

Fundamentals Level – Skills Module

Taxation (Zimbabwe)

Thursday 8 December 2016



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 2015

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 2015

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 2015

	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 2015
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 2015

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 2015

	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.

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 Mukudzei was born on 15 March 1960. On 10 May 2015, he ceased business operations and disposed of his business property, plant and equipment as follows:

	Cost US\$	Selling price US\$
Factory building, constructed on 5 January 2010	200 000	350 000
Plant and equipment, acquired on 1 February 2010	100 000	150 000
Security wall, erected on 15 January 2013	80 000	100 000
	<u>380 000</u>	<u>600 000</u>

Mukudzei paid 10% of the selling price of his property, plant and equipment to the estate agent as commission.

Additional information

Mukudzei has a recorded assessed capital loss of US\$15 000 from the disposal of a commercial building in 2009.

Mukudzei has always claimed the maximum possible capital allowances in any given year.

Required:

- (a) Explain briefly, in general terms, the tax treatment of capital losses. (3 marks)
- (b) Calculate the capital gains tax payable by Mukudzei for the year ended 31 December 2015. (7 marks)

(10 marks)

- 2 Ben's income consists of rental income and non-executive director's fees. His income is predetermined in terms of signed agreements and is constant for the contract period. Ben's current contracts are all for the three-year period beginning 1 January 2014 and ending 31 December 2016.

The rental income is from a commercial property in Harare, which is let to Trent Limited, and a holiday cottage in Botswana. Ben acquired the commercial property in 2010 at a cost of US\$150 000 and the holiday cottage in 2012 at a cost of US\$80 000.

Details of Ben's income and tax paid for the year ended 31 December 2015 are given below.

- (1) Rental income and expenses comprised the following:

	US\$
Gross rent from commercial property	160 000
Gross rent from holiday cottage	50 000
Property management fees – commercial property	(12 000)
Property management fees – holiday cottage	(5 000)
	<u>193 000</u>

Trent Limited deducted a total of US\$16 000 from Ben's commercial property rent as withholding tax on contracts (ITF 263) for the year ended 31 December 2015.

- (2) Ben received non-executive director's fees of US\$40 000 gross in the year ended 31 December 2015, from which withholding tax of US\$8 000 was deducted.
- (3) Ben did not remit any tax to the Zimbabwe Revenue Authority (ZIMRA) during the year ended 31 December 2015.

Required:

- (a) **Explain why the treatment of Ben's commercial property rents indicates non-compliance and state the possible penalty exposure.** (4 marks)
- (b) **Calculate the income tax which should have been paid by Ben for the year ended 31 December 2015. Clearly identify the due date(s) of payment and the amount payable on each date.**

Note: You should indicate by the use of zero (0) any amounts which are not required to be included in taxable income. (6 marks)

(10 marks)

- 3 (a) John owns a successful catering business in Harare. In order to manage his cleaning expenses, John has entered into a two-year agreement with Jen for the provision of cleaning services. John paid a total of US\$30 000 to Jen for cleaning services during the year ended 31 December 2015.

Required:

- (i) **State John's tax obligations when effecting the cleaning services payments, assuming that Jen is fully tax compliant.** (1 mark)
- (ii) **State John's tax obligations when effecting the cleaning services payments, assuming that Jen is NOT tax compliant.** (2 marks)
- (b) Mary has been operating her business as a sole proprietor since 10 April 2009. On 1 July 2015, she incorporated her business and on the same date revalued her property, plant and equipment.

As at 1 January 2015, Mary had total accumulated assessed losses of US\$135 000, incurred as follows:

	US\$
Assessed loss incurred in 2008	80 000
Assessed loss incurred in 2012	40 000
Assessed loss incurred in 2014	15 000
	<hr/>
	135 000
	<hr/> <hr/>

Required:

- (i) **Explain the tax consequences of the revaluation of the property, plant and equipment on 1 July 2015.** (2 marks)
- (ii) **State, with reasons, the tax treatment of trading losses following the incorporation of a sole proprietor business.** (2 marks)
- (iii) **Advise Mary on the action(s) she can take in order to maximise the relief available for her accumulated assessed losses on the incorporation of her business.** (3 marks)

(10 marks)

4 Pest Trackers Limited (PTL) commenced business operations as a manufacturer of household and agricultural chemicals on 1 August 2015. PTL voluntarily registered for value added tax (VAT) on 1 September 2015.

The following information relates to PTL for the period ended 31 December 2015:

- (1) Total sales were US\$450 000 (excluding VAT) of which 30% were in respect of zero rated supplies and 70% of standard rated supplies.
- (2) The expenditure recorded for the period comprised the following. All amounts are stated inclusive of VAT, where applicable.

	US\$
Raw material purchases: made locally	180 000
imported	90 000
Purchase of fiscalised electronic registers	30 000
Packaging materials costs	40 000
Rent paid	20 000
Staff costs	50 000
Depreciation	15 000

- (3) The following items of property, plant and equipment were acquired at the commencement of business operations on 1 August 2015. All amounts are stated inclusive of VAT.

	US\$
Plant and machinery	120 000
Furniture, fittings and equipment	110 000
Delivery van	70 000
Passenger motor vehicle, engine capacity 3300cc	50 000

The passenger motor vehicle was for the use of PTL's chief executive officer.

Additional information

The Zimbabwe Revenue Authority (ZIMRA) approved PTL's pre-registration input tax claim.

Required:

- (a) **State, with reasons, Pest Trackers Limited's value added tax (VAT) registration category and the frequency with which it should submit VAT returns.** (1 mark)
- (b) **Calculate the total VAT payable by/refundable to Pest Trackers Limited for the year ended 31 December 2015.**

Note: Indicate by the use of zero (0) any amounts on which VAT is not chargeable or not reclaimable.

(9 marks)

(10 marks)

- 5 Lilly Lake, aged 62, is employed on a part-time basis as a bookkeeper at a private hospital in Mutare. Lilly is also an accomplished author and in receipt of royalties from her published works. Details of her earnings and deductions for the year ended 31 December 2015 are as follows:

	Note	US\$
From employment		
Salary		15 000
Bonus		1 500
Cash in lieu of leave		3 200
Accommodation allowance		2 500
Clothing allowance		3 000
Unutilised medical care allowance	1	8 000
Pension fund contributions		(3 600)
Retirement annuity fund (RAF) contributions		(1 700)
Medical insurance policy	2	(3 000)
Loan repayment	3	(2 000)
PAYE		(6 000)
From royalties		
Gross royalties		35 000
Marketing and publishing costs	4	(18 000)
Withholding tax on royalties		(5 250)
From other sources		
Gross bank interest	5/8	16 000
Gross matured treasury bills interest	6/8	10 000
Gross dividends	7/8	12 000

Notes

- All of the hospital's employees receive an annual medical care allowance of an allocated amount to be used for medical treatment and the procurement of drugs from the hospital pharmacy. Any unutilised amount is transferred to the employee's bank account at the end of the year. Lilly's allocated amount for the year ended 31 December 2015 was US\$15 000.
- The medical insurance policy is to cover Lilly against any potential loss of income in the event that she falls sick and is admitted to hospital.
- The loan repayment was in respect of an interest free loan of US\$20 000 which was granted to Lilly by her employer on 1 April 2015 for the renovation of her home. The repayment was made on 31 December 2015. The average LIBOR for the year ended 31 December 2015 was 1%.
- ZIMRA considers 40% of the marketing and publishing costs to be disallowable.
- The interest was paid by a local building society for the period 1 March 2015 to 31 December 2015.
- The treasury bills had an initial maturity period of 90 days (three months) which Lilly extended by a further six months in order to maximise on the interest.
- The gross dividends were all received from companies listed on the Zimbabwe Stock Exchange (ZSE).
- Withholding tax at the applicable rates was deducted at source from the interest and dividend payments.

Additional information

Lilly is entitled to the use of her employer's fully expensed motor vehicle with an engine capacity of 3000cc.

Required:

Calculate the taxable income and income tax payable by Lilly Lake for the year ended 31 December 2015.

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 Best Bakers Limited (BBL) operates in the confectionery and allied industries and also owns a number of farms. The farms specialise in wheat farming which is a key ingredient for BBL's business.

BBL's financial records for the year ended 31 December 2015 show a net profit of US\$180 000 after taking into account the following items:

- (1) Other income received of US\$120 000 consisting of the following:

	US\$
Rental income	50 000
Interest from a local bank (net)	15 000
Lease premium	10 000
Profit on the sale of plant and equipment	45 000
	<u>120 000</u>

The lease premium relates to a one-off amount of US\$100 000 received in respect of a ten-year lease agreement signed on 2 January 2015 for a commercial property in Bulawayo.

The profit on the sale of plant and equipment was realised on bakery plant and equipment sold for US\$45 000 on 5 July 2015. This plant and equipment had originally been purchased on 20 May 2010 at a cost of US\$30 000 and had an income tax value (ITV) of nil at the date of disposal.

- (2) Depreciation of US\$38 000 in respect of the additions to BBL's property, plant and equipment in the year ended 31 December 2015 as follows:

	US\$
Plant and equipment purchased on 20 July 2015	80 000
Delivery vehicle purchased on 1 September 2015	65 000
Passenger motor vehicle, engine capacity 3200cc, purchased on 1 September 2015	85 000

All of the existing property, plant and equipment owned by BBL as at 1 January 2015 had a nil ITV.

BBL's policy on property, plant and equipment is to claim the maximum possible capital allowances in any given year.

- (3) Marketing research and advertising costs totalling US\$150 000, of which 40% was attributable to export market development expenses.
- (4) Donations of US\$20 000 to the Harare Children's Home and US\$15 000 to the member of parliament for Masvingo for the procurement of drought relief supplies.
- (5) A loss of US\$15 000 on the sale of a passenger motor vehicle to a senior manager on 1 June 2015 for US\$5 000, when the market value of the motor vehicle was US\$20 000. The motor vehicle had originally been purchased on 5 March 2011 at a cost of US\$35 000 and had a nil ITV at the date of disposal.
- (6) General entertainment costs of US\$25 000 of which BBL had managed to prove to the Zimbabwe Revenue Authority (ZIMRA) that 70% was trade related.
- (7) Trade mark registration and patent application expenses of US\$12 000.
- (8) Wheat production expenses of US\$200 000 made up as follows:

	US\$
Direct farm expenses	42 000
Farm overheads	23 000
Acquisition of an additional farm	55 000
Land clearing costs	26 000
Dam construction costs	54 000
	<u>200 000</u>

- (9) Finance charges of US\$30 000 in respect of a bank loan of US\$200 000, which was fully applied towards the wheat production costs in (8) above.

Required:

Calculate Best Bakers Limited's taxable income for the year ended 31 December 2015.

Notes:

1. You should start your calculation with the net profit of US\$180 000 and indicate by the use of zero (0) any amounts referred to in the question for which no adjustment is required.
2. Ignore any value added tax (VAT) implications.

(15 marks)

End of Question Paper