



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

## QUALIFYING EXAMINATION

### Taxation

Date : 20 September 2006

Time : 2.30 pm – 5.30 pm (3 hours)

#### INSTRUCTIONS TO CANDIDATE:

This question paper contains 5 questions on 15 printed pages.

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Answer ALL questions.

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

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**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%
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- 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 benefit 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>Tax rate %</b>		
	<b>A Companies</b>	<b>B Others except C</b>	<b>C Non-citizens</b>
Disposals within the following period after acquisition:			
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) Factor Sdn Bhd which has a paid up capital of RM2.4 million is a manufacturer of sports equipment under the brand name "Perkasa". The equipment is of export quality.

The profit and loss account of the company for the year ended 30 June 2006 is as follows:

	Note	RM'000	RM'000
Sales			4,952
<i>Add:</i> Other income			
Interest	1	35	
Dividend (net)	2	1,521	
Rental	3	<u>30</u>	<u>1,586</u>
			6,538
<i>Less:</i> Cost of sales	4		<u>1,921</u>
			4,617
<i>Less:</i> Remuneration	5	956.1	
Staff welfare	6	415	
Freight and insurance	7	310	
General and administration	8	230	
Professional charges and subscriptions	9	99.5	
Repairs and maintenance	10	193.5	
Entertainment	11	595	
Leasing	12	32.4	
Donation	13	8	
Miscellaneous	14	<u>33</u>	<u>2,872.5</u>
Net profit before taxation			<u><u>1,744.5</u></u>

**Notes:**

- Interest from excess funds deposited with an overseas bank was credited and remitted to Malaysia on 30 June 2006.
- Dividends were received from the following:

	Gross RM	Tax RM	Net RM
Fair Sdn Bhd			
- Interim (14 January 2006)	700,000	196,000	504,000
- Final (21 March 2006)	500,000	140,000	360,000
Clear Pte Ltd (Hong Kong)	-	-	657,000

These shares were acquired between 1999 to 2005 as investments from the company's surplus cash. Dividend income from Clear Pte Ltd was remitted to Malaysia during the financial year.

3. Rental is earned from letting an apartment in Perth, Australia. The company bought the apartment five years ago. Only RM30,000 was remitted to Malaysia on 31 May 2006 out of the net rental income of RM75,000.
4. Cost of sales include: **RM**
- Provision for stock obsolescence 22,000
  - Insurance premium paid to an insurance company in Taiwan for export of cargo to Taiwan 51,000
  - Damaged goods written off 48,000
5. Remuneration comprises: **RM**
- Employees' salaries (including salaries of RM54,000 for a disabled staff and RM75,000 for an unemployed graduate registered with the Economic Planning Unit) 600,000
  - EPF (employer's contribution) 157,500
  - Bonus (3 months salary) 150,000
  - Salary of an expatriate employee 39,000
  - Contribution to an unapproved provident fund 9,600
- 956,100**
6. Staff welfare comprises: **RM**
- Staff medical and dental benefits 95,000
  - Leave passage for directors 35,000
  - Loan to employees written off 110,000
  - Maintenance of child care centre 175,000
- 415,000**
7. Freight and insurance
- This includes RM120,000 premium paid to Cyber Insurance Bhd, a company incorporated in Malaysia, for goods imported.
8. General and administration expenses comprise: **RM**
- Food for shareholders attending the annual general meeting 150,500
  - Annual subscription to Trade Association of Manufacturers 18,000
  - Fine for exceeding speed limit on the highway while sending goods to customers. 7,500
  - Compensation paid to an ex-staff for loss of employment 54,000
- 230,000**

9.	Professional charges and subscriptions comprise:	<b>RM</b>
	- Legal fees on recovery of trade debt	10,500
	- Legal fees for handling income tax appeal	9,000
	- Fees for renewal of an existing trademark	17,000
	- Staff recruitment charges paid to an employment agency	18,000
	- Business zakat	<u>45,000</u>
		<u>99,500</u>
10.	Repairs and maintenance comprise:	<b>RM</b>
	- Extension of the factory porch for the Managing Director's parking bay	67,500
	- Upgrading of the factory's protection system	31,500
	- Director's motor vehicle expenses (business purpose)	10,500
	- Resurfacing the factory car park	36,000
	- Depreciation on fixed assets	<u>48,000</u>
		<u>193,500</u>
11.	Entertainment expenses include:	<b>RM</b>
	- Dinners for clients	42,000
	- Lunch provided to employees	21,500
	- Sponsorship of a local cultural activity (approved by the Ministry of Culture, Arts and Tourism)	315,000
	- Cost of souvenirs at an International Trade Fair in New Zealand to promote Malaysian products	66,500
12.	Leasing	
	A new car (cost: RM190,000) for the General Manager was leased at a monthly rate of RM2,700 since July 2004.	
13.	Donations	
	The company donated sports equipment worth RM2,000 to an orphanage (approved institution). In addition, each orphan received a cash donation of RM50. The total cash donation distributed was RM6,000.	
14.	Miscellaneous expenses comprise:	<b>RM</b>
	- Stamp duty on increase in authorised share capital	8,000
	- Foreign exchange gain on import of trading stock (unrealised)	(22,000)
	- Foreign exchange loss on import of machinery (unrealised)	<u>47,000</u>
		<u>33,000</u>

**Other Information:**

- i. Capital allowances brought forward from previous year amounted to RM13,500.
- ii. Capital allowances (excluding new assets acquired) for the year of assessment 2006 amounted to RM215,000.
- iii. The adjusted loss brought forward from the year of assessment 2005 was RM35,550.

**Required:**

Compute the tax payable by Factor Sdn Bhd for the year of assessment 2006. Every item mentioned in the notes to the accounts must be stated in your computation irrespective of whether an adjustment is required or not. Where no adjustment is required, indicate 'NIL' in the appropriate column.

(15 marks)

- (b) Wang Bhd, a Malaysian resident company, prepares its accounts to 31 August annually. The information for the financial year 2006 is given below:

	<b>RM</b>
Balance of Section 108 account as at 1 September 2005	546,000
Chargeable income for the year of assessment 2006	1,260,000
Income tax paid (October 2005 to September 2006 at RM24,000 per month)	288,000
Balance of tax paid for the year of assessment 2005 on 31 March 2006	120,000
Tax credit on dividend income received in 2006 (Section 110 set off)	84,000
Last instalment payment for year of assessment 2005	22,500

During the year ended 31 August 2006, the company paid the following dividends:

		<b>RM</b>
1 November 2005	Dividend (net)	648,000
1 April 2006	Dividend (net)	864,000

**Required:**

Compute the company's Section 108 account balance for the year of assessment 2006.

(5 marks)

- (c) Eco Bhd, incorporated on 1 April 2002, purchased a piece of land in an industrial area of Sepang to construct a building for its business operations.

The following expenses were incurred:

<b>Date</b>	<b>Expenditure</b>	<b>RM</b>
10 April 2002	Cost of land	1,200,000
12 April 2002	Stamp duty and legal fees (RM3,600 related to land)	14,400
30 April 2002	Architecture and planning	18,600
15 June 2002	Cost of demolishing an old factory	300,000
25 June 2002	Levelling and terracing	480,000
10 August 2002	Piling and foundation	288,000
2 December 2002	Wiring and plumbing	105,600
18 January 2003	Cost of internal roads in the factory compound	64,800
31 January 2003	Construction cost	360,000

The construction of the building was completed on 30 March 2003. Eco Bhd commenced its business on 1 April 2002 and prepared its first set of accounts to 31 March 2003 and to that date for subsequent years. 80% of the building was used as a factory and the rest as an office and a showroom.

On 21 February 2006 the company shut down operations following the issuance of a court order. The company appealed to the court but the appeal was rejected. As a result, the company directors decided to cease operations. On 15 March 2006 the directors sold the properties to Puspa Bhd for a value of RM4.2 million of which RM2.1 million represents the sale proceed of the land. Puspa Bhd's financial year ends on 30 June. Puspa used the whole building as an industrial building.

**Required:**

Compute the industrial building allowances, balancing charges or balancing allowances (if any) for both companies for all relevant years of assessment up to the year of assessment 2006 (Show all relevant workings).

(10 marks)

(Total: 30 marks)

**QUESTION 2**

Hasan and Anita have approached you for advice on the preparation of their tax computation for the year of assessment 2005. The following information has been provided to you:

**Hasan**

## (i) Employment income

Hasan works as a financial analyst for Grade Bhd, a listed company. In view of his good performance in the previous year, the company gave him an increment with effect from 1 May 2005. His salary for the year 2005 is therefore as follows:

January – April	RM6,600 per month
May – December	RM7,500 per month

Other details relating to his employment are:

- Effective from 1 April 2005, a company car costing RM160,000 together with a driver, was provided to him. Fuel was also provided.
- Living accommodation in Damansara was provided to him free with effect from 1 May 2005. The monthly rental for the fully furnished house is RM5,000 (including rental of furniture of RM600 per month)
- A domestic helper was provided from 1 May 2005.

## (ii) Business income 1

Hasan runs a fast-food outlet in Petaling Jaya. The outlet's statement of profit and loss for the year ended 31 December 2005 is as follows:

	<b>RM</b>	<b>RM</b>
Sales		390,000
<i>Less:</i> Cost of sales		<u>(130,000)</u>
Gross profit		260,000
<i>Less:</i> Expenses:		
Staff salaries	39,000	
Salary to wife Anita	18,000	
Salary to proprietor	12,000	
Medical expenses for Hasan's parents	6,000	
Rental (business premises)	24,000	
Utilities – water and electricity	8,000	
Entertainment for suppliers	13,400	
General provision for doubtful debts	32,000	
Travelling – business	12,500	
Donation of health care equipment, approved by Minister of Health	<u>25,300</u>	<u>(190,200)</u>
Net profit before tax		<u>69,800</u>

**Other information:**

1. Some of the office equipment was disposed off during the year and a balancing charge of RM4,500 is applicable.
2. The claim for capital allowances for the year of assessment 2005 is RM6,700.

(iii)	Dividend income	<b>RM</b>
-	Malaysian (net) – Windcon Bhd	7,920
-	Malaysian – Pioneer company	4,000
-	Brunei (received on 2 June 2005)	4,700

- (iv) Interest income  
Hasan acquired bonds from Malaysian Technology Bhd, a company listed on Bursa Malaysia, and received the following interest income:

	<b>Principal RM</b>	<b>Interest income RM</b>
Convertible bonds (received 31 October 2005)	140,000	8,000
Non-convertible bonds (received 30 November 2005)	160,000	9,500

**Anita**

Apart from helping Hasan in his fast food business, Anita also operates an orchid farm in Selayang. As a result of the economic downturn, the business incurred an adjusted loss of RM22,000 for the year ended 31 December 2005. Capital allowances for the year of assessment 2005 amounted to RM6,000.

She also provided you with the following details:

- (i) Royalty income : RM48,000  
This royalty income is in relation to a music composition for a concert held at the National Theatre.
- (ii) Rental income : RM66,000

**Other information:**

1. They have three children, one above 18 years old studying at local college, one (aged 15) handicapped, and the youngest (aged 10) is attending Sri Kuala Lumpur School.
2. On 15 March 2005 Anita bought a new computer for her disabled child which costs her RM5,200 as well as a wheelchair costing RM6,200.

3. Hasan incurred RM1,300 on buying books for the family.
4. Anita donated RM3,500 to a charitable institution (approved).
5. Both Hasan and Anita contributed 9% of their salaries to EPF for the year 2005
6. Hasan and Anita paid RM13,200 and RM9,200 respectively as zakat

**Required:**

Compute the tax payable by Hasan and Anita for the year of assessment 2005.

(20 marks)

**QUESTION 3**

- (a) Azuri Sdn Bhd (Azuri), with an authorised share capital of RM2,000,000 incurred RM100,000 incorporation costs on 1 November 2002. Azuri commenced business on 1 January 2003 and prepared its first set of accounts to 30 June 2003 and to that date for subsequent years. On 1 July 2005, the company decided to change its accounting year end to 31 March 2006. The adjusted income/(loss) were as follows:

Accounting Period	Adjusted income/(loss) RM
1/1/2003 – 30/6/2003	110,000
1/7/2003 – 30/6/2004	200,000
1/7/2004 – 30/6/2005	(80,000)
1/7/2005 – 31/3/2006	90,000

**Required:**

- (i) State the basis period for each year of assessment up to year of assessment 2006 and calculate the adjusted income/(loss) for each of the relevant years of assessment.  
(8 marks)
- (ii) State with reasons, whether or not the payment of RM100,000 is a deductible expense to Azuri Sdn Bhd.  
(2 marks)
- (iii) With respect to the self-assessment system, state (with reasons) when Azuri Sdn Bhd must provide the Director General of Inland Revenue with the company's estimated income tax liability for the year of assessment 2003.  
(2 marks)

- (b) Bernam Hartanah Sdn Bhd (Bernam) is in the business of property development since 1999. In 2004, it purchased a piece of land in Behrang for the purpose of developing it into a residential area. Bernam submitted an application to the Perak State Government for approval. It had incurred development cost such as planning and surveying costs.

However, in 2006, the land was compulsorily acquired by the State Government for the purpose of constructing a project relating to tourism. Bernam was offered a compensation of RM12 million based on the prevailing market price.

**Required:**

State, with reasons, whether or not the compensation received is taxable under the Income Tax Act 1967.

(3 marks)  
(Total: 15 marks)

**QUESTION 4**

- (a) Dhabi Sdn Bhd, Cordoba Sdn Bhd and Thani Sdn Bhd are wholly-owned subsidiaries of Dubai Sdn Bhd. The activities and turnover of the companies within the Dubai Group of Companies for the year ended 30 June 2006 are as follows:

Name of company	Activities	Turnover (RM)
Dubai Sdn Bhd	Provision of consultancy services	15 million
Dhabi Sdn Bhd	Engineering services	6 million
	Construction services	6 million
Cordoba Sdn Bhd	Provision of software development and sales to non-Malaysian clients	300,000
Thani Sdn Bhd	Provision of courier services to non-Malaysian clients	200,000

**Required:**

State, with reasons, whether the companies are taxable persons under the Service Tax Act 1975.

(4 marks)

- (b) Tyron Builders Incorporated (Tyron), a company incorporated in the United Kingdom, is engaged in the manufacturing of a product which is regarded as a promoted product in Malaysia. Tyron is attempting to make its presence known in the South East Asia region with a view of expanding its market. Tyron intends to undertake the project by setting up a factory in Malaysia, specifically in the Klang valley area.

Tyron is aware that the Pioneer status incentive is available for this type of business. Its three year projections are as follows:

	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Net Profit/(loss) before taxation (refer to the note below)	(2,000)	1,800	4,000
Qualifying capital expenditure	3,000	2,000	Nil
Capital allowances for the year	2,000	1,200	1,200

**Note:**

The net profit/(loss) before taxation were after crediting the following income:

	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Dividend income (net)	720	108	108
Interest	800	200	200

**Required:**

- (i) Advise Tyron on the percentage of its profits that would be exempt under the Pioneer status incentive in Malaysia. Explain the mechanism of arriving at the amount that would be credited to tax exempt account. (2 marks)
- (ii) Compute the amount to be credited to the exempt income account and the chargeable income of Tyron for each of the three years. (9 marks)
- (c) Ozim Sdn Bhd (OSB), a high technology company, is resident in Malaysia. During the year ended 31 December 2005, OSB made the following payments to non-residents:
- Technical service fees to a Japanese company. The service was performed entirely in Japan.
  - Contracts payments to a German company. It was agreed that the service portion of the contract is 30%.
  - Royalties to a Taiwan company for the use of their copyrighted patents.

**Required:**

State whether withholding tax is applicable to each of the payment above. Where the withholding tax is applicable, state the rate of withholding tax.

(5 marks)

(Total: 20 marks)

**QUESTION 5**

- (a) Encik Ramli, a citizen of Malaysia, signed a sale and purchase agreement with a property developer to purchase a house for RM500,000 on 1 March 2002. Prior to this date, he had never purchased any residential property.

Encik Ramli incurred legal fees of RM950 and stamp duty of RM13,500. On 15 April 2002, he received the keys to the house and moved in on 28 July 2002, after incurring additional renovation cost of RM100,000.

On 1 April 2005 Encik Ramli sold the house to his niece, Puan Anisa, for RM500,000. They did not sign any agreement for this transaction. The market value of the house at that date was RM650,000. Puan Anisa settled the consideration in full on 31 July 2006. The title to the house was transferred to Puan Anisa on 2 September 2006.

**Required:**

- (i) State, with reasons, the date Encik Ramli acquired the house and the date he disposed of the house to Puan Anisa for the purposes of real property gains tax.

(2 marks)

- (ii) Compute Encik Ramli's real property gains tax liability on the disposal of the house to Puan Anisa. Assume that Encik Ramli did not elect for any exemption from real property gains tax.

(7 marks)

- (b) Platinum Go-Kart Club is formed to promote Go-Kart activities among its members. The income and expenditure of Platinum Go-Kart Club for the year ended 31 December 2005 is as follows:

	RM	RM
<b>Income:</b>		
Annual subscription		800,000
Entrance fees		148,000
Dividend from Malaysian resident company (net)		57,600
Interest from financial institutions		<u>230,000</u>
		1,235,600
<b>Less: Expenditure</b>		
Salaries and wages	300,000	
Utilities	70,000	
Maintenance cost	20,000	
Financial charges	15,000	
Depreciation on building	80,000	
Donation to approved institution	<u>300,000</u>	<u>785,000</u>
Net income		<u>450,600</u>

**Required:**

- (i) State, with reasons, whether each of the income item above is exempt from income tax.  
(3 marks)
- (ii) Compute the chargeable income of Platinum Go-Kart Club for the year of assessment 2005.  
(3 marks)
- (Total: 15 marks)

**END OF QUESTION PAPER**