



Examiners' report

F6 Taxation (LSO) December 2008

This examination paper consisted of five compulsory questions. The first two questions carried 25 and 30 marks respectively. The last two questions each carried 15 marks. Most candidates attempted all five questions though there was clear evidence of poor time management in some cases affecting the last two questions.

The overall performance in this paper was very poor. This was primarily due to most candidates' failure to carefully read and understand the questions. A number of candidates seemed to score good marks in question one and three but continued to show disappointing performance in other three questions. Some of them seemed to omit narrative parts of the questions and thus appearing to be clearly unprepared for the examination.

Performance of candidates could improve if they could:

- Familiarise themselves with all topics covered in the syllabus
- Carefully read and understand the contents of the questions
- Attempt all the questions including the narrative parts
- Improve on their time management

Question 1

This 25 mark question was divided into five parts. The question tested candidates' ability to differentiate between employment income and fringe benefits. Most candidates did generally well in this question.

Part (a) of the question requested candidates to state the four types of income or benefits excluded from the calculation of employment income. This part of the question was frequently omitted and partly answered by most candidates. Some candidates rather provided the types of income exempt from income tax which was quite irrelevant. Again, a majority of candidates seemed to confuse reimbursements from employer to employee which are treated as fringe benefits with those which are incurred by the employee on behalf of the employer for which the employer would be entitled to a deduction. For instance, reimbursements by the employer for cost of utilities such as water, electricity, etc. incurred by employee are normally treated as taxable fringe benefits.

Calculation of tax payable in part (b) of the question was well done. In part (c), the common error was to treat the basic salary as employment income thus resulting in wrong allowable superannuation fund contribution. Employment income means a payment or benefit arising from employment but does not include those types of income or benefits excluded from calculation of employment income, that is, those which were required in part (a) of the question. This means that, in addition to the basic salary, for instance, allowances and commissions are part of employment income.

In part (d), most candidates gained more marks. However, there were common errors which include confusion of loan fringe benefit with debt waiver fringe benefit. On the same note, a number of candidates wrongly stated that there was excessive superannuation fund fringe benefit. This is only applicable in the case of a tax exempt employer, which was irrelevant to the case in question.

The last part of the question was well answered by most candidates. It was only a handful of candidates who misinterpreted the question. Some provided the due date for income tax return. To gain full marks, students were expected to state the due dates for submission of tax returns by employers.

Question 2

This 30 mark question was basically on corporation tax. This was one of the questions in which most candidates failed to pick up as many marks as expected. This is because part (a)iii of the question which carried most marks was asked differently to the standard format, and most candidates seemed not to have read and understood the question. What most of them did was to use the information given and answered what they know about corporation tax.

Candidates were required to reconcile the accounting profit with the chargeable income. However, most of them demonstrated too much confusion as to what reconciliation is all about, and rather re-calculated the chargeable income. They failed to recognise that the correct procedure to get to chargeable income was simply to identify those items which resulted in understatement of chargeable income, such as disallowed expenses, and add them back to accounting profit.

On the other hand, they were to identify those which resulted in overstatement of chargeable income and deduct them. These include the exempt income which was included in the accounting profit and the tax deductible expenses which were not recognized in the calculation of accounting profit. Exempt dividends were frequently identified but some of the candidates failed to recognise that these were already included in the accounting profit, and to get to chargeable income they should be deducted.

There were many who miscalculated the depreciation allowance. They time apportioned the expense despite the fact that the assets were in existence for more than 12 months period. Very often, depreciation for office premises was treated as allowable deduction. This was seemingly without thought as to whether this was a correct tax treatment.

Part (b) of the question was about the allowable expense to companies not principally engaged in money lending business. This was a narrative question and thus omitted by majority of candidates. However, those who did attempt part (b) frequently confused the treatment of overall loss in the case of long term contracts. It is vital to carefully read and understand the contents of the question.

Question 3

This 15 mark question focused on value added tax (VAT). This appeared to be one of the best answered questions in this examination paper. 50% of the marks were allocated for the narrative part and the other 50% for the computations. A number of candidates failed to gain as many marks as they could have, because of the common tendency to ignore narrative questions. There was also a notable confusion of the difference between input and output VAT in some of the answers. Again, the treatment of deferred agreement was frequently confused with the two methods of accounting for VAT, namely, cash and accrual methods.

Question 4

This 15 mark question was divided into two parts. The performance in general was not satisfactory. The first part dealt with the reconstitution of the partnership. Most candidates did appreciate that the transfer of assets to the partnership constitutes a disposal, but majority failed to ascertain the chargeable income as the new partner's interest was below 50%.

The last part of the question was mainly on the self provided superannuation fund. Most candidates recognised that the contributions are tax deductible subject to a certain limit. However, there were many who demonstrated a lack of general understanding of the basic principles involved, which resulted in poor marks. The answers were poorly presented.

Question 5

This 15 mark question was divided into two parts. The first part dealt with withholding tax on the income for both residents and non residents taxpayers. The withholding tax was correctly calculated by most candidates, with the exception of those who failed to apply the correct withholding tax rates. On the same note, most of them failed to recognise that the underlying reason why withholding tax has to be deductible especially on the payments to non residents is to ensure that Lesotho source income paid to non residents should be subject to tax and charged to those non residents.

The last part of the question was on applicable penalties to withholding tax agents who fail to withhold tax in accordance with the withholding tax provisions. Most students displayed the lack of knowledge on that part of



Income Tax Act, which is mainly about offences and penalties. The 3% was mostly used as a penalty in most of the answers.

There were signs of poor time management, and generally the performance on this question was not satisfactory.