

ANSWER 1

1. (a) Computation of Tax Payable for Navy Sdn Bhd
YA 2008

	RM +	RM -
Sec 4 (a):		
Net profit before taxation	1,053,100	
(-) Other income:		
Interest (1)		25,000
Gain on sales of land (2)		600,000
Rental (3)		40,000
Adjustments:		
Cost of sale (4)		
Stock obsolescence	19,500	
Insurance (no double deduction)		NIL
Damaged goods written off	NIL	
Miscellaneous(5)		
Stamp duty	18,000	
Forex gain (unrealised)		20,000
Forex loss(unrealised)	37,000	
Donation(6)		
Equipment	4,000	
Cash	7,500	
Leasing (7) – (72,800 – 50,000 max)	22,800	
Entertainment (8)		
Dinner-client (50%)	20,650	
Lunch-employees	NIL	
Sponsorship-local (mx 300,000)	18,000	
Cost of souvenirs (double deduction)		71,000
Repairs and maintenance (9)		
Extension-factory (porch)	68,500	
Upgrading protection system	21,500	
Director's motor vehicle expenses	NIL	
Resurfacing-factory carpark	NIL	
Depreciation on fixed assets	62,500	
Professional charges (10)		
Legal fees-trade debts	NIL	
Legal fees-tax appeal	12,000	
Renewal of trade mark	NIL	
Staff recruitment	NIL	
Business zakat	40,000	
General and Administration (11)		
Compensation to ex-staff	NIL	
Annual subscription to Trade Association	NIL	
Traffic fine	6,100	
Refreshment-annual general meeting	110,500	
Freight and insurance (12) (double deduction)		116,000

Staff welfare (13)		
Staff medical and dental benefits	NIL	}
Child care maintenance	NIL	
Loan to employees	90,000	
Leave passage for directors	25,000	
Scholarship	NIL	
Remuneration (14)		
Disabled employee (double deduction)		40,000
Unemployed graduate (single deduction)		NIL
EPF 149,900 – 19% (612,000 + 102,000)	14,240	
Bonus	NIL	}
Expatriate employee	NIL	
Unapproved fund	14,600	
	1665,490	<u>912,000</u>
	(912,000)	
Adjusted Income	753,490	
(-) Capital Allowances		
Current year = 195,000	}	
Brought forward = 12,100		
Factory protection system (20%+14%x21,500)=7,310	(214,410)	
Statutory Income	539,080	
(-) Brought forward business loss-sec 43(2)	(42,300)	
	496,780	
Add: Other Income		
Interest (exempt)	NIL	}
Rental (exempt)	NIL	
Gain	NIL	
Aggregate Income	496,780	
(-) Approved donation(cash and kind)-not qualified	NIL	
(-) Business zakat (max 2.5%x Aggregate Income) (40,000 subject to 2.5% x 498,780)	(12,270)	
Total/Chargeable Income	<u>484,310</u>	
Tax payable@ 20%x484,310 =	<u>RM96,862</u>	

(15 marks)

(b) The compensation received is taxable because it is a revenue receipt. Points to be considered:

1. RPSB is a property developer company.
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, RPSB would have sold the houses and made a profit.

(2 marks)
(Total:17 marks)

ANSWER 2

- (a) (i) Residence status of Mr. Joseph
 YA 2006 - Resident under Sec. 7(1)(b).
 present in M'sia for less than 182 days but linked to YA 2007 by temporary absence and number of days in 2007 is at least 182 consecutive days.
- YA 2007 - Resident under Sec. 7(1)(a), present in Malaysia for at least 182 days.
- YA 2008 - Resident under sec 7(1)(b)
 present in M'sia for less than 182 days but linked by YA 2007 and the number of days in 2007 is at least 182 days.
- (3 marks)
- (ii) Mr. Joseph could be prevented from leaving Malaysia (Sec. 104) until he has settled both the tax and any late payment penalties or furnished security for the full settlement
- (2 marks)
- (b) (i) Monthly remuneration
 (ii) Marital status
 (iii) Number of children
 (iv) Working status of the spouse
- (2 marks)

(c) **Computation of Tax payable for Puan Melati YA 2008**

Sec. 4(b) : Employment <u>Sec. 13 (1)(a)</u>	RM	RM
Salary (15,000 x 12)	180,000	
Bonus (15,000 x 3)	45,000	
Entertainment (3,700 x 12)	44,400	
Travelling (2,700 x 12)	32,400	
Insurance	4,200	
Servant (950 x 12)	<u>11,400</u>	
		317,400
 <u>Sec. 13 (1)(b)</u>		
Utilities bills	10,400	
Car (15,000 x $\frac{4}{12}$)	5,000	
Fuel (2,400 x $\frac{4}{12}$)	800	
Driver (600 x 6)	3,600	
Fuel	5,800	
Furniture (280 x 12)	<u>3,360</u>	
		28,960

Sec. 13 (1)(c)

Defined Value $(20,000 - 4,500) = 15,500 \times 12$
 $= \underline{186,000}$

or

30% Sec. 13 (1)(a)
 $30\% \times 317,400 = \underline{95,220}$

The lower

95,220
441,580

<u>less</u> :	Expenses:		
	Entertainment (max)	44,400	
	Rental = $(27,900 \times \frac{95,220}{240,000})$	<u>11,069</u>	
			<u>(55,469)</u>
	Statutory Employment Income / Aggregate income		386,111
 <u>less</u> :	Approved donation (not allowed)		<u>NIL</u>
	Total income		386,111
 <u>less</u> :	Personal relief :		
	Self	8,000	
	EPF + life insurance (max)	6,000	
	Medical expenses – mother (max)	5,000	
	Medical expenses – son	NIL	
	Child relief	1,000	
	Computer (max)	<u>3,000</u>	
	Chargeable income		<u><u>363,111</u></u>

Tax on the 1st 250,000 = RM54,975
 Tax on the bal 113,111 @ 28% = 31,671.08
 86,646.08
 (-) Zakat (4,000)
 Tax Payable RM 82,646.08

(10 marks)
(Total : 17 marks)

ANSWER 3

(a)

<u>YA</u>	<u>Basis Period</u>	<u>RM Adjusted Income /(Loss)</u>
05	1/4/05 – 31/12/05	$\frac{9}{15} \times 320,000 = \underline{192,000}$
06	1/1/06 – 31/12/06	$\frac{6}{15} \times 320,000 = 128,000$ $\frac{6}{12} \times (45,000) = \underline{(22,500)}$ <u>105,500</u>
07	1/7/06 – 30/6/07	1/7/06 – 31/12/06 is overlapping period therefore loss of RM22,500 is absorbed in YA 06 1/1/07 – 30/6/07 = $\frac{6}{12} \times (45,000) = \underline{(22,500)}$
08	1/7/07 – 31/3/08	<u>120,000</u>

(8 marks)

(b) Exon Bhd

	<u>RM</u>
Cost of land	NIL
Stamp duty /legal fees (19,500 – 3,600)	15,900
Architecture / planning	21,500
Cost of demolishing	290,000
Levelling / terracing	NIL
Piling and foundation	318,000
Wiring and plumbing	215,600
Cost of internal road	72,300
Construction cost	<u>480,000</u>
Total cost	<u>1,413,300</u>

15% is used as office, thus QBE = 85% x 1,413,300
= 1,201,305

YA 06 (ye 31/3/06)

	<u>RM</u>		<u>IBA</u>
QBE	1,201,305	}	<u>156,170</u>
IA 10%	120,131		
AA 3%	36,039		
RE	1,045,135		

YA 07 (ye 31/3/07)

	<u>RM</u>		<u>IBA</u>
AA 3%	(36,039)	}	<u>36,039</u>
RE	1,009,046		

YA 08 (ye 31/3/08)
25/3/08

Sale proceed (2,210,000)
 (5,800,000 – 3,200,000) x 85%

Balancing charge 1,200,904

Taxable balancing charge is restricted to RM 192,209
 (156,180 + 36,039)

Nirwana Bhd

YA 08 (ye 30/9/08)

25/3/08 QBE = Purchase Price

(5,800,000 – 3,200,000)

IA 10%

AA 3%

RE

RM

2,600,000

260,000

78,000

2,262,000

} IBA

338,000

(8 marks)

(Total : 16 marks)

ANSWER 4

(i)

		4/12 (D/NR) Deceased RM	8/12 (NR) Executor RM
Business 1			
Adjusted income	330,000		
Add: balancing charge	<u>40,000</u>		
	370,000		
Less: capital allowance	<u>(85,000)</u>		
	285,000		
Business 2			
Adjusted income	Nil		
Add: balancing charge	8,000		
Less: capital allowance	<u>(5,000)</u>		
	<u>3,000</u>		
Statutory income from business	288,000	96,000	192,000
Less: unabsorbed business loss b/f		<u>(20,000)</u>	-
		76,000	<u>192,000</u>
Business income (Germany)		Exempt	-
Add: other sources of income			
Dividend		-	Exempt
Interest		Exempt	-
Rental		8,000	16,000
Aggregate income		<u>84,000</u>	<u>208,000</u>
Less: current year business loss		(15,000)	(30,000)
Annuity payable		-	(4,800)
Administration fees		-	-
Total income		<u>69,000</u>	<u>173,200</u>
Less: personal relief		-	<u>(8,000)</u>
Chargeable income		<u>69,000</u>	<u>165,200</u>

(9 marks)

(ii) If the deceased was not domiciled in Malaysia but resident, the changes are:

1. The deceased is entitled to the personal relief.
2. The executor will not be entitled to the special relief of RM8,000.

(1 mark)

(Total: 10 marks)

ANSWER 5

a) 1. (i) The interest payment is subject to 15% withholding tax because the interest is charged as an outgoing and expense against the business income derived from Malaysia.

(1 mark)

(ii) The withholding tax shall be payable to the Inland Revenue Board within one month after paying or crediting such payment to the non-resident.

(1 mark)

(iii) Consequences for non-compliance

Where the payer fails to pay the withholding tax to the Inland Revenue Board within one month after crediting or paying the amount to the non-resident, a 10% penalty on the unpaid withholding tax will be levied on the payer.

The total sum shall be a debt due to the tax authorities and shall be payable. The amount of the gross payment will not be allowed as a deduction in arriving at the adjusted income of the payer unless the withholding tax and the penalty are subsequently paid to the Inland Revenue Board.

(2 marks)

2.. The monthly fees is subject to 10% withholding tax under Section 109B as the work is performed in Malaysia.

(1 mark)

3. The deposit is not subject to withholding tax as it is refundable. Refundable deposit does not form part of the gross amount payable for the technical services rendered.

(1 mark)

b) Pioneer business

	2008	2009	2010	2011	2012
	RM	RM	RM	RM	RM
Statutory income (SI)	nil	55,000	70,000	80,000	85,000
Less: 70% of SI	Nil	(38,500)	(49,000)	(56,000)	(59,500)
Deemed total income	Nil	16,500	21,000	24,000	25,500

Non-Pioneer business					
Statutory income	33,000	nil	30,000	35,000	Nil
Add: interest income	10,000	10,000	10,000	10,000	10,000
Aggregate income	43,000	10,000	40,000	45,000	10,000
Less: current year business loss	nil	(1,500)	nil	nil	Nil
Total income	43,000	8,500	40,000	45,000	10,000
Add: deemed total income from pioneer					

business	nil	16,500	21,000	24,000	25,500
Chargeable income	43,000	25,000	61,000	69,000	35,500

70% of SI	Nil	38,500	49,000	56,000	59,500
Less:					
Non-Pioneer loss (current)	Nil	(38,500)	Nil	nil	(45,000)
Pioneer loss b/f	Nil	Nil	(49,000)	(31,000)	Nil
Amount credited to exempt income account	nil	nil	nil	25,000	14,500

(9 marks)

(Total: 15 marks)**ANSWER 6**

- a) As an investment holding company, S Holding is only eligible for a deduction of a **portion of its permitted expenses**. S Holding should **charge management fees** to the subsidiaries for services rendered so that the fees derived can be **set off** against the operating expenses.

Management fees charged should be commensurate with the level of services provided. With regards to **service tax, intra-group management services provided** would **qualify for exemption** from service tax.

As MIDA had indicated that the new project planned by S Petrol is unlikely to qualify for Pioneer status or investment tax allowance incentives, the project should be **undertaken directly by S Petrol**. S Petrol would be able to **enjoy reinvestment allowance** on the additional investment in plant and machinery. A new company which has been in operation for less than 12 months would not be eligible for reinvestment allowance.

It is suggested that the Group considers the possible merging of S Langkawi's activities into S Petrol so as to establish synergies and economies of scale. The increased level of activities will enable the excess capital allowances to be utilised.

The S Group of Companies could consider incorporating a **Labuan Offshore company** to undertake part of S Langkawi's offshore activities. Its income would be taxed at either **3% of its audited net profits** or **RM20,000** for a year of assessment.

S Langkawi could have a **permanent establishment (PE)** exposure in Thailand in view of its taking on the entire contract from S Thai for an extended period of time. S Services **would also be exposed to a PE** if its personnel **undertake supervisory activities** for the extended periods in Thailand.

The S Group of companies is not able to set up an Operational Headquarters (OHQ) in Malaysia because it does not fulfill the criteria. To be an OHQ, the company must be **locally incorporated** and should provide **qualifying services to at least three** of its offices or related companies outside Malaysia. The S Group of Companies has only two related companies outside Malaysia.

(9 marks)

CONFIDENTIAL

b) **Investment in life insurance policy**

Although a tax relief is available for premiums paid, it is likely the Encik Fendi is already using up his RM6,000 limit and will be unable to obtain any more relief. No tax is payable on benefits arising at maturity of the policy as they are not regarded as income.

Purchase of a house for renting

Rental income will be taxable after deducting revenue expenses including the costs of maintenance and interest paid on the loan raised to finance the purchase.

Increased contributions to Employees Provident Fund

Contributions made by the employee are tax deductible up to a total of RM6,000 per annum (inclusive of qualifying life insurance premiums). Contributions by the employer are tax deductible up to 19% of the employees' remuneration.

Voluntary contributions can be made by both employer and employee but in view of Encik Fendi high salary, it is unlikely that he would obtain tax relief on any further employee contributions. However, to the extent that his salary is reduced to allow for the additional employer contributions, Encik Fendi will reduce his personal tax liability. There is scope for his employer to pay an additional 7% of salary [19% less compulsory contribution of 12%] which would be tax deductible and leave the employer with no adverse tax effect.

(6 marks)

c) (i) **Two exemptions are available to cooperative societies:**

All registered cooperative societies are exempt from tax on all its income for a period of **5 years** commencing from **the date of registration** of such cooperative society.[para 12(1)(a)]

After the first five years, cooperative societies having members' funds of **less than RM750,000** at the **first day of the basis period** for the year of assessment will continue to be tax exempt on all its income. [para 12 (2)]

(4 marks)

(ii) **Computation of chargeable income of Tunas Koperasi.**

	RM	RM
Profit from bookshop	100,000	
Less: Interest on members' savings and loan	<u>(30,000)</u>	70,000
Add: Interest income from fixed deposits		<u>60,000</u>
Total income		130,000
Less: Special deductions		
Contributions to cooperative education trust fund	5,000	
Transfer to statutory reserve fund	<u>60,000</u>	
	<u>65,000</u>	
Restricted to 25% of audited net profits 25% x 130,000 = 32,500		(32,500)
8% of members' fund at 1.1.2008 8% x 785,000 = 62,800		<u>(62,800)</u>
Chargeable income		<u>34,700</u>

Computation of members' fund at 1.1.2008

	RM
Paid up share capital	220,000
Share premium account	70,000
Statutory reserve fund	68,000
Unappropriated profit	<u>427,000</u>
Total	<u>785,000</u>

(6 marks)

(Total: 25 marks)