



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

QUALIFYING EXAMINATION

Taxation

Date : 19 March 2008

Time : 2.30 pm – 5.30 pm (3 hours)

INSTRUCTIONS TO CANDIDATE:

This question paper contains 6 questions on 15 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) TENT Bhd is a Malaysian resident company involved in the manufacturing of toys and games for children. The company's profit and loss account for the year ended 31 October 2007 is as follows:

	Note	RM'000	RM'000
Sales			42,900
Less: Cost of sales	1		<u>(36,753)</u>
			6,147
Add: Other income	2		<u>40</u>
			6,187
Less: Expenses:			
Remuneration	3	1,970	
Professional fees	4	32	
Entertainment expenses	5	66	
Bad debts	6	210	
Lease rental	7	62	
Repairs and maintenance	8	108	
Foreign exchange	9	(95)	
Fines	10	18	
Donations	11	336	
Depreciation		<u>110</u>	<u>(2,817)</u>
Net profit before tax			<u><u>3,370</u></u>

Notes:

- Cost of sales include toys costing RM38,000 donated to an approved orphanage on 13 September 2007. The normal selling price was RM42,000.
- Other income is in respect of rent derived from a property in Indonesia and received in Malaysia in July 2007.
- Remuneration includes:
 - Entertainment allowance of RM350,000 paid to the managing director and the general manager.
 - Employees Provident Fund (EPF) contributions of RM35,500 made by the company in respect of the above-mentioned entertainment allowance.
 - Cost of maintaining a holiday bungalow in Pangkor Laut used by senior executives of the company, RM45,000

- Professional fees comprise:

	RM
Registration of the company's new trademark	5,500
Legal fees on compensation claim by a dismissed employee	3,600
Non-trade debt collection expenses	1,700
Accounting and auditing fees	8,200
Income tax appeal	9,000
Feasibility study for expansion of operations in Japan	<u>4,000</u>
	<u><u>32,000</u></u>

5. Entertainment expenses comprise:

	RM
Entertainment of suppliers	40,000
Staff lunches and refreshments	8,000
Promotional gifts (own product i.e. computer games)	6,000
Subsidy for customer purchase*	<u>12,000</u>
	<u>66,000</u>

* During the year, TENT Bhd implemented a promotional campaign whereby customers are allowed to buy an electronic toy at RM1 for every computer game purchased. The actual cost of the toy to TENT Bhd was RM5.

6. Provision for doubtful debts (trade)

	RM
Balance as at 1 November 2006	220,000
Add: Provision for the year	80,000
Less: Amount written off	<u>(90,000)</u>
Balance as at 31 October 2007	<u>210,000</u>

7. Lease rental comprises the rental paid for three motor vehicles for use by the salesmen. The cost of each motor vehicle is above RM150,000.

The lease rental paid is as follows:

	Year ended 31 October		
	2005	2006	2007
	RM	RM	RM
WPL 565	20,000	24,000	28,000
WPJ 351	10,000	20,000	16,000
BHD 8805	24,000	26,000	18,000

8. Repairs and maintenance expenses comprise:

	RM
Replacement of office glass doors	26,000
Replacement of component parts of machinery	4,000
Cleaning and repainting of factory premises	30,000
Cost of office computers	<u>48,000</u>
	<u>108,000</u>

9. Foreign exchange comprises:

	RM
Realised gain on payments made to non-trade creditors	(40,000)
Unrealised gain on trade creditors	<u>(55,000)</u>
	<u>(95,000)</u>

10. The fines comprise:

	RM
Interest to EPF Board for late payment	13,600
Fines for late payment of sales tax	<u>4,400</u>
	<u>18,000</u>

11. During the year, TENT Bhd made the following donations:

	RM
Provision of a wheel chair to a disabled employee	8,500
Sponsoring a local cultural show approved by the Ministry of Culture, Arts and Heritage	28,000
Cash donation to the library of University Sains Malaysia to upgrade its library facilities	124,000
Donation of a painting to the National Art Gallery (market value)	65,000
Cash donation to an approved institution	<u>110,500</u>
	<u>336,000</u>

12. The following information was provided for the year of assessment 2007:

	RM
Capital allowances for the year (including the capital items expensed to the Profit and Loss Account)	136,700
Balancing charge	27,000
Balancing allowance	16,000
Business loss brought forward from previous year	17,800

Required:

Compute the income tax liability of TENT 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).

(14 marks)

(b) July Sdn Bhd (July), with an authorised share capital of RM2.2 million, incurred RM180,000 of incorporation costs on 1 November 2006. July commenced business on 1 January 2007 and prepared its first set of accounts to 31 December 2007. The year end for subsequent years is 31 December.

Required:

i) State, with reasons, whether or not the amount of RM180,000 is a deductible expense to July.

(1 mark)

- ii) With respect to the self-assessment system, state when July must provide the Director General of Inland Revenue with the company's estimated income tax liability for the year of assessment 2007.
- (2 marks)
- (c) Hartanah Sdn Bhd has been involved in the property development business since 1999. In 2006, it purchased a piece of land in Kepong for the purpose of developing it into a residential area. It submitted an application to the Selangor State Government for approval. It had incurred development costs, such as planning and surveying costs.

However, in 2007, the land was compulsorily acquired by the State Government for the purpose of constructing a highway. The company was offered a compensation of RM10 million based on the prevailing market price.

Required:

State, with reasons, whether or not the compensation received by the company is taxable under the Income Tax Act 1967.

(3 marks)

(Total: 20 marks)

QUESTION 2

- (a) Niaga Sdn Bhd a manufacturing company based in Shah Alam, closed its accounts to 30 September annually.

The following information is related to non current assets purchased by the company for the year ended 30 September 2007.

	RM
Lorry	120,500
Car	210,000
Packaging machine (heavy)	325,000

Both the lorry and the car were bought on a cash basis, whereas the packaging machine was acquired on the following hire purchase terms:

Date of purchase	2 March 2007
Deposit paid on 2 March 2007	RM80,000
Instalment per month commencing 1 April 2007	RM4,900
Cash price	RM300,000
Number of instalments	50

Required:

Compute the capital allowances that can be claimed by Niaga Sdn Bhd for the year of assessment 2007.

(7 marks)

- (b) Jamie Sdn Bhd which had been preparing its accounts to year ended 31 December, changed its accounting date to year ended 30 September as follows:

Accounting Period	Adjusted Income/Loss RM
Year ended 31/12/2003	(15,000)
9 months ended 30/9/2004	28,000
Year ended 30/9/2005	28,800

On 1 December 2005 the company was acquired by Rose Bhd. In line with its new holding company's financial year end of 31 March, Jamie Sdn Bhd closed its accounts as follows:

Accounting Period	Adjusted Income/Loss RM
1/10/2005 to 31/3/2006	(4,000)
Year ended 31/3/2007	23,200

Required:

Determine the basis periods and adjusted income/loss of Jamie Sdn Bhd for the years of assessment 2003 to 2007.

(7 marks)

(Total: 14 marks)

QUESTION 3

Puan Kartini is the sole proprietor of a fast food catering business located in Nilai. Below is the profit and loss account of her business for the year ended 31 December 2007.

	Notes	RM	RM
Gross sales			305,000
Less: Cost of sales	1	95,000	
Donation and zakat	2	6,000	
Leave passage	3	8,500	
Van running expenses	4	11,900	
Salaries and wages	5	110,000	
Cost of computer	6	6,000	
Entertainment	7	<u>15,000</u>	<u>252,400</u>
Net profit			<u>52,600</u>

Notes:

- Cost of sales includes the cost of meals consumed by Puan Kartini and her family amounting to RM15,000. The catering price of these meals is RM17,900.
- Puan Kartini made a cash donation to an approved institution in Klang on 1 July 2007 amounting to RM3,500 and the balance is zakat payment on her business income.
- The leave passage cost relates to a trip made by Puan Kartini and her family to visit her relatives in Indonesia.

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4. The van was bought for cash by Puan Kartini three years ago at a cost of RM84,000. It was agreed by the Inland Revenue Board that 75% of the van running expenses are attributable to business purposes.
5. Included in salaries and wages is a sum of RM24,000, being salary drawn by Puan Kartini.
6. The computer was bought for her daughter (20 years old) who is studying full time at Sunway College, Petaling Jaya.
7. On 31 October 2007, Puan Kartini organised a weekend trip to Langkawi for her staff and their families. The details of the expenses are as follows:

	RM
Food	6,000
Accommodation	4,000
Leave passage	5,000

8. Other information:
 - i) Puan Kartini has 2 residential properties as follows:
 - Semi-detached house:
 - Gross rental from 1 July to 31 December 2007 is at RM6,000 per month.
 - Quit rent from 1 January to 31 December 2007 was RM300.
 - Assessment for the year (1 January to 31 December 2007) was RM700.
 - Condominium:

	RM
Gross rental per annum	8,400
Assessment	450
Interest on loan	4,000
Repairs and repainting	4,200
 - ii) She also received a royalty of RM32,000 from a book translation. However, the translation was not approved by the relevant authority and the whole amount was donated to an approved charitable organisation.
 - iii) She donated a dialysis machine costing RM25,000 to a kidney centre approved by the Ministry of Health. The value of the gift was certified by the Ministry of Health at RM25,000.
 - iv) She received an alimony amounting to RM500 per month from her ex-husband, who divorced her 4 years ago. The alimony is paid in accordance with a court order.
 - v) She has 4 children aged between 9 to 20 years. The second child who is 17 years old is disabled due to an accident which happened 8 months ago. The other two children are in primary school. Both she and her ex-husband are maintaining the children.

- vi) She also made a claim on the following expenses:
- A wheelchair for the disabled child costing RM2,900.
 - Her yearly medical check-up costing RM920.
 - Life insurance premium of RM1,200, capital insured RM60,000.
 - Medical and education insurance premium for the children RM3,200.

Required:

Compute the income tax payable by Puan Kartini for the year of assessment 2007.

(16 marks)

QUESTION 4

Mr Stanley was domiciled in Malaysia during the basis year 2007 but for tax purposes, he was a non-resident. The following information is in respect of Mr Stanley's income for the year ended 31 December 2007.

	RM
Sole proprietorship business (derived from Malaysia):	
Statutory income	30,000
Unabsorbed business loss brought forward	(9,000)
Partnership business (derived from Malaysia):	
Adjusted loss	(10,000)
Capital allowances	12,000
Balancing charge	20,000
Dividend (net of tax rate 27%)- credited on 1 October 2007	36,500
Interest income:	
Savings account of RM50,000 with Malayan Banking Berhad – credited on 15 March 2007	10,000
Rental income:	
Received from apartments in Shah Alam	12,000

Mr Stanley, a bachelor, died on 1 April 2007 due to a serious kidney problem. His brother, Mr Riley has been appointed as the executor of his estate upon his death.

Mr Riley is resident in Malaysia during the year of assessment 2007. He is being paid RM300 per month for his service as the executor of the estate. Miss Gwen, the niece of Mr Stanley, is to receive an annuity of RM24,000 per annum, but instead, she was only paid RM18,000 during the year of assessment 2007.

Required:

- (i) Compute the chargeable income of Mr Stanley (deceased) and the estate of Mr Stanley for the year of assessment 2007. Show all relevant workings.
- (ii) State, with reasons, whether there would be any change to the chargeable income of the estate if the deceased was a non-resident and not domiciled in Malaysia during the year of assessment 2007.

(10 marks)**QUESTION 5**

- (a) Synergy Sdn Bhd (Synergy) carries on the business of manufacturing promoted and non-promoted products in Shah Alam, Selangor. Synergy enjoys the pioneer status incentive for the promoted products.

The adjusted income/loss, capital allowances and interest income of Synergy for the years of assessment 2005, 2006 and 2007 are as follows:

Year of assessment	2005		2006		2007	
	Pioneer	Non-Pioneer	Pioneer	Non-Pioneer	Pioneer	Non-Pioneer
Status	RM	RM	RM	RM	RM	RM
Adjusted income/(adjusted loss)	550,000	(600,000)	700,000	(150,000)	800,000	700,000
Capital allowances	100,000	Nil	160,000	Nil	200,000	100,000
Interest income	Nil	50,000	Nil	50,000	Nil	50,000

Required:

Compute the following for the company for the years of assessment 2005, 2006 and 2007:

- (i) income tax payable
- (ii) amount credited to the tax exempt income account.

(10 marks)

- (b) Delco Inc (Delco), a company in Labuan, is incorporated under the Offshore Companies Act 1990 dealing with both offshore trading and offshore non-trading activities. The following additional information is available:

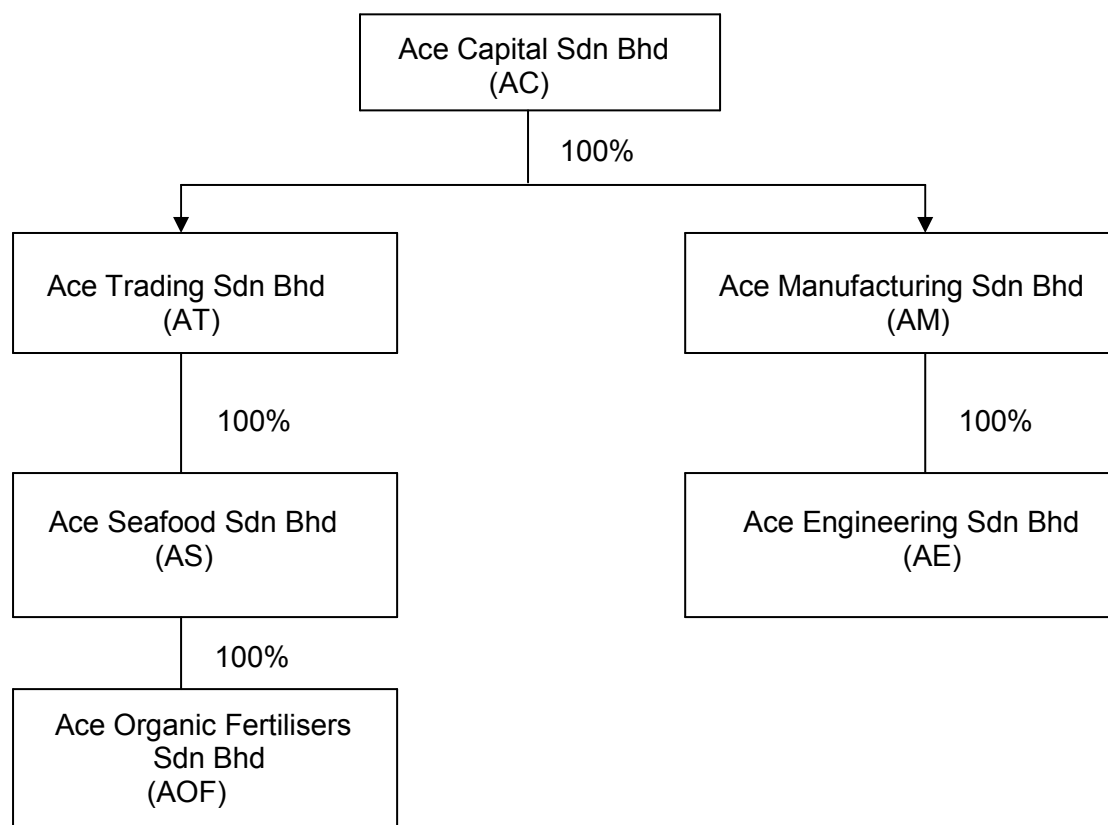
- Delco will pay to a non-resident company for the technical advice and assistance provided to it.
- Delco will borrow money from and pay interest to either Labuan banks or overseas banks to finance its operations.

Required:

- (i) Explain the difference between offshore trading activity and offshore non-trading activity. (2 marks)
- (ii) State the tax rate applicable under the Labuan Offshore Business Activity Tax Act 1990 to Delco as well as any option it has to lower its tax liability. (2 marks)
- (iii) State the withholding tax implications, if any, on the technical assistance and interest payments mentioned above. (1 mark)
- (Total: 15 marks)**

QUESTION 6

- (a) The existing structure of Ace Capital Sdn Bhd (AC) and its wholly owned subsidiaries (Ace Group) is as follows:



AC is principally an investment holding company providing management services to its subsidiaries.

AT is a profitable company whose principal activity is trading of animal feed. Its wholly owned subsidiary, AS, is involved in the breeding of freshwater fish, which is highly profitable. AS enjoyed the pioneer status incentive which expired two years ago. It has a nominal balance in the exempt income account.

AOF operates a profitable organic fertiliser processing plant. Currently, AOF enjoys the pioneer status incentive and has a substantial amount of credit balance in its exempt income account.

AM is involved in the manufacturing of cements and bricks for the construction industry. It has been incurring losses for the past three years inclusive of year of assessment 2007. It has unabsorbed business losses, capital allowances and reinvestment allowances carried forward to the year of assessment 2008 amounting to RM8,000,000 ; RM500,000 and RM2,000,000 respectively.

AE carries on a business of providing engineering services in the construction industry. It has been highly profitable in the past three years inclusive of year of assessment 2007. Due to AM's adverse cash flow position, AE has been providing interest free advances to AM. AE has not paid any dividend since the commencement of its operations. Its Section 108 account and exempt income account balance as at 31 December 2007 are RM2,000,000 and RM1,300,000 respectively.

The management of AC has approved an investment plan to venture into the business of rearing chickens and ducks. It has been decided that the investment will be undertaken by a new subsidiary company. AC also approached a leasing company, which agreed to provide leasing facilities to finance capital expenditure on the plant and machinery. Malaysian Industrial Development Authority (MIDA) has confirmed that the project will not be eligible for any tax incentives under the Promotion of Investments Act 1986.

Required:

Advise how the operations and structure of the Ace Group can be reorganised more efficiently for tax purposes, giving reasons to support your recommendations.

(10 marks)

- (b) Gris Holdings Bhd is an investment holding company. Information extracted from its accounts for the year ended 30 June 2007 is as follows:

	Note	RM'000	RM'000
Gross dividends	1		400
Rental income from shop-lots			200
Interest income	2		300
Gain on sale of quoted shares	3		1,500
Gain on sale of landed property	4		600
			<u>3,000</u>
Less:			
Directors' fees		60	
Audit fees		6	
Salaries		200	
Secretarial fees		4	
Quit rent and assessment (shop-lot)		3	
Accounting fees		6	
Postage and stationery		2	
Interest expense	5	660	
Brokerage for sale of shares		35	
Commission for sale of landed property		60	
Approved donation		200	
Travelling		3	(1,239)
Net profit			<u>1,761</u>

Notes:

1. Gross dividends were derived from

	RM'000
A Labuan offshore company	40
A pioneer company (paid out of its exempt income account)	80
A Malaysian subsidiary	280
	<u>400</u>

2. Interest income was derived from:

	RM'000
An overseas subsidiary	200
Bonds issued by a company listed on the main board of Bursa Malaysia	40
A commercial bank	60
	<u>300</u>

3. Gain on sale of quoted shares:

	RM'000
Sale proceeds	3,000
Cost of shares	<u>(1,500)</u>
	<u>1,500</u>

4. Gain on sale of landed property:

	RM'000
Sale proceeds	5,000
Cost of landed property	<u>(4,400)</u>
	<u>600</u>

5. Interest expense of RM60,000 was incurred in respect of the investment in the Malaysian subsidiary and the remaining RM600,000 was incurred on the landed property sold.

Required:

Compute the tax payable by Gris Holdings Bhd for the year of assessment 2007.
Show all relevant tax adjustments.

(15 marks)
(Total: 25 marks)

END OF QUESTION PAPER