

Fundamentals Level – Skills Module

Taxation (Malaysia)

Tuesday 2 December 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
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) 6,000
Disabled child	(each) 5,000
Disabled child – additional	(each) 6,000
Life insurance premiums and contributions to approved funds	(maximum) 6,000
Private retirement scheme, deferred annuity premiums	(maximum) 3,000
Medical and/or education 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 buildings	nil	10%
All other qualifying agricultural expenditure	nil	50%

Real property gains tax

	Individuals (citizens and permanent residents)	Individuals (non-citizens)	All other persons
	Rate %	Rate %	Rate %
Date of disposal			
Disposal within three years after date of acquisition	30	30	30
Disposal in the fourth year after date of acquisition	20	30	20
Disposal in the fifth year after date of acquisition	15	30	15
Disposal in the sixth year after date of acquisition or thereafter	0	5	5

Sales and service tax

	Rate %
Sales tax	10
Service tax	6

ALL FIVE questions are compulsory and MUST be attempted

- 1 Space Tech Bhd (STB), a company with an issued share capital of RM10 million, makes up its accounts annually to 30 September. STB is in the business of manufacturing telecommunications equipment for both the local Malaysian market and for export.

The statement of profit or loss of STB for the financial year ended 30 September 2014 is as follows:

	Note	RM'000s	RM'000s
Sales			24,000
Less: Cost of sales	1		(18,000)
Gross profit			6,000
Add: Other income			
Gain on disposal of investment property	2	500	
Interest income	3	30	
			530
			6,530
Less: Expenses			
Acquisition of industrial designs	4	400	
Commission	5	150	
Subscriptions, contributions and donations	6	33	
Foreign exchange gain	7	(115)	
Interest expense	8	60	
Legal and professional fees	9	101	
Office maintenance expenses	10	180	
Marketing expenses	11	604	
Motor vehicle expenses	12	195	
Provision for doubtful debts	13	(150)	
Salaries and allowances	14	2,947	
Sundry expenses	15	3	
			(4,408)
Profit before tax			2,122

Notes:

- (1) The cost of sales includes obsolete inventories written off of RM36,000 and depreciation of plant, property and equipment of RM2,350,000.
- (2) STB acquired a property in Singapore for an amount equivalent to RM2,000,000 and disposed of it for an amount equivalent to RM2,500,000. The net proceeds were received on 15 March 2014.
- (3) The interest income arose on a loan amount of RM450,000 advanced to a subsidiary. The loan was financed from funds raised from bank borrowings.
- (4) STB acquired the proprietary rights to a patented industrial design, which was registered under the relevant laws, to improve its manufacturing technology processes from Telco Sdn Bhd and incurred the following expenses:

	RM
Purchase consideration for the proprietary rights	320,000
Consultancy and legal fees	30,000
Royalty expense	50,000
Total	400,000

It was confirmed that not less than 80% of STB's shares were Malaysian owned throughout the year.

(5) The commission was paid to a Singaporean resident, Mr Yeu, for introducing a buyer for the property (as in (2) above). Mr Yeu is retired and undertook this work on a part-time basis. STB paid him RM135,000, net of withholding tax of 10% on 20 March 2014 and remitted the withholding tax of RM15,000 to the Inland Revenue Board (IRB) on 21 March 2014.

(6) Subscriptions, contributions and donations comprise:

	RM
Annual trade subscription to the Federation of Manufacturers	10,000
Scholarship expenses for a Malaysian student to study a degree at a university in Bangladesh (full-time student and parents' monthly income RM4,800 per month)	11,000
Scholarship expenses for a Malaysian student to study a degree at a local university registered with the relevant Ministry (full-time student and parents' monthly income RM4,500 per month)	6,000
Cash sponsorship of a customers' annual dinner	5,000
Cash contribution for a community project in Vietnam	1,000
	<u>33,000</u>

(7) The foreign exchange gain comprises:

	RM
Foreign exchange loss realised on the disposal of investments	35,000
Foreign exchange gain from export sales (unrealised)	<u>(150,000)</u>
	<u>(115,000)</u>

(8) The interest expense arose from bank borrowings on term loans. Part of the loan was used to advance a loan to a subsidiary (as in (3) above). The amount of loan outstanding throughout the year was RM900,000.

(9) Legal and professional fees comprise:

	RM
Statutory audit fees	65,000
Legal fees for raising the bank loan (as in (8) above)	4,000
Legal fees for renewal of a tenancy agreement	2,000
Secretarial fees	30,000
	<u>101,000</u>

(10) Office maintenance expenses include the costs of purchasing two air-conditioners for RM800 each and a refrigerator for RM400 for the pantry.

(11) Marketing expenses comprise:

	RM
Expenses for maintaining a sales office for the promotion of exports to the Vietnam market	500,000
Travelling expenses for a 20-day trip to Vietnam by the chief marketing officer to negotiate and conclude contracts with Vietnamese customers:	
– accommodation	80,000
– sustenance	20,000
– airfare (economy)	1,000
Travelling expenses for a 2-day trip to Vietnam for the company's appointed dealer to meet customers and to conclude contracts (accommodation and sustenance)	<u>3,000</u>
	<u>604,000</u>

(12) Motor vehicle expenses include the following lease rentals:

	Cost RM	Year of assessment	
		2013 RM	2014 RM
Chief marketing officer's car (non-commercial)	305,000	110,000	110,000
Van (commercial)	165,000	60,000	60,000

(13) Provision for doubtful debts (general and trade) comprises:

	RM
Balance brought forward	550,000
Less: Amount written back	(150,000)
Balance carried forward	<u>400,000</u>

(14) Salaries and allowances include allowances of RM40,000 paid to the sales and marketing team to defray expenses incurred to entertain customers and RM4,000 of overseas leave passage for the chief marketing officer.

(15) Sundry expenses comprise:

	RM
Insurance premium for a key-man endowment policy on the life of the marketing manager	2,000
Annual general meeting expenses	1,000
	<u>3,000</u>

(16) The capital allowances for the assets acquired by STB prior to the start of the period have been computed at RM1,300,000 for the year of assessment 2014. The capital allowances for the assets acquired during the current year are still to be calculated.

(17) STB has entered into a partnership agreement with Telco Sdn Bhd to provide technology solution services and the terms of this agreement provide that the profits will be shared equally. The divisible loss of the partnership for the year of assessment 2014 has been computed at RM40,000.

Required:

(a) Commencing with the profit before tax, compute the chargeable income of Space Tech Bhd for the year of assessment 2014.

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. (28 marks)

(b) State the conditions which must be met before a company can claim a special deduction for the cost of acquisition of proprietary rights. (2 marks)

(30 marks)

- 2 Mathen, a Canadian citizen, is a senior teacher in a local international school. He has one son aged 12. Mathen is engaged to Anu, a Malaysian divorcee, who has a daughter aged 10. Mathen plans to get married to Anu in Canada in 2015. Both Mathen and Anu are Malaysian tax residents for the year of assessment 2014.

Mathen's employment will cease on 28 February 2015 and his employer has agreed that he can take his annual leave from 1 December 2014. Mathen left Malaysia permanently on 1 December 2014 and will not return to Malaysia in 2015.

Mathen

Mathen's monthly salary is RM20,000. He will continue to be paid RM20,000 at the end of each month during his leave period, i.e. up to February 2015.

Details of the benefits provided by his employer from 1 January to 30 November 2014 are:

- Travelling allowances of RM10,000.
- A discount of RM50,000 in fees for Mathen's son who is studying in the school. It was confirmed that this benefit was not transferrable.
- A car costing RM220,000 and a driver with a monthly salary of RM2,000. No fuel was provided.
- Utilities reimbursed of RM11,150.
- Subscription to the Ace Golf Club of RM300 per month.
- An innovation award of RM12,000 for being the most creative teacher, paid to him in July 2014.

Additional information:

- On 30 November 2014 Mathen:
 - Refunded RM15,000 to his employer for the RM15,000 private individual membership's entrance fee the school had paid to the Ace Golf Club on 1 June 2013. The school's policy on employee benefits requires an employee to refund the full amount of the entrance fee if the employee leaves the school's employment within a period of two years of its paying the entrance fee.
 - Withdrew the sum of RM110,000 from the school's own provident fund, which is not approved by the Inland Revenue Board. He also withdrew his portion of the contributions amounting to RM7,800.
- Mathen composes music on a part-time basis and he received a royalty of RM22,000 during the year of assessment 2014.
- Mathen incurred RM3,300 in respect of school text books for himself and his son and medical expenses of RM5,600 for his uncle who was certified as having a serious disease.
- Mathen made a contribution of medical equipment worth RM22,000 to an approved healthcare facility.

Anu

Anu is in the TV serial production business and her adjusted loss for the basis year for the year of assessment 2014 was RM12,000.

Anu also received and made the following payments in the year 2014:

- Received alimony payments from her ex-husband of RM22,000.
- Received RM25,000 as proceeds from an endowment insurance policy.
- Paid RM36,000 for her daughter's school fees.

Required:

(a) Compute the income tax payable for the year of assessment 2014 by:

(i) Mathen if he does not make an election in respect of his leave pay; and (17 marks)

(ii) Anu. (5 marks)

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.

(b) Explain the tax implications for Mathen if he did elect for his leave pay to be assessed on a received basis and compute the income tax payable by him for the year of assessment 2015.

Note: You are NOT required to re-compute the tax payable for the year of assessment 2014. (3 marks)

(25 marks)

3 Roda Sdn Bhd (RSB) is a resident company in the business of the manufacture and assembly of automobile vehicles and accessories. Part of RSB's factory premises includes a service centre workshop which is used for repairs to vehicles carried out in conjunction with the business of selling the company's products. During the year ended 30 June 2014, the following capital expenditure was incurred by RSB:

- (1) RM20,000 for an extension to the service centre workshop.
- (2) RM250,000 for preparing, cutting and levelling of land for the installation of a spraying machine which cost RM70,000.
- (3) RM750 for preparing, cutting and levelling of land for the installation of a hoist machine which cost RM6,000.
- (4) The acquisition on hire purchase of a non-commercial car for the production manager. The on-the-road price of the car was RM148,000 and details of the payments made by RSB are as follows:

	RM
Road tax and insurance	3,000
Deposit	20,000
Capital portion of each monthly instalment commencing from 1 January 2014	15,000

On 10 June 2014, RSB wrote off a computer assisted design (CAD) software system which it no longer required. The system had been purchased for RM30,000 on 3 June 2012, and RSB had claimed accelerated capital allowances under the Income Tax (Accelerated Capital Allowance) (Plant and Machinery) Rules 2008 under which the initial and annual allowances claimed were 20% and 80% respectively.

Required:

(a) State the circumstances in which a service centre workshop will qualify as a factory building for the purposes of claiming industrial buildings allowances. (2 marks)

(b) In respect of the assets acquired by Roda Sdn Bhd in the year ended 30 June 2014:

- Determine the qualifying plant and building expenditure and compute the capital allowances and building allowances for the year of assessment 2014.
- Identify those assets or expenses which are non-qualifying and state the reason.

Note: Your answer should indicate the residual expenditure in respect of all relevant assets. (15 marks)

(c) Compute the balancing allowance or charge for the year of assessment 2014 as a result of the write off of the CAD software system. (3 marks)

(20 marks)

4 (a) Paragon Sdn Bhd (PSB) is a Malaysian resident company which operates an internationally renowned fast food chain. PSB has an issued share capital of RM10 million and makes up its accounts annually to 30 September.

PSB has entered into a franchise agreement with Lara Ltd, a non-resident company. Under the terms of this agreement, PSB is required to pay a royalty annually based on its annual sales. For the year ended 30 September 2014, the gross royalty payable was computed as RM100,000 and this was paid to Lara Ltd on 20 October 2014. Due to a change in personnel, the payment of the withholding tax on this royalty due to be remitted to the Inland Revenue Board (IRB) was inadvertently overlooked.

PSB submitted its tax return for the year of assessment 2014 on 1 December 2014 and claimed a deduction for the gross royalty payment in arriving at its adjusted income.

Extracts from the return submitted and the tax computation for the year of assessment 2014 are as follows:

	RM
Chargeable income	2,000,000
Income tax payable at 25%	500,000

Required:

(i) State the date by which the withholding tax on the royalty payment should have been remitted to the Inland Revenue Board (IRB). (1 mark)

(ii) State the consequences for Paragon Sdn Bhd of its non-compliance with the withholding tax requirements. (3 marks)

(iii) Compute the amount of withholding tax due and the penalty for its late payment, and compute the income tax underpaid by Paragon Sdn Bhd for the year of assessment 2014; and the penalty for submitting an incorrect return.

Note: You should assume the penalty rate for incorrect submission is 45%. (3 marks)

(iv) State the circumstances in which a taxpayer may self-amend an already submitted tax return and the time limit for doing so. (2 marks)

(b) Mr Xuan a Taiwan citizen, was employed as head of global operations for Goal Sdn Bhd from March 2009 to May 2014. He flew into Malaysia for the first time on 3 March 2009 and took the last flight from Malaysia to Taiwan on 20 May 2014.

The record of Mr Xuan's stay in Malaysia is as follows:

Year	Period in Malaysia	Days
2009	3 March to 31 December 2009	304
2010	1 January to 8 January 2010	8
2011	8 October 2011 to 31 December 2011	84
2012	1 January 2012 to 4 May 2012	} 282 (see note below)
	25 May 2012 to 9 June 2012	
	22 June 2012 to 10 November 2012	
2013		0
2014	10 January 2014 to 20 May 2014	131

In 2012, all of Mr Xuan's temporary absences from Malaysia were for service-related matters except for:

- from 5 May 2012 to 24 May 2012 (20 days) when he returned to Taiwan due to his mother's ill- health; and
- from 10 June 2012 to 21 June 2012 (12 days) when he left Malaysia for a social visit.

Required:

State, giving reasons, the residence status of Mr Xuan for each of the years of assessment 2009 to 2014. (6 marks)

(15 marks)

- 5 (a) **State the THREE types of 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.** (3 marks)
- (b) Pacific Sdn Bhd, a company licensed for sales tax purposes, undertook the following transactions in the period from 1 January to 28 February 2014:
- (1) Imported goods including freight and insurance worth RM100,000 and received an invoice for this amount dated 10 January 2014. The goods imported were subject to an import duty at the rate of 20%.
 - (2) As part of the promotion of its products, gave away free-of-charge 1,000 units of its products to potential importers and customers on 20 February 2014. The cost to manufacture each unit of product is RM15 and the selling price per unit is RM20.

Required:

- (i) **Explain the sales tax implication of giving away 1,000 units of finished goods free-of-charge.** (2 marks)
- (ii) **Compute the sales tax payable by Pacific Sdn Bhd for the period 1 January to 28 February 2014.** (3 marks)
- (iii) **Compute the penalty for late payment payable by Pacific Sdn Bhd if it did not remit the sales tax (as calculated in (ii) above) until 25 May 2014.** (2 marks)

(10 marks)

End of Question Paper