

Examiner's report

F6 Taxation (ZAF)

June 2008

General Comments

The examination consisted of five compulsory questions (Question 1 for 30 marks; Question 2 for 25 marks; Question 3 for 20 marks; Question 4 for 15 marks and Question 5 for 10 marks) with the requirements focussing on computation in the main.

Most candidates attempted all five questions and there appeared to be no time pressure issues. The number of candidates who attempted Question 1 last was surprising. Candidates remain weakest in the longer integrated type questions (for example questions 1 and 2) than the generally topic specific questions (questions 3 to 5).

The performance of candidates overall, however, was disappointing with a large number appearing to be unprepared for the examination.

The poor performance of many candidates was exacerbated by a failure to carefully read the content and requirements of questions. Some of the poor performance can be attributed to candidates not showing workings for their answers.

Too many candidates display their answers poorly. Each question should be started on a new page and candidates must give more thought to the layout and organisation of their answers.

Specific Comments

Question One

This 30-mark question tested candidates on preparing a taxable income calculation for a company, with a strong focus on capital allowances, recoupments, losses and capital gains. The question also required an adjustment from operating profit to taxable income. All candidates attempted this question.

Common mistakes included:

- Not reversing the accounting treatment before applying the Income Tax Act treatment
- Use of outdated legislation

There appears to be significant confusion amongst weaker candidates as to the treatment of capital allowances.

Unsuccessful candidates should aim to improve their detailed reading of the question and requirement. For example, many candidates failed to read the question carefully ignoring wear & tear rates for vehicles (from practice note 19) or applied wear and tear rates to assets clearly within the ambit of incentive allowance provisions, for example section 12C.

Some candidates attempted to complete recoupment provisions where the asset had been fully depreciated by the company but not yet disposed. As recoupments are triggered by disposal, this trend is of concern. Other candidates applied the recoupment provisions on disposal of an asset and where a negative figure was derived, stated that there was no recoupment. While this statement is correct, these candidates then did not extend this concept to consider a deduction for the loss on disposal of the asset.

Some candidates wrote multiple answers to the same line item in an attempt to obtain the marks. This practice should be actively discouraged as it demonstrates a lack of understanding.

Calculation and selection of the relevant capital allowance remains a significant weakness in questions of this nature. As capital allowances are frequently the main focus of this style of question, candidates should ensure understanding and the ability to calculate the relevant allowances.

Question Two

This question addressed the taxation of an employed person. The question was extended to include investment and speculative share portfolios and a loss making trade (that required ring-fencing). All candidates attempted this question.

Common issues in candidates answers:

- Treating dividend income differently between the two share portfolios.
- Capital gains treatment for the disposal of shares from the investment portfolio (inclusion directly into gross income without applying the provisions of the 8th Schedule to the Income Tax Act first).
- Not recognising the recoupment resulting from the transfer of a share from the speculative to the investment portfolio.
- The ring-fencing issue (despite indications in the question that ring-fencing applied) was ignored entirely.

The ring-fencing provision was introduced some years back, but has recently become effective. Candidates should have been aware of this provision and its implications.

Too many candidates continue to deduct tax credit amounts (e.g. provisional tax and employees tax) from taxable income. The same candidates generally deduct the primary rebate from taxable income as well.

Candidates do not make use of the allocated reading time and appear to immediately begin the question without any planning of their answers.

Some candidates confused the travel allowance provision with the fringe benefit arising from the use of a company car (or tried to integrate the two provisions).

The official rate was not supplied in the exam paper. Any assumption or figure applied as the official rate was accepted for the purpose of marking.

Question Three

This 20 mark question tested mainly capital gains tax principles. All candidates attempted this question. Candidates either did very well or very poorly. It was clear that some candidates had revised capital gains and some had not.

The most frequent problem observed is that candidates do not aggregate the capital gains and losses. Instead, candidates are calculating inclusions into taxable income for each separate asset. The legislation is very clear about the calculation process to be followed and candidates must follow this

approach strictly. The approach requires first a calculation of the capital gain or capital loss per asset (after any specific exclusion such as the primary residence or personal use asset exclusion). Secondly the capital gains and capital losses from the above assets are aggregated. Should the person be a natural person, the annual exclusion is applied to this aggregated result. Lastly, the inclusion rate is applied. In this question the relevant inclusion rate was 25% for a natural person.

The first calculation involved a part disposal of shares. Most candidates calculated the base cost correctly, but some candidates ignored the “part-disposal” nature of the question and used the whole base cost against the proceeds.

The second disposal related to a personal use asset, a private vehicle for which the person was receiving a travel allowance. The travel allowance does not taint the disposal, which remains a personal use asset disposal. Some candidates performed lengthy, erroneous and unnecessary calculations.

The third disposal was a transaction with a connected person. Candidates had to identify that the transaction is deemed to take place at market value. While generally well handled, some candidates provided complicated answers to a simple issue.

The last two disposals both required use of the time apportionment calculation. Some candidates simply ignored this calculation.

Lastly, candidates were required to aggregate the results of their calculations, apply the annual exclusion and the inclusion rate. Many applied the annual exclusion at random, or to each asset. As the exclusion applies to the aggregated capital gains and losses and only once a year, such treatment demonstrates the candidates’ poor knowledge.

Question Four

This 15 mark question required the calculation of the effect of fringe benefits given to an employee from both the employer and employee perspectives.

The deductions the employer may claim are per the normal section 11(a) rules and not necessarily the fringe benefit value of the employee. In addition as the employer has to pay output Vat on the non exempt fringe benefits values, the output vat incurred is a s11(a) cost to the employer. If the employee pays anything towards a fringe benefit or interest on the loan he receives this is income for the employer.

Candidates performed reasonably well in this question. Some candidates did not gain as many marks in the calculation of the tax effects for the employer.

Question Five

This 10 mark question considered VAT treatment of various transactions.

The question tested core VAT concepts of zero-rated items; inputs denied; exempt items and deemed supplies. Candidates occasionally confused the terms. Greater care should also be taken by candidates to ensure that inputs and outputs have been labelled correctly (some candidates swapped the items in columns that they had created).



Candidates frequently omitted references to exempt items or zero-rated items and merely calculated the items that carry VAT. It is critical in all VAT questions to supply reasons for the omission of a transaction.