Answers

1 (a) Mr Pandai

Tax computation YA2003

	RM	RM	RM	Marks
Business income: Sale of fruits				
Net profit			3,300	1/2
Add agricultural machines			5,900	1/2
Adjusted income			9,200	
Less capital allowance on agricultural machines				
Initial allowance 5,900 x 20%		1,180		1/2
Annual allowance 5,900 x 14%		826		1/2
			(2,006)	
Statutory income from business			7,194	
Employment income				
Salary		32,000		1/2
Gratuity (exempt because he is 55 years old and has more than 10 years with the same employer)		–		1
Entertainment allowance		2,000		1/2
Total under s.13(1)(a)		34,000		1/2
Car benefit 3,600 x 4/12	1,200			1
Fuel benefit 1,200 x 4/12	400			1
Section 13(1)(b)		1,600		
Accommodation benefit				
Defined value	12,000			1/2
30% of s.13(1)(a)	10,200			1/2
The lower		10,200		1/2
		45,800		
Less Entertainment expense (restricted)		(2,000)		1
Statutory income from employment			43,800	
Dividend income				
Dividend: Very Profitable Sdn Bhd. – 1,440/72 x 100			2,000	1
Dividend: Pioneer Sdn Bhd. (exempt)			–	1/2
Aggregate income			52,994	1/2#
Less approved donation – cash			(500)	1/2
Total income			52,494	1/2#
Less personal reliefs				
Relief for self		8,000		1/2
EPF & life insurance		2,880		1/2
Child relief				
12 year old	800			1/2
19 year old	5,000			1
20 year old	800			1/2
22 year old (800 x 4)	3,200			1
		9,800		
Education insurance (restricted to)		3,000		1
			(23,680)	
Chargeable income			28,814	1/2#
Tax on first RM20,000			475·00	
On next RM8,814 at 7%			616·98	
Tax charged			1,091·98	1
Rebate (C.I. not exceeding RM35,000)			(350·00)	1
			741·98	
Section 110 set-off (1,440/72 x 28)			(560·00)	1
Tax payable			181·98	

Madam Rah Jin
Tax computation YA2003

	RM	RM	RM	Marks
Employment income: Salary			61,200	1/2
Local leave passage (3 exempt, 1 taxable)			1,800	1
Statutory income from employment			63,000	
Rental received		14,400		1/2
Total expenditure	15,900			
Less Extension of kitchen (capital)	5,000	10,900		1
Rental income			3,500	
Interest: F.D. interest (either exempted or tax already withheld under s.109C)			–	1
Aggregate/total income			66,500	1/2#
Personal reliefs				
Self		8,000		1/2
EPF & life insurance (5,400 + 3,800) restricted to		5,000		1
Medical insurance (restricted to)		3,000		1
			(16,000)	
Chargeable income			50,500	1/2#
Tax charged on first 50,000			3,475·0	
on next 500 at 19%			95·00	
Tax payable			3,570·00	1

(b) Madam Rah Jin's marginal tax rate is 19% whilst Mr Pandai's marginal tax rate is 7%. So it would appear that Madam Rah Jin should elect for child relief. 1

However, if she does so, Mr Pandai will lose the RM350·00 tax rebate as his chargeable income will exceed RM35,000. 1

Their tax liability would be as follows:

Mr Pandai	RM	
Total income	52,494	
Less reliefs (excluding child relief: 8,000 + 2,880 + 3,000)	(13,880)	
Chargeable income	38,614	
Tax on first RM35,000	1,525·00	
Tax on next RM3,614 at 13%	469·82	
Tax charged	1,994·82	
Less section 110 set-off	(560·00)	
Tax payable	1,434·82	1 1/2

Madam Rah Jin	RM	
Total income	66,500	
Less reliefs (including child relief: 16,000 + 9,800)	(25,800)	
Chargeable income	40,700	
Tax on first 35,000	1,525·00	
Tax on next 5,700 at 13%	741·00	
Tax payable	2,266·00	1 1/2

Combined tax liability if Mr Pandai claims child relief (181·98+ 3,570·00)	3,751·98	
Combined tax liability if Madam Rah Jin claims child relief (1,434·82 + 2,266·00)	3,700·82	
Tax saved	51·16	1

Note: Marks indicated with a "#" are awarded for the structure of the computation/allocation of the appropriate description to the figure calculated, not for the figure itself.

				Marks
2 (a)	**ABC Enterprise**			
	Tax computation for YA2003			
		RM'000	**RM'000**	
	Net profit before tax		730	
	Add Depreciation	52		$^1/_2$
	Entertainment (customers)	18		1
	Interest on partners' capital	25		1
	Partners' salaries	120		1
			215	
	Provisional adjusted income		945	$^1/_2$
	Less			
	Interest on capital	25		1
	Partners' salaries	120		1
			(145)	
	Divisible income		800	$^1/_2$

	A RM'000	B RM'000	C RM'000	
Share of divisible income	400	240	160	$1^1/_2$
Interest on capital	20	5	–	$1^1/_2$
Partner's salary	24	36	60	$1^1/_2$
Adjusted income	444	281	220	

(b) Computation and allocation of capital allowance

Asset	QPE	Rate	Initial allowance RM	Annual allowance RM	Total RM	
Factory	300,000	3%	nil	9,000	9,000	$1^1/_2$
Joinery machines	50,000	14%	ni	7,000	7,000	1
Electric saw	28,000	14%	5,600	3,920	9,520	$1^1/_2$
Sub-total					25,520	
Balancing allowance (see note below)					6,500	$1^1/_2$
Total					32,020	

Note: Disposal of joinery machine	RM		
Original cost	25,000		$^1/_2$
Less IA & AA for YA2002	8,500	(5,000 + 3,500)	$1^1/_2$
Residual expenditure (R.E.)	16,500		$^1/_2$#
Disposal price	(10,000)		$^1/_2$
Balancing allowance	6,500		$^1/_2$

Allocation of capital allowance to partners

		RM	
A	50% of 32,020	16,010	$^1/_2$
B	30% of 32,020	9,606	$^1/_2$
C	20% of 32,020	6,404	$^1/_2$

Note: Marks indicated with a "#" are awarded for the allocation of the appropriate description to the figure calculated, not for the figure itself.

			Marks
3 (a)	Land in Southern Thailand	Not subject to RPGT:	1
		Land is situated outside Malaysia. RPGT is applicable only to real property situated in Malaysia	1
	House in Petaling Jaya	Subject to RPGT:	1
		The real property is situated in Malaysia and there is a disposal.	1
		However, Hamid & wife have held the house for more than six years (5 May 1998 – present). As the holding period exceeds	1
		five full years, the RPGT rate is zero	1
	Agricultural land in Pahang	Subject to RPGT as the real property is situated in Malaysia and there is a disposal.	1 + 1
		He is not eligible to elect for exemption of private residence as this is not residential property.	1

(b) Disposal of agricultural land in Pahang
Computation of RPGT

	RM	RM	
Disposal consideration		400,000	$^1/_2$
Less: Enhancement cost on roads and drains		(50,000)	1
Disposal price		350,000	$^1/_2$#
Acquisition cost	210,000		$^1/_2$
Add: Incidental expenses			
Legal fees	800		$^1/_2$
Stamp duty	3,200		$^1/_2$
Agent's commission	4,200		$^1/_2$
	218,200		
Less: Deposit forfeited	(10,000)		$1^1/_2$
Acquisition price	208,200	(208,200)	$^1/_2$#
Chargeable gains		141,800	$^1/_2$
Exemption of the greater of 10% or RM5,000		(14,180)	$1^1/_2$
		127,620	
Disposal on 10 August 2004 (within two years)			1
RPGT at 30%		38,286	$^1/_2$
Disposal on 30 August 2004 (in 3rd year)			1
RPGT at 20%		25,524	$^1/_2$

Note: Marks indicated with a "#" are awarded for the allocation of the appropriate description to the figure calculated, not for the figure itself.

4 (a)

(i) YA1996 assessment

The Director General must raise any assessment or additional assessment for the YA1996	1
within six years after its expiration i.e. by 31 December 2002. As the assessment was raised	1
only on 14 May 2003, this assessment is time barred. The Director General therefore cannot enforce	1
payment of the YA1996 tax.	1

YA1998 assessment

As Worldwide is aggrieved by the assessment, it must lodge an appeal (Form Q) within 30 days	1
of the assessment i.e. by 13 June 2004.	1
If Worldwide has got a reasonable reason for not being able to file its appeal within 30 days,	1
it may apply to the Director General for an extension of time for appeal.	1
The appeal must contain grounds of appeal and be reasonably substantiated with relevant details.	1
In practice, the Director General accepts an appeal made by way of a letter.	
Notwithstanding the appeal, Worldwide must settle the YA1998 tax in full within 30 days of the assessment i.e. by 13 June 2004.	1

			Marks
	(ii)	After the appeal has been lodged, the Director General must review the appeal within 12 months,	1
		with an extension of a maximum of six months upon application by the DGIR.	1
		In reviewing the appeal, the DGIR may call for more information from Worldwide.	1
		Upon considering all information and arguments, the three courses of action available to the DGIR are:	
		– he may agree with Worldwide and accordingly reduce the assessment;	1
		– he and Worldwide may compromise and reach some agreement;	1
		– he may reject Worldwide's grounds of appeal.	1
		If the DGIR does not accede to Worldwide's grounds of appeal, he must forward the appeal to the Special Commissioners of Income Tax for determination.	1
		The Special Commissioners will decide after considering arguments and evidence adduced by both Worldwide and the DGIR.	1
		From the Special Commissioners, the appeal will go to the High Court and thereafter to the Court of	1
		Appeal.	1
(b)	**(i)**	Worldwide's basis period for YA2005 is 1.7.2004 – 30.6.2005	
		It should provide the tax estimate for YA2005 within one month before the commencement of the basis period i.e. by 31 May 2004.	1
		Its estimate must not be less than the revised tax estimate or (if there is no revised estimate) the tax estimate for the preceding year i.e. YA2004.	1
		In view of the anticipated increase in income, Worldwide should review its tax estimate in its 6th month i.e. in December 2004 and/or the 9th month i.e. March 2005.	1
	(ii)	The consequences of an excessive (more than 30%) difference between the estimated and the final tax	1
		liability is a penalty equal to 10% of the difference in excess of the 30% margin.	1