

**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    |
| 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       |
|  |      |         | 237,181   |
| 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     |           |

|  |         |
|--|---------|
| 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     |
| Add  |         |
|  | 2,198   |
| Less   |         |
| Adjusted income from business                              | 2,198   |
| Less: Capital allowance                                    |         |
| Capital allowance on business assets (as claimed)          | 239,379 |
| Add: Capital allowance of damaged lorry repair capitalized |         |
| Acquisition cost   | 300     |
| Add: Initial repair to be treated as capital               | 239,079 |
|  | 46,019  |
|  | 0       |
|  | 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**

|                       |    |    |
|-----------------------|----|----|
| <b>Disposal price</b> | 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   |
| Disposal price | 15,906  |
|                | 330,707 |
|                | (a)     |

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

(10 marks)

**QUESTION 2(b)****MJ Holdings Sdn Bhd**

| <b>Year of assessment 2017</b>        | <b>RM</b>      |
|---------------------------------------|----------------|
| Interest                              | 100,171        |
| Rent from shop lot                    | 81,754         |
| Less: Expenses                        |                |
| Prop of interest expenses             |                |
| $62,888 \times 1,179,150 / 4,433,456$ | 16,726         |
| Quit rent and assessment              | <u>3,257</u>   |
|                                       | 19,983         |
|                                       | 61,771         |
| Dividends - single tier               |                |
| Investment 1                          | 0              |
| Investment 2                          | <u>0</u>       |
|                                       | 0              |
| Aggregate of statutory income         | 161,942        |
| Less: Fraction of permitted expenses  | <u>9,096</u>   |
| Total income and chargeable income    | <u>152,846</u> |

| <b>Fraction of permitted expenses allowable</b> | <b>RM</b>    |
|---|--------------|
| A x [B / (4 x C)]                               |              |
| $306,578 \times [181,925 / (4 \times 446,792)]$ | 31,208       |
| Or  |              |
| 5% of gross income chargeable to income tax     | 9,096        |
| [ 5% x 181,925]                                 |              |
| Lower of the two                                | <u>9,096</u> |

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

| <b>Permitted expenses</b>      | <b>RM</b>             |
|--------------------------------|-----------------------|
| 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                |
|                                | <b><u>306,578</u></b> |
|                                | <b>A</b>              |

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

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

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

(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<br>19 November 31 December                             | 59<br>43           | Resident<br>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<br>16 April to 30 April - TA<br>1 May to 20 August | 105<br>(15)<br>112 | Resident<br>S7(1)(a) | Physically present in Malaysia at least 182 days  |
| 2014 | 10 April to 30 September<br>5 November 12 December                       | 174<br>38          | Resident<br>S7(1)(a) | Physically present in Malaysia at least 182 days  |
| 2015 | 1 February to 30 May   | 119                | Resident<br>S7(1)(c) | Present in Malaysia at least 90 days and 3 out of 4 immediately preceding years (2014, 2013, 2012) are either resident or stayed in Malaysia at least 90 days |
| 2016 | 1 January – 14 January-TA<br>15 January to 10 April                      | (14)<br>86         | Resident<br>S7(1)(d) | Deem to be resident as he was resident in the following year (2017) and 3 years immediately preceding 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 preceding 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.

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

Due date is on 27 August 2017.

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

Due date is on 6 October 2017.

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

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

Due date is on 31 October 2017.

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

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.

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

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                  | $15,000 \times 12$ | 180,000 |
| Entertainment allowance | $5,000 \times 12$  | 60,000  |
| Servant                 | $800 \times 12$    | 9,600   |
| Tuition fees            | $400 \times 12$    | 4,800   |

254,400

S.13(1)(b)

|                      |                              |                 |
|----------------------|------------------------------|-----------------|
| Furniture            |                              | 3,360           |
| Corporate membership | Entrance fee<br>subscription | exempted        |
| Mobile phone         | Bills                        | 3,000<br>exempt |
| Driver               | $600 \times 12$              | 7,200           |
| Car                  |                              | 7,000           |
| Fuel                 |                              | 1,800           |
| Holiday - Europe     | Air tickets<br>(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<br>$30\% \times 13(1)(a)$ | 32,800<br>76,320 | 32,800 |
|----------------------|---|------------------|--------|

|                                  |                |
|----------------------------------|----------------|
| Gross income                     | 323,560        |
| Less: Entertainment expenses     | (60,000)       |
| <b>Adjusted/statutory income</b> | <b>263,560</b> |

(8 marks)

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

|  | <b>Eman</b> | <b>Farah</b>                     |
|--|-------------|----------------------------------|
| Sec. 4(a) Business                               |             | 121,000                          |
| Sec. 4(b) Employment                             | 263,560     |                                  |
|  |             |                                  |
| Aggregate income                                 | 263,560     | 121,000                          |
| Donation   |             | (8,470) max. 7% of<br>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 <sup>st</sup> 150,000 / 1 <sup>st</sup> 70,000 | 23,900      | 5,600                            |
| Next 85,060 x 24% / Next 20,230 x 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<br>RM | Executor<br>RM |
|---|----------------|----------------|----------------|
| <b>Manufacturing business:</b>                              |                |                |                |
| Adjusted income   | 200,000        |                |                |
| Balancing charges   | 28,000         |                |                |
| Capital allowance   | (22,000)       |                |                |
| Statutory income  | <u>206,000</u> | 103,000        | 103,000        |
| (-) business loss b/f                                       |                | (44,000)       |                |
| <b>Director fees:</b>                                       |                | 59,000         | 103,000        |
| Resident company  |                | 60,000         |                |
| Foreign company   |                | Exempt         |                |
| Gratuity  |                | Exempt         |                |
| Dividend  |                | Exempt         | Exempt         |
| <b>Aggregate income</b>                                     |                | 119,000        | 103,000        |
| Annuity payable   |                |                | (24,000)       |
| Distribution to children                                    |                |                | NA             |
| Executor fee  |                |                | NA             |
| Approved donation   |                | NA             |                |
| <b>Total income</b>   |                | 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:<br>1 <sup>st</sup> 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:**

|                  | <b>2016</b> | <b>2017</b> | <b>2018</b> |
|------------------|-------------|-------------|-------------|
|                  | <b>RM</b>   | <b>RM</b>   | <b>RM</b>   |
| Statutory income | 1,500,000   | 1,600,000   | 2,000,000   |

|                      | <b>2016</b> | <b>2017</b> | <b>2018</b> |
|----------------------|-------------|-------------|-------------|
|                      | <b>RM</b>   | <b>RM</b>   | <b>RM</b>   |
| 70% x SI             | 1,050,000   | 1,120,000   | 1,400,000   |
| <b>Set off:</b>      |             |             |             |
| 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 utilized 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**