Answers

Marks

1 Uni Sdn Bhd

Chargeable income for the year of assessment 2014
(Basis period to 31 December 2014)

	Note	RM'000s –	RM'000s +	
Profit before taxation			2,898	
Depreciation	1		1,400	½
Royalty fees paid to non-resident on 30 June	1		200	1
Royalty fees paid to non-resident on 30 September	1		Nil	1
Dividend income – single tier system (exempt)		500		½
Share of profit from partnership	2	2,000		½
Key-man insurance – endowment (non-taxable)	3	30		1
Statutory audit fees			Nil	½
Embezzlement – director	4		20	1
Contributions in kind to approved institutions	5		100	½
Gifts without business logo (50% x 66,000)	6		33	1
Entertainment of employees of related companies	6		8	1
Promotional samples	6		Nil	½
Foreign exchange loss realised on trade payables	7		Nil	½
Foreign exchange gain (realised but not trade)	7	10		1
Insurance premium – company's key personnel	8		Nil	½
Insurance premium – whole-life policy	8		10	1
Legal fees for defending unjust dismissal claims	9		10	1
Tax fees for filing appeal	9		12	1
Company secretarial fees	9		6	½
General allowance for trade receivables	10		15	½
Specific allowance for trade receivables	10		Nil	½
Ramp providing access for disabled customers	11		3	1
Pre-commencement expenses	12	10		W1
Leave passage – local trip	13		20	½
Staff training costs	13		Nil	1
Salaries for directors	13		Nil	½
EPF contributions (500 – (19% x 2,000))	13		120	1
Travelling expenses	14	34		W2
		2,584	4,855	
			(2,584)	
Adjusted income			2,271	
Less: Capital allowances	15		(2,000)	½
Statutory income			271	
Share of divisible income from partnership	2	2,005		W3
Less: Capital allowances	2	(50)		W3
Statutory income			1,955	
Aggregate of statutory income			2,226	
Add: Dividend income – single tier system			Nil	½
Aggregate income			2,226	
Less: Contributions (in-kind)			Nil	½
Total/chargeable income			2,226	

Tutorial notes:

1. *As the withholding tax on the royalty fee paid on 30 June 2014 was not paid to the Inland Revenue Board within one month of the date of payment to the non-resident (and no late payment penalty was paid), USB cannot claim a tax deduction for this amount.*
2. *The key man insurance arising from the endowment policy is capital in nature and therefore, not taxable.*

Marks

Workings:

1 Pre-commencement expenses

	Expense incurred in year RM'000s	Amortised amount (1/3rd) RM'000s	Adjusted amount RM'000s	
Salaries and EPF related expenses	30	10	10	1
Recruitment expenses	15	5	(10)	1
Incorporation expenses	15	5	(10)	1
	60	20	(10)	

Tutorial notes:

1. *The pre-commencement salaries and EPF related expenses are disallowable and thus the amortised amount through the profit and loss account is added back.*
2. *The pre-commencement recruitment expenses are allowable in full in the year incurred. The incorporation expenses are allowable in full in the year incurred as USB's authorised share capital does not exceed RM2·5 million.*

2 Travelling expenses

Double deductions for promotional expenditure (maximum three representatives):

	RM'000s	
Economy air fares (3 x 5,000)	15	1
Hotel accommodation for company representatives (300 x 3 x 10)	9	1
Sustenance for the company representatives (150 x 3 x 10)	4·5	1
Promotional pamphlets and booth rental	5·5	1
	34	

3 Share of partnership

	RM'000s	
Profit before tax as computed	4,000	
Add back: Depreciation	10	½
Provisional adjusted income/divisible income	4,010	
Share of Uni Sdn Bhd at 50%	2,005	½
Capital allowances	100	
Share of Uni Sdn Bhd at 50%	50	1
		30

Marks

2 Razif

(a) Chargeable income for the year of assessment 2014

	RM	RM	Marks
[Section 4(a)]			
Restaurant business			
Loss before taxation	(800)		
Add: Depreciation	3,000		½
Adjusted income	2,200		
Less: Capital allowance (500 + 500)	(1,000)		½ + ½
Statutory income		1,200	
Accounting business			
Profit before tax	800		
Add: Depreciation	4,000		½
Less: Gain on disposal of non-current assets	(10,000)		1
Adjusted loss	(5,200)		
Adjusted income	Nil		½
Add: Balancing charge	3,600		½
Less: Capital allowance	(600)		½
Statutory income		3,000	
Aggregate of statutory income		4,200	
Less: Unabsorbed losses brought forward		(1,000)	1
Statutory income from businesses		3,200	½
[Section 4(b)]			
Employment			
[Section 13(1)(a)]			
Salary		140,000	½
Lucky draw prize – HD TV		Nil	1
Car and education loan interest subsidies			
Interest subsidised by employer	10,000		½
Less: Exempt (loans not exceeding RM300,000)	(10,000)	Nil	1
Long service award	12,000		½
Less: Exemption [Paragraph 25C, Schedule 6]	(2,000)	10,000	1
		150,000	
[Section 13(1)(b)]			
Furnishings – fully furnished as per table (RM280 x 12)		3,360	1
[Section 13(1(c)]			
Living accommodation			
Lower of			
30% x Section 13(1)(a) [30% x RM150,000]	45,000		1
or			
Defined value [(RM 4,500 – RM500) x 12]	48,000		1
Lower of		45,000	½
Adjusted income/statutory income from employment		198,360	
Aggregate income (RM3,200 + RM198,360)		201,560	
Less: Current year loss from business		(5,200)	1
Less: Contributions (in-kind)		Nil	1
Total income		196,360	
Less: Personal reliefs			
Self	9,000		½
Wife	3,000		½
Child relief	6,000		½
Medical expenses for father-in-law	Nil		1
Books (maximum)	1,000		½
		(19,000)	
Chargeable income		177,360	
			19

Marks

(b) Razif's investment

Option 1

Razif
Razif's return on this investment will be dividends from the shares in the company. Dividend income received by a shareholder under the single-tier system is tax exempt in their hands. 1

Thus, he will be not be able to deduct the interest expense payable to the bank from any dividend income because the deduction of such interest expense is specifically prohibited [para 12B, Schedule 6]. 1

Company
The company paying such dividends will not be able to claim a tax deduction for the dividend payments made to Razif, as it is an appropriation of profits. 1

Option 2

Razif
Razif's return on this investment will be interest income on the loan to the company. The interest income will be taxable and the interest expense payable to the bank will be available for set off against that interest income. 1½

Company
The company paying the interest will be able to claim the interest expense as a tax deduction. 1

Conclusion
Therefore, it will be more tax efficient for the company if Razif invests by way of a loan as per Option 2. From Razif's perspective, both options are tax neutral. ½

Note: *Marks will be awarded for other acceptable reasons.* 6

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3 Octane Sdn Bhd

(a) A person is regarded as having a 'relevant interest' in a building if he has incurred expenditure on the building. 1

Therefore, a person can claim industrial building allowance if he has incurred expenditure on the building, even if the premises are rented. This is on the condition that the building is used as an industrial building. 1

2

(b) The cost of an office administration area will be included in the qualifying building expenditure and eligible for a claim for industrial buildings allowance if the office administration area does not exceed 10% of the total floor area of the building. 2

(c) (i) Capital allowances and industrial building allowances for the year of assessment 2014

1. Factory building

	RM	RM	
Legal fees for building approval		8,000	½
Cost of demolition of non-industrial building		5,000	½
Architect's fees		42,000	½
Foundation and laying of drains and pipes and cables		130,000	½
Construction cost for factory building (571,000 – 10,000)		561,000	½
Road, fencing and security		8,000	½
Subcontract for labour		251,000	½
Total costs		1,005,000	
Less: 15% (1,500 sq ft/10,000 sq ft) for offices		(150,750)	1
Qualifying building expenditure		854,250	
Year of assessment 2014			
Qualifying building expenditure		854,250	
Initial allowance (10%)	85,425		½
Annual allowance (3%)	25,628	(111,053)	½
Residual expenditure		743,197	
Factory cost incurred by landlord (non-qualifying for OSB)		Nil	1

Marks

2. Other statement of profit or loss items

Repainting of existing factory of RM4,000

This is a cost of maintaining an asset, as such it will be regarded as revenue expenditure and be claimed as a deduction in arriving at adjusted income. 1

Capital allowance items

	RM	RM	RM	
Small value assets				
Air-conditioner		850		1
Computer		950		1
Total		1,800		
Annual allowance (100%)			1,800	1
Conference table		1,250		½
Initial allowance (20%)	250			½
Annual allowance (10%)	125	(375)	375	½
		875		
			2,175	
				12

(ii) Balancing allowance/charge on the disposal of heavy machinery

	RM	
Qualifying plant expenditure (QPE)	100,000	
Year of assessment (YA) 2012		
Initial allowance (20%)	(20,000)	½
Annual allowance (20%)	(20,000)	½
Residual expenditure	60,000	
YA 2013		
Annual allowance (20%)	(20,000)	½
Residual expenditure	40,000	½
YA 2014		
Disposal proceeds	(125,000)	½
Balancing charge	85,000	½
Balancing charge restricted to capital allowances claimed	60,000	1
		4
		20

4 (a) Rema

(i) An employee, without business income, is required to submit their tax return with details of chargeable income by 30 April following the end of the relevant year of assessment. Therefore, Rema must submit her tax return for the year of assessment 2014 on or before 30 April 2015. 1 + ½

The balance of any tax payable, i.e. not covered by the instalment system or scheduler tax deductions, must also be made by 30 April 2015. ½

An employee is required to retain sufficient records for a period of seven years from the end of the relevant year for the purposes of ascertaining their chargeable income and income tax payable for the relevant year of assessment. 1

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Note: *Marks will be awarded for any acceptable obligation.*

Marks

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

	RM	RM	Marks
Salary (2,000 x 12)		24,000	½
Rental income (2,000 x 12)		24,000	½
Aggregate income/total income		48,000	
Less: Personal reliefs			
Self	9,000		½
EPF (RM220 x 12)	2,640		½
Laptop computer (max RM3,000)	1,360		½
Smartphone	Nil	(13,000)	1
Chargeable income		35,000	
Income tax charged			
Tax on RM35,000		1,200	½
Less: Rebate (for chargeable income not exceeding RM35,000)		(400)	1
Income tax payable		800	
			5

(b) Ashley

(i) Chargeable gain for real property gains tax (RPGT) for the year of assessment 2014

Disposal of land on 15 October 2014

	RM	RM	Marks
Disposal consideration		500,000	½
Less:			
Incidental expenses relating to disposal			
Agent's fees		(3,000)	½
Disposal price		497,000	
Less:			
Acquisition consideration	200,000		½
Less: Deposit forfeited	(20,000)		½
Acquisition price		(180,000)	
		317,000	
Schedule 4 exemption for individual			
Higher of the following:			
(i) 10% of chargeable gain	31,700		
(ii) RM10,000	10,000		
Whichever is higher		(31,700)	1
Chargeable gain		285,300	
Less: Allowable loss available		(143,000)	1
Chargeable gain		142,300	
			4

(ii) If Ashley acquires the properties in her own name and disposes of the properties after holding them for ten years, there will be no real property gains tax (RPGT) since there is no RPGT charge for individuals (citizens and permanent residents) for disposals made more than five years after their acquisition. 1½

If Ashley acquires the properties through a company and disposes of the properties after holding them for ten years, there will be a RPGT charge at the rate of 5% on any chargeable gain arising on their disposal. 1

Therefore, from a RPGT perspective, it is better for Ashley to acquire the properties in her own name. ½

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Marks

5 (a) Sales tax – Refund, remission and drawback

Refund

A licensed manufacturer can apply for a refund when sales tax has been overpaid or erroneously paid. An application to reclaim the tax can made within one year after the overpayment or erroneous payment has been made. ½ + 1

Remission

A licensed manufacturer who is unable to pay can apply to the Minister of Finance for remission from paying the whole or the part of the sales tax or penalty payable on the grounds that it is just and equitable. An application can be made at any time after the sales tax or penalty becomes payable. ½ + 1

Drawback

A licensed manufacturer can claim drawback of the full amount of the sales tax paid for goods which are subsequently exported. An application for a refund must be made within three months after the goods are exported. 1 + 1

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(b) Par Sdn Bhd

(i) Invoice

	RM	Marks
Tax advisory fees	10,000	½
Service tax at 6%	600	1
	10,600	
Disbursements		
Photocopy charges	400	½
Travel charges	600	½
Legal fees – Yarl & Co	2,120	½
	13,720	
		3

(ii) The taxable period is from 1 March 2014 to 30 April 2014 and the due date to remit the service tax to the Royal Customs Department is within 28 days from the end of the taxable period, i.e. on or before 28 May 2014. 1 + 1

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