Applied Skills

Taxation – Zimbabwe (TX – ZWE)

Tuesday 4 June 2019

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 2018

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 2018

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	5,400
(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/contributor per year — US$5,400

Credits year ended 31 December 2018

	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 2018
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 2018

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/capital gains tax year ended 31 December 2018

	US$
Rental income	3,000
Interest on deposits with a financial institution	3,000
Interest on discounted instruments	3,000
Gain from the sale or disposal of marketable securities	1,800
Pension	No limit

Gain 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 Daniel was born on 31 August 1953. He is employed and earns US$1,900 per month.

What is the amount of Daniel's allowable deductions from employment income in respect of his National Social Security Authority (NSSA) contributions for the year ended 31 December 2018?

A US$798
B US$0
C US$196
D US$294

2 **Which of the following statements is/are true in respect of the information which must be included on a valid tax invoice?**

(1) The business partner numbers of both the supplier and purchaser must be included on the tax invoice
(2) The name, address and value added tax (VAT) registration number of the supplier must be included on the tax invoice
(3) The name and address of the purchaser must be included on the tax invoice
(4) The description of the goods or services supplied must be included on the tax invoice

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

3 Jen was provided with a loan of US$12,000 from her employer on 31 March 2018. The interest rate is 3·5% p.a. Jen applied the loan as follows:

	US$
House renovations	3,000
Motor vehicle purchase	5,000
Postgraduate studies	4,000
	12,000

The average LIBOR for the year ended 31 December 2018 is 1·5%.

What is the value of Jen's taxable loan benefit in respect of the loan for the year ended 31 December 2018?

A US$180
B US$270
C US$390
D US$240

4 Evergreen (Private) Limited is a category B value added tax (VAT) registered operator. The company's VAT return for the August 2018 VAT period was submitted to the Zimbabwe Revenue Authority (ZIMRA) on 25 November 2018.

By how many days was Evergreen (Private) Ltd late in submitting its VAT return to ZIMRA?

A 30 days
B 0 days
C 91 days
D 60 days

5 On 1 June 2018, Tapiwa (aged 59) sold 80,000 shares in Chando Ltd, an unlisted company, for US$180,000. Details of the shares disposed of by Tapiwa are as follows:

No. of shares	Type of shares	Date acquired	Share price US$
80,000	Ordinary	2012	1·50

What is the amount of the capital gain arising on Tapiwa's disposal of his Chando Ltd shares on 1 June 2018?

A US$37,200
B US$58,200
C US$55,200
D US$39,000

6 **Which of the following are examples of direct taxes?**

(1) Value added tax (VAT)
(2) Corporation tax
(3) Pay as you earn (PAYE)
(4) Capital gains tax (CGT)

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

7 On 1 May 2018, Xtra Ltd sold a passenger motor vehicle to one of the company's senior managers for its market value of US$45,000. The motor vehicle was originally acquired on 10 November 2015 at a cost of US$60,000. Xtra Ltd has always claimed the maximum capital allowances available in line with company policy.

What is the amount to be included in Xtra Ltd's gross income for the year ended 31 December 2018 in respect of the disposal of the motor vehicle?

A US$10,000
B US$5,000
C US$7,500
D US$15,000

8 **Which of the following buildings are NOT classified as commercial buildings for capital allowance purposes?**

A Office buildings
B Retail shops and showrooms
C Hotels registered in terms of the Tourism Act
D Buildings used as staff accommodation

9 Lite Ltd acquired and brought into use the following assets during the year ended 31 December 2018:

	Cost US$
Commercial vehicle	70,000
Factory building	200,000
Computer software	30,000
Computer hardware	60,000
	360,000

What is the maximum amount of capital allowances which can be claimed by Lite Ltd for the year ended 31 December 2018?

A US$90,000
B US$82,500
C US$42,500
D US$50,000

10 Riva (Private) Limited commenced business operations on 20 March 2018 and registered with the Zimbabwe Revenue Authority (ZIMRA) on the same date. The company's projected taxable income for the period ended 31 December 2018 is US$20,000.

What amount of corporation tax should Riva (Private) Limited remit to ZIMRA on 25 March 2018?

A US$1,288
B US$2,000
C US$515
D US$0

11 Spiwe contributed 7·5% and 1% of her US$60,000 annual emoluments respectively to an employer administered pension fund and benefit fund for the year ended 31 December 2018. Spiwe is also a registered member of the National Social Security Authority (NSSA).

What is the total amount of Spiwe's allowable deductions from employment income in respect of her contributions to the employer administered pension and benefit funds and the NSSA?

A US$5,394
B US$4,794
C US$5,400
D US$6,600

12 Mike submitted his self-assessment tax return for the year ended 31 December 2018 on 1 April 2019.

For how long is Mike obliged to keep his accounting records in respect of his self-assessment tax return for the year ended 31 December 2018?

A 18 months after the end of the 2018 tax year
B 18 months after the end of the 2019 tax year
C 72 months after the end of the 2018 tax year
D 72 months after the end of the 2019 tax year

13 OFC Ltd is in the agricultural business and registered for value added tax (VAT). On 1 June 2018, OFC Ltd acquired the following business assets (all figures are stated inclusive of VAT where applicable):

	Cost
	US$
Tractors	150,000
Commercial vehicle	70,000
Passenger vehicle	50,000
	270,000

What is the amount of input tax which can be claimed by OFC Ltd?

A US$9,130
B US$35,217
C US$28,696
D US$10,500

14 Thulani lives rent free in an apartment belonging to his employer. Thulani moved into the apartment on 1 May 2018. The market rental of similar properties is US$800 per month. Thulani can prove that he could get alternative accommodation at a monthly rent of US$400.

What is Thulani's taxable benefit in respect of the use of his employer's apartment for the year ended 31 December 2018?

A US$9,600
B US$3,200
C US$6,400
D US$4,800

15 On 1 September 2018, Mucha disposed of her 20,000 shares in Metro Limited, a listed company, for US$60,000. The shares were originally acquired on 3 January 2009 for US$1 per share.

What is the amount of withholding tax payable by Mucha on disposal of the Metro Limited shares on 1 September 2018?

A US$3,000
B US$350
C US$9,000
D US$600

(30 marks)

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Section B begins on page 10.

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) Roadside Milling Company Limited (RMC) recorded the following losses on disposal of its marketable securities and immovable property as detailed below:

	Date	Amount US$
Marketable securities	2011	80
Gweru factory	2013	5,000

Required:

Explain whether or not Roadside Milling Company Limited's capital losses can be carried forward and set off against capital gains arising in the year ended 31 December 2018. (3 marks)

(b) On 1 May 2018, RMC lost its property in Harare as a result of the countrywide expansion of the highway road network by the local authority. Compensation was made to RMC at market value for the loss of revenue, redundant equipment and demolition of the immovable property. Details of the affected property, plant and equipment are as follows:

	Date acquired/ constructed	Cost US$	Income tax value US$	Market value US$
Land	2010	100,000	100,000	200,000
Factory building	2014	150,000	0	300,000
Plant and equipment	2015	120,000	30,000	180,000
Concrete wall	2016	80,000	40,000	110,000
		450,000	170,000	790,000

Required:

Calculate the capital gains tax payable by Roadside Milling Company Limited as a result of the compensation paid on the loss of its Harare property on 1 May 2018.

Note: You are expected to make use of all available reliefs to minimise the company's tax liability. (7 marks)

(10 marks)

2 Rima (Private) Limited (Rima) commenced business operations on 5 January 2018. The company directors are of the opinion that they are required to register for corporation tax with the Zimbabwe Revenue Authority (ZIMRA) after 18 months of trading.

You have been engaged by Rima to advise on the time limits for the submission of information to ZIMRA and all related tax compliance matters. The following information has been made available to you for the period ended 31 December 2018:

(1) The monthly wages bill is US$2,000 in total for the company's five employees.

(2) Projected income statement for the period ended 31 December 2018:

	US$
Revenue	280,000
Cost of sales	(110,000)
Gross profit	170,000
Distribution costs	(30,000)
Administrative expenses:	
General	(10,000)
Staff costs	(24,000)
Company registration	(5,000)
Depreciation	(36,000)
Rent (note)	(18,000)
Profit before tax	47,000

Note: The rent was for the lease of a warehouse building which remained unoccupied as at 31 December 2018.

(3) Non-current assets acquired during the period ended 31 December 2018:

	US$
Plant and equipment	100,000
Office building	170,000
	270,000

Rima's policy on non-current assets is to claim the maximum capital allowances in any given year.

Required:

(a) Explain why the company directors' opinion regarding the requirement to register for corporation tax with the Zimbabwe Revenue Authority (ZIMRA) is incorrect. (1 mark)

(b) Explain Rima (Private) Limited's statutory compliance obligations.

Notes:
1. Your answer should be confined to the information provided in the question.
2. Your answer should state the time limits for the submission of the requisite information to ZIMRA.
(3 marks)

(c) Calculate the provisional tax payable by Rima (Private) Limited for the period ended 31 December 2018, stating the due date and amount of each payment. (6 marks)

(10 marks)

3 Farm Feed Limited (FFL) is a manufacturer of livestock feed and is a category C value added tax (VAT) registered operator. The livestock feed is processed from soya beans procured from contracted farmers. The following information relates to the VAT return for the month of July 2018. All figures are stated inclusive of VAT, where applicable:

	Note	US$
Sales		96,000
Discounted sales	1	45,000
Sales returns		(13,000)
		128,000
Cost of sales	2	(52,000)
Gross profit		76,000

Note 1 – Discounted sales

The quality of the inventory was compromised by overexposure to direct sunlight. A 20% discount was offered to customers who had purchased the compromised inventory.

Note 2 – Cost of sales

	US$
Opening inventory	30,000
Raw materials procured	40,000
Closing inventory	(18,000)
	52,000

Additional information

Other payments for the month of July 2019:

	US$
Salaries and wages	75,000
All risk insurance policy	15,000
Interest on overdraft facility	5,000
Repairs and maintenance	17,000
Stationery – detailed below	14,000
	126,000

50% of the stationery was procured from unregistered operators.

Non-current assets acquired:

	Cost US$
Fiscal devices	26,000
Passenger motor vehicle, engine capacity 3,200cc	65,000
	91,000

Impaired debts recovered during the month amounted to US$25,000.

Required:

(a) Calculate the value added tax (VAT) payable by or refundable to Farm Feed Limited for the month of July 2018.

Note: You should indicate by the use of a zero (0) any amounts on which VAT is not chargeable or not reclaimable. (8 marks)

(b) Briefly explain the requirements which must be met by registered VAT operators to claim input tax. (2 marks)

(10 marks)

4 Tinei and Temba are partners in their business, sharing profits equally since commencement of trading operations in 2012. The partnership prepares accounts to 31 December each year. On 1 October 2018, Tinei and Temba admitted Thoko to the partnership.

The partnership profit for the nine-month period ended 30 September 2018 is US$32,000 after taking the following into account:

		US$
Credits		
Revenue		210,000
Interest from commercial banks		15,000
Rental income		37,000
		262,000
Debits		
Distribution costs		34,000
Salaries and wages:		
Staff		67,000
Tinei		21,000
Temba		21,000
Insurance:		
Partnership joint life policy		16,000
Partners' life policy:	Tinei	20,000
	Temba	14,000
Medical aid contributions:		
Staff		25,000
Tinei		6,000
Temba		6,000
		230,000

As at 1 January 2018, all non-current assets had been fully depreciated for both accounting and tax purposes.

On 1 October 2018, Thoko contributed the following to the partnership:

	US$
Plant and equipment	75,000
Passenger motor vehicle	50,000
Cash	25,000
	150,000

The partnership profit for the period 1 October 2018 to 31 December 2018 is US$36,000 and was arrived at after taking into account the following expenses:

	US$
Depreciation	30,000
Salaries and wages:	
Staff	40,000
Tinei	10,000
Temba	10,000
Thoko	10,000
Interest on capital accounts:	
Tinei	26,000
Temba	22,000
Thoko	16,000
	164,000

Additional information

Tinei, Temba and Thoko agreed to share profits in the ratio 1:1:1.

The partners did not make an election to claim the maximum possible capital allowances.

Required:

(a) Briefly explain the tax implications of the admission of Thoko to Tinei and Temba's partnership on 1 October 2018. (1 mark)

(b) Calculate the taxable income and tax payable for each of Tinei, Temba and Thoko for the year ended 31 December 2018. (9 marks)

(10 marks)

5 Stacy resigned from her full-time employment on 30 April 2018 in order to concentrate on her dairy farming business. The following information is available:

1. **Employment earnings and deductions**

	US$
Salary	8,000
Cash in lieu of leave	3,000
Transport allowance	1,500
Accommodation allowance	1,000
Pension fund contributions	(2,500)
NSSA contributions	(98)
Professional subscriptions	(500)
Funeral insurance policy	(1,200)
PAYE	(1,400)

Additional information

Stacy contributed US$2,400 into a retirement annuity fund (RAF) after her resignation from employment.

Stacy also contributed US$3,600 to a medical aid society during the year ended 31 December 2018. A total of US$900 of her US$1,500 prescription expenses claim was declined by the medical aid society on the basis that the amount was in excess of her annual limit.

2. **Dairy farming trading operations**

(i) Revenue for the year ended 31 December 2018 is as follows:

	US$
Milk sales	160,000
Cattle sales	60,000
	220,000

Included in the cattle sales is US$40,000 realised when Stacy was forced to sell 50 of her 150 dairy cows due to a severe drought. Her farm and a number of other farms were declared drought stricken for the 2017 and 2018 farming season. She made no other cattle sales or purchases.

(ii) Stacy made a prepayment of US$20,000 for the fencing of her farm. As at 31 December 2018, only 50% of the farm has been fenced.

(iii) Other farm expenses:

	US$
Dairy cattle expenses	33,000
Staff expenses	35,000
General repairs	25,000
Tractor procurement	46,000
Staff housing costs – detailed below	90,000
	229,000

A total of five staff housing units were constructed, one for the farm supervisor at a cost of US$30,000 and the other four for permanent staff members at a total cost of US$60,000.

Additional information

The total dairy herd as at 1 January 2018 was 150. The closing inventory was 100. The approved fixed standard value (FSV) applied for valuation purposes is US$800 per dairy cow.

Required:

(a) Identify and explain the tax reliefs available to Stacy to mitigate the effects of the drought on her farming business. (3 marks)

(b) Calculate Stacy's taxable income and income tax payable/(refundable) for the year ended 31 December 2018.

Notes:

1. Your answer should assume that no election was made for the available tax reliefs to minimise the income tax liability.
2. 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. (12 marks)

(15 marks)

6 **(a)** BL Limited (BL) is a subsidiary company of Tswana Ltd, a Botswana based holding company. BL was incorporated in Zimbabwe on 1 March 2018 and commenced business operations on 15 March 2018.

The financial statements for the period 15 March to 31 December 2018 show that BL made a net loss of US$17,000. This loss is before making any necessary adjustments for tax purposes for the following items:

(i) Bank interest received of US$8,000.

(ii) Interest of US$15,000 paid to Tswana Ltd in respect of a loan of US$150,000. The amount was advanced by Tswana Ltd on 1 March 2018 to cover BL's office rent for the period 1 March 2018 to 31 October 2018. The commercial bank interest for a loan of the same amount is 10% p.a.

(iii) Depreciation of US$31,000.

(iv) Donations to the following:

	US$
Private nursing home	10,000
Ministry of Health	13,000

(v) A one-off lease premium of US$60,000 paid on 1 April 2018 when BL signed a lease agreement for a two-acre plot of land with Max Limited, an unrelated company. The lease agreement is for an indefinite period. The requirements of the lease agreement are such that BL must construct a commercial building valued at US$400,000 and a boundary wall valued at US$150,000 by no later than 31 October 2018. On completion of the construction, BL must occupy the building at a monthly rent of US$1,000.

BL completed the construction on 30 September 2018, incurring the following costs:

	US$
Commercial building	450,000
Boundary wall	180,000

BL moved into the newly constructed building on 1 November 2018.

(vi) BL's non-current assets as at 31 December 2018:

	Cost US$
Plant and equipment	180,000
Office furniture and fittings	210,000
Fiscal devices	50,000

Additional information

The office rent paid in (ii) above has not been included in the calculation of BL's net loss of US$17,000.

Required:

Calculate BL Limited's taxable income or assessed loss for the period ended 31 December 2018.

Notes

1. **You should start your calculation with the net loss of US$17,000 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.** (11 marks)

(b) Max Limited

Max Limited's taxable income for the year ended 31 December 2018 is US$112,000. This figure does not take into account the effects of the lease agreement signed with BL on 1 April 2018.

Required:

Calculate Max Limited's adjusted taxable income and tax payable for the year ended 31 December 2018.

(4 marks)

(15 marks)

End of Question Paper