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# Answers

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Section A

- 1 The correct answer is: 1 and 2 only

Statements 1 and 2 are true.

- (1) The system should predict the amount of income tax payable with reasonable accuracy and certainty.
- (2) The system should be simple and understandable with fair and non-arbitrary administration. These are important criteria when evaluating a good tax system. The system should be simple and the legislation and rules should have a proper basis.
- (3) The system should tax those with different income levels at the same rate. This statement is false. Those persons who are in different positions in terms of wealth or income levels should be treated and taxed at different rates (refers to a vertical equity) and not similarly. So a person who has more income would likely be imposed with higher taxes. A tax system will be regarded as more equitable or fair with these elements being considered.

- 2 The correct answer is RM6,310

$$(RM3,000 + RM3,200 + RM110) = RM6,310$$

The maximum life insurance which is allowable for relief is RM3,000. The employees' provident fund payment up to a maximum of RM4,000 is allowable, and the Social Security Organisation contribution paid in accordance with the Employees' Social Security Act 1969 is allowable up to a maximum of RM250. Life insurance paid for a child of RM90 is not allowed to be claimed as only a claim is allowed for Tan.

- 3 The correct answer is RM149,000

	RM'000	Rate %	RM'000
Land for farming business	50	nil	0
Cost of clearing land for farming business	100	50	50
Cost of construction of staff quarters	200	20	40
Cost of planting crops	50	50	25
General plant and machinery	100	34	34
	(IA 20% + AA 14%)		
Total			<u>149</u>

- 4 The correct answer is RM35,000

	RM
Disposal price	100,000
Less: Acquisition price RM120,000 x 50%	<u>(60,000)</u>
Chargeable gain (CG)	40,000
Less: Higher of	<u>(5,000)</u>
(1) RM10,000 x 50% = 5,000	
(2) 10% x CG (RM40,000 x 10%) = 4,000	
CG subject to real property gains tax (RPGT)	<u>35,000</u>

- 5 The correct answer is: 1 and 3

Statements 1 and 3 are false.

- (1) This statement is false because for a sales tax refund, a sales tax invoice should have been issued and paid.
- (2) The whole or any part of the sales tax payable has been written off in the accounts as an irrecoverable debt. This statement is true.
- (3) This statement is false as sales tax can be claimed if it relates to an irrecoverable debt and the sales tax refund is allowed to be made within six years (i.e. not within one year) from the payment of sales tax.

- 6 The correct answer is RM104,000

	RM
Initial fee – local franchise fees	100,000
Renovation for disabled staff	4,000
	<u>104,000</u>

A special deduction is allowed for expenditure incurred on the franchise fee paid to the franchisor for the initial fee paid prior to the commencement of the business [Income Tax (Deduction for Expenditure on Franchise Fee) Rules 2012].

A special deduction is also available on the expenditure incurred on the renovation of premises necessary to assist the disabled staff in carrying out their duties. [s.34(6)(e) of the ITA, 1967]

- 7 The correct answer is:

The employer may pay any amount due to the employee 60 days after giving written notice to the Inland Revenue Board (IRB).

This statement is false because the employer may make this payment 90 (i.e. not 60) days after giving written notice to the IRB.

- 8 The correct answer is RM40,000

	Withholding tax rate (%)	RM
(1) Paid RM100,000 to Quantum Computer Company for payment for the right to use computer software	10	10,000
(2) Paid RM980,000 to USA Inc for the acquisition of a lathe machine	0	0
(3) Paid RM4,000 for hotel accommodation for an employee of USA Inc (a non-resident) to install a machine in Kota Kinabalu factory premises	0	0
(4) Paid interest of RM200,000 to Singapore Pte Ltd for loans used in Earth Sdn Bhd's business	15	30,000
Total		<u>40,000</u>

- 9 The correct answer is RM10,800

For real property gains tax (RPGT) purposes, a penalty calculation is based on the RPGT payable which refers to the amount of RPGT computed based on the chargeable gain excluding any allowable loss. [s.29(1) of RPGT 1976 (as amended)]

	RM
Disposal price	1,200,000
Acquisition price	<u>(800,000)</u>
Chargeable gain (CG)	400,000
Sch 4 exemption	<u>(40,000)</u>
	360,000
Less: Allowable loss	<u>(0)</u>
CG	<u>360,000</u>
RPGT rate	30%
RPGT	108,000
Penalty 10%	10,800

- 10** The correct answer is RM10,000

	RM	RM
Disposal proceeds restricted		
RM50,000		
$\frac{\text{RM50,000}}{\text{RM150,000}} \times \text{RM60,000} = \text{RM20,000}$		20,000
Less: Residual expenditure (RE)		(10,000)
<b>Working:</b>		
Year of assessment (YA) 2016		
Original cost	150,000	
Restricted to	50,000	
Less: Initial allowance 20%	(10,000)	
Annual allowance (AA) 20%	(10,000)	
RE	30,000	
YA 2017 AA	(10,000)	
RE	20,000	
YA 2018 AA	(10,000)	
RE	10,000	
Balancing charge		10,000

- 11** The correct answer is Option 3

	RM		
Provisional adjusted income (as computed)	520,000		
Less: Salary	(120,000)		
Divisible income	400,000		
	<b>Kurian</b>	<b>Mun Soo</b>	<b>Total</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>
Salary	60,000	60,000	120,000
Divisible income	200,000	200,000	400,000
Adjusted income	260,000	260,000	
Less: Capital allowances		(2,000)	
	260,000	258,000	
Less: Brought forward losses	(20,000)		
Aggregate/total income	240,000	258,000	

- 12** The correct answer is:

The gross sum and the penalty will be tax deductible as long as the withholding tax and the penalty are paid.

This statement does not apply because the penalty is not tax deductible but the gross sum will be allowed a deduction as long as the withholding tax and penalty are paid to the Inland Revenue Board (IRB).

All other statements are correct consequences of non-compliance of withholding tax obligations by a company.

- 13** The correct answer is:

The less short-term borrowing raised to fund the activity, the more likely Tuas Sdn Bhd will be regarded as trading in shares.

This statement does not describe one of the badges of trade because the more short-term borrowing which is raised to fund the activity, the more likely the company will be regarded as trading in shares.

- 14** The correct answer is RM7,308

**Invoice for TM Sdn Bhd**

	<b>RM</b>
Consultancy fees	5,800
Travelling expenses	1,000
	<hr/>
	6,800
Service tax (RM6,800 x 6%)	408
	<hr/>
Add: Statutory cost	100
	<hr/>
Total invoice	7,308

**Tutorial note:** *Service tax is chargeable on the services provided based on the value of the services performed including all charges in respect of travelling expenses.*

- 15** The correct answer is: 1, 2 and 3

All three factors suggest employment:

- (1) Requires approval before any other contract is undertaken
- (2) Receive instructions and tools to carry out and complete a task
- (3) Bears no financial risk in respect of the correction of poor work

2 marks each

**30**

## Section B

## Marks

## 1 (a) Sepang Sdn Bhd

(i)	Year of assessment 2019	1
	Date of acquisition 11 October 2014	1
		<u>2</u>

## (ii) Computation of real property gains tax (RPGT)

	RM'000	RM'000	
Disposal consideration		10,000	1/2
Less: Permitted expense – construction of building		(5,000)	1/2
Less: Incidental cost			
Broker commission (1% x RM10m)		(100)	1/2
Disposal price		<u>4,900</u>	
Less:			
Acquisition consideration for land	1,000		1/2
Add: Stamp duty	24		1/2
Legal fees	16		1/2
Quit rent and assessments	<u>0</u>		1/2
Acquisition price		(1,040)	
Chargeable gain		<u>3,860</u>	
Holding period:			
Acquisition date: 11 October 2014			
Disposal date: 7 July 2019			
Disposal in the fifth year			1/2
RPGT rate		15%	1/2
RPGT payable		<u>579</u>	1/2
			<u>5</u>

**Tutorial note:** Quit rent and assessments are revenue expenditure allowable as a claim for income tax purposes and, therefore, excluded for the purposes of RPGT. [Para 7(1)(a), (b), (c) of RPGT Act 1976]

## (b) Danau Sdn Bhd (Danau)

For real property gains tax (RPGT) purposes, a disposal takes place in circumstances including when there is a sale, conveyance or transfer of an asset.	1/2
A disposal means that there is a transfer of the asset from the property owner to the acquirer.	1/2
In Danau's case, the asset was not transferred from the disposer to the acquirer, and the fact that the accounting records showed there was a disposal is insufficient for the property to be treated as a disposal for RPGT purposes.	1/2
There was no disposal within the provisions of the definition of disposal, and the Inland Revenue Board (IRB) is incorrect in treating the transaction as a disposal by Danau.	1/2

3**10**

**Tutorial note:** The definition of 'dispose' as provided in s.2 of RPGT Act, 1976 (as amended) means (subject to subsection (4) which deals with co-proprietorship) to sell, convey, transfer, assign, settle or alienate whether by agreement or by force of law.

## 2 Raya Sdn Bhd

(a)	First basis period: 1 May 2017 to 31 March 2018	1/2
	First year of assessment (YA): 2018	1/2
		<u>1</u>

**(b) Raya Sdn Bhd**

Date of purchase	YA	Description	Qualifying expenditure RM	Capital allowance	RM	
10 February 2017	2018	Mixing machine	100,000	Initial allowance (IA) 20%	20,000	½
				Annual allowance (AA) 14%	14,000	½
	2019	Mixing machine	100,000	AA	14,000	½
27 May 2017	2018	Computer system	200,000	IA 20%	40,000	½
				AA 20%	40,000	½
	2019	Computer system		AA	40,000	½
20 September 2017	2018	13 chairs (13 x RM1,000)	13,000	Small value assets (SVA) AA 100% x 13,000	13,000	1
		7 chairs (7 x RM1,000)	7,000	IA 20% x 7,000	1,400	1
		Total 20 chairs	20,000	AA 10% x 7,000	700	½
	2019	Ergonomic chairs 13 units	13,000	AA for SVA	0	½
		7 units	7,000	AA 10% x 7,000	700	½
1 October 2018	2019	BMW motor car Restricted to RM50,000	50,000	IA 20%	10,000	1
		– second hand car		AA 20%	10,000	½
1 May 2019	2020	Loader (heavy machine)	53,000	IA 20%	0	1
				AA 20%	Not for YA 2019	
					<u>9</u>	
					<b>10</b>	

**Tutorial notes:**

- (1) The cost of the mixing machine acquired before the commencement of the business will be deemed to be incurred on 1 May 2017 (i.e. the day the company commenced its business) which falls in the basis period for the year of assessment 2018.
- (2) The loader acquired in May 2019 falls in the basis period for the year of assessment 2020 and capital allowances cannot be claimed for the year of assessment 2019.

**3 (a) Tawau Sdn Bhd**

- (i) The activities of Tawau Sdn Bhd, to import the special high grade granites and change the nature and quality of the materials by glazing them, would fall within the scope of manufacturing as the nature and quality of the materials are changed. 1
- The fact that the activities do not involve the conversion of the size or shape of materials does not mean that they do not fall within the scope of manufacturing. 1
- 2
- (ii) As Tawau's sales are RM420,000 per annum and the threshold limit for registration is RM500,000, the company is not required to be registered for sales tax purposes – under the historic or future tests. 1
- However, Tawau Sdn Bhd can elect to opt for voluntary registration subject to the approval of the Royal Malaysian Customs Department. 1
- 2

**(b) Borneo Sdn Bhd****(i) Sales tax payable – imported goods**

	RM'000	
Taxable goods	200	1/2
Add: Import duty 10%	20	1/2
Value for sales tax purposes	<u>220</u>	
Sales tax payable at 10%	22	<u>1</u>
		<u>2</u>

**(ii)** Generally, sales tax applies regardless of whether the importer is registered for sales tax or not. 1

**(c) Borneo Sdn Bhd****(i) Sales tax payable – manufactured goods**

	RM'000	
Goods sold	100	
Sales tax at 5%	<u>5</u>	1/2
Total invoice	<u>105</u>	1/2
		<u>1</u>

**(ii)** Taxable period: 1 May 2019 to 30 June 2019 1

Due date to remit sales tax to the Royal Malaysian Customs Department: 31 July 2019 1

2**10**

**Tutorial note:** The sales tax must be remitted by the last day of the month following the end the taxable period.

**4 Sikamat Sdn Bhd**

**(a)** The Director General of the Inland Revenue (DGIR) must issue an assessment, or additional assessment, within the time bar limit of five years after the end of the relevant year of assessment. [s.91(1) of ITA 1967] 1

**(b) (1)(a)** The Inland Revenue Board (IRB) was correct in disallowing RM1,000 relating to expenses for samples given to a prospective Chinese customer when he was in Malaysia. 1/2

Only the cost of samples given to the prospective Chinese customer outside Malaysia, i.e. RM500, is eligible for a double deduction. 1/2

**(1)(b)(i)** The IRB was correct in disallowing the air-fare of RM4,000 for the marketing manager for a two-day trip to China as it was not economy class. 1/2

**(1)(b)(ii)** A double deduction can be claimed for actual expenses subject to a maximum of RM300 per day for hotel accommodation and a maximum of RM150 per day for subsistence expenses [starting from the day of departure until the day of return]. 1/2 + 1/2

**(2)** The IRB is correct as it has valid grounds to disallow the subcontractor expenses because the requested information and analysis were not provided to justify the claim for deduction within the time stipulated in the letter. [s.81 and s.391(A)] 1/2

3



## (c) Original tax computation submitted for year of assessment 2018

	RM	
Chargeable income (as submitted)	1,280,000	½
(Less)/add:		
Double deduction for expenses		
Samples given to customer in Malaysia	1,000	½
Air-fare	4,000	½
Hotel accommodation	2,000	½
Hotel accommodation (2 days x RM300/day)	(600)	½
Subsistence expenses	1,100	½
Subsistence expenses (2 days x R150/day)	(300)	½
Sub-contract fees	993,000	½
Revised chargeable income	<u>2,280,200</u>	
Tax at 24%	547,248	½
Tax already paid (1,280,000 x 24%)	(307,200)	1
Under assessed tax	<u>240,048</u>	
Penalty at 45% (240,048 x 45%)	<u>108,022</u>	½
		<u>6</u>
		<b><u>10</u></b>

## 5 (a) Ratu Sdn Bhd

Chargeable income for the year of assessment 2019  
(Basis period: Year ended 31 October 2019)

	Note	RM'000	RM'000	
		–	+	
[Sec 4(a) Business source income] – maintenance services				
Profit before taxation			180	
Add:				
Depreciation			20	½
Salaries			0	½
Advance income to be recognised			<u>1,000</u>	1
Adjusted income/statutory income			<u>1,200</u>	

	Note	RM'000 –	RM'000 +	Marks
[Sec 4(a) Business source income] – manufacturing				
Profit before taxation			4,512	
Add/less:				
Donations (gross market value Sec 24(2))	2		45	1
Compensation (capital gain)	3	31		½
Staff salaries	4		0	½
Employees' provident fund				
(RM2m – RM1.9m) (19% x 10m)	4		100	1
Private retirement scheme	4		2,000	½
Company trip – local	4		0	½
Incentives (wholly sales related)	5		0	½
Donation (not allowed)	5		11	½
Income tax appeal	6		48	½
		31	6,716 (31)	
Adjusted income			6,685	
Less: Capital allowances			(2,008)	½
Statutory business income – manufacturing			4,677	
Add: Maintenance services business			1,200	½
Aggregate of statutory income			5,877	
Less: Brought forward business loss (Sec 43(2))			(3,200)	1
Aggregate income			2,677	
Less: Contributions to political party	6		0	½
Total income/chargeable income			2,677	
				10

**Tutorial note:** With effect from the year of assessment 2016, advance or deferred income for services to be rendered is brought to income tax in the year the sum is received. [s.24(1)(b) and s.24(1A)]

**Note:** Marks were awarded for suitable alternative formats taking into account the two different businesses.

- (b) (i) A current year adjusted loss can be claimed if it arises from a business source. ½
- The loss can be claimed against the aggregate income from all business and non-business sources. 1
- Any unabsorbed business losses up to a maximum of seven years can be carried forward and claimed against the aggregate of any statutory business income. ½
- 
- (ii) Under option 1, if Ratu Sdn Bhd provides maintenance and support services comprehensively and actively, the rental income can be assessed as a business source income [under s.4(a) of Income Tax Act, 1967 (as amended)] and this would allow the adjusted loss arising to be claimed against the aggregate income. 1
- However, under option 2, if no maintenance and support services are provided comprehensively and actively, then the rental income would be assessed as investment income source [under s.4(b) of ITA]. Losses would therefore not be available to be carried forward. 1
- Accordingly, option 1 would be preferred where Ratu Sdn Bhd will provide maintenance and support services comprehensively and actively as there is an expected loss in the first year. 1
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**15**

## 6 Kaur

## (a) Kaur – Individual tax

Income tax payable for the year of assessment 2019

Basis year: 1 January 2019 to 31 December 2019

	RM'000	RM'000	
[Sec 4(b)] Employment			
[Sec 13(1)(a)]			
Gross salary (RM200,000 x 12 months)		2,400	½
Child care allowance (maximum)			
(RM1,200 x 12 = RM14,400 – RM2,400)		12	1
Interest subsidy (RM82,000 x RM300,000/RM600,000)		41	1
Service excellence award (exempt up to RM2,000)		6	1
Total		2,459	
[Sec 13(1)(b)]			
Medical benefit (exempt)		0	½
Leave passage (overseas) (exempted up to RM3,000)		2	½
[Sec 13(1)(d)]			
Withdrawal of unapproved scheme (employer's portion)		5	1
Gross employment income/adjusted/statutory income		2,466	
Add: Investment income			
Gain on disposal of investment (capital)		0	½
[Sec 4(d)]			
Royalty income – gross	12		
Less: Exemption up to [Para 32B]	(20)	0	1
Aggregate income/total income		2,466	
Husband's total income (working)		2	½
		2,468	
Less: Reliefs			
Self	(9)		½
Employee's provident fund (maximum)	(4)		½
Spouse relief	(4)		½
Child	(2)		½
Breastfeeding equipment (maximum)	(1)		½
		(20)	
Chargeable income		2,448	
<b>Income tax liability</b>			
Tax on first RM1,000,000		238	½
Tax on RM1,448,000 at 28%		405	½
Income tax payable		643	

**Working: Jagdev's total income**

	RM'000	
Interest income from fixed deposit	0	½
Interest income	4	½
Aggregate income	4	
Less: Current year adjusted loss from business [Sec 44(2)]	(2)	1
Total income	2	
		13

- (b) Jagdev should elect for his income to be assessed with his wife since his total income is only RM2,000 and the benefit of a spouse relief of RM4,000 will be higher than the claim of RM2,000 out of the maximum self relief available of RM9,000.

1 + 1  
2  
**15**