

CHAPTER 4

Consumer Mathematics: Taxation

What will you learn?

- Taxation

Why study this chapter?

Accounting is a field of study that involves taxation. Accountants require a comprehensive understanding of the economy and type of taxes in preparing corporate or personal income tax statements.

Do you know?

The Malaccan Sultanate had a well-organised tax system that was imposed on merchants based on their relationship with Malacca. The first income tax system was introduced in the Federation of Malaya in 1947 under the Income Tax Ordinance 1947. It is subsequently superseded by the Income Tax Act 1967.



For more information:



bit.do/DoYouKnowChap4

WORD BANK

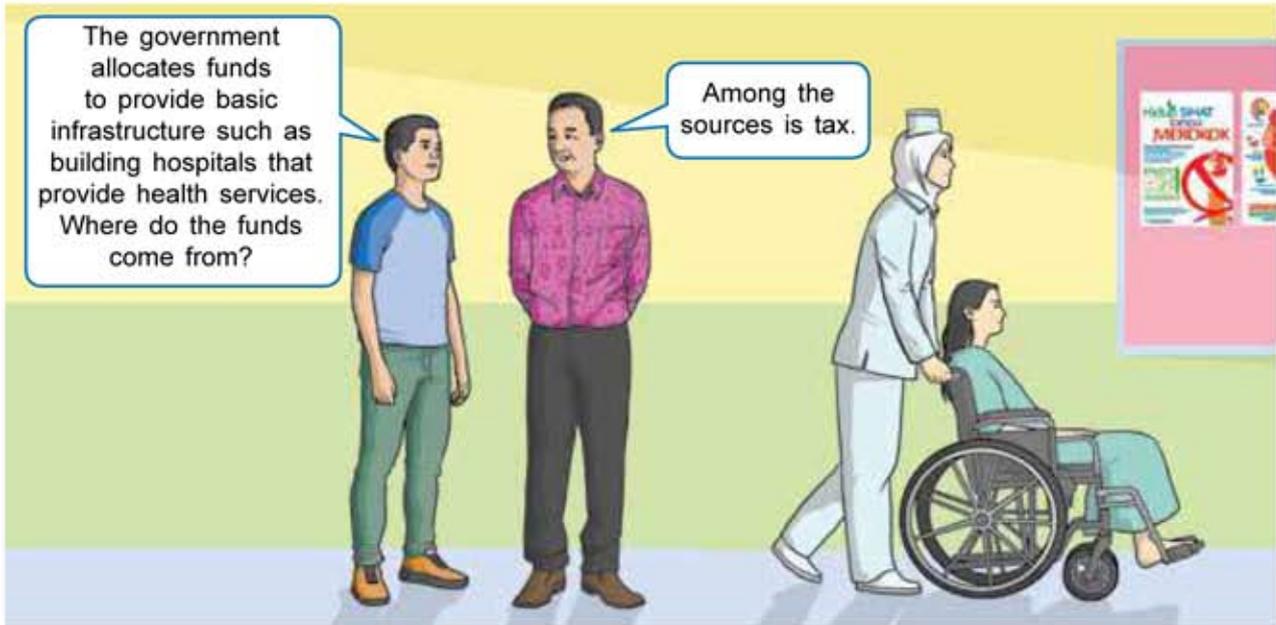


road tax
sales and service tax
income tax
property assessment tax
quit rent
tax relief
monthly tax deduction
rebate
separate tax assessment
joint tax assessment

cukai jalan
cukai jualan dan perkhidmatan
cukai pendapatan
cukai pintu
cukai tanah
pelepasan cukai
potongan cukai bulanan
rebat
taksiran cukai berasingan
taksiran cukai bersama



Governing a country is a complicated process and requires huge funding. Taxes are the main source of income for a government to manage and develop a country. An optimal tax system not only serves as a source of revenue for the government but also improves the quality of life of its citizens and encourages more private investments. What are the taxes in Malaysia?



What is the purpose of taxation?

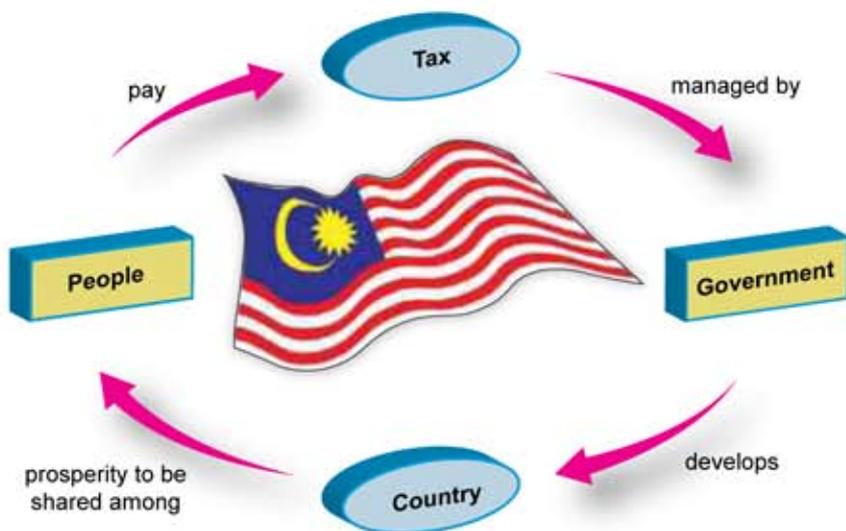
Taxation is a process of revenue (money) collection from individuals or companies, for use in the country's development, by providing various facilities (for example, education, healthcare, national security, welfare) for the well-being of all citizens. All taxes collected are based on parliament-approved acts.

Learning Standard

Explain the purpose of taxation.

My Malaysia

Inland Revenue Board (IRB) and Royal Malaysian Customs Department are responsible for direct and indirect tax collection in Malaysia. The state government is responsible for the collection of revenue from mining, land and forests, revenue from the local authority and acquisition from the issuance of licenses except those collected by the Federal Government.



MIND MOBILISATION 1  Group

Aim: To explain the purpose of taxation.

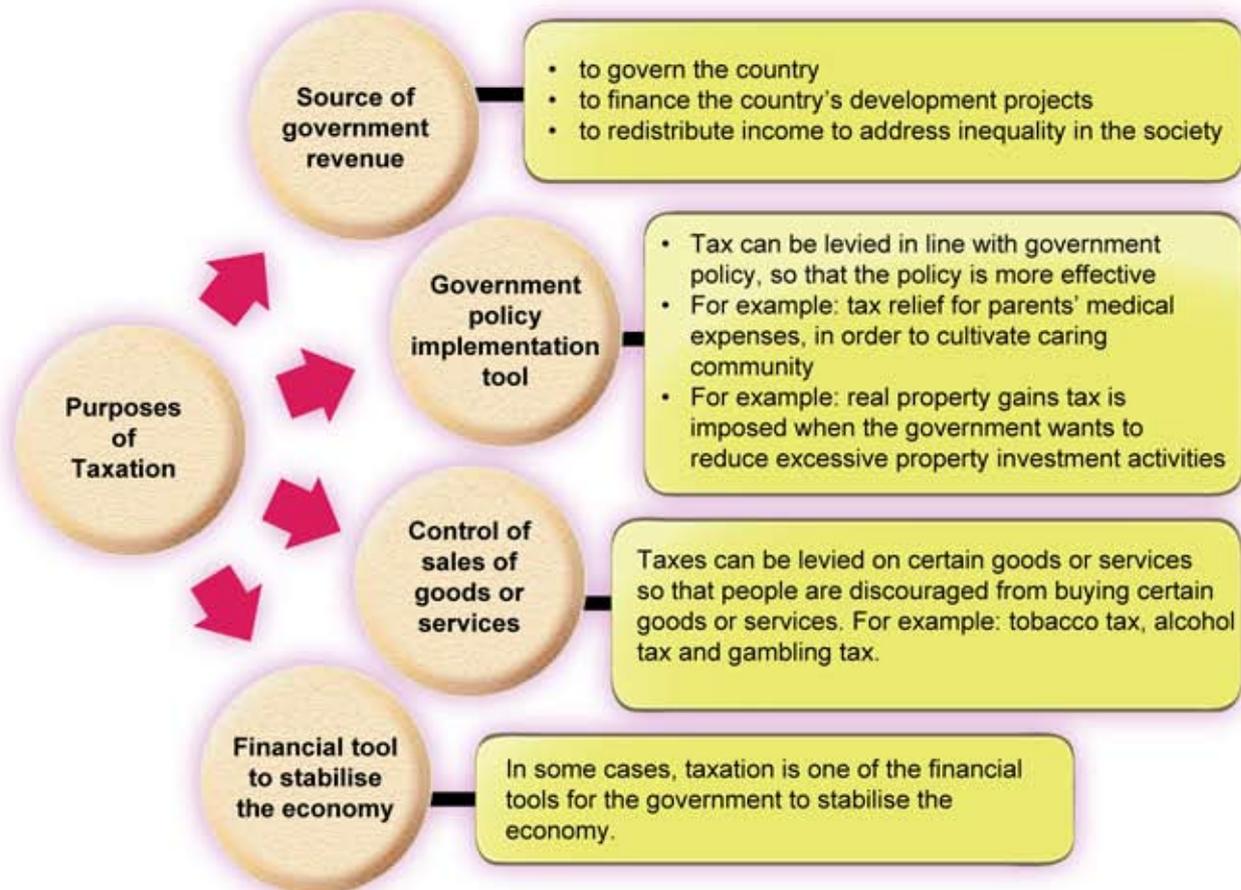
Steps:

1. Divide the class into groups of 4 pupils.
2. Each group browses the internet for further information that relates to the following questions.
 - (a) What is the purpose of taxation?
 - (b) Describe 5 examples of how the government uses tax.
3. The information collected is presented in an appropriate mind map on a presentation paper and to be pasted on the wall of the classroom.
4. Pupils comment on the work of other groups by attaching sticky notes on the presentation paper.

Discussion:

1. Explain the purpose of taxation and example of tax usage by the government.
2. Next, discuss the responsibilities and attitudes of a taxpayer who has good moral and ethics.

The purposes of taxation can be summarised as in the diagram below.



How is tax revenue used?



Education



Healthcare



Social Welfare



Infrastructure and Public Facilities



Agriculture and Industrial



National Security and Defence



Development

Tax payment is a compulsory responsibility for each person. The citizens should pay their tax honestly in compliance with the laws so that the government does not suffer losses. National development planning will be affected if the country loses its tax revenue due to dishonest and irresponsible taxpayers.



How can the government utilise tax to stabilise the economy?

Self Practice 4.1a

1. What are the purposes of taxation?
- 2.

RM91.8 million RPGT collected as of 9 July

KUALA LUMPUR: The government raised RM91.868 million through the Real Property Gains Tax (RPGT) as of 9 July for property disposal activities for the holding period exceeding five years.

Source: Berita Harian, 17 July 2019

Real Property Gains Tax (RPGT) is levied on any profit earned through the sales of land or real property where the resale price is higher than the purchase price. What is the purpose of this tax? Explain your answer.



Siti works as a clerk in a company for 5 years. She thinks that her pay is low and will not be taxable. She has never reported and paid any income tax all these times.

Is Siti a responsible citizen? Explain your answer.

What are the types of taxes and the consequences of tax evasion from legal and financial aspects?

Learning Standard

Describe various taxes, hence the consequences of tax evasion from legal and financial aspects.



Income Tax

- The tax imposed on income earned by a salaried individual or a company operating in Malaysia.
- Each salaried individual and profitable company is required to register as a taxpayer, assess annual income and pay income tax annually.
- Report all income, tax exemption, tax reduction, tax relief and tax rebate by submitting Income Tax Return Form, ITRF (in Malay *Borang Nyata Cukai Pendapatan, BNCP*), either by form, or electronically via internet (*ezHasil*).
- **Self-Assessment System** is implemented. Taxpayers should make self-assessment, keep records and pay a certain amount of tax.

1. Self-Assessment (making own income tax calculation)

- Assessment is made for the previous year, for example assessment for year 2019 is made in year 2020.
- Deadline for submission of ITRF and tax payment for an individual who does not own a business (BE form) is 30 April, while for an individual who owns a business (B form) is 30 June.

2. Keep Records

- All documents such as forms and original copy of receipts must be kept for 7 years.

3. Payment

- Tax payment can be made in a lump sum to the Inland Revenue Board (IRB) or through monthly tax deduction (PCB).

Who is collecting?

- Inland Revenue Board (IRB), or in Malay *Lembaga Hasil Dalam Negeri (LHDN)*.

Consequences of tax evasion

Tax Evasion	Penalty	Legal act
Failure to submit annual report if eligible for tax payment	Fine of RM200 up to RM20 000 or imprisonment of not exceeding 6 months or both	Income Tax Act 1967 (Act 53) Section 112(1)
Make omission on any income in ITRF	Fine of RM1 000 up to RM10 000 and penalty of 200% of the amount of tax which has been undercharged	Income Tax Act 1967 (Act 53) Section 113(1)(a)
Give incorrect information that affects income tax payable for own or other person	Fine of RM1 000 up to RM10 000 and penalty of 200% of the amount of tax which has been undercharged	Income Tax Act 1967 (Act 53) Section 113(1)(b)
Evade intentionally or assist other person to evade tax	Fine of RM1 000 up to RM20 000 or imprisonment of not exceeding 3 years or both and penalty of 300% of the amount of tax which has been undercharged	Income Tax Act 1967 (Act 53) Section 114(1)

* Subject to change from time to time.

(Source: bit.do/AktaCukaiPendapatan) (Accessed on 14 September 2020)



Road Tax

- The tax levied on road user who owns vehicles including motorcycle and car.
- Vehicle owner must pay road tax before the existing road tax expires. The expiry date is printed on road tax receipt (*Lesen Kenderaan Motor*) that must be affixed or shown on the vehicle.
- Vehicle with expired road tax of more than one year must be sent to Puspakom for inspection. Puspakom inspection report and tax payment must be submitted to Road Transport Department in order to reactivate the road tax.
- If the road tax is not paid, the vehicle will not be allowed on the road.

Info Bulletin

Example of *Lesen Kenderaan Motor (LKM)*



Who is collecting?

- Road Transport Department, or in Malay *Jabatan Pengangkutan Jalan (JPJ)*.

Consequences of tax evasion

Tax evasion	Penalty	Legal act
Continually using a vehicle without valid road tax	Fine of not exceeding RM2 000	Road Transport Act 1987 (Act 333) Section 23(1)

* Subject to change from time to time.

(Source: bit.do/AktaPengangkutanJalan) (Accessed on 14 September 2020)



Property Assessment Tax

- The tax levied on all holdings or properties (residential houses, industrials, commercial buildings and vacant lands) in order to cover municipal expenses such as rubbish collection, drain cleaning and maintaining public parks.

Who is collecting?

- Local authority, such as municipal council or district council.

Consequences of tax evasion

Tax Evasion	Action	Legal Act
Does not pay assessment tax within the designated period	Notice in Form E will be issued	Local Government Act 1976 (Act 171) Section 147 and 148
Does not pay assessment tax within 15 days after the notice issued	Detention warrant in Form F will be issued and portable property could be seized	Local Government Act 1976 (Act 171) Section 147 and 148

- Subject to change from time to time.
(Source: bit.do/AktaKerajaanTempatan) (Accessed on 14 September 2020)

Info Bulletin

Detention warrant is a power of attorney which enables local authorities to seize properties in a building through the Registrar of the High Court in accordance with Section 151.



Quit Rent

- The tax levied on the owner of agricultural land, corporate land and land with building.
- This tax is interpreted as Lease under Section 5 of National Land Code 1965.

Who is collecting?

- State land authority, which is State Land Office.

Consequences of tax evasion

Tax evasion	Action	Legal act
Does not pay quit rent within the designated period	Notice of claim in Form 6A will be issued	National Land Code 1965 Section 97
Does not pay quit rent within the stated period in the notice of claim	The land can be seized	National Land Code 1965 Section 100

- Subject to change from time to time.
(Source: tanahweb.wordpress.com/ktn/) (Accessed on 14 September 2020)

Info Bulletin

Parcel tax is a tax levied on stratified properties (for example, apartments and condominiums) to replace quit rent.



Sales and Service Tax

- Sales and Service Tax enforced on 1 September 2018, consists of two parts, namely sales tax and service tax.
- Sales tax is a tax levied only once on various taxable goods at the stage of manufacturing or during importation.
- Service tax is a tax levied on consumer who receives taxable services, such as hotel services, insurance and *takaful*, food and beverages preparation, telecommunications and credit cards.
- Manufacturers or importers with sales value of taxable goods exceeding RM500 000 per annum shall register under Sales Tax Act 2018.
- Service providers with value of taxable services exceeding threshold of RM500 000 per annum as well as food and beverage service providers with value of taxable services exceeding threshold of RM1 500 000 per annum, shall register under Service Tax Act 2018.
- Tax collection is a responsibility of service providers on the government's behalf. Service tax must be collected from the customer who receives the services. Service tax collected by the service providers will be paid to the government within a designated period.

Info Bulletin

Sales and Service Tax is not imposed in tax-free territories, for example Langkawi Island and Pengkalan Kubor, Kelantan.
* Subject to change

Scan the QR code or visit the following websites:



list of taxable goods
bit.do/TaxableGoods



list of taxable services
bit.do/TaxableService

Info Bulletin

Threshold is the annual sales turnover of a business which determines the liability to be registered under Sales and Service Tax Act.
(Source: bit.do/Threshold)
(Accessed on 17 July 2020)

Who is collecting?

- Royal Malaysian Customs Department (RMCD), or in Malay *Jabatan Kastam Diraja Malaysia (JKDM)*.

Consequences of tax evasion

Tax evasion	Penalty	Legal act
Evade tax intentionally or assist other person to evade tax	First offence: fine of 10 times up to 20 times the amount of sales tax or imprisonment of not exceeding 5 years or both	Sales Tax Act 2018 (Act 806) Section 86(1) and 86(2)
	Second or subsequent offence: fine of 20 times up to 40 times the amount of sales tax or imprisonment of not exceeding 7 years or both	
The amount of tax evasion that cannot be ascertained	Fine of RM50 000 up to RM500 000 or imprisonment of not exceeding 7 years or both	Sales Tax Act 2018 (Act 806) Section 86(3)
The party who assist in preparation of false tax statements	Fine of RM2 000 up to RM20 000 or imprisonment of not exceeding 3 years or both	Sales Tax Act 2018 (Act 806) Section 86(4)
Similar penalties for tax evasion also stipulated in Service Tax Act 2018 (Act 807) Section 71		

- * Subject to change from time to time.
(Source: bit.do/AktaCukaiJualan)
(Source: bit.do/AktaCukaiPerkhidmatan)
(Accessed on 14 September 2020)

Self Practice 4.1b

1. Explain the meaning of property assessment tax.
2. Mr Tan owns a car. The road tax has expired on 7 June 2019. He forgot to renew the road tax.

Describe the consequences if Mr Tan is still driving the car.

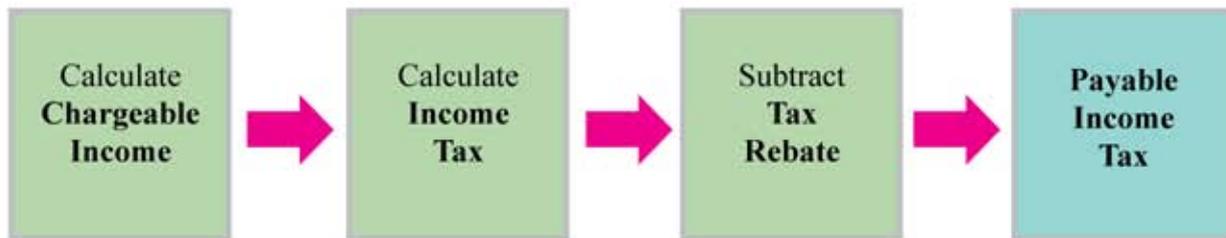
3. Describe the parties who should register under Sales Tax Act 2018.
4. What are the differences between quit rent and property assessment tax?

Quit rent	Property assessment tax

5. What are the consequences if someone deliberately evades income tax?

How to calculate income tax?

Income tax to be paid by an individual can be calculated through the calculation process as shown in the flow chart below.



Learning Standard

Investigate, interpret and perform calculations involving various taxes.

Chargeable Income

Individual income tax to be paid is calculated based on the amount of **chargeable income**. Chargeable income can be obtained by using the equation below.

$$\text{Chargeable income} = \text{total annual income} - \text{tax exemption} - \text{tax relief}$$

Info Bulletin

Income tax is a type of progressive tax, in which tax rates increase as income increases.

(A) Total Annual Income

Total annual income includes all forms of wages, salaries, bonuses, dividends, interest, rentals, royalties, premiums and so on. However, not all the income received from the employer is taxable, for example, petrol or transport allowance, employer's subsidies such as housing and car subsidies, medical benefits, *Elaun Bantuan Sara Hidup* (COLA) and *keraian*.

Info Bulletin

Example of statement of Remuneration from Employment



bit.do/StatementOfRemuneration

(B) Tax Exemption

Tax exemption refers to all personal expenses in the forms of gifts, donations, contributions to government or various organisations, for example state libraries and healthcare organisations.

These expenses may be tax exempted but are subjected to certain limits in amount. These tax exemptions aim to promote developments in cultural and arts as well as in cultivating a caring society.

Info Bulletin

From 2015 onwards, an individual who earns an annual employment income of RM34 000 (after EPF deduction) has to register a tax file. (Source: Inland Revenue Board of Malaysia)

(C) Tax Relief

Tax reliefs refer to items or expenses, which are not taxed, for the benefit of the individual or family members, for example Employees' Provident Fund (EPF), medical treatment and education fees. Items of tax relief depend on the policy set by the government and may change from year to year.

Scan the QR code or visit bit.do/TaxReliefs for a complete list of income tax reliefs.

**Income Tax**

After obtaining chargeable income, income tax can be determined by referring to tax rates table. **Tax rates** are fixed by the government and may vary based on the government policy on the annual budget. The table below is individual income tax rates for Assessment Year of 2020.

Table: Individual Income Tax Rates for Assessment Year of 2020

Chargeable Income (RM)	Calculations (RM)	Rate (%)	Tax (RM)
0 - 5 000	On the first 5 000	0	0
5 001 - 20 000	On the first 5 000 Next 15 000	1	0 150
20 001 - 35 000	On the first 20 000 Next 15 000	3	150 450
35 001 - 50 000	On the first 35 000 Next 15 000	8	600 1 200
50 001 - 70 000	On the first 50 000 Next 20 000	14	1 800 2 800
70 001 - 100 000	On the first 70 000 Next 30 000	21	4 600 6 300
100 001 - 250 000	On the first 100 000 Next 150 000	24	10 900 36 000
250 001 - 400 000	On the first 250 000 Next 150 000	24.5	46 900 36 750
400 001 - 600 000	On the first 400 000 Next 200 000	25	83 650 50 000
600 001 - 1 000 000	On the first 600 000 Next 400 000	26	133 650 104 000
1 000 001 - 2 000 000	On the first 1 000 000 Next 1 000 000	28	237 650 280 000
Exceeding 2 000 000	On the first 2 000 000 Next every ringgit	30	517 650 ...

* Subject to change from time to time.

(Source: Official Portal Inland Revenue Board of Malaysia)



Zakat means clean, holy or blessed. Zakat is a donation of a proportion of wealth to be distributed to certain groups of people (such as the poor), in accordance to certain conditions.

Tax rebate is given to reduce tax to be paid. There are 2 types of tax rebate, namely:

- Tax rebate of RM400 will be given to taxpayer if the chargeable income does not exceed RM35 000, subject to change.
- The amount of *zakat* or *fitriah* paid by Muslim citizens.

Example 1

Encik Khairul has an annual income of RM125 300, including allowances. It is given that the allowances amounting to RM12 340 are tax exempted. At the same time, he has made a donation to a library amounting to RM2 000. The total tax relief, on the other hand, is RM22 500. Calculate Encik Khairul's chargeable income.

Solution:

$$\begin{aligned} \text{Total annual income} &= \text{RM125 300} - \text{RM12 340} \\ &= \text{RM112 960} \end{aligned}$$

← Annual income should be deducted by tax exempted allowances

$$\begin{aligned} \text{Chargeable income} &= \text{total annual income} - \text{tax exemption} - \text{tax relief} \\ &= \text{RM112 960} - \text{RM2 000} - \text{RM22 500} \\ &= \text{RM88 460} \end{aligned}$$

← Tax exemption includes donation to library amounting to RM2 000

Example 2

Asraf had a chargeable income of RM47 531 in 2020. He had paid *zakat* amounting to RM280 in that year. Calculate the income tax to be paid by Asraf for that year.

Solution:

Asraf's chargeable income, RM47 531 lies in the range of chargeable income as below.

Chargeable Income (RM)	Calculations (RM)	Rate (%)	Tax (RM)
35 001 - 50 000	On the first 35 000 Next 15 000	8	600 1 200

$$\text{Tax on the first RM35 000} = \text{RM600} \quad \leftarrow \text{Base tax}$$

$$\begin{aligned} \text{Tax on the next balance} &= (\text{RM47 531} - \text{RM35 000}) \times 8\% \\ &= \text{RM1 002.48} \end{aligned}$$

$$\text{Eligible rebate (zakat)} = \text{RM280}$$

$$\begin{aligned} \text{Income tax} &= \text{RM600} + \text{RM1 002.48} - \text{RM280} \\ &= \text{RM1 322.48} \end{aligned}$$

← Income tax = base tax + tax on the next balance - tax rebate



Income tax rate for company for Assessment Year of 2019:

Company with paid up capital not more than RM2.5 million.	
(i) On first RM500 000	17%
(ii) Subsequent balance	24%
Company with paid up capital more than RM2.5 million.	24%

Example 3

Mr Chan had a total annual income of RM52 770 in the year 2020. He donated RM300 to a government-approved charity organisation. The table below shows the tax reliefs claimed by Mr Chan.

Tax relief	Amount (RM)
Individual	9 000
Life insurance and EPF (limited to RM7 000)	5 800
Medical insurance (limited to RM3 000)	1 700
Self education fees (limited to RM7 000)	4 000

Calculate the income tax payable by Mr Chan for the particular year, by taking into account the tax rebates, if eligible.

Solution:

Chargeable income

$$\begin{aligned}
 &= \text{total annual income} - \text{tax exemption} - \text{tax relief} \\
 &= \text{RM}52\,770 - \text{RM}300 - (\text{RM}9\,000 + \text{RM}5\,800 + \text{RM}1\,700 \\
 &\quad + \text{RM}4\,000) \\
 &= \text{RM}31\,970
 \end{aligned}$$

Mr Chan's chargeable income, RM31 970 lies in the range of chargeable income as below.

Chargeable Income (RM)	Calculations (RM)	Rate (%)	Tax (RM)
20 001 - 35 000	On the first 20 000	3	150
	Next 15 000		450

Tax on the first RM20 000 = RM150

$$\begin{aligned}
 \text{Tax on the next balance} &= (\text{RM}31\,970 - \text{RM}20\,000) \times 3\% \\
 &= \text{RM}359.10
 \end{aligned}$$

Eligible rebate = RM400 ← Rebate of RM400 due to chargeable income \leq RM35 000

$$\begin{aligned}
 \text{Income tax payable} &= \text{RM}150 + \text{RM}359.10 - \text{RM}400 \\
 &= \text{RM}109.10
 \end{aligned}$$

What is monthly tax deduction (*Potongan Cukai Bulanan, PCB*) and related calculation?

Monthly Tax Deduction (*Potongan Cukai Bulanan, PCB*) is salary deduction of an employee for income tax payment of current year. The deduction amount is based on the table of monthly tax deduction or *PCB* computational calculation method provided by Inland Revenue Board (IRB).

Info Bulletin

An individual does not have to make tax assessment in the first year of employment because he or she does not have to pay income tax. However, he or she is advised to register the IRB income tax file as he or she may experience a pay increase in the coming years.

Interactive Platform

What is the difference between tax relief and tax rebate?

Info Bulletin

Minimum monthly salary eligible for *PCB* (after EPF deduction) for single individual is RM2 851 and for married individual whose spouse is not working is RM3 851.
*Subject to change

Taxpayers should make comparison between total amount of *PCB* deducted and tax payable as shown below.

- Tax payable $>$ *PCB*
 $\text{Tax} - \text{PCB} = \text{Insufficient tax payment}$
 Insufficient tax payment must be made to IRB
- Tax payable $<$ *PCB*
 $\text{PCB} - \text{Tax} = \text{Excess deduction}$
 Excess deduction of *PCB* will be refunded by IRB to taxpayer's bank account

Example 4

Mr Lim's annual salary was RM74 000 in 2020. He claimed the following tax reliefs: individual for RM9 000, life insurance and EPF for RM7 000, medical insurance for RM1 325 and medical treatment expenses for his mother for RM1 250. He has also donated RM1 000 to an approved welfare centre. His salary was deducted monthly by RM180 for monthly tax deduction (*PCB*).

- Calculate the income tax payable for that year.
- Does Mr Lee need to pay any more income tax after the monthly deductions? Explain your answer.

Solution:

- Chargeable income = total income – tax exemption – tax relief
 $= \text{RM}74\,000 - \text{RM}1\,000 - (\text{RM}9\,000 + \text{RM}7\,000 + \text{RM}1\,325 + \text{RM}1\,250)$
 $= \text{RM}54\,425$

Mr Lim's chargeable income, RM54 425 lies in the range of chargeable income as below.

Chargeable Income (RM)	Calculations (RM)	Rate (%)	Tax (RM)
50 001 - 70 000	On the first 50 000 Next 20 000	14	1 800 2 800

Tax on the first RM50 000 = RM1 800

Tax on the next balance = $(\text{RM}54\,425 - \text{RM}50\,000) \times 14\%$
 $= \text{RM}619.50$

Eligible rebate = RM0 ← Rebate of RM0 due to chargeable income $>$ RM35 000

Income tax payable = $\text{RM}1\,800 + \text{RM}619.50 - \text{RM}0$
 $= \text{RM}2\,419.50$

- Total *PCB* deducted = $\text{RM}180 \times 12$
 $= \text{RM}2\,160$ ← less than tax payable

Tax payable $>$ *PCB*. Thus, there is insufficient tax payment.

Insufficient tax payment = $\text{RM}2\,419.50 - \text{RM}2\,160$
 $= \text{RM}259.50$

Mr Lim needed to pay RM259.50 to IRB because the deducted *PCB* was insufficient for his income tax.

What is joint tax assessment and separate tax assessment and related calculation?

For married individuals, income tax assessment system allows assessment to be done based on either one of the following assessments:

Joint tax assessment

Tax assessment filed by husband (or wife). Wife's income (or husband's income) is aggregated with husband's (or wife's) when filing tax assessment.

Separate tax assessment

Husband and wife each file their own tax assessment.

Info Bulletin

Terms for filing joint tax assessment:

- Husband and wife must live together
- Has total income to be aggregated with the total income of the spouse
- The husband / wife who elects for joint assessment must be a Malaysian citizen, if not a resident in Malaysia
- Can only be done with one wife

In general, if both husband and wife have separate income, joint tax assessment may reduce the total amount of tax reliefs. This is because most of the tax reliefs have a claim limit, irrespective of whether it is separate or joint tax assessment. This will cause the tax payment to increase dramatically.

Example 5

Mr Rajan and his wife received annual salaries of RM53 000 and RM57 000 respectively in 2020. They each donated RM500 to a government-approved welfare organisation in that year. The following are the tax reliefs to be claimed by Mr Rajan and his wife.

Item	Mr Rajan	Wife
Individual	RM9 000	RM9 000
Lifestyle (limited to RM2 500)	RM2 500	RM2 700
Life insurance (limited to RM7 000)	RM5 830	RM6 000
Medical insurance (limited to RM3 000)	RM2 650	RM2 570

- Calculate the total income tax of Mr Rajan and his wife by using joint tax assessment and separate tax assessment.
- Between joint tax assessment and separate tax assessment, which is more suitable to be used by Mr Rajan and his wife? Explain your answer.

Solution:

- (a) The table below shows the calculation of income tax for Mr Rajan and his wife using joint tax assessment and separate tax assessment.

Item	Joint tax assessment	Separate tax assessment	
	Husband and wife	Husband	Wife
Total income	RM53 000 + RM57 000 = RM110 000	RM 53 000	RM 57 000
Total exemption (Donation)	– RM 1 000	– RM 500	– RM 500
Tax relief			
– Individual	– RM 9 000	– RM 9 000	– RM 9 000
– Lifestyle (limited to RM2 500)	– RM 2 500	– RM 2 500	– RM 2 500
– Life insurance (limited to RM7 000)	– RM 7 000	– RM 5 830	– RM 6 000
– Medical insurance (limited to RM3 000)	– RM 3 000	– RM 2 650	– RM 2 570
Chargeable income	RM 87 500	RM 32 520	RM 36 430
Base tax	RM 4 600	RM 150	RM 600
Tax on the next balance	Balance = 87 500 – 70 000 = 17 500 RM17 500 × 21% = RM3 675.00	Balance = 32 520 – 20 000 = 12 520 RM12 520 × 3% = RM375.60	Balance = 36 430 – 35 000 = 1 430 RM1 430 × 8% = RM114.40
Tax rebate	– RM 0	– RM 400 (Chargeable income ≤ RM35 000)	– RM 0
Income tax payable	RM4 600 + RM3 675 – RM0 = RM8 275	RM150 + RM375.60 – RM400 = RM125.60	RM600 + RM114.40 – RM0 = RM714.40
		RM840	

The tax relief that is eligible to be claimed is RM2 500 despite spending RM2 700

- (b) Separate tax assessment is more suitable to be used because income tax payable is far lower, which is RM840, as compared to RM8 275 for joint tax assessment.

Smart Tips

In joint tax assessment, the claimable tax relief is considered for calculation only once.

How to calculate road tax?

Road tax is levied based on the engine capacity of the vehicle used by the owner. Normally, road tax will be higher for a vehicle with a higher engine capacity.

Scan the QR code or visit bit.do/RoadTax for road tax rates in Malaysia.



Example 6

The table below shows the road tax rates for motorcycle in Sabah and Sarawak.

Engine Capacity	Road Tax Rate	
	Base Rate	Progressive Rate
151 cc - 200 cc	RM 9.00	-
201 cc - 250 cc	RM 12.00	-
251 cc - 500 cc	RM 30.00	-

Mr Chong owns a motorcycle, with an engine capacity of 260 cc, for private use in Sarawak. Calculate the road tax for his motorcycle.

Solution:

Road tax for motorcycle (260 cc) = RM30

Example 7

The table below shows the road tax rates for private car in Peninsular Malaysia.

Engine Capacity	Road Tax Rate	
	Base Rate	Progressive Rate
1 000 cc and below	RM 20.00	-
1 001 cc - 1 200 cc	RM 55.00	-
1 201 cc - 1 400 cc	RM 70.00	-
1 401 cc - 1 600 cc	RM 90.00	-
1 601 cc - 1 800 cc	RM 200.00	+ RM 0.40 each cc exceeding 1 600 cc
1 801 cc - 2 000 cc	RM 280.00	+ RM 0.50 each cc exceeding 1 800 cc

Alan has two private cars in Malacca, with engine capacity of 859 cc and 1 997 cc respectively. Calculate the road tax for both of his cars.

Solution:

Road tax for car (859 cc) = RM20.00

Road tax for car (1 997 cc)

= RM280.00 + (1 997 - 1 800) × RM0.50

= RM280.00 + 197 × RM0.50

= RM280.00 + RM98.50

= RM378.50

Car with engine capacity 1 801 cc up to 2 000 cc is levied RM280 base rate and RM0.50 progressive rate for each cc exceeding 1 800 cc

How to calculate property assessment tax?

Property assessment tax rate is set by local authority based on location and type of property. The amount of tax payable each year depends on the tax rate charged on the annual value.

$$\text{Property assessment tax} = \text{property assessment tax rate} \times \text{annual value}$$

Info Bulletin

Annual value
= estimated monthly rental
× 12 months

Annual value (or **annual assessment**) is a reasonable gross estimation of annual rental that is expected to be obtained in a year from a property, if it is rented out.

Example 8

Mariani owns a residential house in Subang Jaya. She receives property assessment tax bill from Subang Jaya Municipal Council. It is given that the annual value is RM6 580 and the property assessment tax rate is 5%. Calculate the property assessment tax payable by Mariani for each half-year.

Solution:

$$\begin{aligned} \text{Property assessment tax} &= \text{property assessment tax rate} \times \text{annual value} \\ &= 5\% \times \text{RM6 580} \\ &= \text{RM329 per year} \end{aligned}$$

$$\begin{aligned} \text{Property assessment tax for each half-year} &= \frac{\text{RM329}}{2} \\ &= \text{RM164.50 each half-year} \end{aligned}$$

How to calculate quit rent?

Quit rent rate is fixed by the state government based on location, size and type of land. The amount of tax payable each year depends on the quit rent rate per unit area on the total land area owned.

$$\text{Quit rent} = \text{quit rent rate per unit area} \times \text{total land area}$$

Example 9

Mr Hamid owns a house with an area of 130 m². It is given that the quit rent rate levied is RM0.43 per square metre. Calculate the quit rent payable by Mr Hamid each year.

Solution:

$$\begin{aligned} \text{Quit rent} &= \text{quit rent rate per unit area} \times \text{total land area} \\ &= \text{RM0.43} \times 130 \\ &= \text{RM55.90 each year} \end{aligned}$$

How to calculate sales and service tax?

Sales tax rates on goods are different, which is 5%, 10% or other rates depending on the goods, while service tax rate is 6%.

Info Bulletin

Service tax on each credit card is RM25 per year.

Example 10

Sofia rented a room at Hotel Selesa for RM240 per night. Sofia stayed at the hotel for two nights. It is given that the hotel charges 6% for service tax. Calculate the service tax to be paid by Sofia.

Solution:

$$\begin{aligned}\text{Service tax} &= \text{RM}240 \times 2 \times 6\% \\ &= \text{RM}28.80\end{aligned}$$

Self Practice 4.1c

1. Calculate the chargeable income based on the information given.

(a) Total income RM89 340

Tax exemption	RM 2 500
Tax relief	RM11 000

(b) Total income RM 76 000

Tax exemption	RM 8 250
Tax relief	RM 15 340

(c) Total income RM68 210

Tax relief	
Individual	RM9 000
Life insurance and EPF (limited to RM7 000)	RM6 250
Medical insurance (limited to RM3 000)	RM3 600

(d) Total income RM113 421

Tax relief	
Individual	RM 9 000
Life insurance and EPF (limited to RM7 000)	RM 11 420
Education insurance (limited to RM3 000)	RM 2 400

2. Calculate the income tax payable for each of the following by taking into consideration tax rebate, if eligible.

(a) Chargeable income RM108 630

(b) Chargeable income RM28 440

(c) Chargeable income RM35 270

Zakat	RM 500
-------	--------

(d) Chargeable income RM 52 394

Zakat	RM 1 250
-------	----------

3. Puan Aishah had a total annual income of RM61 593 in 2020. The total tax relief claimed by her was RM14 320. She paid *zakat* amounting to RM700 that year. Calculate the income tax payable by Puan Aishah.

4. Puan Siew's chargeable income is RM75 311. Each month, RM300 is deducted from her salary for monthly tax deduction (*PCB*). However, the total *PCB* is insufficient for her income tax payment. How much is the income tax balance payable to IRB?

5. Mr Subra and his wife each earned an annual salary of RM61 000 and RM56 000 in 2020. The following are the expenses claimed by Mr Subra and his wife for that year.

Item	Mr Subra	Wife
Individual	RM9 000	RM9 000
Life insurance and EPF (limited to RM7 000)	RM6 000	RM5 900
Lifestyle (limited to RM2 500)	RM2 000	RM2 500
Net deposit in SSPN (limited to RM8 000)	RM5 000	RM6 000
Education insurance (limited to RM3 000)	RM2 600	RM2 000

Calculate the total income tax for Mr Subra and his wife using separate tax assessment.

6. Firdaus has a motorcycle and a car with the engine capacity as shown in the diagram below. Based on the table below, calculate the road tax for both types of vehicles.



Engine Capacity	Road Tax Rate	
	Base Rate	Progressive Rate
Motorcycle Road Tax Rate		
150 cc and below	Free	-
151 cc - 200 cc	RM 30.00	-
201 cc - 250 cc	RM 50.00	-
Private Car Road Tax Rate		
1 401 cc - 1 600 cc	RM 90.00	-
1 601 cc - 1 800 cc	RM 200.00	+ RM 0.40 each cc exceeding 1 600 cc
1 801 cc - 2 000 cc	RM 280.00	+ RM 0.50 each cc exceeding 1 800 cc
2 001 cc - 2 500 cc	RM 380.00	+ RM 1.00 each cc exceeding 2 000 cc

7. Madam Kim owns a service apartment in Shah Alam. The property assessment tax is 5%. It is estimated that the house rental is at RM1 500 per month. Calculate the property assessment tax payable by Madam Kim each year.
8. Encik Abdullah owns a 300 m² residential land in Kedah. It is given that the quit rent rate is RM0.15 per square metre. Calculate the quit rent payable by Encik Abdullah each year.

The table below shows the tax exemption and tax relief items for Encik Hanafi.

Individual	RM9 000
Life insurance and EPF (limited to RM7 000)	RM6 000
Donation to library	RM 500

It is given that Encik Hanafi's annual income in 2020 was RM70 000 and his *zakat* payment was RM500.

- Calculate Encik Hanafi's chargeable income.
- Calculate the income tax payable by Encik Hanafi.
- Discuss the difference between tax relief and tax rebate.

Solution:

Understanding the problem

Annual income	= RM70 000
Individual relief	= RM 9 000
Life insurance and EPF relief	= RM 6 000
Donation exemption	= RM 500
<i>Zakat</i> payment	= RM 500

Devising a strategy

- Determine the chargeable income, by taking into consideration tax exemption and tax relief.
- Calculate the income tax by referring to tax rate table and total rebate.
- Differentiate the meaning of tax relief and tax rebate.

Implementing the strategy

- Chargeable income = total annual income – tax exemption – tax relief
 $= \text{RM}70\,000 - \text{RM}500 - (\text{RM}9\,000 + \text{RM}6\,000)$
 $= \text{RM}54\,500$
- By referring to tax rate table:
 Tax on the first RM50 000 = RM1 800
 Tax on the next balance = $(\text{RM}54\,500 - \text{RM}50\,000) \times 14\%$
 $= \text{RM}4\,500 \times 14\%$
 $= \text{RM}630$
 Income tax payable = $\text{RM}1\,800 + \text{RM}630 - \text{RM}500$
 $= \text{RM}1\,930$
- Tax relief is deducted from annual income. Tax rebate is deducted from income tax imposed.

Making a conclusion

- RM54 500
- RM1 930
- Tax relief is deducted from annual income, while tax rebate is deducted from income tax imposed.

Example 13

Mr Khor used 650 kWh of electricity in November. It is given that the usage exceeding 600 kWh within a month will be subjected to service tax of 6%. The table below shows Mr Khor's home electricity bill in November.

Tariff block (kWh)	Prorated block (kWh)	Rate (RM)	Amount (RM)
200	200	0.218	43.60
100	100	0.334	x
300	300	0.516	y
300	50	0.546	z

- (a) Calculate the values of x , y and z .
 (b) Calculate the total amount of payment which is not subjected to service tax.
 (c) Calculate the service tax charged in the electricity bill in November.

Solution:

Understanding the problem

Total electricity usage
 = 650 kWh
 Service tax rate = 6%

Devising a strategy

- (a) Calculate the values of x , y and z .
 (b) Calculate the total amount of payment which is not subjected to service tax.
 (c) Calculate the service tax charged.

Implementing the strategy

$$\begin{aligned} \text{(a) } x &= 100 \times 0.334 \\ &= 33.40 \end{aligned}$$

$$\begin{aligned} y &= 300 \times 0.516 \\ &= 154.80 \end{aligned}$$

$$\begin{aligned} z &= 50 \times 0.546 \\ &= 27.30 \end{aligned}$$

$$\begin{aligned} \text{(b) Total amount of payment which is not subjected to service tax} \\ &= \text{RM}43.60 + \text{RM}33.40 + \text{RM}154.80 \\ &= \text{RM}231.80 \end{aligned}$$

$$\begin{aligned} \text{(c) Service tax charged} &= \text{RM}27.30 \times 6\% \\ &= \text{RM}1.64 \end{aligned}$$

Making a conclusion

- (a) $x = 33.40$, $y = 154.80$, $z = 27.30$
 (b) RM231.80
 (c) RM1.64

Info Bulletin

Example of electricity bill

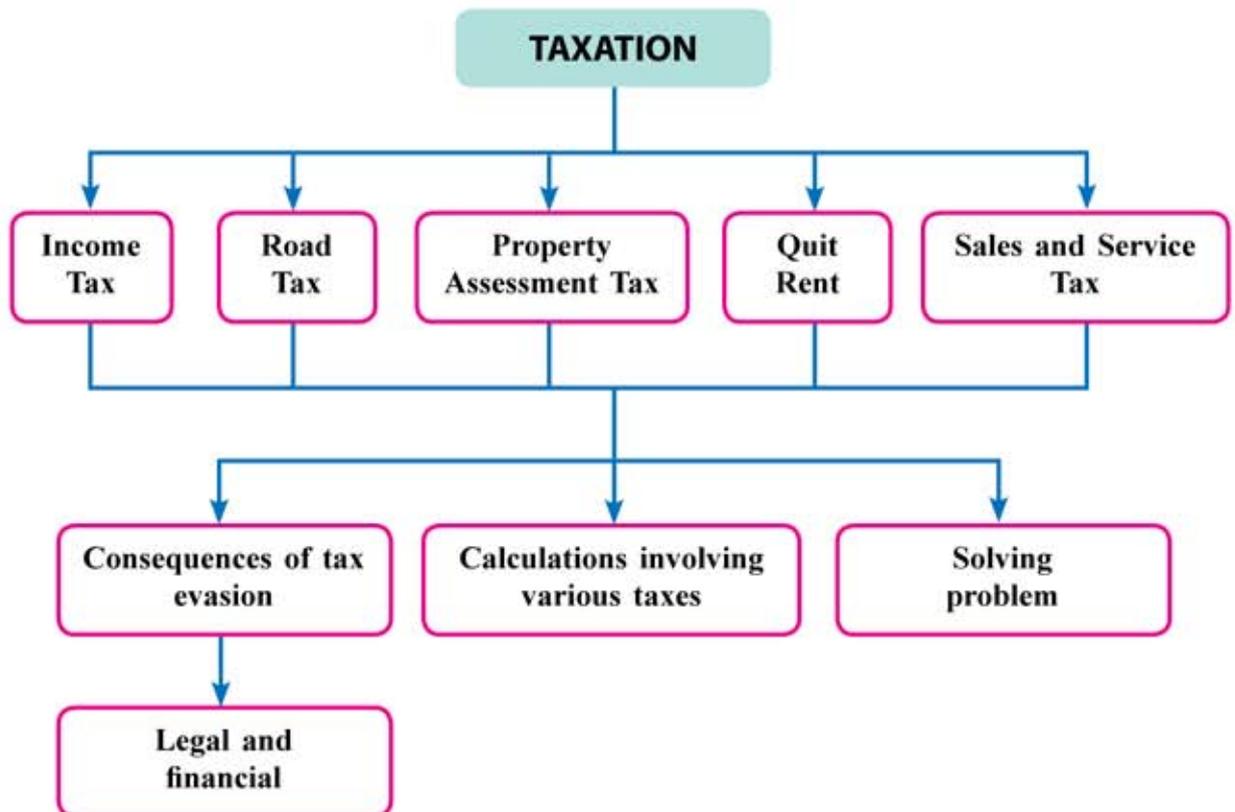


bit.do/ElectricityBill

1. Han and his wife received an annual salary of RM63 400 and RM52 100 respectively in 2020. It is given that the total tax relief that was eligible to be claimed by Han and his wife was RM61 219. Calculate the total income tax payable by Han and his wife by using joint tax assessment.

2. Encik Jamil is a manager in a company. His annual salary in 2020 was RM146 200. In that year, he paid *zakat* amounting to RM2 500. It is given that his total tax relief is RM46 250 and his *PCB* deduction is RM1 400 each month.
 - (a) Calculate Encik Jamil's chargeable income.
 - (b) Calculate the income tax payable by Encik Jamil.
 - (c) Should Encik Jamil make any additional tax payment to IRB? Explain your answer.

Summary Arena



Reflection

At the end of this chapter, I can

explain the purpose of taxation.

describe various taxes, hence the consequences of tax evasion from legal and financial aspects.

investigate, interpret and perform calculations involving various taxes.

solve problems involving taxation.

MINI PROJECT

Taxpayers need to interpret, report and make income tax payment on annual basis. By using the latest tax exemption and tax relief items, you are required to create a folio about income tax assessment for one of your family members. Your folio should contain

- (a) front page
- (b) content:
 - (i) Introduction of income tax
 - (ii) Latest tax exemption and tax relief items
 - (iii) Income tax assessment of a family member
- (c) conclusion

Extensive Practice

Scan the QR code or visit bit.do/QuizE04 for interactive quiz

**UNDERSTAND**

1. Explain the purpose of tax as a tool in implementing government policy with an appropriate example.
2. State the entities responsible for collecting
 - (a) income tax
 - (b) property assessment tax
 - (c) road tax
 - (d) sales and service tax
3. _____ is a tax levied on income earned by an individual or a company in Malaysia.

- State the consequences of evading property assessment tax.
- Explain the meaning of tax relief for income tax.
- State two types of tax rebate allowed by the government.

MASTERY

- Azman owns a piece of land with an area of $6.7 \text{ m} \times 22.9 \text{ m}$, where his house is built. The state government has fixed the quit rent rate as RM0.40 per square metre. Calculate the quit rent payable by Azman each year.
- Jordan's monthly salary was RM6 500. In year 2020, he received a bonus of one month salary. His tax exempt allowances amounting to RM9 600 were included in his salary. He also donated to a government-approved organisation amounting to RM1 000. It is given that the total tax relief was RM10 400. Calculate Jordan's chargeable income.
- Encik Osman had a total chargeable income of RM35 800 in 2020. He has paid *zakat* amounting to RM700. Calculate the income tax payable by Encik Osman for that year.
- Jun Kiat wants to buy a new car to be used in Peninsular Malaysia. He allocates RM280 for road tax payment for the new car. What is the maximum engine capacity of Jun Kiat's new car?
- Mr Raju owns a service apartment in Ampang. The rental of the apartment is estimated at RM1 200 per month and he paid RM648 a year for property assessment tax. Calculate the property assessment tax rate for the service apartment.
- Selvi bought a packet of *nasi lemak* from a stall for RM5.50, not inclusive of service tax. Then, she bought a cup of coffee from a coffee house for RM14.80, inclusive of 6% service tax.
 - Explain why sales and service tax was not collected in the stall.
 - Calculate the original price for a cup of coffee without sales and service tax.
- Encik Suhaimi earned an annual salary of RM85 700 in 2020. His wife had no income. The following are the expenses to be claimed by Encik Suhaimi.

Item	Encik Suhaimi
Individual	RM9 000
Life insurance and EPF (limited to RM7 000)	RM7 760
Lifestyle (limited to RM2 500)	RM2 000
Spouse (tax relief for spouse who has no income)	RM4 000
Medical treatment expenses for parents (limited to RM5 000)	RM1 500

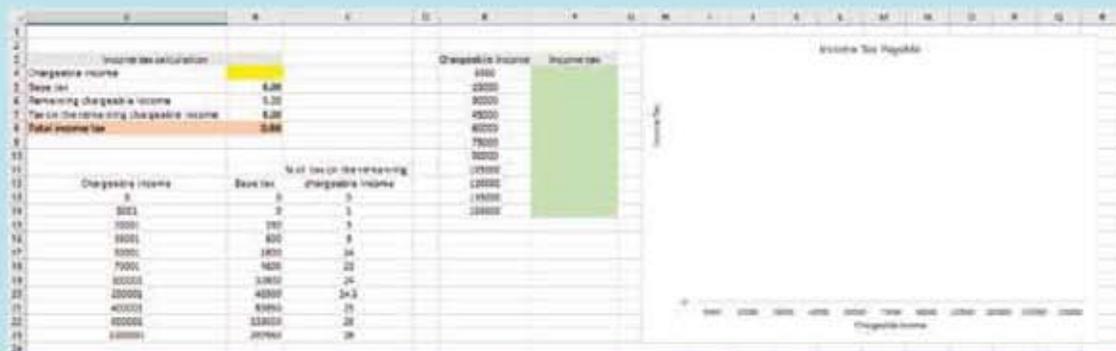
Calculate the total income tax for Encik Suhaimi and his wife by using joint tax assessment.

CHALLENGE

14. Eng Huat is a factory worker. His annual salary was RM45 000 a year. Similar to previous years, he donated RM500 to an approved medical healthcare centre. It is given that the total tax relief claimed was RM12 530.
- Calculate Eng Huat's chargeable income.
 - Explain whether Eng Huat is eligible for tax rebate.
 - Calculate the income tax payable by Eng Huat.
15. Puan Aida's annual income was RM84 400 in 2020. She claimed tax relief for individual for RM9 000, life insurance and EPF for RM7 000, lifestyle for RM1 200, medical insurance for RM2 800, medical treatment expenses for her parents for RM2 100 and an unmarried child aged under 18 years old for RM2 000. Puan Aida paid *zakat* of RM600 for that year.
- Calculate the chargeable income for Puan Aida.
 - Calculate the income tax payable by Puan Aida.
 - If *PCB* of RM450 is deducted monthly from her salary, should Puan Aida make additional income tax payment?

EXPLORING MATHEMATICS

Electronic spreadsheet software can be used to simplify income tax calculation. By using the spreadsheet, calculate the income tax for chargeable income of RM5 000, RM15 000, RM30 000, ..., RM150 000. Scan the QR code or visit bit.do/EMChap4 for your calculations.



Key in the value of chargeable income into the yellow box. Then, key in the corresponding income tax value into the green box.

Observe the Income Tax Payable graph on the right. Make a conclusion based on that graph.

