

**All amounts, in this case study are in United States dollars and are exclusive of VAT unless otherwise indicated.**

ZLF Chartered Accountants (ZLF) is a partnership that offers accounting services. It is an Accredited Training Office (ATO) with the Institute of Chartered Accountants of Zimbabwe (ICAZ) and you are a 3<sup>rd</sup> year trainee at ZLF. ZLF has a portfolio of clients for whom they prepare tax returns and offer tax planning services. You are currently assigned to working with the Tax team and have been given several clients within that portfolio.

### **Best End Hospital (Pvt) Ltd (BEH)**

BEH is a 100% owned subsidiary of BSMI Holdings Ltd. BSMI Holdings and its subsidiaries have a 31 December financial year end. BEH operates a medium size hospital in the avenues area of Harare. The hospital has a casualty department, general ward, maternity ward, a High Dependence Unit (HDU) and a theatre. It also has a pharmacy and internal dispensary. Revenue is generated from medical services, consumables and drugs in the casualty and hospital sections. BEH is enjoying good business as their hospital is highly rated in terms of service standards which has them being certified on the ISO 9001:2015 Quality Management System standard. BEH entered into some of the following transactions and are seeking specific advice on or assistance with computation of the tax effects of those transactions. BEH is a category A, VAT registered operator. BEH recorded unaudited net profit of \$468,560 at the end of the year ended 31 December 2016

#### **1. Asset disposals.**

During the year ended 31 December 2016, BEH disposed of several of its assets and need assistance with the Income Tax, Capital Gains Tax and VAT computation.

##### **1.1. Investment Properties**

BEH owns a portfolio of properties that it holds as investments from which it collects rentals from these properties through a real estate agent. On the 1<sup>st</sup> of July 2016 BEH disposed of two of these properties to raise a deposit for mortgage financing for a major project to acquire and refurbish another hospital in Harare.

###### **1.1.1. Property 1**

BEH disposed of a building in Milton park for \$89,000. The building was being used as a rehabilitation centre for patients that require physiotherapy by another unit in the BSMI group BSMI Rehabilitation (Pvt) Ltd (Rehab). BEH was leasing the building to Rehab for \$700 per month. BEH sold the house to an Indian businessman Omar, who intends to use the property to house his accounting practice business. The property was acquired in January of 2008 for ZWD 78 billion, when the Old Mutual Implied Rate (OMIR) was USD\$1: ZWD 1,000,000. The property was acquired from a non-registered operator. Upon purchase in 2008, BEH immediately erected a wall around the property for ZWD 3,5 billion and constructed a gym for ZWD 6,2 billion in the backyard for the physio therapy

patients. BEH was charged selling costs of \$2,500 on this transaction from a registered operator. The property had a book value of \$72,400 on the disposal date.

**1.1.2. Property 2**

BEH disposed of an office building located in the downtown area of the Harare Central Business District for \$250,000 on 1 June 2016. The property was initially acquired by BEH for \$201,000 on the 15<sup>th</sup> of December 2013 from another registered operator. In the same year of purchase, BEH had immediately repaired the building and re-painted it for a total cost of \$5,600. BEH has since been leasing this office building for \$1,200 per month. BEH incurred selling costs of \$2,500 and paid stamp duty of \$5,200 at time of purchase. The book value on the disposal date was \$175,500.

**1.2. Medical Equipment**

During the month of July 2016, the hospital scanner (major piece of equipment) was destroyed by an electric fire. This equipment was insured and the Insurer has already paid BEH a total of \$48,000 as insurance proceeds. The equipment was initially acquired in June 2014 for \$44,000 and had a book value \$28,000 and tax value of \$22,000 at the time it was destroyed. The entire \$48,000 has since been used to acquire another replacement scanning machine. The new machine was acquired in August 2016 and BEH immediately began to use it. Due to its huge size and operating costs, BEH is one of the few hospitals in Harare offering that scanning service.

**1.3. Laboratory**

BEH owned a commercial building in the Avenues area which was being used by the BSMI Labs (Pvt) Ltd (Labs) who are a 100% owned subsidiary of BSMI Holdings. BEH was leasing it to Labs for \$700 per month and these rentals were included in the calculation of the profit for the year. BEH has not received actual payments from Labs as the group has been centrally setting off intercompany accounts and transferring actual amounts at year end. It was agreed that the Labs should purchase the building from BEH on an instalment credit arrangement. The purchase agreement was signed on the 1<sup>st</sup> of June 2016. The cash price for the building was \$200,000. Labs was to be paid in 48 equal instalments in arrears of \$5,000 a month starting the 30<sup>th</sup> of June 2016. The book value as at that date was \$157,500. BEH has incurred selling costs of \$1,560 which were expensed in the financial statements. The building was acquired from a registered operator for \$180,000 in December 2014.

**1.4. Shares**

**1.4.1.** During the year, BEH liquidated its Zimbabwe Asset Management Corporation (Private) Limited (**ZAMCO**) driven Treasury Bills for a total of \$10,100. It had acquired them in February of 2013 for \$9,800. The bills had been held at cost.

**1.4.2.** BEH disposed of some of its shares in a subsidiary ambulance company BEMRAS for \$25,000, being a 25% stake. BEH had acquired this stake for \$18,000 in 2014. BEH remains a major shareholder despite the disposal as they retained a 65% shareholding in BEMRAS. The shares had been held at cost.

**1.4.3.** BEH also liquidated some of its shares in Econet Wireless Zimbabwe Ltd (EWZ) which is dually listed on the Johannesburg Stock Exchange and Zimbabwe Stock Exchange for \$18,500. The shares were acquired for \$17,300 in January 2014 and held at cost.

## **2. Income**

During the year 2016 BEH entered the following income transactions:

### **2.1. Drugs**

The hospital dispenses drugs to its hospitalized patients and patients in the casualty ward. These drugs are priced on a cost-plus-mark-up basis. The total prescription drugs income during the months of June and July was \$63,250. The pharmacy also sold \$43,940 worth of prescription drugs in the same period.

### **2.2. Consumables (Gloves, syringes)**

In discharging their duties, the nurses and doctors use gloves, syringes, cotton wool, swabs etc., which are then billed separately to the patients. The total revenue from the consumables was \$20,300 for the months of June and July.

### **2.3. Consultation fees**

Every patient attended to pays a consultation fee for the doctors'. There is a minimum charge of \$30 for all patients on admission and additional charges for the admitted patients attended to by BSMI doctors. Where patients are being attended to by their doctor and merely using the hospital facility, the doctors and patients will have a separate billing arrangement. The total consultation fees for the 2 months ending July 31 was \$195,400.

### **2.4. Accommodation**

The hospital levies a charge for each bed and the food for each day a patient is in the hospital. This covers the provision of linen, entertainment such as TV service, 24hrs nursing service among others. The income for the two months from these services was \$236,420

### **2.5. Interest on overdue accounts**

The hospital automatically charges interest on the receivable outstanding balance for all overdue accounts as at the end of each month at a rate of 6% per annum. Medical aid society balances are however charged interest differently, with a grace period being allowed as it takes slightly longer to recover from medical aid societies. For the months of June and July the total interest charged was \$5,460.

### **2.6. Lease Rentals**

BEH is not immediately clear on how the lease rentals for the Rehab, the downtown property and Labs tenants up to July and June respectively are going to be treated for tax purposes. Similar properties on the market are being rented out for \$800, \$1,350 and \$750 respectively.

**3. Expenditure**

The Accountant is also not clear on the income tax, VAT and any withholding taxes treatment of some the following items of expenditure for the two months ending July 31:

**3.1. Medical supplies – oxygen gas**

Oxygen gas mainly for the High Dependency Unit was acquired from BOC gases for a total amount of \$560 and all of it was used up by year end. BOC allows BEH to purchase the gas on credit, quarterly and BEH shall be making a payment at the end of August. BOC is a registered operator with a valid tax clearance. The Accountant had put the amount into inventory upon purchase but erroneously did not expense it when the gas was subsequently used.

**3.2. Drugs and medicines**

BEH ordered prescription drugs from local and foreign manufacturers. BEH acquired prescription drugs as defined in the Medicines and Allied Substances Control Act worth \$34,500 from a local manufacturer who is a registered operator and imported similar drugs worth \$28,800. The local manufacturer has no ITF 263 due to legacy debts for which they are on a payment plan with the Zimbabwe Revenue Authority (ZIMRA). All the drugs were eventually sold during the year. As with most other inventory, the Accountant had erroneously not expensed these amounts from inventory.

**3.3. Cleaning material**

BEH acquired cleaning material worth \$1,600 from a local tax compliant non-VAT registered operator.

**3.4. Uniforms**

A local tax compliant VAT registered operator supplied BEH with nurses' uniforms worth \$5,600. This amount has not yet been paid but shall be settled in 2 equal successive instalments with the last payment being made in October 2016. Uniforms for senior management worth \$2,500 are being bought on a lay-by arrangement. The first \$1,250 was paid in July and the balance is to be paid in August.

**3.5. Locums**

BEH pays nurses and doctors from other hospitals on a locum arrangement for shifts done as independent contractors. In reviewing the locum payments sheet the Accountant realized that the nurses and doctors have charged VAT on the amounts they invoiced BEH. The total amount on these invoices was \$15,400.

**3.6. Staff costs**

**3.6.1. Salaries**

The Accountant is not immediately clear why employees cannot charge VAT for their employment services.

**3.6.2. Fringe benefits – housing and motoring**

BEH awards motoring benefits to some of its staff members. Three senior management staff have the right of use of 3 Toyota Fortuner 2.8 litre diesel SUVs. The vehicles were imported on the 3<sup>rd</sup> of June from Japan. The CIF cost to Beitbridge was

\$18,500 each and the duty was at 48,5% of the value for duty purposes. All three members are given fuel coupons of 150 litres per month. Of the fuel awarded, 60% was used for business purposes. The coupons in use for the whole year were acquired in bulk on the 1<sup>st</sup> of June when the price of diesel was \$1.05/ltr. At year end the average market price for the fuel was \$1.15/ltr. The accountant had recognized in inventory the entire cost of fuel bought for the year but by year end she erroneously had not expensed the used fuel.

The 3 senior managers are also provided housing accommodation by BEH in a cluster development in Emerald Hill. The units are rented for \$800 per month.

### **3.6.3. Board fees**

BEH non-executive directors, who are all VAT registered operators are paid on a retainer basis plus sitting fees. On 30 July 2016 BEH paid board fees for the second quarter ending 30 June after the board meeting held on the 24<sup>th</sup> of July 2016. The payment was broken down as follows:

	#	RETAINER	SITTING ALLOWANCE	TOTAL
Executive Directors	3	600	450	<b>1,050</b>
Non-Executive Directors	4	800	600	<b>1,400</b>
<b>Totals</b>	<b>7</b>	<b>1,400</b>	<b>1,050</b>	<b>2,450</b>

Assume that these are the same payments BEH made for the other three quarters. The Accountant was not clear on the recognition criteria for accounting purposes and had recorded these amounts in a suspense account by the end of the year.

### **3.7. Dividend**

BEH paid an interim dividend of \$25,000 at the end of July 2016. This amount has been expensed to the statement of comprehensive income for 2016.

### **3.8. Training**

BEH engaged a German team of experts in the use of radioactivity equipment for a refresher training for BEH staff for €4,500 in July. The exchange rate was USD1.7: €1. This amount shall be paid in full in September of 2016. Also in the German team was a pharmacist, who was to train the BEH pharmaceutical team on the dispensation of chemotherapy prescription drugs. The training costs for the radioactivity equipment were incorrectly capitalized to the cost of equipment.

APPENDIX

Employment Income – 1 January to 31 December 2016

Segment of Income per annum	Amount	Rate within segment (%)	Tax	Cumulative Tax
Up to 3 600	3 600	0%		0
3 601 – 18 000	14 400	20%	2 880	2 880
18 001 – 36 000	18 000	25%	4 500	7 380
36 001 – 60 000	24 000	30%	7 200	14 580
60 001 – 120 000	60 000	35%	21 000	35 580
120 001 – 180 000	60 000	40%	24 000	59 580
180 001 – 240 000	60 000	45%	27 000	86 580
240 001 and above		50%		

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

1. 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

2. Allowable pension deductions

	US\$
In relation to employers: in respect of each member	5 400
In relation to employees: by each member of a pension fund	5 400
In relation to each contributor to a retirement annuity fund or funds	2 700
National Social Security contributions (on a maximum monthly gross salary of US\$700)	3.5% of gross salary
<i>Aggregate maximum contributions to all the above per employee per year</i>	<i>US\$5 400</i>

3. Bonus exemption - \$1 000

4. 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

**5. 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.

**6. 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

**7. Capital allowances**

Maximum deemed costs to be used in determining capital allowances

Asset	Deemed cost (\$)
Passenger Motor Vehicle	10 000
School, clinic, hospital, nursing home	10 000

**8. 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

**9. 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%

**10. 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)

**11. 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%

**12. 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 2016 is assumed at 1% unless stated otherwise in the scenario/required.

..... **End** .....