



# Examiner's report

## F6 Taxation (MYS)

### March 2016

#### **General Comments**

There were two sections to the examination paper 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.

#### **Specific Comments**

##### **Section A**

It was good to note that a majority of candidates attempted all of the questions. Candidates preparing for the next examination of F6 (MYS) are advised to work through the specimen exam and sample question discussed here and to carefully review how each of the correct answers were derived. Section A questions aim to provide a broad coverage of the syllabus, and future candidates should aim to revise all areas of the F6 syllabus. Candidates will maximise their chances of success if they focus on all parts of the syllabus during their studies and avoid spotting questions. The following two questions are reviewed with the aim of giving future 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**

XYZ Sdn Bhd carries on two distinct businesses, one of which is continuously loss making. The company also earns rental income of RM40,000 per annum from investment properties.

For the year of assessment 2015, the results of the two businesses were as follows:

Business 1 – a statutory income of RM180,000;

Business 2 – a statutory income of RM0 and an adjusted trading loss of RM10,000 .

Business 2 has trading losses brought forward from previous years' of RM200,000.

**What is XYZ Sdn Bhd's chargeable income for the year of assessment 2015?**

- A. RM30,000
- B. RM10,000
- C. RM40,000
- D. RM210,000

This question involved two separate business sources of income and one rental source. Generally, current year adjusted losses from a business source are available for set off against any sources



income, this means business income and non-business income such as rental income. If any of the business loss for the current year remains unutilised, then it will be available to carry forward against future business sources of income. It is, however, not available against any non-business sources such as rental income. Candidates should have a clear understanding of how and when business losses can be utilised.

The statutory income from business 1 of RM180,000 will be reduced by the brought forward trading losses. The brought forward trading losses are not, however, available for set off against the current year non-business income which is the rental income of RM40,000. In YA 2015, there are two types of business loss available, the current year business loss of RM10,000 and the brought forward loss of RM200,000. The statutory income from business source 1 is RM0. The rental income would form part of the aggregate income which is RM40,000 and against this the current year loss of RM10,000 from business 2 is available for set off. Therefore, the total income and chargeable income is RM30,000.

This calculation can be summarised as follows:

	RM
Aggregate of statutory income (RM180,000 + 0)	180,000
Less: Business loss b/f	<u>(180,000)</u>
Statutory business income	Nil
Non-business income (rental)	<u>40,000</u>
Aggregate income	40,000
Less: Current year business loss	<u>(10,000)</u>
Chargeable income	<u>30,000</u>

The remaining unabsorbed losses of RM20,000 (RM200,000 – RM180,000) will be carried forward to be used against future business income.

The distractors were all based on common errors such as candidates incorrectly thinking that the brought forward business loss could be offset against all aggregate income or, alternatively, incorrectly thinking that either the brought forward or current year loss was not available for offset at all.

## **Section B**

### **Question One**

This 10-mark question covered the topics of the income tax implications to a company of the disposal of land and buildings and capital allowances.

In part (a) of this question for 3 marks, candidates were required to explain the income tax implications on a company disposing of land and a building. Many candidates failed to read the question sufficiently carefully and instead of providing the income tax implications instead provided the real property gains tax (RPGT) implications. This error meant that this requirement was generally not satisfactorily answered.

Candidates are reminded of the importance of reading the requirements with care. A few candidates did correctly identify the issue relating to the balancing charge and balancing allowance but did not explain how these balancing adjustments are arrived at. Some candidates correctly indicated that the accounting gain on disposal would have to be deducted from the profit before tax in arriving at chargeable income as it was capital in nature and thus not subject to income tax.

Part (b) was for 7 marks and required candidates to calculate the capital allowances and industrial building allowances (IBA). This question was satisfactorily answered. Many candidates were able to identify correctly the expenditure which was part of the qualifying building expenditure (QBE) and that the office area was regarded as part of the QBE as well (as this did not exceed 10% of the overall area of the industrial building). To score maximum marks in such a question, candidates should address each item of expenditure separately indicating whether it qualifies for IBA or not.

The question also involved an acquisition of security control equipment. Candidates are reminded of the importance of reading carefully the notes to a question. In this case, the note clearly stated that the accelerated annual allowance rate applicable to the security control equipment was 80%. However, many candidates did not use that rate. Some candidates erroneously did not claim the initial allowance of 20%.

Candidates are also reminded of the importance of careful reading of the details such as the dates in the question. Some candidates calculated the capital allowances for the year of assessment 2014 which was not required by the question. Candidates are reminded that if they provide information which does not relate to the requirements of the question, there will be no marks available for this information. Candidates did reasonably well in calculating the capital allowance on a small value asset and most were aware of the increase in the small value asset allowance of up to RM1,300 for each asset. Candidates are reminded of the importance of being aware of the most up-to-date examinable rates and allowances.

### **Question Two**

This 10 mark question tested the subject of withholding tax where, in part (a) for 5 marks, candidates were asked to explain the withholding tax implications of a non-resident company having a contract in Malaysia. Part 5(b), also for 5 marks, required candidates to calculate the withholding tax and the balance of chargeable income and income tax payable.

Common mistakes encountered on this question were:

- The withholding tax amount was often incorrectly calculated based on 10% of the gross contract value; it should have been based on the service portion of the contract which excluded any plant and equipment and raw materials
- Many candidates stated that the due date to remit the withholding tax deducted to the Inland Revenue Board (IRB) was within 60 days of paying or crediting the non-resident; the correct treatment was actually within one month of paying or crediting the non-resident
- The withholding tax amount claimed was often incorrectly set-off against the chargeable income rather than the income tax when calculating the balance of tax payable.
- Many candidates failed to identify the 3% withholding tax applicable on account of the income tax liability of the non-resident's expatriate employees

Candidates performed better in the numerical part of the question compared with the narrative part of the question.

### **Question Three**

This 10-mark question covered the real property gains tax (RPGT) which was made up of three parts.

Part (a) for 5 marks required a calculation of how an allowable loss is determined. Many candidates were familiar with the computation and, accordingly, performed well. However, some candidates erroneously claimed legal fees as part of the acquisition consideration instead of deducting them as a permitted expense in arriving at the disposal price.

Part (b) for 3 marks required candidates to discuss the RPGT implications in a scenario involving a compulsory acquisition and to consider the buyer's filing obligations. Many candidates were not aware that a transaction arising from a compulsory acquisition by the government was a "no gain no loss"(NGNL) transaction. Candidates must also ensure that they know the administrative aspects of RPGT.

Part (c) for 2 marks required candidates to give examples of circumstances where the disposal price is deemed to be market value. This part was generally not satisfactorily answered.

### **Question Four**

This 10-mark question covered various basic areas of goods and services tax (GST) and was made up of four parts.

Part (a) for 2 marks examined the submission deadlines for a GST return and candidates' knowledge of which government agency administers GST. Many candidates incorrectly answered that it is the IRB that administers GST rather than correctly identifying the Royal Malaysian Customs Department (RMC). Candidates are reminded that GST is now one of the core areas of the syllabus.

Part (b) for 2 marks tested candidates on the taxable periods for GST and was generally well answered.

Part (c) for 3 marks required candidates to provide various responsibilities of a GST registrant. Some candidates did not answer the specific question set and instead gave details of the information which should be provided on a tax invoice and registration details. Aside from this point, this part was reasonably well answered.

Part (d) for 3 marks tested candidates on the calculation of output tax. A large majority of candidates were able to correctly identify the standard rated supplies and zero-rated supplies in order to compute the output tax. This demonstrated that many candidates had the required knowledge of the fundamentals of a GST computation. Accordingly, this part was generally well answered.

The following points are to be noted;

- In a question requiring the computation of output tax, candidates must calculate the output tax. It is not sufficient to just state that it is a standard –rate or zero-rated supply.
- Many candidates erroneously re-grossed the output tax.

### **Question Five**

This 15-mark question was based on a manufacturing company and candidates were required to compute its chargeable income for the year of assessment 2015.

The majority of candidates performed well here. They were able to identify the types of non-business income and the types of expenses that are deductible as a single deduction.

In such questions requiring a tax computation for a company, candidates should understand the tax adjustments such as single and double deductions. Candidates must take note that dividend income is tax exempt. Similarly, interest income from an overseas source should be identified as non-business income which is also tax exempt. Many candidates correctly deducted the interest income in arriving at adjusted income after identifying it as a non-business source but then incorrectly brought it in to tax.

The following comments are to be noted:

- Audit fees are deductible (there is no restriction on the claim to RM10,000)
- Capital allowances are not available on leased assets
- Items such as allowance for inventory obsolescence should be disallowed and added back to the profit before tax.
- Rental income should be deducted from profit before tax in arriving at adjusted income and then the direct expenses should be claimed against the gross rental income.

### **Question Six**

This 15-mark question required candidates to compute the income tax payable by a married couple who did not elect for joint assessment. One of the spouses was an employee and the other was self-employed with business and other types of income.

This question was generally well answered.

When calculating the chargeable income for the employee, candidates should have realised that the donation was not deductible as it was in kind. Similarly, a claim for relief for medical expenses could not be made as it did not meet the criteria (the expenses were paid in respect of a parent-in-law). Many candidates appeared to automatically assume that if details of an expense were provided in the question, relief was automatically available. This was not the case and – in respect of the donation and the medical expenses – the marks were available for identifying that relief was not available.

The question also included details of a long service award. The majority of candidates claimed an exemption of RM2,000. However, the exemption is available only if the employee has service of at least 10 years and, here, the condition was not met.

Other candidates brought into tax the medical benefit as they did not realise that it was exempt.



The other spouse had 2 businesses and received royalty income. Some candidates correctly identified that the taxpayer was non-resident and therefore was not eligible for any personal reliefs or rebates but other candidates missed this point.