

Fundamentals Level – Skills Module

Taxation (Malaysia)

Tuesday 4 June 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			Rate	Cumulative tax
	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 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) 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 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-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

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 Spitz, a Malaysian resident, married Ono, a Japanese citizen, on 21 August 2012. Ono had arrived in Malaysia for the first time on 1 August 2012 and started employment as a fashion model in Malaysia from 2 September 2012.

Spitz has operated a café business but after several years of losses he decided to shut down this business on 31 October 2012.

For the last two years Spitz had also been employed as an airline pilot with Aeroclass Airline, but he ceased this employment with effect from 1 January 2013 and his last day of employment was 31 December 2012.

Spitz has decided to settle down in Japan with Ono. Ono tendered her resignation and her last day of employment was also 31 December 2012. The couple do not expect to return to Malaysia for at least three years. Both Spitz and Ono left Malaysia for Japan on 5 January 2013.

Details of Spitz and Ono's income, benefits and expenditures for the year ended 31 December 2012 are shown below.

Spitz's café business for the period ended 31 October 2012:

	RM
Profit before taxation	500
In arriving at the above the following were included:	
(i) Depreciation	3,506
(ii) Gain on disposal of fixed assets	26,966

Spitz's employment income and benefits-in-kind for the year 2012:

	RM
Salary	240,000
Bonus	40,000
Meal allowances as per company policy based on destination	36,000
Child care allowance paid by employer	2,900
Living accommodation provided free for the whole year by the company at a rental of RM12,500 per month, including RM2,500 for the furniture	150,000
Domestic servant for the whole year (hired and paid by the employer)	12,000
Medical expenses incurred on Spitz borne by employer	3,555

Spitz incurred the following expenditure in 2012:

	RM
Employee's provident fund contribution	30,800
Insurance premiums on medical policy for himself	5,500
Medical expenses for Spitz's parents	8,000
Books (with receipts)	1,100
Sports equipment (tennis racquet) which was purchased but not claimed for in 2011 (invoice dated 12 December 2011)	350
For self-improvement, Spitz paid to attend a one-week conference in Korea on health wellness. Expenses comprised conference fees RM6,000, travel airfare of RM4,000 and accommodation and sustenance of RM2,000	12,000
Donations of:	
– cash donation for medical equipment, amount approved by the Ministry of Health	30,000
– contribution-in-kind donation to a project of national interest approved by the Minister, equivalent to	24,630

Spitz writes books in his spare time. In 2012, he received royalties of RM22,000 from a Malaysian publisher on his latest book on airline safety.

Ono's income and expenditure for the year 2012:

	RM
Total salary from her employment in Malaysia	32,000
Purchase of laptop while she was in Malaysia, at cost	3,500

Required:

- (a) Assuming Spitz and Ono do not elect for combined assessment for income tax, compute the chargeable income of Spitz for the year of assessment 2012.

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. (20 marks)

- (b) State, giving reasons, whether Ono is tax resident in Malaysia for the year of assessment 2012. (2 marks)

- (c) Assuming Ono is non-resident, compute the income tax payable by her for the year of assessment 2012, clearly indicating whether she is entitled to any personal reliefs or tax rebates. (3 marks)

(25 marks)

- 2 (a) Hybrid Sdn Bhd (HSB) is a Malaysian resident company whose principal activity is manufacturing hybrid car components. The company makes up its accounts annually to 30 June.

Details of HSB's income statement for the financial year ended 30 June 2012 is as follows:

	Note	RM'000s	RM'000s
Sales	1		35,000
Less: Cost of sales	2		(27,500)
Gross profit			<u>7,500</u>
Add: Other income			
Gain on disposal of shares	3	750	
Interest income from unconvertible loan stocks issued by a listed company	4	<u>26</u>	
			<u>776</u>
			8,276
Less: Expenses			
Audit fees		15	
Company secretarial fees		8	
Interest expense	4	12	
Testing expenses for exports	5	10	
Staff costs	6	623	
Travelling expenses	7	110	
Provision for doubtful debts	8	130	
Repairs and maintenance	9	169	
Foreign exchange gain	10	(10)	
Contributions and donations	11	920	
Other expenses	12	5	
Entertainment expenses	13	190	
Lease rentals	14	<u>90</u>	
			<u>(2,272)</u>
Profit before tax			<u>6,004</u>

Notes:

- Sales includes compensation of RM38,000 for loss of profits for two days received from a gas supplier due to a faulty installation which caused a minor disruption to the factory operations.
- The cost of sales includes depreciation of RM2,600,000 in respect of the factory and plant and machinery.
- HSB disposed of some shares which had been held for investment.
- The interest income arose from unconvertible loan stocks costing RM250,000 which were held throughout the year.
The interest expense arose from bank borrowings on term loans. The amount of loans outstanding throughout the year was RM500,000.
- HSB paid the equivalent of RM10,000 to a non-resident company for services performed overseas relating to the testing of its exported products. No withholding tax was deducted on this payment.
- Staff costs include RM3,000 for a staff member sent on a post-graduate training course in electronics, which was approved by the Minister.
- Travelling and accommodation expenses included leave passages for senior management personnel of RM11,000 comprising:

	RM
Overseas trips	5,000
Local trips	6,000

- (8) The general provision for doubtful debts (trade) account was made up as follows:

	RM
Balance brought forward	520,000
Add: Provision created during the year	200,000
	<hr/>
	720,000
Less: Amount written off	(30,000)
Less: Amount written back	(70,000)
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Balance carried forward	620,000

- (9) Included in repairs and maintenance is an amount of RM8,000 which relates to repairs to a damaged office floor.
- (10) The foreign exchange gain on plant and machinery represents a realised gain of RM10,000 on settling the supplier's credit related to the plant and machinery acquired on 31 March 2012. The total cost of the machinery acquired was RM310,000 before any adjustment for foreign exchange.
- (11) HSB contributed books worth RM120,000 to the National Public Library and donated cash of RM800,000 to HelpAlways, an approved charitable institution.
- (12) Information technology related expenses for improvement of management processes.
- (13) Entertainment expenses comprise:

	RM
Staff entertainment	102,000
Entertainment of supplier	88,000

- (14) Details of the lease rentals are as follows:

	Cost	Year of assessment		
		2010	2011	2012
	RM	RM	RM	RM
Car 1 sales team (non-commercial vehicle)	110,000	10,000	24,000	24,000
Car 2 director (non-commercial vehicle)	195,000		30,000	30,000
Lorry	120,000	36,000	36,000	36,000

- (15) The capital allowances for assets acquired by HSB prior to the year of assessment 2012 have been computed at RM1,300,000. The capital allowance for the assets acquired during the current year has to be calculated.
- (16) There is a balancing charge of RM120,000 and balancing allowance of RM20,000 for the year of assessment 2012.
- (17) There is a brought forward loss from the year of assessment 2011 of RM922,000.

Required:

- (i) **Commencing with the profit before tax, compute the chargeable income of Hybrid Sdn Bhd for the year of assessment 2012;**

Notes:

- You are NOT required to compute the income tax payable.
- 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.
- You are required to compute and show workings for capital allowances. (26 marks)

- (ii) **Explain the income tax treatment of the compensation received of RM38,000 (note 1).** (2 marks)

- (b) Company A incurred RM2,350, for four days on hotel accommodation and sustenance expenses for a potential customer from Italy. The customer's visit arose as a follow-up pursuant to a trade mission to Italy which was organised and verified by the Government agency, MATRADE.

Required:

Compute the maximum amount which can be claimed by Company A as a single deduction in respect of the expenses incurred on the visit of the potential importer. (2 marks)

(30 marks)

- 3 (a) Oxygen Sdn Bhd (OSB) is a manufacturer of digital products based in Kuala Lumpur, which makes up its accounts annually to 30 June. OSB is also a contract manufacturer for an overseas company from which it imports raw materials which it processes and exports.

Details of the fixed assets acquired by OSB in the basis period for the year of assessment 2011 are shown below:

Asset description	Qualifying expenditure RM
(i) Factory building	1,000,000
(ii) Warehouse building used solely for import of raw materials and goods, processing and re-export	300,000
(iii) Various items of office equipment	60,000

The office equipment was all acquired on 6 January 2011. On 20 April 2012, one of the items of equipment, which had cost RM10,000, was damaged in a fire and it was written off based on commercial reasons. There was no insurance coverage for the asset damaged.

During the board of directors meeting on 2 June 2012, it was determined that there was an increase in demand for OSB's products in Malaysia and the finance manager was instructed to look into constructing a storage warehouse exclusively for the Malaysian market. He is considering the following two options:

Option 1 – To construct a warehouse within the curtilage of the current factory premises.

Option 2 – To construct a warehouse 20 kilometres away in Port Klang.

Required:

- (i) **Compute the residual expenditure, balancing charge or balancing allowance on the office equipment which was written off during the year of assessment 2012 and determine the balance of qualifying plant expenditure and residual expenditure for the remaining office equipment carried forward to the year of assessment 2013;** (5 marks)
 - (ii) **Compute the industrial building allowance for the year of assessment 2012 for the factory building and warehouse building and the residual expenditure carried forward to the year of assessment 2013;** (4 marks)
 - (iii) **Explain the income tax implications of each of the options for the construction of the warehouse from the perspective of claiming industrial building allowance and advise which would be more tax efficient.** (3 marks)
- (b) **Explain the responsibilities of Malaysian companies for the assessment, estimation and payment of their tax liabilities and submission of tax returns under the self-assessment system, identifying any exceptions for new companies with a paid-up share capital of RM2,500,000 and below.** (8 marks)

(20 marks)

- 4** On 12 January 2010, Esther acquired a piece of land for RM2,000,000, paying stamp duty of RM50,000. On 1 March 2012, Esther transferred the land to her husband, Yee, without any valuable consideration.

Yee immediately built a storage building for RM490,000 on the piece of land.

In September 2012, Yee received an offer from Acre Sdn Bhd to acquire the property and received a deposit of RM10,000. Acre Sdn Bhd subsequently decided not to pursue the acquisition and the deposit was forfeited to Yee.

On 6 February 2013, Yee disposed of the piece of land for RM3,500,000 to Zen Sdn Bhd. Yee incurred RM10,000 on valuation fees for the land.

Required:

- (a) Explain the real property gains tax implications of the gift of land from Esther to Yee on 1 March 2012.**
(3 marks)
- (b) Compute the chargeable gain arising from the disposal of the land by Yee to Zen Sdn Bhd on 6 February 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.
 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 word 'nil' any item referred to in the question for which no adjusting entry needs to be made in the tax computation. (8 marks)
- (c) Yee has received an offer from his brother-in-law for a shop lot he acquired on 10 July 2008. Yee is considering accepting this offer and disposing of the shop lot on 28 June 2013.**

Required:

Advise Yee as to how he can minimise his exposure to real property gains tax, taking into account the holding period of the shop lot and the effective tax rate which would apply.
(4 marks)

(15 marks)

- 5 (a) Carbon Sdn Bhd is a newly established private agency which provides armoured guard and security services.

Required:

For the purposes of service tax:

- (i) Explain how Carbon Sdn Bhd's annual sales turnover will be determined; (2 marks)
 - (ii) State the minimum annual sales turnover threshold applicable; (1 mark)
 - (iii) Assuming that Carbon Sdn Bhd will be licensed to collect service tax, state the taxable period and the due date for the remittance of service tax. (2 marks)
- (b) Govind is a professional engineer whose practice is licensed for service tax purposes. His billings for the months of January and February 2012 totalled RM106,000 inclusive of service tax. However, due to an oversight by his accountant, the service tax was not remitted until 3 June 2012.

In the month of May 2012, during an internal audit exercise, it was discovered that there was a billing which was erroneously double-counted in both the January and February 2012 billings. As a result, the service tax remitted to the Royal Customs and Excise Department on 3 June 2012 included twice the required amount of tax on this amount.

Required:

- (i) Compute the penalty due by Govind as a result of the late remittance of the service tax on his billings for January and February 2012; (3 marks)
- (ii) State the period within which Govind can apply to the Royal Customs and Excise Department for the refund of the service tax overpaid in respect of the double-counted billing, and whether there is any circumstance under which the service tax may not be refunded to Govind. (2 marks)

(10 marks)

End of Question Paper