Suggested solution

Section A

Question 1

Baik Sdn Bhd (BSB)

Letter to BSB

Tax Firm
Any Street
50000 Kuala Lumpur
Malaysia

Nore,
Chief Executive Officer
Baik Sdn Bhd (BSB)
Any Street, Kuala Lumpur
Malaysia

1 August 2026

Dear Nore,

BSB's expansion plans

We refer to our meeting on 1 August 2026 regarding BSB's expansion plans, and your request for our advice on the attendant tax issues.

(a) Basis periods for the first three years of assessment (YAs)

We note that BSB's accounts will be prepared for the following periods:

4 January 2025 to 31 October 2025
1 November 2025 to 31 October 2026
1 November 2026 to 31 October 2027

The basis periods for the first three YAs are as follows:

Basis period	YA	Reasons	Tutorial note Law
1 February 2025 to 31 October 2025	2025	Commences operation on 1 February in 2025 and makes up its accounts for a period of less than 12 months ending on a day in 2025.	Section 21A(4)(a)

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1 November 2025 to 31 October 2026	2026	Makes up accounts for 12 months ending on a day other than 31 December.	Section 21A(2)
1 November 2026 to 31 October 2027	2027	Makes up accounts for 12 months ending on a day other than 31 December.	Section 21A(2)

Consultancy fee

The tax deductibility of the amount of RM65,000 in arriving at the adjusted income of BSB for the YA 2026 would rest on whether the subject matter, i.e. expansion in production to meet accelerating demand, relates to the capital structure of the business or the revenue-generating machinery of the business.

The study is macro or big picture in nature: forecasting the demand, quantifying the production capacity, identifying the additional investment and the timing of investment. This points towards establishing a different capital structure.

If it is argued that the consultancy advice is related to the capital structure and investment in the factory, the RM65,000 will be treated as capital in nature, and accordingly should not qualify for deduction.

However, it may also be argued that the study relates to market demand and production targets, and how to achieve the targeted output. These are bread-and-butter issues in the ordinary course of a manufacturing business.

The argument would be that the consultancy advice relates to operational and production aspects directly relating to the revenue-generating process. Hence the RM65,000 could be treated as revenue in nature and should qualify for deduction.

Tax Firm takes the view that the consultant was engaged to recommend measures to meet market need: this is part of the income-producing process. The end result of the study was an expansion of production capacity to meet demand.

Therefore, the consultancy fee of RM65,000 is for generating income in the ordinary course of business and should be tax deductible in arriving at the adjusted income from the manufacturing business in YA 2026.

Our evaluation is that your conviction that consultancy fees are always capital in nature and therefore not tax deductible is inaccurate.

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(b) Purchases of Factory B and C

Stamp duty

Stamp duty is payable by BSB on acquiring the neighbouring property and is levied on all elements of the cost comprising of the land, Factory B, the showroom and office building.

Although the market value is RM2.3 million, BSB agreed to pay RM2.5 million to secure a speedy conveyance of the property. Our advice is that stamp duty is leviable on the higher of the consideration or market value, i.e. RM2.5 million, as follows:

	RM
First RM100,000 at 1%	1,000
Next RM400,000 at 2%	8,000
Next 500,000 at 3%	15,000
Remaining 1,500,000 at 4%	60,000
	84,000

Industry building allowance (IBA)

BSB is eligible to claim IBA when it incurs qualifying building expenditure on either factory, and uses it in its manufacturing business. BSB duly incurred RM1.5 million on Factory B and RM4.5 million on Factory C.

As BSB will commence using Factory B in its production from 2 October 2026, this falls within the basis period (1 November 2025 to 31 October 2026) for YA 2026. Therefore, the first YA that BSB can claim IBA for is YA 2026.

BSB expects to start using Factory C in its production from 1 April 2028 which falls within the basis period (1 November 2027 to 31 October 2028) for YA 2028. Therefore, BSB will be eligible to claim IBA in respect of Factory C from YA 2028.

Please refer to the attached Appendix 1 for the calculation of IBA that BSB is eligible to claim for Factory B and Factory C.

Tax Firm's position on the proposed reclassification

With reference to the suggestion of reclassifying the "Showroom and office" as part of the Factory B cost to avoid detection as a non-qualifying expenditure for IBA, we strongly advise that you should not do this.

This action would be a deliberate misrepresentation, lacks integrity and is clearly against our ACCA's Professional Code of Ethics and Conduct. As a professional firm, we are duty bound to maintain the highest standard of professional conduct and ethics. Full, accurate and timely disclosure is key to that Code of Ethics and Conduct.

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We must be straight forward and honest in our professional and business relationships. We cannot agree to be a party to such an action as we would be guilty of collusion to mislead. Our professional and business judgment should not be compromised by undue influence of other parties.

Misrepresentation of facts is not in compliance with the tax laws and regulations and reflects unprofessional behaviour. As professional accountants, we should avoid any conduct that will discredit the profession.

We must state categorically that we at Tax Firm will cease to act for BSB if you should decide to proceed accordingly.

(c) Eligibility for tax incentives

With reference to BSB's investment of RM1.5 million on Factory B and RM4.5 million on Factory C, we have evaluated BSB's eligibility for tax incentives, and our assessments are as follows:

Pioneer status or investment tax allowance

BSB is not eligible for pioneer status or the investment tax allowance because the product manufactured is not a promoted product.

Export incentives

BSB is not eligible for any export incentives because the manufactured products are sold in the domestic market and not exported.

Reinvestment allowance (RA)

RA is not applicable on the RM1.5 million investment in Factory B because BSB fails to fulfil the requisite of having operated for at least 36 months before the investment.

BSB commenced manufacturing on 1 February 2025, and Factory B will be put into use on 2 October 2026, which will be a period of only 20 months.

However, the investment of RM4.5 million on Factory C will be incurred on 1 April 2028 when the factory will be completed and used in the manufacturing business. At this point BSB will have been operating for a period of 38 months, thus satisfying the 36-month condition.

The other RA conditions satisfied by BSB in respect of Factory C are:

- It is resident in Malaysia;
- It is engaged in manufacturing;
- It will launch a qualifying project in expansion through increasing its production capacity;

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- It will incur qualifying capital expenditure (QCE) of RM4.5 million in Factory C; and
- BSB has thus far not claimed any incentives, so it will not be excluded from claiming RA.

As the QCE of RM4.5 million will be incurred on 31 March 2028, and BSB will use Factory C from 1 April 2028 in manufacturing, it will be eligible for reinvestment allowance (RA) in YA 2028.

RA is calculated at 60% of QCE, i.e. RM4,500,000 x 60% = RM2,700,000.

The mechanism for the absorption of RA is by way of a deduction from the statutory income (SI) of the manufacturing business for YA 2028, restricted to 70% of SI.

Any amount unabsorbed may be carried forward to be similarly set off against 70% of SI in following years.

The carry forward is restricted to seven consecutive YAs after the expiry of the 15 YAs commencing YA 2028, i.e. YA 2049, after which any unabsorbed amount of RA will be disregarded [paragraph 4B, Schedule 7A, Income Tax Act 1967].

(d) Recruitment drive

Please refer to Appendix 2 for the analysis of the income tax treatment and compliance requirements with reference to an employee recruited to the management team.

We hope that we have addressed the tax issues relating to BSBs expansion plans. Please do not hesitate to contact us if further clarifications are required.

Yours sincerely,

Tax Manager, Tax Firm

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Appendix 1
Industrial building allowance

	RM	RM
Factory B		
Qualifying building expenditure (QBE)		1,500,000
YA 2026: Initial allowance 10%	150,000	
Annual allowance 3%	45,000	(195,000)
Residual expenditure		**1,305,000**
Factory C		
QBE:		
– Professional design fees	300,000	
– Construction costs	4,000,000	
– Factory complex internal connecting roads	200,000	
Total QBE		4,500,000
YA 2028: Initial allowance 10%	450,000	
Annual allowance 3%	135,000	(585,000)
Residual expenditure		**3,915,000**

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Appendix 2

Prospective recruitment of the management team

Employees recruited internally

These employees will continue to be subject to the derivation and remittance scope, be subject to scale rates and qualify for personal tax reliefs. As they are already registered in the Malaysian tax system, they do not need to notify their chargeability to tax. They will continue to furnish their annual tax returns by 30 April of each year of assessment.

BSB does not have any additional compliance requirements to fulfil as there is no new commencement of employment, and the employee will continue to be subject to the monthly tax deductions.

Employees externally recruited from within Malaysia

These employees will similarly be subject to the derivation and remittance scope, be subject to scale rates and qualify for personal tax reliefs. As they are already registered in the Malaysian tax system, they do not need to notify their chargeability to tax. They will continue to furnish their annual tax returns by 30 April of each year of assessment

BSB will need to notify the commencement of these new employees within 30 days after the commencement and emplace them on monthly tax deductions.

Employees externally recruited from outside Malaysia

These employees, as they assume tax residency, will be subject to the derivation and remittance scope, be subject to scale rates and qualify for personal tax reliefs.

As fresh entrants to the Malaysia tax system, they need to notify the Director General of Inland Revenue (DGIR) of their chargeability to income tax within two months of their arrival in Malaysia. Thereafter, they must furnish their annual tax returns by 30 April of each year of assessment.

In terms of compliance responsibilities as employer, BSB will need to notify DGIR of the commencement of the new employee, not later than 30 days after the commencement and to emplace the new employee on monthly tax deductions.

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Section B

Question 2

Lokman

(a) Tax treatment of the income/profits derived by North East Labuan Pte Ltd (NEL)

NEL is undertaking the activity of investment and fund advisory services. The company has been approved as a Labuan fund manager by the Labuan Financial Services Authority (LFSA).

As a Labuan incorporated company, the provision of Labuan fund management activity is regarded as a Labuan business activity. Provided NEL can meet the economic substance requirements, it is eligible for the Labuan preferential tax treatment.

As a Labuan fund manager, to meet the substance requirements, it would need to employ at least two full time employees and have a minimum operating expenditure of RM100,000 annually.

As NEL has employed three investment consultants and is expected to incur annual operating expenditure of RM300,000, it will meet the substance requirements.

The income from the provision of investment and fund advisory services will therefore be taxed at 3% based on its net audited profit.

(b) Real property gains tax (RPGT) treatment

The transfer of the office unit by Lokman is within the scope of RPGT because:

- Real property is defined as any land situated in Malaysia. Labuan is a component part of Malaysia.

- Labuan has not been specifically excluded from the ambit of RPGT. The preferential tax treatment of Labuan entities does not cover RPGT.

Under the RPGT legislation, the transfer of property from Lokman to NEL is a no-gain-no-loss (NGNL) situation.

Where the transfer involves the transfer of assets owned by an individual to a company incorporated in Malaysia, controlled by him, his wife or a connected person for a consideration consisting of shares in the company or for a consideration consisting substantially (more than 75%) of shares in the company, and the balance in cash, the disposal price can be deemed to be equal to the acquisition price, i.e. a no-gain-no-loss (NGNL) situation.

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NEL is a Labuan incorporated company and therefore, is a company incorporated in Malaysia. Lokman is the sole shareholder of NEL; therefore, NEL is a company controlled by him. Further, the consideration for the transfer of the office unit is satisfied wholly through the issuance of NEL shares.

As both NGNL conditions are met, there is no RPGT liability on the transfer of the office unit by Lokman to NEL.

(c) RPGT calculation on the sale of office unit to a third party

	RM'000
Disposal price	
Consideration received	800
Less: Legal fees	(20)
Less: Real estate commission	(10)
Less: Renovation	(100)
	670
Acquisition price	
Consideration paid	(600)
Chargeable gain	**70**
Less: Exemption for individual based on higher of RM10,000 or 10% of chargeable gain	(10)
Gain subject to RPGT	**60**
Acquisition date: 20 July 2022 Disposal date: 25 April 2026	
RPGT at 20% i.e. disposal in the fourth year of acquisition	12

Explanatory Notes:

Date of acquisition

Under the law, if there is an unconditional agreement to acquire the property, the date of agreement is taken to be the date of acquisition. This is notwithstanding that the consideration for the purchase is paid or the vacant possession was given later. As such, the date of acquisition for the office unit is 20 July 2022.

Liquidated ascertained damages (LAD)

The LAD was received by Lokman from the property developer for the late completion and legal transfer of the unit. Even though the LAD has been netted off against the purchase consideration due, this does not change the purchase consideration for the office unit. In addition, LAD for late delivery is not an adjusting item to compute the disposal and acquisition price for RPGT purposes. Therefore, the LAD received should not impact the RPGT computation.

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Legal fees and real estate agent commission

The legal fees and real estate agent commission are incidental cost incurred by Lokman in relation to the disposal of the office unit. As such, they are specifically allowed to be deducted in arriving at the disposal price of the sale.

Compensation for early termination of tenancy

The compensation relates to the early termination of the tenancy agreement between Lokman and the tenant. It does not enhance the value of the property, nor is it an incidental cost of disposal. Therefore, it is not adjusted in arriving at the disposal price for RPGT purposes.

Quit rent and assessment expenses

The quit rent and assessment expenses would be an allowable expense for income tax purposes to be set off against the rental income from the office units. As the expenses would have been allowed for income tax purposes, they are excluded expenditure for RPGT purposes.

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Question 3

Gong Sdn Bhd (GSB)

(a) Sales and service tax treatment

Importation of moulding machines

The importation of moulding machines by Opso is subject to sales tax. Even though the machines are to be used for manufacturing activity, as Opso is a construction company and not a manufacturing one and hence not a sales tax registrant, sales tax should be applicable.

The moulding machines could have been imported under the name of GSB. As GSB is a sales tax registrant and the moulding machines will be used directly in its manufacturing activity, sales tax exemption should be available, subject to fulfilment of other conditions.

Acquisition of raw materials from registered manufacturers

The sale of raw materials by registered manufacturers is subject to sales tax. However, sales tax exemption is given to raw materials and components used directly in the manufacturing process of goods manufactured, from the initial stage of manufacturing until finished products. These raw materials and components must be solely used in the manufacturing of finished goods manufactured by the registered manufacturer.

Procurement of construction, technical support and trademark licence from non-residents

The procurement of services by GSB from foreign service providers could be regarded as imported taxable services if the services fall within the scope of taxable items. Construction services and trademark licence are not taxable service and therefore, service tax is not applicable.

However, technical support service is a taxable service and therefore, the procurement of such services from foreign service providers would be regarded as an imported taxable service. In this regard, GSB is required to self-account the service tax at 8% on the technical support fees invoiced by the Tiana company. As GSB is not a service tax registrant, it would need to account for the service tax in a prescribed form [Form SST-2A], at the latest by the end of the following month.

Provision of marketing support services

The provision of marketing support services is a taxable service under the category of consultancy services. However, as the annual value of the taxable services is less than the prescribed threshold of RM500,000 there is no requirement for GSB to register for and thereafter charge and collect service tax.

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(b) Withholding tax (WHT) implications

Construction of factory by Opso

Opso had registered a branch in Malaysia to undertake the construction of the factory in Malaysia. Notwithstanding that a branch has been registered, this does not change Opso's tax residence status as it will be regarded as non-resident on the basis that the management and control of Opso continues to be exercised outside Malaysia (i.e. in Atlas). Therefore, we would need to consider the WHT implications on the construction payments by GSB to Opso.

The construction sum constitutes a contract payment in relation to a contract project undertaken in Malaysia [under section 107A of the Income Tax Act, 1967]. The applicable WHT is as follows:

- 10% on the contract payment (on the Malaysian service portion), on the account of Opso; and
- 3% of the contract payment (on the Malaysian service portion), on the account of the employees of Opso.

As the materials and machinery account for 60% (i.e. RM6 million) of the contract value (RM10 million), only the balance of 40% (i.e. RM4 million) relates to service portion, subject to WHT.

The WHT deducted is not a final tax and the 10% tax deducted can be used to offset against the Malaysian final income tax liability of Opso's branch in Malaysia. In the case where the 10% WHT deducted is more than the final income tax liability, the excess tax withheld will be refunded to Opso upon the Malaysian tax authorities' agreeing to the income tax returns filed by the branch in Malaysia. Meanwhile, the 3% tax will be refunded to Opso once it can be demonstrated that all the expatriate employees have settled their Malaysian personal tax liabilities.

Installation fee payable by Opso to Atlasian company

The fee for the installation of machinery in Malaysia constitutes a payment for technical services [under section 4A of the Income Tax Act, 1967]. As the installation fee is charged as an expense against Opso's branch business in Malaysia, the fee is deemed to be derived from Malaysia. As such, WHT of 10% is applicable on the installation fee payment by Opso to the Atlasian company.

Technical support services fee payable by GSB to Tiana company

The fee for the provision of technical support services constitutes a payment for technical services [under section 4A of the Income Tax Act, 1967] and therefore, subject to WHT only if the services are rendered in Malaysia. As the annual fees are for services rendered wholly from outside Malaysia, WHT is not applicable.

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Trademark licence fees payable by GSB to GI

The trademark licence will constitute a royalty payment and is subject to WHT of 10%.

(c) Tax reporting and compliance

Date of commencement of operation

In the case of manufacturing activities, the date of commencement is taken to be the date when the raw materials required for the manufacturing are received and the company is ready to commence the manufacturing activity.

In this case, the factory was completed on 2 June 2026, and the factory workers were hired on 15 June 2026. Therefore, upon the receipt of the raw materials on 1 July 2026, the company was in the position to commence manufacturing. Notwithstanding that the first batch of the dolls was produced on 5 July 2026, the date of commencement of the manufacturing operation is taken to be 1 July 2026.

Tax estimates requirements and strategy for years of assessment (YAs) 2026 and 2027

GSB closed its first set of accounts to 31 October 2026. As the company commenced its manufacturing business on 1 July 2026, the company's first basis period for the YA 2026 is 1 July 2026 to 31 October 2026.

As the first basis period is only for four months i.e. less than six months, the company is exempted from the submission of the tax estimates [section 107C(4), Income Tax Act 1967] for YA 2026.

The tax estimates for YA 2027 should be submitted no later than 30 days before the commencement of the basis period of 1 November 2026 to 31 October 2027. As such, the tax estimates for YA 2027 should be submitted on or before 2 October 2026.

In order to manage to cashflow of the company, GSB may consider submitting a nil or low tax estimate for YA 2027. Thereafter, either in the sixth, ninth or eleventh month, the company may revise the tax estimate upward to be closer to the projected tax liability of the company. This would help GSB to better manage its cash flow by deferring tax payments to the later part of the basis period.

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Mark scheme

Question 1

(a) BSB's manufacturing business

Basis periods	6
Consultancy fees	4
Tax Firm's view	2

Maximum 10 marks

(b) Purchases of Factory B and C

Stamp duty Factory B	4
Industrial building allowance (IBA) eligibility and timing	3
IBA calculations	3
Ethical implications of reclassification	6

Maximum 15 marks

(c) Investment in Factory B and Factory C

Pioneer status, investment tax allowance and export incentives	2
Reinvestment allowance (RA)	6
RA on Factory C	4

Maximum 10 marks

(d) Recruitment of management team

Internally recruited employees	2
Externally recruited from within Malaysia	2
Externally recruited from outside Malaysia	2

Maximum 5 marks

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Professional skills marks:

Communication

General report format and structure (use of headings, sub-headings and an introduction)

Style, language and clarity (tone of letter response, presentation of calculations, appropriate use of the tools, easy to follow and substantive amount of content)

Analysis and Evaluation

Clear and logical approach taken to advice and calculations provided in relation to the purchase of Factory B and C.

Structured and logical approach taken to advice provided regarding eligibility for tax incentives, which is justified.

Commercial Acumen

Advice regarding recruitment of management team personnel recognises key issues and raises valid commercial points.

Scepticism

Advice regarding consultancy fees challenges Nore's assumption and is justified and evidenced by the information available.

Maximum 10 marks

Total 50 marks

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Question 2

(a) Income / profits derived by NEL

Labuan entity carrying out Labuan business activity	2
Substance requirements	3

Maximum 4 marks

(b) Transfer of office unit

Labuan real properties subject to RPGT	2
No gain no loss treatment	4

Maximum 5 marks

(c) Sale of office unit

RPGT	7
Advice to Lokman on matters raised	6

Maximum 11 marks

Professional skills marks:

Analysis and Evaluation

Logical and structured assessment of the RPGT treatment of the transfer of the office unit to NEL.

Comprehensive advice is offered to Lokman on the sale of the office unit to a third party, addressing all matters and including relevant calculations.

Commercial Acumen

Assessment of the tax treatment of the income / profits derived by NEL recognises key issues in the scenario.

Maximum 5 marks

Total 25 marks

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Question 3

(a) Sales and service tax treatment

Importation of moulding machine	2
Acquisition of raw materials	2
Construction, technical support and trademark license	4
Marketing support services	2

Maximum 8 marks

(b) Withholding tax

Construction of factory	5
Installation fee	2
Technical support services and trademark license fees	2

Maximum 7 marks

(c) Tax reporting and compliance

Date of commencement of operations	2
Tax estimates requirement and strategy	3

Maximum 5 marks

Professional skills marks:

Analysis and Evaluation

Advice on sales and service tax treatment demonstrates appropriate judgement to recognise the relevant activities of GSB

Clear and logical approach taken to the withholding tax implications of all aspects required.

Commercial Acumen

Advice on the tax compliance matters recognises key issues to arrive at appropriate recommendations.

Maximum 5 marks

Total 25 marks

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