

Fundamentals Level – Skills Module

Taxation (Malaysia)

Monday 7 December 2009

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)

The ACCA logo consists of the letters 'ACCA' in a bold, white, sans-serif font, centered within a solid black square.

SUPPLEMENTARY INSTRUCTIONS

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

TAX RATES AND ALLOWANCES

The following tax rates, allowances and values are to be used in answering the questions.

Income tax rates

Resident individual

Chargeable income		Tax payable	
Band	Cumulative	Rate	Cumulative
RM	RM	%	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	12	3,325
20,000	70,000	19	7,125
30,000	100,000	24	14,325
Exceeding	100,000	27	

Resident company

Paid up ordinary share capital	First RM500,000	Excess over RM500,000
RM2,500,000 or less	20%	25%
More than RM2,500,000	25%	25%

Non-resident

Company	25%
Individual	27%

Personal deductions

		RM
Self		8,000
Self – additional if disabled		6,000
Spouse		3,000
Spouse – additional if disabled		3,500
Child – basic rate		1,000
Child – higher rate		4,000
Disabled child		5,000
Life insurance premiums and approved scheme contributions	maximum	6,000
Medical expenses for parents	maximum	5,000
Medical expenses for serious disease of self, spouse or child, including up to RM500 for medical examination	maximum	5,000
Basic supporting equipment for self, spouse, child or parent if disabled	maximum	5,000
Educational and medical insurance for self, spouse or child	maximum	3,000
Study course fees for skills or qualifications	maximum	5,000
Purchase of a personal computer	maximum	3,000
Purchase of books, magazines etc for personal use	maximum	1,000
Purchase of sports equipment	maximum	300
Deposit for a child into the National Education Savings Scheme	maximum	3,000

Rebates

		RM
Individual with chargeable income not exceeding RM35,000		
Basic rate		400
Rate for an individual entitled to a deduction for a spouse or a former wife		800

Value of benefits in kind

Car scale

Cost of car (when new) RM	Prescribed annual value of private usage of car RM
Up to 50,000	1,200
50,001 to 75,000	2,400
75,001 to 100,000	3,600
100,001 to 150,000	5,000
150,001 to 200,000	7,000
200,001 to 250,000	9,000
250,001 to 350,000	15,000
350,001 to 500,000	21,250
500,001 and above	25,000

The value of the car benefit equal to half the prescribed annual value (above) is taken if the car provided is more than five (5) years old.

		RM per month
House furnishings, apparatus and appliances		
Semi-furnished with furniture in the lounge, dining room, or bedroom		70
Semi-furnished with furniture as above plus air-conditioners, and/or curtains and carpets		140
Fully furnished premises		280

Other benefits

RM per month

Domestic help
Gardener
Driver400
300
600**Capital allowances**

	Initial allowance %	Annual allowance %
Industrial buildings	10	3
Plant and machinery – general	20	14
Motor vehicles, heavy machinery	20	20
Office equipment, furniture and fittings	20	10

Sales tax and service tax

	Rate %
Sales tax	10
Service tax	5

ALL FIVE questions are compulsory and MUST be attempted

- 1 (a) The partnership firm of May, Teng and Yusof closes its annual accounts on 31 December. Yusof ceased to be a partner on 30 June 2009. Jane joined the partnership on 1 July 2009. The partnership agreement provides for the profits for the year 2009 to be shared as follows:

	Salary RM	Interest on capital RM
May	30,000	5,700
Teng	36,000	Nil
Yusof	Nil	2,400
Jane	18,000	2,000
	<u>84,000</u>	<u>10,100</u>

Profit sharing ratio:	May	Teng	Yusof	Jane
1 January to 30 June 2009	2/4	1/4	1/4	–
1 July to 31 December 2009	1/3	1/3	–	1/3

The partnership's profit before tax for the year ending 31 December 2009 is expected to amount to RM276,900 after taking into account the following:

	RM	RM
Rental income received from the lessee of the partnership's previous premises		18,000
Depreciation		33,100
Private expenses:		
May: private use of car	3,000	
Yusof: medical expenses	<u>4,000</u>	
		7,000
Partners' salaries		84,000
Interest on capital		10,100
Approved donation paid on 2 May 2009		10,000
Approved donation paid on 3 July 2009		18,000
Unapproved donation paid on 6 October 2009		<u>4,000</u>

Capital allowances for the year of assessment 2009 are expected to amount to RM21,000.

Required:

- (i) **Compute the provisional adjusted income and divisible income of the partnership for the year of assessment 2009;** (7 marks)
- (ii) **Based on the information given above, compute the total income of each of the four partners for the year of assessment 2009.**

Note: Marks will be awarded for the use of accurate technical terms to describe the figures comprising the stages in the computation of divisible income and total income. (20 marks)

- (b) **State the factors that determine the existence of a partnership.** (3 marks)

(30 marks)

- 2 Tipware Sdn Bhd is engaged in the manufacture of tyres. The company's profit and loss account for the year ended 30 September 2009 shows the following:

	Note	RM'000	RM'000
Sales	1		32,306
Cost of sales	2		<u>(21,440)</u>
Gross profit			10,866
Less:			
Salaries, wages and EPF	3	3,952	
Legal expenses	4	14	
Repairs and maintenance	5	32	
Depreciation		988	
Annual general meeting expenses	6	19	
Practical training	7	44	
Donations	8	600	
Insurance proceeds	9	(625)	
Export credit insurance premiums	10	17	
Library facilities	11	110	
Penalty for late submission of tax return		15	
Hire purchase interest	12	<u>2</u>	
			<u>(5,168)</u>
Profit before taxation			<u>5,698</u>

Notes:

- Sales include an unrealised gain from foreign exchange in respect of the sale of tyres amounting to RM40,000.
- Cost of sales includes the following costs in respect of warranty claims for faulty tyres:

	RM
A provision in respect of claims not yet settled	27,000
A payment to settle a claim	8,000
- Salaries, wages and EPF (Employees Provident Fund) includes the sum of RM220,000 paid to a manager to secure his early retirement on account of misconduct.
- Legal expenses comprise:

	RM
Legal cost on trading goods lost in transit	6,000
Legal expenses to obtain a trading licence	<u>8,000</u>
	<u>14,000</u>
- Repairs and maintenance consists of an extension to the company's existing factory amounting to RM32,000.
- Annual general meeting (AGM) expenses were in respect of postage for notices of the general meeting and the cost of printing the directors' report and accounts.
- Practical training in relation to the business of Tipware Sdn Bhd was given to non-employees who are resident in Malaysia.

8 The following donations were made:

	RM
To an approved institution	530,000
Of sports equipment for an activity approved by the Minister	16,000
To a project of national interest approved by the Minister	48,000
In cash (<i>ang pow</i>) handed to inmates of an old folks home approved by the Minister	6,000
	<hr/> 600,000 <hr/>

- 9 The insurance proceeds were paid to Tipware Sdn Bhd under a whole life policy on the accidental death of the company's chief executive officer.
- 10 The export credit insurance is provided by a company approved by the Minister of Finance.
- 11 The sum of RM110,000 was incurred in providing library facilities which are accessible to the public.
- 12 Tipware Sdn Bhd bought information and communication technology (ICT) equipment under a hire purchase agreement. The equipment cost RM80,000. In December 2008 the company paid a deposit of RM20,000 as well as the first of 20 monthly instalments of RM3,200 (inclusive of monthly interest of RM200). The equipment qualifies for accelerated capital allowances (i.e. an initial allowance of 20% and an annual allowance of 80%).

Other information:

For the year of assessment 2009 capital allowances in respect of assets other than those referred to in note (12) above, are expected to amount to RM845,000.

Required:

(a) Compute the total income of Tipware Sdn Bhd for the year of assessment 2009.

Notes:

- (1) 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 any item that does not require adjustment.
- (2) Marks will be awarded for the use of accurate technical terms to describe the figures comprising the stages in the computation of total income. (15 marks)

(b) Explain the tax treatment of the items stated below:

- (i) payment to manager (note 3); (1 mark)
- (ii) practical training (note 7); (2 marks)
- (iii) cash (*ang pow*) handed to old folks home inmates (note 8); (1 mark)
- (iv) insurance proceeds (note 9); (1 mark)
- (v) export credit insurance premiums (note 10); (1 mark)
- (vi) library facilities (note 11); and (1 mark)
- (vii) penalty for the late submission of a tax return. (1 mark)

(c) State the special conditions that determine whether the information and communication technology (ICT) equipment mentioned in note 12 qualifies for accelerated capital allowances or not. (2 marks)

(25 marks)

- 3 (a) (i) Encik Kumar intends to make an election that his total income be aggregated with the total income of his wife, Puan Rani, for the year of assessment 2009. The joint assessment is expected to show the following:

	RM
Total income of Puan Rani	60,000
Total income of Encik Kumar	20,000
Tax charged	6,745

Required:

State the formula for determining the amount of tax that can be collected from a husband who elects for joint assessment, and compute the tax collectible from Encik Kumar. (3 marks)

- (ii) **State the circumstances whereby a husband can elect for joint assessment with a wife as provided under the Income Tax Act, 1967.** (4 marks)

- (b) Jusin Sdn Bhd, a trader in hardware, permanently ceased operations on 30 June 2009. The company sold all its remaining stock-in-trade to Boonpin Sdn Bhd on 8 July 2009 for RM190,000. The purchased stock-in-trade was used by Boonpin Sdn Bhd for its hardware business.

Required:

State, with explanations, the value of stock-in-trade for tax purposes that must be shown in Jusin Sdn Bhd's accounts as at 30 June 2009. (4 marks)

- (c) **Explain briefly the concept of tax planning, in particular, the difference between tax avoidance and tax evasion.** (4 marks)
- (d) **State the circumstances under which an individual may be deemed to be a resident of Malaysia for a basis year by virtue of the fact that he is a Malaysian citizen.** (3 marks)
- (e) Encik Ananda whose income is assessed in the name of his wife, Puan Soosi, purchased a wheelchair costing RM1,300 for his mother, a disabled person and incurred RM400 on his mother's medical expenses.

Required:

State, with explanations, whether personal reliefs are available for the year of assessment 2009 in respect of the above expenditure by Encik Ananda, and if so, to whom they will be given. (2 marks)

(20 marks)

- 4 (a) Hosin Sdn Bhd, a manufacturer of floor tiles having a paid up ordinary capital of RM3 million, recorded the following in respect of its financial year ended 30 September 2009:
- (i) The sum of RM10,800 incurred in February 2009 on small value assets each costing not more than RM1,000. Included in the list of assets is the cost of a fax machine amounting to RM800.
 - (ii) A general machine was completely destroyed in March 2009. The company received insurance moneys amounting to RM39,000. The market value of the machine at the time of its destruction was RM44,000. The residual expenditure as at 30 September 2008 was RM22,800 and the total capital allowances previously claimed by the company amounted to RM20,400.

Required:

Compute the capital allowances and balancing charge, if any, for the year of assessment 2009 in respect of the above assets, assuming that Hosin Sdn Bhd claimed the normal and not the accelerated allowances on the fax machine and the special allowance under paragraph 19A, Schedule 3, Income Tax Act 1967 in the case of the other small value assets. (6 marks)

- (b) Nin Sdn Bhd, with a financial year ending 30 June, has been operating licensed nursing homes for several years. The company incurred the following expenditure during the financial year ended 30 June 2009:

(i) Building A

A building comprising a nursing home and an office was constructed in January 2009. The cost of constructing the nursing home amounted to RM183,000 and the cost of constructing the office amounted to RM17,000. The building has been in use since April 2009.

(ii) Building B

Nin Sdn Bhd rented a building for RM20,000 per month and incurred the sum of RM300,000 on renovating the building in September 2008. The building has been in use as a nursing home since November 2008. It has been agreed that 15% of the building is used as an office.

Required:

Compute the industrial building allowances claimable in respect of the two buildings for the year of assessment 2009. (6 marks)

- (c) **State, with reasons, whether the following expenses are deductible as the provision of entertainment in determining the adjusted income of Lim Enterprise Sdn Bhd:**

- (i) a sum of RM1,000 spent on a birthday gift for a supplier;
- (ii) the purchase of hampers for customers on Chinese New Year, amounting to RM12,000; and
- (iii) the sum of RM15,000 incurred to provide entertainment to promote the company's business on the occasion of a golf tournament which was open to members of the public. (3 marks)

(15 marks)

5 (a) State the circumstances for exemption from the licensing and payment of sales tax in respect of:

(i) a manufacturer of taxable goods; and

(ii) a contract manufacturer.

(4 marks)

(b) K Security Sdn Bhd, a taxable person for service tax purposes, issued the following invoices:

(i) Invoice A, issued on 12 March 2009. The invoice amount was collected on 9 August 2009.

(ii) Invoice B, issued on 6 July 2008. The invoice amount was not collected until 2 November 2009.

Required:

For each of the invoices, state the taxable period and the deadline for remitting the service tax to the Customs Department.

(3 marks)

(c) Sun Employment Agency Sdn Bhd issued an invoice on 25 May 2009 for RM21,000 inclusive of service tax of RM1,000. Payment of the invoice was collected on 9 June 2009. Sun Employment Agency Sdn Bhd remitted the service tax to the Customs Department on 17 September 2009.

Required:

Compute the total amount of service tax and penalties payable by Sun Employment Agency Sdn Bhd in respect of the above invoice.

(3 marks)

(10 marks)

End of Question Paper