

Fundamentals Level – Skills Module

# Taxation (Malaysia)

Tuesday 3 December 2013



**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

#### Resident individuals

Chargeable income	RM	RM	Rate %	Cumulative tax RM
First	5,000	(0 – 5,000)	0	0
Next	15,000	(5,001 – 20,000)	2	300
Next	15,000	(20,001 – 35,000)	6	1,200
Next	15,000	(35,001 – 50,000)	11	2,850
Next	20,000	(50,001 – 70,000)	19	6,650
Next	30,000	(70,001 – 100,000)	24	13,850
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) 6,000
Disabled child	(each) 5,000
Disabled child – additional	(each) 6,000
Life insurance premiums and contributions to approved funds	(maximum) 6,000
Private retirement scheme, deferred annuity premiums	(maximum) 3,000
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) 6,000

### 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 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 is fixed at RM600 per month.

### 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-conditioners 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
<b>Agriculture allowance</b>		
Buildings for the welfare of or as living accommodation for persons employed for the working of a farm	nil	20%
Any other building	nil	10%
All other qualifying agricultural expenditure	nil	50%

### **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 of tax as follows:**

Where the disposal takes place within two years of acquisition	15
Where the disposal takes place in the third, fourth or fifth year of acquisition	10
Where the disposal takes place in the sixth year or thereafter	0

### **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** Josh and Susan, tax residents of Malaysia, are married with two children. Josh is employed as a marketing manager in a listed company while Susan derives interest and rental income.

Details of Josh's employment income, benefits and expenditure for the year ended 31 December 2013 are expected to be as follows:

**Income and benefits in kind:**

	<b>RM</b>
Salary	140,000
Benefits in kind	
Company car provided to Josh: cost when new	320,000
Cost of driver (hired and paid by his employer)	36,000
Cost of mobile phone (under Josh's name) provided by his employer	2,000
Total of monthly bills for the mobile phone paid by his employer	2,300
Total leave passages paid by his employer for three overseas trips	13,000
Housing loan subsidy as per details below:	
Principal amount	400,000
Amount outstanding as at 31 December 2013	320,000
Interest payable for the year	20,000
Interest paid by his employer	12,000
Net interest payable by Josh	8,000

Josh is a part-time singer and in 2013 he received royalties of RM22,000 from recording discs.

**Expenditure:**

	<b>RM</b>
Employee's provident fund contribution	14,000
Books (with receipts)	400

Josh bears all the expenses for his children and has elected to claim child relief. In 2013 he incurred the following expenses:

- RM55,000 for the first child who is 22 years old, pursuing a full time degree in a local university and married.
- RM5,000 for the second child who is 17 years old and pursuing a pre-medical course in preparation for a medical degree in a local university.

Josh made a contribution in kind valued at RM21,000 to an approved project for the provision of facilities for the disabled in a public market in the year of assessment 2013.

Susan has extended a loan to her brother's company and derived interest income of RM1,000 during the year of assessment 2013.

Susan owns a condominium from which she derives rental income. Details of her rental income and expenditure for the year 2013 are expected to be:

	<b>RM</b>	<b>RM</b>
Gross rental income		43,000
Rental deposit (refundable)		3,500
		<hr/> 46,500
Less:		
Quit rent and assessment	500	
Maintenance	2,400	
Interest expense on mortgage loan	3,600	
New air-conditioner	1,000	
	<hr/>	<hr/> 7,500
Net rental income		<hr/> 39,000

Susan made a cash donation of RM3,777 to the Kidney Foundation, an approved charitable institution and bought books worth RM800 during the year of assessment 2013.

**Required:**

- (a) Assuming Josh and Susan do NOT elect for joint assessment for income tax, compute the income tax payable/repayable for the year of assessment 2013 by:**

**(i) Josh; and** (12 marks)

**(ii) Susan.** (10 marks)

**Notes:**

1. You should indicate by the use of the word 'nil' or 'exempt', where appropriate, any item referred to in the question for which no adjusting entry needs to be made in the tax computation.
2. Use the prescribed value method for benefits in kind.

- (b) Assuming Susan does elect for joint assessment, compute the tax payable/repayable by Josh and Susan for the year of assessment 2013.** (5 marks)

- (c) Based on the tax computations in (a) and (b) above, briefly explain whether Josh and Susan should opt for separate or joint assessment.** (3 marks)

**(30 marks)**

- 2 Eco Hijau Sdn Bhd (Eco) is a Malaysian resident company with an issued share capital of RM5 million and makes up its accounts annually to 31 March. Up to and including the year of assessment 2012, Eco was engaged in the business of manufacturing two product lines under two divisions: the furniture division and the tiles division.

Extracts of the company's tax computation for the year of assessment 2012 show the following:

	Tiles RM	Furniture RM
Unutilised capital allowances carried forward to the year of assessment 2013	303,000	20,000
Unabsorbed losses carried forward to the year of assessment 2013	130,000	30,000

Due to a downturn in the tiles market, Eco decided to cease the manufacture of tiles and the tiles division was shut down on 31 March 2012. Thereafter, the company continued with the manufacture of furniture.

The following are details of Eco's income statement relating to the furniture business, unless otherwise stated, for the financial year ended 31 March 2013:

	Note	RM'000s	RM'000s
Sales			24,000
Less: Cost of sales	1		(14,402)
Gross profit			9,598
Add: Other income			
Deposit forfeited for land deal	2	102	
Interest income	3	1,020	
			1,122
			10,720
Less: Expenses			
Retrenchment expenses	4	36	
Professional fees	5	42	
Salaries and wages	6	3,194	
Staff training expenses	7	110	
Provision for doubtful debts	8	130	
Repairs and maintenance	9	225	
Foreign exchange loss	10	10	
Donations	11	20	
Miscellaneous expenses	12	5	
Advertising and promotion expenses	13	399	
Loss on disposal of fixed assets	14	20	
			(4,191)
Profit before tax			6,529

**Notes:**

- (1) Cost of sales includes the following:
  - (i) Marine insurance premiums of RM655,000 paid to London Insurance, a branch of a foreign company operating in Malaysia, to import teak wood to manufacture furniture.
  - (ii) Depreciation of fixed assets of RM1,300,000.
- (2) Eco was approached by a potential buyer in July 2012, who placed a deposit of RM102,000 to acquire the land. Subsequently, the buyer decided not to proceed with the acquisition and the deposit was forfeited.
- (3) The interest income of RM1,020,000 arose from a loan advanced to a subsidiary.



- (4) The retrenchment expenses comprise the following:

	RM
Payments for closing down the tiles division	30,000
Payments for downsizing/rightsizing the furniture division as part of the exercise to achieve efficiency in its manufacturing operations	6,000
	<u>36,000</u>

- (5) Professional fees were made up of the following:

	RM
Consultancy fee to a local firm for a new project in Penang	32,000
Legal fees for the disposal of the land	10,000
	<u>42,000</u>

- (6) Salaries and wages includes RM33,000 for the yearly company trip for all staff members and their immediate family on a cruise to an overseas destination.

- (7) Staff training includes expenses related to a training programme, which was conducted locally and approved by the relevant authority as follows:

	RM
Trainer allowance paid to an instructor for a one-day eco-system programme	1,000
Food allowances paid to ten trainees to attend the one-day programme	11,000

- (8) Provision for bad and doubtful debts comprises:

	Trade debt general provision RM	Non-trade debt* RM	Total RM
Balance brought forward	250,000	Nil	250,000
Add: Provision created	100,000	30,000	130,000
	<u>350,000</u>	<u>30,000</u>	<u>380,000</u>
Less: Amount written off	(50,000)	(5,000)	(55,000)
Balance carried forward	<u>300,000</u>	<u>25,000</u>	<u>325,000</u>

\*Note: The non-trade debt relates to a specific provision for a loan due from a member of staff.

- (9) Repairs and maintenance expenses include RM9,000 relating to the repainting of the factory building.

- (10) Foreign exchange differences comprise:

	RM
Foreign exchange loss on the settlement of trade debts (realised)	13,000
Foreign exchange gain arising from the translation of year-end trade debts (unrealised)	(3,000)
	<u>10,000</u>

- (11) Eco donated RM20,000, in cash, to the Furniture Trade Association's annual dinner.

- (12) Miscellaneous expenses comprise RM5,000 incurred to incorporate a new subsidiary with an authorised share capital of RM1,000,000.

(13) Advertising and promotion expenses comprise:

	RM
Entertainment related to a sales promotion campaign	300,000
Costs relating to the provision of free samples to potential customers overseas incurred to promote export sales	89,000
Expenditure relating to the company's social responsibility by building a bus stop for the public (the company received all necessary approvals)	10,000
	<u>399,000</u>

(14) The loss on disposal of fixed assets arose from the disposal of a motor vehicle bought for the use of the managing director as follows:

	RM
Original cost of motor vehicle	200,000
Accumulated depreciation	<u>(120,000)</u>
Net book value	80,000
Disposal proceeds	<u>60,000</u>
Loss on disposal	<u>20,000</u>

The vehicle was acquired on 6 March 2010 and disposed of on 15 March 2013. The residual expenditure brought forward from the year of assessment 2012 was RM10,000.

**Other information:**

Capital allowances for the assets acquired by Eco for the year of assessment 2013 have been computed at RM3,300,600.

**Required:**

**Commencing with the profit before tax, compute the chargeable income and income tax payable by Eco Hijau Sdn Bhd for the year of assessment 2013.**

**Notes:**

1. You are required to calculate the balancing charge/balancing allowance for the asset disposed of during the year of assessment 2013, as stated in note 14 above.
2. 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.

**(25 marks)**

- 3 (a) Healthy Vege Sdn Bhd (Healthy) operates a farm growing organic fruits and vegetables. Details of Healthy's capital expenditure in the basis period for the year of assessment 2013 are as shown below:

Asset	Amount incurred RM
Land	120,000
Clearing and preparation of land	90,000
Construction of an estate office for the farm	130,000
Construction of a storage building to store equipment	20,000
Construction of a road to access the farm	60,000
Construction of living quarters for the farm's employees (which have little or no value if not used as a farm)	200,000

Healthy is eligible for the agriculture allowance.

**Required:**

**Compute the agriculture allowance for Healthy Vege Sdn Bhd for the year of assessment 2013, identifying the expenditure which qualifies and does not qualify for agriculture allowance.**

**Note:** You are required to compute the agriculture allowances for the year of assessment 2013 only.

(8 marks)

- (b) Uni Sdn Bhd (Uni) is in the business of manufacturing paper products. During the basis period for the year of assessment 2013, Uni acquired a mould machine (general plant and machinery) costing RM62,000 and incurred an additional RM38,000 in alterations to its factory building to install the machine.

**Required:**

**Determine the qualifying plant and machinery expenditure as a result of the above and compute the capital allowances for Uni Sdn Bhd for the year of assessment 2013.**

(3 marks)

- (c) Poly Sdn Bhd constructed an extension to its factory building in the basis period for the year of assessment 2013, and incurred the following expenditure:

	RM
Cost of land	200,000
Cost of architect fees for land	20,000
Cost of architect fees for the extension	10,000
Legal fees for the extension's approval	20,000
Interior design fees for the extension paid to a non-resident who performed the services in Malaysia for which withholding tax was not deducted and remitted to the Inland Revenue Board (assume withholding tax will not be paid within three years)	10,000
Construction of the extension	570,000

Part of the extension included the construction of a showroom to exhibit the company's products, which occupied 15% of the total area.

**Required:**

**Determine Poly Sdn Bhd's qualifying building expenditure for the year of assessment 2013, identifying for each item of expenditure listed if it qualifies or does not qualify for industrial building allowance.**

**Note:** You are NOT required to compute the industrial building allowance.

(5 marks)

- (d) Dew Sdn Bhd makes up its accounts annually to 30 April. The company submitted the following estimates for the year of assessment 2013:

	RM
Initial estimate	255,000
First revised estimate	600,000
Second revised estimate	300,000

The company's final tax payable per its tax computation for the year of assessment 2013 was RM1,000,000.

**Required:**

**Compute the penalty due by Dew Sdn Bhd for the excessive difference between the estimated tax and its final tax liability for the year of assessment 2013.** (4 marks)

**(20 marks)**

- 4 (a) Grow Sdn Bhd (Grow) acquired an acre of land for RM330,000 on 1 June 2010 to construct an office building. Grow incurred stamp duty of RM9,000 on the purchase of the land and construction costs of RM1,000,000 for the office building.

On 9 November 2012, Grow successfully instituted legal action against its neighbour for encroachment and received compensation of RM19,000.

Grow also incurred an interest expense of RM18,000 on the loan to acquire the property.

Grow signed a sale and purchase agreement on 1 August 2013, to dispose of the property to Rohin for RM1,500,000 and paid commission of RM20,000 to a real estate agent. It was agreed that the consideration in money will be RM25,000 and the balance of the consideration will be in-kind (assets other than cash).

**Required:**

- (i) Explain the real property gains tax (RPGT) implications for both Grow Sdn Bhd and Rohin on the disposal and acquisition of the property in terms of:

- (1) the parties who should submit the RPGT returns and the due date to submit them to the Inland Revenue Board; and
- (2) the party who should retain and remit any sum due, the rate and the amount to be retained and the due date to remit the sum retained to the Inland Revenue Board. (6 marks)

- (ii) Compute the chargeable gain arising from the disposal of the property by Grow Sdn Bhd to Rohin on 1 August 2013, clearly identifying the disposal price and the acquisition price of the transaction.

**Notes:**

1. You are NOT required to compute the real property gains tax payable.
2. You are NOT required to compute the chargeable gain based on the holding period or take into account any exemption based on the holding period.
3. 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. (7 marks)

- (b) Tunas Sdn Bhd (Tunas), a tax resident company, entered into a royalty agreement with Mori Ltd (Mori), a non-resident from Japan, for the use of a software application during the year of assessment 2013. Tunas received an invoice from Mori for RM10,000 on 12 February 2013 and credited the funds to Mori on 18 February 2013.

**Required:**

State the withholding tax obligations required of Tunas Sdn Bhd under the Income Tax Act on paying/crediting the non-resident, Mori Ltd. Your answer should include the withholding tax rate which will apply and the due date to remit the withholding tax to the Inland Revenue Board. (2 marks)

**(15 marks)**

**5 (a) For the purposes of service tax:**

**(i) State the minimum annual sales turnover threshold for each of the following:**

- (1) the provision of consultancy and management services;**
- (2) the provision of employment agency services; and**
- (3) the provision of advertising services.**

**(3 marks)**

**(ii) State any THREE situations under which a taxable person is required to surrender a service tax licence.**

**(3 marks)**

**(b) Bit Sdn Bhd, a company licensed for sales tax purposes, issued invoices and received payments as follows:**

<b>Date invoice issued</b>	<b>Date payment received</b>	<b>Amount RM</b>
11 June 2012	9 July 2013	6,000
23 July 2013	2 August 2013	20,000
6 August 2013	8 August 2013	10,000
20 August 2013	11 September 2013	5,000

**Required:**

**(i) Compute the sales tax payable by Bit Sdn Bhd for the taxable period July and August 2013.**

**(2 marks)**

**(ii) Based on the sales tax payable for the taxable period as computed in (i) above, determine the penalty rate and compute the penalty due by Bit Sdn Bhd if the sales tax was not paid until 20 November 2013.**

**(2 marks)**

**(10 marks)**

**End of Question Paper**