

**TAXATION
SUGGESTED SOLUTIONS
SEPT 2019**

QUESTION 1

a.

RK Manufacturing Sdn Bhd**Computation of chargeable income for the year of assessment 2019**

	Note	Add (+) RM'000	Deduct (-) RM'000	RM'000
Business income				
Profit before taxation				1,974
Less:				
Malaysian single tier dividend	2			54
				1,920
Add/(Less):				
Cost of sales	1			
Provision for slow moving stocks		147		
Provision written back			17	
Provision written off			40	
Remuneration	3			
Director's salary		0		
EPF (rest: [60 - (19% of 200k)])		22		
Salary - disabled staff (DD)			24	
Entertainment and marketing	4			
Free gift, and lucky draws		0		
Free trip for director and family		90		
Depreciation		400		
Repairs and maintenance	5			
Expenses on equipment for disabled staff access		0		
Other repairs		0		
Bad and doubtful debts	6			
Specific loan debts provision		320		
Bad debts (advance to supplier w/off)		540		
General bad debts provision		120		
CSR expenses	7			
Establishing and managing a musical group		0		
Provision of child care centre		0		
Translation of books		0		
Provision of practical training		0		
Professional fees	8			
Secretarial fees [12k - 5k max]		7		
Tax filing fees [14k-10k max]		4		

Income tax appeal		54		
Product licensing in Germany (DD)			10	
Insurance	9			
Term life and accident policy for director		0		
Contribution to school library [110k-100k max]	10	10		
Other matters				
Development of website (20% of RM500k)			100	
		1,714	191	1,920
Add				1,714
				3,634
Less				191
Adjusted income from business				3,443
Less: Capital allowance	11			270
Statutory business income				3,173
Add: Other income - single tier dividend				0
Aggregate/Total and Chargeable income				3,173

(16 marks)

b. i. Computation of agriculture allowance for YA 2019

Particulars of expenditure	Qualifying Agriculture Expenditure	Rate of allowance	Agriculture Allowance	
	RM	%	RM	
Mill	530,000	10	53,000	
Bungalow for mill manager	0	0	0	

(2 marks)

- ii. An asset on which agriculture expenditure had been incurred is treated as 'disposed of' when, among other things, the asset ceases to be used for the purposes of the business [Para 52(1) Schedule 3].

However 'demolition' – which results in the asset ceasing to be used for the purposes of the business - is not treated as a 'disposal'.

This is based on the Special Commissioners decision in PKR Case 264 [1978 (9) MTJ 57].

Therefore, there is no agriculture charge.

(2 marks)

(Total: 20 marks)

QUESTION 2

- a. i. Computation of chargeable income of the estate of the deceased

Year of assessment 2018

		RM
Business (Malaysia)	1/4 x 190,270	47,568
Business 2 (Malaysia) (business ceased)		0
Business 3 (Thailand)		0
		<hr/> 47,568
Add: Other income		
Rent	1/4 x 36,400	9,100
Interest		6,393
Aggregate income		63,061
Less: Annuity to wife		20,000
Total income		43,061
Less: Personal relief (domiciled in Malaysia)		9,000
Chargeable income		<hr/> <hr/> 34,061

(4 marks)

- ii. Computation of chargeable income: Wife of the deceased

Year of assessment 2018

		RM
Annuity		20,000
Distribution received not liable	[Section 64(5)]	0
		20,000
Less:		
Personal relief		9,000
Chargeable income		11,000

(2 marks)

- b. In the case of a club, the income from transactions with members is not taxable. And any expenses or capital allowances attributable to such income are accordingly disregarded

In this case, the rental income received by the club from the gym operator (a non-member) is taxable, even though the individuals using the gym are all club members.

(3 marks)

- c. The Member's Fund as at the beginning of the basis period is below RM750,000. The co-operative society is therefore not chargeable to income tax for the year of assessment 2019.

Law: Para 12(1)(b) Schedule 6

(3 marks)

d. Computation of chargeable gain to Mr. Kumar

Disposal price	RM	RM	
Consideration received		718,000	
Less: Renovation		41,435	
		676,565	
Less: Incidental cost of disposal			
Valuation fees	7,990		
Brokerage	21,540	29,530	
Disposal price		647,035	(a)
Acquisition price	RM	RM	
Consideration paid		399,600	
Add: Incidental expenses			
Stamp duty on transfer	6,992		
Legal fees	3,247		
Interest on loan	0	10,239	
		409,839	
Less: Deposit forfeited		7,000	
Acquisition price		402,839	(b)
Chargeable gain [(a) - (b)]			244,196
Less: Para 2 Sch 4 Exemption: Higher of RM10,000;		10,000	
Or			
10% of chargeable gain		24,420	24,420
Chargeable gain after exemption			219,776

(8 marks)

(Total: 20 marks)

QUESTION 3

- a. The company may view the payment made as the cost of acquiring raw materials – whether from its own suppliers or its now defunct competitor's suppliers.

However, acquiring the leather, and acquiring the contract for the supply of leather, are two different matters. One is the acquisition of raw materials – for which the payment may be deductible under section 33.

The other is the acquisition for the right to the supply of raw materials – which is an acquisition of capital asset.

Accordingly the claim of deduction for the payment made for the unexpired contract may not qualify for a deduction because it is prohibited under section 39.

Support for the disallowance may be found in the case of *John Smith and Son v Moore* [12 TC 266] (acquisition of an unexpired contract).

(5 marks)

- b. The gain from the sale of the quantities of cigarettes would be liable to income tax under section 4(a) of the ITA because the activities by Mr. Johnny Low in dealing with the cigarettes is no different from what he would have done had he bought cars for sale because:

- The large quantity of cigarettes is obviously not for personal use
- He disposed of the cigarettes over a short period of time
- The isolated transaction was conducted in a manner similar to a business activity

There is support for this view in the case of *CIR v Fraser* [24 TC 498]

(5 marks)

(Total: 10 marks)

QUESTION 4

- a. Computation of Statutory Employment Income of Khalis for YA 2019

		RM	RM
S 13(1)(a)	Salary (8,010 x 100/89 X 11)	99,000	
	Bonus	10,000	
	Entertainment allowance (1,800 x 11)	19,800	
	Petrol allowance (480 x 11) – 6,000 exemption	Nil	
	Performance incentive paid in YA 2019	Nil	
	Parking fees allowance - exempted	Nil	
	Gratuity (280,000 – 1,000 x 8)	272,000	
	Reimbursement –maid (600 x 11)	6,600	
	Loan interest 3% x 600,000 = 18,000 Subsidised interest loan : 300,000/600,000 x 18,000 = 9,000 x 11/12 = 8,250	9,750	417,150

S13(1)(b)	Furniture (280 x 11)	3,080	
	Traditional medical benefit - exempted	Nil	
	Car benefit - (9,000/2 x 11/12)	4,125	
	Driver (600 x 11)	6,600	
	Corporate membership (2500 x 11/12)	2,292	
	Leave passage:		
	Las Vegas (RM 8,000 - Exempted 3,000)	5,000	
	Accommodation	6,000	
	Meals	4,000	31,097
S 13(1)(c)	VALUE OF LIVING ACCOMMODATION		
	Choose the lower of:		
	(a) Defined value (2,500- 800 x 11) = 18,700		
	(b) 30% of S 13(1)(a)		
	= (30% x 417,150) = 125,145		18,700
S 13(1)(d)	Withdrawal from unapproved fund		
	(60% x RM140,000)		84,000
S13(1)(e)	Compensation for loss of employment		
	(RM 110,000 – (10,000 x 8)		30,000
	GROSS EMPLOYMENT INCOME		580,947
(Less):	ALLOWABLE EXPENSES		
	Entertainment expenses (80% x 19,800)		(15,840)
	Nominal rental (500 x11)		(5,500)
	STATUTORY EMPLOYMENT INCOME		559,607

(15 marks)

- b. Encik Halim is deemed to be a resident in Malaysia under the provision of S7(1B) Income Tax Act (ITA) 1967 for the basis year of YA 2017, YA 2018 and YA 2019 because he is employed in public services but studying in a higher learning institution outside Malaysia which is fully sponsored by the Ministry of Education.

(5 marks)

(Total: 20 marks)

QUESTION 5

- a. i. GSB is a taxable person under the Sales Tax Act 2018, and will be subjected to sales tax because the company has reached the annual threshold limit of RM500,000 by 30 September 2019 (Historical Method);

For the last 11 months	RM450,000
Current month	RM135,000
	RM585,000

(3 marks)

- ii. Sales tax implications:
 - a. Sale of goods to MTCC Shop at Ayer Keroh, Melaka is subject to sales tax @ 10%.
 - b. Export of goods to Sydney, Australia is not subject to sales tax because sales tax only applies if the goods are consumed in Malaysia.
 - c. Sale of goods to Chenang Mall, Langkawi is not subject to sales tax because Langkawi is one of the areas that is exempted from sales tax. (3 marks)

- iii. The taxable period is two calendar month that is November to December 2019 and due within one month, which is not later than the last day of the following month after the taxable period ended i.e. by 31 January 2020. (2 marks)

b. i. Invoice

		RM	RM
	Accounting services fees		7,200
Add:	Service Tax @ 6%		432
			7,632
Add:	Disbursement:		
	Legal fees	2,800	
	Printing & documentation	330	3,130
	Total		10,762

(2 marks)

ii.

Taxable Period	Due date of submission	Amount of service tax
		RM
November – December 2019	Within one month, that is not later than the last day of the following month after the taxable period ended i.e. by 31 January 2020	432.00
Submission on 10 February 2020	A penalty of 10% on first 30 days of the unpaid service tax (10% x RM432.00)	43.20
Total debt due to the government		475.20

(2 marks)

c. Chargeable income for the year of assessment 2019

	RM'000
Profit before tax	1,650
Less: Interest	(500)
	1,150
Add:	
Partners' salaries	Nil
Holiday trip for Azhar	20
Depreciation	100
Entertainment for existing customers (50% deduction)	50
Other deductible expenses	Nil
Adjusted income	1,320
Less: Capital allowance (10% x RM2,500,000)	(250)
Statutory income	1,070
Less: Unabsorbed tax losses brought forward from the partnership	(300)
	770
Add: Interest income [s.4(c)]	500
Chargeable income	1,270

(8 marks)
(Total: 20 marks)

QUESTION 6

a. Withholding Tax implications

- **Payment for software development & technical advice of RM1.5 million**

WHT not applicable because the software development was considered as acquisition of non-current assets (intangible assets)

No WHT applicable on the technical advice of RM400,000 of the software development as the services was held in Sweden, not in Malaysia. With effect from 6.9.2017, services rendered offshore (outside Malaysia) under Section 4A (i) and (ii) would not be chargeable to withholding tax

- **Costs of high-end computer of RM750,000**

Not subject to WHT because it was not services provided. Merely acquisition of non-current assets.

- **Interest of RM35,000**

Subject to WHT under section 109 as the payment was made by a resident to non-resident recipient **and** the loan was used to finance acquisition of assets used in Malaysia.

WHT amount – 15% x RM35,000 = 5,250

Due date – 25 January 2020.

(5 marks)

b. Moltex Sdn Bhd

	2019
	RM
Adjusted Income	35,000
Less: Capital allowances	(25,000)
Statutory Business Income (SI)	<u>10,000</u>
Less: 70% Exemption of SI	(7,000)
30% Deemed Total Income	<u>3,000</u>
Other Income:	
Interest	<u>15,000</u>
Aggregate Income (AI)	15,000
Less: Approved Donation (7,500 vs 10% of AI)	(1,500)
Total Income	<u>13,500</u>
Add: Deemed Total Income	<u>3,000</u>
Chargeable Income	<u>16,500</u>
Amount transferred to exempt account:	
70% of SI	7,000
Less: Current business loss from non- pioneer	-
Less: Loss b/f from pioneer business	-
Amount transferred to exempt account	<u>7,000</u>

(5 marks)
(Total: 10 marks)

END OF SOLUTION