Answers

Section B *Marks*

1 (a) Delia Spa Sdn Bhd – Capital allowances

		Marks
(1)	Doors are part and parcel of the structure of the centre and so are primarily part of the premises and setting from which the business is carried on.	1
	Therefore, the expenditure incurred on installing the doors will not be plant and so not eligible for capital allowances.	½ + ½
(2)	In the wellness and spa services industry, the chandelier lamp installed for decorative purposes functions as an apparatus used in the business, to create a comfortable and cosy ambiance, which is an important factor in attracting customers to use the services of the spa.	½ + ½
	Therefore, the chandelier lamp could be regarded as plant and, hence, be eligible for capital allowances.	½ + ½
		4

(b) Dark Cycles Sdn Bhd – Capital allowances for the year of assessment 2017

		RM	Marks
(1)	**Machine**		
	Cost	100,000	
	Site preparation costs to install the machine	360,000	
	Aggregate costs	460,000	½
	75% of aggregate costs	345,000	½
	Site preparation costs to install the machine exceed 75% of aggregate costs.		
	Qualifying building expenditure (100,000 + 360,000)	460,000	½ + ½
	Initial allowance 10%	46,000	½
	Annual allowance 3%	13,800	½
(2)	**Air-conditioner disposed of**		
	Disposal proceeds	100	½
	Residual expenditure	0	½
	Balancing charge	100	
(3)	**Workshop** (non-qualifying)	Nil	1

Tutorial note: *Workshops generally are eligible for industrial building allowance (IBA) but would exclude a workshop used for repairs or services where such repairs and services are carried on in conjunction with or incidental to the business of selling (as here).*

		RM	Marks
(4)	**Factory building**		
	Annual allowance at 3% of RM1,000,000	30,000	½
	Extension of factory – not incurred and in use	Nil	½
			6
			10

2 (a) Carat Sdn Bhd – Goods and services tax (GST) on imported goods

(i) Application for import duty exemption NOT approved

	RM	Marks
Value of imports, including charges, freight and insurance	10,000	
Import duty paid (20% x 10,000)	2,000	½
Value for GST	12,000	½
GST (6% x 12,000)	720	½
GST on imports is payable to the Royal Malaysian Customs Department.		½
		2

		Marks

(ii) Application for import duty exemption approved

	RM	
Value of imports, including charges, freight and insurance	10,000	
Import duty on the goods imported	0	1
Value for GST	10,000	½
GST (6% x 10,000)	600	½
		2

Tutorial note: *The value for GST is based on the value of imports and import duty paid, if any. Therefore, if no import duty is paid, it will not be taken into account to determine the value of imports for GST purposes.*

(iii) Input tax credit available

The import duty is not recoverable by Carat Sdn Bhd as the duty is a single stage tax. 1

The GST paid is recoverable as an input tax credit as Carat Sdn Bhd is registered for GST. 1

2

(b) Voluntary registration for GST

(i) A person carrying on a business may apply for voluntary registration even if the annual value of their taxable supplies does not exceed the prescribed threshold of RM500,000 [s.24 of the Goods and Services Tax Act, 2014 (as amended)]. ½

A person who has yet to commence a business of providing taxable supplies but intends to do so may apply for voluntary registration by providing relevant documentary evidence such as details of agreements, construction contracts, plans and financials. 1

A person carrying on a business of making wholly exempt supplies is not eligible to apply for voluntary registration. ½

2

(ii) A voluntarily registered business must charge GST output tax at the appropriate rate on all of its taxable supplies. ½

The benefit of being GST registered is that the business will be entitled to claim the input tax incurred on purchases of business-related goods and services as a credit. ½

1

(iii) A person who is voluntarily registered must remain registered for a minimum of two years. 1

10

3 Quek – Real property gains tax (RPGT) on the disposal of the condominium property

(a) Acquisition price

	RM	
Consideration paid	2,000,000	½
Add: Incidental costs:		
Stamp duty	54,000	½
Legal fees	16,000	½
	2,070,000	
Less: Compensation received	(22,000)	½
Acquisition price	2,048,000	2

Marks

(b) **Disposal price**

	RM	
Consideration received	3,000,000	½
Less: Permitted expenses:		
– Enhancement cost	(32,000)	½
– Minor repairs	Nil	½
– Legal fee to defend title	(6,000)	½
Less: Incidental costs:		
– Valuation fees	(1,000)	½
– Brokerage fees	(20,000)	½
Disposal price	2,941,000	3

(c) **Chargeable gain**

	RM	
Disposal price (from (b))	2,941,000	
Less: Acquisition price (from (a))	(2,048,000)	
Chargeable gain	893,000	½ + ½
Less: Schedule 4 exemption – Higher of 10% of chargeable gain or RM10,000	(89,300)	½ + ½
	803,700	
Less: Allowable loss	(9,000)	1
Chargeable gain subject to RPGT	794,700	3

(d) **RPGT rate applicable**

The RPGT rate will be 30% because: ½

– Quek is a non-citizen; and ½

– there are less than five years from the date of acquisition on 16 May 2013 to the date of disposal on 13 November 2017. 1

2

10

4 **(a)** **Fresh Produce Sdn Bhd – Badges of trade**

The following badges of trade are relevant to the disposal of the two acres of land:

Period of ownership

The longer the period of ownership of an asset, the more likely that it was acquired as an investment. In this case, the land has been held for more than ten years which would be considered a long time. 1 + ½

Frequency of transactions

A single transaction in land would normally be treated as capital in nature but more frequent transactions could be considered as trading/revenue in nature. This is the first time that Fresh Produce Sdn Bhd is disposing of any land, hence it is likely to be regarded as a capital transaction. 1 + 1

Circumstances for the realisation of sale

In the case of a compulsory acquisition or forced sale, the disposal is generally not regarded as an adventure in the nature of trade. 1

In this case, the disposal was to settle a dispute and there was no intention to seek profit. Hence, it is likely to be considered non-trade in nature. ½ + ½

In conclusion, the receipt from the disposal of the two acres of land is likely to be regarded as capital in nature. ½

6

(b) **Pear Inc – Withholding tax on interest**

(i) Pear Inc will be deemed to have derived the interest income from Malaysia because:

– The interest expense of RM35,000 is paid by Guava Sdn Bhd (Guava), a Malaysian resident company, which used the money borrowed to finance its operations in Malaysia. 1

		Marks
	– The interest expense of RM35,000 is deductible against Guava's income, which is accrued in or derived from Malaysia.	1
		2
(ii)	The withholding tax payable is RM5,250 (35,000 x 15%).	1
(iii)	If the withholding tax amount is borne by Guava, it will not be tax deductible for income tax purposes.	1
		10

5 Tawau Global Sdn Bhd

(a) Chargeable income for the year of assessment 2017
(Basis period: 1 June 2016 to 31 May 2017)

	Note	RM'000 –	RM'000 +	
[Sec 4(a) Business source income]				
Profit before taxation			45,005	
Allowance for stock obsolescence	1		18	½
Allowance for warranty (17,000 – 5,000)	1		12	½ + ½
Property, plant and equipment written off	1		3	½
Leave passage	1		8	½
Gain on disposal of commercial property		3,000		½
Rental income – warehouse	2	7,000		½
Amortisation			20,900	½
Entertainment expenses – wedding gift to customer	3		3	½
Overseas patent registration expenses (double deduction)	3	10		1
Donation	4		23	½
Interest expense (50% x 150,000, for investment in warehouse)	5		75	½
Consultancy fees – tax appeal fees	6		10	½
GST return filing fees (unpaid during YA 2017)	6		17	1
Foreign exchange gain (trade and realised)	7	Nil		½
Lease rental of motor vehicle – maximum allowed in YA 2017 RM40,000 (50,000 – 5,000 x 2) claimed in YA 2016)				
Add back (60,000 – 40,000)	8		20	1
Statutory audit fees (GST portion claimable from RMCD)	9		6	1
Salaries	10		Nil	½
EPF and approved fund – maximum allowed (19% x 100,000)				
Add back (21,000 –19,000)	10		2,000	1
		10,010	68,100	
			(10,010)	
Adjusted income			58,090	
Less: Capital allowances	11		(15,000)	½
Statutory income – business			43,090	
[Section 4(d) Investment income – rental source]				
Add: Rental income	2	7,000		½
Interest expense	5	(75)		½
Adjusted income/statutory income			6,925	
Aggregate income			50,015	
Less: Donation (unapproved)			(Nil)	½
Total/chargeable income			50,015	
				14

Tutorial notes:
1. *The GST filing fees will be deductible once the fees are paid.*
2. *The GST input tax on the statutory audit fees is not deductible for income tax purposes since the GST input tax can be claimed from the Royal Customs Department.*

			Marks
(b) The first basis period for the new business will be from 1 October 2016 to 31 May 2017 for the year of assessment 2017.			½ + ½
			1
			15

6 (a) Roopa – Income tax payable for the year of assessment 2017

	RM	RM	
Employment [Sec 4(b)]			
[Section 13(1)(a)]			
Salary (8,000 x 12 months)		96,000	½
Bonus (assessable in the year of receipt, i.e. 2018)		Nil	1
Maid reimbursement by employer (800 x 12)		9,600	½
Innovative employee award (2,400 – 2,000)		400	½ + ½
Total		106,000	
[Section 13(1)(b)]			
Leave passage – local airfare (exempt)		Nil	½
– meals and accommodation		Nil	½
Fully furnished accommodation (280 x 12 months)		3,360	½
Car benefit (per scale)		7,000	½
[Section 13(1)(c)]			
Value of living accommodation			
(30% x s.13(1)(a)) (30% x 106,000) = RM31,800			½
Defined value ((4,000 – 1,000) x 12 months) = RM36,000			½
Whichever is lower		31,800	½
Gross employment income/adjusted income/statutory income		148,160	
[Sec 4(c)]			
Interest income from fixed deposits from local bank (exempt)		Nil	½
Aggregate income		148,160	
Less: Donations (restricted to maximum)		(20,000)	1
Total income		128,160	
Less: Reliefs			
Self	(9,000)		½
Employees' provident fund (maximum)	(6,000)		½
Child	(2,000)		½
Lifestyle (maximum)	(2,500)		½ + ½
Breastfeeding equipment (maximum)	(1,000)		½
Fees paid for child care (unapproved)	Nil		1
		(20,500)	
Chargeable income		107,660	
Tax liability:			
Tax on first RM100,000		11,900	½
Tax on RM7,660 at 24%		1,838	½
Tax charged/payable		13,738	
			13

Tutorial note: *The lifestyle allowance is available in respect of the purchase of sports equipment for RM300 and the purchase of a smartphone for RM3,200, subject to a maximum allowance of RM2,500.*

(b) Roopa should accept the two-year course in the university offered free of any charge as this will be an exempt/non-taxable benefit. Whereas the full amount of the cash allowance will be subject to income tax as employment income.	1 + 1
	2
	15