

Fundamentals Level – Skills Module

Taxation (Zimbabwe)

Monday 6 December 2010

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)

The ACCA logo consists of the letters 'ACCA' in a bold, white, sans-serif font, centered within a solid black square.

SUPPLEMENTARY INSTRUCTIONS

1. Calculations and workings need only be made to the nearest US\$1, 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
Year ended 31 December 2009

Taxable income band US\$	Rate of tax %	Amount within band US\$	Cumulative income tax liability US\$
Up to 1 800	0	1 800	0
1 801 to 6 000	20	4 200	840
6 001 to 12 000	25	6 000	2 340
12 001 to 18 000	30	6 000	4 140
18 001 to 36 000	35	18 000	10 440
36 001 and over	37.5		

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

Allowable deductions year ended 31 December 2009

Pension fund contribution ceilings

	2009 US\$
(a) In relation to employers: in respect of each member	3 600
(b) In relation to employees: by each member of a pension fund	3 600
(c) In relation to each contributor to a retirement annuity fund or funds	3 600
(d) National Social Security:	4% of gross salary
Aggregate maximum contributions to all above per employee per year	3 600

Credits year ended 31 December 2009

	2009 US\$
Disabled/blind person	900*
Elderly person (55 years and over)	900*
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.

Deemed benefits year ended 31 December 2009

Motor vehicles

	2009 US\$
Up to 1500cc	600
1501 to 2000cc	720
2001 to 3000cc	960
3001cc and above	1 200

Loans

The deemed benefit per annum is calculated at a rate of LIBOR +5% of the loan amount advanced.

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
Movable assets in general	10

Tax rates

Year ended 31 December 2009

%

Companies

Income Tax

Basic rate	30
AIDS levy	3

Individuals

Income Tax

Income from trade or investment	30
AIDS levy	3

Capital gains tax

	%
On marketable securities	20
Disposal of listed marketable securities acquired after 1 February 2009	1% of gross proceeds
Disposal of specified assets acquired prior to 1 February 2009	
– Sold prior to 1 February 2009	20% of gain
– Sold after 1 February 2009	5% of gross proceeds
On principal private residence where the seller is over 55 years	0
On other immovable property acquired on or after 1 February 2009	20% of gain
Inflation allowance	2.5

Capital gains withholding tax on sale proceeds

Immovable property	15
Marketable securities (Listed) before 1 February 2009	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
Informal traders	10
Foreign dividends	20

Non-residents' tax

On interest	nil
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

Elderly taxpayers (55 years and over)

The exemptions from income tax are as follows:

	Year ended 31 December 2009
	US\$
Rental income	3 000
Interest on deposits with a financial institution	3 000
Interest on discounted instruments	3 000
Pension	No limit

Income from the sale or disposal of marketable securities or a principal private residence is also exempted.

**This is a blank page.
Question 1 begins on page 6.**

ALL FIVE questions are compulsory and MUST be attempted

1 Rose Gardner, a Netherlands national commenced employment on 1 January 2009 with Veld Flowers Limited as a flower specialist and marketing executive in Zimbabwe. Rose Gardner is on an initial employment contract of two years subject to renewal based on successful attainment of agreed performance targets.

Rose Gardner’s key performance target is to improve the flower quality and to boost the export revenue inflows. In line with this, she is entitled to quarterly performance bonuses as well as a sales commission of 0.15% of the total sales value.

Rose Gardner’s earnings and entitlements for the year ended 31 December 2009

	Notes	US\$
Salary		60 000
PAYE		50 000
Interest on tax reserve certificate (Tax reserve certificate value – US\$40 000)		4 000
Performance bonuses		15 000
Fuel allowance		1 500
Holiday allowance		2 600
Profit sharing		2 500
Entertainment allowance	(1)	32 000
Education allowance	(2)	17 000
Retirement annuity fund contributions		5 400
NSSA contributions		2 400
Personal medical aid contributions		4 000

Notes

(1) In line with her key performance target to boost the export revenue inflows, Rose Gardner is required to attend flower exhibitions abroad as well as related trade conventions.

The entertainment allowance is therefore made up of the following:

	US\$
Air tickets	3 000
Accommodation	5 000
Vehicle hire	2 000
Two trade conventions	13 000
Clothing and other personal expenses	7 500
Meeting expenses	1 500
	32 000

(2) Rose Gardner is entitled to an education allowance to cover 100% of her two minor children’s tuition fees. One of the minor children attends a special school for the blind in Milton Park.

Other entitlements and additional information

Rose Gardner makes use of two fully expensed company allocated motor vehicles. The vehicles are a Nissan 4X4 off road, engine capacity 3300cc, for use when she visits the flower farms and a Mercedes ‘S’ class, engine capacity 2300cc, for day to day use.

She resides in a fully furnished company house in the Northern suburbs. The market rental of similar unfurnished properties is US\$1 000 per month and US\$1 500 for fully furnished properties. The value of the furniture to Rose Gardner is US\$300 per month.

During the year ended 31 December 2009, Rose Gardner incurred a total of US\$1 200 in prescription medicine shortfall costs for herself and her children.

Veld Flowers Limited has an arrangement with Spar supermarkets countrywide whereby all the company executives are allowed to buy groceries of US\$500 per month on account. The amount is then settled by the company at no cost to the executives. Rose Gardner has always made use of this facility.

Veld Flowers Limited's turnover for the year ended 31 December 2009 is as follows:

US\$ Budgeted	US\$ Actual
50 000 000	97 000 000

Rose Gardner also independently runs a research unit focused on the development of a super hybrid of flowers for export. Her progress is detailed in the Flower Development magazine, which pays her fees per quarter.

During the 2009 financial year Rose Gardner received total gross fees amounting to US\$485 000, way above her budgeted amount of US\$250 000. The expenses incurred in relation to the research venture were as follows:

	US\$ Budgeted	US\$ Actual
Travelling expenses	30 000	25 000
Market research expenses	65 000	70 000
Allowances for marketing assistants	43 000	40 000
	<u>138 000</u>	<u>135 000</u>

Required:

- (a) (i) **State the tax treatment of the quarterly performance bonuses received by Rose Gardner;** (2 marks)
- (ii) **Explain how Rose Gardner's research fees will be taxed and indicate when the tax should be remitted to ZIMRA;** (3 marks)
- (iii) **Calculate Rose Gardner's taxable income and tax payable for the year ended 31 December 2009 with respect to the research fees.** (8 marks)
- (b) **Calculate Rose Gardner's taxable income and tax payable/refundable for the year ended 31 December 2009 in respect of all items other than the research fees.**

Note: your computation should include all items included in notes (1) and (2) indicating by the use of a zero (0) any items which are not taxable or not allowable. (17 marks)

(30 marks)

2 New Products (Private) Limited is a manufacturer of consumer products. Until 30 June 2009, its business was being carried out at leased premises on an industrial stand in the Workington industrial area of Harare. With effect from 1 July 2009 the company moved its operations to new premises in the Graniteside industrial area. The company had constructed the new premises between 2008 and May 2009 on an industrial stand it had purchased in October 2007 for US\$2 000.

The cost of constructions at the new premises were as follows:

Asset	US\$
Manufacturing building	80 000
Storage buildings: For raw materials	20 000
Newly manufactured products	40 000
An office block	45 000

In addition, the company had also constructed permanent paving around the buildings as follows:

Asset	US\$
Paving around the manufacturing building	10 000
Paving around the office block	5 000

The company's business assets moved from Workington to the new premises were as follows:

	Cost (US\$)	Income tax values at 1 January 2009
Manufacturing machinery	100 000	50 000
Furniture and fittings	40 000	10 000
Delivery motor vehicles	80 000	20 000

During the 2009 financial year, the company had bought the following passenger motor vehicles for use by the senior company employees as follows:

A Toyota for use by the managing director at a cost of US\$18 000 and a Nissan for use by the factory manager at a cost of US\$8 000. These vehicles were availed to the employees in August 2009 and they were used for both business and personal purposes.

The income statement of the company for the year ended 31 December 2009 reflected a profit of US\$128 000. The credits to the income statement included the following:

	Notes	US\$
Sales revenue		850 000
Financial institution interest net of withholding tax		20 000
Profit on sale of old furniture	(3)	6 000

The debits included the following expenses:

Raw material purchases		300 000
Depreciation		85 000
New neon sign at front of new premises		4 000
General provision for bad debts		50 000
Utility costs		30 000
Staff costs	(1)	110 000
Cash theft by an employee who had reportedly disappeared		20 000
Administrative expenses	(2)	60 000

Notes

- (1) The staff costs included employer contributions to the employer registered pension fund amounting to \$6 000 for the benefit of the managing director.
- (2) The administrative costs included an amount of \$5 000 being legal costs incurred in connection with the approval of the draft architect plans of the office block constructed at the new industrial stand in Graniteside.
- (3) The company had sold old furniture which had originally cost \$10 000 and which had an income tax value of \$2 500. The proceeds were for \$6 000.

Additional information

The company's policy is to always claim the maximum capital allowances available each year.

Required:

- (a) (i) **State the classification for capital allowances purposes of each element of the expenditure on construction of the new premises;** (2 marks)
- (ii) **State how much of a building's floor area must be used for qualifying purposes in order to be granted:**
- **commercial buildings allowance**
 - **industrial buildings allowance;** (2 marks)
- (iii) **Give ONE example of a building which will NOT rank for commercial buildings allowance.** (1 mark)
- (b) **Compute the maximum capital allowances that New Products (Private) Limited can claim in respect of the 2009 tax year.** (8 marks)
- (c) **Compute the taxable income/loss of New Products (Private) Limited for the year ended 31 December 2009.** (10 marks)
- (d) **With regard to the theft by an employee, explain with reasons whether or not the tax treatment would be different if the managing director had committed the theft.** (2 marks)

(25 marks)

3 Gateway Storage Limited (GSL) owns a number of warehouses across the country and is in the business of leasing storage space.

On 1 October 2008 GSL received a notice from the Road Authority to the effect that part of their property in the Beatrice area was earmarked to be demolished to make way for the broadening of the Masvingo–Beitbridge road. The affected property included part of the security wall and the warehouse. The main office premises were however spared. GSL was given until 25 January 2009 to effect the required demolition.

As the Beatrice property was no longer suitable for GSL’s business, a resolution was made to donate the remainder of that property, including the movable assets, to the local orphanage. The resolution was made at the extraordinary general meeting held on 3 May 2009. The property was donated on 30 June 2009, the effective date of the transfer of the property to the orphanage.

The following is the list of the fixed assets that was disposed of by GSL:

	Date constructed/ acquired	Cost US\$	Market value US\$
Land	2004	40 000	60 000
Security wall	2005	20 000	30 000
Warehouse	2005	200 000	250 000
Office block	2006	100 000	140 000
Furniture & fixtures	2005	50 000	40 000
Office equipment	2006	75 000	70 000

The Road Authority undertook to pay the market value, but only for the part of the premises that was demolished and for the affected land. Payments were received into GSL’s bank account on 31 January 2009 as follows:

	US\$
Land (50% of the total area)	30 000
Security wall (33% of the wall)	10 000
Warehouse (32% of the warehouse)	80 000
	<u>120 000</u>

Additional information

GSL incurred a total of US\$5 000 in transferring the Beatrice property to the local orphanage.

GSL had always claimed the maximum capital allowances on the fixed assets.

Required

(a) Calculate the recoupments to be included in the gross income of Gateway Storage Limited in connection with the assets disposal for the year ended 31 December 2009. (5 marks)

(b) Calculate the capital gain and tax payable by Gateway Storage Limited for the year ended 31 December 2009 clearly indicating when the tax should be remitted to ZIMRA. (10 marks)

(15 marks)

4 Amon Zhanda, a renowned architect entered into a lease agreement with the Municipality to rent a piece of land close to the busy Gletywn shopping centre. The terms of the lease agreement are such that Amon Zhanda is required to construct a commercial building for not less than US\$100 000 within three months of signing the agreement.

The lease period is for 12 years commencing on 1 January 2009. The monthly rent is \$1 000 and the Municipality also charged a one-off lease premium of \$20 000. The construction of the commercial building was completed to specification on 31 March 2009 at a total cost of US\$150 000.

Amon Zhanda took occupancy of the building on 1 April 2009. He opened a grocery store on one wing of the commercial building and subdivided the other wing, which he then let out to tenants.

Amon Zhanda's turnover (value added tax (VAT) exclusive) for the year ended 31 December 2009 is made up of the following:

	US\$
Grocery store	450 000
Rent received	150 000
Grocery store returns	(8 000)
	<u>740 000</u>

Purchases ledger (VAT inclusive as appropriate)

	US\$
Grocery store – standard rated supplies	200 000
Grocery store – zero-rated supplies	60 000
	<u>260 000</u>

Overheads for the year ended 31 December 2009 (VAT inclusive as appropriate)

	US\$
Lease premium	23 000
Rent	13 800
Communication expenses	7 500
Printing and stationery	3 000
Staff costs	35 000
Repairs and maintenance	6 500
Transport expenses	14 000
Depreciation	4 000
Marketing expenses	7 000
	<u>113 800</u>

Required

(a) Calculate the allowances that can be claimed by Amon Zhanda in respect of the lease agreement for the year ended 31 December 2009. (4 marks)

(b) (i) Assuming that Amon Zhanda was VAT compliant, explain the due dates for the submission of his VAT returns and VAT payments for the year ended 31 December 2009 if he was registered as follows:

- Under category C;
- Under other categories; (4 marks)

(ii) Calculate Amon Zhanda's VAT payable for the year ended 31 December 2009. Items not resulting in output tax payable or input tax claimable should be indicated by the use of a zero in your calculation. (7 marks)

(15 marks)

5 Dave Moore is a retired plant biologist aged 70. After the death of his wife in April 2009 Dave Moore found solace by embarking on a full-time new business of growing seedlings and rearing fowls for sale at his Glen forest plot.

Dave Moore incurred the following preliminary expenses in connection with his new undertaking for the year ended 31 December 2009:

	US\$
Land preparation	20 000
Tractor acquisition	7 000
Construction of fowl runs	5 000
Irrigation infrastructure	12 000
Five staff house units	50 000
Boreholes	6 000
Agricultural inputs	25 000
Day old chicks	10 000
Delivery truck	15 000
	<u>150 000</u>

Dave Moore does not keep proper books of accounts but the following information has been extracted from the copy invoices, receipt books and bank statements availed for the year ended 31 December 2009:

	US\$	US\$
Trading profit		230 000
Other income: Pension received		8 000
Rental income		30 000
<i>Less expenses:</i>		
Salaries and wages	25 000	
General repairs	13 000	
Depreciation	16 000	
Communication expenses	3 000	
Bad debts provision (5% of debtors)	10 000	
Printing and stationery	4 000	
Fuel and transport expenses	12 000	
Packaging expenses	11 000	
Traffic fines	500	
Bank charges	250	
	<u> </u>	<u>(94 750)</u>
Net profit		<u>173 250</u>

Additional information

The preliminary expenses of US\$150 000 have not been taken into account in arriving at the net profit of US\$173 250.

Dave Moore is of the opinion that he is exempted from taxation as he qualifies as an elderly person.

Required:

- (a) (i) Using the information provided above, state the types and amounts of income which Dave Moore will be exempt from tax on by reason of his age; (2 marks)
- (ii) Outline, with reasons, the taxes in respect of which Dave Moore is obliged to register with ZIMRA; (3 marks)
- (iii) List the items of capital expenditure incurred by Dave Moore during 2009 which may be claimed in full against his taxable income for the year ended 31 December 2009. (3 marks)
- (b) Assuming he claims all capital allowances as early as possible, calculate the taxable income and tax payable by Dave Moore for the year ended 31 December 2009. (7 marks)

(15 marks)

End of Question Paper