

Examiners' report

F6 Taxation (MYS)

December 2007

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). The paper is mainly computation based.

Most of the candidates attempted all five compulsory questions.

The overall performance was good. A number of candidates achieved high marks. The majority of the candidates who did not gain a pass fared badly. Many of them appeared to be unprepared for the examination while some did not understand the questions, in particular Question 4.

Question 1

There were two parts to this question. In part (a) candidates were tested on their computational skills in respect of individual taxpayers, a married couple. In the remaining parts of (b), (c) and (d) candidates were tested on their understanding of the concept of joint assessment including its tax effects on the couple as a whole.

The tax computations of the separate assessments were well done. The computation of joint assessment, on the other hand, was less satisfactory. The major error committed was at the aggregation stage where the candidates aggregated the husband's income with that of the wife on the basis of source by source instead of at the total income stage. Some candidates aggregated the income of the husband and wife as if it was the wife who had elected for a joint assessment instead of the husband. Other candidates combined the husband's aggregate income with the wife's total income. These errors demonstrated a lack of understanding of the concept of joint assessment. Arising from this lack of understanding, some candidates described the spouse relief of RM3,000 as wife relief instead of husband relief.

Common errors in part (a) (i) and (ii) i.e. tax computation for separate assessments and joint assessment included:

- the calculation of s.110 set off at the rate of 28% instead of 27%
- giving tax rebate for self as well as spouse
- failing to combine the husband's life insurance of RM1,500 with the wife's Employees Provident Fund contributions as one item in the joint assessment
- failing to indicate the respective child relief of RM5,000 and RM4,000
- including donations as a personal relief item
- including interest income in the tax computation

Many candidates failed to pick up marks in the narrative parts of the question. For example, many candidates attributed the tax savings in the joint assessment to items that were not relevant such as section 110 set off and tax rebates and missed out on relevant items like purchase of computer, purchase of books, life insurance and spouse relief for husband.

In part (c) many candidates failed to mention the need for the husband to make an election for a joint assessment as well as the need for the husband to complete the relevant part of the tax return.

In part (d), many candidates failed to identify the relevant facts in the scenario which qualified the husband to elect for a joint assessment. The most common omission was the fact that the wife herself did not make an election.

For some candidates, the poor performance in the narrative parts was due to the candidates' inability to understand the question. For other candidates, it was the lack of clarity of the concept of joint assessment that caused the poor results.

The good performance in this question was attributable to the computational part.

Question 2

This twenty five-mark question was a test on the candidates' ability to prepare a tax computation of a company. In part (b) of the question the candidates were tested on their ability to explain the tax treatment of three of the items in the tax computation.

Common errors in the tax computation included:

- applying the 10% rule to the cost incurred in alteration to the building, thus denying the qualifying expenditure capital allowance
- treating the non-movable partition as machinery instead of as an industrial building
- limiting the qualifying plant expenditure in respect of the van to RM50,000
- failure to deduct quit rent, assessment and fire insurance in computing the statutory income from the rental source.

Some candidates did not show the workings for the items adjusted in the tax computation. For example, foreign arts and local cultural performances where the amount in excess of the allowable limit was added back. Similarly, in the case of quit rent, assessment and fire insurance, candidates should show the individual item added back in the computation instead of merely showing the total amount of the three items. In the case of bad debt provisions candidates were expected to deal with each of the items in the computation in line with the instruction that accompanied the question. The candidates were instructed to follow the descriptions appearing in the notes to the profit and loss account.

Candidates are reminded to follow strictly the instruction stated in the question paper, be it the general instruction at the start of the question paper or the specific instruction that appears in the individual question. One of the instructions is to show all workings. The compliance would benefit the candidates who gave the incorrect figure as marks are allocated to workings.

In part (b), the evidence was clear that the candidates did not fully understand the concept or principles involved in the adjustment of those items for which an explanation was required.

This was the best performed question for many candidates. The weakness in the narrative part of the question did not affect the overall performance in view of the fact that the narrative part carried very few marks compared to the computational part.

Question 3

This question was divided into two parts, with each part carried ten marks. Part (a) was on the subject of service tax whereas part (b) was on the subject of employment source income.

Part (a) of the question was divided into three sub-parts. Part (a) (i) was well done. In part (a) (ii), some answers were not presented in the form of an invoice which the candidates were asked to do. Some candidates subjected the valuation fees in respect of the Singapore property to service tax. The majority of the candidates gained good marks for the invoice part but many failed to pick up marks which required them to state and explain the due date for the payment of the service tax in the context of the invoice amount remained unpaid for more than a year.

In part (a) (iii) the performance was disappointing as many candidates failed to state the correct dates for the imposition of the penalty for late payment of service tax.

In part (b) the common errors occurred in determining the value of the living accommodation for part of the relevant period as follows:

- comparing 30% of s. 13(1)(a) with half of the defined value

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The correct application is to make the comparison on the basis of the relevant period to determine which is the lower figure and then adjust the lower figure to the period the accommodation was provided, which is this case, was half of the relevant period.

Other common errors were:

- limiting the deduction of the travelling expense (RM19,000) to the amount of the travelling allowance (RM18,000). The candidates confused this expense with entertainment expense which is subject to restriction
- assessing the reimbursement of the driver's salary as benefit-in-kind under s. 13(b) instead of s. 13(1)(a)

Some candidates showed one total for the two cars provided and another total for the petrol provided in respect of the two cars. This was not in line with the instruction of showing all workings. The adjustment for those items varied. Therefore, the candidates who failed to follow the instruction put themselves in a disadvantage of not able to pick up marks for part of the adjustment which was done correctly.

The majority of the candidates gained a good pass for this question.

Question 4

This 15-mark question was set in four parts all of which required narrative answers.

Part (a) required the candidates to give the circumstances when an employer is not required to notify the Director General of Inland Revenue in the event of a cessation of employment by his employee.

Part (b) was a test on the basic principles of deductibility of expenses in computing adjusted income from a business source. The majority of the candidates did not understand the question. Instead of listing the principles many listed specific items which are tax deductible such as entertainment expense, travelling expense etc. Some answers began with 'whether the expense was capital or revenue in nature' and stopped there without stating conclusively that only revenue expenditure is tax deductible.

Part (c) was on the subject of tax compliance of the person who paid royalty to a non resident. There are four aspects to the compliance: the amount to be withheld for tax purposes, the timing for withholding and remitting the amount withheld to the tax authority, and the need to render an account to the tax authority. Most of the candidates omitted to include the rendering of an account in their answers. Some candidates used 15% as the rate of withholding tax instead of 10%, and payment to be made within 30 days instead of one month.

Part (d) was on the subject of sales tax. The candidates were required to describe the scope of sales tax. The majority of the candidates appeared not to understand the question. Instead of covering the subject matter of what is being taxed (taxable goods), the territory basis (where does it apply) and to whom does it apply (taxable persons) the answers dealt at length on other aspects of sales tax such as the imposition of penalties, which were not relevant to the question.

The majority of the candidates failed this question badly. In some cases it was lack of basic knowledge of the subject matter. In other cases it appeared that candidates did not read the requirement carefully and thus did not properly understand the question.

Question 5

This question focused on the resident provisions of an individual under the Income Tax Act. The candidates were given the record of stay in Malaysia of a Canadian citizen over a couple of years. The candidates were required to determine the resident status for each of the years and explain the relevant provisions of the law.

The majority of the candidates were able to determine the resident status, applying the correct sub-sections of s. 7(1). However, many failed to pick up marks in explaining the provisions. Most of the answers were incomplete, with key words omitted. For example, the minimum number of days i.e. 182 days, when explaining s.7(1)(a) or 90 days when explaining s.7(1)(c) were stated incorrectly. Thus errors such as more than 182 days or more than 90 days would lead to the wrong outcome of the application. Other instances of omitting the key words were 'consecutive' days in s.7(1)(b), 'three immediately' preceding years in s.7(1)(c) and 'three out of four immediately preceding years' in 7(1)(d).

In part (b), most of the candidates regarded Miss Nonaka's trip to Singapore as 'temporary absence/social visit.'

Considering that resident provisions are a basic concept in the Income Tax Act, the answers given were rather disappointing.