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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 with a '\*' are awarded for the allocation of the appropriate description to the figure calculated, not for the figure itself.

		<i>Marks</i>
1	<p><b>(a) (i) Retirement gratuity</b>                      Senior served more than 10 years with the same employer, but retired before the statutory retirement age of 55 years. Therefore he is not eligible for tax exemption [paragraph 25 of Schedule 3]. The entire amount of RM420,000 is spread equally over six years of assessment i.e. YA2002 to YA2007 so that RM70,000 (420,000/6) is gross income assessable for each of the years of assessment 2002 to 2007. Additional assessments for the years of assessment 2002 to 2006 will be raised accordingly.</p>	$\frac{1}{2}$ $\frac{1}{2}$ $\frac{1}{2}$ $\frac{1}{2}$ $\frac{1}{2}$ 1 $\frac{1}{2}$ <hr style="width: 100%;"/> 4
	<p><b>(ii) Compensation</b>                      Compensation for loss of employment is gross income from employment [section 13(1)(e)]. However, there is an exemption of RM6,000 for every completed year of service with the same employer [paragraph 15 of Schedule 3]. Junior therefore qualifies for tax exemption of RM30,000 (6,000 x 5). The remaining sum of RM50,000 (80,000 – 30,000) is assessable in the year of assessment 2007.</p>	$\frac{1}{2}$ $\frac{1}{2} + \frac{1}{2}$ $\frac{1}{2}$ 1 <hr style="width: 100%;"/> 3
	<p><b>(iii) Living accommodation</b>                      There is no comparison of defined value with the income under section 13(1)(a) because Senior is a non-service director (he owns 30% of share capital) of a controlled company.</p>	$\frac{1}{2}$ $\frac{1}{2}$ 1 <hr style="width: 100%;"/> 2

(b) (i)

**Senior**  
**Tax computation for the year of assessment 2007**

**Marks**

	RM	RM	RM	
Employment income				
Stylo				
Salary			96,000	1/2
Retirement gratuity:				
Amount taxable for YA2007			<u>70,000</u>	1/2
			166,000	
Fast Solutions Sdn Bhd				
Salary		9,000		1/2
Living accommodation:				
Defined value = 4,000 x 3		<u>12,000</u>		1
			<u>21,000</u>	
Statutory income from employment			187,000	
Dividend				
Singapore dividend (foreign-sourced income exempt)		nil		1/2
Malaysian dividend (1,460/73 x 100)		<u>2,000</u>		1
Statutory income from dividend			<u>2,000</u>	
Aggregate income			189,000	1/2*
Less Approved donation			<u>(4,000)</u>	1
Total income			185,000	1/2*
Wife				
Dividend (2,628/73 x 100)		3,600		1
Less Approved donation in cash		<u>(600)</u>		1
Total income			<u>3,000</u>	1/2
Combined total income			188,000	
Personal reliefs				
Personal relief		8,000		1/2
Spouse relief		3,000		1
Employee Provident Fund contributions (restricted to maximum)		6,000		1
Full medical check-up (restricted to maximum)		<u>500</u>		1
			<u>(17,500)</u>	
Chargeable income			<u>170,500</u>	1/2*
Tax on first RM100,000			14,475	
Tax on next RM70,500 at 27%			<u>19,035</u>	
Tax charged			33,510	1/2
Less:				
Section 110 set-off for self (1,460/73 x 27)		540		1
Section 110 set-off for wife (2,628/73 x 27)		<u>972</u>		1
			<u>(1,512)</u>	15
Income tax payable			<u>31,998</u>	

(ii)	Junior			Marks
Tax computation for the year of assessment 2007				
	RM	RM		
Employment income				
Waifai				
Salary	16,000			1/2
Compensation for loss of employment	50,000			1/2
	<u>66,000</u>			
Fast Solutions Sdn Bhd				
Salary	64,000			1/2
Car benefit (3,600/12 x 6)	1,800			1
	<u>65,800</u>			
Adjusted income from employment		131,800		
Less: Subscription to professional body		(1,000)		1
Statutory income from employment		<u>130,800</u>		
Interest income				
Interest from Malaysian bank (tax exempt or tax already deducted)		nil		1
Aggregate income		<u>130,800</u>		1/2*
Donation of old computer (not in cash)		nil		1
Total income		<u>130,800</u>		1/2*
Personal reliefs				
Self	8,000			1/2
Education insurance (restricted to maximum)	3,000			1
Employee Provident Fund contributions (restricted to maximum)	6,000			1
Personal computer (restricted to maximum)	3,000			1
		<u>(20,000)</u>		
Chargeable income		<u>110,800</u>		1/2*
Tax on first RM100,000		14,475		
On next RM10,800 at 27%		2,916		
Tax charged/payable		<u>17,391</u>		1/2
<b>Total</b>				<u><b>11</b></u>
				<u><b>35</b></u>

2 (a) Capital allowances for Niaga Sdn Bhd  
Year of assessment 2007

Assets brought forward from YA2006

	Cost	Residual expenditure	Annual allowance	Residual expenditure carried forward		
	RM	RM	RM %	RM		
Filing cabinets	12,000	7,200	1,200 10%	6,000	1+1	
Mobile phone	1,500	1,050	150 10%	900	1+1	
<b>Additional assets</b>						
	Cost	Qualifying plant expenditure	Initial allowance	Annual allowance	Residual expenditure carried forward	
	RM	RM	RM %	RM %	RM	
Van	120,850	120,850	24,170 20%	24,170 20%	72,510	1/2+1/2+1+1+1+1/2
Motor car	183,050	50,000	10,000 20%	10,000 20%	30,000	1/2+1+1+1+1+1/2
Computers	45,000	45,000	9,000 20%	18,000 40%	18,000	1/2+1/2+1+1+1+1/2
					<u>15</u>	

**Marks**

**(b) Balancing charge/allowance**

	RM	RM	
Disposal of projector Cost/QPE	<u>23,000</u>		
Residual expenditure		13,800	1/2
Disposal value		<u>(26,000)</u>	1/2
Balancing charge		(12,200)	1
Restricted to actual allowance given (23,000 – 13,800)		<u>(9,200)</u>	1
Disposal of photocopy machine Cost/QPE		8,000	
Initial allowance (20%)		<u>(1,600)</u>	1
Residual expenditure		6,400	1/2
Disposal value		<u>(5,500)</u>	1/2
Balancing allowance		<u>900</u>	1
			<u>6</u>

Tutorial note:

It has been clarified by the Director General of Inland Revenue that a clawback of allowances [under paragraph 71 of Schedule 3] will not apply for assets other than a luxury model of motorcar.

**Total**

**21**

**3 (a) Partnership business**

	RM	RM	
Net profit before tax		294,555	1/2
<i>Add</i>			
Salary to Azmil	66,000		1/2
Interest to Ahmad	9,000		1/2
Interest to Asri	5,000		1/2
Provision for staff outing	6,000		1
Depreciation	<u>3,645</u>		1/2
		<u>89,645</u>	
Provisional adjusted income		384,200	1/2*
<i>Less</i>			
Salary to Azmil	66,000		1/2
Interest to Ahmad	9,000		1/2
Interest to Asri	<u>5,000</u>		1/2
		<u>(80,000)</u>	
Divisible income		<u>304,200</u>	1/2*
			<u>6</u>

	RM	RM	<i>Marks</i>
<b>(b) Partners' statutory income</b>			
<b>Ahmad</b>			
1/3 share of divisible income from AAA Restaurant			
1/3 x 304,200	101,400		1/2
<i>Add</i>			
Interest on capital	<u>9,000</u>		1
Adjusted income		110,400	
Less 1/3 of capital allowance (1/3 x 4,500)		<u>(1,500)</u>	1
Statutory income from AAA Restaurant		<u>108,900</u>	1/2*
<b>Asri</b>			
1/3 share of divisible income from AAA Restaurant			
1/3 x 304,200	101,400		1/2
<i>Add</i>			
Interest on capital	<u>5,000</u>		1
Adjusted income		106,400	
Less 1/3 of capital allowance (1/3 x 4,500)		<u>(1,500)</u>	1/2
Statutory income from AAA Restaurant		<u>104,900</u>	1/2*
<b>Azmil</b>			
1/3 share of divisible income from AAA Restaurant			
1/3 x 304,200	101,400		1/2
<i>Add</i>			
Salary	<u>66,000</u>		1
Adjusted income		167,400	
Less 1/3 of capital allowance (1/3 x 4,500)		<u>(1,500)</u>	1/2
Statutory income from AAA Restaurant		<u>165,900</u>	1/2*
			<u>8</u>
<b>(c) Why service tax provisions are applicable</b>			
An operator of a restaurant located outside a hotel providing food, drinks etc			1
and whose sales turnover exceeds RM300,000 for any 12-month period			1
is a taxable person providing a taxable service for the purposes of service tax.			1/2+1/2
As the annual sales turnover of the AAA Restaurant was more than RM700,000, service tax provisions apply.			<u>1</u>
			<u>4</u>
<b>(d) The taxable period</b>			
The taxable period is normally two (2) calendar months.			1
If the AAA Restaurant was licensed on 1 February 2007, the first taxable period would be 1 February to 31 March 2007.			1
Service tax would be first payable on 28 April 2007 i.e. 28 days after the end of the taxable period.			1/2+1/2
			<u>3</u>
<b>Total</b>			<b><u>21</u></b>

**4 (a) Madam Tan**

<b>(i) Time-bar</b>			
Madam Tan submitted her tax return for the year of assessment 2001 on time.			1
Under the Income Tax Act [section 91], the Director General of Inland Revenue had six years			1
from 1 January 2002 i.e. by 31 December 2007 to issue the original assessment			1/2+1/2
for the year of assessment 2001.			
As the notice of assessment was only issued on 1 June 2008, the assessment is time-barred.			1
The Director General of Inland Revenue is therefore not entitled to collect the tax from Madam Tan.			<u>1</u>
			<u>5</u>

	<b>Marks</b>
<b>(ii)</b> Valid appeal	
A valid appeal is one that is made in writing in a prescribed form [Form Q] and submitted to the Director General of Inland Revenue	1
within 30 days after the date of service of the notice of assessment.	1
With regards to the notice of additional assessment for the year of assessment 2004, Madam Tan must submit her written objection to the Director General of Inland Revenue within 30 days after 1 June 2008 i.e. by 1 July 2008.	1
	<u>3</u>
<b>(iii)</b> Due date for tax return	
As Madam Tan no longer derives any business income and derived only employment income in the year of assessment 2007, she must submit her tax return for the year of assessment 2007 by 30 April 2008.	1
	<u>1</u>
	2
<b>(iv)</b> Due date for paying the balance of tax due	
The due date for paying any balance of tax due for the year of assessment 2007 is 30 April 2008.	1
	<u>1</u>
<b>(b)</b> Tax treatment for resident individuals and non-resident individuals	
<b>(i)</b> Personal reliefs and allowances	
Resident individuals are eligible for a range of personal reliefs deductible from total income.	1
Non-resident individuals are not eligible for such reliefs. Their total income is equal to their chargeable income.	1
	<u>1+1</u>
	3
<b>(ii)</b> Tax rates	
Resident individuals are taxed at graduated scale rates from 0% to 28%.	1
Non-resident individuals are taxed at the fixed rate of 28%.	1
	<u>1</u>
	2
<b>(iii)</b> Withholding tax	
Interest, royalties and technical fees received by resident individuals are added to other sources of income in arriving at aggregate income and thence subject to tax under the self-assessment system at scale rates	1
Non-resident individuals who receive interest, royalties, technical fees and rental of movable property which are derived from Malaysia	1
are subject to withholding tax at source.	1
The withholding tax rate is either 10% or 15% of the gross amount	1
	<u>1</u>
	7
<b>Total</b>	<b><u>23</u></b>