Applied Skills

Taxation – Zimbabwe (TX – ZWE)

Tuesday 4 December 2018

TX ZWE ACCA

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.

TX – ZWE

Think Ahead ACCA

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 2017

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 2017

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 2017

	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 2017
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%

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 2017

Companies		**%**
Income tax:	Basic rate	25
	AIDS levy	3
Individuals		**%**
Income tax:	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%

Capital gains withholding tax on sale proceeds	**%**
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.

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-executive director's fees	20
Contracts (ITF 263)	10

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)
Exemptions from income tax year ended 31 December 2017

	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 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 Which of the following are examples of indirect taxes?

(1) Corporation tax
(2) Capital gains tax (CGT)
(3) Employees' tax (PAYE)
(4) Value added tax (VAT)

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

2 Deborah voluntarily registered for value added tax (VAT) many years ago.

Which of the following statements is true regarding the circumstances in which Deborah can be deregistered for VAT?

A If she fails to comply with the conditions of voluntary registration, the Zimbabwe Revenue Authority (ZIMRA) can compulsorily deregister her and shall notify her in writing of its decision
B If she ceases to trade with no intention to resume business within the next 12 months, she can deregister by notifying ZIMRA in writing within 30 days of the cessation date
C If she fails to comply with the conditions of voluntary registration, it is her responsibility to apply to ZIMRA for a cancellation of registration
D If her taxable supplies fall below a minimum of US$60 000 within a period of 12 months, she is obliged to deregister and must apply to ZIMRA for a cancellation of registration

3 Ted (Private) Limited owns the following business property, plant and equipment as at 31 December 2017:

	Date acquired	Cost US$
Industrial building	2013	200 000
Plant and equipment	2016	100 000

What is Ted (Private) Limited's wear and tear allowance on the business property, plant and equipment for the year ended 31 December 2017?

A US$25 000
B US$19 000
C US$75 000
D US$20 000

4 Pete is 53 years old and in full-time employment. During the year ended 31 December 2017, he contributed a total of US$4 000 to a medical aid scheme administered by his employer. Pete's employer contributed the same amount to the scheme for his benefit. In addition to his medical aid contributions, Pete incurred a further US$2 000 in medical costs not recovered from his medical aid scheme. Pete's medical aid scheme covers him, his spouse and his disabled daughter.

What is the amount of tax credits which Pete can claim against his normal tax for the year ended 31 December 2017?

A US$3 900
B US$5 900
C US$2 900
D US$3 000

5 Simba donated the following marketable securities to the Cancer Association of Zimbabwe during the year ended 31 December 2017:

	Date acquired	Cost US$	Market value US$
Quoted shares	2010	20 000	50 000
Unquoted shares	2008	30 000	40 000

What is Simba's capital gains tax (CGT) payable on the donated marketable securities?

A US$4 500
B US$0
C US$2 500
D US$5 700

6 On 5 January 2017, Elisha relocated from Mutare to Harare to commence employment with JPL Limited (JPL). He incurred relocation costs of US$7 000 which were reimbursed fully by JPL. On 1 November 2017, Elisha requested to be transferred from Harare to work at a JPL branch in Chegutu. Elisha incurred relocation costs of US$5 000 and JPL reimbursed him 50% of these expenses.

What is Elisha's taxable passage benefit to be included in his gross income for the year ended 31 December 2017?

A US$12 000
B US$2 500
C US$9 500
D US$0

7 **Which of the following statements are true in respect of a taxpayer raising an objection to an assessment by the Zimbabwe Revenue Authority (ZIMRA)?**

(1) An objection must be submitted to ZIMRA within 30 days of the assessment date
(2) An objection must be in writing and state the grounds of objection
(3) ZIMRA is required by law to respond to the taxpayer's objection letter within 60 days
(4) The taxpayer should delay payment of the disputed tax until a decision has been reached by ZIMRA

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

8 Western Hardware Limited is a registered value added tax (VAT) operator. The following sales and purchases relate to the month of October 2017. All amounts stated are exclusive of VAT:

	US$
Sales	60 000
Purchases:	
Plumbing equipment	20 000
Poultry feed	30 000

What is the VAT payable by Western Hardware Limited for the month of October 2017?

A US$1 500
B US$1 304
C US$5 217
D US$6 000

9 **Which of the following tax reliefs are available to taxpayers operating under build own operate and transfer (BOOT) arrangements?**

(1) Deduction of an assessed loss of US$100
(2) Tax holiday for the first five years
(3) Taxed at 15% for the second five years
(4) Double deduction of export promotion expenses

A 1 and 4
B 2 and 3
C 1 and 2
D 3 and 4

10 Mary earned a gross monthly salary of US$1 200 throughout the year ended 31 December 2017. During the year she contributed 7·5% of her salary every month towards an employer administered pension fund. The pension fund was registered on 1 June 2017. Mary is also a registered National Social Security Authority (NSSA) member.

What is the total amount of Mary's allowable deductions in respect of her pension and NSSA contributions for the year ended 31 December 2017?

A US$1 134
B US$1 584
C US$924
D US$1 374

11 The pay as you earn (PAYE) returns of Yellow Rose Ltd for the months of January and February 2017 were submitted to the Zimbabwe Revenue Authority (ZIMRA) on time. The monthly PAYE is US$8 000. On 10 May 2017, the accountant of Yellow Rose Ltd remitted the total PAYE of US$16 000 in respect of January and February 2017 to ZIMRA.

What is Yellow Rose Ltd's interest payable on overdue tax?

A US$333
B US$667
C US$1 600
D US$400

12 Agnes disposed of the following business property, plant and equipment on the cessation of her trade on 1 March 2017:

	Date acquired	Cost US$	Market value US$
Commercial building	2012	150 000	250 000
Commercial equipment	2015	80 000	120 000

What is the amount of capital gains withholding tax payable by Agnes on the disposal of her business property, plant and equipment?

A US$15 500
B US$12 500
C US$37 500
D US$55 500

13 Janet paid a one-off premium of US$90 000 to the Harare Municipality for the 12-year lease of a factory building on 2 January 2017.

What is the deductible amount of the premium for the purposes of computing Janet's taxable income for the year ended 31 December 2017?

A US$0
B US$7 500
C US$90 000
D US$9 000

14 Moon (Private) Limited's projected taxable income for the year ended 31 December 2017 is US$25 000.

What is the amount of provisional tax which should have been remitted to the Zimbabwe Revenue Authority (ZIMRA) in respect of Moon (Private) Limited's first and third quarterly payment dates (QPDs) for the year ended 31 December 2017?

	First QPD	Third QPD
A	US$2 500	US$7 500
B	US$644	US$1 931
C	US$625	US$1 875
D	US$1 610	US$2 253

15 Far Fetched Ltd contributes US$150 per month towards a registered benefit fund for each of the 15 permanent employees.

What is the total allowable deduction claimable by Far Fetched Ltd in respect of its benefit fund contributions for the year ended 31 December 2017?

A US$22 500
B US$81 000
C US$27 000
D US$40 500

(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 KM (Private) Limited (KM) is a wholly owned subsidiary company of Mighty M Limited (MM). KM commenced business operations on 5 January 2017. MM transferred the following non-current assets to KM on commencement of its trade:

	Date acquired/ constructed	Cost US$	Income tax value US$	Market value US$
Commercial vehicle	2013	60 000	0	50 000
Factory building	2015	240 000	120 000	300 000
Factory equipment	2015	120 000	60 000	150 000

KM obtained a loan of US$230 000 from a commercial bank on 1 March 2017. The interest on the loan is 20% per annum. The capital amount is due for repayment on 1 March 2019. The loan was applied as follows:

	US$
Refurbishment of the factory building acquired from MM	100 000
Procurement of a delivery truck	80 000
Procurement of raw materials	30 000
Procurement of factory plant	20 000
	230 000

Additional information

(i) The refurbishment of the factory building commenced on 1 September 2017 and was completed on 10 February 2018.

(ii) The factory plant was delivered on completion of the refurbishment of the factory building.

(iii) The delivery truck was brought into use for trade purposes on 30 June 2017.

Required:

(a) Assuming that Mighty M Limited elected to transfer the non-current assets to KM (Private) Limited at their income tax values, for the year ended 31 December 2017:

(i) Outline the capital allowance implications for KM (Private) Limited of the transfer of the non-current assets.

Note: You should ignore any capital gains tax (CGT) implications. (4 marks)

(ii) Calculate the maximum capital allowances claimable by KM (Private) Limited in respect of the transferred non-current assets. (2 marks)

(b) Calculate the allowable and disallowable amounts of interest payable in respect of KM (Private) Limited's loan of US$230 000 for the year ended 31 December 2017. (4 marks)

(10 marks)

2 Comp Services Limited (CSL) is a registered value added tax (VAT) operator. The following information is relevant for the year ended 31 December 2017. All amounts are stated inclusive of VAT where applicable.

(i) Turnover for the year was US$540 000. Goods valued at US$20 000 were returned by customers due to malfunction issues.

(ii) Two invoices valued at US$30 000 issued to Tongai, a customer, remained unpaid as at 31 December 2017. Legal fees of US$10 000 were incurred by CSL to try to recover the debt, but Tongai was subsequently declared insolvent.

(iii) Inventory purchased during the year amounted to US$200 000. US$40 000 of this amount relates to inventory procured from non-VAT registered operators. 5% of the inventory procured from VAT registered operators was returned by CSL as the quality was below the acceptable standard.

(iv) Interest paid on CSL's overdraft facility amounted to US$15 000 for the year.

(v) A passenger motor vehicle valued at US$35 000 was purchased for the marketing manager during the year.

(vi) Salaries and wages paid amounted to US$180 000.

(vii) Flower seeds, fertiliser and chemicals were purchased for the office garden, costing US$900.

(viii) Packaging material expenses amounted to US$24 000.

(ix) All risk insurance paid amounted to US$12 000.

(x) Office rent paid amounted to US$36 000.

Required:

(a) State, with a reason, the value added tax (VAT) registration category of Comp Services Limited. (1 mark)

(b) Outline the obligations of VAT operators registered in the same category as Comp Services Limited. (2 marks)

(c) Calculate the VAT payable by or refundable to Comp Services Limited for the year ended 31 December 2017.

Note: You should indicate by the use of a zero (0) any amounts on which VAT is not chargeable or not reclaimable. (7 marks)

(10 marks)

3 QT Limited (QT) is a retailer of assorted products. On 2 February 2017, QT sold a developed commercial property privately for US$700 000. Details of the commercial property are as follows:

	Date acquired/ constructed	Cost US$	Market value US$
Land	2012	100 000	180 000
Boundary wall	2013	50 000	120 000
Warehouse building	2014	200 000	380 000
Warehouse equipment	2014	150 000	220 000
		500 000	900 000

The proceeds realised from the sale of the commercial property were applied as follows:

	US$
Construction of the staff canteen	130 000
Office building extension and renovation	260 000
Purchase of office furniture and fittings	110 000
Canteen equipment	35 000
Stock procurement	120 000
Recurrent expenditure	45 000
	700 000

Additional information

(i) The construction of the staff canteen and the office building extension and renovation was completed on 5 June 2017. The buildings were immediately used for business purposes.

(ii) QT has always claimed the maximum available capital allowances where possible in any given year.

Required:

(a) Explain how immovable properties are valued for capital gains tax (CGT) purposes and the actions available to the Zimbabwe Revenue Authority (ZIMRA) if it disagrees with a valuation submitted by a taxpayer. (3 marks)

(b) Calculate the CGT payable by QT Limited on the disposal of the commercial property taking into account any reliefs available. (7 marks)

(10 marks)

4 Eve works independently as a software engineer. She has signed contracts with a number of local companies to provide staff training and support services. During the year ended 31 December 2017, she also signed a contract with a Botswana based company to provide software support services.

Eve spent a total of five and a half months in Botswana offering support services to the Botswana based company as per the terms of her contract. She spent the remainder of the year in Zimbabwe. Eve was paid total contract fees of US$45 000 net of 15% withholding tax. This amount was transferred to her Botswana bank account.

In addition, US$9 400 was credited to her Botswana bank account being interest received for the year ended 31 December 2017. This amount was credited after a withholding tax deduction of 10%.

The following details refer to Eve's earnings and deductions from her local contracts for the year ended 31 December 2017:

	US$
Contract fees received	63 000
Rent paid	(12 000)
Laptop procurement	(3 000)
General administration expenses	(18 000)
Provisional tax paid	(15 500)

The Zimbabwe Revenue Authority (ZIMRA) considers 30% of the general administration expenses to be disallowable.

Required:

(a) Explain how Eve's residence status will be determined for income tax purposes for the year ended 31 December 2017 and state, with reasons, whether or not her income from Botswana will be taxed in Zimbabwe.

(3 marks)

(b) Calculate Eve's taxable income and income tax payable for the year ended 31 December 2017 considering the tax implication of her residence status.

Notes:

1. You should indicate by the use of a zero (0) any amounts which are not taxable or not deductible.
2. Your answer should take into account any available tax reliefs to minimise Eve's income tax liability.

(7 marks)

(10 marks)

5 Jacob Leaf, aged 64, works part time as a quality controller for a local company. Jacob retired from full-time employment four years ago after working as a professional tea tester for over 35 years. The following information relates to Jacob's earnings and deductions for the year ended 31 December 2017:

1. Jacob earned a gross monthly salary of US$2 500.
2. He also received the following employment related benefits during the year:
   – a holiday allowance of US$5 000;
   – an accommodation allowance of US$500 per month;
   – a bonus equivalent to one month's salary; and
   – a profit share of US$7 000.
3. From 1 January 2017, Jacob also made use of an employer allocated motor vehicle with an engine capacity of 3200cc. In accordance with the company policy on motor vehicles used by the management team, Jacob was allowed to buy the motor vehicle allocated to him on 1 November 2017 for US$20 000. The motor vehicle was purchased by his employer in 2013 for US$40 000. The market value of the motor vehicle on 1 November 2017 was US$45 000.
4. Jacob's employer deducted the following amounts from his earnings for the year ended 31 December 2017:

	US$
Retirement annuity fund (RAF) contributions	2 000
Medical aid society contributions	4 600
Professional subscriptions	700
Employer administered benefit fund contributions	1 200
Life insurance policy	1 000
Employees tax (PAYE)	11 000

5. Jacob is a registered National Social Security Authority (NSSA) member.
6. During the year ended 31 December 2017, Jacob also received US$7 200 in pension from his former employer's pension fund.

Other earnings and deductions

On 1 January 2017, Jacob began to rent out a second property which he owned. He also signed a contract with his former employer to provide tea testing services and hired a personal assistant to help him with this work. The following details relate to Jacob's income and expenditure in respect of his rental property and contracted services for the year ended 31 December 2017:

	US$
Gross rent received	36 000
Estate agent property management fees	(3 600)
Tea testing contract fees received	45 000
Salary for the personal assistant	(9 000)
Withholding tax suffered on contract fees	(4 500)

Required:

(a) Identify the actions Jacob Leaf must take in order to avoid penalties for non-compliance in respect of his rental income and contracting services. (2 marks)

(b) Calculate Jacob's taxable income and income tax payable/(refundable) for the year ended 31 December 2017.

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

(15 marks)

6 All Soy Limited (ASL) produces soy milk for both the local and export markets. The net profit before tax for the year ended 31 December 2017 is US$92 000 after taking the following into account:

1. ASL sold 20% of its production output to an associate company, Mega Soy (Private) Limited (MSPL) for US$150 000 and sold a further 20% to other wholesalers for US$180 000. The products concerned were identical in nature and quantity and were supplied on identical terms except for the price. 60% of the production output was exported.
2. ASL paid a total of US$60 000 to MSPL for equipment hire. The equipment is used by ASL to offload the soya beans on arrival at the processing plant. The open market charge for hire of equivalent equipment is US$40 000.
3. Soya beans with a total value of US$10 000 were donated to the University of Zimbabwe's agricultural research unit to develop a pest resistant hybrid seed and to research other versatile soy products not currently available on the local market. Soy milk valued at US$20 000 was also donated to MSPL for their staff gift packs. The Ministry of Education also received a donation of soy milk valued at US$15 000 for their primary school feeding scheme.
4. Wages and salaries paid amounted to US$180 000. Of this amount, US$40 000 was paid to 100 contract workers for a period of one month. The contract workers are MSPL's seasonal workers. MSPL pays all of its seasonal workers the minimum industry wage of US$250 per month. The work done for ASL was of a similar type and carried out in similar conditions to the seasonal work done for MSPL.
5. Allowances for trade receivables for the year amounted to US$28 000. Impaired debts amounted to US$32 000. Only 50% of the impaired debts meet the Zimbabwe Revenue Authority's (ZIMRA's) criteria for write off.
6. Legal fees paid totalled US$12 000. The amount was paid to settle a dispute in which ASL was successfully sued by a supplier for breach of contract.
7. ASL incurred a value added tax (VAT) penalty for under declaring a sales invoice for the month of January 2018. The penalty was US$8 500.
8. ASL earned interest from commercial banks of US$10 000 during the year. Interest earned on trade receivables amounted to US$7 000.
9. Included in the market research expenses of US$23 000 is an amount of US$14 000 paid to an advertising company based in South Africa for the marketing of soy milk in that country.
10. Provisional tax paid for the year was US$17 000.
11. Depreciation for the year was US$35 000.
12. ASL's non-current assets as at 1 January 2017 were as follows:

	Date acquired/ constructed	Cost US$	Income tax value US$
Office building (constructed)	2007	150 000	112 500
Factory building (constructed)	2015	200 000	100 000
Furniture and fixtures (acquired)	2012	120 000	0
Two passenger vehicles (acquired)	2015	80 000	10 000
Commercial vehicles (acquired)	2016	90 000	67 500

Required:

(a) **Comment briefly on the related party transactions detailed in the question from a transfer pricing perspective and indicate the actions which the Zimbabwe Revenue Authority (ZIMRA) might take to ensure comparability of the transactions.** (3 marks)

(b) **Calculate the taxable income and corporation tax payable by All Soy Limited for the year ended 31 December 2017.**

Notes:

(1) You should start your calculation with the net profit before tax of US$92 000 and indicate by the use of a zero (0) any amounts referred to in the question for which no adjustment is required.

(2) You should assume that the company claims the maximum available capital allowances.

(3) You should account for inter-company transactions in the tax computation on the assumption that the transfer pricing rules will be applied. (12 marks)

(15 marks)

End of Question Paper