

Fundamentals Level – Skills Module

Taxation (Malaysia)

Tuesday 3 June 2014



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

Resident individuals				Rate	Cumulative tax
Chargeable income				%	RM
	RM	RM			
First	5,000	(0 – 5,000)		0	0
Next	15,000	(5,001 – 20,000)		2	300
Next	15,000	(20,001 – 35,000)		6	1,200
Next	15,000	(35,001 – 50,000)		11	2,850
Next	20,000	(50,001 – 70,000)		19	6,650
Next	30,000	(70,001 – 100,000)		24	13,850
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
Spouse relief	3,000
Disabled spouse, additional	3,500
Child	(each) 1,000
Child – higher rate	(each) 6,000
Disabled child	(each) 5,000
Disabled child – additional	(each) 6,000
Medical expenses expended for parents	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
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
Deposit for a child into the National Education Savings Scheme	(maximum) 6,000

Rebates

Chargeable income not exceeding RM35,000	RM
Individual	400
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 benefit is fixed at RM600 per month.

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
Agriculture allowance		
Buildings for the welfare of or as living accommodation for farm employees	nil	20%
Any other building	nil	10%
All other qualifying agricultural expenditure	nil	50%

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	15
Where the disposal takes place in the third, fourth or fifth year of acquisition	10
Where the disposal takes place in the sixth year or thereafter	0

Sales and service tax

	Rate %
Sales tax	10
Service tax	6

ALL FIVE questions are compulsory and MUST be attempted

1 Kepayang Sdn Bhd (KSB), a Malaysian resident company, is in the business of manufacturing and selling energy-saving lights. It makes up its accounts annually to 30 June.

KSB has an authorised share capital of RM3 million and its issued share capital as at 1 July 2012 was RM1 million. KSB's issued share capital is wholly owned by Malaysian individuals.

KSB's products are sold under a Malaysian brand called 'SAVE MORE', which is registered in Malaysia and half of the company's output is exported. The company had 60 full-time employees as at the end of the basis period for the year of assessment 2013.

Details of KSB's income statement for the financial year ended 30 June 2013 are as follows:

	Note	RM'000s	RM'000s
Sales			18,000
Opening stock		2,000	
Add: Cost of goods manufactured	1	12,000	
		<u>14,000</u>	
Less: Closing stock		(5,000)	
			<u>(9,000)</u>
Gross profit			9,000
Add: Other income			
Rental income (gross)	2	120	
Gain on disposal of shares		18	
		<u>138</u>	
			<u>9,138</u>
Less: Expenses			
Advertising and promotion expenses	3	626	
Bad debts written off	4	1	
Consultancy fees	5	20	
Donations	6	23	
Fixed assets written off		32	
Foreign exchange losses	7	5	
Marine insurance premiums and freight charges	8	40	
Repairs and maintenance	9	51	
Research and development expenditure	10	25	
Salaries and EPF etc	11	2,500	
Sundry expenses	12	5	
		<u>(3,328)</u>	
Profit before tax			<u>5,810</u>

Notes:

- (1) The cost of goods manufactured includes the following:

	RM
Provision for stock obsolescence	30,000
Amortisation and depreciation of factory building and plant equipment	1,100,000
Provision for royalty (see below)	12,000

Details of the provision for royalty account are:

Balance brought forward	1,000
Provision for royalty	12,000
Less: Amount paid	<u>(10,000)</u>
Balance carried forward	<u>3,000</u>

KSB has entered into a royalty agreement with a company resident in Malaysia for the use of an energy saving know-how technology. No withholding tax was deducted on the royalty payment of RM10,000.

- (2) KSB has acquired a shop lot as an investment. The property was rented out at RM10,000 per month for the first time on 1 July 2012.
- (3) Advertising and promotion expenses comprise:

	RM
Advertisement of brand name 'SAVE MORE' on the internet where the host website was located in Malaysia	50,000
Patent registration expenses for overseas export sales	50,000
Sponsoring of arts and cultural performances for the Merdeka celebrations (approved by the relevant Minister)	
– Foreign cultural performances	208,000
– Local cultural performances	302,000
Cash contribution for customers' dinner	2,000
Gifts with logo for customers' dinner	10,000
Gifts without logo for customers' dinner	<u>4,000</u>
	<u>626,000</u>

- (4) The bad debt written off relates to a trade debtor, Pekan Sdn Bhd, who owed RM1,000. Letters of demand were sent to the debtor to recover the debt. The company was quoted a legal fee of RM900 to recover the debt. No legal action was taken.

- (5) Consultancy fees comprised the following:

	RM
Tax audit fees	5,000
Real estate brokerage fees for a shop lot rented out	10,000
Consultancy fees paid to an authorised agent for a patent registration application in Malaysia in respect of a new energy efficient technology (the certificate was issued on 1 June 2013)	<u>5,000</u>
	<u>20,000</u>

- (6) Donations comprised:

	RM
Cash contributions to approved charitable institutions	20,000
Cash contributions for the provision of facilities in a private supermarket for the access of disabled persons	<u>3,000</u>
	<u>23,000</u>

(7) Foreign exchange differences comprise:

	RM
Foreign exchange loss realised on loan repayment	3,000
Foreign exchange loss realised on trade payables	2,000
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	5,000
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There was also a trade related unrealised foreign exchange gain of RM4,000 recorded in the year of assessment 2012, which was realised during the year of assessment 2013.

(8) Marine insurance premiums and freight charges comprise:

	RM
Marine insurance premiums paid to a locally incorporated insurance company for the export of finished goods	29,000
Freight charges for the export of finished goods to a distributor in China	11,000
	<hr/>
	40,000
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(9) Repairs and maintenance includes the quit rent and assessment and cleaning expenses of RM15,000 relating to the shop lot which was rented out.

(10) The company submitted an application to the Inland Revenue Board for an in-house research and development (R&D) project in respect of salary and raw materials costs amounting to RM25,000. Approval for RM10,000 was received for this R&D project.

(11) Salaries and EPF includes a payment to the employees' provident fund (EPF) of RM400,000, based on 20% of salaries of RM2,000,000.

(12) Sundry expenses were for the payment of an entrance fee for corporate membership of a golf club, to enable the company's marketing personnel to entertain clients to promote sales.

Other information:

Capital allowances for the year of assessment 2013 have been computed as RM2,000,000.

Required:

Commencing with the profit before tax, compute the chargeable income and income tax payable of Kepayang Sdn Bhd for the year of assessment 2013.

Note: 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.

(30 marks)

- 2 (a) Sita commenced employment on 1 March 2013 as a marketing manager in PAX Berhad. Sita is married to Kwek who was certified as a disabled person by the Welfare Department when he lost an arm due to an accident. Both Sita and Kwek are Malaysian tax residents. The couple have two children.

Kwek does not have any total income for the year of assessment 2013.

Sita's income and expenditure for the year ended 31 December 2013 are as follows:

Employment income and benefits-in-kind:

	RM
Salary per month	15,000
Entertainment allowance per month	500
Travelling allowance per month	800

Apartment (unfurnished) with a rental cost of RM4,000 per month provided to her from 1 March 2013. Sita was required to pay RM500 per month to her employer for the apartment.

Annual salary of the maid (employed by Sita) reimbursed by her employer	11,000
Service excellence award presented to her during the company's annual dinner	3,000

Other income:

An amount equivalent to RM30,000 was earned from a fixed deposit placed in a bank in Singapore received on 20 August 2013, out of which RM15,000 was remitted on 30 August 2013.

Royalties of RM32,000 were received in the year of assessment 2013 from books Sita had written and published on financial management.

Expenditure:

	RM
Entertainment expenses relating to her official duties	11,000
Employee's provident fund contribution	16,500
Dental expenses for her children	300
Private retirement scheme premiums	3,500
Cash donation to an approved charitable institution (original receipt available)	15,000

Sita maintains all the household expenses including her children's expenses and elects to claim child relief.

The couple's first child, Ana, is 20 years old and pursuing a degree in a local university, Sita paid RM18,000 for her university fees. Ana worked on a part-time basis in a library and had a total income of RM7,000 in 2013. Their second child, May, is aged ten and studies in a local school.

Required:

Compute the income tax payable by Sita for the year of assessment 2013.

Note: 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. (20 marks)

- (b) Sita has been performing well in her job and her employer is considering improving her current remuneration package by offering her a leave passage of up to a maximum of RM8,000 per year, including hotel accommodation and meals. She has approached you for information on the tax treatment of leave passages for travel, hotel accommodation and meals.

Required

Explain the tax treatment, from the employee's perspective, of both local and overseas leave passages for travel, hotel accommodation and meals and state which would be more tax efficient for Sita.

Note: You are NOT required to explain the tax implications from the employer's perspective. (5 marks)

(25 marks)

- 3 (a) Rose, the owner of 'Rose Fusion Café', commenced her fusion food restaurant and catering business on 1 January 2013. Rose incurred the following capital expenditure for her business during the year ended 31 December 2013:

Asset	RM
Table and chairs	20,000
Linen	10,000
Crockery and glass dinner plates and mugs	5,000
Stainless steel cooking equipment	10,000
Kitchen cooking oven	100,000
Passenger vehicle acquired on hire purchase	
Cost of new vehicle	150,000
Deposit paid	60,000
Instalments paid during the year ended 31 December 2013 (excluding interest)	90,000

It had been agreed with the Inland Revenue Board that the passenger vehicle is used 25% for private purposes and 75% for business purposes.

Required:

- (i) State the conditions and compliance requirement which must be fulfilled before initial and annual allowances can be claimed by a person in respect of capital expenditure incurred. (5 marks)
- (ii) Compute the capital allowances for the assets acquired by Rose Fusion Café for the year of assessment 2013. In respect of any asset which is not granted a capital allowance, explain how and when a deduction can nevertheless be made. (9 marks)
- (b) Eight Sdn Bhd (ESB) is in the business of manufacturing auto gates and prepares its accounts annually to 31 December. In 2013, the company constructed a factory building in Selangor and commenced using it in its business operations.

ESB incurred the following expenditure on the factory in the basis period for the year of assessment 2013:

	RM
Cost of land	1,000,000
Construction cost and related expenditure for the building	4,000,000

The total area of the factory building is 100,000 square feet, of which the total office area is 20,000 square feet.

ESB intends to move its manufacturing operations to a brand new state-of-the-art building in Johor in the year 2015. Immediately thereafter, it plans to dispose of the Selangor factory building.

Details of the expected proceeds from the impending disposal of the Selangor factory are as follows:

	RM
Land	2,000,000
Factory building	6,000,000
Total	<u>8,000,000</u>

Required:

In respect of Eight Sdn Bhd's Selangor factory building:

- determine the qualifying building expenditure;
- compute the industrial building allowances and residual expenditure for the years of assessment 2013 and 2014; and
- compute the balancing charge or balancing allowance in respect of its disposal during the year of assessment 2015. (6 marks)

(20 marks)

- 4 (a) Karan and Candy are partners in KC & Co and have an agreed profit sharing ratio of 50:50.

Details of the partnership's income statement for the year ended 31 December 2013 are:

	RM	RM
Sales		188,000
Less: Cost of sales		(67,000)
Gross profits		<u>121,000</u>
Less:		
Depreciation of fixed assets	4,000	
Partner's salary – Karan	32,000	
Partner's interest on capital – Candy	24,000	
Other allowable expenses	<u>100,000</u>	
		<u>(160,000)</u>
Loss before tax		<u>(39,000)</u>

The capital allowances for the partnership for the year of assessment 2013 have been computed as RM20,000.

Other information:

	RM
Details of Karan's other income/loss for the year of assessment 2013:	
Rental income (net of allowable expenses)	1,000
Unabsorbed losses brought forward from the year of assessment 2012 for the partnership KC & Co	(500)
Details of Candy's other income/loss for the year of assessment 2013:	
Current year adjusted loss arising from a book shop business (sole proprietorship)	(2,000)
Employment income from Emas Sdn Bhd	12,000
Unabsorbed losses brought forward from the year of assessment 2012 for the partnership, KC & Co	(500)

Required:

- (i) **Determine the provisional adjusted income or loss and divisible income or loss for KC & Co for the year ended 31 December 2013.** (3 marks)
- (ii) **Compute the total income of each of Karan and Candy for the year of assessment 2013, identifying any unabsorbed losses available for carry forward to the year of assessment 2014.** (7 marks)
- (b) Whistler Sdn Bhd commenced its restaurant operations on 1 May 2013 and prepared both its first and subsequent sets of accounts to 30 April as follows:

Accounting period	Adjusted income/(loss) RM
1 May 2013 to 30 April 2014	56,000
1 May 2014 to 30 April 2015	(36,000)

On 1 February 2014, the company commenced a catering business.

The company signed a sales and purchase agreement with Silver Sdn Bhd on 20 April 2014 to acquire the ground floor of a shop lot to operate its restaurant for a cash consideration of RM1,000,000.

Required:

- (i) **Determine the basis period and adjusted income or loss in respect of the restaurant operations of Whistler Sdn Bhd for the relevant years of assessment.** (1 mark)
- (ii) **State, with reasons, the basis period in respect of the catering business for its first year of assessment.** (1 mark)
- (iii) **In respect of the acquisition of the shop lot, state the due date by which Whistler Sdn Bhd has to furnish the real property gains tax (RPGT) return form to the Inland Revenue Board.** (1 mark)
- (iv) **In respect of the acquisition of the shop lot, state the rate and the amount to be retained and the person who is required to retain and remit the amount to the Inland Revenue Board.** (2 marks)

(15 marks)

5 (a) Explain the circumstances under which an exemption from licensing can be obtained for the manufacture of taxable goods. (4 marks)

(b) Pix Sdn Bhd (Pix) is a licensed manufacturer under the Sales Tax Act. It acquired packaging materials, which are taxable materials, from another licensed manufacturer, Tot Sdn Bhd (Tot). The total value shown in the invoice issued by Tot (inclusive of sales tax at 10%) was RM22,000.

Pix used the packaging materials, then sold the goods free of sales tax to Map Sdn Bhd, who had obtained prior exemption to acquire goods without sales tax.

Pix has decided that it will make a claim for the sales tax paid on the packaging materials purchased from Tot based on the credit system.

Required:

Compute, using the credit system, the amount of sales tax deduction which Pix Sdn Bhd is entitled to claim and explain how the claim would be made. (3 marks)

(c) Petai Sdn Bhd (Petai), a company licensed for service tax purposes, provided consultancy services to Leaf Sdn Bhd (Leaf). On 9 January 2013, Petai issued an invoice to Leaf for RM10,000, including service tax of RM600 and paid the service tax to the Royal Customs Department.

Due to financial difficulties faced by Leaf, the whole amount of the invoice was written off as a bad debt and RM600 was refunded to Petai by the Royal Customs Department on 8 August 2013.

After some negotiations with Leaf, Petai received a partial payment of their invoice of RM4,240 on 2 November 2013.

Required:

Compute the amount of service tax Petai Sdn Bhd will be required to repay to the Royal Customs Department, stating the taxable period for which the service tax is payable and the due date for the service tax to be remitted. (3 marks)

(10 marks)

End of Question Paper