

Examiner's report

F6 Taxation (ZAF)

December 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.

Specific Comments

Question One

This was a standard company taxation question of moderate difficulty. Income tax was dealt with in part (a) and value-added tax in part (b).

Part (a)-Income Tax

The income tax aspects under consideration were mostly straightforward. Aspects of weakness are noted below.

Overall, this question was answered adequately. The following areas of weakness were noted in particular:

- The trading stock recoupment provisions were generally not applied properly.
- In many instances section 12C allowances were apportioned.
- The machinery recoupment was not generally calculated correctly and a capital gain was determined instead of a recoupment.
- The treatment of the lease improvement allowances was generally weak, both in terms of the calculations and the application of the principles.
- In many instances candidates did not apply the correct rates for the building allowances.

These weaknesses are overcome through practice questions. The format / template of these sorts of calculations does not change much and should be studied.

Part (b)-Value-added Tax

This question was generally answered adequately. The following areas of weakness were noted:

- In many cases candidates applied the tax fraction to VAT exclusive figures or applied the tax rate to VAT inclusive figures.
- In some cases VAT input tax was calculated in respect of items that were not receipts of supplies of goods or services, such as the doubtful debt provision or cost of sales.

Closer reading of the question and further study of amounts that include / exclude VAT should be done. In addition, candidates should review the source of information for VAT calculations, noting that amounts may be inclusive or exclusive of VAT depending on the source of information.

Question Two

This was a standard question on the taxation of an individual of moderate difficulty. The employees' tax deduction by the employer was dealt with in part (a) and the individual's personal income tax calculation in part (b).

As a general comment, the understanding of the taxation of an individual was adequate, but many candidates were confused in terms of the components the two calculations. The individual's travelling allowance reduction calculations were often included in the employees' tax calculation, and some instances the employee's investment income was also included here. Often, time was wasted where candidates rewrote all the elements of the employees' tax calculation in the individuals' income tax calculation, instead of starting with the balance of remuneration from part (a) of the question.

Very few candidates dealt with the section 10A purchased annuity and redemption effectively, although this was the trickiest part of the question.

Key to understanding employees tax is for the candidate to ask the following question: What would the employer know about? That simple question often holds the key in determining employees' tax. For example, investment income is not included in the employees' tax calculation as the employer would not know about the employees' private investments. However, if the employer is paying a travel allowance or offering fringe benefits to the employee, such allowances or benefits must influence the calculation of employees' tax as the employer has full knowledge of these amounts.

Question Three

Part (a) was a standard capital gains tax question that included a recoupment calculation. Many candidates arrived at the correct taxable capital gain amount, but lost a substantial amount of marks by not showing the appropriate format for the calculation of the capital gain (i.e. proceeds less recoupment and expenditure less allowances). As a result, the marks for this question tended to be low.

Part (b), which was more difficult, was an application of the deferment provisions for capital recoupments and capital gains in section 8(4) (e) and paragraph 66 of the Eighth Schedule. The vast majority of candidates seemed completely oblivious of these provisions and scored no marks for this part.

Question Four

This was a standard VAT question of moderate difficulty. In general the question was dealt with satisfactorily. However, many candidates did not deal with the finance lease input tax correctly. Also, the output tax on the motor car fringe benefit was often poorly handled or omitted.

Question Five

Part (a) was of moderate difficulty and required a written answer. Candidates who were not aware of the provisions of section 67A (registration of a tax practitioner) fared poorly. In a number of cases candidates discussed the registration for VAT, which was completely inappropriate.

Part (b) was of moderate difficulty and dealt with the deduction of pre-trade expenditure in terms of section 11A and the deduction of certain allowances after the commencement of trade. Most candidates handled the allowances after the commencement of trade adequately, although most seemed unaware of the small asset allowance. However, the vast majority of candidates seemed to be unaware of the application of section 11A.

Concluding comment

The paper was fair. Each question was well-balanced in terms of moderate and difficult components. Candidates with a good understanding of the Income Tax Act should have fared well. However, many candidates did not have, or did not demonstrate, an adequate knowledge of the South African Income Tax Act and their performance was disappointing. Areas of weakness were noted in all the questions leading to a low pass rate.

More time working with practice questions, worked examples and a study of the work using appropriate and up-to-date textbooks would assist in the repair of the above broad comment on performance.