Answers

Notes:
(1) 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.
(2) Marks indicated with a '*' are awarded for the allocation of the appropriate description to the figure calculated, not for the figure itself.

Section A

1 D Taxable: RM500; exempt: RM2,000
Exemption for a perquisite consisting of an innovation award provided to an employee is limited to RM2,000 per employee for a year of assessment [paragraph 25C of Schedule 6 of Income Tax Act, 1967].

2 C Qualifying expenditure of RM4,200 for year of assessment 2010
(Deposit RM3,000 + Capital portion RM200 x 6 months)
Capital/Principal amount – RM12,000 (RM15,000 less deposit of RM3,000)
Repayable over 60 months: RM12,000 ÷ 60 months = RM200 per month
Principal repaid in 6 instalments = RM200 x 6 = RM1,200
Qualifying plant expenditure incurred in 2010 = RM3,000 + RM1,200 = RM4,200

3 B Penalty rate of 10% will apply as the company did not remit the service tax by the due date of 28 March 2010 and it was settled within the succeeding period of 30 days or part thereof.

4 A Nil. The full amount is tax exempt as it is a local leave passage. Up to three local leave passages are exempted in a year of assessment.

5 A True and it applies for all chargeable persons.

6 B He was resident in Malaysia because he was physically present in Malaysia for a period of 182 days or more in a calendar year [s.7(1)(a)].

7 C Permanently lost and not available for carry forward. This is because a rental source is not a business source (with a few exceptions): only a loss arising from a business source is available for set-off.

8 D Claim: RM75,000; Disallow: RM25,000. The cumulative maximum amount of lease rentals paid that can be claimed in total by Ace Sdn Bhd is restricted to RM100,000 on the basis that the cost of the new car does not exceed RM150,000 and any excess is disallowed for tax purposes. Since RM25,000 had been claimed in the previous year of assessment, the amount that can be claimed is restricted to RM75,000 for the year of assessment 2010.

9 C Only the commission income is subject to income tax. The gain from disposal of his house is a capital gain not subject to income tax.

10 B They cannot be set off against the air-conditioning manufacturing business.
The unutilised capital allowances are not from the same business source.

Section B *Marks*

1 Ray and Dr Rita

(a) Ray
Tax computation for year of assessment 2010

	RM	RM	
Business income			
Adjusted Income/(Loss RM30,000)	Nil		½
Balancing charge	1,000		½
Less: Capital allowance	(1,000)		½
Statutory income from business	Nil		½*
Employment income			
Salary		120,000	½
Entertainment allowance		6,000	½
Utility bills		720	½
Cost of new computer given by company		Nil	½
Broadband subscription fee paid by employer		Nil	½
		126,720	
Medical benefits from company		Nil	½
Benefit: Furnishings for accommodation			
RM280 x 6 months		1,680	1
Living accommodation benefit			
Defined value			
RM12,000 (15,000 – 3,000) x 6 months	72,000		1
30% x RM126,720 [Section 13(1)(a)]	38,016		1½
The lower		38,016	½
Gross income from employment		166,416	
Less: Entertainment expenses			
(restricted to the amount of the allowance)		(6,000)	1
Adjusted/statutory income from employment		160,416	½*
Interest income			
Interest from loan given to his brother		200	1
Aggregate income		160,616	½*
Less: Current year adjusted loss from business		(30,000)	1
Less: Approved donation (no supporting document)		Nil	1
Total income		130,616	½*
Less: Personal reliefs			
Personal relief	9,000		½
EPF (restricted to maximum)	6,000		1
		(15,000)	
Chargeable income		115,616	½*
Tax liability:			
Tax on first RM100,000		14,325	
Tax on next RM15,616 x 26%		4,060	
Tax charged/payable		18,385	½
			17

Tutorial note: Although paid to an approved institution, Ray cannot claim a deduction for the donation as there is no original receipt to support the claim.

Marks

(b) **Dr Rita**
Tax computation for year of assessment 2010

	RM	RM	Marks
Business income from partnership			
Share of divisible income (210,000 x 50%)	105,000		½
Salary	10,000		½
Interest on capital	5,000		½
Private expenses	6,000		½
Adjusted income from partnership	126,000		
Less: Capital allowances (24,000 x 50%)	(12,000)		½
Statutory income from partnership business		114,000	½*
Royalty income			
Musical composition	21,000		½
Less: Exemption [under paragraph 32D]	(20,000)		1
Statutory income from royalty		1,000	
Aggregate income		115,000	½*
Less: Approved donation (restricted to 7% of aggregate income)		(1,000)	1
Total income		114,000	½*
Less: Personal reliefs			
Personal relief	9,000		½
Sports equipment (restricted to maximum)	300		1
		(9,300)	
Chargeable income		104,700	½*
Tax liability:			
Tax on first on RM100,000		14,325	
Tax on next on RM4,700 x 26%		1,222	
Tax charged/payable		15,547	½
			9
			26

2 **Chong Enterprise – Year of assessment 2010**

(a) **Computation of balancing charge/balancing allowance**

		RM	Qualifying expenditure RM	Marks
Furniture and fittings			1,000	
Capital allowance	– YA 2009:			
Initial allowance	– IA – 20%	200		½
Annual allowance	– AA – 10%	100	(300)	½
Residual expenditure			700	½
Disposal value			Nil	½
Balancing allowance			(700)	½
Computers			10,000	
Capital allowance	– YA 2009:			
Initial allowance	– IA – 20%	2,000		½
Annual allowance	– AA – 80%	8,000	(10,000)	½
Residual expenditure			Nil	½
Disposal value			7,000	½
Balancing charge			7,000	½
				5

					Marks

(b) Computation of capital allowances

(i) Assets brought forward

Asset	Qualifying expenditure RM	Annual rate	Allowance RM	Marks
Furniture and fittings	Nil			½
Plant and machinery	100,000			½
		14%	14,000	½
Office equipment	20,000			½
		10%	2,000	½
Computers	Nil			½
		Total	16,000	3

Tutorial note: neither the plant and machinery nor the office equipment acquired in 2009 is fully written off in that year, as follows:

		RM	RM
Plant and machinery			**100,000**
Capital allowance	**YA 2009:**		
Initial allowance	**IA – 20%**	**20,000**	
Annual allowance	**AA – 14%**	**14,000**	**(34,000)**
Residual expenditure			**66,000**

		RM	RM
Office equipment			**20,000**
Capital allowance	**YA 2009:**		
Initial allowance	**IA – 20%**	**4,000**	
Annual allowance	**AA – 10%**	**2,000**	**(6,000)**
Residual expenditure			**14,000**

(ii) Assets acquired in 2010

Asset	Qualifying expenditure RM	Initial rate	Allowance RM	Annual rate	Allowance RM	Total RM	Marks
Office equipment	100,000	20%	20,000	40%	40,000	60,000	½ + 1
Passenger vehicle	100,000	20%	20,000	40%	40,000	60,000	1
							½ + 1
Lorry	160,000	20%	32,000	40%	64,000	96,000	½ + 1
Heavy machinery	10,000	20%	2,000	40%	4,000	6,000	½ + 1
Total						222,000	
							7

(c) Computation of statutory income

	RM	RM	Marks
Adjusted income (before adjustments)		1,000,000	½
Less: Repairs – Revenue expenditure capitalised		(3,000)	1
Adjusted income		997,000	
Add: Balancing charge		7,000	½
		1,004,000	
Less: Balancing allowance		(700)	½
Capital allowances:			
– Brought forward assets	(16,000)		½
– Current year assets	(222,000)		½
		(238,000)	
Statutory income		765,300	½*
			4
			19

Marks

3 (a) (i) Withholding tax is due and payable to the Inland Revenue Board within one month of paying or crediting the non-resident. 1

(ii) There will be a penalty of 10% on the unpaid withholding tax portion and the gross amount will be disallowed for tax purposes. The gross amount will subsequently be allowed as a deduction once the withholding tax and penalty are paid. 1 + 1 = 2

(iii) Withholding tax in respect of the interest payment is 15% x RM10,000 = RM1,500. 1 + 1 = 2

(iv) The withholding tax portion borne by the payer will not be allowed as a tax deductible expenditure and should be added back in arriving at the adjusted income. 1 + 1 = 2

(v) The basis of apportionment is the time spent for the services performed in Malaysia by the non-resident, in this case half the total time spent i.e. 50%. 1

Withholding tax in respect of the technical design fees is the gross amount subject to tax, i.e. RM20,000 x 50% at the withholding rate of 10% = RM1,000. 1 + 1

3

(b) Any FOUR of the following:

The Director General of Inland Revenue has:

(1) The power to issue assessments in the event where the taxpayer failed to notify his chargeability or there is fraud, etc
(2) The power to call for specific returns and production of books
(3) The power to call for statement of bank accounts held by taxpayer and wife and dependants
(4) The power to call for information as specified
(5) The power to search the premises where the business is conducted

Note: marks will also be awarded for any other acceptable power not shown above

1 mark each item, maximum 4

(c) (i) Kay Sdn Bhd's paid-up share capital is RM5 million, so it does not qualify for the two-year moratorium. 1

It will, therefore, have to furnish its estimate of tax for the year of assessment 2010 within three months of the commencement of its business operations i.e. 31 May 2010. 1 + 1

3

(ii) The due date of the first instalment is in the sixth month of the basis period, i.e. by 10 August 2010. 1 + 1

The total number of instalments is ten. 1

3

20

4 (a) (i) Sales tax payable on imported raw materials

	RM	Marks
Purchase price	100,000	½
Insurance and freight charges	10,000	1
	110,000	
Sales tax at 10%	11,000	½
		2

(ii) A taxable period is every two months. 1
The sales tax must be remitted by the 28th day from the end of the taxable period. 1

2

Marks

(b) Kris

The tips of RM800 will be taxed as a perquisite as it was derived from having exercised his employment.	1 + 1
The cash of RM1,000 will not be taxable as it was not derived from his employment nor in the capacity of an employee. It is capital in nature.	1 + 1
	4

(c) CP Sdn Bhd

Tax computation for year of assessment 2010

	RM	
Profit before tax	90,000	½
Add:		
Fine for late payment of EPF contributions	100	1
Professional fee for tax services	1,000	1
Small value assets – blinds	700	1
Amortisation of fixed assets	10,000	½
Cash donations made to approved charitable institutions	300	1
Leave passage for an employee's overseas trip	600	1
Entertainment of the company's suppliers (2,000 x 50%)	1,000	1
Adjusted income	103,700	
		7
		15

Tutorial note: the small value assets will be eligible for a 100% annual allowance claim and the donations to an approved charitable institution for deduction from aggregate income subject to a maximum of 10% thereof.