Fundamentals Level – Skills Module

Taxation (Zimbabwe)

Tuesday 3 June 2014

Paper F6 (ZWE)

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 3–5.

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

ACCA

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The question paper begins on page 3.

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.

Tax rates – Individuals employment income
Year ended 31 December 2013

Taxable income band US$	Rate of tax %	Amount within band US$	Cumulative income tax liability US$
Up to 3 000	0	3 000	0
3 001 to 12 000	20	9 000	1 800
12 001 to 24 000	25	12 000	4 800
24 001 to 60 000	30	36 000	15 600
60 001 to 90 000	35	30 000	26 100
90 001 to 120 000	40	30 000	38 100
120 001 and over	45		

NB. The AIDS levy of 3% is chargeable on income tax payable, after deducting credits.

Allowable deductions year ended 31 December 2013

Pension fund contribution ceilings

		US$
(a)	In relation to employers: in respect of each member	5 400
(b)	In relation to employees: by each member of a pension fund	5 400
(c)	In relation to each contributor to a retirement annuity fund or funds	2 700
(d)	National Social Security contributions (on a maximum monthly gross salary of US$700)	3·5% of gross salary

Aggregate maximum contributions to all the above per employee per year US$5 400

Credits year ended 31 December 2013

	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 2013
Motor vehicles

Engine capacity:	US$
Up to 1500cc	1 800
1501 to 2000cc	2 400
2001 to 3000cc	3 600
3001 and above	4 800

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)	25
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 – Other than employment income

Year ended 31 December 2013

		%
Companies		
Income tax:	Basic rate	25
	AIDS levy	3
Individuals		
Income tax:	Income from trade or investment	25
	AIDS levy	3

Capital gains tax

On marketable securities	20% of gain
Disposal of listed marketable securities acquired after 1 February 2009	1% of gross proceeds
Disposal of specified assets acquired prior to 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) acquired before 1 February 2009	5
Marketable securities (unlisted)	5

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	10
By any other company	15
Informal traders	10
Foreign dividends	20

Non-residents' tax	**%**
On interest	nil
On certain fees and remittances	15
On royalties	15

Residents' tax on interest	**%**
From building societies	15
From other financial institutions (including discounted securities)	15

Elderly taxpayers (55 years and over)

Exemptions from income tax year ended 31 December 2013

	US$
Rental income	3 000
Interest on deposits with a financial institution	3 000
Interest on discounted instruments	3 000
Income from the sale or disposal of marketable securities	1 800
Pension	No limit

Income from the sale or disposal of a principal private residence is also exempt.

ALL FIVE questions are compulsory and MUST be attempted

1 Nic Page is a nutritionist, who has worked in the food and allied industry for Organo Products Limited (Organo) for the past 15 years. Organo had a change of management in 2013 and Nic's post was made redundant on 31 May 2013. On the redundancy of his post, Nic was offered the opportunity to acquire his company allocated motor vehicle for US$20 000. The motor vehicle, which has an engine capacity of 3300cc, was acquired by Organo in 2010 at a cost of US$60 000. The market value of the vehicle as at 31 May 2013 was US$45 000.

Following his redundancy, Nic started his own catering services company, Page Catering (Private) Limited (PCPL). In the year ended 31 December 2013 PCPL entered into two contracts as follows:

(1) A consultancy services contract with Organo for a period of a year with effect from 5 June 2013. According to the terms of this contract, Nic (via PCPL) is to provide his own work tools and equipment, invoice Organo monthly for any work completed and be paid within 30 days from the date of the invoice presentation. PCPL invoiced Organo for US$800 in each of the months June to September 2013 and for US$1 000 in each of the months October to December 2013.

(2) A catering services contract for US$10 000 per month with a group of private schools in Harare on 1 August 2013. Also on 1 August 2013, PCPL recruited a staff complement of five permanent employees and six casual workers. The permanent employees are paid monthly salaries, while the casual workers are paid a predetermined daily wage rate in line with the industry norm. Three of the permanent employees are each paid US$500 per month, while the other two employees are paid US$700 and US$800 per month respectively.

Nic Page's employment related earnings and deductions for the year ended 31 December 2013 were:

	Note	US$
From Organo Products Limited		
Salary		10 000
Leave pay		2 000
School fees allowance		5 000
Housing allowance		2 500
Bonus		2 000
Refund of benefit fund contributions	(1)	30 000
Annuity	(2)	7 000
Refund of pension contributions	(3)	92 500
Employee contributions to the benefit fund		(750)
NSSA contributions		(123)
Employee pension contributions		(2 250)
Retirement annuity fund (RAF) contributions		(3 700)
Loan repayment	(4)	(1 400)
Employee contributions to the Royal Medical Aid Society		(3 000)
Home insurance policy contributions		(1 300)
Funeral insurance policy contributions		(600)
PAYE		(18 500)
From Page Catering (Private) Limited		
Salary (from catering services contract)		8 000
Fuel allowance	(5)	15 000
PAYE		(7 600)

Notes:

(1) This amount is a refund of the contributions made by Nic to a non-registered benefit fund administered by Organo. Every employee was required to contribute to the fund as one of the conditions of employment. The amount refunded to Nic is broken down as follows:

	US$
Total employee contributions over the years	27 000
Interest component	3 000
	30 000

(2) Nic is entitled to receive this amount annually from a retirement annuity fund (RAF) which matured during the course of the year 2013. He expects to receive the same amount for the next ten years. A total of US$15 000 was disallowed as a deduction from the onset of his RAF contributions up to the maturity date.

(3) This amount was refunded to Nic when his post was made redundant and he opted to withdraw from Organo's employer registered pension fund. His contributions over the years to this employer registered pension fund were all allowed as a tax deduction. Nic transferred US$30 000 from the amount refunded to the Catering Industry Pension Fund (CIPF).

(4) This amount is a repayment of a US$15 000 loan advanced to Nic by Organo on 1 March 2013. The loan is repayable over the period of a year at an interest rate of 1% per annum. The LIBOR for the period was constant at 0·5%.

(5) Nic receives a fuel allowance for using his personal vehicle for the catering business. 70% of the fuel allowance received was applied towards fuel expenses for business purposes.

Required:

(a) Explain the tax obligations of Organo Products Limited in connection with the payment of the consultancy services fees to Page Catering (Private) Limited (PCPL). (2 marks)

(b) Explain by when PCPL should have registered for the following taxes and state the dates when the first returns should have been submitted:

(i) Corporate tax; (2 marks)

(ii) Employees tax (PAYE); (2 marks)

(iii) Value added tax (VAT). (2 marks)

(c) Calculate the NSSA contributions to be paid by PCPL in its capacity as employer for the year ended 31 December 2013. (2 marks)

(d) Calculate Nic Page's income tax payable/refundable from employment for the year ended 31 December 2013.

Note: Indicate any amounts which are not taxable or not deductible by the use of zero (0). (15 marks)

(25 marks)

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Question 2 begins on page 9.

2 H&H Motor Spares (Private) Limited (H&H) is in the retail business of motor spare parts and consumables.

During the year ended 31 December 2013, H&H entered into a 15-year lease agreement with a commercial property owner for the construction of a warehouse for the storage of their stock. The terms of the lease agreement are as follows:

(1) H&H to construct a warehouse on the property owner's undeveloped commercial land in East Industrial Park at a total cost of not less than US$300 000. H&H to further pave the whole area around the warehouse with the specified brickwork at a cost of not less than US$50 000. All the work to be completed within six months from the date of the lease agreement, which was signed on 1 February 2013.

(2) H&H to pay a one-off premium of US$60 000 and a monthly rent of US$3 000 from the date the lease agreement was signed. The rent to be reviewed at the beginning of each calendar year in line with the market rentals for similar properties.

(3) The lease agreement to be open to renewal after the expiry of the initial agreed period.

H&H completed the construction of the warehouse and the pavement on 30 June 2013 at a total cost of US$350 000 and US$70 000 respectively and immediately transferred their stock to the newly constructed warehouse.

H&H's statement of profit or loss for the year ended 31 December 2013 is as follows:

	Note	**US$**
Revenue		1 600 000
Cost of sales		(1 060 000)
Gross profit		540 000
Other income	1	800 000
Distribution costs	2	(70 000)
Administrative expenses	3	(360 000)
Other expenses	4	(100 000)
Finance costs	5	(80 000)
Profit before tax		730 000
Income tax expense	6	(46 351)
Profit for the period		683 649

Notes:

1 Other income comprises:

	US$
Rental income	500 000
Profit on the sale of commercial vehicles (see below)	300 000
	800 000

The commercial vehicles had been purchased in 2009 for US$200 000 and were sold during the year for US$500 000.

2 Distribution costs comprise:

	US$
Repairs and maintenance	40 000
Fuel and licensing	30 000
	70 000

3 Administrative expenses comprise:

	US$
Salaries and wages	112 000
Lease premium and warehouse rent	93 000
Donations (see below)	30 000
Value added tax (VAT) late payment charge	5 000
Depreciation	40 000
Provision for directors' fees	30 000
Protective clothing	20 000
Staff canteen provisions	10 000
Entertainment	20 000
	360 000

As part of H&H's corporate social responsibility commitment, the following amounts were donated during the year:

– Harare Central hospital (for the procurement of critical drugs)	US$20 000
– Social club (for recurrent expenses)	US$10 000

4 Other expenses comprise:

	US$
Property repairs and maintenance (see below)	60 000
Legal fees (preparation of the shareholder's agreement)	5 000
New business licences	8 000
Renewal of business licences	27 000
	100 000

Property repairs and maintenance were as follows:

– On leased commercial properties (the rental income from these properties is as detailed in note 1 above)	US$48 000
– On an unoccupied commercial building	US$12 000

5 Finance costs comprise:

	US$
Overdraft facility for recurrent expenditure	30 000
Loan for the construction of the warehouse and paving	50 000
	80 000

6 Income tax expense:

This amount relates to the first and second provisional corporate tax payments made by H&H in respect of the year ended 31 December 2013. The payments were based on a projected taxable income of US$514 300. No further provisional corporate tax payments were made in the year.

Due to favourable business circumstances in the second half of the year, H&H revised their 2013 budget on 1 July 2013 and the projected taxable income for the year ended 31 December 2013 was recalculated as US$815 000.

Additional information

H&H owned the following fixed assets as at 31 December 2013:

	Date acquired	Cost/valuation (US$)
Commercial properties	2009	300 000
Furniture and equipment	2010	150 000
Commercial vehicles	2013	180 000

H&H has always claimed the maximum capital allowances possible in any given year.

Required:

(a) (i) State how the commercial property owner should treat the amounts specified in the signed lease agreement with H&H Motor Spares (Private) Limited (H&H) for tax purposes. (3 marks)

(ii) State, giving reasons, what action H&H should have taken when implementing the provisions of the lease agreement in order to minimise its tax liability. (2 marks)

(b) Calculate the taxable income of and corporate tax payable by H&H for the year ended 31 December 2013.

Note: Your computation should list all of the items referred to in notes 1 to 5, indicating by the use of zero (0) any items which do not require adjustment. (18 marks)

(c) (i) Calculate the provisional tax which should have been paid by H&H based on the revised budget for the year ended 31 December 2013, clearly indicating the due dates and the respective tax amounts. (4 marks)

(ii) Calculate the penalties and interest payable by H&H as at 31 December 2013 due to its failure to comply with the quarterly payment date (QPD) provisions. (3 marks)

(30 marks)

3 Jacob and Anne Dube, aged 58 and 53 respectively, have been horticulturists for the greater part of their 30-year marriage. They carried on their horticulture business on a plot of land which they owned, situated adjacent to the Matopo resort in Bulawayo. However, in recent years the running expenses of the business have outweighed the income streams and in 2013 the couple decided to dispose of the plot and their other business assets.

The plot consists of a homestead, which has always been occupied by Jacob and Anne, and both permanent and temporary improvements in line with the business of horticulture. A local estate agent valued the property on 10 June 2013 as follows:

	US$
Land	100 000
Homestead	250 000
Staff housing	100 000
Permanent roads	20 000
Temporary garden sheds	30 000
Office building	50 000
Furniture and office equipment	60 000
Dam and boreholes	70 000
Tractors	65 000
	745 000

Jacob and Anne acquired the undeveloped plot on 7 March 2009 for US$50 000 and effected the improvements on a piecemeal basis over the years as follows:

	Date acquired/ constructed	Cost	Income tax value (ITV) as at 31 December 2012
		US$	US$
Homestead	2009	100 000	N/A
Staff housing	2009	40 000	0
Permanent roads	2010	10 000	2 500
Temporary garden sheds	2010	20 000	N/A
Office building	2009	30 000	27 000
Furniture and office equipment	2009	50 000	0
Dam and boreholes	2009	35 000	N/A
Tractors	2010	45 000	11 250
		330 000	

Jacob and Anne signed an agreement of sale for their property on 20 June 2013 through the local estate agent and the selling price was paid as follows:

	US$
On signing the agreement of sale	300 000
On 31 October 2013 (balance attributable to all the assets except the land)	390 000
On 1 June 2014 (full settlement for the land)	100 000
	790 000

Additional information

1. A 10% selling commission was paid to the local estate agent on 20 June 2013.
2. Jacob and Anne signed another agreement of sale on 10 November 2013 for the acquisition of their new residential home in Northville Plateau, Bulawayo for US$200 000.

Required:

(a) **State ANY FOUR documents which Jacob and Anne Dube should present to ZIMRA when applying for a capital gains tax clearance certificate.** (2 marks)

(b) **(i)** **Calculate the amounts to be included in the gross income of Jacob and Anne Dube for the year ended 31 December 2013 as a result of the disposal of their business assets.** (3 marks)

(ii) **Calculate the capital gains tax payable by Jacob and Anne Dube on the disposal of their business assets for the years ended 31 December 2013 and 31 December 2014, if all relevant reliefs are claimed** (8 marks)

(c) **Identify the capital gains tax reliefs available to Jacob and Anne Dube as a result of the disposal of the homestead.**

Note: Calculations are not required for this part. (2 marks)

(15 marks)

4 Curios & Souvenirs Unlimited (Private) Limited (CSU), which was incorporated in 2010, is headquartered in the resort town of Victoria Falls but with shops in all the major resort areas in Zimbabwe. In addition to its headquarters building and shops, CSU also owns commercial holiday cottages and self-catering lodges located in Victoria Falls.

CSU is registered with ZIMRA for corporate tax and employees tax (PAYE) and holds an income tax clearance certificate issued on 1 April 2013.

CSU's monthly sales revenue for the year ended 31 December 2013 showed a consistently upward trend as follows:

	US$
January	3 000
February	3 500
March	4 000
April	4 200
May	4 300
June	4 800
July	5 200
August	55 000
September	50 000
October	53 000
November	40 000
December	47 000
	274 000

As a result of its significant increase in sales revenue in the second half of 2013, CSU was compulsorily registered for value added tax (VAT) under category B with effect from the tax period ended 31 August 2013. ZIMRA allowed CSU to claim the input tax on procurements made from registered operators from the date of compulsory registration.

CSU had chosen not to voluntarily register for VAT prior to this date and none of the above figures include VAT.

CSU's purchases (inclusive of VAT) for the year ended 31 December 2013 are as follows:

	US$
January	1 200
February	1 500
March	2 000
April	2 000
May	2 000
June	2 500
July	3 000
August	20 000
September	20 000
October	20 000
November	15 000
December	15 000
	104 200

CSU's other expenses (inclusive of VAT where applicable) for the year ended 31 December 2013 are as follows:

	US$
Salaries and wages	35 000
Stationery	9 000
General repairs and maintenance	15 000
Motor vehicle expenses	12 000
Cleaning and other general expenses	5 000

30% of the general repairs and maintenance and 20% of the motor vehicle expenses were procured from unregistered operators.

Required:

(a) State the tax compliance obligations which Curios & Souvenirs Unlimited (Private) Limited (CSU) must have satisfied for ZIMRA to have issued a valid income tax clearance certificate on 1 April 2013. (4 marks)

(b) (i) Explain briefly the FOUR categories of value added tax (VAT) period. (4 marks)

(ii) State the date of CSU's VAT period ending immediately after its 31 August 2013 tax period, together with the due date for the submission of the VAT return for this tax period. (1 mark)

(c) Calculate the total VAT to be paid by or refunded to CSU from the date of its compulsory registration to 31 December 2013.

Note: Indicate any items on which VAT is not chargeable by the use of a zero (0). (6 marks)

(15 marks)

5 Mutsa Shangu is a non-executive director of a number of companies within Zimbabwe. She is a photojournalist by profession and works as a freelancer. She spends most of her time outside Zimbabwe on work related assignments. Mutsa is ordinarily resident in Zimbabwe for tax purposes.

During the year ended 31 December 2013, Mutsa ventured into the film production business in Zimbabwe. She recruited a qualified manager and two assistants to help her run the business. Mutsa's film production business recorded two films in Zimbabwe during the year ended 31 December 2013. These films were marketed in Botswana in 2013 but have not yet been shown in Zimbabwe.

Mutsa owns a furnished house in Gaborone, Botswana where she normally resides while working on assignments in that country. She also lets out the house to tenants during her absences from Botswana.

Mutsa's income and expenses for the year ended 31 December 2013 are as follows:

Income	**Note**	**US$**
Non-executive director's fees		48 000
Freelance income		70 000
Film production income	1	60 000
Rental income from Botswana house		30 000
Zimbabwe bank interest		10 000
Dividends received from a Botswana company		12 000
Expenses		
Travelling expenses	2	15 000
Film production expenses	3	41 000
Botswana house repairs and maintenance		17 000

Notes:

1 The film production income was earned in Botswana from the marketing of the two films produced during the year.

2 The travelling expenses were all incurred in connection with Mutsa's freelance work.

3 The film production expenses comprise:

	US$
Office rent	9 000
Salaries and wages	12 000
Other office running expenses	5 000
Foreign marketing expenses	15 000
	41 000

Additional information

Mutsa acquired the following fixed assets during the year ended 31 December 2013 for her film production business. The assets were all wholly used for business purposes.

	Cost US$
Office furniture and equipment	25 000
Film production equipment	30 000
Passenger motor vehicle	40 000
	95 000

Required:

(a) (i) **State the implications for Mutsa Shangu of being ordinarily resident in Zimbabwe for tax purposes.** (2 marks)

(ii) **Calculate the minimum taxable income of and tax payable by Mutsa Shangu for the year ended 31 December 2013.**

Note: Indicate any amounts which are not taxable or not deductible by the use of zero (0). (10 marks)

(b) **Identify and briefly explain the TWO major sources of tax revenue law.** (3 marks)

(15 marks)

End of Question Paper