

READING PAPER

APPLIED ZIMBABWE TAXATION 2016

POSTGRADUATE DIPLOMA IN APPLIED ACCOUNTING SCIENCES

CTA Level 1 [CAZ 1]

TEST 3: 21 JUNE 2016

Time allowed 1 hour 15 minutes including 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 1 question
 - 1. TAXATION OF INCOME FROM FARMING OPERATIONS [40 MARKS]
- 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) Fifteen minutes reading time is allowed before attempting any questions.
- g) This reading paper consists of 8 pages including this top page.

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Question 1

40 marks

Takura Mazanda is a 53 year old dairy and tobacco farmer with a farm located in Wedza in Mashonaland East. Over the years Takura has seen his farming operations struggle to keep afloat due the continued drought conditions which have been affecting Zimbabwe. In October 2015 Takura made a decision to sale his farming operations and pursue other business interests. He found a buyer for the farm end of October and the sale of the farm was effected on the 1st of November 2015.

In light of his decision to sell his farming operations Takura provided you with the following information that he wants you to use in assisting him in preparing his tax returns for the 2015 year of assessment.

Livestock Figures

1. Opening stock as at 1 January 2015 was valued at \$25,000(dairy cattle)
2. Closing stock as at 31 October 2015 valued at \$28,000 (dairy cattle)

Takura sold the farm for an amount of \$438 200 which was distributed as follows:

	Year of acquisition/construction	Cost(\$)	Sale price (\$)
Land	2011	120 000	220 000
Farmhouse [^]	2012	24 000	35 000
Security Fence	2011	6 000	6 500
Staff housing (5 units)	2012	40 000	50 000
Deep tank	2013	8 000	9 000
Dam	2014	21 000	30 000
Tobacco barn	2014	20 000	28 000
Tractor	2013	14 500	9 000
Delivery vehicle	2014	9 500	6 200
Dairy Cattle			34 500
Goodwill			<u>10 000</u>
Total Sale Proceeds			<u>438 200</u>

All the immovable assets above were constructed by Takura.

[^]Takura and his family have always occupied the farmhouse.

Takura's policy has to always claim the maximum possible capital allowances in any given year.

Takura used the proceeds from the disposal of the farm house to acquire a house at Wedza growth point for an amount of \$25 000, where he moved in with his family.

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You were also provided with the following in respect of Takura's farming operations up to 31 October 2015.

	Notes	USD
Income		
Milk sales		30,000
Tobacco sales		100,000
Expenditure		
Stock feed		1,000
Fertilisers		7,000
Tobacco seeds		3,000
Deeping chemicals and vaccines		1,500
Land clearing costs		1,200
Wages: tobacco		8,000
Wages: dairy cattle		2,500
Donations to local heroes day celebrations		4,000
Temporary farm road		800
Stumping and clearing of land		1 200

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APPENDIX

1. 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.

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

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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
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)

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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 2013 is assumed at 1% unless stated otherwise in the scenario/required.

..... **End**