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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.

Section A

- 1 B A bonus received by an employee is fully taxable. As the bonus relates to 2008, it is taxable in the year of assessment 2008.
- 2 A The provision is allowable in full, RM38,000: it was a specific trade debt and the provision was made because of the reasonable grounds of financial difficulties of the debtor.
- 3 C  $RM100,000 = (20\% + 20\%) \times RM250,000$ . There is no restriction of the qualifying plant expenditure in respect of a lorry.
- 4 B Only the construction cost in respect of the factory constitutes qualifying building expenditure: expenditure on the showroom and the general office does not relate to an industrial building.
- 5 A There is no necessity to report the interest income in the annual tax return as the interest has either been exempted or has been subject to a final withholding tax of 5% by the bank before paying the interest to him.
- 6 D Total tax deductible expenses exceeded the taxable rental income. As a rental source is not allowed a loss, the adjusted income or adjusted loss is nil.
- 7 D First and second children –  $RM4,000 \times 2$ ; third child –  $RM1,000$ ; Disabled child –  $RM5,000$ ; total  $RM14,000$
- 8 C Add back  $RM100,000$  because the withholding tax provisions have not been complied with.
- 9 B Mr Tan has a business source of income. His due date is therefore 30 June of the year following 2008.
- 10 A Yes, it is subject to sales tax because it manufactures and sells goods that are not exempted and are not exported, in excess of  $RM100,000$  per annum.

Section B

Marks

1 (a) Mr Adil

Tax computation for the year of assessment 2008

	RM	RM	RM	
Business income from partnership				
Share of divisible income		40,000		1/2
Less capital allowance		<u>(6,400)</u>		1
Statutory income from business			33,600	1/2*
Unabsorbed business loss brought forward	95,000			1
Less amount absorbed	<u>(33,600)</u>		<u>(33,600)</u>	1
Unabsorbed business loss carried forward	<u>61,400</u>			1/2
Net statutory income from business			nil	
Employment income				
Director's fee		30,000		1/2
Benefit in kind: car		7,000		1
Benefit in kind: driver (600 x 12)		<u>7,200</u>		1
			<u>44,200</u>	
Aggregate income			44,200	1/2*
Less Approved donation:				
10,000 restricted to 7% of aggregate income i.e.			<u>(3,094)</u>	1 + 1
Total income			41,106	1/2*
Personal reliefs				
Personal relief		8,000		1/2
Employee Provident Fund contributions	3,600			1/2
Life insurance premium	<u>5,000</u>			1/2
		<u>8,600</u>		
Restricted to maximum		<u>6,000</u>		1/2
			<u>(14,000)</u>	
Chargeable income			<u>27,106</u>	1/2*
Tax on first RM20,000			475	
Tax on next RM7,106 at 7%			497	
Tax charged			<u>972</u>	1/2
Less rebate (chargeable income does not exceed RM35,000)			<u>(350)</u>	1
Tax payable			<u>622</u>	
				<u>14</u>

**(b) Mrs Adil****Tax computation for the year of assessment 2008**

	RM	RM	
Business income from partnership			
Share of divisible income	60,000		$\frac{1}{2}$
Partner's salary	<u>72,000</u>		1
Adjusted income from partnership	132,000		
Less capital allowance	<u>(9,600)</u>		1
Statutory income from partnership business		122,400	
Interest			
Interest from Malaysian company		19,500	1
Dividend			
Malaysian single-tier dividend (exempt)		nil	1
Foreign dividend remitted to Malaysia (exempt)		<u>nil</u>	1
Aggregate income		141,900	$\frac{1}{2}^*$
Less Approved donation (less than 7% of aggregate income)		<u>(1,900)</u>	1
Total income		140,000	$\frac{1}{2}^*$
Personal reliefs			
Personal relief	8,000		$\frac{1}{2}$
Life insurance	2,410		$\frac{1}{2}$
Books and magazines (restricted to maximum)	1,000		1
Medical check-up	490		$\frac{1}{2}$
Child relief (foreign university)	<u>4,000</u>		1
		<u>(15,900)</u>	
Chargeable income		<u>124,100</u>	$\frac{1}{2}^*$
Tax on first RM100,000		14,475	
Tax on next RM24,100 at 27%		<u>6,507</u>	
Tax charged/payable		<u>20,982</u>	$\frac{1}{2}$
			<u>12</u>
<b>Total</b>			<b><u>26</u></b>

**2 (a) Happy Kiddos -- Tax deductibility of each item of expenditure**

Rental of premises	Deductible	Revenue expense incurred in the normal course of the business.	$\frac{1}{2} + 1$
Purchase of tables and chairs	Not deductible	Capital in nature as it relates to a fixed asset.	$\frac{1}{2} + 1$
Foodstuff, writing materials and other supplies	Deductible	Revenue expense incurred in the normal course of the business.	$\frac{1}{2} + 1$
Salary to sole proprietor	Not deductible	Any payment to the proprietor represents profit from the business, therefore not tax deductible in arriving at adjusted income	$\frac{1}{2} + 1$
Utilities, maintenance and upkeep of premises	Deductible	Revenue expenses incurred in the normal course of the business.	$\frac{1}{2} + \frac{1}{2}$
Training of helpers and assistants	Deductible	Revenue expenses incurred in the normal course of the business.	$\frac{1}{2} + 1$
Advertisements and marketing	Deductible	Revenue expenses to promote business	$\frac{1}{2} + 1$
			<u>10</u>

**(b) Quick Sdn Bhd****(i) Estimated tax for the year of assessment 2008**

	RM	
Estimated tax for the preceding year i.e. year of assessment 2007	100,000	1
Minimum tax estimated for the year of assessment 2008: 85% thereof	85,000	1 + 1
		<u>3</u>

The law requires a minimum of 85% estimation.

		<b>Marks</b>
<b>(ii) Revised tax estimate for the year of assessment 2008</b>		
First revision of estimated tax:	in the sixth month i.e. June 2008	1 + 1/2
Second revision of estimated tax:	in the ninth month i.e. September 2008	1 + 1/2
		3
<b>(iii) Penalty for under-estimation of tax for the year of assessment 2007</b>		
	<b>RM</b>	
Actual tax charged	168,000	1/2
Estimated tax	(100,000)	1/2
Difference	68,000	
Less 30% of tax charged	(50,400)	1 + 1/2
Excessive difference	17,600	1
Penalty at 10% thereon	1,760	1 + 1/2
		5
<b>Total</b>		<b>21</b>

**3 (a) De Ole Place – Capital allowance for the year of assessment 2008**

**(i) Assets acquired in 2008**

Asset	Qualifying plant expenditure RM	Initial allowance		Annual allowance		
		Rate	RM	Rate	RM	
New kitchen equipment.	350,000	20%	70,000	14%	49,000	1/2 + 1/2 + 1/2 + 1 + 1/2
Restaurant furniture and fittings	80,000	20%	16,000	10%	8,000	1/2 + 1/2 + 1/2 + 1/2 + 1/2
Personal computer system	7,000	20%	1,400	40%	2,800	1/2 + 1/2 + 1/2 + 1/2 + 1/2
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**(ii) Motor vehicle under hire purchase**

	<b>RM</b>	
Deposit	45,000	1
Principal paid in three instalments (3,000 x 3)	9,000	1
	54,000	
Qualifying plant expenditure (restricted to)	50,000	1
Initial allowance (20%)	10,000	1/2 + 1/2
Annual allowance (20%)	10,000	1/2 + 1/2
		5

**(iii) Assets brought forward**

Asset	Qualifying plant expenditure RM	Residual expenditure RM	Annual allowance			
			Rate	RM		
Van	78,000	31,200	20%	15,600	1/2 + 1/2 + 1/2 + 1/2	
Restaurant furniture and fittings	30,000	6,000	10%	3,000	1/2 + 1/2 + 1/2 + 1/2	
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(b) Balancing charge/allowance

Disposal of the old kitchen equipment

	RM	
Residual expenditure	Nil	1
Disposal price	(15,000)	1
Balancing charge	<u>(15,000)</u>	<u>1</u>
		<u>3</u>
<b>Total</b>		<b><u>20</u></b>

4 (a) (i) Tax treatment of retirement gratuity received by Abang

Abang did not retire because of ill-health as he is stated to be healthy. 1/2  
 Although Abang has worked for more than ten years with the same employer, 1/2  
 he has not attained 55 years of age, the statutory compulsory age for retirement. 1/2  
 Therefore, he does not qualify for income tax exemption in respect of the gratuity. 1/2  
 The RM60,000 is therefore fully taxable but is spread evenly over six years of assessment. 1/2 + 1/2  
 RM10,000 gratuity is taxable for each of the years of assessment 2003 to 2008, inclusive. 1/2 + 1/2

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(ii) Tax treatment of the compensation received by Adik

Compensation for loss of employment was not because of ill-health as he is stated to be strong. 1/2  
 Therefore the RM75,000 is not exempted in full. 1/2  
 RM6,000 for every completed year is exempted. 1/2 + 1/2  
 Adik is therefore exempted on RM60,000 (RM6,000 x 10) 1  
 The balance of RM15,000 (RM75,000 – RM60,000) is taxable wholly in the year of assessment 2008. 1/2 + 1/2

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(b) Service tax provisions

A person providing a taxable service will be a taxable person if the sales turnover in any 12-month period reaches the requisite threshold, if any, for that type of service business. 1 + 1/2  
 A taxable person providing a taxable service must apply for a licence. 1  
 The taxable period is two calendar months, and 1  
 the service tax is payable to the Customs authorities within 28 days after the end of the taxable period. 1 + 1/2

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**Total** **13**