

Examiner's report

F6 Taxation (MWI)

June 2010



General Comments

The examination consisted of five compulsory questions (Question 1 was for 30 marks and question 2 for 25 marks, whilst questions 3 to 5 carried 15 marks each). There was a combination of computational and descriptive type questions

Most candidates attempted all the five questions. However, there were some candidates that only attempted part of some questions, particularly for questions 4 and 5.

In general the performance was not as good as had been expected. Most candidates performed very well in question 1, but did not do so well in the other questions. Performance in questions 2 to 5 was mixed. With the well prepared candidates performing well in question 2, although generally the performance in question 5 was not that good by all candidates. Candidates knowledge in capital gains, VAT and customs and excise provisions was not well demonstrated, this could be due to lack of adequate preparation, hence the poor performance. It would also appear that some candidates just memorised the provisions but were not able to demonstrate their applicability. Generally the performance at this sitting was below expectations with most candidates scoring high marks on question 1, and very poorly on the other questions. .

Poor performance in questions 2 to 5 was caused by candidates not reading the questions carefully, therefore resulting in candidates giving answers that did not address the needs of the questions. For example, in question 2 dealing with capital gains. The question had separated the capital gains between those on assets where capital allowances were claimed and those where allowances were not claimed .The candidates approach was to aggregate these resulting in incorrect amounts being included in income. As regards question 3 dealing with Value Added Tax, most candidates demonstrated that they had very little knowledge or had just memorised the principles and just applied them without due regard to what was requested of them to demonstrate knowledge of the subject.

Workings were generally shown although were at times difficult to follow, as not much thought had been given to the lay out, especially for Questions 1 and 2. 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.

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 Value Added Tax. It is important to read and understand the question before attempting to ensure that 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 explanation for adjustments to taxable income which was not a requirement, this was particularly so for question 1. Most candidates explained why items had been allowed or disallowed when the question did not request for that information.

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

- Read and understand what the question requires
- Improve on presentation of answers, such that they are easier to understand. Tabular form of presentation would reduce the time candidates take to answer computational questions, where comparative analysis is required or where more than one year computations are required
- Where answers need to be worked all workings must be shown. Candidates should not just present the final answer but show a reasonable audit trail of how they got to the final figure. Answers particularly where the figure is made up of two or more items, the makeup must be clearly shown.
- Be familiar with the recent amendments to the Customs and Excise Act, VAT and Income Tax Act, made up to six months before the examination session.

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 not directly answering what was asked.

Specific Comments

Question One

This question dealt with taxation of partnerships for 30 marks and was divided into four parts. Part (a) was for 5 marks and required candidates to state the types of capital allowances that would be claimed on the capital transaction entered into by the partnership during the tax year. Part (b) was for 10 marks and dealt with the computations of Taxable income of the partnership for the year ended 31 December 2009, Part(c) for 5 marks required the candidates to allocate the profits amongst the partners and part (d) for 10 marks and required candidates to calculate the tax payable by each of the partners.

This question was well answered by a majority of the candidates. It showed that candidates understood in general what was being examined and the principles of partnerships for tax purposes. 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 show their understanding of the types of capital allowances that can be claimed when a capital transaction is entered into. The question indicated the type of capital transaction that the partnership had entered into.

Most candidates stated correctly the types of capital allowances that would be claimed for each transaction. Most candidates stated correctly that no initial allowances would be claimed on the double cabin vehicle and that only annual allowances would be claimed. Further for new tobacco curing machine, and new tobacco barns, on these only investment allowance would be claimed, since 100 percent investment allowance was claimable, therefore there would be no balance on the particular assets to on which any claim for annual allowance would be based. This demonstrated their understanding of how capital allowances were computed. With respect to staff housing most candidates correctly stated that on these initial and annual allowances would be claimed, but not investment allowances.

With regard to expenditure on the clearing of land very few candidates correctly stated that this expenditure would be subject to deduction from taxable profits and as such would not be subject to capital allowances. On the whole this part was well answered.

Part (b) this dealt with computation of taxable profits. Generally this part was well answered. Some candidates however disallowed the interest on capital even though the relevant charge had not been made to the profit and loss. Most candidates did not deduct the expenditure for the clearing of land from the taxable profits. Overall this part was well answered except for the points mentioned above.

It should be noted however, that some candidates explained in detail the reason why expenditures had been disallowed even though this had not been requested for in the question.

Part (c) this dealt with the allocation of profits amongst the partners. This was handled well by the majority of candidates. There were however a few candidates who in allocating the profits amongst the partners included items which were not part of the adjustments to profits.

Part (d) was for arriving at income that would be taxable on each partner. This income was to include shared income from the partnership and income of the partners from other sources. Generally this part was also very



well answered and taxes payable calculated using rates applicable to individuals and tax credits appropriately given to each partner.

Question Two

This question which was for 25 marks was divided into two parts. Part (a) dealt with the calculation of capital gain and losses and how these gains and losses would be dealt with in the taxable income of a company (9 marks). Part (b) dealt with the calculation of taxable income taking into account taxable losses and capital gain/losses (16 marks)

Overall this question was not well answered by a majority of the candidates, particularly part (a)

The specific comments relating to each part is as follows:

Part (a), required candidates to calculate the net capital gains or losses to be included in the taxable income for the three years involved.

As the gains and losses were already given in the question, the candidates were required to calculate net gains/losses for purposes of including in the taxable income.

As capital gains and losses are dealt with based on whether the relevant asset had capital allowances claimed or not, these had to be dealt with separately.

The majority of candidates added gains and subtracted the losses without taking into account, whether the gains arose from assets on which capital allowances were claimed or not.

Where capital allowances are claimed the resulting gain is included in income and the loss is deducted from the income without restrictions. Where capital allowances were not claimed then any loss can only be offset from the gain resulting from similar assets to the limit of the gain and any resulting gain after the offset included in the taxable income. Where there is a net loss, the loss would be carried forward to be offset against future capital gains from assets of the same class. The majority of candidates that did not perform well in this part because they did not make this distinction. Further, some candidates were limiting the gain on assets where capital allowances were not claimed by either 50 or 60 percent. The limitation of the gain is no longer applicable as this was discontinued.

Part (b) part dealt with the calculation of tax that would be payable by the company (Malbak Limited) for the three years to 31 March, 2009. This required candidates to first work out the adjusted profits for tax purposes and then claim loss relief where relevant and arriving at profits subject to taxation for each of the years. To arrive at the adjusted profits, items of expenditure not allowed for taxation would be added back as well as capital gains which were taxable would be added to the income. Items allowed for taxation would be subtracted, this included items such as capital allowances and capital losses on items where capital allowances were claimed. As the year to 2008 resulted in a tax loss the loss was to be offset against income in 2009. Since this was a branch of an external company a tax rate of 35 percent was applicable. From the tax arrived at withholding taxes and provisional tax paid was to be deducted to arrive at the tax payable or refundable for each year.

This part of the question was generally well answered although there were some candidates who did not offset the losses made in 2008 from the taxable income of 2009. Some candidates did not use the external companies' tax rate in calculating the tax liability for the year.

Some candidate applied minimum tax in the year the loss was incurred; this tax is no longer applicable.

Question Three

This question dealing with Value Added Tax was in three parts. The question was for a total of 15 marks. This question was generally not well answered.

It would appear that candidates were not very conversant with the provision of the Value Added Tax.

Part (a) was for 6 marks and asked candidates to list the information that a tax invoice must contain. Generally most candidates listed the information but in most cases just repeated the same information but described it differently each time repeated. Most of the candidates did not mention the fact that an invoice must also contain information regarding the type of the transaction entered into. Either as a sale hire purchase or other. However this part was reasonably well answered.

Part (b) was for 5 marks and required the candidates to state the circumstances under which or the transactions which would not qualify for the input tax to be deducted from the output tax.

This part was not very well answered; most candidates dwelt on the fact that this would not be the case if the taxpayer was not registered for VAT. Most mentioned the circumstances regarding transaction in spares parts for motor vehicles and expenditure regarding hotel and entertainment expenses. Very few if any candidates mentioned the time bar for claiming of input tax or where expenses were for both private and business purposes.

Part (c) This was for 4 marks and required the candidates to calculate the output tax to be included in the VAT for John Makande; a trader who makes both exempt and taxable supplies.

This part was not very well answered by the majority of candidates. Only very few actually calculated the tax using the ratio of the VAT supplies as applied to the value of output as calculated. This required candidates to calculate the ratio of the value of taxable goods purchased for resale during the month against total purchases for the month. This ratio then is applied to total gross sales to arrive at the value to be used for calculating output tax for the relevant period.

Question Four

This question was for 15 marks and dealt with issues of turnover tax, types of income exempt from taxation, and tax clearance certificates. This question was in three parts.

The performance in this question was mixed; some answered all the parts and provided some good answers, but the majority of the candidates did not perform well in this question.

Part (a) had two parts to it (3 marks). The first was to state when turnover tax was applicable and the options available to the tax payer and the last part was to indicate when this tax does not apply.

This part was not well answered, the majority of the candidates just answered when the tax is applicable, so the turnover must be less than K6 million. The options of the tax payer in the circumstances where the turnover was below K6 million to be assessed normally was not mentioned by a majority of the candidates.

With regard to the requirement for candidates to state the applicability of the tax, candidates did not mention that this tax did not apply to certain types of income, such as rental, management fees and also to incorporated companies. This part was generally also not well answered.

Part (b) this part which was for 6 marks required candidates to list any six types of income which are exempt from the provision of the Taxation Act and therefore not subject to taxation. On the whole the performance in this part was mixed. The majority of the candidates dwelt on the income of the president and his vice and completely missed out on the types of income that are listed in the Act as exempt. For example Income of agricultural, mining and commercial institutions or societies not operating for private pecuniary profit or gain of the members, was not mentioned by a very significant number of the candidates. There are least 12 other types of income listed which could have been listed by the candidates, as opposed dwelling on political office income.

Part (c) was for 2 marks and required candidates to state the conditions that must exist for a tax clearance certificate to be issued. Generally this part was well answered by the majority of the candidates who attempted

this part. However, most of them did not indicate that issue of tax clearance is not automatic and that the tax payer must apply for it.

Part (d) was for 4 marks and required the candidates to list the transaction that require a tax clearance certificate before the transaction can be finalised. This part was reasonably well answered. Most of the transactions were. However very few candidates mentioned the requirement for a tax clearance certificate for renewal of professional business licences and permits for medical practitioners, dentists, legal practitioners, engineers and architects. But on the whole it was reasonably well attempted.

Question Five

This question which dealt with the taxes that were to be paid by Exclusive Furnishers and was for 15 marks and divided into three parts. On the whole the performance in this question was below expectations. It would appear that candidates were not very familiar with the Customs and Excise provisions. These accounted for 10 out of the 15 marks.

Comments on the specific parts are as follows:

Part (a) required candidates to state the different types of taxes that would be payable by Exclusive Furnishers. This also included stating the penalties that would be payable and how they are calculated. On the whole this part which was for 5 marks was well answered. However, most candidates did not state how the penalties would be worked out and only limiting this to the transactions that the company had entered into during the year. Therefore what was expected was for the candidates to spell out the calculation as far as fringe benefits tax and provisional tax penalties. These are the only taxes that the company had not fully complied with regard to the terms of payment. Candidates were not expected to state the penalties for all the taxes as the company had fully complied with the provisions affecting these other taxes.

Part (b) was for 6 marks and required candidates to calculate the tax payable on importation of the furniture. What was expected of the candidates was to work out the duties and the relevant Value Added Tax payable as a result of the importation of the furniture.

It was not expected that candidates should work out the income tax on the profits as some of the candidates did. On the whole this part was not well answered due to the point mentioned above. It was clear that the candidates did not read the requirement of the question and also were not very familiar with the provision of customs and excise duties.

Part (c) was for 4 marks and required the candidates to state the procedures that would be followed for clearance of the furniture. From the answers given it was clear that most candidates were not familiar with these provisions and the documentation that needed to be completed during this process. Importers are required to complete forms before the goods are examined by a customs official. It is then that the appropriate tariff heading will be determined, as a basis of calculating duty. When the value exceeds of goods imported exceeds K50, 000 then services of Customs clearing agent are required.

Most candidates did not do well in this part.