

Examiner's report

F6 (MYS) Taxation

December 2016

General Comments

There were two sections to the examination paper and all of the questions were compulsory. Section A consisted of 15 multiple choice questions (two marks each) which covered a broad range of syllabus topics. Section B had four questions worth 10 marks each and two longer questions worth 15 marks, each testing the candidates' understanding and application of taxation in more depth. The following paragraphs report on each section and focus on some of the key learning points.

It was encouraging to see that candidates did reasonably well in the questions in both of the sections. In order to pass, candidates must focus on the whole syllabus areas and this will help in achieving a pass in this paper. A good area for guidance would be the available past year questions and answers.

Specific Comments

Section A

Almost all of the candidates attempted all the questions. It was quite evident that candidates are familiar with new format. The questions in Section A cover most areas of the syllabus. Candidates performed reasonably well in the multiple choice questions (MCQ) where many candidates scored a good average. It was observed that approximately 50% or more of the candidates got 9 out of 15 answers correct.

The following two questions are reviewed with the aim of giving candidates an indication of the types of questions asked, guidance on dealing with exam questions and to provide a technical debrief on the topics covered by the specific questions selected.

Sample Questions for Discussion

Example 1

Dee Sdn Bhd acquired a property for RM500,000 in March 2009 and immediately incurred RM100,000 to extend the built-up area. Dee Sdn Bhd disposed of the property in November 2016 and the disposal price was correctly computed as RM450,000.

What is the amount of the allowable loss arising to Dee Sdn Bhd on the disposal of the property?

- A. RM0
- B. RM50,000
- C. RM250,000
- D. RM150,000

Option B is correct. Some candidates were not aware of the principle that enhancement cost is deducted in arriving at the disposal price, and not added to the acquisition price. The disposal price was already computed as RM450,000, which took into account the enhancement cost of RM100,000, and compared the acquisition price of RM500,000 resulting in the allowable loss of RM50,000.

Many candidates selected option D as being correct which was based on mistakenly adding the enhancement cost of RM100,000 to the acquisition price of RM500,000 thus increasing the acquisition price to RM600,000 and comparing it to the disposal price of RM450,000 resulting in an allowable loss of RM150,000.

Example 2

Fah Sdn Bhd paid RM50,000 and RM20,000 in the years of assessment 2015 and 2016 respectively to obtain certification for a recognised quality system from a certification body approved by the Ministry of Finance. The expenses are not capital in nature and were deducted in computing the respective years' accounting profits. The relevant certificate was issued in November 2016.

What are the adjustments that should be made to the accounting profits when ascertaining Fah Sdn Bhd's adjusted income for tax purposes for the years of assessment (YA) 2015 and 2016?

	YA 2015	YA 2016
A	No adjustment	Add back RM70,000
B	Deduction of RM50,000	Deduction of RM20,000
C	Add back RM50,000	Deduction of RM140,000
D	Add back RM50,000	Deduction of RM120,000

Option D is correct. The nature of the incentive for this type of expense, in the year of assessment that the certificate is issued, is that the company can claim double the amount of the allowable expenses. So if the company incurs the expenses earlier, then such expenses will be disallowed.

Candidates either were not aware that the expense qualifies for double deduction or were not aware of the time at which the double deduction is granted. Many assumed that they were entitled to double deduction as and when it incurs not realising that the certificate has to be issued before a claim can be made, thus opting for B.

Section B

Question One

This 10-mark question was on a real property gains tax (RPGT) transaction and was made up of a theoretical aspect for 3 marks and the balance on RPGT computations.

Part (a) of the question on real property gains tax (RPGT) required candidates to state the RPGT implications on a gift between a husband and wife, who were Malaysian citizens, within five years from the date of acquisition. It was pleasing to note that almost all of the candidates were aware of the gift rules involving a husband and wife and a large majority of them correctly identified that one of the RPGT implication was that there will be 'no gain no loss' in such a transaction and the acquisition price for the recipient of the gift as the acquisition price and permitted expenses and not the market value. It will be useful to note that when answering a theoretical question, candidates can state that either there will be RPGT payable or no RPGT payable, depending on the question asked, to obtain marks. In this question, there was no RPGT payable. There were some who correctly stated that there will be 'no gain no loss' in the transaction but inadvertently stated either there will be no acquisition price for the recipient of the gift, the wife or the acquisition price is the market value.

Part (b) required candidates to compute the RPGT on two transactions. First when the receipt from an insurance compensation received exceeded the acquisition and incidental costs and second when the property was later sold. This latter part was badly answered. There were a few candidates who correctly identified the two transactions separately. Most, however, incorrectly combined the two transactions as one and computed the RPGT. The concept of receipt exceeding acquisition costs triggering a requirement to compute RPGT is important and part of the syllabus.

Generally, candidates did not perform well in part (b) but did well in part (a).

Question Two

This 10 mark question tested on the basis periods for commencement of business for 1 mark and the balance on calculating capital allowances and industrial building allowances (IBA).

Part (a) on basis periods was generally well answered. A few candidates were still applying the December year-end on the assumption that they were not aware of the new rules for basis periods for commencement of business. Under the new rules for basis periods, it has been simplified and will generally follow the accounting period. It was unusual to see the candidates followed other accounting year-ends such as 31 March, which was not relevant in this question.

Part (b) was also reasonably well answered and candidates were generally aware of the basics. There were a few candidates who did not pay particular attention to the amounts stated in the question and went on to assume the amount was not stated in thousands and applied the small value assets. Candidates should note that for capital allowances, which includes industrial building allowance, the annual allowance is calculated by applying the annual allowance rate on the qualifying plant or building expenditure and not on the residual expenditure or tax written down value. Candidates must show the capital allowances amount and not show the rate alone to obtain full marks. Another important point to note, which some candidates were not aware of, is that there is no need to time apportion the initial allowance or annual allowance either in year of purchase or disposal in the question set.

Overall, candidates performed well in both parts.

Question Three

This 10-mark question tested the area of goods and service tax (GST) and was made up of three parts. GST is an area that impacts us almost on a daily basis since it is a consumption based taxation and it was surprising to note that some candidates attempted only some of the question and a few did not apply the 6% rate, which was provided in the table of rates and information in the exam question paper, or applied the incorrect rate of 10%.

Most of the candidates were able to explain blocked input tax in part (a) for 1 mark and gave an example. Candidates must ensure that when they provide an example, it must be stated completely as, for example, entertainment expenses is not sufficient and it must be clearly stated as entertainment expenses of potential customers. There were some who mixed up the concepts of exempt supply and zero-rated supply. The list of items falling under blocked input tax credits, are specifically provided in the GST legislation.

In part (a)(ii) required candidates to state at least conditions to be met for a claim for input tax credit for a motor car bought for business purposes. Some candidates were not aware of the conditions and this part was therefore not well answered. Areas involving minimising costs and maximising claim for input tax credit are important areas for business. Some candidates provided the details in a tax invoice or registration procedures, which were not relevant.

In part (b), candidates were able to calculate the output tax and set it off against the input tax and determine the GST recoverable. Under the GST system, when there is a company involved in one business that disposes of, say, a non-current asset such as a table, it will be subject to output tax since the disposer is GST registrant. Cash awards, similar to salary, are outside the scope of GST and hence, not subject to GST. Some candidates would have scored full marks if they have read the requirement of the question which required the net GST recoverable by netting the input tax credit as given in the question. As mentioned in the opening remarks, candidates can refer to the table of rates and information for rate of GST and the registration threshold. Candidates must understand the concept of value and GST portion and consideration. A few candidates calculated the GST output tax which included the value incorrectly.

Overall, candidates performed well in the first and last part but did not do well in a(ii) of the question.

Question Four

This 10-mark question was on a partnership which required candidates to determine the divisible loss and the adjusted loss available for carry forward for individual partners for both business and non-business source (which was a rental source). Candidates can obtain full marks if they pay particular attention to details such as the number of months involved in the question. Some points to note are as follows:

- From provisional adjusted income or loss the items for each partner are to be deducted in arriving at divisible income or loss. In the case where there is a provisional adjusted loss, the respective partners' salaries and interest on contribution will increase the provisional adjusted loss in arriving at the divisible loss. It will not result in a divisible income in this kind of scenario where there is a provisional adjusted loss.
- Capital contribution is not income and will not be adjusted in the tax computation. Only the interest on capital contribution will be adjusted.
- Interest income can be taxable as in this case and not all interest income received by individuals is exempt.
- A careful reading of the details in the question is important. Some candidates read the interest income as interest expense.
- Loss arising from a rental source which is not a business source of income, is not available for set-off and is permanently lost. Some candidates treated this as available for carry forward incorrectly.
- For allocating capital allowances, the profit sharing ratio should be applied and not based on capital contribution.

It was good to note that most of the candidates performed reasonably well here.

Question Five

This 15-mark question was based on the computation of a chargeable income for a manufacturing company, which is wholly owned by a foreign company. Subject to some comments listed below, candidates generally performed well in the corporate tax computation but there were some who did not treat the interest income and donations correctly. But a majority were aware of the format and steps to determine the adjusted, statutory and aggregate income and total and chargeable income. Most were able to correctly make the appropriate adjustments in the tax computations.

Some points to note are shown below:

- Candidates must realise that when there is a decrease in allowance (provision) for inventory obsolescence, it will give rise to a reduction which will reduce profit before tax or alternatively when the allowance (provision) is lower than the amount utilised.
- Candidates did not correctly bring to tax the market value of the inventory when it is withdrawn for own use.
- It was surprising to see that there were quite a few candidates who restricted the claim for audit fees by adding back the whole amount or allowing RM5,000 or RM10,000 which applies for company secretarial fees or tax filing fees. The whole amount of audit fees is allowed and therefore, it will be a 'nil' adjustment.
- Candidates must be aware that there are single and double deductions available to reduce income tax as an incentive and must be familiar with the conditions before a claim can be made. It is also important to be aware that there is a gradual shift to revoke some of the items. One of the items was the marine insurance premiums that was revoked from the year of assessment 2016 onwards. There were some candidates who were not aware and continued to claim a double deduction. Some erroneously disallowed the expense.

As in the aforementioned comment, there were candidates who correctly identified that the double deduction for advertising in local media was not available for this company because it did not meet the condition. The shares were 100% foreign owned.

- At the same time, candidates should be aware of the latest single and double deductions that may be available and expenses that are prohibited.

There are many types of donations and contributions and candidates should be aware of the types of deductions are available in arriving at the adjusted income and some deducted from aggregate income. Candidates should know that a company is entitled to claim a deduction of donations to approved charitable institutions restricted up to 10% of the aggregate income and not 7%.

- Some candidates claimed the RM100,000 for the donations made to the public library and also RM20,000 which is not permitted. Only one claim can be made and it will be tax beneficial to claim the RM100,000 since it results in higher tax savings.
- Candidates should show the adjustments separately such as the debt adjustments. Candidates can score marks if they show the 2 adjustments separately or show the workings separately so that marks can be earned if one of the adjustments is incorrect. By showing a net amount without any workings will not earn marks if one of the adjustments was wrong.
- For every rule there are exceptions such as the leave passages. Generally, it is not allowed for tax purposes and will be added back but in certain exceptional cases, subject to meeting the conditions, a local trip is allowed.
- It is surprising to note that interest income from Thailand was a foreign source and hence, tax exempt. Quite a lot of candidates brought it to tax.

Part (b) required candidates to state whether the manufacturing company can claim a single deduction incentive for acquiring a foreign-owned company which was available for a manufacturing company which was at least 60% directly owned by Malaysians. In this question, the company was wholly owned by a foreign company and thus, was not eligible to claim this deduction. The criteria to claim an incentive is important and candidates are expected to know and apply the incentive in a scenario.

Overall the question candidates performed well in the question except for the comments referred to above.

Question Six

This 15-mark question was on individual taxation for 11 marks and another 4 marks which tested the short-term employment rules or the 60-day rules.

In part (a), candidates were required to compute the income tax payable for an individual which involves employment income and also royalty income with an exemption. This was reasonably well done and most of the candidates applied the 3% of the Section 13(1)(a) total to determine the value of living accommodation for the one hotel stay. Many were aware that there was an exemption of RM20,000 available for royalty income but many assumed that the exemption was RM12,000 or RM10,000, presumably because the amount of royalty received was below RM20,000. Many did not make the adjustment for the one month. Most compared the hotel charges and a few erroneously deducted the *zakat* payment from aggregate income instead of deducting from the income tax chargeable.

A few points to note are shown below:-

- Reimbursement of a maid should be assessed under Section 13(1)(a) and not under Section 13(1)(b).
- The portion of employees' provident fund (EPF) contributed by the company is not a taxable on the employee.

- In calculating the hotel accommodation benefit, it is 3% of the total under Section 13(1)(a) and not 30%.
- Candidates must refer to the table of rates and information and apply the relief accordingly. It was surprising to note that some candidates could have scored more marks if they had referred and applied the correct relief amounts.

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As mentioned earlier, before a claim for relief such as broadband subscription or personal computers gifted by an employer, candidates must check to see if the relief that may have been available previously is still available or personal computers is exempted or is taxable.

In part (b) for 4 marks, candidates were generally able to identify the 60-day rules applicable for short term employment. Almost all of them demonstrated that they knew that the period of exercising employment was relevant and not the period when the employee is on holiday. Some explained that since the salary was paid overseas, it should not be taxable in Malaysia even if the employee is exercising employment in Malaysia.

Overall, candidates performed well in the question.