

Examiner's report

F6 Taxation (ZWE)

June 2014

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General Comments

The examination consisted of five compulsory questions. Question 1 for 25 marks and question 2 for 30 marks and the remaining three questions for 15 marks each.

The vast majority of candidates attempted all five questions and there was very little evidence of time pressure. Where questions were left unanswered by candidates, this appeared to a great extent 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 and lacked the expected depth and requisite detail. 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 a very risky strategy, as many answers presented were often incomplete or appeared rushed. By contrast, most candidates who attempted these questions first presented well thought out answers which managed to attain the pass mark with relative ease.

The performance of the candidates overall was fairly satisfactory although there was clear evidence of candidates performing better on the computational questions compared to narrative questions. Candidates performed particularly well on questions 1, 2(b), 4 (b), 4 (c) and 5. The questions candidates found most challenging were questions 2(a), 2(c), 3 and 4 (a). This was mainly due to a lack of sufficiently in-depth knowledge on the mechanics of capital gains tax (CGT) and, most importantly, a failure to read the question requirements carefully. Candidates provided too generalised and irrelevant answers to questions 2 (a) and 4 (a) whereas the question requirements were very specific and hence required specific answers. Some candidates provided partial answers loaded with conflicting statements which did not merit any meaningful marks. Some candidates also provided incorrect calculations in their answers to question 2 (c).

A number of common issues arose in candidates' 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. Candidates should always strive to match the extent of the detail required with the allocated marks.
- Not learning lessons from earlier examiner's reports and hence making the same mistakes. This was notable in relation to the CGT questions and continuous reference to repealed pieces of the legislation.
- Providing far less, and in some instances far more, than the required number of points for some narrative questions.
- Conflicting and illogical answers.
- Incorrect tax due dates, incorrect income tax as well as CGT computations and incorrect tax rates applied.
- Illegible handwriting and poor layout of answers.

Specific Comments

Question One

This 25 mark question on personal income tax consisted of two narrative parts, (a) and (b) for a total of 8 marks and two computational parts, (c) and (d) for a total of 17 marks.

Part (a) required candidates to explain the tax obligations of Organo Products Limited in connection with the payment of the consultancy services fees to the provider of the services. Although most candidates performed fairly well on this part of the question, the common mistakes noted included failure to specify the extent of the tax to be withheld in the absence of a valid tax clearance certificate and stating incorrect tax remittance dates. Candidates did not pick up the full available marks as they often provided answers which were too general and irrelevant to the requirement set. As an example, some candidates stated that the consultancy services fees paid constituted an allowable deduction for tax and should therefore be treated as such. Whilst this tax treatment is correct, the question requirement clearly asked for the tax obligations of Organo Products Limited which candidates failed to address with such an answer.

Most candidates also performed fairly well on part (b) of the question. Although the question required candidates to explain by when the taxpayer should have registered for the stated taxes the question also required candidates to state the due date for submission of the initial tax returns. Some candidates only answered the first part of the question and totally disregarded the second part of the question which necessarily limited the number of marks they were awarded. It is also recommended that candidates take time to read through their answers in order to avoid illogical statements such as stating a tax registration date which is after the suggested tax return submission date. The most common mistakes were incorrect tax registration dates as well as incorrect dates for the submission of the tax returns.

Candidates' performance on the computational parts of this question was generally adequate. However, some candidates demonstrated a lack of due care in their approach to the question. As an example, although the information on how NSSA contributions are calculated is provided in the tax rates and allowances at the front of the paper, some candidates still made use of the repealed maximum gross salary and percentage of the gross salary. It is important that candidates familiarise themselves with the tax rates and allowances provided in the exam (these are available on the ACCA website under "Examinable documents").

The most common mistakes noted on the computational parts of this question were as follows:

- Incorrect tax treatment of the contributions refunded from the pension fund and the benefit fund as well as incorrect calculation of the respective taxable amounts.
- Incorrect calculation of the taxable portion of the annuity.
- Incorrect bonus exemption.
- Incorrect calculation of the loan benefit and the benefit on the acquisition of the company allocated motor vehicle.
- Incorrect treatment of the medical aid contributions.
- General incorrect income tax computation.

Question Two

This 30 mark question on corporation tax included the property owner's (lessor) tax treatment of the amounts specified in the lease agreement and the action that should have been taken by the lessee in the implementation of the lease agreement provisions in order to minimise the tax liability. The question further required candidates to calculate the taxable income and the respective corporate tax payable for the year, as well as calculating the revised provisional tax for the year before finally calculating the penalties and interest payable for non-compliance with the quarterly payment date (QPD) provisions. The question consisted of one narrative part, (a), for 5 marks and two computational parts, (b) for 18 marks and (c) for 7 marks.

Most candidates performed poorly on the narrative part of this question. Candidates could not clearly distinguish between the parties to the lease agreement as well as the tax obligations of the one party and the entitlements of the other. As a result, many candidates provided conflicting answers. A significant minority of candidates still referred to the repealed growth point tax relief, which is no longer applicable. This fact has been mentioned

before in previous examiner's reports. It is vital that candidates learn the lessons from prior examiner's reports to avoid such mistakes in the future.

Most candidates performed satisfactorily in part (b) which required candidates to calculate the taxable income and corporate tax payable for the year. However, a small minority of candidates failed to present a proper income tax computation and instead recalculated the net profit before tax. Candidates should note that the computation of taxable income is always through adjustment for those income items which are tax exempt and for disallowable expenditure items. It was also clear that some candidates had failed to properly read the note to part (b) of the question instructing them on the manner in which to approach their computation. As a result, such candidates did not pick up as many marks as they could have had they read the question carefully. Candidates are referred to the published solution for guidance on the appropriate way to lay out their computations in such a question.

The most common errors made by candidates on this part of the question were as follows:

- Incorrect calculation and treatment of the lease premium and the lease improvement allowance.
- Incorrect treatment of the donations.
- Incorrect computation of the recoupment on the disposal of the commercial vehicles.
- Some allowable expenses treated as disallowable and vice versa.
- Incorrect special initial allowance (SIA) and wear and tear rates and hence incorrect capital allowances (candidates are reminded that these rates are provided in the tax rates and allowances at the front of the exam paper).
- Incorrect tax rate applied to taxable income.

Part (c) required candidates to calculate the revised provisional tax for the year and the penalties and interest payable as a result of the non-compliance with the QPD provisions. Candidates' performance was unsatisfactory for this question, with some not even attempting it. The majority of candidates incorrectly calculated the revised provisional tax by treating the revised projected taxable income as the tax to which they then just applied the provisional tax percentages. Incorrect penalties and interest were then calculated which failed to take into account the provisional tax paid prior to the budget revisions.

Question Three

This 15 mark question focused on CGT and consisted of two narrative parts, (a) and (c) for 2 marks each and computational parts, (b)(i) and (b)(ii) for a total of 11 marks.

Performance was generally unsatisfactory both on the narrative parts and the computational parts of the question due to the lack of sufficient and practical knowledge to deal with CGT questions. The majority of the candidates displayed a general lack of preparation for this kind of question. Some candidates did not attempt parts of the question, notably part (a) and part (b) (i), while a small minority omitted to attempt the whole question. Failure to carefully read the requirements of the question by some candidates also contributed to poor performance. In some instances there was no relationship whatsoever between the question asked and the answer provided. For instance, part (a) required candidates to state any four documents that should be presented to ZIMRA when applying for a CGT clearance certificate and some of the answers provided included bank statements, company registration forms like CR14 and VAT related documents. It is important for candidates to ensure they are answering the question set in order to avoid wandering off topic and consequently failing to pick up marks in the process.

For part (b) (i) many candidates confused the amounts to be included in the gross income with the amounts to be included in calculating the capital gain in part (b) (ii). Many candidates provided lengthy and cumbersome (as

well as technically incorrect) calculations for part (b)(ii) which required the calculation of CGT payable for the year ended 31 December 2013 and 2014 on the disposal of the business assets. The majority of candidates failed to calculate the 2014 CGT and also did not account for the credit sale allowance. Some candidates also calculated the CGT including roll over relief on the disposal of the private residence which was not asked for in the requirement. This was again an indication of candidates' failure to read the question requirements carefully. Candidates should understand that CGT is only levied on the disposal of specified assets and these do not include movable assets. Future candidates are advised to take heed of this fact in order to avoid wasting valuable time preparing complex calculations involving inflation allowances and recoupment on movable assets.

The answers provided by many candidates for part (c) of the question lacked detail and clarity as to the identified capital gains tax reliefs.

Notwithstanding the general comments above, some candidates provided very satisfactory answers to this question and their performance is to be commended.

Question Four

This 15 mark question on VAT consisted of both narrative parts, (a) and (b), and a computational part, (c). The narrative part (a) for 4 marks required candidates to state the tax compliance obligations which must be satisfied for a valid income tax clearance certificate to be issued on the specific date provided. Part (b)(i), also for 4 marks, required candidates to briefly explain the four categories of VAT period while part (b)(ii) for 1 mark required candidates to state the VAT period ending immediately after the provided date as well as to state the respective VAT return submission date. Candidates were further required to calculate the total VAT payable or refundable for the year for 6 marks.

For part (a), most candidates were unable to state the tax compliance obligations that must have been satisfied for the issuance of the tax clearance certificate. Candidates typically provided the general information required for employees tax registration, corporate tax registration and VAT registration instead of focusing on the specific question requirements.

In contrast, candidates performed very well on part (b) (i). However, a small number of candidates were confused in their explanation of category A and category B both being two month tax periods.

Performance on part (b) (ii) was generally unsatisfactory. This was mainly due to a lack of knowledge of the respective tax periods.

The majority of candidates performed adequately on the computational part (c) of the question. The most common errors noted included a failure to adjust for procurements from unregistered operators. There was again also evidence of candidates failing to consider the note to the question detailing how they should approach their computations.

In addition, some candidates lost valuable time by calculating the VAT payable or refundable for the whole year instead of concentrating only on the information from the VAT compulsory registration date as required.

Question Five

This 15 mark question mainly concerned the taxation of income from self-employment but also included different types of income. Part (a) (i) for 2 marks required candidates to explain the implications of being ordinarily resident in Zimbabwe for tax purposes. Part (a) (ii) for 10 marks required candidates to calculate the minimum taxable income and tax payable for the year while part (b) for 3 marks required candidates to identify the two major sources of tax revenue law.

The majority of the candidates performed satisfactorily on both parts (a) (i) and (a) (ii). The most common mistakes attributable to the computational part of the question (part (a) (ii)) included the following:

- Failure to again consider the note to the question detailing the approach to take in the calculations. This resulted in a loss of marks. Candidates should approach their computations in the specified manner if they wish to maximise their marks.
- Computation of wear and tear allowances instead of SIA.
- Failure to recognise the exempt income.
- Failure to recognise the double deduction for the foreign marketing expenses.
- Incorrect computation of the withholding tax on the non-executive director's fees.
- Incorrect treatment of the foreign dividends.

Candidates performance in part (b) was generally adequate. However, a small number of candidates incorrectly wrote about the originating sources of taxable income instead of identifying the sources of tax revenue law as required in the question.