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# Answers

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| 1 (a)   | Mr East   |              |                | Marks     |
|---|---|--------------|----------------|-----------|
|   | Tax computation for the year of assessment 2007 |              |                |           |
|   | RM  | RM           | RM             | Marks     |
| Employment income   |   |              |                |           |
| Salary  |   |              | 120,000        | 1/2       |
| Perquisite – son’s school fees  |   |              | <u>20,000</u>  | 1         |
| Section 13(1)(a)  |   |              | 140,000        |           |
| Section 13(1)(b):   |   |              |                |           |
| Car benefit   |   | 7,000        |                | 1         |
| Driver (12 × 600)   |   | 7,200        |                | 1         |
| Fuel benefit  |   | 1,800        |                | 1         |
| Furnishings (12 × 280)  |   | <u>3,360</u> |                | 1         |
|   |   |              | 19,360         |           |
| Living accommodation:   |   |              |                |           |
| Defined value = 5,000 × 12  | 60,000  |              |                | 1         |
| 30% of s.13(1)(a) = 30% × 140,000   | 42,000  |              |                | 1         |
| The lower   |   |              | <u>42,000</u>  | 1/2       |
| Adjusted/statutory income from employment                                 |   |              | 201,360        |           |
| <b>Dividend</b>   |   |              |                |           |
| UK dividend (foreign-sourced income exempt)                               |   |              | nil            | 1         |
| <b>Interest</b>   |   |              |                |           |
| Interest from a Malaysian bank (exempt or tax already deducted at source) |   |              | nil            | 1         |
| <b>Rent</b>   |   |              |                |           |
| Rent received   |   | 20,000       |                | 1/2       |
| Less tax deductible expenses:   |   |              |                |           |
| Mortgage interest on rental property                                      | 15,600  |              |                | 1         |
| Repair and maintenance of property  | 4,800   |              |                | 1         |
| Quit rent and assessment  | <u>5,000</u>                                    |              |                | 1         |
|   |   | (25,400)     |                |           |
| Adjusted/statutory income from rent                                       |   |              | nil            | 1         |
| Aggregate income  |   |              | 201,360        | 1/2*      |
| Less  |   |              |                |           |
| Approved donation in cash   |   |              | <u>(1,360)</u> | 1         |
| Total income  |   |              | 200,000        | 1/2*      |
| <b>Personal reliefs</b>   |   |              |                |           |
| Personal relief   |   | 8,000        |                | 1/2       |
| Child relief  |   |              |                |           |
| Twenty-year-old undergraduate (1,000 × 4)                                 |   | 4,000        |                | 1         |
| Twelve-year-old son in school   |   | 1,000        |                | 1/2       |
| Adopted child   |   | 1,000        |                | 1         |
| Medical insurance (restricted to maximum)                                 |   | 3,000        |                | 1         |
| Medical expenses for full medical check-up (restricted to maximum)        |   | 500          |                | 1         |
| Books and magazines   |   | <u>100</u>   |                | 1/2       |
|   |   |              | (17,600)       |           |
| Chargeable income   |   |              | <u>182,400</u> | 1/2*      |
| Tax on first RM100,000  |   |              | 14,475         |           |
| Tax on next RM82,400 at 27%   |   |              | <u>22,248</u>  |           |
| Tax charged/payable   |   |              | <u>36,723</u>  | 1/2       |
|   |   |              |                | <u>23</u> |

Note: Marks indicated with a “ \* ” are awarded for the allocation of the appropriate description to the figure calculated, not for the figure itself.

(b)

Nora  
Tax computation for the year of assessment 2007

|  | RM         | RM             | Marks            |
|--|------------|----------------|------------------|
| <b>Employment income</b>                       |            |                |                  |
| Salary   |            | 36,000         | 1/2              |
| Overtime pay                                   |            | 4,150          | 1/2              |
| Adjusted/statutory income from employment      |            | <u>40,150</u>  |                  |
| <b>Dividend</b>                                |            |                |                  |
| Malaysian dividend (936/73 × 100)              |            | 1,282          | 1                |
| Aggregate income                               |            | 41,432         | 1/2*             |
| Donation (not in cash)                         |            | nil            | 1                |
| Total income                                   |            | <u>41,432</u>  | 1/2*             |
| <b>Personal reliefs</b>                        |            |                |                  |
| Self   | 8,000      |                | 1/2              |
| Books and magazines                            | <u>450</u> |                | 1/2              |
|  |            | <u>(8,450)</u> |                  |
| Chargeable income                              |            | <u>32,982</u>  | 1/2*             |
| Tax on first RM20,000                          |            | 475            |                  |
| On next RM12,982 at 7%                         |            | 909            |                  |
| Tax charged                                    |            | <u>1,384</u>   | 1/2*             |
| Less rebate (chargeable income below RM35,000) |            | <u>(350)</u>   | 1                |
|  |            | 1,034          |                  |
| Less s.110 set-off (936/73 × 27)               |            | <u>(346)</u>   | 1                |
| Tax payable                                    |            | <u>688</u>     |                  |
|  |            |                | <u>8</u>         |
|  |            |                | <b><u>31</u></b> |

Note: Marks indicated with a “ \* ” are awarded for the allocation of the appropriate description to the figure calculated, not for the figure itself.

2 (a) (i) Capital allowances for the motor car

|                                 | RM            | RM              |            |
|---------------------------------|---------------|-----------------|------------|
| <b>Year of assessment 2004</b>  |               |                 |            |
| Acquired on 12 January 2004     |               |                 |            |
| Qualifying plant expenditure    |               | 100,000         | 1          |
| Initial allowance 20% × 100,000 | 20,000        |                 | 1          |
| Annual allowance 20% × 100,000  | <u>20,000</u> |                 | 1          |
|                                 |               | <u>(40,000)</u> |            |
| Residual expenditure            |               | 60,000          |            |
| <b>Year of assessment 2005</b>  |               |                 |            |
| Annual allowance                |               | <u>(20,000)</u> | 1          |
| Residual expenditure            |               | 40,000          | 1/2* + 1/2 |
| <b>Year of assessment 2006</b>  |               |                 |            |
| Disposal on 21 November 2006    |               |                 |            |
| Disposal price (trade-in value) |               | <u>(62,000)</u> | 1          |
| Balancing charge                |               | <u>(22,000)</u> | 1          |
|                                 |               |                 | <u>7</u>   |

|  | RM              | RM              | Marks             |
|--|-----------------|-----------------|-------------------|
| <b>(ii) Capital allowances for the van</b>                           |                 |                 |                   |
| Year of assessment 2006  |                 |                 |                   |
| Acquired on 21 November 2006   |                 |                 |                   |
| Down payment (trade-in value)  |                 | 62,000          | 1                 |
| Principal repaid in one instalment (December 2006)                   |                 | <u>2,000</u>    | 1                 |
| Qualifying plant expenditure<br>(no restriction: commercial vehicle) |                 |                 |                   |
| Initial allowance 20% × 64,000                                       | 12,800          | 64,000          | 1                 |
| Annual allowance 20% × 64,000  | <u>12,800</u>   |                 | 1                 |
|  |                 | <u>(25,600)</u> |                   |
| Residual expenditure   |                 | 38,400          |                   |
| <b>Year of assessment 2007</b>                                       |                 |                 |                   |
| Qualifying plant expenditure (2,000 × 12 instalments)                |                 | <u>24,000</u>   | 1                 |
|  |                 | 62,400          |                   |
| Initial allowance 20% × 24,000                                       | (4,800)         |                 | $\frac{1}{2} + 1$ |
| Annual allowance 20% × (64,000 + 24,000)                             | <u>(17,600)</u> |                 | $\frac{1}{2} + 1$ |
|  |                 | <u>(22,400)</u> |                   |
| Residual expenditure   |                 | <u>40,000</u>   |                   |
|  |                 |                 | <u>9</u>          |

**(b) Tax deductibility of expenditure**

|  |   |                  |
|--|---|------------------|
| Salary and allowances to staff             | Deductible: incidental to carrying out the business.  | 1                |
| Salary to the proprietor                   | Not deductible: owner's drawings.   | 1                |
| Interest on overdraft                      | Deductible: provided the money borrowed is laid out for business operations or business assets. | 1                |
| Provision for specific doubtful trade debt | Deductible: specifically allowed in s.34.   | 1                |
| Loss on the sale of a fixed asset          | Not deductible: the loss is capital in nature.  | 1                |
| Detergents and supplies                    | Deductible: incidental to carrying out the business.  | 1                |
| Depreciation                               | Not deductible: not incurred, merely a provision.   | $\frac{1}{7}$    |
|  |   | <u>7</u>         |
|  |   | <b><u>23</u></b> |

**3 (a) Employer's responsibilities**

|   |               |
|---|---------------|
| <b>(i)</b> AhBeng Sdn Bhd should notify the Director General of Inland Revenue regarding the employment of the three engineers within one month of the commencement of their employment.  | 1             |
|   | $\frac{1}{2}$ |
|   | <u>2</u>      |
| <b>(ii)</b> Upon paying monthly salaries to its employees, AhBeng Sdn Bhd should deduct tax pursuant to the rates prescribed in the schedular tax deduction scheme and pay over the tax deducted to the Director General of Inland Revenue by the 10th day of the following month.                          | $\frac{1}{2}$ |
|   | 1             |
|   | $\frac{1}{2}$ |
|   | <u>1</u>      |
|   | 3             |
| <b>(iii)</b> AhBeng Sdn Bhd must notify the Director General of Inland Revenue regarding the engineer who will be away from Malaysia for a period exceeding three months. The notification must be made not less than one month before the engineer's departure on 1 December 2007 i.e. by 1 November 2007. | $\frac{1}{2}$ |
|   | 1             |
|   | 1             |
|   | $\frac{1}{2}$ |
|   | <u>3</u>      |

**(b) Whether withholding tax is applicable**

- |   |                                   |
|---|-----------------------------------|
| <p>(i) Royalties have been paid by a resident to a non-resident. Therefore they are deemed derived from Malaysia.<br/>Therefore, the payment of royalties is subject to withholding tax.<br/>The withholding tax rate applicable is 10%.</p>  | <p>1½<br/>1½<br/>1<br/><hr/>3</p> |
| <p>(ii) Interest has been paid by a resident to a non-resident. Therefore it is deemed derived in Malaysia.<br/>Therefore, the payment of interest is subject to withholding tax.<br/>The withholding tax rate applicable is 15%.</p>   | <p>1½<br/>1½<br/>1<br/><hr/>3</p> |
| <p>(iii) Payment for the purchase of machinery and equipment is an ordinary trade payment for the acquisition of capital assets which does not fall within any of the provisions relating to withholding tax.<br/>Therefore, the cost of the purchase of machinery and equipment is not subject to withholding tax.</p> | <p>½<br/>1<br/>½<br/><hr/>2</p>   |

**(c) AhBeng Sdn Bhd's tax compliance**

- |  |                           |
|--|---------------------------|
| <p>(i) AhBeng Sdn Bhd should provide the Director General of Inland Revenue with its tax estimate for the year of assessment 2007 within three months from the date of commencement of operations i.e. by 31 March 2007.</p> | <p>2<br/>1<br/><hr/>3</p> |
| <p>(ii) It must submit its tax return for the year of assessment 2007 within seven months of the close of the accounting period i.e. by 31 July 2008.</p>  | <p>2<br/><hr/>21</p>      |

**4 (a) (i)**

**Mr Diligent  
Computation of total income for the year of assessment 2007**

|  | RM             | RM             |          |
|--|----------------|----------------|----------|
| <b>Business of growing and selling vegetables and fruits</b> |                |                |          |
| Adjusted income  |                | 52,000         | ½        |
| Add: Balancing charge  |                | <u>600</u>     | 1        |
|  |                | 52,600         |          |
| Less: Capital allowance brought forward                      | (890)          |                | 1        |
| Capital allowance current year                               | <u>(1,110)</u> |                | 1        |
|  |                | <u>(2,000)</u> |          |
| Statutory income   |                | 50,600         | ½*       |
| <b>Canteen partnership business</b>                          |                |                |          |
| Adjusted/statutory income                                    |                | <u>nil</u>     | 1        |
| Share of partnership capital allowances carried forward      | <u>1,970</u>   |                |          |
| Statutory income from all businesses                         |                | 50,600         | 1        |
| Less: Unabsorbed business loss brought forward               |                | <u>(5,600)</u> | 1        |
|  |                | 45,000         |          |
| Employment income  |                | 26,400         | 1        |
| Dividend income (14,400/73 × 100)                            |                | 19,726         | 1        |
| Aggregate income   |                | <u>91,126</u>  | ½*       |
| Less: Current year business loss from partnership            | (5,800)        |                | 1        |
| Approved donation  | <u>(600)</u>   |                | 1        |
|  |                | <u>(6,400)</u> |          |
| Total income   |                | <u>84,726</u>  | ½*       |
|  |                |                | <hr/> 12 |

|  |          |   | Marks                        |
|--|----------|---|------------------------------|
| <b>(ii) Whether the provisions of sales tax are applicable</b>   |          |   |                              |
| Sales tax is a single stage consumption tax imposed on the sale of taxable goods.                                      |          |   | 1                            |
| Taxable goods are all goods manufactured in Malaysia unless they are specifically exempted.                            |          |   | 1                            |
| Vegetables and fruits are specifically exempted.   |          |   | 1                            |
| Therefore, the sales tax provisions are not applicable to Mr Diligent in respect of his vegetable and fruits business. |          |   | 1                            |
|  |          |   | <hr style="width: 100%;"/>   |
|  |          |   | 4                            |
|  |          |   | <hr style="width: 100%;"/>   |
| <b>(b) Tax residence of Miss Motivasi</b>  |          |   |                              |
| Year of assessment 2003  |          |   |                              |
| 8 June to 10 September 2003  | 95 days  | Non resident.   | 1                            |
| Year of assessment 2004  |          |   |                              |
| 12 December to 31 December 2004  | 20 days  | Resident [under section 7(1)(b)] as her stay in December 2004 is linked to a continuous period of at least 182 days in 2005.  | 1<br>1 + 1/2                 |
| Year of assessment 2005  |          |   |                              |
| 1 January to 4 July 2005   | 185 days | Present in Malaysia for at least 182 days.  | 1/2                          |
| 29 December to 31 December 2005  | 3 days   | Therefore, resident [under section 7(1)(a)].  | 1                            |
| Year of assessment 2006  |          |   |                              |
| 1 January to 18 February   | 49 days  |   |                              |
| 1 July to 20 November 2006   | 143 days | Resident [under section 7(1)(a)].   | 1                            |
| Year of assessment 2007  |          |   |                              |
| 6 April to 28 July 2007  | 114 days | In Malaysia for at least 90 days, and had at least 90 days or was resident for three out of the four immediately preceding years. Therefore, resident [under section 7(1)(c)] . | 1/2<br>1/2 + 1/2<br>1/2<br>1 |
|  |          |   | <hr style="width: 100%;"/>   |
|  |          |   | 9                            |
|  |          |   | <hr style="width: 100%;"/>   |
|  |          |   | <b>25</b>                    |
|  |          |   | <hr style="width: 100%;"/>   |