



Examiner's report

F6 Taxation (ZAF)

December 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. 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, 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 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 required an adjustment from net profit before tax to taxable income. All candidates attempted this question.

Common mistakes included:

- Not reading the question:
 - Not including discussion where no adjustment was required to indicate the reason for no adjustment
 - Not showing workings for calculations resulting in marks being lost
 - Inconsistent treatment of adjustments (e.g. in some cases (correctly) adding back the accounting deduction and in others deducting (again) the accounting expense)
 - Not applying the small business capital allowances despite the question clearly indicating the business qualified as a small business.
 - Removing VAT from amounts in the question that were already exclusive of VAT.
- Not reversing the accounting treatment before applying the Income Tax Act treatment

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

Candidates appear to not understand the tax consequences of a finance lease (very different from the accounting implications).

Unsuccessful candidates should aim to improve their detailed reading of the question and requirements.

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 and wastes time.

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 distinguished the employment trade and total taxable income. Candidates do not appear to understand this distinction nor are able to plan their answers in order to assist with the preparation of later tasks. All candidates attempted this question.

Common issues in candidates' answers:

- Claiming a deduction for provident fund contributions
- Recognising a taxable benefit for employer contributions to a provident fund
- Only partially calculating certain fringe benefits
- Not reading the question with regard to the employee loan

Too many candidates continue to deduct the rebate from taxable income. In addition, candidates do not appear to understand the difference between employees' tax and normal tax.

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

Where candidates do not show supporting calculations for their work, it is impossible to award them the marks.

Question Three

This 20 mark question tested mainly capital gains tax principles. Not all candidates attempted this question. Common mistakes caused candidates to lose marks.

Time apportionment calculations were better handled, but candidates forgot to compare the result to the other available figures.

Candidates' knowledge is lacking with regard to exclusions and those assets that are excluded from the personal use exclusion. In addition, candidates need to revise the scope of capital gains tax for non-residents and the deemed disposal provisions.

Part (b) required candidates to aggregate the results of their calculations, apply the annual exclusion, the loss brought forward and then inclusion rate. Many applied the annual exclusion at random or to each asset. Similar problems were identified when candidates considered the assessed capital loss brought forward. As the order is clear from the legislation, such treatment demonstrates the candidates' poor knowledge.

Question Four

This 15 mark question required candidates to discuss the deductibility of certain expenditure items. Candidates seem to confuse the capital or revenue nature of expenditure with the rules for deductibility. While capital nature is critical for the general deduction, it is not a requirement for the specific deductions.

Candidates appear to have only limited knowledge of specific deductions or were unable to discuss the consequences of the deduction.

Candidates continue to make incorrect section references in their solutions. Of greatest concern was when, for example, a candidate refers to an exemption provision when discussing a deduction. This shows a lack of understanding of the basic structure of the income tax act and must be avoided.

Discursive questions are poorly handled as candidates make vague statements that either repeat the information in the question or do not provide any indication as to the reason for their answer. No marks can be awarded in these circumstances.

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 confuse the terms. Greater care should 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.