Examiner's report

F6 Taxation (MWI)
June 2009

General Comments
The question paper carries five compulsory questions with mark distribution as follows: Question 1 was for 30 marks and question 2 for 25 marks, whilst questions 3 to 5 each carried 15 marks.

The majority of the candidates attempted all the five questions as required. However, although not many, some candidates did not attempt questions 3, 4 and 5. In cases where not all questioned were attempted, Question 3 was the most frequently omitted.

Generally the performance at this sitting was better than expected. This was particularly so, as most candidates scored high marks on question 1 as compared to other questions. It would appear candidates concentrated their efforts in preparing for a question on capital allowances; this could have been done at the expense of other areas of the syllabus. Candidates also performed well in question 4, dealing with special trades and cases.

However, there was poor performance in question 3 and 4. This was caused by candidates not reading the questions carefully and resulting in giving out incorrect answers. In the case of question 3 it was clear that the candidates had very little knowledge of Value Added Tax (VAT), judging from the poor answers to this question.

There was generally poor labelling of the answers, most candidates did not indicate the question numbers on the continuation pages or wrote the wrong question numbers. It is important the question numbers are shown clearly so that it is known which questions are being attempted.

The answers to each new question must always be started on a new page.
The candidates answer sheet clearly states that each question attempted must be started on a new page, despite this instruction candidates had began answers to a new question on a page where they had concluded answering another question making it difficult to mark as the labelling in most cases was not clear that these were answers from different questions.

Workings were generally shown. However, where available were at times difficult to follow, as not much thought had been given to the lay out, especially for Question 5. 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. Candidates must give more thought to the layout and organisation of their answers.

Candidates should consider columnar format of presentation as it saves time by avoiding the copying of common information as was the case for Questions 2 and 5.
Performance in this paper will improve once candidates carefully read the requirements of each question and not be seen to give memorised answers especially when it comes to questions on VAT. It is important to read and understand the question before attempting it, to ensure that a candidate gives the appropriate answers and therefore does not waste time in giving information which is not relevant to the question. It was common for candidates to give an explaination for adjustments to taxable income which was not a requirement from the question, yet where they were specifically required to show working for their answers most candidates did not show the workings. For example 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 is a different treatment for the item concerned or that the question itself has requested the candidates to do so. This additional information is not useful and just results in candidates wasting time which could have been usefully utilised in answering other questions.

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

- Read and understand what the question requires of the candidate and
- Improve presentation of their answers, such that they are easier to understand. Tabular format of presentation would reduce the time candidates take to answer computational questions, especially for capital allowance

workings, where comparative analysis is required or where more than one year computations are required, where this is appropriate.

- Where appropriate use the tabular form of presentation as this reduces the copying of common information to questions
- Where answers need to be worked all workings must be shown. Candidates should desist from the habit of having workings done elsewhere and the answers just being plugged in. Figures, particularly where the figure is made up of two or more items, the makeup must be clearly shown.
- Should be familiar with the recent amendments to the VAT and Income Tax Act made before the cut off date for the paper, being 30 September for the following June and December exams.

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. The poor performance by many candidates was once again as a result of the candidates not carefully reading the question, which resulted in answers provided not being the ones that particularly addressed the requirements of the question.

Specific Comments

Question One

This was a 30 mark question which was divided into three parts. Part (a) dealt with the calculation of capital allowances for Segio Transport for the year ended 31 December 2008 Part (b) dealt with the computations of profits chargeable to tax for the same period and Part(c) involved calculating the tax payable by the company for the year.

This question was well answered by a majority of the candidates. It showed that the candidates understood in general what was being examined. This question was answered by all the candidates.
The specific comments for each part of this question are as follows:

Part (a) required candidates to demonstrate their understanding on how capital allowances were computed. The question had assets bought in the year which qualified for investment allowances and also initial allowances. The company also had use of motor vehicles which it obtained under an operating lease. Most candidates correctly claimed the investment allowance on industrial buildings and plant and equipment, which were 100 percent for new assets and 40 percent on second hand plant and equipment. However some candidates did not claim initial allowances on the second hand coaches. Further some candidates did not realise that when an asset qualifies for a 100 percent investment allowance, annual allowance cannot be claimed as the value of the asset would have been fully claimed for.
Some candidates indicated as an addition the motor vehicles that were obtained on an operating lease. As these assets did not belong to the company, capital allowances would not be claimed, only the lease charges would be allowed in determining the taxable profits for the year.
Other than for this point, 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. However, some candidates claimed both.
Generally the candidates used the writing down allowance rates as provided in the question paper.
Most candidates presented the capital allowance schedule in columnar form. As a result this was easy to follow by the markers.

Part (b) this dealt with computation of taxable profits. Generally this part was well answered. Candidates however did not seem to be aware that for expenditures that are normally allowed, the provisions for such expenditure that are disallowed and not the actual payments for such expenses e.g. severance pay.
Also very few candidates made any adjustment for a disallowable amount for pension contributions. Pension contributions are allowed to a maximum of K9, 000 per employee. .

Part (c) dealt with the calculation of tax payable. As the company incurred a tax loss, the amounts would be carried forward. However the withholding tax and provisional tax paid would be subject to a refund. Most candidates adjusted for these amounts correctly.

Question Two

This question dealt with the taxation of a married person having income from a produce business as well as from employment. There was also income from other sources including income of the wife from employment and rental of property. The question was for 25 marks and was divided into two parts.

Generally some candidates performed reasonably well, although it seemed as though some candidates were not very conversant with the provisions dealing with the taxation of husband and wife.
The specific comments relating to each part is as follows:

Part (a), required candidates to work out the income which will be taxed in the hands of the husband separately from that of the wife. This basically was to take all income of the husband and adding to this all unearned income of the wife and then deducting the allowable expenses. The earned income of the wife was also to be shown separately less allowable expenses relating to that income.

Tax was then to be worked out for each, based on the taxable income.
Those who did not perform well in this section just aggregated the income of the wife and husband and worked out the tax liability based on the total.
Some candidates did not know how to work out the capital gain on the shares in the unlisted company. The gain was to be worked out by subtracting the adjusted cost from the sales proceeds.
In working out the tax liability the tax credits were to be applied to either the husband or the wife as applicable and not aggregated.
In working out the interest taxable, as this is unearned income it was taxable on the husband. Therefore the K10, 000 exempt would only be applicable to the husband. The element of exemption to the wife was therefore lost.

Part (b) dealt with the provision relating to provisional tax and how they would be applied to Pilirani who had seasonal income.
Generally this was well answered by those who attempted this part. Candidates correctly stated when provisional taxes were to be paid and the procedure dealing with a situation where the tax payer has seasonal income.
Except for some candidates, the majority who attempted this part correctly stated the penalties that would be imposed by the tax authorities for non payment of this tax.

Question Three

This question dealing with Value Added Tax was in three parts. Part (a) had two subparts. The question was for a total of 15 marks.
This question was generally not well answered, and was not even attempted by some candidates.
It would appear that candidates were not very conversant with the provision of VAT. It was also clear that some candidates did not read and understand what they were requested to do, this was more noticeable in part (a) (i) of the question.

Part (a) asked candidates to state how the transactions listed would be dealt with for the purposes of submitting the VAT return. Instead of the candidates stating whether the transaction was taxable, exempt or zero rated and therefore be shown on the respective section of the return, most candidates just calculated the VAT. Most candidates did not state how the transaction would be dealt with on the submission of the return.

Part (a) (ii) required the candidates as a follow up to (i) above to calculate the relevant output tax and the input tax that would be claimed. Those who did not do well calculated the tax on even items that were not subject to output tax and also on the expenditures which were not subject to a claim.

In calculating the input tax, most candidates did not take into account that the figures given had input tax included in them (where applicable). This part was only for 4 and 3 marks respectively.
Part (b) was for 4 marks and dealt with the rules regarding deductibility of input tax from output taxes charges on taxable supplies and services.

This part was also not well answered. Instead of dealing with the rules regarding the deductibility, such as that it must be on taxable supply, there must be a taxable invoice, the period in which the tax can be claimed etc, the candidates dwelt on the three months rule for effecting refunds.

In addition to the above candidates were expected to state what cannot be claimed as input and what happens where expenditure is incurred which is partly personal and partly for business.
The majority of the candidates did not address the requirement of the question.

Part (c) was for 4 marks and required the candidates to state the implications for failing to register or if registered for failing to submit a return.

For those who attempted this part it was reasonably answered. Most candidates stated the penalties that would be imposed on the taxpayer if he did not register if he had met the requirements for registration. Candidates also stated the penalties that would be imposed for not submitting a return once registered. However, very few candidates mentioned that if the taxpayer was not registered he would not be able to claim input tax on taxable supplies.
On the whole this part was reasonably well answered.

Question Four
This question was for 15 marks and dealt special trades in particular the taxation of income of a club formed for recreation purposes. This question was in two parts.
The question generally was well answered by a majority of the candidates who attempted it.
Part (a) required candidates to calculate the tax payable by Michiru Sports Club. This part was for 11 marks. Generally this part was well answered by the majority of the candidates who attempted this question .Candidates correctly listed the taxable items as income from bar sales, sale of dance tickets, restaurant sales, theatre and gambling machine revenue. Of the total revenue only 6.25 percent was subject to taxation at company tax rate. Most candidates stated correctly that expenditure and income from entrance and subscription fees was not to be considered.
However, there were some candidates who were treating the taxable income as the way it is worked out for companies.
Such candidates did not do well in this part of the question.

Part (b) for 4 marks dealt with the comparison for tax purposes of incorporated and unincorporated businesses, clearing highlighting the similarities and the differences.
Most candidates reasonably attempted this part. However, there were some candidates who were handling this question from a legal rather than the tax perspective. Further, some candidates answered this from the perspective of a club in relationship with a limited company. Clubs are not generally formed with the intention of profits.

Question Five
This question dealt with choice of employment type, either being employed on contract or on pension. This question was for 15 marks and was divided in two parts (a) and (b). Part (a) dealt with the calculation of tax that will be payable by the employee under the two options and then choosing the best option for the employee. This required calculation of the amount of tax to be paid by the employee for the year ended 30 June 2009.
The question clearly indicated that the tax was to be worked for a year and yet some candidates worked out this for two years.

What was to be considered was the income to the employee under the two options; therefore issues of company car and gratuity, as they were not income of the employee for the year were not to be taken into account.
Tax then would be worked out on gross earnings to arrive at the tax for the year.
In arriving at the preferred option of employment the cash flow implication would need to be considered. Therefore pension contribution by the employee, since this is a deduction from the employee, would need to be deducted from the pensionable terms option, although it has no tax advantage.
Most candidates completely ignored the cash flow implication in helping decide which was the best option of employment.

Part (b). This part which was for 8 marks was for the Finance director to choose the least cost alternative to the company. In doing this the cost under each alternative to the company was to be itemised. This included all cash costs to the company and provision for gratuity and fringe benefits tax paid. Then from the total cost to the company, the tax savings under each option was to be deducted to arrive at the cost to the company.
In each case any cost which was the same under each option should have been ignored as it did not result in change to the answer.

Most candidates did not answer this part very well as most of them did not work out the cost for a year and neither did they work out the tax savings under each option.
This shows that the candidates did not read the instructions as it was clearly stated that it should be the after tax cost which should be used for comparison.