
Answers

Note 3 – Construction and maintenance

The replacement of the temporary wooden wall with an insulated glass wall, though part of the entirety, has created a substantial improvement to the building. 1/2

This cost of enhancement is capital in nature. 1/2

The installation of smart toilets in a public park is not connected to the business of manufacturing musical instruments and not approved by the Minister. Therefore it does not qualify for tax deduction in arriving at the adjusted income. 1

Renovation of the building to assist disabled employees in the performance of their duties is eligible [pursuant to s.34(6)(e)] for a full deduction against adjusted income. 1/2

Note 4 – Advance payment

The advance made to a supplier against a future supply of raw materials is essentially a loan in nature. Since the company is not in the business of lending money, the advance is not a business expense and so is not tax deductible. 1

Note 5 – Childcare facilities for workers

Legal expense incurred in connection with the purchase of a building for use as a childcare facility for the company’s employees is capital in nature. Therefore it does not qualify for tax deduction. 1

However, the building is a deemed industrial building [under paragraph 42A(2)]. An industrial building allowance is granted on the capital cost (including the legal fees incurred on acquiring the building) at the rate of 10% per year of assessment for ten years. 1

The cost of maintaining the childcare centre is revenue in nature and is granted a full deduction as it is for the benefit of the employees of the company and the deduction is specifically provided for [in s.34(6)(i)]. 1

Note 6 – Promotional expenditure

The company is in the business of manufacturing and selling its own brand of wind instruments. Accordingly the cost of RM90,000 in maintaining a wood wind symphony orchestra it established to showcase its logo and brand of instruments represents advertising and promotional expenses. It is therefore deductible in arriving at the adjusted income. 1

Note 8 – Training expenses

The scholarship to Philip meets all requisite conditions [in s.34(6)(l)]. 1

Tutorial note:

A business deduction is specifically provided for under s.34(6)(l) in respect of scholarships to students provided the following conditions are fulfilled:

- *the course is for a diploma, degree (including masters and doctorate)*
- *the student is receiving full-time instruction*
- *at a higher educational institution established or registered in Malaysia*
- *the student should have no means of his own*
- *his parents or guardian’s monthly income should not exceed RM5,000*
- *the scholarship should only be for course fees and reasonable living expenditure*
- *the person making the claim is a company*

Note 9 – Acquisition of proprietary rights

The following conditions must be fulfilled to obtain a deduction:

- the company must be at least 70% Malaysian owned
- the rights acquired must be used for the company’s own manufacturing business.

Other relevant points are:

- the cost is deemed incurred on the day the cost becomes payable
- the cost of acquiring proprietary rights includes consultancy fees, legal fees and stamp duty
- the cost qualifies for a special deduction of 20% each year.

1/2 mark for each point, maximum 1 1/2

12

30

2 (a) Matthew

Tax computation for the year of assessment 2012

	RM	RM	
Employment:			
GOL Bhd			
Salary		50,000	½
Benefit-in-kind: car (5,000 x 6/12)		2,500	1
Benefit-in-kind: driver (600 x 6)		3,600	1
SIL Sdn Bhd			
Salary		40,000	½
Travelling allowance (7,000 – 6,000)		1,000	1½
Entertainment allowance		3,000	½
Less: Entertainment expense		(3,000)	1
Statutory income from employment		97,100	½*
Interest income from Malaysian Bank Bhd		Exempt	1
Dividend from Bronz Bhd		Exempt	1
Aggregate income		97,100	½*
Cash donation to approved institution		(500)	½
Total income		96,600	½*
Less: Personal reliefs			
Self	9,000		½
Child (disabled)	5,000		½
Wheelchair for disabled child (maximum)	5,000		1
Education insurance premium for child (maximum)	3,000		1
EPF and life insurance premium (maximum)	6,000	(28,000)	1
Chargeable income		68,600	
Tax on first RM50,000		3,325	
Tax on remaining 18,600 at 19%		3,534	
Tax charged		6,859	1
			<u>15</u>

(b) Azizah's employment contract runs from 15 December 2012 to 15 February 2013, a total of 63 days.

(i) Azizah is not a resident of Malaysia for 2012 and 2013 as she is only in Malaysia for a total of 128 days (9 December 2012 to 15 April 2013).	1
She will be taxable on the entire sum of RM40,000 on receipt of the amount in the year of assessment 2012 at the fixed rate of 26% without any personal reliefs.	1
	<u>2</u>
	<u>4</u>
(ii) If Azizah reduces her employment period to 60 days or less, i.e. either by deferring the commencement of employment or bringing forward the cessation of employment by three days or more, she will qualify for the income tax exemption for short-term employment [under paragraph 21, Schedule 6].	1
She will thus enjoy a tax exemption for the entire income of RM40,000.	1
The rest of the stay before and after the employment period does not affect her eligibility because the 60 day limit refers to the period of exercising employment.	1
	<u>4</u>
(iii) The short-term employment exemption is not applicable to any public entertainer unless the visit is supported, i.e. the income is paid, at least partly, out of public funds of the government of a country outside Malaysia.	1
Also, the short-term employment exemption will not apply to any individual who is a tax resident of Malaysia.	1
	<u>2</u>
	<u>25</u>

3 Jom Sdn Bhd

(a) Disposal of the four-wheel drive vehicle

	RM	RM	
YA2009:			
Down payment		20,000	½
Principal repayment (December 2009)		<u>18,000</u>	½
Qualifying plant expenditure (QPE)		38,000	
IA (20%)	7,600		½
AA (20%)	<u>7,600</u>	<u>(15,200)</u>	½
Residual expenditure (RE)		22,800	
YA2010:			
QPE (50,000 – 38,000)		<u>12,000</u>	1
		34,800	
IA (20% x 12,000)	2,400		½
AA (20% x 50,000)	<u>10,000</u>	<u>(12,400)</u>	½
RE		22,400	
YA2011:			
AA (20% x 50,000)		<u>(10,000)</u>	½
RE		12,400	
YA2012:			
Disposal value proportionate to RM50,000: 50,000/200,000 x 20,000		<u>(5,000)</u>	1 + 1
Balancing allowance		<u>7,400</u>	½
		<u>7</u>	<u>7</u>

(b) Capital allowances for the year of assessment 2012

Asset	Cost	Qualifying expenditure	Initial allowance	Annual allowance	
	RM	RM	RM	RM	
Motor car 1	240,000	50,000	–	10,000	1 + ½ + 1
New motor car 2	148,000	100,000	20,000	20,000	1 + ½ + 1
Close circuit TV	1,950	1,950	390	195	½ + ½ + ½
Filing shelves	6,900	6,900	–	6,900	½ + 1 + 1
					<u>9</u>

Tutorial note:

For motor vehicles, the qualifying expenditure is limited to RM100,000 if the asset is new and the cost does not exceed RM150,000. Thus new motor car 2 qualifies for RM100,000.

However, where the cost of the vehicle exceeds RM150,000, the qualifying expenditure is limited to RM50,000, as is the case with motor car 1.

The special allowance for small value assets is equivalent to the amount of qualifying plant expenditure incurred in the small value assets.

(c) The delivery truck does not qualify for capital allowances.	1
Payments made under a finance lease arrangement qualify for a deduction in arriving at the adjusted income.	1
As the delivery truck is used in the commercial transportation of goods, there is no restriction [under s.39] on the amount of lease rentals deductible.	1 + 1
	<u>4</u>
	<u>20</u>

4 (a) James – sales tax refund

	RM	
Value of goods	150,000	1
Sales tax 10%	15,000 (C)	1
	<hr/>	
Invoice value	165,000 (B)	½
Payment received	80,000 (A)	½
	<hr/> <hr/>	

Computation of refund:

Sales tax paid – {A/B x C}		
15,000 – {80,000/165,000 x 15,000} = 15,000 – 7,273 = RM7,727		2
		<hr/>
		5

(b) Werdna Sdn Bhd

(i) Sales tax paid and drawback claimable

	RM	
Purchase price	2,000,000	½
Insurance	80,000	½
Freight	20,000	½
Unpacking and cutting	0	½
	<hr/>	
	2,100,000	
Import duty at 25%	525,000	1
	<hr/>	
Sales value	2,625,000	
	<hr/> <hr/>	
Sales tax at 10%	262,500	1
Sales tax drawback at 60%	157,500	1
		<hr/>
		5

(ii) A licensed manufacturer can obtain a drawback of sales tax paid in respect of goods that are subsequently exported provided:

- Accounting records are kept for the verification of the quantity of goods used in the manufacture.
- The goods are not be prohibited under the Customs Act.
- The goods exported have been manufactured in an approved premises.
- The goods are exported within 12 months of the date on which the sales tax has been paid.
- A claim for a drawback is made within three months after the date of export in the prescribed form.
- A notice of claim for the sales tax drawback is endorsed on the export declaration form.
- The claim for the drawback is made at the place where the goods are exported.
- The person making the claim declares that the relevant goods are not to be relanded or detained at any other place in Malaysia.
- The goods have not been used after importation or payment of sales tax.
- Any amounts below the minimum drawback amount of RM50 must receive the specific approval of the Director General of Customs.

1 mark per item, maximum 5

15

5 (a) Raja: Gain subject to real property gains tax on part disposal

	RM	
Disposal consideration	2,000,000	
Less: Enhancement cost 1/3 x 180,000	<u>(60,000)</u>	1½
Disposal price	1,940,000	
Less: Acquisition price 1/3 x 600,000	<u>(200,000)</u>	1
Chargeable gain	1,740,000	
Less: Exemption [under Schedule 4]	<u>NIL</u>	1
Gain subject to RPGT	<u>1,740,000</u>	½
		<u>4</u>

Note:

No exemption [under Schedule 4] is available because the land disposed of is part of a larger chargeable asset.

(b) Computation of Mark's gain subject to real property gain tax

	RM	RM	
Date of disposal: 10 February 2012			1
Disposal consideration	800,000		½
Less: Renovation cost	<u>(50,000)</u>		½
Disposal price		750,000	
Acquisition date: 12 February 2009 (date of written agreement)			1
Cost of acquisition	580,000		
Add: Legal fees	1,000		1
Stamp duty	<u>9,000</u>		1
Acquisition price		<u>(590,000)</u>	
Chargeable gain		160,000	
Less: Exemption the higher of RM10,000 or 10% of RM160,000		<u>(16,000)</u>	1
Gain subject to real property gains tax		<u>144,000</u>	6
			<u>10</u>