

# Examiner's report

F6 Taxation (ZAF)

June 2010



## General Comments

The three hour examination consisted of five compulsory questions of 30 marks, 25 marks 20 marks, 15 marks and 10 marks respectively. The focus was on the broad application of the legislation in tax computations.

In general, the performance of candidates was disappointing and it was evident that many were simply not adequately prepared. There seems often to be a failure to read the questions and the requirements properly. This contributed to the poor performance of many candidates.

## Specific Comments

### Question One

This 30 mark question dealt with calculation of the tax payable by a natural person who was an employee earning a fixed salary, commission and some passive investment income.

There were a number of basic errors, such as adding deductions to taxable income and the use of incorrect rates for the retirement annuity and medical deductions. There seems to be a general lack of understanding of the levels at which the retirement fund and medical expense deductions are introduced into the calculations. There was a fairly simple capital gains tax calculation. A number of candidates omitted the annual exclusion, and included the full amount of the calculated gain in taxable income.

### Question Two

This 25 mark question dealt with a South African resident company, and there was a focus on capital allowances and recoupments.

The format of the solution was to commence with the accounting profit and make adjustments to arrive at taxable income. Many candidates added or deducted the full amounts, rather than just the difference required to convert accounting income to taxable income.

Although the question stated clearly that the taxpayer was not a Small Business Corporation (a term defined in the Income Tax Act), some students used the tax table applicable to such corporations. This indicates poor reading of the question or inadequate knowledge and understanding generally.

Part (c) dealing with the consequences of deregistering as a VAT vendor was particularly poorly handled. Very few candidates identified, for example, that output tax would be payable on the assets of the enterprise as a consequence of deregistration.

**Question Three**

This question was out of 20 marks and dealt with Capital Gains Tax.

Most candidates failed to identify the Connected Person aspect related to the disposal of the machine. In general, the basic Time Apportioned Base Cost (TAB) calculation was satisfactorily performed.

Although the taxpayer was a company, many candidates applied the R17 500 annual exclusion (which is for natural persons only).

**Question Four**

Question 4 dealt with the income and deductions applicable to an employer when providing employees with fringe benefits. The required section was very clear that the income and deductions pertaining to the employer were required. However, many candidates approached the question from the perspective of the employee, and calculated the fringe benefit tax value. In some cases, candidates answered the question purely from a VAT perspective, and provided a schedule of input and output tax.

**Question Five**

This 10 mark question dealt with a partnership. Most candidates seemed to grasp the required process (i.e. to start with the partner's net profit and build the taxable income from there). However, many candidates failed to perform the required treatment in respect of the section 18A donation, and also, most students failed to identify the full medical deduction arising from the taxpayer being older than 65 years of age.