



Examiner's report

F6 (MYS) Taxation

March 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 keep abreast of relevant tax updates and must have a good knowledge of the current income tax and other tax legislation which applies to the exam they are sitting.

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

James is a shopkeeper and is registered for goods and services tax (GST). He acquired 20 units of cleaning detergent for a total cost of RM2,120, inclusive of GST of RM120. Thirteen of the units were intended for resale and thus held as inventory; five of the units were intended for James' personal use and the remaining two units were intended for cleaning his shop.

What is the amount of the input tax credit James is entitled to claim in respect of the acquisition of the cleaning detergent?

- A. RM120
- B. RM90
- C. RM78
- D. RM108

Answer B is correct.

20 units were acquired at RM100 per unit.

| Units | GST |
|-------------------------------|------------|
| Total 20 units bought | 120 |
| 13 units for inventory | 78 |
| 2 units for cleaning the shop | <u>12</u> |
| Total for business use | 90 |
| 5 units for personal use | 30 |

A claim for an input tax credit is allowed if the purchase is for business purposes and this includes purchases for own business use. The purchase of the inventories (13 units) and the purchase for cleaning the shop (two units) is therefore allowed and the total input tax credit claimed is RM90.

Candidates might have erroneously assumed that the two units acquired for cleaning the shop were for non-business purposes and therefore selected option C (RM78) believing that only an input tax credit for inventory could be claimed.

Example 2

On 1 June 2016, Azizul was promoted to the finance director of Prima Bhd. From this date, a motor car was assigned to him. This motor car was acquired by Prima Bhd seven years ago for RM400,000.

What is the value of the taxable benefit assessable on Azizul in respect of the motor car?

- A. RM21,250
- B. RM12,396
- C. RM6,198
- D. RM10,625

Answer C is correct.

To answer this question it is necessary to take into account the following:

- i) the cost of the car;
- ii) the age of the car; and
- iii) the period for which the car was provided to the employee during the basis period.

The prescribed annual value of the car is RM21,250 as given in the tax rates and allowances table. Since the car is more than five years old, the value of RM21,250 must be reduced by 50% and then pro-rated as the car was only provided to Azizul for seven months of the year ($RM6,198 = RM21,250 \times 50\% \times 7/12$).

Many candidates did not take into account the fact that the car was only provided to the taxpayer for part of the year and so selected option D.

Section B

Question One

This 10-mark question was on goods and services tax (GST), comprising both computational and theoretical aspects.

In the first part of the question for six marks, many candidates were able to determine the output tax and other related information, displaying a sound understanding of the basics of GST. There were some candidates who were not aware that the output tax on the sale of a fridge, the consideration for which consisted of the trade-in open market value of an old fridge and some cash, was calculated on the total consideration and not on the cash portion alone.

The taxable period is an important concept and in this case the taxable period was from 1 September to 30 September 2016. Careful attention must be given to the details in the question, such as the annual sales turnover, in order to determine whether it is a monthly or quarterly taxable period. Candidates are reminded that they are not required to state their answers to two decimal places. Instead answers should be rounded up to the nearest RM as stated in the supplementary instructions at the beginning of the exam.

Candidates performed well in this part.

In the second part for four marks, many candidates were not aware of the GST implications of the issue of a credit note. There were some who explained this well but many were not aware that output tax will reduce for a supplier who issues a credit note and input tax will reduce for the customer receiving the credit note.

Candidates are reminded to answer the specific requirement. This part of the question required candidates to explain the GST implications, whereas a number of candidates focussed on non-tax implications. Candidates should also note that GST is administered by the Royal Customs and Excise Department and not the Inland Revenue Board.

Question Two

This 10-mark question tested candidates' knowledge of capital allowances (CAs), including industrial building allowances (IBAs). Generally, candidates seemed to be aware that there was no residual expenditure available brought forward to the year of assessment (YA) and therefore, no IBA was available for the current YA. It was good to note that many candidates were aware of the recent updates on the rental of buildings used for research and development (R&D) and that IBA is only available if the person incurring the expenditure is carrying out the R&D activity for its own business. In this case, the owner and person incurring expenditure on the R&D building rented out were not entitled to claim IBA.

The second part of the question was well answered and candidates did well in computing the relevant CAs and IBAs.

Some points to note:

- The fridge was a staff amenity and so eligible for capital allowances.
- Generally, the special allowance for small value assets applies to assets where the qualifying expenditure does not exceed RM1,300. The claim for special allowances for small value assets is restricted to a maximum amount of RM13,000 for each YA. The fridge qualified for this special allowance, however many candidates claimed the normal rates.
- No time apportionment is normally necessary for CAs, although there are a few exceptions. There were no time apportionments necessary for the items in this question.

- Candidates should be careful to apply the correct rates. For example the annual allowance is 3% for IBA and not 10%.

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

Overall, candidates performed well in this question.

Question Three

This 10-mark question was on real property gains tax (RPGT).

The first part of this question was made up of three sub-parts. In part (a)(i), candidates were required to explain the types of expenses which can be claimed in arriving at the disposal price of an investment property. Candidates did well in this question but incorrectly claimed stamp duty, which was to be claimed in arriving at the acquisition price. Candidates were able to score good marks as they provided many examples despite the question asking for one example for each type of expense.

Part (a)(ii) was not well answered and many were not able explain the circumstances in which GST is not deductible in computing the disposal price. Candidates need to be aware that there could be GST, RPGT and income tax implications of a transaction and not just GST. For example, input tax cannot be claimed for RPGT purposes if the person is liable to register and did not do so or if the person was registered and therefore entitled to claim input tax but did not claim it. Candidates must be aware of this perspective.

Part (a)(iii) was well answered with a few exceptions. It required candidates to advise on whether the individual in question should acquire the real property in her own name or in the name of a new company she would set up. Almost all candidates were able to apply the correct concept and advised that she should invest in her own name. Some indicated that it would be preferable to set up a company so that it could rent out the premises and would be able to claim expenses. This point is not related to RPGT, but is more from an income tax perspective which was not relevant here.

On the whole, candidates did well in the first part of the question.

The second part was a RPGT computation for three marks and many candidates correctly spotted that the allowable loss could not be claimed. When calculating the Schedule 4 exemption available for an individual, candidates must be careful to take the higher of RM10,000 and 10% of the chargeable gain (which in this case was RM3,000).

Overall, candidates performed satisfactorily in this question.

Question Four

This 10-mark question was made up of two parts. The first part for eight marks was on the withholding tax implications of contract payments under Section 107A of the Income Tax Act, 1967 (as amended). The second part for two marks required candidates to compute the income tax payable for a non-resident company taking into account the withholding tax deducted at source on payments it received from a company resident in Malaysia.

Candidates did reasonably well in the first part and correctly stated the rates of 10% and 3% of the service portion for contract payments to non-resident companies. The due date for payment of the withholding tax is within one month of paying or crediting the non-resident. When a question requires explanation of the withholding tax implications, the explanation should, for example, cover the nature of the 10% including that the

withholding tax deducted will be set-off against the non-resident's final tax liability and that the withholding tax deducted under a contract payment is not a final tax.

Candidates should note that the withholding tax of 10% and 3% applies on the service portion and not necessarily on the gross contract value. Most were able to state the withholding tax amount correctly.

In the second part many did not claim the withholding tax deducted available for set-off against the tax chargeable to arrive at the non-resident's tax payable.

This question was reasonably well answered.

Question Five

This 15-mark question required the preparation of a company's tax computation. It also included the taxability of compensation income received by a manufacturing company with authorised share capital exceeding RM2,500,000 and an issued share capital of below RM2,500,000.

Candidates did well in the question and demonstrated their knowledge of making the appropriate adjustments and computing a company's tax payable. In this case, the company was eligible for a concession rate and those who paid attention to the details scored marks.

Candidates were not clear of the treatment of two business sources and the use of brought forward losses. A company can have more than one business source and when that situation arises, the sales must be reduced from the profit before tax and brought to tax separately. Likewise, the expenses relating to that business will be added to the profit before tax and then claimed as a separate business source. Following this, any brought forward losses are available against the combined (aggregate) statutory income from the two business sources.

The following comments are to be noted:

- Many candidates disallowed statutory audit fees or only allowed a maximum of RM5,000 when they should have been allowed in full meaning that a "nil" adjustment was necessary.
- Tax filing and GST filing fees are restricted to a maximum of RM10,000.
- Capital gains and exempt income, such as dividend income, were correctly reduced from profit before tax but then incorrectly brought to tax. Some incorrectly taxed these items without making any adjustments. Dividend income is tax exempt in the hands of the shareholders under the single tier system. Capital gains are not subject to income tax.
- Donations are normally disallowed and adjusted by increasing the profit before tax. Subject to meeting the required conditions, they are then allowed a deduction.
- The acquisition of proprietary rights can have different treatments and it depends on the scenario given in the question. In this question, the claim should have been made based on 20% of the cost shown. There was no need to disallow the difference or add back the amount because in this scenario, the cost had not been charged to the income statement.
- The concession rate was to be applied.

In the second part for two marks, quite a few candidates were able to identify and provide reasons to justify that the compensation income received was taxable income. It is important that in order to discuss the taxability or otherwise of a receipt candidates do not confuse income with an expense. Some candidates did this and incorrectly discussed deductibility.

Generally, candidates performed well in the question especially in the first part.

Question Six

This two-part 15-mark question required candidates to prepare an income tax computation for an expatriate individual with employment income, rental income from a foreign source and a current year adjusted business loss, also from a foreign source.

Candidates performed well in the first part of this question requiring an income tax computation for 12 marks. Candidates are reminded to read the details provided in the question, such as the number of months the taxpayer was employed during the year of assessment. Some candidates were not aware that when an employer reimburses a driver's wages to an employee who engages the driver, then it is assessable under Section 13(a) and not as a benefit in kind (BIK) under Section 13(b). This distinction is important.

Candidates must keep abreast of changes in the tax law and it was pleasing to note that many were aware of the parent relief and the conditions to claim the relief. There were, however, some candidates who assumed that the relief was available without considering whether the conditions were met or not.

The following points should be noted by candidates:

- Foreign source income is not taxable and adjusted losses arising from an overseas business cannot be claimed.
- Special allowances received overseas that relate to employment in Malaysia is derived and therefore, taxable in Malaysia. Quite a few assumed that it was not taxable since it was not paid in Malaysia.
- Candidates should refer to the reliefs in the tax rates and allowances table provided at the front of the exam.

Overall candidates performed reasonably well in this question.