

ANSWER 1

Computation of Tax Payable of Sporty Sdn Bhd YA 2005

(a)	Note	RM'000
Net profit before taxation		2,496
(-) Other Income:		
Dividends		(1038)
Interest		(650)
Adjustments:		
Sales (mv)	1	510
Sales return (2210 – 1912)	2	(298)
Cost of sales:	3	
Closing inventory (680 – 560)		120
Stock – customer		NIL
Provision for stock obsolescence		390.5
Remuneration:	4	
Blind executive (1800 x 12)		(21.6)
EPF [610,645 – 19% (2,890,000 – 144,500)]		89
Provision (5% x 2,890)		144.5
Selling and distribution:	5	
Trade fair		(420)
Advertising		NIL
Professional fees:		
Tax and accounting	6	NIL
Secretarial fees		NIL
Technical fees – Desire Ltd		52
Legal fees		20
Bank charges:	7	
Interest		47
Overdraft		NIL
Repairs and maintenance:	8	
Upgrading		25.5
Resurfacing		NIL
Machinery & vehicle		NIL
Rewiring		NIL
Renovation of office		310
Bad & doubtful debts:	9	
Written off		67
Increase in general provision		312
Increase in specific provision		NIL
Bad debts recovered		(NIL)
Foreign exchange loss:	10	
Unrealised losses		39
Realised loss		35
Unrealised gain		(15)

TAX

MIA QE/MAC 2006

Van – loss	11	21	
Contributions:	12		
Cash contribution (298 – 100)		198	
Donation (approved)		200	
Contribution (research)		(150)	
Health care facilities		145	
Transport & travelling:	13		
Marine insurance		(108)	}
Freight charges		NIL	
Travelling allowances		NIL	
Leave passage		28	
Miscellaneous expenses:	14		
Medical insurance		NIL	}
Fire insurance		NIL	
Losses due to theft		NIL	
Insurance claim		(15)	
Traffic fines		5	
Compensation:	15		
Damaged goods		NIL	
Sports company		315	
Training	16	(25)	
Scholarship :	17		
Tham		NIL	
Azida		30	
Depreciation		482	
Amortization of goodwill		180	
Adjusted Income		<u>3,520,900</u>	
(+) Balancing Charge		25,000	
(-) Capital Allowances		<u>(345,000)</u>	
Statutory Income		3,200,900	
(-) Brought Forward loss		<u>(229,000)</u>	
		2,971,900	
(+) Other Income:			
Sec 4 (c)			
Dividend - Interim 500,000			
- Final <u>600,000</u>		1,100,000	
- Camp (exempt)		NIL	
Aggregate Income		<u>4,071,900</u>	
(-) Approved donation		(200,000)	
(restricted to 5% of aggregate)			
Health care facilities		NIL	
Total/chargeable income		<u>3,871,900</u>	
		=====	

TAX**MIA QE/MAC 2006**

Tax @ 28% on 3,871,900	RM1,084,132
(-) Tax Credit (28% x 1100,000)	<u>(308,000)</u>
Tax Payable	<u>RM776,132</u>
	=====

(17 marks)**(b) Aura Bhd**

	RM
YA 2000 (year ended 31/3/2000)	
QBE (2,800,000 – 1,200,000)	1,600,000
IA 10%	(160,000)
AA 3%	<u>(48,000)</u>
RE	1,392,000
YA 2001 (year ended 31/3/2001)	
AA 3%	<u>(48,000)</u>
RE	1,344,000
YA 2002 (year ended 31/3/2002)	
AA 3%	<u>(48,000)</u>
RE	1,296,000
YA 2003 (year ended 31/3/2003)	
AA 3%	<u>(48,000)</u>
RE	1,248,000
YA 2004 (year ended 31/3/2004)	
1/2/2004 S. Proceed (3,750 – 1,400)	<u>2,350,000</u>
Balancing Charge	<u>1,102,000</u>

Total Balancing Charge is restricted to total Capital Allowances claimed i.e RM352,000

Fantasy Sdn Bhd

YA 2004 (year ended 31/3/2004)	RM
QPE	1,600,000
IA 10%	NIL
AA 3% x 1,600,000 = 48,000	} take the higher
Or 1/47 x 1,600,000 = 34,042	
RE	<u>(48,000)</u>
	1,552,000
YA 2005 (year ended 31/3/2005)	
AA 3%	<u>(48,000)</u>
RE	<u>1,504,000</u>

YA 2005 (year ended 31/3/2005)

Extension building

QBE	140,000
IA 10% @ 140,000	(14,000)
AA 3% @ 140,000	<u>(4,200)</u>
RE	<u>121,800</u>

(8 marks)

Notes:

Permitted Fraction

YA of construction	2000
(+)	<u>50</u>
	2050

(-) YA of purchase	<u>2004</u>
	$46 + 1 = 47 = 1/47$
	===

QBE ∴ Para 4

- (a) PP = 2,350,000
or
- (b) RE + Taxable B/C
= 1,248,000 + 352,000 = 1,600,000
∴ QBE = 1,600,000 (the lower)
=====

(c) **BCF Sdn Bhd**

		RM
YA 2004 (y/e 30/9/2004)		
Deposit (1/6/2004)		30,000
Instalment (124,800 – 16,800) x 3/24		<u>13,500</u>
Qualifying expenditure (QE)		43,500
IA 20%		(8,700) CA
AA 14%		<u>(6,090)</u> 14,790
RE		<u>28,710</u>

YA 2005 (y/e 30/9/2005)

Instalment (124,800 – 16,800) x 12/24		
New QE		54,000
IA 20%		(10,800)
AA 14% x 54,000		(7,560) CA
AA 14% x 43,500		<u>(6,090)</u> 24,450
RE		<u>58,260</u>

(5 marks)
(Total: 30 marks)

ANSWER 2

(a)

YA	STATUS	SECTION
2003	R	7 (1) (b)
2004	R	7 (1) (a)
2005	R	7 (1) (a)
2006	R	7 (1) (b)

(3 marks)

(b) Where sec 7 (1) (b) applies and the temporary absence is due to any one of the following circumstances:

- Service matters, attending conferences, seminars or study abroad
- Ill health involving himself or a member of his immediately family
- Social visit not exceeding fourteen days in the aggregate, then the temporary absence would be accepted as being part of the period of 182 days or more.

(3 marks)

(c)

Computation of Tax Payable by Mr. Liew YA 2005

	RM	RM
Sec 4(a):		
Adjusted Business Income		NIL
Sec 4(c):		
Dividend (14,400 x 100/72)		20,000
Sec 4(d):		
Rental		<u>35,000</u>
Aggregate Income		55,000
(-) Current year loss – Sec 44 (2)		(18,700)
Approved donation – Sec 44 (6)		<u>(1,200)</u>
Total Income		35,100
(-) Relief – Self		(8,000)
Insurance		<u>(6,000)</u>
Chargeable Income		<u><u>21,100</u></u>
Tax on the first 20,000	RM475	
Tax on the balance 1,100 @ 7%	<u>77</u>	
	552	
(-) Rebate	(350)	
Tax credit (28% x 20,000)	<u>(5,600)</u>	
Tax repayable	<u><u>5,398</u></u>	

Computation of Tax Payable by Mrs Liew YA 2005

	RM	RM
Sec 4(a):		
Adjusted business income		25,000
Sec 4(b): Employment		
Salary	60,000	
Oversea leave passage (8,600 – 3,000)	5,600	
Water and electricity	510	
Child care benefit (exempt)	NIL	
Leave passage – local (exempt)	NIL	
	<hr/>	66,110
Sec 4(c): Dividend (21,600 x 100/72)	30,000	
Interest (exempt)	NIL	
	<hr/>	30,000
Sec 4(d): Rental	14,000	
Royalty (26,000 – 12,000)	14,000	
	<hr/>	28,000
Aggregate Income		149,110
(-) Approved donation – Sec 44 (6)		<u>(3,200)</u>
Total income		145,910
(-) Personal Relief : Self	8,000	
Child (21) – married	NIL	
(20)	4,000	
(19) – married	NIL	
(15, 5) – 1000 x 2	2,000	
Handicapped	5,000	
EPF + Insurance (5,400 + 1,400)	<u>(mx)6,000</u>	<u>(25,000)</u>
Chargeable income		<u>120,910</u>
Tax on the first 100,000	RM14,475.00	
Tax on the balance 20,910 @ 27%	5,645.70	
	<hr/>	20,120.70
(-) Tax credit (28% x 30,000)	<u>(8,400.00)</u>	
Tax payable	<u>11,720.70</u>	

(14 marks)
(Total: 20 marks)

ANSWER 3

(a) (1)

Daniel, Vincent and Tammy
Computation of Provisional adjusted income and divisible income for YA 2005

		RM
Net income		42,600
Less: Repairs		(20,000)
		22,600
add: disallowable expenses		
partners' salaries:		
Daniel [200 x 12]	= 2,400	
Vincent [200 x 3] + [400 x 9]	= 4,200	
Tammy [150 x 9]	= 1,350	
		7,950
donations :		
in cash	= 5,000	
in kind	= 3,000	
		8,000
Travelling allowances:		
Daniel [1,000 x 12]	= 12,000	
Vincent [1,500 x 12]	= 18,000	
Tammy [800 x 9]	= 7,200	
		37,200
interest on capital :		
Daniel [5% x 50,000]	= 2,500	
Vincent [5% x 70,000 x6/12]		
+ [5% x 90,000 x 6/12]	= 4,000	
Tammy [5% x 40,000 x 9/12]	= 1,500	
		8,000
Provisional adjusted income		83,750
Less: Partners' salaries		(7,950)
Travelling allowances		(37,200)
interest on capital		(8,000)
Divisible income		30,600
		=====

(ii) Computation of total income for each partner – YA 2005

	Daniel RM	Vincent RM	Tammy RM
Share of divisible income:			
3/12 x 30600 = 7,650 (1:1)	3,825	3,825	Nil
9/12 x 30600 = 22,950 (50: 90:40)	<u>6,375</u>	<u>11,475</u>	<u>5,100</u>
	10,200	15,300	5,100
Travelling allowance	12,000	18,000	7,200
Salary	2,400	4,200	1,350
Interest on capital	<u>2,500</u>	<u>4,000</u>	<u>1,500</u>
Adjusted income	27,100	41,500	15,150
Less: capital allowances (50:90: 40)	<u>(2,500)</u>	<u>(4,500)</u>	<u>(2,000)</u>
Statutory income	24,600	37,000	13,150
Less: Approved donations (50:90:40)	<u>(1,389)</u>	<u>(2,500)</u>	<u>(1,111)</u>
Total income	<u>23,211</u>	<u>34,500</u>	<u>12,039</u>

(15 marks)

(b)

Taman Segar Co-operative Society
Computation of chargeable income for YA 2005

	RM'000
Profit from laundry business	63
Add: Dividend	1,000
Fixed deposit interest	100
Total income	<u>1,163</u>
Less:	
25% x 883,000 = 220,750	
or	
Amount transferred (900 –800) = 100,000	
Whichever is lower	(100)
8% x (400 + 120 + 500 + 800)	(145.6)
Chargeable income	<u>917.4</u> =====

(5 marks)

ANSWER 4

- (a) (i) subject to tax under the Income Tax Act:
- transfer of knowledge and technology is part of its ordinary business
 - does not affect the profit making structure
 - it does not represent the sale of a capital asset
- (ii) not subject to tax under the Income Tax Act
- limiting the business market of QASB
 - parting with capital assets
- (5 marks)**
- (b) The realized gain could be chargeable to income tax as it represents gain from carrying on an adventure in the nature of trade.
- The following badges of trade would be applicable:
- methods employed in realizing the asset
 - subject matter of transaction
 - profit seeking motive
 - period of ownership
 - frequency of transaction
- note: any 3 badges of trade
- (5 marks)**
- (c) Arguments for deductibility:
- repair incurred in the production of gross income
 - no improvements to assets
 - revenue expenditure, deductible
- Arguments against deductibility
- repair enhances the value of the asset
 - repair not incurred in the production of gross income
 - renewal or improvements made to the assets
 - capital expenditure, not deductible
- (5 marks)**
(Total: 15 marks)

ANSWER 5

- (a)(i)
- Tokio Ltd does not have a P.E in Malaysia as the role of the representative is only to maintain the stock for delivery.
 - The representative has no authority to conclude contracts.
 - Therefore, profits from the sale of the materials is not taxable in Malaysia.

- (ii) employment income would be exempted
- the employees were present in Malaysia for a periods not exceeding 182 days
 - the remuneration is paid by, or on behalf of an employer who is not a resident of Malaysia
 - the remuneration is not borne by a permanent establishment in Malaysia
- (iii) Nanyo Ltd would have a P.E in Malaysia because the supervisory activities were carried out for 9 months until September.

The payments to Nanyo Ltd would thus be subjected to Malaysian income tax.

- (iv) employment income would be taxable because the employees were present in Malaysia for a period exceeding 182 days
- (v) lease rental payments is subjected to withholding @ 10% under Section 4A of the Act
- (vi) The rate of DTA will prevail.

(Total: 10 marks)

- (b) (i) Bacok Sdn Bhd eligible to apply for infrastructure allowance:
- company is resident in Malaysia
 - incurred capital expenditure on infrastructure in respect of a business operation carried on in promoted area.

- (ii) YA 2007

Capital expenditure was incurred during the pioneer period, therefore the claim for the infrastructure allowance can only be granted in the post pioneer period.

- (iii) 100% infrastructure allowance will be granted.
the allowance is to be set of against 70% of statutory income.
The amount set of would be credited to exempt income account

(5 marks)

(Total: 15 marks)