

STRICTLY CONFIDENTIAL

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

JUNE 2016 EXAMINATIONS

ACCOUNTING TECHNICIAN PROGRAMME

PAPER TC10(B): TAXATION

EXAMINER'S REPORT

GENERAL COMMENTS

Overall, the candidates' performance continues to improve compared to those of the previous sittings, and many candidates have done well in this diet. Candidates showed understating of the tax laws and the computations were well presented. The paper was of the appropriate level and most computations were presented in the correct format. Candidates showed good understanding of the subject matter.

COMMENTS ON INDIVIDUAL QUESTIONS

QUESTION 1

This question required candidates to calculate capital allowances and taxable income for a limited company involved in mining business. On average, this question was well attempted. However, challenges bordering on application skills were generally observed. Specifically, the candidates failed to use the right criteria to make a determination on whether or not expenditures incurred by the company on offices should be deemed to be part of the industrial building. Similarly, a lot of candidates did not know that expenditures by a mining company, which meet certain criteria, qualify for mining allowances and not capital allowances.

Furthermore, some candidates did not know the rules on deductibility of expenses i.e. provisions (the question had production and severance provisions), taxes (vat on packaging materials), unrealized gains (from conversion of a foreign receivable) and mining allowances.

Some candidates used wrong rates for the group of items, though these rates were given as part of the question paper and therefore, it was expected to have uniform answers.

The computation of the non industrial part was not done well by most candidates, as they did not add the written down value in computing the ratio, therefore, did not exclude it from the addition.

Candidates should learn the rules for deductibility or non deductibility of expenses before sitting for the examination.

QUESTION 2

This question was on types of taxes, conditions necessary for premium, bad debts and initial business expenses to be deductible and income tax calculation.

This was another question, which the candidates did well. Although the good performance, candidates failed to give examples of direct taxes. Most of them gave PAYE and withholding tax which are examples of tax collection methods.

Most candidates failed to competently articulate the conditions necessary for premium and initial business expenditures to be allowed as a deduction. Some confused these with capital allowances.

The computation of taxable income was well done by most candidates, but some used wrong rates for tax computation i.e. K120,000 as tax free threshold. It is advisable to use the given rates always.

QUESTION 3

This question, on taxation of clubs and societies and also estimation of taxable income by either the taxpayer or the Commissioner General, was very popular and well answered.

There were no major challenges. However, a few candidates gave the impression that they had either never learned this area of the syllabus or had not thoroughly read and revised it.

There was a major problem in giving reasons as to when a taxpayer may estimate his/her taxable income and when the Commissioner General may do that. The candidates mixed up the responses.

Candidates are advised to revise thoroughly the areas of the syllabus on tax administration.

QUESTION 4

This question was very unpopular so that the few who attempted it did not do well.

The question covered a cross section of tax issues ranging from taxation of farmers and cooperatives to withholding tax and PAYE.

Most candidates demonstrated lack of knowledge of all areas of this question. Candidates need to be well versed in the taxation of cooperative societies, the penalties applicable for all tax types as these are examinable areas.

QUESTION 5

The candidates' performance in this question was good. However, the general challenge which affected almost all, including those that passed the question, bordered on failure to identify goods that are exempt, zero rated and taxable.

In addition, many candidates failed to calculate VAT properly, demonstrating lack of skills in mathematics. Candidates were not able to compute VAT where it was inclusive and they used 16.5% throughout, which was incorrect.

Besides, most candidates failed to name the due date for withholding tax in relation to the case that was given in the question. They provided the date as if it was a general question.

Candidates are advised to revise the VAT Act together with withholding taxes and be familiar with the rules applicable, to be able to give the required responses.

QUESTION 6

This question was on fringe benefits tax. This is the question in which the candidates scored the highest marks in this paper. Minor challenges, though, were observed where candidates failed to explain the tax treatment where an expatriate's leave passage was refunded. The ways of avoiding Fringe Benefits tax was also another problem as some candidates mentioned contributing towards the benefit as the suggested answer. This is not avoidance, it is reduction, and therefore, not correct.

QUESTION 7

This question was also very unpopular among candidates, hence, candidates scored the lowest marks.

Candidates continue to demonstrate their lack of knowledge of how to compute customs, excise and VAT on imported goods and services. The excise tax is calculated on top of the value for duty plus duty, and again, VAT on the total value of VDP, Duty and Excise.

In addition the candidates demonstrated that either they did not learn or read and revise the topic on customs duty. This is evidenced from the

failure by candidates to give reasons why goods are imported and also to mention examples of documents that are commonly used in customs clearing and importation of goods and service.

CONCLUSION/RECOMMENDATION

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

Candidates must cover the whole syllabus before attempting examinations.

Candidates must time their work. A number of candidates ran out of time, therefore, did not complete the questions.

