

Examiner's report

F6 (MYS) Taxation

June 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.

Specific Comments

Section A

Except for less than handful of candidates, it was good to note that all of the questions were attempted. Candidates are advised to review the format of the specimen exam, being relatively new, for sample questions. Section A questions aim to provide a broad coverage of the syllabus but also for guidance on the topics areas covered in MCQs including the computational and theory based questions.. Furure candidates should aim to revise all areas of the F6 syllabus. Almost all of the candidates performed reasonably well in the multiple choice question (MCQ) questions.

It is with little doubt, candidates should be able to achieve a pass in this exam provided they focus on all parts of the syllabus and avoid spotting questions. It was quite evident in the recent sitting that this is the case, meaning where the candidates focus on all parts, have a basic understanding of the principles and techniques. It was also noted that candidates who performed well in the MCQs in Section A achieved a good pass.

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

TVA Sdn Bhd (TVA) is registered for goods and services tax (GST) and files its GST returns on a monthly basis. During its financial year ended 31 December 2015, TVA made the following gifts to one of its employees, Barbara:

6 June – a television. The television had been acquired by TVA from a GST-registered supplier on 5 May 2015 and, at the time of the gift, it had a net book value of RM250 and an open market value of RM424.

11 November – a power bank. The power bank was acquired by TVA from a GST-registered supplier for RM106 on the same day it was gifted to Barbara.

TVA can make gifts to its employees at its discretion. However, there is nothing contained within Barbara's contract of employment on the matter. All amounts are stated inclusive of GST.

What is the amount of output tax which TVA Sdn Bhd should account for in respect of the gifts to Barbara in its GST return for the relevant months?

June 2015

November 2015

A	24	6
B	0	30
C	0	0
D	14	6

This question tested on the GST implications on gifts made to an employee in the same year and the awareness of the gift rule of RM500.

Candidates may wrongly assume that answer A is correct on the grounds that the gift rule does not apply. The gift rules does not require the company making the gift to account for any goods and services tax (GST) if the goods worth RM500 or less is given to the same person in a year, i.e. it is not treated as a supply.

Candidates who chose answer C may be aware of the gift rule of RM500 but erroneously assume that RM500 rule applies for each gift made the employee. So they may not be aware that the gift rule applies on a cumulative basis over the tax year of the company, which is the company's financial year-end.

There may be some candidates who know the GST treatment of the gift rule of RM500 but may not be aware that the open market value (OMV) is always stated as inclusive of GST.

Some may have assumed D on the basis that the gift rule applies in June 2015 and the tax fraction of 6%/106% applied on the net book value of RM250 thus arriving at the amount of RM14 which was incorrect.

Candidates who applied the tax fraction of 6%/106% on the OMV, which is always stated inclusive of GST, on RM424 and the GST of RM24 ($24 \times 6\% / 106\%$) is due on November 2015 when the second gift was made. This was because when the power bank worth RM106 was given, this exceeded the RM500 gift rule given to the same person in the same year and the GST RM30, which was made up of GST of RM6 (6%/106%) for the power back together with the RM24 for the television was due in November 2015.

The correct option was B.

Example 2

Doris owns four properties, which are let out to tenants. Doris does not provide any maintenance services in respect of the properties. Details of these properties for the year of assessment 2015 were as follows:

	Rental received RM	Deductible expenses RM	Net income per property RM	Industrial building allowance RM
Apartment	24,000	3,000	21,000	-
Vacant land	120,000	4,000	116,000	-
Factory building A	76,000	12,000	64,000	6,000
Factory building B	60,000	20,000	40,000	103,000

What is the statutory income from the rental source(s) for the year of assessment?

A. RM132,000

- B. RM137,000
- C. RM195,000
- D. RM241,000

This question involved the determination of statutory rental source income which was derived from an investment source and not a business source income. There was no maintenance support services by the property owner.

Generally, all the different types of properties can be grouped into one category and all expenses can be claimed and where applicable, industrial building can also be claimed against those properties which are used as an industrial building. Basically, the question is whether it is business or non-business source of income and in this case the properties were regarded as investment which is a non-business source.

If the candidates had combined the net income (after deducting allowable expenses against the gross income) of the apartment of RM21,000 and land of RM116,000 and the factory A of RM58,000 which is arrived by taking the net income of RM64,000 less industrial building allowance (IBA) of RM6,000) then they would have opted for answer B of RM195,000. They would not take into account factory B as they would have assumed that Factory B has nil income (net income of RM40,000 less IBA of RM103,000). This is not correct.

Candidates would have also taken into account the net income which has a statutory income after taken into account IBA. The combined statutory income of the two factories would have shown nil income (Net income of Factory A is RM64,000 and Factory B is RM40,000 and the total IBA is RM109,000). In this case, they would have taken into account only the net income of apartment of RM21,000 and land of RM116,000 and opted for C which is RM137,000. That is incorrect.

Some may assume that the property owner is not entitled to claim IBA since the factory is held for investment purposes and the owner is not carrying out the factory operations themselves. In this case, they would have combined the net income of RM26,000 for the apartment and RM116,000 for the land and the factory A and B of RM64,000 and RM40,000 totalling RM241,000 thus going for option D. This is not correct.

For a candidate who was aware that the properties are all owned for non-business / investment purposes, they are entitled to combine and claim the full expenses for each type of property regardless of whether it is an apartment or land or factory building and claimed in total as shown below.

Gross income (24,000 + 120,000 + 76,000 + 60,000)	280,000
Less: Deductible expenses (3,000 + 4,000 + 12,000 + 20,000)	(39,000)
Adjusted income	241,000
Less: Industrial building allowance for factory A & B (6,000 + 103,000)	(109,000)
Statutory income	132,000

The correct answer was A – RM132,000.

Section B

Question One

This 10-mark question was on to real property gains tax (RPGT) transaction and was made up of a computation and an administrative aspect.

In part (a) of the question for 8 marks, candidates were required to compute the RPGT computation for a company disposing an office unit to an individual. This question was generally well answered and candidates were able to make the appropriate adjustments in arriving at the date of disposal / acquisition, disposal and acquisition prices and chargeable gain and the RPGT. Candidates can score full marks by exercising care if they ensure that they add the incidental costs to the acquisition consideration instead of reducing.

There were some who erroneously claimed quit rent and assessment as deductible for RPGT purposes when it was not claimable since it was claimable for income tax purposes. Candidates should know that the Schedule 4 exemption is available only for disposers who are individuals. The adjustment for the deposit forfeited was not applicable for this office unit and consider the details before it is taken into account for RPGT purposes. Candidates performed well in this part.

Part (b) for 2 marks required the candidates to state the amount to be retained and the person who should retain the sum in a RPGT transaction. Candidates should know the administrative aspects of the legislation to avoid penalties and that it is the acquirer who should retain and remit the sum which should be the lower of the whole amount of money consideration or 3% of the total consideration.

Question Two

This 10 mark question tested on capital allowances and balancing charge adjustments. Part (a) required computation of existing assets for a trading company. Almost all of the candidates did not know that a trading company incurring expenditure on showroom and office will not be eligible for capital allowance / industrial building allowance (IBA). Candidates can save time by stating that such expenditure is non qualifying asset and avoid spending time by calculating capital allowance / IBA. Realised foreign exchange losses arising from acquiring an asset increases the qualifying plant expenditure subject to capital allowances and foreign gains reduce the amount. Most candidates correctly restricted the balancing charge for the grading machine.

In part (b), candidates must read the details provided carefully in the question as it was noticed that racking system was incurred and was eligible for capital allowances. There were some who did not claim the capital allowances.

Some tested the 10% and 75% rules which were not relevant.

Overall, candidates performed well in both parts except for some areas as highlighted.

Question Three

This 10-mark question tested on the relatively new area of goods and service tax (GST) and was made up of three parts. It was good to note that the candidates have good basic understanding of the GST.

In part (a) for 4 marks, candidates were required to explain the liability to register GST. Most them were aware of the historical and future tests. When a person carrying on a business has an annual sales turnover exceeding RM500,000, the business must register GST. Even if the future test

shows an annual sales turnover below RM500,000, the business has no choice and has to register for GST. There were some who stated that they had a choice and discussed voluntary registration which in this case would not be applicable.

In part (b) for 2 marks, there were a handful of candidates who discussed the previous sales and service tax rules of a taxable period of two (2) months, which has been deleted from the syllabus. Under GST it is either monthly or quarterly based on an annual turnover of RM5,000,000 with a few exceptions. It was also encouraging to note that many knew the rules relating to the liability to register within 28 days following month of reaching the threshold (June 2016), which is 28 July 2016 and the effective date of registration is the first day of the following month after the 28-day liability period., i.e. 1 August 2016.

In part (c) for 4 marks, were of the input taxes that were claimable and blocked and which item was zero-rated. The tax fraction of 6%/106% is an important figure in GST and is applied to determine on a value inclusive of GST. Many knew that the repairs and maintenance of a company passenger is also blocked.

Overall, candidates performed well in this question.

Question Four

This 10-mark question covered resident rules and administrative aspect for an expatriate individual under employment.

Part (a) for 4 marks was on determining the resident status of an expatriate employee and was reasonably well answered. Candidates must explain to get marks if the question requires an explanation.

Part (b) for 2 marks was on the notices required to be given by an employer and employee on commencement of employment. This tax administrative aspect was not well answered. Candidates must take note that the tax administrative / self-assessment system aspect is important.

Part (c) for 4 marks was well answered and many were able to score high marks for the eligibility or otherwise for a non-resident employee. As explained earlier on the administrative aspects, candidates must focus on this area of the powers of the Director General of Inland Revenue Board (IRB) to recover unpaid taxes and dues. Very few mentioned that the DGIR may seek the assistance of Police Department or Immigration Department to stop leaving the country until all dues relating to tax are settled. Some explained the withholding tax implications which was not required in this question.

This question was reasonably well answered.

Question Five

This 15-mark question was based on a manufacturer company with an issued share capital of below RM2,500,000 but part of a group with a company above RM2,500,000. In part (a) for 13 marks candidates were required to compute the chargeable income and income tax payable for the year of assessment 2015 and in part (b) for 2 marks were required to state with reasons on the deductibility of initial repair costs.

Candidates are required to review the details in the question including each item provided in the profit or loss statement and make the appropriate adjustments. Generally, it was pleasing to note all the candidates were aware of the tax adjustments involving increasing or reducing the profit before tax including single and deductions and nil adjustments.

Candidates were able to score high marks except for some areas such as the treatment of non-business income where the treatment of interest income from overdue debts is to be treated as non-business income being a manufacturing company and will be reduced from the profit before tax and assessed as interest income under investment income under Section 4(c) of the Income Tax Act, 1967 (as amended). It was erroneously assessed as incidental business income and not adjusted.

The following comments are to be noted:

- Dividend income was mistakenly taxed and should be tax exempt under the single tier system.
- Interest income erroneously added to the profit before tax
- Interest income was correctly disallowed as non-business income but was not brought to tax under investment income or assessed interest income.
- Interest expense attributable to finance the share investment (which generated dividend income) was correctly restricted (added back) by many but should be deducted against dividend income and not against interest income.
- Company secretarial fees was disallowed in full when a claim of RM5,000 from the year of assessment 2015 onwards and the excess was disallowed.
- Candidates can score the full allotted mark if they adjust the correct figure. Many adjusted the depreciation amount erroneously as RM12,000 instead of the correct amount of RM12,000,000. Careful attention must be given to the details and amounts provided in the financial statements when preparing computation to ensure full marks.
- Routine testing was not eligible for double deduction. Candidates showed a sound understanding of double deduction for research and development expenses.
- Lease rentals refers to expenses incurred for hiring vehicles. It does not mean that the company is acquiring the asset and not eligible for capital allowances. Most candidates mistakenly disallowed the lease rentals of RM35,000 incurred shown in the profit or loss statement and claimed capital allowances for the leased passenger vehicle.
- Where cash donations are made to an approved charitable institution, the restriction of 10% of aggregate income should be shown.
- The concession rate to calculate the tax liability of the company, with a share capital of RM2.2 million, does not apply to a company that is wholly owned by a company that has an issued share capital of more than RM2.5 million. Many wrongly applied the concession rate of 20% assuming it had a share capital of less than RM2.5 million.

In part (b) for 2 marks, many candidates were able to identify that it was capital expenditure and provided the reasons thereof. The theoretical aspects of taxability of income and deductibility of expenses are important.

Overall this question candidates performed well in the question especially in part (a).

Question Six

This 15-mark question required candidates to compute the income tax computation for an individual who had employment income and rental income derived from outside of Malaysia and other types of income.

This question was generally well answered and candidates were able to make the adjustments appropriately by identifying the employment that is cash and benefit-in-kind (BIK) items. It was evident that those who did not do well in this question were not well prepared for the exam and did not score well.

For a computation question, It should help candidates to show deductible items in brackets especially in view of time constraint.

The following points are to be noted:

- Not claiming the exemption of RM2,000 for the service excellence award
- Combined the leave passage with hotel costs for the family and then claimed the exemption of RM3,000 when the exemption is only available to set off against leave passage and not for hotel costs for family. It should be separated.
- Candidates are advised to indicate for long type questions a bracket for items to be reduced. For example, the donation of RM20,000 was added to the aggregate income.

The overall performance was good.