

Examiner's report

F6 (ZWE) Taxation

June 2017

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 for two marks each. The questions covered a broad range of syllabus topics. Section B had six questions in total, four of which were worth 10 marks each and two longer questions worth 15 marks each. The four questions for 10 marks each focused more on specific syllabus areas while the two longer questions covered aspects of individual and corporation tax liabilities in greater detail. The following paragraphs report on each section and focus on some of the key learning points.

Specific Comments

Section A

It was disappointing to see that some candidates did not attempt all of the questions as expected. Candidates preparing for the next examination are advised to be consistent in studying all the syllabus areas and take time to go through past examination papers and examiner reports working out the answers under mock examination conditions. Candidates should also work through the sample question discussed here and to carefully review how the correct answer was derived. Candidates are further advised to practise time management when working out questions. Section A questions aim to provide a broad coverage of the syllabus, and future candidates should aim to revise all areas of the syllabus and study guide, 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 examination questions and to provide a technical debrief on the topic covered by the question selected.

Sample Question

Martin sold his commercial building on Friday 1 July 2016. The buyer transferred the agreed proceeds to the depository's bank account on Friday 15 July 2016 in accordance with the agreement of sale. The depository transferred the amount due to Martin on Monday 25 July 2016.

By what date should Martin remit the capital gains tax (CGT) due on the disposal of his commercial building to the Zimbabwe Revenue Authority (ZIMRA)?

- A 18 July 2016
- B 28 July 2016
- C 20 July 2016
- D 25 July 2016

This question tested the recognition of the time limit for the submission of information, claims and payment of tax specifically on the due date for the payment of tax under the assessment system. It is most important for an accountant to be aware of all the due dates for the remittance of tax in order to avoid possible non-compliance penalties as they impact negatively on cash flows and are avoidable. There are different due dates for the payment of different taxes and the key to passing this type of question is to ascertain the type of tax being referred to in the question and to carefully consider all the relevant stated facts. Since to some extent all the answer options represented a potential tax payment date, candidates needed precise knowledge in order to correctly identify the required due date. Candidates are encouraged to read the questions with understanding in order to be certain of the requirements.

The correct answer was C.

Section B

Question One

This 10 mark question involved the topic of value added tax (VAT).

Part (a) for 2 marks required candidates to state the VAT periods and the VAT submission dates for a category A operator. Candidates' performance was mixed on this question. Many candidates were confused about the correct VAT periods for category A operators and stated the VAT periods for category B operators instead which in turn affected the correct submission dates. Again, here candidates required precise knowledge of the VAT categories, the respective VAT periods for the different categories and the relevant submission dates.

Part (b) for 8 marks required candidates to calculate the VAT payable or refundable for each VAT period in the stated six-month period. Candidates' performance was pleasing on this question as many calculated the output and the input tax correctly thereby coming up with the correct VAT position for the period.

Although most candidates were confident of their calculations and achieved good marks on this question, some candidates as stated in part (a) above were uncertain of the correct VAT periods. Instead of presenting the worked answers in accordance with the correct VAT periods, these candidates only showed totals for the six months period which was an indication of lack of knowledge of the correct VAT periods for a category A VAT operator.

Question Two

This 10 mark question on the systems for assessment and the making of returns dealt specifically with an estimated assessment and the tax consequences for failure to submit an income tax return.

Part (a) for 3 marks required the candidates to outline the circumstances in which an estimated assessment can be issued by ZIMRA. Candidates performed very poorly on this question due to outright lack of knowledge on what an estimated assessment is. Knowledge of the definition of an estimated assessment was key in order to be able to state the circumstances in which the assessment can be issued. It was also clear that some candidates did not have any knowledge as to what an assessment is in general terms as they used the term interchangeably with a tax return. Candidates at this stage are expected to be conversant with the meaning of all the basic taxation terms.

Part (b) for 2 marks required candidates to comment on the stated taxpayer's views regarding an estimated assessment received for the year. The performance by most candidates was also very poor for this question. Instead of simply commenting on the taxpayer's views as required, candidates stated the consequences of failing to submit a tax return which was not a requirement for this part of the question. Candidates did not score any marks for such answers which were often unnecessarily long for the allocated marks. Candidates must answer the question set rather than the one they wish had been.

Future candidates are advised to take time to read the questions in order to understand the requirements first before attempting to answer. This is also a key examination technique which also helps on good time management.

Part (c) for 5 marks required candidates to state the tax consequences of the taxpayer's failure to submit an income tax return for the year. Although candidates performed fairly well on the question, they could have obtained better marks had they taken into consideration the notes to the question. The notes required the answers to include the income tax return submission date, the due date for the payment of tax under the self-assessment system as well as appropriate calculations to support the answers. The need to carefully read

through the question requirements as pointed out before cannot be overemphasised. It is of utmost importance for candidates to use their allotted reading time for the intended purpose prior to writing anything.

Question Three

This 10 mark question on capital gains tax involved the disposal and replacement of business property, plant and equipment by a manufacturing company.

Part (a) for 4 marks required the candidates to state the tax relief in connection with the disposal of the properties as well as the qualifying criteria for the tax relief. The performance on the question was satisfactory.

Where candidates did not tend to score well, this was because while they identified the correct tax relief they then failed to state the qualifying criteria and instead explained about capital allowances and recoupment which did not merit any marks.

Part (b) for 6 marks required candidates to calculate the capital gains tax payable taking into account the available tax relief. This part of the question was answered well by the majority of candidates. It was pleasing to note that some candidates scored all the allocated marks for the question.

Question Four

This 10 mark question involved the determination of the residence of a company and the treatment of the management fees paid by a local subsidiary company to a non-resident holding company.

Part (a) for 3 marks required an explanation on how the residence of a company is determined and to state the residence of a holding company referred to in the question. Candidates performed unsatisfactorily on this part of the question.

The majority of the candidates offered conflicting answers in most cases and lacked the necessary knowledge required to deal with this type of question. This was a clear indication of candidates being unprepared for the examination and not having properly studied and covered all the areas of the syllabus and study guide. Future candidates are advised that the topic on the scope of corporation tax which covers the determination of a company residence is an equally important topic which should also be studied and revised with diligence like any other tax topic.

Part (b) for 7 marks required an explanation of the tax treatment of the management fees paid to the holding company and to include appropriate calculations to support the answer. Performance on this question was very poor and a number of candidates did not attempt this part of the question.

Most candidates found this part of the question most difficult to deal with clearly indicating lack of knowledge and being ill prepared for the examination. Again, future candidates are encouraged to study all the syllabus areas in detail and to work through prior examination questions as well as to consider the feedback as outlined in the examiner's reports.

Question Five

This 15 mark question on corporation tax liabilities involved a manufacturing company which exported part of their output.

Part (a) for 2 marks required candidates to state the tax relief available to exporting manufacturing companies. The performance by candidates was somewhat mixed. Generally, candidates appeared uncertain of the tax relief and in most cases stated the special deductions available instead of the tax relief. In order to answer the question correctly, candidates needed to know the proportion of the export volume to the total output as there is a different tax relief depending on specific export volume.

Part (b) for 13 marks required candidates to calculate the taxable income and corporation tax payable for the year. Most candidates performed very well on this part of the question.

The candidates who did not attain good marks made the following common mistakes:

- Incorrect adjustments of the net interest received, net foreign exchange gain, hire of equipment and compensation for loss of income.
- Failure to restrict the contributions to the employees' sickness benefit fund.
- Incorrect treatment of the provision for employees' awards.
- Incorrect recoupment calculation.
- Incorrect tax rate
- Incorrect treatment of the provisional tax paid.

Question Six

This 15 mark question covered individual income tax liabilities involving income from employment.

Part (a) for 2 marks required candidates to outline in general terms, the basis of valuation of employee fringe benefits for income tax purposes. Performance on this question was satisfactory.

Many candidates were able to state correctly the general basis of valuation of employee benefits thereby scoring the allocated marks. Some candidates, however, only outlined the basis of valuation from the employer's point of view which only scored 1 mark. Candidates needed to consider both the employer and employee in order to come up with the correct basis of valuation of the fringe benefits.

Part (b) for 13 marks required candidates to calculate the taxable income and income tax payable from employment for the year. Performance on this question was pleasing. Many candidates answered the question with relative ease and attained good marks.

The following common mistakes were noted in some answers:

- Incorrect loan benefit calculation
- Treating some employment benefits as exemptions
- Incorrect treatment of donations
- Failure to restrict the pension fund contributions and the RAF contributions
- Incorrect allowable deductions