Fundamentals Level – Skills Module

Taxation (Zimbabwe)

Thursday 7 December 2017

Paper F6 (ZWE)

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.

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 2016

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 2016

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 2016

	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 2016
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 2016

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 2016

	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.

This is a blank page.
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 Mpho is a commercial farmer with a passion for horse rearing. On 20 March 2016, he acquired a farm adjacent to his existing farm for US$100 000 to cater for his increasing herd of horses. Mpho commenced work on his newly acquired farm by constructing 50 stables at a total cost of US$120 000. Mpho also incurred the following additional expenses in connection with his new farm:

	US$
Land clearing	50 000
Dam construction	90 000
Staff houses (five units)	140 000
	280 000

The farm was brought into use on 3 May 2016 when 50 horses occupied the newly constructed stables. Mpho also hired permanent workers who took up residence in the newly constructed staff houses from the same date.

Additional information

(1) Mpho had the following horses as at 31 December 2015:

Stallions	5
Colts	30
Mares	70
Fillies	20
Foals	40
	165

On 1 June 2016, Mpho sold 30 colts and 20 fillies for US$30 000 in total. On the same date he also upgraded the 40 foals to 15 colts and 25 fillies respectively. On 15 June 2016, Mpho purchased three stallions at a total cost of US$6 000.

During the year ended 31 December 2016 a total of 60 foals were born on the farm.

Mpho has consistently applied the following fixed standard values for the valuation of his horses:

	US$
Stallions	2 200
Colts	400
Mares	1 500
Fillies	850
Foals	200

(2) Mpho's farming records for the year ended 31 December 2016 show the following:

	US$
Crop sales	600 000
Other farm purchases	150 000
Farm overheads	250 000

The Zimbabwe Revenue Authority (ZIMRA) considers 80% of the farm overheads to be directly related to the farming business for the year ended 31 December 2016.

(3) An extract from Mpho's non-current asset register as at 31 December 2015 is shown below:

	Cost (US$)	Income tax value (US$)
Commercial vehicles	200 000	50 000
Staff houses (four units)	100 000	0
Stables	50 000	0
Farm fixtures	150 000	75 000

Mpho's policy is to claim the maximum available capital allowances in any given year.

Required:

Calculate Mpho's farming taxable income for the year ended 31 December 2016.

(10 marks)

2 Quality Leather (Private) Limited (QL) manufactures bags and related leather products for both the local and export market. QL registered with the Zimbabwe Revenue Authority (ZIMRA) for corporation tax on commencement of business operations on 20 January 2016. QL has a permanent staff complement of ten employees and the average monthly payroll expenditure is US$6 000.

Other information:

The accountant of QL projected the export sales volume at 35% of the total sales volume. The projected net profit for the year ended 31 December 2016 is US$45 000, calculated as follows:

	US$
Turnover	280 000
Cost of sales	(90 000)
Gross profit	190 000
Less:	
Depreciation	(22 000)
Projected expenses (all allowable)	(123 000)
Net profit	45 000

Non-current assets as at 31 December 2016 are as follows:

	Cost (US$)
Furniture and equipment	80 000
Commercial vehicles	50 000
One passenger motor vehicle	20 000

Required:

(a) Explain, with reasons, the other taxes which Quality Leather (Private) Limited is obliged to register for with the Zimbabwe Revenue Authority (ZIMRA). State the time limits which apply to the filing of each of the relevant tax returns. (4 marks)

(b) Calculate the provisional corporation tax payable by Quality Leather (Private) Limited and the payments due in respect of each quarterly payment date (QPD) for the year ended 31 December 2016.

Note: You should assume that Quality Leather (Private) Ltd takes advantage of all available tax dispensations. (6 marks)

(10 marks)

3 Peter disposed of the following marketable securities and a factory building during the year ended 31 December 2016:

	Date acquired/constructed	Cost (US$)	Market value (US$)
Marketable securities:			
15 000 quoted shares	2012	15 000	30 000
10 000 unquoted shares	2011	5 000	10 000
2 000 unquoted bonus shares	2014	0	2 000
Factory building:			
Land	2010	100 000	150 000
Factory building	2011	120 000	180 000
Factory wall	2013	30 000	50 000

Peter donated the 15 000 quoted shares to his two sons on 5 May 2016. He then sold the unquoted shares together with the bonus shares at their market value on 15 May 2016.

The sale proceeds of the land, factory building and factory wall were paid in accordance with the agreement of sale signed on 10 June 2016.

Required:

Calculate the capital gains tax (CGT) payable by Peter for the year ended 31 December 2016. Your answer should include brief explanations of your treatment of the donated shares and the sale of the bonus shares.

(10 marks)

4 QN Limited (QN) is a category C value added tax (VAT) registered operator. The following information refers to QN's trading operations for the month of May 2016. All figures are stated inclusive of VAT, where applicable.

(1) Turnover

	US$
Supply of standard rated goods	30 000
Supply of zero rated goods	10 000
Defective goods returned	(8 000)
	32 000

10% of the defective goods returned are zero rated.

(2) Purchases (all standard rated)

	US$
Domestic goods to make taxable supplies	18 000
Goods returned for poor quality	(4 000)
	14 000

Domestic goods valued at US$6 000 were procured from non-VAT registered traders.

(3) Non-current assets purchased

	US$
Passenger motor vehicle, engine capacity, 3 300cc	20 000
Furniture and fittings	12 000
Computer equipment	3 000
	35 000

The passenger motor vehicle was allocated to the Human Resources manager.

(4) Other expenses

	US$
Salaries and wages	10 000
Medical aid contributions	2 000
Office building rent	6 000
Depreciation	3 500
Stationery	1 800
Repairs and maintenance	2 500
Interest on overdraft	1 500
	27 300

The office building rent was paid to the owner, Mr Moyo, who is not registered for VAT.

Required:

(a) Calculate the non-deductible input value added tax (VAT) for QN Limited for the month of May 2016. (2 marks)

(b) Calculate the VAT payable by or refundable to QN Limited for the month of May 2016.

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

(10 marks)

This is a blank page.
Question 5 begins on page 16.

5 XLM Limited's summarised statement of profit or loss for the year ended 31 December 2016 is as follows:

	Note	US$	US$
Gross profit			170 000
Other income	1		80 000
			250 000
Operating expenses			
Depreciation		13 000	
Staff expenses	2	73 000	
Impairment loss	3	14 000	
Marketing expenses	4	22 000	
Other expenses	5	110 000	(232 000)
			18 000
Finance costs			
Interest payable	6		(5 000)
Profit before taxation			13 000

Note 1 – Other income

	US$
Bank interest received	4 000
Rent received	58 000
Lease premium	8 000
Profit on sale of a commercial vehicle	10 000
	80 000

The lease premium actually received was a one-off payment of US$40 000 in connection with a five-year lease agreement signed on 2 January 2016.

The commercial vehicle was sold on 20 March 2016 for US$60 000. The vehicle was originally purchased in 2013 at a cost of US$50 000. The income tax value as at 31 December 2015 was US$12 500.

Note 2 – Staff expenses

	US$
Salaries and wages	50 000
Late National Social Security Authority (NSSA) contributions penalty	3 000
Payment to former employee	20 000
	73 000

The former employee was paid US$20 000 in accordance with a signed agreement to the effect that the former employee would not engage in similar business to that of XLM Limited for the next five years.

Note 3 – Impairment loss

XLM Limited wrote off an impairment loss of US$9 000 relating to a trade debt on 25 February 2016. The debtor was declared insolvent on 15 February 2016. A total of US$5 000 of the accounts receivable balance was considered to be a reasonable allowance for receivables as at 31 December 2016.

Note 4 – Marketing expenses

	US$
Export market research expenses	10 000
Local trade fair exhibition expenses	5 000
Marketing manager's trade mission expenses	7 000
	22 000

Note 5 – Other expenses

	US$
Donations to Harare Hospital children's ward	16 000
Donations of food hampers for villagers affected by floods	8 000
General entertainment expenses	11 000
Legal expenses for the conversion of company shares	12 000
Dumping fine	4 000
Construction expenses to redesign the factory loading bay	24 000
General administrative expenses	35 000
	110 000

The Zimbabwe Revenue Authority (ZIMRA) considers 25% of the general administrative expenses to be disallowable.

Note 6 – Interest payable

The interest payable is in respect of a bank loan of US$30 000 used for the redesigning of the factory loading bay. The actual construction work was completed within a two-week period at a total cost of US$24 000. The loading bay was operational before the year ended 31 December 2016.

Additional information

Property, plant and equipment as at 31 December 2015

	Date acquired	Cost (US$)	Income tax value (US$)
Factory building	2012	200 000	nil
Furniture and equipment	2012	150 000	nil
Commercial building	2013	300 000	277 500
Commercial vehicle (note 1)	2013	50 000	12 500

Required:

Calculate the taxable income and corporation tax payable by XLM Limited for the year ended 31 December 2016.

Note: You should start your calculation with the profit before taxation of US$13 000 and indicate by the use of a zero (0) any amounts referred to in the question for which no adjustment is required.

(15 marks)

6 Joanne River is employed as a part-time bursar at Northend High School. All of her four children are students at Northend High School. Joanne is also a partner in a three-member partnership business. In addition to sharing the profits and losses of the partnership equally, the three partners earn the same salary and benefits. The following information is available in respect of Joanne for the year ended 31 December 2016:

Northend High School employment

	US$
Salary	18 000
Bonus	1 800
Transport allowance	4 000
PAYE	(3 200)
Medical aid contributions	(1 200)
Pension fund contributions	(3 000)
National Social Security Authority (NSSA) contributions	(294)

Other employment benefits and entitlements:

(1) As a staff member at the school, Joanne's four children do not pay tuition fees. Other students pay US$3 000 per year in tuition fees.

(2) Joanne lives in a house provided by the school and pays a subsidised rent of US$100 per month. In her opinion the fair monthly rental for the house is US$250.

(3) On 1 March 2016, Joanne got an interest free loan of US$10 000 from the school. She applied the loan as follows:

	US$
Her wheelchair replacement	2 500
Spouse's hospital fees	3 500
Personal vehicle repairs	2 000
Repairs to her residential property	2 000
	10 000

The average LIBOR was constant at 1% for the year ended 31 December 2016.

Partnership:

	US$
Share of profit	25 000
Salary	60 000

The partnership profit was arrived at after deducting the following:

	US$
Office expenses	45 000
Staff salaries	70 000
Partners' salaries	180 000
Partnership joint life insurance policy	30 000
Partners' life insurance policies	24 000
Interest on partners' capital accounts	21 000

Required:

(a) Briefly explain the difference in tax treatment of Joanne's salary from employment and her salary from the partnership business. (2 marks)

(b) Calculate Joanne's taxable income and tax payable for the year ended 31 December 2016.

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

(15 marks)

End of Question Paper