

Examiner's report

F6 (MYS) Taxation

June 2017

General Comments

There were two sections to the examination 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.

Candidates must always be aware of the relevant tax updates and possess good knowledge of the current income tax and other tax legislation such as certain double deductions that are no longer available and also new deductions.

It was evident that candidates who prepared and focussed on all areas of the syllabus performed well and it was pleasing to note that a majority of candidates appeared to be well prepared for the exam.

Specific Comments

Section A

It was pleasing to note that candidates who prepared by focussing on all areas of the syllabus scored above 15 marks, with some scoring above 20. A good performance in section A helped candidates to achieve a pass overall, when combined with the marks they scored in Section B. A majority of candidates were able to attempt all of the questions in Section A and were able to answer many of the 15 questions correctly.

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

XYZ, a company resident in Country A, provided consultancy services to Data Sdn Bhd, a company resident in Malaysia. To provide these services, XYZ used a pair of consultants who performed the services wholly in Malaysia.

XYZ invoiced Data Sdn Bhd RM20,000 for these consultancy services and RM6,000 for hotel accommodation and RM10,000 for air fares.

What is the amount of tax which must be withheld by Data Sdn Bhd when making payment to XYZ?

- A RM2,000
- B RM3,600
- C RM3,000
- D RM2,600

Answer C is correct.

This was a calculation question on withholding tax on consultancy services and also costs relating to airfares and hotel accommodation.

	RM
Fees	20,000
Airfares	<u>10,000</u>
Sub-total	30,000
Withholding tax 10% 3,000 (option C)	

The vast majority of candidates chose A, which uses the correct rate of withholding tax on only the consultancy fees portion of RM20,000 and not on the air-fares of RM10,000. Withholding tax does not apply on the hotel accommodation in Malaysia of RM6,000.

The other options brings into withholding tax scope all 3 items or on fees and either air-fares/hotel accommodation.

Example 2

TPD Sdn Bhd (TPD) is a goods and services tax (GST) registered business, with a monthly taxable period. On 2 April 2016, TPD made a supply for RM106,000, and accounted for output tax of RM6,000 in its April 2016 taxable period.

TPD received RM21,200 from the customer in May 2016 but, despite having made sufficient efforts to recover the outstanding debt, none of the remaining sum could be recovered by October 2016. The receivable was impaired (written-off) in TPD's financial statements in December 2016.

Which of the following adjustments should be made in respect of this debt for the purposes of GST by TPD Sdn Bhd?

- A** Output tax for the October 2016 taxable period should be reduced by RM4,800
- B** Input tax credit for the October 2016 taxable period should be increased by RM4,800
- C** Input tax credit for the December 2016 taxable period should be increased by RM4,800
- D** Output tax for the December 2016 taxable period should be reduced by RM4,800

Answer B is correct

This is a question on the timing of the adjustment following debt being written off, and whether it would be an output or input adjustment. Answers were spread fairly evenly over answers A, B and D, perhaps suggesting that not many candidates knew this and guessed at the dates.

It is an important area and it requires an unusual adjustment of input tax adjustment, increasing input tax credit.

Workings

	RM	RM
1 st transaction	100,000	6,000
2 nd transaction	<u>(20,000)</u>	<u>(1,200)</u>
Remaining sum	80,000	4,800

Taxpayer submits its GST returns on a monthly basis.

The amount was due in October 2016 taxable period and the input tax should be increased.

Section B**Question One**

This 10-mark question focussed on Real Property Gains Tax (RPGT), comprising both computational and theoretical aspects.

In the first part of the question for 2 marks, candidates were tested on the 'once in a life time' private residence exemption for a husband and wife who were Malaysian citizens owning a property. Candidates were able to state the rules and identified the appropriate floors that were used as a residence and that it was not applicable for the floor that was not used as a residence. However, there was an update in the law relating to a married female individual who can still enjoy the private exemption after marriage. Many were not aware of this update and stated incorrectly that the wife cannot claim the exemption after marriage.

In the second part of the question, candidates did well in computing the chargeable gain and the schedule 4 exemption and tax payable and also the basis of apportioning to determining the exempt portion.

Candidates can score marks by making deductions from the appropriate headings such as permitted expenses and incidental costs against disposal consideration. Also, when there is an addition to the acquisition consideration for say, stamp duty paid, then the amount will be increased by the stamp duty. Candidates must take note of the current provision and keep abreast of updates as tax legislation is updated frequently.

In part (b) candidates did not perform well. The question focussed on the RPGT implications on a goods and services tax (GST) portion of an expense. This requirement was for one mark and required candidates to identify the situations when an expense which includes a GST portion from a RPGT (RPGT 1976 Act (as amended)) perspective. Candidates explained the GST implications under the GST 2014 Act. Although interrelated, the implications are that if a person incurring is not registered for GST purposes or is a GST registrant and is not allowed to claim, then the GST portion can be claimed. This has been in force from the time GST was implemented, i.e. in April 2015 and cannot be considered a new area but is an important area

Question Two

This 10-mark question tested balancing allowances and the computation of capital allowances (CA) including industrial building allowances (IBA) and was generally well answered. In part (a) which was on balancing adjustments arising from the disposal of an asset. Candidates must take note that a balancing adjustment arises when the residual expenditure / tax written down value is more than the disposal price/value. Generally, when details of an existing asset are given, a check can be made to see if the residual expenditure is provided and therefore, there is no need to re-calculate the residual expenditure.

In part (b) candidates identified that when computing the annual allowance, the residual expenditure or tax written down value balance has to be checked to see if the amount is below the annual allowance amount. Most of the candidates were able to identify that the amount was not lower and claimed the lower amount accordingly. In respect of non-commercial passenger motor vehicles, the maximum amount of qualifying plant expenditure (QPE) is RM50,000 and in certain cases, subject to meeting conditions, can be increased to RM100,000 but will not be the actual cost incurred if it is more than RM100,000. Many were aware of the 10% rule for site

preparation costs for installing plant and machinery and it is important to provide the full basis of stating the costs that form part of QPE.

Overall, candidates performed well in this question.

Question Three

This 10-mark question was on Goods and Services Tax (GST). Almost all the candidates answered the question well and it is pleasing to note there has been an increase in awareness and understanding of GST, which is one of the few taxes which impacts every consumer (including candidates). Part (a) was made up of five parts totalling 8 marks.

The following points should be noted:

- There are issues to consider when a taxable person making a supply such as a gift to a staff as to whether the goods were bought from a non-GST registrant and in certain cases, such as a supply, it does not matter whether the goods are bought from a GST registrant or not.
- The reverse charge mechanism not only applies to services but also to royalties etc. When discussing a question involving a topic such as GST under the GST Act, candidates must take note that they do not have to discuss any income tax implications such as withholding tax. Many provided explanation on the 10% withholding tax on royalty payments to non-residents which was not applicable.
- It is important to note the difference between exempt supply and zero-rated supply. Exports of products are zero-rated supply with 0% rate and not an exempt supply. It was surprising to see quite a few candidates applying 6% on the export of goods.
- When stating dates, it must be stated correctly such as 31 July 2017 and for taxable periods it is normally from a start date to an end date, such as 1 June 2017 to 30 June 2017. It will not be a single date such as 2 June 2017.

Candidates should note that the due date to submit a GST return is the last day of the month following the end of the taxable period, so the date will either be 30th or 31st or 28th/29th in the exceptional case of February.

In the last part of this question, candidates needed to be aware that a GST registrant can expect a refund within 14 working days if a GST return was done via e-filing and 28 working days if done via manual filing.

Overall, candidates performed well in this question.

Question Four

This 10-mark question covered a few areas of the syllabus. Firstly it asked candidates to determine when rental income can be treated as a business source income for two marks in part (a). This part was not well answered. For rental to be assessed a business source income, it needs to carry out specific services such as maintenance and support services and they have to be carried out comprehensively and actively. It is important to know this as there are additional advantages such as being allowed to claim business losses brought forward.

In part (b) for one mark, it was surprising to see that candidates stated that the due date for a company to file return is within six months when it is within seven months of close of accounts.

Part (c) for seven marks required a tax computation of income from rental of a property held as an investment source. Many candidates were able to state that brought forward business losses were not available for set-off against non-business income such as income under Section 4(d). There were a few who calculated capital allowances even though it was not applicable. Interest expenses are allowed as a deduction against the gross income under the general deduction rule. With a few exceptions, candidates were aware that the advance income

was brought to income tax in the year it was received. Candidates can score marks if they refer to details from the question to see if the property is owned by a company and if so then the scale rates for a resident individual for determining tax is not applicable and that since it is a SME, the concession rate would apply and not the SME rate. Candidates are encouraged to pay attention to details provided in the question to ensure they secure the marks.

Question Five

This 15-mark question was on a company's tax computation for a non-manufacturing company; a marketing company.

This question was well attempted and candidates were able to identify the 'nil' adjustment for deductible expenses and double deduction for the overseas patent registration. Candidates must take note that when adjusting a profit before tax to determine the business source income, income from a foreign source such as gross interest income from an overseas subsidiary would have to be deducted from the profit before tax first and then the second adjustment would be to assess separately under Section 4(c) and state the gross interest income to be nil since it is exempt / not taxable.

For interest income from overdue payments from the local trade is to be generally, assessed as a non-business income and therefore the first adjustment is to deduct from profit before tax and then bring to tax under Section 4(c). Quite a few candidates were not aware of this treatment. Candidates are reminded that income will never brought to tax twice and therefore, an adjustment of adding to profit before tax will not apply.

The following comments are to be noted

- Candidates need to know that the deduction for tax fees are restricted by RM10,000 and secretarial fees by RM5,000 in certain circumstances. But statutory audit fees are allowed in full and a "nil" adjustment was to be made
- For adjustments relating to interest expenses restrictions, it will be the interest expense that was charged in arriving at the profit before tax that needs to be adjusted and not the principal amounts as they do not impact the profit before tax.
- Many were able to apply the conditions for the adjustment relating to the acquisition of proprietary rights and correctly did not claim any portion of the amount of RM200,000 since one of the conditions requires the claimant to be a manufacturing company. Knowing the conditions for a claim for single and double deductions would ensure that full marks can be obtained when applied.

The next part of the question was for three marks and covered the income tax implications on a GST portion – when the GST portion can be claimed from an income tax perspective. This part was not well answered.

Candidates explained the GST implications under the GST 2014 Act (as amended) when the question was testing the income tax implications. Although interrelated, the implications are that if the person incurring is not registered for GST purposes or is a GST registrant and is not allowed to claim, then the GST portion can be claimed. This area is an important area. Few candidates explained the registration rules under the GST act.

Candidates need to be aware that there are different implications when a transaction is undertaken. For example, when a company is a GST registrant and incurs a purchase with GST for its business, the GST registrant can make a claim under the GST Act. This does not mean that there are no other implications. There could be the issue of whether a claim can be made for the GST portion for income tax purposes, which would be based on the Income Tax Act, 1967 (as amended).

Question Six

This 15-mark question required candidates to compute the income tax computations for a resident individual with employment income and dividend income from a foreign source for 12 marks in part (a) and another two marks were available for the calculation for a non-resident individual in part (b).

Part (a) was reasonably well answered. Care must be exercised to determine the number of months the individual worked to ensure maximum marks. Candidates should refer to the table of rates if they are unsure of the amount of reliefs / rates which have been amended such as the child relief for a child above 18 years of age who is studying full time in a university is RM8,000 and not the previous relief of RM6,000. Candidates also need to know that certain types of reliefs are allowed up to a maximum amount such as private retirement scheme and not the difference between the amount incurred and maximum allowed.

To maximise marks, candidates must claim the appropriate deduction such as deduction against aggregate income in arriving at total income and not against total income in arriving at chargeable income. Reliefs are deducted against total income in arriving at chargeable income for a resident individual.

After determining the income tax based on scale rates for a resident individual, the rebates are to be deducted against the amount and not from the chargeable income subject to income tax.

In part (b) the first part where the rate and due date for non-resident director was required, a few candidates were not aware of the 28% non-resident rate for individuals and the due date of 15th of the following month. There was a subsequent amendment whereby the previous due date was 10th, which many were not aware of.

In the second part, a large majority of candidates were familiar with the treatment of a non-resident individual being assessed to tax and a flat rate was to be applied on the gross income and almost all candidates were of the correct treatment.

Overall candidates performed well in this question.