



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

QUALIFYING EXAMINATION

Taxation

Date : 18 September 2008

Time : 2.30 pm – 5.30 pm (3 hours)

INSTRUCTIONS TO CANDIDATES:

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	Rate	Cumulative Tax
RM		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	Annual value of BIK	Fuel per annum
RM	RM	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/ Heavy Machinery	Plant & Machinery	Computers	Others	Industrial Building
Initial allowance	20%	20%	20%	20%	10%
Annual allowance	20%	14%	40%	10%	3%

QUESTION 1

- (a) Quality Sdn Bhd (QSB) is engaged in the manufacture of microchips for domestic and overseas markets. Its profit and loss account for the year ended 31 July 2008 is as follows:

	Note	RM'000	RM'000
Turnover			78,090
Add : Gain from disposal of shares	1		302
Rental	2		<u>328</u>
			78,720
Less : Cost of sales	3		<u>(56,320)</u>
			22,400
Less : Remuneration	4	3,600	
Repairs and maintenance	5	398	
Interest on hire purchase		29	
Motor vehicle expenses		389	
Entertainment	6	147	
Donation	7	114	
Training and consultancy		412	
Miscellaneous expenses	8	222	
Foreign exchange gain (realised)	9	(67)	
Freight and insurance	10	1,720	
Bad and doubtful debts	11	2,832	
Depreciation		1,980	
Advertising	12	<u>592</u>	
			(12,368)
Net profit before taxation			10,032
Taxation			<u>(3,200)</u>
Net profit after taxation			<u><u>6,832</u></u>

Notes :

- Shares held in four listed companies for the past twelve years were disposed during the year at a gain of RM302,000.
- The rental income of RM328,000 is from a property in Singapore. This amount was remitted to Malaysia on 1 June 2008.
- Cost of sales include:
 - An amount of RM32,100 written-off in respect of 160 units of microchips which were destroyed as these were defective.
 - A provision of RM12,000 for the foreign exchange loss which the company expects to incur when paying for a machine purchased from Taiwan.
- This includes the remuneration of RM312,000 paid to three physically disabled employees, and a sum of RM124,000 embezzled by the managing director of the company.

5. Included in the figure is an estimated cost of RM30,000 quoted by the contractor for the repair of the factory. It was agreed that the repair work would commence in August 2008.
6. This item is in respect of a sponsorship of television programmes for the month of November 2007.
7. A cash donation of RM114,000 was made to a private healthcare centre located in Kuala Kangsar, Perak.
8. Miscellaneous expenses comprise :
- | | RM'000 |
|--|---------------|
| Printing of company's annual report | 27 |
| Overseas leave passages for directors and managers (with their families) | 160 |
| Legal fees incurred on the embezzlement case | 35 |
| | 222 |
9. The foreign exchange gain is in respect of microchips exported to Singapore.
10. Included in this figure is an amount of RM425,000, being premium paid to foreign insurance companies for the export of goods to India and Pakistan.
11. Bad and doubtful debts comprise :
- | | RM'000 |
|---|---------------|
| Bad debts written off, of which RM49,000 is in respect of debts taken over from the vendor when the business was acquired three years ago | 560 |
| Recovery of debts written off by the vendor | (31) |
| Increase in specific provision of which RM43,500 is non-trade | 2,670 |
| Decrease in general provision of which RM41,500 is non-trade | (367) |
| | 2,832 |
12. Included in this amount is medical costs amounting to RM38,800 as compensation for health injury suffered by a consumer as a result of using defective microchips.

Additional information:

- (i) Business loss brought forward from year of assessment 2007 amounted to RM387,000.
- (ii) Capital allowances are as follows :
- | | RM'000 |
|--|---------------|
| Brought forward from year of assessment 2007 | 129 |
| Year of assessment 2008 | 789 |
- (iii) QSB is a resident company with a paid up capital of RM2.1 million on 1 August 2007.

Required:

Compute the tax payable by QSB for the year of assessment 2008. Every item mentioned in the notes to the accounts must be listed in your computation, indicating 'Nil' in the appropriate column where no adjustment is necessary.

(14 marks)

- (b) Tan Sdn Bhd (TSB) commenced business as an insurance broking firm on 1 March 2002 and prepared its accounts to 30 September annually. In October 2003, TSB decided to change its accounting date to 30 June each year. However, in 2006, owing to a change in management, TSB decided to end its accounts on 31 March each year.

TSB prepared its accounts as follows:

Accounting Period	Adjusted Income/Loss RM
01/03/2002 to 30/09/2002	65,000
01/10/2002 to 30/09/2003	(40,000)
01/10/2003 to 30/06/2004	88,000
01/07/2004 to 30/06/2005	(16,000)
01/07/2005 to 31/03/2007	42,000
01/04/2007 to 31/03/2008	12,400

Required:

- (i) State the basis period for each year of assessment, up to year of assessment 2008.
- (ii) Compute the adjusted income/loss for the relevant years of assessment.

(6 marks)

(Total: 20 marks)**QUESTION 2**

- (a) Encik Romeo (53 years of age), is a Malaysian tax resident. He provided the following details regarding his income for the basis year 2007:

Business source :

	RM
Adjusted loss	(8,000)
Balancing charge	15,000
Balancing allowance	7,000
Capital allowance	2,000

There was an unabsorbed capital allowance of RM4,000 brought forward from the year of assessment 2006.

Income from other sources:**(i) Dividend**

- a) Maybank Bhd – RM5,840 (net) received on 14 July 2007. Encik Romeo incurred interest expense of RM420 in 2007 for the loan taken to finance the investment. Encik Romeo also paid brokerage fee of RM200 to acquire the shares in January 2007.
- b) Bersatu Cooperative Society Bhd – RM10,300 received on 24 December 2007.

(ii) Royalty

Royalty of RM92,000 received during the year for writing a book on the Malaysian economy. During the year, he incurred typing and proof reading expenses of RM12,900.

(iii) Rental

Encik Romeo owns a bungalow in Kulai, Johor. He provided the following information for the year ended 31 December 2007.

Income	RM
January 2007 to March 2007 (RM2,500 per month)	7,500
April 2007 to June 2007	- (vacant)
July 2007 to February 2008 (RM3,200 per month)	25,600 (received in 2007)
Rental deposit – 1 month (refundable)	2,500
Expenses	RM
Refund of 1 month deposit to previous tenant	2,500
Commission to real estate agent for finding new tenant	1,300
Interest on loan (January 2007 till December 2007)	2,400
Quit rent and assessment	2,600
Repainting of the bungalow	23,400
Renovation	8,700
Fire insurance premium	1,680

Encik Romeo's wife, Puan Afifa is a housewife and owns a property in Wangsa Maju. The net rental income after deducting allowable expenses is RM29,600.

She also received net dividend of RM1,387 from Warna Warni Bhd on 31 October 2007.

They provided the following additional information in respect of the year ended 31 December 2007:

	Romeo RM	Afifa RM
Donations to approved institution:		
Cash	5,200	350
Clothing, books and magazines	1,400	200
Medical expenses incurred in respect of complete medical examination:		
- self, spouse	570	580
- son (serious disease)	6,600	-
Purchase of books and magazines	1,200	-
Insurance premium:		
Life policy	8,000	-
Medical and education policy	4,100	-
Zakat payment	6,000	-
Computer	4,500	-
They have 3 children who are all below 18 years of age.		

Required:

Compute the income tax payable by Encik Romeo and Puan Afifa for the year of assessment 2007. Puan Afifa elects for a joint assessment.

(12 marks)

- (b) Mr. Abbey, a Japanese citizen, came over to Malaysia for the first time on 4 February 2002 as a freelance photographer. The record of his stay in Malaysia was as follows:

4 February 2002 to 4 January 2003
10 October 2004 to 17 November 2005
16 January 2007 to 31 May 2007

Required:

State, with reasons (including stating the relevant Sections of Income Tax Act 1967), the residence status of Mr. Abbey for each of the years of assessment.

(4 marks)

(Total: 16 marks)

QUESTION 3

- (a) State the conditions that must be fulfilled for a person to be eligible to claim capital allowances.

(4 marks)

- (b) Briefly explain two (2) situations where balancing charges might arise.

(2 marks)

- (c) Hijauan Sdn Bhd (HSB) is involved in the manufacturing of office furniture. The company closes its accounts to 31 October each year. The capital expenditure incurred by the company was as follows:

Motor Vehicles

- (i) On 1 October 2006, HSB purchased a lorry to transport the office furniture to the customer's office. The cost of the lorry was RM250,000. The lorry was disposed on 31 May 2008 for RM150,000.
- (ii) On 1 July 2006, HSB purchased a car for the Chief Executive Officer. The car was purchased under hire purchase financing terms as follows:

	RM
Cash price	200,000
Deposit paid on 1 July 2006	20,000
Hire purchase interest	40,000
Total hire purchase price	220,000

The hire purchase price is repayable in 20 equal installments commencing on 1 August 2006.

Machinery

On 28 April 2008, HSB purchased a machine at a cost of RM300,000. The company incurred additional cost of RM40,000 for preparing the site for the installation of the machinery and RM20,000 for installation cost.

Required:

Compute the capital allowances, balancing allowance/balancing charge and residual expenditure for the relevant years of assessment up to the year of assessment 2008.

(8 marks)
(Total : 14 marks)

QUESTION 4

Dr. Alice and Dr. Sofia are partners at a private clinic since 2000. The partnership accounting year ends on 31 December. On 1 October 2007, due to the increase in the number of patients, Dr. Alice and Dr. Sofia agreed to admit a new partner, Dr. Mai. The information pertaining to the partnership is as follows:

- (i) For the year ended 31 December 2007, the partnership's provisional adjusted income is RM210,000.
- (ii) Profit sharing ratios are as follows:

	Dr Alice	Dr Sofia	Dr Mai
Before admission of Dr Mai	1/2	1/2	Nil
After admission of Dr Mai	1/3	1/3	1/3

- (iii) Partner's salaries, interest on capital contributions and private expenses for the year ended 31 December 2007 are as follows:

	Salaries RM	Interest on capital RM	Private expenses RM
Dr Alice	68,000	15,000	6,000
Dr Sofia	68,000	12,000	6,000
Dr Mai	15,000	2,000	1,000

The amount applicable to Dr Mai was for the period 1 October 2007 to 31 December 2007.

- (iv) The depreciation on the partnership's equipment was RM35,000 while the capital allowances were RM33,000. During the year, the partnership sold a used equipment for RM25,000. This transaction resulted in a balancing charge of RM8,000.
- (v) In the year 2007, besides the income from the partnership, Dr Alice and Dr Sofia also have the following sources:

Dr Alice	RM
Statutory income from her sole proprietorship business	30,000
Unabsorbed adjusted loss from previous years	10,000
Dr Sofia	RM
Adjusted loss from her sole proprietorship business	(14,000)
Rental income	29,000

- (vi) Dr Alice has an unabsorbed adjusted loss from the partnership business of RM1,000 brought forward from previous years.

Required:

Calculate the total income of each partner for the year of assessment 2007.

(10 marks)

QUESTION 5

- (a) Runding Sdn Bhd (RSB), an engineering firm, obtained its service tax licence on 1 May 2007. On 10 May 2007, RSB invoiced its customers Encik Ahmad and Encik Phua. Encik Ahmad paid the invoice on 20 June 2007, whereas Encik Phua paid on 19 May 2008.

Required:

- (i) State the service tax licensing threshold (if any) for an engineering firm in the year 2008. (1 mark)
- (ii) Advise RSB on the service tax payments in respect of the invoices paid by Encik Ahmad and Encik Phua. (2 marks)
- (iii) State two circumstances under which a taxable person is required to surrender the service tax licence to the customs office. (2 marks)
- (b) Dinamik Sdn Bhd (DSB) is a taxable person under the Sales Tax Act 1972. It issued the following invoices:

	RM
1. 4 March 2008	4,000
2. 15 March 2008	2,000
3. 20 March 2008	6,000
4. 7 April 2008	5,000
5. 18 April 2008	7,000
6. 30 April 2008	3,000
7. 2 May 2008	3,000

The rate of sales tax is 10% of sales value. As of 15 May 2008, DSB has received payments for invoices (1), (2) and (5). DSB paid the sales tax for the period March to April 2008 on 7 July 2008.

Required:

- i. Compute the sales tax payable for the period March to April 2008 and state the date by which the sales tax is payable. (2 marks)
- ii. State the amount of penalty that would apply to the late payment of sales tax on 7 July 2008. (1 mark)
- iii. State what is meant by the term 'taxable period' (1 mark)

iv. What would be the effect if the sales were made in Langkawi?

(1 mark)

- (c) Superb Materials Incorporated (SMI) is a foreign company incorporated in a country with which Malaysia has a double taxation agreement. The company decided to set up a regional office in Kuala Lumpur in order to coordinate the company's activities and subsidiaries in the South East Asia region. An office is to be leased and will be staffed by an expatriate manager and two locally recruited administrative assistants. The staff will not be involved in any trading activities and do not have the power to sign contracts relating to any trading activities. The office is being maintained only for the purpose of collecting information for SMI .

Required:

- (i) Why is it important to establish whether a permanent establishment exists in Malaysia?

(3 marks)

- (ii) State, with reasons, whether SMI will be liable to income tax in Malaysia with respect to the setting up of the regional office in Kuala Lumpur.

(2 marks)

(Total: 15 marks)

QUESTION 6

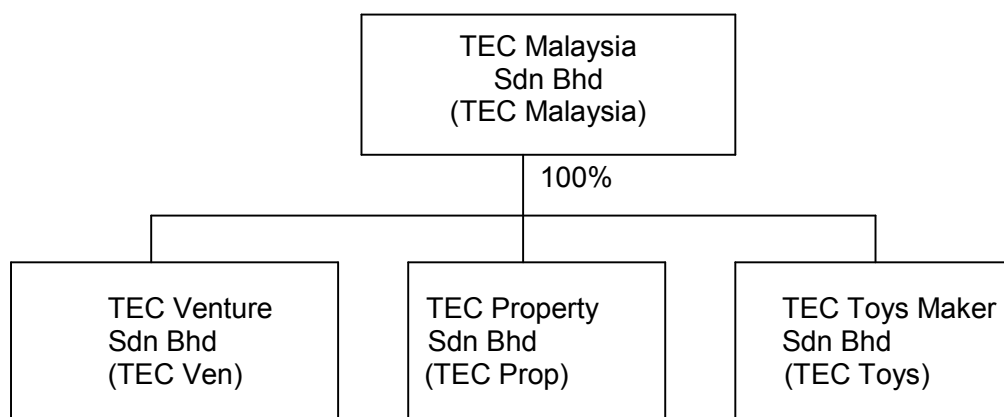
- (a) Mr Anil and his wife, who are tax residents in Malaysia, have the following private investments:

1. TEC Trading Pte Ltd (TEC Trading)

This company is located in Taiwan and is involved in the procurement of toys from Taiwan for sale in the US and Europe. Having a very good trading network, TEC Trading's business has been flourishing and has been able to pay substantial dividends to Mr Anil every year. Mr Anil uses this income stream to finance his other Malaysian investments.

2. In 2000, Mr Anil took a loan which was on-lent to TEC Con Sdn Bhd (TEC Con) to finance a construction project. However, due to the huge increase in the price of construction materials, the company has been incurring substantial losses over the years, notwithstanding that the loan from Mr Anil was non-interest bearing. TEC Con has, therefore, never been able to pay dividends since incorporation. However, it has recently been awarded another contract, which is expected to be very profitable.

Mr Anil intends to consolidate the above investments by injecting them into the TEC Malaysia Sdn Bhd group (TEC Malaysia) which is wholly owned by Mr Anil and his family. The group has the following group structure:



3. TEC Malaysia and TEC Toys are toy manufacturing companies. TEC Toys has a paid up share capital of RM2 million. TEC Malaysia is currently profitable, whereas TEC Toys has substantial tax losses carried forward. An external consultant engaged by Mr Anil has advised that the group should consolidate its manufacturing operations to enjoy economies of scale.

The consultant also advised the group to look into the manufacture of advanced technology toys. The investment required for such project is not substantial but it is expected that the returns would be very attractive and the payback period for the investment is 2 years. The Malaysian Industrial Development Authority (MIDA) has indicated that the project will qualify for pioneer status.

4. TEC Prop is a profitable property development company.

Required:

Mr Anil wishes to restructure his private investments and the TEC Malaysia group to achieve maximum tax efficiency. Identify the tax issues involved and state the relevant recommendations.

(8 marks)

- (b) Jaguh Sdn Bhd (JSB), a resident company in Malaysia, operates a fleet of ships, including a supply vessel (Tombak) for the transportation of cargo and for time charter. Information pertaining to turnover, allowable expenses and capital allowances for the basis period 1 July 2007 to 30 June 2008 is as follows:

	KRIS	TOMBAK	SERI	GIANT
	RM'000	RM'000	RM'000	RM'000
Turnover	40,000	19,000	110,000	130,000
Allowable expenses	30,000	16,000	90,000	165,000
Capital allowances	Nil	1,000	Nil	22,000
Remarks	Time charter		Transportation of cargo	

The balance of exempt income brought forward amounted to RM65 million. Kris, Tombak and Seri were registered in Malaysia, whereas Giant's place of registration was in a foreign country.

Required:

For the year of assessment 2008, compute the following for JSB:

- i. Amount credited to the exempt income account.
 - ii. Amount of chargeable income and unabsorbed business loss carried forward.
 - iii. Balance of exempt income to be carried forward (if any).
- (8 marks)

- (c) Sea and air transport activities are subject to special provisions under Section 54 and 54A of the Income Tax Act 1967.

Required:

Explain the tax consequences under the Sections mentioned above for each of the following circumstances:

- i. A person carries on a business consisting partly of transporting passengers or cargo by sea or air and partly by land.
(2 marks)
 - ii. A person is resident in Malaysia and carries on a business of transporting passengers or cargo by sea or air on board a non-Malaysian ship.
(2 marks)
 - ii. A person not resident in Malaysia, carries on a business of transporting passengers or cargo by sea or air, but has not produced any acceptable certificate within the time limit.
(3 marks)
- (d) Group relief under Section 44A of the Income Tax Act 1967 allows a surrendering company to surrender not more than 50% of its adjusted loss in the basis period of a year of assessment to one or more claimant companies.

Required:

State four (4) conditions applicable to such companies in order to be able to take advantage of group relief.

(2 marks)
(Total: 25 marks)

END OF QUESTION PAPER