beezee, a resident of Malaysia and the service was rendered in Beezee's premises in Malaysia. So withholding tax is applicable at the rate of 10% [s.109B].

(e) Payment for the outright purchase of software

Payment for the acquisition/alienation of an intangible or intellectual property comes within the definition of a royalty payment in that it is essentially a payment for a right to use [s.2]. The payment is likely to represent income to SinoSoft Ltd as it specialises in developing customised software. The amount is derived from Malaysia as it is paid by Beezee, a resident of Malaysia. So withholding tax is applicable at the rate of 10% [s.109].

				Marks
1	(a)	(i)	**Conditions for eligibility for reinvestment allowance**	
			Resident company	½
			In operation for not less than 36 months	½
			Incurred qualifying capital expenditure on factory, plant and machinery	½
			Assets used in Malaysia	½
			Qualifying project	1
				3
		(ii)	**Whether Precise qualifies**	
			Application of each of the five criteria to Precise – ½ mark each	2½
			Overall conclusion	½
				3
		(iii)	**Draft tax computations**	
			Correctly identify statutory income as after capital allowances	½
			Reinvestment allowance: YA2010	1
			YA2011	1
			Balance of computation of chargeable income: YA2010	½
			YA2011	½
			Application of correct tax rate (both years)	½
			Quantum and manner of absorption	
			Additional tax deduction	½
			Basis of calculation:	
			60% of qualifying capital expenditure incurred in basis period	1
			Restricted to 70% of statutory income	1
			Carry forward of any unabsorbed and set off against 70% in future	1
			Quantum and manner of absorption in YA2010 and YA2011	1½
			Tax savings	
			25% of reinvestment allowance absorbed in YA2010 and YA2011	1
			Additional saving via capital allowances	1
			Total savings	1
			Exempt account	
			Mechanism	1
			Exempt dividend: Precise	½
			Shareholders generally	½
			Corporate shareholders	1
				15
		Professional marks		
		Report – Format and presentation		1
		Clarity and effectiveness of communication		1
		Appropriate use of appendix		1
				3
	(b)	(i)	**Balancing allowances and charges**	
			Deemed controlled sale and why	1
			Controlled sale provisions: disposal at residual expenditure	1
			No balancing allowance, no balancing charge	1
				3
		(ii)	**Status of the reinvestment allowance**	
			Determine that the holding period is less than five years	1
			Claw-back of allowances	1
			In YA2010 and YA2011	1
				3

	Marks
(iii) Investment holding company	
Definition of investment holding company	1
Why Precise fits the definition	1
20% caveat re management fees	½
Classification of dividend [under s.4(c)]	1
Classification of management fees [under s.4(f)]	1
Non-applicability of business source	½
	5
	35

			Marks
2	**(i)**	**Determination of the first year of assessment and state the YA**	
		No 12-month financial year	1
		Therefore basis year is basis period for commencement case	1
		Stating the actual YA as 2010 and the basis period	1
			3
	(ii)	**Tax treatment of business assets taken over from Bapak**	
		Conclusion of controlled sale	1
		Effects of controlled-sale provisions on Anak	
		Disposal deemed at residual expenditure	1
		Anak to claim capital allowance for YA2010	1
		Allowance rates on original QPE of Bapak	1
		IA only on assets acquired after the end of Bapak's last qualifying period	1
			5
		Provision for retirement benefit in period ended 31 December 2010	
		Provision merely anticipated, contingent and estimated: not yet incurred	1½
		Conclusion: does not rank for deduction in YA2010	½
			2
		Payment of retirement benefit in the year ended 31 December 2011	
		Employee expense a normal and necessary incidence in business	1
		Not capital in nature	½
		Does not secure a right or create an asset of enduring benefit	1
		Expense or outgoing wholly and exclusively incurred in the production of gross income from the trading business	1
		Conclusion: tax deductible in arriving at the adjusted income for YA2011	½
			4
		The provision for doubtful debt for the trade debtor	
		Provision for a specific trade debt is normally deductible	½
		Provision for book debt taken over is not tax deductible	1
		Never formed part of the gross income of Anak	1
		Trade debt that arose after Anak took over the trading business and has been part of gross income is deductible	½
		Reasons why: specific debtor	½
		trade in nature	½
		provision is reasonably made	1
		Confirm amount of provision as deductible RM10,000 and specify for YA2010	1
			6
	(iii)	**Determination of the first year of assessment for estimate of tax, by when and date of first instalment**	
		Estimate required for first year of assessment/YA2010	1
		Normal commencement provisions apply, with reason	1
		Estimate of tax must be made within three months of commencement of operations	½
		By 31 July 2010	½
		Sixth month of the basis period/10 October 2010	½
		If paid-up capital is less than RM2·5 million, moratorium applies	½
		First estimate required for YA2012; must be provided by 1 December 2011	1
			5
	(iv)	**Tax treatment of payment received by the distribution manager**	
		Conditions for exemption of retirement gratuity	1
		How distribution manager qualifies:	
		Retiring at age 55	½
		Continuously for 30 years with the same group of companies	1
		Conclusion: RM300,000 fully exempted.	½
			3
	Professional marks		
	Memorandum format and presentation		1
			29

	Marks
3 (a) Tax deductibility of the cost of the feasibility study and the business plan against employment income	
Only available income from employment as university lecturer	1
General rule: incurred in production of income/performance of duties	1
Lack of connection	1
Conclusion: cannot be deducted against her employment income	1
	4
(b) (i) Capital gain	
Intended to be used as the fixed asset of the proposed resort project	1
Nature and location of the land further supports intended usage	1
Mode of finance shows meant to be a long-term investment	1
Quick resale of the land is beyond her control	1
Revenue gain from an adventure in the nature of trade	
Despite stated intention actual actions show a quick resale is likely	1
Used up all her savings on acquiring the land	1
No more funds left for emergency or for the development	1
Quick resale essential to unlock her funds	1
	8
(ii) Conclusion	
On balance, the argument for capital gain is stronger	1
Feasibility study commissioned to support the intended land-use	½
Abandonment by prospective investors totally beyond her control	½
Related interest in environmental issues, not in development projects/landed properties	1
	3

Note: alternative answers on conclusion of revenue gain, if good and appropriate, will also attract credit.

(c) Basis for stamp duty payable by Green Sdn Bhd	
Cash transaction price	1
Value of consideration not just cash price	1
Market value at date of transfer per independent valuation	1
	3
	18

			Marks
4	(a)	**Section 108 imputation account as at 31 December 2010**	
		Balance as at 1 January 2010	½
		1 February dividend RM25,000 deduction	1
		Qualifies as a franked dividend under the transitional rules	1
		8 August dividend no deduction	½
		Dividend not paid in cash no franking allowed	1
			4
	(b)	**Computation of tax payable for the year of assessment 2010**	
		Gross dividend – excluded from taxable income	½
		RM 400,000 deemed total income	1
		Single-tier dividend – exempt	1
		Interest from term deposits with bank in Malaysia	½
		Net rents	1
		Gain on sale of investment – not taxable	1
		Aggregate income	½*
		Formula A x B/4C	1*
		Permitted expenses (A)	½
		Gross income (B)	1
		Aggregate gross income (C)	1½
		Restricted to 5% of gross income	1
		Actual deduction	½
		Franked dividend	1
		Total income/chargeable income	½*
		Tax charged at 25%	½
		Section 110 set-off	1
			14
			18

Note:
Marks indicated with a '*' are awarded for the allocation of the appropriate description to the figure calculated, not for the figure itself.

		Marks
5 (a)	**Fees for marine investigations performed in the Pacific Ocean**	
	Technical nature of service	½
	Service rendered outside Malaysia: not derived in Malaysia	1
	Not subject to tax in Malaysia: no withholding tax	½
		2
(b)	**Commission to pilot for introducing the supplier of parts from India**	
	Performed a service of introducing the supplier to Beezee	1
	Commission represents income for the service rendered	½
	Casual income: other income	1
	Derived from Malaysia: paid by a resident	1
	Irrelevant where the service is rendered	½
	Withholding tax applicable, at 10%	1
		5
(c)	**Late payment charge paid to a foreign supplier for an overdue account**	
	Late payment charge represents payment for indebtedness: interest in nature	1
	Interest paid to a non-resident by a resident: derived from Malaysia	1
	Withholding tax applicable at 15%	1
		3

Note: alternative answers on penalty rather than interest, if good and appropriate, will also attract credit.

(d)	**Payment for the supply and installation of machines in Malaysia**	
	Amount for supply of machines: not subject to withholding	1
	The 12% for installation and commissioning is for a service	1
	Nature of service: technical service.	½
	Derived in Malaysia, paid by a resident and service rendered in Malaysia	1½
	Withholding tax applicable at 10%	1
		5
(e)	**Payment for outright purchase of software**	
	Payment within definition of a royalty payment	1
	Derived in Malaysia, paid by a resident of Malaysia	1
	Withholding tax applicable at 10%.	1
		3
		18

Note: alternative answers where treated as a capital receipt and not a royalty, will also attract credit, if correct and appropriate.