

Examiner's report

F6 Taxation (ZWE)

June 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 involved capital gains tax (CGT), value added tax (VAT), individual income tax and corporate tax. The longer questions covered aspects of individual income tax and corporate tax in greater detail. This is the first examiner's report since the introduction of the new exam format and question types. 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 note that almost all candidates attempted all of the questions. Candidates preparing for the next examination are advised to work through the specimen questions and the sample question discussed here and to carefully review how the correct answer was derived. Section A questions aim to provide a broad coverage of the syllabus, and future candidates should aim to revise all areas of the study guide and syllabus and work through examples as detailed in the recommended reading list. The following question is reviewed with the aim of giving future candidates an indication of the type 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

During 2014, Chipo sold the following shares:

- (1) Shares in A Limited, a company listed on the Zimbabwe Stock Exchange (ZSE) for total proceeds of US\$35 000. The shares had originally cost US\$17 500 when purchased on 1 March 2009.
- (2) Shares acquired in Grey Limited, an unlisted company for total proceeds of US\$31 500. The shares had originally cost US\$18 000 when purchased in June 2010.

What is Chipo's final capital gains tax liability in connection with the disposal of these shares?

- A US\$1 925
- B US\$2 600
- C US\$5 225
- D US\$3 050

This question tested candidates' ability to distinguish between the CGT computation on the disposal of listed marketable securities and that of unlisted marketable securities. Candidates should be aware that the CGT implications on the disposal of these two types of marketable securities is never the same. The key to passing this type of question is firstly to identify the type of marketable security and secondly to take note of the date of acquisition in order to come up with the correct CGT computation.

The information on CGT for both immovable property and marketable securities is provided in the tax rates and allowances printed at the front of the examination paper (and on the ACCA website). Future candidates are advised to take note of the available information in order to ensure they make use of tax rates and allowances which are relevant to the exam sitting they are attempting.

The majority of candidates selected option A as the answer to this question. This answer option was a sum of the correct CGT computation for the listed shares and the incorrect computation for the unlisted shares. Clearly this option did not take into account the acquisition date of the unlisted shares in order to come up with the correct treatment. Many candidates just assumed the same acquisition date for the two marketable securities. Candidates are encouraged to always read the questions carefully in order to understand the stated facts. The correct answer was option B which detailed the correct computations for both the listed and the unlisted shares.

Section B

Question One

This 10-mark question covered the CGT implication on the disposal of a principal private residence (PPR) jointly owned by a married couple.

Part (a) for 4 marks required candidates to explain the reasons why it was in the interests of the couple to delay the disposal of their PPR despite the professional advice given to the contrary. The question further required candidates to offer tax planning advice to enable the couple to take advantage of the maximum tax reliefs available at the earliest disposal date possible. Candidates' performance on this question was unsatisfactory. Many candidates provided generalised answers and did not focus on the facts outlined in the question. Candidates should always endeavour to work with the specific detail provided in the question and avoid generalised information. Apart from wasting valuable time by providing too much unnecessary generalised detail, such answers did not address the requirement set. The common assumption was that the couple qualified for the elderly taxpayers' exemption although the dates provided in the question indicated otherwise. Some candidates listed all the exemptions available to elderly taxpayers in general rather than focusing on the one relevant to the question. Although there were two distinct parts to this question, most candidates completely disregarded the tax planning issue. A significant number of the candidates did not attempt this part of the question.

Part (b) for 6 marks required candidates to calculate the CGT payable by the couple on the assumption that they disposed of their PPR on the stated date. Candidates' performance was again unsatisfactory on this question part. Most candidates showed a lack of understanding on what constitutes specified assets for CGT purposes. The answers presented lacked knowledge and the basic CGT fundamentals without which it is not possible to attempt questions successfully.

Many candidates calculated capital allowances and recoupment on the disposal of a PPR and included the value of a movable asset in the gross capital amount. This is not correct. Other candidates only included the value of the main residence in the CGT computation and disregarded all the capital additions made to the property.

The following mistakes were frequently encountered in candidates' scripts:

- Failure to recognise the assets to include in the calculation of the gross capital amount.
- Incorrect calculation of the inflation allowance.

- Inclusion of recoupment and capital allowances in the CGT computation.
- Incorrect CGT rate and including AIDs levy in the CGT computation.
- Failure to treat the couple as individual taxpayers.
- Incorrect application of the CGT exemption.

Question Two

This 10 mark question on VAT required candidates to state the due date for the return for a particular month. The question further required candidates to calculate the maximum interest and penalties chargeable as well as the VAT payable for the stated month. Performance on this question overall was very satisfactory with particularly strong performance in parts (a) and (c).

Almost all the candidates stated the correct due date for the VAT return in part (a) and scored the 1 mark allocated for the question.

Performance in part (b) was also satisfactory although the common mistake noted was the incorrect interest calculation. Candidates applied an incorrect interest rate in some cases and also failed to apportion the interest to the period the VAT amount was outstanding. Some candidates further failed to correctly compute the period for which the VAT was outstanding. Candidates should have taken note of the VAT remittance date stated in the question in order to calculate the correct period for which the amount was outstanding.

The vast majority of candidates performed very well on part (c) of the question. However, a few candidates did not take heed of the note to the question which required them to indicate by the use of a zero any items referred to in the question were the amount did not have any VAT implications. These candidates did not gain as many marks as they should have due to the oversight.

Question Three

This 10-mark question involved the tax treatment of the amounts included in a long term lease agreement for both parties to the contract.

Part (a) for 8 marks required candidates to calculate the adjusted taxable income and the tax payable by the lessee. This part of the question was answered very unsatisfactorily by the majority of candidates. It was very clear that candidates lacked the knowledge of how to answer the question as many candidates wrongly included amounts of a capital nature in the adjusted taxable income computation and treated the provisional tax paid as an allowable deduction. Most of the answers presented demonstrated confusion as to the tax treatment of the amounts specified in the lease agreement. Candidates lacked the knowledge to identify and correctly calculate the amounts which either constitute gross income or allowable deductions and to then allocate the amounts to the applicable party to the contract.

The approach the candidates should have taken was to firstly identify the parties to the contract as either the lessee or the lessor, analyse the lease period for tax purposes and then to come up with the correct treatment of the lease agreement amounts. The relevant amounts are the rent, the lease premium and the lease improvements and these have different tax treatments for the two parties to the contract.

The following mistakes were noted:

- Failure to restrict the lease period.
- Incorrect treatment and calculation of the one-off premium.
- Incorrect treatment and calculation of the lease improvement allowance.
- Incorrect treatment and calculation of the interest on the bank loan.
- Failure to indicate the amounts which did not require adjustments.

Part (b) for 2 marks required candidates to calculate the amounts to be included in the gross income of the lessor. Most candidates again performed unsatisfactorily on the question and some did not attempt this part of the question at all. As alluded to in part (a) above, generally candidates lacked knowledge as to the amounts that constituted gross income.

A significant minority of the candidates correctly calculated the rent amount to be included in the gross income calculation. Although a common mistake made by many candidates involved the apportionment of the once-off premium over the lease period, it was pleasing to note that some candidates treated the amount correctly. Future candidates should take note of the fact that the premium constitutes gross income in the hands on the lessor in the year of receipt and the amount is not apportioned over the lease period. On the other hand, to the lessee, the amount is apportioned over the deemed lease period (if the lease period is more than 10 years) and treated as an allowable deduction.

Question Four

This 10-mark question covered the topic of the time limits for the submission of a self-assessment return and the penalties for non-compliance.

Part (a)(i) for 1 mark required the candidates to state the date by which the taxpayer should have submitted the self-assessment return. Performance on this part of the question was unsatisfactory.

Many candidates were unable to state the correct date. Although there is only one specified date for the submission of the self-assessment return, it was disappointing to note that most candidates stated the QPDs as the due dates.

Part (a)(ii) for 2 marks required candidates to advise the taxpayer of the Zimbabwe Revenue Authority 's (ZIMRA) remedies for the late submission of an income tax return. Performance on this part of the question was mixed.

There were two distinct sets of answers by candidates to this part of the question, i.e from the candidates that understood the question and from those that did not. The group that understood the question performed fairly well while the other group did not. The candidates that misunderstood the question often detailed the justifiable reasons that would be acceptable to ZIMRA in order for the taxpayer to avoid penalties. Candidates are advised to always make full use of the 15 minutes reading and planning time in order to fully understand the question requirements.

Part (b) for 7 marks required candidates to calculate the income tax shortfall or overpayment for the stated year. The performance on this part of the question was satisfactory.

The following common mistakes made by candidates in part (b) were noted as follows:

- Incorrect recoupment calculation.
- Incorrect capital allowances calculation.
- Provisional tax incorrectly treated as an allowable deduction.
- Failure to either account for the withholding tax on contracts or an incorrect treatment altogether.
- Incorrect income tax computation.

Question Five

This 15-mark question on individual income tax required the candidates to calculate taxable income and the tax payable from employment and from property and investment income involving a taxpayer in the civil service.

Although the vast majority of the candidates performed satisfactorily on the question there were many errors made which impacted negatively on the achievement of better marks. While some candidates were clear on the exemptions applicable to a state employee, others overlooked this fact. The key learning point here for candidates is to ensure that they understand all the facts in a scenario by always reading the question carefully before attempting to answer. It was also noted that a significant number of candidates did not differentiate the property and investment income from the employment income and calculated the tax liability using the individual's employment income tax rates. Some candidates demonstrated a general lack of care in their answers which future candidates should always endeavour to avoid in order to attain better marks.

The following were the most commonly made mistakes:

- Incorrect exemption from the bonus received.
- Failure to recognise the correct exemptions from the fringe benefits.
- Incorrect treatment of the standard relocation allowance.
- Incorrect treatment of the deemed benefit from the interest free loan.
- Incorrect treatment of the income received from a matured retirement annuity fund.
- Failure to restrict the allowable pension and RAF contributions.
- Treating the medical aid contributions as allowable deductions instead of a tax credit.
- Incorrect treatment of the non-executive director's fees.
- Incorrect treatment and calculation of the taxable rental income.

Question Six

This 15-mark question on the topic of corporation tax liabilities required candidates to explain the general rule regarding assessed losses from prior years and to calculate the taxable income and corporate tax payable.

Part (a) for 1 mark required an explanation on how a company with brought-forward assessed losses may apply these against future taxable profits. The majority of candidates performed very well on this part. However, a few candidates did not include in their explanation the maximum allowable period in which the assessed loss from a particular year can be carried forward and deducted from future taxable income.



Part (b) for 14 marks required candidates to calculate the corporation tax liability of the stated company making use of any available reliefs. The performance by the majority of the candidates was satisfactory.

The candidates who did not perform as well on this question made the following costly mistakes:

- Overlooked the question requirement to make use of any available reliefs.
- Overlooked the note to the question to indicate those amounts which did not require adjustment by the use of a zero.
- Started the income tax computation with the gross profit amount instead of the net profit before tax.

The subsequent effects of the above mistakes were often the following:

- Incorrect capital allowances.
- Assessed losses brought-forward not treated as allowable deductions.
- Amounts not requiring adjustments excluded from the income tax computation.

Future candidates are reminded that corporation tax liabilities and individual income tax liabilities are key areas of the syllabus and questions on these areas should never be rushed through but should be read carefully in order to understand all of the stated facts.