

READING PAPER

ADVANCED ZIMBABWE TAXATION 2019

POSTGRADUATE DIPLOMA IN ADVANCED ACCOUNTING SCIENCES

CTA Level 2 [CAZ 2]

TEST 2: 23 APRIL 2019

Time allowed 1 hour 15 minutes including 15 minutes reading time

NOTES

- a) Answer all questions, clearly showing workings.
- b) The examination is based on legislation that was in force as at 01 January 2019
- c) Rates of tax, limits and other thresholds (to be used in the examination) are given in the appendix at the end of the question paper.
- d) Except where expressly stated, amounts are in United States Dollars (\$).
- e) Fifteen minutes reading time is allowed before attempting any questions.
- f) This reading paper consists of 7 pages including this top page.

SCENARIO – TAXATION 2019 CTA LEVEL 2 TEST 2

All amounts are in United States Dollars and include VAT unless otherwise stated

You are a CTA student with Chartered Accountants Academy, currently excelling in your studies. Your dentist has become aware of this and has asked for your help with his tax affairs for the 2018 year of assessment.

Mr. Herbert Butcher ('Herbert') aged 43 is a dentist and on 1 March 2018 was retrenched from his previous employment at Pearly Whites (Pvt) Ltd (PW), where he had worked since 2014, earning a salary of \$2,500 per month. Due to the retrenchment, Herbert was awarded a lump sum of \$25,000, which was then paid on the 1st of January 2018. On 1 April 2018 Herbert found new employment at Dentures Deluxe (Pvt) Ltd (DD) a VAT registered operator, where he earned a basic salary of \$2,800 per month for the 2018 year of assessment. In March 2018 Herbert received a performance bonus of \$2,800. Herbert contributes 6% of his monthly basic salary to the company pension fund and in addition, he has contributed \$600 per month to a retirement annuity fund (RAF) since he started his employment at DD. Herbert also contributed \$420 to Disillusion Health Medical Aid for the period 1 March 2018 to 31 December 2018, on the Coastal Crusher plan which plan provides for the minimum of benefits for Herbert, his wife and their six children. During the year, Herbert had to pay doctors' bills amounting to \$4,600 for his wife's breast cancer tablets and these bills were not recovered by the medical aid.

Herbert also received the following benefits (since 1 April 2018) from DD:

He received a travel allowance of \$170 per month for his Jeep Cherokee (2011 model) 2,500cc. He had paid a registered car dealer \$21,500 for the car on 31 March 2018 with his retrenchment package. Herbert kept an accurate log book. He had travelled 43,000km out of which 19,000km was for private purposes during the year ended December 2018 and the balance was for business travel. Herbert's Jeep's engine developed a mechanical fault during the year, and although the vehicle was on a maintenance plan, he had to pay \$1,600 for what the Jeep Company claimed was negligence on Herbert's part and therefore not covered by the plan. Herbert also received \$2,800 for petrol per month from DD. Herbert was also allowed to use the company boat on Lake Chivero for seven days over the September 2018 school holidays. The boat was bought by the company on the 30th of June

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2013 for \$76,000 from a VAT registered operator. He paid \$30 for petrol per day and \$10 per day to DD for use of the boat, similar boats at Lake Chivero are rented out for \$50 per day, inclusive of the fuel and the DD boat is not available to all employees nor is it available to the public. After three weeks at DD, Herbert rescued a disabled child from a vicious dog and DD decided to give Herbert a good citizen award. The award was a new set of dentures (false teeth) taken from trading stock and had cost the company \$540 from a registered operator, with a market value of \$630 on the date they were given to Herbert.

In 2014 Herbert graduated from Zimbabwe Open University with an Economics degree which he intended to use to enhance his skills in stockbroking, a hobby that he has always been passionate about since his varsity days. In March of 2018 Herbert decided to turn his passion into a business by opening Butcher Stock Brokers (Pvt) Ltd (BSB). BSB was offering personalized and professional financial and advisory services to local and international investors wanting to invest in Zimbabwe. Herbert is the sole shareholder of BSB, as well as an employee of BSB. BSB immediately voluntarily registered as VAT operator, in order to boost their business profile. Herbert (on behalf of BSB) has requested for tax advice on the following transactions entered into by BSB for the year ended December 2018.

1. BSB bought an iMac desktop for use in BSB for \$3,000 from a VAT registered operator. On this computer he installed a stock broking software which he purchased online from a UK company for an equivalent of \$2,500.
2. In October, Herbert travelled to Belarus for BSB business meeting with a potential investor who wanted advice on some stocks he wanted to purchase in Zimbabwe. All travel expenses were covered by the investor and BSB received \$1,800 from Belarus investor for services rendered.
3. In November BSB received \$13,500 worth of dividends from various investments on behalf of his clients. BSB currently uses one Nedbank account for all its transactions, and these dividends were transferred by RTGS into this account.
4. Due to the increase in BSB's client base, BSB decided to utilize a loan facility from Nedbank South Africa which was being offered to Nedbank Zimbabwe clients. On 30 November Nedbank South Africa approved a loan of \$35,000 at a fixed rate of 12% per annum, with interest being paid monthly for 5 years and the principal being repaid at

the end of the loan term. Herbert had to put his Chishawasha house as collateral for the loan as a way to protect his investment in BSB, Herbert provided this collateral at no cost to BSB. BSB's debt/equity ratio is currently 5:2.

1. APPENDIX 1 – TAX RATES

1. Annual Tax Rates

Individuals

Employment Income – 1 January to 31 December 2019

Segment of Income per annum	Amount	Rate within segment (%)	Tax	Cumulative Tax
Up to 4,200	4,200	0%		0
4,201 – 18,000	13 800	20%	2,760	2,760
18,001 – 60,000	42 000	25%	10,500	13,260
60,001 – 120,000	60,000	30%	18,000	31,260
120 001 – 180 000	60 000	35%	21 000	52,260
180 001 – 240 000	60 000	40%	24 000	76,260
240 001 and above		45%		

- Income from trade or investments – 25 %
- The AIDS Levy of 3% applies on Income tax chargeable after tax credits.

2. Companies

- Basic Income Tax Rate – 25%*
- Manufacturing company exporting at least:
 - 30% of output (by quantity or volume) – 20%
 - 41% of output (by quantity or volume) - 17.5%
 - 51% of output (by quantity or volume) - 15%
- Mining companies – 25% *
- Special mining lease companies – 15%*
- *Plus 3% AIDS levy

3. Allowable pension deductions

Maximum annual (12 months) deduction for contribution to approved pension funds in relation to a member of a pension or RAF - \$5 400

4. Bonus exemption - \$1 000

5. Retrenchment package

The first \$10 000 or one third of the approved retrenchment package whichever is greater, subject to a maximum exemption of \$20 000.

6. Credits

- Credit for taxpayers over 55 years of age - \$900*
- Credit for blind or disabled persons - \$900*

*The amounts relate to 12 months and should be reduced proportionately, if the period of assessment is less than 12 months.

7. Deemed monthly motoring benefit

Engine capacity	Benefit (\$)
0 – 1 500 cc	300
1 501 – 2 000 cc	400
2 001 – 3 000 cc	600
3 001 – and above	800

8. Capital allowances

Maximum deemed costs to be used in determining capital allowances

Asset	Deemed cost (\$)
Passenger Motor Vehicle	10 000
Staff House (actual cost not to exceed \$25 0000)	10 000
School, clinic, hospital, nursing home	10 000

9. Capital Allowances: Mining

Maximum deemed costs to be used in determining the capital redemption allowance.

Asset	Deemed cost (\$)
Passenger motor vehicle	10 000
Staff housing , occupied by shareholder	10 000
School, clinic, hospital, nursing home	50 000

10. Rates of capital allowances

- Special Initial Allowance(SIA) – 25%
- Accelerated Wear and Tear – 25%
- Wear and Tear on:
 - Industrial buildings – 5%
 - Farm Buildings – 5%
 - Commercial buildings – 2.5%
 - Motor Vehicles – 20%
 - Movable assets (general rate) – 10%

11. Capital Gains Tax

- On all listed marketable securities – exempt
- On unlisted marketable securities and acquired after 01/02/2009 – 20%
- On other immovable property acquired after 01/02/2009 – 20%
- On unlisted marketable securities acquired before 01/02/2009 – 5% (on gross proceeds)
- On other immovable property acquired before 01/02/2009 – 5% (on gross proceeds)

12. Capital Gains withholding tax on sales proceeds

- On other immovable property acquired after 01/02/2009 – 15%
- On immovable property acquired before 01/02/2009 – 5%
- On all listed marketable securities – 1%
- On unlisted marketable securities acquired before 01/02/2009 – 5%
- On unlisted marketable securities and acquired after 01/02/2009 – 5%

13. Loans

The deemed benefit per annum is calculated at the rate of LIBOR plus 5% of the amount of the loan. The LIBOR rate for 2017 is assumed at 1% unless stated otherwise in the scenario/required.

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