

Examiner's report

F6 Taxation (MYS)

December 2014



General Comments

The examination consisted of five compulsory questions for a total of 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.

Almost of all the candidates attempted all questions and there was no 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 knowledge due to focussing on only certain parts of the syllabus during the course of their studies at the expense of others.

Candidates performed well in questions 1 (a), 2 (a) and 3 (b), 4 (b) and 5. However, there were certain parts of both questions 1 (a) and 2(a) that were less well answered. In addition, many candidates appeared to struggle with questions 3(a) and 4(a)(iv).

A number of common issues that arose in candidates' scripts were noted as follows:

- Failure to show separately the adjustments required for each item noted in the question
- Failure to take into account the number of months the employee was actually employed in the case where there was leave pay and for determining the benefit-in-kind.
- Failure to identify the nature of the transaction – for example, an interest income adjustment should be a deduction from the profit before tax in arriving at the adjusted income and not an add-back.
- Failure to start each question on a separate sheet.

Specific Comments

Question One

This 30-mark question was based on a manufacturing company, Space Tech Bhd (ST) and tested candidates' ability to compute the company's chargeable income. The company also had some non-business income in the form of interest income and a gain on disposal of an investment property.

Many candidates performed well in this question.

Many candidates demonstrated a good level of knowledge of the corporate tax computation and many candidates showed workings for each item referred to within each note to the question (as asked to in the question requirement). This is good exam technique and is the approach which all candidates are recommended to take.

However, there were some common mistakes made. In a corporate tax computation question candidates should adjust an item based on the value that is included in the profit before tax. Some candidates made errors here and, for example, adjusted for the amount of the loan rather than the interest income. Similar mistakes were made in respect to gains arising from disposal of investments. Here, it is the gain on disposal which required to be deducted from profit before tax and not the disposal proceeds or cost of the investment. Additionally, some candidates added back the gain rather than deducting it.

Some candidates demonstrated knowledge of the rates of the double deduction for expenses incurred in relation to export promotion (the rates for accommodation expenses are RM300 per day and for sustenance expenses are

RM150 per day). However, many candidates disallowed the difference between the amount incurred and the amount allowed for double deduction. Candidates should be aware that the impact of a double deduction is to reduce chargeable income although in some cases (as here) the double deduction will be restricted to a certain amount.

Many candidates were aware that there was special deduction available for the purchase of proprietary rights of 20% per year. The correct approach was for candidates to add back the full amount charged to the profit or loss account in respect of the purchase of the proprietary rights (including associated legal fees) and then allowed the 20% deduction. Some candidates instead added back the net amount of RM280,000 (RM350,000 – RM70,000) and this was also acceptable.

Candidates should understand that where any item is subject to special tax reliefs it should meet the necessary requirements. For example in the case of scholarship expenses, only scholarships for local university qualify for double deduction and not those for foreign universities.

Candidates should also appreciate that the write-off of inventories is an allowable expense (resulting in a nil adjustment in the tax computation) as this expense meets the requirements under the general deduction rules.

As noted earlier, candidates should ensure they maximise their marks by showing all adjustments for each item separately. For example, when calculating the adjustment relating to foreign exchange, the foreign exchange losses were non-trade in nature and thus disallowable. Therefore, they should have been added back in arriving at the adjusted income from a business source. Even if the candidates were not sure of the treatment of the unrealised exchange gains, they could still have obtained the marks for calculating the correct adjustment in respect of the exchange losses.

Lease rentals payments are subject to restriction and the majority of candidates were aware of the treatment for commercial and non-commercial vehicles. However, many candidates applied the lease rental restriction to the van. In addition, some candidates incorrectly calculated capital allowances for those vehicles which were leased or hired. Candidates should appreciate that a company can either acquire the vehicle (in which case capital allowances will be available) or lease it (in which case a lease deduction will be available). However, the same vehicle will not be subject to both the lease rental restriction and capital allowances.

In part (b) of the question, candidates must be able to state the required conditions or any other theoretical aspect in support of their calculations. Therefore, candidates should be prepared to answer questions on the basis of deductions for expenses and the basis of taxability of income. Generally, this part of the question was not well answered.

The following points were noted:

- Deductions must be made against the appropriate category of income. Candidates must ensure that, for example, adjustments for capital allowances are deducted from adjusted income
- Where there are current year losses arising from a partnership, candidates must only take into account the share of partnership losses and not the full amount.
- Candidates are generally aware of the treatment of small value assets where the amount is disallowed in arriving at the adjusted income and a 100% annual allowance is claimable from adjusted income.
- Candidates are reminded to show by their workings how they arrived at their answer – for example, for sundry expenses where there were two expense items contained within the note, marks will be available for correctly dealing with each adjustment.

Question 2

This was a 25-mark question comprising two parts. Part (a) (i) tested employment income derived by a resident individual, Mathen, for a period of 11 months and leave pay for a period of 3 months where his employment would cease on 28 February 2015. Effectively his salary was for 11 months and leave pay for three months. Part (a) (ii) of the question assessed the income tax payable by Anu, a divorcee who Mathen was planning to marry in 2015 but was not married to yet in 2014. Part (b) of the question tested the treatment of leave pay if Mathen made an election to assess it on a received basis.

Candidates generally, answered part (a) of this question well. Candidates should have read the requirement carefully to note that it stated that Mathen had not made an election in respect of his leave pay in part (a). This should have indicated that the salary for 11 months and leave pay for period of 3 months would be assessed in the year of assessment 2014.

Some candidates failed to read the question sufficiently carefully and consequently calculated the benefits in kind for the car and driver benefit for the full year rather than just 11 months. Other candidates incorrectly claimed a deduction for the golf club entrance fee repaid by Mathen to his employer. However, this was ineligible for a deduction.

Other candidates were not aware of the tax treatment of the withdrawal from the unapproved provident fund scheme. Candidates were required to know the treatment of both the employers' and employee's portion.

The majority of candidates were aware of the RM20,000 exemption in respect of the royalties from Mathen's musical composition. However, candidates should not that such income is assessable under non-employment income as income derived from royalties

A few candidates incorrectly claimed a deduction for the medical expenses in respect of Mathen's uncle.

A few points for candidates to note include:

- A few candidates used out-of-date personal reliefs (for example, self relief and child relief), despite the fact that this information is given to candidates in the exam. Candidates should ensure that they are familiar with the information provided in the tax rates and allowances at the front of the exam paper
- Candidates should read the question carefully. Many candidates incorrectly assumed that Mathen and Anu were married during the year of assessment 2014, despite the question being clear that they would not marry until 2015.

Part (a) (ii) of the question was well answered. However, many candidates incorrectly assessed the proceeds from the endowment insurance policy as income subject to income tax. Candidates should also note that the adjusted loss from Anu's business should have been deducted from aggregate income in arriving at her total income. Many candidates showed the current year loss from business but omitted to claim the loss.

Many candidates appeared to struggle with part (b) of the question as they appeared unsure of the effect of the election in respect of Mathen's leave pay.

Question 3

This 20-mark question comprised three parts on capital allowances and industrial building allowances for a company, Roda Sdn Bhd. In part (a) of the question, candidates were required to provide the circumstances in which a service centre workshop will qualify as a factory for the purposes of claiming industrial building allowances (IBAs). Many candidates confused a workshop with a warehouse and mentioned the 10% rule and 75% rules. Candidates need to be aware of the main types of buildings that qualify as factory including a service centre workshop. This part of the question was generally not well answered by the majority of candidates.

Part (b) of the question, by contrast, was reasonably well answered. The majority of candidates knew the correct treatment of the installation costs and the 10% rule which applies for the purposes of a claim as qualifying plant expenditure and the 75% rule which applies for the purposes of a claim as qualifying building expenditure. However, some candidates correctly treated the installation costs of RM250,000 as part of the qualifying building expenditure but, nonetheless, incorrectly claimed an initial allowance of 20% and an annual allowance of 14% (the capital allowances rates which apply to qualifying plant expenditure).

Most candidates were aware that road tax and insurance are not qualifying capital expenditure for capital allowances purposes and can instead be claimed as revenue expenditure.

Candidates should be aware of the treatment of hire-purchase assets. There were some who did not apply the restriction of RM100,000 to the car although the on-the-road price of the car did not exceed RM150,000.

In part (c), candidates were familiar with calculation of the balancing charge or allowance on the computer assisted design software system. Candidates must be aware that the disposal of assets within two years of the date of acquisition is based on the actual date of disposal and not the year of assessment. In this question, many knew that the disposal was not within two years' of acquisition.

Performance in parts (b) and (c) of this question was generally satisfactory.

Question 4

Question 4 was made up of two main parts for a total of 15 marks. Parts (a)(i), (ii) and (iii) examined withholding tax. In part (b), candidates were tested on the residence status of an individual and this involved consideration of all four rules to determine the correct residence status.

Candidates are reminded that tax compliance and administration rules are important aspects of taxation and the F6 (MYS) syllabus.

Many candidates were aware of the withholding tax due dates and the consequences of non-compliance with the withholding tax requirements in part (i) to (iii) of the questions and answers to these parts were generally satisfactory.

Part (a) (iv) of the question was generally not well answered as many candidates appeared not to know the rules relating to the amendment of a tax return after it has been submitted. This is a relatively new area. Candidates must be aware of the recent developments and updates in the tax legislation and as provided in



the relevant examinable public rulings and guidelines. Candidates are reminded that a list of the examinable legislation for F6 (MYS) is published on the ACCA website for each session under “Examinable Documents”.

Part (c) tested the determination of the residence status of an individual, Mr Xuan. This part of the question was very well answered by the majority of candidates. Candidates performed well as they supported their answers with reasons, as requested in the requirement.

Question 5

This 10-mark question was on the facilities available to a licensed manufacturer to acquire materials free of sales tax and the calculation of sales tax and related penalties.

In part (a)(i), many candidates were aware of the three facilities available and this part was generally well answered.

In part (b)(i) some candidates were able to correctly explain the sales tax implications on products given away free-of charge. In part (ii) many candidates knew the correct tax treatment of imported goods with import duty and could also perform the penalty calculation in part (iii). Therefore, this part of the question was generally answered well.