

Preparing Taxation Computations (Malaysia)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

ADVANCED LEVEL

TUESDAY 14 DECEMBER 2004

QUESTION PAPER

Time allowed **3 hours**

ALL FOUR questions are compulsory and **MUST** be answered

Tax rates and allowances are on pages 2–3

Do not open this paper until instructed by the supervisor

This question paper must not be removed from the examination hall

The Association of Chartered Certified Accountants

Paper T9(MYS)



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

Rates of Income Tax

(a) **Resident company**

Paid up capital	Chargeable income	
	First RM500,000	In excess of RM500,000
RM2,500,000 or less	20%	28%
More than RM2,500,000	28%	28%

(b) **Non-resident person (company and individual)**

28%

(c) **Resident individuals**

	Chargeable Income		Rate %	Cumulative Tax RM
	RM	RM		
First	2,500	(0–2,500)	0	0
Next	2,500	(2,501–5,000)	1	25
Next	15,000	(5,001–20,000)	3	475
Next	15,000	(20,001–35,000)	7	1,525
Next	15,000	(35,001–50,000)	13	3,475
Next	20,000	(50,001–70,000)	19	7,275
Next	30,000	(70,001–100,000)	24	14,475
Next	150,000	(100,001–250,000)	27	54,975
Exceeding	250,000		28	

Personal reliefs and allowances

	RM	
Self	8,000	
Medical expenses expended for parents	5,000	maximum
Basic support equipment for disabled self, spouse, child or parent	5,000	maximum
Disabled self	5,000	
Fees expended for skills or qualifications	5,000	maximum
Medical expenses expended on self, spouse or child with serious disease, including up to RM500 for medical examination	5,000	maximum
Expenses on books for personal use	500	maximum
Spouse relief	3,000	
Disabled spouse	2,500	
Child	1,000	each
Disabled child	5,000	each
Life insurance premiums and contributions to approved provident funds	5,000	maximum
Medical or education insurance premiums for self, spouse or child	3,000	maximum

Rebates

	RM
Resident individual – chargeable income up to RM35,000	350
Resident individual who has been given a deduction in respect of wife or former wife, or husband – chargeable income up to RM35,000	350

Rates of Real Property Gains Tax

Disposal within the following period after acquisition	Individual		Company
	Citizen or permanent resident	Non-citizen or non-permanent resident	
	%	%	%
Within two years	30	30	30
In the third year	20	30	20
In the fourth year	15	30	15
In the fifth year	5	30	5
In the sixth year and thereafter	nil	5	5

Value of benefits in kind Car benefit 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– 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 equal to half the prescribed annual value (above) is taken if the car provided is more than 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 RM300 per month.

Other benefits

Household furnishings, apparatus & appliances		
Semi-furnished with furniture in the lounge dining room, or bedrooms	–	RM70 per month
Semi-furnished with furniture as above and one or more of the following:		
air-conditioners, curtains, carpets	–	RM140 per month
Fully furnished premises	–	RM280 per month
Domestic servant	–	RM400 per month
Gardener	–	RM300 per month

Capital allowances

	Initial Allowance (%) Rate	Annual Allowance (%) Rate
Motor vehicles and heavy machinery	20	20
Plant and machinery	20	14
Office equipment, furniture and fittings	20	10
Industrial building	10	3
Computer, information technology equipment & computer software	20	40

Section A – ALL FOUR questions are compulsory and MUST be attempted

1 John had worked for MNC Bhd since 1 August 1998. In September 2002, John was provided with a company car (cost when new: RM130,000) and free petrol. However, on 30 June 2003, he was retrenched for which he was paid compensation.

Thereafter John has been employed by Super Trading Sdn Bhd. His package included a fixed travelling allowance and an entertainment allowance.

On 6 May 2003, John legally adopted his eight year-old nephew who was a disabled orphan, and bought an education policy and a wheelchair for the child.

For the year 2003, details of his income and expenditure were:

	RM	RM
MNC Bhd		
Salary		60,000
EPF contribution	(5,400)	
Compensation on retrenchment		40,000
Super Trading Sdn Bhd		
Salary		48,000
EPF contribution	(4,320)	
Travelling allowance		2,000
Travelling (business) expenses incurred	(950)	
Entertainment allowance		2,400
Entertainment expenses	(3,000)	
Other income		
Dividend from RubberBand Sdn Bhd (net)		1,080
Interest on fixed deposit with MayBank		1,500
Other information		
Education insurance premium for child	(4,200)	
Life insurance (for self) premium	(3,200)	
Wheelchair for child	(5,500)	
Cash donation to Hospice Malaysia (approved by the Director General of Inland Revenue) (500)		

John's girlfriend, Mary, is a trained nurse attached to a private hospital. The hospital provided her with free accommodation in a hostel throughout 2003. For the year 2003, Mary's salary was RM40,000 whilst her EPF contribution amounted to RM3,600.

Mary enrolled for a diploma course in graphic design on a part time basis. The fees thus expended in 2003 amounted to RM6,800. Mary bought her first personal computer for RM3,800 so that she could access the Internet in her room. She bought books worth RM500 both for her course as well as for leisure reading.

Mary has made a personal loan to her brother. In 2003, he paid her interest of RM600 on the loan.

During the year, Mary's father underwent major surgery and her share of the medical expenses was RM6,300.

Mary has published a collection of her poems and she has received royalties from the sale of the book of RM5,500 in the year 2003. She donated 100 copies of the book, worth RM2,000, to school libraries in her hometown in 2003.

Required:

- (a) Compute the income tax payable by John for the year of assessment 2003. Show your workings wherever relevant. Indicate by the use of 'nil' any item referred to in the question for which no adjusting entry is to be made in the tax computation. Marks will be awarded for the use of accurate technical terms to describe the figures calculated at various stages of your tax computation. (20 marks)
- (b) Compute the tax payable by Mary for the year of assessment 2003. Give reasons and show your workings wherever relevant. Indicate by the use of 'nil' any item referred to in the question for which no adjusting entry is to be made in the tax computation. Marks will be awarded for the use of accurate technical terms to describe the figures calculated at various stages of your tax computation. (14 marks)

(34 marks)

- 2 Happy Sdn Bhd operates a restaurant serving fusion food and has always made up its accounts to 31 December annually. The results of the company's business for the basis periods for the years of assessment 2003 and 2004 were:

	Year of assessment 2003	Year of assessment 2004
	RM	RM
Gross turnover	250,000	400,000
Chargeable income	75,000	120,000

For the year of assessment 2004, the company estimated its tax at RM30,000 and made no subsequent revision. However, the company now expects its turnover to drop to RM320,000 and its chargeable income to be only RM80,000 for the year of assessment 2005.

Required:

- (a) Explain to Happy Sdn Bhd its responsibilities and rights under the self assessment system with respect to
- (i) estimating tax for the year of assessment 2005; (7 marks)
 - (ii) paying the tax instalments for the year of assessment 2005; (4 marks)
 - (iii) filing the tax return for the year of assessment 2004; and (3 marks)
 - (iv) paying the balance of tax for the year of assessment 2004. (3 marks)

For each responsibility or right, indicate the deadline or due date, state whether a penalty is applicable for non compliance or late compliance, and where applicable, how the penalty will be calculated.

- (b) State, with reasons, whether Happy Sdn Bhd is subject to the service tax provisions. (4 marks)
- (c) Assuming that service tax is applicable, state the prevailing rate of service tax, how often the tax is payable by a taxable person and the due date for payment of the tax to the customs authorities. (3 marks)

(24 marks)

- 3** On 1 February 1999, Wong, a citizen of Malaysia, signed a sale and purchase agreement with a property developer to purchase his first ever property for RM550,000.

Wong incurred legal fees of RM850 and stamp duty of RM9,150 on the purchase of this property.

On 8 October 2001, the completed property was duly handed over to Wong by the property developer. After incurring a further RM20,000 on improvements to the house, Wong, who is single, took up residence in the house on 18 December 2001.

On 30 November 2002, Wong signed a sale and purchase agreement to sell the house to his friend Zulkifli for RM680,000. However, Wong rented the property from Zulkifli and continued to live in the house.

Zulkifli settled the consideration in full on 3 February 2003 and the title of the property was transferred to Zulkifli on 10 March 2004.

Required:

- (a) **State, with reasons, the date Wong acquired the house and the date he disposed of the house to Zulkifli for the purposes of real property gains tax.** (2 marks)
- (b) **Compute Wong's real property gains tax liability on the disposal of the property by Wong to Zulkifli. Assume that Wong did not elect for exemption from real property gains tax in respect of private residence. Marks will be awarded for the use of accurate technical terms to describe the figures calculated at various stages of your tax computation.** (8 marks)
- (c) **If Wong and Zulkifli had not signed a written agreement, but merely agreed orally to the price of RM680,000, state, with reasons, what the date of disposal would have been and re-compute Wong's liability to real property gains tax. Assume that Wong did not elect for exemption from real property gains tax in respect of private residence.** (5 marks)
- (d) **State, with reasons, whether Wong is entitled to elect for the exemption of his private residence from real property gains tax in respect of the disposal of the property.** (4 marks)

(19 marks)

Note: Ignore the real property gains tax exemption for transactions during the period 1 June 2003 to 31 May 2004, throughout the question.

- 4 (a) Fortune Sdn Bhd, a manufacturing company, incurred capital expenditure on the following assets in the year ended 30 September 2004:

	RM	RM
New factory		
Construction	235,000	
Land cost	90,000	
Design and plan fees for building	40,000	
Legal fees & stamp duty (for purchase of land)	2,000	
Total cost of new factory		367,000
Production machinery (non-heavy machinery)		195,000
Office equipment		18,000
New computer system		85,000
New motor car		125,000

Three assets had been acquired in previous years by the company. Two of these assets were disposed of during the year ended 30 September 2004. The relevant details of the three assets are as follows:

	Cost RM	Residual expenditure RM	Disposal price RM
Motor car (acquired second hand)	75,000	10,000	18,000
Office equipment	25,000	7,500	2,400
Lorry	150,000	60,000	Still in use

Required:

Compute the capital allowances, balancing allowance(s) and/or balancing charge(s) for Fortune Sdn Bhd for the year of assessment 2004. (14 marks)

- (b) Mr Gurmi, an expatriate, arrived in Kuala Lumpur for the first time on 1 September 2003 to take up employment with a Malaysian company.

On 22 December 2003, Mr Gurmi flew out of Kuala Lumpur to spend Christmas in Hong Kong. He returned to Kuala Lumpur on the afternoon of 6 January 2004.

After this, Mr Gurmi remained in Malaysia until 15 July 2004, when he left Malaysia for his home country, having completed his employment contract.

Required:

State, with reasons, the residence status for Malaysian tax purposes of Mr Gurmi, for the years of assessment 2003 and 2004. (9 marks)

(23 marks)

End of Question Paper