

SUGGESTED SOLUTION**QUESTION 1****Ravi Three Star Manufacturing Sdn Bhd****Computation of chargeable income for the year of assessment 2017**

		Add (+)	Deduct(-)	
	Note	RM'000	RM'000	RM'000
Business income				
Profit before taxation				237,292
Cost of sales				
Less:				
Dividends-single tier (local)	1		35	
Dividend (foreign)			26	
Interest received from debtors	2		50	
Insurance recovery	3		0	111
				<u>237,181</u>
Add/(Less):				
Salaries and wages	4			
Director's salary		0		
EPF (rest: [108 - (19% of 470k)])		19		
Overseas trip for director		30		
Compensation to director	5			
Gratuity		0		
Pension		0		
Loan interest				
Interest on loan for investment in local company	6	20		
Interest on loan for investment in foreign company		15		
Interest on loan for working capital		0		
Entertainment	7			
Entertainment of suppliers (50% disallowed)		160		
Ent allowance to marketing staff [50% disallowed]		70		
Annual dinner for staff		0		
Gift to customers for purchases above RM2k		0		
Launching a new product		0		
Depreciation		119		
Repairs and maintenance	8			
Extending the admin office		350		
Replacement of the roof - improved quality		30		
Other repairs		0		
Bad and doubtful debts	9			
Bad debts written off		0		
General bad debts provision		400		

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Specific loan debts provision		200		
Bad debts (advance to customer w/off)		40		
Bad debts (advance to supplier w/off)		50		
Motor vehicle expenses	10			
Compound and fines		30		
Damaged lorry repair		100		
Other MV maintenance		0		
Lease charges	11			
Saloon car (80k – 50k max)		30		
Machine		0		
Negotiated lease compensation payment		120		
Advertisement, publicity and proprietary rights	12			
Advertising -own brand (DD)			150	
Ded.for proprietary rights (20% of RM750k) (DD)			150	
Art and cultural activity [900k-300k-400k]		200		
Professional fees	13			
Trade dispute		45		
Legal fees in trade dispute		10		
Secretarial fees [10k - 5k max)		10		
Tax filing fees [20k-10k]		10		
GST appeal		10		
Insurance	14			
Local insurance-cargo import		0		
Foreign insurance-cargo export		0		
Fire insurance-company assets		0		
Foreign exchange loss	15			
Realized loss- stock imports		0		
Realized loss-machinery spare parts		0		
Realized loss-machine import		30		
Donation	16			
Donation in kind to approved charitable body		100		
		2,198	300	237,181
Add				2,198
				239,379
Less				300
Adjusted income from business				239,079
Less: Capital allowance				
Capital allowance on business assets (as claimed)			46,019	
Add: Capital allowance of damaged lorry repair capitalized				
Acquisition cost		0		
Add: Initial repair to be treated as capital		100		
		100		

Less:

Initial allowance	20			
Annual allowance	20	40	40	46,059
Statutory business income				193,020
Add: Other income				
Dividends (local - single tier)			0	
Dividend (foreign - exempted)			0	
Interest received from debtors			50	50
				193,070
Less: Donation				
Donation in kind to an approved institution				0
Total income and chargeable income				193,070

(20 marks)

QUESTION 2(a)**En Manaf****Computation of chargeable gain**

Disposal price	RM	RM	
Consideration received		397,767	
Less: Permitted expenses			
Cost of enhancement	42,507		
Legal fees -defending title	8,647	51,154	
		346,613	
Less: Incidental cost of disposal			
Valuation fees	6,171		
Brokerage	8,638		
Advertisement	1,097	15,906	
Disposal price		330,707	(a)
Acquisition price	RM	RM	
Consideration paid		308,516	
Add: Incidental expenses			
Stamp duty on transfer	5,170		
Legal fees	2,610		
Interest on loan	0	7,780	
		316,296	
Less: Recoveries (Para 4(1) receipts)			
Fire insurance	27,199		
Flood damage	27,177		
Insurance recoveries	13,575		

Deposit forfeited	7,000	74,951	
Acquisition price		<u>241,345</u>	(b)
Chargeable gain [(a) - (b)]			89,362
Less: Para 2 Sch 4 Exemption: Higher of RM10,000; or		10,000	
10% of chargeable gain		<u>8,936</u>	<u>10,000</u>
Chargeable gain after exemption			<u>79,362</u>

(10 marks)

QUESTION 2(b)**MJ Holdings Sdn Bhd****Year of assessment 2017**

Interest			RM
			100,171
Rent from shop lot	81,754		
Less: Expenses			
Prop of interest expenses			
62,888 x 1,179,150/4,433,456	16,726		
Quit rent and assessment	<u>3,257</u>	<u>19,983</u>	61,771
Dividends - single tier			
Investment 1	0		
Investment 2	<u>0</u>	<u>0</u>	
Aggregate of statutory income			161,942
Less: Fraction of permitted expenses			<u>9,096</u>
Total income and chargeable income			<u>152,846</u>

Fraction of permitted expenses allowable

RM

A x [B / (4 x C)]

306,578 x [181,925 / (4 x 446,792)] 31,208

Or

5% of gross income chargeable to income tax 9,096

[5% x 181,925]

Lower of the two

9,096

MJ Holdings Sdn Bhd**Computation of permitted fraction**

Permitted expenses	RM	
Director's remuneration	80,777	
Employee's salary	48,466	
Accounting and secretarial fee	16,159	
Audit fee	32,073	
Printing and stationary	3,230	
Management expenses	45,233	
Office rent	80,640	
	<u>306,578</u>	A

Gross income chargeable to tax	RM	
Interest	100,171	
Rent	81,754	
Gross income chargeable to tax	<u>181,925</u>	B

Gross income whether chargeable or not and gains from realization of investments

Interest	100,171	
Rent	81,754	C
Gain from realization of investment	120,000	
Dividend-investment 1	26,952	
Dividend-investment 2	117,915	
	<u>446,792</u>	

(10 marks)

QUESTION 3(a)

The issue is whether the sum paid is capital or revenue in nature – and if revenue in nature whether it is deductible for the purposes of the Income Tax Act 1967 (as amended).

The payment would have been capital and therefore not allowable for the purposes of the Income Tax Act 1967 (as amended) if it is connected with the closing down of the business.

However in this case, the retrenchment was undertaken as part of an attempt cut costs and to remain in business.

It is therefore an expense wholly and exclusively incurred in the production of gross income and the company is entitled to the deduction under section 33(1) of the Income Tax Act 1967 (as amended).

There is sufficient support for this line of thinking in the decision of *Ampat Tin Dredging Ltd v DGIR* and *IRC v Patrick Thompson Ltd*.

(5 marks)

QUESTION 3(b)

It is a loss that arose out of the defalcation of one of the directors. In other words, amount is an embezzlement of funds by an officer of the company who has some control over the operations and administration of the business.

This is therefore not an expense wholly and exclusively incurred in the production of gross income within the meaning of section 33. It should be disallowed in arriving at the adjusted income of the company.

There is support for this treatment in the case of *Curtis v J&G Oldfield Ltd.*

(5 marks)

QUESTION 4**A.**

Year	Periods of stay	No of days	Status	Section and reason
2012	20 May to 17 July 19 November 31 December	59 43	Resident S7(1)(b)	Stay in Malaysia less than 182 days but the short period is linked to a period of more than 182 consecutive days in year 2013
2013	1 January to 15 April 16 April to 30 April - TA 1 May to 20 August	105 (15) 112	Resident S7(1)(a)	Physically present in Malaysia at least 182 days
2014	10 April to 30 September 5 November 12 December	174 38	Resident S7(1)(a)	Physically present in Malaysia at least 182 days
2015	1 February to 30 May	119	Resident S7(1)(c)	Present in Malaysia at least 90 days and 3 out of 4 immediately preceeding years (2014, 2013, 2012) are either resident or stayed in Malaysia at least 90 days
2016	1 January – 14 January-TA 15 January to 10 April	(14) 86	Resident S7(1)(d)	Deem to be resident as he was resident in the following year (2017) and 3 years immediately preceeding years

				(2013 – 2015) was resident.
2017	1 July to 30 September	92	Resident S7(1)(c)	Present in Malaysia at least 90 days and 3 out of 4 immediately preceeding years (2014 – 2016) are either resident or stayed in Malaysia at least 90 days

(5 marks)

QUESTION 4**B.**

(i) Consequences of non-compliance are:

- Late payment penalty equals to 10% of the unpaid tax
- Unpaid withholding tax and penalty becomes debt due to the government
- The gross payment to the non-resident is not deductible until withholding tax and penalty are paid to the Inland Revenue Board.

(3 marks)

(ii) (a) The advance payment and the balance of payment are subject to withholding tax.

$$\text{RM75,000 (15\% x RM500,000) x 10\% = RM7,500.}$$

Due date is on 27 August 2017.

$$\text{RM425,000 (RM500,000 – RM75,000) x 10\% = RM42,500.}$$

Due date is on 6 October 2017.

(b) The deposit and the balance of payment are subject to withholding tax

$$\text{RM15,000 (5\% x RM300,000) x 10\% = RM1,500.}$$

Due date is on 31 October 2017.

$$\text{RM285,000 (RM300,000 – RM15,000) x 10\% = RM28,500.}$$

Due date is on 8 December 2017.

(c) Refundable deposit is not subject to withholding tax. It does not form part of the gross amount payable

Technical service fee of RM800,000 is subject to withholding tax.

$$\text{RM800,000 x 10\% = RM80,000.}$$

Due date is on 17 March 2017.

(9 marks)

- iii) The sum of RM60,000 shall be deemed to be Mr Johan's income. A tax refund would be made to Ms Shafiqah if she has paid income tax on the RM60,000 income.

(3 marks)

[Total: 20 marks]

QUESTION 5

- a) Statutory income of Encik Eman for the year of assessment 2017:

S.13(1)(a)			
Salary	15,000 x 12	180,000	
Entertainment allowance	5,000 x 12	60,000	
Servant	800 x 12	9,600	
Tuition fees	400 x 12	4,800	254,400
S.13(1)(b)			
Furniture		3,360	
Corporate membership	Entrance fee	exempted	
	subscription	3,000	
Mobile phone	Bills	exempt	
Driver	600 x 12	7,200	
Car		7,000	
Fuel		1,800	
Holiday - Europe	Air tickets		
	(8,000-3,000)	5,000	
	Meals	4,000	
	Accommodation	5,000	
Medical expenses		exempted	36,360
S.13(1)(c)			
Living accommodation	Defined value	32,800	
	30% x 13(1)(a)	76,320	32,800
Gross income			323,560
Less: Entertainment expenses			<u>(60,000)</u>
Adjusted/statutory income			<u>263,560</u>

(8 marks)

- b. Computation of income tax liabilities of Encik Eman and Puan Farah for the year of assessment 2017.

	Eman	Farah
Sec. 4(a) Business		121,000
Sec. 4(b) Employment	263,560	
Aggregate income	263,560	121,000
Donation		(8,470) max. 7% of Agg income
Total income	263,560	112,530
Personal relief:		
Self	(9,000)	(9,000)
Books and Smartphone	(2500)	
Basic supporting equipment		(5,500)
Medical expenses - parents	(5,000)	
Children (3 x 2,000)	(6,000)	
EPF / life insurance premium	(6,000)	(4,800)
Medical and education insurance premiums		(3,000)
Chargeable income	235,060	90,230
Tax at scale rate:		
1 st 150,000 / 1 st 70,000	23,900	5,600
Next 85,060 x 24% / Next 20,230x 21%	20,414.40	4,248.30
Tax payable	44,314.40	9,848.30
Zakat	(12,000)	-
Net tax payable	32,314.40	9,848.30

(9 marks)

- i) The threshold for registration to get a GST license is the annual sales value of RM500,000. Businesses below the threshold are not required to register but may register on voluntary basis.

(1 mark)

- ii) Zero-rated supply means good sold by businesses that are charged GST at a zero rate. For such businesses, GST paid on their inputs can be claimed as credits. Examples are agriculture products (paddy, vegetables) and foodstuff (rice, sugar).

(2 marks)

[Total: 20 marks]

QUESTION 6

A

		Deceased	Executor
		RM	RM
Manufacturing business:			
Adjusted income	200,000		
Balancing charges	28,000		
Capital allowance	<u>(22,000)</u>		
Statutory income	<u>206,000</u>	103,000	103,000
(-) business loss b/f		(44,000)	
		59,000	103,000
Director fees:			
Resident company		60,000	
Foreign company		Exempt	
Gratuity		Exempt	
Dividend		Exempt	Exempt
Aggregate income		119,000	103,000
Annuity payable			(24,000)
Distribution to children			NA
Executor fee			NA
Approved donation		NA	
Total income		119,000	79,000
(-) Self relief / special relief		(9,000)	(9,000)
Book		(800)	
Wife relief		(4,000)	
Child relief (2 x 8,000)		(16,000)	
Medical insurance premium		(2,400)	
Chargeable income		86,800	70,000
Tax charge at scale rate:			
1 st 70,000/ 70,000		5,600	5,600
Next 16,800 @ 21% / 0		3,528	0
Tax payable		9,128	5,600

(5 marks)

B.

i) The duration of the tax relief period

The tax relief period starts on its production day and continues for 5 years. Therefore the tax relief is from 1 July 2016 until 30 June 2021.

(2 marks)

(ii) ITA that could be utilised in YA 2016, 2017 and 2018:

	2016	2017	2018
	RM	RM	RM
Statutory income	1,500,000	1,600,000	2,000,000

	2016	2017	2018
	RM	RM	RM
70% x SI	1,050,000	1,120,000	1,400,000
Set off:			
ITA: 60% x 1,000,000	600,000	NIL	NIL
b/f	Nil	NIL	NIL
Total ITA available	600,000	NIL	NIL
ITA utilized	600,000	NIL	NIL
ITA unutilized c/f	NIL	NIL	NIL

The ITA that could be utilize in YA 2016 is RM600,000. There is no ITA that could be utilized in YA2017 and 2018 because of the unavailability of qualifying capital expenditure. So the company should invest more in qualifying capital expenditure if it decides to apply for the ITA.

(3 marks)

END OF SOLUTION