

Fundamentals Level – Skills Module

# Taxation (Malaysia)

Tuesday 6 December 2011

**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)

# 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			Rate	Cumulative tax
Chargeable income				
Resident individuals	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 reliefs and allowances

	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

<b>Chargeable income not exceeding RM35,000</b>	<b>RM</b>
Individual	400
Individual entitled to a deduction in respect of 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 the 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**

	<b>Rate %</b>
<b>Date of disposal</b>	
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 the disposal takes place within five years of the date of acquisition and to nil thereafter.

### **Sales and service tax**

	<b>Rate %</b>
Sales tax	10
Service tax	6

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Question 1 begins on page 6.**

**ALL FIVE questions are compulsory and MUST be attempted**

- 1 Thrivandrum Sdn Bhd develops and produces educational products for sale locally and abroad. The company's income statement for the year ended 31 December 2011 is expected to be as follows:

	Note	RM	RM
Sales revenue		900,000	
Less: Cost of sales		(200,000)	
Gross profit			700,000
Rental income	1		10,000
Dividend	2		8,000
Interest/discount	3		15,000
			<u>733,000</u>
Advertisements	4	25,000	
Patent/trademark	5	12,500	
Depreciation		2,000	
Entertainment	6	8,000	
Contributions to pension fund	7	30,000	
Amortisation of lease	8	6,000	
Telephone charges		1,000	
Legal fees		4,000	
Motor vehicle expenses	9	5,640	
Miscellaneous expenses (all allowable)		500	
			<u>(94,640)</u>
Net profit before tax			<u><u>638,360</u></u>

**Notes:**

1. Rental income RM10,000

The company let some excess office space for two months.

2. Dividend RM8,000

This was paid under the single-tier tax system.

3. Interest/discount RM15,000

The company maintains an aggressive credit policy and earned the following:

	RM
Discount received from supplier for early settlement of trade payable	10,000
Interest charged on credit customers for default of credit terms	5,000
	<u>15,000</u>

4. Advertisements RM25,000

The company incurred the following expenses at trade exhibitions held in Europe in which it participated in order to promote its exports:

	RM
Samples of its e-books	6,000
Jute bags bearing the company's logo	5,000
Electronic Zoom Magnifiers with the company's name were given as gifts to visitors at its booths	3,000
Travel tickets for key politicians to visit the company's booth at the trade exhibitions	11,000
	<u>25,000</u>

5. Patent/trademark RM12,500

These expenses were incurred when the company registered its patent on the reading aid that it had developed (the Electronic Zoom Magnifier) and its 'Malabari Ideas' trademark in Germany.

6. Entertainment RM8,000

	RM
Refreshments served when launching its newly-developed reading aid, the Electronic Zoom Magnifier	1,000
Redemptive vouchers given to customers	1,500
Gold bracelet for a key customer on the birth of his daughter	2,000
Trip for the dealer who achieved the highest sales target	3,500
	<hr/>
	8,000
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7. Contributions to pension fund RM30,000

The company contributes 16% of their remuneration to the Employees Provident Fund for all of its employees, except for its two marketing managers for whom it contributes 20%. The two marketing managers are each paid a salary of RM4,000 per month.

8. Amortisation of lease RM6,000

The amortisation is the annual write-off relating to a ten-year lease on a property acquired by the company in 2005.

9. Motor vehicle expenses RM5,640

The company leased a second-hand car costing RM70,500 for its senior marketing manager for a period of 25 months commencing 1 February 2009. The monthly payment is RM2,820.

10. Capital allowances

Capital allowances for the year of assessment 2011 are RM5,000.

**Required:**

**(a) Compute the chargeable income of Thrivandrum Sdn Bhd for the year of assessment 2011.**

**Notes:**

1. Your computation should start with the 'Net profit before tax' figure, and should also include all items referred to in Notes 1 to 9, indicating by the use of NIL where no adjustment is needed.
2. Marks will be awarded for the use of accurate technical terms to describe the figures comprising the stages in the computation of chargeable income. (11 marks)

**(b) Briefly explain the tax treatment of each of the items referred to in notes 1 to 9. (10 marks)**

**(c) State ANY FOUR circumstances in which a trade receivable will be regarded as a bad debt for tax purposes. (4 marks)**

**(d) State the conditions that a company must fulfil before a deduction can be claimed for expenses incurred on the registration of patents and trademarks in Malaysia. (5 marks)**

**(30 marks)**

- 2 (a) Orja Innovations is a partnership between Jaison and Vinod, who share profits equally.

The income statement of Orja Innovations for the year ended 31 December 2011 is as follows:

	RM	RM
Sales revenue		600,000
Capital profit on sale of real property		10,200
		<hr/>
		610,200
Less Expenditure		
Staff salaries	100,000	
Non obligatory contribution to approved pension fund	20,000	
Partners' life insurance premiums (RM4,500 each)	9,000	
Partners' interest on capital (RM2,000 each)	4,000	
Utilities for office	500	
Interest on loan to purchase Vinod's home	2,000	
Partners' salaries (RM100,000 each)	200,000	
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		(335,500)
Net profit		<hr/>
		274,700

**Additional information:**

The capital allowances available to the business for the year of assessment 2011 are RM15,000.

**Required:**

- (i) **Compute the partnership's provisional adjusted income and divisible income for the year of assessment 2011;** (8 marks)
  - (ii) **Compute the partners' statutory income for the year of assessment 2011.** (5 marks)
- (b) Vaz, a partner in an eco-research business, received a statutory income of RM150,000 from that business in the year 2011.
- The following additional information relates to Vaz for the year 2011:
1. Vaz serves as a town councillor in Travancore, India and receives a monthly allowance of RM1,000 for these duties performed in Travancore.
  2. Vaz has a passion for horses and is an avid horse rider. He studies trends daily and, together with a group of gamblers, has been systematically betting on champion horses at the race course for the past ten years. His total winnings for the year 2011 were RM25,000.
  3. Vaz has built a treehouse which he rents out to Reji for a monthly rental of RM600. Occassionally Vaz also provides Reji with meals and laundry services, the average monthly cost of these services for the year 2011 has been RM200 and RM50 respectively.
  4. Vaz received an honorarium of RM15,000 for his services in the accreditation of a franchised educational course at a local university in Malaysia. These services were verified by the Lembaga Akreditasi Negara.
  5. Vaz is married to Alley who has a son Dud Lee from her previous marriage. Dud Lee is pursuing a degree at university and is maintained by his father Cha Lee.
  6. Vaz has a daughter from his previous marriage, Juuga, who is 17 years of age. Juuga got married in February 2011, she did not derive any income in the year 2011.
  7. Alley did not receive any income in the year 2011.



**Required:**

**(i) Compute the tax payable by Vaz for the year of assessment 2011;**

Notes:

1. You should indicate by the use of the word NIL any item referred to in the question for which no adjusting entry needs to be made in the tax computation, giving a brief explanation of the reasons for your treatment.
2. Marks will be awarded for the use of accurate technical terms to describe the figures comprising the stages in the computation of chargeable income. (11 marks)

**(ii) State by when Vaz must file his tax return for the year of assessment 2011.**

(1 mark)

**(25 marks)**

- 3 (a) (i) **List the conditions that must be fulfilled before a claim for capital allowances can be made by a company;** (4 marks)
- (ii) **State the basis on which a capital allowance claim will be made by a company which has two businesses.** (1 mark)

(b) Kolam Sdn Bhd, a manufacturing company, whose year end is 31 December 2011, bought the following assets during the year 2011 for use in its business:

1. Machine A from India costing RM10,000, on which it incurred a foreign exchange loss of RM2,000. The machine was purchased on supplier credit.
2. Machine B with a cost of RM280,000 financed by hire purchase. It made an initial payment of RM50,000 in January 2011 and paid the balance by instalments commencing in April 2011. The capital portion of each instalment is RM10,000 and the interest portion of each instalment RM1,000.

**Required:**

**Compute the capital allowances that can be claimed by Kolam Sdn Bhd on each of the machines for the year of assessment 2011, giving brief explanations of the treatment of both the qualifying and non-qualifying costs.** (6 marks)

(c) Methen Sdn Bhd is a manufacturing company, with a 31 December year end. In 2006 it purchased land in Penang for RM85,000 (including legal fees of RM5,000) on which it constructed a factory for RM810,000 which it brought into use in June 2007. The total floor area of the factory was 30,000 square feet, comprising: manufacturing facilities 25,000 square feet, canteen and staff welfare facilities 1,000 square feet and offices 4,000 square feet.

In 2011 Methen Sdn Bhd had to substantially reduce its manufacturing capacity and sold the factory premises in Penang.

**Required:**

(i) **Calculate the qualifying building expenditure applicable to the factory in Penang when it was new and the residual expenditure remaining as at 1 January 2011;** (4 marks)

(ii) **Calculate the balancing charge/balancing allowance applicable on the disposal of the factory by Methen Sdn Bhd if the selling price was:**

(1) **RM850,000 (including land RM100,000);**

(2) **RM1,000,000 (including land RM100,000).**

(3 marks)

(d) In October 2010 Nayar Sdn Bhd, a manufacturer, with a 31 December year end, purchased a building costing RM500,000 to provide child care facilities for its assembly line employees. In June 2011 after incurring RM15,000 in fumigation and other maintenance expenses, the building was furnished at a cost of RM80,000. The child care centre was first utilised by the employees in June 2011.

**Required:**

**Calculate the industrial building allowance available to Nayar Sdn Bhd for the years of assessment 2010 and 2011.** (2 marks)

**(20 marks)**

**4 (a) State the circumstances in which royalty payments to non-residents are deemed to be derived from Malaysia.**

(3 marks)

**(b) For each of the payments below, state, with reasons, whether or not the payment will be subject to withholding tax.**

(8 marks)

- (i) Sandoshaam Sdn Bhd is a company incorporated in Malaysia. Its operations since incorporation have been located entirely in Papua New Guinea, which is also where all of its board meetings are held. It obtained the rights to use a patented process from India for the production of underwater movies for which it pays an annual royalty of RM300,000.
- (ii) Ubhayaam Sdn Bhd is a company whose photosynthesis technology operations are located in Penang. It obtained access to a right to use a secret process developed by Elfleda Ltd, an Albanian company, which operates in Malaysia through a registered branch. The royalty payment for the use of this process, is made to Elfleda Ltd's branch in Malaysia.
- (iii) Udaysham Sdn Bhd, a company resident in Malaysia, has manufacturing and trading operations in both Malaysia and the Phillipines. It has agreed to pay a royalty to a foreign company for the right to use that company's technical know-how in its manufacturing operations both in Malaysia and the Phillipines. The royalty to be paid is to be calculated based on 2% of Udaysham Sdn Bhd's Phillipines branch's annual sales revenue.
- (iv) Vellam Sdn Bhd is a company resident in Malaysia, whose business is to provide water filtration for local state governments. In 2011 it bought water purification equipment, from Moet L'eau Ltd, a company located in France, for RM1,200,000.

**(c) Name ANY FOUR financial instruments on which the interest payments are NOT subject to withholding tax.**

(4 marks)

**(15 marks)**

- 5 Samathanam Sdn Bhd, a manufacturing and trading company resident in Malaysia, commenced its operations in January 2011. Business was slow and the company only managed to obtain sales in July 2011, which was also when it issued its first invoice.

The customers began paying in September 2011 but due to cash flow constraints, no sales tax was paid until 30 November 2011. The company's sales records for the year to date are as follows:

Month end	Sales RM	Receipts RM
July	50,000	NIL
August	20,000	NIL
September	80,000	50,000
October	NIL	15,000

**Required:**

- (a) State the due date for payment of sales tax and explain how the penalty for late payment is calculated, including any maximum that applies. (4 marks)
- (b) Compute the sales tax and penalties (if any) due by Samathanam Sdn Bhd for each of the tax periods covered by the above sales returns.

Note: the applicable penalty rate is 10%. (6 marks)

**(10 marks)**

**End of Question Paper**