

**STRICTLY CONFIDENTIAL**

**THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI**

**DECEMBER 2014 EXAMINATIONS**

**ACCOUNTING TECHNICIAN PROGRAMME**

**PAPER TC10(B): TAXATION**

**EXAMINER'S REPORT**

**GENERAL COMMENTS**

The candidates' scripts were of varying quality, reflecting varying degrees of knowledge and understanding of the subject matter and the prior preparation for the examination. The common weakness amongst the candidates continues to be the fact that they fail to attempt all parts of the questions that they choose. Some candidates also give memorized answers which do not answer the question as asked. Grammatical errors continue to be a disappointment. One would expect students at diploma level to be able to correctly spell key words and provide answers in correct English.

All in all, a good number of candidates demonstrated a good understanding of the main tax principles. The layout of the answers also showed evidence of preparedness for examinations.

Candidates performed better in the computation of corporate tax with correct add backs and deductions, capital allowances, fringe benefits tax, foreign exchange gains and losses. However, they were less comfortable with elements of tax administration. Consequently many candidates avoided question 7 in which the performance was also dismal.

**COMMENTS ON INDIVIDUAL QUESTIONS**

**QUESTION 1**

This was a compulsory question which asked the candidates to compute taxable income based on a given profit and loss account, to calculate corporate tax liability and tax on dividends. On average many candidates scored good marks.

In part (a) many candidates were able to add back disallowable expenses and then subtract the allowable expenses, adjusting from an accounting profit to a taxable income. The layout was also good.

In part (b) the computation of taxable income was generally well done even though some candidates missed out by using individual tax rates instead of the corporate rates as required.

In part (c) the computation of the tax on the dividend declared by the subsidiary and tax on dividend by Lilongwe limited was generally not well done by most candidates and there is need for more revision in this area as some candidates simply multiplied by 30% or 10% without following the logic.

In part (d) the examiner was looking for the confirmation that the register contains notices of assessments and in the second part the correct answer is Auditor General and taxpayer.

## **QUESTION 2**

Part (a) (i) This question was on the computation of capital allowances and was well attempted by most candidates, save for the computation of the additions on the factory building which was under 20% (when computing the ratio the requirement is that the non allowable part should be equated to the sum of the brought forward figure and the total addition and not only compared to the additional sum). Candidates also lost marks on the investment allowances computation for the same reason that they only deducted K5 million instead of the K6.5 million.

In part (b) the computation of foreign exchange gains and losses was well done by a good number of candidates. However, a few just calculated the total combined net loss instead of the loss or gain on individual transactions by date. Candidates are advised to pay attention to the requirements of the question. Some candidates lost valuable marks because they did not address the requirements of the question.

## **QUESTION 3**

Candidates who attempted this question performed fairly well. The question demanded that students show their knowledge and application of Value Added Tax (VAT) in general.

In particular, candidates were requested to state when a person can register for VAT, when the Commissioner General can decline a person's registration under the voluntary registration, an application of the taxable and exempt expenditures and revenue for VAT purposes. Candidates were supposed to calculate VAT on all expenditure except for salaries, water and postal services which are exempt. They were also supposed to calculate VAT on local sales at the standard rate of 16.5% and at 0% on export sales since they are zero rated.

In the last part of the question, most candidates failed to articulate the conditions which must be fulfilled by a taxable person, who is not a motor vehicle dealer, to enable them claim input vat tax. These include: being in the business of hiring of motor vehicles, selling motor vehicle spare parts wholly, exclusively and necessarily to his business.

#### **QUESTION 4**

This was the most popular question amongst the candidates. However, the performance was just average. In general, the candidates performed well on how fringe benefits can be reduced but had challenges stating the tax implication to the employer, of providing benefits to employees, which include the fact that Government, as an employer, is exempted, but the rest are liable to pay fringe benefits tax on total taxable values of those benefits at a rate specified from time to time.

Again most candidates had challenges computing taxable values on unfurnished accommodation that is owned by the employer. Candidates were expected to use 50% of the greater of 10% of salaries and market rental values. The computation on motor vehicles was well done, on average, just like school fees – 15% of cost of vehicles and 50% of the school fees respectively. Garden boys and watchmen did not constitute taxable values on account that the benefits were paid to them and the house was owned by the employer. Cook and DSTV were meant to be the actual cost to the employer.

#### **QUESTION 5**

The question tested the candidates' knowledge and application of pay as you earn (PAYE) and withholding tax computations in general. Specifically, candidates were asked to state the difference between direct and indirect taxes. Direct taxes are those that are levied on income and wealth whereas indirect taxes are charged on goods and services. Examples of direct taxes include income tax, estate duty, rates and wealth or property tax whereas those for indirect taxes include customs and excise duty.

Candidates were asked to recalculate the withholding tax which had been incorrectly calculated. They were expected to use a rate of 15%. The consequences of not calculating withholding tax properly is a penalty of 20% on the tax that has not been paid and the tax itself. Non operation of withholding tax regimes is an offence punishable by a fine of K1,000. Finally, some students failed to compute income tax from the tables. Generally the performance on this question was not very good.

## **QUESTION 6**

This question was also poorly answered. It was also not popular amongst candidates. The question tested the candidates in three areas of objectives of taxation, deductibility of expenses and capital gains and losses.

On objectives of taxation, candidates were tested on how Government recently used taxation to achieve various social-economic targets. This was not a textbook question. It required the candidates to apply the knowledge of tax and that of economics. Even though at the end of the day Government raised money, it was not the primary objective. For instance, investment allowance was increased with a view to encouraging both local and foreign investment. Increasing the export allowances primarily meant to maximize foreign exchange generation. Increasing the tax-free threshold was meant to maintain the buying power of the taxpayers. Increasing the excise tax rate on alcohol packed in sachets and plastic bottles was meant to discourage consumption of undesirable products (reduce the medical bills which go up because of those who go to hospital after suffering from alcohol related illnesses and also make citizens productive – if they stop consuming these products which make them less productive). Students were also tested on their knowledge of section 28 on the deductibility of expenses. They were supposed to state the conditions for expenses to be deductible. Candidates had challenges to state when gains or losses are not recognized on disposal of capital assets. The Act says that the allowable capital loss is restricted to the lower of the capital loss and capital gain and the balance is carried forward. However, if the assets in question attracted capital allowances, there is no restriction on deductibility.

## **QUESTION 7**

As stated earlier, this question was not only the most poorly answered but was also the least popular. It called for the candidates' knowledge on the rules of double taxation, procedure for appeal by the taxpayer, functions of a customs officer and methods of customs valuation under the new GATT valuation system.

The circumstances for appeal were not well explained. The examiner was looking for key words like “assessment” “determination” and “decision by the Commissioner General”. Under the GATT valuation methods, the examiner was looking for key words such as “identical” or “similar” goods.

## **CONCLUSION**

The overall performance was not too bad. Many questions were set from familiar areas of the syllabus. Candidates who had prepared well scored good marks.

## **RECOMMENDATIONS**

- (1) Candidates are encouraged to receive tuition in tax as first timers would have difficulties to understand the principles of taxation.
- (2) Candidates/teaching institutions are encouraged to cover the whole syllabus. As can be seen from the paper, questions were set from many areas of the syllabus.
- (3) Candidates are encouraged to be precise in their use of the terms/vocabulary as tax rules are strict.
- (4) Candidates are encouraged to follow developments arising from the budget session of Parliament as the Minister of Finance normally uses that session to announce new tax measures.
- (5) Candidates should try to understand a question before attempting it. There are instances where candidates fail to answer a question as asked. Instead, they reproduce notes relating to the topic, without actually addressing the question.
- (6) Candidates should try, as much as possible, to improve their handwriting and language skills.

