



Examiners' report

F6 Taxation (MWI)

June 2008

The question paper contained five compulsory questions, of which the first two questions accounted for 55 marks, with the remaining three questions accounting for the balance of 45 marks.

Most candidates attempted all five questions as required, although there were a few candidates who only attempted four questions. Performance was less than satisfactory in this paper. It had been hoped that performance would have been better as candidates would have read the previous examiners report.

Generally however, questions 1 and 5 were the ones that were well answered, whilst question 3, which dealt with value added tax (VAT), was less than satisfactorily answered.

Question 1 which was computational was generally well answered by a majority of candidates; however question 2 which was also computational was not well answered, as most candidates did not show an understanding of the need to separate the calculation of the business taxable income from the other income of the tax payer.

With regards to question 3 which dealt with the provisions of VAT, it was clear from the answers presented that most candidates did not understand when a supply occurs for VAT; instead they defined a taxable supply.

Question 4 dealt with the provisions of fringe benefits and was reasonably well answered. The performance in question 5 was fairly good; which was a tax planning question dealing with the mode of trade.

For the computation type questions, it appeared that candidate's performance was affected by not understanding the requirements and also by the presentation of answers, which resulted in them spending more time than was necessary. It was also noted that candidates gave explanations to their treatment of items in computation type questions, when explanations had not been asked for in the question. Candidates therefore wasted time on such answers that did not earn them any extra marks.

Performance in this paper will improve when candidates carefully read the requirements of each question, and apply their knowledge to those requirements and not be seen to give memorised answers, which particularly seems to apply to questions on value added tax. It is important to read and understand the question before attempting to give the appropriate answer, and therefore do not waste time giving information which is not relevant to the question. It was common for candidates to give explanations for adjustments to taxable income, which was not a requirement from the question, yet where they were specifically required to show workings for their answers, most candidates did not show the workings. For example in a question involving the adjustment of profit for tax purposes, there is no need for candidates to explain why an item is allowed or disallowed, unless there are different treatments for the item concerned, or the question itself has requested the candidates to do so. This additional information is not useful and results in candidates wasting time which could have been usefully utilised in answering other questions.

The candidates answer sheet clearly states that each question attempted must be started on a new page, however despite this instruction many candidates did not do so and the labelling in most cases was not clear. Answers to new question must be started on a new page.

If candidates are to do well in this paper it is important that they pay attention to the following:

- Read and understand the question and requirements.
- Improve the presentation of their answers, such that they are easier to understand. Tabular form of presentation would reduce the time candidates take to answer computational questions, where this is appropriate, especially for capital allowance workings or where more than one year of computations are required. Also, the tabular form of presentation reduces the copying of common information from questions to answers.

- Where answers need to be worked all workings must be shown. Candidates should stop the habit of having the workings elsewhere from the answers. Particularly where the figure is made up of two or more items, the makeup must be clearly shown.
- Candidates should be familiar with the recent amendments to the VAT and Income Tax Act made up to six months before the examination session.
- Only give the answers that have been requested by the examiner.

If candidates stopped to read the question and understand what is being required of them, there would be a very significant improvement in the quality of the answers.

Where available, workings were at times difficult to follow. Careful consideration needs to be made to how the answers are presented. Good presentation allows the markers to clearly follow what is trying to be achieved by the candidates, and as such candidates must give more thought to the layout and organisation of their answers.

Question 1

This was a 30 mark question which was divided into two parts. Generally this question was very well answered by a majority of the candidates.

Part (a) required candidates to demonstrate their understanding of how income from short term insurance business is determined, and required candidates to compute the taxable income of an insurance company. Overall this part was well answered. Most candidates demonstrated that they were familiar with the provision regarding the taxation of income from short term insurance business. When it came to the computation of taxable income however, some candidates failed to appreciate that the profit on the sale of the property would not be taken as taxable income, but the respective capital gain as indexed would be brought to account instead.

Part (b) required candidates to demonstrate their understanding on how capital allowances are computed. The question included assets bought in the year which qualified for investment allowances. Due to changes in the tax rates, investment allowances on new and unused plant and equipment and industrial buildings now qualify for 100 per cent capital allowances, and as such no annual allowances would be available on those additions that had claimed 100 per cent investment allowance. Most candidates correctly claimed the investment allowance, but most also claimed an annual allowance resulting in a claim of more than the cost of the asset.

Overall this part was well answered with candidates calculating the capital allowances as required. Most candidates understood that for those assets that qualify for investment allowance, no initial allowances were claimable. As for initial allowances, most candidates correctly did not claim the allowances on the passenger carrying vehicle.

Generally the candidates used the writing down allowance rates as provided in the question paper.

The question stated that the extension to the factory included a portion which was for an office. Generally offices are not allowable as an industrial building, except if they are part of the industrial building and do not exceed twenty percent of the cost. In this case the offices exceeded the twenty percent of the cost of the factory extension, and as such should not have been included as an industrial building.

Most candidates prepared the capital allowances schedule in a format that was easy to follow. There were, however, a few candidates whose presentation of the answer to this question resulted in a lot of wasted time, as they dealt with each asset separately, resulting in recopying of the common information. A columnar form of presentation is probably the best for such type of question as it avoids duplication of information and is easier to follow.

Question 2

This question dealt with the taxation of an individual, Maziko Tebulo, who in addition to being employed also had income from a minibus business, and also had other income from investments. The question was in three parts and was for 25 marks.

This question was generally poorly answered. It was clear from most of the answers given that most candidates were not very conversant with the format of the computation of taxable income for individuals. Instead of dealing with the minibus business as a separate item with its own profit and loss account, therefore requiring taxable profits to be separately computed, most candidate's combined figures from all the sources and deducted expenses of the business from other personal income.

What was required was for the candidates to work out the taxable income from the business, then this income would then be added to other income to arrive at the taxable income on which tax would be calculated.

It was further noted that most candidates did not read the instruction for this part correctly for they worked out the tax payable by the wife, which was not necessary as the income for the wife was earned income which is taxed in her own right.

As regards withholding tax to be given as a tax credit, candidates generally used the wrong rates for rental and directors fees, which are now at ten percent and not twenty.

Generally, presentation let down most of the candidates in this part of the question.

Part (b) part dealt with the payment of PAYE, and most candidates correctly stated that this tax is payable on the 14th following the month the deductions were made, but did not correctly state the penalties payable on PAYE. Most candidates stated the penalties that were applicable to income tax in general.

Part (c) dealt with the responsibilities of the employer as regards the payment of PAYE, and was for 4 marks. Most candidates correctly dealt with the responsibility for deduction and remittance, but failed to mention the situation with regard to penalties.

Mostly this part was reasonably attempted, but could not make up for poorer performance in part (a) of the question.

Question 3

This question was for 15 marks and was in three parts, and dealt with the provisions of value added tax. This question was generally not well answered. It would appear that candidates in general were not familiar with the provisions of VAT, or did not specifically understand the requirements as stated in certain parts of the question. It was also clear that most candidates did not read the amendments which were made to the VAT Act in 2007.

Part (a) was split into two parts. Part (a) (i) was for 3 marks, and generally dealt with the circumstances in which a tax payer should register. Although most candidates mentioned the requirements to register by the tax payer, very few mentioned that the Commissioner General could require a tax payer to register.

Part (a) (ii) dealt with the effects of the failure to register, and was for 2 marks. Generally most candidates correctly stated the penalties that would be levied and the circumstances. However, most failed to mention the fact that non registration would result in the tax payer not being able to claim VAT paid on his inputs.

Part (b) was for 7 marks and dealt with taxable supplies. Candidates were required to state when a taxable supply occurs. This part was not very well answered as some candidates defined a taxable supply instead of

stating when a taxable supply occurs. This clearly showed that candidates did not read the question properly and therefore gave the wrong answer.

However, there were a few candidates who performed very well in this section.

Part (c) was for 3 marks and required candidates to explain the provisions introduced in 2007 relating to VAT as it affects tourism.

This was poorly answered. From the answers given it was clear that most candidates were not aware of the provision and struggled with this part.

Question 4

This question was for 12 marks and was divided into two parts.

Part (a) required candidates to explain the administrative provisions of fringe benefits tax, and was for 3 marks. Generally this part was well answered, and most candidates dealt with applicability and when the tax is due for payment. However very few candidates stated this tax is not applicable to Government employer.

Part (b) dealt with the calculation of the fringe benefits payable by Titanic Limited for the year ended 31 March 2008. This part was for 9 marks. The performance on this part was mixed. There were some good and some poor answers. The candidates knew the provisions for fringe benefits tax, however the poor answers were due to inconsistencies in the presentation. The question stated the tax was for the year to 31 March, however in the answers candidates mixed between benefits for the year, month and quarter, such that the final position was not really for a whole year.

Question 5

This 18 mark question was divided into two parts (a) and (b), and was essentially a tax planning question requiring the candidates to advise the two parties involved on the best form of operation, based on the financial information provided in the question.

On the whole this question was well answered.

Part (a) (i) required candidates to compute the tax payable under a partnership and the tax payable under a Limited Company. With regards to the partnership, the tax computation was generally well prepared and most candidates arrived at the correct adjusted profit for tax purposes. Further, the adjusted profits were correctly shared amongst the partners using the rules of sharing in such circumstances.

However, when it came to the profits for the company, most candidates wasted time by re-computing the adjusted profits for taxation, instead of starting from the profits adjusted for tax from the partnership, and then adjusting for partner's salaries.

In most cases candidates worked out the correct tax that was to be paid, however few candidates worked out the dividend to be paid and the corresponding withholding tax on the dividend.

Candidates also failed to note that the PAYE was a common factor in both cases, therefore consideration of which option to use would be based on the tax on profits and in the case of the company, on the dividend tax payable, which is not available as a tax credit.

Overall however, this part was generally well answered.



Part (b) which was for only 2 marks, required the candidates to list the additional information which should take into account in arriving at the decision of the option to take. However, most candidates dwelt on legal implications, as opposed to tax and financial implications which were relevant in this instance. However, the performance here did not affect the overall performance on the question.