

Examiner's report

F6 Taxation (ZAF)

December 2014

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General Comments

The three hour examination consisted of five compulsory questions of 30 marks, 25 marks, 20 marks, 15 marks and 10 marks respectively. The paper was predominantly computational but there was also a reasonably significant narrative component.

In general, answers to the discussion questions and the VAT question (Q4) were satisfactory. Answers to the other questions were less satisfactory. Candidates failed to obtain marks as a result of a lack of understanding and application of many of the fundamental aspects of income tax.

Specific Comments

Question One

This 30 mark question dealt with company taxation. Answers to this question were generally not satisfactory.

The first part was a discussion question dealing with gross income and deductions. The majority of candidates failed to identify the requirement of unconditional entitlement for the amount to be considered to be "accrued" for the purposes of gross income. Many candidates merely assumed that the act of invoicing led to a gross income accrual. In part (b) which dealt with the payment of a pension to a retired employee, many candidates failed to consider whether this was an annuity that would qualify for a deduction under the terms of the specific deduction provision.

In the calculation of the income tax liability in part (c), typical errors included:

- Inclusion of the capital gain in income;
- Failure to recognise the deferment of recoupments and capital gains;
- Use of incorrect rates for capital allowances (despite these being included in the tax rates at the front of the exam paper)
- Inappropriate apportionment of capital allowances;
- Deduction of provisional tax payments in the calculation of taxable income;
- Inclusion of proceeds on disposal of assets directly in income.
- Deduction of the assessed capital loss brought forward against income.

Question Two

This 25 mark question included a discussion component dealing with the residence of an individual and a component dealing with the calculation of taxable income for an individual. Answers to this question were generally unsatisfactory.

In part (a) of the question on residence most candidates dealt with the physical presence test requirements adequately. However, many candidates failed to make the distinction between being ordinarily resident and being resident by virtue of physical presence.

In the calculation of taxable income in part (b), typical errors included:

- Incorrect treatment of the interest fringe benefit including, in some cases, including the full loan amount as a taxable benefit;
- Failure to deduct the interest cost relating to the part of the loan from the employer that was invested to earn interest income;
- Deduction of provident fund contributions;
- Incorrect calculation of the company car taxable benefit;

- Deducting medical expenses directly in the calculation of taxable income

Question Three

This question was for 20 marks and dealt with Capital Gains Tax; more specifically the calculation of the capital gain or loss on four different asset disposals. Answers to this question were generally unsatisfactory.

Typical errors included:

- Failure to use the appropriate format or conceptual approach in calculating capital gains or losses;
- Confusion between capital gains and recoupments and capital losses and scrapping allowances;
- Inclusion of the capital gains or losses in income;
- Failure to recognise the deferment of recoupments and capital gains;
- Use of incorrect rates for capital allowances (despite these being included in the tax rates at the front of the exam paper);
- Inclusion of proceeds on disposal of assets directly in income;
- Deduction of the assessed capital loss brought forward from income.

Question Four

This 15 mark question dealt with a VAT calculation. It was generally answered well, with most candidates showing a good appreciation for the VAT concepts involved.

Question Five

Answers to this 10 mark theory question were generally highly satisfactory.