



Examiners' report

F6 Taxation (ZAF)
June 2009

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).

Most candidates attempted all five questions. There appeared to be sufficient time to complete all questions (with the exception of only a few candidates). There is some evidence of "spotting" for the exam in that some candidates performed very well in certain tasks and very poorly in others (generally resulting in an unsuccessful final result).

Excellent answers were presented by some candidates and very high marks were achieved by such candidates. The performance of some candidates overall, however, was disappointing with a large number appearing to be unprepared for the examination.

The poor performance of many candidates often can be attributed to the discussion or explanation tasks. Communication skills of many candidates are clearly lacking.

Workings shown were at times difficult to follow and other candidates fail to provide workings at all. Too many candidates continue to display their answers poorly. Candidates must give more thought to the layout and organisation of their answers.

Specific Comments

Question One

This question tested candidates' ability to cope with various aspects of tax calculations pertaining to a company. Some of the figures required candidates to apply their mind and reach a conclusion before implementing the numerical effect. However, some candidates do not demonstrate their thinking and decisions taken (for example the treatment of the royalty paid as being of a capital or revenue nature).

Candidates frequently write down figures without any textual reference resulting in the figure having no meaning to the calculation.

Many candidates (from their calculations) assumed that the company was a small business corporation. This was clearly inappropriate as the turnover of the company exceeded the limit for the company to be classified as a small business corporation. This demonstrates a lack of knowledge or attention to detail.

Candidates generally appeared to be unaware of the cost to connected person calculation for capital allowance purposes (as contained in section 23J). In addition, the research and development incentives contained in section 11D escaped most candidates.

Some candidates chose the harder starting option of "net income" as opposed to "gross profit". The former required adjustment, however, credit was given to candidates for appropriate adjustments. Those candidates that adopted the adjustment approach did not appear to have a grasp of the items that required adjustment and those that did not. In addition, most candidates ignored the requirement in the question to indicate those items that were not taxable.

As regards STC, many candidates applied old legislation and rates (12.5% versus 10%). The relevant rates provided in the tax rates and allowances tables at the front of the paper should be used in the exam.

Question Two

This question, on the subject of taxation of individuals, was generally the best answered question on the paper.

Many candidates lost marks as a result of omission.

There remains confusion on a number of taxation issues, including:

- Medical aid fringe benefits versus medical aid deductions
- Travel allowance reductions versus fringe benefit calculations for use of a company car

Some candidates incorrectly reduced the taxable income by the rebate figure as opposed to reducing the tax payable per the progressive tax tables for individuals.

Candidates seemed to struggle with the concept of a second trade (as a sole trader) for an individual. Many isolated the business and applied corporate tax rates.

Question Three

Capital gains tax was addressed in question 3. The performance as regards the pre-valuation date assets was better than expected (although some candidates remain unaware of the calculations required). This partly resulted in the good performance from many of the candidates. However, having correctly addressed the complex aspect of the calculations, many candidates failed to address the issues in the remaining aspects of the solution.

Some candidates continue to apply the inclusion rate for individuals before the annual exclusion. Others insist on applying the annual exclusion and inclusion rate to each disposal. This is clearly inappropriate and candidates should be reminded that the results of the capital gain and capital loss calculations are aggregated before applying the annual exclusion figure and inclusion rate to determine taxable capital gains.

Question Four

This question focused on the subject of value-added taxation. Performance in this question was volatile with some candidates performing well and others poorly. This partly points to the general comment regarding “spotting” for the exam. Many candidates demonstrated a general lack of understanding of the principles involved, resulting in poor marks.

VAT answers always require explanation. For example, where adjustment was required for the VAT input on the acquisition of trading stock as a result of the acquisitions being from vendors and non-vendors, some candidates correctly perform the calculation without supplying the reason for the subtraction of the acquisitions from non-vendors.

The omission of reasons for performing certain actions resulted in candidates losing marks.

Question Five

This question addressed a general concept in income tax of the requirement of trade. In addition, the application of SARS practice was also tested in relation to this requirement. The concessionary practice of SARS to deem the earning of interest income (passive income) as a trade in terms of Practice Note 31 was specifically addressed in part (a). In addition the requirement that there be income for the deduction to be in the production thereof was also tested.

Candidates were unable to explain these fundamental concepts of tax adequately (partly as a result of poor communication skills and partly through a lack of understanding). Many candidates appear to be under the mistaken impression that the interest exemption may be applied against interest paid.

Performance on this question was disappointing.