Answers

1 Report to Mr Akaun Tan of Agri-Bijak Bhd (ABB)

Date 3 December 2019
From Tax associate, Tax Firm
To Mr Akaun Tan, finance director, ABB

Responses to tax issues raised

We refer to our meeting on 29 November 2019 regarding the capital expenditure in the past year and plans in the immediate future.

This report will highlight the main tax issues for ABB. We also attach a draft tax computation for the year of assessment (YA) 2019 to demonstrate their impact.

(a) New plantation land and railway system

(i) Plantation expenditure

ABB is eligible for agriculture allowances because it fulfills the following conditions:

– ABB is in the business of working a plantation;

– It has incurred qualifying agriculture expenditure on new planting, roads, bridges, buildings used in business and for workers' accommodation; and

– ABB is the owner of the assets and the assets are in use for the plantation during and at the end of the basis period for YA 2019.

The computation of the agriculture allowances for YA 2019 is as follows:

	Qualifying agriculture expenditure RM'000	Rate %	Allowance RM'000
New planting	4,800	50	2,400
Roads and bridges	1,200	50	600
Workers' accommodation	560	20	112
Storage buildings	930	10	93
Total			3,205

(ii) Railway track system

The railway track system facilitates the efficient movement of agricultural produce within the plantation. It therefore performs an active function in the business. The expenditure is capital in nature as it brings into existence an asset of enduring advantage for use in the business, and the asset is for permanent employment in the business rather than to be turned over for a profit in the shortest possible time. It is therefore fixed capital rather than circulating capital.

The railway track system performs a function rather than merely provides a business setting: therefore it constitutes 'plant' for income tax purposes. ABB qualifies for capital allowances because the company incurred the qualifying plant expenditure, is the owner, and used the asset in the business during and at the end of the basis period.

The computation of capital allowances for the railway tracks is as follows:

	RM'000	RM'000
Qualifying plant expenditure		6,000
Initial allowance at 20%	1,200	
Annual allowance at 14%	840	
	2,040	

(b) Research and development (R&D) expenditure

The R&D expenditure incurred of RM1,450,000 is to develop high-yielding seedlings for its own planting. Hence it is directly related to its business. In view of the fact that ABB will not be applying for any tax incentives for R&D expenditure, the amount qualifies for a single tax deduction as it is specifically provided for under the law [s.34(7)].

For accounting purposes, the R&D expenditure has been capitalised and amortised over five years. Therefore, the amortised amount of RM290,000 charged to the statement of profit or loss should be disallowed, because the amount was not the actual sum incurred, but merely an amortised amount. Another adjustment should be made in the tax computation to deduct the entire sum incurred of RM1,450,000 for YA 2019.

(c) Tax computation

The attached appendix shows the computation of tax chargeable for YA 2019.

(d) Tax estimate for YA 2020

With the enlarged plantation operations, the estimated tax for YA 2020 has increased to RM30 million from the original estimate of RM18 million. As the final tax liability exceeds the estimated tax or revised estimated tax by more than 30%, a penalty of 10% is potentially leviable on the amount in excess of the 30% buffer.

ABB has until 31 March 2020 (the end of the sixth month of the basis period) or 30 June 2020 (the end of the ninth month of the basis period) to submit a revised tax estimate. Revision by either deadline is permissible in law. An earlier revision or later revision may be selected depending on the cash flow position of ABB.

The minimum additional amount by which ABB must revise its estimate to avoid incurring a penalty is:

	RM'000
Final tax liability	30,000
30% thereof	(9,000)
Minimum amount of revised tax estimate	21,000
Original estimate	(18,000)
Minimum additional tax estimate	3,000

(e) Freight charges

(i) Below is a summary of the tax treatment of a company under the Labuan tax regime:

- A Labuan company is treated as carrying on a Labuan business activity only if it fulfills substance requirements in the form of the prescribed minimum number of full-time employees in Labuan, and the minimum amount of annual operating expenditure in Labuan;
- A Labuan company is taxable only on income from trading activities, which include shipping activity;
- The net profit of the Labuan company from its trading activity, as per the audited financial statements, is subject to tax at 3%. This is highly preferential when compared to the standard rate of 24% for companies under the Income Tax Act regime;
- However, any royalty and any income from intellectual property received by a Labuan company will be taxable under the Income Tax Act;
- It is taxable on the preceding year basis, rather than the current year basis;
- Where it is deemed preferable to avail itself of the treaty benefits under double taxation agreements entered into by Malaysia, a Labuan company may make an irrevocable election to be treated under the Income Tax Act;
- A Labuan company is exempted from stamp duty, sales tax, service tax;
- It is also exempted from withholding tax when it makes payments to non-residents.

(ii) However, it is important to note that the tax deduction for any payment made by ABB, a resident company, to the Labuan company for shipping agriculture produce, will be restricted to 3% of the total payment made. This means that 97% of any such payments will be disallowed to ABB.

(f) Replanting contract

(i) Replanting is specifically allowable as a deduction in ascertaining adjusted income for income tax purposes under the law [s.34(6)(d)].

(ii) The proposed out-sourcing contract to its subsidiary for replanting ABB's acreage is a transaction between two related parties because the subsidiary is controlled by ABB.

The fee is set at 15% above the prevailing market rate to help boost the subsidiary's profitability. This is therefore not a transaction at market value between two independent parties.

This arrangement will likely contravene the arm's length principle expounded under Malaysia's transfer pricing (TP) regulations.

A recommended best-practice measure will be for ABB to conduct a bench-mark exercise to determine the fair market rate for the replanting activity and then base the value of its contract with its subsidiary accordingly. This will obviate a transgression of TP regulations and avoid TP scrutiny and penalties.

– End of report –

Appendix

Agri-Bijak Bhd
Tax computation for YA 2019

		RM'000	RM'000
Profit before tax			37,000
Less:	Gain on disposal of non-current assets		(380)
			36,620
Add:	Amortised R&D expenditure	290	
	Depreciation	469	
	Donations	5,800	
	Legal and professional fees	451	
			7,010
Less:	R&D expenditure		(1,450)
Adjusted income			42,180
Add:	Balancing charge		920
			43,100
Less:	Capital allowances		
	Railway tracks	2,040	
	Other assets	475	
	Agriculture allowances	3,205	
			(5,720)
Statutory income/aggregate income			37,380
Less:	Approved donations in cash	5,000	
	Restricted to 10% of aggregate income, i.e.	3,738	(3,738)
Total income/chargeable income			33,642
Income tax at 24%		RM8,074,080	

2 Ms Leemah

(a) Tax treatment of investment income

(i) Rental income from the property in Australia

The scope of charge of Malaysia is the derivation and remittance scope. The rental income from the property in Australia is derived from Australia because the property, i.e. the source of the income, is located in Australia.

As the RM61,000 was remitted to Malaysia, it is subject to tax in Malaysia.

However, there is a specific provision [paragraph 28, Schedule 6] in the Income Tax Act to exempt foreign-sourced income remitted to Malaysia.

Therefore, the RM61,000 is exempted from income tax in Malaysia.

(ii) Interest on deposit with a UK bank

As the deposit is placed with a bank situated in the UK, the interest derived therefrom is derived from the UK. This is therefore foreign-sourced income: the derivation scope does not apply. The interest was not remitted to Malaysia: hence the remittance rules do not apply.

The interest income is out of scope and is not subject to tax in Malaysia.

(iii) Cash distributions from the REITs

The distribution of profit by the REITs is derived from Malaysia as the REITs are listed, approved by the Securities Commission and resident in Malaysia. The distribution is derived from Malaysia and duly subject to income tax in Malaysia.

Further, there is a specific provision [s.109D] that any distribution by REITs must be subject to withholding tax at source at the rate of 10% [Schedule 1, Part X, paragraph 1(a)] for individuals (resident and non-resident).

Hence, Leemah is subject to withholding tax at 10% in respect of the REITs distribution.

The tax thus deducted at source constitutes the final tax, which means Leemah is not required to report the REITs distribution in her annual tax return.

(iv) Shares in companies listed on the Bursa Malaysia

The gains of RM25,000 from selling shares in one company out of 11 held by her, appears, *prima facie*, to be capital in nature. As these are shares in listed companies, hence not real property company shares, there is no capital gains tax, in

the form of real property gains tax, on the gains. Therefore the gains on disposal of one of her share investments is capital in nature and not subject to income tax in Malaysia.

The dividends are derived from Malaysia because the distributing companies are listed on the Bursa Malaysia, and therefore are resident in Malaysia.

The dividends amounting to RM14,600 from the remaining ten listed companies represent single-tier dividends. There is a specific provision [paragraph 12B, Schedule 6] which exempts single-tier dividends.

Hence the RM14,600 dividends are exempted from tax.

(v) LLP

The salary of RM48,000 received by Leemah is provided for in the partnership agreement. It therefore constitutes income to Leemah and is assessable on her as employment income.

The profit distribution of RM30,800 to Leemah is not assessable on Leemah because such a distribution is specifically exempted [paragraph 12C, Schedule 6].

(b) Computation of income tax payable for YA 2019

	RM	RM
Income		
Rental income from Australia		0
Interest income		0
REIT distribution		0
Gain from disposal of shares		0
Dividend (single tier)		0
Employment income: salary from LLP		48,000
LLP – profit distribution		0
Aggregate income/total income		48,000
Less: Personal reliefs		
Individual – self	9,000	
Child – higher rate	8,000	
		(17,000)
Chargeable income (CI)		31,000
Tax charged on first RM20,000	150	
Tax charged on the next RM11,000 at 3%	330	
Tax charged	480	
Less: Tax rebate (CI not exceeding RM35,000)	(400)	
Tax payable	80	

(c) Mode of acquisition of the cafe business

		Asset deal	Share deal
(i)	**Classification of income**	Business profits belong to Leemah as the sole proprietor; subject to income tax as business profits.	Single-tier dividend income; specifically [paragraph 12B, Schedule 6] tax exempt.
(ii)	**Deductibility of the interest expense**	Interest is tax deductible as the loan is laid out for assets used in the business.	Loan interest expense is specifically not tax deductible [paragraph 12B, Schedule 6].
(iii)	**Shop lot**	Leemah will acquire the shop lot and since it is real property, comes under the scope of real property gains tax (RPGT). An RPGT return needs to be completed by Leemah as the acquirer.	There is no disposal of the shop lot. The company continues to own the shop lot. There are no RPGT implications.
(iv)	**Plant, equipment and furniture**	Leemah will acquire these business assets. She will qualify for initial allowance and annual allowance for these assets in the first year of ownership.	There is no disposal/acquisition of these business assets as the company continues to own them and can continue to claim capital allowances on them following the change in ownership.

3 (a) Nazrin

(i) Determination of acquisition date and price

Apartment
The apartment was transferred to Nazrin as a gift from his father when the latter was still alive.

Under the real property gains tax (RPGT) legislation [Paragraph 12, Schedule 2], where the donor and recipient are parent and child, and the donor is a Malaysian citizen, the donor shall be deemed to have received no gain and suffered no loss on the disposal.

The recipient shall be deemed to acquire the asset at an acquisition price equal to the acquisition price paid by the donor, plus the permitted expenses incurred by the donor.

However, as the property was acquired by Azlan prior to 1 January 2000, the acquisition consideration will be substituted by the market value of the asset as at 1 January 2000. Therefore, only permitted expenses incurred after that date should be taken into account.

The acquisition price to Nazrin will therefore be calculated as follows:

	RM'000
Original purchase price of RM100,000 is disregarded; adopt market value as at 1 January 2000	500
Add: Permitted expenses – renovation cost	30
Acquisition price	530

The acquisition date is the date when the property was transferred to Nazrin, i.e. 2 January 2019.

Coconut plantation land
The land was transferred to Nazrin as a beneficiary pursuant to his father's will. Therefore, the acquisition price of the property will be based on the market value of the land on the date of the transfer, i.e. RM1,600,000 [Paragraph 15A, Schedule 2].

The acquisition date is the date when the property was transferred to Nazrin, i.e. 3 June 2019.

(ii) RPGT computation for part disposal of coconut plantation land

	RM'000
Sale consideration	950
Less: Replanting expenses	0
Less: Construction of store	(80)
Less: Valuation fee (2/4 x RM60,000)	(30)
Disposal price	840
Acquisition consideration (2/4 x RM1,600,000)	(800)
Chargeable gain	40
Exemption – 10% of chargeable gain or (2/4 x RM10,000) whichever is higher	(5)
Gain subject to RPGT	35
RPGT payable at 30% (disposal within three years of acquisition)	10·5

(b) Mamak Sdn Bhd (Mamak)

(i) Service tax implications

Design fees payable to a Singapore architect firm
Imported taxable services incurred for the furtherance of the company's business in Malaysia is subject to service tax. As design is a taxable service, the design fee payable to the Singapore architect firm is subject to service tax, notwithstanding that the service may be rendered outside Malaysia.

Mamak, as the recipient of imported taxable services, is required to account for service tax. As Mamak is not registered for service tax, it is required to account for the service tax using a prescribed form by the last day of the month following that in which the imported taxable services are paid for or the invoice is received, whichever is earlier.

The service tax is 6% of the consideration paid, i.e. RM60,000 (6% x RM1,000,000).

Construction cost paid to a local construction company
Construction services are not regarded as a taxable service and, therefore, the amount payable is not subject to service tax.

Project management fees payable to Rojak Sdn Bhd (Rojak)
Project management is a taxable service. However, as Rojak only provides the service to wholly-owned subsidiaries, and does not provide the same taxable service to non-group companies, it is eligible for intra-group relief, and, therefore, service tax is not applicable.

(ii) Grant and subsidy

Grant from the Malaysian Investment Development Authority (MIDA)
There is a specific exemption order which exempts grants and subsidies given by the Government of Malaysia and State Government. The exemption order further provides that any expenditure or expenses which are covered by the grant or subsidy are not eligible for tax deduction nor do they constitute qualifying capital expenditure for capital allowance purposes.

The grant of RM3 million to construct the factory is exempted from income tax. However, the amount subsidised will not be eligible for capital allowance. As such, Mamak will only be able to claim capital allowances based on qualifying capital expenditure of RM9·5 million (RM12·5 million – RM3 million).

Similarly, the training grant received will be exempted from income tax. However, the portion of the expenses subsidised will not be allowed for tax deduction.

Subsidy for purchase of raw material cost
Where subsidies received are for the replacement/acquisition of capital assets, the amount is not taxable. On the other hand, a grant/subsidy which is received to compensate for revenue loss or to cover revenue expenditure is subject to income tax.

As the subsidy is given to cover the high raw material cost (i.e. operating expenditure), the subsidy is taxable. However, the raw material cost incurred will qualify for tax deduction. Therefore, the net effect is likely to be tax neutral.

4 (a) Palm Sdn Bhd (Palm)

Royalty expense
When the tax return for YA 2016 was submitted, the withholding tax on the royalty had not been remitted to the Inland Revenue Board (IRB). Therefore, Palm did not claim a tax deduction at that point.

Once the withholding tax on the royalty has been remitted, Palm will be entitled to the tax deduction. Palm can make an application to the IRB to claim a deduction for the royalty expense. The application must be submitted within one year after the end of the year in which the payment is made [s.131A]. As the withholding tax payment was made in 2019, Palm has up to 31 December 2020 to make the application to claim the royalty expense as a deduction.

Interest expense
When the tax return for YA 2016 was prepared, the interest expense was not tax deductible as the amount was not due to be paid then. The interest, when it is due to be paid, can be deducted in arriving at the company's adjusted income for the period in which the interest is payable.

The company should notify the IRB in writing regarding the interest deduction not later than 12 months from the end of the basis period for the YA when the sum is due to be paid. Upon receipt of the notice, the IRB may reduce the assessment to give effect to the interest expense deduction. Therefore, Palm should notify the IRB by 31 December 2020 as the interest was due to be paid on 30 June 2019.

(b) (i) Dai Wan Sdn Bhd

Status quo

	RM'000	RM'000
DW		
Unabsorbed capital allowance	5,000	
Less: Utilisation from YAs 2020 to 2024 (RM1,000,000 x 5 years)	(5,000)	0
Unabsorbed tax losses	15,000	
Less: Utilisation for YA 2025 and YA 2026	(2,000)	
Amount disregarded (time limit of seven years)	13,000	
Adjusted/chargeable income (annual) for YA 2027	1,000	
Total tax liability for YA 2027 at 24% (of RM1 million)		240
SW		
Adjusted income for YA 2020	4,000	
Less: Pioneer losses	(500)	
Chargeable income	3,500	
Tax liability at 24%		840
Adjusted/chargeable income (annual) for YA 2021 to 2027	4,000	
Total tax liability for seven years at 24% (of RM28 million, i.e. RM4 million x 7)		6,720
Total tax exposure for eight years		7,800

Based on the above, DW will not be in a tax-paying position up to YA 2026 as its profits generated from the personal computer manufacturing of RM1 million annually can be sheltered by the unabsorbed capital allowances (CAs) and tax losses.

For the first five YAs (YA 2020 to 2024), DW will be utilising the unabsorbed CAs. DW will only start utilising its tax losses from YA 2025 onwards. However, with the seven-year time limit to carry forward tax losses, DW cannot continue to carry forward the tax losses beyond YA 2026. This means that the tax losses can only be utilised for two years in YA 2025 and YA 2026. The remaining tax losses will be disregarded.

For SW, the profits from the notebook manufacturing will be subject to income tax without any shelter of tax losses, other than YA 2020 where the company can utilise the pioneer loss of RM500,000.

Proposed merger of businesses under DW

The notebook manufacturing business under SW is profitable while the personal computer manufacturing business under DW is incurring losses. In addition, DW has unabsorbed CAs and tax losses. By transferring the business of SW to DW, since both manufacturing activities relate to the production of IT equipment, it can be argued that, after merger, the two activities can reasonably be treated as a single source of business. In this regard, the profits from the merged business can be sheltered by first the unabsorbed CAs, and, next, the unabsorbed tax losses.

	RM'000	RM'000
DW		
Unabsorbed CAs	5,000	
Less: Utilisation from YA 2020 (RM1,000,000 + RM4,000,000)	(5,000)	0
Unabsorbed tax losses	15,000	
Less: Utilisation for YA 2021 to 2023 (3 years x RM5,000,000)	(15,000)	0
Adjusted/chargeable income (annual) for YAs 2024 to 2027	5,000	
Total tax liability for four years at 24% (of RM20 million, i.e. RM5 million x 4)		4,800
SW		
Pioneer loss (disregarded)	500	
Chargeable income/tax liability		0
Total tax exposure for eight years		4,800

Based on the combined profits of RM5 million, the unabsorbed CAs and tax losses can be utilised within four years. Thereafter, the profits will be subject to income tax. As SW will become dormant, the pioneer loss of RM500,000 will be lost.

Analysis

Notwithstanding that SW has to forgo the pioneer loss of RM500,000, the proposed merger is tax efficient as it will accelerate the utilisation of the tax losses and also ensure that the amount can be fully utilised prior to its expiry in YA 2025. Without the merger, a significant amount of the tax losses, i.e. RM14 million, will be lost.

(ii) Tax avoidance

The general anti-avoidance provision provides that where the Director General of Inland Revenue (DGIR) has reason to believe that any transaction has the direct or indirect effect of altering the incidence of tax which is payable or which would otherwise have been payable by any person, he may disregard or vary the transaction and make such adjustments as he thinks fit for tax purposes with a view to counter-acting the whole or any part of any such direct or indirect effect of the transaction [s.140, the Income Tax Act].

Tutorial note: *The above is without prejudice to such validity as the transaction may have in any other respect or for any other purpose, other than tax.*

However, based on established case law, if a transaction is capable of justification by reference to ordinary business dealings without necessarily being labelled as a means to avoid tax, then the arrangement should not be caught by the anti-avoidance provision. It is, therefore, of great importance that the taxpayer is able to demonstrate that any transaction entered into is driven by commercial expediency, and that any tax benefit derived is purely incidental, in order for it to counter any challenge of tax avoidance by the tax authorities.

In the present case, as both DW and SW are involved in the manufacturing of IT equipment, it makes commercial sense for the business of the two companies to be merged. The notebook manufacturing was undertaken under a separate company earlier to facilitate the pioneer status application, and since the pioneer period has ended, the management has decided to combine the businesses together.

As to the choice of the surviving company being DW, it can be argued that as DW is the holding company, it is more practical to combine the businesses under DW so that SW can subsequently be liquidated. Had the business been merged under SW, DW would become dormant and to liquidate DW is more complex in view of the fact that it has a shareholding in SW.

Therefore, DW should be able to argue that the proposed merger of businesses has commercial justifications and it should reasonably be able to argue against an invocation of the anti-avoidance provisions.

			Marks
1 (a)	**New plantation and railway system**		
(i)	**Agriculture allowances**		
	Eligibility	0·5 x 5	2·5
	Computation	0·5 x 4	2
		Available	4·5
		Maximum	4
(ii)	**Railway track allowances**		
	Why 'plant' – functional test, enduring advantage, permanent use, non-current asset	0·5 x 4	2
	Qualify for CA, incurred, owned, in use in business	0·5 x 3	1·5
	CA computation		1·5
		Available	5
		Maximum	4
(b)	**Research and development (R&D) expenditure**		
	Qualifies for single deduction: reasons		1 + 1
	Amortised amount not deductible		1
	Entire sum deductible, tax adjustment		1 + 1
		Available	5
		Maximum	4
(c)	**Tax computation for YA 2019**		
	Gain on disposal of non-current assets		0·5
	Amortised amount added back		0·5
	Depreciation		0·5
	Donations disallowed		0·5
	Legal and professional fees disallowed		1
	R&D expenditure allowed in full		0·5
	Balancing charge		1
	CA		0·5 + 0·5
	Agriculture allowance		0·5
	Approved donation in cash, correct amount		0·5 + 0·5
	Donation restricted to 10% of aggregate income		0·5
	Application of correct tax rate		0·5
			8
(d)	**Tax estimate for YA 2020**		
	Excessive difference, 30% buffer, penalty		0·5 + 0·5 + 0·5
	Deadlines for revision		0·5 + 0·5
	Minimum amount of additional estimate		1
		Available	3·5
		Maximum	3
(e)	**Freight charges**		
(i)	Tax treatment of Labuan company		1 + 0·5 + 1 + 0·5 + 0·5 + 1 + 0·5 + 0·5
		Available	5·5
		Maximum	4
(ii)	Deduction restricted for resident payer		1

	Marks
(f) Replanting contract	
(i) Deductibility of replanting	1
(ii) Transfer pricing issue 1·5 + 1	2·5
Recommendation	1
Available	3·5
Maximum	2
Professional marks	
Format and presentation of the letter	1
Clarity and effectiveness of communication including logical flow	2
Appropriate use of appendix	1
	4
	35

	Marks
2 Ms Leemah (Leemah)	
(a) Investment income	
(i) Rental income from the property in Australia	
Derived in Australia, reason	0·5 + 0·5
Remitted, but specifically exempt	0·5 + 0·5
	2
(ii) Interest on deposit with a UK bank	
Derived in UK, reason	0·5 + 0·5
Not remitted, not taxable	0·5 + 0·5
	2
(iii) Cash distributions from the REITs	
Derived, taxable	0·5 + 0·5
Specific withholding of tax at source, rate	0·5 + 0·5
Final tax, no need to report in annual return	0·5 + 0·5
	3
(iv) Shares in companies listed on the Bursa Malaysia	
Gain on disposal: capital, reason	0·5 + 0·5
No capital gains tax, reason	0·5 + 0·5
Dividends derived in Malaysia, single-tier, specifically exempt	0·5 + 0·5 + 0·5
Available	3·5
Maximum	3
(v) LLP	
Salary: taxable as employment income, reason	0·5 + 0·5
Distribution of profits: not taxable, reason	0·5 + 0·5
	2
(b) Computation of income tax payable for YA 2019	
Income	
Rental income from Australia	0·5
Interest income	0·5
REIT distribution	0·5
Gain from disposal of shares	0·5
Dividends	0·5
Employment income	1
LLP	0·5
Personal reliefs 0·5 x 2	1
Tax charged	1
Tax rebate	0·5
Tax payable	0·5
	7
(c) Acquisition of cafe business	
Asset deal	
Business income, taxable	0·5 + 0·5
Deductibility of interest	0·5 + 0·5
Shop lot	0·5 + 0·5
Plant, equipment and fittings: IA and AA	0·5 + 0·5
Share deal	
Dividend income, exempt	0·5 + 0·5
Interest not deductible	0·5
Shop lot – no disposal	0·5
Plant, equipment and fittings – no disposal	0·5
Available	6·5
Maximum	6
	25

				Marks
3	**(a)**	Nazrin		
		(i)	**Apartment**	
			Acquisition price	2
			Acquisition date	1
			Coconut plantation land	
			Acquisition price	1
			Acquisition date	1
				5
		(ii)	**Real property gains tax (RPGT) computation**	
			Disposal price	2
			Acquisition price	1
			Exemption	1
			RPGT liability	1
				5
	(b)	Mamak		
		(i)	Design fees	2
			Construction sum	1
			Project management fee	2
				5
		(ii)	Grant for factory construction	2
			Training grant	1·5
			Subsidy for material cost	2
			Available	5·5
			Maximum	5
				20
4	**(a)**	**Palm Sdn Bhd**		
		Royalty expense		
			Withholding tax due when royalty paid, revised assessment, timing	1 + 1 + 1
		Interest expense		
			When deductible, reduced assessment, timing	1 + 1 + 1
				6
	(b)	**(i)**	**Dai Wan Sdn Bhd**	
			Status quo	
			Tax calculation	4
			Proposed merger	
			Tax calculation	3
			Analysis	3
			Available	10
			Maximum	9
		(ii)	**Tax avoidance**	
			Rule/commercial substance	2
			Analysis	2
			Conclusion	1
				5
				20