

EXAMINER'S REPORT
FINAL EXAMINATION - JULY 2014
(58) Taxation

Question No. 01 - (Marks Allotted 35)

1.1. WHAT IS TESTED

Income tax computation of a private limited liability company.

1.2. PERFORMANCES BRIFLY

This question consists 35 marks. Average marks earned were around 18-20. Almost all the students have attempted this question

1.3. REASONS FOR UNSATISFACTORY ANSWERS

- Almost all the students had not computed the adjustment relating to the interest paid to the parent company.
- Very poor answers were received on disposal profit calculation.
- Management fees adjustment was also not properly attempted.
- Some students have taken legal fees on debts recovery as a disallowed item.
- Some students had disallowed advertising on paper for supplier registration.
- The adjustment relating to previously written off staff loans recovered during the year also not properly taken into the tax computation.
- Wrong rates for depreciation allowances were used. As per the question, some assets were fully claimed and some students calculated the capital allowance for those assets also.
- Wrong income tax rates were applied.

1.4. HINTS TO IMPROVE THE PERFORMANCE

Students must have to practise these type of questions specially from past papers & they must have to give clear reasons for allowable and disallowable expenses.

Question No. 02 - (Marks Allotted 30)

2.1. WHAT IS TESTED

Computation of income tax of an individual.

2.2. PERFORMANCES BRIFLY

Most of the candidates were attempted this question. This question consists 30 marks.

Average score was 18- 20.

2.3. REASONS FOR UNSATISFACTORY ANSWERS

- Accommodation and the air tickets provided by the company was not treated properly.
- Rent free house and the furnishing benefit given by the company were not taken into the tax Computation.
- Additional exemption of Rs. 100,000/- was not considered.
- Sale of trees (non recurring-capital gain) was taken into the tax computation.
- Fixed deposit interest – Exempt for senior citizens was also taken into the tax computation.
- Dividend received on a unit trust was also taken as a source of income though it was an exempt income.
- Credit card interest has been taken into the tax computation as a deduction.
- Some students have deducted capital repaid on housing loan as a deduction.

2.4. HINTS TO IMPROVE THE PERFORMANCE

- Students must have to get a proper knowledge about what is deducted & what is not deducted when preparing the income tax computation for an individual.
- They must have to practise various questions to get the better understanding.
- They must update their knowledge by reading and practicing the current changes of the Income tax law.

Question No. 03 - (Marks Allotted 16)

3.1. WHAT IS TESTED

This question was tested the following areas

- (A) (a) Distributable profit.
(b) Maximum dividends to be declared to avoid tax on under distributable profit
(c) Deemed dividend tax liability.
- (B) Turnover threshold to register for V A T

3.2. PERFORMANCES BRIFLY

- Performances for the section(A) were very poor. Around 5 %-10 % of the candidates were able to answer correctly. Average marks scored were 02-04 for this section.
- Around 60 % of the candidates were able to give the correct answer to section (B).

3.3. REASONS FOR UNSATISFACTORY ANSWERS

- Students were not properly understood how to calculate the distributable profit, and the deemed dividend tax liability. Further they have not followed the correct steps to calculate the above.
- Some students were computed the deemed dividend tax liability by using the company income tax rates.
- Some students were not in a position to apply the correct depreciation component (Accounting depreciation) when computing the distributable profit.

3.4. HINTS TO IMPROVE THE PERFORMANCE

Students must practise these type of questions with various details/figures. Then only they are in a position to understand the correct method of computing the distributable profit and the Deemed dividend tax liability.

Question No. 04 - (Marks Allotted 11)

4.1. WHAT IS TESTED

- (A) (a) Due dates for payments of income taxes for the year of assessment 2013/2014
(b) How can the company avoid to pay penalties under self assessment scheme.
- (B) Advantages of filing the return of income tax before the due date.

4.2. PERFORMANCES BRIEFLY

- (A) (a) Around 40%-50% of students were able to give the proper answer for the due dates of the Income tax payments. .But most of them were not able to indicate that the quarterly payments are based on the $\frac{1}{4}$ of the tax payable for the previous year .Average score for this Question was around 03-04 out of the allotted 06 marks.
- (b) Though this part was an easy, most of the candidates were unable to give the correct answer for this section.
- (c) Around 30 % of the students were able to score full marks for this part.

4.3. REASONS FOR UNSATISFACTORY ANSWERS

- (A) (a) Some of the students had given the wrong dates for payment of income taxes.
(b) Most of the students had not properly understood this part of the question.
- (B) Some of the students have given answers such as
- Tax authorities will consider this company as a good tax paying company.
 - This company will consider as a honest company.

4.4. HINTS TO IMPROVE THE PERFORMANCE

Students must prepare for this type of practical questions. They must read the notes properly & find out how things are happening practically.

Question No. 05 - (Marks Allotted 08)

5.1. WHAT IS TESTED

- (A) (a) Conditions that should be satisfied for an individual to be considered as a child,
(b) Person to whom a child's income is aggregated.
- (B) Computation of N B T

5.2. PERFORMANCE BRIEFLY

- (A) (a) Most of the candidates were able to answer this part of the question. They have a fair Knowledge about the concept of a child .Most of the students were able to score 02 marks out of the allotted 03 marks.
- (b) Most of the students scored allotted marks. Majority has given some answers such as the income should be aggregated to the person who is looking after the Child.
- (c) Majority of the candidates was able to give the correct answer for this question.

5.3. REASONS FOR UNSATISFACTORY ANSWERS

- (A) (a) Some of the students had given a answer as the child income should be added to father's income.

5.4. HINTS TO IMPROVE THE PERFORMANCE

Students must read the question properly and answer to the correct point ,Further they have to apply the correct formula rather than using short cut methods when computing the N B T liability.

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General Comments:

1. **Students should know the changes in tax law.**
2. **Should read and understand properly the contents of the administrative provisions.**
3. **Should closely work in application of administrative provisions.**
4. **Generally candidates tend to cover certain portion of the syllabus especially under tax administration, and write "Umbrella answers", i.e., what is known to them rather than answering the questions set. Tax questions are specific and therefore need specific answers. Filling pages will not be secured marks. Candidates should keep that in mind.**
5. **Most of the company are applying deemed dividend tax. Therefore students must be aware about that.**

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