

Chapter 4

Multiple-Choice Questions

1. C
2. A
3. C
4. A
5. D
6. B
7. A
8. A
9. D
10. B

Short-Answer Questions

Question 1

	RM
Gross salary from employment	62,500
Rental income (1,500 x 12 months)	18,000
Part time art and photography classes	<u>16,000</u>
Aggregate income	96,500
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Question 2

(a) There are differences in tax treatments between tax residents and non-residents. For instance, tax reliefs are available for individual residents and these individuals are tax based on the marginal tax rates based on a graduated tax schedule. However, no tax reliefs are available to non-residents and fixed rate will apply (refer to Figure 3B).

(b) Determination of tax residency:

- Y/A 2015 Non-resident as his stay in Malaysia was only for 122 days
- Y/A 2016 Non-resident as the period of stay in Malaysia for 2016 was only 122 days. To qualify for residency under Section 7(1)(b), the period of stay should be linked to period of 182 days or more to the immediate or following calendar year, In this case the immediate following period, 1 March to 16 April 2017 is only 36 days and the period of temporary absence more than 14 days. Does not fall under Section 7(1)(b).
- Y/A 2017 Resident under Section 7(1)(a) as the combined number of days in the basis period was 193 days which is more than 182 days.

Question 3

These "gifts" are provided by Joel Yap's employer in appreciation for the past services performed (Long service award) and his excellent service (Employee of the year) rendered in respect of his employment or in respect of him exercising his employment. As such, they are to be treated as part of gross income under Section 13(a) of the Income Tax Act. They are perquisites from employment under PR2/1013. However, the certificate of appreciation is not taxable as it has no monetary value.

Question 4

Basic salary (RM 13,000 × 12) RM 156,000

Value of living accommodation:

William would qualify as a service director/employee as he does not own any shares. Hence, we use the lesser of:

	RM
(a) Defined value – Unfurnished (4,000 × 12)	48,000 or
(b) 30% of RM156,000	46,800

We will include RM46,800 as value for the living accommodation in the gross income.

Computation of gross income from employment

	RM
Basic salary (RM 13,000 × 12)	156,000
Add: Value of living accommodation	46,800
Add: Semi-furnished (RM 70 × 12)	840
Add: Driver (RM600 × 12)	7,200

Gross income from employment	210,840
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Question 5

- (a) Lottery winnings are a windfall gain which is generally not taxable
- (b) Bonus is employment income is taxable under Section 13(1)(a)
- (c) Gain from sale of shares are capital gains which is exempted in Malaysia
- (d) This is a real property gain which taxable under RPGT

Discussion Questions

Question 1

The three major strategies are:

- Reducing the tax consequences/liability that may arise because of a transaction.
 - These generally involve recharacterizing non-deductible expenses as deductible expenses or result in income being taxed at a lower rate.
 - Example:
 - Renegotiating the payment of reimbursements for entertainment instead of the payment of an entertainment allowance in certain cases.
 - Obtaining a mortgage to generate deductible interest expense.
 - Any other relevant answer
- Shifting the timing of taxable events
 - Involve tax acceleration or deferrals by shifting the timing of income and/or tax deductions
 - Example:
 - Deferring the sale of appreciated property to the sixth year or beyond to reduce the impact of RPGT.
 - Contributing to a deferred annuity or private retirement scheme which are excluded from income tax if withdrawals are made after the age of 55.
 - Any other relevant answer

- Shifting income
 - Transferring income from one individual to another to lower the marginal tax rate applicable
 - Example:
 - Husband transferring a rented property to his wife who is not working.
 - Transferring certain assets to trust fund to lower personal tax.
 - Any other relevant answer.

Question 2

Suggested answers include:

- Potential audit risk
- Cost versus benefit – Tax planning may involve fees, implementation costs, time and effort which needs to be weighted together with the tax savings.
- Potential changes in tax laws
- Tax planning assumptions used (e.g. tax rates) in projections may be subject to change over the long run.

Question 3

Suggested answers include:

- Shift of the responsibility of tax computations from the LHDN to the taxpayer.
- The tax return is deemed to be a notice of assessment upon its submission.
- Taxpayer need to keep proper records for potential audits by LHDN.
- Taxpayer has the responsibility of making payments of tax liability or any balance due.
- Heavy penalties up from 45% to 100% of tax discrepancies may apply if any tax audit or tax investigation is subsequently conducted by IRB. Travel restrictions could also apply.

Case Study

Question 1

Based on the prescribed value method:

The prescribed value for the car valued at RM135,000 = RM5,000

Additional tax rules on fuel: The lower of:

(i)	Fuel prescribed value (See Figure 5)	=	RM 1,500
(ii)	Cost of Petrol minus RM6,000 = (3,200 + 11,000 - 6,000)	=	RM 8,200
(iii)	Cost of Petrol minus "Business Use" = (3,200 + 11,000 - 11,000)	=	RM 3,200

The lower of (i), (ii) and (iii) gives a BIK on fuel of RM1,500.

Thus, the total BIK based on the prescribed method = 5,000 + 1,500 = RM6,500 per annum

Formula method

•	Car value (RM 135,000 x 80%) ÷ 8	=	RM 13,500
•	Less : Business part (65,000 KM/90,000KM)		RM <u>(9,750)</u>
•	BIK – Company Car (i.e Personal travel)		RM 3,750

For fuel/petrol, the BIK as per the prescribed method = RM1,500

Hence, the total BIK under the formula method = 3,750 + 1,500 = RM5,250 per annum

As such, in this case it would be more beneficial for John to use the Formula Method, which would result in a lower aggregate and chargeable income, *ceteris paribus*.

Question 2

Defined Value (RM4,500 × 12)	=	RM 54,000
Cash Remuneration = [((20,500 + 1,500) × 12) + (2 × 20,500)]	=	RM 305,000
30% of cash remuneration (Landed Property) (0.3 × RM305,000)	=	RM 91,500

The lower of defined value and 30% of cash remuneration = RM54,000

Question 3

	John	
	With BIK- Car	Without BIK- Car
Basic Salary	212,400	246,000
Bonus	35,400	41,000
Entertainment allowance (1,500 X 12)	18,000	18,000
Benefit in Kind - Car (Formula Method)	5,000	
Benefit in Kind - Petrol (Prescribed)	1,500	
Value of living accommodation	54,000	54,000
BIK- Driver	7,200	7,200
Rental Income (1,600 X 12)	19,200	19,200
Less : Repair and maintenance	(2,540)	(2,540)
Aggregate income	350,160	382,860
Less : Approved donations	(15,000)	(15,000)
	335,160	367,860
Less : Personal Reliefs		
Personal Relief	(9,000)	(9,000)
EPF and Life Premiums- Restricted to RM6,000	(6,000)	(6,000)
Medical & education insurance - Restricted to RM3,000	(3,000)	(3,000)
Medical expenses on parent	(5,000)	(5,000)
Jackson < 18 disabled	(6,000)	(6,000)
Jason > 18 full time tertiary education	(8,000)	(8,000)
Lifestyle relief (Restricted to RM2,500)	(2,050)	(2,050)
	(39,050)	(39,050)
Chargeable income	296,110	328,810
On first RM 250,000	47,900	47,900
On the next RM100,000 @ 24.5%	11,297	19,308
Tax Payable	59,197	67,208
Tax Savings	8,012	

Question 4

	John (RM)	Rachel (RM)
Basic Salary ((20,500 -2800) X 12)	212,400	-
Bonus ((20,500- 2,800) X 2)	35,400	-
Entertainment allowance (1,500 X 12)	18,000	-
Benefit in Kind - Car (Formula Method)	5,000	-
Benefit in Kind - Petrol (Prescribed)	1,500	-
Value of living accommodation	54,000	
BK- Driver	7,200	
Part Time (Direct selling and Unit Trust)		45,600
Part Time (Piano lessons)		7,200
Rental Income (1,600 X 12)	19,200	
Less : Repair and maintenance	(2,540)	
Aggregate income	350,160	52,800
Less : Approved donations	(15,000)	-
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	335,160	52,800
Less : Personal Reliefs		
Personal Relief	(9,000)	(9,000)
EPF and Life Premiums- Restricted to RM6,000	(6,000)	(6,000)
Medical & education insurance - Restricted to RM3,000	(3,000)	(500)
Medical expenses on parent	(5,000)	-
Jackson < 18 disabled	(6,000)	-
Jason > 18 full time tertiary education	(8,000)	-
Lifestyle relief (Restricted to RM2,500)	(2,050)	(1,890)
	<hr/>	<hr/>
	(39,050)	(17,390)
Taxable Income	<hr/> <hr/>	<hr/> <hr/>
	296,110	35,410
Tax Payable (Refer Y/A 2017)		
On the first RM35,000		900
On the next RM15,000 @ 10%		86
On first RM 250,000	47,900	
On the next RM100,000 @ 24.5%	11,297	
Tax Payable	<hr/>	<hr/>
	59,197	986
Less : Monthly Tax Deductions	(50,400)	
Net Tax Payable	<hr/> <hr/>	<hr/> <hr/>
	8,797	986

Question 5

Suggested answers include:

- John should let Rachel claim the child relief for Jackson. This will enable Rachel's chargeable income to be below RM35,000 in which case she will be entitled to a tax rebate.
- John could transfer the house to Rachel and in so doing transfer the rental income to her. This will lower the household tax payable.
- In future, Rachel should pay for the medical bills for her mother (receipt under her name) to be entitled to the tax relief for medical expenses for the parent.
- They should consider investing in Private Retirement Schemes or approved annuity/retirement schemes where each of them could be entitled to RM3,000 relief up to the Y/A 2020
- Any other relevant answers