



Malaysian Institute of Accountants
(Established under the Accountants Act 1967)
Institut Akauntan Malaysia
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QUALIFYING EXAMINATION

Taxation

Date : 30 September 2009

Time : 2.30 pm – 5.30 pm (3 hours)

INSTRUCTIONS TO CANDIDATES:

This question paper contains 6 questions on 15 printed pages.

Answer **ALL** questions.

Answer questions 1,2 and 3 in one booklet(s) and questions 4, 5 and 6 in another booklet(s).

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	26%
(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**

<u>Cost of car when new</u>	<u>Annual value of BIK</u>	<u>Fuel per annum</u>
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 or 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) Paper Products Sdn Bhd is a Malaysian resident company manufacturing paper products and stationeries for office use. The company was incorporated in 2001 with a paid up capital of RM 2 million and it commenced operations on 1 May 2001. The financial period of the company is 31 December.

The company's income statement for the year ended 31 December 2008 is as follows:

	Notes	RM'000	RM' 000
Sales	1		58,000
<i>Less:</i> Cost of goods sold	2		<u>49,000</u>
Gross profit			9,000
<i>Add:</i> Other income	3		<u>74</u>
			9,074
<i>Less:</i> Expenses			
Advertisement	4	50	
Bad debts	5	270	
Depreciation	6	150	
Donation	7	456	
Entertainment	8	580	
Fines and penalties	9	26	
Foreign exchange losses	10	420	
Insurance	11	20	
Lease charges	12	54	
Maintenance	13	33	
Professional fees	14	45	
Remuneration	15	2,700	
Repairs		<u>125</u>	<u>(4,929)</u>
Net profit before taxation			<u><u>4,145</u></u>

The company has provided the following information to the accounts by way of notes:

Notes:

1. Sales

The sum constitutes both local and overseas sales.

2. Cost of goods sold

The company had donated files and stationeries worth RM3,000 to a political party. Another batch of stationeries worth RM5,000 was donated to a rural school in Kelantan as part of a corporate social responsibility program. The market value of the total stationeries donated is RM10,000.

3. Other income

The company had bought a warehouse in Shah Alam to commence its own distribution network. The plan however, fell through and the warehouse was rented out to local merchants. The rental income was received in 2008.

4. Advertisement

A sum of RM50,000 pertains to announcement and classified advertisements placed in the local newspaper. Among the expenditure incurred includes a condolence message on the death of the company director (RM5,000); and another on the wedding of the daughter of the company director (RM10,000).

5. Bad debts

During the year, the company provided RM270,000 for bad debts. Out of this amount, a sum of RM130,000 refers to a major customer who has suffered severe losses and has indicated to the company that it may close down in the year 2009.

6. Depreciation

This is a provision for depreciation on the company's assets.

7. Donation

A cash donation of RM56,000 was made to a local approved institution that cares for orphan children. The rest of the donations were made to various individuals and groups.

8. Entertainment

During the year, the company introduced a special promotion for sales of stationeries to its regular customers. Under the scheme, the purchaser received one ream of paper for every purchase of four reams in one single receipt. The promotion was found to be popular with the customers and the company plans to extend it to other products in the following year. The target product is computer ink cartridges. For the current year, the entertainment expenses are as follows:

Entertainment expenses	RM'000
Staff refreshment	550
Entertainment of dealers and suppliers	10
Promotional sales	<u>20</u>
	<u>580</u>

9. Fines and penalties

The penalties arose from late payment of taxes and Employees Provident Fund (EPF) contribution. The fines arose from speeding and overloading of the company's vehicles driven by the salesmen in the course of them delivering the company's products. The details are as follows:

Fines and penalties	RM'000
Penalty paid to the Inland Revenue Board	12
Penalty on late payment to the EPF	3
Fines for overloading	5
Fines for speeding	<u>6</u>
	<u>26</u>

10. Foreign exchange losses

The losses arose on payments of outstanding balances to overseas suppliers and creditors. The company had furnished the following details of the transactions:

Foreign exchange	RM '000
Loss on payment to a loan creditor (realized)	180
Loss on payment to a trade creditor (unrealized)	<u>240</u>
Charged to the Income Statement	<u>420</u>

11. Insurance

Insurance expenses include a sum of RM10,000 paid to a local Malaysian resident insurance company for the shipment of a cargo to Australia. The rest is for internal transport of cargo.

12. Lease charges

Lease charges incurred were for three vehicles for short term use. The details of the vehicles and the leases charges are as follows:

Vehicle type	Original cost of vehicles	Payments made for the years ended 31 December	
		2008	2007
	RM	RM	RM
Lorry	600,000	24,000	24,000
Motor car 1	380,000	24,000	36,000
Motor car 2	60,000	6,000	6,000

13. Maintenance

The expenditure incurred consists of the following:

Maintenance charges	RM'000
Replacing the alarm system	19
Repainting of factory and office	12
Replacing the office clock	<u>2</u>
	<u>33</u>

14. Professional fees

The details of the expenses are as follows:

Professional fees	RM'000
Accounting fees	8
Audit fees	10
Secretarial fees	6
Registration of a patent	5
Legal fees for dismissal of an employee	3
Accounting fee for tax audit appeal	5
Consultant fee for market expansion	<u>8</u>
	<u>45</u>

15. Remuneration

The account includes a sum of RM15,000 paid to the EPF on the remuneration of RM60,000 of one director of the company.

Other information:

For the year of assessment 2008, the company is entitled to a capital allowance of RM120,000 and a balancing charge of RM15,000. The company also has a

business loss of RM10,000 brought forward from the year of assessment 2007 and a reinvestment allowance of RM3,000 brought forward from the year of assessment 2007.

Required

- i. Based on the information given, compute the income tax liability of the company for the year of assessment 2008
(10 marks)
- ii. In respect of the information given in the notes, indicate the adjustments made and explain the basis for doing so.
(5 marks)

- (b) Highrise Developments Sdn Bhd is a local company incorporated in 1995. The company acquired a piece of land with a view of constructing and selling apartments. However, the government planned to build an airport on the land that it subsequently acquired. The company was paid a compensation of RM10 million in 2008 and this sum was estimated to be the profits that the developer would have made had it built the apartments and sold them.

Required:

Discuss the taxability of the compensation of RM10 million received by Highrise Developments Sdn Bhd.

(5 marks)

(Total: 20 marks)

QUESTION 2

Easy Transport Sdn Bhd is a local resident company operating a lorry transport business. The company financial year end 31 December. For the year ended 31 December 2008, the company incurred the following expenditure on the acquisition of several assets to be used in the transport business:

Assets	RM' 000
Trailer	400
Lorry	160
Crane	285

Additional information:

- a. The trailer costing RM400,000 was acquired under a hire purchase scheme on 1 April 2008 with a down payment of RM40,000 and the balance is to be paid in equal installments over a period of 48 months. The hire purchase interest was RM144,000.
- b. The crane costing RM285,000 is used at the warehouse to lift heavy goods from the ground on to the lorry.
- c. The lorry and the crane were bought with a loan from a local bank.

Required:

Compute the capital allowances due to the company for the year of assessment 2008.

(Total: 10 marks)

QUESTION 3

- (a) In the context of the Income Tax Leasing Regulations 1986, what do you understand by the following terms:

- (i) Lease
- (ii) Special purpose asset

(5 marks)

- (b) HM Leasing Sdn Bhd is a locally incorporated company whose accounting date ends on 31 December. The company carries on the business of leasing heavy road construction machineries. It leased out a machine to RB Sdn Bhd on 1 January 2008 for a period of 3 years under a special arrangement under which the lease payments will be as follows:

<u>Year</u>	<u>Lease payment (RM)</u>
2008	30,000 per month
2009	45,000 per month
2010	50,000 per month

Required:

Advise the company on the tax implication of this arrangement by reference to the Income Tax Leasing Regulations of 1986. Show all relevant computations.

(15 marks)
(Total: 20 marks)

QUESTION 4

Encik Luxor passed away on 21 October 2006. Upon his death, a trust resident in Malaysia was created under the terms of his will for the benefit of his four children and his widow, Shila. All the beneficiaries are tax resident in Malaysia, except for the third child who is non-resident in the basis year 2008. The information pertaining to the trust is as follows:

1. One quarter (1/4) of the trust body's income is to be distributed to his first child at the discretion of the trustee. The balance is to be distributed equally between his second and third child.
2. An amount of RM2,000 per month is to be accumulated for his fourth child until the child reaches the age of 18.
3. An annuity of RM2,500 per month is payable to his widow, Shila.

The income of the trust body for the year ended 31 December 2008 is as follows:

Trading business:

	RM
Gross income	700,000
Allowable expenses	300,000
Capital allowance for year of assessment 2008	60,000
Balancing charges	20,000
Balancing allowance	30,000

Restaurant business:

	RM
Gross income	100,000
Allowable expenses	116,000
Capital allowance for year of assessment 2008	12,000
Adjusted loss brought forward from year of assessment 2007	20,000
Capital allowance brought forward from year of assessment 2007	10,000

Other income:

	RM
Rental from a property in Selangor	20,000
Interest from fixed deposits of RM150,000 in a local bank	6,000
Dividend from Firstworld Bhd, a Malaysian company	9,000
Dividend from Tiger Ltd, a Singaporean company (remitted)	13,000

The payments made by the trust body during the year 2008 are as follows:

	RM
Annuity to Shila	30,000
Trustee fees	24,000
Donations in cash to an approved institution	4,000
Donation of a computer	5,000
Sums paid to:	
First child	60,000
Second child	90,000

Third child 90,000

The trust's distributable income (before accumulation) for the basis year 2008 is RM320,000.

Required:

For the year of assessment 2008, assuming that Section 61 (2) is to be applied:

- (i) Compute the chargeable income and income tax liability of the trust body.
- (ii) The chargeable income and income tax liability (if any) of all the beneficiaries.

(Total: 12 marks)

QUESTION 5

- (a) Fortune Sdn Bhd a Malaysian resident company operating in Shah Alam, manufactures two products, a promoted product and a non-promoted product. The company had applied for investment tax allowance for the promoted product and an approval was granted by the relevant authority for five years effective from the year of assessment 2009.

The projected statutory income for five years ending 31 December is as follows:

Year of Assessment	Promoted product Statutory income/ (Adjusted loss)	Non-promoted product Statutory income/ (Adjusted loss)	Qualifying capital expenditure for promoted product
	RM'000	RM'000	RM'000
2009	(180,000)	12,000	100,000
2010	150,000	24,000	80,000
2011	200,000	(35,000)	70,000
2012	240,000	26,000	-
2013	270,000	33,000	320,000

Required:

- i. For the years of assessment 2009 to 2013, compute the chargeable income and exempt income (if any) available to Fortune Sdn Bhd.

(9 marks)

- ii. If Fortune Sdn Bhd is located in Perlis and the company decided to apply for reinvestment allowance under Schedule 7A of the Income Tax Act 1967:
- state the criteria to be eligible for the reinvestment allowance;
 - state the rate of reinvestment allowance; and
 - explain how the exempt income is treated for income tax purpose.
- (3 marks)
- (b) 1. Imtiyaz Sdn Bhd, a taxable person licensed under the Sales Tax Act 1972, sold taxable goods to its holding company for RM400,000 on 27 June 2008. The normal selling price of the goods was RM420,000. The sales tax rate is 10%.
- Required:**
- Compute the sales tax payable by Imtiyaz Sdn Bhd, indicating the relevant taxable period and when the sales tax must be paid to the tax authorities.
- (2 marks)
2. Sugi Sdn Bhd, a licensed person under the Service Tax Act 1975 provides taxable services to Danon Sdn Bhd. On 28 August 2008, Danon Sdn Bhd paid RM182,700 for the services received from Sugi Sdn Bhd. The invoice dated 31 May 2008 included 5% service tax of RM8,700. Sugi Sdn Bhd remitted the service tax on 5 November 2008 to the Royal Customs Department.
- Required:**
- State the taxable period in respect of the above invoice
 - Explain the consequences of paying the service tax on 5 November 2008 to the Royal Customs Department. (Support your answer with computations).
 - With respect to the above, state who is liable to pay the penalty for late payment.
- (4 marks)
- (c) PMC Solar Sdn Bhd, a resident company is involved in the business of solar energy system in Malaysia. The company had signed an agreement with Niger Ltd, an Australian company, for the construction of a solar power system in the state of Pahang. The gross contract value was RM100 million of which RM40 million was the service portion and the balance was the cost for purchasing of materials and equipment. The project commenced in March 2007 and was completed in October 2008 with the whole payment made in year 2008. For the purpose of executing the

project, Niger Sdn Bhd rented an office in Malaysia and brought in engineers from Australia.

Required:

- i. Explain with reasons whether payments made to Niger Sdn Bhd is subject to withholding tax. State the relevant section of the Income tax Act 1967 and the rate of the withholding tax.
- ii. Compute the final tax liability of Niger Sdn Bhd given the chargeable income for the year of assessment 2008 is RM10 million.

(4 marks)

(Total: 22 marks)

QUESTION 6

Encik Daniel, aged 55, retired as a manager in a private company on 30 June 2008. He had worked in the private company since 1 December 1992. During the year 2008, Encik Daniel received the following payments and benefits from the company:

1. Net monthly salary of RM8,600 after deducting EPF contribution of 11% and tax of RM300.
2. Upon retirement, he received a gratuity of RM100,000.
3. Watch costing RM5,000 as an appreciation of his long service with the company.
4. A semi-furnished house was provided by the company for the period 1 January 2008 to 30 April 2008. The monthly rent of RM1,200 (excluding furniture of RM160) was paid by the company.
5. Medical expenses of RM4,000.
6. A holiday package for him and his wife to New Zealand including:

- Air fares (includes insurance of RM2,500)	RM13,000
- Hotel accommodation	RM 8,000

He withdrew RM80,000 from the company's unapproved retirement fund of which RM30,000 represents his contributions and RM10,000 represents interest income earned.

On 1 August 2008, Encik Daniel was offered a post as a director (not service director) in his friend's company with the following remuneration scheme:

- i) Director fees of RM10,000 per month.
- ii) Entertainment allowance of RM1,000 a month.

- iii) Encik Daniel was provided with a mobile phone. The cost of all business calls and the rental amounting to RM2,100 from August to December 2008 was paid by the company.
- iv) A new company car costing RM140,000 was purchased and provided to Encik Daniel with a driver from 1 August 2008.
- v) For the month of August 2008, Encik Daniel was provided with accommodation in a hotel with daily room rate of RM250. On 1 September, he moved into an unfurnished house provided by the company. The monthly rental incurred by the company is RM2,000.
- vi) The company also provided him with a servant and a gardener with a monthly salary of RM600 and RM500 respectively, effective from 1 September 2008.

Encik Daniel's wife, Puan Sara is unemployed. However she has a monthly rental income of RM900 and the expenses incurred in connection with the rental income for basis year 2008 is as follows:

Expenses	RM
Installation of kitchen cabinet	8,000
Repairs and maintenance of the house	1,200
Interest on loan	5,000 per annum
Fire insurance	900 per annum
Quit rent	700 per annum

Additional information:

- i) They have four unmarried children and the details are as follows:

First child	26 years	Working
Second child	21 years	Studying in University Malaya
Third child	19 years	Physically disabled and studying at Universiti Teknologi MARA
Fourth child	16 years	Adopted child and studying in a secondary school.
- ii) During the year 2008, Encik Daniel incurred the following expenses:
 - RM800 for a complete medical examination on himself
 - RM4,500 medical expenses for his parents
 - RM1,100 on a wheel chair for his third child.
 - RM900 for purchase of books.

- iii) Puan Sara purchased a computer costing RM 3,300 for her second child.
- iv) Life insurance policies were purchased and paid by Encik Daniel for him and his third child with a monthly premium of RM300 and RM400 respectively.
- v) Both Encik Daniel and Puan Sara made approved donations of RM2,000 and RM500 respectively.
- vi) Encik Daniel and Puan Sara are both residents in the basis year 2008.
- vii) Puan Sara did not elect for joint assessment.

Required:

Compute the income tax (if any) payable by both Encik Daniel and Puan Sara for the year of assessment 2008.

(Total: 16 marks)

END OF QUESTION PAPER