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# Answers

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Section A

1 C

**Tutorial note:** Internal memos are issued by the Director General of the Inland Revenue Board for the guidance of Inland Revenue Board officers only.

2 C

RM80,000 (RM30,000 + RM50,000)

**Tutorial note:** Income Tax (Deduction of Pre-commencement of Business Training Expenses) Rules 1996 PU(A) 160 **AND** Income Tax (Deduction of Pre-commencement of Business Expenses relating to Employee Recruitment) Rules 2008 PU(A) 361.

3 C

[Under s.83(3) of the Income Tax Act 1967]

4 A

RM235,000 (Consideration RM250,000 + incidental costs RM15,000 – recoveries RM30,000)

5 C

	RM
Azman's total income	56,000
Wife's total income	4,000
	<hr/>
	60,000
Less:	
Personal relief	(9,000)
Spouse relief	(3,000)
Medical expenses	(Nil)
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Chargeable income	48,000

**Tutorial note:** Relief for medical expenses is not available in respect of payments in respect of parents-in-law and, thus, no relief is available for the RM4,000 spent by Azman. As Lily elected for combined assessment with Azman, no relief is available for the RM1,200 spent by her.

6 C

[Under s.107C(7) of the Income Tax Act 1967]

7 D

8 B

November – RM 30 ((RM424 + RM106) x 6/106)

**Tutorial note:** There is no requirement to account for any goods and services tax (GST) in June given that the gift rule – whereby any goods worth RM500 or less given to the same person in a year are not treated as a supply for GST – is not breached until the time of the second gift to Barbara in November.

9 B

RM850 (RM400 personal rebate + RM400 spouse rebate + RM50 zakat rebate)

10 D

RM6,500 ((12,000 x 50%) + (5,000 x 10%) + 0)

**Tutorial note:** *The costs relating to replanting of durian seedlings qualify as revenue expenditure and hence do not qualify for agriculture allowance.*

11 B

**Tutorial note:** *Input tax in respect of club subscriptions fees and medical expenses is not reclaimable (blocked).*

12 A

	RM
Business 1	500,000
Business 2	Nil
Aggregate statutory business income	<u>500,000</u>
Less: Business 2 loss brought forward	<u>(80,000)</u>
Statutory business income	420,000
Rental income	<u>150,000</u>
Aggregate income	<u>570,000</u>

13 A

	RM
Gross income (24,000 + 120,000 + 76,000 + 60,000)	280,000
Less: Deductible expenses (3,000 + 4,000 + 12,000 + 20,000)	<u>(39,000)</u>
Adjusted income	241,000
Less: Industrial building allowance (6,000 + 103,000)	<u>(109,000)</u>
Statutory income	<u>132,000</u>

14 A

**Tutorial note:** *Legal fees associated with the renewal of a loan are not deductible for a manufacturing company.*

15 D

2 marks each

30

Section B

Marks

1 Kini Sdn Bhd

(a) Real property gain tax on the disposal of an office unit

	RM	RM	
Consideration		320,000	½
Less: Permitted expenses			
Renovation costs (RM48,000 x ½)	24,000		1
Quit rent and assessment	Nil		½
Less: Agent's fees (2% x RM320,000)	<u>6,400</u>	<u>(30,400)</u>	½
Disposal price		289,600	
Less: Acquisition consideration	560,000		½
Stamp duty	10,800		½
Legal fees	12,200		½
Compensation	(22,000)		½
Deposit forfeited	<u>Nil</u>		1
Total for two units	<u>561,000 x ½</u>	<u>(280,500)</u>	½
Chargeable gain		<u>9,100</u>	
Holding period:			
Acquisition date:	24 July 2013		1
Disposal date:	16 June 2016		½
Disposal within three years			
Real property gains tax at 30%		<u>RM2,730</u>	½
			<u>8</u>

- (b) The amount to be retained is 3% of the total value of the consideration payable to Kini Sdn Bhd or the whole of the consideration which consists of money, if this is lower.

1

Therefore, the acquirer, Zeenat, must retain the full cash amount of RM9,000 (lower than RM9,600 (3% x RM320,000)) and remit this to the Inland Revenue Board.

½ + ½

2

10

2 R8 Bhd

(a) Capital allowances on existing assets and disposals in the year of assessment (YA) 2015

		RM	Qualifying expenditure RM	
1.	Showroom and office administration area (non-qualifying asset)		Nil	½
2.	Air-conditioner		900	½
	YA 2014 Initial allowance (IA) – N/A			
	Annual allowance (AA) 100%		(900)	½
	Residual expenditure		0	
	YA 2015 AA		0	½
	Disposal proceeds – write-off		0	½
	Balancing allowance/(charge)		0	
3.	Inventory grading machine			
	Cost		234,000	½
	Add: Foreign exchange loss		4,000	1
	Qualifying expenditure		238,000	
	YA 2014 Initial allowance (IA) 20%	47,600		½
	Annual allowance (AA) 14%	33,320	(80,920)	½
	Residual expenditure		157,080	
	YA 2015 AA 14%		(0)	½
	Disposal proceeds		157,080	
	Balancing allowance/(charge)		(240,000)	½
	Balancing charge restricted to capital allowances claimed		(82,920)	
			80,920	1
				<u>7</u>

**Tutorial note:** The showroom is not eligible for any capital allowances or industrial building allowance as it is not an industrial building.

(b) Capital allowances on new assets for YA 2015

		RM	Qualifying expenditure RM	
	Rack system		5,000	½
	YA 2015 Initial allowance (IA) 20%	1,000		½
	Annual allowance (AA) 10%	500	(1,500)	½
	Residual expenditure		3,500	
	Motor car (non-commercial)			
	YA 2015 Cost (restricted)		50,000	½
	Initial allowance (IA) 20%	10,000		½
	Annual allowance (AA) 20%	10,000	(20,000)	½
	Residual expenditure		30,000	
				<u>3</u>
				<u>10</u>

3 (a) Mahal Café

(i) Liability to register for goods and services tax (GST)

Mahal Café has to register for GST since its annual sales turnover from taxable supplies exceeded the threshold limit of RM500,000 in June 2016.

1

As at the end of June 2016, the combined value is RM502,000, RM100,000 for the month of June 2016 plus RM402,000 for the preceding eleven months.

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

As the taxable turnover has exceeded the threshold starting from the end of June 2016, the business is liable to register for GST within 28 days from 1 July 2016.

1

The effective date for GST registration is 1 August 2016, which is the first day of the following month after the end of the 28-day liability period.

1

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(ii) Mahal Café will have to submit GST returns [Form GST 03] every three months, i.e. on a quarterly basis, since the annual sales turnover from taxable supplies does not exceed RM5,000,000.

1 + 1

2

(b) Bay Area Crabs Sdn Bhd – Input tax claimable

Item	GST inclusive value RM	GST rate	GST claimable RM	
(1) Purchases of vegetables	1,300	0%	Nil	1
(2) Electricity and water for business	1,060	6%/106%	60	1
(3) Entertainment of potential customers	424	Blocked	Nil	1
(4) Repair and maintenance of company passenger car	9,540	Blocked	Nil	1
				<u>4</u>
				<b><u>10</u></b>

4 Tull

(a) Resident status

Year of assessment	Resident status	Reasons	
2014	Resident	He is present for a period of 61 days in year of assessment (YA) 2014 which is linked to a long period of 182 or more consecutive days in YA 2015. [Section 7(1)(b)]	1 + 1
2015	Non-resident	He is not resident as he is present in Malaysia for less than 182 days during the year. [Section 7(1)(a)]	1 + 1
			<u>4</u>

Workings:

Trip details	In Malaysia (days)	Outside Malaysia (days)
<b>2014</b>		
1 November to 31 December 2014	61	
Total	<u>61</u>	
<b>2015</b>		
1 January to 28 February 2015	59*	
1 March to 30 April 2015		61* (job)
1 May to 31 May 2015	31*	
1 June to 31 July 2015		61* (job)
1 August to 30 September 2015	61*	
1 October to 20 October 2015		20 (social visit)
21 October to 31 October 2015	11	
Total	<u>162</u>	

[\*Total 273 days in 2015 which meets the more than 182 consecutive days rule]

(b) If resident

Tull's employer must give notice of his employment as an individual who is likely to be chargeable to income tax, within one month of his commencement of employment.	1
Tull, as a taxpayer, must give notice of his chargeability to income tax within two months of his arrival in Malaysia.	1
	<u>2</u>

(c) If non-resident

As a non-resident, Tull will not be eligible to claim the following:	
– any personal reliefs; and	1
– the income tax rebate of RM400.	½
Also, income tax is payable at a flat rate of 25% and not at the scale rates.	1
The Director General of Inland Revenue may seek the assistance of the Police Department or the Immigration Department to prevent Tull from leaving Malaysia until he has settled all his taxes, sums and debts.	1½
	<u>4</u>
	<u>10</u>

## 5 Drone Tech Bhd

(a) Income tax payable for the year of assessment 2015  
(Basis period 1 May 2014 to 30 April 2015)

	Note	RM'000s	RM'000s	
		–	+	
Profit before taxation			2,954	
Depreciation			12,000	½
Materials for research project	1	150		½
Salaries of research staff	1	1,000		½
Daily allowances (RM400/day x 10 days)	1	4		1
Quality control and routine testing	1	Nil		1
Dividend income	2	7		½
Interest income on overdue trade receivables		50		½
Company secretarial fees (restricted) (RM10,000 – RM5,000)			5	½
Interest expenses	3		10	½
Foreign exchange gain – trade and realised	3	Nil		½
Entertainment expenses	4		Nil	½
Sponsorship of local football league	4		Nil	1
Cash donation	4		20	½
Lease rentals (working)	5		5	1
Disabled staff remuneration	6	12		½
Tax filing fees (restricted) (RM19,000 – RM10,000)			9	½
		<u>1,223</u>	<u>15,003</u>	
			(1,223)	
Adjusted income			13,780	
Less: Capital allowances			(13,700)	½
Statutory income			80	
Add: Interest income on overdue trade receivables			50	½
Add: Dividend income		Nil		½
Less: Interest expense attributable		(10)	0	½
Aggregate income			130	
Donations (restricted to 10% of aggregate income)			(13)	½
Total/chargeable income			<u>117</u>	
Tax liability				
Income tax chargeable at 25%			<u>RM29,250</u>	½
				<u>13</u>

## Working: Lease rental – Chief executive officer's car

Year of assessment (YA)	Total RM	Allowable RM	Disallowable RM
YA 2013	35,000	35,000	
YA 2014	35,000	35,000	
YA 2015	35,000	30,000	5,000
	<u>105,000</u>	<u>100,000</u>	<u>5,000</u>

## (b) Repair expenditure may be regarded as capital in nature where the machine purchased is not in a position to be used without undertaking the repairs.

½ + ½

In addition, if the cost of the repair is significant, the repairs may be regarded as an improvement to an asset.

½

In light of the above, the repair costs of RM5,000 would be regarded as initial repairs and an improvement to an asset and hence should be treated by Drone Tech Sdn Bhd as capital expenditure for tax purposes.

½

Marks will be awarded for other relevant factors.

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## 6 Ram – Income tax payable for the year of assessment 2015

	RM	RM	
<b>Employment [Sec 4(b)]</b>			
[Section 13(1)(a)]			
Salary ((RM30,000 + RM1,000) x 9 months)		279,000	½ + ½
Bonus		31,000	½
Reimbursement of taxi fares		Nil	½
Reimbursement of medical expenses		Nil	½
Service excellence award	12,000		½
Less: Exempt [para 25C, Sch 6]	<u>(2,000)</u>	<u>10,000</u>	½
		320,000	
[Section 13(1)(b)]			
Furnishings (RM280 x 9)	2,520		½
Entrance fee – corporate membership	Nil		1
Monthly subscription – (RM200 x 9)	1,800		½
Leave passage (RM4,200 – RM3,000)	1,200		½ + ½
Hotel for family	<u>4,580</u>		½
		10,100	
[Section 13(1)(c)]			
Living accommodation			
30% x Section 13(1)(a) [30% x RM320,000]	96,000		½
Defined value ((RM4,500 – RM500) x 9)	36,000		½ + ½
Whichever is lower:		36,000	½
[Section 13(1)(d)]			
Withdrawal from unapproved scheme (employer's portion)		11,000	½
Withdrawal from unapproved scheme (Ram's portion)		<u>Nil</u>	½
Gross employment income		377,100	
Rent paid by Ram			
(4,000 x 9)		(2,400)	1
(4,500 x 9)			
Adjusted/statutory income		<u>374,700</u>	
<b>[Sec 4(d)]</b>			
Rental income from Australia (exempt)		<u>Nil</u>	½
Aggregate income		374,700	
Less: Approved donations to healthcare facility (maximum) [s.44(10)]		<u>(20,000)</u>	1
Total income		354,700	
Less: Reliefs			
Self	(9,000)		½
Spouse	(3,000)		½
Employees' provident fund (EPF) (maximum)	(6,000)		½
Medical expenses for serious disease (maximum)	<u>(6,000)</u>		½
		<u>(24,000)</u>	
Chargeable income		<u>330,700</u>	
<b>Tax liability</b>			
Tax on first RM250,000		47,900	
Tax on RM80,700 at 24.5%		<u>19,771</u>	½
Tax charged/payable		<u>67,671</u>	