Fundamentals Level – Skills Module

Taxation (Malaysia)

Monday 7 June 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 2–3.

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)

ACCA

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

Individual with chargeable income not exceeding RM35,000	RM
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.

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

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

	Rate %
Sales tax	10
Service tax	5

ALL FIVE questions are compulsory and MUST be attempted

1 Sure-win Sdn Bhd, a resident company having a paid up capital of RM2·4 million, is engaged in the business of manufacturing boxes. The company submits its profit and loss account for the year ended 31 December 2009 as follows:

	Note	RM000's	RM000's
Sales			21,790
Less:			
Cost of sales	1		(9,100)
Gross profit			12,690
Less:			
Salaries and wages		3,900	
Employees Provident Fund contributions	2	738	
Foreign exchange	3	(16)	
Advertising		1,828	
Miscellaneous expenses	4	29	
Lease amortisation	5	200	
Royalty	6	525	
Lease rentals	7	77	
Renovation of premises	8	43	
Hire purchase interest		6	
Depreciation		820	
			(8,150)
			4,540
Other income:			
Interest	9		3
Profit before taxation			4,543

Notes:

(1) Cost of sales includes:

(i) Cost of trading stock stolen, amounting to RM129,000.

(ii) Insurance premiums on the export of cargo amounting to RM75,000. The risks are insured with a company incorporated in Malaysia.

(2) Employees Provident Fund contributions comprise:

(i) Contributions to the Employees Provident Fund at 12% of salaries and wages in respect of all employees.

(ii) Additional contributions at the rate of 10% to the Sure-win Scheme, in respect of the remuneration of senior management staff amounting to RM2·7 million. The scheme is approved by the Inland Revenue Board.

(3) Foreign exchange comprises:

	RM
Unrealised gain from the sale of goods	12,000
Realised loss from the purchase of heavy machinery from Germany (Note (11)(ii))	(28,000)
	(16,000)

(4) Miscellaneous expenses comprise:

	RM
Purchase of new computers as gifts for employees	26,000
Withholding tax penalty	3,000
	29,000

(5) Lease amortisation
A sum of RM200,000 is written off per annum in respect of the land acquired by Sure-win Sdn Bhd.

(6) Royalty
The gross equivalent of a royalty payment net of 10% withholding tax amounting to RM472,500 which was paid on 1 March 2009 to a company in Europe, for the use of a patent. Sure-win Sdn Bhd remitted RM22,500 to the Inland Revenue Board on 26 March 2009 but the balance of withholding tax is still unpaid.

(7) Lease rentals
Sure-win Sdn Bhd leased a new motor car for its marketing executive for a period of two years at RM7,000 per month. The cost of the car amounted to RM168,000. Sure-win Sdn Bhd commenced the lease rental in February 2009.

(8) The renovation of premises was carried out to enable the company's disabled employees to perform their work.

(9) The interest income is in respect of fixed deposits with a bank in Kuala Lumpur as follows:

Maturity date	RM
25 January 2009	2,000
13 May 2009	1,000

Other information:

(10) Equipment costing RM15,000 was purchased from Japan to enable the disabled employees to perform their work.

(11) Sure-win Sdn Bhd claimed accelerated capital allowances (initial allowance at 20% and annual allowance at 80%) under the Income Tax (Accelerated Capital Allowance) (Plant and machinery) Rules 2008 PU(A)357/2008, in respect of the following assets purchased during the financial year ended 31 December 2009:

(i) A machine costing RM180,000 was bought on hire purchase. The company paid a deposit of RM30,000 on 1 March 2009 and commenced the first monthly instalment payment in March 2009. The capital portion of each instalment is RM5,000.

(ii) A heavy machine costing RM622,000 was purchased from Germany. On making payment, the company incurred a foreign exchange loss amounting to RM28,000.

(12) Capital allowances for the year of assessment 2009 amounted to RM730,000 excluding the assets mentioned in note (11).

Required:

(a) Compute the tax payable by Sure-win Sdn Bhd for the year of assessment 2009.

Note: your computation should start with the profit before taxation figure and follow the descriptions used in the profit and loss account and the notes to the profit and loss account, where applicable, indicating 'nil' in the appropriate column for any item that does not require adjustment. (21 marks)

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

(i) insurance premiums (note (1)(ii));
(ii) royalty (note (6));
(iii) lease rentals (note (7)); and
(iv) the cost of equipment to enable the disabled employees to perform their work (note (10)). (4 marks)

(c) In the case of each of the items listed below, state at least one reason why it appears in the tax computation of Karim Sdn Bhd, a manufacturing company, in the way that it does:

(i) An item of expenditure of RM68,000 appears under the minus (–) column;
(ii) Rental income of RM40,000 appears under the minus (–) column;
(iii) An item of expenditure of RM20,000 appears under the plus (+) column;
(iv) An item of expenditure of RM80,000 appears as 'Nil' under the plus (+) column;
(v) A gain from the sale of a property of RM45,000 appears under the minus (–) column. (5 marks)

(30 marks)

2 **(a)** Puan Khaw is employed by Beauty Sdn Bhd as a beautician. Her income for the year ended 31 December 2009 is as follows:

	RM
Salary	36,000
Commission	6,000

Beauty Sdn Bhd paid insurance premiums amounting to RM1,200 in respect of a life policy on the life of Puan Khaw. Her disabled son is the beneficiary of the policy.

From 1 November to 31 December 2009 Beauty Sdn Bhd provided living accommodation for Puan Khaw in a hotel. The room charges paid by Beauty Sdn Bhd amounted to RM9,000.

Other information:

(1) Interest from fixed deposits with Public Bank Bhd received by Puan Khaw, amounting to RM100.

(2) Puan Khaw received tips amounting to RM800 from customers.

(3) Employees Provident Fund contributions made by Puan Khaw amounted to RM4,620.

(4) Puan Khaw, a widow, claimed child relief for her disabled child, age five years.

(5) Puan Khaw claimed medical expenses for her parents, amounting to RM1,600.

Required:

(i) Compute the tax payable by Puan Khaw for the year of assessment 2009, indicating by the use of 'nil' any item that is tax exempt; (8 marks)

(ii) Explain the tax treatment of the tips received by Puan Khaw from customers. (1 mark)

(b) Encik Arumugam's income for the year ended 31 December 2009 is as follows:

Partnership income

Encik Arumugam and Encik Tan are partners in a legal firm, sharing profits equally.

The records of the partnership for the year ended 31 December 2009 show that:

– Divisible income amounted to RM1·6 million.
– Capital allowances for the year of assessment 2009 amounted to RM70,000.

Encik Arumugam's income from the partnership, in addition to his share of the divisible income, for the year ended 31 December 2009 is as follows:

	RM
Salary	120,000
Interest on capital	8,000
Private expenses	15,000

Rental income

Encik Arumugam owns a house in Kuala Lumpur which is rented out.

The house was first let out to IKK Sdn Bhd for a period of three years commencing on 1 June 2008 at a monthly rental of RM8,500. The rental for December 2008 due payable on 1 December 2008 was received on 15 January 2009.

IKK Sdn Bhd terminated the tenancy on 31 May 2009 upon the transfer of its chief executive officer, paying six months rent in lieu of notice as provided by the tenancy agreement.

The house was rented out to a new tenant at RM9,000 per month, commencing from 1 September 2009. The tenancy agreement provides for rent to be payable every three months in advance commencing from 1 September 2009.

The expenditure incurred on the house (for the full year to 31 December 2009, unless otherwise stated) is:

	RM
Quit rent	400
Assessment (January to December 2009 RM1,600 plus arrears July to December 2008 RM800)	2,400
Cost of a replacement fridge	2,500
Loan interest	3,900
Agent's fees for second tenant	6,500
Legal fees for second tenancy agreement	500

Encik Arumugam donated RM80,000 to approved institutions in 2009.

Required:

(i) Compute the total income of Encik Arumugam for the year of assessment 2009; (12 marks)

(ii) Explain the tax treatment of the December 2008 rent received from IKK Sdn Bhd in January 2009. (1 mark)

(c) State, with reasons, the basis period and the relevant year of assessment to which the gross income from an employment in respect of each of the following scenarios is related:

(i) Encik Alex Li received an annual bonus for the year 2009 amounting to RM15,000, on 20 January 2010.

(ii) On 14 November 2009 Encik Ramli Abdul received his leave pay for his period of leave from 15 November 2009 to 14 February 2010 amounting to RM30,000.

(iii) Cik Beelee Oh was employed at a monthly salary of RM7,000 from January to December 2009. As at 31 December 2009 the total monthly salary received by Cik Beelee amounted only to RM77,000. Her salary for the month of December 2009 was received on 3 January 2010. (3 marks)

(25 marks)

3 **(a)** Benki Sdn Bhd, which had been preparing its accounts to 30 June annually, changed its accounting date to 30 September as follows:

Accounting periods	Adjusted income RM
1 July 2008 to 30 June 2009	255,000
1 July 2009 to 30 September 2009	98,000
1 October 2009 to 30 September 2010	340,000
1 October 2010 to 30 September 2011	400,000

Required:

(i) **State the circumstances in which the concept of 'failure year' is relevant in determining the basis periods of a company;** (2 marks)

(ii) **State what is meant by 'failure year' and identify the 'failure year' in Benki Sdn Bhd's preparation of accounts;** (3 marks)

(iii) **Determine the basis periods and the adjusted income of Benki Sdn Bhd for the relevant years of assessment.** (7 marks)

(b) **State the main responsibilities of an employer under the STD (Schedular Tax Deduction) system of the Income Tax Act.** (2 marks)

(c) Encik Yuheng, the sole proprietor of a laundry business, filed his tax return on 30 June 2009, showing tax payable of RM28,000 for the year of assessment 2008. On the same day Encik Yuheng made a payment of RM8,000, being the only payment he had made in respect of the tax payable for the year of assessment 2008, up to that time. Subsequently Encik Yuheng made a payment of RM5,000 on 7 July 2009 and a further payment of RM7,000 on 9 August 2009.

Required:

Compute the penalties arising from the late payment of tax and the debt owed by Encik Yuheng to the Inland Revenue Board, after his payment on 9 August 2009. (6 marks)

(20 marks)

4 (a) State, with reasons, the tax treatment of the following items of expenditure in determining the adjusted income of a business and the legal basis for it:

(i) the cost of an extension to a building;
(ii) the remuneration of employees;
(iii) the salaries of disabled employees; and
(iv) tuition fees for the son of the sole proprietor, charged to the profit and loss account of the business.

(4 marks)

(b) Determine the qualifying plant expenditure for the purposes of capital allowances in respect of each of the following items:

(i) A contractor purchased a lorry costing RM62,000 for use in his business;
(ii) K-Lim Sdn Bhd purchased a new motor car for its managing director at a cost of RM140,000.

(2 marks)

(c) State any THREE circumstances in which a balancing charge or a balancing allowance can arise in respect of an item of plant or machinery eligible for capital allowances. (3 marks)

(d) Identify and briefly explain THREE of 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. (6 marks)

(15 marks)

5 **(a)** Advalue Sdn Bhd commenced a business of providing advertising services on 1 March 2009. The record of the company's sales turnover is as follows:

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	92,000
February 2010	99,000
March 2010	59,000
April 2010	60,000

The sales turnover figures for January and February 2010 include turnover relating to the provision of advertising services for promotion outside Malaysia as follows:

January 2010	RM54,000
February 2010	RM65,000

Required:

(i) **State what is meant by 'annual sales turnover' for the purposes of service tax;** (2 marks)

(ii) **Determine, with explanations, the date from which Advalue Sdn Bhd is required to be licensed for service tax.**

Note: the threshold limit for the total annual sales turnover is RM300,000. (5 marks)

(b) **Explain the circumstances in which a deduction for sales tax is allowed on the issue of a credit note.** (3 marks)

(10 marks)

End of Question Paper