

Preparing Taxation Computations (Malaysia)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

ADVANCED LEVEL

TUESDAY 15 JUNE 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 all questions.

Rates of Income Tax

(a) Resident company:

Paid up capital	Chargeable income	
	First RM100,000	In excess of RM100,000
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
Next	2,500	(2,501–5,000)	25
Next	15,000	(5,001–20,000)	475
Next	15,000	(20,001–35,000)	1,525
Next	15,000	(35,001–50,000)	3,475
Next	20,000	(50,001–70,000)	7,275
Next	30,000	(70,001–100,000)	14,475
Next	150,000	(100,001–250,000)	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	maximum
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	additional
Child	800	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
Single individual – chargeable income up to RM35,000	350
Individual assessed jointly with spouse – chargeable income up to RM35,000	700

Rates of Real Property Gains Tax

Disposal	Individual		Company
	Citizen or permanent resident	Non-citizen or non-permanent resident	
	%	%	
Within 2 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

Note: All questions should be answered in accordance with the law in force on 30 November 2003.

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

1 Mr Pandai and his wife Madam Rah Jin have four children whose ages and educational status are as follows:

- 12-year-old – Standard 6, Government-run primary school;
- 19-year-old – Disabled since birth, currently being home schooled;
- 20-year-old – 2nd year student, University of Wisconsin, United States; and
- 22-year-old – Medical student, University of Malaya, Kuala Lumpur.

Upon attaining the age of 55 years, Mr Pandai retired on 30 April 2003, after having worked for 32 years with his one and only employer.

During the year 2003, his income and benefits from this employment were:

	RM
Salary (January – April)	32,000
EPF contribution: RM2,880	
Gratuity	180,000
Entertainment allowance (January – April) at RM500 per month. He incurred RM2,800 on entertaining business clients for his employer during these four months.	2,000
Unfurnished accommodation was rented by his employer at RM3,000 a month and provided to Mr Pandai as a benefit.	12,000

During the four months prior to his retirement, Mr Pandai was provided with a company car which his employer had acquired as a new car two years earlier at a price of RM85,000. Free fuel was provided to him by his employer.

After his retirement, Mr Pandai started actively working on his orchard and sold the fruits to a mini-market. His statement of receipts and payment for the seven month period 1 June 2003 to 31 December 2003 was as follows:

	RM	RM
Sale of fruits		15,000
Casual labour	4,000	
Agricultural machines (new)	5,900	
Fertilisers	1,000	
Transport	800	
Total expenditure		(11,700)
Net profit		<u>3,300</u>

During the year, Mr Pandai also received a dividend, net-of-tax, of RM1,440 from Very Profitable Sdn Bhd and a tax exempt dividend of RM2,370 from Pioneer Sdn Bhd.

Mr Pandai donated cash of RM500 to the Association of the Blind, an approved organisation. He also paid a premium of RM4,800 for the education policy he took out for his children.

Madam Rah Jin is the office manager of a travel agency. Details of her income for the year ended 31 December 2003 are as follows:

	RM	RM
Salary		61,200
EPF contributions: RM5,400		
Leave passage		
Four trips to the island resorts of Malaysia at RM1,800 each		7,200
Total employment income		<u>68,400</u>
Rental income (double-storey terraced house)		14,400
Less		
Quit rent & assessment	500	
Mortgage interest on loan to buy the house	8,500	
Repairs & maintenance	1,900	
Extension of kitchen	5,000	
Total expenditure		<u>(15,900)</u>
Rental loss		(1,500)
Interest on fixed deposit with a finance company in Malaysia		1,575

Rah Jin paid premiums of RM3,600 for her medical insurance policy and RM3,800 for her life-cum-endowment insurance policy.

Required:

- (a) Assuming that there is no election for combined assessment, compute the tax payable for Mr Pandai and Madam Rah Jin for the year of assessment 2003. Give reasons and show your workings wherever relevant. Indicate 'nil' where there is no adjustment to be made in the tax computation. (29 marks)
- (b) Compute the tax payable by Mr Pandai and Madam Rah Jin and state if there is any tax advantage if Madam Rah Jin were to elect for child relief in respect of all four children for the year of assessment 2003. (6 marks)
- (35 marks)**

2 A, B and C are partners in ABC Enterprise which manufactures chairs. The terms stipulated in the partnership agreement are as follows:

	Capital contributed	Share of profit/loss	Salary per month
A	200,000	50%	2,000
B	50,000	30%	3,000
C	nil	20%	5,000

The statement of profit and loss for the year ended 31 December 2003 was as follows:

	RM'000	RM'000
Turnover		4,135
Cost of manufacturing		
Opening stock	310	
Purchases	2,000	
Direct labour	800	
Closing stock	(280)	
		<u>2,830</u>
Gross profit		1,305
Less Expenditure		
Payroll	150	
Factory maintenance	25	
Transport	120	
Depreciation	52	
Entertainment (customers)	18	
Utilities	65	
Interest on partners' capital at 10%	25	
Salaries to partners	120	
Total expenditure		<u>575</u>
Net profit before tax		<u>730</u>

The partnership has the following fixed assets:

	Date acquired	Original cost (RM)
Factory (constructed)	28.2.1995	300,000
Three joinery machines at RM25,000 each	1.4.2002	75,000
Electric saw	6.5.2003	28,000

On 28 May 2003, one of the joinery machines was found to be faulty and it was disposed of for RM10,000.

Required:

(a) Compute the provisional adjusted income and divisible income of the partnership for the year of assessment 2003 and show the allocation to Partners A, B & C. You should start your computation with the net profit before tax figure. (11 marks)

(b) Compute the capital allowances in respect of the partnership assets for the year of assessment 2003 and show the allocation of the capital allowances amongst the partners. Assume a rate of 14% for the joinery machines and electric saw. (9 marks)

(20 marks)

3 Encik Hamid has just been informed that he will be transferred overseas for five years commencing from 1 October 2004. In sorting out his affairs, he is considering disposing of his real properties, details of which are as follows:

1. **Land in Southern Thailand**

This had been acquired on 2 March 2000 for RM130,000. He has received a firm offer of RM180,000 for the land.

2. **House in Petaling Jaya**

Acquired on 5 May 1998 at a cost of RM350,000 and co-owned with his wife, this has been and still is the family residence. The current market value is RM480,000.

3. **10-acre agricultural land in Pahang**

This is an oil palm smallholding which Hamid acquired on 15 August 2002 at a cost of RM210,000. Other acquisition expenses were:

	RM
Legal fees	800
Stamp duty	3,200
Estate agent's commission	4,200
	<hr/>
	8,200

Hamid had incurred a further RM50,000 on improvements to the land e.g. roads and drains since it was purchased.

In December 2002, a prospective buyer placed RM10,000 with Hamid as a non-refundable deposit but subsequently failed to raise the funds to complete the acquisition. Hamid had forfeited the said deposit.

Recently, the owner of the neighbouring lot offered RM400,000 to take over the land from Hamid. Hamid is thinking of signing the sale and purchase agreement either on 10 August 2004 or on 30 August 2004 as he will be out of town for the rest of the month of August.

Encik Hamid wishes to know how much real property gains tax he would potentially have to bear if he disposes of all his assets at the current market value or prices offered, assuming he will sign the sale and purchase agreements before he leaves for his overseas posting.

Required:

(a) **For each transaction, state, giving reasons, whether real property gains tax will be payable on the intended disposal.** (9 marks)

(b) **In the case of any transaction on which real property gains tax is payable, calculate Encik Hamid's tax liability.** (11 marks)

(20 marks)

Ignore the real property gains tax exemption for transactions during the period 1 June 2003 to 31 May 2004.

- 4 (a) Worldwide Sdn Bhd has always made up its accounts to 30 June annually. The company received two notices of assessment (Form J) for the years of assessment 1996 and 1998 both dated 14 May 2003. The returns for these two years of assessment had been submitted on time in 1996 and 1998 respectively.

The company is of the view that the tax for the year of assessment 1998 is excessive whilst that for the year of assessment 1996 is as calculated in the company's own tax computation.

Required:

- (i) **Advise Worldwide Sdn Bhd regarding the two tax assessments bearing in mind the provisions relating to payment of tax, tax appeals and the statutory time bar.** (10 marks)
 - (ii) **Describe how the appeal process will deal with a valid appeal lodged by Worldwide in respect of the 1998 assessment. Your answer should include details of what will happen when the Director General reviews and disposes of the appeal, and trace the passage of the appeal through the courts.**(10 marks)
- (b) Worldwide has just secured a large order from a customer and consequently expects its turnover in 2004/2005 to increase by 40%.

Required:

- (i) **Advise Worldwide of its responsibilities under the self assessment system to provide a tax estimate for the year of assessment 2005.** (3 marks)
- (ii) **State the penalty that will be imposed if Worldwide fails to provide a reasonable estimate of its tax liability.** (2 marks)

(25 marks)

End of Question Paper