

# Examiner's report

## P6 Advanced Taxation (MYS)

### December 2015

#### General Comments

The examination is made up of Sections A and B: Section A with two compulsory questions while Section B consists of three questions, two of which must be answered. Question 1 carries 35 marks, Question 2 is worth 25 marks while Questions 3, 4 and 5 each carry 20 marks.

The vast majority of candidates attempted the required four questions. There was no evidence of time pressure.

Candidates responded well on questions 3 and 4. The question candidates found most challenging were questions 2 and 5.

Below are two observations made with regard to the performance of candidates in this session:

- There was a discernibly lower incidence of merely regurgitating general features of a given technical topic. There is an increase in candidates' applying theory to the given scenario, which is encouraging; and
- Candidates still do not consider the question requirements closely enough before they jump in to respond.

#### Specific Comments

##### Question One

This 35-mark question was based on a family-owned transport company contemplating whether to adopt debt financing or equity financing. Candidates were required to prepare a report to Going Places Sdn Bhd (GP) to advise on the relative tax treatment of each option and to consider the relative tax position of investing in bank deposits or shares.

Part (i) required the identification of the form and quantum of the finance cost under each option. While the form of income was well identified, the quantum was often left unanswered.

Part (ii) pertained to the tax deductibility of various expenses incidental to raising debt/equity finance; the cost of premature repayment of bank borrowings under each option; interest expense; and dividend pay-out. This was reasonably well answered. It was noted that some candidates did not know that a 7% dividend means 7% of the equity capital, not 7% of net profit.

Part (iii) called for an assessment of the impact of each option on the small and medium enterprise (SME) status of GP and the attendant tax advantages of being an SME. This part was well answered.

Part (iv) required an analysis based on the calculation of retained earnings under each option. This was again well answered. A number of candidates still overlooked the best practice of attaching an appendix for supporting computations and are reminded that Question 1 carries professional marks for the presentation of their answer..

Part (v) asked whether GP was in a position to pay out dividends at the promised 7% rate in each of the next three years. Surprisingly, many candidates struggled with this requirement as they did not focus on the cumulative retained earnings.



Part (vi) changed perspective and required candidates to consider the comparative tax position of an individual shareholder looking to either invest further in GP shares or place the money in bank deposits. Only a minority of candidates wrote about the relative, non-tax, risks of investing in shares and in bank deposits.

Generally, Question 1 was reasonably answered by the majority of candidates although there were areas for improvement (as noted above).

### **Question Two**

This 25-mark question depicted a referral of clients from a legal firm who were seeking tax advice on a proposed corporate rationalisation plan. The areas of focus were identified as impact on income streams, carry forward of unabsorbed capital allowances and losses, intra-group transfer of assets, transfer of shares, and post-corporate exercise issues like intra-group payments and group relief.

While not delving into details, this question called on candidates to be circumspect and to be able to form a big-picture view of the rationalisation scheme. This in turn required a comprehensive understanding of fundamental tax principles, rather than rote learning, and applying them to the scenario.

Although there were some candidates who produced highly satisfactory answers, many candidates did not perform well on this question.

### **Question Three**

This 20-mark question tested employee share option scheme (ESOS) from the perspective of the employee as well as the employer. This was well answered and was a popular choice among the candidates.

The calculation of the taxable benefit to the employee was well answered. However, a number of candidates did not answer as well when assessing the proceeds from the subsequent share disposal by the employee.

As for the deductibility to the employer, many candidates did not know that the net cost of treasury shares is deductible because of a specific provision in the Income Tax Act.

Candidates preparing for the P6 (MYS) exam are encouraged to read the technical article “Employee share schemes” published on the ACCA website at the link below:

<http://www.accaglobal.com/uk/en/student/exam-support-resources/professional-exams-study-resources/p6/technical-articles/employee-share-schemes.html>

### **Question Four**

This 20-mark question had two parts.

Part (a) tested the detailed/advanced aspects of the taxation of rental income. The issues included rental received in advance, expenses incurred in the year of cessation of rental, deductibility of expenses during temporary cessation, capital and revenue expenses.

Part (b) dealt with the real property gains tax (RPGT) issues when the rental property was disposed of.

This question was generally well answered.

### **Question Five**

This 20-mark question examined some aspects of tax administration.



Part (a) dealt with issues such as timely and valid appeal against an additional assessment and the statutory time bar. Candidates indicated that, beyond knowing about the 30-day period for an appeal, they did not adequately know what a valid appeal entailed

Part (b) concerned a case of non-submission of a tax return while part (c) called for the determination of the date of commencement of income sources and the duty to provide a tax estimate and revised estimates.

This question was not a popular choice amongst candidates. Those who did choose to answer it did not show a sound knowledge of the relevant issues.

Candidates are well advised not to neglect the area of administration in their tax studies as it is an important component of the syllabus.

### **Conclusion**

In preparing for this paper, candidates must ensure that they fully understand the tax subject matter, and hone their skills in applying the technical rules learned. They must read the requirements carefully so that they understand what is required and answer the question.