

**ANSWER 1****(1) (a) Computation of Tax Payable for Factor Sdn Bhd  
YA 2006**

|   | RM<br>+   | RM<br>-   |
|---|-----------|-----------|
| Sec 4(a):                                   |           |           |
| Net profit before taxation                  | 1,744,500 |           |
| (-) Other income:                           |           |           |
| Interest (1)                                |           | 35,000    |
| Dividend (2)                                |           | 1,521,000 |
| Rental (3)                                  |           | 30,000    |
| Adjustments:                                |           |           |
| Cost of sales (4)                           |           |           |
| Stock obsolescence                          | 22,000    |           |
| Insurance (no double deduction)             |           | NIL       |
| Damaged goods written off                   | NIL       |           |
| Remuneration (5)                            |           |           |
| Disabled employee (double deduction)        |           | 54,000    |
| Unemployed graduate (no double deduction)   |           | NIL       |
| EPF 157,500 – 19% (600,000 + 150,000)       | 15,000    |           |
| Bonus                                       | NIL       |           |
| Expatriate employee                         | NIL       |           |
| Unapproved fund                             | 9,600     |           |
| Staff welfare (6)                           |           |           |
| Staff medical and dental benefits           | NIL       |           |
| Child care maintenance                      | NIL       |           |
| Loan to employees                           | 110,000   |           |
| Leave passage for directors                 | 35,000    |           |
| Freight and insurance (7)(double deduction) |           | 120,000   |
| General and Administration (8)              |           |           |
| Compensation to ex-staff                    | NIL       |           |
| Annual subscription to Trade Association    | NIL       |           |
| Traffic fine                                | 7,500     |           |
| Food – annual general meeting               | 150,500   |           |
| Professional charges (9)                    |           |           |
| Legal fees – trade debt                     | NIL       |           |
| Legal fees – tax appeal                     | 9,000     |           |
| Renewal of trade mark                       | NIL       |           |
| Staff recruitment                           | NIL       |           |
| Business zakat                              | 45,000    |           |
| Repair and maintenance (10)                 |           |           |
| Extension – factory porch                   | 67,500    |           |
| Upgrading protection system                 | 31,500    |           |

|   |                    |                  |
|---|--------------------|------------------|
| Director's motor vehicle expenses                     | NIL                |                  |
| Resurfacing – factory car park                        | NIL                |                  |
| Depreciation on fixed assets                          | 48,000             |                  |
| Entertainment (11)                                    |                    |                  |
| Dinners – client (50%)                                | 21,000             |                  |
| Lunch – employees                                     | NIL                |                  |
| Sponsorship – local (mx 300,000)                      | 15,000             |                  |
| Cost of souvenirs                                     |                    | 66,500           |
| Leasing (12)  | 14,800             |                  |
| Donation (13)   |                    |                  |
| Equipment   | 2,000              |                  |
| Cash  | 6,000              |                  |
| Miscellaneous (14)                                    |                    |                  |
| Stamp duty  | 8,000              |                  |
| Forex gain (unrealised)                               |                    | 22,000           |
| Forex loss (realised)                                 | <u>47,000</u>      |                  |
|   | 2,408,900          | <u>1,848,500</u> |
|   | <u>(1,848,500)</u> |                  |
| Adjusted Income                                       | 560,400            |                  |
| (-) Capital allowance:                                |                    |                  |
| Current year  | = 215,000          |                  |
| Brought forward                                       | = 13,500           |                  |
| Factory protection system                             |                    |                  |
| (20%+10% $\times$ 31,500)                             | = <u>9,450</u>     | <u>(237,950)</u> |
| Statutory Income                                      | 322,450            |                  |
| (-) Brought forward business loss- sec 43(2)          | <u>(35,550)</u>    |                  |
|   | 286,900            |                  |
| <i>Add:</i> Other Income                              |                    |                  |
| Interest (exempt)                                     | NIL                |                  |
| Rental (exempt)                                       | NIL                |                  |
| Dividend – gross (700,000 + 500,000)                  | <u>1,200,000</u>   |                  |
| Aggregate Income                                      | 1,486,900          |                  |
| (-) Approved donation (cash and kind) – not qualified |                    | NIL              |
| (-) Business zakat (mx 2.5% x Aggregate Income)       |                    |                  |
| {45,000 subject to 2.5% x 1,486,900}                  | <u>(37,172.5)</u>  |                  |
| Total/Chargeable Income                               | <u>1,449,727.5</u> |                  |
| Tax on the 1 <sup>st</sup> 500,000 @ 20%              | = RM100,000        |                  |
| Tax on the balance 949,727.5 @ 28%                    | = <u>265,923.7</u> |                  |
|   | 365,923.7          |                  |
| (-) Sec 110 Tax Credit                                |                    |                  |
| [196,000 + 140,000]                                   | <u>(336,000)</u>   |                  |
| Tax Payable   | <u>RM29,923.7</u>  |                  |

(15 marks)

**(b) Section 108 A/C – YA 2006 (1/9/05 – 31/8/06)**

|   | RM                     | RM               |
|---|------------------------|------------------|
| Sec 108 b/f 1/9/05                        |                        | 546,000          |
| (+) Tax paid in YA 06:                    |                        |                  |
| 12 <sup>th</sup> instalment for YA 2005   | 22,500                 |                  |
| Final tax for YA 2005                     | 120,000                |                  |
| Instalment for YA 2006 (11 x 24,000)      | <u>264,000</u>         |                  |
|   |                        | <u>406,500</u>   |
|   |                        | 952,500          |
| <br>(+) The lower of:                     |                        |                  |
| Tax credit sec 110                        | = <u>84,000</u>        |                  |
| or  |                        |                  |
| Tax charged                               |                        |                  |
| (28% x 1,260,000)                         | = <u>352,000</u>       | <u>84,000</u>    |
| Compared Aggregate                        |                        | 1,036,500        |
| <br>Compared Total (Tax on dividend paid) |                        |                  |
| 1/11/05                                   | (28 x <u>864,000</u> ) | = 336,000        |
|   | 72                     |                  |
| 1/4/06                                    | (28 x <u>648,000</u> ) | = <u>252,000</u> |
|   | 72                     | <u>(588,000)</u> |
| Section 108(6) credit balance 31/8/06     |                        | <u>448,500</u>   |

**(5 marks)****(c)****Eco Bhd : Computation of capital allowances**

|                             | RM             |
|-----------------------------|----------------|
| Cost of land                | NIL            |
| Stamp duty (14,400 – 3,600) | 10,800         |
| Architecture and planning   | 18,600         |
| Demolishing                 | NIL            |
| Levelling and terracing     | NIL            |
| Piling and foundation       | 288,000        |
| Wiring and plumbing         | 105,600        |
| Cost of internal roads      | 64,800         |
| Construction cost           | <u>360,000</u> |
| Total Cost                  | <u>847,800</u> |

Only 80% qualifies as Industrial Building since the office and showroom occupy more than 10% of the total area.

|                                | <b>RM</b>        | <b>RM</b>                |
|--------------------------------|------------------|--------------------------|
| ∴ QBE (80% x 847,800)          | 678,240          |                          |
| <u>YA 2003 (y/e 31/3/03)</u>   |                  |                          |
| IA 10%                         | (67,824)         | } IBA<br>= <u>88,171</u> |
| AA 3%                          | (20,347)         |                          |
| RE                             | 590,069          |                          |
| <u>YA 2004 (y/e 31/3/04)</u>   |                  |                          |
| AA 3%                          | (20,347)         | IBA<br>= <u>20,347</u>   |
| RE                             | 569,722          |                          |
| <u>YA 2005 (y/e 31/3/05)</u>   |                  |                          |
| AA 3%                          | (20,347)         | IBA<br>= <u>20,347</u>   |
| RE                             | 549,375          |                          |
| <u>YA 2006 (y/e 31/3/06)</u>   |                  |                          |
| Sale Proceed (4.2 – 2.1) x 80% | (1,680,000)      |                          |
| Balancing charge               | <u>1,130,625</u> |                          |

Taxable balancing charge is restricted to total capital allowance claimed ie RM128,865.

|                              | <b>RM</b>  |
|------------------------------|------------|
| N QBE (20% x 847,800) =      | 169,560    |
| <u>YA 2003 (y/e 31/3/03)</u> |            |
| IA 10%                       | NIL        |
| Notional Allowance (NA) 3%   | (5,087)    |
| RE                           | 164,473    |
| <u>YA 2004 → 2005</u>        |            |
| NA (3% x 169,560 x 2 years)  | (10,174)   |
| RE                           | 154,299    |
| <u>YA 2006 (y/e 31/3/06)</u> |            |
| Sale proceed (2.1 x 20%)     | (420,000)  |
| Balancing Adjustment         | <u>NIL</u> |

**Puspa Bhd:**

$$\begin{aligned} \text{QBE} &= \text{Purchase Price} \\ &= 2,400,000 - 2,100,000 \\ &= 2,100,000 \end{aligned}$$

|                             |           |
|-----------------------------|-----------|
| YA 06                       | RM        |
| QBE                         | 2,100,000 |
| IA 10%                      | NIL       |
| AA 3% or PF                 |           |
| (3% x 2,100,000) = 63,000   | (63,000)  |
| (1/48 x 2,100,000) = 43,750 |           |

Take the higher

|    |                  |
|----|------------------|
| RE | <u>2,037,000</u> |
|    | =====            |

(10 marks)

(Total : 30 marks)

**ANSWER 2****Computation of income tax payable by Hasan YA 2005**

| <b>Sec 4(a) : Business</b>                            | <b>RM</b>     | <b>RM</b>      | <b>RM</b> |
|---|---------------|----------------|-----------|
| Net profit before tax                                 |               | 69,800         |           |
| <i>Add:</i> Non-allowable expenses                    |               |                |           |
| Salary to proprietor                                  | 12,000        |                |           |
| Medical expense for parents                           | 6,000         |                |           |
| Entertainment for suppliers<br>(50% x 13,400)         | 6,700         |                |           |
| General provision for d/debts                         | 32,000        |                |           |
| Donation of healthcare equipt.                        | <u>25,300</u> | <u>82,000</u>  |           |
| Adjusted income                                       |               | 151,800        |           |
| <i>Add:</i> Balancing charge                          |               | <u>4,500</u>   |           |
|   |               | 156,300        |           |
| <i>Less:</i> Capital allowance                        |               | <u>(6,700)</u> |           |
| Statutory income from sole proprietorship<br>business |               |                | 149,600   |
| <b>Sec 4(b) : Employment</b>                          |               |                |           |
| <b>Section 13(1)(a)</b>                               |               |                |           |
| Salary Jan – March (RM6,600 x 4)                      | 26,400        |                |           |
| May – Dec. (RM7,500 x 8)                              | <u>60,000</u> | 86,400         |           |

**Section 13(1)(b)**

|                                  |              |               |  |
|----------------------------------|--------------|---------------|--|
| Company car (RM7,000 x 9/12)     | 5,250        |               |  |
| Company fuel (RM1,800 x 9/12)    | 1,350        |               |  |
| Driver (RM600 x 9)               | 5,400        |               |  |
| Furniture (RM3360 x 8/12)        | 2,240        |               |  |
| Domestic servant (RM4800 x 8/12) | <u>3,200</u> | <u>17,440</u> |  |

**Section 13(1)(c)**

|                                     |               |        |         |
|-------------------------------------|---------------|--------|---------|
| Defined value (RM4,400 x 12)        | 52,800        |        |         |
| 30% x s.13(1)(a)                    |               |        |         |
| = 30% x RM86,400                    | <u>25,920</u> |        |         |
| whichever is lower, RM25,920 x 8/12 |               | 17,280 | 121,120 |

**Section 4(c)**

## Dividend income

|                               |            |        |  |
|-------------------------------|------------|--------|--|
| - Malaysian dividend, gross   |            |        |  |
| (7,920 x 100/72)              | 11,000     |        |  |
| - Malaysian dividend (exempt) | NIL        |        |  |
| - Brunei dividend (exempt)    | <u>NIL</u> | 11,000 |  |

## Interest income

|                                  |            |              |               |
|----------------------------------|------------|--------------|---------------|
| - Convertible bonds              | 8,000      |              |               |
| - Non-convertible bonds (exempt) | <u>NIL</u> | <u>8,000</u> | <u>19,000</u> |
| Aggregate income                 |            |              | 289,720       |

Less: Donation of healthcare  
equipment (mx)

(20,000)

Total Income

269,720

## Less: Reliefs

|   |            |  |                 |
|---|------------|--|-----------------|
| Personal                                      | 8,000      |  |                 |
| Medical expense for parent,<br>Restricted to: | 5,000      |  |                 |
| EPF & insurance, restricted to:               | 6,000      |  |                 |
| Child relief >18                              | 4,000      |  |                 |
| Handicapped (15)                              | 5,000      |  |                 |
| Child <18                                     | 1,000      |  |                 |
| Books   | <u>700</u> |  | <u>(29,700)</u> |
| Chargeable Income                             |            |  | <u>240,020</u>  |

Tax on the 1<sup>st</sup> 100,000

14,475

Tax on the 1<sup>st</sup> balance 140,020 @27%37,805.40

52,280.40

(-) Zakat

(13,200)

(-) Sec 110 Tax credit (28% x 11,000)

(3,080)

Tax Payable

RM36,000.40

**Computation of income tax payable by Anita YA 2005**

|  | RM              | RM              |
|--|-----------------|-----------------|
| Sec 4(a) : Business                            |                 |                 |
| Adjusted income                                |                 | NIL             |
| Capital allowance c/f RM6,000                  |                 |                 |
| Current year loss RM22,000                     |                 |                 |
| Sec 4(b) : Employment                          |                 |                 |
| Salary   |                 | 18,000          |
| Sec 4(d) : Royalty                             | 48,000          |                 |
| (-) Exemption – sch 6 para 32                  | <u>(10,000)</u> | 38,000          |
| Rental   |                 | <u>66,000</u>   |
| Aggregate income                               |                 | 122,000         |
| (-) Current year loss – sec 44(2)              |                 | <u>(22,000)</u> |
|  |                 | 100,000         |
| (-) Approved donation                          |                 | <u>(3,500)</u>  |
| Total income                                   |                 | <u>96,500</u>   |
| (-) Personal reliefs:                          |                 |                 |
| Self   | 8,000           |                 |
| Wheel chair (mx)                               | 5,000           |                 |
| EPF (9% x 18,000)                              | <u>1,620</u>    | <u>(14,620)</u> |
| Chargeable income                              |                 | <u>81,880</u>   |
| Tax on the 1 <sup>st</sup> 70,000              | =               | 7,275           |
| Tax on the 1 <sup>st</sup> balance 11,880 @24% | =               | <u>2,851.20</u> |
|  |                 | 10,126.20       |
| (-) Zakat                                      |                 | (9,200)         |
| Computer rebate (mx)                           |                 | <u>(500)</u>    |
| Tax Payable                                    |                 | <u>426.20</u>   |

**(Total : 20 marks)**

**ANSWER 3**

(a)(i)

| YA | Basis Period      |  | Adjusted<br>income/(loss)<br>RM |
|----|-------------------|--|---------------------------------|
| 03 | 1/1/03 – 31/12/03 | $110,000 + [200,000/12 \times 6] =$    | 210,000                         |
| 04 | 1/7/03 – 30/6/04  | $\text{Nil} + [200,000/12 \times 6] =$ | 100,000                         |
| 05 | 1/7/04 – 30/6/05  |  | (80,000)                        |
| 06 | 1/7/05 – 31/3/06  |  | 90,000                          |

**(8 marks)**

- (ii) Yes, it is a deductible expense to Azuri Sdn Bhd because for a company with an authorized capital of not more than RM2.5 million, the incorporation expense is allowed to be deducted against its business income.

[Income Tax (Deduction of Incorporation Expenses) Rules 2003, P.U.(A) 475/2003]

**(2 marks)**

- (iii) Commencement of a new company  
For a new company commencing business in a year of assessment, Azuri Sdn Bhd is required to furnish its tax estimate, within 3 months from the date of commencement. (i.e latest by March 2003).

**(2 marks)**

- (b) The compensation received is taxable because it is a revenue receipt.

Points to be considered:

1. Bernam is a property developer
2. The company had the intention to develop the land into a residential area and derive income from the sale of houses, i.e trading.
3. Compensation received "fills a hole in the profits" because if the land is developed, houses built, they would have sold the houses and made profit.

**(3 marks)****(Total : 15 marks)**

**ANSWER 4**

(a)

| No. | Company         | Services                       | Threshold limit | Taxable Person  |
|-----|-----------------|--------------------------------|-----------------|---|
|     |                 |                                | RM              |   |
| 1.  | Dubai Sdn Bhd   | Consultancy                    | 150,000         | Yes   |
| 2.  | Dhabi Sdn Bhd   | Engineering                    | 150,000         |   |
|     |                 | Consultancy                    |                 | Yes   |
| 3.  | Cordoba Sdn Bhd | Software development and sales |                 | No<br>[not a prescribed service]  |
| 4.  | Thani Sdn Bhd   | Courier                        | 150,000         | No<br>[there is no requirement to register as qualifying services and exported services are excluded] |

**(4 marks)**

(b)

(i) Statutory income will be exempted at the rate of 70%.

Mechanism of tax exempt income account:

The 70% of the statutory income will be restricted by:

Non-pioneer loss followed by unabsorbed pioneer loss, before the abated statutory income can be credited to the exempt income account.

**(2 marks)**

(ii)

|   | <b>Year 1</b><br><b>RM'000</b> | <b>Year 2</b><br><b>RM'000</b> | <b>Year 3</b><br><b>RM'000</b> |
|---|--------------------------------|--------------------------------|--------------------------------|
| Net Profit/(loss)   | (2,000)                        | 1,800                          | 4,000                          |
| <b>Less:</b>  |                                |                                |                                |
| Dividend income   | (720)                          | (108)                          | (108)                          |
| Interest income   | <u>(800)</u>                   | <u>(200)</u>                   | <u>(200)</u>                   |
| Adjusted income   | Nil                            | 1,492                          | 3,692                          |
| (Adjusted Loss 3520<br>c/f to be set off<br>against 70% of SI in<br>future years) |                                |                                |                                |

|                      |                   |                         |                |
|----------------------|-------------------|-------------------------|----------------|
| <b>Less:</b>         |                   |                         |                |
| Capital allowance    | <u>(2,000)c/f</u> | <u>(1,492) 1,708c/f</u> | <u>(2,908)</u> |
| Statutory income     | Nil               | Nil                     | 784            |
| <b>Less:</b>         |                   |                         |                |
| 70% of SI            | <u>Nil</u>        | <u>Nil</u>              | <u>548.8</u>   |
|                      | Nil               | Nil                     | 235.2          |
| Add: Dividend income | 1,000             | 150                     | 150            |
| Interest income      | <u>800</u>        | <u>200</u>              | <u>200</u>     |
| Chargeable income    | <u>1,800</u>      | <u>350</u>              | <u>585.2</u>   |
| 70% of SI            | Nil               | Nil                     | 548.8          |
| Less: Pioneer loss   | <u>Nil</u>        | <u>Nil</u>              | <u>(548.8)</u> |
| Credited to E.I.A    | <u>Nil</u>        | <u>Nil</u>              | <u>Nil</u>     |

(9 marks)

(c) Payments

- |                   |   |  |
|-------------------|---|--|
| Technical fees    | - | No withholding tax applies as the service <u>was not performed in Malaysia.</u>                              |
| Contract payments | - | No withholding tax applicable as the 70% of the total payments represent the supply portion.                 |
|                   | - | Withholding tax (Section 107A) at the rate of 13% (10% + 3%) only applies to the 30% of the service portion. |
| Royalties         | - | Withholding tax at the rate of 10% applies under Section 109.  |

(5 marks)

(Total : 20 marks)

**ANSWER 5**(a) (i) **Encik Ramli**Date of acquisition : with written agreement

1/3/2002 [the date on which the sale and purchase agreement was signed]

Disposal date : without written agreement

The disposal date shall be the date of completion of the disposal of the asset, which is the earlier of:

- a. The date on which the ownership of the disposed asset is transferred by the disposer or
- b. The date on which the disposer has received the whole amount (100% consideration) or value of the consideration for the transfer

Date of disposal : The earlier date would be 31/7/2006, the date when the consideration is settled 100%.

(2 marks)

(ii) **Acquisition Price:**

|   | <b>RM</b>     | <b>RM</b>        | <b>RM</b>     |
|---|---------------|------------------|---------------|
| Consideration   |               | 500,000          |               |
| + legal fees  | 950           |                  |               |
| stamp duty  | <u>13,500</u> | <u>14,450</u>    |               |
|   |               |                  | 514,450       |
| <b>Disposal Price:</b>                                      |               |                  |               |
| Consideration received<br>(market value)                    |               | 650,000          |               |
| less: renovation cost                                       |               | <u>(100,000)</u> |               |
|   |               |                  | 550,000       |
| Chargeable gain   |               |                  | <u>35,550</u> |
| Less:   |               |                  |               |
| Schedule 4 exemption<br>(RM5,000 or 10% of chargeable gain) |               |                  | (5,000)       |
|   |               |                  | <u>30,550</u> |
| Net Chargeable Gain   |               |                  | <u>30,550</u> |
|   |               |                  | =====         |
| RPGT payable @ 5%   |               |                  | 1527.50       |

(7 marks)

(b)

(i)

| <b>Type of Income</b> | <b>Tax treatment</b>                       |
|-----------------------|--|
| Annual subscription   | Exempted<br>Principle of mutuality applies |
| Entrance fees         | Exempted<br>Principle of mutuality applies |
| Dividend              | Taxable                                    |
| Interest              | Taxable                                    |

(3 marks)

(ii)

**Computation of Chargeable income for year of assessment 2005  
Platinum Go-Kart Club**

|                            | <b>RM</b>        |
|----------------------------|------------------|
| Dividend [57,600 x 100/72] | 80,000           |
| Interest                   | <u>230,000</u>   |
|                            | 310,000          |
| Less: Approved donation    | <u>(300,000)</u> |
| Chargeable income          | <u>10,000</u>    |

**(3 marks)**

**(Total : 15 marks)**