

Fundamentals Level – Skills Module

Taxation (Malaysia)

Monday 6 December 2010

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 individuals			Rate	Cumulative tax
Chargeable income			%	RM
	RM			
First	2,500	(0 – 2,500)	0	0
Next	2,500	(2,501 – 5,000)	1	25
Next	15,000	(5,001 – 20,000)	3	475
Next	15,000	(20,001 – 35,000)	7	1,525
Next	15,000	(35,001 – 50,000)	12	3,325
Next	20,000	(50,001 – 70,000)	19	7,125
Next	30,000	(70,001 – 100,000)	24	14,325
Exceeding	100,000		26	

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-residents

Company	25%
Individual	26%

Personal deductions

	RM
Self	9,000
Disabled self, additional	6,000
Medical expenses expended for parents	(maximum) 5,000
Medical expenses expended on self, spouse or child with serious disease, including up to RM500 for medical examination	(maximum) 5,000
Basic supporting equipment for disabled self, spouse, child or parent	(maximum) 5,000
Purchase of sports equipment	(maximum) 300
Fees expended for skills or qualifications	(maximum) 5,000
Expenses on books for personal use	(maximum) 1,000
Spouse relief	3,000
Disabled spouse, additional	3,500
Child	(each) 1,000
Child – higher rate	(each) 4,000
Disabled child	(each) 5,000
Disabled child, additional	(each) 4,000
Life insurance premiums, contributions to approved provident funds	(maximum) 6,000
Deferred annuity premiums	(maximum) 1,000
Medical and/or educational insurance premiums for self, spouse or child	(maximum) 3,000
Purchase of a personal computer	(maximum) 3,000
Broadband subscription	(maximum) 500
Deposit for a child into the National Education Savings Scheme	(maximum) 3,000

Rebates

Chargeable income not exceeding RM35,000	RM
Individual	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.

Where a driver is provided by the employer, the value of benefit per month is fixed at RM600.

Other benefits

	RM per month
Household furnishings, apparatus and appliances:	
Semi-furnished with furniture in the lounge, dining room or bedroom	70
Semi-furnished with furniture as above plus air-conditioned and/or curtains and carpets	140
Fully furnished premises	280
Domestic help	400
Gardener	300

Capital allowances

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

Real property gains tax

Disposal by companies and other than companies

	Rate %
Date of disposal	
Disposal within two years after date of acquisition	30
Disposal in the third year after date of acquisition	20
Disposal in the fourth year after date of acquisition	15
Disposal in the fifth year after date of acquisition or thereafter	5

Note: an exemption is granted which reduces the effective rate to 5% in every case where disposal takes place within five years of the date of acquisition and to nil thereafter.

Sales and service tax

	Rate %
Sales tax	10
Service tax	5

ALL FIVE questions are compulsory and MUST be attempted

1 (a) Irsyad Antoine, a sole proprietor, operates a French language centre and makes up his accounts to 31 December each year. His trading profit and loss account for the year ended 31 December 2010 is expected to be as follows:

	NOTE	RM	RM
Sales		700,000	
Less: Cost of sales	1	(300,000)	
Gross profit			400,000
Less: Expenses			
Salary	2	80,000	
Motor vehicle petrol and maintenance	3	20,000	(100,000)
Net profit before tax			300,000

Notes:

- 1 Cost of sales includes RM30,000 as the cost of manuals and Blu-ray discs that Irsyad withdrew from the business to give to his daughter so that she could teach herself French. These items are normally sold to the students of the language centre at a mark-up of 20%.
- 2 When the communications assistant at his language centre left in March, Irsyad employed his son, Reginald, aged 19, who is studying full time pursuing a degree in linguistics, on a part-time basis at a salary of RM320 per month from 1 April 2010. The communications assistant who had been engaged on an arms length basis was paid a salary of RM2,400 per annum.
- 3 Irsyad has two cars a Mercedes Benz and a Mini Cooper, both of which are more than five years old. The Mercedes Benz is used 100% in the business. The Mini Cooper is not used in the business. The running expenses of both cars have been charged in the accounts as follows:

	RM
Mercedes Benz	15,000
Mini Cooper	5,000
	20,000

- 4 Regina, Reginald's twin sister, is a full time student with the University of National History. She worked as a tourist guide on weekends and is expected to earn RM4,000 excluding tips in 2010.
- 5 Irsyad's wife Darlee died at childbirth in January 2010 after giving birth to a daughter, Evana, who was born with a defective heart and lived for only 15 days. Darlee had no total income in 2010.

Required:

- (i) Compute Irsyad Antoine's tax payable for the year of assessment 2010;** (6 marks)
- (ii) Briefly explain the tax treatment of each of the items referred to in notes 1 to 5.** (7 marks)

- (b) Dulcie is the sole proprietor of Dulcie's Realty, the business of which consists of the letting of properties. All of Dulcie's Realty's properties are rented out and the Inland Revenue has always treated all of its rental income as business income.

Details of Dulcie's Realty's rentals and expenses incurred for the year 2010 are as below:

Semi detached house in Lakeview

	RM
Annual rental	100,000
Water and power deposit	2,000
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	102,000
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Expenses:	
Assessment tax and quit rent	2,500
Security, gardening and waste disposal services	17,000
Interest on loan obtained for acquisition of Lakeview property	5,000
Fine for late payment of assessment tax	100
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	24,600
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Three shop lots at Coollana Mall

The shop lots are let out fully equipped with unique designer furnishings and CCTV. The rental is RM10,000 per lot per month. Two of the lots were rented out for six months and the third lot for the entire 12 months of 2010. Dulcie provided the cleaning services and supplied filtered water. No services were provided by a management company.

The total expenses incurred on the three shop lots are as follows:

	RM
Daily cleaning services	4,200
Fire insurance	2,000
Supply of filtered hot/cold water	1,800
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	8,000
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Town house in the scenic Putra wetlands resort

After regular advertising in the Xpat magazine, this house was rented out for nine months at RM5,000 per month in 2010.

The expenses spent on the house are as follows:

	RM
Advertising in the Xpat	2,000
Monthly fumigation and termite treatment	15,000
In-house butler service	34,000
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	51,000
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Additional information:

1. Dulcie has high tech sensor surveillance equipment at her home to monitor the security of all of the properties owned by Dulcie's Realty. The capital allowance on this equipment for the year 2010 is RM10,000.

2. Dulcie also has a small organic jam business and the results of this business for 2010 are as follows:

	RM
Current year balancing charge	10,000
Current year capital allowances	4,000
Capital allowances brought forward	2,000
Loss brought forward	(5,000)
Current year adjusted loss	(8,000)

3. Dulcie donated a portable kidney dialysis machine, costing RM30,000 to a children's health care centre in 2010.

4. Dulcie is also a writer and received royalties from a series of books of RM25,000 in 2010.

5. Dulcie has three children: Lavinia aged two, Astrid aged ten and Ferdinand aged 14 and has elected to claim child relief. She has also taken out insurance policies and paid premiums in 2010 as follows:

	RM
Life insurance policy on Lavinia	6,000
Medical insurance for Astrid	2,000
Education policy for Ferdinand	7,000
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	15,000

6. Dulcie's husband runs a DVD movie business which incurred a loss of RM20,000 in 2010. He had no other source of income.

Required:

Compute Dulcie's chargeable income for the year of assessment 2010.

(17 marks)

(30 marks)

- 2 Lite Ace Sdn Bhd, which was incorporated in 2005, is a company trading in high end sports goods. It has an authorised share capital of RM1,500,000 of which RM500,000 is issued and fully paid up. It makes up its accounts to 30 November each year and its trading profit and loss account for the year ended 30 November 2010 is as follows:

	Note	RM	RM
Sales			2,000,000
Less: Cost of sales			(700,000)
Gross profit			1,300,000
ADD: Other income	1		43,000
			<u>1,343,000</u>
Less: General and administrative expenses			
Contract payment	2	1,000	
Audit fees		1,200	
Bank charges		2,100	
Bank interest		9,800	
Depreciation		4,000	
Staff salaries	3	90,000	
Directors remuneration		24,000	
EPF contributions		12,000	
Quit rent and assessment		1,500	
Insurance	4	7,000	
Preliminary expenses	5	2,000	
Entertainment	6	18,500	
Bad debts	7	6,600	
Donations	8	2,400	
Compensation	9	10,000	
Defalcation	10	5,000	
Repairs and maintenance	11	15,000	(212,100)
Net profit for the year			<u><u>1,130,900</u></u>

Notes:

- 1 Other income comprises the following:

	RM
Discount from creditors	10,000
Dividend received under the single tiered system	20,000
Commissions	5,000
Compensation received for late delivery of supplies	8,000
	<u>43,000</u>

- 2 The contract payment was made to a non-resident on 10 November 2010 but the withholding tax was not remitted until January 2011.
- 3 Salaries include the remuneration of a disabled employee amounting to RM9,000.
- 4 The insurance expense relates to the premium paid on a key man life assurance policy taken out in respect of the sales director.
- 5 The preliminary expenses relate to the cost of the company's Memorandum and Articles of Association, which was being written off.

6 Entertainment comprises:

	RM
Reimbursement to a director for entertaining his family	2,500
Office family day	6,000
Public sporting event used for a brand launch	10,000
	<u>18,500</u>

7 Bad debts comprise:

	RM
A loan to a business associate who has now become bankrupt due to the Dubai crisis	10,400
An amount recovered from a debtor of a business taken over last year by Lite Ace Sdn Bhd including its debtors	(3,800)
	<u>6,600</u>

8 Donations comprise:

	RM
Donation of books to National Library	2,000
Donations to fund elections	400
	<u>2,400</u>

9 The compensation was paid to an employee for a restrictive covenant not to take-up a similar employment.

10 The defalcation relates to money withdrawn illegally from the company by a director.

11 Repairs and maintenance comprise:

	RM
Replacement of a damaged door of the same type and size	7,000
Extension of the roof of the shop	8,000
	<u>15,000</u>

12 Capital allowances for the year of assessment 2010 are RM12,000.

Required:

(a) Compute Lite Ace Sdn Bhd's chargeable income for the year of assessment 2010.

Note: your computation should include all of the items referred to in notes 1 to 11 indicating by the use of NIL any item for which no adjustment is needed. (18 marks)

(b) Briefly explain the tax treatment of the following items:

- the contract payment to a non-resident (note 2); (1 mark)
- the key man insurance premium (note 4); (1 mark)
- the preliminary expenses (note 5); (1 mark)
- the cost of the public sporting event (note 6); and (1 mark)
- the defalcation by the director (note 10). (1 mark)

(c) State by when Lite Ace Sdn Bhd had to file its estimate of income tax payable for the year 2010 and when the first instalment should have been paid. (2 marks)

(25 marks)

- 3** Mr Brendan Michael works for the European Union and oversees its ASEAN projects located in Malaysia. He has been present in Malaysia for the following periods in the years 2003 to 2010 inclusive

Year	Period of stay	Number of days
2003	1 January to 31 July	212
2004	1 April to 30 September	183
2005	1 January to 31 March	90
2006	1 January to 30 November	334
2007	1 March to 31 October	245
2008	1 April to 30 June	91
2009	Absent all year	0
2010	1 January to 31 July	212

Required:

- (a) **State, giving reasons, whether or not Mr Michael is resident or non-resident in Malaysia in each of the years 2003 to 2010 inclusive.** (15 marks)
- (b) **State the basis, if any, that Mr Michael will be taxable on his employment income in Malaysia.** (2 marks)
- (c) **State the circumstances in which a person like Mr Michael, who works both in Malaysia and outside Malaysia, can claim to have dual employment and why such a claim could be beneficial.** (3 marks)

(20 marks)

4 (a) For the purposes of service tax, explain:

- the basis of taxation applicable;
- who is the taxable person; and
- who actually bears the tax.

(4 marks)

(b) Ramakamheng Sdn Bhd is a consultancy firm based in Selangor. It provides services taxable under the Service Tax Act 1975. In the year 2010, the advisory services it provided, invoiced and was paid for were as follows:

Service provided	RM
- Investment advice to Panger Pte Ltd in Australia	25,000
- Drawing up legal agreements, providing advice and establishing a company which is a Malaysian subsidiary company of Agfa Deutsch, Germany	65,000
- Advisory services to the Kelantan branch of Ramakamheng Sdn Bhd	5,000
- Accounting services to PJR Sdn Bhd	2,500

Required:

(i) State, giving reasons, if any of the services rendered by Ramakamheng Sdn Bhd in 2010 will NOT be subject to service tax; (2 marks)

(ii) Compute the total value of services and the service tax due by Ramakamheng Sdn Bhd for the year 2010. (2 marks)

(c) GFK is a firm of surveyors and engineers who established a business in Malaysia in January 2010. Although slow initially, business has grown steadily throughout the year resulting in a turnover and profit for the period from January to November 2010 as follows:

Months	Turnover RM	Net profit/(loss) RM
January to April	0	0
May to August	23,000	(58,000)
September to November	500,000	60,000

Required:

(i) State, giving reasons, whether or not GFK is correct in its belief that it is not obliged to be licensed for service tax; (3 marks)

(ii) Assuming that GFK is required to be licensed:

- explain from when it should be licensed; and
- list the taxable periods applicable to 2010, together with the date of submission of the return and payable date. (4 marks)

(15 marks)

5 Nigel purchased a house in Tropicana from the developer on 4 July 2009 for RM245,000. The certificate of fitness was obtained on 20 August 2009. Nigel financed the purchase of the house with a loan from Kerala Bank.

In December 2010 Nigel sold the house for RM500,000. The costs he incurred on the property were as follows:

	RM
Stamp duty on acquisition	3,000
Interest on the loan from Kerala Bank	50,000
Valuation fee for the sale	6,000
Advertisement for the sale	2,000
Real estate agent's fee on the sale	4,000
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	65,000
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Required:

(a) **Compute Nigel's income subject to real property gains tax (RPGT).** (7 marks)

(b) **Explain the treatment for RPGT purposes of a loss arising on the sale of a property.** (3 marks)

(10 marks)

End of Question Paper