



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 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	27%
(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) Orio Sdn Bhd, a resident company (with a paid up capital of RM2.1 million as at 1 July 2006), is involved in the manufacturing of computer chips. For the year ended 30 September 2007, the company's profit and loss account is as follows:

	Note	RM	RM
Sales	1		3,275,970
Less: Cost of sales			<u>603,500</u>
Gross profit			2,672,470
Add: Other revenue	2		<u>244,000</u>
			2,916,470
Less: Operating Expenses:			
Staff remuneration	3	1,285,720	
Leave passage	4	20,000	
Insurance	5	49,000	
Interest charges	6	35,600	
Research and development	7	35,000	
Bad debts	8	27,700	
Entertainment	9	91,800	
Subscriptions and donations	10	317,040	
Professional fees	11	57,200	
Miscellaneous expenses	12	122,800	
Depreciation		<u>85,000</u>	
			<u>2,126,860</u>
Net profit			789,610
Less: Proposed dividend (gross)		124,600	
Goodwill written off		<u>26,500</u>	
			<u>151,100</u>
Profit before taxation			<u>638,510</u>

Notes:

1. Included in the total sales is the sale of office furniture for RM48,000 on 1 May 2007. The office furniture was purchased for RM30,100 on 10 April 2005.

2. 'Other revenue' comprises the following:

	RM
i. Dividends – Malaysia (net)	146,000
ii. Exempt dividend – Hong Kong (remitted)	26,000
iii. Interest on fixed deposit (Malaysia)	29,500
iv. Interest – Singapore (remitted)	10,500
v. Compensation for loss of profit received from a supplier due to a breach of contract	32,000

3. Staff remuneration includes contribution to Employees Provident Fund for its employees (RM253,720) on the total annual basic salary of RM932,000. On 1 March 2007, the company employed two handicapped workers who are paid a monthly gross salary of RM1,900 each.
4. Leave passage for a senior manager to Tokyo, Japan as an incentive for being the best employee of the year.
5. Insurance:

	RM
Export credit insurance premiums paid to an approved company	27,800
Insurance premiums on imported goods paid to locally incorporated insurers	21,200

6. Interest charges include an amount of RM26,400 attributable to a loan obtained for investment purposes, which generated dividend income from Malaysia during the year.
7. Research and development relates to revenue expenditure incurred in a project approved by the Minister of Finance.
8. Bad debts:

Provision for bad debts					
		RM			RM
30/6/07	Bad debts written off	28,000	1/10/06	Opening balance:	
30/9/07	Closing balance:			General provision	39,200
	General provision	34,000		Specific provision	26,300
	Specific provision	31,200	30/9/07	Profit and loss account	27,700
		<u>93,200</u>			<u>93,200</u>

Of the RM28,000 bad debts written off, RM23,200 was in respect of a loan to a former employee of the company.

9. Entertainment expenses:

	RM
Entertainment of overseas customers and suppliers	44,950
Staff annual dinner	18,250
Entertainment of local customers and business associates	28,600

10. Subscriptions and donations include:

	RM
Cash donation to old folks home at Klang (approved)	22,340
Donation of three second hand computers worth RM8,000 each to a political party	24,000
Entrance fees to trade association	2,700
Entrance fees to the Royal Selangor Golf Club	8,000
Contribution to public library in Petaling Jaya	170,000
Cash donation for a project of national interest	80,000

11. Professional fees include:

	RM
Legal fees for new tenancy agreement	13,900
Legal fees incurred in defending a suit for breach of a provision in the Companies Act 1965	14,000
Legal fees for tax appeal	12,100
Accountancy and audit fees	17,200

12. All the miscellaneous expenses are allowed for business purposes.

Other information:

Capital allowances for the year of assessment 2007 amount to RM110,000.
Adjusted loss brought forward from year of assessment 2006 was RM80,000.

Required:

Compute the tax payable by Orio Sdn Bhd for the year of assessment 2007.

(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).

(20 marks)

- b) Wira Sdn Bhd (Wira) and Serah Sdn Bhd (Serah) are both wholly-owned subsidiaries of Juara Sdn. Bhd. The group of companies prepare their accounts annually to 30 September.

Wira bought a processing plant for RM400,000 on 31 December 2003 and started to use it on 20 March 2004. It was subsequently sold to Serah on 22 April 2006 at a book value of RM240,000. Serah used it for its operations until 29 July 2007 when the plant was sold to an unrelated party, Ikmal Sdn Bhd (Ikmal), for RM600,000. Ikmal used the plant in its business since August 2007. Ikmal prepares its accounts to 31 December each year.

All the companies claimed capital allowances on the above asset for the relevant years of assessment.

Required:

Calculate the capital allowances, balancing allowances and balancing charge (if any) applicable to all the companies for each of the relevant years of assessment up to and including the year of assessment 2007.

(5 marks)

(Total: 25 marks)**QUESTION 2**

Encik Adib, a director and shareholder (having a 10% shareholding) of a controlled company, reported the following income and benefits for the year ended 31 December 2006.

1. Salary RM8,500 per month
Director's fees RM4,000
Entertainment allowance RM1,200 per month
Lump sum receipt from an unapproved scheme RM142,000 (80% represents the employer's share)
2. A company car (which cost RM192,000 six years ago) and a driver employed by the company at a salary of RM800 per month.
3. He and his family visited Sydney (March 2006) and Auckland (July 2006) for their vacation. The airfares for both trips paid by the company were RM7,200 and RM8,300 respectively.
4. He contributed RM7,920 to the Employees Provident Fund.
5. He incurred RM13,500 on entertaining existing clients and an additional sum of RM980 was spent on potential clients.
6. Dividend income of RM1,460 (net).
7. He has two children:
 - Rita, twenty one years old and married, is studying at University Malaya. He incurred RM8,000 on her education.
 - Rina, nineteen years old, is physically handicapped and studying at Sunway College for a degree in accountancy. He bought basic supporting equipment costing RM6,200 for her use.
8. His wife, Puan Maria, operates stationery and restaurant businesses. The relevant information for the year ended 31 December 2006 is as follows:

i. Stationery business:	RM
Adjusted income	32,900
Capital allowance	1,150
Loss brought forward to year of assessment 2006	6,600
Balancing charge	1,200

- | | | |
|-----|--|-----------|
| ii. | Restaurant business: | RM |
| | Adjusted loss | 21,000 |
| | Capital allowance | 2,100 |
| | Capital allowance brought forward to year of assessment 2006 | 3,500 |
9. Puan Maria paid an insurance premium of RM6,200 in respect of a life insurance policy taken on her life. The capital sum insured is RM120,000.
10. On 30 November 2006, Puan Maria made a cash donation of RM950 to an approved institution.

Required:

Compute the income tax payable by Encik Adib and Puan Maria for the year of assessment 2006. Puan Maria did not elect for a combined assessment.

(10 marks)

QUESTION 3

- a) Apex Sdn Bhd which commenced business on 1 September 2006, is in the course of preparing its first set of accounts and deciding on an appropriate date for its financial year end.

Required:

Determine the basis periods for the relevant years of assessment up to 2009 in respect of Apex Sdn Bhd's first set of accounts prepared under each of the following assumptions:

- i) from 1 September 2006 to 30 November 2006, and thereafter to 30 November.
- ii) from 1 September 2006 to 28 February 2007, and thereafter to 28 February.
- iii) from 1 September 2006 to 28 February 2008, and thereafter to 28 February.
- iv) from 1 September 2006 to 31 August 2007, and thereafter to 31 August.

(8 marks)

- b) Mr Eddy an accountant with Delta Sdn Bhd, also runs the family trading business (as a sole proprietorship). As an accountant of Delta Sdn Bhd, he earns RM4,200 per month. The self assessment system for individuals was introduced in 2004. Mr Eddy would like to know more about the system.

Required:

Explain the following matters to Mr Eddy:

- i) the basis period of his trading business for the year of assessment 2007.
- ii) the deadline for submitting his tax return for the year of assessment 2007.
- iii) how the tax payments will be made with respect to his business and employment income.
- iv) the due dates for paying the balance of any tax due.
- v) the penalty for late payment of tax instalment payment.
- vi) the deadline for submitting his tax return for year of assessment 2007, if he did not have the trading business.
- vii) the time frame for a valid appeal against an assessment for the year of assessment 2007.

(7 marks)

(Total: 15 marks)

QUESTION 4

Alicia, Danny and Sofea were partners in a partnership business in Lumut, Perak. Each of them contributed capital of RM30,000, which entitled them to an interest on capital contribution of ten percent (10%) per annum. The partnership accounting year ends on 31 December every year. On 30 September 2006, Sofea retired from the business. On 1 October 2006, Jenny was admitted as a new partner with a capital contribution of RM20,000.

The information pertaining to the partnership is as follows:

1. Profit and loss sharing ratios were as follows:

Period	Alicia	Danny	Sofea	Jenny
1.1.2006 – 30.9.2006	1	1	1	-
1.10.2006 – 31.12.2006	2	2	-	1

2. For the accounting year ended 31 December 2006, the partnership's divisible profit was RM50,000.

3. Partners' salaries and interest on capital contributions:

Period	Salary per month RM	Interest on capital %
1.1.2006 – 30.9.2006		
Alicia	3,000	10
Danny	2,000	10
Sofea	3,000	10

Period	Salary per month RM	Interest on capital %
1.10.2006 – 31.12.2006		
Alicia	4,000	12
Danny	3,000	12
Jenny	1,500	12

4. The capital allowances claimed for the year of assessment 2006 was RM30,000.
5. Cash donations of RM5,000 to Rumah Orang-Orang Tua (approved) during the year of assessment 2006 of which RM3,750 was made in August 2006 and RM1,250 in December 2006.
6. In the basis year 2006, besides having the partnership business, Alicia has her own sole proprietorship business and the following had been computed for tax purposes:

	RM
Statutory business income	25,000
Unabsorbed adjusted loss brought forward from previous years	(5,000)

Required:

For the year of assessment 2006, compute the total income of Alicia, Danny, Sofea and Jenny. (Show all workings)

(10 marks)

QUESTION 5

- a) Two companies entered into contracts with Timur Daya Sdn Bhd (TD). TD is a company resident in Malaysia during the year of assessment 2007.

Details of the contract are as follows:

Company	Particulars
Orlando Supply Ltd (OSL)	Supply plant and machinery to TD
Delkalb Ltd (DL)	Install the plant and machinery in TD's manufacturing plant in Klang, Selangor.

OSL is a company resident in the United States of America, whereas DL is resident in the United Kingdom.

Engineers from DL will be in Malaysia to supervise the installation of the plant and machinery. These engineers are expected to be in Malaysia for more than thirteen (13) months.

Required:

For the year of assessment 2007,

- i) Advise OSL and DL on the withholding tax implications under the Income Tax Act 1967 in respect of the payments received by them from TD under the contract. (2 marks)
- ii) Advise TD on its withholding tax obligations in respect of the payments made under the contract and the consequences for failure to comply with such obligations. (3 marks)
- b) Marble Tiles Sdn Bhd (MT) which carries on the business of manufacturing tiles in Pasir Gudang, Johor, was granted an investment tax allowance for a period of 5 years. It's tax relief period commenced on 1 January 2007. The company's projected adjusted income for its manufacturing business and the projected capital expenditure for the three financial years ending 31 December are as follows:

	Year ending 31 December		
	2007 RM'000	2008 RM'000	2009 RM'000
Adjusted income/(loss)	(2,000)	4,000	5,000
Capital expenditure:			
Renovation to factory building	900	-	-
Plant and machinery	2,000	800	800
Office equipment	100	-	100
Capital allowances for the year	300	400	500

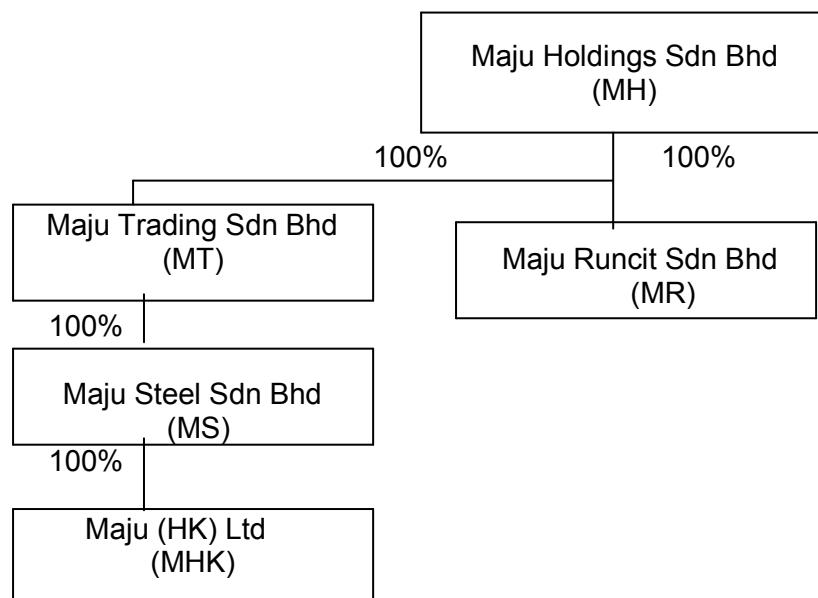
Required:

- i) Compute the company's projected chargeable income for each of the three financial years.
- ii) Compute the amount to be credited to the exempt income account for each of the three financial years.
- iii) With respect to the investment tax allowance, state the tax implication if a business is located in Perlis during the year of assessment 2007. (No computation is required)

(10 marks)
(Total: 15 marks)

QUESTION 6

- a) The existing group structure of the Maju Group (made up of Maju Holdings Sdn Bhd and its subsidiaries) and related information is as follows:

**Additional information:**

- i. MH is an investment holding company wholly owned by the Chin family. It has substantial bank borrowings to finance its investments and the operations of the group.
- ii. MT markets the products manufactured by MS. MT and MS have a marketing plan that is successful and enables MT to earn high profits over the past two years.
- iii. MS has a substantial amount of unabsorbed capital allowances and reinvestment allowances.
- iv. MHK is a wholly owned subsidiary in Hong Kong set up to undertake the business of manufacturing steel products in Hong Kong. It has been a very profitable company.
- v. MR has the main objective of operating a chain of grocery stores. MR began to make substantial profits within one year after commencement of business. Due to this favourable situation, MR intends to expand its business through borrowings from MH.

Currently, MR is at the final stage of negotiation with Teguh Jaya Sdn Bhd (TJ). MR has two options. The first is to acquire the grocery stores of TJ. The second is to acquire the shares in TJ. TJ does not carry on any other type of business. TJ has substantial unabsorbed capital allowances and tax

losses from the grocery businesses. However, it has a substantial amount of credit in its Section 108 account.

Required:

Advise how the Maju Group or its operations may be reorganised to achieve tax efficiency. Also discuss the proposed plan of acquiring the business of TJ or shares in TJ.

(10 marks)

- b) Nasional Shipping Bhd (NS), a resident company in Malaysia operates four ships. It carries on a business of transporting passengers or cargo by sea. Its accounting year ends on 30 June every year. The adjusted income/(loss) and capital allowances for each ship during the year of assessment 2007 were as follows:

	Adjusted income/(loss) RM'000	Capital allowances RM'000
Tanjung (Malaysian ship)	600	30
Teluk (Malaysian ship)	(300)	20
Bay (Non-Malaysian ship)	(200)	Nil
Hope (Non-Malaysian ship)	(150)	Nil

Additional information:

NS is the owner of Tanjung and Bay whereas the other two ships are owned by other shipping companies. Both Tanjung and Bay were registered under the Merchant Shipping Ordinance 1952.

The balance of the tax exempt income account as at 1 July 2006 was RM800,000. NS paid RM350,000 as exempt dividends during the year.

Required:

- i) State the scope of charge under Section 54 of the Income Tax Act 1967 as it applies to a Malaysian resident sea transport operator. (1 mark)
- ii) Explain whether NS is entitled to income tax exemption on its statutory income. (2 marks)
- iii) Determine the chargeable income of NS for the year of assessment 2007 with the view of maximising its tax-exempt income account. (4 marks)
- iv) Determine the balance of the tax-exempt income account as at 30 June 2007. (3 marks)

- c) On 1 January 2005, Encik Tan and his wife incorporated a company known as Sparkle Sdn Bhd (Sparkle). The following information was extracted from the balance sheet of Sparkle on 30 June 2007

	RM
Land and building:	
Market value	1,800,000
Net book value	1,500,000
Goodwill	50,000
Plant and machinery	40,000
Stocks	200,000
Debtors	100,000
Bank	20,000
Paid up capital of RM1 each	300,000

Required:

State, with reasons, whether Sparkle is a real property company as at 30 June 2007. Show computations to support your answers.

(5 marks)

(Total: 25 marks)

END OF QUESTION PAPER