



BERJAYA BUSINESS SCHOOL

FINAL EXAMINATION

Student ID (in Figures) :

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Student ID (in Words) : _____

Course Code & Name : **ACC2313 TAXATION 1**
 Trimester & Year : JANUARY – APRIL 2019
 Lecturer/Examiner : JAMES LIOW
 Duration : 3 Hours

INSTRUCTIONS TO CANDIDATES

1. This question paper consists of 1 part:
 PART A (100 marks) : Answer any FOUR (4) structured questions out of FIVE (5). Answers and workings are to be written in the Answer Booklet provided.
2. Candidates are not allowed to bring any unauthorized materials except writing equipment and calculator into the Examination Hall. Electronic dictionaries are strictly prohibited.
3. This question paper must be submitted along with all used and/or unused rough papers and/or graph paper (if any). Candidates are NOT allowed to take any examination materials out of the examination hall.
4. Only ballpoint pens are allowed to be used in answering the questions, with the exception of multiple choice questions, where 2B pencils are to be used.

WARNING: The University Examination Board (UEB) of BERJAYA University College regards cheating as a most serious offence and will not hesitate to mete out the appropriate punitive actions according to the severity of the offence committed, and in accordance with the clauses stipulated in the Students' Handbook, up to and including expulsion from BERJAYA University College.

Total Number of pages = 10 (Including the cover page)

PART A : STRUCTURED QUESTIONS (100 MARKS)

INSTRUCTION (S) : There are **FIVE (5)** questions in this section. Answer only **FOUR (4)** questions. Write your answers in the Answer Booklet(s) provided.

QUESTION 1

Michael Kor was employed as a marketing director of Muhibbah Engineering Sdn Bhd (MESB) since 1 March 2011. In 2018, at 48 years of age and still healthy, Michael's employment was prematurely terminated, effective from 31 October 2018 after working for 7 years and 8 months. Below are the particulars to Michael's employment for the basis year 2018.

(a) Monthly remuneration (January to October 2018):

- Salaries of RM9,880 (net of 11% EPF contributions and RM800 STD*)
- Cost of living allowance of RM1,200
- Entertainment allowance of RM2,000

**STD: Schedule Tax deduction*

(b) Other benefits in cash:

- Gratuity of RM95,000, paid on October 2018 and RM74,000 being compensation for loss of employment, paid in November 2018.
- RM50,000 being bonus payment for 2017 and 2018, but actually paid only on February 2018.

(c) Benefits in kind:

- Michael enjoyed the service of a driver (from 2013 until October 2018) to fetch his children to and from school. The driver's monthly salary of RM1,200 was paid by MESB.
- On 10 March 2018, MESB offered Michael the option to acquire 20,000 of its shares at RM2.00 per share. Michael exercised the option on 20 September 2018. The market price of MESB's share was RM5.00 per share and RM6.00 per share respectively on 10 March 2018 and 20 September 2018.
- In 2018 Michael purchased goods produced by MESB at a discount, paying RM15,000 although the market price of these goods amounted to RM20,000.
- Since 2014 until 30 June 2018, MESB provided Michael with a new car (costing RM90,000 when purchased in 2014). Michael had to bear the expenses for fuel.
- Holiday leave passage to Japan in June 2018 for Michael and his wife. The air fare which amounted to RM5,800 and accommodation for their one week stay in Japan which amounted to RM3,500 were all paid by MESB.

- In August 2018, Michael and his wife were provided with a fully paid four days holiday in Langkawi. The air fare which amounted to RM900 and accommodation which amounted to RM1,500 were paid for by MESB.
- During working days, Michael's 3-year old son was placed in a child care centre. The fees for 2018 which amounted to RM2,400 was paid by MESB.

(d) Accommodation benefits:

- From 2011 until 30 June 2018 Michael stayed in a fully furnished condominium located in Bangsar South, which is owned by MESB. The condominium costing RM1,200,000 was purchased by the company in 2010. The company paid RM40,000 to fully furnish the house. The annual rateable value (as determined by the local authority) was RM36,000. Michael needed to pay MESB RM500 a month for occupying the house.

(e) Unapproved scheme:

- In December 2018, Michael withdrew RM60,000 from MESB's Staff Fund (an unapproved pension fund). Of this amount, RM40,000 was attributable to Michael's contributions, RM15,000 was MESB's contributions and the remainder was interest accrued on the total amount contributed.

(f) Other information:

- In 2018, Michael furnished an acceptable document as evidence that he had incurred RM25,000 as entertainment expenses on behalf of MESB.
- In March 2018, Michael's wife was taken ill and the hospitalization expenses of RM3,500 was borne by MESB.

Required:

- (a) For the year of assessment 2018, determine Michael's gross income and statutory income from employment. Clearly categorize each item of employment income under appropriate sub-sections of the relevant provision of the ITA 1967. Include for any item that may not be chargeable or not to be included under employment income. (20 marks)
- (b) If Michael was a director (not service director) of MESB, a controlled company, explain the tax treatments regarding the following:
- (i) Payment of RM100,000 in consideration for his loss of employment.
 - (ii) Discount given in relation to the purchase of goods produced by MESB.
 - (iii) Value of accommodation in relation to the occupation of the semi-detached house in Bangsar South.

(5 marks)

[Total 25 marks]

QUESTION 2

Encik Badrul retired from Gemilang Sdn Bhd since November 2018 at the age of 58. He provides the following information for the year ended 2018:

(i)	Business Income:	Business I (RM)	Business II (RM)
	Adjusted income /(loss)	(20,000)	80,000
	Balancing charge	1,800	-
	Capital allowance	2,800	8,000
	Unabsorbed loss from 2017	3,000	2,000

(ii)	Dividend income:	RM
	Victual Holdings Bhd (single tier)	6,000
	Amanah Saham Wawasan (ASW)	8,000

(iii)	Interest income:	RM
	Interest on saving in BSN Bank	3,600

(iv)		RM
	Gross employment income received	220,000

- (v) Donation and zakat:
- Encik Badrul made cash donation of RM2,000 to Yayasan Kasih (approved institution).
 - He paid zakat of RM40,000 to Pusat Pungutan Zakat (PPZ) Selangor.

- (vi) Information about Encik Badrul's wife, Puan Sofia, for 2018 are as follows:
- On 1 January 2018, Puan Sofia commenced employment as a Human Resource Manager in Mawar Sdn Bhd. Her net salary after deducting 12% employees provident fund (EPF) is RM145,200 per annum.
 - The employers contribution for EPF was RM46,800.
 - She received a personal computer worth RM3,000 for her personal use as a gift from her employer.
 - A payment of RM3,000 for her internet subscription.

- (vii) Other payments made by Encik Badrul and Puan Sofia during 2018:

	Encik Badrul (RM)	Puan Sofia (RM)
Life insurance premium	7,961	4,979
Medical insurance premium	3,094	
Educational insurance premium		1,738
Personal computer	2,000	
Magazines and books	200	923
Medical expenses for parents	2,379	

Medical expenses for children	3,600	
Full medical check-up (Self)	544	384

(viii) They have three children:

- Yusmira, 22, married and studying at International Medical College, Cyberjaya.
- Ariel, 20, single and studying at the Victoria University, Australia.
- Delima, 19, studying at the Centre for Foundation Studies, University of Malaya.

(xi) Puan Sofia has contributed RM3,000 for the Skim Simpanan Pendidikan Nasional (SSPN) during 2018

Note:

- i) *It was agreed that the children reliefs would be claimed by Encik Badrul.*
- ii) *Both Encik Badrul and Puan Sofia are Malaysian resident and they elected separate assessment for the year of assessment 2018.*

Required

- a) Calculate the income tax payable for Encik Badrul and Puan Sofia for the year of assessment 2018. Clearly categorise each item of employment income under appropriate sub-sections of the relevant provision of the Income Tax Act (ITA), 1967. Include for any item that may not be chargeable or not to be included under employment income. (16 marks)
- b) Encik Badrul heard that the tax liability could be minimised if it is under joint assessment with his wife, Puan Sofia. Advise Encik Badrul whether such joint assessment is legal under the provisions of ITA, 1967. Discuss in which situation, the individual should elect for joint assessment and how the individual should make the election to the authorities, and whether the election is permanent once it has decided for joint assessment. (9 marks)

[Total 25 marks]

QUESTION 3

Armada Bhd's financial accounting period ended 31 October 2018. The following are the details of its property, plant and equipment:

- (i) Armada constructed a building for use in its trade of machinery manufacturing. The freehold was located at Perindustrian Klang and it was purchased during the year ended 31 October 2016. The building was completed in May 2018.

The costs of construction were:

	RM
Freehold land, at cost (before 31 December 2016)	1,000,000
Architect's fee (December 2017)	50,000
Foundation preparation (January 2018)	80,000
Building cost (before May 2018)	3,900,000
Loans interest (before May 2018) <i>Refer to the details below</i>	120,000
Cost of lifts (Classified as machinery)	800,000
Total cost	5,950,000

The interest of RM120,000 was paid on following loans:	RM
- Loan of RM600,000 borrowed in 2015 to finance the land cost	50,000
- Loan of RM840,000 borrowed in the year to finance the cost of construction	70,000
Total	120,000

After the completion of construction, the company will had an outstanding loan of RM1 million and interest of RM20,000 was paid on this loan during the period from May 2018 to October 2018.

The building was completed on 1 May 2018 and used as a factory for manufacturing purposes.

(ii) A heavy machinery was sold for RM56,800 on 23 July 2018. The machine was acquired on 4 March 2014 for RM124,000.

(iii) A car (for the usage of the Chief Executive Officer) was bought on hire purchase on 1 January 2018 as follows:

	RM
Cost of car	162,480
Deposit paid in January 2018	30,000
Hire purchase amount	132,480

The monthly instalments are payable for 48 months at RM3,000 per instalment. The first instalment commenced in January 2018.

Required

- Compute the total qualifying building expenditure for the constructed building for the year assessment of 2018. (4 marks)
- Calculate the total costs of construction that do not qualify for industrial building allowance. (4 marks)
- Compute the industrial building allowance for the newly constructed building for the year assessment of 2018. (4 marks)
- Compute the residual expenditure for machinery and motor vehicle for the year assessment of 2018. (9 marks)

Assume that the buildings are used for the following purposes:

Area	Percentage of Usage
General office	10%
Showroom	5%
Design office	5%
Canteen for manufacturing workers	10%
Work place for manufacturing	70%

The architect's fee has been apportioned between the qualifying building expenditure and non-qualifying building expenditure accordingly.

Required

- e) Compute the industrial building allowance for the year assessment of 2018. (4 marks)

[Total: 25 marks]

QUESTION 4

Part A

Winnie Chapman, an Australian national, arrived in Malaysia on 11 March 2013 and left Malaysia permanently on 30 September 2018. Details of her stay in Malaysia are as follows:

Year	Date	Days
2013	11 March – 6 September	180
2014	1 July – 31 December	184
2015	1 – 5 January	5
2016	3 June – 21 August	80
	1 September – 10 October	40
2017	1 – 10 April	10
2018	21 March – 19 May	60
	1 June – 29 September	121

Winnie left Malaysia permanently on 30 September 2018 at noon.

Required:

- Determine her tax residence status for the Years of Assessment 2013 to 2018, stating the relevant provisions of the Income Tax Act, 1967. (9 marks)
- Will all Malaysians automatically qualified as tax resident of Malaysia? State the main factor in determining the individual's tax resident status. (2 marks)
- List **TWO** (2) advantages of being a tax resident in Malaysia. (2 marks)

Part B

Bernard Chong bought a house in Bangsar South for RM1,200,000 on 1 January 2018 with a cash payment of RM800,000 and a housing loan of RM400,000 from CIDB Bank which was released on 1 March 2018.

Bernard spent RM60,000 on renovation that were necessary before renting it out on 1 April 2018. The first tenant who rented the house was on a short term basis and Bernard agreed to the arrangement. The first tenant was obtained through the service of an estate agent, and RM3,000 was paid for his service. The monthly rent was RM3,000.

The first tenant vacated the house on 31 August 2018 with an advance notice that was stipulated in the rental agreement. Mr. Bernard secured another tenant, Mary Vareed, who rented his house on 1 November 2018 for two years with the same monthly rent of RM3,000.

Mr. Bernard submitted the following statement of income & expenditure for the year ended 31 December 2018:

	RM	RM
Rent received: (RM3,000 x 7 months)		21,000
Less: Expenditure		
Estate agent's fee (for first tenant)	3,000	
Stamp duty (purchase of house)	24,000	
Loan processing fee	3,000	
Legal fees: sales & purchase agreement	12,000	
House valuation report	3,000	
Loan interest (1 March to 31 December 2018)	18,000	
Quit rent	560	
Assessment	3,600	
Fire insurance	1,200	
Renovation	60,000	
Advertising (to secure tenant) - first tenant	500	
- second tenant	600	
Newly-installed air-conditioner	3,000	(132,460)
Net income/(loss):		(111,460)

Additional notes:

- As Mary will be away for holidays in Switzerland, she has paid an advance rental of RM6,000 on 20 December 2018 being the payment for the month of January and February 2019 respectively. This advance rental is not included in the rent received.
- Quit rent, assessment and fire insurance were paid for the whole year 2018.

Required:

- Compute Bernard Chong's statutory income from rent for the year of assessment 2018. Include for any item that may not be chargeable or not to be included under rental income.
(10 marks)
- Explain the tax treatment of expenses in respect of the vacant period from September to October 2018.
(2 marks)

[Total 25 marks]

Question 5

- a) Under self-assessment system for companies, determine the prescribed period within which a company must furnish an estimate tax payable to the IRB and the time frame for company to revise the estimate of tax payable. (4 marks)

- b) Details of Danco Sdn Bhd (share capital of RM3 million) for year assessment 2018:

- (i) Danco Sdn Bhd, accounting year ending 30 June 2018 furnished its first estimate of tax payable for the year assessment 2018 to the Lembaga Hasil Dalam Negeri (LHDN) within the time prescribed by law. This was for RM120,000.

Required:

State when and the amount Danco Sdn Bhd is required to pay its tax estimates for the year assessment 2018 to LHDN. (2 marks)

- (ii) An early revised estimate for the year assessment 2018 was furnished to LHDN on 15 December 2017 amounted to RM123,850.

Required:

Determine the amount Danco Sdn Bhd is required to pay the balance of the revised estimate tax. (3 marks)

- (iii) Danco Sdn Bhd submits its tax return for the Year assessment 2018 to the LHDN on 15 January 2018 and it shows tax payable of RM130,800.

Required:

State when Danco Sdn Bhd be deemed to have been served with the deemed notice of assessment for the year assessment 2018. (2 marks)

- (iv) State when the final tax of Danco Sdn Bhd for the year assessment 2018 be due and payable. (2 marks)

- c) Super Delux Sdn Bhd was incorporated with a paid up capital in respect of ordinary shares of RM1 million (owned by 4 individuals in equal shares) on 18 December 2017. The company commenced its consultancy business on 1 January 2018 and decided to close its financial year ending 31 December each year.

The company does not expect to increase its share capital for the next 3 years of operation.

Required:

- (i) State the year of assessment if the first set of accounts was made up from 18 December 2017 (date of incorporation) to 31 December 2018. (3 marks)

- (ii) State when the company must provide its estimates of tax payable for year assessment 2018?
(3 marks)
- (iii) Determine when must the company settle its tax payable (if any) for year assessment 2018?
(3 marks)
- (iv) For year assessment 2020, state when must the company submit its tax estimates and make its instalment payment.
(3 marks)
- [Total 25 marks]**

END OF QUESTION PAPER