

**TAXATION
SUGGESTED SOLUTIONS
MARCH 2020**

QUESTION 1

- a. Profit and Loss Adjustment/Computation of chargeable income

MB Industries Sdn Bhd**Computation of chargeable income for the year of assessment 2019**

	Note	Add (+) RM'000	Ded (-) RM'000	RM'000
Business income				
Profit before taxation				4,007
Less:				
Fixed deposit interest	1			<u>10</u>
				3,997
Add/(Less):				
Remuneration	2			
Salary-critically injured employee (DD)			24	
Entertainment	3			
Dinner for suppliers (Disallow 50%)		30		
Depreciation	4	512		
Repairs and maintenance	5			
Extension of administration office		80		
Bad and doubtful debts	6			
Specific loan debts provision		60		
General provision for trade debts		140		
Motor vehicle expenses	7			
Repair of director's motor car		10		
Replacing truck engine		0		
Lease payments	8			
Car [60k-50k max]		10		
Lease on new building		0		
Professional fees	9			
Dismissal of an employee		0		
Lease agreement for new building		12		
Legal fee to Labuan company (disallow 97%)		97		
Gift and donation	10	60		
		<u>1,011</u>	24	<u>3,997</u>
Add:				<u>1,011</u>
				5,008
Deduct:				<u>24</u>

Adjusted income from business		4,984
Less: Capital allowance	935	
Add: CA on ICT equipment	<u>20</u>	<u>955</u>
Statutory business income		4,029

Add: Other income		
Fixed deposit interest (Thailand)		<u>0</u>
Aggregate income		4,029
Less: Cash donation to approved charitable body		<u>10</u>
		4,019
Less: Gift of painting to National Art Gallery		<u>50</u>
Total income/ chargeable income		<u>3,969</u>

CA on ICT Equipment

Law: IT (Accelerated CA) (ICT Equipment) Rules 2018 PU (A) 156

	RM'000	RM'000
Cost of equipment		90
Add: Installation cost		<u>10</u>
Total qualifying expenditure		100
Less: Capital allowance for YA 2019		
Initial allowance @ 20%	20	
Annual allowance @ 20%	<u>0</u>	<u>20</u>
Residual expenditure c/f		<u>80</u>

(14 marks)

Note:

Marks are allocated for the correct labelling of the various stages of the income in the computation.

- b. Gabriel Sdn Bhd
Computation of capital allowances

	RM	RM	Points
Qualifying plant expenditure		300,000	
YA 2016			
IA	60,000		
AA	<u>42,000</u>	<u>102,000</u>	
Residual expenditure		198,000	
YA 2017			
AA		<u>42,000</u>	
Residual expenditure		156,000	
YA 2018			
Notional allowance		<u>42,000</u>	
Residual expenditure		114,000	
YA 2019			
Residual expenditure		114,000	
Less: Disposal at deemed market value		<u>50,000</u>	
Balancing allowance		<u>64,000</u>	

(4 marks)

Law: Schedule 3 Para 61A (5) ITA

- c. i. The planting of the tomatoes is a replanting expenditure. It will qualify as a revenue expenditure allowable under section 34(6)(d) of the Income Tax Act 1967 [also see PR 2/2016].
- ii. The expenditure on the bridge is qualifying agriculture expenditure and will qualify for agriculture allowance. [para 7 and para 20, Schedule 3].

(2 mark)

(Total: 20 marks)

QUESTION 2

a.

Malaysia Baru Property Trust
Computation of Chargeable Income
Year of assessment 2019

	RM	RM
Net profits per accounts		415,000
Less:		
Dividends (Vietnam-exempted)	10,000	
Gains from realization of shares	35,000	45,000
		370,000
Add: Disallowable expenses		
Interest - acquisition of shares	9,000	
Depreciation	22,000	
Entertainment (Disallow 50%)	15,000	
Secretarial fees	3,000	
Tax filing fees	5,000	
Donations	2,000	56,000
Adjusted income		426,000
Less: Capital allowance		26,000
Statutory income		400,000
Dividends (exempted)		0
Aggregate income		400,000
Less: Approved donation		2,000
Total income/Chargeable income		398,000

(8 marks)

Note:

Marks will be awarded for the correct labelling of the various stages of the income in the computation.

b. This is based on the Principle of Mutuality.

That principle holds that a man cannot make a profit by trading with himself.

The principle would be satisfied once there is a complete identity between the contributors and the participators. Any surplus remaining after the application of the contributory fund is merely a return of the contributor's money, and would not constitute a profit liable to tax.

Case law:

Social Credit Savings and Loan Society v FCT [(1972) 2 ATR 612]

Or

Municipal Mutual Insurance Ltd. v Hills [(1932) All ER 970]

(4 marks)

c.

Disposal price	RM	RM
Consideration received		980,000
Less: Permitted expenses		
Legal fee -defending title	5,000	
Cost of enhancement	<u>30,000</u>	<u>35,000</u>
		945,000
Less: Incidental expenses		
Valuation fees	10,555	
Brokerage	38,000	
Advertisement	<u>1,000</u>	<u>49,555</u>
Disposal price		<u>895,445</u> (a)

Acquisition price	RM	RM
Consideration paid		820,000
Add: Incidental expenses		
Stamp duty on transfer	18,600	
Legal fees	6,190	
Agent fee	24,000	
Mortgage loan interest	<u>0</u>	<u>48,790</u>
		868,790
Less: Para 4(1) receipts		
Deposit forfeited		<u>10,000</u>
Acquisition price		<u>858,790</u> (b)

Chargeable gain [(a) - (b)]		36,655
Less: Para 2 Sch 4 Exemption: Higher of RM10,000; or	10,000	
10% of chargeable gain	<u>3,666</u>	<u>10,000</u>
Chargeable gain after exemption		<u>26,655</u>

(8 marks)

Note:

Marks are awarded for the correct labelling of the stages of the income in the computation.

(Total: 20 marks)

QUESTION 3

- a. The gains made by Mr Bond may be brought to charge under section 4(a) based on the following reasons:
- (a) The intention was to speculate and there was with a profit-making motive
 - (b) The commodity is not an income producing investment
 - (c) The dealing in silver was financed with a loan
 - (d) The high cost of the loan is not conducive to holding the silver for long term.

Case law

The case of *Wisdom v Chamberlain* [45 TC 92] could be cited in supported of the argument to tax the gain.

(5 marks)

- b. Under paragraph 1 of schedule 3 of the Income Tax Act 1967 (as amended) qualifying expenditure is qualifying plant expenditure within the meaning of paragraph 2 to 6 of the said schedule.

And in paragraph 2 qualifying plant expenditure is capital expenditure incurred on the provision of machinery or plant for the purposes of a business.

The expenditure incurred on the complete set of the law reports is qualifying capital expenditure within the meaning of paragraph 1 and paragraph 2 of schedule 3 as expenditure on 'plant'.

This is supported by decision in the case of *Munby v Furlong* [50 TC 491]

And the annual renewable subscription for law updates would be allowed as a revenue expenditure falling within the meaning of section 33.

Note:

Considerations may be given to candidates who provide acceptable arguments and decision with supporting case law or laws that differ from the above suggested answer.

(5 marks)

(Total: 10 marks)

QUESTION 4

Azmir and Nasibah							
Computation of Tax Payable for Year of Assessment 2019							
				Azmir	Nasibah		
Section 4(a)							
Adjusted Business Loss				Nil			
Add: Balancing Charge				15,000			
				15,000			
Less:							
CA – current year				2,200			
Statutory business income				12,800			
Less: Losses b/f				(3,000)			
				9,800			
Section 4(b)							
Salary						110,100	
Section 4(c)							
Dividend – Australia						Exempt ed	
Section 4(d)							
Royalty:	Writing book			49,000			
	Less: Exemptions			(20,000)			
	Less: Expenses			(13,200)	15,800		
Rental:	Rental Gross (RM16,800 + RM21,000)			37,800			
Azmir	Less: Allowable expenses						
	Rental deposit			Nil			
	Commission			(1,500)			
	Quit rent			(900)			
	Fire insurance			(1,600)			
	Repainting of the bungalow			(8,200)			
	Landscape			Nil			
	Renovation			Nil			
	Refund (not allowed)			Nil	25,600		
Section 4(e)							
Pension						Exempt ed	
Section 4(f)							
Honorarium					10,000		
AGGREGATE INCOME					61,200	110,100	
Less:	Current year business loss				(10,000)		
	Donation to approved institutions:						
	- In cash (Restricted to 7% AI)				(4,284)		
	- In kind					Nil	
TOTAL INCOME					46,916	110,100	

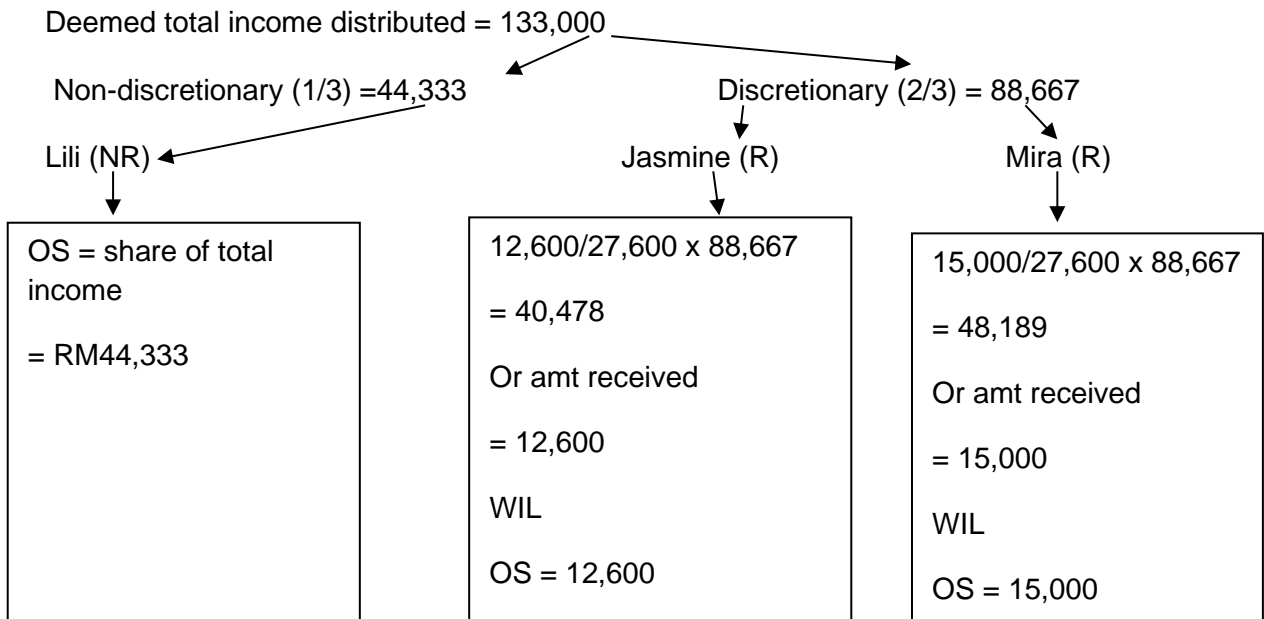
Less: Reliefs							
	Personal				(9,000)	(9,000)	
	Alimony payment				(4,000)		
	Child relief	- Zarra (RM8,000 x 50%)			(4,000)		
		- Naziman				(6,000)	
		- Aisya				(2,000)	
	Serious disease/ Naziman annual medical treatment					(6,000)	
	Basic supporting equipment					(4,500)	
	EPF – Puan Nasibah					(4,000)	
	Life insurance premium - Puan Nasibah					(2,800)	
	Socso					(220)	
	Medical insurance					(3,000)	
		- Parent in-law			Nil		
	Lifestyle expenses	- Internet (189 x 12 mths)			(2,268)		
		- Magazines 830				(2,500)	
		- Computer 2,400					
CHARGEABLE INCOME					27,648	70,080	
Tax payable at scaled rates:							
	Encik Azmir	- First RM20,000			150.00		
		- Next RM7,648 @ 3%			229.44		
	Puan Nasibah	- First RM70,000				4,600	
		- Next RM80 @ 21%				16.80	
					379.44	4,616.80	
Less: Rebates							
	Chargeable income < RM35,000				(400)	Nil	
Less: Zakat						(2,000)	
TAX PAYABLE					Nil	2,616.80	

(Total: 20 marks)

QUESTION 5

a.

	Total income RM
Business BB:	
Gross income	70,000
<u>Less: allowable expenses</u>	
Less: trustee fees	(24,000)
Admin expenses	(60,000)
Capital expenditure	-
Adjusted loss	(14,000)
Less: capital allowance	(45,000) c/f
	Nil
Less: business loss b/f	(28,000) c/f
Statutory income	Nil
Add: other sources of income	
Net rental income (60,000 + 90,000)	150,000
Rental (S'pore)	Exempt
Dividend (M'sia)	Exempt
(overseas)	<u>Exempt</u>
Aggregate income	150,000
Less:	
Current year loss	(14,000)
Trustee fees	-
Donation (restricted to 7% of AI)	Nil
Annuity payable	(3,000)
Total income	133,000
Less: Section 61(2):	
Jasmin	(12,600)
Mira	(15,000)
Chargeable income	105,400
	25,296
Tax payable at 24%	25,296



(14 marks)

b. WHT

Transaction	Subject to WHT & WHT provision	Reason	Amount of WHT
Cost of plant and machinery	No	Not a service portion	Nil
Service on installation of plant and machinery	Yes (S109B)	Special classes of income S4A(i)	$450,000 \times 10\% = 45,000$
Consultancy services on the management and marketing of the new project	Yes (S109B)	Special classes of income S4A(ii)	$700,000 \times 10\% = 70,000$
Interest on loan	Yes (S109)	The loan is to finance the project in Malaysia	$3\% \times 12M \times 15\% = RM54,000$

(6 marks)
(Total: 20 marks)

QUESTION 6

a.

	2020	2021	2022
	RM	RM	RM
Adjusted income	85,000	NIL	60,000
(-) capital allowance	(30,000)	(15,000) c/f	(30,000)
Statutory income	55,000	NIL	30,000
(-) 70% exemption	(38,500)	-	(21,000)
Deemed total income	16,500	NIL	9,000
add: interest income	30,000	70,000	80,000
Aggregate income	46,500	70,000	89,000
less: approved donation (restricted to 10% of aggregate income)	(2,000)	(7,000)	(8,900)
Chargeable income	44,500	63,000	80,100
	2020	2021	2022
	RM	RM	RM
70% of statutory income	38,500	-	21,000
less: Pioneer loss b/f	-	-	(10,000)
Amount credited to Exempt Income Account	38,500	-	11,000

(6 marks)

- b. For imported taxable service, service tax is due at the time when the payment is made or invoice is received for the service, whichever is the earlier. Taxable person registered with the Royal Malaysian Customs for service tax shall pay the service tax of 6% on imported services not later than the end of the month following the bi-monthly taxable period. Persons who are not registered with the Royal Malaysian Customs for service tax would need to pay the 6% service not later than the end of the month following a monthly taxable period.

(4 marks)

(Total: 10 marks)

END OF SOLUTION