Fundamentals Level – Skills Module

Taxation (Zimbabwe)

Tuesday 4 December 2012

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

Paper F6 (ZWE)

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:

Rates – Individuals
Year ended 31 December 2011

Taxable income band US$	Rate of tax %	Amount within band US$	Cumulative income tax liability US$
Up to 2 700	0	2 700	0
2 701 to 6 000	20	3 300	660
6 001 to 12 000	25	6 000	2 160
12 001 to 18 000	30	6 000	3 960
18 001 and over	35		

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

Allowable deductions year ended 31 December 2011

Pension fund contribution ceilings

	2011 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: (up to US$200 monthly)	3% of gross salary
Aggregate maximum contributions to all above per employee per year	5 400

Credits year ended 31 December 2011

	2011 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 2011
Motor vehicles

Engine capacity:	2011 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

Year ended 31 December 2011

	%
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
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 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)	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	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 2011 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 exempted.

ALL FIVE questions are compulsory and MUST be attempted

1 Elite Software Developers (Private) Limited (ESD) was founded by Mark and Ellen Mari in 2009 and is in the business of designing and developing custom specified software. The business is not labour intensive and as such has only a staff complement of five, Mark Mari being in charge.

Ellen Mari provides independent consultancy services to ESD and is not involved in any other capacity except as a non-executive director. For her services, Ellen Mari is entitled to 45% of the net amount received by ESD upon completion of the client engagements, after taking into account the attributable operational expenses.

Two of the employees earn US$150 and US$180 per month respectively, while the other employees are entitled to market linked living salaries which range between US$1 000 and US$3 000 per month.

During the year ended 31 December 2011, Ellen Mari successfully completed five client engagements. The gross amount due to the company from the assignments completed in conjunction with Ellen Mari amounted to US$360 000 and the following were the related operational expenses:

	Note	US$
Advertising and promotion		42 000
Procurement of a laptop		1 000
Office rent		5 800
Utility bills		1 500
Entertainment	(1)	13 200
Underpinning of the office building		35 000
Waste dumping fine		2 100
Printing and stationery		8 600
Internet charges		2 400
Electricity reconnection charges		1 700
Motor vehicle expenses	(2)	18 000
Legal fees in connection with outstanding debts		26 000
		157 300

Mark Mari's earnings and deductions from employment for the year ended 31 December 2011:

	Notes	US$
Salary		18 000
Transport allowance		9 000
Accommodation allowance		12 000
Bonus		1 500
Holiday allowance		5 500
School fees assistance		10 000
Staff loan	(3)	24 300
Credit card limit		5 000
Pension contributions		(7 500)
RAF contributions		(2 600)
Subscriptions to approved professional institutions		(3 800)
Medical aid contributions		(7 000)
Loan repayment		(12 000)
PAYE		(17 000)
Contributions to a social club		(2 100)
Stop order (Life and funeral policies)		(4 200)

Notes

(1) 65% of the cost directly incurred towards breakfast meetings with potential customers.

(2) 50% of the cost is directly attributable to business mileage.

(3) The staff loan was received by Mark Mari on 1 July 2011 interest free, and had a repayment period of one year. During the same period, the LIBOR was 1·5% p.a.

(4) Ellen Mari received non-executive director's fees of US$1 800 on 3 March 2011.

Required:

(a) (i) Explain how Ellen Mari's income from consultancy services should be treated for tax purposes, including the payment of the tax and the rates applicable;

Note: No computations are required for this part. (3 marks)

(ii) Calculate the National Social Security Authority (NSSA) contributions payable by Elite Software Developers (Private) Limited for the year ended 31 December 2011; (2 marks)

(iii) Calculate the withholding tax on the non-executive director's fees received by Ellen Mari and state by when the tax should be remitted to ZIMRA. (1 mark)

(b) (i) Calculate the taxable income and tax payable by Ellen Mari for the year ended 31 December 2011. Indicate any amounts not taxable or not deductible by the use of a zero, and state the reason for your treatment of the following operational expenses:

(1) Entertainment
(2) Underpinning of the office building
(3) Electricity reconnection charges;

The total marks will be split equally between each part. (10 marks)

(ii) Calculate the taxable income and tax payable by Mark Mari for the year ended 31 December 2011.

Note: Indicate any amounts not taxable or not deductible by the use of a zero. (9 marks)

(25 marks)

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Question 2 begins on page 9.

2 Just Toys (Private) Limited (JT) is a subsidiary of Exclusive Toys Inc, a South African registered company. JT commenced business operations in the retailing of assortments of toys in Zimbabwe in 2010. JT purchases all its stocks of toys from Exclusive Toys Inc. The toys are manufactured in South Africa and are distributed to most Southern African countries.

JT's head office is situated in Belgravia, Harare and they have a network of shops in most shopping malls of the major cities of the country. The head office buildings were constructed in terms of an eight-year lease agreement signed with the municipality on 25 March 2010. The lease agreement can be renewed for a further eight years. The provisions of the lease agreement are as follows:

(i) JT was to construct two buildings, with minimum structural specifications, valued at not less than US$100 000 each.
(ii) One building was to be used as an administration block and the other one as a warehouse.
(iii) JT was obliged to pay a premium of US$50 000 upfront and thereafter monthly rental of US$3 200 until the expiry of the lease.

The construction of the buildings was completed on 25 August 2010, according to specifications, at an actual cost of US$80 000 and US$115 000 for the administration block and the warehouse, respectively. JT then commenced business operations on 1 September 2010.

The following is JT's statement of comprehensive income for the year ended 31 December 2011:

	Note	US$	US$
Turnover			1 960 000
Less: Cost of sales	1		(980 000)
Gross profit			980 000
Other operating income	2		45 000
Administrative expenses:			
Staff costs	3	(220 000)	
Repairs and maintenance	4	(135 000)	
Motor vehicle expenses	5	(104 000)	
Office expenses	6	(182 000)	
Donations	7	(23 000)	
Finance costs		(165 000)	(829 000)
Net profit for the year			196 000

Notes

1 Cost of sales:

Exclusive Toys Inc sells the toys to JT at cost plus 35% and to unrelated parties at cost plus 25%.

2 Other operating income included:

	US$
Bank interest received	6 000
VAT refund	10 000

3 Staff costs:

Included in the staff costs is US$32 200 representing the payment by JT of US$10 733 towards the pension contributions for each of the three senior managers.

4 Repairs and maintenance comprised:

	US$
Replacement of faulty electrical installations at shops	76 500
Paving around the Avondale shop	53 200
Computer repairs	5 300
	135 000

5 Motor vehicles expenses comprised:

	US$
Fuel and maintenance costs	28 000
2 passenger vehicles procured under a hire purchase agreement	62 500
Traffic fine	1 200
Insurance and licensing costs	12 300
	104 000

6 Office expenses included:

	US$
Outsourcing of payroll function	15 000
Fit and supply contract for the Avondale shop kitchen	29 000
Utility payments	27 700
Depreciation	37 000
Rental expenses	58 000
Interim audit fees	12 000

7 Donations comprised:

	US$
Mayor's Christmas fund	5 000
Ministry of Health for Harare Hospital Pediatrics' unit	13 000
Local church	5 000
	23 000

Additional information

JT does not have a formal tax policy on fixed assets. The following were the assets brought into use on commencement of business operations:

	Cost (US$)
Commercial vehicles	53 000
Furniture and fittings	80 000
	133 000

During the year ended 31 December 2010, JT acquired a business building in Avondale for US$70 000 and converted it into a shop.

Required:

(a) (i) Define transfer pricing; (2 marks)

(ii) Briefly explain what the transfer pricing rules aim to achieve; (2 marks)

(b) (i) State, with reasons, the amounts to be used for calculating the lease improvement allowances for the administration block and the warehouse for the lessee; (2 marks)

(ii) Explain the value added tax implications of the hire purchase agreement mentioned in note (5) above. State the allowable deductions that can be claimed by Just Toys (Private) Limited (JT) in respect of this agreement; (2 marks)

(iii) Outline JT's obligations to ZIMRA concerning the first two payments detailed in note (6) above. (2 marks)

(c) (i) Calculate the capital allowances, for JT, granted by ZIMRA for the years ended 31 December 2010 and 31 December 2011. Clearly state any distinctions in how the allowances are calculated for the different asset classes; (6 marks)

(ii) Calculate the taxable income and respective tax payable by JT for the year ended 31 December 2011.

Note: Your computation should also list all of the items referred to in notes 1 to 7, indicating with the use of a zero (0) any items that do not require adjustment. (14 marks)

(30 marks)

3 Joe and Pat Lemon, aged 56 and 50 respectively, are married and reside in a flat in Mt Pleasant, Harare. Pat is a renowned business woman while Joe is a freelance journalist. On 1 February 2011, Pat Lemon was involved in an accident which rendered her wheelchair-bound. As she could no longer run her business as effectively as before, she transferred the business to Joe Lemon on 8 April 2011. The following were the assets transferred:

	Date acquired	Original cost US$	Income tax value US$	Market value US$
Industrial building	1 March 2009	80 000	20 000	110 000
Security wall	1 March 2009	20 000	5 000	25 000
Plant and machinery	1 March 2009	45 000	11 250	40 000
Commercial building	5 June 2009	60 000	57 000	75 000
Furniture and fittings	5 June 2009	32 000	8 000	20 000

Joe and Pat Lemon also made a decision to sell their flat and use the proceeds to buy a house, since the flat was not specifically built to accommodate Pat's new requirements.

The flat had been acquired on 25 February 2009 at a cost of US$65 000. An offer of US$95 000 was made for the flat which was accepted by Joe and Pat Lemon on 20 May 2011. The couple identified a suitable house in Monavale for US$71 000 and signed the purchase agreement on 1 July 2011.

During the year ended 31 December 2011, Joe and Pat Lemon disposed of the following shares:

	Date acquired	Original cost US$	Gross proceeds US$
Listed shares	23 March 2009	7 900	10 300
Unlisted shares	25 June 2008	3 500	9 400

The listed shares were bought by Joe Lemon and the unlisted shares by Pat Lemon.

Additional information

Joe Lemon paid 5% of the gross proceeds from the disposal of shares towards the stock broker's fees.

Required:

(a) (i) Outline the tax implications for Pat Lemon of the transfer of the business to Joe Lemon during the year. State any available tax dispensations;

Note: Computations are not required for this part. (3 marks)

(ii) State any tax relief available to Joe and Pat Lemon in connection with the disposal of their flat and state the qualifying criteria. (3 marks)

(b) Calculate the tax payable by Joe and Pat Lemon for the year ended 31 December 2011, in the absence of any tax dispensations on the disposal of the business assets and their shareholdings.

Note: You are NOT required to compute the capital gains tax on the disposal of their flat. (9 marks)

(15 marks)

4 Ray Mopani is a registered operator for value added tax (VAT) purposes and owns five stationery shops. In compliance with ZIMRA requirements, Ray Mopani upgraded his point of sale terminals and installed the fiscalised electronic registers during the year ended 31 December 2011.

Ray Mopani received a VAT assessment dated 30 September 2011 from ZIMRA. The assessment was for the month of July 2011 and, according to his records, he had submitted the return for that month on 10 September 2011. He also noted from the assessment that part of his input tax claim was disallowed and an interest charge levied on the VAT overdue. The outstanding VAT was US$20 500. Ray Mopani resolved to lodge an assessment objection with ZIMRA.

On the date that Ray Mopani received the July VAT assessment, he was busy working on the VAT return for the month of August 2011 which he then submitted to ZIMRA on 3 October 2011. The following are his sales and purchases records for the month of August 2011:

	US$
Sales for month	350 000
Sales returns	(14 500)
	335 500
Purchases for the month	120 000
Acquisition of fiscalised electronic registers	40 000
	160 000
Operating expenses:	
Repairs and maintenance	18 000
Entertainment	5 000
Printing and stationery	23 000
Salaries and wages	34 000
Rent	15 000
	95 000

All amounts are stated inclusive of VAT, where applicable.

Additional information

Ray Mopani allocated three motor vehicles, a Toyota, engine capacity 3300cc and two Nissan vehicles, engine capacity 2500cc, to his senior staff members during the year ended 31 December 2011.

Required:

(a) (i) Explain the procedures to be followed by a taxpayer when dealing with objections and disputes, and state by when Ray Mopani should have lodged his value added tax (VAT) objection for the month of July 2011; (3 marks)

(ii) State the ZIMRA due dates for the VAT returns for the months of July and August 2011; (1 mark)

(iii) State ANY TWO types of expenditure on which input VAT is prohibited as a deduction. (2 marks)

(b) (i) Calculate the VAT payable by Ray Mopani for the month of August 2011;

Note: You should include all items in your computation and indicate amounts on which no VAT is due or amounts on which VAT cannot be recovered by the use of a zero; (7 marks)

(ii) Calculate the interest on the overdue VAT for the months of July and August 2011. (2 marks)

(15 marks)

5 Kitchen Accessories (Private) Limited (KA) was incorporated on 8 January 2011 and immediately commenced business in buying and selling kitchenware. The directors had completed a thorough market research and had identified a gap in kitchenware on the market.

The directors, being prudent, engaged a tax adviser to explain the whole taxation system, the tax obligations of KA and the effect that tax will have on their business. The directors had heard so much about tax avoidance and evasion and appreciated the tax adviser's comprehensive report on these and other tax related issues.

KA's budgeted profit for the year ended 31 December 2011 was US$120 000, arrived at after taking the following into account:

	US$
Credits	
Turnover	445 000
Bulk procurement discounts	56 000
Dividend income	25 000
	526 000
Debits	
Cost of sales	201 000
Patent registration	13 000
Legal fees – company formation	9 500
Salaries and wages	60 000
Motor vehicle expenses	20 000
Office expenses	32 500
Depreciation	43 000
Initial business licence	17 000
Insurance	10 000
	406 000

Fixed asset register

	US$
Passenger vehicles (3)	75 000
Furniture and fittings	355 000
	430 000

Additional information

KA directors resolved, as a matter of policy, to always take into account all the available tax dispensations at their disposal at any given time as well as to continuously improve on their tax planning.

Required:

(a) (i) Describe the main purpose of taxation in a modern economy and outline any three basic taxation principles that a good tax system should be guided by; (3 marks)

(ii) Explain the difference between direct and indirect taxation, giving one example of each type of tax; (3 marks)

(iii) Briefly explain the difference between tax avoidance and tax evasion. (2 marks)

(b) Calculate the provisional taxable income and tax payable by Kitchen Accessories (Private) Limited for the year ended 31 December 2011. Clearly indicate the tax payable and when this should be remitted. (7 marks)

(15 marks)

End of Question Paper