

ANSWER 1

(a) Computation of Tax Payable for Natural Sdn. Bhd. For YA 2006

	RM +	RM -
Net Profit before tax	1,612,000	-
Adjustments:		
Sales – market value (1)	392,000	
Sales return (Overstated) (2)	10,000	
Cost of sales (3)		
Provision	431,000	
Remuneration (4)		
Salary – blind (d/d)		45,600
EPF 653,000 – (19% x 2,200,000)	235,000	
Provision Retirement (6% x 2,200,000)	132,000	
Selling and distribution: (5)		
Trade fare – Sydney (d/d)		290,000
Advertising	NIL	
Professional fees (6)		
Audit and accountancy fees	NIL	
Technical fees	46,000	
Legal fees	20,000	
Bank charges: (7)		
Interest – Stars Bhd.	38,000	
Overdraft	NIL	
Repairs and maintenance: (8)		
Upgrading	56,000	
Re-surfacing	NIL	
Machinery and vehicles	NIL	
Rewiring	NIL	
Renovation of office	340,000	
Bad debts: (9)		
B/D written off	58,000	
General provision	240,000	
Specific provision	NIL	
Bad debts recovered		
Forex: (10)		NIL
Stock purchase	NIL	
Foreign loan	20,000	
Plant – Taiwan	56,000	
Trade debtors	29,000	
Loss on sale of van (11)	21,000	
Contributions: (12)		
National Library (mx 100,000)	57,000	
Donation	300,000	
Zakat	100,000	

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Research and development		150,000
Transport and travelling: (13)		
Marine insurance		210,000
Freight charges	NIL	
Travelling allowances	NIL	
Leave passage	15,000	
Miscellaneous: (14)		
Medical insurance	NIL	
Fire insurance	NIL	
Losses – stock	NIL	
Insurance claim		20,000
Traffic fines	8,000	
Compensation: (15)		
Compensation to clients	NIL	
Compensation – close down	325,000	
Training (d/d) (16)		25,000
Depreciation	650,000	
Amortisation of goodwill	200,000	
Other income:		
Dividend		477,000
Interest		250,000
	5,391,000	1,467,600
	<u>(1,467,600)</u>	
Adjusted Business Income	3,923,400	
(-) Balancing Allowance	(3,100)	
(-) Capital Allowance	<u>(171,200)</u>	
Statutory Business Income	3,749,100	
(-) BF loss – Sec. 43 (2)	<u>(263,000)</u>	
		3,486,100
Add: Other income:		
Dividend:		
Interim (14/1/06)	200,000	
Final (1/3/06)	<u>150,000</u>	350,000
Champion Pte. Ltd.		Exempt
Interest (Overseas)		Exempt
Aggregate income		3,836,100
(-) Donation		
Approved institution – 300,000		(191,805)
(subject to 5% Aggregate Y)		
Zakat 100,000		(95,900)
(subject to 2.5% x Aggregate Y)		
Total/Chargeable Income		<u>3,548,395</u>
Tax @ 20% on RM500,000	RM100,000	
Tax @ 28% on RM3,048,395	853,551	
	<u>953,551</u>	
(-) Sec 110 Tax Credit (28% x 350,000)	<u>(98,000)</u>	
Tax Payable	<u>855,551</u>	

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Working:

Note 11:	Van			
	YA 2003 (y/e 31/10/03)			
	QPE		RM98,000	RM
	IA 20%		(19,600)	39,200
	AA 20%		(19,600)	
		RE	<u>58,800</u>	
	YA 2004 (y/e 31/10/04)			
	AA 20%		(19,600)	19,600
		RE	<u>39,200</u>	
	YA 2005 (y/e 31/10/05)			
	AA 20%		(19,600)	19,600
		RE	<u>19,600</u>	
	YA 2006 (y/e 31/10/06)			
	Sold (1/10/06)		(16,500)	
	Balancing Allowance		<u>RM3,100</u>	

Note 19:

Factory : AA 3% x 1,120,000 = RM33,600

Plant and Machinery: AA 20% x 340,000 = RM68,000

Computers: IA 20% } x 60,000 = RM36,000
 AA 40% }

Note 8: Upgrading :
 IA 20% x 56,000
 AA 20% x 56,000 = RM22,400

Note 10: Forex loss:
 AA 20% x 56,000 = RM11,200
RM171,200

(25 marks)

(b) Timber Wood Sdn Bhd should provide the tax estimate for YA 2007 within one month before the commencement of the basis period (ie by 1 September 2006)

YA 2007 tax estimate must not be less than 85% of the revised tax estimate or (if there is no revised estimate) the tax estimate for the preceding YA ie. YA 2006.

- Since there is an anticipated increase in income (ie by 60%) the company should review its tax estimate in the 6th month or 9th month in the basis period (i.e in March 2007 or June 2007)
- The consequences of an excessive (ie. more than 30%) difference between the estimated and the final tax liability, is a penalty equal to 10% of the difference in excess of the 30% margin.

(5 marks)
(Total: 30 marks)

ANSWER 2

(a) Computation of Tax Payable for Puan Fairuz YA 2006

	RM	RM
Sec, 4 (b)		
Sec, 13 (1) (a)		
Salary (10,000 x 12)	120,000	
Bonus (10,000 x 2)	20,000	
Entertainment (3,500 x 12)	42,000	
Domestic servant (800 x 12)	9,600	
Insurance	<u>3,500</u>	195,100
Sec. 13(1)(b)		
Bills	8,400	
Car (7,000 x 8)	4,667	
12		
Fuel (1,800 x 8)	1,200	
12		
Driver (600 x 6)	3,600	
Fuel	3,200	
Furniture	<u>3,360</u>	24,427
Sec 13 (1)(c)		
Defined value (12,000 – 3,000)		
= 9,000 x 12 =	108,000	
30% x Sec 13 (1) (a)		
(30% x 195,100) =	<u>58,530</u>	
∴ The lower value		<u>58,530</u>
Gross Employment Income		<u>278,057</u>
(-) Sec 33 Expenses:		
Entertainment (mx)	42,000	
Rental (2,000 x 12)	<u>24,000</u>	<u>(66,000)</u>
Statutory Employment Income		<u>212,057</u>
Less: Approved donation – in kind		NQ
Total Income		<u>212,057</u>
Less: Personal reliefs:		
Self	8,000	

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EPF (mx)	6,000	
Medical Exp. (mother)	5,000	
Medical Exp. (child)	1,000	(20,000)
Chargeable Income		<u>192,057</u>
Tax on the first RM100,000	= RM14,475.00	
Tax on the balance 92,057 @ 27%	= <u>24,855.39</u>	
Tax Payable	= <u>RM39,330.39</u>	

(7 marks)

(b) Retirement gratuity will be exempted from tax under the following situations:

1. Sums received by way of gratuity on retirement from an employment:
 - a. if the Director General is satisfied that the retirement was due to ill-health; or
 - b. if the retirement takes place on or after reaching of age of 55, or on reaching the compulsory age of retirement from employment specified under any written law and in either case from an employment which has lasted ten years with the same employer or with companies in the same group.
2. Sums received by way of gratuity or by way of payment in lieu of leave paid out of public funds on retirement from an employment under any written law.
3. Sums received by way of gratuity paid out of public funds on termination of a contract of employment (less the employer's contribution to the Employees Provident Fund, if any, and interest thereon).

(3 marks)**(Total: 10 marks)**

ANSWER 3

- (a) Chargeability of income received by Encik Taylor:
- i) Royalty is deemed to be derived from Malaysia as it was paid by a resident person.
However Encik Taylor is entitled to RM20,000 exemption per annum – Sch 6 Para 32B
 - ii) Dividend is not income derived from Malaysia and effective from the year of assessment 2004, foreign income remitted by a resident is exempt – Sch 6 Para 28
 - iii) Rental income is deemed to be derived from Malaysia as the property is located in Malaysia. Therefore the income is subject to tax.
Since Encik Taylor is a Malaysian resident, he will be subject to tax at the scale rate.

(5 marks)

(b)

YA	B/Period	Adj. Inc/Loss RM
03	1/2/03 - 31/12/03	$1/2 - 31/12 = \frac{11}{17} \times 34,000 = 22,000$
04	1/1/04 – 31/12/04	$1/2 - 30/6 = \frac{6}{17} \times 34,000 = 12,000$
	(+)	$1/7 - 31/12 = \frac{6}{12} \times (12,000) = \underline{(6,000)}$ 6,000 =====
05	1/7/04 - 30/6/05	1/7/04 – 31/12/04 –is called overlapping period. Therefore $\frac{6}{12} \times 12,000 = (6,000)$ loss is absorbed in YA 04 $1/1/05 - 30/6/05 = \frac{6}{12} \times 12,000 = (6,000)$ 12 =====
06	1/7/05 – 30/6/06	RM20,000 =====

(5 marks)
(Total: 10 marks)

ANSWER 4

	Deceased RM	Executor RM
Business 1 (Malaysia)		
Statutory income	80,000	160,000
Less: business losses b/f from previous year	(40,000)	
	<u>40,000</u>	
Business 2 (Indonesia)		
Statutory income	Nil	Nil
Add: other sources of income		
Dividend:		
- Malaysia	40,000	
- Indonesia		Exempt
Interest :		
- Malayan Banking Bhd	Exempt	
- Affin Bank		Exempt
Aggregate income	<u>80,000</u>	<u>160,000</u>
Less:		
Current year business loss	Nil	Nil
Annuity payable	-	(60,000)
Administration fees	NA	NA
Approved donation	(10,000)	NA
Total Income	<u>70,000</u>	<u>100,000</u>
Less: special relief		(8,000)
Chargeable income		<u>92,000</u>

(10 marks)

ANSWER 5

- (a) (i)
- manufacturer of taxable goods
 - importer of taxable goods

(2 marks)

- (ii) Transactions regarded as a sale for sales tax purposes:

- tax free raw materials acquired by manufacturers are destroyed, given away, donated, supplied free of charge and used for own consumption;
- taxable goods are disposed through exchange, barter trade or disposal of goods with a right of purchase;
- goods sold on hire purchase or installment basis.

(3 marks)

(b) Eragon Ltd does not have a permanent establishment in Malaysia.

Reasons:

- The representative, Suria Sdn Bhd had no authority to conclude contracts on behalf of Eragon Ltd. All the sales contracts were concluded outside Malaysia.
- The invoices were issued from United Kingdom. The leased warehouse was used for the purpose of storing the goods before delivering it to the customers.

(3 marks)

(c)

	2007	2008
	RM'000	RM'000
Adjusted income	Nil	13,000
Less: capital allowance	(5,000) c/f	(9,000)
Statutory income from business	Nil	4,000
Less: RA utilized (refer to workings 1)	Nil	(2,800)
	Nil	1,200
Less: business losses	Nil (6,000) c/f	(1,200) (4,800) c/f
Chargeable income	Nil	Nil

Workings 1:

70% of Statutory income	Nil	2,800
Compare : RA: 60% of QCE	6,600	3,600
: brought forward	Nil	6,600
: Total RA available	6,600	10,200
: utilised	Nil	2,800
: unutilised c/f	6,600	7,400
Amt credited to Exempt Income Account	Nil	2,800

(7 marks)

(Total: 15 marks)

ANSWER 6

(a) There are several options that could be considered to enhance the tax efficiency of the TN Group. These include the following:

- The holding company should charge management fees to the subsidiaries so that it could obtain a full deduction for its administrative expenses against its business income.
- The TN Equipment could transfer its operations (including factory building and plant and machinery) to TN Woods Sdn Bhd so that the unabsorbed losses and capital allowances could be offset against the profits generated by the merged operations.

- In order to avoid real property gains tax, the factory could be rented out to TN Woods and the ownership still remains with TN Equipment.
- The new business (school equipment) could be carried out by TN Equipment. This would enable TN Equipment to obtain reinvestment allowance for the project on the basis of expansion / diversification of its existing business. If the business of TN Equipment is transferred to TN Woods, then the new business could be carried out by TN Woods.
- TN Equipment would also be faced with the 2 tier restriction for the payment of tax free dividend to its ultimate shareholders. To overcome this situation, the shares in TN Equipment could be transferred to TN Holdings Sdn Bhd.

(10 marks)

- (b) (i) A real property company is a controlled company where the defined value of the real property and acquisition price of shares in other real properties companies are at least 75% of the total tangible assets of the company.

(3 marks)

(ii)

As at 31 December 2005

	Abex	Dylex
Defined value / Total Tangible assets	11,000/14,100	7,000 /10,900
	= 78%	= 64%
	RPC	Non RPC

(3 marks)

(iii)

As at 20 January 2006

Defined value/ TTA	8,000 + (5000 x RM2)
	<u>8,000 + 10,000 + 1,500 + 1,800</u>
	= 18,000
	<u>21,300</u>
	= 85%
	==== RPC

(2 marks)

