

Fundamentals Level – Skills Module

Taxation (Malaysia)

Monday 2 June 2008

Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

ALL FIVE questions are compulsory and MUST be attempted.
Tax rates and allowances are on pages 2–3.

Do NOT open this paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.

This question paper must not be removed from the examination hall.

The Association of Chartered Certified Accountants

Paper F6 (MYS)

The ACCA logo consists of the letters 'ACCA' in a bold, white, sans-serif font, centered within a solid black square.

SUPPLEMENTARY INSTRUCTIONS

1. Calculations and workings should be made to the nearest RM.
2. All apportionments should be made to the nearest whole month.
3. All workings should be shown.

TAX RATES AND ALLOWANCES

The following tax rates, allowances and values are to be used in answering the questions.

Income tax rates

Resident individual		Tax payable	
Chargeable income		Rate	Cumulative
Band	Cumulative	%	RM
RM	RM		
2,500	2,500	0	0
2,500	5,000	1	25
15,000	20,000	3	475
15,000	35,000	7	1,525
15,000	50,000	13	3,475
20,000	70,000	19	7,275
30,000	100,000	24	14,475
150,000	250,000	27	54,975
Excess		28	

Resident company

Paid up ordinary share capital

	First RM500,000	Excess over RM500,000
RM2,500,000 or less	20%	27%
More than RM2,500,000	27%	27%

Non-resident

Company	27%
Individual	28%

Personal deductions

	RM
Self	8,000
Self – additional if disabled	6,000
Spouse	3,000
Spouse – additional if disabled	3,500
Child – basic rate	1,000
Child – higher rate	4,000
Disabled child	5,000
Life insurance premiums and approved scheme contributions	maximum 6,000
Medical expenses for parents	maximum 5,000
Medical expenses for serious disease of self, spouse or child, including up to RM500 for medical examination	maximum 5,000
Basic supporting equipment for self, spouse, child or parent if disabled	maximum 5,000
Educational and medical insurance for self, spouse or child	maximum 3,000
Study course fees for skills or qualifications	maximum 5,000
Purchase of a personal computer	maximum 3,000
Purchase of books, magazines etc for personal use	maximum 1,000

Rebates

Individual with chargeable income not exceeding RM35,000	RM
Basic rate	350
Rate for an individual entitled to a deduction for a spouse or a former wife	700

Value of benefits in kind

Car and fuel scale

Cost of car (when new) RM	Prescribed annual value of private usage of car RM	Fuel per annum RM
Up to 50,000	1,200	600
50,001 to 75,000	2,400	900
75,001 to 100,000	3,600	1,200
100,001 to 150,000	5,000	1,500
150,001 to 200,000	7,000	1,800
200,001 to 250,000	9,000	2,100
250,001 to 350,000	15,000	2,400
350,001 to 500,000	21,250	2,700
500,001 and above	25,000	3,000

The value of the car benefit equal to half the prescribed annual value (above) is taken if the car provided is more than five (5) years old, but the value of fuel provided remains unchanged.

Where a driver is provided by the employer, the value of the benefit is fixed at RM600 per month.

Other benefits

Household furnishings, apparatus and appliances	RM per month
Semi-furnished with furniture in the lounge, dining room, or bedroom	70
Semi-furnished with furniture as above plus air-conditioners, and/or curtains and carpets	140
Fully furnished premises	280
Domestic helper	400
Gardener	300
	RM per annum
Telephone (fixed or mobile):	
Hardware	300
Bills	300

Capital allowances

	Initial Rate %	Annual Rate %
Industrial buildings	10	3
Plant and machinery – general	20	14
Motor vehicles, heavy machinery	20	20
Computers, information technology equipment and computer software	20	40
Office equipment, furniture and fittings	20	10

Sales tax and service tax rates

	Rate %
Sales tax	10
Service tax	5

ALL FIVE questions are compulsory and MUST be attempted

1 Agri Sdn Bhd, a resident company, is a manufacturer of agricultural products (not enjoying any tax incentive). The company's profit and loss account for the year ended 31 December 2007 is as follows:

	Note	RM000's	RM000's
Sales	1		25,530
Cost of sales			<u>9,870</u>
Gross profit			15,660
<i>Add:</i>			
Rent	2		<u>30</u>
			15,690
<i>Less:</i>			
Interest	3	180	
Training	4	120	
Marketing expenses	5	1,980	
Lease amortisation	6	100	
Remuneration	7	3,738	
Legal fees	8	9	
Bad debts	9	156	
Donations	10	390	
Gain on disposal of general machinery	11	(153)	
Quit rent and assessment	2	2	
Depreciation		<u>943</u>	
			7,465
Profit before taxation			<u>8,225</u>

Notes:

- (1) Sales
Sales includes a sum of RM211,000 received from an insurance company as compensation for the loss of trading stock during a robbery.
- (2) Rent
The rent received is from a shophouse bought by Agri Sdn Bhd in 2005 at a cost of RM400,000. The whole cost of the purchase was financed by bank borrowing.
The company incurred RM2,000 on quit rent and assessment in 2007.
- (3) Interest
As at 31 December 2007 the company's bank borrowing was RM2 million.
- (4) Training
This relates to a training programme conducted by the company to increase the productivity of its employees who are citizens of Malaysia. The company has a letter of approval from the Malaysian Industrial Development Authority to conduct this training.
- (5) Marketing expenses
Included in the marketing expenses is a sum of RM88,000 for the cost of licensing the company's products in Korea. The expense was incurred with the aim of promoting the export of the company's products.
- (6) Lease amortisation
This relates to the lease of a piece of land on which the company's factory was built, which is being amortised over a period of five years at RM100,000 per annum.

- (7) Remuneration
This includes leave passage for:
- (i) A trip to Pulau Langkawi organised by the company for the employees and their families, costing RM15,000.
 - (ii) The cost of overseas travel by the directors and their families during their annual leave, costing RM57,000.
- (8) Legal fees
These were incurred in respect of the recovery of debts from trade debtors.
- (9) Bad debts
During the year the sum of RM70,000 was written off as bad debts, of which RM12,000 was in respect of a personal loan granted to an ex-director. The net increase in the specific provision was RM130,000. A sum of RM44,000 was recovered from non-trade debtors.

- (10) Donations
These were made to:

	RM
Approved charitable institutions (cash)	132,000
Approved charitable institutions (in kind)	158,000
Selangor State Government (cash)	100,000
	390,000

- (11) Gain on disposal of general machinery
The general machinery on which the company made a gain was bought in 2004 for RM200,000. The machinery was sold during the year for RM174,000. The company claimed capital allowances every year on this machinery, except for the year of assessment 2006.
- (12) Other information
For the year of assessment 2007, the capital allowances for plant and machinery excluding item (11) above, amounted to RM980,000. The industrial building allowance amounted to RM345,000.

Required:

- (a) Compute the tax payable by Agri Sdn Bhd for the year of assessment 2007.**

Your computation should start with the profit before taxation figure and follow the descriptions used in the notes to the profit and loss account, indicating 'nil' in the appropriate column for every item that does not require adjustment. (22 marks)

- (b) Explain your treatment for tax purposes of the items mentioned in notes 2, 3, 4, and 5 to the profit and loss account, indicating the relevant facts which influenced this treatment of the items, as appropriate.** (8 marks)

(30 marks)

- 2 (a) Encik Nik and his wife, Puan Mariam, both residents of Malaysia and living together as husband and wife, declared their income for the year ended 31 December 2007 as follows:

Encik Nik

- (i) Sole-proprietorship – Business 1
The net profit before taxation amounted to RM320,000
Included in the expenses was Encik Nik's salary of RM78,400
For the year of assessment 2007, there was a balancing charge of RM1,000 and capital allowances were RM5,400.
- (ii) Sole-proprietorship – Business 2
The net loss before taxation amounted to RM15,000 after taking into account a provision of RM2,000 for the trading stock.
For the year of assessment 2007, the capital allowances were RM3,000. The capital allowances brought forward from the year of assessment 2006 were RM1,000.
The brought forward loss was RM22,000.
- (iii) Net rent of RM41,000 after charging the cost of installing a water filter, amounting to RM2,000
- (iv) Encik Nik made the following claims in his tax return for the year of assessment 2007:
- Cash donations to an approved orphanage, amounting to RM3,000.
 - Personal contributions to the Employees Provident Fund amounting to RM7,000.
 - Child relief for his 22 year old son Shukri from his previous marriage. Shukri is pursuing a degree course at Universiti Sains Malaya. No other person is entitled to claim child relief for Shukri.
 - Expenses of RM1,300 incurred on the purchase of text books for Shukri.

Puan Mariam

- | | RM |
|------------------------------------------------------------------|--------|
| (i) Employment: Salary | 46,000 |
| (ii) Interest from a savings account with Bank Simpanan Nasional | 500 |
| (iii) Interest received from a private loan | 1,000 |
- (iv) Puan Mariam made the following claims in her tax return for the year of assessment 2007:
- Child relief in respect of her daughter, aged 9.
 - Contributions to the Employees Provident Fund, amounting to RM5,060.
 - Insurance premiums for her own medical benefits, amounting to RM2,940.
 - Medical examination for herself, amounting to RM800.
- (v) Puan Mariam did not elect for a joint assessment.

Required:

- (i) **Compute the chargeable income of Encik Nik for the year of assessment 2007;** (15 marks)
- (ii) **Compute the chargeable income and the tax payable by Puan Mariam for the year of assessment 2007.** (7 marks)

Note: marks will be awarded for the use of accurate technical terms to describe the figures comprising the stages in the computation of chargeable income.

- (b) **Explain the difference between personal reliefs and tax rebates.** (3 marks)

(25 marks)

- 3 (a) Lim Heng Sdn Bhd, a manufacturing company, incurred the following expenses during the year ended 30 September 2007:

	RM	RM
Cost of land		345,000
Stamp duty on the purchase of the land		5,000
Legal charges on the Sale and Purchase Agreement		3,000
Cost of construction of the buildings:		
A factory	300,000	
A storage building*	54,000	
A canteen and restrooms	36,000	
Living quarters for factory workers	90,000	
Living quarters for administrative staff	120,000	
	600,000	
Legal charges on the Contract Agreement for the construction of the buildings		10,000
Architect fees regarding the buildings		20,000

The construction of all the buildings was completed in February 2007 and the buildings were put into use for the business from March 2007.

The company also incurred RM75,000 on cutting and levelling the land to prepare a site for the installation of heavy machinery, costing RM800,000, purchased in January 2007. The machinery was put into use for the business from March 2007.

* The storage building, which is used for the storage of the finished products, is adjacent to the factory.

Required:

- (i) **Compute Lim Heng Sdn Bhd's capital allowances under Schedule 3 of the Income Tax Act for the year of assessment 2007, together with the residual expenditure carried forward.** (12 marks)
- (ii) **Explain your treatment of the cost of cutting and levelling the land.** (2 marks)
- (b) **List any THREE types of deemed industrial building where the law stipulates that a rate of allowance other than the normal initial and annual allowance is to be given.** (3 marks)
- (c) Starlight Bhd provided the following for its managing director, Encik Kim:
- Reimbursement of salary of a driver employed by Encik Kim.
 - Use of a company car and free petrol.
 - Use of household furnishings.
 - The services of a gardener employed by the company.

Required:

State the tax compliance required of Starlight Bhd in regard to the above. (3 marks)

(20 marks)

- 4 (a) U-Lee Sdn Bhd paid a royalty for operating a franchised café, to a non resident company amounting to RM360,000 net of withholding tax, on 1 June 2007. U-Lee Sdn Bhd remitted 70% of the withholding tax to the Inland Revenue Board on 28 June 2007. The balance of the withholding tax was paid on 5 August 2007. U-Lee Sdn Bhd has a financial year end of 31 December, and the applicable rate of withholding tax is 10%.

Required:

- (i) **Compute the withholding tax payable and the penalty, if any, payable by U-Lee Sdn Bhd;** (3 marks)
- (ii) **State the amount of the payments in respect of the royalty which is deductible in arriving at the adjusted income of U-Lee Sdn Bhd, assuming that the full amount of the withholding tax and the penalty, if any, was subsequently paid.** (1 mark)
- (b) Puan Amina owns a two-storey shophouse in Kuala Lumpur. She occupied the ground floor until December 2006. On 1 February 2007 Puan Amina commenced to rent the ground floor to a restaurant operator. The whole of the first floor has been rented out to the Jenny Hair Salon since 2004.

The expenses incurred by Puan Amina on the shophouse for the year ended 31 December 2007, were as follows:

	RM
Quit rent and assessment	6,000
Fire insurance	3,600
Loan interest	9,000
60% of the above expenses were attributable to the ground floor	
Other expenses incurred during the year:	RM
Legal expenses for defending the title	7,000
Legal expenses for collecting rent from the Jenny Hair Salon	2,000

Puan Amina received the following payments during the year 2007:

Ground floor:

Rent at RM15,000 per month, payable every three months in advance, commencing on 1 February 2007 and a two months' rent as deposit.

First floor:

Rent at RM10,000 per month, payable on the first of each month. The rent for December 2007 was not received until February 2008.

Required:

Compute the statutory income in respect of the above property for the year of assessment 2007.

(11 marks)

(15 marks)

- 5 (a) (i) **State the person(s) who has to apply for a licence under the Sales Tax Act.** (2 marks)
- (ii) Hightech Sdn Bhd, a company engaged in the business of manufacturing air-conditioners, installed three units of air-conditioners, taken from its trading stock, in its own office. The total cost of the air-conditioners amounted to RM6,300. The normal selling price is RM6,500.
- Required:**
- State and quantify, if relevant, the sales tax implications of the withdrawal of the air conditioners from trading stock.** (2 marks)
- (iii) **State any TWO circumstances in which the Director General of Customs and Excise will revoke the licence of a taxable person under the Sales Tax Act.** (2 marks)
- (b) **State the value/charge, if any, upon which service tax payable under the Service Tax Act is calculated in respect of the services provided by the following persons:**
- (i) Ah Chong Motor Repairs and Service Centre, which has a total annual sales turnover of more than RM150,000, carried out welding and repainting services on a car owned by Ah Chong's nephew, for RM1,800 which is RM100 less than the normal charge. (1 mark)
- (ii) Laila Bakery, located in a shophouse, donated cakes and cookies to an orphanage on Deepavali Day. The selling price of the goods was RM300. (1 mark)
- (iii) A hotel, which has one hundred and thirty rooms, provided twenty-one rooms for a group of tourists, including one room free of charge for the tour operator, for seven nights. The rate charged was RM200 per room per night. (2 marks)
- (10 marks)**

End of Question Paper