

Fundamentals Level – Skills Module

# Taxation (Malaysia)

Monday 6 June 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	5

**This is a blank page.  
Question 1 begins on page 6.**

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

- 1 Judlee Sdn Bhd has two shareholders, Jude and Lee, who are also directors. The company commenced business several years ago with a paid up capital of RM2.6m. The trading profit and loss account for the year ended 31 December 2010 is as follows:

	Note	RM	RM
Sales		700,000	
Less: Cost of sales		(300,000)	
Gross profit			400,000
Advertisement		2,000	
Bad debts	1	4,500	
Depreciation		2,000	
Entertainment	2	6,000	
Hire purchase interest		3,000	
Bank interest on loan for trade promotion		6,000	
Tax advisory fees		6,000	
Subscription to political party		1,500	
Motor vehicle expenses	3	3,000	
Water and electricity	4	3,000	
Petrol and oil for sales vehicles		6,000	
General expenses		3,500	
Legal fees	5	4,000	
Staff salaries		75,000	
Compensation	6	3,000	
Loss on the disposal of an asset	7	500	(129,000)
Net profit for the year			271,000

**Notes:**

1. Bad debt RM4,500

In addition to RM500 in respect of an irrecoverable trade debt written off, this amount includes an advance of RM4,000 made to an employee two years ago, which is now not recoverable. No provision has previously been made for this debt.

2. Entertainment RM6,000

This amount includes RM3,000 in respect of a Christmas dinner treat held by Jude at his home for the company's clients to thank them for their overwhelming support of the business.

3. Motor vehicle expenses RM3,000

This refers to expenses paid for the following:

	RM
Insurance on motor vehicles used in the business	2,000
Traffic summons	500
Bereavement donation to insurance company staff	500
	<u>3,000</u>

4. Water and electricity RM3,000

This is in respect of the following:

	RM
Water and electricity consumed	2,250
Late payment penalty on electricity bill	750
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	3,000
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5. Legal fees RM4,000

This refers to fees incurred for the following:

	RM
Collection of debts	2,000
Bank loan arrangements	1,500
Cost of income tax appeal	500
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	4,000
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6. Compensation RM3,000

This refers to a payment made to an employee injured on Judlee Sdn Bhd's business premises.

7. Loss on disposal of an asset RM500

This was computed as follows:

	RM
Sale proceeds	1,000
Net book value of asset	1,500
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Loss on disposal	500
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The asset disposed of had a cost of RM5,000 and a tax residual expenditure as at 1 January 2010 of RM700.

8. The capital allowances as computed for the company's assets other than the asset disposed of (see note 7) for the year of assessment 2010 amount to RM4,000.

**Required:**

- (a) Compute Judlee Sdn Bhd's tax liability for the year of assessment 2010.**

Note: your computation should start with the profit before taxation figure and should include all of the items referred to in notes 1 to 7, indicating by the use of NIL where no adjustment is needed. (11 marks)

- (b) Briefly explain the tax treatment of each of the items referred to in notes 1 to 7.** (13 marks)

- (c) Identify and briefly explain THREE of the tests used to determine whether an expense is capital or revenue in nature.** (6 marks)

**(30 marks)**

**2** Julliard, a foreign national who is tax resident in Malaysia, is a dancer. He performs for the Malaysian Solful Dance Company, both in Malaysia and around the world. Details of his income and other particulars for the year ended 31 December 2010 are given in the following notes:

1. He is paid a salary of RM15,000 a month for his services as a dancer. Under the terms of his contract he must work exclusively for the Malaysian Solful Dance Company for the duration of his contract.
2. His contract also provides that, when on overseas engagements, Julliard is required to provide consultancy services on dance technique and creative dance forms which are his speciality. The company pays him RM30,000 for each assignment. The payment for this service is made to his bank account in England and is not remitted to Malaysia. In 2010, he received RM60,000 for such assignments.
3. Julliard is married to June, a disabled dancer, who has a five-year-old child, Candy, from her previous marriage to Simon. June teaches dancing to the deaf on a voluntary basis and earned no income in 2010.

Candy lives with her mother and receives child support from June's ex-husband, Simon.

4. Julliard has a son, Brighton, aged 16, from his previous marriage to May.  
Brighton, who is pursuing a degree at the University of Neuro Physics in Malaysia, is blind. Julliard maintains Brighton exclusively.
5. Julliard contributed RM3,000 to the Employers' Provident Fund (EPF) and RM1,000 to an approved widows and orphans' fund in the year 2010.
6. Julliard made the following payments in the year 2010:

	RM
Life insurance premiums on a policy for May	1,000
Life insurance premiums on a policy for June	1,000
Deferred annuity premium on a policy he took out in September 2010	2,500
	<u>4,500</u>

**Required:**

- (a) (i) **State, with reasons, why Julliard's consultancy service income is taxable in Malaysia;** (2 marks)  
(ii) **State the class of income under which the consultancy fee is taxable, giving THREE reasons that you have applied to determine this.** (4 marks)
- (b) **Briefly explain the tax treatment of each of the items referred to in notes 3 to 6.** (11 marks)
- (c) **Compute Julliard's tax liability for the year of assessment 2010.** (5 marks)
- (d) **List THREE advantages of an individual being treated as a tax resident.** (3 marks)

**(25 marks)**



- 3 (a) Malaysia has a territorial basis of taxation. However, employment income can be *deemed to be derived* from Malaysia even when a person receives income for work he does outside the country.

**Required:**

**State FIVE circumstances when this can take place.**

(5 marks)

- (b) When a hi-tech computer tablet was launched, Josephine, a factory supervisor, and her friend Jock, an accountant, anticipated a steep demand for the product in Malaysia and decided to capitalise on this. They invested their savings and in addition obtained a small bank loan and imported 200 units of the computer tablet. Through advertising on the internet the computer tablets were quickly sold on an individual basis and the two friends realised a sizeable profit.

Prior to this, neither Josephine nor Jock had ever undertaken any form of business venture outside of their employment and they have no intention to enter into other such ventures in the future.

**Required:**

**State, with reasons, whether the profit from the sale of the computer tablets will be taxable as business income.**

(8 marks)

- (c) Jamlo Sdn Bhd is a manufacturing company. In 2010 it constructed the following business premises:

1. A new factory complex incorporating a display centre and cafe, incurring costs as follows:

	RM	Land area (square metres)
Land	3,000,000	100,000
Legal fees and stamp duty on the acquisition of the land	10,000	
Architect's fee	20,000	
Construction costs:		
Factory	15,000,000	70,000
Office	1,000,000	11,000
Display centre and cafe	200,000	15,000

2. A warehouse of 4,000 square metres, on a separate site which the company had leased in 2009 for a period of 15 years, for a construction cost of RM100,000.

**Required:**

- (i) **Compute, giving brief explanations, the qualifying expenditure on the factory complex for industrial buildings allowances;**

(5 marks)

- (ii) **State, with reasons, whether or not the expenditure on the construction of the warehouse will qualify for industrial buildings allowances.**

(2 marks)

**(20 marks)**

- 4 Joe Kerr acquired a house for RM250,000 in January 2007. In October 2008 improvements were made to the house costing RM45,000.

The house was rented out for RM2,000 a month in November 2008. Assessment and quit rent amounted to RM6,000.

In January 2010 Joe Kerr took out a mortgage loan to refinance the house, incurring an interest charge of RM20,000.

In March 2010 Joe tried to sell the house and took out an advertisement costing RM8,000. He obtained a buyer who paid a forfeitable deposit of RM50,000 to secure the purchase. When the buyer could not obtain a bank loan, the sale fell through and the deposit was forfeited.

Cracks appeared on the walls of the house and in August 2010 Joe recovered RM100,000 from the insurance policy for structural damage he had taken out in 2008.

Joe Kerr sold the house in December 2010 for RM1,000,000.

**Required:**

- (a) Compute Joe Kerr's real property gain tax (RPGT) liability on the sale of the house. (10 marks)
- (b) Give reasons for each expense treated as not deductible in your computation. (3 marks)
- (c) Explain how and when the tax liability calculated in (a) will be paid. (2 marks)

**(15 marks)**

- 5 (a) A company is planning to establish its manufacturing operations in Malaysia. The directors are aware that sales tax is levied on goods manufactured in Malaysia, but are looking for advice on some other matters.

**Required:**

**Provide the directors with advice regarding sales tax on the following matters:**

- (i) The basis by which a sale is determined for sales tax purposes. (4 marks)
- (ii) Whether all manufacturers are required to be licensed and, if not, what are the exceptions. (4 marks)
- (b) Jade Sdn Bhd, whose operations are in Malaysia, imported green products from an independent supplier. The following charges were incurred:

	RM
The purchase price of the green products	20,000
Value of goods for customs duty	30,000
Customs duty	5,000
Custom agents' fee	1,000

**Required:**

- Compute Jade Sdn Bhd's sales tax liability.** (2 marks)

**(10 marks)**

**End of Question Paper**