Fundamentals Level – Skills Module

Taxation (Zimbabwe)

Monday 3 December 2007

Paper F6 (ZWE)

Time allowed

Reading and planning:	15 minutes
Writing:	3 hours

ALL FIVE questions are compulsory and MUST be attempted.
Tax rates and allowances are on pages 3–7.

Do NOT open this 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.

This question paper must not be removed from the examination hall.

The Association of Chartered Certified Accountants

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The question paper begins on page 3.

SUPPLEMENTARY INSTRUCTIONS

1. Calculations and workings need only be made to the nearest $, unless directed otherwise.
2. All apportionments should be made to the nearest month.
3. All workings should be shown.

TAX RATES AND ALLOWANCES

The following tax rates and allowances are to be used when answering the questions

Rates – Individuals

Effective 1 January 2006 to 31 August 2006

Taxable income band $	Rate of tax %	Amount within band $	Cumulative income tax liability $
Up to 56 000	0	56 000	0
56 001 to 128 000	20	72 000	14 400
128 001 to 224 000	25	96 000	38 400
224 001 to 320 000	30	96 000	67 200
320 001 and over	35		

Effective 1 September 2006 to 31 December 2006

$	Rate of tax %	Amount within band $	Cumulative income tax liability $
Up to 80 000	0	80 000	0
80 001 to 120 000	20	40 000	8 000
120 001 to 168 000	25	48 000	20 000
168 001 to 216 000	30	48 000	34 400
216 001 and over	35		

NB. The AIDS levy of 3% of income tax payable, less credits, remains in place.

Bonus exempt: $100 000

Allowable deductions

Pension fund contributions ceiling
1 January 2006 onwards
(a) In relation to employers: $72 000 in respect of each member
(b) In relation to each member of a pension fund: $72 000
(c) In relation to each contributor to a retirement annuity fund or funds: $72 000

	Credits
Disabled/blind person	$12 000*
Elderly person (59 years and over)	$12 000*
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
Motor vehicles

1 January 2006 onwards

	$
Up to 1500cc	9 000
1501 to 2000cc	15 000
2001 to 3000cc	18 000
3001 and above	24 000

Loans

The deemed benefit per annum is calculated at a rate of 16% of the loan amount advanced.

Capital gains inflation rates
CSO official average CPI (annual inflation)

Year	Rate (%)	Year	Rate (%)
2000	55·9	2004	350·0
2001	71·9	2005	237·8
2002	133·2	2006	1 016·7
2003	365·0		

Value added tax (VAT) rates

Meritorious goods and services	0%
Standard rate (from 1 January 2006)	15%
Specified luxury goods	25%

Tax rates

Year ended 31 December 2006

	%
Companies and trusts	
Income tax	
Basic rate	30
AIDS levy	3
Pension funds: income from trade or investment	15
Foreign dividends	20
Manufacturing company exporting at least 50% of output	20
Export processing zones (after 5 years)	15
Industrial park developer (after 5 years)	15
Tourist development zones	0–30
BOOT approved arrangements:	
First five years of arrangement	0
Second five years of arrangement	15
Third five years of arrangement	20
Subsequent years	30
Person(s) engaged in new manufacturing at a growth point	10
Person(s) engaged in infrastructure development at a growth point	5
Individuals	
Income tax	
Informal traders	10
Income from trade or investment	30
Income from treasury bills	20
Foreign dividends	20
Capital gains tax	
On marketable securities	20
On principal private residence where the seller is over 55 years	0
On other immovable property	20
Capital gains withholding tax on sale proceeds	
Immovable property	15
Marketable securities (listed)	5
Marketable securities (unlisted)	10

Note: 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 Zimbabwe-resident company to resident shareholders other than companies and to non-resident shareholders:

By a company listed on the Zimbabwe Stock Exchange	15
By any other company	20
Residents' tax on interest	
From building societies	20
From other financial institutions	20

Elderly taxpayers (55 years and over)

Income from the sale or disposal of marketable securities, rental income and income from interest on discounted instruments is exempt from income tax and capital gains tax up to \$112 000 a month or \$1 344 000 a year for each type of income specified.

Capital allowances (S.15 (2) (c)) as read with the 4th and the 7th Schedule ITA for the year ended 31 December 2006

Asset	All areas	Growth point areas only
	%	%
Commercial buildings		
Investment allowance	–	15
Special initial allowance	–	50
Wear and tear (where SIA claimed)	–	25
Wear and tear (where SIA not claimed)	2·5	2·5
Industrial buildings		
Investment allowance	–	15
Special initial allowance	50	50
Wear and tear (where SIA claimed)	25	25
Wear and tear (where SIA not claimed)	5	5
Farm buildings and improvements		
Special initial allowance	50	50
Wear and tear (where SIA claimed)	25	25
Wear and tear (where SIA not claimed)	5	5
Railway lines		
Special initial allowance	50	50
Wear and tear (where SIA claimed)	25	25
Wear and tear (where SIA not claimed)	5	5
Furniture and fittings, articles, implements and utensils		
Investment allowance	–	15
Special initial allowance	50	50
Wear and tear (where SIA claimed)	25	25
Wear and tear (where SIA not claimed)	10	10
Staff housing		
Investment allowance	–	15
Special initial allowance	50	50
Wear and tear (where SIA claimed)	25	25
Wear and tear (where SIA not claimed)	5	5
Motor vehicles		
Special initial allowance	50	50
Wear and tear:		
Passenger (where SIA claimed)	25	25
Passenger (where SIA not claimed)	20	20
Commercial (where SIA claimed)	25	25
Commercial (where SIA not claimed)	20	20

Plant, machinery and equipment

Investment allowance	–	15
Special initial allowance	50	50
Wear and tear:		
1 day shift (where SIA claimed)	25	25
1 day shift (where SIA not claimed)	10	10
2 day shift (where SIA claimed)	25	25
2 day shift (where SIA not claimed)	17·5	17·5
3 day shift (where SIA claimed)	25	25
3 day shift (where SIA not claimed)	25	25

ALL FIVE questions are compulsory and MUST be attempted

1 Andrew Martin has been employed as an information technology (IT) specialist by a leading information and computer technologies (ICT) giant, Compunet Services Limited (Compunet Services) for the past thirty years. He decided to take early retirement upon turning fifty years old on 30 June 2006 and to devote more of his time to ICT research and the writing of related books and publications.

Andrew Martin's employment related income for the period to 30 June 2006 is as follows:

	$
Salary	4 800 000
PAYE	(2 160 000)
Profit sharing	2 500 000
Acting allowance	900 000
Entertainment allowance	400 000
Pension contributions	(180 000)
Retirement annuity fund contributions	(100 000)
NSSA contributions	(144 000)
Subscriptions to the ICT Society of Zimbabwe	(250 000)

He received the following employment-related benefits:

– The free use of a fully furnished company house. The market rental of similar houses for the period was $100 000 per month. According to Andrew Martin, the value of the furnished house to him was $50 000 per month.

– A holiday allowance of ZAR 5000.

– Free medical aid cover valued at $45 000 per month.

– A school fees allowance calculated at 50% of his salary.

– The free use of a fully expensed company vehicle, a 3000cc Nissan Hard Body.

He also received the following early retirement entitlements:

– $105 000 000 as commutation of his pension from Compunet Services' pension fund. Prior to making the election to commute his pension, Andrew's total pension entitlement amounted to $300 000 000. With effect from 1 July 2006, Andrew Martin became entitled to a monthly pension of $600 000, guaranteed for a period of ten years.

– He was allowed to purchase his allocated motor vehicle for its book value of $3 000 000. The motor vehicle had been purchased by Compunet Services in 2004 for $10 000 000 and its market value at the time of sale was $80 000 000.

– He was allowed to continue to use the company house until 31 December 2006 under the same conditions as before.

– He was entitled to a thirteenth cheque of $1·3m payable in November 2006.

– Compunet Services continued to pay medical cover for Andrew Martin at the same rate of $45 000 per month until 31 December 2006.

Other information

(1) Andrew Martin received gross royalties from the following sources for the period 1 July 2006 to 31 December 2006:

Local	$20 000 000
Botswana	BWP65 000
South Africa	ZAR80 000
United Kingdom	GBP3 000

Note: In terms of the double taxation treaty between Zimbabwe and the United Kingdom, royalties accruing to a Zimbabwe resident from the United Kingdom are taxable at 10%.

(2) On 24 November 2006, Andrew Martin was invited by the University of South Africa to conduct a one-week training workshop on the importance of ICT in colleges. He was paid a one off payment of ZAR20 000 for this assignment. He incurred the following expenses in connection with the assignment:

	ZAR
Travelling expenses	2 000
Subsidised accommodation and meals	500
Personal expenses	1 800
	4 300

While in South Africa, Andrew bought a new laptop for ZAR7 000 to replace one he had acquired in 2003.

The following information is relevant to this question:

Exchange rates:

BWP	1:40
ZAR	1:35
GBP	1:500

Transport consumer price index:

2004	9 109·9
2005	55 566·0
2006	915 182·1

Required:

(a) Calculate the benefit, if any, accruing to Andrew Martin in connection with the purchase of his allocated motor vehicle. (2 marks)

(b) Calculate Andrew Martin's taxable income from employment for the periods ended 30 June 2006 and 31 December 2006 respectively. (13 marks)

(c) Calculate Andrew Martin's taxable income and tax payable from his business venture taking into account the maximum allowances available to minimize his tax obligation. (10 marks)

(25 marks)

2 Vinepress (Private) Limited owns three wine presses. Two of the wine presses are situated in Headlands and Rusape, designated growth points in the Manicaland province. The other wine press is situated at the company's head office in the High Glen industrial site of Harare. Due to escalating production costs, a decision was made on 1 October 2006 to consolidate the business and relocate the two Manicaland wine presses to Harare.

The fixed assets, which were relocated to Harare as a result of this decision, were as follows:

	Purchase date	Cost	Income tax value 1 January 2006
		$000	$000
Furniture and fittings	May 2004	100 000	25 000
Office equipment	May 2004	60 000	15 000
Computer equipment	May 2004	80 000	20 000
Plant and equipment	October 2003	110 000	nil
Plant and equipment	February 2004	180 000	45 000
Commercial vehicles	March 2004	250 000	62 500
Passenger motor vehicles:			
Toyota Land Cruiser	March 2004	10 000	2·5
Mazda B2200	March 2004	5 000	2·5
Mazda B1800	March 2004	4 000	2·5
Isuzu KB250	March 2004	7 000	2·5

The company's Harare fixed assets as at 1 January 2006 were:

	Purchased/ constructed on	Cost	Income tax value 1 January 2006
		$000	$000
Industrial building	January 2003	500 000	nil
Warehouse	January 2003	300 000	277 500
Office block	January 2003	350 000	323 750
Office equipment	January 2003	180 000	nil
Furniture and fittings	January 2003	200 000	nil
Computer equipment	January 2003	280 000	nil
Plant and equipment	January 2003	400 000	nil
Commercial vehicles	January 2003	200 000	nil
Passenger motor vehicles:			
Mazda B2500	January 2003	6 000	nil
Toyota Camry	January 2003	4 000	nil
Toyota Prado	January 2003	10 000	nil
Isuzu KB280	January 2003	8 000	nil
Mazda 626	January 2003	4 000	nil

Assets disposed of during the course of the year to 31 December 2006:

All the passenger motor vehicles, which were transferred to Harare, were sold at the following amounts:

	$000
Toyota Land Cruiser	80 000
Mazda B2200	40 000
Mazda B1800	30 000
Isuzu KB250	60 000

The immovable property the company owned at Rusape was sold for $450 million on 30 October 2006 to Rusape Municipality. This property consisted of the following:

	Date constructed	Cost	Income tax value 1 January 2006
		$000	$000
Office block	October 2003	130 000	nil
Industrial building	October 2003	170 000	nil

Additions to fixed assets during the year to 31 December 2006:

	Purchase date	Cost $000
Office equipment	September 2006	150 000
4 Mazda Eagles at $180 million each	October 2006	720 000

The income statement of Vinepress (Private) Limited reflected an operating profit of $223 million for the year ended 31 December 2006. The credits and debits to the income statement included the following:

	$000
Credits	
Wine sales	1 845 000
Rental of Headlands property	100 000
Profit on sale of motor vehicles	210 000
Interest from commercial bank	43 000
Dividends received from local listed companies (gross)	29 000
Dividends received from other companies (gross)	22 000
Debits	
Distribution costs (note (1))	317 000
Administration costs (note (2))	435 000
Depreciation	113 000
Entertainment expenses	94 000
Value added tax default penalty	8 000
Internet and communication expenses	41 000

Notes

(1) Distribution costs consisted of the following:

	$000
Traffic fines	5 000
Parking discs	7 000
Repairs and maintenance	105 000
Fuel	200 000

(2) Administration costs included the following in respect of the company's 100 employees:

	$000
Salaries and wages	190 000
Staff pension contributions	80 000
Staff medical aid contributions	96 000

(3) Vinepress (Private) Limited had an assessed loss of $158 million for the year ended 31 December 2005 and had therefore not submitted returns for the purposes of provisional tax payments for the year ended 31 December 2006.

Required:

(a) Calculate the capital gains withholding tax on the sale of the Rusape property and state by when the tax should be remitted to ZIMRA. (2 marks)

(b) Calculate the minimum taxable income of and the taxes (including withholding taxes) payable by Vinepress (Private) Limited for the year ended 31 December 2006. (21 marks)

(c) Explain the implications for Vinepress (Private) Limited of not submitting any returns for the purposes of provisional tax payments, clearly identifying the due dates of payment and the tax, if any, that should have been paid. (7 marks)

(30 marks)

3 Farai Ndiweni, a widower, aged 53, was diagnosed with a terminal illness on 24 February 2006. He decided to prepare well for his fate and move into a retirement home at Athol Evans Hospital in Harare.

On 15 March 2006, Farai Ndiweni sold his entire shareholding of 30 000 shares in Ekhaya Holdings, a listed company. The shares were quoted at $45 000 a share on the date of sale and had been purchased as follows:

Number of shares	Date purchased	Total cost $000
15 000	23 April 2003	15 000
15 000	28 July 2005	75 000

Farai Ndiweni paid a stock brokerage commission of 1·5% on the consideration amount in connection with this transaction.

On 31 March 2006, Farai Ndiweni further disposed of his 20 000 shares in Mahogany Group Limited, an unquoted company. He sold 10 000 of these shares for $100 million and donated the other 10 000 shares to Hope Alive children's home for terminally ill children. The 20 000 shares had all been purchased on 25 May 2004 for $40 million.

On 10 April 2006, Farai sold his residential house in Mabelreign, Harare for $830 million and immediately purchased his retirement home at Athol Evans Hospital for $500 million. The Mabelreign house had been acquired on 19 January 2005 for $25 million and Farai had effected improvements to the property at a cost of $4 500 000 in January 2006.

Farai Ndiweni incurred the following expenses in connection with the disposal of the Mabelreign property:

	$000
Estate agent's commission	43 000
Transfer fees	6 450
Capital gains withholding tax	124 500

Required:

(a) (i) Calculate the withholding tax payable by Farai Ndiweni on the disposal of the shares. (2 marks)

(ii) Calculate Farai Ndiweni's capital gains tax position as a result of the disposal of the shares, taking into account the effect of the withholding tax. (7 marks)

(b) Calculate the capital gain and the applicable tax payable by Farai Ndiweni in connection with the sale of his principal private residence on the assumption that he made an election for roll over relief. (6 marks)

(15 marks)

4 Exotic Soap Merchants (Private) Limited commenced trading on 13 January 2006, specialising in the manufacturing of bath soap and accessories for different consumer groups. The company's gross revenue and operating expenses for the year ended 31 December 2006 were as follows:

	$000
Gross revenue	13 000 000
Raw materials purchased	5 200 000
Utility costs	380 000
Motor vehicle expenses	2 690 000
Salaries and wages	2 362 000
Consumables	467 000
Communication expenses	43 000

The company's senior managers have had free use of the following passenger motor vehicles during the year:

Nissan Almera, engine capacity, 1800cc
Mercedes Benz Sedan C230, engine capacity, 2300cc
Nissan Hard Body, engine capacity, 2500cc
Ford Ranger, engine capacity, 3300cc

As the company has not yet registered for value added tax (VAT), it has not been charging VAT to its customers. It has, however, been paying VAT on all of its expenses (inputs).

Required:

(a) Explain the distinctive features of the value added tax (VAT) registration categories ranging from A to D. (4 marks)

(b) State, giving reasons, why Exotic Soap Merchants (Private) Limited is obliged to register for VAT and when it should have done so. (2 marks)

(c) Calculate the potential VAT liability of Exotic Soap Merchants (Private) Limited for the year ended 31 December 2006, stating any restrictions that might apply to the company's ability to claim input tax. (7 marks)

(d) State ZIMRA's possible course(s) of action to ensure compliance with the applicable statutes. (2 marks)

(15 marks)

5 Factory Safety First Enterprises is an approved industrial park developer, which has been operating in Msasa industrial sites, a designated growth point area, for the past seven years. The company manufactures safety wear products mostly for the export market.

The company projected a taxable income of $436 million for the year ended 31 December 2006 and paid its corporate tax and submitted provisional tax returns as follows:

	$000
25 March 2006	6 540
25 June 2006	13 080
25 September 2006	22 890
20 December 2006	22 890

The income statement of Factory Safety First Enterprises for the year ended 31 December 2006 is as follows:

	Note	$000
Turnover		2 987 000
Cost of sales		(1 345 000)
Gross profit		1 642 000
Operating expenses:		
Distribution costs	(1)	(382 000)
Staff costs	(2)	(513 000)
Administration costs	(3)	(385 000)
Net profit		362 000

Notes

(1) Included in the distribution costs were the following expenses incurred during the course of the year:

	$000
Donation to approved charitable trust	100
Value added tax paid for the month of August 2006	11 300

(2) Staff costs consisted of the following:

	$000
Salaries and wages	335 700
PAYE	167 830
NSSA late payment penalty	9 470

(3) Administration costs consisted of the following:

	$000
Utility expenses	21 000
Provision for bad debts (3% of debtors book)	13 500
Depreciation	48 000
Realised foreign exchange losses (actually paid on foreign debtors)	157 000
Repairs and maintenance	133 600
Legal and professional fees	11 900

(4) The company's policy on capital allowances has always been to claim the maximum possible allowances. The following is the extract from the fixed asset register at 31 December 2006:

	Date constructed/ acquired	Cost $000
Industrial building	2000	22 000
Commercial building	2000	17 000
Plant and equipment	2000	7 500
Plant and equipment	2004	93 000
Office equipment	2005	47 000
Passenger motor vehicles	2003	38 000
Commercial vehicles	2006	241 000
Furniture and fittings	2006	110 000

Required:

(a) Explain the quarterly payment date (QPD) position of Factory Safety First Enterprises for the year ended 31 December 2006 and state whether or not the company is in default. (5 marks)

(b) Compute the taxable income and tax payable of Factory Safety First Enterprises for the year ended 31 December 2006. (10 marks)

(15 marks)

End of Question Paper