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# HIGHLIGHTS OF THE INCOME TAX BILL



## What are the key issues?

- Income Tax Act and Capital Gains Tax Act to be repealed
- Moving from a source based to a residence based
- Deductions limited to those in production of income
- Capital gains moved to Income Tax
- Some of the punitive tax measures dropped (2<sup>nd</sup> & 3<sup>rd</sup> reading)

## Items dropped

- Motoring benefit
- Soft loans
- Interest earned by non-residents
- Mining losses
- Clarity on rates applicable on specified assets

# Motoring benefit

$$(C + R) \times P$$

C = 20% of the cost to employer of acquiring/leasing the vehicle

R = Running costs of the vehicle in the year borne by employer

P = Percentage of employee's private use.

*NB: P is deemed to be 100% where business use cannot be proven to be more than 75%.*



# Residence Based Taxing

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## Source based system

- Based on the place of activity
- Residence status of recipient of the income immaterial.
- Profit-shifting and tax deferral are its major drawbacks
- Foreign business activities are exempt from tax

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## Residence based system

- System based on residence status of a person
- Tax is imposed on the resident's worldwide income.
- Foreign tax-credit mechanism to prevent double taxation.



# Resident Status

## Individual

Fixed abode & presence

Physical presence 183 days

Government employee

## Company or branch

Place of effective Mgt& Control

Majority operations in ZWE

Incorporated or registered in ZWE

## Trust

Central Mgt & control

Residence of trustee

Established in ZWE



## How are we taxed as individuals?

- As a resident you will be taxed on your worldwide income
- Diasporans coming back home any day in tax year will be taxed.
- Frontier workers living in say Victoria Falls and working in Livingstone will be affected
- A resident of another country in terms of any DTA is not a “resident”.

## .....as companies?

- A resident company will be subject to income tax on its worldwide income
- Operations of your foreign branches, subsidiaries or ventures in which you have effective management & control will be taxed in Zimbabwe
- Dividend received by a resident company from another resident company is exempt from tax

## Taxation of taxpayers

Income	Resident	Temporarily resident	Non-resident
Income and gains from a local source	Yes	Yes	Yes
Income and gains from a foreign source	Yes	No	No
Income and gains required to be remitted in terms of exchange control	N/A	Yes	N/A



Any changes to taxable Income?

## Tax rates & levying of tax?

- Tax rates and credits have not been revised.
- Employment income from all geographical sources is aggregated and applicable tax rates applied
- Other taxable income from all sources is aggregated and applicable rates applied.
- Tax liability is reduced by withholding tax paid at source.

# Income classes



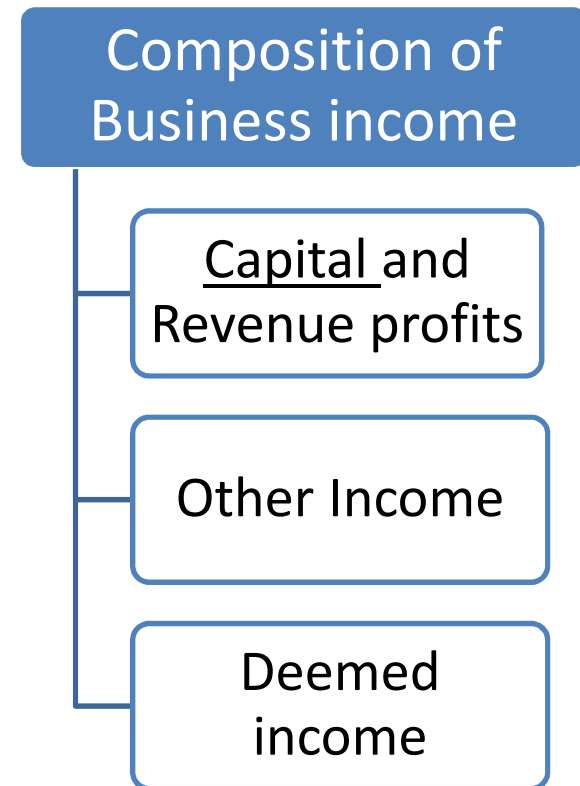
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## Any changes on employment income?

- Amount paid in restraint of employment
- Employer contribution to an approved retirement fund is exempt to an employee up to 30% of his/her annual remuneration.
- Exemption on retrenchment package amended to 1/3 of package (up to a maximum of a third of \$45,000).
- Benefits to be valued at the greater of cost and market value

## Business Income

- Business includes an isolated transaction of a business character
- The taxable base is the worldwide income shown in the profit and loss account
- Capital profits on disposal of business property
- Payment in restraint of trade





## Business deduction

### General Deduction Formulae

1. Deductible against business income is expenditure and losses incurred in the production of income during the year, not specifically disallowed by the Act, and which is Promotive of Public Policy Objective”
2. Minister of Finance reassured the business community that there is no change to what businesses are deducting now and in the future.

## Business deductions

### General Deduction Formulae- Where is the difference?

- Expenditure should be incurred in in the production of income
- Expenditure “for purpose of trade” no longer deductible
- Capital nature expenditure replaced by “amounts included in cost base of any property”

## Business deductions

### What are some of the changes?

- Cost of leasing or hiring a passenger motor vehicle deductible up to cost of vehicle
- Growth point allowances and SIA on commercial infrastructure bouncing back
- Bribes, kick-backs, similar corrupt or illegal payments specifically disallowed

# Other gains

- Treasure trove and other found income (e.g Diaspora remittances)
- Fortuitous income - happening by accident or chance
- Income and property from crime and other unlawful activities
- Unlawful or crime income to be taxed on the gross as no deductions are allowable



# Tax Accounting Principles

## Tax accounting

- GAAP to govern income calculation for tax purposes
- Taxable business income to be determined on the accrual basis
- No more adjustments for prepaid revenue and expenses
- Income and deduction on construction contracts to be accounted based on stage of completion

# Capital Gains Tax repealed. What does this mean?

## Gains and losses

- Disposal of property becomes part of Income Tax
- Business property disposal taxed as business income
- Investment property taxed as net gains on the disposal of investment property
- Business property –property held in production of income and used in a business or held for sale in a business
- Investment property not business property or trading stock



## Gains and losses

- A cut back on some deductions e.g inflation allowance.
- Business property loss could be utilized as business losses and defaults to 6 year limit- Capital Gains Tax loss indefinite
- Disposal can be triggered by change of use of property
- Disposal is deemed to take place by merely changing residence status
- Disposal of property to non resident spouse triggers tax

## Tax on gains and losses

Property	Tax Rate	Type of tax
Marketable securities	1% (5% unlisted)	Final withholding tax
Investment immovable property acquired before 1 February 2009 in Zim\$	5%	Final withholding tax
Business property	25.75% .	Income Tax
Immovable investment property	25.75%	Income Tax
Principal Private Residence and other personal property.	25.75%??? unless exempted	Income Tax

## Liquidation Taxation

- Share redemption, cancellation or acquisitions deemed to be dividend to shareholder, if shareholder retains some shares.
- Share repurchase, redemption or cancellation with no shares retained by shareholder is a disposal of shares
- No tax is charged on distribution of property in kind in the course of liquidation to a shareholder resident company.
- The cost base of the property distributed shall be equal to cost base of cancelled shares.

# Withholding taxes, Admin & transitional issues



## Withholding taxes & Admin

- Non-resident tax fees and remittances merged
- Withholding taxes – 100% and 200% on repeat offences.
- Threshold for persons liable to presumptive tax \$60,000
- Tax to be paid within 21 days of receiving notice of assessment if date of tax payment is not fixed.
- All tax cases to be handled by the Fiscal Court.

## Transitional rules

- Double Tax Treaties not affected by the reform
- Appeals lodge with Special Court of Income Tax before date of New Bill will be heard in that court
- Statutory Instruments issued before date of New Bill will continue to be functional until repealed or replaced
- Forms and documents used under Income Tax Act will continue to in use until replaced or repealed

# Questions & Answers





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