

Key to your future



CAA

**CHARTERED
ACCOUNTANTS
ACADEMY**

**NATIONAL LEADER IN TRAINING
CHARTERED ACCOUNTANTS**



TAXATION OF EMPLOYMENT INCOME

LEARNING OUTCOMES

- To understand what employment income is and its difference from business income.
- To understand the tax computation model of applying PAYE tables and administration of PAYE.
- To understand employment benefits.
- To understand special treatment of certain types of employment income such as pension fund transactions. (Section 8(1)(n) and section 8 (1)(r))
- To itemize the concessions available for the elderly.
- To appreciate available exemptions to individuals (section 14 and 3rd schedule)
- To understand tax credits (section 7c)
- Calculate the tax payable on employment income

Gross income inclusion

Sect 8(1)(b) Requirement: Included in gross income are the following:

- Amount received/accrued in respect of services rendered payable under a **contract of employment** – *income from employment services*;
- Amount received/accrued in respect of services rendered where there is neither a contract of employment or services – *trade and investments income*;
- Amount received/accrued on cessation of employment – *terminal benefits*

Requirement

13th schedule par 3:

- ✓ Every **employer** who pays or liable to pay **remuneration** to an **employee** shall withholding employees tax in accordance with **tax deduction tables** and shall pay the amount so withheld to ZIMRA on the **10th day** of the month following.

Contract of Employment

In a contract of employment, we have two parties i.e Employer and Employee.

What is an employee?

- 13th schedule par 1: means an **individual** to whom **remuneration** is paid or payable at annual rate which is more than \$3,600.

Contract of Employment

What is remuneration?

- 13th schedule par 1: mean any amount of income which is paid or payable by way of: salary, leave pay, allowance, bonus, gratuity, commission, pension etc. whether or not in cash or otherwise and whether or not in respect of services rendered but excludes:
 - ✓ Amounts payable to independent contractors;
 - ✓ Directors fees payable to non-executives on condition that they do not receive any other amounts constituting as remuneration by that company;
 - ✓ Amounts exempt as per the 3rd schedule;
 - ✓ Amounts paid to a person who is a member of that partnership

Contract of Employment

What is an employer?

- 13th schedule par 1: means any person who pays or is liable to pay an employee any amount by way of remuneration.

FRAMEWORK FOR TAXATION OF EMPLOYMENT INCOME

Remuneration (13 th schedule)		XXXX
Less: s15 Allowable deductions		(XXXX)
Taxable Income		XXXX
Calculate tax using the tax tables	XXXX	
Less: Credits [Sect 7 (c)]	<u>(XXXX)</u>	
Add: 3% levy	XXXX	
		XXXX
Less: PAYE (Remitted over the course of the year)		<u>(XXXX)</u>
Tax liability		XXXX

Tax Tables

Refer to appendix 1 in your modules

Special inclusions employment income

1. Bonus – remuneration as defined but there is 3rd schedule exemption;
2. Cash in lieu of leave – remuneration as defined but when is it taxed.
3. Retrenchment payments – remuneration as defined but there is a 3rd schedule exemption

EMPLOYMENT BENEFITS Section 8(1)(f) & (g)

What are employment benefits? How could these be possibly taxed?

- Generally taxed with reference to the cost to the employer, however for occupation or use of accommodation, the value to the employee is applied.

Specific Employment Benefits: Which ones do we know?

- **Motoring** – (a)for right of use. Scopes out repairs and fuel. (b)Deemed based on engine capacity and duration of the right of use over the year of assessment.
- **Disposal of Motor Vehicle to an employee** – Reference to the value to the employee
- **Passage benefit** – defined s8(1)(g).
- **Occupation of residence and use of furniture.** – Reference to value to employee. Depends also location for the accommodation.
- **Loan benefit** – deemed benefit with reference to LIBOR
- **Shares acquired pursuant to employee share option scheme** – Must be exercised. Must be a share option scheme. Timing must be considered i.e. pre and post 2009.
- **Educational assistance**
- **School fees**
- **Free or subsidised lunch**

Pensions

PENSIONS

Key Definitions: Refer to page 84 in your modules

SPECIAL POINTS TO NOTE

PENSION RECEIPTS.

- Pension annuity s8(1)(a); Pension lump sum s8(1)(r); RAF annuity; RAF lumpsum or commutation receipts
- Pension annuity s8(1)(a) – (taxable in equal streams in each year until person dies) refer to accrual understanding per s8 gross income definition. Adjustment is made for the contributions disallowed. -
- Pension lumpsum s8(1)(r) – fully taxable at HMR. (excludes amounts from an RAF)
- RAF annuity – as pension annuity
- RAF lumpsum s8(1)(n) – Commutation of 1/3 of the lumpsum amount in its 1st year of receipt. It is regarded capital in nature. Commutation is awarded after election.

CONCESSIONS FOR THE ELDERLY

Who are the elderly?

- 55 years of age or more

Available concessions

- Exemption from income tax of the first US\$3 000.00 per annum on rental income.
- Exemption from income tax of the first US\$3 000.00 per annum on income earned from bankers acceptances.
- Exemption from income tax of the first US\$3 000.00 per annum on income earned from interest on deposits to financial institutions.
- Entitled to an elderly persons' credit of US\$900.00 per annum.
- Pension received from a pension fund or the Consolidated Revenue Fund is exempt from income tax.
- Where an employer disposes of a motor vehicle to an employee whether on termination of employment or otherwise, the benefit is exempt from tax.

EXEMPTIONS s14 a.r.w. 3rd schedule

What are exemptions?

- *They are not* exclusions from Gross Income. What is the difference?
- Exemptions are gross income items that are specifically exempted by provisions of the income tax act.
- Refer to s14 and the 3rd schedule for the list of exemptions available to individuals

CREDITS (Section 7 the Charging Act)

What are tax credits?

- Tax credits are amounts credited to the taxpayer *after* calculating their tax on taxable income thereby reducing the liability.

How are they different from allowable deductions?

What are the key categories?

- Elderly person, Blind person, medical expenses, Mentally or Physically disabled person.
- Tax credits have a fixed amount or may be based on an expenditure incurred.
- Apportionability – can only apportion elderly *if year of assessment is less than 12 months*
- Transferrability between spouses – only possible for blind persons credit and for mentally or physically disabled persons.
- Minors.
- Residence.

PAYE ADMINISTRATION (s71 and 73 a.r.w. 13th Schedule)

- Any resident or non-resident employer, who employs one or more members of staff whose gross pay, including benefits and allowances, exceeds USD300 per month or the daily, weekly or annual equivalent, is required to register with the relevant Regional Manager of the Zimbabwe Revenue Authority (ZIMRA), withhold PAYE from employees and remit PAYE to the Commissioner General by the 10th of the month following the deduction.
- Employers are responsible for under deductions as well as late payment of PAYE.
- Interest is charged and penalties of up to 100% of the unpaid tax can be imposed on the employer.
- Personnel employed by a single employer for the full fiscal period are taxed on the Final Deduction System.
- PAYE will be a final tax on employment income for the employee who will then not be required to complete tax returns.
- Personnel employed by more than one employer or employed for part of a fiscal period and all individuals who receive pensions or annuities or taxable income from trade and investment are required to complete and submit annual tax returns.

TUTORIAL AND HOMEWORK

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QUESTIONS ?

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