

Preparing Taxation Computations (Malaysia)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

ADVANCED LEVEL

TUESDAY 13 DECEMBER 2005

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

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%

Non-resident person (company and individual)

28%

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 supporting equipment for disabled self, spouse, child or parent	5,000	maximum
Disabled self	6,000	
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	700	maximum
Spouse relief	3,000	
Disabled spouse	3,500	
Child	1,000	each
Disabled child	5,000	each
Life insurance premiums and contributions to approved provident funds	6,000	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 – additional	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 five 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 & 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

ALL FOUR questions are compulsory and MUST be attempted

1 Having lived and worked abroad for many years, Mr Teng (57-years-old) and Mrs Teng (50 years old) returned to Malaysia to take up residence on 1 February 2004.

On 1 March 2004, Mr and Mrs Teng jointly bought a house in Port Dickson. It was let out for rent with effect from 1 August 2004. Mr and Mrs Teng each received a half share of the rental income.

The statement of rental income for the house in Port Dickson for the period ended 31 December 2004 was as follows:

	RM	RM
Rental income (1 August 2004 – 31 December 2004)		50,000
Less expenditure:		
Quit rent & assessment (1 March 2004 – 31 December 2004)	3,800	
Extension of the kitchen and installation of air-conditioners	19,000	
Real estate agent's fee for introducing the tenant	10,000	
Deposits for water and electricity	3,500	
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Total		36,300
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Rental income		13,700
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Mrs Teng holds 40% of the shareholding in the family plantation company in Malaysia while her brother holds the remaining 60%. On 18 May 2004, she received a net dividend of RM21,600 from the family plantation company.

On 1 July 2004, Mrs Teng commenced employment as the finance director of the family plantation company. Her remuneration package is as follows:

	RM
Monthly salary –	2,500
Contributions to the EPF (employer 12%, employee 11%)	
Free accommodation in a fully furnished apartment in Kuala Lumpur:	
Monthly rental for apartment	5,000
Monthly rental of furnishings	1,500
Exclusive use of a company car (cost of the car when new in 2003: RM230,000)	
Free fuel	
One domestic servant	

On 1 April 2004, Mr Teng was appointed as a technical adviser to a research company and received a monthly salary of RM7,000. There were no other benefits or payments, not even the contribution to the EPF. However, he is entitled to a gratuity of RM10,000 for every nine months of service. He thus received RM10,000 on 31 December 2004.

Mr Teng, a fellow of the International Research Association, paid the annual subscription of RM5,000 for the calendar year 2004.

For the year ended 31 December 2004, Mr Teng received pension income of RM60,000 in Malaysia from his former employment overseas while Mrs Teng received interest income of RM1,680 from her savings deposited overseas.

On 1 December 2004, the Tengs legally adopted a 12-year old disabled child and Mr Teng immediately spent RM7,500 on an artificial leg for him. He also bought a medical policy for the child, paying an annual premium of RM3,900.

The Tengs spent alternate weekends volunteering at two orphanages (both approved for tax purposes). In the calendar year 2004, Mr Teng made donations totalling RM12,050 in cash while Mrs Teng contributed RM1,500 in the form of books, food and clothing to the orphanages.

Required:

Compute the income tax payable by Mr Teng and Mrs Teng for the year of assessment 2004.

You should assume that there is no election for combined assessment and that Mr Teng claims for child relief. Wherever relevant, give reasons for your treatment and indicate by the use of 'nil' any item referred to in the question for which no adjusting entry needs to be made in the tax computation. Show all workings.

Marks will be awarded for the use of accurate technical terms to describe the figures calculated at various stages of the computation.

(31 marks)

- 2 (a) Mr Tan commenced business as a printer in 2002. He makes up his accounts to 31 December annually. Upon commencement of his business Mr Tan acquired the following assets:

	RM
Printing machine	150,000
Office equipment	35,000
Delivery truck	85,000
Personal computer system 1	15,000

In the year 2004, he acquired additional assets for the business as follows:

	RM
Personal computer system 2	10,000
Furniture and fittings	5,000

In 2004, Mr Tan also disposed of personal computer system 1 for RM1,000 as it had become obsolete.

Required:

- (i) Calculate the residual expenditure of each of the assets at the end of the year of assessment 2003. (9 marks)
- (ii) Calculate the capital allowances for all business assets for the year of assessment 2004 and state the residual expenditure of each asset at the end of the year of assessment 2004. (7 marks)
- (iii) Calculate the balancing allowance or balancing charge in respect of personal computer system 1 disposed of in 2004. (2 marks)

- (b) The sole proprietor of Mamak Shop seeks your advice as to whether he is subject to the service tax provisions.

In 2004, his monthly turnover was consistently around RM20,000.

In January 2005, he expanded his business premises to accommodate more tables for eat-in customers. Immediately thereafter, his monthly turnover increased to RM32,000.

As a regular customer, you note that Mamak Shop sells food, beverages, snacks and tobacco products in a shophouse.

Required:

- (i) State, with reasons, whether Mamak Shop is subject to the service tax provisions in 2004 and 2005 respectively. (4 marks)
- (ii) Assuming that Mamak Shop is subject to the service tax provisions at some point during 2005, state when Mamak Shop should apply for a service tax licence and what its first taxable period will be. (2 marks)

(24 marks)

3 Father acquired a piece of land on 1 February 1999 at a cost of RM420,000. On 5 February 2003, Father transferred the land to Son as a gift.

On 3 July 2004, Son sold the land to Mr A, a third party, for RM450,000.

Mr A incurred stamp duty of RM8,000 and legal fees of RM1,000 in acquiring the land from Son. He built a house at a cost of RM600,000 on the land. After living in the house for three months, he disposed of the land and house for RM1,350,000 on 6 September 2005.

Father, Son and Mr A are all citizens of Malaysia.

Required:

(a) Compute the real property gains tax liability, if any, for

- (i) Father in respect of the transfer of the land;** (2 marks)
- (ii) Son in respect of the sale of the land; and** (4 marks)
- (iii) Mr A in respect of the sale of the land and house.** (6 marks)

(b) State, with reasons, whether Son and Mr A are entitled to elect for the exemption of private residence. You should assume that neither of them had previously elected for the exemption. (4 marks)

(c) Compute the real property gains tax liability for Father if he had not transferred the land to Son, and Father himself had sold the land to Mr A for RM450,000 on 3 July 2004. (3 marks)

(19 marks)

- 4 (a) Mr Globetrotter arrived in Kuala Lumpur for the first time on 29 June 2002 and remained in Malaysia until his departure for the UK on 5 February 2003.

Thereafter, he returned to Malaysia on several occasions as follows:

2 February 2004 to 31 May 2004;
8 July 2004 to 30 August 2004; and
20 December 2004 to 15 April 2005.

Required:

- (i) **State, with reasons, the residence status of Mr Globetrotter in Malaysia for each of the years of assessment 2002 to 2005.** (7 marks)
- (ii) **Briefly explain two differences between the tax treatment of a resident individual and a non-resident individual.** (4 marks)
- (b) Encik Ahmad runs the family retail business. He also works part-time as an accountant with a manufacturing company drawing a salary of RM3,500 a month. He wants to know more about the self-assessment system.

Required:

Explain to Encik Ahmad, with respect to the self-assessment system for individuals, the following:

- (i) **The deadline for submitting his tax return for the year of assessment 2005.**
- (ii) **The deadline for submitting his tax return for the year of assessment 2005 if he did not have the retail business source.**
- (iii) **How the tax payments will be made with respect to his employment income and business income.**
- (iv) **The penalty for late payment of tax instalment payments.**
- (v) **The due dates for paying the balance of any tax due.**
- (vi) **The basis period for Encik Ahmad's business for the year of assessment 2005.**
- (vii) **The timeframe for a valid appeal against an assessment.**
- (viii) **If the Inland Revenue Board cannot come to an agreement with Encik Ahmad in the case of an appeal, to whom the appeal will be forwarded for determination.** (15 marks)

(26 marks)

End of Question Paper