Examiner's report
F6 Taxation (ZWE)
June 2013

General Comments

The examination consisted of five compulsory questions. Question 1 for 25 marks and question 2 for 30 marks. 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 questions were left unanswered by candidates, notably questions 3,4 and 5 and some parts of question 2, this appeared to be due to a lack of knowledge or poor exam technique, as opposed to time pressure.

As in previous sessions, a small minority of candidates answered questions 1 and 2 last and their answers were often incomplete. As these two questions accounts for 55 of the available marks, leaving them until last can be costly, as many answers presented were either incomplete or appeared rushed.

The candidates' performance overall was way below the expected standard for this level. Most of the narrative answers lacked depth and there was confusion between the tax treatment of income items and expenditure items, exemptions and allowable deductions as well as confusion between output tax and input tax calculations. Candidates performed well on questions 1 and 5. The questions candidates found most challenging were questions 2, 3 and 4. This is mainly due to candidates not having prepared adequately for the examination, not understanding core syllabus areas well enough; a lack of technical knowledge and also due to a failure to read question requirements carefully.

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

- Failing to read the question requirement clearly and therefore providing irrelevant answers which scored few if any marks. Some candidates disregarded the notes stated at the end of the question requirements and hence failed to pick up as many marks as possible.
- Providing generalised answers to specific questions and failing to match the extent of the detail required of a question with the allocated marks.
- Poor time management between questions, some candidates wrote far too much for some questions and this put them under time pressure to finish remaining questions.
- Incorrect tax calculations for instance calculating input tax when the question clearly requires the computation of output tax.
- Incorrect tax rates, tax credits, tax remittance dates and capital allowance calculations.
- Not learning lessons from earlier examiner's reports and hence making the same mistakes.

Specific Comments

Question One

This 25-mark question focused on individual income tax and comprised of both narrative and computational parts.

The narrative parts, (a) and (b) for 7 marks required candidates to identify any two factors which determine the treatment of an engagement as employment as well as the factors for self employment. Candidates were also required to explain the tax treatment of the items listed in (b)(i) to (b)(v).

The computational parts, (c)(i) to (c)(iii) for 18 marks required candidates to calculate the value of the taxable benefits emanating from the usage of a company allocated house, calculation of taxable income and tax from the specified share transactions and the calculation of the total taxable income and tax payable for the year.

Most candidates performed well on both the narrative and the computational parts with the exception of a few who did not gain as many marks due to poor exam technique. Further, a significant minority of candidates did not read through the question requirements carefully and hence failed to indicate the amounts not taxable or not deductible by the use of a zero as specified in the note to the requirements.

The common challenges noted for the narrative parts centred mostly on some candidates' failure to articulate the question requirements properly such that instead of specifying the tax treatment of the stated income or expenditure item, descriptions were actually provided, notably for part (b)(iv) and (b)(v). A good number of candidates also used the terms exemptions and allowable deductions interchangeably in their explanation of the tax treatment and other conflicting statements and hence failed to achieve better marks.

For the computational part (c)(i), most candidates scored all the allocated marks although some few candidates overlooked the calculation of the taxable benefit from the usage of the household furniture as well as not accounting for the rent paid for the use of the company abode. A good number of the candidates only attempted part (c)(ii) partially with some incorrectly treating it wholly as a CGT question. Part (c)(iii) was well attempted by almost all the candidates although some candidates did not calculate the taxable income and tax payable from the business income and hence did not pick up those available marks.

The most common mistakes made by some candidates were:

- Providing far more than the required two factors for part (a). No marks were awarded for the additional factors and valuable time was also wasted.
- Incorrect tax treatment of the stated income or expenditure item for part (b).
- Providing far too much detail for each tax treatment in part (b) for an allocated 1 mark.
- Incorrect salary percentage used for the calculation of the housing benefit as well as incorrect furniture cost percentage applied for the furniture benefit.
- Failure to recognise the corporate tax aspect from the share transactions and thereby restricting the computation only to the CGT component.
- Incorrect tax rates, CGT rate, tax credits and bonus exemption amount.

Question Two

This 30-mark question on corporate tax involved a manufacturing company whose export revenue exceeded 50% of the total recorded sales volume for the stated years. The narrative parts of the question accounted for 9 marks and required candidates to state as well as justify the tax rate to be applied to the taxable income, explain the tax treatment of the stated interest receivable as well as compute the deductible interest payable and to outline the conditions for the deductibility of impaired debts. Candidates were further required to calculate the provisional tax payable for the year and to indicate the tax remittance dates for 3 marks. The calculation of the taxable income and tax payable for the year accounted for 18 marks.

The majority of candidates performed unsatisfactorily on both the narrative and the computational parts of the question. Although the information on the company's sales performance based on both the local sales volume and the exports volume was provided in order to assist candidates understand the fact that they were dealing with a special tax rate kind of corporation tax question, only a very insignificant minority of the candidates realised that fact. Almost all candidates treated the question as an ordinary corporation tax question and hence failed to use the availed information on export sales volume to best advantage. Also by treating the question as an ordinary corporation tax one, the majority of the candidates applied an incorrect tax rate to both the provisional taxable income and the actual taxable income for the year and consequently produced incorrect answers.

The narrative parts, (a)(i) to (a)(iii) were either partially attempted or not at all due to lack of knowledge mostly and to some extent the exam technique applied. Almost all candidates stated an incorrect tax rate in part (a)(i) of the question and therefore did not pick up the allocated marks. Resultantly those candidates also calculated incorrect provisional tax payable amount in part (b)(i) of the question and again failed to pick up the allocated marks. The common mistake noted on the answer to part (a)(ii) of the question was that most of the candidates only stated the tax treatment of the interest receivable but then failed to compute the deductible portion of the interest payable as detailed in the stated note. A few candidates who calculated the interest payable amount, either did not specify the deductible/allowable portions or failed to account for the unproductive interest component as well as the non business component. Part (a)(iii) of the question was also inadequately attempted due to clear lack of knowledge and some candidates did not even attempt this part of the question at all. The common mistake observed was that candidates failed to outline the general conditions for the deductibility of the impaired debts and instead commented and made reference to the impaired debts provision stated in the question. Such answers did not merit any meaningful marks.

Part (b)(ii) of the question was fairly attempted by most candidates although a significant minority of the candidates again disregarded the explanatory note to the question requirement and hence failed to achieve better marks. The following mistakes were observed:

- Incorrect tax computations.
- Failure to recognise the allowable restricted amounts for capital allowance purposes.
- Failure to account for prohibited deductions correctly.
- Incorrect tax rate and incorrect calculation of capital allowances.

Question Three

This 15-mark question focused on capital gains tax and required candidates to identify any two assets chargeable to CGT from the information provided as well as to list any other two exempt assets unrelated to those in the question. The question further required candidates to explain the tax treatment of the goodwill, state the CGT reliefs from the scenario detailed in the question and to calculate the potential recoupment and the CGT payable for the year.

Most candidates did not score full marks for part (a)(i) as they listed some movable assets as chargeable to CGT and also restricted the exempt assets to only those stated in the question. This was a clear indication that candidates failed to read the question through properly because an explanatory note was provided for this part of the question. Only a very insignificant minority of the candidates scored full marks on part (a)(ii). The majority of the candidates incorrectly treated the goodwill proceeds as chargeable to CGT despite the fact that goodwill is not a specified asset for CGT purposes. Although part (a)(iii) was fairly answered by the majority of candidates, only partial marks were mostly awarded as the tax reliefs stated were mixed up between those claimable by the family members and those claimable by the company.

Candidates also answered the two computational parts (b)(i) and (b)(ii) inadequately indeed with part (b)(i) often not attempted at all. Candidates continue to make the same mistakes as mentioned in the prior examiner's reports with particular regard to assets chargeable to CGT. Movable assets were incorrectly included in the CGT calculations and inflation allowances computed as well. As long as candidates do not take time to learn the lessons from the exam feedback as well as improve on exam preparation, the same mistakes will continue to be made. The following common mistakes were noted from the candidates' answers:

- Incorrect recoupment calculation.
- Goodwill component included in the sale proceeds leading to incorrect disposal expenses computation.
- Movable assets included in the CGT computation.
- Incorrect inflation allowances computation.
- Incorrect rollover relief computation.
- Incorrect CGT rate applied.

- AIDS levy charged on CGT payable.

Question Four

This 15-mark question was based on value added tax with 7 marks allocated to the narrative parts of the question and the remaining 8 marks allocated to the computational parts.

Candidates were required to state four advantages of voluntary VAT registration, state the VAT registration date and the first VAT return submission date, state any four statutory duties of a registered operator and to outline ZIMRA's actions to ensure compliance with VAT registration requirements. The question also required candidates to calculate the output tax liability as well as the resultant interest and penalty exposure, input tax recovery forfeited and the VAT payable for the year.

Candidates performed equally unsatisfactorily for both the narrative parts and the computational parts with some very low marks recorded for this question. Some candidates only attempted the question in part while a significant minority did not even attempt the entire question.

Most candidates only managed to state two of the required four advantages of voluntary VAT registration in part (a)(i) and hence only scored half of the available 2 marks. Some candidates mixed up the terms output tax and input tax thereby providing incorrect answers. Part (a)(ii) for 1 mark was also poorly attempted as most candidates only concentrated on when the annual sales threshold for VAT registration was attained instead of the monthly sales threshold. The fact that the sales revenue was provided on a monthly basis was meant to clarify the exact month when the minimum monthly sales revenue was attained. Candidates also stated varied and incorrect dates for the submission of the first VAT return. The common mistake noted for part (a)(iii) was that most candidates stated the four statutory duties of a registered taxpayer instead of the statutory duties of a registered operator for VAT. It was unsatisfactory to note that some candidates listed the duty to register for different tax revenues yet the question referred to a registered operator. Most candidates were able to state the actions to be taken by ZIMRA to ensure compliance with the VAT registration requirements in part (a)(iv).

Part (b)(i) and (b)(ii) for 2 marks each was fairly attempted although some candidates mixed up the calculations for output tax and input tax. A good number of candidates also calculated input tax claimable even though clearly the purchases were made from unregistered operators. The common mistakes observed for part (b)(iii) included outright incorrect output tax and input tax calculations caused by candidates' failure to note that the monthly sales revenue was stated exclusive of VAT while the monthly purchases and other expenses included the VAT component.

Question Five

This 15-mark question focused on property and investment income as well as income from self employment pertaining to an elderly taxpayer.

The narrative parts (a)(i) to (a)(iii) for 6 marks required candidates to define a commercial building for capital allowance purposes, to state the amounts to be exempted from the taxpayer's income for the year and to explain how the stated income received during the year should be accounted for tax purposes. Part (b) for 9 marks required candidates to calculate the taxable income and total tax liabilities for the year.

Almost all the candidates performed fairly on this question with better performance on the computational part of the question as compared to the narrative parts. A very insignificant minority of the candidates either did not attempt part (a)(i) or failed to attempt the whole question. The reason being more to do with exam technique rather than lack of knowledge.

Only partial marks were mostly scored on part(a)(i) due to the incorrect definition in some instances but correct classification of the buildings outlined in the question. Although candidates were expected to score full marks for part(a)(ii) of the question given that the elderly taxpayers' exemptions are always listed in the tax rates and allowances of the exam paper, on the contrary some candidates actually did not pick any of the available marks. The candidates that failed to pick up any of the available marks obviously failed to realise that the question referred to an elderly taxpayer. Almost all the candidates performed unsatisfactorily on part (a)(iii) of the question due to clear lack of knowledge. A few candidates made the mistake that the income received by the taxpayer from voluntary organisations was not taxable.

The performance of candidates on the computational part(b) was satisfactory and fairly good marks were achieved on this part of the question. The following common mistakes were noted:

- Failure to exclude exemptions from the taxable income.
- Incorrect treatment of the income from voluntary organisations.
- Incorrect capital allowance calculations.
- Incorrect computation of the tax withheld from interest and from dividends.