



Examiners' report

F6 Taxation (LSO)

December 2007

The examination consisted of five compulsory questions. Question one and two carried 25 and 30 marks respectively. The last three questions each carried 15 marks. The majority of candidates attempted all the questions. For those who could not attempt all the questions, question five was frequently omitted. This was due to a combination of a failure to understand the question requirement, coupled with poor time management.

The overall performance of candidates in this paper was very poor. However, the majority of candidates seemed to be very conversant with the knowledge required to answer the first two questions, (particularly question two). Their performance was affected badly by not doing well in the last three questions, which involved value added tax (VAT), fringe benefit tax (FBT) and chargeable gains and losses arising from disposal of investment assets. It was clear from the way candidates presented their answers that the topics for these last questions were not well revised.

Candidates should give more thought to the presentation of their answers. Answers and computational workings should be clearly labeled. Each answer should always be started on the new page.

Candidates' performance could improve if they would:

- Revise all parts of the syllabus before the examination, including those parts that are likely to be tested in a narrative style
- Attempt all the questions
- Learn to carefully read and understand the requirement of the question
- Show all the workings for computations
- Improve on their time management by practicing past questions under timed, exam conditions

Question 1

This 25 mark question was divided into five parts. The question tested candidates' ability to compute the tax payable of an individual who is engaged in a long term contract.

Most candidates did well in the first part. However a few of them failed to calculate the correct amount of income from the construction operations. Surprisingly, calculation of depreciation allowance using the pooling method seemed to be a problem for most of the candidates. Common errors included taxable profit arising on disposal of business asset, when in actual fact it is unlikely to realise profit under this method.

Furthermore, the adjusted cost base of the asset disposed of was frequently confused with the disposal proceeds thereby resulting in an incorrect depreciation allowance.

Part (b) was a narrative style question. Most candidates misinterpreted the question. They stated the circumstances in which the commissioner may *allow* a carry back of an overall loss, when the question asked the opposite of that. This is the evidence of failure to carefully read the question.

Part (c) dealt with the calculation of pay as you earn (PAYE). Most candidates seemed to be confident with this section of the question, but they did not achieve as many marks as expected. The PAYE for each employee is normally calculated separately. Some candidates failed to pick up a mark for stating a due date of payment for PAYE. This is further evidence of the inability to read and understand the question requirement.

Part (d) was also a narrative style question. Many candidates did not pick up any marks here because of the general tendency to omit this type of question. Candidates need to attempt narrative as well as computational parts to try and secure a pass in the taxation paper.

The last part of the question was about VAT registration threshold. Most candidates achieved few marks because of the way they presented their answers, making it difficult to follow their answer. The majority just mentioned turnover of M500,000. They did not seem to appreciate that the M500,000 should be the annual turnover on taxable supplies.

Question 2

This 30 mark question was on the area of corporation tax. Many candidates scored relatively high marks in this question, especially in the first part.. However, there were still a few candidates who should have been able to gain more marks. Despite the fact that the tax rates were given to answer this examination paper, some candidates preferred to use a different tax rate. This question was not about the manufacturing corporation and therefore had nothing to do with manufacturing income. However, there were some candidates who had manufacturing income in their answers. Stating the due dates of payment for tax installments was also a problem to most candidates. To gain more marks the due date must always have a date, month and year.

Part (b) of this question was not well answered. However, most students seemed to be quite familiar with taxation of branches. There was more confusion with the calculation of reinvested profits and repatriated profits. Some candidates charged 35% on the chargeable income instead of 25%.

Question 3

This question focused on value added tax (VAT) The question requirement was split into almost 50:50 between narrative and computational questions. Most candidates failed to achieve higher marks due to the following reasons:

- The layout of answers for most candidates was not clear
- The taxable values were not well identified as required in the question
- There were candidates who could not differentiate between input and output VAT.
- Failure to attempt the narrative part of the question.

There was a general lack of understanding of the treatment for second hand goods. Most candidates correctly noticed that the supply of M3,400 was from a non vendor and therefore no input VAT to be claimed. However they failed to calculate the correct taxable value. The majority of them treated the sale price of M6,500 as the taxable value instead of M3,100 which was the difference between the sale price and the purchase price.

Question 4

This question dealt with fringe benefit tax (FBT). Although this is an area familiar to most candidates, only a handful managed to perform well. The major contributing factor to poor performance in this question was failure of most candidates to carefully read and understand the requirement of the question. The requirement of the first part of the question was to compute the FBT payable for one month and to state the due date of payment. Instead, most candidates computed the annual FBT payable without apportioning the benefits provided. There were some who provided the tax implications without answering the question. The due date was frequently omitted.

The second part tested candidates' ability to identify the fringe benefits which are treated as part of chargeable income and to recognize the exempt income in the calculation of the individual tax liability. There was much confusion with regard to M1,500 exemption on severance pay. Some candidates deducted it from the gratuity which was wrong. Some rightfully deducted it from the severance pay but stated it as M1,200.

Question 5

The question dealt with gains or losses arising on disposal of investment assets. Only a few candidates attempted this question, partly due to time constraint and also a failure to understand the requirements of the question. For those who did attempt it, their performance was unsatisfactory. It was generally clear from their answers that they are not conversant with the basic aspects involved in this topic.

The question simply tested candidate's ability to determine the correct consideration received (sale price) and the adjusted cost base (ACB) in calculating the chargeable gain/loss. Candidates seemed to be confused as to when to use the market values when determining the sale price or the ACB. Application of the indexation rule also posed a major problem. Some candidates did not notice that some costs were supposed to be indexed to take into account the element of inflation. Part (b) was narrative type of question and, as with other narrative question parts, was frequently omitted.