

STRICTLY CONFIDENTIAL
INSTITUTE OF CHARTERED ACCOUNTANTS IN
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ACCOUNTING TECHNICIAN PROGRAMME
PAPER TC 10 B: TAXATION
EXAMINER'S REPORT

Introduction

This report presents feedback to PAEC and students on the candidate's performance in the examination with proposals on how shortfalls noted may be rectified.

The Taxation (TC 10B) examination paper is marked out of 100 marks. It consists of two sections, A and B. Section A consists of two compulsory questions each with twenty marks. Section B comprises five questions each carrying twenty marks. The candidates are, however, required to attempt any three questions only.

Candidates Performance

The candidates performance was generally poor, lower than that achieved in December 2013. Only 41% of the candidates got a mark of 50% and above. Out of the 884 candidates who sat for the examination countrywide, only 363 passed. The candidates demonstrated lack of understanding of the major tax principles and were also not able to present the layout as required in some questions like the add backs and capital allowances.

Candidates performed well in the computation of tax for a corporate with correct add backs and deductions, fringe benefits tax, individual tax computation, foreign exchange

gains and losses, clubs and societies and capital allowances computation but were not comfortable with Value added tax , excise tax and duty computations.

It is expected that at this level the candidates should be conversant with all areas the syllabus.

COMMENTS ON INDIVIDUAL QUESTIONS

QUESTION 1:

Part a - Candidates were asked to compute taxable income for a limited company.

Part b - Candidates were asked to state when provisional tax is not payable.

Part c - Candidates were requested to list any inadmissible deductions under section 45.

This question was badly done. Students demonstrated lack of knowledge of the rules for:

- Deductibility of expenses for tax computation and conditions where provisional tax is not payable by a taxpayer. Some candidates used old tax thresholds
- Treatment of realized and unrealized exchange gains and losses, training allowances and expenditures that are not allowed under section 45 of the taxation act.

QUESTION 2:

The few that failed this question had challenges ranging from when investment allowance is given to the due dates and related penalties on PAYE, provisional tax, fringe benefit tax and withholding tax.

Most candidates managed to score good marks as they were able to clearly calculate the requested allowances as well as computing the gains and losses, but most candidates failed to clearly explain the requirements of the various

income tax rules mainly with regard to the due dates as well as the penalties involved.

Candidates are advised to be conversant with all basic taxes in terms of the rules relating to these together with penalties for non compliance. The examiner expects the candidates at this level to know these.

QUESTION 3

The question was on bad debts and computation of realised and unrealised gains and losses including conditions that should apply for them to be allowed.

The question required the candidates to show their knowledge and application on what the phrase “wholly, exclusively and necessarily” means in relation to allowable expenditure; when are debts bad and doubtful; treatment of capital loss vis-à-vis capital gains; the treatment of capital loss and gains for assets on which capital allowances were claimed; conditions when the Commissioner General can estimate a taxpayer’s income and examples and forms of penalties.

In part b (i) many candidates lost marks because they did not use the key words that were being looked for by the examiner i.e. ‘proved to be bad’, ‘satisfaction of commissioner’ and “included in the year of assessment or previous year.

The worst performance was recorded in this question.

QUESTION 4.

Part a - candidates were asked to state the conditions that must be met for clubs, societies and associations to enjoy exemptions available in the 1st Schedule of the Taxation Act.

Part b - candidates were required to compute the taxable income of a sports club for the year to 31 Dec 2012.

Part c - asked candidates to “define fringe benefit tax” and to state whether any contribution by an employee has any effect on the employer and employee.

Students did very well in general on what a club needs to do to become exempt for tax purposes and how tax is computed for a taxable club. Most students were also able to compute both the taxable income and tax payable for a given taxable club. Those that did not do well on this question, had challenges on the definition of a fringe benefits tax, the fringe benefit tax implication of the employee contributing towards a fringe benefit and also the implication of the employer providing an employee, as a benefit, property that is owned by the employer.

Overall, question was well answered.

Question 5

Part a- Required the candidates to state the common features and differences of exempt and zero rated VAT taxpayers.

This was well answered by most candidates.

Part b- Candidates were requested to explain how a supply can become a relief supply. *Most candidates had problems with this part as they referred to the President or Vice President as those who may have relief supply.*

Part c- Candidates were requested to explain the circumstances that would enable a taxable person for VAT qualify for input tax deduction in respect of taxable supply of motor vehicles or motor vehicle spare parts.

Most students did well on this question

Question 6

Part a - Candidates were required to state the expenditures that are allowable in determining the taxable income from pastoral, agricultural or other farming operations. *This was well done by most candidates*

Part b - The examiner tested the candidate's knowledge of section 58(4) of the taxation Act in relation to timber growing. *This was badly attempted by candidates and most of them avoided it.*

Part c - Candidates were asked to calculate foreign exchange loss or gain on payments made during a given period. *Most candidates did well on this question.*

Overall the performance was good in this question.

Question 7

This question basically asked the candidates to define mining expenditure and the allowability of the same

It is also required the candidates to compute mining allowances and state the grounds on which a taxpayer can appeal to the Commissioner and the difference between direct and indirect taxes.

Very few candidates attempted this question and those that did, performed poorly particularly on the definition of mining expenditure.

The performance was better on the other part of the question that dealt with the Administrative conditions of the taxation act in terms of appeals.

Conclusion

Overall the paper was very fair with a lot of question being those that had been asked before and most candidates that prepared well had no problems passing the question paper.

RECOMMENDATIONS

- Students are encouraged to as much as possible to attend lessons on tax as the subject would be difficult to study on one's own.
- Students are encouraged to study and revise the whole syllabus since tax is cumulative and therefore one cannot choose and select topics for exams purpose
- Students are encouraged to be very exact on tax as rules are very strict, unlike other subjects.