

Fundamentals Level – Skills Module

# Taxation (Zimbabwe)

Thursday 8 June 2017



**Time allowed:** 3 hours 15 minutes

This question paper is divided into two sections:

Section A – ALL 15 questions are compulsory and MUST be attempted

Section B – ALL SIX questions are compulsory and MUST be attempted

Tax rates and allowances are on pages 2–4.

**Do NOT open this question paper until instructed by the supervisor.**

**Do NOT record any of your answers on the question paper.**

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

Think Ahead

**ACCA**

**Paper F6 (ZWE)**

The Association of  
Chartered Certified  
Accountants

**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 in Section B.

**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 2016

Taxable income band US\$	Rate of tax %	Amount within band US\$	Cumulative income tax liability US\$
Up to 3 600	0	3 600	0
3 601 to 18 000	20	14 400	2 880
18 001 to 36 000	25	18 000	7 380
36 001 to 60 000	30	24 000	14 580
60 001 to 120 000	35	60 000	35 580
120 001 to 180 000	40	60 000	59 580
180 001 to 240 000	45	60 000	86 580
240 001 and over	50		

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

**Allowable deductions year ended 31 December 2016**

**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 deductible contributions to all the above per employee per year	US\$5 400

**Credits year ended 31 December 2016**

	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 2016**  
**Motor vehicles**

Engine capacity:	US\$
Up to 1500cc	3 600
1501 to 2000cc	4 800
2001 to 3000cc	7 200
3001cc and above	9 600

### 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%
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### 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 2016

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

### Capital gains tax

Immovable property and unlisted marketable securities acquired after 1 February 2009	20% of gain
Immovable property and unlisted marketable securities acquired prior to 1 February 2009	5% of gross proceeds
Disposal of listed marketable securities	1% of gross proceeds
On principal private residence where the seller is over 55 years	0%
Inflation allowance	2.5%

<b>Capital gains withholding tax on sale proceeds</b>	<b>%</b>
Immovable property	15
Marketable securities (listed)	1
Marketable securities (unlisted)	5

**Note: Other than the withholding tax on listed marketable securities, the withholding tax is not final on the seller. Actual liability is assessed in terms of the Capital Gains Tax Act.**

<b>Withholding taxes</b>	<b>%</b>
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-executive director's fees	20
Contracts (ITF 263)	10

<b>Non-residents' tax</b>	<b>%</b>
On interest	nil
On certain fees and remittances	15
On royalties	15

<b>Residents' tax on interest</b>	<b>%</b>
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 2016

	<b>US\$</b>
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 exempt.

Benefit derived from the acquisition of a passenger motor vehicle from an employer is exempt.

**Section B – ALL SIX questions are compulsory and MUST be attempted**

Please write your answers to all parts of these questions on the lined pages within the Candidate Answer Booklet.

- 1 Blue (Private) Limited (Blue) is a category A value added tax (VAT) operator. An extract of Blue’s trading activities and transactions for the six-month period ended 30 November 2016 is shown below:

	June US\$	July US\$	August US\$	September US\$	October US\$	November US\$
<b>VAT inclusive amounts:</b>						
Supply of goods	20 000	25 000	30 000	28 000	22 000	18 000
Supply of services	10 000	12 000	0	0	15 000	13 000
Debit notes	(3 000)	(2 000)	0	0	0	0
Purchases	(14 000)	(11 000)	(8 000)	(10 000)	(16 000)	(10 000)
Credit notes	0	1 000	0	0	4 000	0
<b>VAT exclusive amounts:</b>						
Other payments/accruals:						
Stationery	(7 500)	(8 100)	(7 900)	(4 800)	(4 500)	(3 900)
Office rent	(1 200)	(1 200)	(1 200)	(1 200)	(1 200)	(1 200)
Fuel	(1 500)	(1 100)	(1 800)	(1 300)	(2 100)	(1 900)
General repairs	(2 300)	0	0	(2 800)	(2 400)	0
Bank charges	(500)	(500)	(500)	(500)	(500)	(500)

**Required:**

- (a) State the value added tax (VAT) periods and VAT return submission dates for Blue (Private) Limited for the six-month period ended 30 November 2016. (2 marks)
- (b) Calculate the VAT payable by or refundable to Blue (Private) Limited for each VAT period in the six-month period ended 30 November 2016.

Note: You should list all of the items referred to in the question and indicate by the use of a zero (0) any item which has no VAT effect. (8 marks)

**(10 marks)**

**2** Maureen is a sole trader and is registered for corporation tax. She has been specified by the Zimbabwe Revenue Authority (ZIMRA) to be taxed under the self-assessment system.

On 10 August 2016, Maureen received an estimated assessment dated 31 July 2016 in respect of the year ended 31 December 2015. The estimated assessment shows corporation tax payable of US\$18 000.

Maureen's accounting records show that her actual corporation tax payable for the year ended 31 December 2015 is US\$26 000, after taking into account provisional tax paid of US\$12 000. Maureen believes that because the estimated assessment of tax payable is favourable, she is not obliged to submit an income tax return for the year ended 31 December 2015.

**Required:**

- (a) Outline the circumstances in which an estimated assessment can be issued by the Zimbabwe Revenue Authority (ZIMRA).** (3 marks)
- (b) Briefly comment on Maureen's view regarding the estimated assessment she has received for the year ended 31 December 2015.** (2 marks)
- (c) Outline the tax consequences of Maureen's failure to submit an income tax return for the year ended 31 December 2015.**

**Notes:**

- 1. Your answer should state the income tax return submission date and the due date for the payment of tax under the self-assessment system.
- 2. You should include appropriate calculations to support your answer. (5 marks)

**(10 marks)**

- 3 Exclusive Hair Growers Limited (EHG) is a manufacturer of hair products. Following a board resolution, EHG decided to cease business operations in Harare and relocate the business to Rusape.

EHG disposed of the following property, plant and equipment on 20 April 2016:

	Date acquired	Cost (US\$)	Selling price (US\$)
Industrial building	2010	100 000	200 000
Furniture and fittings	2010	30 000	20 000
Factory plant and equipment	2011	50 000	30 000
Commercial building	2012	120 000	220 000
Office equipment	2012	40 000	30 000
		<u>340 000</u>	<u>500 000</u>

The sale proceeds of the Harare operations were applied towards the acquisition of new business property, plant and equipment in Rusape on 25 November 2016 as follows:

	Cost (US\$)
Industrial building	150 000
Commercial building	180 000
Furniture and fittings	30 000
Factory plant and equipment	60 000
Office equipment	40 000
	<u>460 000</u>

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

**Required:**

- (a) State the tax relief available to Exclusive Hair Growers Limited in connection with the disposal of the Harare properties and state the qualifying criteria.

Note: Calculations are not required for this part. (4 marks)

- (b) Assuming that the tax relief identified in part (a) is claimed, calculate the capital gains tax (CGT) payable by Exclusive Hair Growers Limited for the year ended 31 December 2016. (6 marks)

**(10 marks)**

4 CC Holdings Limited is the parent company of an exclusive farming group. The group's business operations are carried out in Zimbabwe, Zambia and Mozambique via three subsidiary companies. The head office is situated in Lusaka, Zambia.

The Zimbabwean subsidiary company, CC Zim (Private) Limited, accounts for 52% of the group's operations. CC Zam (Pty) Limited of Zambia accounts for 28% of the group's operations and CC Moz (Pty) (Limited) of Mozambique accounts for 20% of the group's operations.

CC Holdings Limited owns 100% of the shares in the three subsidiary companies. None of the subsidiary company shares are quoted on any stock exchange. During the year ended 31 December 2016, the three subsidiary companies paid the following amounts to CC Holdings Limited as management fees for the general administration of head office:

	US\$
CC Zim (Private) Limited	36 400
CC Zam (Pty) Limited	19 600
CC Moz (Pty) Limited	14 000
	<u>70 000</u>

CC Zim (Private) Limited's operational expenses for the year ended 31 December 2016 are as follows:

	US\$
Employment expenses	150 000
Lease premium	45 000
Distribution expenses	90 000
Management fees	36 400
General administration expenses	70 000
	<u>391 400</u>

**Additional information**

The lease premium is a one-off payment made by CC Zim (Private) Limited to the Municipality of Harare in respect of a 15-year lease agreement signed on 2 January 2016.

The Zimbabwe Revenue Authority (ZIMRA) considers 60% of the general administration expenses to be allowable.

**Required:**

**(a) Explain how the residence of a company is determined for tax purposes and state the residence of CC Holdings Limited.** (3 marks)

**(b) Explain the tax treatment of the management fees paid by CC Zim (Private) Limited.**

Note: You should include appropriate calculations to support your answer. (7 marks)

**(10 marks)**



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Question 5 begins on page 14.**

5 Perfect Harvest Limited (PHL) operates in the manufacturing industry and commenced business operations in 2010. PHL manufactures water harvesting accessories and exports most of its products to drought prone countries in Africa. For the year ended 31 December 2016, of the total 320 000 units sold by PHL, 167 000 units were exported.

PHL paid a total of US\$10 000 in provisional tax for the year ended 31 December 2016. The financial statements for the year ended 31 December 2016 show a net loss of US\$95 000 after taking into account the following credits and debits to the statement of profit or loss:

	Note	US\$
<b>Credits</b>		
Revenue		659 000
Net interest received from commercial banks		12 000
Net foreign exchange gain		25 000
Hire of equipment		10 000
Compensation for loss of income	1	30 000
		<u>736 000</u>
<b>Debits</b>		
Staff expenses	2	250 000
Marketing and distribution expenses	3	150 000
Donations	4	90 000
Entertainment	5	50 000
Repairs and maintenance		137 000
Loss on sale of a commercial vehicle	6	13 000
Legal fees	7	30 000
General administration expenses	8	65 000
Finance costs	9	46 000
		<u>831 000</u>

#### Notes

1. The compensation for loss of income was received from an insurance company in relation to the loss suffered as a result of a delayed repair to factory plant and equipment.

2. Staff expenses comprise the following:

	US\$
Salaries and wages	180 000
Penalty for late remittance of PAYE	10 000
Contributions to an employee sickness benefit fund (20 employees)	40 000
Provision for employee awards	20 000
	<u>250 000</u>

3. Included in marketing and distribution expenses is US\$17 000 incurred by the marketing manager to attend a trade convention in South Africa and US\$30 000 paid for advertising outside Zimbabwe.

4. Donations comprise the following:

	US\$
Contributions to SIRDC, a research institution	60 000
Building material for the construction of a local church	30 000
	<u>90 000</u>

5. ZIMRA considers 75% of the entertainment expenses to be directly related to PHL's business.

6. The commercial vehicle originally acquired on 1 September 2011 had a nil income tax value. It was sold for US\$37 000 on 10 June 2016 and the original cost was US\$50 000.

7. Legal fees comprise the following:

	US\$
Shareholder agreements for shares offered to senior managers	20 000
Redrafting of employee contracts in line with the new Labour Act	10 000
	<u>30 000</u>

8. General administration expenses comprise the following:

	US\$
Underpinning of the factory building foundation	35 000
Employees' teas and refreshments	11 000
Impairment loss, 5% of the trade receivables	19 000
	<u>65 000</u>

9. Included in finance costs is a loan establishment fee of US\$16 000 in respect of a US\$150 000 loan. The loan was used to buy two commercial vehicles costing US\$110 000 in total and the remaining US\$40 000 of the loan was used to fund recurring expenditure. The two commercial vehicles had not been delivered as at 31 December 2016.

The rest of the finance costs relate to interest payable on the US\$150 000 loan.

**Required:**

**(a) State the tax relief available to manufacturing companies which export part of their output.**

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

**(b) Calculate the taxable income and corporation tax payable by Perfect Harvest Limited for the year ended 31 December 2016.**

Notes:

1. You should start your calculation with the net loss of US\$95 000 and indicate by the use of a zero (0) any amounts referred to in the question for which no adjustment is required.
2. Ignore any value added tax (VAT) implications. (13 marks)

**(15 marks)**

**6** Don Churu is employed as a nursing supervisor at a retirement home in Kadoma. The following information relates to Don's employment earnings and deductions for the year ended 31 December 2016:

- (1) Don received a gross annual salary of US\$21 000. He also received a bonus equal to 10% of his gross annual salary on 30 November 2016.
- (2) Don lived for free in a house provided by his employer throughout the year ended 31 December 2016. Don considers the fair rental value of the property to be US\$150 per month, although the market rent for similar properties in the area is US\$350 per month.
- (3) Don has made use of a motor vehicle provided by his employer for the past five years. The motor vehicle has an engine capacity of 2 500cc. On 1 June 2016, Don was permitted to purchase the motor vehicle for 50% of the market value, as stipulated in his employment contract. As at 1 June 2016, the market value of the motor vehicle was US\$12 000. In line with employer policy, a total of US\$1 500 was paid by Don's employer in respect of motor vehicle maintenance for the vehicle purchased by Don for the period 1 June 2016 to 31 December 2016.
- (4) On 1 June 2016, Don's employer provided him with a new motor vehicle with an engine capacity of 3 200cc.
- (5) Once every year, on his annual leave, Don is entitled to stay free of charge at a holiday chalet owned by his employer. The daily rate for similar holiday chalets is US\$50. For the year ended 31 December 2016, Don stayed in the chalet for 10 days during his annual leave.
- (6) Don received donations from the traditional donors of the retirement home valued at US\$1 800 for the year ended 31 December 2016 as follows:

	US\$
Safety clothing	600
Food hampers	500
Second hand clothing	700
	1 800
	1 800

- (7) The following amounts were deducted from Don's earnings for the year ended 31 December 2016:

	US\$
Employees tax (PAYE)	3 000
Pension fund contributions	4 800
Retirement annuity fund contributions	1 200
Medical aid society contributions	7 000
Subscriptions to the Zimbabwe Nurses Association (ZNA)	1 000
Satellite television subscriptions	1 100
Funeral insurance policy	1 300
Loan repayment (see note below)	1 500
All risk insurance policy	2 000

**Note**

The loan repayment was in respect of a loan advanced by Don's employer to enable Don to purchase the old motor vehicle in (3). The loan of US\$6 000 was advanced on 1 June 2016 at an interest rate of 2% per annum. The LIBOR for the year ended 31 December 2016 was constant at 1%.

**Required:**

- (a) **Outline, in general terms, the basis of valuation of employee fringe benefits for income tax purposes.** (2 marks)
- (b) **Calculate Don Churu's taxable income and income tax payable for the year ended 31 December 2016.**

**Note:** You should indicate by the use of zero (0) any amounts which are not required to be included or which are not deductible in calculating taxable income. (13 marks)

**(15 marks)**