



Examiner's report

F6 Taxation (MWI)
December 2009

General Comments

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

In this sitting most candidates attempted all the questions as required as per the instructions. In cases where some candidates did not attempt all the questions, then the question not answered was usually question 3 or 5.

Generally the performance at this sitting was not as well as expected. This was particularly so, because despite most candidates scoring high marks on question 1, they did not do so well in the other questions particularly questions 3, 4 and 5. 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.

However, there was poor performance in question 3, 4 and 5. This was caused by candidates not reading the questions carefully and resulting in giving answers that did not address the needs of the questions. Question 5 dealing with special trades, concerning taxation of income from growing of timber, the treating to tax of the income was dealt with very well by some candidates although the application of the principles to the situation which was presented was not very well dealt with. As regards question 3 dealing with value added tax (VAT), 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.

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 a 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 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 VAT. 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 explanations for adjustments to taxable income which was not a requirement. Most candidates explained why items had been allowed or disallowed when the question did not request that information.

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 on 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, especially for capital allowance workings, or 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 of 30 September of the year 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 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 Dexten Limited for the year ended 30 June 2009 Part (b) dealt with the computations of Taxable income of Dexten Limited for the year ended 30 June 2009 and Part(c) required the candidates to list the types of expenditure which are regarded as mining expenditure and how this expenditure is dealt with for tax purposes.

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. Most candidates correctly claimed the investment and initial allowances as appropriate. They also correctly dealt with the situation that where investment allowance is claimed initial allowances cannot be claimed. Candidates correctly adjusted for the office element of the factory building as not qualifying for investment allowances.

Some candidates however, claimed annual allowance on the part of the industrial building on which 100 percent investment allowance had been claimed. This cannot be done as the full value of the asset would have been claimed by the investment allowance

On additions to motor vehicle no initial allowance are claimable. Motor vehicles capable of carrying passengers do not qualify for initial allowance only annual allowances are claimable.

For the plant which would have no value after mining activities have ceased these would be claimed in full in the year the expenditure was incurred.

Other than for the points mentioned above, 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. Most candidates claimed the value of the plant and machinery as a deduction from the income before taxes.

Generally the candidates used the writing down allowance rates as provided in the question paper. Candidates presented the capital allowance schedule in columnar form. As a result this was easy to follow by the markers.

Part (b) 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 are disallowed and not the actual payments for such expenses e.g. severance pay. Further that VAT would not be allowed as a tax deductible expenses as; they are separately claimed through the VAT administration system.

Also very few candidates made adjustment for the allowable expenditure on mining. This expenditure included the cost of the plant and machinery and expenditure on providing access to mineral deposits.

Part (c) dealt with the nature of expenditure that if incurred by a taxpayer would be regarded as mining expenditure. Most candidates correctly identified the expenditure that would be regarded as mining expenditure. However very few candidates stated that if expenditure is identified as mining expenditure the tax payer would claim 100 percent of the expenditure in the year it is incurred.

Question Two

This question dealt of Peter Milanzi and his wife Phyllis. Peter had income from employment and income from other sources. Phyllis also had income from employment as well from a rental of property and also from other sources. The question was for 25 marks and was divided in two parts.

Generally some candidates performed reasonably well, although some candidates it seemed 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 calculate the tax that would be payable on the earnings from employment by both Peter and Phyllis for the year ended 30 June 2009.

This required taking income earned from employment for each person and then calculating the tax that would have been deducted by the employer.

Most of the candidates worked out this requirement and included the taxable gratuity earned by Peter in his income. As for Phyllis the income consisted of the salary, housing allowance and bonus earned.

The common error was to not include the bonus as employment income earned by Phyllis. Further, some candidates deducted pension contributions from the earnings of Phyllis. Pension contributions by an employee are no longer a tax deductible expense.

With regard to Peter in working out the taxable contract gratuity, earnings for 3 years were to be taken into account. 25 percent of the total was the gratuity from which K40,000 (tax free element) was to

be deducted and the balance was the taxable gratuity which was to be included in the income from employment of Peter.

Tax deducted was to be worked out based on the total income of each person

Generally this part was well answered, although some candidates aggregated income from employment with that from other sources, which in effect was answering part (b) of the question.

Part (b) dealt with the preparation of a tax computation showing the total taxable income and the income tax to be paid by Peter and Phyllis for the year to 30 June 2009 and clearly indicating the reasons for excluding an item from the income tax computation.

Here was a question which required candidates to explain the treatment of an item excluded. This was an expectation and such information was to be given.

In preparing the tax computation the unearned income by the wife was to be treated as belonging to the husband and therefore to be included in his income tax computation.

Such unearned income included rental less related expenses and interest.

The exemption of K10,000 of interest subject to tax in the hands of the tax payer would only be applicable to the husband. Since the interest earned by the wife is deemed to be income of the husband, the exemption would not be available to the wife

In calculating the net rental income taxable, the following expenses were to be deducted from the income. City rates, interest portion of the mortgage payment, that is 60 percent of the total paid, and repairs and maintenance.

As the property which was lived in by Phyllis's mother was not used for commercial purposes, expenses incurred were not tax deductible and the property was excluded from the income tax computation.

Most candidates answered this part well. There were of course some who treated the unearned income as being taxable in the hands of Phyllis.

Question Three

This question dealing with VAT 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. Some candidates did not attempt to answer this question.

It would appear that candidates were not very conversant with the provision of the VAT.

Part (a) asked candidates to summarise the circumstances or rules that determine when a taxable supply of goods or services is deemed to occur. Basically this required the candidates to state the time when this occurs. Some candidates did not understand this question and instead defined what a taxable supply is.

What was required was for candidates to state that, if a supply or service is taxable, at what point in the transaction is the value added tax chargeable. This, for example, is the actual date when goods for own use have been appropriated for own use and not defining a taxable supply.

Some candidates answered this part well and were able to define when a taxable supply occurs in the case of a continuous supply that is the time the supply is determined or in cases of metered supplies when the meter reading occurs.

Part (b) this part was for 2 marks and required the candidates to state the penalties that would be imposed on a taxpayer who fails to pay VAT when due.

This part was not well answered as most candidates confused this with penalties that are applicable for non submission of a VAT return. The penalty charged for non payment is a charge of 15 percent of the unpaid amount plus a further amount of 5 percent per month or part thereof for the period the tax remains unpaid.

Part (c) was for 5marks and required the candidates to state the information that must be contained in a tax invoice.

Although the contents of the invoice are clearly spelt out in the VAT regulations, surprisingly this part was not well answered.

It could be seen from the answers that many candidates were just guessing and were not familiar with the provisions.

It is important that candidates also read the VAT regulations.

Question Four

This question was for 15 marks and dealt with issues of submission of tax returns, provisional tax, penalties and appeals against assessments raised by the Commissioner. This question was in two parts.

The performance in this question was mixed; there were some good answers whilst some candidates did not perform very well.

Part (a) required candidates to state the requirements and procedures for the calculation and payment of provisional tax. This part was for 4 marks. Most candidates knew the requirements for the calculation of provisional tax. However some candidates did not spell out the requirements for the payment of tax when either the estimate of profits is based on actual tax paid in the previous year and or when this is based on the estimate of taxable income for the year. If the estimate is based on previous year's tax, the provisional tax is in equal quarterly instalments, whilst if based on current years estimate then the first quarterly instalment must at least be 20 percent of the estimate.

Part (b) was for 3 marks and dealt with the penalties which would be charged for underpayment of provisional tax. Most candidates dealt with this part satisfactorily. However when it came to the actual calculation most candidates did not show that the unpaid tax was over 10 percent of the liability and therefore the amount payable was at 25 percent of the outstanding liability.

Part (c) was for 8 marks and dealt with the procedures a tax payer should follow for an appeal against an assessment raised by the Commissioner, to the Special administrator.

Although this part was adequately answered most candidates did not indicate that the tax payer first writes to the commissioner of this intention to appeal. After submitting his grounds for appeal it is the commissioner who lodges the grounds for appeal to the special arbitrator with his reply and not the taxpayer lodging with the special arbitrator.

Question Five

This question dealt with special trades and cases. In this particular instance it was to deal with the taxation of income from timber growing activities. The question was in two parts. Part (a) was further divided into two parts, part (a) (i) and (a) (ii).

Part (a) (i) required candidates to state the rules regarding the alternative methods of determining the taxable income derived from timber growing activities. This part was well answered, with most candidates stating that costs would be carried forward until the timber had reached maturity and that this would also apply to the fixed percentage which is added to the cost of planting.

Part (a) (ii) required the candidates to calculate the taxable income for Madison limited. This was for 7 marks.

This part was not well answered as most candidates did not correctly work out the cost of planting and the fixed percentage that was to be carried forward. Further, they did not deduct the appropriate portion of the cost in relation to the portion of the timber that was sold.

Further, some candidates deducted from the income the cost of replanting new timber from the area that was harvested which was not the case. This would need to be carried until the timber had reached maturity.

Part (b) dealt with the taxation of income of an agricultural producer co-operative. This part was not well answered as most candidates dealt with this in the same way as income of a club is taxable.

For this type of organisation the taxpayer must submit proposals to the commissioner for the determination of taxable income.