



Examiner's report

P6 Advanced Taxation (MYS)

December 2011

General Comments

Candidates generally performed creditably well in this session and demonstrated that they had come quite prepared. However, they will have to focus more on the proper envisioning of the scenarios and facts provided, followed by the careful and clear thinking through, leading to the identification of the attendant issues.

General Paper Comments

The two compulsory questions in Section A of the paper took up a total of 70 marks: 37 marks for Question 1 and 33 marks for Question 2. Section B offered three questions of 15 marks each, only two of which needed to be answered. Question 3 was scenario-based with a mix of calculation and narrative, Question 4 was mainly computational, with an analysis leading to conclusion, while Question 5 called for putting up a defence based on the facts given.

In Section A, Question 1 part (a) was not well answered but candidates were clearly better prepared for part (b) relating to real property gains tax.

Section B was well responded to, especially Questions 4 and 5. Relatively fewer candidates selected Question 3 relating to employee share option exercise.

5 professional marks were allocated: 3 for Question 1 and 2 for Question 2. Question 1 required a letter to a client with an accompanying appendix, while Question 2 involved a report to a client. Surprisingly a number of candidates were not as well versed with the appropriate formats of a letter and a report.

Specific Comments

Question One

Bearing 37 marks, Question 1 examined two main areas:

- the different modes of distributing funds accumulated in a company to its shareholders; and
- some advanced aspects of real property gains tax.

Facts about the balance of imputation credit and available retained earnings were clues that franked and single-tier dividends should be considered. However, a number of candidates launched into general discourse about the different types of dividends including two-tier exempt dividend, which is not relevant in this context.

Many candidates did not seem to know about capital reduction and winding-up of a company.

The second area of real property gains tax was far better handled, with many correctly identifying the construction of the showroom as an enhancement cost, and that the insurance compensation received from the destruction of the building in a fire represented a recovery. The treatment of allowable loss was generally well understood.

Regarding the compulsory disposal to the Government, many candidates knew that it was a no-gain-no-loss transaction. However, most did not follow through with the enabling mechanism of deeming the disposal price to be equal to the acquisition price.

Question Two

This question carried 33 marks and tested candidates on group relief. It also examined the alternative ways of acquiring a new business.

It is heartening to observe that many candidates took care to state how and why the companies concerned qualified for group relief instead of merely regurgitating the conditions without placing them in context.

The alternative methods of acquiring share capital versus acquiring the assets (in this case the inventory), was not well thought through by many candidates.

Question Three

This question tested both from the perspectives of the employer and employees: the deductibility of purchase of shares in connection with an employee share option exercise, and the treatment of the share benefit in the hands of the employees. While “employees share options” is an advanced topic in P6 MYS, it only took up 5 marks. The remaining 10 marks related to general principles of capital versus revenue in expenditure and receipt.

Some candidates may have come unprepared on the topic of employees share option, thus were unduly distracted by it and did not think through the general principles part of the question. Candidates are well-advised to stay calm so that they are able to clearly identify the relevant issues.

This question was the least selected of the optional questions. Of those who did select it, they did creditably well.

Question Four

This question dealt with the computation of exempt income and total income of a company granted with the pioneer status incentive and its alternative, the investment tax allowance.

Part (b) called for an analysis of the relative merits of each incentive and to draw conclusions accordingly.

Most candidates demonstrated that they understood how each incentive measure worked and their analysis and conclusions were consistent and well-based.

The question was by far the best attempted one, with many candidates scoring highly.

Question Five

This question examined the general anti-avoidance provisions or section 140 and how a cogent defence can be built against an invocation of the anti-avoidance provision.

This was well responded to.

General comments

While it can be seen that more candidates are more circumspect before writing their answers, it still bears repeating that candidates should read the text of the questions and the requirements carefully, then jot down the major points that must be covered before embarking on the answers.