



Examiner's report

F6 Taxation (ZAF)

June 2014

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 following general observations were noted from candidates' answers this sitting and should be borne in mind by candidates preparing for future sittings:

- Many candidates were unable to apply their taxation knowledge to the particular scenarios. Candidates should bear in mind that this is a necessary skill for F6 (ZAF).
- Many candidates did not provide workings or detailed calculations to support their final answers, which made it more difficult for markers to award marks.
- Where provided, workings were often poorly laid out, which made it difficult for the markers to follow through a candidate's approach.
- Candidates should ensure that the question requirements are read and understood before tackling a question.
- Candidates should perform a completeness test after answering each question, to ensure that they have actually answered each part of the requirement set.
- Candidates should use the mark allocation for each question as a guide to the length and depth of answer required.

Specific comments

Question One

Part (a) of this question required candidates to discuss whether the settlement and repair costs would be deductible for income tax purposes. Many candidates appeared to struggle with this discursive type of question in comparison with the calculation based questions.

As noted above, it is very important that candidates are able to apply their technical knowledge to the requirements of a given scenario and that they are able to articulate their thoughts in narrative answers.

Some common issues encountered in this question included:

- Solutions presented generally lacked structure and were consequently disjointed.
- Many candidates could not appropriately articulate the requirements of the general deduction rule and then failed to fully apply these to the scenario.
- Candidates as a whole did not address the 'actually incurred' requirement in relation to the provision of R25,000.
- A significant minority of candidates applied the 'process of manufacture' requirement instead of the 'production of income' test to determine the deductibility of the expenditure.

Part (b) of this question required candidates to calculate Harry's Car Wash and Panelbeaters (Pty) Ltd's (HCWP) income tax liability.

This part of the question required candidates to have solutions which were well laid out and presented in a manner which the marker could follow and understand. Therefore, the candidates who performed well were the candidates whose workings were well structured and presented.

Candidates should ensure that they understand the requirements of the sections of the Income Tax Act which applied to this scenario and are referred to the published solution in this respect.

Although the scenario clearly provided that HCWP was a small business corporation, many candidates failed to take this into account in their solutions. This failure to properly use the information provided in the question led to the following errors :

- Candidates incorrectly used the capital allowance rates of 40% and 20% rather than the 100% rate for manufacturing assets.
- Candidates did not use the small business corporation (SBC) rates of tax (as provided in the tax rates and allowances at the front of the paper).

Other common errors encountered on this requirement included:

- Failure to correctly deal with the prepaid rental expense. It is suggested that candidates make use of a time-line to assist them in determining what portion of the expenses is prepaid at the end of the year of assessment.
- Candidates failing to correctly calculate the taxable capital gain on the destroyed compressor. Very few candidates reduced the cost of the compressor by the capital allowances granted, while the proceeds were similarly not reduced by the recoupment calculated.
- Many candidates failed to identify that a deferral of recoupment was available on the damaged compressor and the new compressor purchased.
- Poor layout and structure of the capital gain calculations generally.

Candidates are advised to deal with assets on an individual basis in a computation of taxable income. Many candidates unsuccessfully combined the tax implications of the compressor (which was destroyed) with the spray booth (which was merely damaged). Furthermore, many candidates calculated a recoupment on the damaged spray booth, which was not necessary.

Candidates should ensure that they are familiar with the capital gains rules which apply to a company. A company is not entitled to the annual exclusion of R30,000 and the taxable inclusion rate is 66.6% not 33.3%.

Question Two

Part (a) of this requirement asked candidates to calculate the employees' tax whilst part (b) required a calculation of the normal tax liability. However, some candidates calculated taxable income in both parts (a) and (b). Candidates should ensure that they understand the difference between employees' tax and normal tax payable as this resulted in such candidates wasting valuable time.

Part (a) carried 11 marks for the calculation of employees' tax withheld and paid. Candidates should ensure here that they are able to calculate both remuneration and balance of remuneration for the purposes of employees' tax.

Some candidates did not calculate the tax per the tax rates and allowances provided at the front of the paper nor did they reduce the employees' tax by the rebates (primary and medical aid credit) applicable. This indicates a lack of understanding of the fundamental purpose of employees' tax as an advance collection of a taxpayer's ultimate tax liability.

Other points for candidates to note include:

- Contributions made by an employer to the pension fund of an employee do not constitute a fringe benefit and are therefore not included in remuneration, unlike a contribution to a Retirement Annuity Fund.
- Furthermore as only Samantha's employer made the contribution, Samantha is not entitled to a pension fund deduction for the purposes of calculating her balance of remuneration or her taxable income. If Samantha had also contributed to the pension fund the deduction available would be limited to her contribution only.
- Many candidates included the interest and foreign dividends in the calculation of balance of remuneration. It is important that candidates ensure that they understand the definition of remuneration for employees' tax purposes.
- Many candidates calculated the taxable portion of the travel allowance when calculating the balance of remuneration in part (a). This should rather have been included in the calculation of taxable income in part (b). Where a candidate cross referenced their solution from 2(a) to 2(b) marks appropriate credit was awarded to the candidate but this application is incorrect.

Part (b) dealt with Samantha's normal tax liability and this requirement was generally well answered by candidates.

However, some candidates used the incorrect interest exemption, while other candidates reduced the interest exemption by the foreign dividends exemption. Candidates should ensure that they are well versed in the relevant changes to the tax legislation. Candidates should also familiarise themselves with the information provided in the tax rates and allowances at the front of the exam paper.

As noted above, many candidates incorrectly dealt with the travel allowance. Candidates should also be aware that the reduction of the travel allowance is limited to the amount included in taxable income (ie. the reduction cannot create an assessed loss position).

Question Three

This 20 mark question dealt with taxable capital gain calculations.

In the main, candidates proved able to deal with the capital gain calculations and determine the pre-valuation date value of Joe's home in Constantia.

However, some candidates assumed that the pre-valuation date value would simply be the TABC and did not calculate 20% of proceeds less selling expenses and the post-valuation date qualifying expenditure. When performing such calculations, candidates should present all three valuation figures where applicable and are referred to the published solutions in this regard.

Furthermore, candidates should ensure that when calculating a formula such as TABC that workings are laid out in a manner which the marker will be able to follow.

A large number of candidates failed to correctly apportion the primary residence exclusion for the business use of the cottage as a home office.

As a general recommendation, candidates should ensure that they have an appropriate grasp of the fundamental concepts of capital gains, including the relevant exclusions.

Question Four



This was a 15 mark question on value added tax (VAT) and was fairly well answered by the majority of candidates.

Part (a) dealt with deregistration for the purposes of VAT and, in general, answers were satisfactory.

However, a few candidates used the R60,000 commercial accommodation threshold instead of the R1 million taxable supplies threshold.

Part (b) of the requirement required candidates to calculate the input and output VAT and was fairly well answered by the majority of candidates. Candidates should ensure that they carefully read the question to determine whether the amounts provided are inclusive or exclusive of VAT. This is important to determine when to use the tax fraction (14/114) or 14% for the purposes of calculating VAT.

Additionally, some candidates failed to indicate where a transaction had no VAT consequences or provide a brief explanation for the treatment, as required by the question.

In general, candidates proved unable to identify when input VAT should be apportioned. Generally input VAT is only apportioned if goods and services will be used for making both taxable and non-taxable supplies. However, if the goods or services are to be used wholly (>95%) for the making of taxable supplies no apportionment is necessary. While output VAT is generally not apportioned, tours are wholly taxable supplies and therefore 100% output VAT should be charged.

In addition, candidates should ensure that they are familiar with the VAT consequences of when input VAT is denied, specifically (in this question) in relation to motor cars and entertainment (the pool table). Candidates should also ensure that they know the definition of a motor car.

Many candidates did not calculate the output VAT on the taxable fringe benefit provided to the managing director.

Key areas of the F6 syllabus on VAT for candidates to ensure they are comfortable with include whether a supply is a supply at 14%, 0% or is exempt; the time of supply; and the value of supply.

Part (c) of the question involved VAT administration for 2 marks.

It is important that candidates have an appropriate grasp of tax compliance related matters, as this is an important part of the F6 (ZAF) syllabus.

In this requirement, some candidates confused the 7 day filing period for employees' tax with the VAT return filing requirements.

Other candidates indicated that the return would need to be filed by the 25 June, despite the fact that the question stated that the return would be filed electronically. VAT returns submitted via e-filing are due on the last working day of the month following the end of the VAT period.

Question Five

Question five for a total of ten marks was made up of short theoretical questions.

Questions 5(a) and 5(b) generally were not satisfactorily answered and candidates demonstrated a lack of the required knowledge governing tax administration. Instead of answering the requirements set, some candidates listed various types of taxes which are levied in South Africa. Once again, candidates should ensure that they



have an appropriate grasp of tax compliance related matters as this is an important element of the F6 (ZAF) syllabus.

Part (c) for one mark was well answered.