

Preparing Taxation Computations (Malaysia)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

ADVANCED LEVEL

TUESDAY 12 DECEMBER 2006

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	
Disabled self	6,000	
Medical expenses expended for parents	5,000	maximum
Medical expenses expended on self, spouse or child with serious disease, including up to RM500 for medical examination	5,000	maximum
Basic supporting equipment for disabled self, spouse, child or parent	5,000	maximum
Fees expended for skills or qualifications	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
Purchase of personal computer	500

Rates of real property gains tax

Disposal within the following period after acquisition	Individual		Company
	Citizen or permanent resident	Non-citizen and 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 Alex and Zizah are husband and wife, and both are directors of AToZ Bhd, a public-listed company. Upon attaining 55 years of age, Alex retired from the company on 30 June 2005. At his retirement, Alex had served 25 years of continuous service with AToZ Bhd.

During the period 1 January to 30 June 2005, Alex was provided with a company car (which had cost RM185,000 when new), free fuel and a driver. The car, fuel and the driver benefits ended when he retired.

Zizah was provided with free accommodation by AToZ Bhd throughout the year 2005 in a fully-furnished condominium. The monthly rental was RM5,000 for the premises and RM1,000 for the furnishings.

Other information relating to Alex and Zizah's income and expenditure for the year ended 31 December 2005 is as follows:

	Alex RM	Zizah RM
Income		
Director's fees	100,000	120,000
Retirement gratuity	850,790	–
Travelling allowance	–	36,000
Malaysian dividend A (net of tax)	8,640	–
Malaysian dividend B (exempt)	10,000	–
UK dividend	5,250	–
Interest on fixed deposits in Maybank	2,700	–
Interest on a personal loan to a friend	–	1,800
Expenditure		
EPF contributions	11,000	13,200
Medical insurance	5,900	–
Books and magazines	650	1,200
First personal computer for home use	3,900	–
Heart by-pass surgery	42,390	–
Full medical check-up	950	670

The travelling allowance was fully expended by Zizah on company business.

Alex has a share in a restaurant business. For the year of assessment 2005, Alex's partnership share of the partnership loss amounted to RM73,135.

Alex and Zizah have a twenty-year-old daughter attending university in Kuala Lumpur and a two-year-old legally-adopted son.

Required:

Assuming that there is no election for combined assessment and that Zizah claims for child relief, compute the income tax payable/repayable for the year of assessment 2005 by:

(a) Alex; and (19 marks)

(b) Zizah (14 marks)

Give brief reasons for your treatment of Alex's retirement gratuity; the UK dividend; and the interest on the fixed deposits in Maybank.

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.

(33 marks)

- 2 On 2 January 2005, Pedro and Liam commenced a car repair business under the partnership name of Pedroliam Mekanik. They each hold a half share in the partnership business.

The statement of profit and loss for the year ended 31 December 2005 in respect of Pedroliam Mekanik is as follows:

	RM	RM
Sales & service charges		149,500
Less: Expenditure		
Salary for Pedro	48,000	
Salary for Liam	48,000	
Workshop rental	10,800	
Van – fuel, upkeep and maintenance	16,782	
Interest on capital to Pedro	3,475	
Spares, lubricants etc	21,052	
Workshop utilities	9,741	
Depreciation	6,950	
	<hr/>	(164,800)
Net loss		<hr/> (15,300) <hr/>

The van, which is the only fixed asset of the partnership, was acquired on 8 January 2005 for RM69,500.

Required:

- (a) Compute the capital allowance in respect of the van for the year of assessment 2005 and state the residual expenditure for the van at the end of the year of assessment 2005. (4 marks)
- (b) Compute the provisional adjusted income/(loss) and divisible income/(loss) of the partnership. (5 marks)
- (c) Compute the statutory income from Pedroliam Mekanik for Pedro and Liam for the year of assessment 2005. (7 marks)

Marks will be awarded for the use of accurate technical terms to describe the figures calculated at various stages of the computations in parts (a) to (c).

- (d) (i) State, giving reasons, whether Pedroliam Mekanik is subject to the service tax provisions in the year 2005; (4 marks)
- (ii) State the prevailing rate of service tax and the duration of a taxable period. (2 marks)

(22 marks)

3 Mr A, a Malaysian citizen, incurred the following costs when he acquired a piece of land on 1 December 2001:

	RM
Cost of land	356,000
Legal fees	2,478
Stamp duty	6,122

Thereafter he incurred RM518,000 on building a house on the land.

Mr A placed an advertisement to sell the land and house in January 2005. A prospective buyer paid Mr A a deposit of RM14,600 but could not raise the funds to complete the purchase. Mr A then forfeited the deposit in April 2005.

On 28 November 2005, Mr A agreed with Mr B to sell the land and house for RM1,800,000. The sale and purchase agreement was signed on 5 December 2005. In selling the land and house, Mr A incurred the following expenses:

	RM
Advertisement	4,500
Valuation fees	1,750
Real estate agent's fee	36,000

Required:

(a) Compute the real property gains tax liability of Mr A, clearly identifying the date of disposal.

Marks will be awarded for the use of accurate technical terms to describe the figures calculated at various stages of the computations. (13 marks)

(b) State the date by which Mr A must submit the disposer's return to the Director General of Inland Revenue. (2 marks)

(c) Explain, for the purposes of real property gains tax, the responsibilities of Mr B (as acquirer of the real property) with regard to:

(i) the filing of a return; and (2 marks)

(ii) the retention of money. (2 marks)

(19 marks)

- 4 Dee Sdn Bhd commenced manufacturing natural fibres in February 2005. By the end of its first financial year, on 31 December 2005, it had:
- employed managerial and production employees;
 - paid a royalty to the American patent holder;
 - paid interest to a Malaysian bank in respect of a loan; and
 - paid technical fees to experts who came from America to transfer their expertise to Dee's Malaysian employees.

Required:

- (a) Explain the requirements under the Income Tax Act 1967 that Dee Sdn Bhd, as an employer, must comply with in respect of its employees
- (i) when they are newly recruited; (2 marks)
 - (ii) when paying their monthly salaries; and (2 marks)
 - (iii) at the end of the calendar year 2005. (3 marks)
- (b) In respect of each of the payments of royalty, interest and technical fees:
- (i) explain briefly whether the withholding tax provisions are applicable; (9 marks)
 - (ii) assuming the withholding tax provisions are applicable, state the rate of withholding; and (2 marks)
 - (iii) state the consequences of non-compliance with the withholding tax provisions. (4 marks)
- (c) State the due date by which Dee Sdn Bhd should:
- (i) submit its tax return and settle the balance of tax payable for the year of assessment 2005; and (2 marks)
 - (ii) provide the estimate of tax for the year of assessment 2006. (2 marks)
- (26 marks)**

End of Question Paper