

# Preparing Taxation Computations (Malaysia)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

ADVANCED LEVEL

TUESDAY 13 JUNE 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**

<b>Resident company</b>		<b>Chargeable income</b>	
	<b>Paid up capital</b>	<b>First RM500,000</b>	<b>In excess of RM500,000</b>
	RM2,500,000 or less	20%	28%
	More than RM2,500,000	28%	28%
<b>Non-resident person (company and individual)</b>			28%

**Resident individuals**

	<b>Chargeable income</b>		<b>Rate</b>	<b>Cumulative tax</b>
	<b>RM</b>	<b>RM</b>	<b>%</b>	<b>RM</b>
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**

	<b>RM</b>	
Self	8,000	
Disabled self	6,000	
Medical expenses expended for parents	5,000	maximum
Basic supporting equipment for disabled self, spouse, child or parent	5,000	maximum
Medical expenses expended on self, spouse or child with serious disease, including up to RM500 for medical examination	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**

	<b>RM</b>
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 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 Muthu and Raju are twin brothers who are citizens of Malaysia. Upon completing their tertiary education abroad six years ago, Muthu took up employment overseas while Raju returned to Malaysia to work.

**Raju**

Raju and his wife have two children, aged one and three years respectively, the elder of whom is disabled. Since starting their family, Mrs Raju had ceased being employed to care for the children. She did not derive any income during the year 2005.

As a marketing manager, Raju travels within Malaysia and entertains often. In 2005, he incurred travelling expenses of RM6,000 and entertainment expenses of RM7,800.

Raju's employer provided him with a domestic servant during 2005. Other domestic bills paid for by his employer in 2005 were as follows:

	RM
Water and electricity	4,500
Medical	3,900
Dental	850

Raju's statement of remuneration for the year ended 31 December 2005 indicated the following:

	RM
Salary	72,000
Travelling allowance	6,000
Entertainment allowance	7,200
Leave passage to Langkawi	1,200
Leave passage to Perth	4,200
EPF contribution (employee's contribution)	7,920

Raju underwent a part-time course in software development during May 2005 to October 2005 at the Universiti Malaya and was awarded a diploma in December 2005. He incurred RM6,750 of fees for the course in 2005.

Raju brokered a land sale for his friends in 2005 and received a commission of RM5,000 from the seller. This is the first time he has received such a commission.

In 2005, he donated RM500 to the Association for the Blind (an approved organisation).

**Muthu**

For the past four years, Muthu, his wife and their child have travelled to Malaysia to visit family for about one month in each year. In 2005, they stayed in Malaysia for 28 days in September 2005, during which time he visited his old school in Pekan Ulu to donate five personal computers worth RM10,000.

In 2005, he derived income from Malaysia as follows:

	RM	RM
Malaysian dividend (net)		6,480
Interest on fixed deposit from Malaysian bank		14,800
Rental income	14,400	
Less		
Rental manager's fee	(720)	
Service charges	(680)	
Additional air-conditioner installed	(1,500)	
Net rental income	<hr/>	11,500

**Required:**

- (a) **By reference to the four tests of residence, briefly explain to Muthu why he was a non-resident of Malaysia for the year of assessment 2005 even though he remained a citizen of Malaysia.** (4 marks)
- (b) **Compute the Malaysian income tax payable for the year of assessment 2005 by**
- (i) **Raju;** (18 marks)
- (ii) **Muthu as a non-resident.** (10 marks)

Wherever relevant, 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.

**(32 marks)**

- 2 Shoes-R-Us Sdn Bhd which makes up its accounts to 31 December annually, commenced its shoe manufacturing business on 1 February 2004 in rented premises. The company completed the construction of a new factory in March 2005, incurring expenditure as follows:

	RM
Land	150,000
Architect's design fees	35,750
Legal fees for purchase of land	1,800
Civil and structural works	411,000
Electrical and plumbing works	53,250

The factory was used in the shoe manufacturing business from June 2005.

In March 2004, Shoes-R-Us purchased a new motor car for its production manager. The relevant details were as follows:

	RM
Total cost of motor car	145,800
Down payment	45,000
Hire purchase loan	100,800
Terms of hire purchase:	
Total number of monthly instalments	36
Number of instalments paid in 2004	9
Number of instalments paid in 2005	12
Principal repayment in each instalment payment	2,800

**Required:**

- (a) **In respect of the new factory, determine the qualifying industrial building expenditure, calculate the capital allowances for the year of assessment 2005 and state the residual expenditure of the industrial building at the end of the year of assessment 2005.** (6 marks)
- (b) **Calculate the capital allowances for the motor car acquired under hire purchase for the years of assessment 2004 and 2005, and state the residual expenditure of this asset at the end of the year of assessment 2005.** (9 marks)
- (c) (i) **State the information you would require to determine whether Shoes-R-Us is subject to the sales tax provisions and whether it should be duly licensed.** (4 marks)
- (ii) **Assuming that sales tax is applicable, state how often sales tax is payable by Shoes-R-Us, and the due date the sales tax due must be paid to the customs authorities.** (2 marks)

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

**(21 marks)**

- 3 As wedding gifts, Fatimah transferred a rubber estate (which had a market value of RM300,000) in Johor and a two-year old motor car (market value RM75,000) to her daughter on 8 September 2003. Fatimah had purchased the estate on 12 August 1999 for RM215,000.

On 10 August 2005, the daughter sold the rubber estate for RM380,000 to a third party.

**Required:**

- (a) **State, with reasons, whether there is a disposal for the purposes of real property gains tax with respect to:**
- (i) **the transfer of the rubber estate; and** (3 marks)
  - (ii) **the transfer of the motor car.** (2 marks)
- (b) **Compute the real property gains tax liability, if any, for**
- (i) **Fatimah in respect of the transfer of the rubber estate; and** (3 marks)
  - (ii) **her daughter in respect of the sale of the rubber estate to the third party.** (5 marks)
- (c) **Compute the real property gains tax liability for the daughter if she had sold the rubber estate to her husband (instead of to a third party) for RM380,000 on 10 August 2005.** (4 marks)
- (d) **Compute the real property gains tax liability for the daughter's husband if he then sold the rubber estate to a third party on 30 December 2005 for RM420,000.** (5 marks)
- (22 marks)**

- 4 ZeBest Sdn Bhd is a resident company with a paid up capital of RM100,000. It operates three businesses: a travel business, a retail business and a restaurant. For the year ended 30 September 2005, ZeBest reported results as follows:

	Travel RM	Retail RM	Restaurant RM	Dividend RM
Gross income	445,400	789,000	569,200	75,000
Tax deductible expenses	420,400	839,000	419,200	nil
Capital allowance	30,900	12,500	9,000	nil

ZeBest has an unabsorbed business loss of RM 35,800 carried forward from the year of assessment 2004.

ZeBest has five directors, three of whom derive employment income only while the remaining two derive both employment and business income.

**Required:**

- (a) **Compute the Malaysian income tax payable by ZeBest for the year of assessment 2005. You should clearly identify any unused allowances or losses which are carried forward, within your computation.** (13 marks)
- (b) **State, giving reasons, the due date for ZeBest to submit its income tax return for the year of assessment 2005.** (2 marks)
- (c) **State, giving reasons, the date by which ZeBest must provide the Director General of Inland Revenue with the company's estimated income tax for the year of assessment 2006.** (2 marks)
- (d) **State how often and when ZeBest may revise its estimated income tax for the year of assessment 2006.** (4 marks)
- (e) **State the due dates by which the directors of ZeBest must submit their income tax returns for the year of assessment 2005.** (4 marks)
- (25 marks)**

End of Question Paper