

43

KOLEJ UNIVERSITI TUNKU ABDUL RAHMAN
FACULTY OF ACCOUNTANCY, FINANCE AND BUSINESS
ACADEMIC YEAR 2017/2018
JANUARY/FEBRUARY EXAMINATION
BBFT1013 PRINCIPLES OF TAXATION

WEDNESDAY, 7 FEBRUARY 2018

TIME: 2.00 PM – 4.00 PM (2 HOURS)

BACHELOR OF COMMERCE (HONOURS)

Instructions to Candidates:

This paper is divided into two sections and you are required to answer **FOUR (4)** questions as follows:

SECTION A: Answer **ALL THREE (3)** compulsory questions. (75 marks)

SECTION B: Answer **ANY ONE (1)** out of two questions. (25 marks)

All workings that support the answer should be shown.

Marks will be awarded for clarity in presentation and logical arguments.

You are required to continue with a **fresh page** when answering **new questions or parts** of the question.

Tax rates and personal allowances are printed herewith.

BBFT1013 PRINCIPLES OF TAXATION

The following rates and allowances are to be used for all questions in this paper:

Rates of income tax

- (a) i. Resident company (paid-up capital not exceeding RM2.5 million)
 Chargeable Income: First RM500,000 18%
 Remainder 24%
- ii. Resident company (paid-up capital exceeding RM2.5 million)
 24%
- (b) Non-resident company 24%
- (c) Non-resident individual 28%
- (d) Resident individual

Chargeable income (RM)		Rates (%)	Cumulative Tax (RM)
(0 - 5,000)	First RM 5,000	0	0
(5,001 - 20,000)	Next RM 15,000	1	150
(20,001 - 35,000)	First RM 20,000	5	150
	Next RM 15,000		750
(35,001 - 50,000)	First RM 35,000	10	900
	Next RM 15,000		1,500
(50,001 - 70,000)	First RM 50,000	16	2,400
	Next RM 20,000		3,200
(70,001 - 100,000)	First RM 70,000	21	5,600
	Next RM 30,000		6,300
(100,001 - 250,000)	First RM 100,000	24	11,900
	Next RM 150,000		36,000
(250,001 - 400,000)	First RM 250,000	24.5	47,900
	Next RM 150,000		36,750
(400,001 - 600,000)	First RM 400,000	25	84,650
	Next RM 200,000		50,000
(600,001 - 1,000,000)	First RM 600,000	26	134,650
	Next RM 400,000		104,000
(above 1,000,000)	First RM1,000,000	28	238,650
	Next each RM	

Motorcars and related benefits – value assessable extracted from Public Ruling No. 3/2013 issued by the Inland Revenue Board.

Cost of car (when new)	Annual value of BIK	Fuel per annum
RM	RM	RM
Up to - 50,000	1,200	600
50,001 - 75,000	2,400	900
75,001 - 100,000	3,600	1,200
100,001 - 150,000	5,000	1,500
150,001 - 200,000	7,000	1,800
200,001 - 250,000	9,000	2,100
250,001 - 350,000	15,000	2,400
350,001 - 500,000	21,250	2,700
500,001 and above	25,000	3,000

When the car provided is more than five years old the taxable car benefit is halved but the value of fuel provided remains unchanged.

BBFT1013 PRINCIPLES OF TAXATION

	RM
Household furnishings, appliances, etc:	
(i) Semi-furnished with furniture in the lounge, dining room, or bedroom	840 per annum (RM70 per month)
(ii) Semi-furnished with furniture as in (i) above plus, one or more of air conditioner, curtains and carpets	1,680 per annum (RM140 per month)
(iii) Fully-furnished with benefits as in (i) and (ii) above plus, one or more of kitchen equipment, crockery, utensils and appliances	3,360 per annum (RM280 per month)

Other benefits	RM
Driver	7,200 per annum
Gardener	3,600 per annum
Domestic servant	4,800 per annum

Personal Reliefs	RM
Self	9,000
Self – disabled	6,000 (additional)
Wife	4,000
Wife – disabled	3,500 (additional)
Children	
Normal child below 18 years old	2,000 each
Normal / disabled child 18 years old and above, and in higher education:	
- Overseas universities or similar establishments	8,000 each
- Local universities, colleges or similar establishments	8,000 each
Disabled child	6,000 each
Medical expenses incurred for parent(s)	5,000 (maximum)
Medical expenses on serious disease (including medical examination up to RM500)	6,000 (maximum)
Basic supporting equipment	6,000 (maximum)
Fees for acquiring skills and qualification	7,000 (maximum)
Life insurance premium and contributions to approved fund or scheme	6,000 (maximum)
Private retirement scheme, deferred annuity premium	3,000 (maximum)
Education and medical insurance premiums	3,000 (maximum)
Lifestyle relief	2,500 (maximum)
Deposit into the Skim Simpanan Pendidikan Nasional	6,000 (maximum)
Contribution to SOCSO	250 (maximum)

Personal income tax rebates	RM
Individual rebate: chargeable income does not exceed RM35,000 - self	400
- spouse	400
Zakat and fitrah	Amount paid by taxpayer

Capital Allowances	Initial allowance	Annual Allowance
Industrial buildings	10%	3%
Plant & machinery – general	20%	14%
Motor vehicles, heavy machinery	20%	20%
Office equipment, furniture & fittings	20%	10%

BBFT1013 PRINCIPLES OF TAXATION**SECTION A (75 marks)****Question 1**

Top Sdn. Bhd. (Top) is a tax resident company in Malaysia with an authorised and paid-up share capital of RM1 million. The company prepares its accounts annually to 31 December. Top is engaged in the business of manufacturing frozen food.

The company's Statement of Profit or Loss for the year ended 31 December 2017 is as follows:

	Notes	RM'000	RM'000
Turnover			3,200
Less: Cost of sales	1		<u>2,100</u>
			1,100
Add: Other income	2		<u>50</u>
			1,150
<u>Less: expenses</u>			
Secretarial fee		7	
Tax return filing fee		8	
Provision for doubtful debts	3	20	
Professional and legal fees	4	16	
Travelling and transportation	5	38	
Repairs and maintenance	6	65	
Salaries and allowances	7	385	
Entertainment	8	95	
Donations	9	54	
Loss on disposal of building		10	
Depreciation		34	
Water and electricity		43	775
Profit before taxation			<u><u>375</u></u>

Notes:

1.	Cost of goods sold	RM'000
	It includes:	
	Provision for obsolete inventories	32
2.	Other income	RM'000
	Interest received in Malaysia from Singapore	11
	Interest received from overdue payments	3
	Bad debt recovered (non trade)	20
	Gain on disposal of a non current asset	<u>16</u>
		<u>50</u>
3.	Provision for doubtful debts	RM'000
	General provision on trade debtors	15
	Specific provision on trade debtors	<u>5</u>
		<u>20</u>
4.	Professional and legal fees	RM'000
	Audit fee	9
	Legal fees for disposal of the building	<u>7</u>
		<u>16</u>

BBFT1013 PRINCIPLES OF TAXATION**Question 1 (Continued)**

5.	Travelling and transportation	RM'000
	Company trip for staff and their immediate family to Langkawi	30
	Transportation charge for goods sold	8
		38
6.	Repairs and maintenance	RM'000
	Repair of office roof	9
	Renovation of factory	56
		65
7.	Salaries and allowances	RM'000
	Director's salaries	100
	Staff's salaries	232
	Employees Provident Fund (EPF) contribution*	53
		385
	*This include a payment of RM21,000 to EPF based on 21% of the RM100,000 for the company's managing director.	
8.	Entertainment	RM'000
	Staff annual dinner	26
	Entertainment allowances for staff	58
	Promotional samples of company product	11
		95
9.	Donations	RM'000
	Cash donation to Hospice Center, an approved institution	45
	Clothes and food donations to an approved institution	7
	Donation to a political party	2
		54
10.	The balancing charge and capital allowances for the year of assessment 2017 were RM5,000 and RM20,000 respectively.	

Required:

- (a) Compute the income tax payable by Top Sdn. Bhd. for the year of assessment 2017.
(All items stated in the question are to be included in the computation. Where the item requires no adjustment, indicate 'NIL' in the computation) (21 marks)
- (b) Explain the tax treatment for the following items:
- (i) General provision on trade debtors amounting to RM15,000 (note 3); (2 marks)
- (ii) Renovation of factory amounting to RM56,000 (note 6); (2 marks)
- [Total: 25 marks]

BBFT1013 PRINCIPLES OF TAXATION**Question 2**

John and his wife, May, are resident in Malaysia married with three children. May is a housewife. She has no income for the year 2017.

John has the following incomes for the year ended 31 December 2017:

	RM
1. Sole-proprietorship business A (Trading business):	
Adjusted income	125,000
Unabsorbed loss brought forward	10,000
Capital allowance for the year of assessment 2017	6,000
2. Sole-proprietorship business B (Food and beverage business):	
Adjusted loss	(13,000)
Capital allowance for the year of assessment 2017	5,000
Balancing charge for the year of assessment 2017	2,000
3. Employment from Focus Sdn. Bhd. commenced on 1 July 2017:	
Salary	30,000
Entertainment allowance	6,000
4. Dividend paid by a Malaysia resident company	2,000

Other information for the year ended 31 December 2017:

- First child, Mike, of age 19, was pursuing a full time degree in a local university. Mr. John spent RM30,000 in 2017 to maintain him.
- Second child, Julia, of age 15, was studying in a secondary school.
- Third child, Crystal, of age 12, was studying in a primary school. Due to an accident, Crystal became a disabled child when she was 5 years old.
- John incurred medical expenses of RM10,000 for his father's medical operation in May 2017. He spent RM3,000 on the purchases of basic supporting equipment for his father in the same month.
- John paid for his children school books amounting to RM4,500 with receipts and his life insurance premium of RM4,800 during the year.
- John bought an education insurance for Crystal with a premium of RM6,000 per annum during the year.
- The contribution made by John to the Employees' Provident Fund (EPF) was RM4,000.

Required:

- (a) Compute the tax payable by John for the year of assessment 2017.
(All items stated in the question are to be included in the computation. Where the item requires no adjustment, indicate 'NIL' in the computation) (22 marks)
- (b) Explain to John how dividend income in note 4 is deemed derived in Malaysia and the tax treatment. (3 marks)

[Total: 25 marks]

BBFT1013 PRINCIPLES OF TAXATION**Question 3**

On 1 March 2010, Mr. Tan retired from employment upon reaching the age of 60. He withdrew a sum of RM200,000 from the Employees Provident Fund (EPF). He used the withdrawn EPF to purchase a piece of agricultural land costing RM380,000. Mr. Tan has successfully obtained a RM180,000 bank loan to finance the balance of the acquisition price at an interest rate of 8% per annum.

Mr. Tan used the land to plant durian. In October 2017, Mr. Tan sold the agricultural land for a gain of RM200,000. The sale was made through a real estate agent.

On 1 December 2017, with the sale proceeds from the disposal of the agricultural land, Mr. Tan rented a shop to sell mobile phone accessories. His shop was opened and commenced business on 1 January 2018.

Required:

- (a) Explain with reasons, the tax implications of the followings gain and expense:
- (i) The gain of RM200,000 from the disposal of the agricultural land; (8 marks)
 - (ii) Monthly shop rental paid for December 2017. (3 marks)
- (b) Explain to Mr. Tan **ANY THREE (3)** general rules for business expenses to qualify for tax deductions. (6 marks)
- (c) Briefly explain to Mr. Tan **ANY FOUR (4)** responsibilities of an individual taxpayer under the Income Tax Act, 1967. (8 marks)
- [Total: 25 marks]

BBFT1013 PRINCIPLES OF TAXATION**SECTION B (25 marks)**

Answer ANY ONE (1) out of two questions.

Question 4

(A)

Daniel, an Australian citizen, was transferred to Malaysia to work as a regional manager under Super Sdn. Bhd. He first arrived in Malaysia on 29 November 2014.

Daniel stayed in Malaysia during the following period:

Year	Period of stay	Place	No. of days
2014	29 November to 31 December	In Malaysia	33
2015	1 January to 10 January	Not in Malaysia (Social visit in Australia)	10
	11 January to 31 August	In Malaysia	233
	1 September to 31 December	Not in Malaysia	122
2016	1 January to 31 July	Not in Malaysia	213
	1 August to 31 December	In Malaysia	153
2017	1 January to 30 July	Not in Malaysia	212
	1 August to 31 October	In Malaysia	92
	1 November to 31 December	Not in Malaysia	61

Required:

- (a) Explain Daniel's tax residence status for each year of assessment from 2014 to 2017 based on Section 7(1) of the Income Tax Act, 1967. (7 marks)
- (b) Explain briefly ANY FOUR (4) reasons in determining the residence status of an individual in Malaysia for income tax purposes. (8 marks)

BBFT1013 PRINCIPLES OF TAXATION**Question 4 (Continued)**

(B)

Mari Sdn. Bhd. was incorporated on 1 March 2015 and carries on a business of manufacturing car accessories. It commenced business on 1 June 2016, and closes its annual accounts on 31 March.

Mari Sdn. Bhd. constructed a factory which was completed on 1 August 2016 and used it for the business soon after its completion. The expenditure incurred relating to the factory are as follows:

Expenditure	Amount (RM)
Land	2,100,000
Legal fees (land)	50,000
Architecture fees	70,000
Foundation and piling	400,000
Construction materials	1,500,000
Plumbing and wiring	430,000
Drainage	80,000

Required:

- (a) Briefly explain how to determine the date a qualifying expenditure for the construction of an industrial building is incurred or deemed to be incurred. (2 marks)
- (b) Identify the first year of assessment and the first basis period for Mari Sdn. Bhd. (2 marks)
- (c) Compute the industrial building allowance(s) that can be claimed by Mari Sdn. Bhd. for each relevant year of assessment up to the year of assessment 2017. (6 marks)

[Total: 25 marks]

BBFT1013 PRINCIPLES OF TAXATION**Question 5**

Janet is an accountant. She owns an apartment in Setapak, Kuala Lumpur which she lets out on 1 January 2017 for the first time to a student, at RM24,000 per annum. During the year 2017, Janet incurred the following expenses in respect of the house:

Expenses	Amount (RM)
Quit rent and assessment	600
Repaint on 1 November 2016	2,500
Fire and burglary insurance	300
Housing loan interest	3,100
Renovation	20,000
Legal fee for rental agreement	600

In December 2017, Janet received an advance rental of RM2,000 in respect of rental for the month of January 2018.

Required:

- (a) Compute Janet's adjusted income from rental for the year of assessment 2017. (6 marks)
 - (b) Explain how the rental income is deemed derived in Malaysia. (2 marks)
 - (c) Explain the criteria for a rental income to be treated as business income. (2 marks)
 - (d) Briefly explain **ANY FOUR (4)** differences in the tax treatment of rental income chargeable under Section 4(a) and Section 4(d) of the Income Tax Act 1967. (8 marks)
 - (e) State the last date for Janet to submit her tax return to the IRB for the year of assessment 2017. (1 mark)
 - (f) Explain the consequences of Janet failing to submit her tax return to the IRB within the stipulated time. (6 marks)
- [Total: 25 marks]