

Examiner's report

F6 Taxation (MYS)

June 2010



General Comments

The examination consisted of five compulsory questions (Question 1 for 30 marks, Question 2 for 25 marks, Question 3 for 20 marks, Question 4 for 15 marks and Question 5 for 10 marks).

Most candidates attempted all five questions. The most well answered questions were Question 1 and Question 2. The poorly answered questions were Question 3(a) and (c), Question 4(c) and (d), and Question 5(b).

The overall performance was satisfactory. In general, the answers reflected a good grasp of fundamental tax concepts and principles in the tax computation of a company and an individual. The poorly answered questions appeared to be subjects which candidates were either not well prepared for or totally neglected.

Specific Comments

Question One

This 30-mark question consisted of three parts. Parts (a) and (b) tested candidates' abilities to prepare a tax computation for a company as well as their abilities to explain the law underlying the tax treatment.

Most of the candidates did well in both the computational and the narrative parts.

The few areas of difficulties were as follows:

- * Royalty
Some candidates failed to work out the correct gross amount. Furthermore, instead of disallowing the full amount of gross royalty, some candidates disallowed only a portion of the royalty which was related to the part of the withholding tax not yet paid to the Inland Revenue.
- * Renovation of premises for disabled employees
Some candidates regarded this item as qualifying for double deduction instead of just a deductible item under the law.
- * Equipment for disabled employees
Many candidates incorrectly regarded this as qualifying for double deduction. Some did not realise that this item had not been charged to the profit and loss account and that it was specifically allowed by law despite being a capital expenditure. It would appear that candidates were under the impression that any item of expenditure incurred for disabled employees would qualify for double deduction.

Part (c) was an extension of the test on candidates' understanding of the tax principles of deductibility and non-deductibility in dealing with items of expenditure and taxability and non-taxability of receipts

The good performance in each of the three parts reflected candidates' good grasp of the concepts and principles with regard to tax computation of a company. Thus, making this question the best answered question in the Paper.

Question 2

This 25-mark question was a test on tax computation applicable to individual taxpayers. The various sources of income affecting individuals were presented in three parts involving various individual taxpayers.

Part (a) tested the knowledge of computing employment source income.



The common errors appeared in:

- * Tips
Many candidates failed to give a satisfactory explanation for the tax treatment of tips. The majority of the candidates regarded tips as taxable. However, some candidates regarded tips as assessable under other sections of the law, rather than as s. 13 (1) (a) income.
- * Insurance premiums
Some candidates mistook insurance premiums to be an item of expenditure instead of an assessable income. Those candidates treated insurance premiums as personal relief and granted deduction along with Employees Provident Fund.

Part (b) tested the tax computation involving partnership source and rental source.

The main error of principle in the tax computation of partnership was treating salary as employment source income, interest on capital as interest source income under s. 4 (c) and private expenses as a deductible item instead of as part of the partnership source income.

As regard rental source income, the common errors were:

- * treating the December 2008 rental received in January 2009 as income assessable for the year of assessment 2009 instead of year of assessment 2008;
- * giving deduction to expenses such as quit rent, assessment based on time apportionment rather than for the whole year;
- * disallowing tax deduction to the cost of replacing fridge.

Part (c) tested the basis of relating the types of income received by individuals to the relevant basis periods and years of assessment. There was some confusion among candidates in determining the relevant years of assessment in assessing the various types of income. Even among candidates who determined the correct years of assessment, few managed to give a satisfactory explanation for the basis of assessing the income.

Question 2 was the second best answered question in the Paper. Candidates who scored a good pass owed their good performance to Questions 1 and 2.

Question 3

This question tested three topics: basis periods, STD scheme and imposition of penalties for late payment of tax.

In part (a), candidates were tested on their knowledge and understanding of the concept of basis periods and their abilities to apply this knowledge to a company that changed its accounting date. In this regard, the concept of 'failure year' is fundamental. Lack of clarity of this concept often results in an inability to determine the correct basis periods.

The other important point to bear in mind in determining the basis periods is that each of the basis periods must be tied up with the relevant year of assessment. Otherwise the whole determination would not make sense. Often candidates' answers omitted to state the relevant years of assessment. This gross negligence was the reason why many candidates did not pick up more marks.

Many candidates omitted to mention change of accounting date as the important factor which gave rise to 'failure year'. Another important point many candidates did not mention is the circumstance where the normal accounting date is not 31 December.



Some candidates gained very good marks for this part while others faired rather poorly.

In part (b), many candidates gained almost full marks for their knowledge of the STD system. Those who failed to pick up marks answered outside the scope of the STD system.

In part (c), candidates were required to compute penalties for late payment of tax by Encik Yuheng who was to settle his tax on 30 June 2009, the day he submitted his tax return.

Some candidates confused this with under-estimation of tax payable by a company and imposed a 30% penalty. Other candidates confused it with service tax penalty. The remaining candidates imposed the correct penalty.

Question 4

This 15-mark question comprised 4 different topics.

Part (a) was a test on candidates' understanding of the fundamental tax principle of treating different types of expenditure in determining the adjusted income of a business. The requirement was to state the tax treatment, followed by explanations to support the tax treatment.

Most candidates scored full marks for this part.

Part (b) which required candidates to state the qualifying plant expenditure for motor vehicles was well answered, with most candidates scoring full marks.

Part (c) was not satisfactory with the majority of the candidates stating the effects of a disposal rather than the causes that led to a balancing charge/balancing allowance.

Part (d), the final part in this question, tested candidates' knowledge of the factors that distinguished between a contract of service and a contract for services. Here, rather than the relevant factors, many candidates focused on the features of an employment, such as the benefits enjoyed by employees and the tax treatment accorded to employees.

Many candidates performed very poorly in parts (c) and (d).

Question 5

This question was on the subject of service tax and sales tax.

In part (a), candidates were given a record of a company's sales turnover over a period of 14 months. Candidates were required to state the meaning of annual sales turnover for the purposes of service tax and then proceed to apply their understanding of the concept by determining the date when the company was required to be licensed for service tax. In so doing, candidates were expected to exclude the provision of advertising services for promotion outside Malaysia.

The majority of the candidates made reference to the 12 month period but few mentioned 'immediately before that month' and 'or part thereof' for a complete answer.

Most of the answers correctly excluded the provision of advertising services outside Malaysia but not all the answers provided the correct date for licensing.



In part (b), candidates' performance was less satisfactory with the majority of candidates giving irrelevant answers or incomplete answers. The most omitted point was 'discounts given for goods sold which applies to all'