

Examiner's report

F6 Taxation (ZWE)

June 2012



General Comments

The examination consisted of five compulsory questions with questions 1 and 2 accounting for a total of 55 marks while questions 3 to 5 were allocated a total of 45 evenly distributed marks.

Most candidates attempted all the five questions although the quality of the answers presented was not to the expected standard. The answers lacked depth and in most cases were not well thought out. Although the examination appeared time pressured to some extent, it was also very clear that a good number of candidates did not know how to articulate most questions as evidenced by a lot of cancellations. Most candidates were not prepared for the examination and also failed to plan and structure the answers well right from the onset. Candidates are always advised to use the 15 minutes reading and planning time to best advantage in order to improve on time management.

The candidates who answered questions 1 and 2 first managed to score good marks and also attempted all the 5 questions, as opposed to those candidates who started off with one of the last 3 questions. Questions 1 and 2 on individual income tax and corporation tax respectively do cover the core syllabus areas and as such should always be prioritised.

Overall the candidates' performance was poor mostly due to lack of comprehension of basic taxation principles which is quite disappointing. Most candidates are sitting the examination prematurely without having mastered all the areas of the syllabus and study guide. It is worrying to note how a good number of candidates refer to excluded topics of the syllabus like termination payments, mining companies and reorganisations.

Common issues that were picked up from candidates' answers:

- Not reading the question requirement carefully and therefore providing irrelevant answers which scored insignificant marks.
- Poor time management between questions, some candidates provided too much unnecessary detail which put them under time pressure to finish the remaining questions. The candidates also failed to match the extent of the detail required of a question with the allocated marks.
- Not learning lessons from earlier examiner's reports and hence making the same mistakes.
- Incorrect tax rates, CGT rates and capital allowances.
- Illegible handwriting and poor layout of answers.

Specific Comments

Question One

The 25-mark question on individual income tax required candidates to briefly explain the operation of the PAYE system, state the tax treatment of the non-employment related income, compensation for loss of employment and to explain the taxpayer obligation in relation to the weekly pay received. The question further required candidates to compute the taxable income as well as the tax payable for the stated year.

All candidates attempted the entire question and performed relatively well as compared to the performance on the other 4 questions of the examination.

The majority of the candidates did not pick as many marks in part (a)(i) as they concentrated more on the consequences of non compliance instead of explaining the operation of the system. A good number of candidates also provided unnecessary tax computations in part (a)(ii) where the question only required them to substantiate their tax treatment of the non employment income. This also impacted negatively on time management.

Almost all candidates treated the compensation for the loss of employment as a retrenchment package, a termination payment which is one of the excluded topics of the syllabus and study guide. Valuable time was also lost detailing the taxation of retrenchment packages as well as the computations which were not a requirement. It was disappointing to note that at this level, some candidates do not know the distinction between the tax treatment of expenses and income. The majority of candidates correctly provided the elderly taxpayer's exemptions and hence gained some more marks. However, some candidates treated the NSSA pension in part (a)(iii) as an allowable deduction yet the question clearly stated it as a pension receipt.

A good number of the candidates did not articulate well the practical aspects of the taxpayer's obligations regarding the weekly pay received from part time engagements. The emphasis was also more on the implication of non compliance rather than the taxpayer's obligation.

Part (b) was fairly attempted although some candidates only concentrated on the computation of the tax payable from employment and did not include the non employment related income as well. The most common mistakes made by some candidates were:

- Providing too much detail where a brief explanation was required.
- Incorrect treatment of tax credits and allowable deductions.
- Inclusion of non- employment related income in employment gross income and applying the same tax rates.
- Incorrect exemption limits.
- Incorrect tax rates and CGT rates.

Question Two

This 30-mark question focused on corporation tax and included both narrative and computational parts although biased more towards computations.

The narrative parts required candidates to classify the provided showrooms for tax purposes as well as state the tax implications of the dividend payment for a total of 5 marks. Most candidates performed poorly on both the narrative parts with part (a)(iii) on dividend payment tax implications was the worst attempted of the two parts of the question. Some candidates struggled to classify the two showrooms and did not take notice of the hints provided in the question to assist in classifying the showrooms correctly. The fact that one showroom was situated next to the manufacturing building meant that the showroom qualified as an industrial building on the basis of how the building would suffer wear and tear due to the proximity to the manufacturing process.

The majority of candidates performed fairly well on the computational parts of the question and managed to achieve good marks although some unnecessarily long and cumbersome computations were provided notably for parts (b)(i) and (ii) which affected good management of time. These two parts were allocated 2 marks each and the lengthy detail provided impacted negatively on completion of the other parts of the question. A good number of candidates provided the same answers for part (b)(i) and part (iv) and yet the extent of the detail required was obviously different as indicated by the allocated marks. Candidates are advised to match the extent of the detail required of a question with the allocated marks in order to improve on time management. The candidates who provided the same depth of detail in questions (b)(i) and (iv) either did not manage to answer some parts of the other questions or provided incomplete answers due to time pressure. However it was pleasing to note that those candidates who articulated parts (b)(i) and (iv) well did not have time management issues and a good number of them scored very high marks both for the entire question and the examination as a whole.

Performance would have been better in this question if candidates had improved understanding of the following areas, where mistakes were noted:

- Computation of the lease period and apportionment of the allowable deductions and taxable amounts.

- Apportionment of the SIA and wear and tear allowances on immovable assets.
- Capital allowance rates.
- Treatment of some exemptions and allowable deductions.
- Provisional tax treatment and computation.
- Corporate tax rates.
- General computation of the taxable income.

Question Three

The question on CGT comprised of narrative parts in (a)(i) –(iii) for 5 marks and computational parts in (b)(i) and (ii) for 10 marks. The narrative parts of the question required candidates to state the tax dispensations from the available information, compare and contrast the ways in which the assessed trading and capital losses may be applied generally and in particular for the year. The computational sections of the question required candidates to compute the recoupment and the capital gain and tax payable.

The performance of the candidates on the question was very poor and quite a number of candidates did not attempt the question at all. A few marks were picked up for the narrative parts although some candidates stated the tax dispensations in general terms and disregarded the information from the provided scenario.

The number of candidates who stated 'claiming' recoupment as a tax dispensation was concerning. Candidates should note that only allowable deductions are claimable against income and that recoupment will always constitute part of gross income. A good number of candidates either did not understand the requirements of the question or did not know how to answer the question.

The computational sections of the question were the worst answered parts of the question. Most candidates struggled to identify the assets that qualify for CGT and CGT calculations were provided for movable assets which meant a waste of the available valuable time. A good number of candidates displayed a complete lack of knowledge of the CGT provisions and requirements. On the calculation of the recoupment, a minority of the candidates restricted the calculation to immovable assets only and hence failed to gain marks for the movable assets as well. Also for some of the candidates that calculated the recoupment for all the asset classes, a good number provided incorrect computations and further then failed to restrict the recoupment for the CGT computation to the specified assets only.

Future candidates are advised to study with understanding the provisions of CGT in order to avoid the unnecessary confusion that was apparent from this question. The following areas were noted as causing difficulty:

- Articulating the requirements of the question.
- Treatment of the assessed losses.
- Computing the gross capital amount, exemptions and allowable deductions.
- Computing roll over relief.
- CGT rates

Question Four

This 15-mark question involving the effect of a group corporate structure for corporation tax purposes as well as value added tax on intergroup transactions comprised of mostly narrative sections and only one computational section.

Performance was very poor on the question for both the narrative parts as well as the computational part. The answers to this question were often rushed through and some candidates failed to attempt the entire question. Part (a) required candidates to explain the tax implications of the transfer of fixed assets among group



companies, to outline the statutory registration requirements of the group companies as well as to explain the value added tax implication of intercompany transactions for registered tax operators. Most candidates' answers were very shallow and lacked the expected and required depth to warrant the attainment of full marks. It was disheartening to note that a good number of the candidates stated that the transfer of the movable assets between the group companies had a CGT implication yet the transferred assets are not specified for CGT purposes. Almost all the candidates who attempted the question scored most of the 3 marks allocated for the statutory tax registration requirements although in some instances only part marks were attained due to lack of sufficient detail. The section on the VAT implication of the intercompany transactions was either poorly and vaguely attempted or entirely omitted. The fact that the intercompany transactions were among the registered operators meant that both the input tax and output tax had to be accounted for.

Part (b), the computational section, required candidates to calculate the VAT position of the group companies from the provided information. This part of the question was the most omitted and also partially attempted. The candidates who computed the VAT incorrectly did not take note of the provision in the question to the effect that all the amounts were stated inclusive of VAT where applicable. A minority of the candidates are, however, commended for scoring all the 5 allocated marks on this part of the question.

Question Five

This 15-mark question covered income from self-employment and required candidates to deal with a number of issues including the tax treatment of pre-trading expenses, taxpayer obligations and computation of corporation tax, CGT liabilities and tax on investment income.

The performance of the candidates on the question overall was again disappointing mainly due to a lack of understanding of the requirements of the question and also due to bad time management.

The majority of the candidates were comfortable with part (a)(i) of the question on the tax treatment of the set-up costs and managed to achieve some good marks. Most candidates were also quite comfortable with part (a)(ii) of the question which dealt with the taxpayer obligation although mostly part marks were attained due to lack of persuasive justification for the obligations stated.

Part (b)(i) for 2 marks required candidates to state the VAT treatment of the pre-trading expenses. Almost all the candidates either omitted this part of the question or answered the question incorrectly. Candidates should always note that input tax can only be claimed by registered tax operators who in turn should have acquired the supplies from registered tax operators.

Parts (b)(i) and (ii) for 8 marks required candidates to compute corporation tax, CGT as well as the investment income tax from the available information. Candidates performed very poorly on these two parts of the question as they struggled to come up with both the income tax computation as well as the CGT computation. For the investment income tax, almost all the candidates failed to realise that the investment income was stated as net which meant that they needed to figure out the gross amount in order to calculate the applicable tax. Most candidates also applied incorrect tax rates and hence most of the answers presented were therefore not correct.