

Fundamentals Level – Skills Module

Taxation (Malaysia)

Monday 1 December 2008

Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

ALL FIVE questions are compulsory and MUST be attempted.
Tax rates and allowances are on pages 2–3.

Do NOT open this paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.

This question paper must not be removed from the examination hall.

The Association of Chartered Certified Accountants

Paper F6 (MYS)

The ACCA logo consists of the letters 'ACCA' in a bold, white, sans-serif font, centered within a solid black rectangular background.

SUPPLEMENTARY INSTRUCTIONS

1. Calculations and workings should be made to the nearest RM.
2. All apportionments should be made to the nearest whole month.
3. All workings should be shown.

TAX RATES AND ALLOWANCES

The following tax rates, allowances and values are to be used in answering the questions.

Income tax rates

Resident individual		Tax payable	
Chargeable income		Rate	Cumulative
Band	Cumulative	%	RM
RM	RM		
2,500	2,500	0	0
2,500	5,000	1	25
15,000	20,000	3	475
15,000	35,000	7	1,525
15,000	50,000	13	3,475
20,000	70,000	19	7,275
30,000	100,000	24	14,475
150,000	250,000	27	54,975
Excess		28	

Resident company

Paid up ordinary share capital

	First	Excess over
	RM500,000	RM500,000
RM2,500,000 or less	20%	26%
More than RM2,500,000	26%	26%

Non-resident

Company	26%
Individual	28%

Personal deductions

	RM
Self	8,000
Self – additional if disabled	6,000
Spouse	3,000
Spouse – additional if disabled	3,500
Child – basic rate	1,000
Child – higher rate	4,000
Disabled child	5,000
Life insurance premiums and approved scheme contributions	maximum 6,000
Medical expenses for parents	maximum 5,000
Medical expenses for serious disease of self, spouse or child, including up to RM500 for medical examination	maximum 5,000
Basic supporting equipment for self, spouse, child or parent if disabled	maximum 5,000
Educational and medical insurance for self, spouse or child	maximum 3,000
Study course fees for skills or qualifications	maximum 5,000
Purchase of a personal computer	maximum 3,000
Purchase of books, magazines etc for personal use	maximum 1,000
Purchase of sports equipment	maximum 300
Deposit for a child into the National Education Savings Scheme	maximum 3,000

Rebates

Individual with chargeable income not exceeding RM35,000	RM
Basic rate	350
Rate for an individual entitled to a deduction for a spouse or a former wife	700

Value of benefits in kind

Car and fuel 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 to 75,000	2,400	900
75,001 to 100,000	3,600	1,200
100,001 to 150,000	5,000	1,500
150,001 to 200,000	7,000	1,800
200,001 to 250,000	9,000	2,100
250,001 to 350,000	15,000	2,400
350,001 to 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 (5) years old, but the value of fuel provided remains unchanged.

Household furnishings, apparatus and appliances

	RM per month
Semi-furnished with furniture in the lounge, dining room, or bedroom	70
Semi-furnished with furniture as above plus air-conditioners, and/or curtains and carpets	140
Fully furnished premises	280
Domestic help	400
Gardener	300
Driver	600
	RM per annum
Telephone (fixed or mobile): Hardware	300
Bills	300

Capital allowances

	Initial Rate %	Annual Rate %
Industrial buildings	10	3
Plant and machinery – general	20	14
Motor vehicles, heavy machinery	20	20
Computers, information technology equipment and computer software	20	40
Office equipment, furniture and fittings	20	10

Sales tax and service tax rates

	Rate %
Sales tax	10
Service tax	5

ALL FIVE questions are compulsory and MUST be attempted

1 James and Carol are husband and wife. James is disabled. The income and expenses of James and Carol for the year ended 31 December 2008 are expected to be as follows:

	RM
James	
Employment – Salary	35,000
Carol	
Partnership business – Statutory income	4,350
Employment – Salary	16,600
Travelling allowance	3,000
James incurred expenses as follows:	
Donation to an approved institution	2,600
Contributions to Employees Provident Fund	3,850
Medical examination for self	400
Medical expenses for his father	1,300
Fees for his part-time course in Islamic financing at a university in Kuala Lumpur, recognised by the Government	1,100
Carol incurred expenses as follows:	
Contributions to Employees Provident Fund	2,156
Medical expense on cancer treatment for herself	2,700
Medical expenses for her mother	900
Basic supporting equipment for her disabled father	3,600
Travelling expenses incurred in the course of her work	4,000

Required:

(a) Compute the couple's tax payable for the year of assessment 2008 under joint assessment:

- (i) assuming that James made the election; and** (12 marks)
- (ii) assuming that Carol made the election.** (12 marks)

Notes:

- (1) You should use two columns, one each for (i) and (ii) above.
- (2) You should indicate, by using the word 'nil', any expense item that does not qualify for personal relief.
- (3) Marks will be awarded for the use of accurate technical terms to describe the figures comprising the stages in the computation of chargeable income.

- (b) (i) Based on your tax computations in part (a), state which spouse should make the election for joint assessment and why.** (1 mark)
- (ii) Analyse, quantify and summarise the tax saving resulting from making the election you have specified in (i) above over the alternative election.** (5 marks)

(30 marks)

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Question 2 begins on page 6**

- 2 Beauty Sdn Bhd, a resident company with a paid up ordinary share capital of RM2 million, is engaged in the manufacture of cosmetic products. The company's profit and loss account for the year ended 31 October 2008 is as follows:

	Note	RM000's	RM000's
Sales			27,800
Cost of sales			<u>(11,200)</u>
Gross profit			16,600
Less:			
Remuneration	1	2,300	
Contributions to approved schemes	2	388	
Entertainment	3	461	
Royalty	4	700	
Penalty for late payment of withholding tax on royalty	4	7	
Gain on disposal of a van	5	(2)	
Repairs and maintenance	6	164	
Depreciation		618	
Bad debt recovery	7	(177)	
Lease rentals	8	66	
Advertising		<u>2,675</u>	
			<u>(7,200)</u>
Profit before taxation			<u>9,400</u>

Notes:

- (1) Remuneration includes:

	RM
Salaries of disabled employees	114,000
Entertainment allowance to senior management	400,000

- (2) Contributions to approved schemes comprise:

	RM
Employees Provident Fund	276,000
Beauty Sdn Bhd scheme	112,000
	<u>388,000</u>

The company contributes 12% to the Employees Provident Fund for all employees and an additional 8% to the Beauty Sdn Bhd scheme in respect of the remuneration of RM1,000,000 and the entertainment allowance of RM400,000 paid to senior management executives.

- (3) Entertainment includes the cost of launching new products amounting to RM38,000.
- (4) A royalty amounting to RM630,000 net of the 10% withholding tax was paid to a non-resident on 15 September 2008, in respect of the new products. The amount of the withholding tax and the related penalty remain unpaid.
- (5) Gain on disposal of a van
A van was disposed of in August 2008 for RM36,000. The van had been purchased in December 2005 for RM65,000.
- (6) Repairs and maintenance includes costs of renovation to the company's office building amounting to RM58,000. The reason for this expenditure was to provide a safe workplace for disabled workers.
- (7) The bad debt recovery is in respect of a trade debt taken over from another company carrying on the same business, three years ago.
- (8) Lease rentals are in respect of a motor vehicle costing in excess of RM150,000. The lease rentals commenced on 1 December 2007 at RM6,000 per month for a period of 30 months.

(9) Other information

- (i) A sum of RM60,000 was incurred on alterations to the company's factory building, in order to install general machinery costing RM340,000.
- (ii) A sum of RM810,000 was incurred on cutting the land in order to prepare a site to install heavy machinery costing RM190,000.
- (iii) For the year of assessment 2008, capital allowances for plant and machinery will amount to RM849,000 and industrial building allowances to RM295,000, excluding any allowances or adjustments attributable to the capital expenditure referred to in (i) and (ii) above.

Required:

(a) Compute the tax payable by Beauty Sdn Bhd for the year of assessment 2008.

Note: your computation should start with the profit before taxation figure and follow the descriptions used in the notes to the profit and loss account, indicating 'nil' in the appropriate column for any item that does not require adjustment. (18 marks)

(b) Explain your treatment of the items stated below:

- (i) approved schemes (note 2);
- (ii) disposal of a van (note 5);
- (iii) renovations to the office building (note 6);
- (iv) lease rentals (note 8); and
- (v) the expenditure incurred in respect of the heavy machinery and its installation (note 9 (ii)). (7 marks)

(25 marks)

- 3 Freshgreen Sdn Bhd is in the business of cultivating vegetables. The adjusted income of the company for the year ended 30 June 2008, before taking into account the following, amounted to RM563,000.

The information given below relates to the business activities of the company during the financial years 2007 and 2008:

Date	Expenditure	RM
July 2006	Cost of land	350,000
July 2006	Construction of:	
	– roads and bridges	34,000
	– farm house for business (note 1)	38,000
	– living quarters for workers	72,000
July 2006	Cost of lorry (note 2)	64,000
September 2006	Cost of general machinery	87,000

Notes:

- (1) The farm is situated in a remote area, thus the buildings on the farm have no value other than for the working of the farm.
- (2) The lorry was bought under a hire purchase agreement. The company made an initial payment of RM18,000 in July 2006. The balance was paid over a period of 23 months at RM2,200 per month, inclusive of interest of RM200 per month. The instalment payments commenced on 1 August 2006.

In July 2007 the company carried out planting of crops and incurred RM19,000 on clearing land and RM161,000 on fertiliser and seedlings.

In January 2008 the company carried out replanting of crops and incurred the following expenses:

	RM
Clearing land	22,000
Fertiliser and seedlings	115,000
Labour	7,000

In March 2008 Freshgreen Sdn Bhd disposed of the following assets on which agriculture allowance had been claimed in the previous years:

Assets	Date of construction	Cost RM
Store	1 January 2005	25,000
Living quarters for employees	6 August 2005	60,000

The store and the living quarters were disposed of for RM10,000 and RM35,000 respectively.

Required:

- (a) **Compute the agriculture allowance and capital allowance under Schedule 3, Income Tax Act, that can be claimed by Freshgreen Sdn Bhd for the year of assessment 2008.** (10 marks)
- (b) **Compute the statutory income of Freshgreen Sdn Bhd for the year of assessment 2008.** (7 marks)
- (c) **Compute the agriculture charge on the basis that Freshgreen Sdn Bhd made an election to spread the charge, under para 27, Schedule 3, Income Tax Act, clearly indicating the years of assessment affected.** (3 marks)

Note: the rates of agriculture allowance are as follows:

	Rate
Clearing and preparing land	50%
Planting of crops	50%
Construction of roads and bridges on a farm	50%
Construction of living quarters for workers	20%
Construction of buildings	10%

(20 marks)

- 4 (a) (i) For the year of assessment 2008 Cik Lee has income from three sources: employment, business and the rental of property.

Required:

State, with explanations, the provisions of the law applicable to Cik Lee in respect of the payment of tax for the year of assessment 2008. (3 marks)

- (ii) Encik Koon is expected to have the following income for the year of assessment 2008:

	RM
Statutory income from employment	180,000
Statutory income from a partnership business	130,000
Aggregate income	310,000
Approved donations	10,000
Total income	300,000
Tax payable	57,500

For the year of assessment 2008, in addition to the tax deducted from his remuneration under the Schedular Tax Deduction (STD) system, Encik Koon paid tax instalments amounting to RM12,000, as per his application to the Director General of Inland Revenue, to vary the amount of his payment.

Required:

Compute the penalty, if any, resulting from the application by Encik Koon to vary the instalment amounts. (6 marks)

- (b) Encik Smith is employed as a service director of a company and his salary is RM180,000 per annum.

Encik Smith is provided with unfurnished living accommodation for which the company pays rent amounting to RM60,000 per annum.

Encik Smith is not provided with a company car but he has been given the option of:

- (i) a driver provided by the company; or
- (ii) the reimbursement of the driver's salary amounting to RM15,600 per annum.

Required:

State, with explanations and supporting calculations, which of the above options Encik Smith should choose from a tax perspective. (6 marks)

(15 marks)

- 5 (a) Chongdart Sdn Bhd is a licensed manufacturer in the business of making computer tables. The company's records for the period from 1 July to 31 August 2008 show the following:

Sale of 1,200 tables at RM40 each excluding sales tax, of which 900 were sold to customers in Malaysia and 300 were exported to China.

Purchase of the following raw materials and component parts:

	RM
Castors for table legs including sales tax	3,000
Locks for drawers, imported from Thailand	2,300
Rollers for pull-out shelf and drawers, purchased from Heng Sdn Bhd, a licensed manufacturer	6,400
Paint for painted finish undertaken by a subcontractor	5,100

None of the above items are exempt from sales tax.

Chongdart Sdn Bhd obtained the approval of the Director General of Customs and Excise for the import of the locks from Thailand and the purchase of the rollers from Heng Sdn Bhd.

The subcontractor was exempt from licensing in view of the fact that its annual sales turnover does not exceed RM20,000.

The appropriate rate of refund under the credit system is 8%.

Required:

State the particulars which Chongdart Sdn Bhd must disclose in the sales tax return, Form CJP No. 1, for the taxable period 1 July to 31 August 2008, together with the due date of payment of the tax to the Director General of Customs and Excise. (5 marks)

- (b) AB Sdn Bhd, a firm of licensed surveyors, issued an invoice to Buildup Sdn Bhd, on 4 March 2007, for surveying work amounting to RM15,000, disbursements amounting to RM950 and the service tax payable.

In April 2007 Buildup Sdn Bhd paid a sum of RM10,400 for the full amount of the disbursements and 60% of the fees, including the service tax thereon.

The balance outstanding was written off as a bad debt by AB Sdn Bhd in November 2008, when Buildup Sdn Bhd went into compulsory liquidation.

Required:

(i) **State the amount of the service tax payable by AB Sdn Bhd in respect of the above invoice, together with the due date(s) for payment of the tax to the Director General of Customs and Excise.** (3 marks)

(ii) **Compute the amount of the service tax that AB Sdn Bhd can recover from the Director General of Customs and Excise in due course, in respect of the bad debt written off.** (2 marks)

(10 marks)

End of Question Paper