Answers

Marks

1 (a) Thrivandrum Sdn Bhd
Income tax computation
Year of assessment 2011

	RM	RM	Marks
Net profit before taxation	638,360		
Rental of excess space		NIL	½
Dividend – single tier (exempt)		8,000	½
Discount from supplier		NIL	½
Interest charged to credit customers		NIL	½
Sample of e-books	NIL		½
Jute bags with company logo	NIL		½
Sample gifts of its product to visitors	NIL		½
Travel tickets for politicians	11,000		½
Patents and trademark		12,500	½
Depreciation	2,000		½
Launch expenses	NIL		½
Redemptive vouchers	NIL		½
Gold bracelet for a key customer	2,000		½
Trip for dealer	NIL		½
Pension fund (Working 1)	960		1
Amortisation of lease	6,000		½
Lease rental on car (Working 2)	5,640		1
	665,960	20,500	
Adjusted income		645,460	½*
Less: Capital allowance		(5,000)	1
Chargeable income		640,460	
			11

***mark given for description**

Workings:

1. Excess over 19% disallowed:
Two employees RM(4,000 x 12) x 2 = RM96,000.
Excess is 20 – 19 = 1% x 96,000 = RM960.
2. Claim for 23 months from February 2009 to December 2010 (2,820 x 23 = RM64,860) exceeds RM50,000.
Hence the payments in the current year are not deductible.

(b) 1. Rental of excess office space is business income. 1
[**Tutorial note:** *principle established in the ALB case*]
2. Single-tier dividend is tax exempt. ½
3. Discount received from suppliers relates to purchases. ½
Interest charged to credit customers relates to sales. ½
4. Promotional materials such as samples of the company's own products, and gifts featuring the company's logo given to visitors or customers at trade fairs held outside Malaysia for promotion of exports are fully deductible expenses. 1
Gifts like travel tickets given on a discriminatory basis to people with no business relationship with the company are not deductible promotional expenses. 1
5. The registration of patents and trademarks overseas are granted a double deduction. 1
[**Tutorial note:** *reference PU(A)14/2007*]
6. Food and drinks served at product launches, redemptive vouchers to customers and trips to dealers for achieving sales targets are wholly related to generating sales. 1
The gift to a customer on the birth of his daughter is not related to the making of sales and is not deductible. 1
7. Contributions to approved funds is allowable but limited to 19% of the employees' remuneration. ½
8. Amortisation of lease is not deductible as it is not incurred. 1

	Marks
9. The claim for lease rentals on second-hand cars is limited to RM50,000.	1
	10

(c) A trade receivable can be regarded as a bad debt in the following circumstances:

– The debtor has absconded and cannot be traced.
– The debtor is in liquidation.
– The debt is statute-barred.
– Negotiations to recover the debt have failed and it is not economical to take legal action.
– There are insufficient assets to enforce payment.
– The amount of the debt is in dispute.
– The debtor has died without leaving any asset from which the debt can be recovered.

Any FOUR only required – 1 mark each, maximum	4

(d) The expenses on the registration of patents and trademarks in Malaysia are deductible as follows:

1. A resident company which has a paid up capital of ordinary shares of RM2·5 million or less; and the limitations on 50% direct and indirect ownership by related or other companies does not apply.	2
2. Companies in manufacturing industries, manufacturing related services industries and agro-based industries with:	½
– not more than 150 full-time employees; and	½
– annual sales not exceeding RM25 million.	½
3. Companies in service industries, primary agriculture and information and communication technology (ICT) industries with:	½
– not more than 50 full-time employees; and	½
– annual turnover not exceeding RM5 million.	½
Tutorial note: *reference PU(A) 418/2009*	
	5
	30

2 (a) Jaison and Vinod

(i) Computation of provisional adjusted income
Year of assessment 2011

	RM	RM	
Net profit per partnership account		274,700	½
Less: Capital profit on sale of real property		(10,200)	1
		264,500	
Add:			
Non obligatory contribution to approved pension fund	1,000		1
Partners' private expenses:			
Life insurance premiums	9,000		½
Interest on capital	4,000		½
Interest on loan to purchase Vinod's home	2,000		1
Salaries	200,000		½
		216,000	
Provisional adjusted income		480,500	½*
Less:			
Partners' salaries	200,000		½
Interest on capital	4,000		½
Loan interest on Vinod's home	2,000		½
Partners' life insurance premiums	9,000		½
		(215,000)	
Divisible income		265,500	½*
			8

***marks are given for description**

Tutorial note: *subject to restriction of 19%. 1% added back.*

			Marks
(ii) Partners' statutory income			
Year of assessment 2011			
	Jaison	**Vinod**	
	RM	**RM**	
Share of divisible income	132,750	132,750	1
Salary	100,000	100,000	½
Interest on capital	2,000	2,000	½
Loan interest	–	2,000	½
Life insurance	4,500	4,500	½
Adjusted income	239,250	241,250	½*
Less: Capital allowance	(7,500)	(7,500)	1
Statutory income	231,750	233,750	½*
			5

***marks are given for description**

(b) Vaz

(i)

Income tax computation			
Year of assessment 2011			
	RM	**RM**	
Statutory business income from partnership		150,000	½
Horse race winnings		25,000	1
Aggregate statutory income from business		175,000	½*
Add: Non-business income:			
Indian town council (foreign income not subject to tax)	NIL		1
Rental income	7,200		1
Expenses (not incurred in the production of income)			
Meals	NIL		½
Laundry	NIL		½
		7,200	
Honorarium (exempt)		NIL	1
(**Tutorial note:** *exemption under Sch 6 para 32E*)			
Aggregate income		182,200	½*
Less reliefs			
Personal	9,000		½
Child:			
Dud Lee (maintained by his own father exclusively)	NIL		1
Juuga	1,000		1
(**Tutorial note:** *unmarried child during the year with no income*)			
Wife relief	3,000		1
		(13,000)	
Chargeable income		169,200	
Tax payable:			
First RM100,000		14,325	
Remainder at 26%		17,992	
		32,317	1
			11

***marks are given for description**

(ii) Vaz must submit his tax return for the year of assessment 2011 by 30 June 2012. 1

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	Marks

3 (a) (i) The conditions for a claim for capital allowances are:

- There must be a business being carried on.
- The asset must be a qualifying asset, i.e. machinery or plant.
- The qualifying expenditure must have been incurred by the owner of the asset (legal or beneficial).
- The asset must be in use in the business.

1 mark each condition — 4

(ii) Where a company has more than one business, a capital allowance claim can be made only in the business in which the qualifying asset is used. If the asset is used in both businesses, then the capital allowance shall be apportioned on a just and reasonable basis. — 1

(b) Kolam Sdn Bhd

Capital allowance for the year of assessment 2011

	Qualifying expenditure RM	Non qualifying expenditure RM	Reason	Marks
Machine A	10,000			½
Foreign exchange loss	2,000		Realised	1
Machine B				
Initial payment	50,000			½
Instalment payments:				
Capital portion (10,000 x 9)	90,000			1
Interest portion (1,000 x 9)		9,000	Revenue expense	1
	152,000			
Initial allowance at 20%	30,400			1
Annual allowance at 14%	21,280			1
Capital allowances	51,680			6

(c) Methen Sdn Bhd

(i) Qualifying building expenditure and residual expenditure

	RM	Marks
Qualifying building expenditure (QBE)		
Cost of construction	810,000	1
Less: cost of offices (4/30 x 810,000)	(108,000)	1
QBE	702,000	
Allowances received:		
Initial allowance at 10% (2007)	(70,200)	1
Annual allowances at 3% x 4 years (2007 to 2010)	(84,240)	1
Total allowances received	154,440	
Residual expenditure (RE) at 1 January 2011	547,560	
		4

(ii) Industrial buildings allowances

	(1) RM	(2) RM	Marks
Disposal proceeds (excluding land)	750,000	900,000	½
Qualifying proportion (26/30ths)	650,000	780,000	½
Less: RE at 1 January 2011 (from (i))	(547,560)	(547,560)	½
	102,440	232,440	
Balancing charge (1)	102,440		½
Balancing charge (2) (restricted)		154,440	1
			3

Marks

(d) Nayar Sdn Bhd

Year of assessment 2010

	RM	
Industrial building allowance	NIL	1
Year of assessment 2011		
QBE	500,000	½
Industrial building allowance (1/10 x 500,000)	50,000	½
		2
		20

4 (a) A royalty is deemed to be derived from Malaysia in the following circumstances:

- the royalty is charged as an outgoing or as an expense against income accruing in or derived from Malaysia; or 1
- the responsibility for the payment of the royalty in the basis year for a year of assessment lies with a person who is resident in Malaysia for that basis year; or 1
- the government, local authority or state government has responsibility for the payment of the royalty. 1

3

(b) (1) Withholding tax is not due as Sandoshaam Sdn Bhd is not resident in Malaysia and its income is neither derived nor accruing to Malaysia. 2

(2) Withholding tax is not applicable as the royalty income is attributable to a Malaysian business run by a foreign company. 2

(3) Withholding tax is due, as the payer is a Malaysian tax resident company that uses the technical know-how in all its manufacturing operations. The fact that the payment is based on the Phillipines annual sales revenue is only relevant to the method of calculation, not the tax position. 2

(4) The purchase of the water purification equipment is a capital payment for the acquisition of an asset on which no withholding tax is due. 2

8

(c) Financial instruments on which the interest payments are NOT subject to withholding tax:

- Securities issued by the government.
- Securities guaranteed by the government.
- Bon Simpanan Malaysia issued by Central Bank Malaysia to any individual.
- Any instrument on which the interest is paid or credited by any person carrying on the business of banking or finance in Malaysia and licensed, provided that the recipient is not resident in Malaysia.
- Bonds and securities issued by Pengurusan Danaharta Nasional Berhad.
- Merdeka Bonds issued by Bank Negara Malaysia.
- Bonds (other than convertible loan stock) issued by companies listed on the MESDAQ.

Any FOUR items only required – 1 mark each, maximum 4

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5 (a) Sales tax is due within 28 days from the expiration of each of the six taxable periods of two calendar months. 1

If the sales tax is not paid on the due date then penalties are payable as follows:

- 10% of the unpaid sales tax; 1
- a further 10% if the sales tax remains unpaid a further 30 days after the imposition of the first 10% penalty; and 1
- an additional 10% penalty for every succeeding 30 days or part thereof, up to a maximum of 50%. 1

4

Marks

(b) Samathanam Sdn Bhd

Computation of sales tax and penalties

Taxable period	Sales RM	Sales tax RM	Penalty RM		
July to August	70,000	7,000	2,100	(10% + 20% x 7,000)	½ + 1 + 2*
September to October	80,000	8,000	800	(10% x 8,000)	½ + 1 + 1*
		15,000	2,900		6
					10

*Note: marks are allocated for taxable period, computation of sales tax and computation of the penalty.