



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

QUALIFYING EXAMINATION

Taxation

Date : 25 March 2010

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 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	25%
(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	12%	3,325
50,001 - 70,000	19%	7,125
70,001 - 100,000	24%	14,325
Above 100,000	27%	

(d) Non-resident individuals 27%

- Benefits-in-kind (BIK) scale rates as per Inland Revenue Board (IRB) guidelines**

Cost of car when new	Annual value of BIK
RM	RM
Up to 50,000	1,200
50,001 - 75,000	2,400
75,001 - 100,000	3,600
100,001 - 150,000	5,000
150,001 - 200,000	7,000
200,001 - 250,000	9,000
250,001 - 350,000	15,000
350,001 - 500,000	21,250
500,001 and above	25,000

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) Ah Tong operates an old bus carrying workers to and from a nearby factory. He had applied for a permit to carry workers in the vehicle, but it was rejected several times on the grounds that it was an old bus, not roadworthy and may endanger the safety of the passengers. As Ah Tong did not have the financial resources to buy a new or even a second-hand bus that would be considered roadworthy by the authorities, he carried on using the old bus since he had passengers who are happy with the service he provides. As he has no permit to operate the bus, he did not register his business. On the basis that he is operating a bus service illegally and has no business license, he was of the view that he is not liable to tax on the income he earns.

Required:

Do you agree with Ah Tong not declaring his income to the tax authorities? If you disagree, explain to him why the income from providing the transport service is chargeable to income tax. Support your answer with appropriate case law.

(5 marks)

- (b) David Supplies Sdn Bhd ('the company') is a Malaysian company manufacturing and distributing stationeries and selected range of sports goods. The company was incorporated on 1 January 2000 and commenced business on 15 February 2000. The financial year end of the company is 31 December. As at 1 January 2009, the company had a paid up capital of RM5 million.

The company's income statement for the year ended 31 December 2009 is as follows:

	Notes	RM'000	RM'000
Sales			303,000
Less: Cost of goods sold	1		<u>212,100</u>
Gross profit			90,900
Add: Other income	2		<u>65,000</u>
			155,900
Less: Expenses			
Advertisement	3	350	
Bad and doubtful debts	4	1,800	
Depreciation		300	
Donation	5	400	
Entertainment	6	490	
Fines and penalties	7	14	
Insurance	8	20	

Repairs and maintenance	9	40	
Professional fees	10	50	
Remuneration	11	600	
Staff welfare	12	240	
Royalty and commission	13	<u>205</u>	<u>4,439</u>
Net profit before taxation			<u>151,461</u>

The company has provided the following information and explanation in respect of the above statement of accounts:

1. Cost of goods sold

The company's closing inventory as at 31 December 2009 is RM80,000,000 after deducting a reserve of 12% for slow moving items.

2. Other income

In June 2009, the company had bought a warehouse in the Philippines to commence its own distribution network in that country. The warehouse was rented out to local merchants for the first three months i.e. June 2009 to August 2009 before it was used by the company with effect from 1 September 2009. The rental income of RM65,000,000 was remitted to and received in Malaysia in December 2009.

3. Advertisement

Included in the advertisement charges are the following expenses:

- (a) Advertisement pertaining to staff and workers recruitment including various business related announcements. The total cost of these advertisements is RM30,000.
- (b) One condolence message on the death of a merchant who was a long time customer of the company; and one wedding announcement of the daughter of the company's director. The condolence message and the wedding announcement cost RM20,000 each.
- (c) A cash donation of RM150,000 to a government aided school in Shah Alam for the setting up of a library with internet facilities.
- (d) The company contributed RM100,000 to a non-governmental organization in support of the 'Save the Trees' program designed to conserve and preserve the environment and reduce global warming by growing more trees. The organization's activity is approved by the Minister.

4. Bad and doubtful debts

The details of the provision for bad and doubtful debts as extracted from the company's book are as follows:

Debit	Bad and doubtful debts account		Credit
	RM 000		RM 000
Bad debts written off	1,287		Opening balance
Closing balance			General
General	555		531
Specific	<u>1,554</u>	2,109	Specific
			<u>710</u>
		<u>3,396</u>	Recoveries
			355
			Profit and loss account
			<u>1,800</u>
			<u>3,396</u>

Included in recoveries is a sum of RM100,000 being a personal loan extended to a former director who was dismissed by the company. The rest of the sum refers to the company's trade debts.

5. Donation

A cash donation of RM60,000 was made to a local approved institution. A gift of artefact worth RM70,000 was made to the National Archives. The rest of the donations were made in cash to various individuals and charity groups.

6. Entertainment

- (a) During the year, the company introduced a special promotion scheme whereby the purchaser gets one ink cartridge for every purchase of 10 reams of paper in one single receipt. The cost of the ink cartridges given away during the promotion period is RM130,000.
- (b) During the year the company organized a dinner to which all the company's suppliers and customer were invited. The company also invited selected management staff to attend the dinner. The cost of the annual dinner is RM10,000.
- (c) The company also provided refreshment and snacks for the staff during the year costing RM120,000.
- (d) The balance of the entertainment expenditure charged to the profit and loss account refers to payments made to the sales and marketing staff to reimburse their entertainment expenditure incurred in the course of canvassing for sales.

7. Fines and penalties

The company furnished the following breakdown in respect of items charged to this account:

	RM'000
Penalty paid to Inland Revenue Board	2
Penalty on late contribution to the Employees Provident Fund	3
Fines and compound fees for traffic offences	<u>9</u>
	<u>14</u>

8. Insurance

Insurance expenses include a sum of RM10,000 paid to a local Malaysian resident insurance company for the shipment of a special consignment of cargo to the Philippines.

9. Repairs and Maintenance

The expenditure incurred consists of the following:

	RM'000
Replacing broken main glass door to the office entrance	17
Replacing the security alarm system with an improved and upgraded version	5
Replacing several office clocks and calculators	<u>18</u>
	<u>40</u>

The office clocks and calculators cost less than RM1,000 each.

10. Professional fees

The details of the expenses are as follows:

<u>Professional fees</u>	<u>RM '000</u>
Statutory audit fee	8
Due diligence audit fee	10
Efficiency study on product distribution	3
Secretarial fees	6
Registration of a patent	5
Legal fees for dismissal of an employee	3
Accounting fees for tax audit appeal	5
Consultant fees for market expansion in the Philippines	8
Legal fees for recovery of debts from dismissed director	<u>2</u>
	<u>50</u>

In the early part of the year, the company conducted an efficiency study on product distribution. Based on the study, the company had contemplated taking over another competitor company that deals with the supply of stationery and sports items. After a due diligence audit, the company decided not to acquire the competitor company.

11. Remuneration

Included in this charge is a sum of RM24,000 paid to an employee officially certified by the relevant authorities to be disabled. The account also includes a sum of RM40,000 being company's contribution to the Employees' Provident Fund on the remuneration of RM200,000 paid to the production manager of the company.

12. Staff welfare

- (a) During the year the company paid the monthly broadband subscription fee totaling RM50,000 for the employees. The subscription fee was in the name of the company.
- (b) To facilitate the employment and the retention of the female employees the company purchased a double-storey house during the year near the factory for RM300,000. Immediately upon purchasing the house, the company spent RM150,000 on repairing the building to make it suitable for a day care centre. The company engaged the services of three maids and two tuition teachers to operate the day-care centre. The total expenditure by way of salaries paid to the maids and the tuition teachers amounted to RM40,000. The cost of repair and salaries paid were charged to the staff welfare account.

13. Royalty and commission

- (a) The royalty was paid to an Indian company for the right to use their (the Indian company's) logo on the cricket bats sold by the company under an exclusive license. During the year, the royalty of RM200,000 was due on 30 June 2009. The withholding tax was deducted and paid to the Inland Revenue Board on 30 August 2009. A penalty for late remittance was imposed by the Inland Revenue Board and this sum was charged to the 'Fines and Penalty Account'. The penalty was subsequently settled in October 2009.
- (b) The company also paid a commission of RM5,000 to a merchant in the Philippines for securing tenants for the warehouse it had purchased in that country. The full sum was remitted to the merchant on 15 July 2009.

Other information:

For the year of assessment 2009, the following allowances and charges arose under schedule 3 of the Income Tax Act 1967 (as amended) (including allowance on the child care centre) as follows:

	RM'000
Capital allowance	150
Balancing allowance	30
Balancing charge	20

In addition, the company also has an unabsorbed business loss of RM40,000 brought forward from year of assessment 2008.

Required:

- (i) Based on the information given, compute the chargeable income of the company for the year of assessment 2009; and
(10 marks)
- (ii) In respect of the information given in the notes, indicate the adjustments that you are making (or not making) and explain the basis for doing so.
(10 marks)

(Total: 25 marks)

QUESTION 2

- (a) State the conditions under which an annual allowance can be claimed in respect of an asset under Schedule 3 of the Income Tax Act 1967 (as amended).

(2 marks)

- (b) Supertub Sdn Bhd has been in business for several years manufacturing plastic containers, and closes its accounts to 31 December each year. During the year 2009, it purchased plant and machinery (general) costing RM162,000 and spent another RM56,000 in alterations to the building to install the said plant and machinery in the factory.

The company also extended the showroom at a cost of RM150,000 and equipped it with a new set of furniture and fittings costing RM27,000. The company also acquired a mini lorry for the transport of the manufactured goods, costing RM149,000. It paid a down payment of RM80,000 and the balance was financed by a hire purchase loan from a finance company. The company is required to pay RM2,600 over the next 30 months, commencing on 1 October 2009.

The company also acquired for cash a new motor car for the use of the company director. The car cost RM160,000 in May 2009. The new car however met with an accident in November 2009 and was written off. The company recovered a sum of RM128,000 from the insurance company.

Required:

Compute the capital allowance or charges due to the company in respect of the various expenditure incurred for the year of assessment 2009. Your answer should include explanations for any adjustments made in arriving at the allowance or charges

(10 marks)

(Total: 12 marks)**QUESTION 3**

- (a) Apollo Shipping Ltd is a shipping company resident in China. The company's principal activity is the transportation of passengers and cargo by sea in the East Asia region. For the period ended 30 September 2009 the company's gross shipping earnings from outward shipments from Malaysia was RM99,840,000.

Apollo Shipping Ltd furnished a certificate from the Revenue Authorities in China certifying the following information for the period ended 30 September 2009:

Particulars	Equivalent to Malaysia Ringgit (RM) '000
Gross world shipping earnings	232,960
Total world capital allowance	16,640
Adjusted world profit	19,968

For the year ended 30 September 2009, Apollo Shipping Ltd made a cash donation of RM9,100 to an approved institution in Malaysia.

Required:

Compute the Malaysian income tax payable by Apollo Shipping Ltd for the year of assessment 2009 using the following methods:

- (i) The 5% method
- (ii) The Acceptable Ratio Certificate Method

(10 marks)

- (b) State the conditions under which an Acceptable Ratio Certificate Method could be favourably considered and what is the time limit for the revision of an assessment already raised on the operator.

(3 marks)

(Total: 13 marks)

QUESTION 4

- a) The scope of charge in taxation can be divided into three 'domains' i.e. territorial basis, modified territorial basis, and world income basis. Hence, the chargeability of a person on his income will depend on the tax system of that particular country.

Required:

Explain with examples the above three (3) basis of taxation with respect to the present system of Malaysian taxation.

(6 marks)

- b) A good taxation system should comprise of, among others, the principals of equity and neutrality in order to achieve the objective of a country's tax system.

Required:

Explain, with examples, the principles of equity and neutrality embodied in the Malaysian tax system.

(5 marks)

- c) Malaysia is moving towards Good and Service Tax (GST) to replace the Sales Tax and Service Tax in the near future.

Required:

Explain briefly the reasons for migrating from the existing Sales Tax and Service Tax to Good and Service Tax system.

(3 marks)

(Total: 14 marks)

QUESTION 5

Jati Wood Sdn Bhd, a Malaysian resident company was involved in the wood industry since 2005. The business is located in Air Keroh, Malacca. The company is planning to undertake a new project which is not related to its present business activity. The manager believes that the new project should be eligible for investment tax allowance under the Promotion of Investment Act 1986 (as amended). The company provides the following forecasted adjusted income, other income, capital expenditure and capital allowances pertaining to the new project as well as present business for the years 2009 and 2010:

Date	Items	New Project RM	Present Business RM
30 June 2009	Adjusted income / (loss)	(300,000)	4,000,000
30 June 2010	Adjusted income	900,000	6,000,000
1 December 2008	Dividend (single tier)		25,000
1 August 2009	Interest		20,000
30 June 2009	Capital allowances		500,000
30 June 2010	Capital allowances		350,000
20 March 2009	Machine I	100,000	
15 September 2009	Machine II	200,000	
1 April 2010	Motor vehicle for newly appointed manager who is in charge of the new project	160,000	

The annual allowance rate for machine I, machine II and motor vehicles is 20%.

Note: The company closes its accounts to 30 June each year.

Required:

- (i) Compute the chargeable income (if any) and exempt income (if any) available to Jati Wood Sdn Bhd for the years of assessment 2009 and 2010. (10 marks)
- (ii) Identify the criteria needed if Jati Wood Sdn Bhd is to apply for reinvestment allowance under Schedule 7A of the Income Tax Act 1967 (as amended). (2 marks)
- (iii) Instead of purchasing the machine for RM100,000; Jati Wood Sdn Bhd may rent machine 1 from a company resident in Singapore for RM12,000 a month. The rent will be paid quarterly effective from 1 April 2009. What is the amount to be paid to Singapore company, amount to be charged in the book of Jati Wood Sdn Bhd, and the penalty for not remitting the withholding tax to the IRB within the statutory time period? (3 marks)

(Total: 15 marks)

QUESTION 6

Azman, a Malaysian resident is employed by Safura Holdings Bhd since 1 July 1995. In the year 2009, the company paid him a salary of RM15,000 a month and an entertainment allowance of RM5,000 a month. Azman claimed that entertainment allowances received from the company during the year 2009 have been fully spent for entertaining the company's clients. In addition, the company also provides Azman with the following benefits during the year 2009:

1. A fully furnished apartment with annual value of RM40,000, including the value of furniture of RM600 a month.
2. A servant with a salary of RM650 a month paid by Azman and reimbursable by the company.
3. Corporate membership with a monthly subscription of RM300 paid by the company. The entrance fee of RM2,000 was also paid by the company.
4. A mobile phone under the company's name. The bills paid by the company for the year 2009 amounted to RM2,000.
5. A new car was purchased by the company for Azman in April 2006 for RM180,000. The company also provided a driver with a monthly salary of RM800 .
6. A holiday package to Australia whereby the company paid the air tickets, meals and accommodation of RM8,000, RM4,000 and RM5,000 respectively.
7. Medical expenses of RM2,500 for Azman and his family.
8. Tuition fees for his children amounting to RM350 a month.

Azman's wife, Aisya also a Malaysian resident, manages restaurants and a food catering partnership business with her sister. The accounts of the partnership are made up to 31 December each year. The terms of the partnership business are as follows:

- i) Interest of 5% per annum to be paid by Aisya and her sister on their capital contribution of RM200,000 and RM140,000 respectively.
- ii) Aisya and her sister are to be paid salaries of RM7,000 and RM6,000 per month respectively.
- iii) Profit sharing ratio : 2/3 for Aisya and 1/3 for her sister.

On 1 April 2008, Aisya's sister left the partnership and her cousin joined as a new partner with a capital contribution of RM200,000. The new partnership maintains its accounts to 31 December each year. The profit sharing ratio and terms of the partnership were changed effective from 1 April 2008 as follows:

- i) Aisya and her cousin will receive an interest of 5% per annum based on their capital contributions.
- ii) A salary of RM8,000 per month is to be paid to each partner.
- iii) Effective from 1 April 2008, the profit sharing ratio for the partners was 1:1.

The provisional adjusted income and capital allowance of the partnership for the relevant periods are as follows:

Accounting Period	Provisional Adjusted Income (RM)
1.1.2008 – 31.3.2008	40,850
1.4.2008 – 31.12.2008	162,400
1.1.2009 – 31.12.2009	260,000

Year of Assessment	Capital Allowances (RM)
2008	60,000
2009	105,000

Azman and Aisya provide the following information for the purpose of tax computation for the year of assessment 2009:

Azman:

- He elected child relief for their three school-going children aged below 18 years old.
- He spent RM1,050 for purchase of books for his children.
- 9% of his salary is contributed to Employees Provident Fund.
- He paid RM4,800 for his parents' medical expenses.
- He paid RM9,000 to Zakat Collection Centre Selangor.

Aisya:

- She purchased RM6,000 basic supporting equipment for her mother.
- Insurance premium for herself paid during the year was RM4,800.
- She paid RM3,600 and RM4,500 for her child's medical and education insurance premiums respectively.
- She donated RM6,500 during the year to an approved institution.

Required:

- (i) Compute Azman's statutory income from employment for the year of assessment 2009.
(7 marks)
- (ii) State the basis periods of Aisya and her partners i.e. her sister and her cousin for the years of assessment 2008 and 2009.
(2 marks)

- (iii) Compute the adjusted income and the statutory income for Aisya, her sister and her cousin for the years of assessment 2008 and 2009.
(5 marks)
- (iv) Compute the income tax liabilities (if any) payable by Azman and Aisya for the year of assessment 2009.
(7 marks)
- (Total: 21 marks)**

END OF QUESTION PAPER