



Examiner's report

F6 (ZWE) Taxation

June 2016

General Comments

The examination paper consisted of two sections and all of the questions were compulsory. Section A consisted of 15 multiple choice questions for two marks each. The multiple choice questions 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 capital gains tax (CGT), value added tax (VAT), taxation of income from self-employment and the scope of the national social security contributions. The longer questions tested the candidates' understanding of the core syllabus areas involving individual income tax liabilities from employment and the corporation tax liabilities for an industrial park developer. The following paragraphs report on each section and focus on some of the key learning points.

Specific Comments

Section A

Almost all candidates attempted all of the 15 multiple choice questions. Future candidates are advised to work through the sample question discussed here and in the prior examination 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 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, guidance on dealing with exam questions and to provide a technical debrief on the topic covered by the specific question selected.

Sample Question for Discussion

Example

Josh is a registered taxpayer in receipt of investment income. He submitted his annual tax return (ITF 12) for the year ended 31 December 2014 on 31 August 2015.

What is Josh's maximum tax penalty exposure from the late submission of his annual tax return for the year ended 31 December 2014?

- A US\$420
- B US\$3 690
- C US\$2 010
- D US\$630

This question tested the recognition of the time limits for the filing of returns and the penalties for non-compliance. It is imperative for candidates to understand that there are different dates for the submission of specific tax returns. Some of the return submission dates are fixed or predetermined whereas other dates are published through the Zimbabwe Revenue Authority (ZIMRA) Commissioner's notice. The key to passing this type of question was to be absolutely clear of the following:

- The type of the tax return involved.
- The exact tax return submission date.

- The default period.
- The penalty involved.

The correct answer was option A, US\$420.

Section B

Question One

This 10-mark question focused on the taxation of income from self-employment and consisted of both narrative and computational parts.

Part (a) for 2 marks required candidates to explain the classification of a gym building for capital allowances purposes. The candidates' performance was mixed on this question, with the majority of the candidates not stating the reasons supporting the classification of the gym building. Consequently only part marks were awarded for the incomplete answers.

Part (b) for 6 marks required candidates to calculate the additional provisional tax as a result of the commencement of the gym business. Candidates were further required to indicate the tax remittance dates for the provisional tax calculated. Although the performance by candidates was fair, the following common mistakes compromised on the attainment of better marks:

- Incorrect tax computation.
- Failure to read through the question requirements which led to incorrect capital allowances computation.
- Incorrect provisional tax computation.

Part (c) for 2 marks required candidates to explain the additional tax obligations emanating from the recruitment of staff. The vast majority of the candidates confidently scored all the 2 allocated marks.

Question Two

This 10 mark question on CGT required candidates to ascertain whether the property in question qualified as a principal private residence (PPR) given the detailed circumstances. The question further required an explanation of the possible effect of the property leasing on the available tax relief. For the computational part of the question, candidates were required to calculate the CGT taking into account the available tax relief to minimise the tax burden.

Candidates' performance on the narrative part (a) of the question was unsatisfactory mostly due to a lack of convincing detail in most of the answers. The approach that candidates should have taken in order to better answer the question was to understand the definition of a PPR firstly and foremost before dismissing the property as a commercial building. The original purpose and intention of use was key in correctly determining whether the property qualified as a PPR or not. Candidates needed to understand all the detailed facts as these were also pointers to whether the residence qualified as a PPR or not. Future candidates dealing with similar questions are advised to take a holistic approach and to read through the question with understanding in order to take into account all the pertinent details available.

Most candidates performed satisfactorily for the computational part (b) of the question. The following are the common mistakes noted in some of the answers:

- Incorrect recoupment amount.
- Inclusion of movable assets values in the CGT computation.
- Incorrect computation of the inflation allowance.
- Incorrect computation of the available tax relief.
- Incorrect CGT rate.

Question Three

This 10-mark question covered the topic of VAT deregistration. The two narrative parts of the question accounted for a total of 6 marks while the VAT computation part accounted for the remaining 4 marks.

Part (a) required candidates to explain how and when a business can deregister for VAT. Candidates performed unsatisfactorily on the question. The vast majority of the candidates only concentrated on one aspect of the question, on how a business can deregister and completely disregarded the aspect of when a business can actually deregister. Resultantly only partial marks were scored for the question.

Part (b) required candidates to state the obligations of a VAT operator on deregistration. Most candidates performed poorly on the question. Although only 2 marks were allocated for the question, the answers were mostly too long and contained too much detail with nothing to do with VAT deregistration but obligations of VAT operators in general. Candidates are always advised to limit the extent of the detail in their answers in order to match the allocated marks as well as to avail the detail that is only relevant to the question asked.

Part (c) required candidates to calculate the VAT payable on deregistration. This part of the question was answered very poorly by the majority of candidates mostly due to lack of sufficient knowledge to come up with correct output tax computation. For the computation of the output tax on the non-current assets, candidates were confused as to which values to use between the cost and the market values. Further candidates lacked understanding of the amounts on which VAT is either chargeable or not chargeable both for the current and non-current assets. It was also quite disappointing to note that most candidates could not calculate the output tax correctly.

In order to accurately calculate the VAT payable on deregistration, candidates should have first identified the assets on which VAT is chargeable. Secondly candidates needed knowledge to accurately and confidently identify the amount on which to apply the VAT rate.

Question Four

This 10-mark question covered the topic of the scope of the National Social Security Authority (NSSA) contributions.

Part (a) for 1 mark required the NSSA registration time limit for employers.

Performance on this part of the question was poor. Almost all candidates incorrectly stated the ZIMRA pay as you earn (PAYE) registration requirement for employers. Future candidates should take note that the registration requirements for these two institutions are different.

Many candidates were able to correctly state the remittance dates for the NSSA contributions for the specified months in part (b) of the question.

Part (c) for 2 marks required candidates to state the measures put in place by NSSA in order to comply with the stipulated remittance deadlines. The vast majority of the candidates performed very poorly on the question as they once again incorrectly detailed the measures by ZIMRA for the late PAYE remittance. It was disappointing to see that candidates clearly lacked sufficient knowledge and were quite unprepared for this type of question. Future candidates are advised to ensure that they study all the syllabus areas and to make use of the recommended study material.

Part (d)(i) for 4 marks required the calculation of the NSSA contributions for the stated month taking into account the penalty for the late remittance. Performance on this question was somewhat mixed. The candidates who were able to compute the correct NSSA contributions only concentrated on the employees portion of the contributions and did not include the employer part of the contributions as well. Almost all the candidates were not able to correctly calculate the penalty for the late remittance as outlined in part (c) above.

Most candidates also performed unsatisfactorily for part (d)(ii) which required for 2 marks, the calculation of the ordinary NSSA contributions for the year. Some candidates did not score better marks as they completely disregarded the annual basic salaries stated in the question and incorrectly worked with the maximum amounts for all the four employees. It was also quite disturbing to note that although the rate for the NSSA contributions is provided in the tax rates and allowances section of the examination paper, some few candidates still made use of incorrect rates.

Question Five

This 15-mark question focused on the taxation of the income from employment.

Part (a) for 4 marks required an explanation as to whether the reason given by the part-time employer for failing to deduct PAYE was justifiable. Furthermore, candidates were required to explain the actions that should have been taken by the employee in order to address the anomaly.

This part of the question was answered unsatisfactorily by the majority of the candidates who appeared uncertain whether the stated reason was justifiable or not. Candidates were also unsure as to the actions to be taken by the employee in order to fulfil his tax obligations. It was displeasing to see that most candidates incorrectly suggested that the employee should register for PAYE, which is clearly an employer obligation. There is clearly a distinction between both employer and employee tax obligations and candidates should be able to identify with certainty the taxpayer being referred to in the question.

Part (b) for 11 marks required candidates to calculate the taxable income and tax payable by the employee for the year.

Most candidates performed well on this part of the question and managed to score good marks. However, the following common errors were noted in some of the answers:

- Failure to exempt the accommodation and transport allowances.
- Incorrect computation of the taxable portion of the education benefit.

- Incorrect bonus exemption amount.
- Inaccurate pension contributions restriction.
- Incorrect treatment of the medical aid contributions.
- Incorrect computation of the taxable annuity portion.

Question Six

This 15-mark question focused on corporation tax liabilities involving an industrial park developer.

Part (a) for 4 marks required candidates to list any four specific tax reliefs applicable to an industrial park developer. Performance on this question was unsatisfactory.

Many candidates were unable to list a single tax relief while some few candidates did not even attempt this part of the question. The number of candidates who listed the tax reliefs applicable to farmers as the same as those applicable to industrial park developers was quite disturbing. It was not clear whether this was due to lack of knowledge or whether candidates genuinely felt that the tax reliefs are the same for these two distinct taxpayers. When dealing with questions of this nature, candidates are advised to be absolutely clear of the type of taxpayer being referred to in the question as there is no one blanket tax relief across the different groups of taxpayers due to the distinct nature of the businesses involved.

Part (b) for 11 marks required candidates to calculate the taxable income and corporate tax payable by the industrial park developer for the year. Most candidates performed very well on this question.

Many candidates were able to come up with a correct tax computation and accordingly achieved good marks. No major issues of concern were noted on this particular question apart from some incorrect treatment of certain expenditure items. These included but not limited to incorrect restriction of the allowable portion of a donation as well as the amount for attending an approved trade convention. A significant number of candidates also incorrectly included AIDS levy in the corporate tax payable.