Fundamentals Level – Skills Module

Taxation (Zimbabwe)

Tuesday 4 June 2013

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

This is a blank page.
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 2012

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% of income tax payable, less credits remains in place.

Allowable deductions year ended 31 December 2012

Pension fund contribution ceilings

	2012 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 2012

	2012 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 2012
Motor vehicles

Engine capacity:	2012 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 2012

	%
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	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	15
From other financial institutions (including discounted securities)	15

Elderly taxpayers (55 years and over)

The exemptions from income tax are as follows:

	Year ended 31 December 2012 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 John Kyle is a qualified geologist with several years working experience in geological surveys. He also sits on the boards of a number of reputable mining conglomerates including the company he currently works for, Rocks Limited. Due to his extensive knowledge in geological work, John is often subcontracted by Rocks Limited to offer training services to other unconnected mining companies.

During the year ended 31 December 2012, Rocks Limited established an office in Harare and John was transferred to work at the new office. He was offered a fully furnished company house for his accommodation. The company house is located in Dawning Park just outside the municipality of Harare. The household furniture was bought by Rocks Limited at a total cost of US$35 000.

John's earnings and deductions from employment for the year ended 31 December 2012:

	Notes	US$
Salary from Rocks Limited		80 000
Earnings from subcontracted work	(1)	95 000
Passage benefit	(2)	5 000
Director's fees for acting as a director of Rocks Limited	(3)	40 000
Thirteenth cheque		7 000
Representation allowance		10 000
Conference allowance	(4)	15 000
Fuel allowance	(5)	12 000
Leave pay		6 700
Performance bonus		9 500
Rental paid to Rocks Limited for company house		(3 000)
Funeral policy contributions		(2 000)
Subscriptions paid by John to the Institute of Geological Surveys		(4 000)
Pension contributions paid by John		(8 000)
PAYE	(6)	(23 000)
Other earnings		
Rental income from principal private residence		95 000
Contract fees	(7)	65 000

Notes

(1) The amount is calculated based on 5% of the amount invoiced by John's employer whenever he is subcontracted to offer training to other mining companies.

(2) The amount refers to the cost of John's relocation to Harare. The amount was paid in full by his employer. His place of ordinary residence before his engagement with the mining company has always been Manicaland province.

(3) The amount was paid by Rocks Limited for the year ended 31 December 2012.

(4) The amount detailed below was paid by Rocks Limited for his participation at a week long mining managers' conference held in the resort town of Victoria Falls during the year:

	US$
Travelling expenses (amount incurred)	2 000
Spouse's shopping	5 000
Accommodation, meals and related direct expenses	8 000
	15 000

(5) Fuel allowance for the year refers to the amount paid by Rocks Limited to John to cover the fuel expenses for his company allocated vehicle, a Nissan Navara, engine capacity 3300cc. The total mileage for the year was 30 000km of which 20 000 km was directly related to the business of the employer.

(6) The PAYE was wholly paid by Rocks Limited on behalf of John as part of the agreed engagement terms, such that John received his full gross salary.

(7) The contract fees were paid by one of the two companies which engaged John as an independent contractor during the year. The other company paid John for his services by giving him 30 000 listed shares valued at US$1·50 per share on 31 March 2012. On 5 August 2012, John disposed of 10 000 of the shares at a market value of US$7 a share and used the proceeds to set up a business for his spouse.

Additional information

While analysing the chemical composition of a mineral deposit in the laboratory on 30 June 2012, John was accidentally permanently blinded in one eye. The medical expenses were covered by Rocks Limited and NSSA also paid John a total amount of U$20 000 as compensation for the occupational accident. Rocks Limited also increased his monthly medical contributions from US$1 000 to US$1 200 per month in order to ensure his adequate medical cover. The amount was paid by Rocks limited in full as part of the contractual agreement.

Required:

(a) Identify ANY TWO factors which determine an engagement is treated as employment and ANY TWO factors which indicate self-employment; (2 marks)

(b) Explain the tax treatment of the following items:

(i) Earnings from subcontracted work (note 1); (1 mark)

(ii) Passage benefit (note 2); (1 mark)

(iii) Conference allowance (note 4); (1 mark)

(iv) PAYE (note 6); (1 mark)

(v) NSSA compensation as detailed in the additional information. (1 mark)

Note: No calculations are required in part (b).

(c) (i) Calculate the value of the taxable benefits arising from John Kyle's usage of the company house; (2 marks)

(ii) Calculate the taxable income and tax arising from the share transactions detailed in note (7) above; (3 marks)

(iii) Calculate the taxable income and tax payable by John Kyle for the year ended 31 December 2012.

Note: Indicate any amounts not taxable or not deductible by the use of a zero. (13 marks)

(25 marks)

2 Green Feeds Limited (GF) produces a special type of racehorse feed from its factory in the Stapleford area situated on the western outskirts of Harare. The company commenced fully fledged business operations in 2010 after a successful pilot project in 2009. The company owns a piece of land in which it grows the special grass which is the main ingredient in the production of the horse feed. The horse feed is in demand among the local horse breeders and also outside Zimbabwe where the number of farmers has been steadily growing over the years. Due to the anticipated growth in demand for the horse feed, GF entered into lease agreements with neighbouring farmers for the year ended 31 December 2012 for the hire of farming land in order to increase the production of the special grass.

GF's sales records for the past three years are as follows:

Year	Local sales volume (kg)	Exports volume (kg)	Total sales volume (kg)
2010	500 000	500 000	1 000 000
2011	600 000	800 000	1 400 000
2012	600 000	950 000	1 550 000

The following is a schedule of GF's fixed asset register as at 31 December 2012:

	Date acquired	Cost (US$)
Factory building	2009	125 000
Office building	2009	100 000
Plant and machinery (two shifts)	2010	80 000
Staff housing (3 units)	2010	60 000
Staff housing (5 units)	2012	150 000

GF has never indicated to ZIMRA their preference on the capital allowances claim.

GF's projected taxable income for the year ended 31 December 2012 is US$345 500 and the actual net profit for the year is US$1 815 000 after taking into account the following credits and debits to the statement of profit or loss:

	Note	US$
Credits		
Gross profit		2 641 200
Interest receivable	1	122 800
Compensation from insurance	2	15 000
Other taxable income		243 000
Debits		
Interest payable	3	58 000
Staff costs	4	571 000
Distribution costs	5	251 000
Depreciation		60 000
Impaired debts provision	6	153 000
Legal fees	7	15 000
Other administrative costs	8	99 000

Notes

1. Interest:

	US$
From financial institutions	12 300
On overdue credit customers	110 500
	122 800

2. Compensation from insurance:

   The amount was paid to replace the two office computers which were damaged by lightning during the year.

3. Interest:

The loan of US$ 290 000 was advanced by a local financial institution during the year ended 31 December 2012 and applied as follows:

	US$
Purchase of shares	150 000
Fencing of leased farms	70 000
Sinking of boreholes on leased farms	30 000
Procurement of the quality controller's vehicle (The vehicle is used equally for both business and non-business related issues and was purchased outright)	40 000
	290 000

Total interest paid for the year – US$58 000.

4. Staff costs:

	US$
Salaries and wages	253 000
Canteen expenses – general staff	25 000
Canteen expenses – executive staff	41 000
Provision for directors' fees	160 000
Lump sum payment (detailed below)	72 300
Penalty for late PAYE	6 300
Employees' end of year party	13 400
	571 000

The lump sum payment was made to the former production manager as settlement for him not to engage in similar business to that of GF for the next three years.

5. Distribution costs:

	US$
Transportation	135 000
Vehicle lease hire (4 vehicles)	96 000
Repairs and maintenance of leased vehicles	20 000
	251 000

The leased vehicles are used by management staff equally for business purposes as well as non-business related purposes.

6. Impaired debts provision:

	US$
1% of the debtors book	105 000
Purchased as a condition of the land lease agreement	37 000
Insolvent debtor	11 000
	153 000

7. Legal fees:

	US$
Preparation of the memorandum of understanding with former production manager	3 000
Preparation of the casual workers' contracts	12 000
	15 000

8. Other administrative costs:

	US$
Rental of farming land	28 000
Advertisement and promotion outside the country	35 000
Trademark registration	20 000
Entertainment of prospective clients	16 000
	99 000

Additional information

During the year ended 31 December 2012, GF leased a total of two neighbouring farms but only managed to put the farming land of one of them into productive use, due to cash flow constraints.

Required:

(a) (i) State, giving reasons, the rate of tax which will be applied to the taxable income of Green Feeds Limited for the year ended 31 December 2012; (2 marks)

(ii) Explain the tax treatment of the interest receivable (Note 1) and compute the amount of interest payable (Note 3) which may be deducted in arriving at taxable income; (5 marks)

(iii) Outline the conditions for the deductibility of impaired debts. (2 marks)

(b) (i) Calculate the provisional tax payable by Green Feeds Limited for the year ended 31 December 2012, clearly indicating by when the tax should be remitted to ZIMRA; (3 marks)

(ii) Calculate the taxable income and respective tax payable by Green Feeds Limited for the year ended 31 December 2012.

Note: Your computation should also list all of the items referred to in notes 1 to 8, indicating with the use of a zero (0) any items which do not require adjustment. (18 marks)

(30 marks)

3 George Moyo and his son, Peter, are the only shareholders in their company G&P Transporters (Private) Limited (GPT), a haulage company based in Bulawayo. The company was incorporated in 2010 and took over the unincorporated family business which was established in 2009. Due to the viability challenges faced by most businesses in Bulawayo in the year ended 31 December 2012, George and Peter resolved to sell their business and relocate to Harare. GPT's fixed assets were sold on 15 March 2012 and part of the proceeds were applied towards the acquisition of another haulage business in Harare.

The following are the assets originally transferred from the family business:

	Date acquired	Original cost
		US$
Haulage trucks	8 February 2009	120 000
Office building	8 February 2009	100 000
Paved parking yard	8 February 2009	60 000
Office equipment	8 February 2009	25 000

When GPT took over the unincorporated family business in 2010, the company erected a security wall around the immovable property at a total cost of US$30 000. It has always been George and Peter's policy to claim maximum capital allowances where applicable as well as to take advantage of all the tax dispensations at their disposal in any given year. The same policy was also applied by GPT.

The market values of GPT's fixed assets as at 15 March 2012 are as follows:

	US$
Haulage trucks	85 000
Office building	150 000
Paved parking yard	80 000
Office equipment	20 000
Security wall	50 000
	385 000

GPT paid 10% of the sale proceeds towards the respective disposal expenses. All the movable assets were transferred to the Harare haulage business. The total sale proceeds received for the Bulawayo business amounted to US$420 000 including the goodwill element. GPT acquired another immovable property in Harare on 31 August 2012 at a total cost of US$140 000.

Required:

(a) (i) (1) List ANY TWO assets of G&P Transporters (Private) Limited (GPT) which are chargeable to capital gains tax; (1 mark)

(2) List ANY TWO assets which are exempted from capital gains tax.

Note: Part (2) is not restricted to assets owned by GPT. (1 mark)

(ii) Briefly explain the tax treatment of the proceeds from goodwill received by GPT on the disposal of the Bulawayo business;

Note: No computation is required for part (ii). (2 marks)

(iii) State, with reasons, the capital gains tax reliefs which can be claimed by the family members and those which can be claimed by GPT from the transactions detailed above.

Note: No computation is required for part (iii). (3 marks)

(b) (i) Calculate the potential taxable income arising from the transfer in 2010 of the assets from the unincorporated family business to GPT; (2 marks)

(ii) Calculate the capital gain and tax payable by GPT for the year ended 31 December 2012. (6 marks)

(15 marks)

4 Floor Tiles (Private) Limited (FT) was incorporated on 1 February 2012 and specialises in the manufacturing of floor tiles for residential and commercial properties. FT owns an industrial building and production equipment which produces custom made tiles as per order. FT's sales revenue has been steadily growing.

The following are the extracts from the sales and purchases ledger of FT for the 11 months ended 31 December 2012:

Sales ledger (VAT exclusive)

	US$
February	3 500
March	4 200
April	4 800
May	5 300
June	6 200
July	7 500
August	4 500
September	8 600
October	8 900
November	9 400
December	10 000

Purchases ledger (VAT inclusive as appropriate)

	Supplier	VAT registered number	US$
February	XYZ	X0005	1 800
March	ABC	A0003	2 100
April	KYL	K0009	2 500
May	NTC	N0002	3 200
June	DHP	N/A	3 600
July	CPT	N/A	4 300
August	PDK	P0001	2 200
September	MRK	M0007	3 900
October	BZT	B0004	3 700
November	GNF	N/A	4 400
December	STR	S0008	5 500

Other expenses from 1 July 2012 to 31 December 2012 (VAT inclusive as appropriate)

	US$
Motor vehicle expenses	2 400
Stationery	1 000
Payroll costs	3 100
Other office expenses	900

Additional information

FT registered for VAT on 1 July 2012 and also complied with all the other ZIMRA registration requirements on the same date.

Required:

(a) (i) State FOUR advantages of voluntary VAT registration; (2 marks)

(ii) State by when Floor Tiles (Private) Limited (FT) should have registered for VAT and submitted their first VAT return; (1 mark)

(iii) State ANY FOUR statutory duties of a registered operator; (2 marks)

(iv) State what actions ZIMRA will take to ensure compliance with the VAT registration requirements. (2 marks)

(b) (i) Calculate FT's output tax liability and exposure to interest and penalties which arises as a result of their VAT registration on 1 July 2012; (2 marks)

(ii) Calculate the amount of input tax recovery forfeited by FT due to the VAT registration on 1 July 2012; (2 marks)

(iii) Calculate the VAT payable by FT for the year ended 31 December 2012, assuming ZIMRA accept the VAT registration date of 1 July 2012. (4 marks)

(15 marks)

5 Jean Milton is a retired college professor and an accomplished business person. She spent over 40 years working in local universities and colleges as well as abroad. Her specialty is psychology with emphasis on children's issues. She occasionally works on a consultancy basis with voluntary organisations which deal with children's rights and related issues to advance the cause of children living in difficult circumstances.

Jean Milton also owns two office buildings situated in Harare. The buildings are rented out to tenants and she maintains an office in one of the buildings. Her income and expenditure records for the year ended 31 December 2012 are detailed below:

Income	**Notes**	**US$**
Income from voluntary organisations		80 000
Rental income		132 000
Pension received		13 000
Interest from discounted instruments		17 000
Dividends	(1)	21 000
Expenses		
Motor vehicle expenses	(2)	25 000
Salaries and wages		33 000
Security		15 000
Cleaning		12 000
Consultancy fees	(3)	20 000
Donations	(4)	3 000

Notes

(1) The amount refers to the dividends paid by the following companies:

	US$
ZSE quoted companies	12 000
Non-quoted companies	9 000
	21 000

(2) Jean Milton owns two vehicles dedicated for her business operations. Both vehicles were acquired in 2010 for US$20 000 and US$15 000 each. Jean makes use of the high valued vehicle which she uses 60% for business purposes while the other vehicle is used as a pool car by her staff. The vehicle running expenses for the year amounted to US$25 000 for both vehicles.

(3) The consultancy fees were paid to Jean Milton's local editors of her manuscripts.

(4) The amount was paid to a local voluntary organisation for their rural outreach programmes.

Additional information

The two buildings owned by Jean Milton were acquired in 2009 at a cost of U$250 000.

Required:

(a) (i) Define a commercial building for capital allowance purposes and state whether Jean Milton's office buildings qualify for this classification; (2 marks)

(ii) State, with reasons, the amounts of Jean Milton's income which are exempt from tax for the year ended 31 December 2012; (2 marks)

(iii) Explain how Jean Milton should account for the following income received during the year ended 31 December 2012 for tax purposes:

(1) Income from voluntary organisations;
(2) Rental income. (2 marks)

(b) Calculate the taxable income and the total tax liabilities of Jean Milton for the year ended 31 December 2012.

Note: Indicate items of income which are exempt from tax and expenses which are not deductible for tax purposes by the use of a zero (0). (9 marks)

(15 marks)

End of Question Paper