
Answers

Notes:

- All references to legislation or public rulings shown in square brackets are for information only and do not form part of the answer expected from candidates.
- Marks indicated as ‘*’ are awarded for the allocation of the appropriate description of the figure calculated, not the figure itself.

	(i) Taxpayer Carol (James elects)		(ii) Taxpayer James (Carol elects)		<i>Marks</i>
	RM	RM	RM	RM	
Statutory income – partnership		4,350			
Salary	16,600			35,000	1/2
Travelling allowance	3,000			35,000	1/2
	<hr/>			<hr/>	1/2
Gross income	19,600			35,000	
Less: travelling expenses	(4,000)			35,000	1
	<hr/>			<hr/>	
Statutory income – employment		15,600		35,000	1/2*
Aggregate income		19,950		35,000	1/2*
Less: approved donation (limited to 7% of aggregate income (RM35,000))				(2,450)	1 1/2
		<hr/>		<hr/>	
Total income		19,950		32,550	1/2*
Total income of James		32,550			1
Total income of Carol				19,950	1
		<hr/>		<hr/>	
Aggregate total income		52,500		52,500	1/2*
Personal reliefs:					
Self	8,000		8,000		1/2
Disabled – self			6,000		1/2
Husband	3,000				1/2
Disabled – husband	3,500				1/2
Wife			3,000		1/2
Employees Provident Fund (max) (RM2,156 + 3,850)	6,000		6,000		1/2
Medical expenses (RM2,700 + 400)	3,100		3,100		1
Medical expenses for Carol's mother	900		Nil		1
Basic supporting equipment for Carol's father	3,600		3,600		1
Medical expenses for James' father	Nil		1,300		1/2
Course fees for James	Nil		1,100		1/2
		<hr/>		<hr/>	
		(28,100)		(32,100)	
Chargeable income		24,400		20,400	1/2*
		<hr/>		<hr/>	
Tax on RM20,000		475		475	
Tax on RM4,400 x 7%		308			
Tax on RM 400 x 7%				28	
		<hr/>		<hr/>	
		783		503	1/2
Rebate		(700)		(503)	1/2
		<hr/>		<hr/>	1
Tax payable		83		Nil	
		<hr/>		<hr/>	
				12	12

(b) (i)	Based on the above tax computations Carol should make the election for her total income to be combined with the total income of her husband and assessed in his name. This would result in a tax saving of RM83.		<u>1</u>
(ii)	The items of expense that contribute to the tax savings are:	RM	
	Disabled rate for self (James)	2,500	1/2
	As a taxpayer James is entitled to the personal relief for self at the disabled rate of RM6,000, whereas as a disabled spouse in joint assessment under Carol, the personal relief is only RM3,500		1/2
	Medical expenses for parents	400	1/2
	Personal relief in respect of medical expenses for parents is granted for the taxpayer's parents and not the spouse's parents. Thus, joint assessment under James is given the higher relief of RM1,300 in respect of the medical expense for his father compared to the medical expense of RM900 for Carol's mother in joint assessment under Carol.		1/2
	Course fees for James' study	1,100	1/2
	As a taxpayer James is entitled to deduct the course fees for his study to acquire further qualifications, amounting to RM1,100, whereas as a spouse in joint assessment under Carol, he would not be entitled to deduct the course fees.		1/2
		<u>4,000</u>	
	RM4,000 at 7%	280	
	Rebate difference (RM700 – RM503)	(197)	
	Tax saving	<u>83</u>	1/2
			<u>5</u>
Total			<u>30</u>

2 (a) **Beauty Sdn Bhd**
Year of assessment 2008
(Basis period 1 November 2007 to 31 October 2008)

	Note	RM000's	RM000's	
Profit before taxation		9,400	-	
Salaries of disabled employees (double deduction)	1		114	1
Entertainment allowance (50% x RM400,000)	1	200		1
Contributions to approved schemes (1% x RM1,400,000 = 14,000 + 19% x 50% x RM400,000 = 38,000)	2	52		2
Launching of new products	3	Nil		1/2
Royalty (gross RM630,000 x 100/90)	4	700		1
Penalty for late payment of withholding tax	4	7		1/2
Gain on disposal of van	5		2	1/2
Cost of renovation to office	6	Nil		1/2
Depreciation		618		1/2
Bad debt recovery	7		177	1
Lease rentals (RM6,000 x 11 – RM50,000)	8	16		1
		<u>10,993</u>	<u>293</u>	
		(293)		
Adjusted income		10,700		
Add: Balancing charge (W3)		10		1/2
Less: Capital allowances				
RM849 + 136 (W1)	985			1/2
Industrial building allowances				
RM295 + 130 (W2)	<u>425</u>	(1,410)		1/2
Statutory/chargeable income		<u>9,300</u>		
		RM		
Tax on RM 500,000 at 20%		100,000		1/2
Tax on RM8,800,000 at 26%		2,288,000		1/2
Tax payable		<u>2,388,000</u>		

			Marks
Workings:			
W1	Capital allowances	RM	
	Cost of general machinery	340,000	1/2
	Alteration to factory building	60,000	1/2
	Qualifying plant expenditure (QPE)	400,000	
	Less: Initial allowance (IA) 20%	80,000	1/2
	Annual allowance (AA) 14%	56,000	1/2
		<u>(136,000)</u>	
	Residual expenditure (RE) as at 31 October 2008	<u>264,000</u>	
W2	Cost of heavy machinery	190,000	1/2
	Cost of cutting land to install heavy machinery	810,000	1/2
	Qualifying building expenditure	1,000,000	
	Less: IA 10%	100,000	1/2
	AA 3%	30,000	1/2
		<u>(130,000)</u>	
	RE as at 31 October 2008	<u>870,000</u>	
W3	Van (purchased in December 2005)	65,000	
	Year of assessment (YA) 2006:		
	Less: IA 20%	13,000	1/2
	AA 20%	13,000	1/2
		<u>(26,000)</u>	
	RE as at 31 October 2006	39,000	
	YA 2007		
	Less: AA	(13,000)	1/2
	RE as at 31 October 2007	26,000	
	Sold in August 2008	36,000	1/2
	Balancing charge	<u>10,000</u>	
			<u>18</u>

- (b) (i)** Approved schemes
Both the Employees Provident Fund (EPF) and the Beauty Sdn Bhd scheme are approved schemes under the Income Tax Act, therefore the contributions are deductible, subject to the maximum of 19%. The 1% in excess is therefore disallowed and added back. 1
- Furthermore, the 19% of the contributions to both the approved schemes in respect of 50% of the entertainment allowance is disallowed in view of the fact that 50% of the entertainment allowance is specifically disallowed under the Income Tax Act. 1
[s.34(4)(b), ITA]
- (ii)** Disposal of van
The disposal of the van gave rise to a balancing charge of RM10,000, for tax purposes as the disposal price exceeded the residual expenditure as at the beginning of the basis period for the year of assessment 2008. 1
- (iii)** Renovation of the office building is specifically allowed under the Income Tax Act, as the renovation was carried out to provide a safe place for disabled workers. 1
[s.34(6)(e), ITA]
- (iv)** Lease rentals in excess of RM50,000 are a specifically disallowed deduction as the cost of the motor vehicle was more than RM150,000. 1

	RM
Lease rentals from December 2007 to October 2008	
RM6,000 x 11 months	66,000
Restricted to	50,000
Add back	<u>16,000</u>
[s.39(1)(k), ITA]	

		Marks
(v) The aggregate cost comprising the cost of the heavy machinery and the cost of cutting land to prepare a site for the installation of the machinery amounting to RM1,000,000 is treated as industrial building expenditure, because the cost of cutting land exceeds 75% of the aggregate cost i.e. RM750,000. [Para 67, Schedule 3, ITA]	1 1	1 1
		7
Total		25

3 Freshgreen Sdn Bhd – year of assessment 2008

(Basis period 1 July 2007 to 30 June 2008)

(a) Agriculture allowance	RM		
Roads and bridges (RM34,000 x 50%)	17,000		1
Farm house (RM38,000 x 10%)	3,800		1
Living quarters (RM72,000 x 20%)	14,400		1
Clearing land, fertiliser and seedlings for planting (RM19,000 + 161,000 = RM180,000 x 50%)	90,000		1
	125,200		
Capital allowance	RM	RM	
Lorry			
Year of assessment (YA) 2007			
Deposit		18,000	1/2
Monthly instalments (RM2,200 – 200) x 11		22,000	1
		40,000	
YA 2008			
Monthly instalments (RM2,000 x 12)		24,000	1
Qualifying plant expenditure		64,000	1/2*
IA 20% x RM24,000	4,800		1
AA 20 % x RM64,000	12,800		1
		(17,600)	
General machinery			
AA 14% x RM87,000		12,180	1
			10
(b) Statutory income		RM	
Adjusted income RM563,000 – hire purchase interest RM2,400		560,600	1/2
Less: Replanting (RM22,000 + 115,000 + 7,000) [s.34(6)(d),ITA]		(144,000)	2
Adjusted income (revised)		416,600	1/2
Add: Agriculture charge (working) (RM7,500 + 24,000)		31,500	1/2
		448,100	
Less: Capital allowance:			
Lorry (from (a))	17,600		1/2
General machinery (from (a))	12,180		1/2
	29,780		
Agriculture allowance (from (a))	125,200		1/2
		(154,980)	
Statutory income		293,120	
Working: agriculture charge			
Store RM25,000 x 10% x 3 = RM7,500			1
Living quarters for employees RM60,000 x 20% x 2 = RM24,000			1
			7

(c) Election for agriculture charge to be spread over the past years of assessment

Spread		Years of assessment	
RM7,500/3	RM2,500 per annum	2005 to 2007	1½
RM24,000/2	RM12,000 per annum	2006 and 2007	1½
			3

Note: If the disposal of the store and living quarters for employees amounted to a transfer or transmission to some other person and the assets were in use for the purposes of the business within one month (or such further period as the Director General may allow) before the event, Freshgreen Sdn Bhd would have been entitled to a fraction of the agriculture allowance for the year of assessment 2008. The above answer is based on the assumption that that is not the case. Otherwise, a fraction based on the number of days in the basis period up to the date of transfer or transmission over 365 is used to calculate the agriculture allowance for the year of assessment 2008. Taking this as 9/12ths there would be an additional amount of RM1,875 and RM9,000 for the living quarters making a total of RM136,075 for the year. These amounts must then be included in the total of the allowances to be clawed back and spread over the years of assessment concerned to give the following result at (c):

Spread	
RM9,375/4	RM2,344 per annum for years of assessment 2005 to 2008
RM33,000/3	RM11,000 per annum for years of assessment 2006 to 2008

Total **20**

4 (a) (i) Cik Lee

Cik Lee is subject to deduction of tax from employment i.e. tax will be deducted at source under the Schedular Tax Deduction (STD) system [s.107]. 1

She is also subject to payment by instalments on account of tax, excluding tax on employment [s.107B], in the amount and the time determined by the Director General of Inland Revenue. 1

In determining the amount to be paid under s.107B the Director General may take into account the tax assessed for the year of assessment 2007. 1

3

(ii) Encik Koon

The penalty is computed as follows:

RM180,000/300,000 x RM57,500 = RM34,500 1½
 [statutory income from employment/total income x tax payable s.107B (4A)]

RM57,500 less RM34,500 (tax on employment) = RM23,000 1

	RM	
Actual tax payable excluding tax on employment	23,000	
Less: tax paid on revised instalment amount	12,000	½

Excess	11,000	
30% x RM23,000	6,900	1

Difference *	4,100	
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[proviso to s.107B (4)]

* The penalty is imposed on the difference in excess of 30% at the rate of 10%:
 10% x RM4,100 1

410 1

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(b) Encik Smith

Encik Smith should choose option (i) as this option will result in a reduction in his gross income of RM13,080 (RM254,280 – RM241,200), thus resulting in tax savings. ½

Under option (i) Encik Smith will be assessed in respect of the driver as a benefit-in-kind under s.13(1)(b), Income Tax Act, on the prescribed value of RM7,200, a lesser amount compared to option (ii). ½

Under option (ii) Encik Smith will be assessed in respect of the driver as a perquisite, on the full value of RM15,600 under s.13(1)(a). As a perquisite, it will also further increase the value assessed for the living accommodation under s.13(1)(c). ½

The following tax computation will illustrate the point:

	Option (i) RM	Option (ii) RM	
s.13(1)(a)			
Salary	180,000	180,000	1/2
Driver (perquisite)		15,600	
	<hr/>	<hr/>	
	180,000	195,600	
s.13(1)(b)			
Driver (prescribed value)	7,200		1/2
s.13(1)(c)			
Lower of:			
Defined value RM60,000; or			1/2
30% x RM180,000	54,000		1/2
30% x RM195,600		58,680	1/2
	<hr/>	<hr/>	
Gross income	241,200	254,280	
			<hr/>
			6
Total			15

5 (a) Chongdart Sdn Bhd

The particulars which Chongdart Sdn Bhd must disclose in the sales tax return, Form CJP No. 1, are as follows:

	RM	
Value of goods sold without tax (RM40 x 300 tables)	12,000	1
Value of goods sold with tax (RM40 x 900 tables)	36,000	1
Rate of sales tax	10%	1/2
Amount of sales tax	3,600	1/2
Less: refund RM3,000 x 8%	(240)	1
Amount of sales tax payable by 28 September 2008	<hr/>	<hr/>
	3,360	1
		<hr/>
		5

(b) AB Sdn Bhd

(i) The amount of the service tax payable and the due date for payment are as follows:

RM450 (RM15,000 x 5% x 60%) due for payment by 28 May 2007	1 1/2
RM300 (RM15,000 x 5% x 40%) due for payment by 28 May 2008	1 1/2
	<hr/>
	3

(ii) Service tax attributable to the bad debt written off that AB Sdn Bhd can recover from the Director General of Customs and Excise.

The charge for surveying plus the service tax payable RM750 (RM15,000 x 5%), is RM15,750. Thus, the amount recoverable will be:

$$RM750 - (RM10,400 - RM950) / RM15,750 \times RM750 = RM300 \quad \text{2}$$

Total **10**