

## ANSWER 1

(a)

**Computation of Tax Payable**  
**Orio Sdn. Bhd – YA 2007**

## Sec. 4a:

	RM +	RM -
Profit before taxation		-
Adjustments:	638,510	
Sale of furniture		48,000
Dividend - Malaysia		146,000
Hong Kong		26,000
Interest - Fixed		29,500
Singapore		10,500
Compensation		NIL
EPF 253,720 – (19% x 932,000)	76,640	
Salary – handicapped (1,900 x 7 x 2) double deduction		26,600
Leave passage	20,000	
Export credit (double deduction)		27,800
Insurance premium (double deduction)		21,200
Interest on loan	26,400	
Research (double deduction)		35,000
Bad debts – specific prov. Nil		
general prov. (5,200)		
write off 23,200	18,000	
Entertainment:		
- overseas (50% x 44,950)	22,475	
- staff annual dinner	NIL	
- local customers (50% x 28,600)	14,300	
Donation - Old folks home	22,340	
Computers	24,000	
Entrance fees - association	2,700	
Entrance fees	8,000	
Public library (restricted to RM 100,000)	70,000	
National Interest project	80,000	
Professional fees		
- new tenancy	13,900	
- violation of Co. Act provision	14,000	
- tax appeal	12,100	
- accountancy and audit fees	NIL	
Miscellaneous fees	NIL	
Depreciation	85,000	
Proposed dividend	124,600	
Goodwill written off	26,500	
	1,299,465	370,600
Adjusted income	(370,600)	
	928,865	

**TAX****MIA QE / SEPT 2007**

(+) Balancing Charge	12,040
(-) Capital allowance	<u>(110,000)</u>
Statutory income	679,805
(-) Loss b/f sec 43(2)	<u>(80,000)</u>
	750,905
(+) Other income	
Dividend $(146,000 \times \frac{100}{73}) - 26400$	173,600
Exempt dividend	Nil
Interest from fixed deposit	29,500
Interest – Singapore (exempt)	<u>Nil</u>
Aggregate income	954,005
(-) Approved donation (Subject to 7% of Aggregate Income) = <u>66,708</u>	
Cash donation = <u>22,340</u> National Interest RM80,000 restricted to: [66,708 – 22,340] = <u>44,440</u> In kind (not allowable)	(66,708) <u>Nil</u>
Chargeable Income	<u>887,298</u>
Tax on the 1 <sup>st</sup> 500,000 @ 20%	= RM100,000
Tax on the balance 387,277 @ 27%	= <u>104,570</u>
	204,570
(-) Tax Credit – Sec 110 (27% x 200,000)	<u>(54,000)</u>
Tax Payable	<u>150,570</u>

**(20 marks)****Working**

YA 2005 (year ended 30/9/05)  
10/4/05 QPE (furniture)

IA 20%

AA 10%

RE

YA 2006 (year ended 30/9/06)  
AA 20%

RE

YA 2007 (year ended 30/9/07)

	<b>RM</b>	
	30,100	
	(6,020)	} CA
	<u>(3,010)</u>	<u>9,030</u>
	21,070	
		} CA
	<u>(3,010)</u>	<u>3,010</u>
	18,060	

**TAX**

MIA QE / SEPT 2007

15/4/07 Sale Proceeds

(48,000)

Balancing charge

29,940

(Note : Balancing charge is restricted to total capital allowances claimed that is RM12,040).

(b)

**Wira Sdn Bhd****Processing Machine**

YA 2004 (year ended 30/9/04)

**RM**

QPE (20/3/2003)

400,000

IA 20%

(80,000)

AA 14%

(56,000)

} CA

136,0000

RE

264,000

YA 2005 (year ended 30/9/05)

AA 14%

} CA

56,000

RE

56,000)

208,000

YA 2006 (year ended 30/9/06)

22/4/06 sold to ERA

(208,000)

(Ignore Sale Value because there is a controlled transfer)

Balancing Adjustment

NIL**Serah Sdn Bhd**

YA 2006 (year ended 30/9/06)

**RM**

RE

208,000

IA

NIL

AA (14% x 400,000)

(56,000)

} CA

56,000

RE

152,000

YA 2007 (year ended 30/9/07)

July 2007 S. Proceed

(600,000)

Balancing charge

448,000Taxable balancing charge is restricted to total capital allowance claimed i.e. RM248,000

## Ikmal Sdn Bhd

YA 2007 (year ended 30/9/07)  
QPE

RM

IA 20%  
AA 14%600,000  
(120,000)

RE

(84,000)396,000

(5 marks)

(Total: 25 marks)

## ANSWER 2

Completion of Income Tax Payable  
Puan Maria and En. Adib YA 2006Encik Adib

RM

RM

Sec 4b: Employment

Sec 13(1)(a): Salary (8,500 x 12)

102,000

Director's Fees

4,000

Entertainment Allowance (1200 x 12)

14,400

120,400

Sec 13(1)(b): Benefit In Kind

Car (7000 ÷ 2)

3,500

Fuel

1,800

Driver (600 x 12)

7,200

Leave passage:

Sydney

7,200

Auckland (8,300 – 3,000 exempt)

25,000

5,300

Sec 13(1)(d): Unapproved fund (80% x 142,000)

113,600

Gross income from employment

259,000

(-) Sec 33: Entertainment (maximum)

(14,400)

244,600

Sec 4c: Dividend (1460 x 100/72)

2,028

Aggregate / Total Income

246,628

(-) Personal relief - Self

(8,000)

**TAX****MIA QE / SEPT 2007**

	Child (21) - married	NIL
5000)	Child (19)– disabled (4000 +	(9,000)
	EPF	(6,000)
	Basic Supporting Equipment	<u>(5,000)</u>
Chargeable Income		<u>218,628</u>

	<b>RM</b>
Tax on the first 100,000	= 14,475
Tax on the balance 118,628 @ 27%	= <u>32,030</u>
	46,505
(-) Tax Credit (28% x 2,000)	<u>(568)</u>
Tax Payable	<u>45,937</u>

	<b>RM</b>	<b>RM</b>
<b><u>Puan Maria</u></b>		
Sec 4a: Stationery business		
Adjusted Income	32,900	
(+) Balancing charge	1,200	
(-) Capital Allowance	<u>(1,150)</u>	32,950
Restaurant business		
Adjusted Income		NIL
Capital allowance c/f = 5,600 (2100 + 3500)		
Statutory Business Income		32,950
(-) Loss b/f Sec 43(2)		<u>(6,600)</u>
		26,950
(+) Other Income		<u>NIL</u>
Aggregate Income		26,950
(-) Current year loss		
(-) Donation sec. 44(6)		(21,000)
		<u>(950)</u>
Total Income		5,000
(-) Personal relief: Self		(8,000)

	Insurance	
		(6,000)
	Chargeable Income	<u>Nil</u>
Tax payable	Nil	
Rebate	RM350 cannot be claimed	

(10 marks)

**ANSWER 3**

a)

- |       |                                 |                    |
|-------|---------------------------------|--------------------|
| (i)   | YA                              | Basis Period       |
|       | 2006                            | 1/9/06 – 31/12/06  |
|       | 2007                            | 1/12/06 – 30/11/07 |
|       | 2008                            | 1/12/07 – 30/11/08 |
|       | 2009                            | 1/12/08 – 30/11/09 |
| (ii)  | YA                              | Basis Period       |
|       | 2006                            | 1/9/06 – 31/12/06  |
|       | 2007                            | 1/1/07 – 31/12/07  |
|       | 2008                            | 1/3/07 – 28/2/08   |
|       | 2009                            | 1/3/08 – 28/2/09   |
| (iii) | YA                              | Basis Period       |
|       | 2006                            | 1/9/06 – 31/12/06  |
|       | 2007                            | 1/1/07 – 31/12/07  |
|       | 2008                            | 1/1/08 – 31/12/08  |
|       | 2009                            | 1/3/08 – 28/2/09   |
| (iv)  | YA                              | Basis Period       |
|       | There is no basis period for YA |                    |
|       | 2006                            |                    |
|       | 2007                            | 1/9/06 – 31/8/07   |
|       | 2008                            | 1/9/07 – 31/8/08   |
|       | 2009                            | 1/9/08 – 31/8/09   |

(8 marks)

**Mr Eddy**

- (b) (i) YA 07 Basis Period 1/1/07 – 31/12/07.
- (ii) YA 07 : By 30/6/08.
- (iii) For employment income, the schedular tax deductions will be made from his monthly remuneration from employment.  
For business income, the IRB will issue a tax installment scheme with six bimonthly installments. Each installment should be paid within 30 days of the due date.
- (iv) Due date for paying the balance of tax due:



Sofea  $30,000 \times 10\% \times 9/12 = 2,250$

Jenny  $20,000 \times 12\% \times 3/12 = 600$

(10 marks)

**ANSWER 5**(a) (i) **OSL**

For the supply of plant and machinery, the income received is **not subject** to withholding tax because it **does not involve the providing of services**.

**DL**

Since the supervision in Malaysia is to be carried out for more than 6 months, DL would be regarded as **having a permanent establishment** in Malaysia. **Withholding tax under section 107A** applies on the service portion of the payments, i.e. 13% [10% on account of tax which may be payable by DL and 3% of tax which may be payable the employees of DL].

(2 marks)

(ii) **TD**

TD is required to deduct withholding tax at **10% + 3%** on the service portion of the payments made to DL and pay these to the IRB **within one month** of paying or crediting to DL.

**Failure to comply with the withholding tax obligations will result in the following situation:**

- penalty of **10% on the amount of unpaid tax** will be imposed

- the amount of penalty and withholding tax will becomes a **debt due** to the government

- amount of gross payment made to DL would be a **non-deductible expense** under section 39 of the ITA 1967.

(3 marks)

(b) (i)

	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Adjusted income	Nil	4,000	5,000
Less: capital allowance	(300) c/f	(700)	(500)
Statutory income	Nil	3,30	4,500
Less: ITA utilized	Nil	(2,220)	480
	Nil	1,080	4,020
Less: business loss b/f	Nil	(1,080)	(920)
Chargeable income	Nil	Nil	3,100

(ii)

	2007 RM'000	2008 RM'000	2009 RM'000
70% of statutory income	Nil	2,310	3,150
ITA: 60% of QCE (see workings below)	1,740	480	480
Brought forward	Nil	1,740	Nil
ITA available	<b>1,740</b>	<b>2,220</b>	<b>480</b>
ITA utilized	Nil	2,220	480
ITA unabsorbed carried forward	1,740	Nil	Nil
Amount credited to exempt income account	Nil	2,220	480

**Workings**

	2007 RM'000	2008 RM'000	2009 RM'000
Renovation to factory building	900	-	-
Plant and machinery	2,000	800	800
Office equipment	-	-	-
Total QCE	2,900	800	800
<b>60% x QCE</b>	<b>1,740</b>	<b>480</b>	<b>480</b>

- (iii) Perlis is now designated as a promoted area. As such, the statutory income of the business will be abated by 85% and investment tax allowance claimed is at 80% of the qualifying capital expenditure.

(The 2005 Budget proposal allows the ITA rate to be at 100% and to set off against 100% statutory income. This has not been gazetted).

(10 marks)  
(Total: 15 marks)

**ANSWER 6**

- (a) There are several options that could be considered to enhance the tax efficiency of the MH Group. Among others, it includes the following:

MS could **sell its products directly** to its customers rather than through MT. Therefore, MS could earn profits on the sales made. The profits would be used to **set off the capital allowances and reinvestment allowances** in MS.

Since MS is enjoying reinvestment allowance, a payment of tax-exempt dividends by MS will create a dividend trap in MH due to the **two-tier exemption restriction**. After transferring MT's operations to MS, MT could be liquidated so that MS will be held directly by MH, thus removing the dividend trap at MH's level.

Dividends received by MS from MHK would be regarded as foreign income which is **exempted** from Malaysian income tax. MS could, in turn, **pay tax-exempt dividends** to its subsequent shareholders.

Alternatively, the **shares in MHK could be held directly by MH** instead of MS and this will also remove the dividend trap.

MR or MH should **acquire all the shareholding in TJ** instead of acquiring the shops. The substantial unabsorbed losses and capital allowances in TJ could be used to shelter future profits from the groceries business. If MR acquires only the groceries operations, the tax losses and unabsorbed capital allowances would remain in TJ, which continues to be owned by the existing shareholders of TJ and not MR.

After acquiring TJ, the existing grocery shops owned by MR could be integrated with TJ to achieve economies of scale. The **profits generated from these shops could be sheltered by the tax losses and unabsorbed capital allowances of TJ.**

In addition, TJ could **pay dividends** to MR or MH due to the substantial amount of credits in its section 108 account. MR or MH could **use the dividends to pay for its substantial borrowing costs.**

(10 marks)

- (b) (i) Section 54 states that the income of a resident operator is assessed based on the **world income scope**, i.e., income wherever accrued or derived is deemed Malaysian derived and it will be taxable in Malaysia.

(1 mark)

- (ii) Yes, Nasional Shipping Bhd is entitled to income tax exemption on the statutory income for the following reasons:
- the company is resident in Malaysia
  - the company is carrying on a business of transporting passengers or cargo by sea
  - the company operates Malaysian ships.

(2 marks)

(iii)

	<b>Tanjung RM'000</b>	<b>Teluk RM'000</b>	<b>Bay &amp; Hope RM'000</b>
Adjusted income/(loss)	600	Nil	Nil
Less: capital allowance (not to claim)	-	-	-
<b>Statutory income</b>	<b>600</b>	<b><u>Nil</u></b>	<b><u>Nil</u></b>
Less: current year loss (Teluk)	(300)	-	-
<b>Chargeable income</b>	<b>300</b>	<b>Nil</b>	<b>Nil</b>
Less: exempt (Section 54A)	300	-	-
	<u>Nil</u>	-	-

(4 marks)

(iv) **Exempt income account:**

	<b>RM</b>
Balance at 1 July 2006	800,000
Add: exempt income account	<u>300,000</u>
	1,100,000
Less: dividend payment	<u>( 350,000)</u>
Balance as at 30 June 2007	<u>750,000</u>

**(3 marks)**

## (c) As at 30 June 2007

$$\begin{array}{rcl}
 \text{Defined value} & = & 1,800,000 \\
 \hline
 \text{Total tangible assets} & 1,800,000 + 40,000 + 200,000 + 100,000 + 20,000 & \\
 & = & 1,800,000 \\
 & & \hline
 & & 2,160,000 \\
 & = & 83 \%
 \end{array}$$

Since Sparkle Sdn Bhd is owned by Encik Tan and his wife (controlled company) and the defined value of the real property is more than 75% of the total tangible assets, therefore, Sparkle Sdn Bhd is a real property company on 30 June 2007.

**(5 marks)**  
**(Total: 25 marks)**

**END OF ANSWER PAPER**