Fundamentals Level – Skills Module

# Taxation (Zimbabwe)

Tuesday 12 June 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 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) | 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** Matt Thomas had enjoyed a successful banking career as a commercial executive for the past 35 years. He worked for only one bank since he qualified from university at the age of 21 and rose through the hierarchy. Two years ago, his bank was placed under judicial management due to irregularities that were unearthed by the central bank. Matt Thomas was left with no other option but to find alternative employment, since his bank employment ceased on 20 September 2009.

In June 2010, Matt Thomas was fortunate enough to be hired by a firm of quantity surveyors as a mornings only bookkeeper. In the year ended 31 December 2011 Matt Thomas also worked part time at various other companies.

**Matt Thomas' earnings and deductions from employment for the year ended 31 December 2011**

| | US$ |
|---|---|
| Salary from the quantity surveyors | 25 000 |
| Thirteenth cheque | 2 000 |
| Pension received | 5 000 |
| Fuel allowance | 1 200 |
| Housing allowance | 2 300 |
| Wages from the part-time engagements | 13 000 |
| Cash in lieu of leave | 1 800 |
| RAF contributions | (4 800) |
| DSTV subscriptions | (1 100) |
| Subscriptions to national and foreign press | (1 500) |
| Subscriptions to approved professional institutions | (1 500) |
| Medical aid contributions | (4 500) |
| PAYE | (14 000) |

**Other non-employment related income received during the year ended 31 December 2011**

| | US$ |
|---|---|
| Proceeds from sale of a motor vehicle | 5 000 |
| Net rental income from a garden flat in Durban, South Africa | 11 000 |
| Proceeds from sale of household effects | 2 700 |
| Net rental income from a holiday resort lodge in Nyanga | 8 200 |
| Gain on disposal of non-listed marketable securities (acquired on 2 May 2009) | 13 000 |
| NSSA pension | 3 800 |
| | 43 700 |

**Additional information**

(1) Matt Thomas obtained a loan of US$12 500 from his employer to procure a personal motor vehicle to replace the one he sold. The interest chargeable by his employer for the year amounted to US$500. The LIBOR was 2·5%.

(2) Matt Thomas received US$2 500 during the year from a matured fixed annuity from an insurance firm. The annuity is for a period of ten years. He originally paid a total amount of $10 000 for the purchase of the annuity.

(3) On 13 September 2011, Matt Thomas received a notification from the bank that he used to work for, advising him of his entitlement to a total amount of US$66 000 being compensation for his unexpected loss of employment with the bank. He was further advised that the amount would be paid in three equal monthly instalments commencing 1 October 2011.

(4) For all his part-time engagements, except the mornings job with the quantity surveyors, Matt Thomas was paid weekly and PAYE was not deducted.

**Required:**

**(a) (i) Explain briefly the operation of the PAYE system;** (3 marks)

**(ii) State, with reasons, the tax treatment of Matt Thomas' non-employment related income for the year ended 31 December 2011;** (5 marks)

**(iii) State how the compensation for loss of employment with the bank (see (3) above) should be treated for tax purposes;** (2 marks)

**(iv) Explain the practical aspects of Matt Thomas' tax obligation in connection with the weekly pay received from his part-time engagements (see (4) above).** (3 marks)

**(b) Calculate Matt Thomas' taxable income and tax payable for the year ended 31 December 2011.**

Note: You should indicate any amounts not taxable or not deductible by the use of a zero. (12 marks)

**(25 marks)**

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**Question 2 begins on page 9.**

**2** Mwenje Yepasi Limited (MYL) is an established candle manufacturing company operating in one of the industrial sites in Harare. For the past three years of operations, MYL has been experiencing an unusual demand for its products, mostly due to the erratic power outages within the country.

On 2 February 2011, MYL registered a wholly owned subsidiary, Candle Light (Private ) Limited (CLP) as a sole distributorship of their different types of candles.

CLP opened candle shops in major townships and also shops within shops in some busy supermarkets and departmental shops.

On 25 March 2011, CLP concluded a sale and part lease-back agreement with a local property owner for the construction of a strategic shop and showroom. The terms of the agreement were that CLP would buy a piece of undeveloped land with commercial title from the property owner and construct their strategic shop and showroom within three months. The property owner would then lease part of the parking lot for his taxi business for an agreed period of 15 years at an annual rent of US$3 000 and a one-off premium of US$6 000.

CLP successfully concluded the construction of the strategic shop and showroom on 1 June 2011 at a cost of US$50 000 and $60 000 respectively and immediately commenced business operations. The lease of the parking lot also commenced on this date.

MYL's fixed asset register as at 31 December 2011 is as follows:

| | Date constructed/acquired | Cost<br>US$ |
|---|---|---|
| Manufacturing building | 2005 | 100 000 |
| Showroom situated next to the manufacturing building | 2009 | 80 000 |
| Administration block | 2005 | 70 000 |
| Furniture and fittings | 2009 | 40 000 |
| Computer equipment | 2009 | 18 000 |
| Five passenger motor vehicles | 2009 | 90 000 |
| Commercial vehicles | 2005 | 60 000 |
| Staff bus | 2009 | 45 000 |
| | | 503 000 |

MYL has always claimed the maximum capital allowances possible on the fixed assets.

The statement of comprehensive income of MYL for the year ended 31 December 2011 showed a net profit of US$551 000 after taking into account debits and credits which included the following:

| | Note | US$ |
|---|---|---|
| **Credits** | | |
| Turnover | | 3 000 000 |
| Profit on disposal of shares | | 13 100 |
| Profit on sale of computer equipment | 1 | 3 200 |
| Dividend from CLP | 2 | 16 700 |
| Interest from financial institutions | | 5 400 |
| **Debits** | | |
| Administration expenses | 3 | 635 000 |
| Distribution expenses | | 189 350 |
| Staff expenses | 4 | 262 000 |
| Other operating expenses | 5 | 73 900 |

**Notes**

1 Profit on sale of computer equipment:

The computer equipment was procured in 2009 at a total cost of US$10 000 and disposed of during the year ended 31 December 2011 at US$13 200. Included in the computer equipment sold during the year is a laptop that was acquired for the IT manager's personal use at a cost of US$2 000. The laptop was also sold to the IT manager at cost.

2 Net dividend from CLP:

CLP is not listed on the Zimbabwe Stock Exchange. The dividend was declared during the first year of trading due to the impressive positive results posted.

3 Administration expenses

Included in the administration expenses are the following:

| | US$ |
|---|---|
| Extension to the manufacturing building | 43 000 |
| Depreciation | 60 300 |
| General repairs and maintenance | 7 500 |
| Export market development expenses | 32 000 |
| General entertainment costs | 15 000 |
| Donation to the management social club | 8 000 |
| | 165 800 |

4 Staff expenses are made up of the following:

| | US$ |
|---|---|
| Salaries and wages | 200 000 |
| Legal costs incurred in connection with employees' service contracts | 12 000 |
| *Ex-gratia* payments | 30 000 |
| HR manager trade convention costs | 20 000 |
| | 262 000 |

5 Other operating expenses

Included in other operating expenses are the following:

| | US$ |
|---|---|
| Interest paid (the loan was used to extend the manufacturing building) | 6 500 |
| Management retreat and seminar costs | 9 200 |
| Staff end of year party costs | 3 300 |
| | 19 000 |

**Additional information**

The turnover of MYL included in the statement of comprehensive income was accrued at a consistent rate throughout the year and is shown exclusive of value added tax.

MYL is fully tax compliant and enjoys a cordial relationship with ZIMRA officials. As at 30 November 2011 the total corporate tax paid for the year ended 31 December 2011 amounted to US$125 531.

**Required:**

**(a) (i) Classify the showroom included in Mwenje Yepasi Limited's fixed asset register and the one constructed by Candle Light (Private) Limited for tax purposes and calculate the capital allowances most advantageous to these two companies;** (3 marks)

**(ii) Identify the amounts to be included in the gross income of Candle Light (Private) Limited, and the amount claimable by the property owner, from the sale and part lease-back agreement for the year ended 31 December 2011;** (3 marks)

**(iii) State the tax implications of a local company paying a dividend to another local company.** (2 marks)

**(b) (i) Calculate the outstanding corporate tax payable by Mwenje Yepasi Limited for the year ended 31 December 2011. State the due date for the remittance of the tax to ZIMRA;** (2 marks)

**(ii) Calculate the output tax for the month of December 2011, and indicate by when the value added tax for the same month should be remitted to ZIMRA;**

Note: You are NOT required to deal with input tax; (2 marks)

**(iii) Calculate the capital allowances claimable by Mwenje Yepasi Limited for the year ended 31 December 2011;** (5 marks)

**(iv) Calculate the taxable income and respective tax payable by Mwenje Yepasi Limited for the year ended 31 December 2011.** (13 marks)

**(30 marks)**

**3** Greenland Investments Limited (GIL) is a registered hardware equipment retailer with a wide network of branches in major towns and some rural communities within the country. A decision was made at GIL's AGM on 15 December 2010 to dispose of all the loss-making branches and consolidate operations in order to survive in the current economic environment.

A board resolution was passed accordingly to dispose of two branches and use the proceeds to expand operations at the most profitable branch as well as to meet the new capital requirements.

On 5 June 2011, the following two branches were sold at market values through a local estate agent:

– Murambinda branch, situated at Murambinda, a designated growth point
– Rusape branch, situated in Rusape town.

The buildings from which the two branches operated were constructed on 2 March 2009 and operations commenced on 1 April 2009. All the movable assets of the two branches were acquired on 20 March 2009. 65% of the proceeds from the disposal of the Murambinda branch were applied towards the extension of the Newlands branch in Harare and all the proceeds from the Rusape branch were utilised to recapitalise the company.

Details of the agreement of sale are as follows:

**Murambinda branch:**

| | Cost<br>US$ | Market value<br>US$ |
|---|---|---|
| Branch building | 120 000 | 180 000 |
| Furniture and equipment | 30 000 | 35 000 |
| Three passenger vehicles | 60 000 | 50 000 |

**Rusape branch:**

| | Cost<br>US$ | Market value<br>US$ |
|---|---|---|
| Branch building | 150 000 | 200 000 |
| Furniture and equipment | 42 000 | 45 000 |
| Five passenger vehicles | 100 000 | 110 000 |
| Delivery truck | 15 000 | 10 000 |

All the movable assets from the Murambinda branch were transferred to the Newlands branch, while those from the Rusape branch were disposed of together with the branch building. GIL incurred a cost of 10% of the market values in connection with the disposal of the stated assets.

GIL's policy on fixed assets has always been to claim the maximum capital allowances at their disposal in any given year.

**Additional information**

GIL's tax file indicate the following assessed losses for the years ended 31 December 2009 and 2010:

| | 2009<br>US$ | 2010<br>US$ |
|---|---|---|
| Trading | 11 200 | 6 500 |
| Capital | 8 700 | nil |

**Required:**

**(a) (i) State any available tax dispensations at Greenland Investment Limited's disposal in order to minimise their tax burden for the year ended 31 December 2011;** (2 marks)

**(ii) Compare and contrast the ways in which assesed trading losses and capital losses may be utilised in general terms;** (2 marks)

**(iii) State how the assessed losses of Greenland Investments Limited should be utilised in the year ended 31 December 2011.** (1 mark)

**(b) (i) Calculate Greenland Investment Limited's recoupment to be included in their gross income for the year ended 31 December 2011. State your reasons for any exclusions;** (4 marks)

**(ii) Calculate Greenland Investment Limited's total capital gain and tax payable for the year ended 31 December 2011.** (6 marks)

**(15 marks)**

**4** Marine Life Enterprises Limited (MLE) is a company with investments in Luxury Boats (Private) Limited (LBP) and Ocean Deep Accessories (Private) Limited (ODA). The three companies were incorporated on 3 May 2010 and operate in the resort town of Victoria Falls.

MLE owns the following shares in both LBP and ODA:

| | Authorised shares | Shares owned by MLE |
|---|---|---|
| LBP | 500 000 | 400 000 |
| ODA | 1 000 000 | 400 000 |

The structure of the group is such that the management of the three companies is provided by MLE and in turn the other two companies pay a pre-determined monthly management fee. LBP specialises in the provision of luxury tours and boat cruises while ODA is a manufacturer of lifebelts and life jackets. The nature of the business carried on by the three companies is closely related and complementary and as a result intercompany transactions are common.

During the year ended 31 December 2011, MLE transferred the following assets to LBP and ODA at their original cost:

| | Date of Aquisition | Cost US$ | Market value US$ |
|---|---|---|---|
| LBP: Life boats | 3 May 2010 | 190 000 | 230 000 |
| ODA: Lifebelts manufacturing plant | 3 May 2010 | 140 000 | 175 000 |

MLE invoiced the following management fees for the year ended 31 December 2011:

| | Amount invoiced US$ | Amount received US$ |
|---|---|---|
| LBP | 960 000 | 960 000 |
| ODA | 750 000 | 600 000 |
| | 1 710 000 | 1 560 000 |

LBP and ODA also invoiced the following amounts to MLE for the services and goods procured for the year ended 31 December 2011:

| | Amount invoiced US$ | Amount received US$ |
|---|---|---|
| LBP | 395 000 | 395 000 |
| ODA | 580 000 | 560 000 |
| | 975 000 | 955 000 |

MLE returned defective life jackets invoiced at US$20 000 to ODA.

All amounts are stated inclusive of value added tax (VAT) where applicable.

**Required:**

**(a) (i) Explain the tax implications of the transfer of the fixed assets by Marine Life Enterprises Limited to the other two companies within the group;** (5 marks)

**(ii) Outline the statutory tax registration requirements of Marine Life Enterprises Limited and the other two group companies;** (3 marks)

**(iii) Explain briefly the value added tax (VAT) implication of intercompany transactions for registered tax operators.** (2 marks)

**(b) Calculate the VAT position of Marine Life Enterprises Limited and the other two group companies for the year ended 31 December 2011. You are to assume that all the three companies are VAT compliant and that they do NOT form a VAT group.** (5 marks)

**(15 marks)**

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**Question 5 begins on page 16.**

**5** Runako Meza is a self-employed ITC specialist with over 15 years experience. On 10 August 2011, Runako Meza opened a fully equipped state of the art computer and related consumables shop in Harare with the funds from the disposal of some of her fixed assets listed below.

| | Market value US$ |
|---|---|
| Household property | 9 000 |
| Private residence | 150 000 |
| Undeveloped residential property | 65 000 |
| 50 000 unlisted shares | 40 000 |
| Commercial vehicles | 72 000 |
| | 336 000 |

Before setting up her business, Runako Meza conducted an intensive market research and also engaged the services of a renowned business consultant for advice on her business venture.

The costs incurred in connection with the business set-up are detailed below:

| | Date | US$ |
|---|---|---|
| Market research costs | 31 March 2011 | 3 500 |
| Business consultant costs | 5 April 2011 | 5 800 |
| Stock procurement | 25 July 2011 | 60 000 |
| Office furniture and equipment | 25 July 2011 | 30 000 |
| Wages | 31 July 2011 | 2 300 |
| Shop rent | 1 July 2011 | 3 000 |
| | | 104 600 |

The business set-up costs were funded from the disposal of the following assets:

| | Date acquired | Original Cost US$ | Proceeds US$ |
|---|---|---|---|
| Household property | 1 January 2010 | 10 000 | 9 000 |
| Undeveloped residential property | 20 February 2010 | 42 000 | 65 000 |
| 30 000 unlisted shares | 31 March 2009 | 15 000 | 24 000 |
| Commercial vehicles | 5 January 2010 | 85 000 | 72 000 |
| | | 152 000 | 170 000 |

Runako Meza projected a net loss of US$23 000 for the year ended 31 December 2011. Her turnover for the year amounted to US$35 000. Her gross profit was $5 250

Operational expenses are detailed as below:

| | US$ |
|---|---|
| Shop rent | 7 500 |
| Executive desk | 5 900 |
| Salaries and wages | 10 000 |
| Other allowable office expenses | 6 600 |
| | 30 000 |

**Additional information**

Runako Meza received the following income for the year ended 31 December 2011 from investments.

| | US$ |
|---|---|
| Net dividends from shares | 4 200 |
| Net financial institution interest | 8 000 |

**Required:**

**(a) (i) State how Runako Meza's business set-up costs should be treated for tax purposes for the year ended 31 December 2011;** (3 marks)

**(ii) From the available information, outline Runako Meza's obligations as a taxpayer.** (2 marks)

**(b) (i) State, with reasons, the VAT treatment of the pre-trading expenses;** (2 marks)

**(ii) Calculate Runako Meza's corporation tax and capital gains tax liabilities for the year ended 31 December 2011;** (6 marks)

**(iii) Calculate the tax on the investment income and state how it is accounted for.** (2 marks)

**(15 marks)**

**End of Question Paper**