



**DECEMBER 2021**

**CHIEF EXAMINERS' REPORTS**

**TAXATION PROGRAMM**

## **C 1: BUSINESS MANAGEMENT**

### **QUESTION ONE**

The general performance on this question was poor. 1 out of the 7 candidates who attempted the question achieved a pass (that is a score of at least 10 out of 20 marks), representing a pass rate on the question of 14%. The lowest score was 4, whilst the highest was 10 out of 20 marks.

This question had three parts: (a), (b) and (c).

Part (a) asked the candidates to explain the four (4) benefits of stakeholder management to the company.

Part (b) required candidates to suggest any four (4) issues on how managers must manage the stakeholder relationships.

Part (c) requested candidates to illustrate the factors affecting managerial ethical behavior with the aid of a diagram.

Almost all the candidates failed on this question. They failed to illustrate the managerial ethical behavior.

### **QUESTION TWO**

The general performance on this question was excellent. 7 out of the 7 candidates who attempted the question achieved a pass (that is a score of at least 10 out of 20 marks), representing a pass rate on the question of 100%. The lowest score was 11, whilst the highest was 20 out of 20 marks.

This had three parts: (a), (b) and (c).

Part (a) asked the candidates to define corporate governance. Most got the definition correct, however quite a good number got it wrong.

Part (b) asked candidates to list four (4) reasons why selection of candidate may be ineffective.

Although some candidates got this correct, the majority got it wrong.

Part (c) asked candidates to explain the benefits of planning.

All the candidates passed this question.

### **QUESTION THREE**

The general performance on this question was poor. 4 out of the 18 candidates who attempted the question achieved a pass (that is a score of at least 10 out of 20

marks), representing a pass rate on the question of 22%. The lowest score was 1, whilst the highest was 18 out of 20 marks.

This question had three parts: (a), (b) and (c).

Part (a) asked candidates to outline the five (5) functions a Manager is expected to perform in a business organization.

Part (b) asked candidates to define the concept of marketing.

Part (c) required candidates to describe the market research process that need to be undertaken before a product is launched.

The majority of the candidates scored very high marks however a few did not do so because they did not understand what the question was expecting from them.

#### **QUESTION FOUR**

The general performance on this question was very good. 5 out of the 7 candidates who attempted the question achieved a pass (that is a score of at least 10 out of 20 marks), representing a pass rate on the question of 71%. The lowest score was 4, whilst the highest was 16 out of 20 marks.

This question had three parts: (a), (b) and (c).

Part (a) required candidates to explain the four (4) characteristics of an organization.

Part (b) required candidates to define divisional form of organizational structures. There was lack of clarity in terms of the items that were required to be stated, it was just too open. Hence candidates scored low on this part.

Part (c) asked candidates to give four (4) examples of divisional structures.

#### **QUESTION FIVE**

The general performance on this question was poor. 1 out of the 7 candidates who attempted the question achieved a pass (that is a score of at least 10 out of 20 marks), representing a pass rate on the question of 14%. The lowest score was 1, whilst the highest was 10 out of 20 marks.

This question had three parts (a) to (c).

Part (a) asked candidates to remind Managers about the six (6) components of strategic leadership by Abdalla Hag.

This was misunderstood by the candidates as the majority failed to explain the components. Hence the extremely low pass rate.

Part (b) asked candidates to define the three (3) major types of controls used in organizations.

Part (c) asked candidates to explain the two (2) purposes of Performance Appraisal.

### **Overall performance of candidates**

Highest mark obtained in this paper: **60%**  
Lowest mark obtained in this paper: **28%**  
Overall pass rate in this paper: **49.3%**

## **C2 ECONOMICS & FINANCIAL MATHEMATICS**

### **QUESTION ONE**

The general performance on this question was very good. 12 out of the 16 candidates who attempted the question achieved a pass (that is a score of at least 10 out of 20 marks), representing a pass rate on the question of 75%. The lowest score was 2, whilst the highest was 18 out of 20 marks.

The question was divided into three parts namely (a), (b) and (c) as follows:

- (a) Required candidates to state and elaborate any four (4) functions of the Bank of Zambia. Performance on this part of the question was fair. However, some candidates provided functions of commercial banks instead!
- (b) Required candidates to state and explain any four (4) determinants of consumption. This was inadequately done by many candidates. This may be as a result of not covering the entire syllabus when preparing for the exam. The answers are all directly in the C2 Study Guide
- (c) Required candidates to define marginal propensity to consume. This was the worst scored part in this question. Marginal propensity to consume is the ratio of change in consumption expenditure to change in disposable income.

### **QUESTION TWO**

The general performance on this question was good. 10 out of the 16 candidates who attempted the question achieved a pass (that is a score of at least 10 out of 20 marks), representing a pass rate on the question of 63%. The lowest score was 6, whilst the highest was 18 out of 20 marks.

The question was divided into four (4) parts namely (a), (b), (c) and (d) as follows:

- (a) This part of the question required candidates to explain how a country can gain from free international trade using (i) Absolute Advantage Theory, and (ii) Comparative Advantage Theory. Overall performance was not good. Candidates need to know that what brings about absolute advantage is that one country can produce more using the same resources than another trading partner. For comparative advantage the key is differences in opportunity costs between the countries.
- (b) Required candidates to explain any three (3) reasons why countries may impose trade barriers. This question simply required candidates to explain the argument in support of the use of trade barriers or protectionism. Performance was very poor.
- (c) Required candidates to explain how the depreciation of the kwacha against the US dollar affects Zambia's imports. This was well scored by majority of candidates.
- (d) Required candidates to outline any two (2) items that are recorded under the 'invisible trade' in the BoP. No candidate got this part correctly. Invisible trade

is trade in services; therefore, examples of imports and exports of any services would be correct.

### **QUESTION THREE**

The general performance on this question was poor. 3 out of the 16 candidates who attempted the question achieved a pass (that is a score of at least 10 out of 20 marks), representing a pass rate on the question of 19%. The lowest score was 2, whilst the highest was 13 out of 20 marks.

This question was attempted by all the candidates and the general performance was very poor. Three candidates scored above 10 marks.

The first part of the question, part a, required candidates to define terms xtrapolation and interpolation. It was observed that no candidate managed to give a correct definition. Solution given indicated that candidates could not understand what the terms were.

Part b, was a question requiring candidates to use the method of linear regression and correlation to find the regression line and the correlation coefficient. Candidates showed sufficient knowledge in the subject matter, but were just making errors on the summation of table values, and sum of squares of the two variables. They were still able to use correct formula to attempt to find the regression equation.

### **QUESTION FOUR**

The general performance on this question was poor. 3 out of the 16 candidates who attempted the question achieved a pass (that is a score of at least 10 out of 20 marks), representing a pass rate on the question of 19%. The lowest score was 4, whilst the highest was 20 out of 20 marks.

This question was attempted by all the candidates and the general performance was average. Three candidates scored above 10 marks.

Part (a) required candidates to use the method of annuities to solve a problem involving payment of a 25-year mortgage. The general performance in this part of the question was poor because candidates were observed to be using wrong formulae. There is need to emphasis on differences between simple interest, compound interest and annuities to help candidates to choose the correct method when solving problems involving monetary investment and interest rates.

Part b required candidates to use the Binomial probability distribution method to solve the given scenario of accountant survey of senior executive. Most of the candidates were able to identify the correct formula and solved the problem successfully. Candidates who failed this question were observed to have challenges in using the correct inequalities signs for the words at most and at least to get the right random numbers for probability calculation. This resulted in either including or leaving out the required numbers.

## QUESTION FIVE

The general performance on this question was poor. 1 out of the 16 candidates who attempted the question achieved a pass (that is a score of at least 10 out of 20 marks), representing a pass rate on the question of 6.3%. The lowest score was 1, whilst the highest was 11 out of 20 marks.

This question was attempted by all the candidates and the general performance was very poor.

The first part (a) of the question required candidates to define the terms; effective annual interest rate, annual percentage rate and Nominal interest rate. There was an observed lack of knowledge in giving the correct definitions of the terms hence candidates need to put more effort in knowing definition and explanation of terms used in quantitative calculation

Part b required candidates to the methods of ratios and proportion to convert given monthly rate to annual interest rate and effective annual rate. Candidates were able to solve this part of the question without any crucial problem observed.

Part c required candidate to use the method of compound interest to calculate present value to and also use the perpetuity payment method to find the money set aside for investment. Candidates showed lack of understanding of the method required to solve this problem hence lost marks due to use of a wrong formula.

The last part of the question required candidates to use the NPV to determine the worthiness of investing in a project. It was observed that candidates were able to use the correct formula to solve this problem hence obtained good marks in this part. The candidates who failed were observed to have been using wrong formula in the calculation.

### Overall performance of candidates

Highest mark obtained in this paper: **65%**

Lowest mark obtained in this paper: **16%**

Overall pass rate in this paper: **36.9%**

## **C3 ACCOUNTANCY FOR TAX PRACTITIONERS**

### **QUESTION ONE**

The general performance on this question was very good. 5 out of the 6 candidates who attempted the question achieved a pass (that is a score of at least 10 out of 20 marks), representing a pass rate on the question of 83%. The lowest score was 9, whilst the highest was 16 out of 20 marks.

Part "a" required candidates to prepare a statement of Profit or Loss.

- i. VAT Amounts in revenue and purchases figures. Candidates used gross amounts instead of net figures.
- ii. VAT amount owing at 31 December 2018. The use of VAT control Account as shown in the workings could have helped.

Part "b" required candidates to prepare a statement of Financial position.

- i. VAT amount owing not shown under current liabilities.
- ii. The VAT amount paid of K4900 shown under Expenses in the statement of Profit or Loss instead of increasing the Bank overdraft under the current liabilities.

### **QUESTION TWO**

The general performance on this question was good. 4 out of the 6 candidates who attempted the question achieved a pass (that is a score of at least 10 out of 20 marks), representing a pass rate on the question of 67%. The lowest score was 0, whilst the highest was 15 out of 20 marks.

Part "a" required candidates to give the corrected figures of gross profit for each of the years affected by the erosion Inventory valuation. No common error was identified.

Part "b" (i) required candidates to calculate the percentage of gross profit to sales ratio. This was correctly done.

Part "b" (ii) required candidates to calculate the rate of turnover of Inventory. Answered correctly.

Part "c" (i) required candidates to define and explain the term objectivity. The language problem failed candidates who tried to define the term.

### **QUESTION THREE**

The general performance on this question was good. 3 out of the 6 candidates who attempted the question achieved a pass (that is a score of at least 10 out of 20



marks), representing a pass rate on the question of 50%. The lowest score was 3, whilst the highest was 12 out of 20 marks.

All the six (6) candidates attempted this question and the three passed representing 50% pass rate. This was a 100% theory question, candidates had problems in expressing their answers.

#### **QUESTION FOUR**

The general performance on this question was good. 3 out of the 6 candidates who attempted the question achieved a pass (that is a score of at least 10 out of 20 marks), representing a pass rate on the question of 50%. The lowest score was 3, whilst the highest was 15 out of 20 marks.

Part "a" required candidates to give brief notes on why Partners charge interest on capital and on drawings, and why they pay a salary to a Managing partner. This requirement had clearly three parts which required separation. Candidates generalized the answers.

Part "b" required candidates to prepare Partnership appropriation account.

- i. Candidates failed to recognize that the reporting period was for nine (9) months only, and hence failed to apportion the figures accordingly.
- ii. Interest on drawings was not apportioned to reflect the period when drawings were made.

Part "c" required candidates to prepare Partnership current accounts. The correct entries were made, though with wrong figures brought forward from Part "b".

#### **QUESTION FIVE**

The general performance on this question was fair. 2 out of the 5 candidates who attempted the question achieved a pass (that is a score of at least 10 out of 20 marks), representing a pass rate on the question of 40%. The lowest score was 0, whilst the highest was 17 out of 20 marks.

Five candidates attempted this question and two (2) candidates passed representing 40% pass rate.

Part "a" required candidates to explain the meaning of cost and net realizable value under IAS 2 on Inventory valuation. This part was answered well.

Part "b" required candidates to identify expense items that are excluded from the definition of cost according to IAS 2. Candidates managed to give some expenses correctly.

Part "c" required candidates to calculate the quantity and value of closing Inventory on 31 December 2018 using FIFO valuation method. Candidates failed to clearly calculate the quantity and value of closing Inventory.

### **Overall performance of candidates**

Highest mark obtained in this paper: **75%**

Lowest mark obtained in this paper: **21%**

Overall pass rate in this paper: **43.7%**

## **C4: DIRECT TAXES**

### **QUESTION ONE**

The general performance on this question was fair. 5 out of the 12 candidates who attempted the question achieved a pass (that is a score of at least 10 out of 20 marks), representing a pass rate on the question of 41.7%. The lowest score was 5, whilst the highest was 16 out of 20 marks.

This question was on tax planning with regard to employment income and self-employed income and had four parts (a), (b), (c) and (d).

In part (a), candidates were required to calculate the amount of income tax payable.

In part (b), candidates were required to explain the type of tax to be paid for the year 2021.

In part (c), candidates were required to advise the best option between self-employed income and employment income.

In part (d), candidates were required to explain how "CONTROL factor" is used in determining whether one is self-employed or is an employee.

This question was well answered by most candidates with the exception of a few candidates who failed to apportion the business portion of motor car expenses.

### **QUESTION TWO**

The general performance on this question was fair. 6 out of the 13 candidates who attempted the question achieved a pass (that is a score of at least 10 out of 20 marks), representing a pass rate on the question of 46%. The lowest score was 1, whilst the highest was 17 out of 20 marks.

This question was on the Tax implications of a trading business.

The question had three (3) parts, (a), (b) and (c).

In part (a) (i) candidates were required to explain the income tax and NAPSA implications if there was an additional payment.

In part (ii) candidates were required to explain if the payment was to take a form of cash dividend.

In part (b) candidates were required to explain the tax implications if the payment

was to take a form of lump sum payment.

In part (c) candidates were required to explain the possible causes and difference between tax avoidance and tax evasion.

In part a (i) the computation aspect of the question was not well answered by most candidates as they failed to correctly calculate the additional employees NAPSA contribution payable and the net reduction in income as a result of the payment taking the form of a cash bonus.

Part (ii) was well answered by most candidates.

Part (b) and (c) were most well answered by most candidates.

### **QUESTION THREE**

The general performance on this question was excellent. 12 out of the 14 candidates who attempted the question achieved a pass (that is a score of at least 10 out of 20 marks), representing a pass rate on the question of 85.7%. The lowest score was 0, whilst the highest was 17 out of 20 marks.

This question was on the tax implications on foreign and local employment and investment income.

the question had three (3) parts, part (a), (b) and (c).

In part (a) Candidates were required to explain the treatment of giving double taxation relief to Zambian resident individuals receiving income from foreign sources:

- (i) Treaty relief
- (ii) Unilateral credit relief
- (iii) Unilateral expense relief

In part (b) candidates were required to advise the amount of income tax payable assuming that credit is available against Zambian income tax on foreign income.

In part (c) candidates were required to offer advise the tax implications of investing in and sale of the:

- (i) Shares of companies listed on the Lusaka Securities Exchange
- (ii) Shares of companies not listed on the Lusaka Securities Exchange
- (iii) Properties to let out on a commercial basis

Candidates Performance

Part (a) of the question was well answered by most candidates.

Part (b) of this question was well answered, despite a few candidates failing to score the full marks as they failed to include the life insurance premium. Most if not all the candidates failed to compute the double taxation relief and this cost then a few marks.

Generally, the workings were poorly answered

Part (c) of the question was well answered by most candidates.

#### **QUESTION FOUR**

The general performance on this question was excellent. 12 out of the 14 candidates who attempted the question achieved a pass (that is a score of at least 10 out of 20 marks), representing a pass rate on the question of 85.7%. The lowest score was 3, whilst the highest was 20 out of 20 marks.

This question was on Customs and VAT

In parts (a), candidates were required to explain how the independent taxation system operates in Zambia.

In part (b) candidates were required to calculate the total import taxes payable on importation of the motor vehicle.

In part (c):

- (i) Candidates were required to calculate the amount of VAT payable for the month of December
- (ii) Candidates were required to explain the advantages and disadvantages of a VAT registered supplier.

This question was well attempted by most of the candidates.

Part (a) was poorly answered by most of the candidates. Most candidates exhibited total ignorance about the question requirement.

Part (b) of the question was well answered by most candidates, however a few errors were noticed such as; wrong application of customs duty and excise duty.

Part (c) the performance was average and most candidates failed to correctly compute the correct VAT payable because of:

Wrong computation of VAT payable and INPUT VAT especially on purchases and Bad debts figures.

## QUESTION FIVE

The general performance on this question was very good. 11 out of the 14 candidates who attempted the question achieved a pass (that is a score of at least 10 out of 20 marks), representing a pass rate on the question of 79%. The lowest score was 8, whilst the highest was 20 out of 20 marks.

The question was involving the recently introduced Advanced Income Tax

This question which had four parts (a), (b) (c) and (d)

Part (a) required candidates to briefly explain the Advance Income Tax

Part (b) candidates were required to explain the requirements which must be met for

a refund for Advance Income Tax suffered.

In part (c) (i) Candidates were required to determine the basis period of a business in

the opening year or the year the trade commences.

In part (ii) or the closing year or the year a trade ceases.

In part (d):

- (i) Candidates were required to explain with reasons how each tax payer will be assessed in the given scenario.
- (ii) Candidates were required to compute the amount of income tax paid by each individual for the tax year.

Part (a) was well answered by most candidates, but a few could not fully explain.

In part (b) this was well answered part by most candidates

In part (c) this was also well answered by most candidates

Part (d) of this question was poorly answered by most candidates as they failed to compute the applicable taxes as requested for in the question. There was lack of knowledge on how to calculate the presumptive taxes by most candidates

### Overall performance of candidates

Highest mark obtained in this paper: **84%**

Lowest mark obtained in this paper: **23%**

Overall pass rate in this paper: **56.2%**

## **C5: INDIRECT TAXES**

### **QUESTION ONE**

The general performance on this question was excellent. 10 out of the 10 candidates who attempted the question achieved a pass (that is a score of at least 10 out of 20 marks), representing a pass rate on the question of 100%. The lowest score was 13, whilst the highest was 19 out of 20 marks.

This question was on Value Added Tax and had two parts (a) and (b).

In part (a) candidates were required to explain any four conditions under which input Value Added Tax is recoverable to calculate the Value Added Tax which would be payable by an individual for the month of October 2021.

The conditions under which VAT would be recoverable would include cases where the supply was made to VAT registered person supported by evidence in form of tax invoice and made to a taxable person, the VAT would not be irrecoverable and the person making the claim uses the goods or services for business. The calculation of the VAT involved standard sales and purchases, motor van, overheads and diesel.

In part (b) candidates were required to explain the obligations of a VAT registered person and the circumstances that can lead to a VAT registration being cancelled by ZRA.

The obligations of a VAT registered person would include displaying the VAT registration certificates at the business premises, issuing tax invoices, completing and submitting VAT returns and paying VAT on the due dates, maintaining VAT records for a minimum period of at least six years and informing the Zambia Revenue Authority of any change in the legal circumstances of one's business. A VAT registration can be cancelled where there is a change in the legal status of an entity, the business ceases to trading permanently, the business is sold, the intention to make supplies by an intended trader ceases and the business ceases to deal in taxable supplies.

This question was generally well answered except part (a) (i), where candidates were required to calculate Value Added Tax payable. On this part some students could not use the proper format and could not do basic VAT computations.

### **QUESTION TWO**

The general performance on this question was excellent. 8 out of the 10 candidates who attempted the question achieved a pass (that is a score of at least 10 out of 20 marks), representing a pass rate on the question of 80%. The lowest score was 4, whilst the highest was 19 out of 20 marks.

This question needed candidates to demonstrate their understanding methods of calculating Value for duty purposes (VDP), international trade agreements and surtax on carbon emissions and had three parts (a), (b) and (c).

In part (a) candidates were required to explain methods that are used to calculate the Value for Duty Purposes (VDP) of imported goods. And in part (b) candidates were required to explain the difference between Quotas and Tariffs and to furnish a definition of surtax on carbon emissions.

The valuation methods used to calculate VDP includes transaction Value, transaction value of identical goods, transaction value of similar goods, deductive value, computed value and residual value

Quotas are quantitative restrictions on the quantity or value of a commodity to be imported in a country during a period while tariffs are taxes that are levied on imported goods. Tariffs are preferred to quotas because they are taxes that raise tax revenue to the government, minimises administrative corruption and on the other hand quotas are more likely to cause smuggling of goods into the country.

Surtax on carbon emissions is an environmental tax on carbon dioxide emissions.

Part (a) of this question was well answered and most of the candidates ably handled part (b) and c of the question.

### **QUESTION THREE**

The general performance on this question was excellent. 9 out of the 10 candidates who attempted the question achieved a pass (that is a score of at least 10 out of 20 marks), representing a pass rate on the question of 90%. The lowest score was 8, whilst the highest was 17 out of 20 marks.

This question was on the calculation of import taxes on the importation of a brand new twenty (20) light truck, export concessions and sale in the open market and had five parts (a), (b), (c), (d) and (e).

In parts (a), (b) and (c) candidates were required to explain the meaning and determination of Value for Duty Purposes and to calculate the Value for Duty Purposes of the Light truck as well as the total import taxes.



In parts (d) and (e) candidates were required to explain the meaning and purpose and challenges of Duty Drawback System, Duty Drawback coefficient and sale in an open market.

Customs duty is based on value for customs duty purposes and excise duty is based on value for excise duty purposes which is inclusive of VDP and customs duty.

Duty drawback system is an export support program by the government that enables local manufacturers to get back any taxes incurred either directly or indirectly on any goods produced for export which is intended to avoid double taxation. However, the challenges of the Duty Draw Back System are those of time and administrative costs. DDB coefficient is the ratio of value of duties to the value of exported output.

A sale in the open market is where the price is the sole consideration which is not influenced by any condition or relationship between the buyer and the seller and no part of the proceeds on resale would accrue to the seller.

A few candidates were unable to apply the correct customs rate of 15% and excise duty of 10%.

#### **QUESTION FOUR**

The general performance on this question was good. 7 out of the 10 candidates who attempted the question achieved a pass (that is a score of at least 10 out of 20 marks), representing a pass rate on the question of 70%. The lowest score was 4, whilst the highest was 16 out of 20 marks.

This question needed candidates to demonstrate their understanding on various VAT related issues and had four parts (a), (b), (c) and (d).

In part (a) candidates were required to mention documents which the exporter should provide as proof of exportation of goods and in part (b) candidates were required to explain the VAT treatment for motor cars purchased for leasing.

In parts (c) candidates were required to state conditions and requirements of an eligible tourist to be refunded the VAT paid and to explain the services which are treated as zero-rated for VAT in the tourism sector.

In part (d) candidates were required to explain the tax points of sales under hire purchase, continuous supplies, sale or return and staged and part payments

Documents which should be provided for proof of exportation of goods includes commercial invoices, certified copies of the documents presented to Zambian Customs at exportation and of customs import at the country of destination and proof of payment if applicable

In relation to leasing companies they are permitted to reclaim input tax on their purchases of motor cars.

The eligible tourist is a person who is not a resident of Zambia and is refunded the VAT upon production the goods, an export tax invoice, passport and an airline ticket which is required if one uses airline to exit Zambia.

Services which are Zero-rated for VAT in the tourism sector include includes accommodation in Livingstone District, tour packages throughout Zambia, other tourist services provided to foreign tourists other than those included in tour packages and Selected goods for non-resident tourists and visitors.

The tax point of sales under hire purchase is the earlier of the date when goods are collected, or delivered or made available or payment is made or tax invoice is issued. The tax point of continuous supplies is the earliest of the time when a tax invoice is issued and the time when the services are rendered and when payment is made. Whereas the tax point t of a sale or return is when the sale is adopted, the date of the tax invoice or payment and that of staged payment and part payments is the time of receipt of the money.

Some candidates failed to state all the documents required when exporting.

In part (c) (11) a good number of candidates failed to fully state the services which are zero rated in the tourism industry.

In part (d) (iv) most candidates failed to explain the tax point of a staged payment

## **QUESTION FIVE**

The general performance on this question was excellent. 9 out of the 10 candidates who attempted the question achieved a pass (that is a score of at least 10 out of 20 marks), representing a pass rate on the question of 90%. The lowest score was 9, whilst the highest was 15 out of 20 marks.

This question was on international trade agreements related to Zambia and had four parts (a), b), (c) and (d).

In part (a) candidates were required to explain objectives explain the objectives of Preferential Trade Agreement (PTA) and the main aim of African Growth Opportunity Act (AGOA). And also to state the eligibility criteria used for goods to be accepted as originating in the member states of COMESA and SADC.

In part (b) candidates were required to state major areas focused by the COMESA Customs Union. And in parts (c) and (d) candidates were required to demonstrate their understanding of a bonded warehouse and to explain the roles of the Customs and Excise Division of ZRA.

The objectives of PTA includes the promotion of cooperation and integration, raising of the standard of living among the people of the region, creation of a common market and to contributing to the progress and development of all other African countries and the main aim of AGOA is to promote two way trades between Sub-Saharan Africa and the United States as well as increase US investment into the Sub Sahara Africa. The eligibility criteria used for goods to be accepted as originating in the member states of COMESA and SADC are that the goods are wholly produced in the member state that is no raw material has been used from outside the Regions in their manufacture, materials used does not exceed 60% Of the total cost of all materials used in the production.

The major focus of COMESA Customs Union is on the internal free trade area, relation with third party countries including the application of the Common External Tariff (CET), trade remedies, export promotion, and settlement of disputes.

A bonded warehouse is a building, an installation or an area licensed in terms of section 55 of the Customs and Excise Act in which goods may be stored without payment of duty for a maximum period Two (2) years for goods on which duty and import VAT exceeds K180 or One year for those goods on which duty and import VAT does not exceed K180.

The customs and excise division of ZRA controls all exports and ensures that restricted goods can only be exported after obtaining an export permit from concerned ministries or relevant government departments and collects information needed for the preparation of national trade statistics.

Performance of candidates:

In part (a) Some candidates failed to explain all the objectives of Preferential Trade Agreement (PTA).

In part (b) some candidates were explain generally about trade ties of Africa and Europe instead restricting it to sub-Sahara and USA.

In part (d) some candidates were explaining about the documents required when importing goods instead of exporting.

### **Overall performance of candidates**

Highest mark obtained in this paper: **80%**

Lowest mark obtained in this paper: **50%**

Overall pass rate in this paper: **65.1%**

## **C6 LAW FOR TAX PRACTITIONERS**

### **QUESTION ONE**

The general performance on this question was excellent. 15 out of the 16 candidates who attempted the question achieved a pass (that is a score of at least 10 out of 20 marks), representing a pass rate on the question of 94%. The lowest score was 8, whilst the highest was 17 out of 20 marks.

The question was compulsory and had three parts (a)(b) and (c).

- (a) Part (a) focused on negligence and required students to explain what negligence. A good number of students answered this part correctly and were able to properly define negligence. Few students however got the answer wrong and this could be attributed to the fact that they may not have fully studied as questions on negligence are quite straight forward for one who has properly read on the topic. About 90% of the candidates passed this part of the question.
- (b) The 2<sup>nd</sup> part of question 1 was based on the Jurisdiction of the industrial relations court. Students were expected to state the jurisdiction of this court. Most candidates were able to answer this part without challenges but a few had difficulties. The topic on legal system in the student manual contains this information which should have been addressed effectively by the students if they had applied their minds to those topics. Candidates should therefore read widely. About 85% were able to get this question right.
- (c) This part of the question demanded students to exhibit their understanding by briefly explaining Hire Purchase and Credit sale. For a student to answer such a question, one needed to be well read in the area. Most candidates gave correct explanations though. On average 80% of the students got the question and the overall performance on the question was good.

### **QUESTION TWO**

The general performance on this question was excellent. 14 out of the 16 candidates who attempted the question achieved a pass (that is a score of at least 10 out of 20 marks), representing a pass rate on the question of 88%. The lowest score was 7, whilst the highest was 17 out of 20 marks.

- (a) This part of the question demanded candidates to define restrictive endorsement under negotiable instruments. The question was answered correctly by most student with a pass rate on the question of about 80%. Students whose performance was not very good did not understand what restrictive endorsement is which could arise from the fact that they may not have read the manual because the manual contains information on that.

- (b) Majority students got this part of the question correct but with a few having challenges addressing the issues in the question. There was about 80% pass rate on this part of the question. The Zica manual is very handy in addressing a lot of the issues arising in the question.
- (c) This question demanded students to demonstrate their understanding of business associations. Students were to distinguish sole proprietorship from limited companies. The performance in this question was good. Most candidates were able to distinguish the two. Others went further to draw in a clear and concise manner the parallels of the two. The pass rate under this part was about 85%.
- (d) This part of the question demanded students to exhibit their understanding of the Ultra vires doctrine as it obtains in company law. Some applied the administrative law approach and this could be attributed to the open ended nature of the question. For a student to answer such a question, one needs to be well read in the area. Majority of candidates gave correct explanations. For some students who might have had some challenges answering the question, the use of the Zica manuals old be very helpful.
- (e) This part of the question demanded students to exhibit their understanding of the Law Regulating Partnerships. For a student to answer such a question, one needs to be well read in the area. Majority of candidates gave correct explanations and distinctions. The part of the question had an 85% pass rate.
- (f) This question tested students understanding of receivership and bankruptcy law. They were required in particular, to explain the powers of a receiver. For a student to answer such a question, one needs to be well read in the area. Majority of candidates gave correct answer. An indication that they understood the topic in question.
- (g) This part of the question threw off most candidates. They failed to understand the concept of subrogation in insurance law. This may be due to inadequate preparation. For a student to answer such a question, one needs to be well read in the area. Future candidates are encouraged to read adequately as they prepare for their examinations. They should make use of the Zica manuals which are readily available for their use.

### **QUESTION THREE**

The general performance on this question was excellent. 15 out of the 16 candidates who attempted the question achieved a pass (that is a score of at least 10 out of 20 marks), representing a pass rate on the question of 94%. The lowest score was 5, whilst the highest was 15 out of 20 marks.

The question had four parts, all fairly answered. There was a generally good understanding of the issues raised by the question and the students seem to have been very equal to the task and managed to obtain good marks.

### **QUESTION FOUR**

The general performance on this question was good. 11 out of the 16 candidates who attempted the question achieved a pass (that is a score of at least 10 out of 20

marks), representing a pass rate on the question of 69%. The lowest score was 8, whilst the highest was 13 out of 20 marks.

As all questions are compulsory under C6 all candidates answered this question and the performance was very poor. The marks scored were between 2-6 majority. Only 2% scored at least 8-10. As already alluded to candidates did not manage to identify the elements of a contract of sale under part (a); then under part b they equally could not identify the elements of *res ipsa loquitur*, for part (c) half the number of candidates managed to give the remedies for the unpaid buyer. Equally under part (d) they could give the difference between hire purchase and installment purchase.

The common mistake was that they did take time to read the questions to understand what the examiner required.

Going forward candidates must study all topics including minor topics and read and understand the questions before answering.

## **QUESTION FIVE**

The general performance on this question was excellent. 16 out of the 16 candidates who attempted the question achieved a pass (that is a score of at least 10 out of 20 marks), representing a pass rate on the question of 100%. The lowest score was 10, whilst the highest was 19 out of 20 marks.

The question had three parts (a), (b) and (c).

- (a) required student to define what law is. This was a fairly straightforward question and two thirds of the candidates managed to get it right.
- (b) This question demanded students to demonstrate their understanding of Statutory Interpretation that is the literal rule and contextual rule. A number of Candidates seemed to have understood the literal rule but struggled with the contextual rule. In future, candidates are encouraged to study widely, avoid selective studying and prepare for anything as all questions are highly examinable.
- (c) The question was on employment contracts in particular the duties of employers and employees. 90 percent of candidates answered this question very well. They showed mastery of the topic.

### **Overall performance of candidates**

Highest mark obtained in this paper: **76%**

Lowest mark obtained in this paper: **42%**  
Overall pass rate in this paper: **63.3%**

## **D1 – BUSINESS INFORMATION MANAGEMENT**

### **QUESTION ONE**

The general performance on this question was excellent. 7 out of the 7 candidates that attempted it managed to get at least 13 marks out of 25. The pass rate recorded was 100%. The highest mark scored was 22 out of 25 while the lowest was 14.

The question was about identifying the four basic characteristics of data warehouses and explaining the benefits it would offer to a tax consultancy firm, distinguishing between in-sourcing and out-sourcing and explaining the role DBMS plays in an Accounting Information System.

The common mistakes were as follows:

- Some students were explaining the database itself instead of DBMS
- Some students were identifying characteristics of a DBMS instead of a data warehouse

### **QUESTION TWO**

The general performance on this question was very good. 5 out of the 7 candidates that attempted it managed to get at least 13 marks out of 25. The pass rate recorded was 71.4%. The highest mark scored was 22 out of 25 while the lowest was 8.

The question was about IS security, the stages of project development life cycle and the benefits of using bespoke software in handling accounting activities

The common mistakes were as follows:

- Benefits of bespoke software was poorly explained as most students did not understand what bespoke software was

### **QUESTION THREE**

The general performance on this question was very good. 6 out of the 7 candidates that attempted it managed to get at least 13 marks out of 25. The pass rate

recorded was 85.7%. The highest mark scored was 20 out of 25 while the lowest was 9.

The question was about stating characteristics of Group Decision Support System (GDSS), benefits and drawbacks of the internet and explaining what user acceptance tests are.

The following were the common mistakes noted in this question:

- Some students did not understand what Group Decision Support System is and its characteristics
- Some students did not understand or explain this type of test and were just explaining systems testing in general

#### **QUESTION FOUR**

The general performance on this question was good. 4 out of the 7 candidates that attempted it managed to get at least 13 marks out of 25. The pass rate recorded was 57%. The highest mark scored was 15 out of 25 while the lowest was 9.

The question was about an Audit trail and its content, distinguishing structured and unstructured interviews, software application used to record information, primary goals for post-implementation activities and seven responsibilities of a project manager

The following were the common mistakes noted in this question:

- Some students could not state software used to keep track of project implementation

#### **Overall performance of candidates**

Highest mark obtained in this paper: **72%**

Lowest mark obtained in this paper: **44%**

Overall pass rate in this paper: **61.7%**



## **D2 FINANCIAL MANAGEMENT**

### **QUESTION ONE**

The general performance on this question was poor. 6 out of the 16 candidates that attempted it managed to get at least 13 marks out of 25. The pass rate recorded was 38%. The highest mark scored was 22 out of 25 while the lowest was 8.

Part (a) was fairly attempted. However, part (b) was poorly attempted and most candidates who attempted this part of the question did not correctly answer it. The common mistake was the inability to calculate the cash flows from Year 1 to Year 6. The Solution required that they apply the incremental percentages of 12% and 9% on selling prices and variable costs to come up with the sales revenues (Cash Flows).

### **QUESTION TWO**

The general performance on this question was poor. 2 out of the 16 candidates that attempted it managed to get at least 13 marks out of 25. The pass rate recorded was 12.5%. The highest mark scored was 22 out of 25 while the lowest was 2.

Part (a) required candidates to explain the factors that influence the choice between equity and debt. Many candidates had challenges explaining all the five points demanded by the question.

Part (b) required candidates to discuss three benefits of using retained earnings as a source of finance and many candidates failed to give all the three point required and this is a sign of lack of adequate preparation.

Part (c) required candidates to calculate the WACC and most candidates had challenges calculating the growth in dividends of 14% ( $70\% \times 20\%$ ).

Calculating conversion value of K180 ( $K30 \times 6$ ) was also a challenge and most candidates had challenges with net interest of K11.2 ( $8\% \times 200 \times 0.70$ ).

Most candidates also had challenges calculating the market value of 8% convertible debenture of K2, 375,000 ( $2,500,500 / 200 \times 190$ ).

### **QUESTION THREE**

The general performance on this question was good. 10 out of the 15 candidates that attempted it managed to get at least 13 marks out of 25. The pass rate recorded was 66.7%. The highest mark scored was 25 out of 25 while the lowest was 3.

Some candidates failed to explain the accounting treatment for impairment of goodwill and dividend paid by subsidiary. Surprisingly, some candidates failed to compute the value of equity based on the methods provided. Others could not provide the explanation for corporate failure.

#### **QUESTION FOUR**

The general performance on this question was poor. 2 out of the 14 candidates that attempted it managed to get at least 13 marks out of 25. The pass rate recorded was 14%. The highest mark scored was 16 out of 25 while the lowest was 0.

Part (a) required candidates to explain use of the Miller –or- Model in cash management and candidates who attempted the question had challenges explaining the upper and the lower limit.

Part (b) required candidates to calculate the spread, return point and upper limit and candidates who attempted failed to change the annual interest rate of 22% to daily interest rate of 0.06% ( $22\%/365$ ).

Part (c) required candidates to advise the board of Directors on the typical steps used in project appraisal and candidates had challenges with putting the steps in order of sequence.

Part (d) required candidates to determine the optimal project selection and to calculate the maximum NPV, and candidates had challenges with computation of profitability index and ranking of projects. Some had challenges calculating the resultant NPV of K30, 000 ( $200,000/340,000*51,000$ ) on project A.

#### **Overall performance of candidates**

Highest mark obtained in this paper: **82%**  
Lowest mark obtained in this paper: **18%**  
Overall pass rate in this paper: **37.2%**

## **D3 BUSINESS TAXATION**

### **QUESTION ONE**

The general performance on this question was poor. 3 out of the 15 candidates that attempted it managed to get at least 13 marks out of 25. The pass rate recorded was 20%. The highest mark scored was 16 out of 25 while the lowest was 4.

This question was on the taxation of a mining company and had three parts (a), (b) and (c).

In part (a) candidates were required to calculate the taxable mining profits for the tax year 2021 and to show the amount of the mining loss that was to be relieved against mining profits and the amount of the unrelieved loss to be carried forward as at the end of the tax year.

The computation of the taxable mining profits involved adding back mineral royalty tax, depreciation, road construction cost, patent royalties, legal fees for recovery of loan, legal fees on environmental legislation, exchange loss, cost of reconditioning mining equipment, donations to political parties and gifts of diaries to the reported mining profit. And then dividends received, bank interest, treasury bills interest and capital allowances were deducted

In parts (b) and (c) candidates were required to calculate the company income tax payable on the mining profits for the tax year 2021 and to state any five (5) tax incentives provided to mining companies.

The computation of the tax payable by the mine was at the rate of 30% and the some mining incentives included reduced standard rate of Company Income Tax of 30%, deduction of capital expenditure incurred for the purposes of mining and the provision of services, dividends paid are subjected to withholding tax at the rate of 0%, guaranteed input tax claim for seven (7) years on pre-production expenditure for exploration companies in the mining sector, tax losses are carried forward for a period of ten (10) years, dividends paid by a company holding a large – scale mining license and carrying on the mining of base metals is taxed at 0% and 20% capital allowances on Mining equipment and related expenditure when assets are brought into use.

The candidate's performance in part (a) was well but most of them failed to calculate the mining equipment capital allowance. This led to a wrong computation of the Final taxable mining profit. Most of the candidates also failed to calculate correctly the loss relief and lost a few marks.

In part (b) the question was general well answered although most of them failed to calculate the correct company income tax payable.

In part (c) the candidate's performance was slightly above average, as some of them could not fully state all the mining incentives available. Some candidates were stating general incentives available to the general business community and not restricting to the mining industry.

## **QUESTION TWO**

The general performance on this question was very poor. 0 out of the 16 candidates that attempted it managed to get at least 13 marks out of 25. The pass rate recorded was 0%. The highest mark scored was 10 out of 25 while the lowest was 1.

This question needed candidates to demonstrate their understanding of VAT implications in a group of companies involving Antelope Ltd which held 100% of the share capital in each of three (3) companies; Gazelle Ltd, Impala Ltd and Kudu Ltd. Antelope Ltd, Gazelle Ltd and Impala Ltd were all resident in Zambia while Kudu Ltd was resident in a foreign country known as Eastland. The question had for parts (a), (b), (c) and (d).

In part (a) candidates were required to calculate the Zambian VAT position of each of the given four companies for the year ended 31 December 2021 and show the net VAT position for the group.

The computation involved adjustments in the individual VAT computation of intragroup sales, Management fees, purchases, overheads and a commercial plot of land.

## **QUESTION THREE**

The general performance on this question was poor. 3 out of the 15 candidates that attempted it managed to get at least 13 marks out of 25. The pass rate recorded was 20%. The highest mark scored was 16 out of 25 while the lowest was 4.

This question needed candidates to demonstrate their understanding of various financing options for companies and had four parts (i) to (iv) where candidates were

required to prepare notes which were going to be used in a meeting with the directors describing the nature and tax implications of operating leases, finance leases, sale and lease back and convertible debentures.

An Operating lease is a lease where the lessor retains most of the risks and rewards of ownership which involves a lessor renting the leased asset for a relatively short period of time, which is significantly shorter than leased asset's economic useful life and the lessor usually retains the responsibility for servicing and maintaining the leased equipment. The tax implications of this mode of financing are that a company will not be able to claim capital allowances on the assets as the lessor will continue to claim these but will be able to claim lease rentals as allowable deductions when computing taxable profits. And input VAT on lease rentals will also be recoverable provided the VAT is the type which is recoverable and the business is registered for.

A finance lease is an agreement between the lessee and the lessor which involves the lessee being given the right to use an asset's for major part of its economic useful life where a lease substantially transfers all the risks and rewards of ownership of an asset to the lessee. And the lessee pays the lessor lease rentals for the grant of the rights to use the leased asset. The taxation implications for a company are that the interest element of the lease rentals will be tax deductible, the capital element of the lease rentals will not be allowable when computing taxable profits, able to claim input VAT on the cost of the asset provided the VAT is the type which is recoverable and able to claim capital allowances on the cost of the asset.

In a sale and leaseback transaction involves a company selling an asset to a financial institution and leasing back the same asset sold. The tax implications of this are that VAT will be chargeable on the sale of the asset provided the asset is taxable for VAT purposes, Property transfer tax will additionally arise if the asset sold is chargeable property for property transfer tax purposes, a balancing charge or allowance will arise on the disposal of the asset by the seller which will be computed in the normal way, the lease rentals will be allowable in computing the taxable business profits.

A convertible debt is debt that gives the investor the right (but not an obligation) to convert their bonds at a specified future date into other securities, normally ordinary shares, at a pre-determined price and a conversion rate that is also specified when the bonds are issued. The tax implications of this mode of financing are that

The interest is tax deductible, and when the conversion takes place the debt becomes equity and the dividends which will be payable after conversion which are not allowable for taxation purposes. Also costs incurred on making dividend distributions after conversion will not be allowable.

This question was correctly answered as most candidates ably explained the nature of the financing models stated in the question. However, some of the candidates failed to state fully the tax implications on each part of the financing model. This cost them the vital marks

## QUESTION FOUR

The general performance on this question was good. 9 out of the 16 candidates that attempted it managed to get at least 13 marks out of 25. The pass rate recorded was 56%. The highest mark scored was 18 out of 25 while the lowest was 9.

This question was on taxation of partnership profits and had three parts (a), (b) and (c).

In parts (a) and (b) candidates were required to compute the capital allowances claimable on the partnership assets and the amount of tax adjusted business profits for the partnership for the tax year 2021.

The capital allowances computation involved dwelling houses whose costs were restricted to K20, 000 each, tractors, boreholes, development expenditure and farming equipment. The computation of the tax adjusted business profits required adding back Entertaining partners, Gifts to customers, Partner's subscriptions, Legal fees for transfer of title to land, Partner's salaries, Loans to employees written off, Motor car expenses, Partner's traffic fines and Depreciation. And then Employee loans recovered, Profit on sale of farm equipment and Capital allowances were deducted to the reported profits.

In part (c) the adjusted profit was to accordingly be appropriated to the partners in line with their partnership agreement and the partners were taxed after allowing them capital allowances for use of their private cars in the business.

### Candidates Performance

Part (a) of the question was well answered by most candidates despite some of them failure to correctly calculate the capital allowances because wrong application of respective wear and tear allowances.

Part (b) of the question was well answered by most candidates, however a few of them failed to calculate the motor car expenses correctly by wrongly applying the business portion rates.

Part (c) Most of the candidates failed to answer this part of the question especially on the division of the remaining balances.

The income tax component was not adequately answered by most candidates with some of them failing to apply 10% rates for farming and instead used the rates for employed tax payers. The calculation of capital allowances was well answered by most candidates

### Overall performance of candidates

Highest mark obtained in this paper: **54%**

Lowest mark obtained in this paper: **21%**

Overall pass rate in this paper: **38.4%**

## **D4 PERSONAL TAXATION**

### **QUESTION ONE**

The general performance on this question was excellent. 12 out of the 12 candidates that attempted it managed to get at least 13 marks out of 25. The pass rate recorded was 100%. The highest mark scored was 24 out of 25 while the lowest was 13.

This question was on tax planning with regard to employment income and self-employed income and had four parts (a), (b), (c) and (d).

In part(a), candidates were required to calculate the amount of income tax payable.

In part (b), candidates were required to explain the type of tax to be paid for the year 2021.

In part(c), candidates were required to advise the best option between self-employed income and employment income.

In part(d), candidates were required to explain how "CONTROL factor" is used in determining whether one is self-employed or is an employee.

Candidates' performance

This question was well answered by most candidates with the exception of a few candidates who failed to apportion the business portion of motor car expenses.

### **QUESTION TWO**

The general performance on this question was fair. 5 out of the 12 candidates that attempted it managed to get at least 13 marks out of 25. The pass rate recorded was 42%. The highest mark scored was 18 out of 25 while the lowest was 4.

This question was on the Tax implications of a trading business.

The question had three (3) parts, (a), (b) and (c).

In part (a) (i) candidates were required to explain the income tax and NAPSA

implications if there was an additional payment.

In part (ii) candidates were required to explain if the payment was to take a form of cash dividend.

In part (b) candidates were required to explain the tax implications if the payment was to take a form of lump sum payment.

In part (c) candidates were required to explain the possible causes and difference between tax avoidance and tax evasion.

In part a (i) the computation aspect of the question was not well answered by most candidates as they failed to correctly calculate the additional employees NAPSA contribution payable and the net reduction in income as a result of the payment taking the form of a cash bonus.

Part (ii) was well answered by most candidates.

Part (b) and (c) were most well answered by most candidates.

### **QUESTION THREE**

The general performance on this question was excellent. 12 out of the 12 candidates that attempted it managed to get at least 13 marks out of 25. The pass rate recorded was 100%. The highest mark scored was 23 out of 25 while the lowest was 14.

This question was on the tax implications on foreign and local employment and investment income.

The question had three (3) parts, part (a), (b) and (c).

In part (a) Candidates were required to explain the treatment of giving double taxation relief to Zambian resident individuals receiving income from foreign sources:

- Treaty relief
- Unilateral credit relief
- Unilateral expense relief

In part (b) candidates were required to advise the amount of income tax payable assuming that credit is available against Zambian income tax on foreign income.

In part (c) candidates were required to offer advise the tax implications of investing in and sale of the:



- Shares of companies listed on the Lusaka Securities Exchange
- Shares of companies not listed on the Lusaka Securities Exchange
- Properties to let out on a commercial basis

Part (a) of the question was well answered by most candidates.

Part (b) of this question was well answered , despite a few candidates failing to score the full marks as they failed to include the life insurance premium . most if not all the candidates failed to compute the double taxation relief and this cost then a few marks.

#### **QUESTION FOUR**

The general performance on this question was good. 7 out of the 12 candidates that attempted it managed to get at least 13 marks out of 25. The pass rate recorded was 58%. The highest mark scored was 14 out of 25 while the lowest was 3.

This question was on Customs and VAT.

In parts (a), candidates were required to explain how the independent taxation system operates in Zambia.

In part (b) candidates were required to calculate the total import taxes payable on importation of the motor vehicle.

In part (c):

- (i) Candidates were required to calculate the amount of VAT payable for the month of December.
- (ii) Candidates were required to explain the advantages and disadvantages of a VAT registered supplier.

This question was well attempted by most of the candidates.

Part (a) was poorly answered by most of the candidates. Most candidates exhibited total ignorance about the question requirement.

Part (b) of the question was well answered by most candidates, however a few errors were noticed such as; wrong application of customs duty and excise duty.

Part (c) the performance was average and most candidates failed to correctly compute the correct VAT payable because of:  
Wrong computation of VAT payable and INPUT VAT especially on purchases and Bad debts figures

### **Overall performance of candidates**

Highest mark obtained in this paper: **71%**  
Lowest mark obtained in this paper: **35%**  
Overall pass rate in this paper: **57.7%**

## **D5 INTERNATIONAL TAXATION**

### **QUESTION ONE**

The general performance on this question was very good. 6 out of the 6 candidates that attempted it managed to get at least 13 marks out of 25. The pass rate recorded was 100%. The highest mark scored was 23 out of 25 while the lowest was 13.

This question needed candidates to demonstrate their understanding of the complexities and computation of double taxation and was in two parts (a) and (b).

In part (a) candidates were required to explain the main purpose/roles of double taxation treaties and thin capitalization as well as to give factors that can be used to identify tax havens.

The main purpose of Double Taxation Treaties includes the protection against the risk of double taxation where the same income is subjected to tax in two states, ensuring certainty of treatment for cross border trade and investment, prevention of excessive foreign taxation and other forms of discrimination against business interests, protection of rights of government, protection against tax avoidance, taken measures to exchange information between national taxation authorities and encouraging and maintaining an international consensus on cross border economic activity as well as promoting international trade and investment

Thin capitalisation is the practice of excessively funding a branch or subsidiary with interest bearing loans from related parties rather than with share capital.

Factors for the identification of Tax havens as per OECD includes cases of having only nominal tax rate, lack of exchange of information and lack of transparency,

In part (b) candidates were required to compute income tax payable of a person resident in Zambia who was however domiciled in a foreign country and was currently working as a Director in a Zambian resident company for the tax year 2021.

This computation involved Zambian employment income and foreign rental and dividend incomes which necessitated computation of a double taxation relief.

In part (i) (ii) and (iii) most candidates performed well and scored good marks especially in the theory components.

In part (b) of the question most candidates scored good marks despite failure to calculate the correct final income tax payable. This was attributed to the failure by most to compute the correct double taxation relief.

## **QUESTION TWO**

The general performance on this question was poor. 2 out of the 6 candidates that attempted it managed to get at least 13 marks out of 25. The pass rate recorded was 33%. The highest mark scored was 21 out of 25 while the lowest was 2.

This question was on tax evasion, money laundering, foreign direct investments and the interaction between human rights and tax laws and had three parts (a), (b) and (c).

In part (a) candidates were required to explain the main co-operation models adopted by revenue authorities and the five measures national governments can implement to combat tax evasion and money laundering.

The main co-operation models include joint investigation teams, inter-agency intelligence centers, secondments and co-location of personnel and use of shared data bases.

The measures which national governments can take to combat tax evasion and money laundering includes demanding full transparency from financial institutions, establishing an interconnected and well integrated system of legal shareholder registries, creating a regularly updated beneficial registry, strengthening the requirements on the function of corporate directors, reinforcing due diligence rules, introducing requirements for enhanced due diligence and formation of a financial intelligence unit (FIU).

In part (b) candidates were required to explain how a foreign direct investor may acquire voting power of an enterprise in an economy.

How a foreign investor may acquire voting of an enterprise in an economy:

- By incorporating a wholly owned subsidiary or company anywhere

- By acquiring shares in an associated enterprise
- Through a merger or acquisition of unrelated enterprise
- Participating in an equity joint venture with another investor enterprise

And in part (c) candidates were required to explain two (2) main areas of interaction between human rights law and Tax law

Two main areas of interaction between human rights law and Tax law are that taxation may be a tool to enforce the general social and legal values (including human rights) of a nation beyond its borders and that taxation may interfere with international human rights standards i.e. pursuing taxpayer offenders in their resident or home country.

Part (a) (i) of this question was well answered by most candidates however a few candidates failed to explain fully explain the co-operation model.

In part (ii) of this question most of the candidates failed to fully explain all the measures required to combat the tax invasion hence scored poor marks.

In part (b) of the question most candidates scored good results and answered it well

In part (c) of this question most candidates did not perform well as they failed to define the main areas of interaction between human rights and tax law

### **QUESTION THREE**

The general performance on this question was excellent. 6 out of the 6 candidates that attempted it managed to get at least 13 marks out of 25. The pass rate recorded was 100%. The highest mark scored was 24 out of 25 while the lowest was 21.

This question was on Double Tax Conversions, globalization and computation of tax involving double taxation relief and had two parts (a) and (b).

In part (a) explain the basis of imposing tax under the concepts of source and residence as well as the benefits of globalization.

Under the concepts of source and residence tax is imposed on the basis of the relationship of the income to the taxing state and the relationship of the taxpayer to the taxing state based on residence or nationality respectively. And the benefits of globalization include those of Foreign Direct Investments, technological innovation and economies of scale.

In part (b) candidates were required to explain whether a given person was going to be regarded as being a Zambian resident and to calculate the final income tax paid by him in the tax year 2021 on the assumption that a double taxation relief was granted unilaterally in Zambia by full credit of any foreign direct taxes against Zambian income tax.

This question involved taxation of a Zambian citizen on his local employment income and local bank interest and rent and foreign dividends and rental income.

In part (a) (i) this part was well answered by most candidates, however a few failed to explain the concept of source tax.

In part (ii) this was not well answered by most candidates as they failed to explain the concept of residence tax ending up generalizing.

In part (iii) this was well answered by most candidates.

Part (b) of the question had most candidates scoring good marks however most of them failed to correctly calculate the correct income tax payable. This may be attributed to failure to calculate the double taxation (DTR) by most candidates. A few candidates also failed to apportion employment period to 10 months as stated in the question.

#### **QUESTION FOUR**

The general performance on this question was good. 2 out of the 4 candidates that attempted it managed to get at least 13 marks out of 25. The pass rate recorded was 50%. The highest mark scored was 24 out of 25 while the lowest was 12.

This question was on Foreign Direct Investment which an investment in a business by an investor from another country in which the foreign investor has control over the company purchased. And for this purpose the OECD defines control as owning 10% or more of the business and the question had seven parts (a) to (g) where candidates were required to state meaning of a foreign direct investor, a vertical FDI, two (2) methods of FDI, any five (5) possible incentives for FDI, three (3) possible advantages and three disadvantages to the company investing in a foreign country, (4) possible advantages and three (3) possible disadvantages of FDI to the foreign company and one reason why MNE's make FDI

Foreign direct investor is an individual, an incorporated or unincorporated public or private enterprise, a government, a group of related individuals or related incorporated and or unincorporated which have a subsidiary, associate or branch operating in a country other than the country of residence of the foreign direct investor or investors

Vertical FDI takes place when a firm through FDI moves upstream or downstream in the value chain

Methods of FDI includes by incorporating a wholly owned subsidiary or company elsewhere, by acquiring shares in an associate company, through merger or acquisition of unrelated company and participating in equity joint venture.

Five possible incentives for FDI includes tax holidays, low corporation tax, other tax concessions, special economic zones, export processing zones, free land, free subsidies, relocation and support in research and development

The possible advantages to the company investing in a foreign country include access to the market, access to resources and reduction in cost of production.

Three disadvantages to the company investing in a foreign country includes unstable economy, unstable political systems and poor legal systems

Possible advantages of FDI to the foreign company includes infusion of foreign capital, increase in revenue, development of new industries and ability to learn from foreign investors

Possible disadvantages of FDI to the foreign company include poor labour treatment, crowding of local development and political interference.

Reasons why MNE's make FDI includes market seeking and raw material seeking

Most candidates ably explained the meanings of the types of foreign direct investment as requested.

### **Overall performance of candidates**

Highest mark obtained in this paper: **86%**

Lowest mark obtained in this paper: **55%**

Overall pass rate in this paper: **67%**

## **D6 TAX AUDIT AND INVESTIGATIONS**

### **QUESTION ONE**

The general performance on this question was poor. 1 out of the 4 candidates that attempted it managed to get at least 13 marks out of 25. The pass rate recorded was 25%. The highest mark scored was 15 out of 25 while the lowest was 1.

This question was on business incorporation, transfer pricing, financing options and sources of information when tax auditor is trying to uncover hidden income. The question had four parts (a), (b), (c) and (d).

In part(a) i), candidates were required to explain the term incorporation.

In part(a) ii), candidates were required to explain the benefits that come with the incorporating a business.

In part (b), candidates were required to explain Transfer pricing concept and arm's length principle.

In part(c), candidates were required to explain Preference shares, Debentures and Ordinary(equity) shares and their tax treatment.

In part (d), candidates were required to explain sources of information tax auditor is can use uncover hidden income.

This question was fairly answered by most of the candidates with the exception of a few candidates who failed in handling the following issues:

Part a), (i) some candidates were linking incorporation to simply PACRA and ZRA registration of the business and failure to talk about separate legal entity principle.

Part a), (ii) some candidates failed to differentiate an incorporated business from that which is not and could not bring forth the asset protection and transfer of ownership aspect.

Part b), a number of candidates found it difficult to explain the principle of transfer pricing and arm's length principle. They failed to see it as management strategy to transfer company's income(profit).

Part (c) and (d) were well answered generally.

## **QUESTION TWO**

The general performance on this question was poor. 1 out of the 4 candidates that attempted it managed to get at least 13 marks out of 25. The pass rate recorded was 25%. The highest mark scored was 13 out of 25 while the lowest was 6.

This question was on factors the tax auditor can use to establish intent to evade tax by the taxpayer, tax defaults and their consequences, investigative approach to tax audit and taxpayer segment model. The question had four parts (a), (b), (c) and (d). In part(a), candidates were required to explain the criteria the tax auditor can use to establish intent to evade tax by the taxpayer.

In part (b), candidates were required to explain the causes of tax defaults (Willful default, Default due to Fraud and Default due to negligence) and their consequences.

In part (c), candidates were required to explain investigative approach and its importance in relation to audit.

In part(d), candidates were required to explain taxpayer segment model and how it helps in organizing the taxpayer audit function.

A number of students had scored poorly on this question except part (a) as most of them failed in handling the following issues:

Part (a), Generally was well answered.

Part (b), a number of candidates showed lack of knowledge on the tax defaults and could not explain their consequences either.



Part (c), a number of candidates did not know what an investigative model hence could not even give correct explanation of its importance to tax audit.

Part (d) as well, a number of candidates did not know what a taxpayer segment model was and its importance in organizing taxpayer audit function.

### **QUESTION THREE**

The general performance on this question was excellent. 4 out of the 4 candidates that attempted it managed to get at least 13 marks out of 25. The pass rate recorded was 100%. The highest mark scored was 21 out of 25 while the lowest was 15.

This question tested students' knowledge on elements of legal framework to the tax audit function, types of tax audits, calculation of business taxable profit for a sole trader and audit working papers. The question had four parts (a), (b), (c) and (d).

In part (a) candidates were required to explain key elements of legal framework with regard to tax audit function.

Part (b), candidates were required to explain the types of tax audits (Full tax audits, Limited scope tax audits and Single issue tax audits).

Part (c), candidates were required to calculate income tax payable under a sole trader business.

Part (d), candidates were required to explain the importance of working papers in relation to tax audits.

Generally, this question was well answered with exception of Part (a), here a number of candidates could not bring out the correct key elements of legal framework with regard to tax audit function.

### **QUESTION FOUR**

The general performance on this question was good. 2 out of the 4 candidates that attempted it managed to get at least 13 marks out of 25. The pass rate recorded was 50%. The highest mark scored was 14 out of 25 while the lowest was 7.

This question was trying to test students' knowledge on qualitative tax audit, tax investigation, sanctions imposed on taxpayers for misrepresentation and tax issues in telecommunication sector with regard to inter-connection charges and Derivatives. The question had four parts (a), (b), (c) and (d).

In part(a), candidates were required to explain elements of qualitative tax audit.

In part (b), candidates were required to explain tax investigation and why it should be instituted.

In part (c), candidates were required to explain sanctions imposed on taxpayers for misrepresentation.

In part(d):

- (i) candidates were required to explain inter-connection charges and their impact on VAT liability.
- (ii) candidates were required to explain the meaning of derivatives and how they can be used by the telecommunication sector.

A number of students had scored averagely on this question, most of them failed in handling the following issues:

Part (a), a number of candidates were writing generally and not focus on elements of qualitative tax audit.

Part (b), a number of candidates failed to provide viable reasons why tax investigation could be triggered by the auditor.

Part (c), Some candidates could bring out the misrepresentations that could cause sanctions being imposed on the taxpayer.

Part (d):

(i) candidates failed to explain inter-connection charges and their impact on VAT liability.

(ii) majority of candidates had difficulties in defining derivatives and marrying it to telecommunication sector and scored poorly.

### **Overall performance of candidates**

Highest mark obtained in this paper:	<b>53%</b>
Lowest mark obtained in this paper:	<b>50%</b>
Overall pass rate in this paper:	<b>51%</b>