



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

QUALIFYING EXAMINATION

Taxation

Date : 22 March 2007

Time : 2.30 pm – 5.30 pm (3 hours)

INSTRUCTIONS TO CANDIDATE:

This question paper contains 6 questions on 14 printed pages.

Answer **ALL** questions.

Answer questions 1,2 and 3 in separate booklet(s) from questions 4, 5 and 6.

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.

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

Chargeable Income RM	Rate	Cumulative Tax RM
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**

Cost of car when new RM	Annual value of BIK RM	Fuel per annum RM
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

Types of BIK	Annual value of BIK RM
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**

	Tax rate %		
	A Companies	B Others except C	C Non-citizens
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**

	Motor Vehicles	Plant & Machinery	Computers	Others	Industrial Building
Initial allowance	20%	20%	20%	20%	10%
Annual allowance	20%	14%	40%	10%	3%

QUESTION 1

- (a) Natural Sdn Bhd is a resident company with a paid up capital of RM 1.9 million on 1 September 2005. Since 2000, the company is engaged in the business of supplying a wide range of sports equipment to supermarkets and stores throughout Malaysia and South East Asia

The profit and loss account for the year ended 31 October 2006 is as follows:

	Note	RM '000	RM '000
Sales	1	19,950	
Less: Sales returns	2	922	
Net Sales		<u>19,028</u>	
Less: Cost of sales	3	<u>8,920</u>	10,108
Less: <u>Operating expenses</u>			
Remuneration	4	2,985	
Selling and distribution	5	600	
Professional fees	6	289	
Bank charges	7	390	
Repairs and maintenance	8	1,210	
Bad and doubtful debts	9	602	
Foreign exchange loss	10	359	
Loss on sale of van	11	21	
Contributions	12	878	
Depreciation		650	
Transport and travelling	13	450	
Miscellaneous	14	197	
Compensation	15	367	
Amortisation of goodwill		200	
Training	16	<u>25</u>	<u>9,223</u>
			885
Add: <u>Other income</u>			
Dividend	17	477	
Interest	18	<u>250</u>	<u>727</u>
Profit before taxation			<u><u>1,612</u></u>

Notes:

- Sales
Goods costing RM285,000 were taken for the directors' personal use. The market value of these goods was RM392,000
- Sales returns
Actual returns made by customers due to faulty goods were RM912,000 instead of RM922,000.

3. Cost of sales
Cost of sales includes a provision for stock obsolescence amounting to RM431,000
4. Remuneration
Included in this item are:
- Salary of a blind executive (monthly RM3,800)
 - The company's contribution to the Employees Provident Fund is RM653,000.
 - The company also made a provision of six (6) percent of the total remuneration (of RM2,200,000) in respect of retirement benefits.
5. Selling and distribution
This item includes the following:
- Cost of RM290,000 for participation in an international trade fair in Melbourne which was approved by the Ministry of International Trade and Industry.
 - Expenditure of RM82,000 incurred on local advertisement to promote products of the company
6. Professional fees
This item includes the following:
- | | RM |
|---|-----------|
| Audit and accounting fees | 35,000 |
| Technical fees paid to Desire Ltd, a German company, for services provided in Malaysia, on which withholding tax was not deducted | 46,000 |
| Legal fees for defence on a charge concerning violation of trade regulations | 20,000 |
7. Bank charges
This item includes the following:
- Interest of RM38,000 was paid to International Finance Bhd for a loan which was used in the purchase of 30,000 shares in Stars Bhd.
 - Overdraft and short term loan interest amounting to RM145,000.
8. Repairs and maintenance
This item includes the following:
- | | RM |
|-----------------------------------|-----------|
| Upgrading of fire safety system | 56,000 |
| Re-surfacing of car park | 92,000 |
| Machinery and vehicle maintenance | 242,000 |
| Renovation of office | 340,000 |
| Rewiring of company's building | 21,500 |

9. Bad and doubtful debts:

	RM
Bad debts written off during the year	283,000
Net increase in general provision	240,000
Net increase in specific provision	249,000
	<u>772,000</u>
Bad debts recovered during the year	<u>(170,000)</u>
Profit and loss account	<u>602,000</u>

All the debts are trade debts, except for a sum of RM58,000 written off in respect of a loan made to an ex-general manager.

10. Foreign exchange loss
Exchange losses include the following:

	RM
Realised losses due to stock purchases	37,000
Unrealised losses due to repayment of foreign loan	20,000
Realised loss from purchase of plant from Taiwan	56,000
Unrealised losses from trade debtors	29,000

11. The van was purchased on 1 September 2003 at a cost of RM98,000 and sold on 1 October 2006 for RM16,500. The book value at the time of sale was RM37,500.

12. Contributions
This item includes the following:

	RM
Cash contribution to the National Public Library, Kuala Lumpur	157,000
Donation to approved institution	300,000
Revenue expenditure on an approved research and development project	150,000
Zakat payment	100,000

13. Transport and travelling
This item includes the following:

	RM
Marine insurance premium paid for import of goods	210,000
Freight charges	90,000
Travelling allowance for company's directors	35,000
Leave passage to Hong Kong for finance manager and family	15,000

14. Miscellaneous

This item includes the following:

	RM
Medical insurance for company's managing director	16,000
Fire insurance premium for company's premises	34,000
Losses due to theft of stock in trade	115,000
Insurance claim for damages to office equipment	(20,000)
Traffic fines paid for managers	8,000

15. Compensation comprises:

	RM
Compensation to clients for damaged goods sold	42,000
Compensation to a sports company for agreeing to close down one of its branches in Malaysia	325,000
	<u>367,000</u>

16. Training expenses include a sum of RM25,000 incurred in sending the company's employees to attend courses conducted by the National Productivity Centre (NPC). The training is approved by Inland Revenue Board (IRB).

17. Dividends were obtained from the following:

	Gross RM	Tax RM	Net RM
Smart Sdn Bhd			
Interim 14 January 2006	200,000	56,000	144,000
Final 1 March 2006	150,000	42,000	108,000
Champion Products Ltd (Taiwan)	-	-	225,000

These holdings were acquired between 2000 to 2002 as investments from the company's cash surplus. Dividend income from Champion Products Ltd was remitted to Malaysia during the financial year.

18. Interest from excess funds deposited with an overseas bank was credited and remitted to Malaysia on 31 July 2006.

19. Other information

(i) Fixed assets qualifying for capital allowances are as follows:

	Date of Acquisition	Cost RM'000	Rate (%)
Factory	21 January 2004	1,120	3
Plant and machinery	11 April 2005	340	20
Computers	21 December 2005	60	40

- (ii) Business losses brought forward from the year of assessment 2005 amounted to RM263,000.

Required:

Compute the tax payable by Natural Sdn Bhd for the year of assessment 2006.

(Every item mentioned in the notes to the accounts must be listed in your computation irrespective of whether an adjustment is required or not. Where no adjustment is required, indicate 'NIL' in the appropriate column.)

(25 marks)

- (b) Timber Wood Sdn Bhd has just secured a large order of goods from overseas customers. Consequently, the company expects its sales to increase by 60% in the financial year 2007. The company's year end is 30 September annually.

Required:

Advise Timber Wood Sdn Bhd of its responsibilities under the self-assessment system to provide a tax estimate for the year of assessment 2007. State the penalty that will be imposed if the company fails to provide a reasonable estimate of its tax liability.

(5 marks)

(Total: 30 marks)

QUESTION 2

- (a) Puan Fairus, a single parent, is a lawyer in Edaran Sdn Bhd. For the year ended 31 December 2006, she received the following income and benefits:

	RM
Salary	10,000 per month
Bonus equivalent to 2 months salary	
Entertainment allowance	3,500 per month
Utility bills paid by the company (bills are under company's name)	8,400
Insurance premiums in respect of a life policy on Puan Fairus, whose children are the beneficiaries	3,500
Reimbursement of the monthly salary of RM800 for a domestic servant employed and paid by Puan Fairus.	
Car and fuel provided from 1 May to 31 December:	
The company incurred the following expenses in respect of a new car:	

	RM
Cost of the car when new	190,000
Insurance premium and road tax	8,000
Fuel	8,500

A driver at a salary of RM1,200 per month was employed by the company since 1 July 2006.

Fuel provided from 1 January to 30 April.

Prior to the purchase of the new car, Puan Fairus used her own car and incurred RM3,200 on fuel.

Accommodation

The company provided Puan Fairus with a fully furnished house at a monthly rental of RM12,000 (inclusive of rental of furniture and household appliances of RM3,000).

The following claims were made by Puan Fairus:

	RM
Employees Provident Fund contributions	13,200
Rental paid to the employer for the accommodation provided	24,000
Entertainment expenses incurred on company's clients	43,000
Donations of books to approved institutions	10,200
Medical expenses for her mother	10,200
Medical expenses for her only child (warded in the hospital)	3,600

Required:

- (a) Compute the tax payable by Puan Fairus for the year of assessment 2006. (7 marks)
- (b) State the conditions under which a retirement gratuity would be exempted from income tax. (3 marks)
- (Total: 10 marks)**

QUESTION 3

- (a) Encik Taylor is a citizen of Australia but resides in Malaysia for tax purposes in the basis year 2006. The following are his sources of income:
- i) Royalty of RM30,000 for writing a book (approved by the Ministry of Education) paid by a resident publisher.
 - ii) Dividend of RM8,000 derived from Australia and remitted to Malaysia.
 - iii) Rental income of RM10,000 on a property in Malaysia, rented to his Australian colleague and payment is credited into his bank account in Australia.

Required:

State, with reasons, whether or not the above sources of income are chargeable to Malaysian tax.

(5 marks)

- (b) Tag Sdn Bhd commenced a food catering business on 1 February 2003 and the accounts were prepared for the following period:

Accounting Period	Adjusted Income/(Loss) RM
1 February 2003 to 30 June 2004	34,000
1 July 2004 to 30 June 2005	(12,000)
1 July 2005 to 30 June 2006	20,000

Required:

State the basis periods for Tag Sdn Bhd's business for the years of assessment 2003 to 2006.

(5 marks)

(Total: 10 marks)**QUESTION 4**

Encik Halim was resident and domiciled in Malaysia at the time of his death on 1 May 2006. According to his will, his brother, Encik Rahmat (non-resident), was appointed as an executor of Encik Halim's estate. The following is the information pertaining to Encik Halim's income and expenditure for the basis year 2006.

	RM
Business 1 (Malaysia)	
Statutory income	240,000
Unabsorbed adjusted loss brought forward from basis year 2005	40,000
Business 2 (Indonesia)	
Adjusted loss	10,000
Dividend income from Malaysia (net)	28,800
Titan Sdn Bhd: payable in April 2006	
Dividend income from Indonesia (gross)	35,000
Only RM25,000 was remitted into Malaysia on 1 July 2006	
Interest income (gross)	
Interest on savings account (total deposit of RM90,000) with Malayan Banking Berhad received on 1 March 2006	25,000
Interest income (gross)	
Interest on savings account with Affin Bank, received on 1 September 2006	15,000

Additional information:

- i) Annuity of RM60,000 is payable to the widow but only RM50,000 was paid by the executor in the basis year 2006.
- ii) Administration fees of RM18,000 was paid to the executor in October 2006.
- iii) Donations were made to an orphanage (approved institution):

Date	Type of donation	Amount (RM)
1 April 2006	Cash	10,000
2 September 2006	Clothes	50,000

Required:

For the year of assessment 2006, compute:

- (a) total income of Encik Halim and
- (b) chargeable income of the Estate of Encik Halim (executor).

(Total: 10 marks)

QUESTION 5

- (a) i) State who is a 'taxable person' for the purposes of the Sales Tax Act 1972?
(2 marks)
- ii) State three transactions or situations that are regarded as a sale for the imposition of sales tax.
(3 marks)
- (b) Suria Sdn Bhd (Malaysian resident company) entered into a contract with Eragon Ltd (United Kingdom) for the sale of sports equipment. The equipment are wholly manufactured in the United Kingdom.

It is agreed that all sales contracts between Eragon Ltd and its Malaysian customers are to be concluded outside Malaysia. Eragon Ltd will accept the purchase order and then issue the invoice from the United Kingdom.

The sports equipment will be delivered to the Malaysian customers directly from a leased warehouse in Klang. The task for delivering the goods would be carried out by another company.

Required:

State, with reasons, whether Eragon Ltd has a permanent establishment in Malaysia.
(3 marks)

- (c) SA Sdn Bhd is an agriculture company involved in planting oil palm. The company decides to expand its business by diversifying into the cultivation of rubber trees. SA Sdn Bhd's business is located in Behrang, Perak.

The capital expenditure and projected income for two years are as follows:

	2007	2008
	RM'000	RM'000
Land	2,000	3,000
Plant and machinery	11,000	6,000
Office furniture	600	600
Adjusted income/(loss)	(6,000)	13,000
Capital allowances	5,000	4,000

Required:

Assuming SA Sdn Bhd claims reinvestment allowance, compute the following for the years of assessment 2007 and 2008.

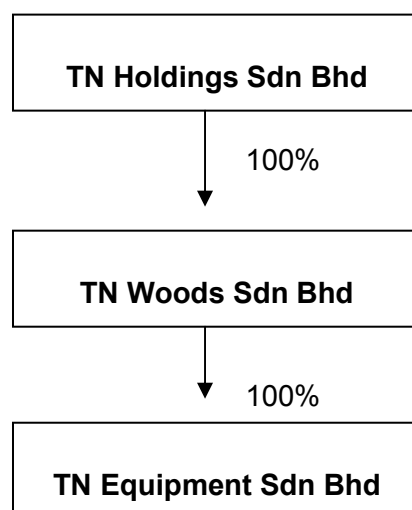
- i) chargeable income from business;
- ii) amount credited to the Exempt Income Account;
- iii) amount of unutilised reinvestment allowance;
- iv) amount of reinvestment allowance utilised and
- v) amount of business losses carried forward.

(7 marks)

(Total:15 marks)

QUESTION 6

- (a) The existing structure of TN Holdings Sdn Bhd and its wholly owned subsidiaries (the TN Group) is as follows:



TN Holdings Sdn Bhd is an investment holding company wholly owned by the Tan family. It provides accounting and financial services to its subsidiaries without charging any management fees.

TN Woods Sdn Bhd is a manufacturer of equipment for the furniture industry. It has substantial unabsorbed tax losses and capital allowances.

TN Equipment Sdn Bhd manufactures factory equipment for the export market. It has a factory building in Klang. It is highly profitable and is currently not enjoying any tax incentives.

The management of TN Holdings Sdn Bhd has approved an investment plan to venture into manufacturing school equipment. It has decided that the investment will be undertaken by a new subsidiary company. The project will be financed by a leasing company. The Malaysian Industrial Development Authority has confirmed that the project will not be eligible for any tax incentive under the Promotion of Investments Act 1986.

Required:

Advise how the operations and the structure of the TN Group can be reorganised more efficiently for tax purposes. Support your advice with reasons.

(10 marks)

- (b) The assets and liabilities of Abex Sdn Bhd and Dylex Sdn Bhd (both controlled companies) as at 31 December 2005 were as follows:

	RM'000
Abex Sdn Bhd	
Land and building (market value)	11,000
Plant and machinery at cost	2,000
Patents and trademarks	300
Stock	500
Debtors	600
Bank overdraft	200
Share capital (RM1 per share)	30,000
Dylex Sdn Bhd	
Real property (market value)	7,000
Other fixed assets	900
Current assets	3,000
Current liabilities	2,000
Share capital (RM1 per share)	15,000

Additional information:

1. On 20 January 2006, Dylex Sdn Bhd bought 5,000,000 shares in Abex Sdn Bhd at RM2 per share. As at that date, information concerning its other assets and liabilities is as follows:

	RM'000
Real property (market value)	8,000
Other fixed assets	1,500
Current assets	1,800
Current liabilities	1,200
Share capital (RM1 per share)	15,000

2. On 1 February 2006, Encik Nasir, a citizen, disposed 2,000,000 of his shares in Dylex Sdn Bhd for RM2.30 each. These shares were purchased for RM1.50 on 20 January 2006.

Required:

- i) What do you understand by the term 'real property company'?
(3 marks)
- ii) Determine whether Abex Sdn Bhd and Dylex Sdn Bhd were real property companies at 31 December 2005.
(3 marks)
- iii) Determine whether Dylex Sdn Bhd is a real property company on 20 January 2006.
(2 marks)
- iv) Compute the real property gains tax payable (if any) by Encik Nasir on the sale of his shares in Dylex Sdn Bhd on 1 February 2006.
(5 marks)
- v) Will there be any difference to the answer in (iv) above, if Encik Nasir is a non- citizen of Malaysia?
(2 marks)

(Total: 25 marks)**END OF QUESTION PAPER**