

Examiner's report

F6 Taxation (MYS)
December 2009



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. There were some candidates who did not attempt part of a question. Examples were Question 1(b) and Question 5(a). The most well answered question was Question 1 for most candidates followed by Question 2. The poorly performed questions were Question 3(a), Question 3(c), (d) and (e), Question 4(b) (ii) and (c), and Question 5(a).

The overall performance was unsatisfactory, although there were some candidates scoring very high marks.

Specific Comments

Question One

This 30-mark question tested candidates' ability to prepare tax computation for a partnership followed by tax computation of each of the partners. There was a change of partners half way through the year which resulted in a change of profit sharing ratio. Part (a) of the question was computational. Part (b) of the question required candidates to state the factors that determine the existence of a partnership. Thus the entire question was a test of candidates' understanding of the concept of partnership and computational skills.

Candidates' answers to part (b) revealed a lack of understanding of the concept of partnership even among candidates who scored high marks for the computational answer.

Candidates who scored a pass sometimes failed to pick up marks in capital allowances and approved donations. Capital allowances should only be allocated to the partners who remained in the partnership at the end of the basis period. In the case of approved donations, there was a need to allocate the approved donations to the respective parts of the basis period in which the donations were made and then allocate the donations to the partners in the respective parts.

Candidates who did not score a pass in the computation demonstrated a lack of understanding of the subject. In determining the provisional adjusted income and divisible income of the partnership candidates split the basis period into half starting from net profit. Likewise, all the items that followed were halved. The same method was used in computing the total income of each partner.

This was the best answered question on the paper, with many candidates scoring very high marks.

Question Two

This 25-mark question required candidates to show their knowledge and skills in preparing a tax computation of a company and to demonstrate the extent and depth of their understanding in explaining the tax treatment of certain expenses/receipts. Few seemed able to pick up marks in the narrative part, even among candidates with good scores.

Most of the marks gained in this question were in respect of the computational part.

In answer to part (a) on tax computation most candidates did not apply the 10% restriction to the different categories of approved donations in accordance with the provisions of the Income Tax Act. It would appear that many candidates had not read Mr Siva Subramanian Nair's article on this topic published in the June 2009 issue of student accountant. Other common errors were:

- * Insurance proceeds
Many candidates regarded this as an expense and dealt with it as such, not recognising that it was a receipt.
- * Ang pow given to inmates
Most candidates gave an explanation which was inconsistent with the treatment they had accorded in the tax computation. Furthermore, the explanations given were not relevant to the case in hand.
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- * Library facilities
Many candidates left out the important condition which qualifies the expense as deductible, i.e. the fact that the library facilities were open to the public.

Candidates might well be able to fair well in the computational part but it was the narrative part that demonstrated candidates' understanding of the tax principles of deductibility/taxability.

In providing a good answer to the narrative part of the question, the following requirements are necessary to bear in mind:

- * Correct usage of the expressions of 'deductible', 'taxable', and 'tax exempt'.
'Tax exempt' is not a substitute for 'deductible'; and 'not taxable' is not a substitute for deductible. Therefore, candidates must first learn the implication of each of these expressions in order to use them correctly.
- * There are two expressions that candidates can use in explaining whether an expense is deductible in arriving at the adjusted income. Where the deductibility of an expense is by virtue of general tax principles/general provisions of the law, the word 'deductible' is sufficient to explain the tax treatment. Where the law provides for a particular expense to be allowed deduction, use the expression 'specifically allowed deduction' or 'specifically deductible', or quote the provision of the law that authorises such deduction.
- * Having stated an expense as deductible or otherwise, candidates must provide the reason to support the conclusion. Where an expense is allowed by virtue of a specific provision exclusive to that expense, this must be presented as the answer (although references to legislation are not required) instead of a general description of 'not wholly and exclusively incurred in the production of income' or 'not a expense incurred in connection with the trade'. Candidates must bear in mind that marks allocated to the reason can only be gained provided the conclusion of deductibility is correct. Furthermore, the conclusion must be consistent with the tax computation prepared by the candidate.

In answer to part (b) many candidates showed confusion over the deductibility of the expenses. For example, candidates treated 'practical training' as qualify for double deduction. Some turned the qualifying facts in the scenario such as 'non employees' as the very reason why the expense was not allowed deduction.

In answer to part (c) on accelerated capital allowances in respect of information and communication technology (ICT) most candidates did not pick up marks due to lack of knowledge.

This was the next best answered question on the paper.

Question Three

This question comprised several topics.

Part (a) required candidates to determine the amount of tax collectible from the husband who had elected for joint assessment. Quite a number of candidates prepared tax computations for husband and wife separately right up to tax payable.

Part (b) required candidates to state the value of stock-in-trade which was disposed of shortly after permanent cessation of business operations. Candidates seemed unaware of Public Ruling 4/2006.

In part (c), many candidates had little idea of tax avoidance, tax evasion and tax planning. Candidates failed to differentiate between tax avoidance and tax evasion.

Part (d) was a test on new provision Section 7 (1B). Many answers were irrelevant, with the majority applying all the sub-sections of Section 7 (1) of the Income Tax Act. This was an example of candidates not being up-to-date with the Income Tax Act.

Part (e) required candidates to state whether expenses incurred on supporting equipment and medical for the husband's mother would qualify for personal reliefs and who would be entitled to such reliefs, in the context of the husband electing for joint assessment with his wife.

For most candidates this was the poorest answered question.

Question Four

This 15-mark question required candidates to calculate capital allowances and industrial building allowances in parts (a) and (b) respectively; and in part (c) the requirement was to show the tax treatment of expenses in the context of the provision of entertainment, giving reasons to support their answer.

In answer to part (a)(i), few candidates seemed to realise that small value assets are entitled to special allowance of 100% under paragraph 19A, Schedule 3 of the Income Tax Act. Thus, capital allowances for initial and annual allowances were calculated instead.

Most candidates obtained full marks for the fax machine.

In calculating the balancing charge for the general machine in part (a)(ii), the common omission was stating 'the deemed disposal value being the greater of market value or insurance proceeds'. Some

candidates misused the figure of RM20,400 (the total allowances previously claimed) to arrive at the answer.

Most candidates scored full marks for part (b)(i) in calculating the industrial building allowance. In part (b)(ii), the common error was the inclusion of rental payments as qualifying building expenditure.

Performance on this question was unsatisfactory.

Question Five

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

Part (a), a straight forward question, required candidates to state the circumstances for exemption from licensing and payment of sales tax. Some candidates lacked the knowledge altogether. Others who had the knowledge did not pick up marks due to wrong description of the circumstances. For example, the correct circumstances are '**not exceeding** RM100,000' in the case of a manufacturer of taxable goods; and '**not exceeding** RM20,000' in the case of a contract manufacturer. Here, some candidates used the expression '**less than** RM100,000/RM20,000'. The use of 'less than' would qualify RM100,000/RM20,000 turnover for exemption. The other part of the circumstance where candidates failed to pick up marks was in respect of 'in the last 12 months and for the next 12 months'. Many candidates had difficulties stating this circumstance.

Most candidates scored marks in part (b)(i). In part (b)(ii) the majority of the candidates did not pick up marks due to error committed in stating the year as 2008 instead of 2009.

In part (c) many candidates appeared not able to apply the knowledge of 30 days in imposing a penalty for late payment of service tax. Some candidates computed the penalty for more than two 30-day periods.

Performance in this question varied with a few candidates gaining full marks.