

# Preparing Taxation Computations (Malaysia)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

ADVANCED LEVEL

TUESDAY 14 JUNE 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	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 – 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 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

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

1 Upon attaining 55 years of age on 15 January 2004, Mr Lam retired after having been employed with Good-Vibes for 9 years and 2 months. He received the following:

	<b>RM</b>
Salary for January 2004	3,000
Gratuity	270,000

After a short rest, he joined a public relations company on 1 March 2004 but the employment was terminated on 31 July 2004 due to a disagreement. He received the following:

	<b>RM</b>
Salary for March to July 2004	17,000
Compensation for loss of employment	12,800

Thereafter, he became a partner of an event-organising business. For the year of assessment 2004, his share of the partnership loss was RM35,800 whilst his share of the partnership's capital allowance was RM10,500.

During the year ended 31 December 2004, Mr Lam's rental property produced rental income as follows:

	<b>RM</b>
Rental received	21,600
Mortgage interest	(18,575)
Quit rent and assessment	(2,589)
Repairs and maintenance	(3,683)
	<hr/>
Rental loss	(3,429)

Mrs Lam is the Managing Director and the sole shareholder of the Twinkle Toe Dance Company Sdn Bhd. During the year ended 31 December 2004, she received the following from the company:

	<b>RM</b>
Salary	36,000
Son's college fees paid by employer	60,640

During the year, Mrs Lam was provided free accommodation in a fully-furnished house. The company paid annual rent of RM48,000 for the unfurnished house and RM12,000 for the furnishings. Mrs Lam had the exclusive use of a company car which had cost RM120,000 when new. Mrs Lam was required to provide all of the fuel herself.

Mr and Mrs Lam have three children. In 2004, their 21 year-old daughter was an undergraduate at University Malaya, their 19 year-old son was enrolled on a tertiary twinning programme (with an Australian University) in Petaling Jaya, while their 15 year-old was in secondary school in Kuala Lumpur.

Other information relating to the year ended 31 December 2004 is as follows:

	<b>Mr Lam</b>	<b>Mrs Lam</b>
	<b>RM</b>	<b>RM</b>
Dividend from a co-operative society (gross)	-	2,360
Dividend from a Malaysian company (net)	4,104	-
Dividend from a UK company (net)	-	6,830
Interest on loan to Mr Lam's partnership business	-	1,040
Interest on bank savings account	5,735	-
Life insurance premiums	-	1,850
Contribution to EPF	2,530	3,960
Education policy	2,590	-
Medical policy	1,300	-
Cash donation (approved)	-	5,000

**Required:**

Assuming that there is no election for combined assessment and that Mrs Lam claims for all child reliefs, compute the income tax payable for the year of assessment 2004 by:

- (a) Mr Lam (17 marks)  
(b) Mrs Lam (15 marks)

Where 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 your computation.

**(32 marks)**

- 2 (a) The Chief Accountant of ExWhyZet Sdn Bhd furnished the following details to you in respect of the year of assessment 2004:

	RM	RM
Adjusted income from manufacturing business		138,000
Unabsorbed capital allowance brought forward	7,890	
Capital allowance for the year of assessment 2004	18,710	
Statutory income from food business		12,000
Current year loss from retail business		(115,000)
Statutory income from interest		20,000
Cash donation to an approved organisation	50,000	
Unabsorbed business loss brought forward	(23,400)	

**Required:**

Compute the total income of ExWhyZet for the year of assessment 2004.

Marks will be awarded for the use of accurate technical terms to describe the figures calculated at various stages of your computation. (12 marks)

- (b) AieBeeSi Sdn Bhd will shortly start a business of manufacturing plastic industrial containers which are not specifically exempted from sales tax. The gross turnover in the first year is projected to be RM1,000,000, 30% of which will be exported. The first batch of 15 employees will report for work in two week's time and production will start in a month's time.

**Required:**

- (i) State AieBeeSi's responsibilities as an employer with respect to  
(1) new employees  
(2) tax deductions  
(3) employer's return (7 marks)
- (ii) State, with reasons, whether AieBeeSi is subject to the sales tax provisions, and if so whether AieBeeSi qualifies for any exemption from sales tax in respect of exports. (4 marks)
- (iii) Where sales tax is applicable, state  
(1) how often the tax is payable by the taxable person; and  
(2) the due date for payment of tax due to the customs authorities. (2 marks)

**(25 marks)**

**3** Tommy acquired his first property in 1999 and sold it in 2001. He had elected for and was granted the private exemption in respect of the transaction in 2001.

Tommy acquired an apartment on 1 April 2001 and sold it on 15 June 2002. The acquisition price was RM218,000 and the disposal price was RM209,000.

On 3 October 2000, Tommy had acquired a piece of land for RM150,000. Other expenses were legal fees and stamp duty amounting to RM2,800. A house was constructed on the land at a cost of RM400,000. Upon its completion on 30 June 2004, the house was let out for rent.

On 8 June 2005, he sold the land together with the house for RM650,000 and incurred real estate agent's fees of RM19,500 and legal fees of RM1,500.

Jane and Tommy, both citizens of Malaysia, got married on 1 September 2002.

On 2 June 2005, Jane disposed of her residential property which she had owned since before her marriage and which she had let out for 3 years and 1 month. As this was her first and only property, she wants to elect for the private residence exemption, if possible.

**Required:**

- (a) Compute the allowable loss in respect of the sale of Tommy's apartment.** (3 marks)
- (b) Compute the real property gains tax liability of Tommy in respect of the sale of the land together with the house.** (10 marks)
- (c) State how and when Tommy must notify the Director General of Inland Revenue regarding his disposal of the land together with the house, and state when the tax liability calculated in (b) will be payable.** (3 marks)
- (d) State, with reasons, whether Jane is entitled to elect for the private residence exemption, in respect of the disposal of her rental property.** (3 marks)

**(19 marks)**

- 4 (a) JalanRaya Sdn Bhd is a construction company. During the year ended 31 December 2004, JalanRaya made the following payments to non-residents:

	RM
Royalties to Hong Kong architects for the use of copyrighted designs	45,000
Technical fees to Singaporean structural engineers for work performed solely from Singapore	28,300
Technical fees to Singaporean structural engineers for work performed in Malaysia	61,900
Commission to a US company for introducing the supplier of certain building materials	23,680
Contract payments to a Korean sub-contractor for the construction of a bridge in Johor	1,850,000

**Required:**

**State, with reasons whether withholding tax is applicable to each of the above payments to non-residents. Where withholding tax is applicable, state the rate of withholding which applies. Ignore the provisions of double tax agreements.** (10 marks)

- (b) Mr Dee has been working as a technical director for EFG Manufacturing Sdn Bhd since 1 February 2004. With effect from 1 August 2004, he was transferred to Vietnam to manage the branch factory there. He travelled to Vietnam on 31 July 2004 and will be stationed in Vietnam until 31 October 2006, when he will return to the head office in Malaysia.

Mr Dee has never left Malaysia prior to this. During his tenure in Vietnam, he returned to Malaysia on 1 March 2005 and stayed until 31 May 2005. He does not expect to return to or visit Malaysia again until the end of his employment term in October 2006. Thereafter, he expects to remain in Malaysia.

Mr Dee's remuneration from his employment with EFG is as follows:

	RM
1 February to 31 July 2004	36,000
1 August to 31 December 2004	40,000

**Required:**

- (i) **Explain the rules of derivation of employment income relevant to Mr Dee and compute Mr Dee's statutory income from employment for the year of assessment 2004.** (7 marks)
- (ii) **State, with reasons, Mr Dee's anticipated residence status for Malaysian tax purposes for each of the years of assessment 2004 to 2006 inclusive.** (7 marks)

**(24 marks)**

**End of Question Paper**