Examiners' report

P6 Advanced Taxation (ZWE)
June 2008

The examination consisted of five questions. Section A, containing two compulsory questions represented 60% of the marks available while section B, where two of three questions had to be answered, accounted for the balance of the marks.

Most of the candidates attempted the questions in the compulsory section plus questions 3 and 5 in the optional section. Overall, the performance was fair although candidates came short in terms of identifying all the possible tax issues.

Candidates need to avoid repetition of the same few points in narrative answers. Candidates should also be adequately prepared in order to tackle questions at this level as, without a firm conceptual framework, their lack of preparation tends to show. Overall, the answers are encouraging.

Planning and time management seems to be a problem as evidenced by a significant number of blank pages scattered throughout some answer scripts. Presumably candidates meant to revisit some parts of the questions but eventually did not get around to it. There was evidence that candidates attempted parts of different questions clearly demonstrating that they may not have adequately prepared for the examination.

Candidates should remember to number all questions and commence each question on a fresh page.

Question 1
This compulsory 31- mark question concerned identification of tax issues arising in a reconstruction of a group of companies. It also required candidates to outline the statutory approvals associated with this type of group reorganisation. In addition candidates needed to review the transaction and suggest some tax saving techniques.

Although the attempts were fair, candidates came short in terms of the identification of all the tax implications and all the statutory approvals required. Candidates should study the concept of swapping shares within the legal framework contained in section 15 of the Capital Gains Tax Act (Chapter 23.01). It is recommended that candidates review significant transactions advertised in the daily and weekly business newspapers as these will help to give them leverage.

The section dealing with suggestions for reducing the capital gains tax impact [1(c)] was not tackled by most candidates and as a result the overall performance in this question was as good as expected.

Question 2
This question involved a non-resident investor operating in the mining industry in Zimbabwe. The question required candidates to demonstrate knowledge of the concept of a Permanent Establishment, as well as identify the taxes that arise in relation to cross-border payments, as well as employment taxes for internationally seconded employees.

This question was attempted with a fair amount of success. A number of candidates attempted to address the tax aspects of operating under a Permanent Establishment without any real knowledge about this concept. Clearly, some candidates struggled with what a Permanent Establishment entails.

Some interesting answers were offered in relation to the section requiring a comment on a contractual clause absolving one of the parties (the non-resident party) from tax obligations in Zimbabwe. Candidates are challenged to learn through research, especially by analysing the various investment proposals being floated in Zimbabwe. The suggestion is that candidates should subject any such proposal they come across to a tax implication review.

Question 3
This 20 mark optional question dealt partly with a retirement scenario and partly with remuneration structuring. The concepts covered by this question were adequately attempted and most candidates achieved good marks in this question.

Candidates need to polish up on the taxation of remuneration paid offshore as well as the statutory requirements for foreign currency denominated income. Candidates should be aware that there are tax obligations for both employer (payer) and employees.

Candidates were well prepared for this question and they diligently tackled the question.

Question 4
Most candidates shunned this question although it was one of the least challenging, if candidates had gone through the estate duty topic in their preparations. Candidates should be aware of the basic concepts surrounding deceased estates. The computations associated with deceased estates are fairly simple and straightforward.

The question also sought to test candidates on their knowledge of the accrual concept in relation to deceased estates, trusts and the period prior to death. This is an area that can be tested often in the future.

Question 5
This question concerned tax implications of the disposal of marketable securities off-shore, which touched on some Exchange Control matters. In addition, candidates were required to comment on the tax implications of some Government directives relating to the conducting of business in Zimbabwe.

Exchange Control and taxation matters are interlinked and it is useful for candidates to familiarise themselves with some of these concepts.

Candidates demonstrated competence in the computation of capital gains tax. However, a significant number of candidates could not competently discuss the issue of capital gains clearance certificates. This can be remedied by adequate preparation for these examinations.

The commentary on the tax implications of the Government directive on prices was fairly attempted. A number of candidates did not comment on the value added tax impact, which had a significant impact on Government revenues.

Overall, candidates performed fairly well on this question and were able to obtain a fair return of marks.