Examiners' report

F6 Taxation (ZAF)
December 2007

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, continued to disappoint with a large number appearing to be unprepared for the examination.

The poor performance of many candidates was once again exacerbated by a clear 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 continue to 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.

Question 1
This 30-mark question tested candidates on preparing a taxable income calculation for a company. All candidates attempted this question.

Common mistakes included:
- The use of exemptions applicable to natural persons only
- Confusing employer deductions with those for individuals (e.g. s11(l) versus s11(k))
- Use of outdated legislation

Unsuccessful candidates should aim to improve their detailed reading of the question and requirements. For example, many candidates failed to read the question carefully to determine which amounts were inclusive and exclusive of VAT.

Some candidates appeared to confuse the adjustment from net profit to taxable income and the requirement of this question, which required a continuation of the calculation from gross profit. The effect was that some candidates were attempting to adjust the profit figure with the non-taxable or non-deductible items instead of determining the appropriate deductions and inclusions in taxable income.

As practice note 19 was not supplied to the candidates, any assumption concerning the wear & tear rates for the purposes of section 11(e) was accepted.

Many candidates appear to have difficulty distinguishing between the calculation of capital gains and that of recoupments where a depreciable asset is concerned.

The bulk of candidates struggled with the suspensive sale from the point of view of the purchaser (which requires the calculation of an allowance and a further deduction for the finance charges relevant to the financial period). Many candidates treated the purchase as a finance lease. Other candidates calculated an allowance but the principles demonstrated were those applicable to the lessor of a finance lease (i.e. the allowance based on the cost of the asset after adding the output VAT in terms of the lease). This confusion of a variety of principles leads to nonsensical answers.

Some candidates write 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 2
This question addressed the retirement of an employed person and that person conducting their own trade thereafter. All candidates attempted this question.

Some candidates (when calculating allowances) assumed that this person could be treated as a small business. However, the accelerated allowances for small businesses only apply to corporate entities and not natural persons or sole traders.

It is clear that candidates did not grasp what was required in part (b), with many referring to VAT as an advance payment. As VAT is based on past transactions, it cannot be an advance payment and was therefore irrelevant.

Again, candidates should read the question carefully. As this sole trader was registered for VAT, certain of the amounts related to the self employment would have included VAT. It was a test of the candidates' knowledge of VAT to determine which amounts included VAT and for which amounts VAT was irrelevant.

That said, some candidates handled this question well and were clearly prepared, whereas other candidates did not understand the basic deductions for RAF contributions and medical contributions and deductions.

Some candidates struggle with the distinction between the company car fringe benefit and a travel allowance given to an employee. Other areas of weakness include the calculation of the medical fringe benefit and deduction.

Candidates are again reminded to show their workings clearly to avoid unnecessary loss of marks where their final answer is incorrect.

Whatever allowance rate assumption was made by the candidates for the furniture and computer was accepted as Practice Note 19 was not provided in the examination booklet.

Question 3
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 an allowance asset used for business purposes. The question requirement was to calculate the taxable income effects. This would include the allowance for the current period on this asset, the subsequent recoupment and the capital gain or loss.

The second calculation involved a pre-valuation date asset where the asset had not been valued. Clearly the time apportioned base cost calculation was required. As there was no expenditure subsequent to valuation date, the time apportioned calculation would represent base cost. Furthermore (and in line with the approach detailed above) the primary residence exclusion had to then be applied.

The third component did not require a calculation. The asset was a personal use asset and as the capital gain or capital loss on a personal use asset is excluded, the candidate merely had to state that fact.

The last calculation again involved a pre-valuation date asset, but this time included expenditure subsequent to valuation date. This required a further calculation.

Lastly, candidates were required to aggregate the results of their calculations, apply the annual exclusion and the inclusion rate.

Question 4
This 15 mark question considered VAT treatment of various transactions. Candidates had to determine the closing balance of the VAT control account.

Many candidates missed the point made in the question that the vendor pays the VAT owing on the 25th of each month.

The question tested core VAT concepts of zero-rated items; inputs denied; exempt items and deemed supplies. Candidates occasionally confuse 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 omit references to exempt items or zero-rated items and merely calculate the items that carry VAT. It is critical in all VAT questions to supply reasons for the omission of a transaction.

Question 5
This 10 mark question required a basic taxable income calculation and the subsequent tax payable in terms of the rates available to small business corporations.

This question was generally well-handled for part (a). Some candidates omitted the STC calculation for the dividend declared.

Part (b) was not well handled and candidates need to be reminded that members of close corporations are the equivalent of shareholders and directors of a company. Furthermore, members of close corporations are treated as directors of private companies. Therefore, while subject to PAYE on salaries from the close corporation, the members would not be subject to SITE.