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# Answers

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Notes:

- 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.
- Marks indicated as ‘\*’ are awarded for the allocation of the appropriate description of the figure calculated, not the figure itself.

1 (a) Sure-win Sdn Bhd Marks

Year of assessment 2009  
(Basis period 1 January 2009 to 31 December 2009)

	Note	RM000's	RM000's	
		+	-	
Profit before taxation		4,543		
Trading stock stolen	1	Nil		½
Insurance premiums			75	1
Sure-win Scheme (RM2,700,000 x (12% + 10% – 19%))	2	81		1
Unrealised gain from sale of goods	3		12	1
Realised loss from purchase of heavy machinery	3	28		1
Purchase of new computers for employees	4	Nil		1
Withholding tax penalty	4	3		1
Lease amortisation	5	200		½
Royalty (RM472,500 x 100/90)	6	525		1
Lease rentals (RM7,000 x 11 – 50,000)	7	27		1
Renovation of premises	8	Nil		1
Hire purchase interest		Nil		½
Depreciation		820		½
Equipment for disabled employees	10		15	1
Interest income	9		3	½
		<u>6,227</u>	<u>105</u>	
		(105)		
Adjusted income		6,122		
Less: capital allowances		(1,460)		½
Statutory income from business		4,662		½*
Interest income	9	3		1
Aggregate/total/chargeable income		<u>4,665</u>		
			<b>RM</b>	
Tax on first RM500,000 at 20%			100,000	½
Tax on RM4,165,000 at 25%			1,041,250	½
Tax payable			<u>1,141,250</u>	

Computation of capital allowances:

- (i) Machine bought on hire purchase

	RM	RM	
Qualifying expenditure			
Deposit		30,000	½
RM5,000 x 10 months		<u>50,000</u>	1
		80,000	
Year of assessment 2009			
Initial allowance (IA) 20%	16,000		½
Annual allowance (AA) 80%	<u>64,000</u>		½
		<u>(80,000)</u>	
Residual expenditure (RE) as at 31 December 2009		<u>Nil</u>	

	RM	RM	Marks
(ii) Heavy machinery			
Qualifying expenditure		622,000	½
Purchase price (per invoice)		28,000	1
Foreign exchange loss (realised)		650,000	
Year of assessment 2009			
IA 20%	130,000		½
AA 80%	520,000		½
		(650,000)	
RE as at 31 December 2009		Nil	
Total capital allowances:			
RM80,000 + 650,000 + 730,000 = RM1,460,000			½
			21

[Income Tax (Accelerated Capital Allowance) (Plant and Machinery) Rules 2008 PU(A) 357/2008]

- (b) (i)** Insurance premiums  
The insurance premiums of RM75,000 qualify for double deduction as the cargo is insured with a company incorporated in Malaysia.  
[Income Tax (Deductions of Insurance Premiums for Exporters) Rules, 1995 PU(A) 79/1995] 1
- (ii)** Royalty  
The gross amount of the royalty is not allowed for deduction as the withholding tax has not been fully paid to the Inland Revenue Board.  
[s.39(1)(f), Income Tax Act (ITA)] 1
- (iii)** Lease rentals  
The amount deductible for lease rentals is restricted to RM50,000 as the cost of the motor car when new is more than RM150,000.  
[s.39(1)(k), ITA] 1
- (iv)** Cost of equipment for disabled employees  
Expenditure incurred on the provision of any equipment necessary to assist any disabled employees in the production of gross income is specifically allowed by law.  
Therefore, the amount of RM15,000 is deductible in arriving at the adjusted income of Sure-win Sdn Bhd.  
[s.34 (6)(e), ITA] 1
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**(c) Karim Sdn Bhd**

- (i)** An item of expenditure of RM68,000 in the minus (–) column means that the expenditure qualifies for double deduction. Therefore the same amount is given a further deduction. 1
- (ii)** Rental income of RM40,000 in the minus (–) column means that the income is a non-business source. Therefore it is excluded in determining the statutory income from the business source. 1
- (iii)** An item of expenditure of RM20,000 in the plus (+) column means that the expenditure is not deductible because it is specifically prohibited by the Income Tax Act [s.39 ITA] or fails to qualify for deduction under the wholly and exclusively rule. 1
- (iv)** An item of expenditure of RM80,000 stated as 'nil' in the plus (+) column means that it is deductible due to one of the following reasons: 1
- the expenditure is not specifically prohibited by ITA;
  - the expenditure is revenue in nature;
  - the expenditure is wholly and exclusively incurred in the production of income;
  - the expenditure is a specifically allowed deduction by ITA/PU Order/Public Rulings.
- (v)** A gain from the sale of property of RM45,000 in the minus (–) column means that the gain is a capital receipt and, therefore, not taxable. 1

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## 2 (a) (i) Puan Khaw

Year of assessment 2009

(Basis period 1 January to 31 December 2009)

	RM	RM	
Employment			
s.13(1)(a)			
Salary		36,000	½
Commission		6,000	½
Tips		800	½
Insurance premiums		1,200	1
		<u>44,000</u>	
s.13(1)(c)			
Hotel accommodation			
3% x RM44,000 x 2/12		220	1½
Adjusted/statutory income		<u>44,220</u>	
Interest income (exempt)		Nil	½
Aggregate/total income		<u>44,220</u>	
Less: personal reliefs			
Self	8,000		½
Disabled child	5,000		½
Employees Provident Fund	4,620		½
Parents' medical expenses	<u>1,600</u>		½
		<u>(19,220)</u>	
Chargeable income		<u>25,000</u>	
	<b>RM</b>		
Tax on RM20,000	475		
Tax on RM5,000 x 7%	<u>350</u>		
	825		½
Less: rebate	<u>(400)</u>		1
Tax payable	<u>425</u>		

[Insurance premiums [Public Ruling No. 1/2006]]

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[Interest income [Income Tax (Exemption) (No. 7) Order 2008 PU(A) 351/2008]]

**(ii)** Tax treatment of tips

Tips are regarded as perquisites arising out of exercising an employment even though the payments are made by persons other than the employer. Therefore tips are assessable as gross income (s.13(1)(a)) from employment.

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**(b) (i) Encik Arumugam**

Year of assessment 2009  
(Basis period 1 January to 31 December 2009)

		RM	
Partnership income			
Divisible income (RM1.6 million/2)		800,000	1
Salary		120,000	½
Interest on capital		8,000	½
Private expenses		15,000	½
		<hr/>	
Adjusted income		943,000	
Less:			
Capital allowances (RM70,000/2)		(35,000)	1
		<hr/>	
Statutory income		908,000	
Rental income	RM	RM	
Gross rent			
January to May 2009 (RM8,500 x 5 months)		42,500	1
Rental in lieu of notice (RM8,500 x 6 months)		51,000	1
		<hr/>	
		93,500	
September to February 2010 (RM9,000 x 6 months)		54,000	1
		<hr/>	
		147,500	
Less:			
Quit rent	400		½
Assessment (RM2,400 – 800)	1,600		1
Replacement fridge	2,500		½
Interest	3,900		½
Agent's fees	6,500		½
Legal fees	500		½
		<hr/>	
		(15,400)	
Statutory income		132,100	
Aggregate income		<hr/>	
		1,040,100	½*
Less:			
Approved donations (restricted to 7% of aggregate income)		(72,807)	1½
		<hr/>	
Total income		967,293	
		<hr/>	
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**(ii) Rent received in arrears**

Rent due and payable on 1 December 2008 which was received on 15 January 2009 is still assessable for the year of assessment 2008 i.e. it is related to the basis period for which it is receivable, when received.

1**(c) (i) Encik Alex Li**

The annual bonus of RM15,000 is treated as gross income for the year of assessment 2010 because it was bonus received in 2010.  
[s.25(2A), ITA]

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**(ii) Encik Ramli Abdul**

The leave pay of RM30,000 (for the period 15 November 2009 to 14 February 2010) received in advance is assessed for the year of assessment 2009. A payment in advance is related to the basis period in which it is received.  
[s.25(5), ITA]

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(iii) Cik Beelee Oh

Cik Beelee is assessed on RM84,000 (RM77,000 + 7,000), the income earned for the year 2009 even though the actual amount received during 2009 amounted to RM77,000 only.  
[s.25(2), ITA]

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3 (a) (i) The concept of 'failure year' is relevant in determining the basis periods of a company which has been making up accounts for successive periods of 12 months when it changes its accounting date.  
[Income Tax Act 1967, s.21A]

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(ii) 'Failure year' means the year in which there is failure to close the accounts to the normal accounting date (where that normal accounting date is not 31 December).  
[Public Ruling No. 7/2001 Basis Period for Business & Non-business Sources (Companies)]

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The 'failure year' for Benki Sdn Bhd is 2010.

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(iii) Benki Sdn Bhd

Year of assessment	Basis period	Adjusted income RM	
2009	1 July 2008 to 30 June 2009	255,000	2
2010	1 July 2009 to 30 September 2010 (3 + 12 = 15 months)		2
	RM98,000 + 340,000	438,000	1
2011	1 October 2010 to 30 September 2011	400,000	2
			<hr/> 7 <hr/>

(b) The STD (Schedular Tax Deduction) system  
Under this system the employer is required to deduct tax from the monthly salaries of its employees.

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The amount deducted in each month must be remitted to the Inland Revenue Board not later than the 10th of the following month.

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(c) Encik Yuheng

	RM	
Tax due and payable on 30 June 2009	28,000	½
Amount paid on 30 June 2009	(8,000)	½
Balance of tax unpaid after 30 June 2009	20,000	1*
Add: penalty at 10% of unpaid tax	2,000	1
	22,000	
Amount paid on 7 July and 9 August (RM5,000 + 7,000)	(12,000)	1
Balance unpaid tax and penalty after 9 August 2009	10,000	1*
Note: if Yuheng failed to pay by 29 August 2009 a penalty of 5% will be imposed		1
		<hr/> 6 <hr/>

[s.103(3), s.103(4), ITA]

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			<b>Marks</b>
<b>4</b>	<b>(a)</b>	Tax treatment of expenditure in determining the adjusted income of a business:	
	<b>(i)</b>	The cost of an extension to a building is not deductible as it is of a capital nature. [s.39 (1)(c), ITA]	1
	<b>(ii)</b>	The remuneration of employees is deductible as it is an expense wholly and exclusively incurred in the production of gross income. [s.33(1), ITA]	1
	<b>(iii)</b>	The salaries of disabled employees qualify for a double deduction as it is specifically allowed by PU Order. [Income Tax (Deductions for Employment of Disabled Persons) Rules 1982 PU(A) 73/1982]	1
	<b>(iv)</b>	Tuitions fees for the son of a sole proprietor is not deductible in arriving at the adjusted income of the sole proprietor business as it is of a private and domestic nature. [s.39 (1)(a), ITA]	1
			<hr/> 4
	<b>(b)</b>	<b>(i)</b> Lorry Qualifying expenditure RM62,000 [Para 2 (2) Schedule 3, ITA]	1
	<b>(ii)</b>	Motor car costing RM140,000 Qualifying expenditure is restricted to RM100,000 [Para 2 (2) proviso Schedule 3, ITA]	1
			<hr/> 2
	<b>(c)</b>	The circumstances in which a balancing charge or a balancing allowance can arise, in respect of plant or machinery eligible for capital allowances, are as follows:  <ul style="list-style-type: none"> <li>– the plant or machinery is sold;</li> <li>– the plant or machinery is transferred, assigned or exchanged;</li> <li>– the plant or machinery is discarded or destroyed;</li> <li>– the plant or machinery permanently ceases to be used in the business;</li> <li>– the business is permanently discontinued and the plant or machinery still remains in the business.</li> </ul> [Para 61, Schedule 3, ITA]  One mark for each point, maximum	3
	<b>(d)</b>	The main factors that need to be considered in determining whether a person is working under a contract of service (employment) or a contract for services are:  <ul style="list-style-type: none"> <li>– Nature of relationship A relationship between a master and a servant is a contract of service whereas a relationship between a principal and agent or a principal and an independent contractor is a contract for services.</li> <li>– Extent of control In the case of a contract of service the control exercised by the employer covers not just what work must be done but also how and where it must be done.</li> <li>– Hours of engagement A contract of service involves full-time engagement, with regular and defined hours of work.</li> <li>– Tools and equipment An independent contractor is expected to provide his own tools and equipment.</li> <li>– Restriction of contract In the case of employment, the employee works exclusively for one person whereas in the case of an independent contractor he is free to work with other parties.</li> <li>– Sharing of profit and losses There is no sharing of profit and losses in the contract of service.</li> </ul> Two marks per factor, one mark for identification and one mark for explanation, maximum	6
			<hr/> <b>15</b> <hr/>

		<b>Marks</b>																												
<b>5 (a) (i)</b>	'Annual sales turnover' in relation to any day of any month means the sales turnover made in the period of 12 months or part thereof immediately before that month. [Service Tax Regulations 1975]	<u>2</u>																												
<b>(ii)</b>	Advalue Sdn Bhd was required to be licensed from 1 March 2010. As at 1 March 2010 the total annual sales turnover for the preceding 12 months up to the end of February 2010 amounted to RM302,000 (see below). The sales turnover for the purposes of determining the threshold limit in respect of January and February 2010 is RM38,000 (92,000 – 54,000) and RM34,000 (RM99,000 – 65,000) respectively, in view of the fact that the provision of advertising services for promotion outside Malaysia is not a taxable service.	1  1  1½																												
	<table border="0" style="width: 100%;"> <thead> <tr> <th style="text-align: left;">Month</th> <th style="text-align: right;">RM</th> </tr> </thead> <tbody> <tr><td>March 2009</td><td style="text-align: right;">12,000</td></tr> <tr><td>April 2009</td><td style="text-align: right;">14,000</td></tr> <tr><td>May 2009</td><td style="text-align: right;">16,000</td></tr> <tr><td>June 2009</td><td style="text-align: right;">20,000</td></tr> <tr><td>July 2009</td><td style="text-align: right;">18,000</td></tr> <tr><td>August 2009</td><td style="text-align: right;">23,000</td></tr> <tr><td>September 2009</td><td style="text-align: right;">30,000</td></tr> <tr><td>October 2009</td><td style="text-align: right;">43,000</td></tr> <tr><td>November 2009</td><td style="text-align: right;">29,000</td></tr> <tr><td>December 2009</td><td style="text-align: right;">25,000</td></tr> <tr><td>January 2010</td><td style="text-align: right;">38,000</td></tr> <tr><td>February 2010</td><td style="text-align: right;"><u>34,000</u></td></tr> <tr><td>Total</td><td style="text-align: right;"><u>302,000</u></td></tr> </tbody> </table>	Month	RM	March 2009	12,000	April 2009	14,000	May 2009	16,000	June 2009	20,000	July 2009	18,000	August 2009	23,000	September 2009	30,000	October 2009	43,000	November 2009	29,000	December 2009	25,000	January 2010	38,000	February 2010	<u>34,000</u>	Total	<u>302,000</u>	1½  <u>5</u>
Month	RM																													
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Total	<u>302,000</u>																													
<b>(b)</b>	The circumstances in which a deduction for sales tax is allowed on the issue of a credit note are: The purchaser returns goods within three months from the date of the sale on account of wrong quantity, poor or defective quality or uncontracted goods, provided that the goods have not been subsequently sold or disposed of. Discounts have been given for goods sold which applies to all who are willing to transact. [Regulation 19C, Sales Tax Regulations 1972 PU(A) 55/1972]	2  1 <u>3</u> <u><b>10</b></u>																												