

Fundamentals Level – Skills Module

Taxation (Zimbabwe)

Monday 2 June 2008

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 2–4.

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

Paper F6 (ZWE)

The ACCA logo consists of the letters 'ACCA' in a bold, white, sans-serif font, centered within a solid black square.

SUPPLEMENTARY INSTRUCTIONS

1. Calculations and workings need only be made to the nearest \$000, 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 2007 to 30 June 2007

Taxable income band	Rate of tax	Amount within band	Cumulative income tax liability
\$	%	\$	\$
Up to 600 000	0	600 000	0
600 001 to 1 200 000	25	600 000	150 000
1 200 001 to 1 800 000	30	600 000	330 000
1 800 001 to 6 000 000	35	4 200 000	1 800 000
6 000 001 to 18 000 000	40	12 000 000	6 600 000
18 000 001 to 30 000 000	45	12 000 000	12 000 000
30 000 001 and over	47.5		

Effective 1 July 2007 to 31 August 2007

Taxable income band	Rate of tax	Amount within band	Cumulative income tax liability
\$	%	\$	\$
Up to 3 000 000	0	3 000 000	0
3 000 001 to 6 000 000	25	3 000 000	750 000
6 000 001 to 10 000 000	30	4 000 000	1 950 000
10 000 001 to 22 000 000	35	12 000 000	6 150 000
22 000 001 to 36 000 000	40	14 000 000	11 750 000
36 000 001 to 50 000 000	45	14 000 000	18 050 000
50 000 001 and over	47.5		

Effective 1 September 2007 to 31 December 2007

Taxable income band	Rate of tax	Amount within band	Cumulative income tax liability
\$	%	\$	\$
Up to 16 000 000	0	16 000 000	0
16 000 001 to 32 000 000	25	16 000 000	4 000 000
32 000 001 to 48 000 000	30	16 000 000	8 800 000
48 000 001 to 120 000 000	35	72 000 000	34 000 000
120 000 001 to 200 000 000	40	80 000 000	66 000 000
200 000 001 to 280 000 000	45	80 000 000	102 000 000
280 000 001 and over	47.5		

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

Bonus exempt: \$100 000

Allowable deductions

Pension fund contribution ceilings

1 January 2007 onwards

- (a) In relation to employers: \$900 000 in respect of each member
- (b) In relation to each member of a pension fund: \$900 000
- (c) In relation to each contributor to a retirement annuity fund or funds: \$900 000

Credits

Disabled/blind person	\$120 000*
Elderly person (59 years and over)	\$120 000*
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 2007 to 31 August 2007	1 September 2007 to 31 December 2007
	\$	\$
Up to 1500cc	100 000	2 400 000
1501 to 2000cc	160 000	4 000 000
2001 to 3000cc	200 000	5 000 000
3001cc and above	260 000	6 700 000

Loans

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

Capital gains inflation rates

CSO All items Consumer Price Index (CPI)

Year	CPI	Year	Month	CPI
2002	233.2	2007	January	968 338.9
2003	1 084.5		February	1 334 521.7
2004	4 880.3		March	2 008 932.1
2005	16 486.4		April	4 032 633.7
2006	184 101.1		May	6 265 734.3
			June	11 666 826.7

Value added tax (VAT)

Standard rate	15%
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Capital allowances

	%
Special initial allowance (SIA)	50
Accelerated wear and tear	25
Wear and tear:	
Industrial building	5
Farm building	5
Commercial building	2.5
Motor vehicles	20
Moveable assets in general	10

Tax rates

Year ended 31 December 2007	%
Companies	
Income tax	
Basic rate	30
AIDS levy	3
Individuals	
Income tax	
Informal traders	10
Income from trade or investment	30
Foreign dividends	20
AIDS levy	3
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 Zimbabwean 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
Non-residents' tax on interest	
On interest	10
On certain fees and remittances	20
On royalties	20
Residents' tax on interest	
From building societies	20
From other financial institutions (including discounted securities)	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.	

ALL FIVE questions are compulsory and MUST be attempted

- 1 Mrs Emily Mhuriro, aged sixty five, retired from the Ministry of Health (MoH) as a pediatrics nurse five years ago. She was called back by the MoH on 31 August 2007 to head the Pediatrics department at Harare Hospital which has been crippled by the mass exodus of staff into neighbouring countries. Mrs Mhuriro gladly accepted the offer of employment and commenced duties on 1 September 2007.

Mrs Mhuriro's earnings and deductions from the MoH for the period 1 September 2007 to 31 December 2007 are as follows:

	\$000
Salary	240 000
PAYE	(108 000)
Housing allowance	35 000
Representation allowance	47 000
Night allowance	53 000
Grocery allowance	28 000
Cost of living allowance	19 670
Cell phone allowance	6 130
Bonus	60 000
Pension contributions	(15 750)
Subscription to the Zimbabwe Nurses Association	(3 000)
Loan repayment	(8 000)
Medical aid contributions	(49 000)

Other information on benefits and entitlements:

- (i) Mrs Mhuriro was given a Mazda 626 Cronos vehicle, engine capacity 2000cc as part of her employment entitlement.
- (ii) An interest free loan of \$80 million was advanced on 1 October 2007 for her to buy a wheelchair costing that amount, for her daughter who had been discharged from hospital on that date following her involvement in an accident when on her way back to Midlands State University where she is in her final year.

Other income received from 1 January 2007 to 31 December 2007:

- 1. Pension of \$10 million per month from the Consolidated Revenue Fund
- 2. A widows pension of \$4 million per month from the Consolidated Revenue Fund
- 3. Non employment related income:
 - Gross non-executive director's fees of \$73 million from Kingdom Bank.
 - Gross non-executive director's fees of \$21 million from TSL Group Limited.
 - Gross dividends of \$55 million from a listed company, Zimsun Group Limited.
 - Rental income of \$37 million from a holiday resort lodge in Kariba.
 - Interest received of \$8 million from treasury bills with ZABG Bank.
 - Interest received of \$3 million from a savings account with Beverly Building Society.
 - Interest received of \$10 million from bankers acceptances with Metropolitan Bank.

Mrs Mhuriro incurred a total of \$25 million in procuring prescription drugs for her injured daughter (see (ii) above). This amount was not covered by her medical aid society.

Required:

- (a) Calculate Emily Mhuriro's taxable income and tax payable/refundable from employment income for the year ended 31 December 2007. (15 marks)
- (b) Calculate Emily Mhuriro's non-employment related taxable income and tax payable for the year ended 31 December 2007. (8 marks)
- (c) State, giving reasons, whether Emily Mhuriro is legally obliged to register with ZIMRA for corporate tax and other tax heads in connection with her non-employment related income. Specify the other tax heads. (2 marks)

(25 marks)

2 Heavenly Delicacies Group Limited (the Group) was incorporated on 1 October 2006 to run fast food outlets and bakeries in Harare and Bulawayo. The Group commenced business operations on 2 January 2007 with six fast food outlets and four bakeries evenly spread throughout the two major cities.

The budgeted income statement of the Group for the year ended 31 December 2007 is as follows:

	\$000	\$000
Turnover		530 000 000
Less cost of sales		(200 000 000)
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Gross profit		330 000 000
Other operating income		22 000 000
Less operating expenses:		
Direct selling expenses	1 500 000	
Audit fees	8 000 000	
Bank charges	17 000	
Cleaning materials	11 500 000	
Computer consumables	16 800 000	
Depreciation	18 300 000	
Directors' fees	9 600 000	
Electricity and water	5 500 000	
Communication and internet	6 300 000	
Insurance	13 890 000	
Motor vehicle expenses	23 560 000	
Packaging material	4 716 000	
Printing and stationery	7 000 000	
Security	9 518 000	
Rent	15 000 000	
Repairs and maintenance	12 000 000	
Staff expenses	43 000 000	(206 201 000)
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Operating profit		145 799 000
Less finance costs		(72 000 000)
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Net profit before taxation		73 799 000
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The following fixed assets were acquired/constructed in the months detailed below, then brought into the business on 2 January 2007:

Asset type	Date acquired/ constructed	Location	Cost \$000
Office block	December 2006	Harare	60 000 000
Office block	December 2006	Bulawayo	50 000 000
Office equipment	November 2006	Harare	3 500 000
Office equipment	November 2006	Bulawayo	2 000 000
Furniture and fittings	November 2006	Harare	2 750 000
Furniture and fittings	November 2006	Bulawayo	1 800 000
Computer equipment	November 2006	Harare	4 000 000
Computer equipment	November 2006	Bulawayo	3 000 000
Plant and equipment	November 2006	Harare	8 000 000
Plant and equipment	November 2006	Bulawayo	7 000 000
Delivery trucks	December 2006	Harare	15 000 000
Delivery trucks	December 2006	Bulawayo	13 000 000
Four passenger vehicles	January 2007	Harare	12 000 000
Three passenger vehicles	January 2007	Bulawayo	9 000 000

The Group's policy on fixed assets is to claim the maximum allowances available.

The actual income statement of the Group for the year ended 31 December 2007 reflected a net loss of \$5 billion after taking into account the following income and expense items:

Income	Note	\$000
Turnover		480 000 000
Other operating income	1	35 000 000
Expenses		
Administration costs	2	160 000 000
Selling and distribution expenses	3	237 600 000
Staff expenses		68 000 000
Finance costs	4	54 400 000

Notes

1 Other operating income is made up of the following:

	\$000
Profit on the disposal of shares	10 000 000
Interest on tax reserve certificates	3 000 000
Commercial bank interest	2 000 000
Rental income from Bulawayo offices	20 000 000
	<u>35 000 000</u>

2 Administration costs include the following:

	\$000
Audit fees	11 200 000
Computer consumables	20 000 000
Depreciation	12 790 000
Insurance	19 900 000
Rent	22 000 000
Repairs and maintenance	23 648 000

3 Selling and distribution expenses comprise the following:

	\$000
Cost of sales (including an inducement fee of \$1 billion paid to service providers to ensure timely availability of all required raw materials)	185 000 000
Direct selling expenses	7 600 000
Motor vehicles expenses	45 000 000
	<u>237 600 000</u>

4 The finance costs were paid to a local building society in respect of the loan advanced to build the Harare and Bulawayo office blocks. The total sum was incurred as follows:

	\$000
Before completion of the buildings	40 000 000
After completion and business occupation	14 400 000
	<u>54 400 000</u>

Required:

(a) Calculate the provisional corporate tax payable by the Heavenly Delicacies Group Limited for the year ended 31 December 2007, stating clearly when the tax should be remitted to ZIMRA. (20 marks)

(b) Calculate the taxable income or loss for the Heavenly Delicacies Group Limited for the year ended 31 December 2007, indicating the final amount of tax payable/refundable as appropriate. (10 marks)

(30 marks)

3 Golden Leaf (Private) Limited (GLPL) owns three farms in the Mashonaland East region and two farms in the Mashonaland Central region, and specialises in tobacco farming.

The directors of GLPL made a decision at the annual general meeting held on 30 June 2007 to dispose of the two farms in Mashonaland Central due to poor performance exacerbated by the poor rainfall patterns in that region.

The two farms and all related movable assets were sold to a local consortium of emerging farmers through Farm Quip estate agents on 1 June 2007.

The following is an extract from GLPL's fixed assets register relating to the two farms as at 1 January 2007:

Asset type	Date constructed/ acquired	Cost price \$000	Income tax value \$000	Selling price \$000
Land	2002	800	800	30 000 000
Tractors	2002	500	Nil	900 000
Tractors	2005	850 000	212 500	3 000 000
Irrigation equipment	2002	300	Nil	1 693 000
Tobacco barns	2002	650	Nil	1 000 000
Staff housing (15 units)	2005	1 500 000	1 500 000	37 500 000
Farmhouse	2005	1 800 000	1 800 000	35 000 000

Other information:

GLPL incurred the following expenses in connection with the sale of the two farms:

Property valuation expenses	\$561 000 000
Advertisements	\$15 000 000
Legal fees (including transfer fees)	\$250 000 000
Estate agents' fees	10% of selling price

Required:

(a) (i) Calculate the amount to be included in the gross income of Golden Leaf (Private) Limited for the year ended 31 December 2007 as a consequence of the asset disposals. (4 marks)

(ii) Calculate the capital gains withholding tax payable by Golden Leaf (Private) Limited for the year ended 31 December 2007. (2 marks)

(b) Calculate the capital gain/loss of Golden Leaf (Private) Limited for the year ended 31 December 2007. (9 marks)

(15 marks)

4 Hardware Home Limited (HHL) is a registered operator for value added tax (VAT) under category C. HHL last submitted a VAT return for the month of October 2007 on 15 December 2007.

The management accounts of HHL for the months of November and December 2007 reflect the following information:
All amounts are inclusive of value added tax (VAT) as appropriate

	November \$000	December \$000
Trading activities:		
Sales	230 000 000	180 000 000
Sales returns	18 000 000	Nil
Purchases	93 000 000	90 000 000
Purchases returns	Nil	14 000 000
Operating expenses:		
Repairs and maintenance	9 540 000	7 810 000
Payroll expenses	49 600 000	52 000 000
Depreciation	5 690 000	5 690 000
Utility costs	810 000	1 350 000
Stationery	2 820 000	1 684 000
Cleaning materials and protective wear	3 367 000	1 966 000
Motor vehicle costs (refer to note)	29 300 000	34 430 000

Note: 20% of the motor vehicle costs are attributable to fuel procured from unregistered operators on the parallel market.

As at 1 February 2008, the VAT returns for the months of November and December 2007 had not been lodged with ZIMRA.

Required:

- (a) (i) **State, giving reasons, whether Hardware Home Limited’s VAT return for the month of October was submitted to ZIMRA on the correct due date.** (2 marks)
- (ii) **State the dates by when Hardware Home Limited’s outstanding VAT returns should have been submitted to ZIMRA, together with the possible consequences of non-compliance with the set deadlines.** (3 marks)
- (b) **Calculate the VAT liability of Hardware Home Limited for the two months ended 31 December 2007, on a month by month basis.** (10 marks)

(15 marks)

- 5 Tigere Hurudza was granted an A2 farm in Chatsworth on 30 September 2006. He commenced mixed crop farming on 1 January 2007.

The following are the fixed assets acquired/constructed and used on the farm for the year ended 31 December 2007.

	Cost \$000
Farm implements	900 000
Tractor	1 115 000
Combine harvester	3 000 000
Borehole and water tank	1 950 000
Farm workers compounds (10 units)	150 000
Farm manager's house	750 000
Fencing	280 000
Fowl runs	78 000
Tobacco barns	1 000 000
Irrigation equipment	869 000
Two passenger motor vehicles	2 500 000
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	12 592 000
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Tigere Hurudza incurred a net loss of \$6·572 billion for the year ended 31 December 2007 arrived at as follows:

		\$000
Sales:		
Crop sales		7 000 000
Poultry sales		9 500 000
Vegetable sales		3 500 000
		<hr/>
		20 000 000
Cost of sales		(5 000 000)
		<hr/>
Gross profit		15 000 000
Operating expenses:	Note	
Hire of trucks		(2 748 000)
Repairs and maintenance		(1 586 000)
Motor vehicle expenses		(1 763 000)
Veterinary expenses		(975 000)
Salaries and wages	1	(6 000 000)
Printing and stationery		(800 000)
Loan repayment	2	(4 000 000)
Interest paid	2	(2 400 000)
Depreciation		(1 300 000)
		<hr/>
Net loss		(6 572 000)
		<hr/>

Notes:

- 1 Included in salaries and wages is the contribution of \$1 billion made by Tigere Hurudza to the Farm Workers' Pension Fund and NSSA for his twelve permanent employees.
- 2 Tigere Hurudza was granted a loan of \$12 billion by the Agricultural Bank of Zimbabwe, which he fully applied towards the construction and purchase of some of his fixed assets. The interest rate on the loan is 20% per annum and the loan period is three years.

Additional information:

Tigere Hurudza has not accounted for the following preliminary expenses incurred when he was allocated the farm:

	\$000
Stumping and clearing of the land	650 000
Geophysical survey expenses	55 000
Contour ridges	76 000

Tigere Hurudza was very disappointed with his first year's results and would like to understand whether he qualifies for any tax relief(s) that might be available.

Required:

- (a) **State the tax reliefs that are available to livestock farmers under drought conditions.** (3 marks)
- (b) **Compute the taxable income/loss of Tigere Hurudza for the year ended 31 December 2007 taking into account the maximum allowances that he can claim.** (12 marks)

(15 marks)

End of Question Paper