Fundamentals Level – Skills Module

Taxation (Zimbabwe)

Monday 1 June 2009

Time allowed
Reading and planning: 15 minutes
Writing: 3 hours

ALL FIVE questions are compulsory and MUST be attempted.
Tax rates and allowances are on pages 2–4.

Do NOT open this paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.

This question paper must not be removed from the examination hall.

The Association of Chartered Certified Accountants

Paper F6 (ZWE)

ACCA

SUPPLEMENTARY INSTRUCTIONS

1. Calculations and workings need only be made to the nearest $000, unless directed otherwise.
2. All apportionments should be made to the nearest month.
3. All workings should be shown.

TAX RATES AND ALLOWANCES

The following tax rates and allowances are to be used when answering the questions.

Rates – Individuals
Effective 1 October 2008 to 31 December 2008

Taxable income band $	Amount within band $	Rate of tax %	Cumulative income tax liability $
Up to 600 000	600 000	0	0
600 001 to 1 200 000	600 000	25	150 000
1 200 001 to 2 400 000	1 200 000	30	510 000
2 400 001 to 4 800 000	2 400 000	35	1 350 000
4 800 001 to 8 400 000	3 600 000	40	2 790 000
8 400 001 to 12 000 000	3 600 000	45	4 410 000
12 000 001 and over		47·5	

Note: The AIDS levy of 3% of income tax payable, less credits, remains in place.

Allowable deductions

Pension fund contribution ceilings

	2008 $
(a) In relation to employers: in respect of each member	480 000
(b) In relation to each member of a pension fund	480 000
(c) In relation to each contributor to a retirement annuity fund or funds	480 000

Credits

	2008 $
Disabled/blind person	37 500*
Elderly person (55 years and over)	37 500*
Medical aid society contributions	50%
Medical expenses	50%

* The amount is reduced proportionately, if the period of assessment is less than a full tax year.

Motor vehicles deemed annual benefit

Engine capacity	2008 $
Up to 1500cc	135 000
1501 to 2000cc	150 000
2001 to 3000cc	210 000
3001cc and above	270 000

Loans

The deemed benefit per annum is calculated at a rate of 16% of the loan amount advanced.

Capital gains inflation rates

CSO All items Consumer Price Index (CPI)

Year	CPI
2002	233·2
2003	1 084·5
2004	4 880·3
2005	16 486·4
2006	184 101·1
2007	12 562 581·7
2008	974 925 192·9

Value added tax (VAT)

Standard rate	15%

Capital allowances

	%
Special initial allowance (SIA)	50
Accelerated wear and tear	25
Wear and tear:	
Industrial buildings	5
Farm buildings	5
Commercial buildings	2·5
Motor vehicles	20
Moveable assets in general	10

Tax rates

Year ended 31 December 2008

	%
Companies	
Income tax	
Basic rate	30
AIDS levy	3
Individuals	
Income Tax	
Informal traders	10
Income from trade or investment	30
Foreign dividends	20
AIDS levy	3
Capital gains tax	
On marketable securities	20
On principal private residence where the seller is over 55 years	0
On other immovable property	20
Capital gains withholding tax on sale proceeds	
Immovable property	15
Marketable securities (Listed)	5
Marketable securities (Unlisted)	10
Note: the withholding tax is not final on the seller. Actual liability is assessed in terms of the Capital Gains Tax Act.	
Withholding taxes	
On dividends distributed by a Zimbabwean resident company to resident shareholders other than companies and to non-resident shareholders:	
By a company listed on the Zimbabwe Stock Exchange	15
By any other company	20
Non-residents' tax on interest	
On interest	10
On certain fees and remittances	20
On royalties	20
Residents' tax on interest	
From building societies	20
From other financial institutions (including discounted securities)	20

ALL FIVE questions are compulsory and MUST be attempted

1 Shirley Sheppard, a renowned South African labour expert based in Durban, South Africa, was approached by the National Power Utility Company of Zimbabwe (NPUC) to investigate ways in which staff turnover could be reduced. Shirley Sheppard signed an initial three-month contract renewable for another three months based on the outcome of her report. She commenced duties at the NPUC on 1 October 2008 with the following contractual entitlements:

Period 1 October to 31 December 2008

	$000	USD
Monthly salary transferred to her Durban bank account		6 500
Monthly salary adjusted for inflation month on month –100%	150 000	
Monthly grocery allowance adjusted –100% month on month	50 000	
Holiday allowance (one off settlement)		500
Monthly entertainment allowance adjusted – 100% month on month	30 000	
Local travel allowance adjusted –100% month on month	35 000	
Profit sharing (one off settlement)	1 260 000	
Year end bonus	2 700 000	

Other entitlements and allowances

1. Fully furnished house in the leafy suburb of The Grange, in Harare, provided with a gardener and a maid at the company's expense. The market rental of similar properties is $250 million per month with a 50% monthly escalation.
2. Use of a fully expensed company vehicle, an Isuzu, with an engine capacity of 2800cc.
3. Medical aid contribution of $185 million for the three month period, each party contributing 50% of the cost.
4. 3% of the monthly salary as NSSA contributions by both parties.
5. Monthly food hampers worth USD 150.
6. Free unlimited meals during working hours obtainable from the company canteen. The monthly cost to the employer for running the canteen is $10 million per employee.

Additional information

25% of the monthly entertainment allowance is spent on NPUC related business.

Shirley Sheppard has no other income for the tax year.

Assume the following exchange rates USD:ZWD

Period 1 October to 31 December 2008 – 1:200
Period 1 January to 31 March 2009 – 1:500

Required:

(a) (i) Briefly explain the tax obligations of the National Power Utility Company in terms of the contract with Shirley Sheppard; (3 marks)

(ii) State, giving reasons, whether Shirley Sheppard's emoluments are taxable, assuming the following;

(1) Contract was renewed after 31 December 2008
(2) Contract was not renewed after 31 December 2008 (4 marks)

(iii) Summarise Shirley Sheppard's tax obligations at the end of her contract. (3 marks)

(b) Calculate Shirley Sheppard's taxable income and tax payable for the year ended 31 December 2008 on the assumption that her contract was renewed for a further three months. (15 marks)

(25 marks)

2 Advanced Construction Company P/L (ACC) was incorporated on 20 April 2007. On 1 May 2007 ACC signed an agreement to lease five acres of land from Chitungwiza Municipality for a period of 20 years. The terms and conditions of the lease agreement are as follows:

(i) Lessee to develop and construct market stalls and infrastructure for flea markets, valued at not less than $500 billion, on the leased land.
(ii) Lessee to pay an upfront premium of $187 billion on signing the lease agreement, as well as annual rentals of $2 billion, subject to any increments to be advised in writing.

The construction of the market stalls and infrastructure for flea markets was completed on 15 December 2007 at an actual cost of $500 billion and ACC commenced business operations of letting out the market stalls to tenants with effect from 1 January 2008.

The extract from ACC's income statement for the year ended 31 December 2008 reflects a net profit of $2 023 trillion after taking the following into account:

Credits	**Notes**	**$000**
Turnover	(1)	5 508 000 000
Interest received from the bank		9 000 000
Debits		
Cost of sales		(1 820 000 000)
Distribution expenses	(2)	(930 000 000)
Administration expenses	(3)	(479 000 000)
Other operating expenses	(4)	(103 000 000)
Profit from operations		2 185 000 000
Finance costs	(5)	(162 000 000)
Net profit for the period		2 023 000 000

Notes

(1) Extract from the sales ledger (VAT exclusive)

		$000
Monthly sales:	January 2008	305 000 000
	February 2008	543 000 000
	March 2008	1 000 000 000
		1 848 000 000

(2) Distribution expenses:

	$000
Motor vehicle repairs and maintenance	430 000 000
Fuel expenses	472 000 000
Traffic fines	28 000 000
	930 000 000

(3) Administration expenses:

	$000
Salaries and wages	200 000 000
NSSA (25 employees)	12 000 000
Food hampers	102 000 000
Depreciation	51 000 000
Office repairs and maintenance	49 000 000
Stationery and communication expenses	35 000 000
ZIMRA penalty for non-registration	30 000 000
	479 000 000

(4) Other operating expenses:

	$000
NSSA late payment penalty	23 000 000
Planning and surveying costs	50 000 000
Canteen expenses	20 000 000
Penalty for unlicensed operations	5 000 000
Operating licence	5 000 000
	103 000 000

(5) Finance costs:

	$000
Mortgage bond interest	150 000 000
(Mortgage bond fully utilised to construct market stalls and flea market infrastructure)	
Bank overdraft interest	12 000 000
	162 000 000

ACC owns the following fixed assets, which were all brought into use on the commencement of business operations:

	Cost $000
Office block	175 000 000
Office furniture and equipment	52 000 000
Commercial vehicles	81 000 000

Additional information

The accountant had not taken into account the effect of the lease agreement in coming up with the financial statements for the year ended 31 December 2008.

ACC only registered with ZIMRA on 1 April 2008 after being penalised for failure to comply with the statutory registration requirements. The registration was made retrospectively to 1 January 2008.

It is ACC's policy to claim the maximum capital allowances possible.

Required:

(a) (i) Calculate the output tax for Advanced Construction Company P/L and the date the tax should have been remitted to ZIMRA for the three months January to March 2008;

Note: you should assume for this part that Advanced Construction Company P/L was involuntarily registered for value added tax (VAT) purposes under category C. (6 marks)

(ii) State and calculate the possible consequences to Advanced Construction Company P/L of ZIMRA's involuntary value added tax registration; (2 marks)

(iii) List the mandatory information that Advanced Construction Company P/L should show on the tax invoice. (4 marks)

(b) Calculate the corporate tax that should have been remitted by Advanced Construction Company P/L on the following dates:

(1) 25 March 2008
(2) 25 June 2008
(3) 25 September 2008
(4) 20 December 2008 (18 marks)

(30 marks)

3 The Indigenous Fruit Company Limited (IFCL) has been operating in the mountainous town of Mutare for the past 17 years and specialised in the canning and dehydration of an assortment of fruit for both the local market as well as the export market. For the past five years IFCL has been facing operational challenges mainly due to the dwindling raw material supply, but also due to a reduction in the market demand for their products.

A decision was made at the extraordinary general meeting of IFCL on 30 June 2008, to streamline the operations of the company, dispose of some of the fixed assets and relocate the business operations to Harare. A professional property valuation company was engaged on 15 July 2008 to revalue all the fixed assets and came up with the following schedule:

	Date acquired/ constructed	Cost price $000	Income tax value $000	Market value $000
Factory building	2003	300 000	nil	720 000 000
Office block	2004	280 000	252 000	800 000 000
Showroom	2004	240 000	216 000	350 000 000
Plant and equipment	2005	500 000	nil	960 000 000
Furniture and fittings	2004	130 000	nil	220 000 000
Office equipment	2006	360 000	90 000	550 000 000
2 Commercial vehicles	2006	100 000	25 000	250 000 000
3 Passenger vehicles	2005	80 000	nil	195 000 000
Showroom extension	2006	400 000	380 000	670 000 000

A local business tycoon approached IFCL and offered to swap the office block for an undeveloped stand with commercial title in Harare. The market value of the undeveloped stand is $800 billion. The offer was accepted by IFCL and both parties signed an agreement of sale on 31 July 2008, the date on which all the other assets were disposed of.

Other information

IFCL's policy on fixed assets has always been to claim the maximum capital allowances available.

The following expenses were incurred in connection with the disposal of the assets:

	$000
Legal expenses	10 000 000
Property valuation expenses	13 000 000

Required:

(a) (i) Calculate the amount to be included in the gross income of the Indigenous Fruit Company Limited for the year ended 31 December 2008 as a result of the disposal of the immovable assets; (2 marks)

(ii) Calculate the capital gains withholding tax due from the Indigenous Fruit Company Limited and state by when the tax should be remitted to ZIMRA; (3 marks)

(iii) Explain briefly the tax implication of the swap of the office block. (1 mark)

(b) Calculate the capital gain and tax payable by the Indigenous Fruit Company Limited for the year ended 31 December 2008. (9 marks)

(15 marks)

4 Jonathan Simon is a specialised cattle rancher in Masvingo province. On 23 November 2007, he took over the Pamuhacha farm previously owned by his parents in the Beatrice area. He purchased and introduced the following livestock at the Pamuhacha farm on 16 January 2008:

	$000
4 bulls	20 000 000
50 cows	100 000 000
20 Heifers	20 000 000
30 Tollies	15 000 000
10 Steers	7 500 000

Livestock movements at Pamuhacha farm for the year ended 31 December 2008:

20 calves were born on the farm during the year
10 calves were reclassified to tollies
2 bulls were stolen by cattle rustlers
8 tollies were reclassified to steers
15 heifers were reclassified to cows
3 steers were slaughtered for rations
28 cows were sold for $960 billion during the course of the year

A highly contagious disease broke out at the neighbouring farm and killed half of the cattle herd there. Jonathan Simon was forced to then sell all his remaining cows for $890 billion and relocated the rest of his herd to Masvingo.

Jonathan Simon incurred the following expenses during the year ended 31 December 2008 in connection with running Pamuhacha farm:

	$000
General livestock expenses	250 000 000
Sinking boreholes and wells	35 000 000
Livestock relocation expenses	23 000 000
Dip tanks	18 000 000
Construction of staff housing (3 units)	30 000 000
Tractor	41 000 000

Additional information

Jonathan Simon's policy on valuation of livestock as approved by ZIMRA is as follows:

Bulls are valued at cost while other livestock are based on the following fixed standard values:

	$000
Cows	10 000
Tollies	4 000
Heifers	4 000
Steers	5 000
Calves	2 000

Required:

Calculate Jonathan Simon's minimum taxable income from his livestock farming business at Pamuhacha farm clearly showing the treatment of taxable income from sales due to the disease outbreak.

(15 marks)

5 Phillip, Derrick and Stan Robertson are brothers and registered public accountants and operate their partnership business as Robertson Accountants (RA). The brothers share profits in the ratio 3:2:1 in their seniority order, which is Phillip, Derrick and Stan.

RA's accounting year-end is 31 December.

The income statement of RA for the year ended 31 December 2008 reflects a profit of $920 billion after taking the following into account:

Revenue

		$000
Fees received		2 800 000 000
Rental income		53 000 000
Company dividends		142 000 000

Deductions

		$000
3 HP Laptops		1 318 000 000
Printing and stationery		76 000 000
Salaries and wages:	Phillip	30 000 000
	Derrick	25 000 000
	Stan	20 000 000
	Staff	50 000 000
Depreciation		29 000 000
Insurance premium:	Plant and equipment	12 000 000
	Partnership joint life policy	8 000 000
	Partners' life policies:	
	Phillip	5 000 000
	Derrick	5 000 000
	Stan	5 000 000
Repairs and maintenance		47 000 000
Partnership drawings:	Phillip	150 000 000
	Derrick	130 000 000
	Stan	120 000 000
Interest on Capital accounts:	Phillip	18 000 000
	Derrick	15 000 000
	Stan	12 000 000

Extract from RA's fixed asset register:

	Date acquired	Cost $000
Office building	2003	800 000
Office equipment	2004	195 000
Office fittings	2006	300 000

RA's fixed assets policy is to claim all the maximum capital allowances at their disposal.

Required:

(a) State the treatment of the partners' share of profit when one of the partners withdraws from the partnership (3 marks)

(b) Calculate the partners' taxable income and tax payable for the year ended 31 December 2008. (12 marks)

(15 marks)

End of Question Paper