

Fundamentals Level – Skills Module

Taxation (Malaysia)

Tuesday 4 December 2012



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)

The ACCA logo, consisting of the letters 'ACCA' in a bold, white, sans-serif font, centered within a solid black square.

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	First	Excess over
Paid up ordinary share capital	RM500,000	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
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) 3,000

Rebates

Chargeable income not exceeding RM35,000	RM
Individual	400
Rate for an 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

	Rate %
Date of disposal	
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	10
where the disposal takes place in the third, fourth or fifth year of acquisition	5
where the disposal takes place in the sixth year or thereafter	0

Sales and service tax

	Rate %
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 Peter Sdn Bhd manufactures and sells wind chimes and local wind instruments under its brand 'Zoe Haven'. The company is 85% Malaysian-owned. The draft profit before tax of Peter Sdn Bhd for the year ended 31 December 2012 is expected to be RM2,250,000.

Below are notes regarding some items of expenditure currently in the income statement for the year ended 31 December 2012.

1. Insurance premiums comprised:

	RM
A keyman endowment policy in respect of the marketing manager	80,000
Payments to Paulinsure (M) Sdn Bhd on instruments exported	100,000
	<u>180,000</u>

2. Directors' remuneration comprised:

	RM
Entertainment allowances	800,000
Salaries	3,000,000
Contributions to Employees' Provident Fund (EPF) made at the rate of 22% on the entire remuneration (salaries and allowances)	836,000
	<u>4,636,000</u>

3. Construction and maintenance expenses comprised the following:

	RM
The installation of an insulated glass wall to replace the temporary wooden wall of the administrative office building	200,000
The installation of smart toilets in a public park	100,000
Hand rails installed in the office to allow disabled employees better mobility to perform their duties	20,000
	<u>320,000</u>

4. Cost of sales includes a payment of RM500,000, being an advance made to a supplier of raw materials to be supplied in 2013.

5. A new building for childcare facilities for employees was purchased in October 2012 for RM230,000. The following related costs were incurred:

	RM
Legal fees in connection with the purchase	20,000
Maintenance cost of the facility which was operational from November 2012	22,000
	<u>42,000</u>

6. Promotional expenditure

The company incurred RM90,000 in maintaining a cultural wood wind symphony orchestra that it had established to showcase its logo and brand of musical instruments.

7 Expenses on art and culture

The company also incurred RM540,000 to sponsor Malaysian heritage exhibitions. All the expenses were approved by the relevant Minister.

8. Training expenses

This item included a scholarship of RM15,000 provided to Philip, a needy student, to pursue a full-time degree at a Malaysian university. Philip's parents' income in 2012 amounted to RM30,000.

9. Additional information:

The following cost incurred and paid on acquiring proprietary rights to a patented process for manufacturing wind instruments was included in the statement of financial position:

	RM
Cost of the proprietary rights	60,000
Consultancy fees	9,000
Legal fee	11,000
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	80,000
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Required:

(a) Compute Peter Sdn Bhd's statutory income for the year of assessment 2012.

Notes:

1. Your computation should list all of the items referred to in notes 1 to 9 indicating by the use of the word 'NIL' where no adjustment is needed in arriving at statutory income.
2. Marks will be awarded for the use of accurate technical terms to describe the figures comprising the stages in the computation of statutory income. (18 marks)

(b) Explain in detail the income tax treatment in respect of the items referred to in notes 1, 3 to 6, 8 and 9. (12 marks)

(30 marks)

- 2 (a) Matthew was employed by GOL Bhd from 1 January to 30 June 2012 and was paid a salary of RM50,000 for the six months. The Employees' Provident Fund contribution at 11% was RM5,500. For the entire period he was provided with a company car, which cost RM140,000 when new, and a driver.

On 1 July 2012, he commenced a new employment with SIL Sdn Bhd. His salary for the six months to 31 December 2012 was RM40,000. The Employees' Provident Fund contribution at 11% was RM4,400.

He was paid a total of RM7,000 in 2012, being travelling allowance for travelling in the performance of his employment duties.

Matthew was also provided with a fixed entertainment allowance of RM3,000 during the six months in 2012 and he incurred entertainment expenses of RM4,000 for the same period.

Matthew had the following income from his investments:

	RM
Dividend from Bronz Bhd (incorporated on 1 July 2011)	10,000
Interest from fixed deposits with Malaysian Bank Bhd	50,000

On 14 February 2012, Matthew legally adopted ten-year-old Thomas who was disabled. Matthew purchased an electronic wheelchair for Thomas costing RM20,000 in 2012.

Matthew paid insurance premiums on the following policies in 2012:

	RM
Education policy for Thomas	4,000
Life insurance for himself	3,000

Matthew made a cash donation of RM500 to an approved institution during the year.

Required:

Compute the income tax charged on Matthew for the year of assessment 2012.

Notes:

1. Where relevant, your computation should state an item of income as not taxable or exempt.
2. Marks will be awarded for the use of accurate technical terms to describe the figures calculated at various stages of your tax computation. (15 marks)

- (b) Azizah, a non-resident, will exercise employment in Malaysia as a teacher from 15 December 2012 to 15 February 2013. She will arrive in Malaysia on 9 December 2012 and will leave Malaysia on 15 April 2013 after a two-month holiday in Malaysia. She does not intend to visit Malaysia any time in the remainder of 2013.

Azizah expects to be paid RM40,000 for the entire period as a lump sum on the commencement of the employment on 15 December 2012. No contributions to the Employees' Provident Fund will be made for Azizah.

Required:

- (i) Explain the income tax treatment of the RM40,000 in Malaysia in the hands of Azizah; (4 marks)
- (ii) Explain how Azizah may slightly amend her employment arrangement in order to qualify for income tax exemption in respect of the RM40,000 in Malaysia; (4 marks)
- (iii) Explain whether the exemption for short-term employment is applicable to every individual employed in Malaysia. (2 marks)

(25 marks)

3 Jom Sdn Bhd is a trading company which makes up its accounts annually to 31 December. Below are details relating to the fixed assets of the company.

1. In November 2009, Jom Sdn Bhd had acquired a four-wheel drive vehicle for use by the general manager. The hire-purchase terms were as follows:

	RM
Cost	200,000
Down payment	20,000
	180,000
Hire-purchase loan (principal sum repayable in ten equal instalments commencing December 2009)	180,000

The four-wheel drive vehicle was disposed of in June 2012 for RM20,000.

2. In January 2011, the company had purchased a car (Motor car 1) costing RM240,000 for use by the chief executive officer. The amount is to be settled in 12 instalments commencing February 2011.
3. A delivery truck was acquired in 2011 under finance lease and used in its trading business. The total amount of lease payments was RM170,000, RM30,000 of which was paid in 2011 while RM100,000 was paid in 2012.
4. In August 2012, a new car (Motor car 2) was acquired for cash of RM148,000 and used in the trading business.
5. Other additions of fixed assets during the year 2012 were as follows:

	RM
Close circuit TV system	1,950
10 units of filing shelves at RM690 each	6,900
	8,850
Total	8,850

Required:

- (a) **Compute the residual expenditure and the balancing allowance or balancing charge on the disposal of the four-wheel drive vehicle.** (7 marks)
- (b) **Compute the capital allowances available on the remaining qualifying assets for the year of assessment 2012, clearly stating the qualifying expenditure for each asset.** (9 marks)
- (c) **Explain the income tax treatment of the payments made for the truck under the lease financing arrangement.** (4 marks)

(20 marks)

- 4 (a) James trades in manufactured goods which are subject to sales tax. He made a sale of RM150,000 to Nathaniel on which sales tax was levied. The goods were sold on 10 January 2012 and the sales tax duly remitted. Nathaniel paid James RM80,000 but was unable to pay the balance as he was declared a bankrupt.

Required:

Compute the amount of sales tax that will be refunded to James. (5 marks)

- (b) Werdna Sdn Bhd is a licensed manufacturer under the Sales Tax Act. The company imported raw materials in January 2012 for use in the manufacture of taxable goods in Malaysia on which it paid sales tax. In June 2012, the company exported 60% of its products.

Details of the raw materials purchased are as follows:

	RM
Purchase price	2,000,000
Insurance	80,000
Freight	20,000
Unpacking and cutting fee	30,000
Import duty	25%
Sale price of goods exported	5,000,000

Required:

- (i) **Compute the sales tax drawback that Werdna Sdn Bhd can claim on the goods exported;** (5 marks)
- (ii) **State the conditions that must be fulfilled for a licensed manufacturer to make a valid claim for a drawback.** (5 marks)

(15 marks)

5 (a) In October 2009, Raja acquired a piece of land in Malacca for RM600,000.

Thereafter, he incurred RM180,000 in filling and raising the level of the land to prevent flooding.

On 3 December 2012, he sold one third of his land for RM2,000,000.

Required:

Compute Raja's gain that is subject to real property gains tax.

Notes:

1. You are NOT required to compute the real property gains tax.
2. You are NOT required to compute the chargeable gain based on the holding period or take into account any exemptions based on the holding period. (4 marks)

(b) On 12 February 2009, Mark signed a sale and purchase agreement with a property developer to purchase a property for RM580,000. Mark incurred legal fees of RM1,000 and stamp duty of RM9,000 on the purchase of this property.

On 9 October 2009, the developed property was duly handed over to Mark by the property developer. Mark incurred RM50,000 on renovations to the house.

On 10 November 2011, Mark verbally agreed to sell the house to his neighbour for RM800,000. The neighbour settled the consideration in full on 10 February 2012 and the title of the property was transferred to the neighbour on 2 December 2012.

Required:

Compute Mark's gain subject to real property gains tax, stating clearly his dates of acquisition and disposal.

Notes:

1. You are NOT required to compute the real property gains tax.
2. You are NOT required to compute the chargeable gain based on the holding period or take into account any exemptions based on the holding period. (6 marks)

(10 marks)

End of Question Paper