

# Examiner's report

F6 Taxation (MWI)  
December 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). The questions required both computational and descriptive type answers.

The majority of the candidates attempted all the five questions. In fact there were very few candidates who did not do so. For those who did not attempt all the questions, the questions left out were questions 4 and 5.

Performance in this paper was much better than had been anticipated. Most candidates ably handled questions 1, 2 and 4. However, it was apparent from the answers given for Question 3 that a majority of candidates seemed not to be conversant with the provisions of 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.

With respect to question 5 dealing with tax planning on employee remuneration the performance was varied, some candidates performing well whilst the majority did not do so. Although monthly salaries had been given, the requirement was that any tax liabilities should be worked out for the year, but most candidates did not work out annual tax figures as was required by the question. Instead monthly tax figures were given, which was not in line with the requirements. It was also noted that most candidates had problems with analysing any tax savings under the options available.

Workings were generally shown and there was an improvement in the layout of the answers, particularly for question 1. 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 the candidate gives the appropriate answers and therefore 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, this was particularly so for question 1.

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 work trail of how they got to the final figure. Workings to answers, particularly where the figure is made up of two or more items, must be clearly shown.
- Be familiar with the recent amendments to the Customs and Excise Act, VAT and Income Tax Act, made up to 30 September cut-off date for examinable legislation, for the following June and December examination sessions.

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 a company in the manufacturing industry. The question was for 30 marks and was divided into four parts. 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 taxation as it affected companies and also the calculation of capital allowances.

The specific comments for each part of this question are as follows:

Part (a), for 3 marks, required candidates to show their understanding of how exchange gains and losses resulting from trading transactions are dealt with for tax purposes.

Most candidates did not correctly answer this part of the question. Candidates generally confused this with capital gains and therefore provided answers that dealt with the provisions of capital gains. This resulted from the candidates not reading the question properly. It could be as result of the next part of the question dealing with capital allowances, as most candidates kept referring to capital allowances.

Part (b), for 16 marks, dealt with the computation of capital allowances. Generally this part of the question was well answered. Candidates correctly calculated investment allowances differentiating between new and unused items. On new items that qualify for 100% investment allowances, the correct treatment is that no annual allowances were claimable. Very few candidates treated the items qualifying for 100% investment allowances as also qualifying for annual allowances.

This part of the question was well answered and most candidates used the columnar form of presentation, thereby saving time and also making the marking process easier.

Part (c), for 8 marks, dealt with the computation of taxable profits. Generally this part was well answered. It should be noted however, that there were some candidates still explained in detail the reason why expenditures had been disallowed even though this had not been requested in the question.

Part (d), for 3 marks, was for arriving at income that would be taxable by or refundable to Mazamba Blankets Limited. This basically involved arriving at the tax payable by multiplying the taxable income by the tax rate applicable to a corporate and subtracting any withholding and provisional taxes paid. Most candidates made the correct deductions except for withholding tax on interest. Withholding tax was supposed to be calculated after the first K10, 000 which was not subject to withholding tax.

On the whole this part was well answered.

### **Question Two**

This question which dealt with the taxation of income of a dentist and his wife was for 25 marks and was divided into three parts. Overall, this question was well answered by a majority of the candidates, except a few who had problems splitting income between that taxable on the dentist and that on his wife.

The specific comments relating to each part is as follows:

Part (a), for 3 marks, required candidates to explain in respect of business income the options available for its taxation, if the income does not exceed K6million and whether the options were available to John Mlenga.



Most candidates confused this with registration for Value Added Tax. The question clearly stated that it was tax on business income. This related to the provisions relating to turnover tax. This option was not available to John Mlenga as turnover tax is not applicable to income from professions. Mostly this part was not well answered.

Part (b), for 15 marks, required candidates to calculate total income subject to taxation for John and Janet Mlenga for the year ended 30 June 2010, on the basis that the income from the practice was included in taxable income.

This required that candidates should first work out the taxable income from the practice. This involved adding disallowable costs and then subtracting allowable costs such as capital allowances. The adjusted income would then be included in taxable income together with income from other sources.

Most candidates worked out the taxable income from the practice as a separate source of income. However, there were some candidates that accounted for the salaries drawn by John, first by adding this back in the adjusted income and then adding the salary again as part of the income tax computation.

There were also candidates that did not treat the unearned income of Janet as income of the husband, John. In terms of presentation, the answers were well presented. However, some candidates ignored the instruction that answers should be to the nearest K1 and presented their answers to the nearest K'000.

However, on the whole most candidates performed fairly well in this part of the question.

Part (c), for 7 marks, dealt with the calculation of tax that would be paid by John and Janet Mlenga for the year ended 30 June 2010. This part was generally well answered, although some candidates did not separate the income tax on John from that payable by Janet. They aggregated the income and worked out the tax on the total income. This obviously resulted in higher tax liabilities as they both did not benefit from the lower tax bands.

### **Question Three**

This question dealing with value added tax (VAT) was in three parts. The question was for a total of 15 marks. On the whole, this question was not well answered, although some candidates answered this question satisfactorily. However, this was an exception than a rule. Generally it appears most candidates are not very conversant with the provisions of VAT.

Part (a) was for 8 marks and requested the candidates to list the transactions given and state if VAT would be charged on them. Further, they were requested to state whether the VAT charged would be claimable or not giving reasons.

Generally most candidates did not know which transactions would attract VAT. Further no reasons were given in most cases as to why VAT would not be charged or if VAT was charged why it would not qualify for claiming.

There was generally a lack of knowledge of the transactions that were taxable, exempt or zero-rated.

It is important that candidates should familiarise themselves with the differences between taxable, exempt and zero rated supplies.

Part (b) was for 4 marks and required the candidates to calculate the net input and output tax that would be claimable or payable by the company for the month of March 2010.

This was not well answered; it appeared the candidates were not familiar with the calculations. All the transactions were included and VAT charged in most cases. What was required was to net off the VAT on chargeable supplies against what was paid on input claimable.

Generally this part was not well answered.



Part (c) was for 3 marks and required the candidates to state the circumstances under which a tax payer is required to register for VAT. Most candidates answered this part reasonably well, although very few mentioned the transition from the turnover of K2 million and above to now at K6million

#### **Question Four**

This question was for 15 marks and was divided into two parts. Generally this question was well answered particularly part (a) (i) and part (b).

Part (a) (i), for 6 marks, was to state how the income or assessed loss of a person carrying on the business of insurance (other than life insurance) will be determined for tax purposes.

The first part was well answered. The majority of the candidates listing the income and the expenses that are considered in the determination of the taxable income or loss of an insurance business other than that involved in life business. However most candidates did not mention that expenditure incurred outside Malawi, if approved by the Commissioner, would be allowed.

On the whole this part of the question was well answered by a majority of the candidates.

Part (a) (ii), for 4 marks, was to calculate the taxable income from the figures given for Midi Insurance Limited for the year ended 31 December 2009, and this part was not well answered. What was required was for candidates to take the income that was taxable and then deduct the expenses as listed which were allowable from the list. The majority of the candidates that did not do well in this part of the question trying to arrive at the adjusted profits for tax and in the process got lost in the calculation resulting in the inclusion of transactions that would not be considered in arriving at the taxable income

Part (b), for marks, dealt with which expenditure incurred by a farmer would be allowed from taxable income. This on the whole was well answered.

The candidates who did not do well were sighting expenditure which was not related to farming as stipulated in the Act. The relevant expenditure is listed in the Act.

#### **Question Five**

This was a tax planning question, that dealt with tax to be paid by the employee and employer based on the basis of remuneration chosen. The question was for 15 marks. On the whole the performance in this question was varied. Some candidates performed well with the majority not doing so well. The situation could have been different if candidates had carefully read the requirements of the question. The question was divided into three parts.

Comments on the specific parts are as follows:

Part (a), for 2 marks, required candidates to calculate the tax which would be paid by the employee under the two options. Generally this part was well answered. Those who did not perform well on this part are those that included the fringe benefits as part of salary for PAYE workings

Although the question requested that tax on earnings should be for the year, there were candidates who provided monthly figures. This clearly shows that some candidates do not read the instructions given.

Part (b), for 7 marks, required candidates to calculate the tax that would be payable by the company on the emoluments payable to the employee. This is essentially fringe benefits that would be payable on the benefits, as PAYE is paid by the employee. Some candidates worked out the fringe benefits that would be payable by the company. As in (a) what was required for purposes of comparison was to work out the fringe benefits tax for a year.



Part (c), for 6 marks, required candidates to work out the best option for the company to remunerate the employee. This essentially required the candidates to work out the option that had the least cash outlay. The basis would be to calculate the amounts paid out for salaries and benefits, including the fringe benefits tax. This then would be offset by the tax savings from the expenses paid other than the FBT.

This part was poorly answered as most candidates did not work out the impact of tax savings on the total cash outlay to be suffered by the company.