

Examiner's report

F6 Taxation (LSO)

December 2010



General Comments

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

In general, candidates' performance for this examination sitting was not satisfactory. Apparently, the main reason for this poor performance was failure to carefully read and understand the contents of the question coupled with ineffective revision on some topics of the syllabus.

Most candidates seemed to be doing well in the first three questions. However, their overall performance was affected by not doing well in the last two questions which focused on chargeable gains and fringe benefits tax respectively.

Candidates should always revise all parts of the syllabus before the examination and learn to carefully read and understand the requirement of the question.

Specific Comments

Question One

This 25-mark question was divided into four parts. The first part tested candidates' ability to calculate tax payable by an individual taxpayer who has employment income and other sources of income. In general, the performance for this part was satisfactory. Relevant expenses were correctly deducted against their respective income.

However, a number of common errors were identified in most answers. The personal tax credit was frequently granted twice, that is, in the calculation of PAYE and total tax payable. The cost of laptop, instead of its depreciation allowance, was also treated as part of allowable expenses. In most cases, lectureship income was neither annualised nor grossed up. The question clearly stated that the income of M2,104 is a monthly income which is after tax of 35%. Candidates were expected to multiply this figure by 12 months and gross it up. Reimbursement for car expenses was incorrectly treated as part of employment income. At times credit relating to PAYE was often left out in the calculation of tax payable. Candidates could not recognise that a taxpayer is entitled to a credit for any withholding tax already paid when the relevant income is included in the chargeable income.

The second part of this question required candidates to explain the tax treatment regarding the car expenses reimbursed by the employer to the employee. There was too much confusion on this part. While some candidates correctly indicated that business related expenses reimbursed are an allowable deduction for the employer, there were some who incorrectly provided that the said expenses should be part of taxable fringe benefits. This means that they were not aware that the expenses were paid out of income which had already been taxed in the hands of the employee, hence no tax implications to the employee.

The third part of this question required candidates to explain the tax treatment if the expenses were not reimbursed. Most candidates seemed not to understand the question as they provided irrelevant answers. Some candidates who made a reasonable attempt by indicating that the business related expenses would be allowed against employment income of the employee rarely mentioned the tax implication for the employer.

The last part of the question focused on the tax obligations of withholding tax agents with respect to the recording of payments made and remitting tax withheld. Most candidates omitted this part of the question. For those who attempted this part, provision of different tax rates and the dates when monthly withholding tax is

remitted to the Lesotho Revenue Authority (LRA) was common in their answers. Candidates could have scored higher marks had they mentioned the withholding tax agents' obligations within the 28 days after the end of the year of assessment.

On the same note, candidates showed a general lack of knowledge as to how the additional tax payable for the withholding tax agent who fails to remit tax withheld will be calculated. A number of rates were provided and 3% appeared in most answers. The Act provides that additional tax will be calculated at a specified rate, and will be imposed on the amount of tax not remitted and charged from the due date of payment until the tax is paid.

Question Two

This 30 mark question focused on the calculation of corporation tax of a manufacturing company. The question was divided into three parts. In general, candidates did well in this question. However, there are a number of issues which need to be addressed for candidates to improve their performance in future.

The first part of the question required candidates to calculate advance corporation tax (ACT) and state the due date. Only a few candidates failed to score most of the marks on this part. There was a notable confusion in differentiating between qualified and non qualified income which resulted in incorrect calculation of ACT. In most cases the due date for payment of ACT was frequently omitted.

The second part of the question which carried more marks required candidates to calculate corporation tax payable and state the due date of payment. The latter was often omitted or at times confused with due dates for payment of income tax installments. Most candidates scored high marks on this part. However, it is worth mentioning that adjustment of allowable deductions posed a very serious problem to most candidates. Most of them seemed to be confused as to whether to add or deduct the differences to arrive at the correct figure for operating expenses. According to the question, the operating expenses in point 3(i) to (v) were all included in M660,700. To arrive at the correct figure, disallowed expenses should be deducted to reduce the operating expenses given. On the other hand, tax deductible expenses which were excluded should be added. Most candidates seemed to do the opposite. Furthermore, few candidates got the allowable annuity payment of M1,200 right. Notably, most candidates allowed the taxable value and at times taxable amount of fringe benefits provided by the company. The fringe benefits tax (FBT) was rarely deducted, thereby resulting in lower marks for most candidates. Royalty fees expense was treated as capital expenditure and amortised in most answers. In some cases it was completely disallowed. This is an allowable deduction and it was rightfully included in the operating expenses given, there was no further adjustment needed in this regard. On the same note, candidates showed a lack of knowledge regarding the withholding tax for royalty fees paid in respect of technology used in the production of manufacturing income. A number of withholding tax rates were provided in this case.

The majority of candidates achieved more marks on the calculations of depreciation allowances using the pooling method. Most of them were aware that factory buildings are not eligible for this method. Although, depreciation for the cost of the extension for the factory building was frequently omitted in most answers, revision seemed to have been done on this part by most candidates.

Question Three

This 15 mark question focused on value added tax (VAT). The performance was satisfactory for most candidates. However, the majority seemed not to be conversant with the tax treatment of the second hand goods. Most of them calculated output VAT on the selling price instead of the profit. And input VAT on the desktop computer was frequently disallowed. Candidates did not realise that all VAT incurred on taxable supplies by the vendor for enterprise purposes may be claimed as input tax. This does not only refer to goods for resale, but capital goods and associated installation costs, general overheads, etc.



Many candidates failed to read the requirements for the last part of the question which required them to state the general rule for determining the time of supply for goods and services. The question was tackled from the wrong perspective by providing the difference between cash and accrual methods of accounting for VAT.

Question Four

This 15 mark question focused on chargeable gains. Most candidates did not attempt this question. The majority of those who attempted it performed extremely poorly. The first part of this question required candidates to explain how the cost base is determined and it was often omitted. For those who attempted this part, they demonstrated a lack of understanding in determining chargeable gains or losses. Most specifically candidates seemed not to know how to apply the indexation rule.

In the last part of this question candidates were expected to compute chargeable income. Failure to explain how the cost base is determined in part (a) would inevitably lead to the incorrect calculation of chargeable income. This implies that more revision is still required on this part of the syllabus.

Question Five

This 15 mark question focused on fringe benefits tax (FBT). The performance in this question was also not satisfactory. Many candidates seemed to have a general knowledge of taxation for fringe benefits. However, they could not pick up as many marks as expected due to failure to read and understand the requirement of the question. The question required candidates to calculate quarterly FBT. Most of them confidently calculated annual FBT. Again, the tax exempt employer given in this question was confused with Public International Organisation (PIO), resulting in all the fringe benefits being treated as part of employment income. Candidates should note that PIO under section 21 are treated differently from other exempt organisations under section 25. The definition for tax exempt employer for the purposes of calculating FBT specifically excludes PIO.

Calculation of the excessive superannuation fund and how it is treated when then the employer is taxable was also a tricky part for most candidates. Most candidates incorrectly calculated the excessive superannuation fund fringe benefit taxable value, and they did not know that the excess is disallowed when the employer is taxable.