

Examiners report

F6 Taxation (MWI)
December 2014



General Comments

The examination consisted of five questions which were compulsory. Question 1 was for 30 marks, question 2 was for 25 marks, whilst questions 3 to 5 were for 15 marks each.

Overall, the performance at this sitting was much better. This was more so as most candidates attempted all the five questions. Most candidates provided answers that addressed the requirements of the questions, the candidates that did not perform well were those that did not adequately address the requirements of the question or ignored the instructions given in the question. In such cases it was clear that the candidates did not fully read and understand the question and its requirements before starting to answer; this therefore resulted in them not fully addressing the requirements of the question being attempted. Some candidates had the tendency of giving explanations when the questions clearly requested them to compute or calculate.

The candidates who performed well were those who attempted all the five questions and demonstrated knowledge (even if only in part) in all questions. The majority of candidates attempted all the five questions. There were of course some candidates who attempted only parts of each question. A few candidates attempted only four questions. The structure of this paper is that all questions are compulsory; it therefore follows that candidates need to be familiar the entire syllabus.

Where questions were left unanswered by candidates, this appeared to be due to a lack of knowledge or poor exam technique, as opposed to time pressure.

Candidates performed particularly well in question 1(b) (c) (d),2 ,and 4 The questions candidates found most challenging were questions 1(a),(e), 3, and 5. This is mainly due to candidates not understanding core syllabus areas well enough; a lack of technical knowledge and also due to a failure to read question requirements carefully.

It is important that candidates cover all core areas of the syllabus. There is a tendency of most candidates giving out memorised answers, this is particularly so in value added tax (VAT) questions. The answers given in certain cases do not relate to the question.

A number of common issues arose in candidate's answers:

- Failing to read the question requirement carefully and therefore providing irrelevant answers which scored few, if any, marks.
- Failing to present answers in a logical and clear manner.
- Not labelling of answers or mixing answers from different parts of a question.
- Not starting each new answers to question on new page as per instructions.
- Unnecessarily splitting an answer to a question and spreading it over several pages.
- Inability to express ideas or opinions clearly.
- Inability to identify issues as presented before attempting to answer a question.
- Not learning lessons from earlier examiner's reports and hence making the same mistakes, especially in relation to presentation.
- Workings that do not tie in to other sections of the answers.
- Poor and ineligible handwriting making answers difficult to follow.
- Not properly splitting and presenting answers as was required by the question.
- Illegible handwriting and poor layout of answers.

Specific Comments

Question One

This 30-mark question was based on Madengu Limited, a company involved in the fabrication of irrigation equipment. The question dealt with the taxation of income generated by the company from its operations. The question was in five parts. Generally this question was well answered except for parts (a) and (e).

Part (a) for 3 marks required candidates to state how a sale of investments in a listed company are taxed and how the gain is calculated.

Almost all candidates attempted this part. However a majority of the candidates did not realise that capital gain for shares held in a listed company are only taxed if held for less than 12 months. Further, if the shares were held for more than 12 months there would be no need to work out the gain since this is an exempt amount.

Part (b) for 10 marks required candidates to calculate the capital allowances for the year ended 30 September 2014, clearly identifying the capital allowances claimable. Most candidates answered this part of the question very well and it was clear from the answers that most candidates were familiar with the application and calculation of capital allowances. There were of course some candidates who did not remove the cost of the office from the cost of additions of the factory since the cost exceeded 20% and as such did not qualify for capital allowances. With regard to the investment allowance some candidates did not differentiate between new and used assets as these are subject to different rates. 100% for new and unused qualifying assets and 40% for second hand or used qualifying assets.

Part (c) for 11 marks required candidates to compute the taxable profits for Madengu Limited for the year ended 30 September 2014. This involved candidates in adjusting accounting profits to arrive at profits that are chargeable to taxation. Generally this involved adding back to profits, expense items that were not allowable for taxation and allowing other items such as capital allowances and removing income which was not taxable for example, dividends, gain on disposal of listed investments and share of profits of associates credited to the income statement. This part of the question was well answered by the majority of candidates. However, a few candidates did not disallow the portion of the premium which was to be allowed in subsequent years, in this particular instance nine-tenth of the premium was to be disallowed.

Part (d) for 3 marks and required candidates to calculate the tax to be paid by Madengu Limited for the year ended 30 September 2014 and the due date for payment of the tax. This part was well answered, except for some candidates who deducted withholding taxes paid for purchases made by Madengu Limited for the year from the total tax paid. The withholding taxes paid by Madengu from purchases, are actually part of the cost of the purchase as Madengu is only operating as an agent. It would be deducted from tax by the respective supplier. There were also some candidates who deducted provisional tax paid from the taxable income before calculating the tax payable.

Part (e) was for 3 marks. This required candidates, to state the impact on the tax payable or refundable if 5% of the sales income was derived from exports. This was not well answered by a majority of the candidates who attempted this part. Most did not mention that the company would be entitled to export transport allowance and also 25% export allowance.

Question Two

This 25-mark question is on taxation of an individual, Miriam Maseko, who apart from employment income has income from other sources. The question was divided in four parts.

Part (a) for 4 marks required candidates to compute the taxable profits of Miriam's hair salon business for the year ended 30 June 2014. Mostly this part was well answered by a majority of candidates and they computed



adjusted profits for tax purposes by adding disallowable items. Further they allowed capital allowances as given in the question. However, there were some candidates who wrongly did not treat the purchase of hairdryers as of a capital nature, and are therefore disallowable.

Part (b) for 10 marks required the candidate's to calculate the taxable income of Miriam for the year ended 30 June 2014. This essentially involved aggregating all the income which was taxable in the hands of Miriam for the year. This was well answered, except there was a provision that if there were any non-taxable or non-allowable items should be indicated with a "0". This instruction was not well attended to by most candidates. Most candidates did not record such items on their answer, yet there are marks available for correctly showing these items as "0".

Part (c) for 7 marks required candidates to calculate the tax payable by Miriam for the year ended 30 June 2014. This part of the question was well answered. Candidates correctly used the income from part (b) to arrive at the tax that would be payable using tax rates applicable to individual, however there were a few candidates who wrongly used the rates applicable to companies. Tax credits were also applied; these mainly being taxes paid as withholding tax as well as PAYE on her employment earnings for the year.

Part (d) for 7 marks required candidates to calculate the reduction in the tax payable by Miriam if she married her boyfriend John, during the year. This part was generally not well answered by a majority of candidates. Most candidates did not approach this part in a logical manner. It is known that if she got married, her unearned income would be taxed on the husband. The straight forward way was to take the unearned income, which all would have been taxed at the higher rate; the result would be the tax saving less an adjustment for withholding tax on interest. A lot of candidates started on relocating her unearned income to the husband and adding this to the husband's income, and her earned income separately taxed on her and trying to work out the taxes, which did not give the expected result. In such questions it is important to think about what is trying to be achieved and think about an effective presentation format.

Question Three

This 15-mark question was testing the candidates understanding of VAT provisions.

Part (a), for 4 marks, required candidates to state any four transactions that would constitute a supply for VAT. There was a mixed performance in this part, some candidates answered well, while others did not as mostly they related this part to the transactions listed in part (b) of the question. The transactions are listed in the VAT Act and for those who were familiar with this Act, this area should not present a problem.

Part (b) was divided into two parts (b)(i) for 6 marks and (b)(ii) for 5 marks. Part (b)(i) required candidates to identify from a list of expenditure transactions which items were exempt, standard rated, zero rated or outside the scope of VAT. The majority of candidates did not perform well in this question because they did not follow the instructions given, for example a candidate would state taxable, without elaborating whether it was taxable at zero rate or at standard. It was also clear from some of the answers that the candidates did not understand the terms and therefore would just guess the answer. Candidates are advised to be familiar with the provisions of the VAT Act.

Part (b)(ii) was for 5 marks and this required candidates to work out the VAT payable by Dango Motors Limited for the June 2014. The performance in this part of the questions was poor; there were candidates who mixed input with output tax. Some candidates did not treat exports as zero rated and interest receivable as exempt. With regard to expenditure it was stated this should be grouped and this was not done. Some items of expenditure like purchase of furniture were omitted and yet they claimed VAT on the purchase of the motor vehicle for the salesman. This part at least on the expenditure followed on from part (b)(i)



The performance therefore in this part was not good. Once again the candidates did not follow the instructions given in the question paper.

Question Four

This 15-mark question was in three parts.

Part (a) for 3 marks required the candidates to give any three types of expenditure which if incurred by a farmer would be deductible expenditure from farming income. This part of the question was generally well answered. Most candidates listed at least two types although there were candidates who listed six types. Again candidates should follow instructions given.

Part (b) for 6 marks required candidates to state how the items that were listed would be treated in the income tax computation of Dziko Insurance Limited. This was generally well answered most candidates correctly stated whether an item would be treated as taxable income or excluded from income. With respect to expenditure they stated if it would be allowed for tax purposes or not. However, there were some candidates whose performance was not that good as mostly they did not know how the items would be treated or whether they were taxable or not. As an example, some candidates felt profit of sale of property would be taxable and yet, it was not included in income, but they respectively calculated a capital gain and taxed it as such. Similarly with expenditure some felt impairment was allowed and yet, as this results from loss in value of an asset, it is not allowable expenditure. Overall performance in this part was satisfactory

Part (c) was for 6 marks and required candidates to list six types of income that is exempt from taxation under the Taxation Act. The performance in this part was satisfactory, most candidates answered well. However, there were some candidates who failed to come up with a list and just concentrated on incomes of politicians. The Taxation Act has a comprehensive list of types of income that is exempt. One notable observation was on interest where the majority of candidates stated the first K10,000 of interest received is exempt, but the exemption is not wholesale as this applies only to interest received by individuals.

Question Five

This 15-mark question dealt with tax planning. It involved giving advice to Mayamiko on the management and possible sale of his properties. The question was divided into three parts; part (a) for 5 marks, part (b) for 8 marks and part (c) for 2 marks. Generally this question was not well answered. The specific comments on each part are as follows:

Part (a) required candidates to work out the tax payable from the rental of the property as at 30 June 2014, on the assumptions that none of the properties were sold and that he had no other income apart from the rental income. Most candidates did not perform well on this part as they did not build in the rental increase stated in the question and further some candidates did not adjust the income for property 4 to only 9 months.

Some candidates wasted a lot of time in working out the maintenance costs against each property instead of applying the 25% to the total income for all the properties. Some candidates did not deduct the K50,000 advertising costs to find a tenant for property 4. Tax payable was to be at rates applicable to individuals and not at a flat 30% which is a rate applicable to companies.

Part (b) required the candidates to work out any increase in tax as a result of Mayamiko selling the two properties on 1 July 2013. The first stage of the answer was for the candidates to work out the capital gain. This was well answered by a majority of the candidates. Most candidates knew how to apply indices to adjust the cost to value on 1 July 2013. The second stage was for the candidates to work out the increase in tax. This part was not well answered, as most candidates did not add to the capital gain the rental from property 3 and 4 and make appropriate deductions for maintenance costs and advertising costs. The tax would then be worked on the total income. The total tax arrived at should have been compared to the tax worked out under part (a). This would be the increase in tax as a result of the sale of the two properties. Overall again this was not well answered.



Part (c) required candidates to advise the date by which Mayamiko must submit his self assessment return and pay the balance of tax. This part was for 2 marks. Overall the majority of the candidates stated correctly that this must be done within 180 days from the end of the year of 30 June 2014, in which case it would have to be done by 31 December 2014 and the tax paid by the same date.