

Fundamental Level – Skills Module

# Taxation (Malaysia)

Monday 3 December 2007

**Time allowed**

Reading and planning: 15 minutes

Writing: 3 hours

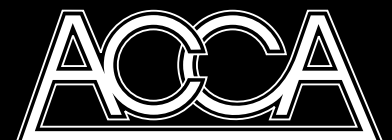
ALL FIVE questions are compulsory and MUST be attempted.  
Tax rates and allowances are on pages 2–4.

**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)

**SUPPLEMENTARY INSTRUCTIONS:**

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

**TAX RATES AND ALLOWANCES**

The following rates and allowances are to be used in answering the questions on this paper.

**Income tax rates**

(Rates applicable to all chargeable income liable to tax and not specifically chargeable at a different rate)

**Resident individuals**

| Chargeable income |                  | Tax payable |                  |
|-------------------|------------------|-------------|------------------|
| Band<br>RM        | Cumulative<br>RM | Rate<br>%   | Cumulative<br>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 companies**

Having a paid up ordinary share capital not exceeding RM2.5 million

|                     |     |
|---------------------|-----|
| The first RM500,000 | 20% |
| The remainder       | 27% |

Other resident companies

All 27%

**Selected personal deductions**

|                                      | RM     |
|--------------------------------------|--------|
| Single individual – basic rate       | 8,000  |
| – disabled rate                      | 14,000 |
| Wife/husband – basic rate            | 3,000  |
| – disabled rate                      | 6,500  |
| Child – basic rate                   | 1,000  |
| – enhanced rate                      | 4,000  |
| – disabled rate                      | 5,000  |
| Life insurance and approved schemes  | 6,000  |
| Parents' medical expenses            | 5,000  |
| Own medical costs                    | 5,000  |
| Necessary basic supporting equipment | 5,000  |
| Educational and medical insurance    | 3,000  |
| Books, magazines etc.                | 1,000  |
| Computer                             | 3,000  |

### Rebates

|   | RM  |
|---|-----|
| Single individual – chargeable income up to RM35,000  | 350 |
| Individual entitled to a deduction for a spouse or a former wife – chargeable income up to RM35,000 | 700 |

### Prescribed value of a motor car and its related benefits

| Cost of motor car<br>(new)<br>RM | Annual prescribed<br>benefit of motor car<br>RM | Annual prescribed<br>benefit of petrol<br>RM |
|----------------------------------|---|--|
| Up to 50,000                     | 1,200   | 600  |
| 50,001– 75,000                   | 2,400   | 900  |
| 75,001–100,000                   | 3,600   | 1,200  |
| 100,001–150,000                  | 5,000   | 1,500  |
| 150,001–200,000                  | 7,000   | 1,800  |
| 200,001–250,000                  | 9,000   | 2,100  |
| 250,001–350,000                  | 15,000  | 2,400  |
| 350,001–500,000                  | 21,250  | 2,700  |
| 500,001 and above                | 25,000  | 3,000  |

The annual value of the motor car benefit can be reduced to half of the prescribed value if the car provided is more than five years old, but the value of petrol remains unchanged.

### Prescribed value of household furnishings, apparatus and appliances

| Type of benefit  | Annual value<br>RM |
|--|--------------------|
| Semi-furnished with furniture in the lounge, dining room or bedroom  | 840                |
| Plus one or more of the following:<br>air-conditioners, curtains and carpets                                       | 1,680              |
| Plus one or more of the following:<br>kitchen equipment, crockery, utensils and appliances<br>i.e. fully furnished | 3,360              |

### Prescribed value of other benefits

| Type of benefit                          | Annual value<br>RM |
|--|--------------------|
| Telephone – fixed or mobile:<br>hardware | 300                |
| bills                                    | 300                |
| Gardener                                 | 3,600              |
| Domestic servant                         | 4,800              |
| Driver                                   | 7,200              |

### Capital allowances

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

### Sales and service tax rates

|             |     |
|-------------|-----|
| Sales tax   | 10% |
| Service tax | 5%  |

**ALL FIVE questions are compulsory and MUST be attempted**

1 Encik Albert and his wife, Puan Sherry are Malaysian residents living together as husband and wife throughout the basis year 2007. Their income for the year ended 31 December 2007 is expected to be as follows:

|   | RM     |
|---|--------|
| <b>Albert</b>                             |        |
| Gross dividends                           | 1,000  |
| Net rental income                         | 6,050  |
| <b>Sherry</b>                             |        |
| Employment income                         | 40,000 |
| Interest from fixed deposits (non exempt) | 70     |
| Net rental income                         | 21,930 |

Albert claimed tax reliefs for the following expenses incurred by him:

|                                       | RM    |
|---------------------------------------|-------|
| Donation to an approved institution   | 50    |
| Insurance premium on his own life     | 1,500 |
| Purchase of books                     | 800   |
| Purchase of a computer for family use | 2,700 |

Sherry claimed tax reliefs for the following expenses incurred by her:

|  | RM    |
|--|-------|
| Employees Provident Fund contributions | 4,400 |
| Medical expense for her mother         | 2,300 |
| Purchase of books                      | 300   |

Albert and Sherry have two children. The first child, aged 20 years, is unmarried and disabled. The second child, aged 19 years, is unmarried and studying for an engineering degree at Universiti Malaya. Sherry claimed relief for both children.

**Required:**

- (a) **Using three columns, compute the tax payable/repayable by Encik Albert and Puan Sherry for the year of assessment 2007:**
- (i) **Under separate assessment.** (11 marks)
  - (ii) **Under joint assessment, assuming Encik Albert is the one who elects.** (8 marks)
- (b) **Based on the tax computations in (a) above, explain the tax benefits to Encik Albert and Puan Sherry of being jointly assessed for the year of assessment 2007.** (7 marks)
- (c) **Advise Encik Albert what he would be required to do if he wanted to have his income jointly assessed in his wife's name.** (1 mark)
- (d) **Identify the relevant facts from the above scenario which qualify Encik Albert to elect for joint assessment.** (3 marks)

**(30 marks)**

- 2 JJ Sdn Bhd is engaged in the production of batik textiles. The company's profit and loss account for the year ended 30 September 2007 is as follows:

|                                       | Note | RM000's | RM000's        |
|---------------------------------------|------|---------|----------------|
| Sales                                 | 1    |         | 17,952         |
| Cost of sales                         |      |         | (9,505)        |
| Gross profit                          |      |         | <u>8,447</u>   |
| Add: Rental income                    | 2    |         | 18             |
|                                       |      |         | <u>8,465</u>   |
| <i>Less:</i>                          |      |         |                |
| Repairs and maintenance               | 3    | 750     |                |
| Foreign exchange                      | 4    | 6       |                |
| Bad debt provisions                   | 5    | 159     |                |
| Salaries and wages                    | 6    | 1,600   |                |
| Advertisements                        | 7    | 703     |                |
| Penalty for late payment of sales tax |      | 34      |                |
| Depreciation                          |      | 900     |                |
| Approved donation                     |      | 22      |                |
|                                       |      |         | <u>(4,174)</u> |
| Profit before taxation                |      |         | <u>4,291</u>   |

Notes:

- Sales includes a sum of RM155,000 received from a supplier of dye as compensation for the poor quality of the dye.
- Gross rents received in respect of a residential property for the year ended 30 September 2007.
- Repairs and maintenance includes the following expenses incurred on the residential property rented out during the financial year:

|                | RM           |
|----------------|--------------|
| Quit rent      | 1,000        |
| Assessment     | 4,000        |
| Fire insurance | 3,000        |
|                | <u>8,000</u> |

- Foreign exchange comprises:

|  | RM           |
|--|--------------|
| Unrealised loss on the purchase of silk from China | 13,000       |
| Realised gain from the purchase of silk from India | (7,000)      |
|  | <u>6,000</u> |

- Bad debt provisions comprise:

|                                    | RM             |
|------------------------------------|----------------|
| Bad debt written off *             | 165,000        |
| Specific provision carried forward | 33,000         |
| General provision carried forward  | 59,000         |
| Bad debts recovered **             | (26,000)       |
| Specific provision brought forward | (44,000)       |
| General provision brought forward  | (28,000)       |
|                                    | <u>159,000</u> |

\* The bad debt written off is in respect of an invoice amounting to RM165,000, inclusive of sales tax of RM15,000.

\*\* Bad debts recovered includes a sum of RM5,000 recovered in respect of a loan to an ex-employee.

(6) Salaries and wages include:

|  | RM     |
|--|--------|
| Leave passages provided to management staff and their families                                       | 25,000 |
| Leave passage in respect of the company family day in which senior management personnel participated | 9,000  |
| Salaries of two disabled employees   | 24,000 |
|  | <hr/>  |
|  | 58,000 |
|  | <hr/>  |

(7) Advertisements includes a sum of RM610,000 incurred on sponsoring arts and cultural performances approved by the relevant authority, in line with Visit Malaysia Year 2007. The sum comprised RM230,000 incurred on foreign arts and RM380,000 incurred on local cultural performances.

(8) Other information

(i) For the year of assessment 2007, capital allowances for plant and machinery amount to RM499,000 and industrial building allowance amounts to RM375,000, excluding any allowances or adjustments attributable to the assets referred to in (ii), (iii), and (iv) below.

(ii) Capital expenditure was incurred on new heavy machinery during the year. Alteration to the factory was carried out for the installation of the machinery. The expenditure incurred was as follows:

|                                   | RM      |
|-----------------------------------|---------|
| Cost of machinery                 | 280,000 |
| Cost of alteration to the factory | 33,000  |
| Incidental costs                  | 7,000   |
|                                   | <hr/>   |
|                                   | 320,000 |
|                                   | <hr/>   |

(iii) An old van, bought in August 2004 at a cost of RM75,000 was sold for RM7,000 in December 2006.

(iv) Partitions which are non-movable were put up in the factory to facilitate the production process. The cost of the partitions amounted to RM100,000.

**Required:**

(a) **Compute the chargeable income of JJ Sdn Bhd for the year of assessment 2007. 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 every item that does not require adjustment.**

Note: detailed workings of the capital allowances must be shown. (22 marks)

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

(i) **Repairs and maintenance in respect of the rented residential property (note 3);**

(ii) **Realised gain from the purchase of silk from India (note 4); and**

(iii) **Bad debt written off (note 5).**

(3 marks)

**(25 marks)**

- 3 (a) (i) Encik Yeoh, who operates a seafood restaurant not located in an hotel, is licensed under the Service Tax Act. On 8 July 2007, he charged a customer RM630 for food and drinks inclusive of service tax.

**Required:**

**State the amount of service tax to be paid to the Customs Department in respect of the bill, the due date for payment, and how the due date is determined.** (2 marks)

- (ii) Encik Siva & Co, a firm of registered surveyors, is a taxable person licensed under the Service Tax Act. The firm issued an invoice to Mayo Sdn Bhd on 17 April 2006 for services rendered (excluding service tax) as follows:

|   | RM     |
|---|--------|
| Surveying services in respect of a piece of land in Johore Bahru  | 9,300  |
| Valuation fees in respect of a condominium in Singapore           | 10,500 |
| Consultancy fees in respect of a shopping complex in Kuala Lumpur | 14,200 |

As at 30 June 2007 the total amount on the above invoice, including service tax, remained outstanding.

**Required:**

**Tabulate the details of the invoice issued to Mayo Sdn Bhd on 17 April 2006 in respect of the services rendered including the service tax, where relevant. State and explain the due date for the payment of the service tax to the Customs Department.** (4 marks)

- (iii) Bay Sdn Bhd charged service tax amounting to RM29,000 in an invoice issued on 17 June 2007. The service tax was remitted to the Customs Department on 14 October 2007.

**Required:**

**Compute the penalty imposed for the late payment of the above service tax.** (4 marks)

- (b) Encik Julian is employed as a senior manager in the marketing department of Style Sdn Bhd. His income for the year ended 31 December 2007 is as follows:

|                      | RM      |
|----------------------|---------|
| Salary               | 174,000 |
| Travelling allowance | 18,000  |

The company made the following payments and provided him with the following benefits (the benefits are for the whole year, unless stated otherwise):

Reimbursement of salary of the driver employed by Julian, amounting to RM11,400.

From 1 January to 30 September 2007 Julian was provided with a company car costing RM99,000, which he was required to share with another employee. From 1 October to 31 December 2007 Julian was provided with a new company car costing RM165,000, solely for his own use. Petrol was provided by the company for the whole year.

Leave passage to Europe taken by Julian and his wife in December, at a cost of RM4,600.

Unfurnished living accommodation provided to Julian from 1 July to 31 December 2007, at a cost of RM8,000 per month.

Other information:

Julian claimed travelling expenses incurred on visiting company clients, amounting to RM19,000.

**Required:**

**Compute the statutory income from employment of Encik Julian for the year of assessment 2007. Use the prescribed value method for the benefits provided by the company.** (10 marks)

**(20 marks)**

- 4 (a) **State the circumstances in which an employer is NOT required to give notice to the Director General of Inland Revenue in respect of the cessation of employment by his employee.** (2 marks)
- (b) **List the relevant considerations to be taken into account in determining whether an item of expense is deductible in arriving at the adjusted income from a business source.** (6 marks)
- (c) Ruby Sdn Bhd is required to pay a royalty amounting to RM120,000 to Encik Reno, a non resident.

**Required:**

**State the tax compliance required of Ruby Sdn Bhd under the Income Tax Act on paying the royalty amount to Encik Reno. Your answer should include the time frame for compliance.** (2 marks)

- (d) **Describe the scope of sales tax.** (5 marks)

**(15 marks)**

- 5 (a) Encik Jeff, a Canadian citizen, came to Malaysia on 28 July 2007 and left Malaysia permanently on 31 October 2007. The record of Encik Jeff's stays in Malaysia have been as follows:

| <b>Year</b> | <b>Stay in Malaysia</b>    | <b>Days in Malaysia</b> |
|-------------|----------------------------|-------------------------|
| 2003        | 20 December to 31 December | 12                      |
| 2004        | 1 January to 31 December   | 366                     |
| 2005        | 1 January to 5 January     | 5                       |
|             | 1 August to 30 November    | 122                     |
| 2006        | Absent                     | 0                       |
| 2007        | 28 July to 31 October      | 96                      |

**Required:**

**State, with explanations, the resident/non resident status of Encik Jeff for each of the years of assessment 2003 to 2007 (inclusive).** (9 marks)

- (b) On 8 October 2007 Miss Nonaka took a 10 am flight to Singapore to attend a concert. On 9 October 2007 she took a return flight arriving at Kuala Lumpur International Airport at 11pm.

**Required:**

**State, with explanations, the tax treatment of Miss Nonaka's visit to Singapore, under the Malaysian residence rules.** (1 mark)

**(10 marks)**

**End of Question Paper**

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# Answers

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|  |  |               |                   | <i>Marks</i>   |
|--|--|---------------|-------------------|----------------|
| <b>1 (a) Encik Albert and Puan Sherry</b>  |  |               |                   |                |
| Tax payable for the year of assessment 2007:<br>(Basis period 1 January to 31 December 2007) |  |               |                   |                |
|  | (i)  | (i)           | (ii)              |                |
|  | <b>Albert</b>  | <b>Sherry</b> | <b>Joint</b>      |                |
|  |  |               | <b>Assessment</b> |                |
|  | <b>RM</b>  | <b>RM</b>     | <b>RM</b>         |                |
| Employment income  |  | 40,000        | 40,000            | 1              |
| Dividends (gross)  | 1,000  |               |                   | $\frac{1}{2}$  |
| Interest   |  | 70            | 70                | 1              |
| Rents  | 6,050  | 21,930        | 21,930            | $1\frac{1}{2}$ |
| Aggregate income   | <u>7,050</u>   | <u>62,000</u> | <u>62,000</u>     |                |
| Less: Donation   | (50)   |               |                   | $\frac{1}{2}$  |
| Sherry's total income  |  |               | 62,000            | $\frac{1}{2}$  |
| Albert's total income  |  |               | 7,000             | $\frac{1}{2}$  |
| Total income   | <u>7,000</u>   | <u>62,000</u> | <u>69,000</u>     |                |
| Less: Personal reliefs:  |  |               |                   |                |
| Self   | (8,000)  | (8,000)       | (8,000)           | $1\frac{1}{2}$ |
| Husband  |  |               | (3,000)           | $\frac{1}{2}$  |
| Employees Provident Fund   |  | (4,400)       |                   | $\frac{1}{2}$  |
| Life insurance   | (1,500)  |               | [5,900]           | 1              |
| Medical expense – mother   |  | (2,300)       | (2,300)           | 1              |
| Purchase of books  | (800)  | (300)         | (1,000) max       | 2              |
| Purchase of computer   | (2,700)  |               | (2,700)           | 1              |
| Child – disabled   |  | (5,000)       | (5,000)           | $1\frac{1}{2}$ |
| university student   |  | (4,000)       | (4,000)           | $1\frac{1}{2}$ |
| Chargeable income  | <u>Nil</u>   | <u>38,000</u> | <u>37,100</u>     | $\frac{1}{2}$  |
| Tax charged  | Nil  |               |                   |                |
| Tax on RM35,000  | 1,525  |               |                   |                |
| Tax on RM3,000 at 13%  | <u>390</u>   |               |                   |                |
| Tax charged  |  | 1,915         |                   | $\frac{1}{2}$  |
| Tax on RM35,000  | 1,525  |               |                   |                |
| Tax on RM2,100 at 13%  | <u>273</u>   |               |                   |                |
| Tax charged  |  |               | 1,798             | $\frac{1}{2}$  |
| Less: s.110 RM1,000 at 27%   | (270)  |               | (270)             | 1              |
| Tax payable (repayable)  | <u>(270)</u>   | <u>1,915</u>  | <u>1,528</u>      | $\frac{1}{2}$  |
|  |  |               |                   | <u>19</u>      |
| <b>(b)</b>   | The tax benefits arise from the fact that Encik Albert's income is not large enough to utilise the personal reliefs due to him. By electing for his income to be jointly assessed in his wife's name, expenses incurred by him are deemed to be incurred by his wife, thus enabling his wife to claim the higher relief. The amount of these personal reliefs exceeds the income that is added to the wife's total income resulting in tax savings for them. |               |                   | 1              |
|  |  |               |                   | $1\frac{1}{2}$ |
|  |  |               |                   | $1\frac{1}{2}$ |

The tax savings are calculated as follows:

|                                     |              |          |
|-------------------------------------|--------------|----------|
|                                     | <b>RM</b>    |          |
| Life insurance premium              | 1,500        |          |
| Cost of books – net (RM800 – RM100) | 700          | 1/2      |
| Purchase of computer                | 2,700        |          |
| Total                               | <u>4,900</u> | 1/2      |
| Relief for husband                  | 3,000        | 1/2      |
|                                     | <u>7,900</u> |          |
| Less: husband's total income        | (7,000)      | 1/2      |
| Higher reliefs (net)                | <u>900</u>   |          |
| Tax on RM900 at 13% (tax savings)   | <u>117</u>   | 1        |
|                                     |              | <u>7</u> |

- (c) Encik Albert must make the election to have his income jointly assessed in his wife's name, by completing the relevant part of his tax return. 1/1
- (d) Encik Albert is a Malaysian resident. Encik Albert and Puan Sherry lived together as husband and wife in the basis year 2007 and did not in that basis year cease to live together as husband and wife. Puan Sherry did not herself elect for joint assessment. 1/1/1/3
- 30**

- 2 (a) JJ Sdn Bhd  
Year of assessment 2007  
(Basis period 1 October 2006 to 30 September 2007)

|  | Note | RM000's<br>+ | RM000's<br>– |     |
|--|------|--------------|--------------|-----|
| Profit before taxation                                 |      | 4,291        | –            |     |
| Compensation from supplier                             | 1    |              | Nil          | 1/2 |
| Rental income  | 2    |              | 18           | 1/2 |
| Maintenance of residential property:                   |      |              |              |     |
| Quit rent  | 3    | 1            |              | 1/2 |
| Assessment   | 3    | 4            |              | 1/2 |
| Fire insurance   | 3    | 3            |              | 1/2 |
| Unrealised loss – silk from China                      | 4    | 13           |              | 1/2 |
| Realised gain – silk from India                        | 4    |              | Nil          | 1/2 |
| Sales tax written off as part of bad debt              | 5    | 15           |              | 1   |
| Specific provision c/f                                 | 5    | Nil          |              | 1/2 |
| General provision c/f                                  | 5    | 59           |              | 1/2 |
| Bad debts recovered                                    | 5    |              | 5            | 1   |
| Specific provision b/f                                 | 5    |              | Nil          | 1/2 |
| General provision b/f                                  | 5    |              | 28           | 1/2 |
| Leave passages   | 6    | 25           |              | 1/2 |
| Leave passage – family day                             | 6    | Nil          |              | 1   |
| Salaries – disabled employees<br>(double deduction)    | 6    |              | 24           | 1   |
| Foreign arts<br>(RM230,000 – RM200,000)                | 7    | 30           |              | 1   |
| Local cultural performances<br>(RM380,000 – RM300,000) | 7    | 80           |              | 1   |
| Penalty for late payment of sales tax                  |      | 34           |              | 1/2 |
| Depreciation   |      | 900          |              | 1/2 |
| Donation   |      | 22           |              | 1/2 |
|  |      | <u>5,477</u> | <u>75</u>    |     |
|  |      | (75)         |              |     |
| Adjusted income  |      | <u>5,402</u> |              |     |

|  |               |                | <b>Marks</b>     |
|--|---------------|----------------|------------------|
| Less: Capital allowances – plant and machinery<br>(RM499 + RM128)  | 627           |                |                  |
| Balancing allowance  | <u>8</u>      |                |                  |
|  |               | (635)          | 1                |
| Industrial building allowance<br>(RM375 + RM13)  |               | <u>(388)</u>   | 1/2              |
| Statutory income   |               | 4,379          |                  |
| Add:   |               |                |                  |
| Rental – statutory income (RM18–RM8)   | 3             | <u>10</u>      |                  |
| Aggregate statutory income   |               | 4,389          | 1                |
| Less: Approved donation  |               | <u>(22)</u>    | 1/2              |
| Chargeable income  |               | <u>4,367</u>   |                  |
| <b>Workings:</b>   |               |                |                  |
| Capital allowances   | <b>RM</b>     | <b>RM</b>      |                  |
| Machinery (heavy)  |               |                |                  |
| Qualifying expenditure   |               |                |                  |
| Cost of machinery  |               | 280,000        | 1/2              |
| Cost of alteration to factory  |               | 33,000         | 1/2              |
| Incidental costs   |               | <u>7,000</u>   | 1/2              |
| Total  |               | 320,000        |                  |
| Less: Initial allowance (IA) 20%   | 64,000        |                |                  |
| Annual allowance (AA) 20%  | <u>64,000</u> |                |                  |
|  |               | 128,000        | 1/2              |
| Residual expenditure (RE) as at 30 September 2007  |               | <u>192,000</u> |                  |
| Old van  |               |                |                  |
| Qualifying expenditure   |               | 75,000         |                  |
| Less: IA 20%   | 15,000        |                |                  |
| AA 20% x 3   | <u>45,000</u> |                |                  |
|  |               | 60,000         |                  |
| RE as at 1 October 2006  |               | 15,000         | 1                |
| Sold year of assessment 2007   |               | <u>(7,000)</u> |                  |
| Balancing allowance  |               | <u>8,000</u>   | 1/2              |
| Industrial building allowance  |               |                |                  |
| Partitions (non-movable)   |               | 100,000        | 1                |
| Less: IA 10%   | 10,000        |                |                  |
| AA 3%  | <u>3,000</u>  |                |                  |
|  |               | 13,000         | 1                |
| RE as at 30 September 2007   |               | <u>87,000</u>  | <u>22</u>        |
| <b>(b)</b>   |               |                |                  |
| (i) Repairs and maintenance in respect of the rented residential property (note 3)   |               |                | 1                |
| The expenses of quit rent, assessment, and fire insurance were incurred in respect of a non-business source. Therefore, they are added back in the computation of statutory income from business and deducted against the rental source. |               |                |                  |
| (ii) Realised gain from the purchase of silk from India (note 4)   |               |                | 1 1/2            |
| The gain is taxable as it is realised in the course of carrying on the trade and it is revenue in nature.  |               |                |                  |
| (iii) Bad debt written off (note 5)  |               |                | 1/2              |
| Sales tax is not part of the trade debt, therefore it is not deductible.   |               |                | <u>3</u>         |
|  |               |                | <u><b>25</b></u> |

|                  |  | <b>Marks</b>                |
|------------------|--|-----------------------------|
| <b>3 (a) (i)</b> | The amount of service tax is RM30 (RM630 x 5/105).<br>The due date for the above service tax is 28 September 2007, being 28 days after the end of the taxable period which is July to August 2007. | 1/2<br><br>1 1/2<br><hr/> 2 |
| <b>(ii)</b>      | Invoice issued to Mayo Sdn Bhd on 17 April 2006  |                             |
|                  | <b>RM</b>  |                             |
|                  | Surveying service – Johore Bahru 9,300   | 1/2                         |
|                  | Consultancy fees – Kuala Lumpur 14,200   | 1/2                         |
|                  | <u>23,500</u>  | 1/2                         |
|                  | Service tax at 5% 1,175  | 1/2                         |
|                  | Valuation fees – Singapore 10,500  | 1/2                         |
|                  | <u>Total</u> 35,175  | 1/2                         |
|                  | The due date for the payment of the service tax is 17 April 2007, being the day immediately after the expiry of the 12-month period from the date of the issue of the invoice.                     | 1 1/2<br><hr/> 4            |
| <b>(iii)</b>     | Service tax due on 28 July 2007 RM29,000   | 1/2                         |
|                  | Penalty for late payment:  |                             |
|                  | <b>RM</b>  |                             |
|                  | 29 July 2007 to 27 August 2007 (30 days) 10% 2,900   | 1                           |
|                  | 28 August 2007 to 26 September 2007 (30 days) 10% 2,900  | 1                           |
|                  | 27 September 2007 to 26 October 2007 (30 days or part thereof) 10% 2,900   | 1 1/2                       |
|                  | <u>Total</u> 30% 8,700   | <u>4</u>                    |
| <b>(b)</b>       | Encik Julian – Year of assessment 2007<br>(Basis period 1 January to 31 December 2007)   |                             |
|                  | <b>RM</b>  |                             |
|                  | s.13(1)(a)   |                             |
|                  | Salary 174,000   | 1/2                         |
|                  | Travelling allowance 18,000  | 1/2                         |
|                  | Reimbursement of driver's salary 11,400  | 1                           |
|                  | <u>203,400</u>   |                             |
|                  | s.13(1)(b)   |                             |
|                  | First car 3,600 x 9/12 x 1/2 1,350   | 1                           |
|                  | Petrol 1,200 x 9/12 x 1/2 450  | 1                           |
|                  | Second car 7,000 x 3/12 1,750  | 1/2                         |
|                  | Petrol 1,800 x 3/12 450  | 1/2                         |
|                  | Leave passage (RM4,600 – RM3,000) 1,600  | 1                           |
|                  | <u>5,600</u>   |                             |
|                  | s.13(1)(c)   |                             |
|                  | Defined value RM8,000 x 12 = RM96,000 or   | 1                           |
|                  | 30% x RM203,400 = RM61,020   | 1                           |
|                  | whichever lower RM61,020 x 1/2   | 1                           |
|                  | <u>30,510</u>  |                             |
|                  | 239,510  |                             |
|                  | Less: Travelling expenses (19,000)   | 1                           |
|                  | <u>Statutory income</u> 220,510  | <u>10</u>                   |
|                  |  | <b><u>20</u></b>            |

|              |  | <b>Marks</b>                               |
|--------------|--|--|
| <b>4 (a)</b> | The employer is not required to give notice where the employer has been deducting tax under the schedular tax deduction (STD) scheme or would have been so deducting tax if the employee had not been under the exemption limit and the employee is not known to be retiring permanently.  | 1<br><hr/> 1<br><hr/> 2                    |
| <b>(b)</b>   | In determining whether or not an expense is deductible in arriving at the adjusted income from a business source, regard must be given to the following:<br><br>The expense is revenue in nature.<br>The expense falls within the general (wholly and exclusively) principle or the specific provisions of subsection (1) (a) to (d) of s.33 of the Income Tax Act (ITA).<br>The expense is not specifically disallowed under s.39, ITA.<br>The expense is specifically deductible under s.34, ITA.<br>Relevant PU orders.<br>Relevant case law.<br>Relevant Public Rulings issued by the Inland Revenue Board.<br><br>One mark for each point, maximum six marks. | 1<br>1<br>1<br>1<br>1<br>1<br>1<br><hr/> 6 |
| <b>(c)</b>   | Ruby Sdn Bhd is required to withhold 10% of the royalty payable to Encik Reno. i.e. RM12,000, upon paying the royalty. Ruby Sdn Bhd must render an account and pay the amount of the tax to the Director General of Inland Revenue within one month after paying the royalty.<br>[s.109 (1), ITA]  | 1<br><hr/> 1<br><hr/> 2                    |
| <b>(d)</b>   | Sales tax is imposed on taxable goods which are imported into Malaysia for home consumption or manufactured in Malaysia or acquired tax free and sold, used or disposed of by taxable persons except when sold to an approved licensed manufacturer.<br>[s.6, Sales Tax Act]   | 2<br>2<br>1<br><hr/> 5<br><hr/> <b>15</b>  |

| <b>5 (a)</b> | <b>Year</b> | <b>Resident Status</b> | <b>Explanations</b>   |              |
|--------------|-------------|------------------------|---|--------------|
|              | 2003        | Resident               | Present for 12 consecutive days in the short period (2003) which is linked to the long period (2004) of presence for 182 consecutive days or more<br>[s.7(1)(b)]    | 1<br>1       |
|              | 2004        | Resident               | Present for 182 days or more<br>[s.7(1)(a)]   | 1            |
|              | 2005        | Resident               | Present for five consecutive days in the short period (2005) which is linked to the long period (2004) of presence for 182 consecutive days or more.<br>[s.7(1)(b)] | 1<br>1       |
|              | 2006        | Resident               | Deemed resident – resident in the following year (2007) and resident in three immediately preceding years (2005, 2004 and 2003).<br>[s.7(1)(d)]                     | 1<br>1       |
|              | 2007        | Resident               | Present for 90 days or more in 2007 and three out of the four immediately preceding years he was resident (from 2003 to 2005).<br>[s.7(1)(c)]                       | 1<br><hr/> 9 |

- (b) Under the resident rules, Miss Nonaka is deemed to be in Malaysia on both the 8th and 9th of October 2007 as she was present in Malaysia for part of each of those days.  
[s.7(1A), ITA]

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