



**Malaysian Institute of Accountants**  
(Established under the Accountants Act 1967)  
**Institut Akauntan Malaysia**  
(Diperbadankan di bawah Akta Akauntan 1967)

## QUALIFYING EXAMINATION

### Taxation

Date : 21 September 2005

Time : 2.30 pm – 5.30 pm (3 hours)

#### INSTRUCTIONS TO CANDIDATE:

This question paper contains 5 questions on 12 printed pages.

---

Answer ALL questions.

---

Answer questions 1, 2 and 3 in separate booklet(s) from questions 4 and 5.

---

Do not open this paper until instructed by the invigilator



**UNIVERSITI TEKNOLOGI MARA**  
Examination Body

**Paper : Taxation**

- The following tax rates are to be used in answering the questions.

	<b>Income tax rates</b>
(a) Companies	28%
(b) Small companies	20%
(c) Resident individuals	

<b>Chargeable Income</b>	<b>Rate</b>	<b>Cumulative Tax</b>
<b>RM</b>		<b>RM</b>
0 - 2,500	0%	0
2,501 - 5,000	1%	25
5,001 - 20,000	3%	475
20,001 - 35,000	7%	1,525
35,001 - 50,000	13%	3,475
50,001 - 70,000	19%	7,275
70,001 - 100,000	24%	14,475
100,001 - 250,000	27%	54,975
Above 250,000	28%	

- |                              |     |
|------------------------------|-----|
| (d) Non-resident individuals | 28% |
|------------------------------|-----|

- Benefits-in-kind (BIK) scale rates as per Inland Revenue Board (IRB) guidelines

<b>Cost of car when new</b>	<b>Annual value of BIK</b>	<b>Fuel per annum</b>
<b>RM</b>	<b>RM</b>	<b>RM</b>
Up to 50,000	1,200	600
50,001 – 75,000	2,400	900
75,001 – 100,000	3,600	1,200
100,001 – 150,000	5,000	1,500
150,001 – 200,000	7,000	1,800
200,001 – 250,000	9,000	2,100
250,001 – 350,000	15,000	2,400
350,001 – 500,000	21,250	2,700
500,001 and above	25,000	3,000

The value of the car benefit equivalent to half of the above rates is taken if the car provided is more than five years old but the value of fuel provided will remain unchanged.

Where a driver is provided, the value of the benefits is fixed at RM600 per month.

- **Household furnishing, apparatus and appliances**

<b>Types of BIK</b>	<b>Annual value of BIK RM</b>
Semi-furnished with furniture in the lounge, dining room or bedrooms	840
Plus one or more of the following: air-conditioners, curtains, carpets	1,680
Plus one or more of the following: Kitchen equipment, crockery, utensils, appliances i.e. fully furnished	3,360

- **Real property gains tax**

<b>Disposals within the following period after acquisition:</b>	<b>Tax rate %</b>		
	<b>A Companies</b>	<b>B Other except C</b>	<b>C Non-citizens</b>
In the first two years	30	30	30
In the third year	20	20	30
In the fourth year	15	15	30
In the fifth year	5	5	30
In the sixth year of thereafter	5	0	5

- **Rates of Capital Allowances**

	<b>Motor Vehicles</b>	<b>Plant &amp; Machinery</b>	<b>Computers</b>	<b>Others</b>	<b>Industrial Building</b>
Initial allowance	20%	20%	20%	20%	10%
Annual allowance	20%	14%	40%	10%	3%

## QUESTION 1

- (a) Safe Way Sdn Bhd is a company which manages supermarkets. The company's profit and loss account for the year ended 31 July 2005 is as follows:

	Note	RM'000	RM'000
Turnover			28,600
Less: Cost of sales	1		<u>(24,500)</u>
			4,100
Add: Other income	2		<u>110</u>
			4,210
Less: Salaries and wages	3	1,464	
Rental of premises	4	228	
Insurance	5	72	
Staff welfare	6	49	
Lease rental	7	84	
Provision for bad debts	8	35	
Repairs and maintenance	9	493	
Miscellaneous expenses	10	83	
Marketing and advertising	11	99	
Packing and delivery		65	
Legal and professional fees	12	43	
Training and consultancy	13	<u>101</u>	<u>(2,816)</u>
Profit before taxation			1,394
Taxation			<u>(390)</u>
Profit after taxation			<u>1,004</u>

**Notes:**

- (1) Included in cost of sales is a provision for stock obsolescence RM39,500, and obsolete stock written off RM40,200.
- (2) Other income comprise:
- |  | <b>RM</b>      |
|--|----------------|
| Interest charged on trade debtors for late payment                             | 4,500          |
| Interest from fixed deposit in Hong Kong, remitted to Malaysia                 | 23,000         |
| Dividend (net)   | 72,000         |
| Compensation received from insurance company for a machine damaged due to fire | <u>10,500</u>  |
|  | <u>110,000</u> |
- (3) Salaries and wages include:
- (i) Salary of RM18,000 and bonus of RM2,000 in respect of a telephone operator who is certified as been physically disabled by the Department of Social Welfare.
- (ii) Entertainment allowance of RM12,000 paid to the managing director and traveling allowance of RM8,000 paid to marketing manager.

- (iii) Payment of RM60,000 to an executive to retire him prematurely in the interest of the business.
- (4) Rental of premises includes the purchase of computer equipment costing RM20,500 and a wheelchair costing RM3,200 for the use by the telephone operator.
- (5) Insurance includes export credit insurance of RM18,000 on a policy with an approved company incorporated in Malaysia.
- (6) Staff welfare comprise:
- |                                       | <b>RM</b>     |
|---------------------------------------|---------------|
| Scholarships to children of employees | 26,000        |
| Overseas leave passage for directors  | <u>23,000</u> |
|                                       | <u>49,000</u> |
- (7) Lease rentals comprise:
- |  | <b>RM</b>     |
|--|---------------|
| Three months hire rental of a van (the company van was under repair)   | 57,000        |
| Lease rentals in respect of a car which had been rented for twenty four months at RM3,000 per month commencing 1 May 2003 (The cash price of the car is RM152,000) | <u>27,000</u> |
|  | <u>84,000</u> |
- (8) Provision for bad debts is as follows:
- |                          | <b>General<br/>RM</b> | <b>Specific<br/>RM</b> |
|--------------------------|-----------------------|------------------------|
| Balance at 1 August 2004 | 168,000               | 182,000                |
| Balance at 31 July 2005  | 200,000               | 185,000                |
- The year end balance of RM185,000 includes a provision for non-trade debt of RM23,000.
- During the year, the company recovered RM42,000 from a customer and RM19,000 in respect of a car loan granted to an ex-director. Both debts were written off two years ago.
- (9) Repairs and maintenance include:
- |   | <b>RM</b> |
|---|-----------|
| (i) Construction cost of enlarging the general manager's office | 27,000    |
| (ii) Depreciation of plant and machinery                        | 297,000   |
| (iii) Maintenance cost of child care centre for employees       | 26,000    |
| (iv) Extension of the child care centre                         | 43,000    |

(10)	Miscellaneous expenses comprise:	<b>RM</b>
	Cost of meals and accommodation provided to employees on annual outing	40,000
	Lunches and dinners for potential customers	29,000
	Donation to approved institutions	12,000
	Other donations (in kind)	<u>2,000</u>
		<u>83,000</u>
(11)	Marketing and advertising comprise:	<b>RM</b>
	Payment to an approved research company which is not related to Safe Way Sdn. Bhd. for services rendered	80,000
	Goodwill payments to settle complaints by customers in respect of damaged goods	<u>19,000</u>
		<u>99,000</u>
(12)	Legal and professional fees comprise:	<b>RM</b>
	Recovery of a trade debt	4,600
	Lease renewal	6,400
	Defending a suit alleging product defect	26,000
	Architect's fees in respect of the child care centre	<u>6,000</u>
		<u>43,000</u>
(13)	Training and consultancy comprise:	
	(i) Expenditure of RM29,000 incurred on training programmes conducted by the National Productivity Centre (an approval training centre) to upgrade the skills of management and supervisory staff.	
	(ii) Consultancy fee of RM72,000 in respect of technical advice rendered by a non-resident. A sum of RM64,800 was paid to the non-resident on 15 December 2004. Withholding tax of RM7,200 was paid to the IRB on 13 January 2005.	
(14)	Other information:	
	(i) The adjusted loss brought forward from the year of assessment 2004 was RM120,000.	
	(ii) Capital allowance brought forward from the year of assessment 2004 was RM47,500 and for the current year was RM219,000.	
	(iii) Safe Way Sdn. Bhd. has a paid up capital of RM1.5 million since 2003.	

**Required:**

Compute the chargeable income and tax liability of the company for the year of assessment 2005. Every item mentioned in the notes to the accounts must appear in your computation whether or not it is deductible or by indicating 'NIL' where no adjustment is necessary.

(22 marks)

- (b) Textile Sdn Bhd (TSB) and Fashion Sdn Bhd (FSB) are both 100% wholly-owned subsidiary companies of Style Bhd (SB). The group of companies prepare their accounts annually to year end 31 December.

TSB bought a packaging machine for RM650,000 on 16 March 2000. The machine was utilised on 20 October 2000. It was subsequently sold to FSB on 22 July 2003 at the book value of RM280,000. FSB used it for its operations until 8 July 2005 when the machine was sold to ICON Sdn Bhd (ISB), a company outside the group, for RM730,000. ISB prepares its accounts to year end 31 December. The machine was used in ISB's business from August 2005.

TSB, FSB and ISB claimed capital allowances on the machine for all the relevant years of assessment.

**Required:**

Calculate the capital allowances, balancing allowances and balancing charges, if any, due to the three companies for each of the relevant years of assessment up to and including the year of assessment 2005. The machine is classified as general machinery.

(8 marks)

**(Total: 30 marks)**

**QUESTION 2**

- (a) Suhaimi and his wife, Puspa submitted the following information for the year ended 31 December 2004.

<b>Suhaimi</b>		<b>RM</b>
Trading	- Adjusted income	38,000
	- Unabsorbed loss brought forward	(10,000)
	- Capital allowance	6,500
Manufacturing	- Adjusted loss	(25,000)
	- Balancing charge	23,600
	- Capital allowance	8,700
	Malaysian dividends (net)	14,400
	Rental (net)	19,000

They have five children, all below the age of 18 years. One of the children, Hafiz, is disabled. During the year 2004, Suhaimi incurred the following expenses:

- (i) Premium of RM3,600 for an education insurance policy for the children
- (ii) RM5,800 a year towards a life insurance policy secured on the life of his wife
- (iii) RM2,500 being the cost of a computer for his personal use.

<b>Puspa</b>		<b>RM</b>
	Employment income	24,400
	Royalty from original publication	24,000

She owns an apartment located in Damansara which is let out for rent. The statement of income and expenditure for the year ended 31 December 2004 is as follows:

	<b>RM</b>	<b>RM</b>
Rent received		60,000
<i>Less: Expenses</i>		
Mortgage loan interest	24,400	
Quit rent	600	
Assessment and rates	350	
Kitchen renovation	<u>9,200</u>	<u>(34,550)</u>
Net rental income		<u>25,450</u>

The accumulated rental loss brought forward from the previous year was RM3,700.

During the year, Puspa incurred the following expenses:

	<b>RM</b>
(i) Medical expenses for her parents (receipts available only for RM9,000)	14,000
(ii) Books and magazines	950
(iii) Insurance premium on medical insurance	7,000
(iv) Cost of breathing equipment for her disabled child	5,800
(v) Cash donation to approved institution	2,100

**Required:**

Compute the tax payable by Suhaimi and Puspa for the year of assessment 2004.

(16 marks)

- (b) Under what circumstances are the following items either fully or partially exempt from income tax in the hands of the employee.

- (i) Local leave passage
- (ii) Medical and dental benefit
- (iii) Compensation for loss of employment

(4 marks)

**(Total: 20 marks)**

**QUESTION 3**

- (a) Mr Khoo is employed by Sweet Home Sdn. Bhd. as salesman selling household products. He travels extensively in Subang Jaya and Petaling Jaya and sells his household products from house to house. His company pays him a traveling allowance of RM1,800 per month, besides a fixed monthly salary of RM2,000.

**Required:**

Advise Mr Khoo as to whether he could claim traveling expenses incurred in the course of selling the household products, including expenses incurred in traveling to and from his home.

(5 marks)

- (b) Sparkle Bhd sets up a retirement and resignation benefits fund for its employees in accordance to the agreement with the Employees Union of the company. The purpose of the fund is to provide benefits to its employees upon their retirement or resignation. The initial amount set aside for this purpose was RM1,200,000 for the years 2004 to 2008. Sparkle Bhd intends to claim the amount as a deduction for tax purposes in the year of assessment 2004.

**Required:**

Advise the company whether it could claim the amount set aside as a deduction against the gross income for the year of assessment 2004.

(6 marks)

- (c) Claire Sdn Bhd purchased a second hand lorry at a very low price of RM45,000 in 2004 from an auctioneer. However, repairs to the lorry had to be done before it could be used in the business. The cost of repairs amounted to RM18,000.

**Required:**

Explain briefly whether the sum of RM18,000 expended on the repair of the lorry is deductible for income tax purposes.

(4 marks)

**(Total: 15 marks)**

**QUESTION 4**

- (a) During the year 2005, High Tech Holding Berhad (HTHB), a Malaysian resident company dealing in information communication technology products entered into an agreement with a foreign company (not resident in Malaysia).

Under the agreement, HTHB will pay RM5 million to the foreign company for technical advice rendered to them. According to the agreement, the technical advice will be provided in Malaysia. HTHB will also pay RM10 million for the computer accessories and peripherals bought from the foreign company.

**CONFIDENTIAL**

**Required:**

State, with reasons, whether the proposed payments are subject to the withholding tax provisions. State the rate of withholding tax, if applicable (Ignore any double taxation agreement provisions.)

(5 marks)

- (b) Ali & Co, is a legal firm has been in the business since 2000. It provides legal services including consultancy services on legal matters. Its turnover for the financial year ended 30 June 2005 is RM400,000. One of its clients is Consultancy Excellent Sdn Bhd (CESB).

CESB provides consultancy services and has always engaged the services of Ali & Co with regard to their clients. CESB's turnover exceeds RM500,000.

On 5 January 2005, CESB consulted Ali & Co for legal advice concerning a client, Mr Vincent.

Subsequently on 1 February 2005, Ali & Co issued an invoice of RM20,000 to CESB in respect of its legal fees.

After two weeks, CESB charged professional fees of RM15,000 to, Mr Vincent. The out of pocket expenses incurred by CESB were as follows:

	RM
Travelling	350
Telephone and fax	200
Postage	100
Photocopy	150
	<hr style="width: 50px; margin-left: auto; margin-right: 0;"/>
	800
	=====

Mr Vincent settled the bill on 5 May 2005.

**Required:**

- (i) State, with reasons, whether Ali & Co and CESB are taxable persons under the Service Tax Act 1975. (2 marks)
- (ii) Calculate the total amount that Mr Vincent paid on 5 May 2005. (Show all workings) (3 marks)
- (iii) State when the amount of service tax is due and payable to the relevant government department. (2 marks)

- (c) Titan Ltd, a non-resident company operating in a foreign country (a double taxation agreement exists between that country and Malaysia) has manufactured a new consumer product known as AA. It wishes to market the product AA in Malaysia. Titan Ltd has two options:

**Option 1**

Set up an office in Shah Alam, Selangor to sell and distribute the products in Malaysia.

**Option 2**

Set up a showroom in Shah Alam, Selangor. A manager and three supporting staffs will be stationed at these premises. The manager will be responsible to forward all purchase orders in Malaysia to Titan Ltd for approval. All sales contracts between Titan Ltd and its Malaysian customers will be concluded outside Malaysia.

**Required:**

Advise Titan Ltd on the tax implications in Malaysia in relation to each of the above options. Give reasons for your advice.

(8 marks)

**(Total: 20 marks)**

**QUESTION 5**

- (a) A foreign company signed a contract with a local company to undertake a construction contract in Behrang, Perak for the Malaysian Government. The contract with the government stipulated the functions that will be carried out by the foreign and the local companies as well as the expertise to be provided by each company.

At the end of the contract, the net profit will be ascertained and allocated to the foreign and local companies based on the profit sharing ratio of 40% and 60% respectively. All the income and expenditure will be reflected in the contract account.

**Required:**

Determine whether a partnership exists in the above scenario.

(5 marks)

- (b) On 14 July 2002, Encik Alias bought 50,000 ordinary shares in Entity Sdn Bhd for RM3.50 per share. He held the shares for two months until 13 September 2002. On this date, he sold 30,000 shares to Puan Amy for RM190,000.

On 5 November 2003, Puan Amy sold all the shares to Seri Jaya Sdn Bhd for RM250,000.

On 3 March 2005, Encik Raman purchased 75% of the shares in Entity Sdn Bhd held by Seri Jaya Sdn Bhd shareholding for RM7.00 per share.

The following information are extracted from the accounts of Entity Sdn Bhd which is a controlled company:

	14 July 2002	13 Sept 2002	1 Nov 2003
	RM	RM	RM
Land and building at market value	1,000,000	2,000,000	800,000
Land and building at cost	1,500,000	800,000	1,000,000
Acquisition price of shares in another Real Property Company	Nil	Nil	170,000
Goodwill	50,000	50,000	50,000
Plant and machinery	60,000	45,000	30,000
Stock in trade	250,000	290,000	270,000
Debtors	120,000	190,000	150,000
Bank	20,000	30,000	20,000
Paid up capital of RM1.00 each	400,000	400,000	400,000

**Required:**

- (i) Determine whether Entity Sdn Bhd is a Real Property Company on 14 July 2002, 13 September 2002 and 1 November 2003. (Show all workings)

(3 marks)

- (ii) Compute the real property gains tax payable (if any) by Encik Alias, Puan Amy and Seri Jaya Sdn Bhd on the disposal of the shares. Assume Encik Alias, Puan Amy and Encik Raman are Malaysian citizens. (Show all workings and state reasons if there is no real property gains tax payable)

(7 marks)

**(Total: 15 marks)**

**END OF QUESTION PAPER**