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# Answers

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**Notes:**

1. 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.
2. Marks indicated as ‘\*’ are awarded for the allocation of the appropriate description of the figure calculated, not the figure itself.

		RM000's	RM000's	<i>Marks</i>
<b>1 (a) Taiji Sdn Bhd</b>				
<b>Year of assessment 2008</b>				
<b>(Basis period 1 January to 31 December 2008)</b>				
	<b>Note</b>	<b>+</b>	<b>-</b>	
Profit before taxation		2,900		
Sale of mineral water to China	1		Nil	1/2
Stock reserve (RM775,000 – 690,000) x 15/85	2	15		1
Salary of blind employees	3		90	1
Employees Provident Fund contributions (RM63,000 – 19% x RM300,000)	4	6		1
Entertainment (50% x RM8,000)	5	4		1
Monthly broadband subscription fee	6	Nil		1/2
Child care centre:				
Purchase of building	6	190		1
Maintenance of premises	6	Nil		1/2
Expenditure on international standardisation activities	7	Nil		1/2
Contributions to library facilities (RM129,000 – 100,000)	7	29		1
Loss on sale of motor car		9		1/2
Depreciation		708		1/2
Statutory audit fees		Nil		1/2
Rental income	8		120	1/2
Adjusted income		<u>3,861</u>	<u>210</u>	
		(210)		
		<u>3,651</u>		
<i>Less:</i>				
Capital allowances (W1)		(1,047)		1/2*
Statutory income		<u>2,604</u>		
<i>Add:</i>				
Adjusted income: business 2	17,000			1/2
Less: capital allowances (W2)	<u>16,000</u>			1/2
Statutory income from business 2		<u>1</u>		1/2*
		<u>2,605</u>		
<i>Less:</i>				
Business loss brought forward (business 2)		(22)		1
		<u>2,583</u>		
Rental income		Nil		1/2
Aggregate/total/chargeable income		<u>2,583</u>		
<b>Computation of capital allowances:</b>				
<b>Van used for business 1 and business 2</b>				
		<b>RM</b>	<b>RM</b>	
Qualifying expenditure			60,000	
Initial allowance 20%		12,000		1/2
Annual allowance 20%		<u>12,000</u>		1/2
			<u>(24,000)</u>	
Residual expenditure (RE) as at 31 December 2008			<u>36,000</u>	

			<b>Marks</b>
Capital allowances: RM24,000 allocated equally as follows:			
Business 1: 50% x RM24,000 = RM12,000			1/2
Business 2: 50% x RM24,000 = RM12,000			1/2
<b>Business 1</b>			
Motor car costing RM136,000, purchased in 2006			
	<b>RM</b>	<b>RM</b>	
Qualifying expenditure restricted to			
Year of assessment (YA) 2006		100,000	1/2
Initial allowance (IA) 20%	20,000		1/2
Annual allowance (AA) 20%	<u>20,000</u>		1/2
		(40,000)	
(RE) as at 31 December 2006		60,000	
(YA) 2007 Notional annual allowance		<u>(20,000)</u>	1
(RE) as at 31 December 2007		40,000	
Sold (RM31,280 x RM100,000/136,000)		(23,000)	1 1/2
[Paragraph 62(2) Schedule 3, (ITA)]			
(YA) 2008 balancing allowance		<u>17,000</u>	1/2
Child care centre			
No initial allowance			1/2
Annual allowance 10% x RM190,000 = RM19,000			1/2
Total: (W1) RM999,000 + 12,000 + 17,000 + 19,000 = RM1,047,000			1
<b>Business 2</b>			
Total: (W2) RM2,500 + 1,500 + 12,000 = RM16,000			1
			<u>23</u>
<b>(b) (i)</b> Sale of mineral water to a company in China			
The gross income from the sale of mineral water outside Malaysia in the course of carrying on the business is deemed to be gross income derived from Malaysia. Thus no adjustment is required.			1
[s.12(1)(b)(i), Income Tax Act (ITA)]			
<b>(ii)</b> Tax deduction in respect of contributions to the Employees Provident Fund by Taiji Sdn Bhd is restricted to 19% of the managing director's remuneration.			1
[s.34(4)(a), (ITA)]			
<b>(iii)</b> Gifts of monthly broadband subscription fees to the employees are specifically allowed as a deduction in view of the fact that Taiji Sdn Bhd is resident in Malaysia and that the broadband subscription fee is registered in the name of Taiji Sdn Bhd.			1
[Income Tax (Deduction for Gifts of New Personal Computer and Monthly Broadband Subscription Fee to Employees) Rules 2008 P.U. (A) 192]			
<b>(iv)</b> Expenditure incurred for participating in international standardisation activities is specifically allowed as a deduction as the participation is approved by the Department of Standards Malaysia.			1
[s.34(6)(o), (ITA)]			
<b>(v)</b> Rental income derived from sources outside Malaysia and received in Malaysia is tax exempt.			1
[Paragraph 28, Schedule 6, (ITA)]			
			<u>5</u>
<b>(c)</b> Taiji Sdn Bhd can claim a tax deduction in respect of the expenditure incurred on the provision of library facilities as follows:			
Either			
Claim a tax deduction in arriving at the adjusted income, which is restricted to RM100,000.			1
[s.34(6)(g), (ITA)].			
Or			
Claim a tax deduction in arriving at the total income, which is restricted to RM20,000			1
[s.44(8), (ITA)]			
			<u>2</u>
			<u><u>30</u></u>

## 2 (a) Encik Sim

(i) The following benefits are non-taxable/exempt from tax:

Monthly broadband subscription fee registered in the name of the employer.  
[Income Tax (Exemption) (No. 4) Order 2008 (P.U. (A) 191]

Leave passage within Malaysia not exceeding three times in any calendar year.  
[s.13(1)(b)(ii)(A)]

Child care benefit  
[s.13(1)(b)(i)]

One mark each for any two items, maximum 2 marks.

2(ii) Year of assessment 2008  
(Basis period 1 January to 31 December 2008)

Employment:	RM	RM	
s.13(1)(a)			
Salary		168,000	1/2
Entertainment allowance		30,000	1/2
Bonus		42,000	1/2
Tax borne by the employer		77,000	1
Monthly subscriptions to club membership		18,000	1
Driver		13,000	1
		<u>348,000</u>	
s.13(1)(b)			
Domestic help (RM400 x 6)	2,400		1
Leave passage -- overseas:			
Cost of air fare (RM17,000 – 3,000)	14,000		1
Meals and hotel accommodation	2,800		1
Car	7,000		1/2
Petrol	1,800		1/2
Fridge RM6,000/10 x 8/12	400		1 1/2
		<u>28,400</u>	
s.13(1)(c)			
Hotel: 3% x RM348,000 x 3/12 =	2,610		1
House:			
Lower of 30% x RM348,000 = 104,400			
or defined value RM13,000 x 12 = 156,000			
RM104,400 x 9/12 =	<u>78,300</u>		2 1/2
		<u>80,910</u>	
Gross income		457,310	
Less:			
Entertainment expenses –limited to	30,000		1/2
Maintenance of house (RM250 x 9)	<u>2,250</u>		1/2
		<u>(32,250)</u>	
Adjusted/statutory/aggregate/total income		425,060	
Less: Donations		<u>(5,000)</u>	1/2
Total income		420,060	
Less: personal reliefs:			
Self	8,000		1/2
Wife	3,000		1/2
Children	1,000		1/2
Parent's medical expenses	3,760		1/2
Sports equipment	300 maximum		1/2
Employees Provident Fund	<u>6,000 maximum</u>		1/2
		<u>(22,060)</u>	
Chargeable income		<u>398,000</u>	

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			<b>Marks</b>
<b>(iii)</b>	Tax borne by the employer		
	Tax borne by the employer is a perquisite assessable under s.13(1)(a), Income Tax Act. Income tax payable by Encik Sim for the year of assessment 2007 amounting to RM77,000, is assessable for the year of assessment 2008, the year in which the actual tax payable for the year of assessment 2007 is ascertained.		1
	Leave passage		
	One leave passage for travel between Malaysia and any place outside Malaysia in any calendar year, limited to a maximum of RM3,000, is a non-taxable benefit.		1
	Leave passages including meals and accommodation for travel within Malaysia, not exceeding three times in any calendar year, are non-taxable benefits.		1
			<u>4</u>
<b>(b)</b>	Reimbursement means an expense incurred by an employee which is subsequently reimbursed by the employer.		1
			<u><b>25</b></u>
<b>3</b>	<b>(a)</b>	<b>(i)</b> There were two temporary absences:	
		The first temporary absence occurred in 2004, from 15 June to 18 June, when Encik Rahim made a trip to New York. This is not a permitted absence as a sister is not regarded as a member of the immediate family.	1
		[proviso (ii) s.7 (1)(b)]	1
		The second temporary absence occurred in 2005 and 2006, from 30 December 2005 to 5 January 2006, when Encik Rahim visited China. This is a permitted absence as Rahim was there to attend a seminar.	1
		[proviso (i) s.7(1)(b)]	1
			<u>4</u>
	<b>(ii)</b>	<b>Rahim Abdullah</b>	
		<b>Basis year</b>	
		<b>Resident status</b>	
		<b>Explanations</b>	
		2003	Non-resident
		2004	Resident
		2005	Resident
		2006	Resident
		2007	Resident
		2008	Resident
			1/2
			1
			2 1/2
			1
			2
			2
			<u>9</u>
<b>(iii)</b>	Encik Rahim's employment income is deemed to be derived from Malaysia:		
	– for any period during which the employment is exercised in Malaysia;		1
	– for any period of leave attributable to the exercise of the employment in Malaysia; and		1
	– for any period during which the employee performs outside Malaysia duties incidental to the exercise of the employment in Malaysia.		1
			<u>3</u>

**(b) Form BE and Form B – Year of assessment 2008**

Form BE is applicable to employees and other non-business source income, whereas Form B relates to business income.

Submission of tax return

Form BE: by 30 April 2009

Form B: by 30 June 2009

$\frac{1}{2}$   
 $\frac{1}{2}$

Payment of tax

Form BE: Deduction from monthly remuneration from January to December 2008 under the Schedular Tax Deduction (STD) scheme.

1

Form B: Payment in six bi-monthly instalments starting from March 2008.

1

Balance of tax payable upon submission of return:

Form BE: 30 April 2009

$\frac{1}{2}$

Form B: 30 June 2009

$\frac{1}{2}$

4

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**4 (a) Kabita Sdn Bhd**

Year of assessment	Basis period	Adjusted income	RM	
2006	1 March 2006 to 31 December 2006			1
		$10/17 \times \text{RM}34,000 =$	20,000	2
2007	1 January 2007 to 31 December 2007			$1\frac{1}{2}$
	1 January 2007 to 31 July 2007	$7/17 \times \text{RM}34,000 =$	14,000	2
	1 August 2007 to 31 December 2007	$5/12 \times \text{RM}60,000 =$	<u>25,000</u>	2
			<u>39,000</u>	$\frac{1}{2}$
2008	1 August 2007 to 31 July 2008 Subject to reduction for overlapping basis periods		60,000	1
				<u>1</u>
				<u>11</u>

**(b)** The years of assessment in which the basis periods overlap are: 2007 and 2008.

1

The overlapping period is: 1 August 2007 to 31 December 2007 (five months)

1

The adjusted income for the year of assessment 2008 is reduced by RM25,000 (RM60,000 x 5/12) to RM35,000.

2

4

**15**

**5 (a) Long Sdn Bhd is no longer exempt from licensing and payment of sales tax.**

1

To be exempt, the sales value of taxable goods sold must not exceed RM100,000 for the last 12 months as well as for the next 12 months.

2

In the case of Long Sdn Bhd the sales value of taxable goods sold during the next 12 months i.e. from 1 June 2009 to 31 May 2010 is expected to amount to RM110,000, which exceeds RM100,000.

1

4

		<b>Marks</b>
<b>(b) (i)</b> Invoice to be issued by Thinn & Co to Zee Sdn Bhd:		
Legal fees	30,000	1/2
Courier services	100	1
	30,100	
Service tax at 5%	1,505	1/2
Tax consultancy	10,500	1
Total	42,105	3
<b>(ii)</b> The concept of service tax as a single stage tax can be seen in the tax consultancy of RM10,500. Thinn & Co is not required to impose service tax on this item in view of the fact that the amount of RM10,500 is inclusive of the service tax imposed by Fair Sdn Bhd.		1
		1
		1
		3
		<b>10</b>