Examiner's report
F6 (ZWE) Taxation
December 2015

General Comments
There were two sections to the examination paper and all of the questions were compulsory. Section A consisted of 15 multiple choice questions of two marks each which covered a broad range of syllabus topics. Section B had four questions worth 10 marks each and two longer questions worth 15 marks each. The four questions covered capital gains tax (CGT), aspects of corporation tax, value added tax (VAT) and partnerships. The longer questions dealt with individual tax including specific farming tax reliefs and corporation tax in more depth. The following paragraphs report on each section and focus on some of the key learning points.

Specific Comments

<u>Section A</u>

It was pleasing to note that almost all candidates attempted all of the questions with the vast majority recording good marks overall. Section A questions aim to provide a broad coverage of the syllabus, and future candidates should aim to revise all areas of the syllabus, rather than attempting to question spot. The following question is reviewed with the aim of giving future candidates an indication of the types of questions asked, guidance on dealing with exam questions and to provide a technical debrief on the topics covered by the specific question selected.

Sample Question for Discussion

Example
On 31 March 2014, Nothando received a loan of US$9 000 from her employer. The interest payable on the loan was 2% per year. Nothando used US$6 000 of the loan to start a small business and the balance to pay for her medical expenses.

What is the value of Nothando's taxable benefit in respect of the loan for the year ended 31 December 2014?
Note: You should assume that the LIBOR rate was 1.5% throughout 2014.

A US$405
B US$304
C US$270
D US$203

This question tested the computation of the taxable benefit from an employer loan in a scenario where the loan is utilised for starting a small business and medical expenses. Candidates should take note of the fact that any loan granted by an employer for the purposes of medical treatment of the employee is not considered as a benefit for income tax purposes. Since the loan was granted on 31 March, the implication was that the taxable loan benefit to be accounted for was only for a period of nine months and not for the whole year as was the common mistake. The key to passing this type of question was to carefully consider how the loan was applied and to take note of the date the loan was granted in order to derive the correct taxable loan benefit computation.

The majority of candidates selected option C as the answer. While this answer option correctly treated the loan amount that was applied towards medical expenses, it did not restrict the loan benefit for the period the loan was granted. Candidates are always advised to read the questions carefully in order to ascertain all the facts before attempting to select an answer option.

The correct answer was option D which took into account the loan period.

Section B

Question One

This 10-mark question covered the topic of CGT involving both immovable property and marketable securities.

Part (a)(i) for 1 mark required candidates to outline the treatment of the demolished property for CGT purposes. Candidates' performed satisfactorily and many were able to correctly state the CGT treatment.

Part (a)(ii) for 1 mark required candidates to calculate the capital gains withholding tax on the compensation received for the demolished property. Candidates' performance on this question was also satisfactory as the vast majority calculated the withholding tax correctly. The few candidates who did not score the allocated mark applied an incorrect CGT rate. Future candidates are advised to always make use of the provided tax rates and allowances in order to ensure correct calculations.

Part (a)(iii) for 5 marks required candidates to calculate the CGT payable or refundable for the year. Candidates also performed satisfactorily on the question. The following common mistakes were noted:

- Incorrect recoupment and capital allowances calculation.
- Incorrect treatment of the recoupment.
- Incorrect inflation allowances calculation.
- Treating the capital gains withholding tax as an allowable deduction.
- Incorrect CGT rate.
- Calculating AIDs levy on the CGT.

Part (b) for 3 marks required candidates to calculate the CGT payable on the disposal of unlisted shares which included bonus shares. The performance of candidates on this question was below average. Most candidates failed to identify the type of marketable securities involved which led to incorrect CGT calculation. Candidates also could not calculate the cost of the shares disposed mainly because of the bonus shares. Candidates were very uncertain as to the treatment of the bonus shares.

The approach that candidates should have taken was to carefully consider the acquisition date of the marketable securities as well as to consider the type of the marketable securities. Candidates should always take cognisance of the fact that the CGT treatment of unlisted shares is different from that of listed shares. Further the acquisition date of the marketable securities was key to determining the correct CGT treatment.

Question Two

This 10-mark corporation tax question required candidates to find out the correct tax treatment of items of expenditure claimed in respect of contributions made to a pension fund and a benefit fund. The question further required candidates to explain the tax treatment of a recovered bad debt and to calculate the provisional tax payments. Performance on this question was somewhat mixed.

Generally most candidates were able to calculate the disallowable pension fund contributions and scored the allocated 2 marks in part (a)(i). The majority of the candidates, however, failed to calculate correctly the disallowable contributions to an approved benefit fund. The common mistake noted was the incorrect allowable portion used for the contributions to the benefit fund. It was also pleasing to note that some candidates were able to correctly calculate the disallowable benefit fund contributions and scored the 2 marks allocated in part (a)(ii).

Part (b) for 2 marks required candidates to explain with reasons, the correct tax treatment of the bad debt recovered. Most candidates only achieved partial marks as they did not explain the reasons for the tax treatment. Future candidates should note that it is never adequate to just state a tax treatment without any justification. As always candidates are advised to read through the question requirements carefully in order to understand the issues to be addressed.

Part (c) for 4 marks required candidates to calculate the provisional tax payments based on the revised taxable income for the year. Performance on this section of the question was again mixed as it depended on how the candidates treated the adjustments to the taxable income. The candidates who correctly calculated the disallowable pension fund contributions and the disallowable benefit fund contributions and also stated the correct tax treatment of the recovered debt achieved good marks for this question. The key area for this question was regarding the correct tax treatment of the adjustments to the taxable income.

Question Three

This 10-mark question covered the topic of VAT.

Part (a) for 2 marks required candidates to state four potential advantages of voluntary registration for VAT. This part of the question was answered poorly by the majority of candidates. Some candidates did not attempt the question at all.

Candidates clearly lacked knowledge on the potential advantages of VAT registration which was an indication of poor examination preparation on this topic. The fact that some candidates used the terms input tax and output tax interchangeably also indicated lack of understanding of fundamental VAT knowledge.

Part (b)(i) for 2 marks required candidates to state the VAT registration date and the submission date for the first VAT return from the information provided. Most candidates performed inadequately due to a combination of factors which mainly showed confusion with PAYE registration dates as well as PAYE submission dates. The majority of candidates were of the view that a trader should register for VAT after 30 days or within three months of attaining the VAT registration threshold. The correct position is that a trader is liable to register for VAT once the value of their taxable supplies is expected to exceed US$60 000 within a period of 12 months. This effectively means that a trader should project the monthly sales for the year. The trader is then required to register on attainment of a monthly turnover threshold of US$5 000.

Part (b)(i) for 4 marks required candidates to explain the Zimbabwe Revenue Authority's (ZIMRA) actions for late VAT registration. Although most candidates achieved partial marks for the explanation many did not score well in relation to the calculations. The output tax calculation was incorrect in most cases which consequently led to the incorrect penalty and interest computation. When dealing with questions of this nature candidates are advised to get the facts correct as this determines the correct VAT registration date from which emanates the exposure to late VAT registration penalty and interest.

Part (c) for 2 marks required candidates to outline the circumstances when a trader can recover pre-registration input VAT. Candidates performed unsatisfactorily on this question and many demonstrated a clear lack of knowledge. A large number of candidates did not attempt this part of the question. Candidates should ensure that they prepare adequately for the examination which includes covering ALL the areas of the syllabus and study guide and should resist the temptation to question spot. It was evident that many candidates were unprepared for this type of VAT question.

Question Four

This 10-mark question covered the topic of partnerships.

Part (a) for 7 marks required the calculation of the partners' joint taxable profit for the year making use of available tax reliefs. Performance on this part of the question was unsatisfactory.

Many candidates were unable to correctly treat the adjustments to the stated partnership profit as well as considering the available tax reliefs which led to incorrect partners' joint taxable profit. Many candidates were unsure as to the items of expenditure to be treated in the joint partnership profit calculation and those to be treated in the individual partners' taxable income calculation. The following common mistakes were noted:

- Incorrect treatment of donations.
- Disallowing the annuity paid to a late employee's widow.
- Incorrect treatment of the interest on capital accounts.
- Failing to make use of available tax reliefs as appropriate.
- Incorrect capital allowances calculation.
- Calculating tax payable on the joint taxable profit.

Part (b) for 3 marks required the calculation of the individual partners' taxable income and tax payable. Candidates also performed poorly on this aspect of the question. This was connected to inability of many candidates to correctly identify the treatment of adjustments in part (a) as the two questions are interlinked. Some candidates incorrectly treated the partners' taxable income as from employment and applied the employment tax rates instead of the corporation tax rates. When dealing with questions on partnership it is important for candidates to be very clear on the treatment of all items of expenditure. For instance a partner's salary is always an allowable deduction in the joint taxable profit but included in the partner's gross income and taxed using corporation tax rates.

Question Five

This 15-mark question involved income from employment and specific tax reliefs from cattle farming.

Part (a) for 11 marks required candidates to calculate the taxable income and tax payable from employment. This part of the question was answered very well by the vast majority of the candidates. Some very good marks were achieved on this question with some candidates scoring all the allocated marks. The following common mistakes were noted in some answers:

- An allowable deduction of 50% of the School fees allowance.
- Incorrect bonus exemption amount.
- Treating the accommodation allowance and the representation allowance as exemptions.
- Treating the entertainment allowance as an allowable deduction.
- Treating the excess of the pension contributions as income.
- Mortgage bond repayment and the tuition fees payment instruction treated as allowable deductions.
- Medical expenses and PAYE deduction treated as allowable deductions.

Part (b) for 4 marks required candidates to advise a taxpayer on the tax reliefs and elections advantageous to cattle farming in light of the potential realities of droughts and disease outbreaks. Performance on this question was unsatisfactory.

Although many candidates stated the correct tax reliefs, they either failed to explain convincingly the respective relief or did not quite articulate the merits of the tax relief. In some cases the candidates did not quantify the deductions outlined.

Question Six

This 15-mark question covered corporation tax involving a group corporate structure.

Part (a) for 4 marks required candidates to explain the operation and conditions which must be satisfied in order for a company to qualify for the relief available on the transfer of movable assets. Performance on this question was not satisfactory.

Many candidates were unable to explain the operation of the relief or the conditions to be satisfied. A significant number of candidates did not attempt the question at all. In most cases partial answers were provided which only merited partial marks. The lack of depth in some answers clearly indicated lack of adequate knowledge. Future candidates are advised to revisit the topic on the effect of a group corporate structure for corporation tax purposes.

Part (b) for 11 marks required candidates to calculate the taxable income and corporate tax payable for the year making use of any available reliefs. Candidates performed very well on this question with many attaining very high marks. Apart from a few candidates who failed to make use of the maximum capital allowances were applicable as should have been the case, no other issues of concern were noted.