

Preparing Taxation Computations (Malaysia)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

ADVANCED LEVEL

TUESDAY 12 JUNE 2007

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 persons (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 – additional	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 buildings	10	3
Computer, information technology equipment & computer software	20	40

ALL FOUR questions are compulsory and MUST be attempted

1 Abang is an engineer with a consultancy firm. His sister, Adik is a journalist with a financial magazine.

Other information relating to Abang and Adik's income and expenditure for the year ended 31 December 2006 is as follows:

	Abang RM	Adik RM
Income		
Salary	104,000	60,000
Travelling allowance	–	12,000
Entertainment allowance	20,000	–
Malaysian dividend A (exempt)	5,000	–
Malaysian dividend B (net of tax)	720	–
Interest on savings in a bank in Singapore	–	1,500
Interest on fixed deposits in Malaysian bank	1,700	–
Expenditure		
EPF contributions	13,640	7,920
Medical insurance	–	3,230
Books and magazines	650	380
Mother's knee surgery	7,900	7,900
Full medical check-up	740	390
Course on accountancy	–	6,450

The travelling allowance was fully expended by Adik while carrying out her duties as a journalist.

Adik donated RM500 worth of cooking oil, flour and sugar to the temple (an approved institution) that she regularly attends.

Abang expended his entertainment allowance in full on company business. For the whole of the 2006 year, his employer provided him with a six-year-old Mercedes car (cost when new RM345,000) and free petrol.

Abang and his wife, who is a home maker, have a five-year-old child. Abang made a cash donation of RM13,250 to an approved school building fund.

Abang and Adik each bore a half share of the cost of their mother's knee surgery.

Required:

Compute the income tax payable for the year of assessment 2006 by

(a) Abang; and (17 marks)

(b) Adik. (13 marks)

Note: you should indicate by the use of the word 'nil' any item referred to in the question for which no adjusting entry needs to be made in the tax computation.

Note: Show all workings.

You should note that marks will be awarded for the use of accurate technical terms to describe the figures calculated at various stages of the computation.

(30 marks)

- 2 On 12 March 2004, Mr Greenfingers signed a sale and purchase agreement to acquire a piece of land for RM250,000. He made full payment of the purchase price on 10 June 2004 and took possession of the land on 11 June 2004. The title to the land was transferred to him on 10 September 2004.

He then set up an organic farm on this piece of land. His expenditure was as follows:

	RM
Stamp duty on acquisition	4,000
Legal fees on acquisition	1,980
Drainage and irrigation system	13,500
Farm buildings	22,800
Fencing	5,600
Legal fees to defend his title to the land	27,000

On 8 February 2006, he disposed of the entire organic farm for RM677,000. His expenditure on disposal was as follows:

	RM
Real estate agent's fees	16,500
Advertisements for sale	2,500
Valuation fees	1,000

Required:

- (a) **State the date of acquisition of the land by Mr Greenfingers, giving reasons for your answer.** (2 marks)

- (b) **Compute the real property gains tax liability of Mr Greenfingers in respect of the disposal of the organic farm.**

Note: marks will be awarded in the answer to part (b) for the use of accurate technical terms to describe the figures calculated at various stages of the computation.

(14 marks)

- (c) **State, with reasons, what the date of acquisition of the land would have been if Mr Greenfingers did not sign a written agreement regarding its purchase. All other facts regarding the land remain the same as above.**

(4 marks)

(20 marks)

- 3 The 30-room Budget Hotel commenced operations on 1 March 2006 upon completion of the hotel building and registration with the Ministry of Culture, Arts and Tourism.

Budget Hotel's assets are as follows:

	RM
Hotel building	1,000,000 (Note 1)
TV sets (ten sets each costing RM890)	8,900
Hotel twelve-seater van licensed for commercial use	150,000
Furniture and fittings	48,000

Note 1: This sum includes RM9,000 paid to a foreign architect, as technical fees for the supervision of hotel construction.

The following details were extracted from the statement of profit and loss for the year ended 31 December 2006 in respect of Budget Hotel:

	RM	RM
Turnover		280,000
Expenditure		
Royalty to foreign architect for the use of the hotel design	10,000	
Linen, pillows, crockery and cutlery	20,000	
Other expenditure	161,300	
Total expenditure	<u>191,300</u>	<u>(191,300)</u>
Net profit before tax		<u>88,700</u>

Required:

- (a) **Compute the capital allowance in respect of all qualifying building expenditure and qualifying plant expenditure for the year of assessment 2006 and state their respective residual expenditures at the end of the year of assessment 2006.**

Note: in your computation, you should clearly identify the small value assets and state the requisite conditions for being treated as small value assets.

(12 marks)

- (b) **Explain the tax treatment of the expenditure on linen, pillows, crockery and cutlery, which all have a lifespan of less than two years.**

(4 marks)

- (c) **In respect of royalty and technical fees paid by Budget Hotel,**

(i) **state why Budget Hotel is subject to the withholding tax provisions, giving reasons for your answer; and**

(7 marks)

(ii) **state the rates of withholding tax that would be applicable in this case.**

(2 marks)

- (d) **State whether Budget Hotel is subject to the provisions of service tax in the year 2006, giving reasons for your answer.**

(4 marks)

(29 marks)

- 4 (a) Mr Yap went overseas for training for five months in 2006. Upon his return to Malaysia, he moved in to a new house in Petaling Jaya. Previously, he had lived in Kuala Lumpur and had provided his Kuala Lumpur address to the Inland Revenue Board in the tax returns he had submitted thus far.

Required:

Explain the compliance requirements in respect of the above events under the Income Tax Act for

(i) Mr Yap's employer; and

(ii) Mr Yap.

(5 marks)

- (b) Mr Yee received a notice of assessment for the year of assessment 2002 dated 10 December 2006. He wishes to object to this assessment.

Required:

List the requirements of a valid appeal.

(3 marks)

- (c) **State any FOUR of the exemptions from income tax available to a resident individual in relation to his income from employment, royalty or interest.**

(4 marks)

- (d) A retail business incurred the following expenses in the year 2006:

	RM
Legal fees and professional fees in respect of	
– contracts with suppliers	7,000
– loan facility	8,500
Salaries and remuneration to staff	50,000
Depreciation	42,000
Loan interest	43,600
Provision for retirement benefits	5,200

Required;

State, giving reasons, the tax deductibility of each expense.

(9 marks)

(21 marks)

End of Question Paper