

SULIT



**BAHAGIAN PEPERIKSAAN DAN PENILAIAN
JABATAN PENDIDIKAN POLITEKNIK
KEMENTERIAN PENDIDIKAN TINGGI**

JABATAN PERDAGANGAN

PEPERIKSAAN AKHIR

SESI JUN 2016

APA7023: TAXATION 1

TARIKH : 28 OKTOBER 2016

MASA : 08.30 AM - 11.30 AM (3 JAM)

Kertas ini mengandungi **DUA BELAS (12)** halaman bercetak.
Esei (5 soalan)

Dokumen sokongan yang disertakan : **TIADA**

JANGAN BUKA KERTAS SOALAN INI SEHINGGA DIARAHKAN

(CLO yang tertera hanya sebagai rujukan)

SULIT

ESSAY : 100 MARKS**INSTRUCTIONS:**

1. This paper consists of **FIVE (5)** structured questions. Answer **all** the questions.
2. All workings **must** be shown as marks will be awarded.

QUESTION 1

Ariff has been working as a service director with a controlled company in Klang, Malaysia since January 2010. Prior to that, he worked as a government officer and retired after reaching compulsory retirement age.

After restructuring of the company's activities, he was then appointed as the director of that controlled company with effect from 1 January 2014. His income in Malaysia for the year ended 31 December 2015 is given below:

Employment income	RM
Director fee for the year ended 31 December 2014 paid in 2015	84,000
Entertainment allowance per month	1,000
Interest on housing loan subsidised by the employer (loan amount RM400,000 and loan balance as at 31 December 2015, RM300,000)	12,000
BMW car provided to him since 2010 with fuel (cost of car inclusive of road tax and car insurance of RM760 and RM2,514 respectively)	203,274

Pension income	
From Public Service Department as ex-government officer	18,480

Sofea, his wife, commenced employment as manager of another company in Klang with effect from January 2015. Her income details in Malaysia from January 2015 to December 2015 are as follow:

Employment income	RM
Salary per month	3,000
Travelling allowance per month (in relation to her employment duties)	600
Gift of mobile phone by the company	899
Interest on car loan subsidised by the company (principal of RM200,000 and balance of loan on 31 December 2015, RM140,000)	8,000
Fully furnished residential house in Klang provided to her (annual rental including rental of furniture of RM6,000 per annum)	42,000

Royalty income	
From an agency of Education Ministry for translation of books	15,280

Additional information:

1. Ariff and Sofea have two unmarried children:
 - Zain, a degree student at a university in Singapore (engaged).
 - Umar, a diploma student at a public university in Malaysia (physically disabled).
2. In 2015, the couple claimed the following expenditures:

	RM
Entertainment expenses for the company's customers (including Sofea's entertainment expenses of RM2,000)	15, 000
Employees Provident Fund contributions (including Ariff's EPF contribution of RM10,560)	14, 520
Ariff's purchase of books as gift to school library of which RM1,100 in respect of gift of books to his children	2, 700
Sofea's purchase of wheelchairs as gift to approved healthcare facility (including wheelchair to her youngest son of RM1,500)	7,500
3. Both of them are residents in Malaysia for the year of assessment 2015.

Required:

- CLO2 (a) Calculate the tax payable for the couple for the year of assessment 2015 under
C3 separate assessment. Ariff claimed child relief for all the children. [24 marks]
- Notes:
1. Use a two-column format to calculate the tax payable for Ariff and Sofea, one for the husband and one for the wife.
 2. Indicate 'nil' for any item that is not subject to income tax and for any expense item that is not qualified for deduction or personal relief.
 3. Marks will be awarded for the use of accurate technical terms to describe the figures comprising the stages in the computation of chargeable income.
- CLO2 (b) Calculate the tax payable for the couple for the year of assessment 2015 under
C3 joint assessment (assume Sofea made the election). [5 marks]
- Notes:
1. Start the calculation from aggregate total income of Ariff and Sofea.
- CLO2 (c) State with reason whether the couple should elect for separate assessment or
C1 joint assessment by referring to answers in (a) and (b) above. [1 mark]
[30 marks]

QUESTION 2

CLO3 (a) State with reasons, whether each of the following companies is a resident or a non-resident in Malaysia:
C1

- i. Cakerawala (M) Sdn Bhd was incorporated in Malaysia in January 2015. All of the directors' meetings are held overseas.
- ii. Keris (S) Pte Ltd, carried on its business operation in Singapore. All decisions affecting the company are wholly made in meetings in Malaysia.

[2 marks]

- (b) Instant Crackers Sdn Bhd (ICSB) is located in Kemaman, Terengganu and a resident company in Malaysia. The company manufactures fish, prawn and other seafood crackers for Malaysia, Brunei and Singapore markets. ICSB's Statement of Comprehensive Income details for the year ended 31 December 2015 are as follow:

Statement of Comprehensive Income for the year ended 31 December 2015

	Notes	RM'000	RM'000
Sales			765
Less: Cost of sales	1		(442)
Gross profit			323
Add: Other income	2		<u>10</u>
			333
Less: <u>Expenses:</u>			
Selling and distribution	3	96	
Administration	4	240	
Finance	5	<u>9</u>	(345)
Net loss			<u>(12)</u>

Notes to the accounts:

1. Included in the cost of sales were:
 - i. Current year provision for expired stocks of RM5,000 and expired stocks written off amounted to RM500.
 - ii. Depreciation of plant and machines of RM35,000.
2. Other income consists of:
 - i. Discount of RM1,300 received from suppliers of fresh seafood.
 - ii. Profit of RM8,700 on disposal of the company's mixing machine.
3. Included in selling and distribution expenses were:
 - i. Loss of RM2,680 on disposal of the company's delivery van.
 - ii. Fee of RM800 paid to JAKIM to obtain halal certification (certificate is issued in 2015).

- iii. Cost of RM1,000 as samples of seafood crackers given to potential customers abroad to promote export sales.
 - iv. Annual lease rental of RM24,000 for a used delivery truck which was rented from July 2015 until June 2016.
 - v. Payment of RM66,750 to develop electronic commerce enabled website to cater for its customers.
4. Included in administration expenses were:
- i. Outing costs of RM8,000 in Redang island in relation to the company's annual trip involving employer and all employees.
 - ii. Employer's contribution to approved scheme of RM28,000 in relation to employees' remuneration cost of RM144,000.
 - iii. Replacement of damaged wood cabinet with a new glass cabinet at a price of RM1,220 to be placed in the office.
 - iv. A sum of RM36,000 as rental of building used to house plant and machines to produce seafood crackers.
 - v. Account, statutory audit and tax filing fees of RM9,000 in which two thirds related to account and statutory audit fees.
 - vi. Contribution of business zakat of RM12,000 to zakat collection centre.
5. Included in finance expenses were:
- i. Foreign exchange loss of RM7,500 realised on selling of seafood crackers in foreign countries.
 - ii. Discount allowed of RM1,000 given to buyers of seafood crackers.

Additional information:

- i. Instant Food Sdn Bhd is neither a subsidiary nor a parent company. On the first day of financial year 2015, the company's paid up ordinary shares capital amounted to RM2,000,000.
- ii. In basis year 2015, the company's qualifying assets consist of machines and furniture of RM72,000 and RM58,000 respectively. These qualifying assets were bought two years ago. The company opted to treat non-current asset in note 4(iii) as small value asset.

Required:

CLO3
C3

Calculate ICSB's tax payable for the year of assessment 2015.

[18 marks]

Notes:

- 1. Start the calculation from 'net loss' figure and include all items referred to in the notes, indicating 'nil' where no adjustment is needed.
- 2. Marks will be awarded for the use of accurate technical terms to describe the figures comprising the stages in the calculation of chargeable income.

- (c) Royale Sdn Bhd is a tax resident trading company in Malaysia. The company started its business operation on 1 May 2014 and closed its first set of accounts on 30 June 2015.

CLO3
C4

Explain the tax treatment for each of the following expense items incurred by the company for the year of assessment 2015:

- i. Advertising to recruit staff 6 months before commencing its business.
- ii. Purchase of small value assets.
- iii. Rental of a shop house prior to commencement of its business.
- iv. Fee paid to a firm for secretarial services as required by Company Act.
- v. Interest on loan used to acquire the company's machine.

[5 marks]

[25 marks]

QUESTION 3

- (a) Rosa, an Indonesian citizen who is a widow and a non-resident individual in Malaysia in 2015. The following details were in respect of her sources of business, employment and rental income in Malaysia in 2015:

Business income - Retail shop

She is a partner in this partnership business. Profit and loss of the shop is shared equally between her and another partner. Other details are as follow:

	RM
Divisible loss of the firm	(108, 000)
Current year capital allowance of the firm	(32, 000)
Her annual salary as a partner	48, 000
Her interest on capital as a partner	3, 000

Employment income

She has been a director of a public listed company since 1 January 2007. She retired upon reaching the age of 60 years old on 31 December 2015. Other details are as follow:

	RM
Annual fee as a director	96, 000
Retirement gratuity	48, 000
Maid and gardener provided by the company (annual salary, each)	14, 400
Unfurnished house provided by the company (defined value)	60, 000

Rental income

She owns a semi furnished bungalow which was first rented out in January 2012. The existing tenant was forced to vacate the bungalow on 30 November 2015 to make way for renovation works from 1 December 2015 to 31 January 2016. Other details are as follow:

	RM
i. <u>Income:</u>	
Annual rental	36, 000

ii. Expenses:

Quit rent and assessment tax (including late payment penalty of RM150)	1, 650
Furniture replacement (RM720 incurred in January 2016)	6, 720
Renovation works	30, 000

Additional information:

In April 2015, she bought two sport equipment at a cost of RM500 each. She used one of the sport equipment at her home and the other sport equipment was donated for an approved sports activity.

Required:

CLO2
C3

Calculate Rosa's chargeable income for the year of assessment 2015.

[18 marks]

Notes:

1. Indicate 'nil' for any item that is not subject to income tax and for any expense item that is not qualified for deduction or personal relief.
2. Marks will be awarded for the use of accurate technical terms to describe the figures comprising the stages in the calculation of total income.

- (b) Steve is a businessman and a resident individual in Malaysia. He decided to buy ten computers worth RM5,000 each by using his business income in Malaysia and intended to give those computers as gifts to several school libraries.

CLO2
C1

State with reason, whether or not he should contribute the computers under section 34(6)(g) or under section 44(8) of the Income Tax Act 1967.

[2 marks]

[20 marks]

QUESTION 4

Riaz is engaged in the business of selling books, stationeries and other office supplies. He owns a shop house in Ipoh, Perak to commence the business in 2010. As at 31 December 2015, Riaz's net profit amounted to RM36,000 after subtracting depreciation of non-current assets of RM14,000 and hire purchase interest of RM800.

In April 2015, he acquired ten cabinets cum bookcases at a price of RM1,200 each through 0% instalment plan of RM1,000 per month (capital portion) for 12 consecutive months commencing April 2015.

In July 2015, he purchased two units of desktop computer to be used in his business at a cost of RM7,500 per unit.

In October 2015, he bought a delivery van on hire purchase terms as follow:

Cash price	RM110, 000
Deposit paid in October 2015	RM38, 000
Instalment payment (including hire purchase interest)	RM2, 400 per month
Total number of instalments	36
Date of first instalment and thereafter	5 November 2015 and on the fifth day of each month thereafter

In December 2015, he sold a set of furniture bought in the year 2010 for RM4,000. Tax written down value of this asset on 31 December 2014 amounted to RM2,400.

Additional information:

Unabsorbed capital allowance from previous year of assessment amounted to RM18,000.

Required:

- CLO2 (a) State with reason whether or not the purchase of cabinets cum bookcases can
C1 qualify for accelerated capital allowance under small value asset. [1 mark]
- CLO2 (b) Determine the qualifying plant expenditure and calculate the capital allowance
C2 for each type of qualifying asset of the business for the year of assessment 2015 (ignore the residual expenditure figure at the end of year 2015). [10 marks]
- CLO2 (c) Calculate the statutory income for Riaz for the year of assessment 2015 (start
C3 the calculation from 'net profit' figure and indicate 'nil' where applicable). [4 marks]
[15 marks]

QUESTION 5

Sohail, a citizen of Pakistan, arrived in Malaysia for the first time on 30 November 2011. He signed a two-year contract to work as the chief engineer of a local company on 2 January 2012. After that, he resigned and left Malaysia on 1 January 2014. In 2015, he came back as a tourist for several days. His period of stay in Malaysia is as follow:

Year	Period of stay	Notes	No of days
2011	30 November to 14 December	1	15
2012	2 January to 1 July	2	181
	20 July to 31 December		165
2013	1 January to 31 December		366
2014	1 January		1
2015	28 February to 9 March		10

Notes:

1. He was in Singapore to be with his wife who was undergoing medical treatment, beginning from 15 December 2011 to 1 January 2012.
2. He was in Pakistan to attend a wedding reception and to visit his relatives and friends, beginning from 2 July 2012 to 19 July 2012.

Additional information:

At the beginning of 2015, a private limited company resident in Malaysia borrowed money from Sohail to acquire a machine to be used in its factory in Malaysia. The company paid a sum of RM8,000 to Sohail, being the interest on the said loan in that year.

Required:

- CLO1 (a) State with reason whether each of the temporary absence mentioned in note 1 and note 2 is treated as permitted absence under section 7(1) of Income Tax Act 1967. [2 marks]
- C1
- CLO1 (b) Determine whether Sohail is a resident or a non-resident for each of the year from 2011 to 2015. State the reasons for each year, if he is a resident in Malaysia. [7 marks]
- C2
- CLO1 (c) State with reason, whether Sohail's interest income in 2015 is subject to withholding tax in Malaysia. [1 mark]
- C1 [10 marks]

INCOME TAX RATES

Resident Individual

Chargeable Income		Tax Rate	Tax
	RM	%	RM
First	5,000	0	0
Next	5,000	1	50
<hr/>			
First	10,000		50
Next	10,000	1	100
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First	20,000		150
Next	15,000	5	750
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First	35,000		900
Next	15,000	10	1,500
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First	50,000		2,400
Next	20,000	16	3,200
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First	70,000		5,600
Next	30,000	21	6,300
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First	100,000		11,900
Next	150,000	24	36,000
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First	250,000		47,900
Next	150,000	24.5	36,750
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First	400,000		84,650
Exceeding	400,000	25	

Resident Company

Chargeable Income		Tax Rate (SMI)	Tax Rate (Non-SMI)
	RM	%	%
First	500,000	20	} 25
Exceeding	500,000	25	

Non-Resident Taxpayers**Tax Rate**

	%
Individual	26
Company	25

CAPITAL ALLOWANCE RATES

Types of Qualifying Assets	Initial Allowance Rate	Annual Allowance Rate
	%	%
Industrial buildings	10	3
Plant and machinery - general	20	14
Motor vehicles and heavy machinery	20	20
Office equipment, furniture and others	20	10
Computer	20	80

PERSONAL RELIEFS AND REBATES

Reliefs	RM
Self	9, 000
Disabled self, additional	6, 000
Medical for parents (maximum)	5, 000
Medical for serious disease inclusive of RM500 for medical examination (maximum)	5, 000
Basic supporting equipment (maximum)	5, 000
Sports equipment (maximum)	300
Fees for skills or qualifications (maximum)	5, 000
Books and other similar publications (maximum)	1, 000
Spouse relief (maximum)	3, 000
Disabled spouse, additional	3, 500
Child - normal rate (each)	1, 000
Child - higher rate (each)	6, 000
Disabled child (each)	5, 000
Disabled child, additional (each)	6, 000
Life insurance and contributions to approved funds (maximum)	6, 000
Private retirement scheme and deferred annuity (maximum)	3, 000
Medical and educational insurance (maximum)	3, 000
Computer (maximum)	3, 000
Deposit into the National Education Savings Scheme (maximum)	6, 000
Special relief	2, 000

Rebates	RM
Self	400
Spouse rebate	400

VALUE OF BENEFITS IN-KIND**Motorcar and Fuel**

Cost of Motorcar When New	Prescribed Annual Value Motorcar	Prescribed Annual Value Fuel
RM	RM	RM
Up to 50,000	1,200	600
50,001 to 75,000	2,400	900
75,001 to 100,000	3,600	1,200
100,001 to 150,000	5,000	1,500
150,001 to 200,000	7,000	1,800
200,001 to 250,000	9,000	2,100
250,001 to 350,000	15,000	2,400
350,001 to 500,000	21,250	2,700
500,001 and above	25,000	3,000

Household furnishings, apparatus and appliances

	Annual Value
	RM
Semi-furnished with furniture in the lounge, dining room or bedroom	840
Semi-furnished with furniture as above plus air-conditioners and/or curtains and carpets	1,680
Fully furnished living accommodation	3,360

Other Benefits In-Kind

	Annual Value
	RM
Driver (each)	7,200
Gardener (each)	3,600
Household Servant (each)	4,800

END OF QUESTION PAPER