THE INSTITUTE OF CHARTERED ACCOUNTANTS OF ZIMBABWE

Integrity House, Corner Sam Nujoma & Bath Road

P.O. Box 1079, Causeway, Harare

TELEPHONE: 263-4-793950/471/252672

FASCIMILE: 263-4-706245

A MEMBER OF IFAC AND ECSAFA

READING PAPER

APPLIED ZIMBABWE TAXATION 2016

POSTGRADUATE DIPLOMA IN APPLIED ACCOUNTING SCIENCES

CTA Level 1 [CAZ 1]

End of Year Exam Paper 2: 13 October 2016

Time allowed 3 hours including 30 minutes reading time

NOTES

a) **Answer all questions, clearly showing workings.**

b) **The examination is based on legislation that was in force as at 31 December 2015 (including legislation proposed in December 2015 and that was promulgated as at 1 January 2016).**

c) **This paper comprises of 2 questions**

d) **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.**

e) **Except where expressly stated, amounts are in United States Dollars ($).**

f) **This reading paper consists of 10 pages including this top page.**

Question 1

Part A

CPW Chartered Accountants (CPW) is one of the big four firms in Zimbabwe offering audit, tax and other advisory services. You are a 2nd year trainee accounted in CPW's tax department and have already been appointed to senior consultant due to impressive work to date. CPW's tax department's tax portfolio includes clients which are listed on the Zimbabwe Stock Exchange (ZSE) as well as small to medium enterprises (SME's).

After the completion of your induction programme one of the managers in the tax department, Tapiwa Moyo requested your assistance with a client file that he was working on. Due to the tight deadline on the assignment Tapiwa requested that you work on the file over the weekend and present the completed work to him the following Monday. The name of the client is Musiiwa (Private) Limited.

Musiiwa (Private) Limited (Musiiwa) operates a chain of restaurant outlets in Harare and Bulawayo. During the 2014 tax year the company was subject to a tax audit by the Zimbabwe Revenue Authority (ZIMRA) and had to pay penalties and fines amounting to $30 000 as a result of tax liabilities they had understated. Musiiwa is registered in terms of the VAT Act under category C. In order to avoid future penalties due to non-compliances with tax laws the finance manager Mr. Peter Mbano requested your advice in respect of the following:

Query 1:

In November and December 2015 Musiiwa was facing liquidity challenges and was therefore unable to pay their employees' salaries. A decision was then made by the management executive committee to give employee Christmas hampers worth $300/employee. These hampers would knock off part of the balance of the salaries outstanding to employees. Given the fact that no actual cash had been paid to the employees in respect of their salaries and also because there were some outstanding balances, the HR manager was of the opinion that they were not required to remit any PAYE to ZIMRA in respect of staff salaries for the months of November and December since no cash amount had been received by the employees.

Mr. Peter Mbano is requesting your advice on whether the HR managers' assessment is accurate given the facts above.

Query 2

In September 2015 one of Musiiwa's retail outlets in Msasa Park was destroyed by a fire, resulting in the loss of all the stock items in the shop as well as complete destruction of the building itself. Musiiwa lodged a claim with its insurers in respect of the lost property and after an assessment by the insurers they were awarded the following amounts:

	$
Compensation for loss of the building	70 000
Compensation for destroyed inventory items	30 000
Compensation for loss of business during period the shop is closed	15 000
	115 000

The above amounts were transferred to Musiiwa's bank accounts in December 2015. Musiiwa has always bought its inventory items from VAT registered operators and all the inventory items destroyed were standard rated.

Joe is not sure on whether the above amounts will be included as part of their gross income for the 2015 tax year of assessment and if they are any VAT implications in respect of the compensation.

Part B

Mr. Ngoni is employed by Afrofoods Ltd as a branch accountant. Mr. Ngoni is ordinarily resident in Zimbabwe and is 56 years of age. He is unsure on whether the payroll department staff have been computing his Pay As You Earn (PAYE) correctly and therefore approached you to perform an independent computation of his PAYE for the 2015 year of assessment. The details of his employment package for the year of assessment ended 31 December 2015 are supplied below.

Employment package

Mr. Ngoni's employment package comprised the following for the year ended 31 December 2015:

i. Annual gross cash salary of $45 000. From this cash salary, 5% is contributed to the company's registered pension fund. The company also deducts NSSA pension contributions from his salary and at the same time Afrofoods also makes contributions to NSSA (employer contributions) equivalent to the amount they deduct from Mr. Ngoni's salary in respect of his NSSA contributions.
ii. A monthly travel allowance of $300. Mr. Ngoni travels regularly to and from Afrofoods head office. During the year Ngoni used 80% of the travel allowance for his business travels.
iii. Mr. Ngoni has a wife and two young daughters who are still in primary school. His medical aid contributions are $300 per month (deducted from his annual cash salary). Afrofoods also contributes an equivalent amount towards Ngoni's medical aid scheme. In October one of his daughters was hospitalised at the St Anne's Hospital and the total bill from the clinic amounted to $1 500. His medical aid paid for $500 of the bill and Mr. Ngoni had to pay for the shortfall of $1,000. Of the $1,000 shortfall Ngoni received $200 assistance from Afrofoods to assist him in settling the shortfall.
iv. Mr. Ngoni, in August 2015, was required to entertain customers and suppliers on the company yacht for five days. After the clients had left, Mr. Ngoni stayed on the yacht for a

further five days with his family. When the company is not using the yacht for its own purposes or its employees, the yacht is rented out at a cost of $150 per person per day.

v. In June 2015 one of Mr. Ngoni's daughters was granted a bursary of $1 000 to pay for her tuition fees. The bursary was granted in terms of a bursary scheme available to all children of managers at Afrofoods Ltd.

vi. Due to his loyal service to Afrofoods Ltd. Mr. Ngoni was given a cash amount of $3 000 as a long service award and the company also sold to him a motor vehicle he had been using for a cash amount of $1,300. At the time Mr. Ngoni acquired the vehicle it had a market value of $2,400.

vii. Afrofoods Ltd also paid for the following annual subscriptions for Mr. Ngoni:

	$
Membership at a local golf club	600
Buyers association of Zimbabwe	300
	900

viii. Afrofoods Ltd awarded Mr. Ngoni an interest free loan of $6,000 to assist him in the acquisition of stand in the eastern suburbs of Harare. The full loan amount was repayable over 5 equal quarterly installments beginning 31 March 2015. As at 31 December 2015 Mr. Ngoni's loan repayments were all up to date. Ngoni only used $5,000 of the loan to acquire the stand and the balance he used to pay for his wife's fees at the University of Zimbabwe.

ix. In November 2015 Afrofoods Ltd informed all its staff members that they will be paying a bonus for the 2015 financial year and the bonus was paid in December of 2016. Ngoni received a bonus amount of $800.

x. During the 2015 year Mr. Ngoni received free meals during lunch from the staff canteen. The total cost to the Afrofoods of providing these meals to Mr. Ngoni for 2015 amounted to $4 300. Had Afrofoods sold these meals to pay customers they would have received a total amount of $5 200.

xi. For the 2015 tax year Afrofoods Ltd remitted to ZIMRA a total amount of $8 000 in respect of Mr. Ngoni's PAYE. The PAYE was deducted from Mr. Ngoni's salary.

xii. On 31 December 2015, Ngoni received a lump sum payment of $35,000 being a commutation of her pension. The gross pension entitlement prior to the commutation amounted to $90,000. All her pension contributions to this fund had previously been allowable as a deduction in full.

Trading Activities

Ngoni also provided you with the following information in respect of his restaurant business that he operates in the downtown area of Harare.

Financial Results for the year ended 31 December 2015	**Note**	**US $**
Income		
Sales	1	12,000
Interest income -	2	600
Annuity	3	700
Dividend income	4	900
Expenses		
Repairs and maintenance	5	2,300
City council levies	6	600
Annuity	3	10,000
Maid Salary	7	1,800
Groceries	8	1,000

Notes

1. Ngoni received an amount of $1,200 in December 2015 from one of his major clients. The amount was an advance payment for meals to be supplies between January and April 2016. Ngoni has not included this amount in his sales figures.
2. In September 2015 Ngoni invested funds in bankers' acceptances. Interest on these bankers' acceptances amounted to $600 for the year.
3. When Ngoni was retrenched he used part of his retrenchment proceeds to acquire an annuity with First Mutual Zimbabwe. He paid $10,000 for the annuity and he will be receiving $200 per month commencing 1 October for the next 8 years.
4. The dividends were received in respect of an investment that Ngoni has in a South African Company. The $900 is after deduction South Africa Withholding tax of $100.
5. The repairs and maintenance costs were incurred on the shop from which he operates his restaurant business.
6. The levies are in respect of water, sewer and Harare city council rates.
7. Ngoni has a maid at his residential house who he pays a monthly salary of $150.
8. The groceries were all consumed by Ngoni's family.
9. Also during the full 12 months Ngoni used his newly acquired pick truck 60% in the restaurant business. He acquired the truck at a cost of $22,000.

Assume Ngoni has always claimed the maximum capital allowances where applicable.

Other transactions

During the year Ngoni sold his house in Greendale where he stayed with his family for a sale price of $85,000. Using the proceeds from the sale Ngoni acquired a smaller house in Marimba Park for an amount of $50,000 where he is now currently staying with his family. Ngoni had bought the Greendale house for an amount of $55,000 in 2010 and had effected qualifying improvements of $5,000 in 2011.

Question 2

The question comprises of two independent parts, PART A and PART B

Part A

You are a first year trainee in the tax department of Amos & Chamu Chartered Accountants one of the leading tax consulting firms in Zimbabwe. Microwave (Pvt) Limited (Microwave) has brought the following queries to your attention which they need assistance with:

Query 1:

Microwave has just recently entered into an arrangement with Lumumba (Pvt) Ltd (Lumumba) a sister company in Zambia for a staff exchange programme, where the companies would second employees to each other over an agreed period of time. The details of the agreement are as follows:

1. Microwave will send two employees to work for Lumumba in Zambia from 1 March 2015 up to 30 June 2015. During the employees stay in Zambia Lumumba will be responsible for paying all their salaries and related benefits.
2. Lumumba will second two of their employees to Microwave's office in Harare from 1 March 2015 to 30 June 2015. During this period Microwave will be responsible for paying their salaries and related benefits.

Mr. Moyo the finance manager has requested for advice in respect of the income tax implications to the affected employees of the above proposed employee exchange program.

Query 2:

In the month of July 2015 Microwave hosted an employee fun day to celebrate their 20th anniversary. During the celebration ceremony all employees received grocery hampers as a thank you for all the wonderful years of service to Microwave. The human resources manager is not sure whether these hampers constitute gross income in terms of the income tax act in the hands of the employees since there was no actual transfer of money to the employees. He is therefore requesting your advice on the above matter.

Annual Tax Rates

Individuals

Employment Income – 1 January to 31 December 2015

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

Aggregate maximum contributions to all the above per employee per year US$5 400

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 2015 is assumed at 1% unless stated otherwise in the scenario/required.

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