

---

# Answers

---





		<b>Marks</b>
Working:		
Capital allowance		
General machinery		
Qualifying expenditure	RM	
Year of assessment (YA) 2004	200,000	
Initial allowance (IA) 20%	40,000	1/2
Annual allowance (AA) 14%	<u>28,000</u>	1/2
	(68,000)	
Residual expenditure (RE) as at 31 December 2004	132,000	
YA 2005 AA	<u>(28,000)</u>	1/2
RE as at 31 December 2005	104,000	
YA 2006 Notional allowance	<u>(28,000)</u>	1
RE as at 31 December 2006	76,000	
Sold YA 2007	174,000	
Balancing charge	<u>98,000</u>	
restricted to RM96,000 (RM68,000 + RM28,000)		1
		<u>22</u>
<b>(b) Rent (note 2)</b>		
Rental income is separately assessed as a non-business source. Part of the interest expense is tax deductible in arriving at the adjusted income from the rental source, as it is wholly and exclusively incurred in the production of income. The purchase of the shophouse was financed by bank borrowing. However, there is no relief for the excess of the interest expense over the rental income.		2
The sum incurred on quit rent and assessment is a revenue expense, therefore deductible.		
<b>Interest (note 3)</b>		
The interest expense is apportioned between business income and investment income due to the fact that the bank borrowing is partly used to finance the purchase of the shophouse. The computation is based on the year end balance instead of the monthly balance as the cost of the investment does not exceed RM500,000.		2
[s.33(2), Income Tax Act (ITA); IRB guideline 16 July 1990]		
<b>Training (note 4)</b>		
The expense incurred on the training programme conducted by the company for the purposes of increasing the productivity of its employees is specifically allowed as a double deduction. The company is a manufacturing company; the employees in the training programme are Malaysian citizens; and the company has the approval letter from the relevant authority.		2
[Income Tax (Deduction for Approved Training) Rules 1992]		
<b>Cost of licensing (note 5)</b>		
The cost incurred in licensing the company's products overseas is specifically allowed as a double deduction. The company is a resident company; and the expense is primarily for the purpose of promoting the export of goods.		
[Income Tax (Deduction for Promotion of Exports) Rules 2007 PU(A) 14]		2
		<u>8</u>
<b>Total</b>		<b><u>30</u></b>

2 (a) (i) Encik Nik			
Year of assessment 2007 (Basis period 1 January to 31 December 2007)			
	RM	RM	
Sole proprietorship – Business 1			
Net profit before taxation	320,000		1/2
<i>Add back</i> : Salary to Encik Nik	<u>78,400</u>		1
Adjusted income	398,400		
<i>Add</i> : Balancing charge	<u>1,000</u>		1
	399,400		
<i>Less</i> : Capital allowances	<u>(5,400)</u>		1/2
Statutory income from Business 1		394,000	1/2*
Sole proprietorship – Business 2			
Net loss before taxation	(15,000)		1/2
<i>Add back</i> : Provision for trading stock	<u>2,000</u>		1
Adjusted loss	<u>(13,000)</u>		1/2
Capital allowances carried forward RM4,000 (RM1,000 + RM3,000)			1
Statutory income from Business 2		<u>Nil</u>	1/2
Aggregate income from business sources		394,000	1/2*
<i>Less</i> : Business loss brought forward		<u>(22,000)</u>	1
Aggregate income from business sources		372,000	
<i>Add</i> : Statutory income from rent (RM41,000 + RM2,000)		<u>43,000</u>	1
Aggregate income		415,000	1/2*
<i>Less</i> : Current year business loss		<u>(13,000)</u>	1
<i>Less</i> : Donations to approved institution		<u>(3,000)</u>	1/2
Total income		399,000	1/2*
<i>Less</i> : Personal reliefs:			
Self	8,000		1/2
Child	4,000 enhanced		1
Employees Provident Fund (EPF)	6,000 maximum		1/2
Purchase of books	<u>1,000 maximum</u>		1
		<u>(19,000)</u>	
Chargeable income		<u>380,000</u>	
			<u>15</u>

## (ii) Puan Mariam

Year of assessment 2007 (Basis period 1 January to 31 December 2007)

	RM	RM	
Statutory income from employment		46,000	1/2
Interest from savings account (exempt)	Nil		1/2
Interest from private loan	1,000		1
	<u>1,000</u>		
Statutory income from interest		1,000	
Aggregate income/total income		47,000	1/2*
Less: Personal reliefs:			
Self	8,000		1/2
Child	1,000		1/2
EPF	5,060		1/2
Medical insurance	2,940		1/2
Medical examination	500 maximum		1
		<u>(17,500)</u>	
Chargeable income		29,500	
Tax on RM20,000		475	
Tax on RM9,500 x 7%		665	
		<u>1,140</u>	1/2
Tax charged		1,140	1/2
Less: Tax rebate		(350)	1
Tax payable		<u>790</u>	<u>7</u>

- (b) Personal reliefs and tax rebates are deductions given at different stages in the tax computation. Personal reliefs are deducted in arriving at the chargeable income, before the tax rates are applied. Tax rebates are deducted in arriving at the tax payable, after the tax rates are applied. In terms of value, for the same amount, tax rebates have a higher value than personal reliefs.

Total

25

## 3 (a) (i) Lim Heng Sdn Bhd

Year of assessment 2007

(Basis period 1 October 2006 to 30 September 2007)

	RM	RM	
<b>Industrial building allowance</b>			
Factory, storage building, canteen and rest rooms:			
Cost of construction of:			
Factory		300,000	1/2
Storage building		54,000	1/2
Canteen and restrooms		36,000	1/2
Add: Proportion of legal charges and architect fees: (RM390,000/600,000 x 30,000)		19,500	1 1/2
Qualifying building expenditure		409,500	
Initial allowance 10%	40,950		1/2
Annual allowance 3%	12,285		1/2
		<u>(53,235)</u>	
Residual expenditure as at 30 September 2007		356,265	1/2
Living quarters for factory workers:			
Cost of construction of building		90,000	1
Add: Proportion of legal charges and architect fees: RM90,000/600,000 x 30,000		4,500	1 1/2
Qualifying building expenditure		94,500	
Initial allowance 40% [Para 42(1), Sch 3, ITA]	37,800		1
Annual allowance 3%	2,835		1/2
		<u>(40,635)</u>	
Residual expenditure as at 30 September 2007		53,865	1/2

	RM	RM	<b>Marks</b>
<b>Capital allowance for machinery</b>			
Cutting and levelling land for the installation of the machinery:			
Cost of machinery		800,000	1/2
Cost of installation		<u>75,000</u>	1/2
Aggregate cost		<u>875,000</u>	
Capital allowances			
Heavy machinery			
Qualifying plant expenditure		875,000	1/2
Initial allowance 20%	175,000		1/2
Annual allowance 20%	<u>175,000</u>		1/2
		<u>(350,000)</u>	
Residual expenditure as at 30 September 2007		<u>525,000</u>	1/2
			<u>12</u>
<b>(ii)</b> The cost of cutting and levelling land is treated as qualifying plant expenditure as it does not exceed 10% of the aggregate cost of the machinery and the cost of installation. [Paragraph 2(1)(b), Schedule 3, Income Tax Act]			
			<u>2</u>
<b>(b)</b> In the following cases the law stipulates a rate of allowance other than the normal initial and annual allowance is to be given:			
Child care facilities [Para 42A (2), Schedule 3, Income Tax Act (ITA)]			
School/approved educational institution; [Para 42B]			
A building for approved training; [Para 42C]			
A building solely for the storage of goods for export or for the storage of imported goods [Para 37C]			
One mark each for any three items, maximum			
			<u>3</u>
<b>(c)</b> Starlight Bhd needs to apply PCB to the reimbursement amounts assessed under s.13(1)(a), and those amounts should be reported in Form E as part of the total remuneration for all the employees			
Benefits-in-kind (and other items mentioned in the question) are to be reported in Form EA given to the employees.			
[s.83(1), ITA; Public Rulings No. 2/2004 and No. 1/2006]			
			<u>3</u>
<b>Total</b>			<b><u>20</u></b>

<b>4</b>	<b>(a)</b>	<b>(i)</b>	<b>U-Lee Sdn Bhd</b>			
			Withholding tax: RM360,000 x 10/90 = RM40,000			1
				<b>RM</b>		
			Withholding tax payable	40,000		
			Paid within one month 70% x RM40,000	<u>28,000</u>		1/2
			Balance paid after the due date	<u>12,000</u>		1/2
			Penalty: 10% x RM12,000	RM1,200		1
						<u>3</u>
		<b>(ii)</b>	The gross amount of the royalty amounting to RM400,000 (RM360,000 x 100/90) is deductible in arriving at the adjusted income.			<u>1</u>

**(b) Puan Amina**

Statutory income from rental source  
Year of assessment 2007 (Basis period 1 January to 31 December 2007)

	RM	RM	RM	
Ground floor				
(1 February to 31 December 2007 and January 2008):				
Rents RM15,000 x 3 x 4 quarters		180,000		2
Less:				
Quit rent and assessment (RM6,000 x 60% x 11/12)	3,300			1
Fire insurance (RM3,600 x 60% x 11/12)	1,980			1
Loan interest (RM9,000 x 60% x 11/12)	<u>4,950</u>			1
		<u>(10,230)</u>		
Net			169,770	
First floor (1 January to 31 December 2007):				
Rents RM10,000 x 12 months		120,000		1
Less:				
Quit rent and assessment (RM6,000 x 40%)	2,400			1
Fire insurance (RM3,600 x 40%)	1,440			1
Loan interest (RM9,000 x 40%)	3,600			1
Legal charges for rent collection	<u>2,000</u>			1
		<u>(9,440)</u>		
Net			110,560	
Less: Legal expenses to defend title			<u>(7,000)</u>	1
Statutory income			<u>273,330</u>	
<b>Total</b>				<u><b>11</b></u>
				<u><b>15</b></u>

- 5 (a) (i)** Every person who manufactures taxable goods in the course of business has to apply for a sales tax licence.  
[s.13(1), Sales Tax Act (STA)] 2
- (ii)** The withdrawal of trading stock by Hightech Sdn Bhd for its own use is deemed to be a sale. The company would have to pay sales tax on the sale value which is RM6,500, the market value of the goods, at the rate of 10%. 2
- (iii)** The Director General of Customs and Excise will revoke the sales tax licence of a taxable person under the following circumstances:
- The taxable person ceases to carry on business [s.13A(1), STA]
  - The taxable person dies [s.13A(2), STA]
  - The company is dissolved [s.13A(2), STA]
- One mark each for any two items, maximum 2

	<b>Marks</b>
<b>(b)</b> The value/charge is as follows:	
<b>(i)</b> Ah Chong Motor Repairs and Service Centre: Service tax is payable on the normal charge of RM1,900 (RM1,800 + RM100).	<u>1</u>
<b>(ii)</b> Laila Bakery: Service tax is not applicable.	<u>1</u>
<b>(iii)</b> Hotel room charges: Service tax is payable in respect of the twenty rooms occupied by the tourists: RM200 x 20 x 7 = RM28,000. The one room occupied free of charge is exempt from service tax.	1 <u>1</u> 2
<b>Total</b>	<b><u>10</u></b>