Suggested solution

Section A

1 A and B

Statement A is correct as statute or law must be clear and there should not be any consideration of equity for either the tax authorities or taxpayer. There is no equity in tax. A taxpayer will have to pay tax as long as he is assessed to tax.

Statement B is correct as the principle of law or the decision laid out by a higher court is binding on a lower court if the facts and circumstances are similar.

Statement C is false as Public Rulings set out the interpretations by the Director General of Inland Revenue only. Generally, Public Rulings are not regarded as tax law and taxpayers can have a different interpretation of tax legislation.

Statement D is false as the purpose of taxation is not only to meet revenue related objectives such as government healthcare costs for its people and military expenditure. Taxation can have non-revenue related objectives such as reducing the wealth gap between the rich and poor by taxing the rich at higher tax rates than the poor.

2 A and C

Statement A is correct. Aman Sdn Bhd (ASB) as the employer must furnish an employer's return containing the salaries and any BIK received every year and other relevant details for the employee.

Statement C is correct as an employer is not required to inform the IRB if the employee's total monthly salary and BIK is below the minimum amount of income that is subject to deduction.

Statement B is false as the employer is required to withhold monies payable to an employee who is ceasing and leaving Malaysia. The IRB will notify the amount of tax to be deducted from the monies held by the employer. The employer can pay the balance, if any, to the employee.

Statement D is false as an employer is not required to make enquiry as to whether the resigned employee continues employment or not if the employee is a Malaysian citizen.

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3 D

	RM
Meals	20,000
Less: 10% discount	(2,000)
Service charge (10%)	0
Total	**18,000**
Service tax at 6% (RM18,000 x 6%)	1,080

Service tax of 6% is applied on meals after the discount of 10% and the service charge of 10% is excluded.

4 B

Option 2
Myra – 30 June 2026
Ari – 30 April 2026

Myra has to submit her income tax return to the Inland Revenue Board (IRB) on or before 30 June 2026 as she has income from a business source.

Ari has to submit his income tax return to the IRB on or before 30 April 2026 as he has only derived rental income in Malaysia. The business income carried out in Singapore will be regarded as income derived from a source outside Malaysia and will not be subject to income tax in Malaysia. As Ari was a non-resident during the year of assessment 2026, the business income is not subject to income tax.

5 C

The acquirer, Elak Sdn Bhd (ESB), has to retain and remit the lower of the following:

	RM
Amount of cash	35,000
5% of the total value of consideration (RM1,000,000 x 5%= RM50,000)	50,000

The amount to be retained and remitted by ESB is RM35,000.

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6 RM300,000

	RM
Profit before income taxes	300,000
Add/(Less)	
Tax filing fees (paid)	0
Company secretarial fees (unpaid)	0
Adjusted business income	**300,000**

Both the fees are tax deductible including the unpaid secretarial fees, which can be claimed as long as it is incurred (payable) and within the prescribed limits.

7 D

Option 4
Corporate club membership entrance fee – Not taxable
Individual club membership entrance fee - Taxable

The corporate entrance fee for club membership provided by Lora's employer is a benefit not subject to tax as it is not a specific benefit related to Lora. The individual entrance fee for club membership would be regarded as taxable under the Income Tax Act, 1967 as the benefit accrues to Lora personally.

8 A, E and F

Statement A is false as 'land' includes buildings on land and anything attached to land. RPGT will be charged on chargeable gains arising on disposal of any real property which includes land and buildings on land.

Statement E is false as 'land' includes standing timber on land.

Statement F is false as 'land' includes any type of land used for the purposes of farming crops.

9 A and C

Statement A is incorrect as a claim for a sales tax refund can be made within six years from the date the sales tax is paid to the Royal Malaysian Customs Department.

Statement C is incorrect as letters of demand and legal actions, where applicable, must be instituted to recover debts and sales tax from the customer.

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10 RM90,000

	RM	RM
Aggregate income		100,000
Less: *Wakaf* cash contributions	15,000	
Restricted to 10% of aggregate income (10% x RM100,000)	10,000	(10,000)
Total income		**90,000**

The wakaf contributions must be restricted to 10% of aggregate income in arriving at the total income.

11 RM949,000

	RM
Loss before income taxes	(900,000)
Less: Freight charges for shipments to Peninsular Malaysia (double deduction)	(49,000)
Freight charges for shipments within East Malaysia	0
Adjusted loss	**(949,000)**

A double deduction is claimable for the freight charges for shipments to Peninsular Malaysia as a manufacturer based in East Malaysia (Sabah). The freight charges for shipments within East Malaysia are eligible for a single deduction.

12 B

RM10,000 x 10% = RM1,000

Withholding tax of 10% applies to other income such as commission received by a non-resident from a resident person.

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13 A

All three statements are false.

Statement 1 is false as replanting expenditure of a product which is replaced by the same product is not eligible for a claim for agriculture allowances. Such expenditure can be claimed as a deduction against gross income for the farm business in arriving at adjusted income.

Statement 2 is false as agriculture charge will not apply if the disposal of the farm assets takes place more than five years from the date expenditure is incurred.

Statement 3 is false as agriculture charge will be based on the total amount of agriculture allowances claimed for all the years of assessment. The proceeds received from the disposal of the farm assets will be disregarded in determining the agriculture charge.

14 D

Both 2025 and 2026

Carina is deemed resident in the years of assessment 2025 and 2026 as she is a Malaysian citizen employed in public services and was not in Malaysia during the years of assessment 2025 and 2026 as she was exercising her employment outside Malaysia.

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15 A

Option 1
Tunjuk Snd Bhd – RM123,000
Nero Sdn Bhd – RM168,000

	Tunjuk Sdn Bhd RM	**Nero Sdn Bhd RM**
Chargeable income	700,000	700,000
Income tax liability		
First RM150,000 at 15%	22,500	
Next RM450,000 at 17%	76,500	
Excess over RM600,000 at 24% (RM100,000 x 24%)	24,000	
Income tax payable	**123,000**	
Income tax at 24% (RM700,000 x 24%)		**168,000**

Tunjuk Sdn Bhd qualifies as small and medium enterprise (SME) as it meets all the requirements. Nero Sdn Bhd does not meet the requirements as the shares owned by non-citizen individuals are more than 20% of the company's ordinary shares.

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Section B

16

CD & Co (CDC) and Nody Sdn Bhd (NSB)

(a) CDC – Service tax

Customer	Amount on which service tax is payable RM	Service tax amount RM	Assessment of whether service tax applies
Green Services	90,000	0	Consultancy services are part of the group of taxable services. Service tax is not applicable as it is eligible for a business-to-business exemption (BTB) as the service provider, CD & Co, and the recipient, Green Services, are both registered for service tax purposes and it is not acquired for Green Services' own consumption.
Ara Sdn Bhd	20,000	1,600 (RM20,000 x 8%)	Service tax is applicable as it does not qualify for business-to-business exemption as the service recipient, Ara Sdn Bhd is not registered for service tax purposes. The payment was received during the taxable period.
IP Sdn Bhd	4,000	320 (RM4,000 x 8%)	Service tax is applicable as the deposit received on 14 February 2026 is part of the fees for the consultancy services.
Ran Sdn Bhd	8,000	0	Service tax is applicable as this is a taxable service. However, service tax is not applicable for the taxable period from 1 January 2026 to 28 February 2026 as the payment was not received during the taxable period.

(b) NSB

The activities which involve the conversion by mechanical means of organic materials into new products by the changing of the size and shape of the materials by NSB would fall within the scope of 'manufacture' for sales tax purposes. It would be within the scope of 'manufacture' even if there is no change in the composition of the materials.

NSB's sale of its products to its distributors located overseas are not subject to sales tax as exports are exempt from sales tax.

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17

Bus Transport Academy and RST Sdn Bhd (RST)

(a) Bus Transport Academy

The guidance books used by the instructors will be an apparatus or functional tool which will be used to carry on the driving school business, and the expenditure incurred on the guidance books will be plant and therefore eligible for capital allowances.

The training ground is part of the premises and setting from which the business is carried on and the expenditure incurred on the training ground will not be plant. Therefore, it will not be eligible for capital allowances.

(b) RST – Capital allowances and industrial building allowances

Existing assets

Asset	Cost	Qualifying expenditure	Rate	Annual allowance
	RM	RM		RM
Factory building 1	90,000	90,000	3%	2,700
Machine	40,000	40,000	14%	4,000 Restricted to remaining RE

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Assets acquired during YA 2026

Name	Cost	Qualifying expenditure	Rate	Initial allowance	Rate	Annual allowance
	RM	RM		RM		RM
Land and buildings						
Land for factory	200,000	0		0		0
Construction costs for factory building 2	500,000	500,000	10%	50,000	3%	15,000
Construction of staff canteen and refreshment areas	150,000	150,000	10%	15,000	3%	4,500
Construction of warehouse building	70,000	0		0	0	0
Other assets						
Car	140,000	100,000	20%	20,000	20%	20,000

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18

Thaya and Growth Sdn Bhd (GSB)

(a) Thaya – real property gains tax (RPGT)

The transfer of real property as a gift between husband and wife is treated at no gain no loss. The disposal price is deemed to be equal to the acquisition price as long as the donor is a Malaysian citizen.

Hence, there will be no RPGT payable by Thaya on the gift made to the wife, Mina.

Mina's acquisition price would be the acquisition price and permitted expenses incurred by the donor, Thaya, which is RM407,000 (RM400,000 + RM7,000).

(b) GSB

Chargeable gain and RPGT arising on compensation received on 30 September 2024

	RM
Acquisition consideration	200,000
Add: Stamp duty RM3,000 + legal fees RM1,000	4,000
	204,000
Less: Compensation received	(224,000)
Chargeable gain	**20,000**
RPGT liability:	
Date of acquisition (3 June 2015)	
Date of disposal (deemed) (30 September 2024)	
Disposal in the sixth year after the date of acquisition or thereafter	
RPGT (RM20,000 x 10%)	**2,000**

Tutorial note: A chargeable gain will arise where the compensation received by the owner of the chargeable asset exceeds the acquisition consideration and incidental costs. In this case, the chargeable gain will arise on 30 September 2024. On subsequent disposal of the chargeable asset, the acquisition price will be nil.

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Chargeable gain and RPGT arising on disposal of warehouse building on 3 April 2026

	RM
Disposal consideration	110,000
Less: Incidental costs	
Advertising expenses	(3,000)
Disposal price	**107,000**
Acquisition price	0
Chargeable gain	**107,000**
RPGT liability:	
Date of acquisition (3 June 2015)	
Date of disposal (3 April 2026)	
Disposal in the sixth year after the date of acquisition or thereafter	
RPGT (RM107,000 x 10%)	**10,700**

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19

Utah Sdn Bhd (USB)

(a) USB

(i) Borrowings from Besar Bank

Calculation of interest restriction	**RM**
Investments/Borrowings x interest expenses	
Investments	
Placed funds in a local bank	6,000,000
Invested in shares of a subsidiary company	3,000,000
Total	**9,000,000**
Borrowing	10,000,000
Interest restriction (RM9,000,000/RM10,000,000 x RM100,000)	**90,000**
Calculation of interest expense attributable to funds placed in local bank	
Interest expense attributable (RM6,000,000/RM9,000,000 x RM90,000)	**60,000**

(ii) Tax treatment of dividend received, interest expense attributable to the investment and the interest expense which is not restricted

The dividend income received by USB from the subsidiary is tax exempt as it is paid by Malaysian company.

The interest expense attributable to the investment will not be tax deductible as it relates to exempt dividend income received.

The interest expense which is not restricted is deductible against the business income.

(b) Borrowings from Sixty Holdings Inc

Withholding tax will apply on the interest payable by USB to Sixty Holdings Inc on the following grounds:

- Interest income is within the scope of income tax.
- The interest income is deemed derived in Malaysia as the payment is made by a resident person.
- The funds borrowed are used for USB's business.

Withholding tax on the interest payable is RM7,500 (RM50,000 x 15%).

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20

Kapit Sdn Bhd - Tax computation for year of assessment (YA) 2026

	RM'000	RM'000
Basis Period: 1 November 2025 to 31 October 2026	**-**	**+**
Profit before income taxes		7,283
Add/less:		
Foreign exchange loss for sales of goods to Niagara Inc for YA 2025 (realised in full in YA 2026)	8,000	
Depreciation		4,654
Acquisition of proprietary rights		100
Acquisition of proprietary rights (single deduction at 20% [RM100,000 x 20%])	20	
Compensation received for loss of profits		0
Rental income for factory building in Sarawak	48	
Entertainment expenses - disbursement of the marketing department (RM40,000 x 50%)		20
Entertainment expenses - hampers to existing customers during festival seasons (RM10,000 x 50%)		5
Cash donation to an approved institution		800
Contributions to a public university library (Maximum deductible amount up to RM100,000)		205
Traffic fines		2
Quit rent paid to local authorities – Sarawak property		5
Security camera - Sarawak property		6
Statutory audit fees		0
Leave passage for local company trip		0
	8,068	**13,080**
		(8,068)
		5,012
Less: Capital allowances (CA)		(1,012)
Statutory income – manufacturing business		**4,000**
Less: Unabsorbed business losses brought forward		(993)
		3,007
[s. 4(d) Investment income]		
Rental income for factory building in Sarawak	48	
Less: Quit rent paid to local authorities	(5)	
Less: Security camera (not allowed)	(0)	
Adjusted/statutory income		43
Aggregate income		**3,050**
Less: Donations RM800,000 (Restricted to 10% of aggregate income)		(305)
Total income/chargeable income		**2,745**
Tax liability		
RM2,745,000 x 24%		659

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Tutorial note: A claim can be made for a single deduction on expenditure incurred on acquisition of proprietary rights by a manufacturer on meeting the required criteria in arriving at the adjusted business income. The claim can be made at the rate of 20% per year for a total of five years.

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21

Roland and Sita

Roland - Chargeable income and income tax payable for the year of assessment 2026

		RM	RM
Business income - s 4(a)			
Profit before income taxes			22,000
Less: Insurance premiums on the import of cargo			0
Add: Holiday expenses for Roland			11,000
Adjusted income			**33,000**
Add: Balancing charge			1,000
Less: Capital allowances			(3,000)
Statutory business income		A	**31,000**
Employment income s. 4(b)			
[s. 13(1)(a)]			
Director's fees – Ori Sdn Bhd			2,000
Director's fees – Jun Pte Ltd (exempt)			0
Gross employment income/adjusted income/statutory income		B	**2,000**
Investment income s. 4(c)			
Dividend income – Ori Sdn Bhd			0
Dividend income – Jun Pte Ltd			0
Statutory income		C	**0**
Gains on disposal of Ori Sdn Bhd shares (not taxable)		D	0
Aggregate income		A+B+C+D	**33,000**
Less: Contribution of medical equipment (Restricted to a maximum of RM20,000)		30,000	(20,000)
Total income			**13,000**
Less:			
Personal reliefs:			
Self			(9,000)
Chargeable income			**4,000**
Tax payable:			
First RM5,000 (per scale rates)			**0**

Tutorial note: The directors fees of RM35,000 received by Roland from Jun Pte Ltd will be regarded as income derived from a source outside Malaysia and will be tax exempt for Malaysian income tax purposes.

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Sita - Chargeable income and income tax payable for the year of assessment 2026

	RM	RM
Employment income s. 4(b)		
[s. 13(1)(a)]		
Gross salary (RM200,000 x 12 months)		2,400,000
Entertainment allowance (RM2,000 x 10 months)		20,000
Total of s. 13(1)(a)		**2,420,000**
[s. 13(1)(b)- Benefits in kind (BIK)]		
Car benefit (RM25,000 x 9 months/12 months)		18,750
Leave passage – in Malaysia		0
		2,438,750
[s. 13(1)(c)]		
Value of living accommodation		
(a) 30% of total of s. 13(1)(a) (RM2,420,000 x 30%)	726,000	
(b) Defined value (RM10,000 x 12 months)	120,000	
Lower of (a) and (b) = RM120,000 x 9 months/12 months [April to December]		90,000
Gross employment income		**2,528,750**
Less: Claim for entertainment expenses incurred (RM20,000 x 50%)		(10,000)
Gross employment income/adjusted income/statutory income		**2,518,750**
Aggregate income		
Less: Donations (not eligible)		0
Total income		**2,518,750**
Less:		
Personal reliefs:		
Self	9,000	
Electric vehicle charging equipment (maximum)	2,500	
Employees' provident fund (maximum)	4,000	(15,500)
Chargeable income		**2,503,250**
Tax payable:		
First RM2,000,000		528,400
Next RM503,250 x 30%		150,975
		679,375

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Mark scheme

Section A

Questions 1 – 15 (all questions worth two marks)

Maximum 30 marks

Section B

Question 16

a	CD & Co: Green Services: - Amount on which service tax is payable - Assessment of whether service tax applies Ara Sdn Bhd: - Calculation of service tax amount - Assessment of whether service tax applies IP Sdn Bhd: - Calculation of service tax amount - Assessment of whether service tax applies Ran Sdn Bhd: - Amount on which service tax is payable - Assessment of whether service tax applies	 0.5 2 0.5 1 0.5 1 0.5 1
Maximum 7 marks		
b	Nody Sdn Bhd: - Activities would fall within the scope of 'manufacture' for sales tax purposes - Even if there is no change in the composition of the materials - Sale of its products to its distributors located overseas are not subject to sales tax as exports	 1 1 1
Maximum 3 marks		
Total 10 marks		

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Question 17

a	Bus Transport Academy: - The expenditure incurred on the guidance books will be plant and therefore eligible for capital allowances - Expenditure incurred on the training ground will not be plant and therefore will not be eligible for capital allowances	 1 1
Maximum 2 marks		
b	RST Sdn Bhd – Capital allowances and industrial building allowances: Existing assets: - Factory building 1 - Machine Assets acquired during YA 2026: - Land for factory - Construction costs for factory building 2 - Construction of staff canteen and refreshment areas - Construction of Warehouse building - Car	 1 1 1 1 1 1 2
Maximum 8 marks		
Total 10 marks		

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Question 18

a	Thaya – Real property gains tax (RPGT): - The transfer of real property as a gift between husband and wife is treated at no gain no loss - There will be no RPGT payable by Thaya on the gift - Mina's acquisition price would be the acquisition price and permitted expenses incurred by the donor	 1 1 1
Maximum 3 marks		
b	Growth Sdn Bhd: Chargeable gain and real property gains tax arising on compensation received on 30 September 2024: - Acquisition consideration - Stamp duty - Legal fee - Compensation received - RPGT liability Chargeable gain and real property gains tax arising on disposal of warehouse building on 3 April 2026: - Disposal consideration - Advertising expenditure - Acquisition price - RPGT liability	 0.5 0.5 0.5 1 1 1 0.5 1 1
Maximum 7 marks		
Total 10 marks		

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Question 19

a (i)	Utah Sdn Bhd (USB) borrowings from Besar Bank: - Total investments - Borrowing - Interest restriction - Interest expense attributable on the funds placed in a local bank	 0.5 0.5 1 1
Maximum 3 marks		
a (ii)	Tax treatment of dividend income received, interest expense attributable to investment and interest expense no restricted: - Dividend income received by USB from the subsidiary is tax exempt - Interest expense attributable to the investment will not be tax deductible - Interest expense which is not restricted is deductible against the business income	 1 1 1
Maximum 3 marks		
b	Borrowings from Sixty Holdings Inc: - Interest income is within the scope of income tax - Interest income is deemed derived in Malaysia - Funds borrowed are used for business - Withholding tax on interest payable	 1 1 1 1
Maximum 4 marks		
Total 10 marks		

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Question 20

	Kapit Sdn Bhd - Tax computation for year of assessment (YA) 2026:	
	- Foreign exchange loss for sales of goods	1
	- Depreciation	0.5
	- Acquisition of proprietary rights	1.5
	- Compensation received for loss of profits	0.5
	- Rental income for factory building in Sarawak	0.5
	- Entertainment expenses	2
	- Cash donation to an approved institution	0.5
	- Contributions to a public university library	1
	- Traffic fines	0.5
	- Quit rent paid to local authorities	0.5
	- Security camera	0.5
	- Statutory audit fees	1
	- Leave passage for local company trip	0.5
	- Capital allowances	0.5
	- Unabsorbed business losses brought forward	1
	- Rental income for factory building in Sarawak	1.5
	- Donations	1
	- Tax liability	0.5
Total 15 marks		

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Question 21

	Roland - Chargeable income and income tax payable for the year of assessment 2026:	
	- Insurance premiums on the import of cargo	0.5
	- Holiday expenses for Roland	0.5
	- Balancing charge	0.5
	- Capital allowances	0.5
	- Director's fees	1
	- Dividend income	1
	- Gains on disposal of Ori Sdn Bhd shares	0.5
	- Contribution of medical equipment	1
	- Personal reliefs	0.5
	- Tax payable	0.5
	Sita - Chargeable income and income tax payable for the year of assessment 2026:	
	- Gross salary	0.5
	- Entertainment allowance	1
	- Car benefit	1
	- Leave passage – in Malaysia	0.5
	- Value of living accommodation	2
	- Claim for entertainment expenses incurred	1
	- Donations	0.5
	- Personal reliefs	1.5
	- Tax payable	0.5
Total 15 marks		

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