Examiner's report
P6 Advanced Taxation (ZWE)
June 2010

General Comments
The P6 (Zimbabwe) paper comprised of five questions, of which two were in the compulsory section A while candidates had to answer two of the remaining three questions in Section B.

The overall performance in the June 2010 examination session has been fairly good. The performance could have been even better if some candidates had focused their answers instead of just writing as much as they knew about certain topics, though not asked for in the question.

Candidates are encouraged to read and understand the question requirements before they commence writing. It is also a useful technique to first identify the key points in any question as this would assist in the construction of the answer. In addition, it is also a good technique to allocate time in relation to the available marks.

Specific Comments

Question One
This question was constructed around a partner retiring from a business and the classification of employment income separately from business income and then computing the applicable tax liabilities. The question also required candidates to comment on the taxability of special income receipts such as lump-sum receipts from pension funds, restraint of trade and rental income from immovable property situated outside Zimbabwe. The last part of the question required candidates to comment on the compliance status of the taxpayer. This part required candidates to compute the correct quarterly provisional tax payments and then compare with tax paid.

A few candidates classified a share of profit as employment income which is not correct. When it came to the computation of tax payable, some candidates deducted tax credits from income instead of deducting this from the basic tax payable. The exemption of motoring benefits accruing from the disposal of a passenger motor vehicle to an employee above 55 years was overlooked by some.

The exempt portion of a lump-sum receipt from a pension fund is an amount equivalent to one third of the total pension entitlement rather than one third of the lump-sum. Taxation in Zimbabwe is currently Zimbabwe source based and rental income from immovable property situated outside Zimbabwe is not taxable in Zimbabwe. A few candidates boldly stated that such income was deemed to be from Zimbabwe but this is incorrect. With regard to the assessment of the quarterly provisional tax, a significant number of candidates tackled this question well. A few candidates did not really address the question but simply wrote about quarterly provisional tax in general terms. This seemed to emanate from reading the question without understanding the requirements.
Overall, the performance in this question was fair, subject to the comments outlined above.

Question Two
The concept of permanent establishment was the central theme of this question which revolved around a foreign company coming to invest in Zimbabwe. In addition, candidates were required to articulate their understanding of the trading conditions that needed to be complied with, as well as commenting on some dispensations that could be applied for.

Candidates had a fairly good understanding of the concept of permanent establishment and tackled the first part of the question fairly well. The discussion on the thin capitalisation concept was also fairly attempted.
Overall, candidates performed to expectations in this question.

Question Three
This choice questions required candidates to review a set of facts from which a capital gains tax computation was to be made, as well as recognising the correct tax treatment of certain expenses. In addition the question

required candidates to demonstrate knowledge of the tax clearances to be obtained as well as the dispensation of minimising the capital gains tax payments in a scenario where the property is sold under suspensive conditions. Although a significant number of candidates recognised the fact that only specified assets, namely immovable property and marketable securities are subject to capital gains tax on disposal, there were a few candidates who were unable to recognise the cost of the building as the inheritance value. In addition some candidates computed inflation allowances on selling expenses.

The dispensation of paying tax in instalments was clearly recognised as well as the tax clearance required before property could be transferred. The performance in this question was good.

Question Four

This question was constructed around a group of companies in which one subsidiary was incurring losses while another was making profits. The question required candidates to review the information and suggest ways of structuring the group to minimise group tax.

Although a good number of candidates wrote of combining the business, they were unable to recognise that the combinations had to take the form of divisions, rather that reconstituting a new local holding company running the local subsidiaries. While for accounting reporting purposes, the operations would be consolidated, the tax treatment is completely different as each company is assessed individually.

Candidates seemed to struggle in this question although a few candidates were clear and commented on the need to divisionalise, as well as identifying the taxes to be considered and the dispensations available. Very few candidates spoke about the zero rating for value added tax purposes where a business was transferred as a going concern. A significant number of candidates did comment on the potential capital gains tax and corporate tax which would arise on transfer of assets and mentioned the dispensations to be found in section 15 of the Capital Gains Tax Act (Chapter 23:01) as well as those found in paragraph 8 of the Fourth Schedule of the Income Tax Act (Chapter 23:06).

Candidates did not do so well in this question.

Question Five

This question sought to test the candidate's ability to analyse a set of business facts relating to a local business which needed to be registered for value added tax purposes as well as complying with other taxes. The candidate also had to clearly classify different types of expenses as deductible or capital in nature. In addition, candidates had to discuss the tax treatment of services rendered to relatives.

While candidates recognised the value added tax registration requirements, they were less successful in recognising what to classify as capital and what to classify as deductible for tax purposes. A few candidates had problems in computing capital allowances and were unclear on whether to grant wear and tear or special initial allowances. Candidates should remember that where the question asks for the computation of minimum taxable income, this implies that the maximum capital allowances should be granted.

Candidates did not do as well as expected in this question due to the problems of classification of expenditure deductible for tax purposes.