Examiner's report
F6 Taxation (ZWE)
December 2013

General Comments
The examination consisted of five compulsory questions. The first two questions on the core syllabus areas had a mark allocation of 30 and 25 respectively while the other three questions were allocated 15 marks each.

The vast majority of candidates attempted all five questions, and there was little evidence of time pressure. Where some sections of the questions were left unanswered by candidates, this appeared to be due to a lack of knowledge or poor exam technique, as opposed to time pressure.

As in previous sessions, some candidates answered questions 1 and 2 last and their answers were often rushed through and incomplete. As questions 1 and 2 cover the core areas of the syllabus and represent 55 of the available marks, leaving these questions until last can be very risky, as many answers presented lacked the necessary depth and were obviously incomplete or appeared rushed. A good number of the candidates who attempted these two questions first recorded high marks for both the questions and achieved a comfortable pass

Candidates performed particularly well on questions 1(a), 1(d) (ii), 1(d)(iii), 2(b), 2(d), 4(c)(ii), 5(a) and 5 (b). The questions candidates found most challenging were questions 1(b), 1(c), 1(d)(i), 2(a), 2(c), the whole of question 3, 4(a), 4(b), 4(c)(i), 4(c)(iii) and 5(c). This was mainly due to candidates not understanding core syllabus areas well enough; a lack of technical knowledge and also due to a failure to read the question requirements carefully. It was apparent from some of the answers presented that there are candidates sitting the examination rather prematurely without having mastered the fundamental tax knowledge and skills required to pass. Many candidates could not differentiate between the tax treatment of an expenditure item from an income item or treated an exemption as an allowable deduction. Other common mistakes included treating a tax credit as an allowable deduction and input tax as output tax.

A number of common issues arose in candidate's answers as follows:

- Failing to read the question requirement clearly and therefore providing irrelevant answers which scored few, if any, marks.
- Poor time management between questions, some candidates wrote far too much for some questions and this put them under time pressure to finish the remaining questions. Too much irrelevant detail was provided for some narrative parts of the questions notably questions 2a, 3a and 3b.
- Not learning lessons from previous examiner's reports and hence making the same mistakes, especially failing to match the extent and depth of the detail required with the respective allocated marks.
- Providing more than the required number of points which also impacted on time management.
- Incorrect income tax and CGT computations.
- Making reference to the repealed growth point allowance.
- Confusing the terms tax avoidance and tax evasion.
- Providing too generalised information where specific detail was required.

Specific Comments

Question One
This 30-mark question focused on individual income tax and required candidates to outline the breached ZIMRA requirements from the given information as well as to detail ZIMRA's remedy for the breaches. The question further required candidates to identify two tax avoidance measures, compare and contrast the tax treatment of the stated representation allowances and to calculate the NSSA contributions for the year as well as the employee's tax, taxable income and tax payable for the year.

Many performed very well on the question overall although some found parts 1(b), 1(c) and 1(d)(i) challenging. However, a these parts of the question only accounted for 5 of the 30 marks satisfactory marks were still achieved on this question.

Generally, candidates performed well on part (a) with little evidence of any major problems. By contrast, part (b) of the question was either partially attempted or left unanswered by a number of candidates. This requirement required candidates to identify any two tax planning techniques that could have been applied in order to minimise or defer the potential tax due in respect of her business operations. In their answers, candidates should have concentrated on the tax compliance issues to avoid possible penalties as well as claiming maximum capital allowances. Instead a good number of candidates cited more obscure measures which included claiming the repealed growth point investment allowance.

Part 1(c) of the question required candidates to compare and contrast the tax treatment of the two stated representation allowances. The representation allowances were both employment benefits. Many candidates did not produce satisfactory answers for this part of the question. The main problems encountered were that candidates could not differentiate between an exemption and an allowable deduction and hence gave conflicting statements which scored no marks at all.

The majority of the candidates performed well on two of the three computational parts of the question namely parts (d)(ii) and (d)(iii). Part (d)(i) for 1 mark on the calculation of the NSSA contributions for the year was the most challenging for almost all candidates. Only a minority of the candidates computed the NSSA contributions correctly. Common mistakes included restricting the monthly contribution to a maximum amount of US$200 instead of 3% of the amount and also incorrectly restricting the contribution to US$5400 per year.

Although the majority of the candidates scored well on parts (d)(ii) and (d)(iii) of the question, the following common errors impacted negatively on the attainment of marks:

- Failure to use the highest marginal rate of tax on the computation of the PAYE (employee's tax).
- Failure to recognise the exemptions applicable to civil servants.
- Incorrect treatment of some exemptions.
- Incorrect bonus exemption amount.
- Incorrect computation of the loan benefit.
- Incorrect RAF contribution amount.
- Treating medical credits as allowable deductions.
- Treating PAYE as an allowable deduction.

Question Two

This 25 mark question on corporation tax required candidates to articulate the tax consequences of the transfer of fixed assets and stock to employees as detailed in the question. The computational parts of the question required candidates to calculate the underpaid provisional corporate tax, the CGT payable on transfer of the specified immovable assets as well as the taxable income and respective corporate tax payable.

The majority of the candidates performed well on the computational parts of the question but produced unsatisfactory answers to the narrative part. Here candidates found it challenging to outline the tax consequences of the transfer of the fixed assets and stock to employees. On the whole some very good marks were recorded for this question.

Part (a) for 6 marks proved challenging to many candidates and some either provided irrelevant detail or gave conflicting information and hence did not score well. A good number of the candidates concentrated more on the tax consequences of the late PAYE remittance, outlining the PAYE due dates and totally disregarded the fact that the transfers were deemed disposals. Other candidates who correctly treated the transfers as deemed sales, only did so for fixed assets and failed to detail the tax consequences of the transfer of the stock. The majority of candidates did not state the due dates of the taxes identified as required by the question. The following were some common mistakes noted:

- Providing unnecessary and incorrect calculations.
- Incorrect tax due dates.
- Incorrect statements, for example, claim recoupment and output tax.
- CGT on transfer of stock.
- CGT on movable assets.

Almost all candidates coped well with part (b) of the question which required the candidates to calculate the underpaid provisional corporate tax for the year. The few candidates who struggled either failed to treat the prior years assessed losses as allowable deductions or did not account for the total provisional tax already paid for the year.

Candidates' performance on part © of the question was generally unsatisfactory. The question required candidates to calculate the CGT on the qualifying transferred assets. The vast majority of candidates disregarded the fact that the specified assets were all acquired prior to 1 February 2009 and hence the CGT should have been restricted to 5% of the deemed proceeds. Instead candidates provided unnecessary calculations involving recoupment and inflation allowances which were not awarded any marks. These long calculations also impacted negatively on time management and the quality of answers. As has been pointed out in previous examiner's reports, CGT is only chargeable on specified assets. However, candidates still continue to erroneously calculate the tax on movable assets.

The majority of candidates did not encounter problems with the computation of the taxable income and respective tax payable in part (d) of the question and performed well on this part of the question. However, the following common mistakes were still highlighted:

- Failure to read through the question requirements. A few candidates disregarded the note to the question and therefore failed to indicate by the use of zero any items which did not require adjustments.
- Incorrect income tax computation.
- Incorrect income tax rate applied.
- Incorrect capital allowances computation.
- Incorrect calculation of the deemed recoupment.

Question Three

This 15 mark question was based on capital gains tax for an individual taxpayer. The narrative parts of the question required candidates to define a principal private residence (PPR) for CGT purposes and to identify the conditions necessary for a property to qualify as such. Candidates were also required to briefly comment on the probable reasons for the disallowance of the rollover relief claim by ZIMRA. The computational parts of the question required candidates to calculate the withholding tax on the immovable property and the marketable securities and the CGT payable or refundable on the sale of the unquoted shares.

Most candidates performed poorly on the narrative parts of the question due to a lack of knowledge. Candidates provided layman definitions of PPR which had no relevance to CGT and hence did not score well. Most candidates also failed to state the probable reasons for the disallowance of the rollover relief claim while some candidates did not attempt this part of the question at all. A significant number of candidates provided too much irrelevant detail (commonly to do with the exemption of the PPR for elderly taxpayers).. Candidates should have concentrated more on the requirements of the question rather than providing the information that was not required.

The performance of candidates on the computational parts of the question could also be improved as a number of mistakes and omissions were noted which impacted negatively on the attainment of marks. It should be noted that withholding tax is levied on the gross proceeds rather than the capital gain as shown in a number of answers. Some candidates went to the extent of calculating the CGT on the immovable property and the quoted shares yet the question clearly required the CGT for the unquoted shares only. It was quite evident from some of the answers presented that candidates were not sufficiently prepared for the CGT question. The following are some common mistakes noted from the answers:

- Incorrect withholding tax computations.
- Incorrect withholding tax rates applied.
- Failure to read through the requirements of the question and hence providing partial answers notably for part 3 (c).
- Incorrect CGT computations (for example, including recoupment for a PPR).
- Incorrect CGT rate applied.
- Computation of AIDS levy for CGT.

Question Four

This 15 mark question on income from self employment focused on farming operations. The narrative parts of the question accounted for 7 marks and required candidates to state, with reasons, the taxpayer's tax registration obligations, state whether the pre-production expenses could be claimed and to list the special deductions available to the taxpayer for the year. The computational parts of the question required the candidates to calculate the closing livestock value and the minimum taxable income and tax payable for the year.

Most candidates did not perform well on either the narrative or the computational parts of the question, mostly due to failure to read through the question requirements carefully. Candidates provided a lot of generalised answers to the specific requirement and hence did not achieve as many marks as they could have attained had they exercised due care. For example, on the tax registration requirements, most candidates stated that the taxpayer can register for VAT on attainment of the minimum threshold yet the recorded revenue for the year was US$460 000 which is well above the minimum yearly threshold of US$60 000.

The additional information to the question clarified that the taxpayer's employees were all paid non-taxable wages but most candidates still stated that the taxpayer was obliged to register for PAYE in these circumstances. The following were some of the common errors picked up from answers to the narrative parts of the question:

- Confusion between exempt and zero rated supplies.
- Contradictory statements – for example, stating that allowable deductions were taxable
- Failure to recognise the special deductions applicable to farmers.
- Providing other special deductions which were not relevant to the question.
- Reference to the assessed carrying capacity of the land, restocking allowance and other reliefs which were not part of the question.

Many candidates calculated the closing livestock value correctly with those who didn't using the incorrect fixed standard values. Due to the failure to recognise the special deductions applicable to a farmer, many candidates provided incorrect capital allowances while others granted wear and tear allowances to qualifying assets instead of SIA as required.

Question Five

This 15 mark question on value added tax (VAT) consisted of both narrative requirements (accounting for 8 of allocated marks) and computational parts (for 7 marks). Candidates were required to explain the VAT obligations in respect of the stock transferred by a holding company to a subsidiary company. Candidates were further required to state the circumstances in which a registered operator can deregister for VAT purposes, determine the earliest date for deregistration and to explain the VAT obligations on deregistration.

For the computational parts of the question, candidates were required to calculate the VAT to be paid or refunded for the year as well as the VAT to be accounted to ZIMRA on deregistration.

Candidates' performance on the question as a whole was fair and a significant number of the candidates scored highly on the computational parts. A minority of the candidates had problems distinguishing between the input tax and the output tax. It was common to note candidates repeating statements in the narrative parts of the question and this wasted time and did not result in any additional marks. Although the question clearly stated that both the holding company and the subsidiary company were registered operators for VAT, a good number of the candidates disregarded this fact and erroneously stated in their answers that VAT was not chargeable for the transferred stock since the companies were related parties and shared the same VAT registration number.
The following common mistakes were noted:

- Input tax claimable on procurements from non registered operators.
- Incorrect calculations for both output and input tax.
- Incorrect VAT deregistration dates.
- Incorrect VAT remittance date.