

Examiner's report

F6 (ZWE) Taxation

December 2016

General Comments

There were two sections to the examination paper and all 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 10-mark questions focused on specific syllabus areas in greater depth while the longer questions dealt with various aspects of individual and corporation tax issues.

The performance by candidates for the examination was quite remarkable as the majority of candidates attained the pass mark with relative ease. Most answers for some narrative questions were well thought out and included in depth knowledge of the specific topic tested. Almost all the candidates attempted all the questions and there was no evidence of time pressure. The following paragraphs report on each section and focus on some of the key learning points.

Specific Comments

Section A

It was very pleasing to see that almost all candidates attempted all of the questions. Candidates preparing for the next examination are advised to work through the sample question discussed here and in prior examiner's reports in order to carefully review how each of the correct answers were derived. 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 type of questions asked and guidance on dealing with similar exam questions. The question is specifically selected because the majority of the candidates picked the same incorrect answer option.

Sample Question for Discussion

Example

Rudo, who is employed by a local university, incurred the following medical expenses during the year ended 31 December 2015:

	US\$
Medical aid contributions (50% of which was paid by his employer)	5 000
Hospital fees for paralysed spouse (70% of which was claimed from the medical aid society)	7 000
Prescription drugs (fully claimed from the medical aid society)	<u>1 000</u>
	<u>13 000</u>

What are the total tax credits applicable to Rudo for the year ended 31 December 2015?

- A US\$6 500
- B US\$3 700
- C US\$2 300
- D US\$3 200

This question tested the recognition and computation of the applicable tax credits from the provided scenario. The majority of the candidates only identified the medical aid contributions credit and the medical expenses credit and completely disregarded the disabled person credit. Future candidates are advised to think over the answer options before settling for the one which appear correct at a glance. The question required, "the total credits applicable" which gave a hint that there could be more tax credits than the obvious. The key to passing this type of question was to review the information carefully in order to correctly recognise all the applicable tax credits.

Section B

Question One

This 10-mark question covered the topic of capital gains tax.

Part (a) for 3 marks required candidates to explain the tax treatment of capital losses. Candidates' performance was unsatisfactory on this question. Many candidates explained the tax treatment of trading losses instead which was not a requirement. It was quite clear that the majority of the candidates lacked knowledge on how capital losses are treated for tax purposes.

Part (b) for 7 marks required candidates to calculate the capital gains tax payable for the year. Candidates' performance was satisfactory on this question. It was pleasing to note that some candidates achieved very good marks on the question. The common mistakes were the incorrect calculation of the recoupment and the allowable disposal expenses.

Question Two

This 10-mark question focused on income from self-employment.

Part (a) for 4 marks required candidates to explain the reasons for non-compliance in the treatment of the commercial property rent received and the possible penalty exposure. Although most candidates ignored the value added tax (VAT) implications in their explanation, the majority still performed well on the question. Overall, the performance was satisfactory.

Part (b) for 6 marks required candidates to calculate the income tax payable and the identification of the payment dates. The performance by the majority of the candidates was satisfactory. The following common mistakes impacted negatively on the attainment of better marks:

- Incorrect treatment of the rent received from a Botswana holiday cottage
- Incorrect treatment of the property management fees incurred on the holiday cottage
- Incorrect treatment of the withholding tax

Question Three

This 10-mark question consisted of two distinct parts involving individual taxpayers in business.

Part (a)(i) for 1 mark required candidates to state the tax obligation when making a payment to a fully tax compliant service provider. While this was a fairly straight-forward question, some candidates provided too much unnecessary and unrelated detail. The performance on the question was rather mixed.

Part (a)(ii) for 2 marks required candidates to state the tax obligation when effecting a payment to a non-tax compliant service provider. Although the performance by candidates was fair, it was apparent that there was confusion as to the correct tax obligation for the two questions as the answers were often mixed up.

Part (b)(i) for 2 marks required the tax consequences of the revaluation of the property, plant and equipment. Most candidates performed poorly on the question due to lack of appropriate knowledge. A few candidates did not attempt this part of the question. Future candidates should take note that a revaluation cannot be treated as an actual disposal but rather a deemed disposal. A deemed disposal will trigger the recoupment of the previously granted capital allowances as going forward the capital allowances will be based on the revalued amounts.

Part (b)(ii) for 2 marks required the tax treatment of trading losses following the incorporation of a sole proprietor business. The performance by candidates was unsatisfactory as the majority of the candidates went to a great extent in explaining the relief for trading losses which was not a requirement. The approach the candidates

should have taken was to understand the fact that a sole proprietor business and an incorporated business are two distinct taxpayers and should be treated as such.

Part (b)(iii) for 3 marks required candidates' advice on the actions to take in order to maximise the available relief for the accumulated assessed losses on the incorporation of the business. Most candidates either did not attempt this part of the question in full or only offered partial answers. Candidates needed to understand the fact that the incorporation of the business ushered in a new taxpayer which meant that the accumulated assessed losses could not therefore be carried forward. Further, candidates needed to also analyse the assessed accumulated losses with a view to their validity in terms of the prescription period.

Question Four

This 10-mark question covered the topic of valued added tax (VAT).

Part (a) for 1 mark required the VAT registration category and the frequency of the submission of the VAT returns. The question was well attempted with most candidates scoring the full mark. The candidates that did not score the full mark only stated the VAT registration category but did not state the return submission frequency.

Part (b) for 9 marks required candidates to calculate the VAT payable/refundable for the year. Many candidates appeared very comfortable with this type of VAT question. The performance was satisfactory and in most cases candidates attempted this question first. It was pleasing to note that most candidates achieved good marks on the question.

Question Five

This 15-mark question involved an elderly taxpayer in receipt of both employment and investment income. The question required candidates to calculate the taxable income and income tax payable for the year.

The performance by candidates was satisfactory and the majority of the candidates scored very high marks. The candidates who did not score good marks made the following mistakes:

- Failed to separate the employment income from the investment income and hence taxed the total income at the same tax rate.
- Incorrect bonus exemption amount.
- Incorrect exemption amount from interest and discounted instruments.
- Incorrect treatment of the medical insurance policy.
- Failure to grant the elderly person's credit.
- Incorrect tax rate notably for the dividends received.

Question Six

This 15-mark corporation tax question involved a farming business company and required candidates to calculate the taxable income for the year.

Most candidates performed very well on the question with a vast majority attaining very good marks. Some candidates managed to score all the allocated marks which was quite remarkable. The following common mistakes by some candidates militated against the achievement of good marks:

- Incorrect calculation of the recoupment on the disposal of a passenger motor vehicle.
- General incorrect income tax computation.
- Incorrect lease premium calculation and treatment.
- Calculation and granting wear and tear instead of SIA.
- Incorrect calculation and treatment of the export market development expenses.
- Incorrect treatment of the donations.



- Incorrect treatment of the trade mark registration and patent application expenses.
- Incorrect treatment of some wheat production expenses.
- Incorrect calculation of the disallowed finance charges.
- Calculation of tax payable which was not a requirement.