
Answers

1 (a)	Abang			Marks
	Tax computation for the year of assessment 2006			
	RM	RM	RM	
Employment income				
Salary			104,000	1/2
Entertainment allowance			20,000	1/2
Car benefit (15,000 x 1/2)			7,500	1
Fuel benefit			2,400	1
			<u>133,900</u>	
Less entertainment expenses			(20,000)	1
Adjusted/statutory income from employment			113,900	
Interest income				
Interest on fixed deposits in a Malaysian bank			nil	1
Dividends				
Malaysian dividend A (exempt)		nil		1/2 + 1/2
Malaysian dividend B (720/72 x 100)		1,000		1
Statutory income from dividends			1,000	
Aggregate income			114,900	1/2*
Less				
Donation			(13,250)	1
Total income			101,650	1/2*
Less reliefs:				
Personal relief		8,000		1/2
Wife relief		3,000		1/2 + 1/2
EPF contribution (restricted to maximum)		6,000		1
Child relief		1,000		1/2
Medical expense for parent (restricted to maximum)		5,000		1
Medical expenses for full medical check-up (restricted to maximum)		500		1
Books and magazines		650		1/2
			<u>(27,150)</u>	
Chargeable income			74,500	1/2*
Tax on first 70,000			7,275	
Tax on next 7,500 at 24%			1,800	
Tax charged			9,075	1/2
Less s.110 set-off (720/72 x 28%)			(280)	1
Tax payable			<u>8,795</u>	1/2*
				<u>17</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)

Adik
Tax computation for the year of assessment 2006

Marks

	RM	RM	RM	
Employment income				
Salary			60,000	1/2
Travelling allowance			12,000	1/2
			<u>72,000</u>	
<i>Less allowable deduction:</i>				
Travelling (fully expended)			(12,000)	1
Adjusted/statutory income from employment			60,000	
Interest income				
Foreign-sourced interest – exempted			nil	1
Aggregate income			60,000	1/2*
<i>Less donation (not in cash)</i>			nil	1
Total income			60,000	1/2*
Personal reliefs				
Self	8,000			1/2
EPF contribution (restricted to maximum)	6,000			1
Books and magazines	380			1/2
Medical insurance (restricted to maximum)	3,000			1
Medical expense for parent (restricted to maximum)	5,000			1
Accountancy course fees (restricted to maximum)	5,000			1
Full medical check-up	390			1/2
			<u>(27,770)</u>	
Chargeable income			32,230	1/2*
Tax on first RM20,000			475	
On next RM12,230 at 7%			856	
Tax charged			1,331	1/2*
<i>Less rebate (chargeable income below RM35,000)</i>			(350)	1
Tax payable			981	1/2*
				<u>13</u>
				<u>30</u>

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

			Marks
2 (a) Date of acquisition			
The date of the written agreement is the date of acquisition.			1
Hence, Mr Greenfingers acquired the land on 12 March 2004			<u>1</u>
			<u>2</u>
 (b) Computation of real property gains tax			
	RM	RM	
Disposal date: 8 February 2006			
Sale consideration		677,000	1/2
Less Enhancement cost –			
Drainage and irrigation system	13,500		1
Farm buildings	22,800		1
Fencing	<u>5,600</u>		1
		(41,900)	
Less cost of defending title		(27,000)	1
Less incidental costs			
Real estate agent's fee	16,500		1
Advertisement	2,500		1
Valuation fee	<u>1,000</u>		1
		(20,000)	
Disposal price		588,100	1/2*
Acquisition date: 12 March 2004			
Purchase consideration of land	250,000		1/2
Legal fees	1,980		1
Stamp duty	<u>4,000</u>		1
Acquisition price		(255,980)	1/2*
Chargeable gain		332,120	1/2*
Schedule 4 exemption			
Greater of 10% of 332,120 or 5,000		(33,212)	1
		<u>298,908</u>	
Disposal within two years			1/2
RPGT at 30%		<u>89,672</u>	<u>1</u>
			<u>14</u>
 (c) Date of acquisition in the absence of a written agreement			
In the absence of a written agreement, the date of acquisition is the date the transaction is completed.			1
The date the transaction is completed is the earlier of full payment or the transfer of the asset.			1 + 1
Therefore, Mr Greenfingers would have acquired the farm land on 10 June 2004			<u>1</u>
			<u>4</u>
			<u>20</u>

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

3 (a) Capital allowances			
	RM	RM	
Hotel building			
Qualifying building expenditure		1,000,000	1/2
Initial allowance 10%	100,000		1
Annual allowance 3%	<u>30,000</u>		1
		(130,000)	
Residual expenditure		<u>870,000</u>	1/2
Small value assets – TV sets (each asset less than RM1,000 and total not exceeding RM10,000)			1
Qualifying plant expenditure		8,900	1/2
100% allowance		(8,900)	1
Residual expenditure		<u>nil</u>	1/2

	RM	RM	<i>Marks</i>
Hotel van			
Qualifying plant expenditure		150,000	$\frac{1}{2}$
Initial allowance 20%	30,000		1
Annual allowance 20%	<u>30,000</u>		1
		(60,000)	
Residual expenditure		<u>90,000</u>	$\frac{1}{2}$
Furniture and fittings			
Qualifying plant expenditure		48,000	$\frac{1}{2}$
Initial allowance 20%	9,600		1
Annual allowance 10%	<u>4,800</u>		1
		(14,400)	
Residual expenditure		<u>33,600</u>	$\frac{1}{2}$
			<u>12</u>
(b) Tax treatment of the expenditure on linen, pillows, crockery and cutlery			
These are capital assets.			$\frac{1}{2}$
However, because they are numerous in units and do not have a lifespan exceeding two years, it would be tedious to compute capital allowances for them.			$\frac{1}{2} + \frac{1}{2}$
The tax treatment of such items is to disallow the cost when they are first acquired but allow a 100% tax deduction upon subsequent replacement.			$\frac{1}{2}$
			1
			<u>4</u>
(c) (i) Whether subject to withholding tax provisions			
Royalty			
The payment is a royalty because it is payment for use of the architectural designs derived from Malaysia as it is paid by a resident to a non-resident.			1
Therefore, the withholding tax provisions apply.			1
Technical fees			
The payment is technical in nature because it is payment for supervision of construction work derived from Malaysia as it is paid by a resident and the services are rendered in Malaysia to a non-resident.			1
Therefore, the withholding tax provisions apply.			1 + 1
			1
			<u>7</u>
(ii) Rates of withholding tax applicable			
Royalty 10%			1
Technical fees 10%			1
			<u>2</u>
(d) Whether service tax provisions are applicable			
An operator of a hotel with more than 25 rooms is a taxable person for the purposes of service tax.			1 + 1
There is no minimum sales turnover requirement			$\frac{1}{2}$
Therefore, the service tax provisions are applicable to Budget Hotel in 2006.			1
			$\frac{1}{2}$
			4
			<u>29</u>

		Marks
4 (a) Compliance requirements		
	For Mr Yap's employer	
	When an employee is about to leave Malaysia for more than three months, his employer is obliged to inform the Inland Revenue Board of the move by way of a written notice within one month of the employee's departure from Malaysia	1 $\frac{1}{2}$ $\frac{1}{2} + 1$
	For Mr Yap	
	Mr Yap must inform the Inland Revenue Board in writing within three months of his change of address.	1 <hr/> 1 <hr/> 5 <hr/>
(b) Valid appeal		
	A valid appeal, is an appeal in writing in a prescribed form submitted to the Inland Revenue Board within 30 days after the service of the notice of assessment stating the grounds of appeal and relevant particulars	1 1 <hr/> 1 <hr/> 3 <hr/>
(c) Exemptions for resident individuals		
	Employment income	
	– Leave passage: three trips within Malaysia and one trip to outside Malaysia are exempt in a basis year.	
	– Medical and dental benefit.	
	– Child care benefit.	
	– A benefit or amenity used by the employee solely in connection with the performance of his duties.	
	– Withdrawal from an approved provident fund.	
	– RM6,000 per completed year of service in respect of compensation for loss of employment.	
	– A gratuity received upon retirement at the statutory age after at least ten years of continuous service with the same employer.	
	– A gratuity received on retirement because of ill health.	
	Interest	
	– Interest in respect of a deposit (not exceeding RM100,000) placed in a Malaysian financial institution;	
	– Interest on securities and bonds issued or guaranteed by the Government;	
	– Interest in respect of debentures (other than convertible loanstock) approved by the Securities Commission;	
	– Interest in respect of Bon Simpanan Malaysia issued by the Central Bank of Malaysia	
	Royalty	
	– Income of RM20,000 in respect of publication or the right to use, any literary works or paintings.	
	– Income of RM20,000 in respect of any musical composition	
	One mark each for any four items.	4 <hr/>
(d) Tax deductibility of expenses		
Expense	Tax deductibility	
Legal fees and professional fees in respect of contracts with suppliers.	Deductible: in the normal course of business.	$\frac{1}{2} + 1$
Legal fees and professional fees in respect of loan facility.	Not deductible: capital in nature as the loan relates to the capital structure of the business	$\frac{1}{2} + 1$
Salaries and remuneration to staff.	Deductible: incidental to carrying out business	$\frac{1}{2} + 1$
Depreciation.	Not deductible: merely a provision to provide for the replacement of assets.	$\frac{1}{2} + 1$
Loan interest.	Deductible: provided the money borrowed is laid out for business operations or on business assets.	$\frac{1}{2} + 1$
Provision for retirement benefit.	Not deductible: merely a provision for a future liability	$\frac{1}{2} + 1$ <hr/> 9 <hr/> 21 <hr/>