

Fundamentals Level – Skills Module

Taxation (Zimbabwe)

Thursday 9 June 2016



Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

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.

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.

Do NOT record any of your answers on the question paper.

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

Paper F6 (ZWE)

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 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 also 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** Caleb is a self-employed freelance fitness trainer, who has contracts with schools and sporting clubs. He is registered for corporation tax.

On 5 January 2015, Caleb expanded his operations by opening a centrally located gym in Harare. On the same date, he recruited four assistant fitness trainers to assist him with his gym business. The assistant trainers are paid an average salary of US\$400 per month.

Caleb's gym building was constructed at a total cost of US\$150 000 using savings from income earned from his contracts with schools and sporting clubs. Caleb also acquired new gym equipment at a cost of US\$80 000. Caleb's projected revenue and expenditure from the gym is detailed below:

	US\$
Projected revenue	175 000
Projected expenses (see below)	(63 000)
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Estimated net profit	112 000
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The projected expenses include the assistant trainers' salaries and depreciation of US\$15 000.

Required:

- (a) **State, giving reasons, the classification of Caleb's gym building for capital allowance purposes.** (2 marks)
- (b) **Calculate the additional provisional tax payable by Caleb for the year ended 31 December 2015 as a result of the commencement of the gym business, making use of all available tax reliefs to his advantage. Clearly indicate the dates by when the tax should have been remitted to the Zimbabwe Revenue Authority (ZIMRA).** (6 marks)
- (c) **Explain Caleb's additional tax obligations as a result of the recruitment of the assistant trainers.** (2 marks)

(10 marks)

2 Tanya is a finance executive with a leading hotel company. On 1 November 2009, she was transferred to work at her employer's hotel in the resort town of Victoria Falls, where she is provided with a fully furnished company house in which to stay.

On 1 September 2015, Tanya entered into an agreement of sale for the disposal of her only residence situated in Bulawayo. The house was sold at the market price of US\$320 000, payable as follows:

	US\$
50% on signing the agreement of sale	160 000
25% on 1 March 2016	80 000
25% on 1 June 2016	80 000
	<u>320 000</u>

The estate agent's commission of 10% was paid on 1 September 2015.

Tanya had bought her Bulawayo residence on 20 April 2009 at a cost of US\$180 000 and had effected the following improvements:

- a swimming pool on 15 February 2011, at a cost of US\$40 000; and
- procurement of the swimming pool equipment on 20 March 2011, at a cost of US\$15 000.

Tanya has been leasing out her Bulawayo residence since her transfer to Victoria Falls on 1 November 2009. She has claimed aggregate capital allowances of US\$45 000 from her rental income over the years, as detailed below:

	US\$
On the main residence and swimming pool	30 000
On the swimming pool equipment	15 000
	<u>45 000</u>

Required:

- (a) **State, with reasons, whether Tanya's Bulawayo residence will qualify to be classified as a principal private residence (PPR), together with the effect (if any) the leasing out of the property may have on the relief available.** (3 marks)
- (b) **Calculate the capital gains tax (CGT) payable by Tanya on the disposal of her Bulawayo residence for the year ended 31 December 2015, taking into account any available tax reliefs which would minimise her tax burden.** (7 marks)

(10 marks)

- 3** Pat owns a stationery business which she has been running for the past five years in Harare. She is registered for value added tax (VAT). Due to depressed sales and unsustainable trading losses, Pat ceased business operations and applied for VAT deregistration on 31 October 2015.

Details of Pat's current assets and non-current assets as at 31 October 2015 are as follows:

	US\$	
Current assets		
Inventory		120 000
Trade receivables		30 000
Cash and cash equivalents		5 000
		155 000
		155 000
	Cost	Market value
	US\$	US\$
Non-current assets		
Commercial vehicles	80 000	100 000
Four passenger motor vehicles	60 000	80 000
Furniture and fittings	40 000	50 000
Computer equipment	20 000	20 000
Office equipment	30 000	10 000
	230 000	260 000
	230 000	260 000

Additional information

The non-current assets were all used to make taxable supplies and input tax had been claimed where appropriate.

Required:

- (a) Explain, in general terms, how and when a business can be deregistered for value added tax (VAT). (4 marks)
- (b) State the obligations of a VAT operator to the Zimbabwe Revenue Authority (ZIMRA) on deregistration. (2 marks)
- (c) Calculate the VAT payable by Pat on her deregistration. (4 marks)
- Note: Indicate by the use of zero (0) any amounts on which VAT is not chargeable. (4 marks)

(10 marks)

- 4 CB (Private) Limited has a staff compliment of four permanent employees. The employees' basic annual salaries for the year ended 31 December 2015 are detailed below:

	US\$
Employee 1	3 200
2	6 000
3	8 500
4	9 000
	<hr/>
	26 700
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CB (Private) Limited is registered with the National Social Security Authority (NSSA) in terms of the statutory requirements. The company has always remitted the monthly NSSA contributions within the stipulated deadlines except for the months of October and November 2015, both of which amounts were still outstanding as at 31 December 2015.

Required:

- (a) **State by when employers are required to register with the National Social Security Authority (NSSA).** (1 mark)
- (b) **State by when CB (Private) Limited should have remitted the NSSA contributions for the months of October and November 2015.** (1 mark)
- (c) **State the measures put in place by the NSSA to ensure compliance with the stipulated remittance deadlines.** (2 marks)
- (d) (i) **Calculate the amount which should have been remitted to the NSSA by CB (Private) Limited for the month of October 2015, together with any additional amount due as at 31 December 2015 as a result of the measures detailed in (c) above.** (4 marks)
- (ii) **Calculate the ordinary contributions which should have been remitted to the NSSA by CB (Private) Limited for the year ended 31 December 2015.** (2 marks)

(10 marks)

- 5 Richard Skill was a teacher at a public school for ten years until his resignation on 31 July 2015. His employee's tax certificate (form P6) for the seven-month period to 31 July 2015 is detailed below:

	Note	US\$
Earnings		
Salary		12 500
Cash in lieu of leave		2 400
Accommodation allowance		3 000
Transport allowance		1 800
Educational benefit	1	6 000
Deductions		
Pension contributions	2	5 300
Professional subscriptions		500
Life insurance policy		700
Medical aid contributions		1 500
PAYE		4 500

Notes

- 1 The educational benefit is in respect of the tuition and levies for Richard's four minor children.
- 2 Included in the pension contributions is Richard's NSSA contributions for the period.

Richard has always been a part-time special needs teacher at a private college close to his home. The details of his earnings and deductions from this employment for the year ended 31 December 2015 are as follows:

	US\$
Earnings	
Salary	9 600
Acting allowance	1 200
Cell phone allowance	400
Bonus	800
Clothing allowance	600
Deductions	
Funeral insurance policy	300
Bank loan repayment	2 000

Additional information

- (i) Richard's part-time employer did not deduct PAYE from his earnings. The reason given by the employer is that he is not a full-time employee.
- (ii) In the year ended 31 December 2015, Richard received the first of five annual annuity payments from an insurance company in respect of a matured retirement annuity fund. The annual annuity amount payable is US\$7 000. Richard had contributed a total of US\$20 000 to the retirement annuity fund over the years of which US\$5 000 was not allowed as a deduction.

Required:

- (a) **State whether the reason given by Richard Skill's part-time employer for not deducting PAYE from his earnings is valid and the actions which Richard should have taken as a consequence in order to fulfill his tax obligations.** (4 marks)
- (b) **Calculate the taxable income and income tax payable by Richard Skill 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 in taxable income. (11 marks)

(15 marks)

- 6 Sky (Private) Limited (Sky) is an industrial park developer operating in the Midlands province. Sky commenced business operations in 2008 after having been granted the industrial park developer's licence.

For the year ended 31 December 2015, Sky recorded a net profit of US\$315 000 after taking into account the following credits and debits to the statement of profit or loss:

	Note	US\$
Credits		
Revenue		1 650 000
Other income	1	400 000
		<u>2 050 000</u>
Debits		
Cost of sales		610 000
Distribution costs	2	470 000
Administrative expenses	3	510 000
Other expenses	4	95 000
Finance costs	5	50 000
		<u>1 735 000</u>

Notes

1. Other income comprises the following:

	US\$
Bank interest	60 000
Rent received	40 000
Hire of equipment	200 000
Insurance proceeds (see below)	100 000
	<u>400 000</u>

Insurance proceeds refer to the compensation received for lightning damage to Sky's property and equipment.

2. Distribution costs include the following:

	US\$
Motor vehicle repairs and maintenance costs	145 000
Donation (see below)	120 000
Marketing costs – local	10 000
Marketing costs – foreign	60 000

The donation refers to the cost of the ambulance donated to the Midlands provincial hospital.

3. Administrative expenses include the following:

	US\$
Allowance for receivables	70 000
EMA dumping fines	5 000
General administrative costs (see below)	97 000

General administrative costs include US\$10 000 incurred by the business development manager for attending an approved trade convention.

4. Other expenses comprise the following:

	US\$
Foreign exchange losses (see below)	65 000
Legal fees (see below)	21 000
Property management costs (in connection with the rent received as in note 1)	9 000
	<u>95 000</u>

The foreign exchange losses relate to the translation of year-end balances as at 31 December 2015.

US\$12 000 of the legal fees relate to the collection of bad debts and the remainder to the negotiation of the long-term loan (as in note 5).

5. Finance costs comprise the following:

	US\$
Interest on overdraft facility (see below)	17 000
Interest on long-term loan (see below)	30 000
Establishment fee on long-term loan	3 000
	<u>50 000</u>

The overdraft facility was used for recurring expenditure.

The long-term loan will be used for renovating and upgrading Sky's ageing property, plant and equipment.

Additional information

Sky's non-current assets were all fully depreciated as at 31 December 2014.

Required:

- (a) **List any FOUR specific tax reliefs applicable to an industrial park developer.** (4 marks)
- (b) **Calculate the taxable income and corporate tax payable by Sky (Private) Limited for the year ended 31 December 2015.**

Note: You should start your calculation with the net profit of US\$315 000 and indicate by the use of zero (0) any amounts referred to in the question for which no adjustment is required. (11 marks)

(15 marks)

End of Question Paper