

Examiner's report

F6 Taxation (ZWE)

December 2014

The ACCA logo consists of the letters 'ACCA' in a bold, white, sans-serif font, centered within a solid black square.

General Comments

The examination consisted of five compulsory questions. Question 1 accounted for 25 marks and question 2 for 30 marks. These first two questions constituted 55% of the available marks. Questions 3 to 5 accounted for the remaining 45% of the marks with each question allocated 15 marks.

The vast majority of candidates attempted all five questions, and there was little evidence of time pressure. Where parts of 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. The performance of candidates overall was pleasing and some very satisfactory marks were recorded.

Candidates performed particularly well on questions 1(c), 2 and 5. The questions candidates found most challenging were questions 1(a), 1(b), 3 and 4. This appeared mainly due to candidates not understanding the question requirements well enough; a lack of technical knowledge on the mechanics of CGT; incorrect treatment of allowable deductions and exemptions and a general lack of preparation.

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

- Incorrect treatment of exemptions, allowable deductions and tax credits.
- Incorrect income tax and capital gains tax computations.
- Failure to read the question requirement clearly and therefore providing answers which were irrelevant to the question set
- 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.
- Failure to match the extent of the detail required with the allocated marks for the question.
- Not learning lessons from earlier examiner's reports and hence making the same mistakes, especially in relation to CGT.
- Providing more than the required number of points.
- Illegible handwriting, poor layout of answers and general lack of diligence.

Specific Comments

Question One

This 25-mark question focused on individual income tax. The question comprised narrative parts (a) and (b) for 8 marks and the computational part (c) for 17 marks.

Most candidates performed rather inadequately on both the narrative parts of the question although they performed well on the computational part. The main problems encountered for part (a) were that candidates did not read through the question requirement carefully. Instead of explaining the basis of valuation of fringe benefits as asked, candidates either listed the common exemptions for civil servants or explained why the fringe benefits should not be subjected to tax. Candidates are reminded again of the importance of reading the question requirements carefully.

Although the question requirement was quite clear, many candidates provided partial answers for part (b). Some candidates failed to provide the brief reasons, as requested in the requirement.

The majority of candidates performed satisfactorily in part (c) although a significant minority of candidates failed to apply the exemptions they had accurately explained in part (b) to their computations. Some candidates also failed to distinguish between the taxation of employment income and business income.

The most common mistakes made by candidates were as follows:

- Failure to restrict some allowable deductions
- Incorrect exemption amounts
- Incorrect treatment of both exemptions and allowable deductions
- Incorrect treatment and calculation of tax credits
- Incorrect tax rates applied

Question Two

This 30-mark question covered corporation tax with 28 of the marks allocated to computational parts (a) to (c) and 2 marks for the narrative part (d).

Many candidates performed very well on this question as a whole.

Part (a) for 9 marks required candidates to calculate the capital allowances claimable by a company for the year, assuming that all favourable elections were made. The question further required candidates to explain the treatment of the showroom constructed. Although many candidates performed well on this question, a minority of candidates either did not read through the question requirement carefully or did not understand the requirement fully as they disregarded the assumption alluded to in the question. The assumption was key to how the question should have been answered as it provided the basis of the computation to either calculate SIA/accelerated wear and tear or just wear and tear. The majority of candidates were able to explain the treatment of the showroom correctly.

Part (c) for 15 marks required candidates to calculate the taxable income and corporate tax payable for the year. The performance of the candidates on the question was generally satisfactory although the following mistakes were often encountered:

- Failure to indicate, by the use of zero (0), the items which did not require adjustment as stated in note 1 of the question.
- Disregard of note 2 of the question and hence unnecessary recalculation of the provisional tax paid.
- Incorrect treatment of the provisional tax paid.
- Incorrect computation of the allowable donation, trade convention and trade mission costs.
- Incorrect treatment of the expenditure on the registration of the trademarks and out-of-court settlement.
- Incorrect calculation and treatment of both the allowable and disallowable interest expense.
- Failure to make an adjustment for the assessed loss brought forward.

Question Three

This 15-mark question involved capital gains tax for an individual who later converted his principal private residence (PPR) into a commercial property and then disposed of the immovable property together with the associated movable assets.

The question consisted of three parts, part (a) included both narrative and computational parts for 4 marks, part (b) was wholly narrative for a total of 2 marks and part (c) was purely computational for 9 marks. Most candidates performed unsatisfactorily on this question as a whole. In a number of cases, part (b) was not even attempted by candidates.

Part (a) required candidates to explain the CGT implication of a gift of listed shares as well as to calculate the CGT liability associated with the gift. Although the majority of candidates understood the implications of the gift, many candidates computed the CGT wrongly due to the application of incorrect CGT rates as well as incorrect CGT computation which erroneously included inflation allowances and recoupment. Candidates are again reminded the tax rates and allowances are provided at the front of the exam paper and they must familiarise

themselves with this information in advance of the exam to ensure that this is used accurately. Those candidates who included recoupment in the CGT computation of marketable securities are reminded that the withholding tax on listed shares is a final tax and hence there is no need for a CGT assessment.

Part (b) required candidates to outline the tax treatment of a PPR which is used for business purposes. The approach which candidates should have taken was to view the PPR as a commercial property from the time there was a change in its use rather than defining the PPR and presenting facts as to whether the PPR qualified as a commercial building or not.

Part (c) required candidates to calculate the income tax and CGT payable as a result of the disposal of the PPR. The common errors noted in answers to this question were as follows:

- Incorrect computation of the recoupment mainly as a result of errors in the capital allowances granted.
- Most candidates failed to distinguish the timeframes of when the assets were acquired to when they became business assets and the resultant tax treatment.
- Failure to distinguish the specified assets subject to CGT from other assets.
- Incorrect income tax and CGT computations.
- Incorrect income tax rates and CGT rates.

Question Four

This 15-mark question on income from self-employment focused on partnerships and consisted of a narrative question in part (a) and computations in part (b) and part (c). Candidates performed inadequately on the question as a whole, generally due to insufficient knowledge on the treatment of expenses both for the partnership and the individual partners.

Part (a) for 2 marks required an explanation of how partnership income is taxed in general terms. Some candidates provided too much irrelevant detail such as the procedures for admission of a new partner, resignation of a partner, provisional tax and QPDs which was not asked for in the requirement. Candidates should always use the allocated marks as a guide to the extent of detail expected in their answers.

Part (b) for 6 marks required the computation of the joint partnership taxable income for the year. Many candidates incorrectly structured their answers in the form of an adjusted statement of profit or loss instead of an income tax computation. Other candidates failed to consider the restriction of allowable expenses such as the pension fund contributions. Many candidates also calculated the capital allowances inaccurately mostly due to utilisation of incorrect rates. Generally candidates had challenges in understanding the expenses to be allowed as a deduction in the computation of the joint taxable income and the subsequent treatment in the individual partner's taxable income.

Part (c) for 7 marks required the computation of the taxable income and tax payable by the two parties to the partnership. There was a direct relationship between the candidates' performance in part (b) and (c) whereby the poor performance in one part continued in the other although in few cases the reverse was also noted. Some candidates incorrectly treated the partners' income from the partnership as being from an employment source and not from a business source.

Question Five

This 15-mark question focused on value added tax (VAT) and consisted of narrative parts, (a) to (c), for a total of 6 marks and a computational part (d) for 9 marks. The performance by the majority of the candidates was very satisfactory and many candidates appeared very comfortable dealing with the relevant VAT issues involved.

Candidates generally performed well in the narrative parts of the question although some provided too many points which would have impacted on time management and thus the quality of answers to other questions.

There was also evidence of some confusion between examples of a zero rated supply and those of an exempt supply. In addition, when asked about the obligations of a VAT registered operator, some candidates incorrectly provided general taxpayer obligations. Candidates should strive to provide specific answers to specific questions and ensure their answers remain relevant to the requirements of the question.

There were no major issues of concern noted on the computational part (d) of the question where candidates' performance was satisfactory. However, some candidates did not correctly compute the output VAT on the motor vehicle benefits or incorrectly treated the adjustment as input tax.