

Professional Level – Options Module

Advanced Taxation (Malaysia)

Friday 6 June 2014



Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

This paper is divided into two sections:

Section A – BOTH questions are compulsory and MUST be attempted

Section B – TWO questions ONLY to be attempted

Tax rates and allowances are on pages 2–4

Do NOT open this paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.

This question paper must not be removed from the examination hall.

The Association of Chartered Certified Accountants

Paper P6 (MYS)

ACCA

SUPPLEMENTARY INSTRUCTIONS

1. You should assume that the tax rates and allowances shown below will continue to apply for the foreseeable future.
2. Calculations and workings should be made to the nearest RM.
3. All apportionments should be made to the nearest whole month.
4. All workings should be shown.

TAX RATES AND ALLOWANCES

The following tax rates, allowances and values are to be used in answering the questions.

Income tax rates

Resident individual

Chargeable income

Band RM	Cumulative RM	Tax payable	
		Rate %	Cumulative RM
5,000	5,000	0	0
15,000	20,000	2	300
15,000	35,000	6	1,200
15,000	50,000	11	2,850
20,000	70,000	19	6,650
30,000	100,000	24	13,850
Excess		26	

Non-resident individual

All chargeable income 26%

Resident company

Paid up ordinary share capital	RM2,500,000 or less	More than RM2,500,000
On the first RM500,000	20%	25%
On the remainder	25%	25%

Non-resident company

All chargeable income 25%

Labuan entity – income from a Labuan trading activity

All chargeable profits 3%

Trust body – resident or non-resident

All chargeable income 25%

Personal deductions

		RM
Self		9,000
Self – additional if disabled		6,000
Spouse		3,000
Spouse – additional if disabled		3,500
Child – basic rate	each	1,000
Child – higher rate	each	6,000
Disabled child	each	5,000
Disabled child – additional	each	6,000
Life insurance premiums, approved scheme contributions	maximum	6,000
Deferred annuity premiums, private retirement scheme contributions	maximum	3,000
Medical expenses for parents	maximum	5,000
Medical expenses for serious disease of self, spouse or child, including up to RM500 for medical examination	maximum	5,000
Basic supporting equipment for self, spouse, child or parent if disabled	maximum	5,000
Educational and medical insurance for self, spouse or child	maximum	3,000
Study course fees for skills or qualifications	maximum	5,000
Broadband subscription	maximum	500
Purchase of a personal computer	maximum	3,000
Purchase of books, magazines etc for personal use	maximum	1,000
Purchase of sports equipment	maximum	300
Deposit for child into the National Education Savings Scheme	maximum	6,000

Rebates

Chargeable income not exceeding RM35,000	RM
Individual – basic rate	400
Individual entitled to a deduction for a spouse or a former wife	800

Capital allowances

	Initial rate %	Annual rate %
Industrial buildings	10	3
Plant and machinery – general	20	14
Motor vehicles and heavy machinery	20	20
Office equipment, furniture and fittings	20	10
Agriculture allowance		
Buildings for the welfare of employees	nil	20
Other buildings used in the business	nil	10
All other qualifying agricultural expenditure	nil	50

Real property gains tax

Disposal by all persons (except non-citizen individuals)

Date of disposal	Rate %
Disposal within two years after the date of acquisition	30
Disposal in the third year after the date of acquisition	20
Disposal in the fourth year after the date of acquisition	15
Disposal in the fifth year after the date of acquisition or thereafter	5

Note: an exemption is granted which reduces the effective rate of tax as follows:

Where the disposal takes place within two years of acquisition	15
Where the disposal takes place in the third, fourth or fifth year of acquisition	10
Where the disposal takes place in the sixth year or thereafter	0

Sales and service tax

	Rate %
Sales tax	10
Service tax	6

Stamp duty

Rates of duty under the First Schedule

Conveyance, assignment, transfer or absolute bill of sale

	Rate %
For every RM100 or fractional part thereof:	
On the first RM100,000	1
On the next RM400,000	2
On the excess over RM500,000	3

Section A – BOTH questions are compulsory and MUST be attempted

1 Ayer Batu Sdn Bhd (ABSB) is an established manufacturer of edible cube ice.

As a responsible corporate citizen, ABSB made the following donations during the year ended 31 December 2013:

- Donated ice to the neighbourhood schools on their sports days. The total cost of the stock of ice thus donated amounted to RM10,000 although the ice would have otherwise sold to the public for RM25,000.
- Donated one of its used delivery vans to the School for the Disabled on 1 December 2013. The market value of the van on that day was RM38,000 while its residual expenditure and net book value was RM35,000.

RM45,000 (RM10,000 + RM35,000) was charged to ABSB's statement of profit or loss for the year ended 31 December 2013 as 'donations'.

ABSB intends to diversify and produce oxygen-enriched bottled water. To enable it to do this, ABSB engaged Mr Oksijen, a foreign technical expert to advise on the project. Mr Oksijen will be in Malaysia for 12 weeks in the second half of 2014. ABSB expects to incur RM180,000 for Mr Oksijen's expertise.

The bottled water activity is expected to commence by 1 October 2014.

For the year ended 31 December 2014, the forecast results of ABSB are as follows:

	Ice manufacturing RM'000	Bottled water RM'000	Other income RM'000
Gross sales	12,000	1,000	
Adjusted income/(loss)	3,000	(640)	
Capital allowance	93	2,570	
Interest income			200

Required:

As tax manager in Cekap Tax Services, prepare a letter to the general manager of Ayer Batu Sdn Bhd (ABSB), which deals with the following:

- (a) **The income tax treatment and the relevant income tax adjustments required for the year of assessment 2013 in respect of the stock of ice donated, the delivery van and the donation charge.** (6 marks)
- (b) **The tax treatment, including any withholding tax compliance obligations, from the perspectives of both ABSB and Mr Oksijen in respect of the payment of RM180,000 for technical services, if the foreign expert was engaged as:**
 - (i) **an independent consultant; and** (6 marks)
 - (ii) **an employee.** (6 marks)
- (c) **The arguments for treating the ice manufacturing and the bottled water activities as:**
 - (i) **a single business; and** (3 marks)
 - (ii) **two separate businesses.** (3 marks)
- (d) **The impact on ABSB's total income for the year of assessment 2014 of having a single business or two separate businesses.**

Note: You should support your explanations in part (d) with a computation of the total income under each alternative. (7 marks)

Professional marks will be awarded in question 1 for the appropriateness of the format of the letter and the effectiveness with which the information is communicated. (4 marks)

(35 marks)

2 The Domestik Group of companies (the Group) has been established by a group of several entrepreneurs to undertake investments in Malaysia. The Group has not been granted any tax incentives so far.

There are four wholly-owned Malaysian tax resident subsidiaries in the Group, each of which derives income from a single principal activity. The profile of these subsidiaries is as follows:

- A Sdn Bhd is an established manufacturer of a consumer product, which consistently achieves a value added of 30% to 35%. The company has just ventured into the export market to Europe and expects an annual increase in export sales of 20% in the coming years. In 2013, its exports stood at RM1 million out of total annual sales of RM6 million.
- B Sdn Bhd has been manufacturing medical supplies for the past four years. In 2014 it plans to invest RM6 million to automate its operations in order to achieve increased output without an increased dependence on scarce labour.
- C Sdn Bhd is currently a dormant company. It intends to invest capital expenditure of about RM100 million over a period of three years (in the ratio of 50:30:20) to manufacture a promoted product. The company's business will take at least four years to become profitable.
- D Sdn Bhd is a newly-incorporated company which is to undertake a tourism business, a promoted activity. This business is expected to be profitable within three months after its commencement and to generate an annual statutory income of RM10 million.

Required:

Determine, giving reasons, which incentive measure is the most suitable for each of the companies:

- (a) A Sdn Bhd; (6 marks)
- (b) B Sdn Bhd; (6 marks)
- (c) C Sdn Bhd; (7 marks)
- (d) D Sdn Bhd. (6 marks)

For each recommended incentive measure, state the respective pre-requisites which are satisfied and explain the incentive mechanism, supported by relevant computations, where necessary.

(25 marks)

Section B – TWO questions ONLY to be attempted

3 Beli-Jual Sdn Bhd (BJSB) is a controlled company, which has a profitable trading business, with minimal tangible assets and no investments.

On 1 July 2010, BJSB acquired its first real property, a 90-acre plantation at a bargain price from an unrelated party. Thereafter, BJSB continued to operate the plantation but has incurred losses in each of the years since its acquisition.

On 1 December 2012, BJSB acquired a further 20 acres of land from the neighbouring plantation to gain accessibility to the main road. This rendered the entire 110 acres suitable for property development, but BJSB still continued to operate the 110 acres as a plantation.

Last week, BJSB received a very attractive offer for the entire 110 acres. The sale is expected to occur on 1 July 2014.

Yesterday, BJSB received a letter from the Inland Revenue Board stating its intention to invoke the general anti-avoidance provisions in the Income Tax Act and its refusal to allow the losses from the plantation business to be offset against the profits of BJSB's trading business.

Required:

(a) Determine whether Beli-Jual Sdn Bhd (BJSB) is a real property company on each of the following dates:

- before 1 July 2010;
- on 1 July 2010;
- on 1 December 2012; and
- on 1 July 2014. (6 marks)

(b) In respect of the proposed disposal of land on 1 July 2014:

(i) Set out the arguments for the gains to be subject to:

- (1) real property gains tax; and**
- (2) income tax.**

Note: The total marks will be split equally between each part. (6 marks)

(ii) State your conclusion as to which of the two treatments should prevail. (2 marks)

(c) Set out the arguments against the Inland Revenue Board's proposed refusal to offset losses. (6 marks)

(20 marks)

- 4 Mr Si-Kaya holds 60% of the share capital of Blue Sdn Bhd (Blue), a long-established company which closes its accounts annually to 30 June, and 80% of Orange Sdn Bhd (Orange), a company newly-incorporated on 1 June 2014, which will close its accounts annually to 31 December. Both companies have issued capital of RM5 million. On 3 June 2014, Blue disposed of its bread manufacturing business assets to Orange for RM2,680,000, analysed as follows:

	Original cost	Residual expenditure as at 30 June 2013	Sales price
	RM	RM	RM
Factory land	100,000	NA	1,500,000
Factory building	400,000	288,000	680,000
Plant and machinery	800,000	304,000	500,000

The component sales prices approximate to the prevailing market value, except for the factory land, which was independently valued at RM2,800,000.

Upon acquiring the assets, Orange will immediately commence the business of manufacturing bread. The statutory income from this business for the period of 3 June 2014 to 31 December 2014 is expected to be RM700,000.

Blue expects its tax charge for the following year to be reduced by half as a result of the disposal of its bread making business.

Required:

- (a) **Supported with explanations where necessary, compute the capital allowances and balancing adjustments for the year of assessment 2014 in respect of Blue Sdn Bhd and Orange Sdn Bhd.** (9 marks)
- (b) **Explain Orange Sdn Bhd's liability to stamp duty in respect of the disposal of the factory land and building.** (4 marks)
- (c) **Explain the impact the disposal of the bread manufacturing business will have on both Blue Sdn Bhd's and Orange Sdn Bhd's compliance requirements with regard to their estimates and/or revised estimates of tax for the years of assessment 2014 and 2015.** (7 marks)

(20 marks)

5 (a) Mr Korporate has just been offered the post of marketing director with EE Sdn Bhd. The annual employment package offered is either RM250,000 in cash or a combination of cash of RM150,000 and the following non-cash items:

- an increased contribution to the Employees Provident Fund (EPF) from 12% to 19%;
- school fees for his children of RM20,000 a year; and
- free accommodation in premises rented by EE Sdn Bhd for RM7,000 per month.

Mr Korporate's wife is a home-maker with no income of her own. They have two children, both under ten years of age.

Required:

(i) **Compute the comparative tax payable by Mr Korporate under each of the two alternative employment packages.** (7 marks)

(ii) **Compute the relative cash available to Mr Korporate for each package after paying his income tax liability, children's school fees and rent.**

Note: For the purposes of this part you should assume that the cost of his children's school fees and rent will be the same to Mr Korporate as for his employer and treat the employer's contribution to the EPF as available cash. (5 marks)

(iii) **Explain the relative merits of each package.**

Note: You should consider both tax and non-tax issues in this part. (4 marks)

(b) Hafiz, aged 19 and unmarried, is a student at Universiti Malaya, where his engineering studies are sponsored by ABC Sdn Bhd. In the year ended 31 December 2013, Hafiz had the following sources of income:

- (1) A scholarship awarded to him by ABC Sdn Bhd.
- (2) Rental income of RM10,000 a year from a residential property settled on Hafiz by his father, who owns a portfolio of similar properties.
- (3) Wages of RM1,000 a month received from ABC Sdn Bhd for part-time work during the university vacations.

Required:

Explain the income tax implications for Hafiz of each of his sources of income. (4 marks)

(20 marks)

End of Question Paper