

STRICTLY CONFIDENTIAL

INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

DECEMBER 2019 EXAMINATIONS

ACCOUNTING TECHNICIAN PROGRAMME

PAPER T3.3: TAXATION

EXAMINER'S REPORT

GENERAL COMMENTS

The paper was balanced and items were from different parts of the syllabus. Students were required to display a range of skills and knowledge. The performance of the candidates, however, was below average. Most candidates demonstrated that they were poorly prepared and therefore failed to articulate tax rules and were unable to apply them in scenario based questions.

COMMENTS ON INDIVIDUAL QUESTIONS

Question 1:

This question required candidates to mention documents that are commonly used in the customs clearance of goods, persons or bodies to whom an aggrieved tax payer can appeal, explanation of how tax payable of a club or association that is taxable is determined and to compute taxable income for an individual.

- a. Most candidates were able to mention the documents that are commonly used in the customs clearance of goods.
- b. Most candidates got high marks but some candidates mentioned the High Court of appeal and others mentioned the Commissioner. Both groups lost marks as the two are not the same as Special Arbitrator and Commissioner General respectively.
- c. Most candidates demonstrated lack of knowledge on how taxable income of a club or association that is taxable is determined. This could have been due to inadequate syllabus coverage.

- d.
 - i. Computation of taxable income for an individual was poorly done by most candidates. Most candidates used the format for sole trader or company by starting with the profit per the accounts then adding back disallowed expenses. This was wrong. The correct method for computing individual taxable income is to list taxable income in order to arrive at assessable income then determine taxable income by deducting allowable expenses from the assessable income.
 - ii. Most candidates failed to articulate reasons why income or expenses were not being added or deducted to arrive at taxable income as required. Candidates should be conversant with these rules.

Question 2:

The question was on computation of capital allowances, similarities and differences between zero rated and exempt supplies and computation of VAT.

- a.
 - i. The computation of capital allowances on staff housing was well done except that some candidates computed investment allowance instead of initial allowance as the staff house was not entitled to investment allowance. Secondly, most candidates did not reduce the total claimable allowance to one third considering that the staff house was occupied by someone who was not employed on a full time basis by the company.
 - ii. Most candidates also failed to articulate the reasons for reducing capital allowances claimable on the house to one third as stated in a(i) above.
- b.
 - i. The similarities between zero rated and exempt supplies were generally well done.
 - ii. Most candidates articulated the differences between zero rated and exempt supplies.
- c.
 - i. Computation of VAT payable was well done except that a few candidates forgot that export sales are taxed at zero and that postal services are exempted.

- ii. Most candidates were able to compute the VAT payable. Common mistakes by some candidates were that they included VAT on the saloon car and hotel accommodation in the input VAT computation which are both not claimable according to the rules.

Question 3

This question required candidates to define non-resident tax, describe customs valuation system and compute duty on the importation of a car.

- a. The definition of non-resident tax was well done.
- b. Most candidates failed to describe the customs valuation system in Malawi possibly due to inadequate syllabus coverage.
- c.
 - i. Calculation of customs duty was well done.
 - ii. Excise tax was generally well done except for some candidates who forgot that it is calculated based on the FOB plus customs duty.
 - iii. Most candidates were able to calculate VAT, a few candidates did not calculate it on FOB plus Customs and Excise duty.
 - iv. Landed cost was well done.

Question 4

This question was on fringe benefits tax, withholding tax and PAYE.

- a. Computation of fringe benefits tax (FBT) was well done. However, some candidates failed to remember that the taxable value of a car is based on the original cost and not the current cost, medical costs are exempted from fringe benefits tax and that the question required them to compute FBT for the quarter.
- b. The differences between withholding taxes and PAYE in terms of who operates, the due dates, offences and penalties were well done.

Question 5.

The question was about Malawi Customs Tariff, conditions that must be met for a taxpayer to claim investment allowances and the conditions that traders dealing with excisable goods must abide by.

- a. Functions of the Malawi Customs tariff was well done by most candidates.
- b.
 - i. Most candidates performed well on conditions tax payers must meet to claim investment allowances.
 - ii. Most candidates also performed well on
 - 1. Identification of assets on which investment allowances are claimable
 - 2. Calculation of investment allowances on assets identified in 1 above
 - 3. Allowances that would be claimed on other assets
 - 4. Computation of the allowances mentioned in 3 above. However, a few candidates missed the point that initial allowances are not claimed on passenger or saloon vehicles.
- c. Most candidates gave wrong answers on the conditions that traders dealing with excisable goods must abide by and therefore they lost marks.

Question 6

The question was on excise tax, foreign exchange gains and losses and basis of taxation in Malawi.

- a.
 - i. The definition of excise tax was well done by most candidates. A few candidates made wrong guesses and therefore lost marks.
 - ii. The importance of excise tax to government was correctly done.
- b.
 - i. A few candidates were able to articulate the rules used to determine the inclusion and deductibility of foreign exchange gains and losses. Most candidates had inadequate knowledge.
 - ii. On limitation of deductibility of foreign exchange losses, most candidates demonstrated that they had inadequate knowledge in this area.

iii.

1. Most candidates failed to compute foreign exchange losses realized on 30 May, 2017. Some candidates were either using the wrong amount i.e. \$200, 000 instead of \$170, 000 or did not know how to solve it.
2. Some candidates used the wrong amount at year end i.e. \$200, 000 or \$170, 000 instead of \$30, 000. Others used wrong rates i.e. K700 and K850 instead of K680.
3. Since most candidates failed to compute both exchange losses under 1 and exchange gain under 2, they could not attempt part 3.

c.

- i. The basis of the Malawi tax was well done.
- ii. Most candidates demonstrated knowledge of the basis of the Malawi tax system by correctly stating the jurisdiction under which the given incomes in the question would be assessed for tax.

Question 7

Candidates were required to state the type of tax that is deducted from a salary, compute tax payable on a salary, state the characteristic of tax deducted from a salary and mention reasons for which government introduced taxes on salaries.

- a. Most candidates were able to mention the type of tax that is deducted from salaries. However a few mentioned PAYE as a type of tax instead of income tax and therefore got it wrong.
- b.
 - i. The computation of tax from a salary was well done by most candidates. However, some candidates ignored the instructions by computing tax using annual income instead of monthly income as demanded by the question, hence lost some marks.
 - ii. Most candidates were able to compute by how much tax was under deducted.
- c.
 - i. The characteristic of income tax was well done by most candidates.
 - ii. Advantages of progressive taxes were also well done.

- d. The reasons for which government introduced taxes on salaries was well done by almost all candidates.

Recommendations

(a) Tuition Providers Should

- i) cover the syllabus thoroughly using up to date manuals because tax rules change.
- ii) find better and simpler ways of teaching tax issues so that candidates understand the content better especially VAT, Customs Duty and Excise Duty. Most candidates have demonstrated that they have poor knowledge in these areas.
- iii) Emphasize both knowledge and application (using case studies) in their teaching so that candidates can also develop these skills; and
- iv) Adequately prepare candidates by according them opportunities to practise on questions that require application of different skills and knowledge

(b) Candidates should

- i. Avoid concentrating on particular topics and leaving out other areas as the examiner sets questions from all topics in the syllabus. Revise even on basic information like functions of MRA
- ii. show their workings in their answers to earn more marks
- iii. Adequately prepare for examinations through reading, group discussions and revising the entire syllabus using up to date manuals for Taxation
- iv. Time their work to avoid running out of time and therefore not finish the exam;
- v. Thoroughly read and understand the requirements of questions before attempting them so that they can provide the correct answers;
- vi. Ensure that they use legible handwriting to avoid losing marks because of poor handwriting;
- vii. Read and follow instructions for the whole question paper and also for the sections.

