

Examiner's report

F6 Taxation (MYS)

June 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.

The majority of candidates attempted all questions and generally performance was satisfactory. There was little evidence of time pressure. Where candidates failed to achieve satisfactory marks, it appeared clear that this was due to a lack of preparation or poor exam technique.

Candidates performed reasonably well in questions 1, 2 and parts of 3, 4 and 5. Generally, candidates found certain parts of questions 3, 4 and 5 more challenging.

Some common issues encountered were:

- A lack of awareness that the necessary adjustment for non-tax deductible expenses is to add them back to increase profits whilst the adjustment for non-business income is to deduct it to reduce profits
- A lack of familiarity with the appropriate adjustments for single and double deductions
- A lack of awareness that expenses eligible for double deduction should be deducted from the profit before tax
- A failure to read the question requirement clearly and, as a result, providing irrelevant answers which scored few, if any, marks.
- A failure to show satisfactory workings

Specific Comments

Question One

This 30 mark question was based on a manufacturing company, Kepayang Sdn Bhd (Kepayang) and tested candidates' knowledge of the computation of the company's chargeable income and income tax payable. The company also had another source of rental income that was to be assessed separately.

Many candidates did reasonably well in this question.

Many candidates were familiar with the expenses that were eligible for deduction. Some candidates correctly adjusted the current year provision for royalty correctly but also incorrectly adjusted for the brought forward balances. Candidates must either make adjustments for the current year provision and royalty payments or adjust for the increase in provision but should not make both the adjustments. There were a few candidates who did not realise that payments of royalties to resident persons do not attract withholding tax and therefore, no adjustments were required. Candidates must read the question carefully and make the adjustments appropriately.

In a computation where there is an additional source of income (such as rental income) candidates need to be aware that the rental income must be deducted from the profit before tax relating to the manufacturing business and assessed as a separate source of income. Likewise, the expenses attributable to the rental income should be disallowed by adding them back to the manufacturing business source income and deducting the relevant revenue expenses from the rental income. Many candidates made the appropriate adjustments but incorrectly claimed the brokerage fees, which was an initial expense and thus not tax deductible.

Candidates should adjust and show each expense item separately in order to ensure that they obtain all available marks. For example, foreign exchange losses and gains should be shown and adjusted separately or, if combined, workings should be shown.

Some candidates incorrectly claimed a 20% deduction for the patent registration expenses whereas they were eligible for deduction in full.

Candidates should refer to the public rulings for the appropriate tax treatment of expense such as entertainment expenses. Many candidates were not aware that the cash contribution for the client's dinner was not allowed for tax purposes and had to be added back in full. A few candidates correctly assessed the trade-related foreign exchange gain that was realised in the year of assessment 2013.

Candidates should be aware of the conditions for claiming a special (single) deduction and double deduction and the maximum amounts claimable. Many candidates were not aware of the maximum amount of RM500,000 for sponsorship payments to arts and cultural performances including a maximum of RM200,000 for foreign arts and cultural performance sponsorship. Many candidates were also not aware that the expenses relating to advertising the brand name on the internet was eligible for double deduction.

A few points for future candidates to note are:

- Candidates must read the question carefully and be aware that in order for a small and medium enterprise (SME) company to use the lower tax rate the company's issued share capital should be RM2,500,000 or less (this is not based on the company's authorised share capital).
- Candidates must be careful when they make adjustments in a format where a single column is used and should use brackets for those adjustments to be deducted. This will ensure that the correct marks can be allocated.
- Candidates should be aware that donations to approved institutions must be adjusted first by disallowing the amounts in arriving at the adjusted income before being deducted from the aggregate income where the restriction to 10% of the aggregate income applies. This restriction should be shown. Candidates are referred to the published solutions in this respect.

Question Two

This was a 25 mark question comprising two parts. Part (a) examined employment income earned by a resident individual, Sita, for a period of 10 months during the year of assessment. Part (b) of the question examined the treatment of local and overseas leave passages and hotel accommodation and meals provided to an employee and required candidates to suggest a tax efficient leave passage.

Generally, part (a) of this question was answered well by the majority of candidates. To ensure that maximum marks can be scored, candidates are recommended to show reliefs claimed separately and avoid lumping amounts together where it may be unclear what they have done. For example, child relief for the first child and second child should be shown separately and it should be clearly indicated whether it is relief for the first child or the second child.

Candidates should read the details given in the question carefully. Many candidates incorrectly assumed that the employment was for a period of 12 months.

Many candidates were not aware of the formula to compute the value of living accommodation benefit and some candidates did not realise there was no need to pro-rate the salary as it was for 10 months. Many candidates were not aware that the reimbursement of the maid's salary was assessable as a section 13(1)(a) benefit.

Candidates should be aware that entertainment expenses should be deducted from the gross employment income in arriving at the adjusted income and should not be deducted from aggregate income and total income and are referred to the published solutions in this respect.

A few points for future candidates to note are:

- Candidates must refer to the tax rates and allowances provided at the front of the question paper for the current relief figures. A few candidates did not refer to these rates and instead applied historic relief amounts.

The majority of candidates performed well in part (b) of the question and demonstrated that they were familiar with the tax treatment of local and overseas leave passages and hotel accommodation and meals provided to an employee. Most candidates were able to advise that local leave passage was the most tax efficient.

Question Three

This 20 mark question was split into two parts. In part (a) (i) of the question, candidates were required to provide the conditions and compliance requirements to claim initial and annual allowances. In general, candidates did not perform well in this part of the question.

In part (a) (ii) candidates were required to compute the capital allowances for assets used in the restaurant business. Many candidates did not appear familiar with the capital allowance treatment of linens and crockery and glass dinner plates and mugs. Many candidates computed initial and annual allowances instead of claiming these on a replacement basis. There were a few candidates who did not claim the annual allowance at the rate of 14% and instead incorrectly claimed allowances at a rate of 10%. Some candidates applied the small value assets rules to these assets.

Many candidates were not familiar with the capital allowances treatment of passenger vehicles acquired on hire purchase and claimed qualifying plant expenditure based on the instalments paid without any restriction. Candidates should note that, for a vehicle with a cost not exceeding RM150,000, capital allowances can be claimed based on the qualifying plant expenditure amount of RM100,000. As noted above, many candidates claimed capital allowances based on the instalments paid, which were in excess of RM100,000 and quite a few candidates claimed based on RM50,000. In general, this part of the question was not tackled well.

In part (b), most candidates appeared comfortable with calculating industrial building allowances (IBAs) and the balancing charge. This question was reasonably well attempted although some candidates incorrectly claimed IBAs on the land, which was not qualifying expenditure. In addition, some candidates did not restrict the balancing charge to the IBAs claimed.

Question Four

Question 4 was made up of two parts for 15 marks. Parts (a) (i) and (ii) involved a partnership. In part (b), candidates were examined on the basis periods for a new business and the compliance requirements for real property gains tax (RPGT).

Many candidates demonstrated a good level of knowledge in the partnership question and were able to correctly determine the divisible loss and set off the unabsorbed losses from a business source and current year losses. The current year losses must be set off against aggregate income.

Parts (b) (i) and (ii) tested the basis periods for a new business and commencement of a new catering business. The majority of candidates were able to identify that, since the basis period was for a period of 12 months, the tax basis period would follow the accounting year end. However, not all candidates were familiar with the

process for determining the basis period for a new business. Performance on this requirement was, in general, satisfactory.

Parts (b) (iii) and (iv) tested the reporting requirements for RPGT and candidates were required to state the due dates to file the RPGT returns and the parties who are required to report them. Many candidates wrongly identified the seller as being required to remit the sum retained instead of the acquirer. Candidates are reminded that administration and compliance requirements are an important part of the F6 (MYS) syllabus. Overall performance on this part of the question was unsatisfactory.

Question Five

This 10 mark question was on service tax and sales tax. In part (a) many candidates were not aware of when an exemption from licensing can be obtained for a manufacturer. Some referred to the refund, ring and credit systems which were not relevant to this part of the question. This part of the question was not tackled well by the majority of candidates.

In part (b) only a few the candidates correctly applied the rate of 8% to the total invoice value (inclusive of sales tax).

In part (c) of the question, only a few candidates were able to determine the value of service tax to be remitted to the Royal Customs Department (who some candidates incorrectly referred to as the Inland Revenue Board). Some candidates computed the penalty for late payment of service tax which was not required. However, overall, performance on this part of the question was satisfactory.

Conclusion

Candidates performance overall was satisfactory.

Candidates are again reminded of the importance of studying all parts of the syllabus as part of their exam preparation.