

Fundamentals Level – Skills Module

# Taxation (Zimbabwe)

Monday 7 June 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)

# ACCA

## 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 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%
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### 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	%
<b>Companies</b>	
<b>Income Tax</b>	
Basic rate	30
AIDS levy	3
<b>Individuals</b>	
<b>Income Tax</b>	
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.

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Question 1 begins on page 6.**

**ALL FIVE questions are compulsory and MUST be attempted**

- 1 Nigel Nadat, aged 57, is the operations manager at Nadat and Sons P/L. The company specialises in the provision of sophisticated mining equipment to various mining conglomerates around the country.

Nadat and Sons P/L has been facing operational challenges due to the prevailing economic environment. After discussion and agreement at the company's works council meeting, a decision was made at the company's extraordinary general meeting to place all employees on unpaid leave for a period of seven months ended 31 July 2009 and thereafter to pay employees 50% of their entitlements for the period to December 2009.

**Nigel Nadat's earnings and entitlements from employment for the year ended 31 December 2009**

	US\$
Salary	15 000
Telephone allowance	1 000
Fuel coupons	500
Education allowance	1 700
Grocery allowance	1 200
Entertainment allowance (DSTV subscriptions)	700
Pension contributions made by Nigel	(1 125)
NSSA contributions made by Nigel	(600)
Allowance in lieu of bonus	400
Medical aid contributions made by Nigel	(800)

**Other entitlements and additional information**

Nigel Nadat resides in a fully furnished company house in Belvedere Harare. The market rental of similar properties is US\$ 500 per month. He is also entitled to a fully expensed company vehicle, a Toyota Vigo, engine capacity 3 300cc.

Nigel Nadat also received the following other income during the year:

	US\$
Compensation from wife's employer for work related accident which led to her death	18 000
NSSA death benefit	10 000
Matured retirement annuity fund receipt	800
Gross dividends from Old Mutual	3 000
Rental income	5 000
Interest on Bankers Acceptances (BAs)	6 000
Interest from ZB bank	500

Nigel Nadat has been studying the Income Tax Act and is of the opinion that he has no liability to Zimbabwean income tax on his earnings since his actual period of employment for the year ended December 2009 is less than 183 days. He gave the human resources manager an express instruction not to deduct any PAYE from his entitlements.

**Required:**

- (a) **State giving reasons whether or not Nigel Nadat's views as to his Zimbabwean tax status are correct and explain the possible tax consequences if his instruction to the human resources manager of Nadat and Sons P/L is acted upon.** (5 marks)
- (b) **Assuming Nigel is fully liable to Zimbabwean tax:**
- (i) **Calculate his taxable income and tax payable in respect of his employment for the year ended 31 December 2009;** (10 marks)
- (ii) **Explain the treatment of his other income, calculate the tax payable and state when any tax payable should be remitted to ZIMRA.** (10 marks)

**(25 marks)**

- 2 Professional Women Wear P/L (PWW) has been trading in quality women garments for the past three years. The company is situated in the Graniteside industrial site in Harare. The past three years have been particularly difficult for PWW as it tried to make inroads into the highly competitive fashion industry.

The following are the results of the tax assessments of PWW for the last three years:

Year	US\$
2006	(11 000)
2007	(7 000)
2008	(3 000)

The shareholders of PWW are very optimistic about the viability of the business and have embarked on a massive expansion drive as well as local and regional aggressive marketing campaigns.

The budgeted trading and income statement of PWW for the year ended 31 December 2009 reflected a net profit of US\$ 117 000 after accounting for the following:

	Notes	US\$	US\$
Turnover			1 047 000
Cost of sales	(1)		(360 000)
Gross profit			687 000
Other operating income	(2)		100 000
Direct selling expenses	(3)	73 000	
Distribution expenses	(4)	180 000	
Administration expenses	(5)	217 000	
Staff expenses	(6)	161 000	
Finance costs	(7)	39 000	(670 000)
Net profit			117 000

#### Notes to the budgeted trading and income statement

- (1) Cost of sales

Purchases returns of US\$ 15 000 have not been accounted for.

Included in cost of sales is a late VAT return submission penalty of US\$5 000.

- (2) Other operating income

	US\$
Sale of defective clothing	40 000
Sale of off-cuts	13 000
Sale of shares	12 000
Sale of office equipment (original cost US\$17 000)	20 000
Bank interest	5 000
Company dividends	10 000
	100 000

- (3) Direct selling expenses

	US\$
Entertainment expenses (80% directly attributable to PWW business)	10 000
Advertising costs	48 000
Mozambique trade convention held on 25 June 2009	15 000
	73 000

(4) Distribution expenses

	US\$
Motor vehicle repairs and maintenance	60 000
Motor vehicle insurance and licensing	11 000
Fuel costs	50 000
Toll fees	3 000
Procurement of an additional commercial vehicle	56 000
	<u>180 000</u>

(5) Administration expenses

	US\$
Electricity and water	16 000
Communication expenses	22 000
Printing and stationery	10 000
Repairs and maintenance	45 000
Initial painting of the new factory building extension	41 000
Depreciation	61 000
Provision for bad debts (10% of total debtors)	8 000
Approved industrial research paid to a Harare college	14 000
	<u>217 000</u>

(6) Staff costs

	US\$
Salaries and wages	90 000
NSSA contributions	10 000
Canteen costs	33 000
Medical aid contributions	15 000
Staff recruitment costs	7 000
Staff training	6 000
	<u>161 000</u>

(7) Finance costs for the year were solely incurred in connection with the loan utilised for the construction and acquisition of the fixed assets as detailed in the fixed asset register below.

The following is the summary of the fixed asset register of PWW for the year ended 31 December 2009:

	Date acquired /constructed	Cost US\$	Income Tax value US\$
Factory building	2006	350 000	nil
Administration building	2006	280 000	252 000
Factory building extension	2009	240 000	120 000
Security wall	2006	50 000	nil
Factory plant	2006	200 000	nil
Office equipment	2006	150 000	nil
Furniture and fittings	2006	80 000	nil
Commercial vehicles	2007	90 000	22 500
Passenger vehicles (6)	2009	60 000	30 000
Show room	2009	120 000	117 000
Total		<u>1 620 000</u>	<u>541 500</u>



**Required**

- (a) State the treatment of the assessed losses incurred by Professional Women Wear P/L for each of the years ended 31 December 2006 to 2008 clearly explaining any restrictions on deductibility. (5 marks)
- (b) Calculate the provisional taxable income and the corporate tax payable by Professional Women Wear P/L for the year ended 31 December 2009 and indicate the due dates for the remittance of the tax. (25 marks)

**(30 marks)**

- 3** Ian and Ruth Smit, both in their late forties, are married in community of property and have been living at their residence in the Borrowdale area for the past ten years. Before moving to their Borrowdale house, the Smits had disposed of their house in the Waterfalls area and applied the proceeds towards acquisition of their new Borrowdale residence.

The 1999 Capital Gains Tax assessment on the disposal of the Smit's Waterfalls residence reflected a loss of US\$1 500.

Ian Smit was offered a lectureship post at the University of Cape Town in South Africa on 10 February 2009. The Smits disposed of their Borrowdale residence, marketable securities and other personal effects on 25 January 2009 at market values and relocated to South Africa to begin their new life. The direct selling expenses paid to the estate agent and the stockbrokers amounted to 10% of the market values.

The following is the list of the fixed assets that were disposed of by the Smits:

	Date acquired	Cost US\$	Market value on sale US\$
Borrowdale residence	1999	120 000	250 000
Houseboat	2004	15 000	17 000
Ford Ranger 4X4	2002	10 000	15 000
Household furniture	1999	13 000	6 000
Listed shares	2007	35 000	50 000
Unlisted shares	2006	14 000	17 000

#### Additional information

The Smits incurred the following additional expenses on the Borrowdale residence in order to bring the property to their desired standard:

	Date	cost US\$
Swimming pool	2001	2 000
Lock-up garage	2000	5 000
Security wall	2000	7 000

The Smits donated their unlisted shares to a local orphanage, the Borrowdale Children's Home.

#### Other expenses

	US\$
Transfer fees	500
Legal charges	500
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	1 000
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#### Required:

- (a) (i) Explain how the 1999 assessed loss may be used, outlining any limiting factors; (2 marks)
- (ii) Calculate the capital gains withholding tax to be paid by Ian and Ruth Smit on the disposal of their specified assets; (3 marks)
- (iii) Outline the tax effect of the donated shares. (1 mark)
- (b) Calculate the capital gain and tax payable by Ian and Ruth Smit in connection with the disposal of their assets for the year ended 31 December 2009. (9 marks)

**(15 marks)**

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Question 4 begins on page 12.**

- 4 Miriro Vengeso, a reputable caterer, won the tender to provide meals to students at a vocational college in Masvingo. She commenced her business operations in January 2009 with the aid of a staff complement of ten.

Miriro Vengeso's monthly sales ledger is as follows:

	US\$
January 2009	4 000
February	5 000
March	5 000
April	6 000
May	6 000
June	7 500
July	8 500
August	9 000
September	9 000
October	6 000
November	6 000
December	5 000
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	77 000
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Monthly purchases ledger

	US\$
January 2009	1 500
February	2 000
March	2 000
April	2 500
May	2 500
June	3 000
July	3 000
August	3 500
September	3 500
October	2 500
November	2 000
December	2 000
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	30 000
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Overheads for the year ended 31 December 2009 (VAT inclusive as appropriate)

	US\$
Electricity and water	1 800
Rent	6 000
Printing and stationery	700
Salaries and wages	24 000
Repairs and maintenance	2 200
Motor vehicle expenses	5 000
Depreciation	3 500
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	43 200
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Additional information

Miriro Vengeso is not yet registered for VAT since she believes that her operations are small and hence not eligible for registration. Further, she has also procured all her purchases from unregistered operators and is not aware of the implication to her.

**Required:**

- (a) (i) State giving reasons whether or not Miriro Vengeso should have registered for VAT and state the date by which she should have registered; (4 marks)
- (ii) Calculate Miriro Vengeso's output tax exposure to ZIMRA for the period that she should have been registered and also quantify where possible ZIMRA's remedies for non compliance; (3 marks)
- (iii) Outline the VAT implication for registered operators in general for procurements sourced from unregistered operators. (1 mark)
- (b) Assuming that Miriro Vengeso has always been a registered operator, calculate her VAT payable for the year ended 31 December 2009. (5 marks)
- (c) State TWO circumstances in which VAT registration can be cancelled. (2 marks)

**(15 marks)**

- 5 DD Engineering P/L (DDE) commenced a new project involving the provision of infrastructure to Ruya, a designated growth point. The new project was approved by the Commissioner on 15 January 2009 and DDE set to work thereafter in anticipation of the boom in business due to the 2010 FIFA World Cup to be held in neighbouring South Africa.

DDE's mandate is to provide state of the art roads, bridges, water reticulation system and self catering lodges and chalets at Ruya growth point.

The infrastructure development was completed on 30 September 2009 and trading operations commenced on 1 October 2009. The lodges and chalets occupancy rate for the three months to December 2009 has been on an upward trend due to the proximity of the growth point to the highway linking Zimbabwe and South Africa.

The following are the fixed assets constructed/acquired and brought into use by DDE during the year ended 31 December 2009:

	US\$
Cranes and heavy duty machinery	150 000
Tractors	100 000
4X4 passenger vehicles (4)	80 000
Chalets and lodges	450 000
Administration block	60 000
Furniture, fittings and equipment	180 000
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	1 020 000
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DDE's income statement for the year ended 31 December 2009 is as follows:

	US\$
Gross profit	560 000
Less expenses:	
Pre-trading expenses (salaries and wages)	(45 000)
Hire of equipment	(28 000)
Salaries and wages	(30 000)
Depreciation	(114 000)
Other administration expenses (allowable)	(20 000)
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Net profit	323 000
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#### Note

DDE's policy on fixed assets is to elect to claim the special initial allowance where possible.

#### Required:

- (a) (i) Explain the tax reliefs that are available to DD Engineering P/L as a result of the nature and place of its business operations; (5 marks)
- (ii) Compute the growth point investment allowance claimable by DD Engineering for the year ended 31 December 2009. Your answer should note which assets do not qualify for the allowance. (4 marks)
- (b) Calculate the taxable income or loss and any tax payable as appropriate for DDE Engineering P/L for the year ended 31 December 2009. (6 marks)

(15 marks)

End of Question Paper