

Fundamentals Level – Skills Module

Taxation (Malaysia)

Monday 1 June 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 2–3.

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 | | Tax payable | |
|---------------------|------------|-------------|------------|
| Chargeable income | | Rate | Cumulative |
| Band | 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 | 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 company

Paid up ordinary share capital

| | First RM500,000 | Excess over RM500,000 |
|-----------------------|--------------------|--------------------------|
| RM2,500,000 or less | 20% | 26% |
| More than RM2,500,000 | 26% | 26% |

Non-resident

| | |
|------------|-----|
| Company | 26% |
| Individual | 28% |

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

| | |
|--|-----|
| Individual with chargeable income not exceeding RM35,000 | RM |
| Basic rate | 350 |
| Rate for an individual entitled to a deduction for a spouse or a former wife | 700 |

Value of benefits in kind

Car and fuel scale

| Cost of car (when new) RM | Prescribed annual value of private usage of car RM | Fuel per annum RM |
|---------------------------------|--|-------------------------|
| Up to 50,000 | 1,200 | 600 |
| 50,001 to 75,000 | 2,400 | 900 |
| 75,001 to 100,000 | 3,600 | 1,200 |
| 100,001 to 150,000 | 5,000 | 1,500 |
| 150,001 to 200,000 | 7,000 | 1,800 |
| 200,001 to 250,000 | 9,000 | 2,100 |
| 250,001 to 350,000 | 15,000 | 2,400 |
| 350,001 to 500,000 | 21,250 | 2,700 |
| 500,001 and above | 25,000 | 3,000 |

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, but the value of fuel provided remains unchanged.

Household furnishings, apparatus and appliances

| | |
|---|--------------|
| | RM per month |
| 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 | 400 |
| Gardener | 300 |
| Driver | 600 |

Telephone (fixed or mobile):

| | |
|----------|--------------|
| Hardware | RM per annum |
| Bills | 300 |
| | 300 |

Capital allowances

| | Initial Rate % | Annual Rate % |
|--|-------------------|------------------|
| 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 rates

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

ALL FIVE questions are compulsory and MUST be attempted

1 Taiji Sdn Bhd submits its profit and loss account for its business of manufacturing soft drinks and mineral water, for the year ended 31 December 2008 as follows:

| | Note | RM000's | RM000's |
|--|------|-----------|----------------|
| Sales | 1 | | 15,129 |
| Less: Cost of sales | 2 | | <u>(8,700)</u> |
| Gross profit | | | 6,429 |
| Less: | | | |
| Remuneration | 3 | 1,900 | |
| Employees Provident Fund contributions | 4 | 255 | |
| Entertainment | 5 | 8 | |
| Staff welfare | 6 | 219 | |
| Advertising | 7 | 540 | |
| Loss on sale of motor car | | 9 | |
| Depreciation | | 708 | |
| Statutory audit fees | | <u>10</u> | |
| | | | <u>(3,649)</u> |
| | | | 2,780 |
| Other income: | | | |
| Rent | 8 | | <u>120</u> |
| Profit before taxation | | | <u>2,900</u> |

The above does not include the results for the business referred to in note (9) below.

Notes:

- (1) Sales include RM460,000 in respect of mineral water supplied to a company in China for the Beijing Olympic Games.
- (2) The closing stocks after deducting a reserve of 15% in each case were RM775,000 at 31 December 2008 and RM690,000 at 31 December 2007.
- (3) Remuneration includes the salary of registered blind employees amounting to RM90,000.
- (4) Employees Provident Fund contributions include a sum of RM63,000 in respect of the remuneration of the managing director amounting to RM300,000.
- (5) Entertainment is in respect of a dinner provided by Taiji Sdn Bhd to its suppliers. Some employees of Taiji Sdn Bhd attended the dinner.
- (6) Staff welfare RM219,000 comprises:
 - (i) Monthly broadband subscription fees registered in the name of Taiji Sdn Bhd, as gifts to employees, amounting to RM7,000.
 - (ii) Child care centre
In March 2008 Taiji Sdn Bhd purchased a building to provide a child care facility for its factory workers. Taiji Sdn Bhd incurred RM190,000 on the purchase of the building and RM22,000 on maintenance of the premises.
- (7) Advertising includes:
 - (i) The sum of RM48,000 incurred on international standardisation activities. The participation of Taiji Sdn Bhd was approved by the Department of Standards Malaysia.
 - (ii) Contributions for the provision of library facilities which are open to the public, amounting to RM129,000
- (8) The rental income of RM120,000 is all in respect of a building in Hong Kong which was let. The whole amount was remitted to Malaysia.

- (9) Taiji Sdn Bhd also has a second business of trading in cartons (business 2). The records of the second business for the year ended 31 December 2008 showed the following:

Adjusted income for the year ended 31 December 2008, RM17,000
Unabsorbed adjusted loss as at 1 January 2008, RM22,000
Unabsorbed capital allowance as at 1 January 2008, RM2,500
Capital allowance for the year of assessment 2008, RM1,500
(excluding the van purchased in 2008 – see other information item (ii)).

Other information

In respect of business 1, capital allowances for the year of assessment 2008 amounted to RM999,000, excluding assets acquired and disposed of during 2008 as follows:

- (i) A motor car bought in May 2006 at a cost of RM136,000 was sold for RM31,280 in September 2008. Although Taiji Sdn Bhd claimed the annual allowance for the year of assessment 2006, it did not claim an allowance for the year of assessment 2007 (business 1 only).
- (ii) In March 2008 Taiji Sdn Bhd purchased a van costing RM60,000. The van was used 50% each for business 1 and business 2.

Required:

- (a) Compute the chargeable income of Taiji Sdn Bhd for the year of assessment 2008.**

Note: 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. (23 marks)

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

- (i) the sale of mineral water to a company in China (note 1);
(ii) the Employees Provident Fund contributions (note 4);
(iii) the broadband subscription fees (note 6(i));
(iv) the participation in international standardisation activities (note 7(i)); and
(v) the rental income (note 8). (5 marks)

- (c) Explain the two alternative tax treatments available in the Income Tax Act, in respect of the expenditure incurred by Taiji Sdn Bhd, on the provision of library facilities which are accessible to the public.** (2 marks)

(30 marks)

- 2 (a) Encik Sim has a contract of employment with Kimsee Bhd. Encik Sim's income for the year ended 31 December 2008 is as follows:

| | RM |
|-------------------------|-----------|
| Salary | 168,000 |
| Entertainment allowance | 30,000 |
| Bonus | 42,000 |

Kimsee Bhd provides Encik Sim with benefits and incurred expenses as detailed below. Unless otherwise stated, the benefits were provided for the full year ended 31 December 2008.

- The income tax payable by Encik Sim is borne by the company. Income tax payable by Encik Sim for the year of assessment 2007 amounted to RM77,000. The tax payable for the year of assessment 2008 is expected to be RM90,000.
- The gift of a monthly broadband subscription fee registered in the name of Kimsee Bhd, amounting to RM900.
- Monthly subscriptions in respect of Encik Sim's membership to a golf club, amounting to RM18,000.
- Reimbursement of salary in respect of a driver employed by Encik Sim, amounting to RM13,000.
- A domestic help for Encik Sim employed by Kimsee Bhd at a monthly salary of RM1,300 commencing from 1 July 2008.
- Kimsee Bhd incurred expenses as follows in respect of Encik Sim's holidays with his wife and child: In September 2008 in the United States:

| | RM |
|---------------------------------|-----------|
| Cost of air fare | 17,000 |
| Cost of meals and accommodation | 2,800 |

In December 2008 in Langkawi, Malaysia:

| | RM |
|---------------------------------|-----------|
| Cost of air fare | 2,600 |
| Cost of meals and accommodation | 2,100 |

- Child care benefit for Encik Sim's son, costing RM3,500.
- The use of a car costing RM177,000, and petrol expenses amounting to RM15,000.
- Hotel room charges amounting to RM27,000, from 1 January 2008 to 31 March 2008.
- The use of an unfurnished house provided to Encik Sim by Kimsee Bhd from 1 April 2008 to 31 December 2008. The company incurred a rental expense at RM13,000 per month.

Encik Sim was required by Kimsee Bhd to contribute a sum of RM250 per month for the maintenance of the premises, commencing from 1 April 2008.

- Use of a fridge costing RM6,000 purchased by Kimsee Bhd, from 1 May 2008. The fridge is the only item provided by the company in the house provided (as per note 10). The life span of the fridge is 10 years.

Encik Sim claimed the following expenses incurred by him during 2008:

| | RM |
|---|-----------|
| Entertainment expenses | 33,000 |
| Contribution to the company for maintenance of premises (as per 10 above) | 2,250 |
| A gift of money donated to an approved institution | 5,000 |
| Medical expenses for Encik Sim's father | 3,760 |
| Purchase of sports equipment | 400 |
| Employee Provident Fund contributions | 26,400 |

Encik Sim is married with a child, age nine. His wife has no total income.

Required:

- (i) State ANY TWO of the benefit(s) referred to above that are non-taxable/exempt from tax; (2 marks)
- (ii) Compute the chargeable income of Encik Sim for the year of assessment 2008; (18 marks)
- (iii) Explain the tax treatment of:
- the tax borne by Kimsee Bhd in respect of the tax payable by Encik Sim; and
 - the leave passages (overseas and local). (4 marks)
- (b) State the meaning of 'reimbursement' in relation to an employee. (1 mark)

(25 marks)

- 3 (a)** Encik Rahim Abdullah who had previously always lived in Malaysia, returned to Malaysia on 1 July 2003, having stayed in England throughout the past four years. Encik Rahim commenced employment with a Hong Kong company in September 2003, overseeing his employer's operations in Hong Kong and Malaysia. Encik Rahim's record of stays in Malaysia from 2003 to 2008 is as follows:

| Year | In Malaysia | Note | No. of days |
|------|----------------------------|------|-------------|
| 2003 | 1 July to 31 August | | 62 |
| | 7 December to 31 December | | 25 |
| 2004 | 1 January to 14 June | (1) | 166 |
| | 19 June to 8 July | | 20 |
| 2005 | 10 November to 29 December | (2) | 50 |
| 2006 | 6 January to 24 July | | 200 |
| 2007 | 11 April to 20 April | | 10 |
| 2008 | 10 March to 30 April | | 52 |
| | 16 July to 31 August | | 47 |

Notes:

(1) 2004

From 15 June to 18 June (both dates inclusive) Rahim was in New York to visit his sister who was undergoing medical treatment.

(2) 2005 and 2006

From 30 December 2005 to 5 January 2006 (both dates inclusive) Rahim was in China to attend a seminar.

Required:

- (i) **Identify the temporary absence(s) from Malaysia in the above scenario and explain briefly whether the temporary absence(s) is a permitted absence under the residence provisions of the Income Tax Act;** (4 marks)
- (ii) **Working to the exact number of days, determine for each of the years from 2003 to 2008 (inclusive) whether Encik Rahim is resident in Malaysia for tax purposes and, if so, explain why;** (9 marks)
- (iii) **Describe the tax principles that determine the extent to which Encik Rahim's employment income is deemed to be derived from Malaysia.** (3 marks)
- (b) **State the difference, if any, between Form BE and Form B for the year of assessment 2008 in terms of:**
- the date(s) for submission of the tax return; and
 - the method and timing of the payment of tax. (4 marks)

(20 marks)

- 4 Kabita Sdn Bhd commenced operations on 1 March 2006. The company's accounts were made up to 31 July 2007 and subsequently to 31 July 2008.

The adjusted income of the company's business is as follows:

| Accounting period | Adjusted income |
|-------------------------------|-----------------|
| 1 March 2006 to 31 July 2007 | RM34,000 |
| 1 August 2007 to 31 July 2008 | RM60,000 |

Required:

- (a) **Determine the basis periods and adjusted income of Kabita Sdn Bhd for the relevant years of assessment, before any adjustment for overlapping basis periods.** (11 marks)
- (b) **Identify the years of assessment in which the basis periods overlap as determined in (a) above, and explain the treatment of the adjusted income which falls within the overlapping period.** (4 marks)

(15 marks)

- 5 (a) Long Sdn Bhd manufactures taxable goods but is not yet licensed under the Sales Tax Act.

The sales value of taxable goods sold by Long Sdn Bhd during the period from 1 June 2008 to 31 May 2009 amounted to RM85,000. For the period from 1 June 2009 to 31 May 2010 the sales value of taxable goods sold by Long Sdn Bhd is expected to amount to RM110,000.

Required:

State, with a brief explanation, whether or not Long Sdn Bhd is exempt from licensing and payment of sales tax. (4 marks)

- (b) Thinn & Co, a legal firm licensed under the Service Tax Act charged its client, Zee Sdn Bhd, the following:

| | RM |
|---------------------------------|--------|
| Legal fees | 30,000 |
| Consultancy fees on tax matters | 10,500 |
| Courier charges | 100 |

The consultancy fees on tax matters which includes service tax were rendered by Fair Sdn Bhd.

The courier services were rendered by a courier company whose total annual sales turnover is below the stipulated threshold under the Service Tax Regulations.

Required:

- (i) **Draft the invoice which Thinn & Co should issue to Zee Sdn Bhd;** (3 marks)
- (ii) **Using the invoice in (i) above, explain briefly the concept that service tax is structured so as to be a single stage tax.** (3 marks)

(10 marks)

End of Question Paper