



## 2016 National Budget – Tax Highlights

# ICAZ

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## Income Tax -Individuals

### Tax bands

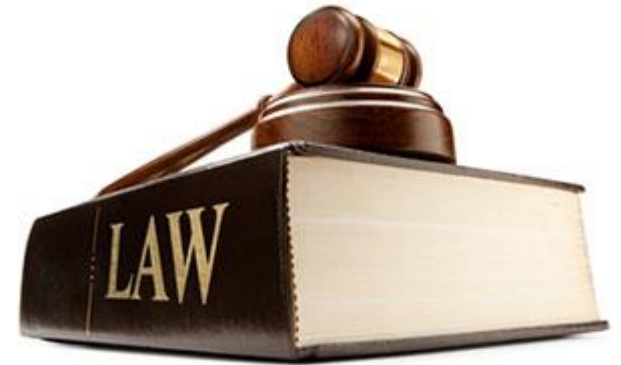
- No changes were effected to the tax bands.



## Income Tax –Individuals

### Bonus Exemption

- The exemption of \$ 1000.00 remain unchanged.





## Income Tax –Individuals

### Exemption from Income Tax on lump sum pension commutations

- Early commutations of lump sum pensions (i.e. before retirement age) are now exempt to the greater of \$ 10 000.00 or one-third of the lump sum, up to a maximum exemption of \$20 000.00 paid to an employee below the age of 55 years.



## Income Tax –Individuals

### Exemption from Income Tax - Retrenchments

- Effective 1 January 2016.
- No approval is required for an exemption to be granted. Previously ,an exemption would only be granted on Government approved schemes.



## Income Tax – Corporates



### Transfer pricing Framework

- A transfer pricing framework was introduced.
- Effective From 1 January 2016.



## Withholding Taxes

### Tobacco Levy

- From 1 January 2016, the Tobacco levy payable by sellers of auction and contract tobacco is reduced from 1.5 cents to 0.75 cents per each dollar.

## Withholding Taxes



### Withholding Tax on Local Contracts

- A payer has a right to recover the principal 10% withholding tax from the payee within 24 months from date of payment.

*(right excludes penalties & interest)*

- Effective 1 January 2009\*.

\*Note that there is a contradiction in the proviso to the amendment which is excluding the principal amount.



## Value Added Tax



### Zero Rating of Soya Beans

- Statutory Instrument 168/12 which was gazetted on the 26th of October 2012 zero rated the supply of soya beans (whether or not broken) i.e. seed and other.
- Effective 1 August 2012.

### Offsetting of refunds

- Tax refunds to be set off against tax liabilities from other tax heads. (Previously available for VAT refunds only)
- Effective 1 January 2016.

## Value Added Tax

### Exemptions

The following goods were reclassified from zero rated supplies to exempt supplies:

- Protective clothing
- Milk
- Eggs
- Cereals
- Vegetables
- Fruits
- Rice
- Margarine

Impact on producers is that VAT input tax on other inputs could be apportioned or disallowed.

- Effective 1 February 2016.

## VAT Exempt Supplies

### What does it mean?

Registered operators who supply mixed supplies should not charge VAT on exempt goods and services nor should they deduct any input tax paid in respect of goods and services acquired to make these exempt supplies.

#### Adjustments on Transition

Goods acquired before 1 Feb 2016 (at 0% or 15%) and on hand and applied wholly for making exempt supplies will trigger output tax on the stock held (at 0% or 15%). Effect is as if they were all sold at once as it constitutes a change in use (Sec 17 (1))

## VAT Exempt Supplies

### What does it mean?

#### Apportionment of Input Tax

- Goods can be acquired either for consumption, use, or supply (“intended use”)
- Where intended use is partially in course of making taxable supplies and partially for making exempt supplies apportionment of input tax can occur.
- No apportionment where the intended use of goods or services in the course of making taxable supplies is equal to not less than 90% of the total intended use of such goods or services.
- General basis of apportionment is on turnover per VAT General Regs ( any other basis needs the Commissioner’s approval)

Total value of taxable supplies (excluding VAT)

Total value of all supplies (excluding VAT)

## VAT Exempt Supplies

What does it mean?

Input tax incurred wholly to make taxable supplies is claimable in full e.g. taxable trading stocks  
Impact is on goods that have mixed purposes i.e.

Expenses to be apportioned include

- Rent
- Electricity
- Purchase of plant and equipment and other assets ( computers, tills, refrigerators, shelves)
- Marketing
- Consultancy
- Audit/Accounting Fees

## VAT Exempt Supplies

### Example

Total revenue from mixed supplies( standard rated, zero rated and exempt supplies)  
= 20 000 comprising:

Revenue from standard rated supplies=		6 000
Revenue from zero rated supplies	=	3 000
Revenue from exempt supplies	=	11 000

Input tax on goods acquired to make taxable supplies = 700

Input tax from other general costs = 3300

Total Input Tax incurred 4000

### Solution

The ratio of taxable to exempt supplies is 45: 55. therefore apportion

$9\,000/20\,000 \times 3300 =$  Claim input tax of 1485 + 700 only vs total incurred of 4000

Cost to business of 1 815

## VAT Exempt Supplies

### Profitability affected

- VAT incurred by an operator who supplies exempt supplies becomes an actual cost of acquiring the goods as they cannot claim an input tax deduction in respect of exempt supplies
- Permissible to claim as an income tax deduction if it relates to goods or services that tax can ordinarily be claimed on.
- Pass on cost to consumer?



# Deloitte.

## Exempt Supplies

### Imported services

A trader whose activities include exempt supplies, be it goods or services, is required to account for VAT on imported services. (this is a cost to the consumer)

This is in addition to any applicable WHT (which is a cost to the supplier)

Imported services are services that are supplied by a non resident supplier to a recipient who is a resident of Zimbabwe to the extent that such services are utilised or consumed in Zimbabwe for purposes of making exempt supplies

Some examples of services are:

- Technical support services
- Software licence subscriptions
- Consulting
- Repairs

No tangible guidance on situations where it is used for mixed purposes but likely to follow apportionment rules (ZIMRA needs to be engaged on this).



## Imported services

### Value of supply on Imported Services

- The Value of supply is the consideration of such supply or the open market value whichever is the greater
- Therefore the VAT element is determined by applying 15% on the value of the imported services (i.e. on invoice value).
- VAT on imported services is borne by the consumer of the services.

## Value Added Tax

### Fiscalisation

- ZIMRA is setting up a platform to receive data from installed fiscal devices.
- A committee has been set up to finalise the project.



## Value Added Tax

### VAT on short term insurance

- Agents and brokers are now liable to VAT on commission earned from the supply of short term insurance.
- Effective 1 Jan 2016.



## Customs & Excise

### Rebates of Duty on - Capital Equipment

- A rebate on capital equipment imported by mining, agriculture, manufacturing and energy sectors has been introduced on equipment of any value.

## Customs & Excise

### Rebates of Duty on - Capital Equipment

#### Granted on Goods used for:

- **Agricultural purpose** : plant, equipment or machinery which is used exclusively for agricultural purposes
- 
- **Energy generation and distribution purpose** : plant, equipment or machinery to be used exclusively for the energy generation and or distribution

## Customs & Excise

### Rebates of Duty on - Capital Equipment

#### Granted on Goods used for:

- **Manufacturing purposes** : plant, equipment or machinery to be used exclusively for manufacturing purposes on or in connection with a factory
- **Mining purposes** : Plant, equipment which is used exclusively for mining purposes on a registered mining location

## Customs & Excise

### Travellers Rebate

- The travellers rebate was reduced from \$ 300.00 to \$200.00 per calendar month.
- Effective 1 January 2016.

## Customs & Excise

### Remission of Duty

- The daily allowance on travellers returning to Zimbabwe on the same was reduced from \$50.00 to \$ 10.00.
- Effective date not specified.





## Customs & Excise Duty

### Special Excise Duty

- 5% Special excise duty has been replaced with deemed rates of duty based on the engine capacity and year of manufacture.
- Effort appears aimed at easing administration and lowering potential rent seeking activities.

## Other Customs & Excise Reforms

- Extension of the suspension of customs duty on powdered milk imported by approved manufacturers by another 2 years.
- Extension of customs duty rebate for raw materials used in clothing manufacturing by a further 2 years.
- Extension of the suspension of customs duty on motor vehicles imported by Safari operators by a further 2 years.
- Extension of the suspension of duty on importation of wheat flour by 2 years at the same time reducing the list of importers ,varying importation limits but having an overall increase on quantity of imports allowed.
- A proposal to implement the first phase of the electronic cargo tracking system during the first half of 2016 still remain a proposal to date.

## Mines & Minerals Act

### Royalties on Gold

- An amendment to the Finance Act to reduce royalty rate from 5% to 3% on the incremental production from the previous year.
- The relief will be granted by way of a credit in the following year of assessment.
- Effective 1 October 2014.

## Stamp Duties

### Condonment of Stamp Duties underpaid

- The underpayment on stamp duties by Insurance companies has been condoned from February 2009 to 30 July 2015.

Thank You

## Share Option Schemes

### What is a share option scheme?

A Share Option Scheme - sometimes also referred to as an Employee Share Option Scheme, is

- a plan which gives the holder of the option a right, **but not an obligation**, to buy shares in a company for a certain price called the exercise price.
- It is a tool usually used to act as an incentive or motivation for the retention of employees including managerial staff.
- It may result in accrual of an advantage or benefit in respect of employment service.
- This benefit or advantage may be considered as part of the taxable earnings of a person.

# Share Option Schemes

## Amount to be included in taxable income

- The amount so **received** or **accrued** as a result of the **sale of shares** offered to an employee pursuant to a share option scheme, as adjusted in accordance with the following formula:

## Share Option Schemes

### How to Determine the Taxable Benefit –

- The taxable benefit is computed in accordance with the following formula:  
**A-(B+C)**

- Where:

**A**-represents the value of the shares at the time of exercise of the option by the employee (market value of shares at the time of exercise)

**B**-represents the value of the shares offered to the employee pursuant to a share option scheme (exercise price or strike price).

**C**-represents the figure B to which the inflation allowance is applied, which allowance is to be determined in accordance with the following formula (the inflation allowance on strike price):



## Share Option Schemes

### Calculation of factor C

- $C = (D-E)*B/E$

Where:

- **D**-is the figure for the All-items consumer price index (CPI) issued by the Central Statistical Office (ZIMSTAT) at the time the employee exercises the Share Option (inflation rate)
- **E**-is the figure for the All –items consumer price index (CPI) issued by the Central Statistical Office (ZIMSTAT) at the time the shares were offered to the employee pursuant to a share option scheme (inflation rate)

# Share Option Schemes

## Allowable deductions :

Section 15 of the ITA allows for a deduction of :

an amount representing the fair value of any stock, shares, debentures, units or other interest paid or given by the taxpayer to an employee of the taxpayer or for the benefit of an employee of the taxpayer pursuant to an approved employee share ownership scheme or trust.

## Share Option Schemes

Exemption :

### Income Tax Act

An amount received by or accrued to or in favour of an employee participating in an approved employee share ownership trust from the sale to or redemption by the trust of any stock, shares, debentures, units or other interest of the employee in the scheme or trust of any stock, shares, debentures, units or other interest of the employee in the trust.

### CGT

amounts received by or accruing to an employee from the sale or disposal of his shares or interest in an approved employee share ownership trust where such sale or disposal is to the trust.

Thank You