

ANSWER 1

(a)

Computation of Tax Payable by Quality Sdn Bhd YA 2008

	RM'000	RM'000
Sec 4 (a) :	+	-
Net Profit before taxation	10,032	
Adjustments :		
Gain on disposal of shares		302
Rental		328
Cost of sales :		
Written off	NIL	
Forex Loss	12	
Remuneration :		
Disabled employees		312
Embezzled by managing director	124	
Repairs and maintenance :		
Repairs of roof	30	
Interest on hire purchase	NIL	
Motor vehicles	NIL	
Entertainment – sponsorship	NIL	
Donation	114	
Training and consultancy	NIL	
Miscellaneous :		
Annual report	27	
Leave passages	160	
Legal fees on embezzlement	35	
Forex gain		NIL
Freight and insurance		NIL
Bad debts :		
Written off	49	
Recovery		31
Specific provision	43.5	
General provision		367
Depreciation	1,980	
Advertising	<u>NIL</u>	
	12,606.5	<u>1,340</u>
	<u>(1,340)</u>	
Adjusted Income	11,266.5	
(-) Capital allowance :		
Brought forward	129	
Current year	<u>789</u>	
Statutory Income	10,348.5	
(-) See 43 (2) Loss b/f	<u>(387)</u>	
	9,961.5	

(+) Other Income :		
Rental from Singapore (exempt)	<u>NIL</u>	(Sch 6 Para 28)
Aggregate Income	9,916.5	
(-) Donation – health care centre (not allowed)	<u>NIL</u>	
Total / Chargeable Income	<u>9,916.5</u>	
	Tax @ 20% on 500,000 = RM 100,000	
	Tax @ 26% on 9,416,500 = <u>2,448,290</u>	
	Tax Payable <u>2,548,290</u>	

(14 marks)

(b) Tan Sdn Bhd :

<u>YA</u>	<u>(i) Revised Basis Period</u>	<u>(ii) Revised Adjusted Profit /Loss (RM)</u>
2002	1/3/02 – 31/12/02	1/3/02 – 30/9/02 = 65,000 (+) 1/10/02 - 31/12/02 3/12 x (40,000) = <u>(10,000)</u> <u>55,000</u>
2003	1/10/02 – 30/9/03	1/10/02 – 31/12/02 RM10,000 is already absorbed in YA 02 since the period is overlapping 1/1/03 – 30/9/03 3/12 x (40,000) = <u>(30,000)</u> <u>88,000</u>
2004	1/10/03 – 30/6/04	<u>88,000</u>
2005	1/7/04 – 30/6/05	<u>(16,000)</u>
2006	1/7/05 – 31/5/06	11/21 x 42,000 = <u>22,000</u>
2007	1/6/06 – 31/3/07	10/21 x 42,000 = <u>20,000</u>
2008	1/4/07 – 31/3/08	<u>12,400</u>

Note: Total months for both YA 06 and YA 07 is 21 months, thus the 21 months is apportioned between YA 06 and YA 07, YA 06 is 11 months and YA 07 is 10 months.

(6 marks)
(Total : 20 marks)

ANSWER 2

(a)

**Computation of Income Tax Payable for
Romeo & Afifa YA 2007**

		RM	RM
Sec 4 (a) :			
Adjusted income:		NIL	
(+) Bal. charge		<u>15,000</u>	
		15,000	
(-) Bal. all.	7,000		
Cap. all.	2,000		
Cap. all b/f	<u>4,000</u>	<u>(13,000)</u>	
Statutory income			2,000
Sec 4 (c) :			
Dividend : Maybank $\frac{(5,840 \times 100)}{73} =$		8,000	
(-) Interest		<u>(420)</u>	
			7,580
Bersatu Cooperative Society (exempt)			NIL
Sec 4 (d) :			
Royalty - gross		92,000	
(-) Exemption – sch 6 para 32B		<u>(20,000)</u>	
		72,000	
(-) Expenses		<u>(12,900)</u>	
			59,100
Rental – gross			
(7,500 + 25,600)		33,100	
(-) Rental deposit	NIL		
Commission	(1,300)		
Interest	(2,400)		
Quit rent + assessment	(2,600)		
Repainting	(23,400)		
Renovation (cap. exp.)	NIL		
Refund (not allowed)	NIL		
Insurance	<u>(1,680)</u>	<u>(31,380)</u>	
Adjusted rental income			<u>1,720</u>
Aggregate income			70,400
(-) Current year loss			(8,000)
Approved donation :			
Cash			(5,200)
Book etc (not allowed)			<u>NIL</u>
Total income			57,200
add : wife's total income (working)			<u>31,150</u>
Total income of family			88,350

(-) Personal relief :		
Self	8,000	
Wife	3,000	
Medical - self	500	}
- spouse	NIL	
- serious disease	4,500	
Books & magazines	1,000	
EPF + insurance	6,000	
Medical + education	3,000	
Children (3 x 1,000)	3,000	
Computer	<u>3,000</u>	(32,000)
Chargeable income		<u>56,350</u>

Tax on the first RM50,000	=	RM 3,475.00
Tax on the balance 6,350 @ 19%	=	<u>1,206.50</u>
		4,681.50
(-) Rebate for zakat		(6,000)
(-) Sec 110 Tax Credit		
27% x (8,000 + 1,900)		<u>(2,673.00)</u>
Tax Refund	RM	<u>3991.50</u>

Working :	Wife's Total Income Computation	RM
	Sec4 (c) : Dividend $(1,387 \times \frac{100}{73})$	1,900
	Sec4(d) : Rental	<u>29,600</u>
	Aggregate income	31,500
	(-) Approved donation :	
	Cash	(350)
	Books etc (not allowed)	<u>NIL</u>
	Total income	<u>31,150</u>

(12 marks)

(b)

<u>By</u>	<u>Period of Stay</u>	<u>Status / Reasons</u>
2002	04/02 – 31/12 = 331	Resident under Sec 7(1)(a) since he was in Malaysia for a period of at least 182 days
2003	01/01 – 04/01 = 4 days	Resident under Sec 7(1) (b) since the shorter period of 4 days in 2003 is linked to longer period of 331 consecutive days in 2002
2004	10/10 – 31/12 = 83 days	Resident under made Sec. 7 (1) (b) since he was in Malaysia less that 182 days and this period is linked to a longer period of 182 days more in 2005
2005	01/01 – 17/11 = 321	Resident under 7(1)(a) since he was in Malaysia for 182 days or more.

2006	None	Resident Sec. 7(1)(d) since he was resident in the immediately following year (ie 2007) and resident in three out of three immediately preceding years (ie 2005, 2004, and 2003)
2007	16/1 – 31/5 = 136 days	Resident under Sec. 7(1)(c) since he was resident in M'sia for at least 90 days and three out of four immediately preceding years (ie 2005, 2004 and 2003) he was resident or in Malaysia for 90 days in the years concerned.

(4 marks)
(Total : 16 marks)

ANSWER 3

- (a) (i) The person must incur the qualifying expenditure on the asset
(ii) The person must be the owner of the asset at the end of the basis period
(iii) The asset must be used in the business
(iv) The person must be carrying on the business
- (b) (i) When the asset is disposed of and the sales proceed is more than the residual expenditure (or tax written down value)
(ii) Where the asset is disposed in less than two years, in which case the capital allowance given will be clawed/claimed back by way of balancing charge
- (c) Hijauan Sdn Bhd
- (i) **Lorry :**

YA 2006 : QPE (01/10/06)	RM	
IA 20%	250,000	} Capital Allowance (CA) <u>100,000</u>
AA 20%	50,000	
RE	50,000	
	150,000	

YA 2007 :		
AA 20%	(50,000)	} CA <u>50,000</u>
RE	100,000	

YA 2008:

31/05/08 Sale Proceed	(150,000)
Balancing charge	<u>50,000</u>

Since the disposal took place within a 2 year period, BC of RM50,000 will be disregarded, but the RM150,000 of CA will be clawed back and treated as a taxable balancing charge.

(ii) **Car :**

	RM	
<u>YA 2006 : 1/7/06 deposit</u>	20,000	
Instalments (3 x 9,000)	<u>27,000</u>	
QPE	47,000	
IA 20%	9,400	} CA <u>18,800</u>
AA 20%	9,400	
RE	28,200	
<u>YA 2007 : Instalments (12 x 9,000) = 108,000</u>		
New QPE	3,000	
IA 20% x 3,000	(600)	} CA <u>10,600</u>
AA 20% x 50,000	<u>(10,000)</u>	
RE	20,600	
<u>YA 2008 : Instalment (7x 9,000) = 63,000</u>		
New QPE (exceeds 50,000)	NIL	
IA 20%	NIL	} CA <u>10,000</u>
AA 20% x 50,000	<u>(10,000)</u>	
RE	<u>10,600</u>	

Note : QPE of the car is restricted to RM 50,000 since the cost of the car is more than RM150,000.

Machinery :

	RM
Cost of machine	300,000
Installation	20,000
Site preparation	<u>40,000</u>
Total cost	<u>360,000</u>

10% x 360,000 = 36,000. Since the cost of site preparation is more than 10% of the total cost of the machine, the cost of site preparation will not form part of QPE.

YA 2008 : QPE is restricted to
 IA 20%
 AA 14%
 RE

RM	
320,000	
64,000	}
<u>44,800</u>	}
<u>211,200</u>	}
	CA
	<u>108,800</u>

(8 marks)

(Total : 14 marks)

ANSWER 4

Computation of divisible income for the year of assessment 2007

Provisional adjusted income	RM
	210,000
Less:	
Partners' salaries:	
Alice 68,000	
Sofia 68,000	
Mai 15,000	(151,000)
Partners' interest on capital:	
Alice 15,000	
Sofia 12,000	
Mai 2,000	(29,000)
Partners' Private expenses:	
Alice 6,000	
Sofia 6,000	
Mai 1,000	(13,000)
Divisible income	<u>17,000</u>

Computation of total income of each partner for the year of assessment 2007

	Alice RM	Sofia RM	Mai RM
Share of divisible income:			
Jan- Sept: 9/12 x 17,000 = 12,750 (1:1)	6,375	6,375	-
Oct – Dec: 3/12 x 17,000 = 4,250 (1:1:1)	<u>1,417</u>	<u>1,417</u>	<u>1,416</u>
	7,792	7,792	1,416
Salaries	68,000	68,000	15,000
Interest on capital contribution	15,000	12,000	2,000
Private expenses	<u>6,000</u>	<u>6,000</u>	<u>1,000</u>
Adjusted income	96,792	93,792	19,416
Add: balancing charge (1:1:1)	2,667	2,667	2,666
Less: capital allowance (1:1:1)	<u>(11,000)</u>	<u>(11,000)</u>	<u>(11,000)</u>
Statutory income from partnership business	88,459	85,459	11,083
Add: statutory income from sole proprietorship	30,000	Nil	-
	<u>188,459</u>	<u>85,459</u>	<u>11,083</u>
Less: unabsorbed business loss brought forward (10,000 + 1,000)	<u>(11,000)</u>	-	-
	<u>107,459</u>	<u>85,459</u>	<u>11,083</u>
Add: Rental income	-	29,000	-
Aggregate income	107,459	114,459	11,083

Less: current year business loss	-	(14,000)	-
Total Income	107,459	100,459	11,083

(10 marks)

ANSWER 5

a) (i) Since 1 January 2008, there is **no more licensing threshold** for an engineering firm. Prior to 1 January 2008, it was RM150,000.

(1 mark)

(ii) For the invoice paid by Encik Ahmad, RSB is liable to pay the service tax **within 28 days of the expiration** of the taxable period, i.e by **28 July 2007**.

(1 mark)

Encik Phua did not make the payment within the stipulated time period. Therefore RSB is liable to remit the service tax to the customs department on the **day following the period of 12 months** from the date of issuing the invoice to the client.

(1 mark)

(iii) Any two circumstances:

1. The taxable person ceases business in providing any taxable services
2. The taxable person goes into a partnership or there is a retirement or admission of a partner.
3. A registered company acquired his business.
4. The taxable person becomes a taxable person under another group as specified in Schedule 2 of the regulations.
5. Any change in the name, location of business and address of the business.
6. He is called upon to do so by the Director General.

(2 marks)

(b) (i) Sales made during the period March – April 2008:

Date	RM
4/3	4,000
15/3	2,000
20/3	6,000
7/4	5,000
18/4	7,000
30/4	3,000
Total	<u>27,000</u>

Sales tax payable = 27,000 x 10% = RM2,700

Sales tax is due and payable **before or on 28 May 2008**.

(2 marks)

- (ii) Sales tax = RM2,700 due on 28 May 2008

	Penalty	
29/5/08 – 27/6/08	10%	270
28/6/08 – 27/7/08	10%	270

		540
		=====

(1 mark)

- (iii) Taxable period is the period of two calendar months within which sales occur and for which the relevant tax is due collectively on the date due.

(1 mark)

- (iv) **Yes** there will a difference in the answer because **sales tax is exempted** in Langkawi. Langkawi is deemed to be a place outside Malaysia.

(1 mark)

- (c) (i) It is important to establish whether a **permanent establishment (P.E) exists** in Malaysia because if **profits from a business** are earned through a P.E in Malaysia, such **profits would be taxed in Malaysia**.

However, if there is **no P.E** in Malaysia, any profits/or income earned from the business will **not be subjected to Malaysian income tax**.

(3 marks)

- (ii) Superb Materials Incorporated will **not be liable** to income tax by just setting up the regional office in Malaysia. Superb Materials Incorporated is **merely trading with** Malaysia and not trading in Malaysia. The setting up of an office in Malaysia does not mean that there is trading activity.

As it **does not carry on any trading activities** in Malaysia, there is **no permanent establishment** in Malaysia.

(2 marks)

(Total: 15 marks)

ANSWER 6

(a) Tax issues

Mr Anil is not able to obtain a tax deduction for the interest paid on the loan which was on-lent to TEC Con on an interest free basis.

Recommendations

Mr Anil should charge interest on the loan made to TEC Con.

The losses in TEC Toys are not available for set off against profits of TEC Malaysia, thus giving rise to a higher group tax liability. Group relief is also not available

The manufacturing activities of TEC Malaysia and TEC Toys **should be consolidated** in order to achieve greater efficiency and to enjoy

as TEC Toys has a paid up share capital of RM2 million.

economies of scale. A commercial justification could be made to consolidate the business of TEC Malaysia with TEC Toys. If so, then the **losses in TEC Toys can be utilised effectively.**

TEC Toys (due to the consolidation and expansion of its activities) would then be eligible to **claim reinvestment allowance** on the assets transferred in from TEC Malaysia.

As such, the new investment in advanced technology toys should be undertaken by a new subsidiary, which will be able to **claim pioneer status.**

(8 marks)

(b) (i) Computation of exempt income – Section 54A

	Kris RM'000	Seri RM'000
Exempt income from shipping operations [RM40,000 – RM30,000] [RM110,000 – RM90,000]	10,000	20,000

(ii) Computation of chargeable income – Section 54

	Tombak (supply vessel) RM'000	Giant RM'000
Adjusted income [RM19,000 – RM16,000]	3,000	-
Less: capital allowances	<u>(1,000)</u>	-
Statutory income	2,000	-
Less: current year loss *	<u>(2,000)</u>	-
Chargeable income	<u>Nil</u>	<u>Nil</u>

***Unabsorbed business loss carried forward:**

[RM130,000 – RM165,000] – RM2,000 = RM33,000

(iii) Computation of exempt income account – Section 54A (3) (c)

	RM'000
Balance brought forward	65,000
Statutory income:	
Kris	10,000
Seri	<u>20,000</u>
Balance carried forward	<u>95,000</u>

(8 marks)

(c)

i. The activities of transporting passengers or cargo by sea or air are deemed to constitute a **separate and distinct business and source**, to which Section 54 of the Income Tax Act 1967 will apply. The **normal provisions of the Act will apply to the business of transportation by land.**

(2 marks)

ii. The income of a resident person will **not be entitled to the exemption** under Section 54A of the Income Tax Act and it is taxable by reference to the **world income scope (i.e. income wherever accruing or derived).**

(2 marks)

iii. The statutory income of the non-resident person is deemed **as being 5% of the gross income derived from Malaysia.** It does not include transshipment and casual calls. Since no acceptable certificate is submitted, the statutory income will not be amended.

(3 marks)

d) The surrendering company and the claimant company must fulfill the following conditions:

- i. Tax resident and incorporated in Malaysia
- ii. Are related companies throughout the basis period for that year of assessment and the twelve months period
- iii. Have paid up capital in respect of ordinary share of more than RM2.5 million at the beginning of the basis period for that year of assessment.
- iv. Have a twelve months basis period ending on the same day
- v. Make an irrevocable elections to surrender or claim an amount of adjusted loss in the return furnished for that year of assessment under Section 77A
- vi. Are subject to income tax 26% in year of assessment 2008
- vii. The claimant company has defined aggregate income for that year of assessment.

(2 marks)

(Total: 25 marks)