

Examiner's report

F6 Taxation (ZWE)

December 2011



General Comments

The examination consisted of five compulsory questions. The first two questions on employment income tax and corporate tax accounted for 55 marks while the other three questions were allocated a total of 45 marks. The examination was mostly made up of computational questions to a greater extent and to a lesser extent, narrative parts.

The overall performance of candidates at this sitting was surprisingly poor as most candidates were very much unprepared for the examination and appeared to be taking a gamble. It was quite disappointing to observe that a good number of candidates lacked the very basic taxation fundamentals as most failed to distinguish between the tax treatment of an expenditure item and an income item. It was also very surprising to note that, for instance, a question required candidates to articulate the PAYE requirements and most provided answers that were actually about issues to do with either quarterly payment dates (QPDs) or value added tax (VAT). Generalised answers were given for clear specific questions and in most cases the answers lacked the kind of depth and detail expected at this level. For narrative questions, in some cases, single sentence answers were stated for a question with five or more allocated marks. In cases where some detail was given, 90% of the answers were very much unrelated to the particular question indicating either a lack of comprehension of basic taxation principles or failure to grasp the requirements of the question. From the standard and quality of the answers presented, it appeared that most candidates were not taking the examination with the kind of seriousness that it deserves and are failing to put in the required effort in their studies. They appear to be sitting the examination prematurely without the very basic requisite knowledge required to at least ensure a minimal pass mark.

The frequency of avoidable mistakes such as incorrect corporate tax rates, capital allowance rates, incorrect and improper tax credit computations and the treatment of certain exemptions and allowable deductions was very disappointing. It was also quite clear that most candidates disregarded the supplementary instructions and the tax rates and allowances provided in the examination paper. This contributed to some extent to the overall poor performance at this sitting. Candidates are advised to take seriously the 15 minutes reading and planning time at their disposal at the beginning of the examination.

It was also very disappointing to note the extent of the deterioration in the basic rules of grammar. The use of informal shorthand and general spelling mistakes was very surprising and inappropriate.

Specific Comments

Question One

The question focused mainly on individual income tax and required candidates to compute taxable income and tax payable from employment and from investments. The question was almost equally split between the narrative parts and the computational parts.

The performance on this particular question was better as compared to the other four questions although candidates did not pick up as many marks as they could have due to the generalised answers presented for the narrative sections and the incorrect computations provided.

In question 1(a)(i) and (ii) most candidates either concentrated on the explanation of the tax treatment and disregarded the calculation side of the question and vice versa and hence did not gain as many marks as they could have.

Question 1(b)(i), which required candidates to state the tax obligation when making a disbursement, was the most omitted part of the question while part (b)(ii) on PAYE requirements, although fairly attempted, some of the answers presented were quite disconnected to the question.

Most candidates achieved good marks in part (c) of the question which required candidates to compute the taxable income and tax payable, although the incorrect calculations and omissions in part (a)(i) and (ii) impacted negatively on the attainment of better marks. A good number of candidates did not calculate the taxable income and related tax payable from other non employment related income.

The following common errors were noted:

- Incorrect exemption amounts and allowable deductions
- Incorrect and improper tax credits
- Incorrect computation of employment benefits
- Incorrect tax treatment of the amount from matured RAF
- Incorrect tax rates applied

Question Two

The corporation tax question required candidates to explain the tax accounting of the specified expenses in parts (a)(i) –(iii) for a total of 10 marks and the computation of maximum capital allowances as well as taxable income and tax payable in (b)(i) and (ii) respectively for 20 marks.

The performance of the candidates in this question was not pleasing at all notably for the narrative parts of the question. It was disappointing to note the frequency of the conflicting statements such as stated below:

- ‘the amount is of a capital nature and therefore allowable for tax purposes’
- ‘the expenses are not allowable but are deductible in full’

Some of the narrative answers were too generalised and bereft of meaningful detail. It was disappointing to note that most candidates treated the consultancy fee and the interest paid as income and NOT as expenses. For instance, answers like –‘there is no tax effect on the interest paid as the amount was taxed at source’ were surprisingly very common.

In part (b)(i) a good number of the candidates failed to achieve better marks when they calculated only wear and tear allowances instead of SIA allowances as required. It was also noted that candidates lost valuable time by calculating the tax payable on quarterly basis (QPDs) which was not a requirement of the question. The following errors were also observed:

- Incorrect capital allowance rates (SIA and wear and tear)
- Failure to capitalise the computed interest
- Incorrect corporate tax rate
- Incorrect treatment of allowable deductions and some exemptions
- General incorrect computation of the taxable income

Question Three

This question focused on CGT involving an elderly taxpayer in business and mainly required candidates to list amounts to be included in gross capital amount from the given information and also to calculate both taxable income and tax payable as well as the capital gain and respective tax payable.

The question was the worst attempted of all the five questions. It was quite surprising to note that most candidates could not come up with the list of the amounts to be included in the gross capital amount from the available information. A good number of candidates did not attempt the question at all and some only concentrated on the actual capital gain computation and tax payable. Some candidates erroneously calculated AIDs levy on CGT as well as granting elderly taxpayer credit.

In most cases there was no differentiation between the computation of the taxable income and the capital gain. For the candidates who attempted to calculate the recoupment in part (b)(i), most did not pick up high marks as they only restricted the computation to the immovable assets only. On the computation of the tax payable for this

part of the question, a significant number of the candidates applied individual tax rates instead of the corporate tax rate.

It was also quite remarkable that those very few candidates who managed to list the amounts to be included in the gross capital amount correctly also performed very well in the rest of the question and achieved very high marks.

Common errors noted:

- Incorrect CGT rate and corporate tax rate
- Incorrect calculation of the inflation allowances.
- Incorrect recoupment calculation and treatment
- Incorrect elderly tax payer exemption and treatment

Question Four

This question on farming, required candidates to explain and calculate the tax reliefs in the stated circumstances in part (a). In part (b)(i) and (ii), candidates were asked to calculate the livestock closing stock as well as the taxable income and tax payable.

On the whole the performance of the candidates on the question was not to the expected standard although some good marks were recorded in part b(i) of the question. Most candidates appeared quite comfortable with that part of the question and in most cases they got both the closing stock numbers and values correct.

Although a significant number of candidates had an idea about the tax reliefs required, they failed to achieve good marks as only partial answers and incomplete computations were presented.

In part (b)(ii) of the question, unnecessary calculations on the capital allowances for fully depreciated fixed assets were provided which contributed negatively to good time management. The following are some of the common errors observed:

- Incorrect computation of the tax reliefs and tax treatment of the same
- Incorrect capital allowances

Question Five

The VAT question consisted of both narrative and computational parts. The narrative parts in question (a)(i) and (ii) required candidates to list the general obligations of a registered operator as well as the specific obligations as a result of cessation of trade. In part (a)(iii), candidates were required to explain the tax implications of the stated staff negotiated settlement. The question further required candidates to compute the output tax in connection with the motoring benefits and VAT position in parts (b)(i) and (ii) respectively.

Candidates performed fairly well in part (b)(ii) of the question but performed very poorly in all the narrative parts of the question. It was quite evident that most candidates were not conversant with the term 'registered operator' as a good number listed the VAT registration requirements as some of the general obligations for registered operators. It was also surprising to observe that included in the general obligations were issues to do with PAYE and QPDs.

Most of the answers presented for part (a)(i) and (ii) of the question were too generalised, hence candidates failed to achieve any meaningful marks.

Part (b)(i) was poorly attempted by almost all candidates as they failed to use the VAT fraction (15/115) and hence got incorrect answers. Although some good marks were achieved in part (b)(ii) of the question, some candidates did not pick up as many marks due to common negligence. The question clearly stated that where VAT was not chargeable or claimable, a zero should be indicated but some candidates failed to take note of that.

Common errors noted mostly centred on the provision of superfluous detail that was unrelated to the requirements of the question for the narrative sections as well as general incorrect calculations for the other parts of the question.