

Fundamentals Level – Skills Module

# Taxation (Zimbabwe)

Thursday 10 December 2015



**Time allowed**

Reading and planning: 15 minutes

Writing: 3 hours

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.**

**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.**

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

**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 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 2014

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 to 240 000	45	120 000	92 100
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 2014

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

### Credits year ended 31 December 2014

	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 2014 Motor vehicles

Engine capacity:	US\$
Up to 1500cc	3 600
1501 to 2000cc	4 800
2001 to 3000cc	7 200
3001 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 2014

	%
<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. The 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 2014

	<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 also exempt.

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

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

Please use the grid provided on page two of the Candidate Answer Booklet to record your answers to each multiple choice question. Do not write out the answers to the MCQs on the lined pages of the answer booklet.

Each question is worth 2 marks.

- 1** On 31 March 2014, Nothando received a loan of US\$9 000 from her employer. The interest payable on the loan was 2% per year. Nothando used US\$6 000 of the loan to start a small business and the balance to pay for her medical expenses.

**What is the value of Nothando's taxable benefit in respect of the loan for the year ended 31 December 2014?**

Note: You should assume that the LIBOR rate was 1.5% throughout 2014.

- A** US\$405
- B** US\$304
- C** US\$270
- D** US\$203

- 2** Which of the following documents are among the Zimbabwe Revenue Authority's (ZIMRA's) requirements when applying for a capital gains tax clearance certificate (form CGWT 4A) on the sale of immovable property?

- (1) Agreement of sale
- (2) Copy of proof of payment of the sale price
- (3) Completed return for remittance of capital gains tax (CGT1 form)
- (4) Original tax invoice

- A** 1, 2 and 3 only
- B** 1, 2, 3, and 4
- C** 1 and 2 only
- D** 3 only

- 3** XYZ Limited is registered for value added tax (VAT) under category B and entered into certain taxable supplies during December 2014.

**What is the tax period and due date for remittance in respect of the value added tax (VAT) arising on XYZ Limited's taxable supplies for December 2014?**

- |          | Tax period                 | Latest remittance date |
|----------|----------------------------|------------------------|
| <b>A</b> | December 2014/January 2015 | 25 February 2015       |
| <b>B</b> | December 2014              | 25 January 2015        |
| <b>C</b> | November/December 2014     | 25 January 2015        |
| <b>D</b> | December 2014              | 25 February 2015       |

- 4 Jeff's employer calculated the income tax due on his remuneration under the pay as you earn (PAYE) system after taking into account the following expenses incurred by Jeff during the year ended 31 December 2014:

	US\$
Professional subscriptions	800
Medical aid contributions	3 000
	<hr/>
	3 800
	<hr/>

**What is the effect of these expenses on the operation of PAYE on Jeff's remuneration from employment for the year ended 31 December 2014?**

- A They result in allowable deductions of US\$3 800  
B They result in an allowable deduction of US\$800 and a tax credit of US\$3 000  
C They result in tax credits of US\$3 800  
D They result in an allowable deduction of US\$800 and a tax credit of US\$1 500
- 5 Which of the following are examples of direct taxes?
- (1) Employees' tax – pay as you earn (PAYE)  
(2) Value added tax (VAT)  
(3) Corporation tax  
(4) Capital gains tax (CGT)
- A 4 only  
B 1, 2, 3 and 4  
C 1, 3 and 4 only  
D 3 only
- 6 Smiles (Private) Limited paid a subcontractor's invoice of US\$10 000 on 15 June 2014. The subcontractor did not have a valid tax clearance certificate at the time of payment.

**What amount of withholding tax should Smiles (Private) Limited have deducted from the subcontractor's payment and by when should it have been remitted to the Zimbabwe Revenue Authority (ZIMRA)?**

- A US\$1 030, remittance date 10 July 2014  
B US\$1 000, remittance date 25 June 2014  
C US\$1 030, remittance date 25 June 2014  
D US\$1 000, remittance date 10 July 2014
- 7 Which of the following are examples of the purpose of taxation in a modern economy?
- (1) To generate revenue for public services  
(2) To reward hard work  
(3) To reduce the income gap between the rich and the poor  
(4) To encourage marriage and family life
- A 1 and 2  
B 3 and 4  
C 1 and 3  
D 2 and 4

- 8 Lyn is 58 years old. She sold her unlisted shares on 9 April 2014 for US\$7 000. The shares were originally acquired on 10 May 2010 for US\$2 500.

**What is the capital gains tax payable on the disposal of the shares?**

- A US\$477
- B US\$837
- C US\$350
- D US\$70

- 9 Tsitsi is an employee and contributes US\$300 monthly to a retirement annuity fund (RAF). She also pays the maximum amount towards her National Social Security Authority (NSSA) monthly contributions.

**What is the total amount of Tsitsi's allowable deductions from employment income in respect of her retirement annuity fund (RAF) and National Social Security Authority (NSSA) contributions for the year ended 31 December 2014?**

- A US\$5 400
- B US\$2 994
- C US\$3 894
- D US\$3 600

- 10 J&J Limited issued a tax invoice for goods sold of US\$20 000 (including value added tax (VAT)) in December 2014 to its customer.

Later in the month, the customer returned goods valued at US\$6 000 (including VAT) as they were below the expected standard.

During the month of December 2014, J&J Limited owned only one passenger vehicle which had an engine capacity of 2800cc. Use of the vehicle was provided to the production manager as a benefit of his employment.

**What is the net amount of value added tax (VAT) payable by J&J Limited in respect of the month of December 2014?**

- A US\$3 090
- B US\$2 687
- C US\$2 190
- D US\$1 904

- 11 Ted resigned from his government post during the year ended 31 December 2014. At the same time, he withdrew US\$40 000 from his government pension fund as a refund of his pension fund contributions made in earlier years. A total of US\$8 000 of his original contributions to the pension fund were disallowed for tax deduction when made.

Ted's taxable income from employment amounted to US\$125 000 for the year ended 31 December 2014.

**What is the tax payable on Ted's refund of pension fund contributions in the year ended 31 December 2014?**

- A US\$14 400
- B US\$14 832
- C US\$18 000
- D US\$18 540

- 12** AB Limited is currently preparing its self-assessment return for the year ended 31 December 2014 and its pay as you earn (PAYE) return for the month of December 2014.

**By when should AB Limited submit both its returns to the Zimbabwe Revenue Authority (ZIMRA) in order to avoid any default penalties?**

	Self-assessment return	PAYE return
<b>A</b>	30 April 2015	10 January 2015
<b>B</b>	31 May 2015	15 January 2015
<b>C</b>	31 May 2015	10 January 2015
<b>D</b>	30 April 2015	15 January 2015

- 13** Liz earned the following gross income from investments during the year ended 31 December 2014:

	US\$
Interest on a savings account with a commercial bank	2 500
Interest on a savings account with the Post Office Savings Bank	3 000
Dividends received from a company listed on the Zimbabwe Stock Exchange	1 200

**What is the amount of withholding tax deductible from Liz's interest and dividend income for the year ended 31 December 2014?**

- A** US\$495
- B** US\$1 005
- C** US\$555
- D** US\$945

- 14** Fly Transport Limited submitted its self-assessment return for the year ended 31 December 2013 on 2 November 2014.

**What is the penalty which will be levied on Fly Transport Limited in respect of the late submission of its tax return?**

- A** US\$5 580
- B** US\$2 700
- C** US\$5 430
- D** US\$5 400

- 15** Duiker Limited received net management fees of US\$35 000 from its Botswana-based subsidiary company during the year ended 31 December 2014. The amount received was net of foreign withholding tax deducted of 15%.

**How much double taxation relief can Duiker Limited claim in respect of the management fees received?**

- A** US\$10 603
- B** US\$6 176
- C** US\$5 250
- D** US\$9 013

**(30 marks)**



**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 (a) Megan owned a factory building. Both this factory building and the perimeter wall were demolished to make way for the construction of a highway on 3 June 2014. As compensation for the destruction of the factory building and perimeter wall, Megan received a total of US\$250 000 from the Ministry of Transport on 11 July 2014. The details of the demolished property are as follows:

	Date acquired/constructed	Cost (US\$)	Tax value (US\$)
Land	1 May 2009	50 000	Nil
Perimeter wall	15 October 2009	30 000	21 000
Factory building	21 February 2011	80 000	64 000
		<u>160 000</u>	<u>85 000</u>

**Required:**

- (i) Outline the treatment of the demolished property for capital gains tax purposes. (1 mark)
- (ii) Calculate the capital gains withholding tax suffered by Megan on the compensation from the Ministry of Transport. (1 mark)
- (iii) Calculate Megan's capital gains tax payable/(refundable) for the year ended 31 December 2014. (5 marks)
- (b) Tatenda held 15 000 shares in Acorn (Private) Limited. On 14 August 2014, Tatenda disposed of 12 000 of his shares in Acorn (Private) Limited for a price of US\$1·20 per share. The details of Tatenda's original shareholding in Acorn (Private) Limited are as follows:

	Date acquired	Number of shares	Total cost (US\$)
Ordinary shares	10 October 2010	10 000	5 000
Bonus shares	30 June 2012	5 000	—
		<u>15 000</u>	<u>5 000</u>

**Required:**

**Calculate the capital gains tax payable by Tatenda on the disposal of the Acorn (Private) Limited shares on 14 August 2014.** (3 marks)

**(10 marks)**

- 2 M&C (Private) Limited (M&C) is a family business operated by Mike and Clara. Mike and Clara have recently consulted with an accountant as they are concerned that they have incorrectly treated certain items of expenditure in their calculations of M&C's taxable income for the year ended 31 December 2014.

#### Staff costs

The staff costs of M&C for the year ended 31 December 2014 include the following:

	US\$
Salaries (six permanent staff members)	150 000
Wages (casual staff)	50 000
	<u>200 000</u>

- Each permanent employee contributes US\$600 monthly towards the employer administered pension fund. M&C contributes the same amount per employee.
- M&C operates an approved benefit fund into which each permanent employee contributes US\$200 per month. M&C contributes the same amount per employee.

#### Bad debt recovered

During the year ended 31 December 2014, M&C recovered US\$20 000 from its customer, Volatile Limited. This was in respect of goods sold during the year ended 31 December 2012. The receipt was wholly unexpected as M&C had written off the debt due from Volatile Limited as irrecoverable in the year ended 31 December 2013. A tax deduction in respect of the debt written off was claimed in M&C's tax return for the year ended 31 December 2013.

#### Provisional tax

M&C remitted its provisional tax for the year ended 31 December 2014 based on an estimate of taxable income of US\$300 000. Mike and Clara are comfortable that this estimate was accurate apart from the treatment of the employer contributions into the pension fund and the approved benefit fund, and the US\$20 000 recovered from Volatile Limited. In arriving at the taxable income of US\$300 000, Mike and Clara treated all of the employer contributions to both the pension fund and approved benefit fund as allowable and took no account of the recovery of the debt from Volatile Limited.

#### Required:

**(a) In relation to M&C (Private) Limited's staff costs:**

- (i) Calculate the amount of employer contributions into the employer administered pension fund which should have been treated as disallowable for corporation tax purposes in the year ended 31 December 2014. (2 marks)
- (ii) Calculate the amount of employer contributions into the approved benefit fund which should have been treated as disallowable for corporation tax purposes for the year ended 31 December 2014. (2 marks)

**(b) Explain, with reasons, the correct tax treatment of the US\$20 000 recovered from Volatile Limited.** (2 marks)

**(c) Calculate the provisional tax payments which should have been paid by M&C (Private) Limited based on the revised taxable income for the year ended 31 December 2014, clearly indicating the respective tax amounts and due dates.** (4 marks)

**(10 marks)**

**3 (a) Outline FOUR potential advantages of voluntary registration for value added tax (VAT).** (2 marks)

**(b)** Jill commenced business operations on 28 February 2014. She registered as a value added tax (VAT) operator on 31 October 2014.

The following are Jill's sale and purchases for the year ended 31 December 2014. All Jill's purchases were made from suppliers who are registered VAT operators. All Jill's sales are subject to VAT at the standard rate.

2014	Sales (US\$)	Purchases (US\$)
March	3 000	50 000
April	5 000	–
May	5 800	15 000
June	6 500	12 000
July	22 000	–
August	19 700	–
September	8 500	3 000
October	9 000	–
November	4 000	–
December	4 500	–
	<u>88 000</u>	<u>80 000</u>

**Required:**

**(i) State, with reasons, the date by which Jill should have registered for value added tax (VAT) purposes and the date by which she should have submitted her first VAT return.** (2 marks)

**(ii) Advise Jill of the actions which the Zimbabwe Revenue Authority (ZIMRA) may take as a result of her late registration for VAT and her consequent exposure to interest and penalties.**

Note: You should include calculations, where relevant, in support of your answer. (4 marks)

**(c) Outline the circumstances when a trader can recover pre-registration input VAT and any associated conditions for recovery.** (2 marks)

**(10 marks)**

- 4 Rudo and Tari are in a partnership business and share profits in the ratio 3:2. Their partnership profit for the year ended 31 December 2014 is US\$263 000 after taking the following into account:

	US\$	US\$
<b>Income items</b>		
Gross profit		482 000
Net interest received from commercial banks (after deduction of withholding tax at source)		10 000
Insurance claim for damage to the office building		48 000
		<u>540 000</u>
<b>Expense items</b>		
Staff costs – staff salaries	70 000	
– Rudo's salary	40 000	
– Tari's salary	30 000	140 000
Donations – to the national scholarship fund	55 000	
– to R&T Foundation	20 000	75 000
Insurance (partners' life policy) – Rudo	5 000	
– Tari	5 000	10 000
Annuity paid to a late employee's widow		15 000
Interest on capital accounts – Rudo	8 000	
– Tari	6 000	14 000
Depreciation		23 000
		<u>277 000</u>

**Additional information**

An extract of the non-current asset register as at 31 December 2013 is as follows:

	Cost (US\$)	Tax value (US\$)
Furniture and fittings	40 000	10 000
Computer equipment	30 000	nil
Office building	120 000	102 000

**Required:**

- (a) Calculate the partners' joint taxable profits for the year ended 31 December 2014, making use of any available reliefs.

Note: You should start your calculation with the partnership profit figure of US\$263 000 and indicate by the use of zero (0) any amounts for which no adjustment is required. (7 marks)

- (b) Calculate the taxable income of and tax payable by both Rudo and Tari for the year ended 31 December 2014. (3 marks)

**(10 marks)**

- 5 Tom Mbizi is a manager with a local bank. The following are the details of his earnings and deductions from employment for the year ended 31 December 2014:

**Salary and benefits**

Tom received the following salary and benefits during the year:

- (i) A salary of US\$7 000 per month and an annual bonus of \$7,000.
- (ii) A school fees allowance of US\$4 500 per year for each of his three children.
- (iii) Cash in lieu of holiday leave of US\$10 000 paid during the year.
- (iv) An entertainment allowance of US\$3 000 paid every six months. The entertainment allowance is not used by Tom for his employer's business.
- (v) An accommodation allowance of US\$850 per month.
- (vi) A clothing allowance of US\$500 every three months.
- (vii) A representation allowance of US\$8 000 for the year.
- (viii) An award for being the 'Employee of the year' of US\$15 000.

**Deductions**

The following deductions were made by Tom's employer from his employment income received in the year:

- (ix) Pension fund contributions of US\$750 per month.
- (x) A payment instruction to a building society for mortgage bond repayments of US\$1 500 per month.
- (xi) A general purpose insurance premium of US\$250 per month.
- (xii) A payment instruction of US\$4 200 to the Midlands State University for tuition fees.
- (xiii) PAYE of US\$49 500.

**Additional information**

- (xiv) Tom's employer provided him with the use of an allocated motor vehicle with an engine capacity of 3000cc throughout the year.
- (xv) Tom incurred an additional cost of US\$4 500 in acquiring prescription drugs during the year.

**Required:**

- (a) Calculate the taxable income and income tax payable by Tom Mbizi for the year ended 31 December 2014.**

**Note:** You should indicate by the use of zero (0) any amounts which should not be included in the calculation of taxable income. (11 marks)

- (b)** Tom is thinking about leaving his employment with the bank and would like to embark on a new career in farming cattle. However, he is worried about the potential realities of droughts and disease outbreaks and their effects on his profits.

**Required:**

**Advise Tom Mbizi of the tax reliefs and elections which he can take advantage of should he decide to implement his business plan to embark on cattle farming.** (4 marks)

**(15 marks)**

- 6 MT (Private) Limited (MT) is a wholly owned subsidiary company of TT Limited, a large wholesale company. The following is MT's statement of profit or loss for the year ended 31 December 2014:

	Note	US\$
Revenue		930 000
Cost of sales	1	(410 000)
Gross profit		520 000
Other income	2	140 000
Distribution costs	3	(130 000)
Administrative expenses	4	(290 000)
Other expenses	5	(40 000)
Finance costs		(30 000)
Net profit before tax		170 000

#### Notes

1. Included in the cost of sales is the cost of computers valued at US\$50 000 purchased for office use on 20 November 2014 but included as part of opening inventory (stock) in error.
2. Other income relates to the profit on a transfer of commercial vehicles to TT. This transfer was in line with a decision of the board of directors to streamline the operations of MT. The commercial vehicles were originally purchased by MT for US\$150 000 and the market value of the vehicles at the date of transfer was US\$290 000.
3. Distribution costs are made up as follows:

	US\$
Motor vehicle running and maintenance costs	40 000
Insurance and licensing costs	20 000
Purchase of vehicle tracking equipment and radios	68 000
Traffic fines	2 000
	130 000

4. Administrative expenses are made up as follows:

	US\$
General repairs and maintenance costs	27 000
Office renovations and partitioning	80 000
Staff expenses	93 000
Litigation costs – municipality by-law violation	10 000
General administrative costs	30 000
Entertainment	15 000
Depreciation	35 000
	290 000

5. Other expenses are made up as follows:

	US\$
Hire of plant and equipment	18 000
Compensation – lease agreement (detailed below)	22 000
	40 000

MT cancelled an agreement to lease an office space. Under the terms of the lease agreement, MT was required to pay the landlord US\$22 000 of additional compensation for early termination of the lease.

### Additional information

MT's non-current asset register as at 31 December 2013 shows the following assets:

	Cost (US\$)	Tax value (US\$)
Shop premises	210 000	194 250
Commercial vehicles (transferred to TT Limited)	150 000	75 000
Furniture and office equipment	70 000	nil
Passenger vehicles	100 000	nil
	<u>530 000</u>	<u>269 250</u>

MT's policy on non-current assets is to claim the maximum capital allowances on qualifying assets.

### Required:

- (a) Explain the operation of and the conditions which must be satisfied in order for MT (Private) Limited to qualify for the relief available for transfers of assets between companies on the transfer of the commercial vehicles to TT Limited. (4 marks)

- (b) Calculate the taxable income of and corporate tax payable by MT (Private) Limited for the year ended 31 December 2014, making use of any available reliefs.

Note: You should start your calculation with the net profit before tax of US\$170 000 and should indicate by the use of a zero (0) any amounts referred to in the question for which no adjustment is required.

(11 marks)

(15 marks)

End of Question Paper