STRICTLY CONFIDENTIAL

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

DECEMBER 2015 EXAMINATIONS

PROFESSIONAL LEVEL

PAPER B4: TAX COMPLIANCE

EXAMINER'S REPORT

INTRODUCTION

This report presents feedback to ICAM and students on the candidate's performance in the examination with proposals on how shortfalls noted may be rectified. The Tax Compliance examination paper is marked out of 100 marks. It consists of two sections, A and B. Section A consists of two compulsory questions each carrying twenty marks. Section B comprises four questions each carrying twenty marks and the candidates are required to attempt any three questions.

CANDIDATES PERFORMANCE

Seven candidates sat the paper and four of them obtained a pass.

Candidates showed lack of understating of the tax laws, generally, and the computations were not well presented in terms of format and knowledge. The questions were varied and covered the entire syllabus which included corporate taxation, capital allowances, value added tax, foreign gains and losses, estate duty and computation of tax for individuals.

COMMENTS ON INDIVIDUAL QUESTIONS

QUESTION 1

This question expected the candidates to calculate capital allowances spanning a period of two years for a new company and taxable income of a limited company by adding back non allowable expenses and deducting those allowances that had not yet been deducted.

(a) Candidates did not see the need to calculate capital allowances for two years. The examiner expected capital allowance calculations for the year to 30 June 2013 and then to 30 June 2014 using the previous year's tax written down values. Candidates lost valuable marks because of the error explained above.

(b) The computation of taxable income was well done, generally, as candidates added back the right amounts and deducted the right expenses or incomes.

Candidates are advised to be familiar with this type of question as it will always be part of the examination and the rules for deductibility or non deductibility of expenses must be well revised before candidates attempt the examination.

QUESTION 2

This question was in two parts; one on foreign exchange gains and losses and another on comparison of employment income from two employers.

(a) The deductibility of foreign exchange gains and losses was well done by the candidates.

(b) The computation of the incomes from the current employer and the prospective employer was well done except that some candidates mixed up the treatment of benefits. The examiner expected them to calculate incomes less pension to get the disposable income and then add benefits. The decision was to be based on the two totals, with benefits and without benefits. It was important also to note that the current employer had no car benefit for private use as the car was used for business only.

QUESTION 3

This question was on VAT.

(a) The part of the question on records was well done by the candidates even though some only mentioned one type of records like sales, purchase, cashbooks, and not others, to earn full marks.

(b) Candidates were supposed to state the circumstances under which VAT may be claimed on stocks and capital goods. Candidates failed to state the circumstances. The examiner was looking for specific period like four months before date of registration for stock and six months before registration for capital goods.

(c) The narrations were not clear and the candidates failed to calculate the output tax. Candidates are advised to revise this area of the syllabus as they completely missed the correct answer.

(e) Appeal process to the special arbitrator: some candidates included the courts which was not correct. The question mentioned the special arbitrator. That should have acted as a clue to the candidates.

QUESTION 4

This question was on foreign exchange gains and losses and was a popular choice in part B.

(a) This part was well answered in terms of calculating the gains or losses.

(b) The computation of the taxes was not well done as candidates were not able to calculate the excise duty and VAT on top of the value for duty purposes plus duty but rather calculated separately on the cost price, which was not correct.

(c) The reasons given for importation of goods was not well done as some gave reasons like "subject to the Commissioners approval" which was not right. However, the documents used for clearing goods were well listed.

QUESTION 5

This question was on the income and tax of a married couple.

(a) The calculation of total income was well done by the candidates except that some incomes were missed out by some candidates.

(b) The computation of the additional tax to be paid was well done by the candidates who had included all incomes in part (a) above.

QUESTION 6

(a) The definition of Testacy was well done.

(b) The definition of domicile of choice and factors taken into account to prove domicile was well attempted by most candidates.

(c) The admissible deductions under estate duty were not well.

(d) The fundamental principles were well done by almost all candidates.

CONCLUSION

Generally the paper was well attempted. Candidates are advised to revise, read and understand all the tax rules as Malawi tax has got strict rules in relation to the various areas of tax.