

## ANSWER 1

## (a) Computation of Tax Liability for TENT Bhd YA 2007

	RM +	RM -
Sec 4(a) : Business		
Net profit before tax	3,370,000	
Cost of sales:		
Toys - donation	42,000	
Other income		40,000
Remuneration:		
Entertainment (50%)	175,000	
EPF 35,500 – (19% x 350,000 x 50%)	2,250	
Bungalow – Pangkor Laut	NIL	
Professional fees:		
New trademark	5,500	
Legal fees	NIL	
Non-trade collection	1,700	
Accounting and auditing	NIL	
Income tax appeal	9,000	
Feasibility study	4,000	
Entertainment		
Suppliers (50% x 40,000)	20,000	
Staff lunches	NIL	
Promotional gifts	NIL	
Subsidy	NIL	
Doubtful debts:		10,000
Lease rental:		
WPL 565 (72,000 – 50,000)	22,000	
WPJ 351 (46,000 – 50,000)	NIL	
BHD 8805 (68,000 – 50,000)	18,000	
Repairs and maintenance:		
Glass door	NIL	
Component parts	NIL	
Cleaning	NIL	
Computers	48,000	
Foreign exchange:		
Realised gain		40,000
Unrealised gain		55,000
Fines:		
EPF interest	13,600	
Fines – sales tax	4,400	
Donations:		
Wheel chair	NIL	
Cultural show	NIL	
USM (124,000 – 100,000)	24,000	
Painting	65,000	
Cash	110,500	
Depreciation	<u>110,000</u>	
	4044,950	<u>145,000</u>

	<u>(145,000)</u>
Adjusted Income	3,899,950
(+) Balancing charge	27,000
(-) Capital allowance	(136,700)
(-) Balancing allowance	<u>(16,000)</u>
Statutory Income	3,774,250
(-) Business loss b/f – Sec 43(2)	<u>(17,800)</u>
	3,756,450
(+) Other Income:	
Rental (exempt)	<u>NIL</u>
Aggregate Income	3,756,450
(-) Approved donation:	
Painting	(65,000)
Cash (subject to 7% restriction)	<u>(110,500)</u>
Total/Chargeable Income	<u>3,580,950</u>

Tax payable @ 27% x 3,580,950 = RM966,856.5

(14 marks)

- (b) (i) Yes, it is a deductible expense to July Sdn. Bhd. because for a company with an authorised capital of not more than RM2.5 million, the incorporation expense is allowed to be deducted against its business income.

[Income Tax (Deduction of Incorporation Expenses) Rules 2003, P.U.(A) 475/2003]

(1 mark)

- (ii) Commencement of a new company  
For a new company commencing business in a year of assessment, July Sdn. Bhd is required to furnish its tax estimate, within 3 months from the date of commencement. (i.e latest by 31 March 2007)

(2 marks)

- (c) The compensation received is taxable because it is a revenue receipt.  
Points to be considered:
1. Hartanah Sdn. Bhd. is a property developer and such land would be stock-in-trade.
  2. The company had the intention to develop the land into a residential area and derive income from the sale of houses, i.e trading.
  3. Compensation received "fills a hole in the profits" because if the land is developed and houses built, the profit would be subject to income tax.

(3 marks)

**(Total: 20 marks)**

**ANSWER 2**

2. (a) **Lorry**

YA 07	: QPE	RM120,500		
	1A 20%	(24,100)	}	CA
	AA 20%	(24,100)		
	RE	72,300		
				48,200

**Car**

YA 07	: QPE is restricted to	RM50,000		
	1A 20%	(10,000)	}	CA
	AA 20%	(10,000)		
	RE	30,000		
				20,000

The QPE is restricted to RM50,000 since the car is not commercial motor vehicle and the cost is more than RM150,000.

**Packaging Machine**

			<b>RM</b>	
YA 07	: Deposit paid 2/3/07		80,000	
	(+) Installment (without interest) (6 x 4400)		26,400	
	QPE		106,400	
	1A 20%		(21,280)	}
	An 20%		(21,280)	
	RE		63,840	
				42,560

(7 marks)

(b)

YA	Basis Period	Adjusted Profit/Loss (RM)	
2003	1.1.03 - 31.12.03	(15,000)	
2004	1.1.04 - 31.12.04	35,200	(28,000 + 3/12 x 28,800)
2005	1.10.04 – 30.9.05	21,600	(9/12 x 28,800)
			(3/12 x 8,800) is already taxed in YA 04
2006	1.10.06 – 31.3.06	(4,000)	
2007	1.4.06 – 31.3.07	23,200	

( 7 marks)  
(Total: 14 marks)

**ANSWER 3****Computation of Tax Payable by Puan Kartini YA 2007**

<b>Sec 4(a):</b>	<b>RM</b>	<b>RM</b>
Net profit		52,600
Adjustment:		
Cost of sales – drawings	17,900	
Donation - Cash	3,500	
Zakat	2,500	
Leave passage	8,500	
Van – running expenses (11,900 x 25%)	2,975	
Salary - owner	24,000	
Computer	6,000	
Entertainment (Leave passage)	<u>Nil</u>	<u>65,375</u>
Adjusted Income		117,975
Less: Capital Allowance (84,000 x 20% AA x 75%)		<u>(12,600)</u>
Statutory Income		105,375
<b>Sec 4(d):</b>		
Semi detached house:		
Gross rental (6,000 x 6)	36,000	
(-) Quit rent (6/12 x 300)	(150)	
Assesment (6/12 x 700)	<u>(350)</u>	35,500
Condominium:		
Gross rental	8,400	
(-) Assessment	(450)	
Interest on loan	(4,000)	
Repairs & repainting	<u>(4,200)</u>	NIL
Royalty (no exemption – since not approved)		32,000
<b>Sec 4(e):</b>		
Alimony (500 x 12)		<u>6,000</u>
Aggregate Income		178,875
Less: Approved donation – cash (32,000 + 3500)	(35,500)	
Dialysis machine	<u>(20,000)</u>	<u>(55,500)</u>
Total Income		123,375
Less: Personal relief:		
Self	8,000	
Child - first (4,000 x 50%)	2,000	
- second (5,000 x	2,500	

**TAX**

**MIA QE/MAC 2008**

50%)		
- Others (1,000 x 2 x 50%)	1,000	
Medical relief		
	500(mx)	
Computer relief		
	3,000(mx)	
Life insurance	1,200	
Medical + education	3,000	
Wheel chair	<u>2,900</u>	<u>(24,100)</u>
Chargeable Income		RM <u><u>99,275</u></u>

Tax on the 1 <sup>st</sup> RM70,000	= RM7,275.00
Tax on the balance 29,275 @ 24%	= <u>7,026.00</u>
Tax Payable	= 14,301
Less: Zakat	<u>(2,500)</u>
Tax payable	<u>18,801</u>

(16 marks)

**ANSWER 4**

(i)

	<b>DECEASED 3/12 RM</b>	<b>EXECUTOR 9/12 RM</b>
<b>Sole proprietorship business:</b>		
Statutory income	7,500	22,500
<b>Partnership business:</b>		
Adjusted income	Nil	
Add: Balancing charge	20,000	
Less: capital allowance	<u>(12,000)</u>	
	<u>8,000</u>	
	<u>2,000</u>	<u>6,000</u>
	9,500	28,500
Less: unabsorbed business loss brought forward	<u>(9,000)</u>	<u>-</u>
Statutory income from business	500	28,500
<b>Add: other sources of income</b>		
Dividend [36,500 x 100/73]	-	50,000
Interest [exempt]	-	-
Rent	<u>3,000</u>	<u>9,000</u>
<b>Aggregate income</b>	<b>3,500</b>	<b>87,500</b>
Less:		
Current year business loss	(2,500)	(7,500)
Annuity payable	-	(24,000)
Executor's fee	-	-
<b>Total income</b>	<b>1,000</b>	<b>56,000</b>
Less: relief	-	<u>(8,000)</u>
<b>Chargeable income</b>	<b><u>1,000</u></b>	<b><u>48,000</u></b>

(ii) **Changes to the chargeable income of the estate if the deceased was not domiciled and non-resident:**

Relief of RM8,000 will not be granted to the executor.

(10 marks)

**ANSWER 5**

## (a) (i)

<b>Pioneer business (Promoted product)</b>	<b>2005 RM'000</b>	<b>2006 RM'000</b>	<b>2007 RM'000</b>
Adjusted income	550	700	800
Less: capital allowances	<u>(100)</u>	<u>(160)</u>	<u>(200)</u>
Statutory income	450	540	600
Less: 70% of Statutory income	<u>(315)</u>	<u>(378)</u>	<u>(420)</u>
Taxable income (30%)	135	162	180
<b>Non-Pioneer business(Non-Promoted Product)</b>			
Adjusted income	-	-	700
Less: capital allowances	-	-	<u>(100)</u>
Statutory income	-	-	600
Less: unabsorbed business loss b/f	-	-	<u>(235)</u>
	-	-	365
Add: interest income	50	50	50
<b>Aggregate income</b>	50	50	415
Less: current year business loss	<u>(50)</u>	-	-
<b>Chargeable income</b>	<u>135</u>	<u>212</u>	<u>595</u>
(ii) Exempt income account balance			
<b>70% of statutory income (pioneer)</b>	<u>315</u>	<u>378</u>	<u>420</u>
<b>Less: Non-Pioneer business losses (current)</b>	<u>(315)</u>	<u>(150)</u>	-
<b>: Pioneer business losses (b/f)</b>	-	-	-
<b>Amount credited to exempt income account</b>	<u>Nil</u>	<u>228</u>	<u>420</u>

(10 marks)

- (b) (i) Offshore trading activity includes banking, insurance, trading, management, licensing or any other activity which is not an offshore non-trading activity.

Offshore non-trading activity means an activity relating to the holding of investments in securities, stocks, shares, loans, deposits and immovable properties by an offshore company on its behalf.

(2 marks)

- (ii) Where a company carries on both offshore non-trading and offshore trading activities, it is deemed to be carrying on an offshore trading activity and hence subject to tax at 3% of net audited profits.

Alternatively, the company may elect to be charged to tax of RM20,000

(2 marks)

- (iii) The amount paid to a non-resident person by an offshore company in consideration of services, advice or assistance specified in paras (i) and (ii) of Section 4A are exempted from tax.

Interest received from an offshore company by residents or non-residents or another offshore company is exempted from tax.

(1 mark)

**(Total: 15 marks)**

### ANSWER 6

- a) Currently, any tax exempt dividends that may be paid by AOF cannot pay tax-exempt dividend because it cannot be passed on to the ultimate shareholders beyond the 2 tiers. Therefore, AS could transfer its shares in AOF to AC in order to overcome the dividend trap.

The business of rearing chickens and ducks should be undertaken by AS because the company could claim the reinvestment allowance. Since the pioneer incentive has expired, the project of rearing chickens and ducks should qualify because it would be a diversification of its farming business. The capital expenditure on plant and machinery should be financed through a bank loan instead of obtaining leasing facilities. This would enable AS to claim reinvestment allowance on the capital expenditure.

With the reinvestment allowance, AS would also face the 2-tier restriction to the payment of tax free dividends to its ultimate shareholders. To overcome the restriction, AS could transfer its shares in AS to AC.

Instead of AS giving interest free advances to AM, AS should pay dividends and utilise its Section 108 account. The dividend received by AM can be set off against the current year business loss and a repayment of tax would arise due to the Section 110 relief claimable on dividends.

As such, AS should not declare tax exempt dividends from its exempt income account because since it cannot be used to set off the current year business losses of AM.

Since AM has unabsorbed business loss carried forward, AS's profitable business could also be transferred to AM as part of a commercial restructuring of the operation. This would also enable more effective utilization of the losses. However, the unabsorbed capital allowances and reinvestment allowances in AM cannot be utilized against the profits of AS because it relates to a different business.

(10 marks)

b)

	<b>RM</b>
Dividend (400,000 – 40,000 – 80,000 – 60,000)	220,000
Interest (300,000 – 200,000)	100,000
Rental (200,000 – Quit rent 3,000)	197,000
<b>Aggregate income</b>	<b>517,000</b>
Less: Section 60F deduction (see note)	(17,044)
	<u>499,956</u>
Less: approved donation (7% x aggregate income = 361,900 or )	
donations 200,000 whichever is lower	(200,000)
Chargeable income	<u>299,956</u>
Income tax payable @ 27%	80,988.12
Less: Section 110(1) 27% x 280,000	(75,600.00)
Net tax payable	<u>5,388.12</u>

**Notes:**

	<b>RM</b>
<b>Permitted expenses:</b>	
Director’s fees	60,000
Audit fees	6,000
Salaries	200,000
Secretarial fees	4,000
Accounting fees	6,000
Postage and stationery	2,000
	<u>278,000 (A)</u>
<b>Taxable gross income:</b>	
Dividend (400,000 – 40,000 – 80,000)	280,000
Interest	100,000
Rental	200,000
	<u>580,000 (B)</u>
Dividend (exempt) 40,000 +80,000	120,000
Interest exempt	200,000
Gain on sale of quoted shares (3,000,000 – 1,500,000 – 35,000)	1,465,000
Gain on sale of landed property (5,000,000 – 4,400,000 – 60,000 – 600,000)	NIL
	<u>2,365,000 (C)</u>

$$\begin{array}{r}
 A \times B = 278,000 \text{ OF } \times 580,000 \text{ OF} \\
 \text{---} \qquad \qquad \qquad \text{-----} \\
 4C \qquad \qquad \qquad 4 \times 2,365,000 \text{ OF} \\
 \\
 = 278,000 \times 580,000 \\
 \qquad \qquad \qquad \text{-----} \\
 \qquad \qquad \qquad 9,460,000
 \end{array}$$

= 17,044 or  $5\% \times 580,000 = 29,000$  whichever is lower

Therefore, deduction allowed is **RM17,044**.

(15 marks)  
**(Total: 25 marks)**