

# Examiner's report

F6 Taxation (ZAF)

June 2011



## 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 was adequate in the standard company and individual tax questions and the VAT question. However the performance in the capital gains tax and VAT areas was particularly disappointing.

A number of basic errors made throughout the paper by candidates often resulted in the difference between a pass or a fail.

## Specific Comments

### Question One

This was a relatively uncomplicated question on individual income tax that comprised 3 parts: the calculation of employees' tax withheld by the employer; identifying provisional tax dates, and the calculation of normal tax.

In general the questions were answered relatively competently. However, there were many instances of candidates including elements of the normal tax calculation in the employees' tax calculation: notably the car allowance inclusion in taxable income, and in some cases, the individual's investment income. There is a fundamental difference between the concepts of which the candidates should be aware.

### Question Two

This question on company tax centred on capital allowances, and included a discussion part dealing with the deductibility of audit fees by a group holding company.

The question was generally very poorly answered. In the capital allowance section, no candidates performed the required section 23J calculation for machine B, although some candidates did identify the fact that the company's allowance was impacted by the fact the asset was acquired from a connected person.

In many instances, candidates seemed to have a lack of knowledge of the basic South African capital allowance provisions, specifically in terms of the rules for deductions, the rates, and the apportionment/non-apportionment of various allowances.

In the discussion part, very few candidates discussed the general deduction formula or the fact that Tea's audit would require an apportionment due to the dividend component of gross income. Many candidates stated, erroneously, that the audit fee of Tea would need to be apportioned to its subsidiaries.

### Question Three

This question dealt with capital gains tax for a natural person. In general candidates seemed to have handled the basics quite well, although a lot of marks were generally lost in the Time Apportioned Base Cost calculation. For example, many candidates failed to apply the extended formula to account for the fact that there was post valuation date expenditure. In some instances selling costs were added, instead of deducted from proceeds in applying the formulae.

There were many cases where candidates applied the inclusion rate by asset and duplicated the annual exclusion. Another common error was to apply the exclusion rate and assessed capital loss brought forward at the incorrect levels, e.g. deducting the assessed capital loss brought forward before deducting the annual exclusion.

**Question Four**

Question 4 dealt with VAT, and was mostly a discussion question, and was found to be challenging.

Candidates generally did not fare well in this question, especially part (b), dealing with an imported service. The question was very technical and required a fairly detailed understanding of the relevant sections and a lot of memorisation.

**Question Five**

This was a straightforward question dealing with an individual who had remuneration from employment and income from a separate trade. Most candidates did well, although there were instances of the taxes for employment income and income from the other trade being calculated independently. There were also instances where employees' tax and provisional tax were deducted in the calculation of taxable income rather than tax payable.

**Concluding comment**

The paper was challenging, with more discussion required than in the recent past. However there was sufficient balance between the more difficult parts and the more basic parts that candidates with a good overall grasp of the relevant legislation should have succeeded.

As indicated above, the area of most concern was capital allowances.