Examiner's report

P6 Advanced Taxation (ZWE)
December 2009

General Comments
The examination consisted of five questions of which two were compulsory and placed in the compulsory Section A while candidates had to select and answer two other questions from three in the optional section B.

Section A accounted for 68 marks while Section B accounted for the rest of the marks.
In section A most candidates attempted question 1 with substantial success while the overall attempt of question 2 reflected a limitation of knowledge of the topics covered in the question.

The average performance reflected in the overall performance can be attributed to a relatively good score from section A questions and a low success factor in the answers for section B attempted questions.

In general, the answers presented were relatively of good quality, subject to a few cases were lack of adequate knowledge of the topics covered in the respective questions was reflected in the repetition of the same points in a different way. Although there is a marked improvement in the examination technique, there is still room for improvement in preparing for the examinations. In addition, candidates should take time to read and understand the requirements of the question rather than rushing to commence answering without a mental review of the main points in each question or parts of questions.

Specific Comments

Question One
This 36-mark question was designed to test the candidate's knowledge of the tax obligations that affected expatriate employees as well as the Zimbabwe tax obligations of the organisations from which the expatriates would have been seconded from.

The question also required candidates to comment on the tax implications of funding structures where debt significantly exceeded equity; and identification of withholding taxes that arise where certain remittances are made to non-resident beneficiaries.

The question was rounded off with the need for candidates to do a minor tax computation.
This question was well attempted and good marks were scored by a significant number of candidates.
The common error was concentrated on part (c) on failure to compute the limitation thresholds allowable for tax purposes in relation to management and administration fees and interest expenditures. A few candidates were not sure about the provisional quarterly tax payments applicable to businesses.

Question Two
This 32 mark question was structured into two parts. Part (a) required candidates to review a case study of a scheme of remunerating a senior manager through a complex share award. Candidates were required to decide whether the income arising was capital or revenue in nature and also to demonstrate clarity on accrual date.

Part (b) required candidates to identify the characteristics and tax incentives applicable to special mining leases, Build own operate and transfer (BOOT) arrangements; and national projects.

About half the candidates were able to deal with the requirements of part (a). However, there were a significant number of candidates who failed to pick out the fact that the full value of the shares was taxable is remuneration subject to income tax since the beneficiary was not going to pay anything for the shares. This was a bit of a surprise as share schemes are fairly common in the remuneration structures of executives in Zimbabwe.

The answers to part (b) were poor as clearly many candidates could not come up with at least three to four characteristics of each of the investment schemes. Candidates are encouraged to take an interest in the tax aspects of current affairs discourse on investment, especially in the Zimbabwe operating environment.

Question Three

This question was designed to assess the candidate's appreciation of foreign investment in Zimbabwe and in particular the concept of a Permanent Establishment and its tax implications. Candidates were required to outline the tax obligations that arise for foreign companies that come to invest in Zimbabwe.

The answers tendered in this questions had limitations and candidates tended to be repetitive of the same few points identified. There is an inherent weakness in the quality of analytical skills and reviewing the different scenarios or transactions from a tax perspective.

Candidates are encouraged to explore the inter-linkage of different types of taxes such as VAT, income tax and withholding tax in relation to certain transactions. Knowledge of VAT is particularly of importance to candidates as this is increasingly the new main source of revenue for the central authority.

Question Four

This question was aimed at testing the candidates' appreciation of the tax accounting implications of advances to farmers, which is a much talked about issue in the current affairs of Zimbabwe. Part (b) of the question required candidates to review a toll manufacturing arrangement from a VAT perspective; while part (c) required them to review a common trading arrangement of grossing up payments from a tax perspective.

About half the candidates attempted this question but the scores achieved were not as good as expected. Identification of the VAT implications of the toll manufacturing arrangement was poorly done while a significant number of candidates completely missed the requirement of part (c). Candidates expansively spoke about what the business entity should have done and the penalties that could be imposed by ZIMRA. This was not the requirement of the question.

Candidates need to pay attention to the wording in questions to avoid missing out on available marks.

Question Five

This question required candidates to demonstrate their knowledge of the nature of dividends *in specie* and the tax implications of such payments, considering that the beneficiaries would not receive any cash from the companies declaring the dividends.

There were not many candidates that chose this question, but those who attempted it were on average able to achieve a pass mark on the question.

The main error identified was the inability to differentiate between the tax implications of the dividend payout to resident companies as opposed to non-resident companies. Dividends accruing to local companies are not subject to a withholding tax, while dividends accruing to non-resident companies are subject to a withholding tax.

Candidates are again encouraged to be familiar with terms used in business operations to prepare them to become knowledgeable tax advisers.