



Examiners' report

P6 Advanced Taxation (ZWE)

December 2007

The performance in this examination session was fair, but could have been better if a significant number of candidates had fully attempted the required number of questions. There is a need to consciously manage time in answering the questions as indications are that candidates spent more time on questions they were comfortable with at the expense of the other deserving questions.

General comments

Candidates should be aware of the maxim that “the first five or six marks in a 10 mark question are always easier to get than the last two or three marks”. In discursive questions candidates are encouraged to plan their answers before commencing to write. It would help a lot to jot down the key points in each question as a guide to what to write, and to help manage the time. It is vital to relate the time to the marks allocated.

The quality of answers is improving. There is just a need to remove the time-pressure that is evident in the way the last one or two questions are answered. Section A of the paper carries more than half the marks and it is thus important to adequately attempt the questions therein. Some candidates were not able to get as many marks they could have on the basis that they answered the section A questions last, when they became time constrained. Candidates would benefit from use of past examination questions, as well as taking interest in the complex business transactions taking place and reported in the press. It would be useful to discuss such transaction from a tax perspective, which would give the candidates exposure to practical business scenarios.

Question 1

This compulsory question, with a potential 39 marks, sought to test the candidate's familiarity with the tax implications of business reorganizations. It required the candidate to demonstrate their ability to identify and comment on the potential taxes likely to arise under two scenarios. The question also required the candidate to outline statutory obligations that needed to be fulfilled to satisfactorily carry out the merger.

A significant number of candidates attempted this question diligently and scored above average marks. Some of the candidates were unable to identify transfer duty and value added tax (VAT) implications and the potential VAT relief.

Some candidates were unable to answer the part asking whether or not the registration category could be changed. In addition important considerations that should have been mentioned under the recommendation are issues to do with the utilization of the loss brought forward and the higher capital allowances available under the option to transfer at market values. A few candidates did not make any recommendation as required by (a) (ii). Some easy marks were available under part (d) where candidates were required to outline the written approvals required from the Commissioner General but very few candidates attempted this part.

Overall, this question tested the candidate's all round knowledge of all the potential taxes that arise in relation to a business reorganizations and the ability to analyse the implications and recommend a suitable option, supported by appropriate reasons.

Question 2

This 25 mark compulsory question had two parts (a) and (b). Part (a) revolved around the taxation of employee benefits, specifically share options, while part (b) required candidates to demonstrate knowledge of the concept of permanent establishment, and also the conditions of paying withholding tax.

Performance in this question was below average, with the exception of a few candidates.

Part (a) (i) required candidates to discuss employee tax on the share option and soft loan benefit for employee and capital gains tax on the employer company. In part (a) (ii) some candidates showed ignorance of the withholding tax payable on the dividend in specie.

Question 3

This optional 18 mark question required candidates to indicate their knowledge of incentives available to miners. These incentives include capital expenditure allowances, preferential rate of tax and VAT dispensations as well as off shore bank accounts. The question also required candidates to comment on the restrictions of the deductibility of interest on debt financing, and the classification of any excess interest as dividends.

Performance on this question was fairly good for those who attempted the question.

Question 4

This question dealt with capital gains tax and required candidates to demonstrate knowledge of the removal of the suspension of the capital gains tax on securities. It also required candidates to recognize the need for notifying Exchange Control Authority as well as obtaining a capital gains tax clearance certificate. Candidates need to take note that withholding tax is deductible on dividends paid to non-resident companies.

About half the candidates attempted this question but did not do that well. A significant number were unfamiliar with the requirements tested. In a number of cases, the question seemed to have been attempted in a rush, possibly due to time pressures.

Question 5

Part (a) of this question sought to test the candidate's knowledge of the taxes that affect Export Processing Zone (EPZ) companies. Specifically the incidence of import duty and value added tax on movement of goods between the EPZ area and the Zimbabwe Customs Territory.

Part (b) was testing the candidate's knowledge of the withholding tax (WHT) on contracts and the potential grossing up of amounts paid to creditors thereby increasing the WHT payable to ZIMRA.

The performance in this question was below average, with the exception of one of two candidates. The candidates seemed to be familiar with only a few aspects or issues mentioned above relating to Part (a). Although everyone wrote on the WHT on contracts, very few discussed the potential of grossing up the payments.