



## UNIVERSITI KUALA LUMPUR BUSINESS SCHOOL

## FINAL EXAMINATION

JANUARY 2016 SEMESTER

SUBJECT CODE : EAB41203  
SUBJECT TITLE : TAXATION 2  
LEVEL : BACHELOR  
TIME / DURATION : 9.00 AM - 12.00 P.M / 3 HOURS  
DATE : 26th MAY 2016

## INSTRUCTIONS TO CANDIDATES

1. Please read the instructions given in the question paper CAREFULLY.
2. This question paper is printed on both sides of the paper.
3. This question paper consists of FIVE (5) questions.
4. Answer ALL questions
5. Please write your answers on the answer booklet provided.
6. All questions must be answered in English (any other language is not allowed).
7. This question paper must not be removed from the examination hall.

THERE ARE FOURTEEN (14) PAGES OF QUESTIONS, EXCLUDING THIS PAGE.

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**(Total: 100 marks)**

**INSTRUCTION: Answer ALL questions.**

**Please use the answer booklet provided.**

**Question 1**

- A. Coconut Rich Sdn. Bhd. is in the business of manufacturing creamy coconut ice cream in Malaysia. The company has a paid up capital of RM4.0 million. For the year ended 31 December 2015, the statement of comprehensive income for the business is as follows:

	Note	RM	RM
Turnover			400,000
Less: Cost of sales	1		176,000
			<hr/>
			224,000
Add: Other income			
Dividend (net) (from Yam Rich Sdn. Bhd.)			10,950
Gain on disposal of assets			24,000
			<hr/>
			258,950
Less: Operating expenses			
Foreign exchange losses	2	40,000	
Salary and staff remuneration	3	16,000	
Professional fees	4	19,000	
Entertainment expenses	5	47,000	
Repairs and maintenance	6	15,000	
Provision for bad debts	7	40,000	
Interest expense	8	39,000	
Donation	9	30,000	(246,000)
Profit/(Loss) before taxation			<hr/>
			12,950
			<hr/>

**Notes:**

1. Included in the cost of sales are:

	RM
Depreciation	60,000
Provision for slow moving stock	6,000

2. Foreign losses are made up of:

	RM
Realised loss on purchased of machineries	15,000
Realised loss on purchased of raw material	5,000
Unrealised loss on sales of finished product	20,000

3. Salary and staff remuneration comprises of:

	RM
Basic salary	10,000
Bonus (3 months)	3,000
EPF contribution (employer's contribution)	3,000

4. Professional fees comprise:

	RM
Registration of the company's new trademark	2,000
Counter claim and defense on compensation claim by a dismissed employee	1,500
Non-trade debt collection expenses	500
Accounting fees	1,000
Contribution to the building fund of the trade association	9,000
Income tax appeal	3,000
Participation in trade fair in China	2,000
	<u>19,000</u>

5. Entertainment expenses comprise of:

	RM
Entertainment suppliers	40,000
Staff lunches and refreshments	4,000
Promotional gifts (company's product)	3,000
	<u>47,000</u>

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6.	Repair and maintenance incurred on the following:	<b>RM</b>
	Replacement of office glass windows with improved new design	6,000
	Replacement of component parts on machinery	2,500
	Cost of office chairs and tables	4,500
	Cleaning and repainting of factory premises	2,000
		<hr/>
		15,000
		<hr/>
7.	Provision for bad debts	<b>RM</b>
	Specific provision	80,000
	General provision	50,000
	Amount Written off	(90,000)
		<hr/>
		40,000
		<hr/>
8.	Interest expense	
	This includes interest expense on a loan obtained from a local bank on 1 January 2015. 40% of the loan was used to finance the company's acquisition of its investment in SangJem Sdn. Bhd., whilst the balance 60% used to finance the company's working capital.	
9.	Donation is made up of:	<b>RM</b>
	Cash donation to approved institution	20,000
	Cash donation to political parties	10,000
10.	The following information are provided for year of assessment 2015:	<b>RM</b>
	Capital allowance for the year	24,500
	Balancing charge	37,000
	Balancing allowance	6,000
	Unabsorbed business loss b/f	3,500

**Required:**

Compute the tax liability of Coconut Rich Sdn. Bhd. for the year of assessment 2015. Write "Nil" where no adjustment is required.

(23 marks)

- B. Logitech Sdn. Bhd. is a company that manufactures household electronic goods since 2010. The company closes its accounts to 30 September every year.

In August 2014, Logitech Sdn. Bhd. decided that the estimated tax payable for year assessment 2015 is RM360,000. The original estimate to the Inland Revenue Board (IRB) was subsequently revised to RM430,000 and submitted to IRB on 20 March 2015. The tax payable as stated in the return Form C 2015 which was filed on 28 March 2016 is RM500,000.

**Required:**

- i. Determine the filing deadline for the tax return Form C of Logitech Sdn. Bhd. for the year of assessment 2015.

(1 mark)

- ii. State the required minimum basis for Logitech Sdn. Bhd. in estimating the tax payable for the year of assessment 2015.

(2 marks)

- iii. Compute the outstanding balance of tax payable by Logitech Sdn. Bhd. to the Inland Revenue Board at the time of the submission of tax return.

(4 marks)

**Total: 30 marks**

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**Question 2**

- A. The Miskin-Kaya Sdn. Bhd. was incorporated on 1 April 2009 to carry on the business of operating an oil palm plantation. The company makes its account to 30<sup>th</sup> September annually. Various expenses were incurred as follows:

Date	Expenditure	Amount (RM)
25 July 2010	Cost of land	270,000
22 Oct. 2010	Clearing of land	85,000
16 May 2011	Construction of roads	120,000
15 June 2011	Planting of oil palm seedlings	226,000
2 Nov. 2011	Construction of labour quarters	65,000
30 Nov. 2011	Construction of store	55,000

On 24 December 2013, the company received a grant of RM75,000 from the State Government on planting oil palm seedlings.

On 31 March 2015, the oil palm plantation was sold to Selalu Maju Sdn. Bhd. for RM700,000. Selalu Maju Sdn Bhd makes up its account to 31 March annually.

**Required:**

- i. Calculate the agriculture allowances/charges for Miskin-Kaya Sdn. Bhd for relevant year of assessments up to year of assessment 2015. (Miskin-Kaya Sdn. Bhd. makes an election under paragraph 27 of Schedule 3, ITA 1967).  
**(11 marks)**
- ii. State the requirement needed for claiming the agriculture allowance.  
**(4 marks)**

- B. Sulaiman Sdn. Bhd., a resident company operating in Bidor, Perak, is diversifying its operation to manufacture a new brand of products which qualifies for reinvestment allowance (RA) beginning in the year of assessment 2013. The company has a 30 June year end.

Below is a projection of its related data for the next three years of assessment.

Year of Assessment	2013 RM'000	2014 RM'000	2015 RM'000
Adjusted income	(1,500)	4,200	6,500

Capital expenditure	Date incurred	RM'000	Initial allowance rate	Annual allowance rate
Land	1/4/2012	6,800		
Factory building	2/5/2013	2,000	10%	3%
Office equipment	6/8/2013	800	20%	10%
Plant and machinery	1/2/2015	4,400	20%	14%

Assumption: The corporate rate of tax is 25% for the period 2013 – 2015.

**Required:**

Compute the chargeable income for Sulaiman Sdn. Bhd. for the years of assessment 2013 to 2015. (Note: Clearly show your workings)

(13 marks)

**[Total: 28 marks]**

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### Question 3

- A. Encik Jamal bought a terrace house in Shah Alam on 4 January 2009 for RM370,000. He spent RM30,000 for extension the kitchen area. On 15 February 2012, he transferred the house to Azmi, his only grandson. The market value of the house at the date of transfer was RM550,000. Azmi incurred RM100,000 to renovate the house in 2012. In 2013, Azmi received compensation amounting to RM50,000 from his neighbour due to damages to his property caused by his neighbour's renovation work. Later, on 13 March 2014, he decided to dispose the house to his friend, Armand for RM650,000. Azmi received a deposit of RM65,000 from Armand being the down payment for the house. However, the deposit was forfeited because the sale and purchase agreement was terminated by Armand due to his financial difficulties.

On 18 February 2015, Azmi finally managed to dispose the house at a higher price which is RM700,000. He incurred the following expenses on the disposal of the house.

Valuation fees	RM15,000
Brokerage fees	RM8,000
Advertisement cost	RM5,000

#### Required:

- i. State the real property gain tax implication arising from the transfer of the terrace house by Encik Jamal to his grandson, Azmi.  
(5 marks)
- ii. Compute the real property gains tax payable (if any) by Azmi on disposal of the terrace house.  
(7 marks)
- iii. State the tax implication if Azmi were to sell the house after 31 March 2015.  
(1 mark)



- B. Real property gains tax (RPGT) is charged on a chargeable gain accruing in respect of a chargeable asset when it is disposed of in a year of assessment.

**Required:**

Explain the meaning of the following terms in relation to RPGT.

i. Chargeable asset.

(2 marks)

ii. Chargeable gain.

(1 mark)

iii. Year of assessment.

(1 mark)

**Total: 17 marks**

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**Question 4**

Poon is the sole proprietor of Mas Enterprise, which trades in hardware goods. Mas Enterprise is registered for goods and services tax (GST). Mas Enterprise recorded the following deliveries and sales for November 2015:

	RM
Delivered hardware goods to Park Sdn Bhd, a GST registered business, on 2 November 2015. This was in fulfilment of an order placed by Park Sdn Bhd on 15 October 2015.	20,000
Supplied hardwood to Mok & Co, a GST registered business	10,000
Supplied hardwood to Gano, a non-GST registrant.	1,000
Supplied scrap stocks to Dirzan, a non-GST registrant.	5,000

All the amounts stated above are exclusive of any GST which may be chargeable. Mas Enterprise has not received permission to issue simplified tax invoices to its customers and, therefore, must issue full tax invoices. Mas Enterprises issued the relevant invoices in respect of the above sales to Park Sdn Bhd, Mok & Co, Gano and Dirzan on 2 December 2015.

On 12 November 2015, Mas Enterprise received a GST invoice dated 10 November from ABC Sdn Bhd, a GST registered business, for the supply of tools and hardware inventory (stock) for RM10,600 (including GST of RM600).

ABC Sdn Bhd has given Mas Enterprise a credit period of three months in which to pay this invoice.

**Required:**

A. State any **THREE (3)** items which must be stated on a valid goods and service tax (GST) invoice issued by Mas Enterprise as a supplier.

**(3 marks)**

B. Provide justification, on which date the supply of goods to Park Sdn. Bhd. is deemed to have taken place for GST purposes.

**(2 marks)**

C. State whether Mas Enterprise must charge GST output tax on the supplies made to each of Mok & Co, Gano and Dirzan and, if any, compute the GST chargeable.

(5 marks)

D. State whether Mas Enterprise can claim GST input tax of RM600 on the invoice received from ABC Sdn Bhd, and, if any, determine the month of the GST return.

(1 mark)

**Total: 11 marks**

**Question 5**

- A. North Water Sdn. Bhd. purchased some high technology equipment from Korea for its factory in Kuala Lumpur. An employee of the Korean company was sent to install the machine and to render consultancy services to North Water Sdn. Bhd. North Water Sdn. Bhd. paid installation fee of RM65,800 on 1 February 2015 and consultancy fee of RM145,000 on 5 February 2015.

**Required:**

- i. Determine the nature of income earned by the Korean company. (1 mark)
- ii. Compute the amount of withholding tax to be withheld by North Water Sdn. Bhd. when making the payment to the Korean company. (2 marks)
- iii. State the stipulated period the taxes withheld must be remitted to the Inland Revenue Board. (3 marks)
- iv. Explain the tax consequences if North Water Sdn. Bhd. fails to remit the withholding taxes to the Inland Revenue Board within the stipulated period. (3 marks)

- B. Ansar Software Sdn. Bhd. engaged the service of a German software engineering company to design a software for a fee of RM345,000. The software was designed in Germany and was brought to Malaysia by Mr. Schumacher, a consultant of the German company. The fee was paid on 10 January 2015 when Mr. Schumacher arrived in Malaysia.

Mr. Schumacher was also engaged to conduct a training for the technical staff of Ansar Software Sdn. Bhd. for a fee of RM100,000. Mr. Schumacher stayed in Malaysia for fifteen days and Ansar Software Sdn. Bhd. paid for Mr. Schumacher's accommodation and traveling expenses during his stay in Malaysia. The cost of accommodation amounted to RM10,000 and traveling expense amounted to RM1,000. Both were paid on 25 January 2015 together with the consultancy fee.

Required:

- i. State whether all the four expenditures incurred by Ansar Software Sdn. Bhd. above are subject to withholding tax or not. (2 marks)
- ii. Compute the total amount of withholding tax imposed on the income earned by the Germany company. (2 marks)
- iii. Compute the penalty imposed if only 60% of the withholding tax was paid to the tax authorities on the due date. (1 mark)

**[Total: 14 marks]**

**END OF QUESTION PAPER**

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### TAX RATES AND ALLOWANCES

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

#### Income tax rates

##### Chargeable income

##### Resident company

Paid up ordinary share capital

RM2,500,000 or less

More than RM2,500,000

First RM500,000	Excess over RM500,000
20%	25%
25%	25%

#### Capital allowances

	Initial allowance (IA) Rate %	Annual allowance (AA) 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

#### REAL PROPERTY GAINS TAX RATE – INDIVIDUAL OF MALAYSIAN CITIZEN

	YA 2010	YA2011	YA2012	YA2013	YA2014 / 2015
Disposal within 2 years after acquisition	5%	5%	10%	15%	30%
In the 3 <sup>rd</sup> year after acquisition	5%	5%	5%	10%	30%
In the 4 <sup>th</sup> year after acquisition	5%	5%	5%	10%	20%
In the 5 <sup>th</sup> year after acquisition	5%	5%	5%	10%	15%
After the 5 <sup>th</sup> year	Nil	Nil	Nil	Nil	nil

#### WITHHOLDING TAX RATES:

Contract	10% + 3%
Interest	15%
Royalty	10%
Special classes of income	10%
Public entertainers	15%
Commission / Introduction fee	10%

#### AGRICULTURE ALLOWANCE RATES

Clearing and preparation of land	50%
New planting	50%

Construction on a farm of a road or bridge	50%
Construction on a farm of a building:	
- Used for business	10%
- Used for welfare of the employees	20%

**FOREST ALLOWANCE RATES**

Road or building used for timber extraction	10%
Building provided for employees' welfare	20%

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