
Answers

Marks

1 Space Tech Bhd

(a) Chargeable income for the year of assessment 2014
(Basis period 1 October 2013 to 30 September 2014)

	Note	RM'000s	RM'000s	
		–	+	
Profit before taxation			2,122	
Inventories written-off	1		Nil	½
Depreciation	1		2,350	½
Gain on disposal of investment property	2	500		½
Interest income	3	30		½
Purchase consideration for the proprietary rights	4		320	½
Associated consultancy and legal fees	4		30	½
Royalty expense	4		Nil	½
Claim for acquisition of industrial designs (350,000 at 20%)	4	70		1
Commission	5		150	1
Annual trade subscription	6		Nil	½
Scholarship for study at an overseas university	6		11	1
Scholarship for study at a local university (double deduction)	6	6		1
Cash contribution for customers' dinner	6		5	½
Cash contribution for Vietnam project	6		1	½
Foreign exchange loss – capital	7		35	1
Foreign exchange gain – trade but unrealised	7	150		½
Interest expense (450,000/900,000 x 60,000)	8		30	1
Audit fees	9		Nil	½
Legal fees for bank loan	9		4	½
Legal fees for renewal of tenancy agreement	9		Nil	½
Secretarial fees	9		30	½
Office equipment (1,600 + 400)	10		2	1
Expenses for maintaining sales office (double deduction)	11	500		1
Travelling expenses for export promotion (double deduction)				
– accommodation (20 days x RM300)	11	6		1
– sustenance (20 days x RM150)	11	3		1
– airfare (economy)	11	1		1
Travelling expenses for dealer	11		Nil	1
Lease rental – chief marketing officer	12		110	1
Lease rental – van	12		Nil	½
Provision written back	13	150		½
Entertainment allowances for marketing team (50% x 40,000)	14		20	1
Leave passage	14		4	½
Key-man endowment insurance premiums	15		2	½
Annual general meeting expenses	15		1	½
		<u>1,416</u>	<u>5,227</u>	
			<u>(1,416)</u>	
Adjusted income			3,811	
Less: Capital allowances for existing assets			(1,300)	½
Capital allowances for new assets (working 1)	16		(2)	W
Statutory income			2,509	
Add: Interest income		30		½
Less: Interest expenses attributed		(30)	0	1
Aggregate income			2,509	
Less: Current year loss from share of partnership (40,000 x 50%)	17		(20)	1
Total/Chargeable income			<u>2,489</u>	

Tutorial note: Adjustment for the royalty payments is not required as the payments are eligible for deduction.

Working 1 – Capital allowances on new assets

	RM	
Small value assets		
Air conditioners 800 x 2	1,600	
Refrigerator	400	
	<hr style="width: 100%;"/>	
Annual allowance x 100%	2,000	1
		<hr style="width: 100%;"/>
		28

(b) The conditions to be satisfied in order to claim the special deduction for the acquisition of proprietary rights are that the claimant company:

- must be at least 70% Malaysian owned; and
- must be a resident manufacturing company acquiring proprietary rights for industrial designs, patents and trademarks which have been registered under the relevant laws for its own manufacturing business.

1 + 1

2

30

2 Mathen and Anu

(a) Income tax payable for the year of assessment 2014

(i) Mathen

	RM	RM	
Employment			
[Section 13(1)(a)]			
Salary (20,000 x 11 months)		220,000	½
Leave pay (December 2014 to February 2015: 20,000 x 3)		60,000	1
Travelling allowances	10,000		½
Less: Exempt	<u>(6,000)</u>	4,000	1
Discount for school fees		Nil	1
Utilities reimbursed		11,150	½
Monthly subscription (300 x 11)		3,300	½
Innovation award	12,000		½
Less: Exemption [Paragraph 25C, Schedule 6]	<u>(2,000)</u>	<u>10,000</u>	1
		308,450	
[Section 13(1)(d)]			
Car benefit as per table RM9,000 x 11/12		8,250	1
Driver (600 x 11)		6,600	½
[Section 13(1)(e)]			
Withdrawal from unapproved scheme (employer's portion)		110,000	1
Withdrawal from unapproved scheme (employee's portion)		Nil	1
Gross employment income		433,300	
Less: Golf club entrance fee repaid		<u>(Nil)</u>	1
Adjusted income/statutory income from employment		433,300	
Add: Royalty income from musical composition	22,000		½
Less: Exemption [Paragraph 32D, Schedule 6]	<u>(20,000)</u>	<u>2,000</u>	1
Aggregate income		435,300	
Less: Contributions to approved medical healthcare facility (restricted) [Section 44(10)]		<u>(20,000)</u>	1
Total income		415,300	
Less: Personal reliefs			
Self	9,000		½
Child relief	1,000		½
Medical expenses for uncle	Nil		1
Books (maximum)	<u>1,000</u>		½
		<u>(11,000)</u>	
Chargeable income		<u>404,300</u>	
Tax liability			
Tax on RM100,000		13,850	½
Tax on next RM304,300 at 26%		79,118	½
Tax payable		<u>92,968</u>	<u>17</u>

(ii) Anu

	RM	
Alimony	22,000	1
Proceeds from endowment insurance policy	<u>Nil</u>	1
Aggregate income	22,000	
Less: Current year loss	<u>(12,000)</u>	1
Total income	10,000	
Less: Personal relief		
Self	(9,000)	½
Child	(1,000)	½
School fees	<u>Nil</u>	½
Chargeable income	<u>Nil</u>	
Tax payable	<u>Nil</u>	½
		<u>5</u>

(b) If Mathen makes an election [not to apply s.25(6)] in respect of his leave pay, then the leave pay for the period from 1 January to 28 February 2015 would be assessable to tax in the basis year for the year of assessment (YA) 2015 instead of in YA 2014. ½ + ½

In YA 2015 Mathen's gross income would be subject to a non-resident tax rate of 26% without the availability of any personal relief. ½ + ½

Year of assessment 2015

	RM	
Gross income/Chargeable income (20,000 x 2)	<u>40,000</u>	½
Tax payable at 26%	10,400	½
		<u>3</u>
		<u>25</u>

3 Roda Sdn Bhd

(a) The circumstances in which a workshop will qualify as a factory [within the meaning of paragraph 63 and 64, Schedule 3] are as follows:

- (1) the workshop is used to carry on the business of providing repairs or servicing related to vehicle maintenance; and 1
 - (2) the repairs or servicing provided in the workshop are not provided in conjunction with, or incidentally to, the business of selling the vehicles. 1
- 2

(b) **Capital allowances for the year of assessment 2014**

Service centre workshop

Not eligible for industrial buildings allowances as the workshop is used for the repair or servicing of vehicles and such repairs or servicing are carried out in conjunction with, or incidentally to, the business of selling those vehicles. 1

	Cost/Qualifying expenditure RM	Capital allowances RM	Marks
Spraying machine			
Cost of machine	70,000		
Add: Installation costs	250,000		
Aggregate cost	<u>320,000</u>		1
Installation costs as a percentage of aggregate cost (250,000/320,000) % = 78%			1
As the installation costs exceed 75% of the aggregate cost, the whole of the expenditure is treated as qualifying capital expenditure on a building, eligible for industrial buildings allowance (IBA).			1
Qualifying building expenditure	320,000		½
Initial allowance 10%	(32,000)		½
Annual allowance 3%	<u>(9,600)</u>		½
Total IBA		<u>(41,600)</u>	
Residual expenditure	<u>278,400</u>		½
Hoist machine			
Cost of machine	6,000		
Add: Installation costs	750		
Aggregate cost	<u>6,750</u>		1
Installation costs as a percentage of aggregate cost (750/6,750) % = 11%			1
As the installation costs exceed 10% of the aggregate cost, the installation cost is not treated as qualifying capital expenditure on plant and machinery.			1
Qualifying plant and machinery expenditure	6,000		½
Initial allowance 20%	(1,200)		½
Annual allowance 14%	<u>(840)</u>		½
Total capital allowances (CA)		<u>(2,040)</u>	
Residual expenditure	<u>3,960</u>		½
Car acquired on hire purchase			
Road tax and insurance – revenue expenditure (non-qualifying)			½
Expenditure for CA purpose in current year			
	RM		
Deposit	20,000		½
Instalments paid (capital) (15,000 x 6)	<u>90,000</u>		½
	<u>110,000</u>		
Purchase cost of the car does not exceed RM150,000.			
Qualifying expenditure (restricted)	100,000		1
Initial allowance 20%	(20,000)		½
Annual allowance 20%	<u>(20,000)</u>		½
Total CA		<u>(40,000)</u>	
Residual expenditure	<u>60,000</u>		½
			<u>15</u>

(c) Balancing allowance/charge on the write off of the computer assisted design software system

	RM	
Year of assessment (YA) 2012		
Qualifying expenditure	30,000	½
Initial allowance 20%	(6,000)	½
Annual allowance 80%	<u>(24,000)</u>	½
Residual expenditure	<u>0</u>	
YA 2013		
Annual allowance	0	½
Residual expenditure	<u>0</u>	
YA 2014		
Disposal proceeds	0	½
Less: Residual expenditure	<u>0</u>	
Balancing allowance/(charge)	<u>0</u>	½
		<u>3</u>
		<u>20</u>

4 (a) Paragon Sdn Bhd

- (i)** The due date to remit the withholding tax to the Inland Revenue Board (IRB) was 19 November 2014, i.e. within one month of paying or crediting the non-resident, on 20 October 2014. 1
- (ii)** The consequences of the non-compliance with the withholding tax requirements are:
- A late payment penalty of 10% of the unpaid withholding tax will be payable. ½ + ½
 - The gross amount of the royalty payment will not be allowed as a deduction in arriving at the adjusted income for the year of assessment 2014. However, a deduction will be allowed if the withholding tax and penalty are subsequently paid. ½ + ½
 - A further penalty will be payable as a result of the submission of an incorrect tax return. ½
 - The unpaid withholding tax and penalty is a debt due to the government and can be recovered by way of a civil suit to recover the debt. ½
- 3

(iii) Withholding tax and penalty for late payment

	RM	
Gross amount of royalty	100,000	
Withholding tax at 10%	10,000	½
Penalty at 10% on RM10,000	<u>1,000</u>	½
Total withholding tax and penalty due	<u>11,000</u>	
Tax underpaid for the year of assessment 2014 and penalty for incorrect return [Section 113(2)]		
	RM	
Chargeable income per revised tax computation:		
Chargeable income per return submitted	2,000,000	
Add: Gross royalty payment (disallowed)	<u>100,000</u>	½
Chargeable income (for calculating penalty)	<u>2,100,000</u>	
Tax payable at 25%	525,000	½
Less: Tax payable per return submitted	<u>500,000</u>	½
Tax undercharged due to incorrect return	<u>25,000</u>	
Penalty thereon at 45%	<u>11,250</u>	½
		<u>3</u>

	Marks
(iv) A taxpayer may amend a submitted tax return in respect of errors resulting in additional assessments, such as errors arising from under-reporting of income or over-claiming of expenses.	1
The amendment must be made within a period of six months from the due date for submitting the original tax return.	1
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(b) Mr Xuan – residence status

Year of assessment (YA)	Status	Reasons/remarks	
2009	Resident	Present in Malaysia for a period of at least 182 days [s.7(1)(a)]	½
2010	Resident	The shorter period of 8 days in 2010 is linked to a longer period of more than 182 consecutive days in 2009 [s.7(1)(b)]	½ + ½
2011	Resident	The period of 84 days in 2011 is linked to a longer period of more than 182 consecutive days in 2012 [s.7(1)(b)]	½ + ½
		Temporary absences connected with service in Malaysia or due to the ill-health of the individual or a member of their family or for social visits not exceeding 14 days are ignored when establishing the number of consecutive days presence in the basis period.	½ + ½
2012	Resident	Present in Malaysia for a period of at least 182 days [s.7(1)(a)]	½
2013	Resident	Resident in the immediately following year (i.e. 2014) and resident in the three immediately preceding years (i.e. 2012, 2011 and 2010) [s.7(1)(d)]	½ + ½
2014	Resident	Present in Malaysia for at least 90 days and resident in three out of the four immediately preceding years (i.e. 2010 to 2013) [s.7(1)(c)]	½ + ½
			6
			15

5 (a) The three facilities available to a licensed manufacturer to acquire raw materials and packaging materials for use in the manufacture of taxable goods, free of sales tax are:

- (1) the ring system;
- (2) the refund system; and
- (3) the credit system.

1 mark each 3

(b) Pacific Sdn Bhd

(i) The 1,000 units of products given away free-of-charge are chargeable to sales tax as a deemed supply because they were used or disposed of by Pacific Sdn Bhd to another party not authorised by the Director General to acquire these taxable goods free of sales tax.

1

As such, Pacific Sdn Bhd will have to account for sales tax on the sales value, i.e. market value, of the products of RM20 each.

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(ii) Sales tax for the period 1 January 2014 to 28 February 2014

	RM	
Value of goods imported	100,000	½
Add: Import duty at 20%	20,000	½
Sales value	120,000	
Sales tax at 10%	12,000	½
Sales value of units given away (1,000 x 20)	20,000	1
Sales tax at 10%	2,000	½
Total sales tax due	14,000	3

