

Examiner's report

F6 Taxation (MYS)

December 2013

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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 question 4 and 5 was for 15 marks and 10 marks respectively.

Most of the candidates performed well and many of them attempted all the questions. There were a few who scored high marks and demonstrated that they were well prepared.

Candidates performed well in questions 1, 2 and parts of 3, 4 and 5. Their performance was satisfactory for parts of questions 3, 4 and 5.

Some common issues were:

- Answer each question on separate sheets and shade the question number for each question
- Aware of the format of the tax computation and order of set-off and ensure that the deductions are made at the correct levels of income
- Adjust each item of expense shown in the analysis as shown in the notes for full marks. Ensure that the format of the tax computation for income tax and real property gains tax is correct and aware of technical descriptions and order of set-off
- Refer to the table provided and apply the appropriate reliefs and deductions
- Familiar with appropriate single and double deductions
- Aware of the latest exemptions available for benefits-in-kind as per syllabus guide.
- Need to indicate for each income and expense item separately even if no adjustment is required.

Specific Comments

Question One

This 30-mark question tested on the tax computation for resident individuals, Josh, who derived employment income and his wife, Susan, who derived interest income and rental sources of income. The question tested on the tax computations under separate assessments for each individual and joint assessment and required an explanation as to whether they should opt for separate joint assessment.

Part (a) required computations of income tax payable for Josh and Susan if they are assessed separately. Most of the candidates did well in this question. Part (b) of the question required the computation of income tax payable if they elected for joint assessment and part (c) of the question required whether they should elect for separate assessment or joint assessment. These two parts were satisfactorily done.

A majority of the candidates performed particularly well in part (a) and were able to compute the chargeable income and income tax payable for Josh and Susan and were able to identify the income and benefits-in-kind and appropriate reliefs.

Many candidates presented their answers in a columnar format for Josh and Susan and again this has helped them to produce clear and concise answers which covered both parts of the requirement.

Candidates must be aware of the current exemptions such as the housing interest subsidy and the formula to calculate the exemption from the amount subsidised. Many were not aware of the current exemptions including mobile phone under the employee's name and the monthly bill for the phone.

The correct order of set-off and technical descriptions is important including those items under the category of benefit-in-kind.

The different types of claim for donations such as those subject to a restriction of 7% and those that can be claimed in full are important or up to a certain amount. Candidates should also indicate the restriction such as 7% of aggregate income applicable for individuals to secure the marks, where appropriate,

Candidates did not correctly apply the scale rates for resident individuals and some of them applied to the flat rate of 26% applicable for non-resident individuals.

Other points to be taken into account are:

Candidates need to be aware that leave passage for overseas trips paid by the employer is subject to an exemption of RM3,000 for each calendar year and not based on the number of trips undertaken during the year. Some candidates had determined the exemption based on the number of trips. .

- Candidates should be familiar with the different types of exemptions that are available for royalty income. Many were not aware that the royalty income from discs and tapes was entitled to an exemption amount of RM10,000.

In part (b) of the question, candidates were required to identify whether the interest income was taxable. Many did not assess the interest income as taxable as the interest income did not arise from investment in fixed deposit from a bank or financial institution. Many correctly identified the revenue related expenses that were claimable against rental income except for interest expense on loan, which was treated as a non-deductible expense. Many did not claim the rebate available for Susan under a separate assessment where the chargeable income did not exceed RM35,000. Some had claimed the amount of rebate of RM800 which is available for joint assessment. Quite a few had deducted rebate from chargeable income instead of the income tax chargeable.

Part (c) of the question was not satisfactorily answered. The question required to explain whether Josh and Susan should opt for separate or joint assessment. Many had simply stated their choice. Candidates should provide explanations by referring to the factors that gave rise to their choice such as claim for self-relief and book relief under separate assessment.

Question Two

This was a 25-mark question on company taxation where the requirement was to determine the chargeable income and income tax payable of a manufacturing company, Eco Hijau Sdn Bhd.

Generally, most of the candidates performed well in this question. Candidates must be able to identify the types of expenses which are available as single and double deductions.

Candidates must be aware that unutilised capital allowance is available for the same source as it is source-specific. Many were not aware that unabsorbed losses brought forward from a business source are available for set-off against statutory income from any business source. Many did not claim the brought forward losses from the tile business against the statutory income from furniture business. The order of set-off and technical descriptions are important.

A few points to note would be:

- Many candidates were not aware that the interest income from a loan advanced to a subsidiary and deposit forfeited is non-business income and has to be reduced from profit before tax. Many did not assess the interest income and instead treated as exempt income.
- Foreign exchange loss from trade transactions is allowable and nil adjustment was required. Many had also not deducted trade related foreign exchange gain as it was not realised.
- Candidates must identify each expense item and adjust accordingly. Candidates must separately adjust the retrenchment expenses separately to gain marks. Candidates must not round up any amount. Many had rounded the capital allowances from furniture business amount of RM3,300,600 to RM3,301. Candidates must state the amount of RM3,300,600 or if stated in thousands, RM3,300.6
- Candidates must differentiate the current year provisions and amount written off with the brought forward and carry forward balances. Many had adjusted both the current year provisions and the brought and carry forward balances.
- Some candidates had claimed the incorporation expenses for a subsidiary with a paid-up share capital not exceeding RM2,500,000 and some had claimed double deductions. They were not aware that it is not an allowable expense for Eco Hiau Sdn Bhd.

Candidates should be aware of type of expenses are eligible for single and double deductions. Many were not aware that expenditure relating to social responsibility is eligible for a single deduction. Candidates should differentiate with those expenses which are allowed in arriving at adjusted income, thus not requiring any adjustment, i.e. where a nil adjustment is sufficient. There are some types of expenses that had to be disallowed in arriving at adjusted income and claimed against the aggregate income. Many were not aware of double deductions available for samples for promotion of expenses and also for allowances for approved training for trainers and allowances for trainees..

- Candidates must read the details provided in the question as this can save time. Many candidates proceeded to compute the residual expenditure / tax written down value for the motor vehicle disposed of during the year of assessment, which was not necessary as it was provided in the question. Candidates must restrict the disposal proceeds for non-commercial passenger vehicles.

Generally, candidates performed well in this question.

Question Three

This 20-mark question tested on calculation of agriculture allowances and capital allowances for mould machine and qualifying building expenditure for a factory building. Candidates demonstrated that they were well prepared for the question on agriculture allowance and this has enabled them to secure marks by focussing on all parts of the syllabus. Many candidates scored high marks in the agriculture allowance question and industrial building allowance. The question on capital allowance on mould machine was not done well.

In part (b) candidates were required to calculate for the excessive difference for a company under self-assessment system and many candidates did well in this question.

Points to note were as follows:

Candidates were able to determine the appropriate rates for the amounts incurred for agriculture allowance except for a few who did not know that expenditure relating to the clearing and preparation of land was entitled to agriculture allowance and the expenditure relating to the land.

- Most of the candidates did not know that alterations made to building was part of qualifying plant expenditure and not subject to the 10% restriction or 75% which is relating to preparation to land.
- Candidates must read the requirement of the question and answer accordingly to secure the marks. There were a few candidates who identified each item of expenditure which qualifies for industrial building allowance without stating the amount of expenditure.
- Candidates must focus on all areas of the syllabus. There were many candidates who did not attempt question of capital allowance and self-assessment system.
- Candidates should read the note to each question. Candidates proceeded to compute the industrial building allowance when it was not required.

Question Four

Question 4 for 15-marks was on real property gains tax (RPGT) in part a) and on withholding tax in part b).

Part a) i) tested on the reporting requirements for RPGT and candidates need to correctly state the due dates and the parties who are required to report them. Many identified only the acquirer as requiring to submit the forms relating to the RPGT transaction whereas both the disposer and the acquirer are required to submit RPGT forms and many stated the 30 days instead of 60 days.

Part a) ii) required the computation of RPGT and a majority of candidates were familiar with appropriate items of expenditure that should be deducted from disposal consideration and adjustments to the acquisition consideration. Candidates must be aware that exemption under schedule 4 is only applicable for disposers who are individuals and is not available for companies.

Points to note are:

- Candidates must correctly claim the types of permitted expenses and incidental expenses that can be claimed against disposal consideration and the types of which expenses costs that will increase acquisition consideration to secure full marks.
- Candidates must indicate by the use of word “nil” for any entry which does not require any adjustment entry to secure marks.

Part b) to the question was on withholding tax and many were not aware that the due date to remit the withholding tax to the Inland Revenue Board is within one month of date of paying or crediting the non-resident. Many candidates stated that the due date is within one month of the date of invoice or within 30 days of date of paying or crediting the non-resident. This question was satisfactorily done.

Question Five

This 10-mark question was on service tax and sales tax. In part a) i) there were quite a few candidates who were not aware of the appropriate thresholds of annual sales turnover for consultancy and management services. In part a) ii) few were aware of the circumstances a taxable person must surrender a service tax licence and poorly done. Part (b) i) on sales tax payable and most of the candidates did well. Many candidates were able to calculate the sales tax penalty and this part of the question was satisfactorily done.



Candidates who focussed on all parts of the syllabus were able to secure passes and for some scored high marks.

Overall, the candidates performed well in the exam.