

# Examiner's report

F6 Taxation (MYS)

June 2013



## General Comments

The examination consisted of five compulsory questions for a total 100 marks. Question 1 was for 25 marks and question 2 was for 30 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.

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

Some common issues were:

- Read the question carefully and answer the question set in order to gain maximum marks
- Ensure you use the appropriate format of the tax computation for income tax and real property gains tax and be aware of technical descriptions and order of set-off
- Apply the appropriate reliefs and deductions
- Be familiar with hire purchase and restriction of treatment of non-commercial vehicles

## Specific Comments

### Question One

This 25-mark question tested on the tax computation for individual, one for a resident individual, Spitz, who had employment income and business source income and the other for a non-resident individual, Ono, who derived employment income.

Part (a) required a computation of chargeable income. A number of candidates performed well in this part of the question. Part (b) and (c) of the question required to determine the resident status of Ono and compute the income tax payable. There were a few candidates who provided explanation on whether the income was derived in Malaysia. Both these parts were also satisfactorily done.

Candidates must be aware that current year loss arising from a business source is available for set-off against aggregate income.

Candidates need to be aware as to what type of donations claims are subject to restriction up to 7% of the aggregate income and what type of donations are restricted up to a pre-determined value.

Many candidates were not aware that they do not have to apply the 7% of aggregate income restriction for the cash contribution for medical facility, where the claim should be made up to a maximum amount of RM20,000 and that contributions – in-kind towards a project of national interest is available deduction but restricted to 7% of aggregate income.

Candidates should clearly indicate in the answer as per the requirement in the question on whether an individual is entitled to a claim for personal relief or rebates or not to order secure the allocated mark.

Other points to be taken into account are:

- Gain on disposals should be reduced from profit before tax as it was capital in nature. Candidates should know that medical expenses and meal allowances provided by an employer are not taxable/exempt.

- Candidates should refer to the table of reliefs and rates and claim accordingly. There were a few candidates who did not apply the correct non-resident income tax rate of 26%.

In part (b) of the question, there were a few candidates who provided explanation on whether the income was derived in Malaysia, which was not required. Candidates must read the question and answer accordingly. In part (c) of the question, candidates were able to correctly state that a non-resident is not entitled to personal reliefs and rebates. Both these parts were well done.

### Question Two

This was a 30-mark question, Part (a)(i) of the question was on company taxation where the requirement was to determine the chargeable income.

Candidates must be able to identify the types of expenses which are allowable and not allowable for tax purposes and the correct claim for donations.

Candidates must be aware that unabsorbed losses brought forward from a business source are available for set-off against statutory income from any business source.

A few points to note would be:

- Many candidates were not aware that the staff training for post-graduate training course was eligible for double deductions. A few were not aware that the contributions can be claimed upto a maximum amount of RM100,000 and excess disallowed. Candidates must be aware of those items which are eligible for special and double deductions.
- Many candidates were not aware that there was not withholding tax applicable for testing for export products.
- Candidates should be aware of the tax treatment of lease rental restrictions for non-commercial vehicles. Some candidates had incorrectly claimed capital allowances on those vehicles. Some had erroneously claimed both lease rentals restrictions and capital allowances for the vehicles.
- Candidates were not familiar with the treatment of general provision for doubtful debts. Many did not claim the amount written –off and written-back by reducing the profit before tax in arriving at the adjusted income.
- Most candidates treated the capital amount of loan stocks as interest income and principal bank borrowings amount as interest expense. Many did not adjust the interest restriction arising from the investment portion.
- Candidates should ensure that they claim the correct restriction of 10% of aggregate of income for cash donations made to approved charitable institutions.

Part (a)(ii) tested on the taxability of compensation received. This part of the question was not well done. Some did not state the grounds why it is taxable such as it did not affect the structure and profit-making apparatus and was for loss of profits and thus revenue in nature. Some had treated as a capital receipt. Part (b) tested on claim for expenses relating to a potential importer expenses.

Overall, the candidates performed well in this question.

### Question Three

This 20-mark question tested on calculation of capital allowances for office equipment and industrial building allowances for a factory building and warehouse building. The question also tested on the balancing adjustment arising from a disposal and was well done. The question also requested for a tax efficient option for the claim of warehouse building.

In part (b) candidates had to provide the responsibilities for a company under self-assessment system and many candidates did well in this question.

Points to note were as follows:

- Candidates did not identify that warehouse building used for storage of goods for import processing and export were eligible for industrial building allowance at the annual allowance rate of 10% and which can be written-off over 10 years.
- Candidates need to be aware that the claim for annual allowances are based on qualifying expenditure and not based on the residual expenditure.

#### **Question Four**

Question 4 for 15-marks was on real property gains tax (RPGT).

Part a) of this question was reasonably done well.

Part b) required a computation of chargeable gain before any exemptions for holding period. Most of the candidates did well in this question.

Points to note are:

- Candidates must correctly claim the types of permitted expenses and incidental expenses can be claimed against disposal consideration and the types of which are expenses costs that will increase acquisition consideration to secure full marks.
- Candidates must be aware that individuals are entitled to claim exemption of 10% of chargeable gain or RM10,000 whichever is the higher. There were many candidates who did not claim the exemption.
- Candidates must read the question carefully. In the notes to the question it was stated that there was no requirement to compute the chargeable gain based on the holding period or take into account any exemption based on the holding period or compute the RPGT. This area will not be examined in F6.

Part (c) to the question was satisfactorily done and some of the candidates were able to advise on the how to minimise the RPGT on disposal.

#### **Question Five**

This 10-mark question was on service tax. In part a) candidates were not aware on how the annual sales turnover was to be determined. A few candidates were not aware of the annual sales turnover limit. Threshold limits are important and candidates should be aware of them. Part (b) was on penalty and was satisfactorily done.

Candidates were not aware of the period within which claimant can apply for a refund for service tax erroneously overpaid in part (c).

Overall, the candidates performed well in the exam.