

Fundamentals Level – Skills Module

# Taxation (Malaysia)

Tuesday 2 June 2015



**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)

# ACCA

## 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

<b>Chargeable income not exceeding RM35,000</b>	<b>RM</b>
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
<b>Agriculture allowance</b>		
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 %
<b>Date of disposal</b>			
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 Uni Sdn Bhd (USB) was incorporated on 1 January 2014 and commenced its operations on 1 April 2014 with an authorised and issued share capital of RM2,000,000. USB is in the business of publishing books and offering career guidance and recruitment services and makes up its accounts annually to 31 December.

The statement of profit or loss of USB for the financial year ended 31 December 2014 is as follows:

	Note	RM'000s	RM'000s
Sales			14,000
Less: Cost of sales	1		<u>(7,000)</u>
Gross profit			7,000
Add: Other income			
Dividend income		500	
Share of profits from the UR Tech University partnership	2	2,000	
Other income	3	<u>30</u>	2,530
Less: Expenses			
Statutory audit fees		43	
Cash losses due to theft and embezzlement	4	50	
Donations	5	100	
Entertainment expenses	6	122	
Foreign exchange loss	7	170	
Insurance premiums	8	90	
Legal and professional fees	9	28	
Allowance for receivables and irrecoverable debts written off	10	30	
Repair and maintenance expenses	11	68	
Pre-commencement expenses	12	20	
Salaries and wages	13	5,832	
Travelling expenses	14	<u>79</u>	
			<u>(6,632)</u>
Profit before tax			<u>2,898</u>

Notes:

(1) Cost of sales

Included in the cost of sales are:

	RM'000
Depreciation of plant and equipment	1,400
Royalty fees (refer to the details below)	1,800

Details of the royalty fees paid to Books Inc, a non-resident company, and the withholding tax remitted to the Inland Revenue Board (IRB) are shown below. No penalties in respect of late payment were paid:

Date paid to non-resident	Date of remittance to IRB	Amount paid RM'000
30 June 2014	2 August 2014	200
30 September 2014	23 October 2014	<u>1,600</u>
		<u>1,800</u>

(2) USB entered into a partnership agreement with Rain Sdn Bhd to form the UR Tech University. The profits of this partnership will be shared equally. The necessary approvals were obtained to provide software engineering education services for both the local and international markets and also to participate in career fairs and campaigns abroad to attract candidates for the university campus in Kuala Lumpur.

For the year 2014, the UR Tech University partnership recorded a profit before tax of RM4 million, after charging depreciation of RM10,000.

Capital allowances for the UR Tech University partnership have been computed at RM100,000 for the year of assessment 2014.

- (3) The other income arose from a key-man's endowment policy in respect of the managing director.
- (4) This figure includes an amount embezzled of RM20,000 by one of the directors. A police report was lodged but was dismissed.
- (5) USB contributed computers worth RM100,000 to an approved charitable institution.
- (6) Entertainment expenses comprise:

	<b>RM'000</b>
Gifts without a business logo for a customer's annual dinner	66
Entertainment of employees of related companies	8
Promotional samples	48
	<u>122</u>

- (7) The foreign exchange loss comprises:

	<b>RM'000</b>
Foreign exchange loss realised on trade payables	180
Foreign exchange gain realised on the purchase of machinery	(10)
	<u>170</u>

- (8) Insurance premiums include:

	<b>RM'000</b>
Insurance premium to cover risk of loss of income of the company's key personnel	60
Insurance premium paid for a 'key-man' whole life policy to insure the life of the marketing manager (the beneficiary stated in this policy is the company)	10

- (9) Legal and professional fees comprise:

	<b>RM'000</b>
Costs of defending legal proceedings brought by former employees claiming unjust dismissal	10
Tax fees for appealing against a penalty on a late instalment tax payment	12
Company secretarial fees	6
	<u>28</u>

- (10) Allowance for receivables and irrecoverable debts written-off comprise:

	<b>RM'000</b>
General allowance for trade receivables (debtors)	15
Specific allowance for trade receivables (debtors)	15
	<u>30</u>

- (11) Repair and maintenance expenses include the costs of installing a ramp to provide access for disabled customers for RM3,000.

(12) The total pre-commencement expenses incurred during the period up to 31 March 2014 comprised:

	<b>RM'000</b>
Salaries and employees' provident fund (EPF) related expenses	30
Recruitment expenses	15
Incorporation expenses relating to the company's memorandum and articles of association and registration of company expenses	15
	<u>60</u>

USB decided to amortise all the above expenses over a period of three years.

(13) Salaries and wages include:

	<b>RM'000</b>
Leave passage – local trip for managing director	20
Staff training costs (see below)	110
Salaries of directors	2,000
EPF contributions for directors	500

The staff training was delivered by a non-resident trainer and the costs include RM8,000 paid to a local hotel for the accommodation expenses incurred for the trainer's one-week stay. It was agreed that USB would bear the hotel accommodation expenses incurred by the trainer. No withholding tax was deducted from the payment made to the hotel. The staff training was not approved for any further deduction.

(14) These include travelling and promotional expenses for four company representatives to participate in a career and education fair overseas for ten days, which was approved by the relevant authority, as follows:

	<b>RM'000</b>
(1) Economy air fares for the company representatives at RM5,000 each	20
(2) Hotel accommodation for the company representatives	20
(3) Sustenance for the company representatives	15
(4) Promotional pamphlets and booth rental	5.5

(15) USB's capital allowances have been computed at RM2 million for the year of assessment 2014.

**Required:**

**Commencing with the profit before tax, compute the chargeable income of Uni Sdn 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.

**(30 marks)**

- 2 Razif has been employed by a local company for the past 12 years and also derives income from two business sources. Razif is married to Aniza, who has no income, and they have one child aged 20, who is pursuing a degree at a local university. Both Razif and Aniza are Malaysian tax residents for the year of assessment 2014.

Details of Razif's employment income and benefits for the year of assessment 2014 are as shown below:

His salary for the year was RM140,000.

During the company's annual dinner, Razif received a long-term service award of RM12,000 and also won the first prize in a lucky draw of a high definition television (HD TV) worth RM10,000.

He was provided with fully furnished living accommodation for the whole year with a monthly rental cost of RM4,500 (including RM500 for furniture). Razif was not required to pay any amounts to his employer towards these rental costs.

He was entitled to a subsidy from his employer on the following loans:

- (1) a car loan of RM200,000 to finance the purchase of a car; and
- (2) an education loan of RM50,000 to pursue a masters degree programme.

The total interest for the year due in respect of both the loans was RM20,000 and his employer subsidised this by an amount of RM10,000.

Details of Razif's restaurant and accounting businesses' results for the year of assessment 2014 are as shown below:

	RM	RM
<b>Restaurant business:</b>		
Loss before taxation		(800)
After charging: Depreciation		3,000
Capital allowances for this business are:		
Current year	500	
Brought forward	500	
<b>Accounting business:</b>		
Profit before tax		800
After charging/(crediting):		
Depreciation		4,000
Gain on disposal of non-current (fixed) assets		(10,000)
Capital allowances for the current year are:		
Balancing charge	3,600	
Capital allowance	600	
Unabsorbed losses brought forward are:	1,000	

**Additional information:**

Razif bought books for his own personal use worth RM5,000 and incurred RM6,000 of costs in respect of his father-in-law's medical treatment. He also contributed books worth RM10,000 to an approved charitable institution.

**Required:**

- (a) **Compute the chargeable income for the year of assessment 2014 for Razif.**

**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. (19 marks)



**(b)** Razif is considering investing RM100,000 in a company which will undertake a local franchise business. His bank has agreed to offer financing of RM100,000 for this investment, at market interest rates.

Razif has two alternative ways of investing in this company:

Option 1 – Buying shares in the company undertaking the investment.

Option 2 – Offering a loan to the company undertaking the investment for which he will charge interest at market interest rates.

**Required:**

**Explain the tax implications of each of the options (1 and 2) for both Razif and the company and conclude on which option would be the more tax efficient.** (6 marks)

**(25 marks)**

- 3** Octane Sdn Bhd (OSB) is a resident company in the business of manufacturing media storage gadgets. OSB leases its premises and, during the year ended 31 December 2014, completed the construction of an extension to the factory building on the rented premises.

It was agreed with the landlord of the premises that he would pay RM10,000 of the cost of the factory but that the balance of the extension cost would be incurred by OSB as the tenant.

- (1) Details of the expenditure incurred on the construction of the factory building extension are as follows:

	RM
Legal fees for building approval	8,000
Cost of demolition of building portion now re-constructed (non-industrial building)	5,000
Architect's fees	42,000
Foundation and laying of drains and pipes and cables	130,000
Construction cost of factory building	571,000
Less: Costs paid for by landlord (as agreed)	(10,000)
Road, fencing and security	8,000
Subcontract for labour	251,000
Total	1,005,000

Part of the costs incurred were for constructing an office administration area, which occupies 1,500 sq ft out of a total area of 10,000 sq ft in respect of the factory building extension. Details of the capital expenditure for the office administration area are not available.

- (2) The cost of the following items were charged to OSB's statement of profit or loss for the year ended 31 December 2014:

	RM
Repainting the existing factory area as part of OSB's ongoing upkeep and maintenance programme	4,000
Purchase cost of:	
– Air-conditioner	850
– Computer	950
– Conference table	1,250

- (3) OSB disposed of heavy machinery on 7 November 2014 for RM125,000. This heavy machinery had been acquired on 2 April 2012 at a cost of RM100,000.

**Required:**

- (a) Explain the term 'relevant interest' in the context of rented industrial building premises and the eligibility of a tenant to claim industrial building expenditure. (2 marks)
- (b) Explain when an office administration area will be included in the qualifying building expenditure for industrial building allowance purposes. (2 marks)
- (c) (i) In respect of the expenditure incurred by Octane Sdn Bhd in the year ended 31 December 2014, determine the qualifying building and plant expenditure and compute the building allowance, capital allowance and, if applicable, any other claim which can be made 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 claim can be made. (12 marks)
- (ii) Compute the balancing allowance or balancing charge on the heavy machinery disposed of during the year of assessment 2014. (4 marks)

**(20 marks)**

- 4 (a) Rema is single and a tax resident of Malaysia. She has been employed as a bank executive since 1 January 2014 at a monthly salary of RM2,000. Her monthly payslips show there were deductions of RM220 per month for contributions to the employees' provident fund (EPF).

During the year 2014, Rema also derived monthly rental income of RM2,000, net of allowable expenses, from a property which was given to her by her father two years ago.

In 2014, Rema bought a laptop computer for her personal use for RM1,360 and a smart phone for RM3,000.

**Required:**

- (i) **State Rema's income tax obligations and responsibilities as a taxpayer for the year of assessment 2014.**

(3 marks)

- (ii) **Compute the income tax payable by Rema 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. (5 marks)

- (b) Ashley disposed of two properties she owned during the year 2014: an apartment and a piece of land. Both properties were owned as investments and she did not provide any ancillary services. Ashley is a tax resident of Malaysia.

The disposal of the apartment resulted in an allowable loss computed as RM143,000.

Details of the land are as shown below:

	RM
Acquisition consideration	200,000
Deposits forfeited from intended buyer	20,000
Agent's fees on disposal	3,000
Disposal consideration	500,000
Date of acquisition	20 February 2012
Date of disposal	15 October 2014

Ashley plans to re-invest the proceeds from her 2014 disposals into other properties at some point in 2015, but is not sure whether she should acquire these properties in her own name or set up a company to own the properties. She plans to hold these new properties as investments and dispose of them after ten years.

**Required:**

- (i) **Compute the chargeable gain subject to real property gains tax (RPGT) for the year of assessment 2014 arising from Ashley's disposal of both the apartment and the land.**

Note: You are NOT required to compute the real property gains tax (RPGT) payable. (4 marks)

- (ii) **Advise Ashley whether, from a RPGT perspective, she should acquire the new properties in her own name or set up a company to own them.**

Notes:

1. Calculations are NOT required in part (ii).
2. You may assume that the prevailing real property gains tax (RPGT) rates will continue to apply until the new properties are sold. (3 marks)

**(15 marks)**

- 5 (a) Explain the circumstances in which a licensed manufacturer can make each of the following claims for sales tax purposes including the due dates by which any application should be made:
- (i) refund;
  - (ii) remission; and
  - (iii) drawback. (5 marks)

- (b) Par Sdn Bhd, a company licensed for service tax purposes, was requested to provide tax advisory services, including a legal opinion, by Vax Sdn Bhd. Par Sdn Bhd engaged the services of a legal firm, Yarl & Co, to provide the legal opinion.

Yarl & Co issued an invoice for the legal opinion of RM2,120 inclusive of service tax to Par Sdn Bhd on 2 January 2014.

The fees for the tax advisory services rendered by Par Sdn Bhd amounted to RM10,000 excluding service tax. In addition, there were disbursements for photocopy charges of RM400 and travel charges of RM600, as well as the cost of the legal opinion.

Par Sdn Bhd issued the invoice for all of the tax and legal advisory services (including disbursements) to Vax Sdn Bhd on 12 January 2014 and payment was received on 5 April 2014.

**Required:**

- (i) Provide details of the amounts to be included on the invoice issued by Par Sdn Bhd on 12 January 2014, clearly identifying the items which are subject to service tax and which are not subject to service tax. (3 marks)
- (ii) State the taxable period and the due date for the service tax (as charged in (i) above) to be remitted to the Royal Customs Department. (2 marks)

**(10 marks)**

**End of Question Paper**

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# Answers

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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:

- 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.
- The key man insurance arising from the endowment policy is capital in nature and therefore, not taxable.

## 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
	<u>60</u>	<u>20</u>	<u>(10)</u>	

## 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
	<u>34</u>	

## 3 Share of partnership

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

## 2 Razif

## (a) Chargeable income for the year of assessment 2014

	RM	RM	
[Section 4(a)]			
<b>Restaurant business</b>			
Loss before taxation	(800)		
<i>Add:</i> Depreciation	3,000		½
Adjusted income	2,200		
<i>Less:</i> Capital allowance (500 + 500)	(1,000)		½ + ½
Statutory income		1,200	
<b>Accounting business</b>			
Profit before tax	800		
<i>Add:</i> Depreciation	4,000		½
<i>Less:</i> Gain on disposal of non-current assets	(10,000)		1
Adjusted loss	(5,200)		
Adjusted income	Nil		½
<i>Add:</i> Balancing charge	3,600		½
<i>Less:</i> Capital allowance	(600)		½
Statutory income		3,000	
Aggregate of statutory income		4,200	
<i>Less:</i> 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
<i>Less:</i> Exempt (loans not exceeding RM300,000)	(10,000)	Nil	1
Long service award	12,000		½
<i>Less:</i> 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	
<i>Less:</i> Current year loss from business		(5,200)	1
<i>Less:</i> Contributions (in-kind)		Nil	1
Total income		196,360	
<i>Less:</i> 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	



**(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.

625**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.

12

- (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		<u>1,005,000</u>	
Less: 15% (1,500 sq ft/10,000 sq ft) for offices		(150,750)	1
Qualifying building expenditure		<u>854,250</u>	
<b>Year of assessment 2014</b>			
Qualifying building expenditure		854,250	
Initial allowance (10%)	85,425		½
Annual allowance (3%)	<u>25,628</u>	(111,053)	½
Residual expenditure		<u>743,197</u>	
Factory cost incurred by landlord (non-qualifying for OSB)		Nil	1

## 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		<u>1,800</u>		
Annual allowance (100%)			1,800	1
Conference table		1,250		1/2
Initial allowance (20%)	250			1/2
Annual allowance (10%)	<u>125</u>	<u>(375)</u>	<u>375</u>	1/2
		<u>875</u>		
			<u>2,175</u>	
				<u>12</u>

**(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)	1/2
Annual allowance (20%)	<u>(20,000)</u>	1/2
Residual expenditure	60,000	
<b>YA 2013</b>		
Annual allowance (20%)	<u>(20,000)</u>	1/2
Residual expenditure	40,000	1/2
<b>YA 2014</b>		
Disposal proceeds	(125,000)	1/2
Balancing charge	<u>85,000</u>	1/2
Balancing charge restricted to capital allowances claimed	60,000	1
		<u>4</u>
		<b><u>20</u></b>

## 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 + 1/2

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. 1/2

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

3

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

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

	RM	RM	
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	
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

3

**15**

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 be made within one year after the overpayment or erroneous payment has been made.

$\frac{1}{2} + 1$

**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.

$\frac{1}{2} + 1$

**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.

$1 + \frac{1}{5}$

(b) Par Sdn Bhd

(i) Invoice

	<b>RM</b>	
Tax advisory fees	10,000	$\frac{1}{2}$
Service tax at 6%	<u>600</u>	1
	10,600	
Disbursements		
Photocopy charges	400	$\frac{1}{2}$
Travel charges	600	$\frac{1}{2}$
Legal fees – Yarl & Co	<u>2,120</u>	$\frac{1}{2}$
	<u>13,720</u>	<u>3</u>

(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.

$1 + 1$

2

**10**