

# Examiner's report

## P6 Advanced Taxation (ZAF)

December 2010

### General Comments

The examination consisted of two compulsory questions (Question 1 for 40 marks and Question 2 for 20 marks). Candidates had to then elect any two of the three questions in Section B (each for 20 marks). The examination required mainly discussion and advice with some computation as well.

There were observable gaps in knowledge based on the answers supplied. These are highlighted below.

Candidate answers to discussion questions, in some cases, tended to be repetitive and indicate that those candidates had not fully grasped or considered all of the issues on the topic.

The paper did not appear to cause any time constraint difficulties as most candidates attempted the necessary questions.

### Specific Comments

#### Question One

Question 1 required candidates to provide client advice in the form of a memorandum.

The memorandum had to address the topic of research and development across three issues, namely:

1. Whether or not the existing building or a new building should be used for R&D purposes;
2. Using current and subsequently purchased machinery for the R&D process; and
3. Revenue expenditure aspects of R&D.

This entire area was exposed as a general weakness amongst candidates. Many were unaware of the R&D provisions or applied R&D revenue expenditure incentives to capital expenditure items. As a result of poor performance in this question (a compulsory question representing 40% of the final grade), the overall performance on the paper was poor.

Part (a) – Candidates did not address the critical aspect of R&D that the capital asset (be it a building or a machine) must be new or unused to qualify for the R&D accelerated rates. Most were unaware that the accelerated rates were in the ratio 50:30:20.

Candidates should learn from the structure of the exam paper. Information concerning two buildings were supplied. It would therefore seem likely that the examiner would require differing treatments between these buildings (i.e. testing more than one principle).

Part (b) – The machinery discussion (representing 17 of the 40 marks available) was also poorly handled. Machinery, for the accelerated allowances, must not only be new and unused but also be exclusively used for the R&D purposes. These two critical criteria were tested across four separate machines. In addition, machine D was acquired in terms of a suspensive sale. Candidates continue to treat a suspensive sale as a finance lease (demonstrating a lack of knowledge of this previously examined and core issue).

Part (c) – The performance concerning the deductibility of revenue expenditure was handled better than the capital expenditure in parts (a) and (b). However, candidates' answers were not always clear as to whether the expenditure was deductible in terms of the R&D incentive deduction or the general deduction formula.

#### Question Two

This question concerned employment benefit structuring.

Part (a) considered whether or not the client should require the employer to make the medical aid contribution (a fringe benefit) or to make the contribution himself out of post-tax earnings. Candidates performed adequately,

although many forgot to perform the cash flow comparison for all the options (which would be critical to the client's decision).

Part (b) compared a travel allowance to the use of a company car. Some candidates confused the travel allowance and company car. Many stated that the allowance was a fringe benefit. This is clearly not the case as the allowance, (and the requisite reduction) are not determined in terms of the 7<sup>th</sup> Schedule. Again, the critical cash flow element was ignored.

Part (c) addressed the effects of contributions to either a pension or a provident fund by both the employer and employee. Most candidates correctly addressed the employee contributions but failed to state that the employer contributions (for either fund) were not fringe benefits. In addition, many candidates omitted reference to the impact of the disallowed contributions on receipt of the lump sum.

### **Question Three**

This question concerned trusts and was well-handled by some candidates. However, other candidates seem to apply a “memory-dump” principle to trust questions. Such candidates simply write all they know about trusts in the hope of scoring marks. Marks are awarded principally for application of the knowledge to the facts.

### **Question Four**

The VAT question considered both the acquisition and disposal of two buildings. The question was generally well-handled.

### **Question Five**

Few candidates attempted question 5, which concerned transitional legislation and whether or not the client should make use of such legislation.

Too few answered this question to draw any conclusions.