

Fundamentals Level – Skills Module

# Taxation (Zimbabwe)

Thursday 7 June 2018



F6 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.**

Think Ahead

**ACCA**

The Association of  
Chartered Certified  
Accountants

**Paper F6 (ZWE)**

## 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%
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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 2017

<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. 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 2017

	<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 exempt.

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

**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** While conducting the preliminary tax audit of Sawmill Limited (SL) for the year ended 31 December 2017, you noticed the following:
- (i) Employment benefits totalling US\$60 000 in respect of SL's three senior managers for the month of October 2017 have deliberately been excluded from the payroll system. As a result, the employees' tax remitted to the Zimbabwe Revenue Authority (ZIMRA) for October 2017 did not include the tax on the employment benefits. The three senior managers received the employment benefits in full. The employees' tax which should have been deducted and remitted to ZIMRA is US\$30 900.
  - (ii) The self-assessment return for the year ended 31 December 2016 was submitted on 30 September 2017. The return for the third quarterly payment date (QPD) for the provisional tax for the year ended 31 December 2017 was also submitted on 30 September 2017.
  - (iii) The output tax on the benefits in respect of three passenger motor vehicles owned by SL was deliberately excluded in the value added tax (VAT) returns for the year ended 31 December 2017. Two of these motor vehicles (with engine capacities of 1500cc and 2500cc) are allocated to two of SL's senior managers while the remaining motor vehicle (with an engine capacity of 1300cc) is used as a pool car.
  - (iv) A motor vehicle purchased on 10 November 2017 for US\$42 000 (VAT inclusive) was knowingly recorded as a commercial vehicle, when it is actually a passenger vehicle. The input tax was claimed in the VAT return submitted on 20 December 2017.

**Required:**

**For each of the items (i) to (iv):**

- (a) Briefly explain whether your findings constitute tax avoidance, tax evasion or neither on the part of Sawmill Limited.** (4 marks)
- (b) Calculate the maximum amount of penalty and/or interest chargeable by the Zimbabwe Revenue Authority (ZIMRA), as at 31 December 2017.**

Note: Your interest calculations should be made to the nearest day. (6 marks)

**(10 marks)**

- 2 NN Transport Limited (NN) took over the hardware business of Nick Payne following a board resolution passed on 31 March 2017. The arrangement enabled NN to diversify its business operations as detailed in their scheme of reconstruction, approved by the Zimbabwe Revenue Authority (ZIMRA). Both NN and Nick Payne have a year end of 31 December each year.

The following is an extract of the information available from the records of Nick Payne's business as at 31 March 2017:

	US\$
Non-current assets:	
Intangible assets	100 000
Current assets:	
Inventory	50 000
Trade receivables	20 000
Current liabilities:	
Trade and other payables	15 000
Trading operations:	
Assessed loss for the year ended 31 December 2014	(33 000)
Assessed loss for the year ended 31 December 2015	(21 000)
Assessed loss for the year ended 31 December 2016	(10 000)
Taxable income for the period 1 January 2017–31 March 2017	2 000

**Additional information**

On 30 April 2017, NN paid a total of US\$200 000 to Nick Payne as full and final settlement for the business takeover in accordance with the agreement signed on 31 March 2017. The cash needed for the purchase was realised by NN from the disposal of two haulage trucks detailed below:

	Cost	Income tax value as at 31 December 2016	Market value as at 31 March 2017
	US\$	US\$	US\$
Truck 1	100 000	25 000	100 000
Truck 2	120 000	60 000	150 000

NN's taxable income for the year ended 31 December 2017 is US\$90 000, excluding the financial effects of the business takeover and the sale of the trucks.

NN's revenue from the hardware business acquired from Nick Payne is US\$60 000 for the period 1 April 2017 to 31 December 2017. The related trading expenses amount to 75% of the revenue. NN's accountant considers that 25% of the trade receivables acquired are irrecoverable and the fair amortisation rate of the intangible assets is 10%. Both of these items are included in the related trading expenses.

**Required:**

- (a) Explain the tax treatment of Nick Payne's assessed losses on the takeover of his hardware business by NN Transport Limited. (4 marks)
- (b) Calculate NN Transport Limited's taxable income or assessed loss for the year ended 31 December 2017, taking into account the effects of the takeover of Nick Payne's hardware business. (6 marks)

**(10 marks)**

- 3** Tino was born on 10 January 1959 and is married to Chenai, born on 5 November 1962. On 15 July 2017, Tino and Chenai disposed of their matrimonial residence, situated in Harare. The property was constructed in 2010 following the acquisition of a residential piece of land. Tino and Chenai had lived on the property since its construction and it was their sole residential home.

The following information refers to Tino and Chenai's residential property:

	<b>Date acquired/constructed</b>	<b>Cost (US\$)</b>
Undeveloped land	2010	30 000
Main residence	2010	180 000
Boundary wall	2011	35 000
Outbuilding	2012	70 000

The property was sold via an estate agent at its market value of US\$500 000. Tino and Chenai paid the estate agent commission of 5% of the sale proceeds in connection with the disposal of their property.

**Additional information**

The outbuilding was constructed specifically as a hairdressing salon managed by Chenai from inception.

Tino and Chenai made no other capital disposals during the year ended 31 December 2017.

**Required:**

- (a) **Briefly explain whether Tino and Chenai's residential property qualifies as a principal private residence.** (2 marks)
- (b) **Calculate the capital gains tax (CGT) payable by Tino and Chenai for the year ended 31 December 2017.** (6 marks)
- (c) **Briefly explain how Tino and Chenai could have reduced the amount of CGT payable on the disposal of their property.** (2 marks)

**(10 marks)**

- 4 Chemco (Private) Limited (Chemco) commenced business operations in industrial cleaning chemicals retail on 1 August 2017. Chemco purchased the following non-current assets (inclusive of value added tax (VAT), where applicable):

	US\$
Factory plant and equipment	70 000
Delivery van	45 000
Two passenger motor vehicles	50 000
Office furniture and equipment	60 000
	<u>225 000</u>

Monthly sales records (exclusive of VAT) for the period 1 August 2017 to 31 December 2017 are as follows:

	US\$
August	3 800
September	3 500
October	4 600
November	4 900
December	6 300
	<u>23 100</u>

Purchases and other expenses (inclusive of standard rated VAT, where applicable) for the period 1 August 2017 to 31 December 2017 are as follows:

	US\$
Purchases	32 000
Office rent	5 750
Staff expenses	18 000
Stationery	2 400
Depreciation	15 000
General administrative expenses	12 000
	<u>85 150</u>

**Required:**

- (a) Explain briefly whether Chemco (Private) Limited is obliged to register for value added tax (VAT). (1 mark)
- (b) Explain the advantages for Chemco (Private) Limited of voluntarily registering for VAT on the commencement of business operations on 1 August 2017. (3 marks)
- (c) Calculate the VAT payable by or refundable to Chemco (Private) Limited for the period 1 August 2017 to 31 December 2017, assuming the company registered for VAT with effect from 1 August 2017.

Note: You should indicate by the use of a zero (0) any amounts on which VAT is not chargeable or not reclaimable. (6 marks)

**(10 marks)**



- 5 Mark Tembo is employed as a deputy director in the Ministry of Tourism. He is also in receipt of property and investment income from a number of business ventures. The following information refers to Mark's earnings and deductions for the year ended 31 December 2017:

	US\$
<b>Employment:</b>	
Salary	26 000
Bonus	3 000
Accommodation allowance	5 000
School fees allowance	10 000
Representation allowance	8 000
Clothing allowance	2 000
Pension fund contributions	(2 500)
Retirement annuity fund (RAF) contributions	(1 700)
Professional subscriptions	(500)
PAYE	(10 000)
Medical aid contributions	(5 000)

Mark also makes use of an employer-allocated motor vehicle with an engine capacity of 3300cc.

	US\$
<b>Property and investments:</b>	
Net rental income from a property in Mozambique	25 000
Net rental income from guest houses in Victoria Falls	20 000
Royalties from locally published books	15 000
Withholding tax on royalties from locally published books	(2 250)
Royalties from publications in South Africa	30 000
Foreign income tax on royalties	(5 250)
Non-executive director's fees	28 000
Withholding tax on non-executive director's fees	(5 600)

**Required:**

**Calculate Mark Tembo's taxable income and tax payable for the year ended 31 December 2017.**

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.

**(15 marks)**

- 6 Zim Motors (Private) Limited (ZM) is a wholly owned subsidiary company of RSA Motors Inc, a South African based company. ZM is in the business of selling motor vehicle spare parts imported from RSA Motors Inc.

The following is ZM's statement of profit or loss for the year ended 31 December 2017:

	Note	US\$	US\$
Revenue			420 000
Cost of sales			(200 000)
Gross profit			220 000
Other income	1		35 000
Distribution costs		30 000	
Administrative expenses	2	195 000	
Other expenses	3	12 000	(237 000)
			18 000
Interest payable	4		(10 000)
Profit before taxation			8 000

**Note 1 – Other income**

	US\$
Net interest received from commercial banks	5 000
Gross dividend received (detailed below)	20 000
Interest on overdue trade receivables	10 000
	35 000

The dividend was received from Manica Motors (Private) Limited, a wholly owned subsidiary company of ZM.

**Note 2 – Administrative expenses**

	US\$
Staff expenses	80 000
Traffic fine	3 000
Management fees (detailed below)	30 000
Rent paid	40 000
Depreciation	20 000
General expenses (detailed below)	22 000
	195 000

The management fees refer to the amount paid to RSA Motors Inc for the general administration of the head office.

The Zimbabwe Revenue Authority (ZIMRA) considers 35% of the general expenses to be unrelated to trading operations.

**Note 3 – Other expenses**

The amount refers to the loss incurred on the disposal of a commercial vehicle. The vehicle was purchased in 2012 at a cost of \$50 000 and disposed of on 15 June 2017 at its market value of US\$38 000. The income tax value at the date of disposal was nil. ZM acquired another commercial vehicle on 1 July 2017 at a cost of US\$100 000.

**Note 4 – Interest payable**

The interest was charged by a local bank for ZM's overdraft facility.

**Additional information**

Property, plant and equipment as at 31 December 2016 was as follows:

	<b>Cost US\$</b>	<b>Income tax value US\$</b>
Warehouse	100 000	85 000
Furniture and equipment	180 000	nil
Commercial vehicle	50 000	nil

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

**Required:**

**Calculate the taxable income and corporation tax payable by Zim Motors (Private) Limited for the year ended 31 December 2017.**

Note: You should start your calculation with the profit before taxation of US\$8 000 and indicate by the use of a zero (0) any amounts referred to in the question for which no adjustment is required.

**(15 marks)**

**End of Question Paper**