



Examiner's report

F6 Taxation (LSO)
December 2009

General Comments

This examination consisted of five compulsory questions. The first two questions carried 25 and 30 marks respectively. The last three questions each carried 15 Marks. Some questions were fully computational while others consisted of both computational and narrative aspects.

The overall performance was very good. Most candidates attempted all the questions and scored good marks. There are some candidates who failed to score pass mark mainly due to failure to carefully read and understand the contents of the questions, and in some cases poor time management.

Presentation of answers still posed a major problem to most candidates. Some answers were not clearly labeled, and in some cases workings were not provided. Candidates should note that in the absence of workings it becomes difficult to ascertain whether the tax treatment of the items which need some working is correct or not.

Specific Comments

Question One

This 25 mark question was divided into four parts. The question in general tested candidate's ability to calculate the tax payable of an individual taxpayer with different sources of income. The performance in general was satisfactory.

Part (a) of the question requested candidates to calculate the chargeable income, and to provide explanation for any exemptions, exclusion and disallowance. This last part of the question was frequently omitted in most answers. Most candidates wasted more time in calculating tax payable which was not part of the question.

Part (b) requested candidates to calculate tax payable. Those candidates who did this part in part (a) appeared to be stuck as to what the question was all about. Rather they recalculated chargeable income thus continuing to waste more time which could have otherwise been used efficiently to answer other questions. The calculation of tax payable was correctly dealt with. However, there was a notable lack of understanding regarding withholding tax (PAYE) paid on employment income. This was not deducted in most answers. Again, the net tax payable appeared to be incorrect in most answers as the result of deducting personal tax credit twice, that is, when calculating withholding tax and total tax payable.

In part (c), most candidates correctly stated that fringe benefits constitute exempt fringe benefits. However, they could have picked up more marks on this part had they mentioned that the cost of providing such benefits also constitutes an allowable deduction to the employer. In addition, candidates should note that what is exempt is exempt fringe benefits not exempt fringe benefits tax as was the case in most of the answers.

In part (d), some candidates misinterpreted the question. Instead of calculating chargeable income of the Public International Organisation (P.I.O), they calculated fringe benefits tax. This is a clear evidence of failure to carefully read the question.

Question Two

This 30 mark question focused on calculation of corporation tax payable by a taxpayer involved in a building construction business. The performance was very good for most candidates. However, there were some candidates who incorrectly treated income arising from this kind of business as manufacturing income.

The question was divided into four parts. Part (a) was generally well answered. There was however a handful of candidates who showed lack of understanding in regard to the set off of instalments paid against advance corporation tax (ACT). In some answers the instalments were set off against dividends paid.

In part (b), candidates were expected to calculate chargeable income not tax payable as some of them did. The income from Government projects was taken to exclude 5% withholding tax and grossed by some of the candidates thereby resulting in incorrect chargeable income. Apart from that, depreciation allowance was incorrectly calculated in most answers. Most candidates seemed to be using a pooling method to calculate the allowance. If the question is silent as to which method of depreciation to be used, single asset method should be used. The taxpayer has to make an election to use pooling method, to the extent that assets to be depreciated are eligible for this method.

In part (c) candidates were expected to calculate tax payable. There seemed to be a lot of confusion in respect of what the question required. Some candidates incorrectly answered this part in part (b), and as previously mentioned they recalculated chargeable income. The main focus was to test whether candidates can take into account the withholding taxes, instalments and ACT paid when calculating tax payable. Notably, candidates failed to recognise that the total instalments paid are set off against the tax liability regardless of whether they were set off against ACT. Most candidates seemed to utilise the remaining two instalments with the understanding that the first instalment was set off against ACT, this was not right.

Question Three

This 15 mark question focused on the value added tax (VAT). The performance was relatively not satisfactory. The question consisted of both computational and narrative questions with a proportion of 50:50 marks allocated between the two forms of questions. The question was divided into three parts. In part (a), candidates failed to pick up as many marks as expected because they couldn't explain the difference between cash and invoice methods of accounting for VAT. Most of their answers seemed to explain the financial accounting differences of the two methods, with no explanation as to how VAT is accounted for.

In part (b), some candidates did quite well. However, some failed to achieve higher marks due to failure to differentiate between input and output VAT. They seemed to confuse the two.

Part (c) was not well answered. Despite the fact that some candidates omitted it possibly because it was a narrative question, most of them wrongly assumed that cash method of accounting for VAT is used by vendors who sell goods and services on cash basis only.

Question Four

The 15 mark question tested candidates' understanding of the principles involved in the taxation for partnerships. The candidates were requested to calculate the notional chargeable income and tax

payable by each of the partners. The performance was fair for most candidates. However, some common errors were noted and these included the following:

- Wrong calculation of the superannuation fund contribution allowable to the partnership
- Failure to deduct allowable superannuation fund contributions in the calculation of notional chargeable income
- Deduction of the loss brought forward in the calculation of notional chargeable income.

Question Five

This 15 mark question entailed some tax planning aspects. Candidates were expected to calculate net pay for two different remuneration packages, and advise the taxpayer of any other factors to be considered before a decision as to which package was more beneficial could be made. Excellent answers were presented in this question. However, there were some candidates who showed a lot of confusion due to failure to read the question.

It has been noted that every time candidates see a question which entails some fringe benefits; they start calculating fringe benefits tax without giving thought as to the requirement of the question. This seemed to be the case in this question.

The calculation for chargeable income was incorrect in some of the answers. Most candidates included only 50% of entertainment allowance in the calculations. They appeared to confuse the said allowance with 50% allowable entertainment expenses. Again, gratuity was often confused with severance payment, as a deduction of M1,500 and M1,200 appeared in most of the answers.

Some candidates appeared not to understand the difference between net pay and chargeable income. They treated chargeable income as net pay; this means that they failed to calculate the tax payable and as such based their advice on the chargeable income instead of net pay.

The last part of this question was a narrative question which was rather open, based on the net pay of both remuneration packages. However, it was frequently omitted by most candidates, possibly due to either a common tendency to ignore narrative parts of the questions or poor time management.