

Examiner's report

F6 Taxation (MYS)

June 2015

General Comments

The examination consisted of five compulsory questions for a total 100 marks. Question 1 was for 30 marks and question 2 was for 25 marks. Question 3 was for 20 marks and questions 4 and 5 were for 15 marks and 10 marks respectively.

Future candidates should note that June 2015 was the last sitting under the old exam format and should refer to the specimen exam published on the website and the syllabus and study guide for details of the new exam format applicable from December 2015.

The majority of candidates attempted all questions and there was little evidence of time pressure. The overall performance of the candidates was generally satisfactory. Where candidates' performance was less satisfactory, this appeared to be due to a lack of effective preparation and a focus only on certain aspects of the syllabus at the expense of others.

Candidates performed well in questions 1, 2(a) and 3(b) and (c), 4 and 5(b). Performance was less strong on parts of questions 1, 2(b), 3(a) and 5(a).

A couple of points for future candidates to note are as follows:

- Where a date is to be stated, care must be exercised to ensure that the correct date is stated. For example, the due date to submit the tax return for the year of assessment 2014 in question 4(a) was 30 April 2015 and not 30 April 2014.
- Candidates must show appropriate workings in order to ensure that they maximise their marks.
- Candidates should start each question on a separate sheet. This is to ensure all the questions and all the pages are marked.
- Candidates should take note that from December 2015 sitting onwards, goods and service tax (GST) will be examinable and sales and service tax (SST) will no longer be examinable.

Specific Comments

Question One

This 30-mark question was based on a book publisher and career guidance and recruitment services, Uni Sdn Bhd (Uni), and required candidates to compute the company's chargeable income. The company also had another business source of income which was from a partnership as well as dividend and income from a key-man's endowment policy.

The majority of candidates performed well in this question.

Many candidates were able to identify the various deductible expenses and non-deductible expenses and were well prepared in this part of the corporate tax computation. There were candidates who did not assess the partnership income as a separate business source. The share of the profit from the partnership of RM2,000,000 should have been firstly deducted from the profit before tax in arriving at the adjusted income of Uni and then the amount of RM1,955,000 (after the necessary adjustments and after deduction of Uni's share of the capital allowances of RM50,000) should have been brought into the charge to tax. However, some candidates claimed the capital allowances of RM50,000 relating to the partnership business against the principal business of publishing books which was incorrect.



Dividend income under the single-tier system is not taxable in the hands of the shareholder and, therefore, an adjustment was required to deduct the amount of RM500,000 from profit before tax. Candidates should then have shown the dividend income as a nil item (per the instructions to the question) to obtain the relevant mark.

Some candidates made common errors such as treating the audit fees as a non-deductible expense and claiming entertainment expenses pertaining to staff of related companies as a deductible expense. Candidates should, wherever possible, split the withholding tax and show the adjustments accordingly to ensure they obtain the maximum marks.

Candidates must be careful and claim the appropriate expense such as salary for directors. Some candidates were not aware of the restriction of claim for employees' provident fund (EPF) to a maximum of 19% of salaries.

There were a few candidates who knew the correct rates for double deduction for accommodation expenses of RM300 per day and sustenance expenses of RM150 per day but disallowed the difference between the amount incurred and amount allowed for double deduction. Some showed the item as a nil adjustment. Candidates should be aware that the impact of a double deduction is to reduce income subject to tax although, in some cases, the double deduction will be restricted to a certain amount as illustrated below:

Profit before tax	RM2,898,000
Less: Economy class air fares	(RM15,000)

Candidates should be aware that pre-commencement expenses are eligible for deduction when they are incurred and a claim made accordingly.

Candidates should understand that a general allowance for doubtful debts is not allowed for tax purposes and must, therefore, be added back. A specific provision, on the other hand, results in a nil adjustment as it meets the requirements under the general deduction rules.

As a matter of good exam technique, candidates should show the adjustments for each item requested in the notes separately. For example, when looking at the legal and professional fees, it is clearer if candidates show each expense item separately rather than lumping these all together and it is recommended that candidates refer to the suggested solutions printed on the ACCA website to familiarise themselves with the requested layout.

Candidates should be aware of the various types of donations and where a deduction is allowed in full and where it is subject to a restriction of up to 10% of aggregate income. In other cases, such as contributions in kind to approved institutions, the donation is not deductible at all.

The following points should be noted:

- Candidates must read the requirement carefully and follow the notes and requirements so that maximum marks can be obtained. There were a few candidates who commenced with sales and not profit before tax, despite this being clearly stated in the requirement.
- Foreign exchange gains that are non-trade in nature and realised are not taxable and therefore, should be deducted from profit before tax in the tax computation.
- Tax fees for filing appeals are not tax deductible. Many candidates allowed the fees. Please note, that in respect of tax agent fees for filing of returns, the amount of RM10,000 is deductible from the year of assessment 2015 onwards and the amount of RM5,000 for company secretarial fees.

Question Two

This was a 25-mark question comprising two parts. Part (a) tested two different sources of business income and also employment income derived by a resident individual, Razif. Part (b) of the question tested the treatment of interest and dividend on an investment proposal.

Candidates generally answered well in part (a) of this question. Candidates were familiar with the treatment of the various business sources and employment sources of income and showed these separately. The majority of candidates showed the statutory income separately. Candidates should be aware that where there is a gain on disposal of a non-current asset in respect of a business source, such a gain should be deducted from the profit before tax. However, many candidates incorrectly showed a nil adjustment. A large majority of candidates correctly determined the current year loss. Candidates must be careful in ensuring that they claim the current year loss arising from business against aggregate income.

Candidates must also add back any balancing charges to adjusted income before any capital allowances or balancing allowances are deducted as part of their tax computation format to arrive at the statutory income from a business source. There were some candidates who were not aware that brought forward business losses are offset against the aggregate of statutory business income. Such brought forward losses should not be offset against the same business source of income or against aggregate income.

A few candidates were not aware that the benefit-in-kind in respect of the living accommodation is based on 30% of the Section 13(1)(a) employment income rather than 10%.

Candidates should read the question carefully as there were some candidates who assumed that there was a car benefit as they failed to identify that it was a car loan. The computation for the interest subsidy was also fully exempt since the combined loan amounts did not exceed RM300,000. However, there were quite a few candidates who performed well in this part of the question.

In part (b) of the question, candidates' performance was generally not as strong as in part (a). Many candidates provided the tax implications for Razif but did not provide the implications for the company, despite this being asked for. Candidates should have been able to provide the tax implications of an investment in the form of shares – namely, that the returns on investment would be dividend income which would be tax exempt in the hands of the shareholder (Razif) and non-deductible for the company making the distribution. Similarly, candidates were required to discuss the tax implications

of an investment in the form of a loan – namely, that there would be interest income for Razif as lender and the company would incur an interest expense. This part of the question was not well answered.

A few points to note are as follows:

- There were a few candidates who computed the income tax payable although this was not required by the question. Candidates should ensure they read the requirements carefully to avoid wasting time.
- Candidates should ensure that they are familiar with and use the information provided in the tax rates and allowances at the front of the exam.
- Capital allowances can be claimed against the same business source. Unabsorbed losses can be set-off against any business source.
- Donations can be claimed only if they meet the relevant criteria.

Question Three

This 20-mark question comprised three parts on industrial building allowance and capital allowances for a company, Octane Sdn Bhd. In part (a) of the question, many candidates were not familiar with concept of a ‘relevant interest’ in respect of a tenant who incurs capital expenditure on the building or the condition that the building is used on an industrial building. Therefore, this part of the question was generally not answered well.

Part (b) tested the 10% rule for claiming industrial building allowance for an office administration area (i.e. a non-industrial area). Most candidates were aware of the principle. However, some candidates incorrectly referred to the 75% rule, which was not relevant.

In part (c)(i) of the question, the majority of candidates were aware of the types of expenditure that qualify and do not qualify as qualifying building expenditure. Many were also aware of the 15% restriction on total costs. In order to gain the maximum marks available, candidates should have listed down each item of expenditure showing whether it was claimable or not. Some candidates did not think that the subcontract for labour cost was qualifying building expenditure. Other candidates did not address the issue of the repainting of the existing factory. The question requirement clearly asked candidates to indicate by the use of the word ‘nil’ any item referred to in the question for which no claim can be made, which should have made clear that all items of expenditure were to be considered.

In part (c)(ii), some candidates applied the annual allowance rate of 14% instead of 20%. In addition, candidates should be aware that capital allowances are not computed in the year of disposal.

In general, this question was reasonably well answered with stronger performance in parts (b) and (c) (i) and (ii).

Question Four

Question 4 was made up of two parts for 15 marks. Part (a)(i) and (ii) examined the responsibilities of a tax payer, Rema. Part (a) (i) was well answered although candidates should use the marks available as a guide as to how many points to provide. Part (a) (ii), was also answered well by the majority of candidates. Candidates should exercise care – for example, by identifying that RM2,000 is the monthly rental income and thus RM24,000 is the annual rental income, rather than misreading that the annual rental income is RM2,000. Some candidates deducted EPF from the salary instead of claiming EPF



under personal reliefs. Candidates should also be aware that tax rebates are set off against the income tax chargeable and not against chargeable income.

Part (b)(i) of the question dealt with real property gain tax (RPGT) for an individual, Ashley, and candidates performed well here. Candidates should ensure that they are familiar with the RPGT computation – for example, the deposit forfeited should be deducted from the acquisition consideration.

Some candidates computed RPGT which was not required and, again, candidates are reminded of the importance of careful reading of the question requirements.

In part (b)(ii), some candidates misread the question requirements and thus did not restrict the answer to RPGT – instead referring to other income tax implications. Notwithstanding this, this part was reasonably well answered.

Question Five

This 10-mark question was on sales and service tax.

Part (a) specifically dealt with the claims available to licensed manufacturers for sales tax and part (b) dealt with service tax.

In part (a), many candidates were not aware of the remission and drawback claims and this part of the question was, consequently, not well answered.

Part (b) of the question was well answered.

Candidates should note that, from December 2015 onwards, goods and services tax (GST) will be examinable and sales and services tax (SST) will no longer be examinable. Candidates should refer to the syllabus and study guide applicable from December 2015 for further details.