Examiner's report

F6 Taxation (ZWE)
December 2012

General Comments

The examination consisted of five compulsory questions. Question 1 was allocated 25 marks and question 2 accounted for 30 marks. The other three compulsory questions were each allocated 15 marks.
Almost all the candidates attempted all the five questions except for a few who did not answer some sections of question 2, and others notably question 3 in its entirety and, to a lesser extent, questions 4 and 5 as well. There was no evidence that the paper was time pressured at all but it was clear that the unanswered questions were a result of poor exam technique as well as lack of knowledge. The candidates who attempted questions 1 and 2 first recorded very good marks while those who attempted these two questions last, did not perform that well. It should be noted that questions 1 and 2 do cover the core areas of the syllabus and as such should be prioritised. Leaving these two questions until last will mostly compromise on good time management. Incomplete and rushed answers devoid of detail are often products of such an exam strategy.

The candidates performed relatively well at this sitting and there was a positive shift towards in depth answers with varied but relevant and interesting tax scenarios for the narrative parts. For the computational parts, most answers were also generally good. Some of the answers presented were of a very high standard and such a pleasure to note and mark. Notably for question 5 and parts of questions 1 and 4, were some candidates performed very well and managed to score all the allocated marks.

The questions candidates found most challenging were question 2, and to some extent question 3. Some candidates may have noticed that the statement of comprehensive income referred to notes 1-8, however the notes only referred to 1-7. In the absence of any note on finance costs, there was only one way to treat these costs, which was as an allowable deduction, which almost all candidates did correctly. However candidates are assured that the utmost care was taken in marking the answers to question 2 and candidates were compensated for either way they treated the finance costs in the absence of the details to the referred note.

It was also observed that some candidates did not read through the question requirements carefully which contributed to the poor performance on both questions 2 and 3. For parts 2(c)(i) and (ii) a good number of candidates did not take into consideration the provisions in the question which resulted in incorrect answers and critical omissions. This was also noted for question 3 in which candidates were specifically asked not to compute the capital gains on the disposal of the flat but they still disregarded that fact. It was also quite apparent that some candidates did not understand the core areas of the syllabus that well and still need to improve on exam technique and time management.

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

- General poor time management. Some candidates provided too much detail to some questions and hence compromised the quality of the answers to those other questions that actually merited the detail.
- Failing to read the question requirements carefully and therefore providing incorrect answers. This accounted for the low marks achieved in questions 2 and 3.
- Lack of in depth knowledge of the core areas of the syllabus and study guide and the specified cut-off date. This resulted in incorrect exemptions and reference to some repealed sections of the Act.
- Not learning lessons from earlier examiner's reports and hence making the same mistakes, especially regarding the need for candidates to always match the extent of the detail provided with the allocated marks. There should always be a balance in order to properly manage the available time.
- Providing more than the required number of points notably question 5(a)(i)
- Incorrect capital allowance computations, income tax rates and CGT rates.
- Illegible handwriting and general poor layout of answers.

Specific Comments

Question One

This 25-mark question consisted of narrative parts for a total of 5 marks and the computational parts accounted for the remaining 20 marks. The question focused on individual income tax and required candidates to explain the tax treatment of the consultancy services income as well as to justify their treatment of the stated operational expenses. The computational parts required the candidates to calculate the NSSA contributions for the year and the withholding tax on the provided non-executive director's fees. Further, candidates were also required to calculate the taxable income and tax payable for the stated taxpayers.

Although most candidates performed equally well for both the narrative parts and the computations, the answers provided were varied in terms of content and relevance. On the whole, candidates appeared comfortable with the question and achieved some very good marks. However, a significant minority of the candidates did not read through the requirements to parts (b)(i) and (ii) carefully and instead of including the amounts not deductible or taxable by the use of a zero as required, only excluded such amounts which in turn mitigated on the attainment of better marks.

Part (a)(i) of the question was well answered by the majority of candidates although a few candidates stated incorrect tax rates and payment dates. On the whole candidates achieved good marks for this part of the question.

Candidates performed not so well on parts (a)(ii) and (iii) mostly due to incorrect NSSA rate applied, general lack of knowledge on how NSSA contributions should be computed taking into account the restrictions on the maximum salary amounts to which NSSA is chargeable. It was also observed that a significant number of candidates also calculated the NSSA contributions payable per month instead of the yearly contributions as required by the question. Most candidates also applied incorrect withholding tax rates on the non- executive director's fees. While the non- executive director's fees were provided in the question, a good number of the candidates also surprisingly came up with computations for the fees which was not a requirement and further compromised on good time management. Also stated in the question was the date on which the fees were received which meant that a specific date for the tax remittance was required instead of the generalised dates provided by the majority of candidates.

Parts (b)(i) and (ii) of the question were fairly attempted by most candidates and good marks were recorded for these parts of the question. However, as noted above, some candidates did not read through the requirements of the question well and hence excluded the amounts stated in the note to the question and thereby failed to achieve as many marks as were possible for these parts of the question.

Question Two

This 30-mark question focused on corporation tax and tested candidates' knowledge of transfer pricing, lease improvement tax allowances, value added tax implications of the hire purchase agreement and taxpayer's obligation to ZIMRA when effecting contract payments. The question also required candidates to calculate the capital allowances as well as the taxable income and tax payable for the year.

The candidates' performance on this question was rather poor mostly due to failure to understand the question requirements fully and general lack of knowledge, notably on transfer pricing issues. To some extent the poor performance on this part of the question was also attributable to poor exam technique. A significant number of the candidates who attempted this question last did not answer some parts of the question due to time pressure. Those candidates who were pressed for time are the ones who also failed to read through carefully the question requirements and hence achieved very low marks. Future candidates are advised to always plan carefully their answers in order to prioritise those questions that cover the core areas of the syllabus and the study guide. This fact has also been mentioned in prior examiner's reports and the candidates whose approach was to answer questions 1 and 2 first performed better and generally did not have time management related problems.

The answers to part (a) of the question showed that most candidates only had a vague understanding of transfer pricing. Although some candidates managed to define transfer pricing correctly, they had challenges in explaining what the transfer pricing rules aim to achieve. Most candidates' answers centred on the benefits of transfer pricing to organisations, instead of the tax implications. Such answers did not merit any meaningful marks. The approach that the candidates should have taken in answering this part of the question was firstly to understand the meaning of transfer pricing from a tax point of view and then defining transfer pricing in that context. It should be noted that the definition of transfer pricing and the aim thereof was quite apparent from the question as detailed in the relationship between Exclusive Toys Inc and Just Toys (Private) Limited. The fact that Exclusive Toys Inc sold toys to Just Toys, a subsidiary company at cost plus a mark up of 35% and at a mark up of 25% to unrelated parties, should ordinarily have raised a few transfer pricing related concerns just at face value to those candidates who managed to read through the question carefully.

Part (b) of the question was also poorly answered by most candidates. Part (b)(i) required candidates to just state the amounts to be used for calculating the lease improvement allowances and to substantiate their answers for 2 marks. Candidates wrote way too much and some came up with calculations which were not a requirement for this part of the question. In part (b)(ii) a significant number of candidates also provided too much unnecessary detail and also wandered way off topic. The question required candidates to explain the value added tax (VAT) implication of the hire purchase agreement and to state the allowable deduction claimable with regards to that agreement. It was quite surprising that some candidates stated fuel and maintenance costs as well as insurance and licensing costs as allowable deductions which expenses were not part of the hire purchase agreement. It was also quite clear that most candidates had no idea as to the VAT implications of the hire purchase agreement and often confused the input tax and the output tax. Although a good number of the candidates managed to pick up all the 2 allocated marks on part (b)(iii), common mistakes noted were the incorrect withholding tax rate as well as the incorrect tax remittance date.

The candidates' performance on the computational parts of the question, (c)(i) and (ii) was to some extent better as compared to the narrative parts but still below the expected standard. While those candidates who read through the question with understanding attained some good marks, the majority of the candidates did not pick up any significant marks. Part (c)(i) was the poorest attempted of the two computational parts as most candidates just calculated special initial allowances without regard to the details in the question. The question actually required candidates to calculate wear and tear allowances as there is a clear distinction on how the allowances are computed for both the immovable and movable assets. Very low marks were recorded for this part of the question. The performance by most candidates on part (c)(ii) was generally satisfactory although the exclusion of items that did not require adjustment compromised on the attainment of better marks. The items which did not require adjustment accounted for 5 of the 14 marks allocated for this part of the question which is quite significant to just let go simply by failing to read through the question requirements carefully. These were easy marks whose attainment would have made a difference to the overall pass rate at this sitting.

Question Three

This 15-mark question on capital gains tax required candidates to outline the tax implications of the transfer of the business between a married couple and to state the available tax dispensations as well as the relief on the disposal of a private principal residence. Candidates were further required to calculate the tax payable without taking into account any tax dispensations.

Candidates' performance was unsatisfactory on this question. Some of the answers presented lacked the critical detail and hence did not score any marks. For instance the common answer for part (a)(i) was, "There is no tax implication on the transfer of assets between couples as they are related parties." Candidates needed to substantiate their answers further in order to gain meaningful marks. It was also observed that a good number of candidates also did not state any available tax dispensations in line with the requirements of this part of the question.

The majority of the candidates performed fairly on part (a)(ii) with a significant minority scoring all the allocated marks. The common mistake noted for this part of the question was the general assumption that the elderly taxpayer exemption applied to both spouses. It should be noted that married couples are individual taxpayers and hence should be treated as such.

Generally candidates performed relatively well in part (b) of the question although some candidates wasted valuable time by calculating the capital gains tax on the disposal of the flat which was clearly not required. The following were the common mistakes and omissions on this part of the question:

- Calculation of recoupment on disposal of PPR.
- Calculation of CGT on movable assets.
- Application of AIDS levy on CGT computation.
- Incorrect recoupment computation. Some candidates did not calculate the recoupment on all the business assets while others only restricted the computation to the immovable assets only
- Deduction of elderly taxpayer's credit and disabled person's credit from corporate tax payable.
- Application of individual tax rates to business taxable income (recoupment).

Question Four

This 15-mark question focused on VAT and also tested candidates' knowledge on procedures to deal with disputes and objections pertaining to tax assessments.

The performance of most candidates on the entire question was of an acceptable standard although some candidates struggled to explain the procedures to be followed when dealing with objections and disputes. Candidates were particularly unclear as to the required time frames when lodging an assessment objection.

While parts (a)(i) and (ii) required specific dates for the lodging of an objection and the due dates for the submission of the VAT returns, some generalised answers were often provided. No marks were awarded for such answers. A significant number of candidates had no problems in stating the types of expenditure on which input VAT is a prohibited deduction in part (a)(iii). However, it was also observed that some candidates provided more than the two required types of expenditure which was also a waste of time as the extra points did not earn any marks. On the other hand, a number of candidates stated depreciation as one of the required two types of expenditure. Candidates should note that depreciation is a non-cash item and as such did not qualify as expenditure for the purposes of this part of the question.

Part (b)(i) for 7 marks was answered satisfactorily with some candidates scoring all the allocated marks. As prior observed, a significant minority of the candidates disregarded the note to the question and therefore excluded amounts on which VAT is not chargeable which further impacted negatively on the attainment of better marks. In part (b)(ii) a number of candidates only picked up part marks due to the failure to apportion the interest calculation to the number of days in which the VAT was outstanding. The following common mistakes were noted for these two parts of the question:

- Incorrect output tax and input tax computation. Some candidates did not notice that the amounts in the sales and purchases records were inclusive of VAT and hence came up with incorrect calculations.
- Incorrect treatment of VAT on sales returns and on the staff allocated vehicles.
- Incorrect VAT computation on the fiscalised electronic registers.
- Calculation of amounts due on QPDs for VAT.
- Calculation of a 100% penalty on the overdue VAT instead of interest calculation as required.

Question Five

This 15-mark question was based on Kitchen Accessories (Private) Limited (KA) and tested candidates' knowledge of the main purpose of taxation in a modern economy, basic taxation principles, difference between direct and indirect taxation as well as the difference between tax avoidance and tax evasion. The question further required candidates to calculate the provisional taxable income and tax payable for the year by KA and also to indicate the dates on which the tax should be remitted to ZIMRA.

Almost all the candidates performed very well on this part of the question with a significant minority attaining all the 15 allocated marks which was such an outstanding achievement. Those few candidates who attained less than half of the total allocated marks did so more out of confusion in the distinction between direct and indirect tax and the related examples as well as the mix-up in the difference between tax avoidance and tax evasion. The same candidates also failed to outline any three basic taxation principles.

On the whole both parts (a) and (b) were well articulated by most candidates although the number of candidates who stated the repealed sales tax as an example of indirect tax was worrying. The following were some of the mistakes picked up from candidates' answers:

- Incorrect corporate tax rate.
- Incorrect SIA rate.
- Instead of calculating the tax payable and indicating the tax applicable on the QPDs, taxable income was erroneously spread over the QPDs.
- Providing more than the required three basic taxation principles.
- Incorrect QPDs. Some candidates only calculated the tax payable and did not provide the QPDs as required.