

**READING PAPER**

**APPLIED ZIMBABWE TAXATION 2016**

**POSTGRADUATE DIPLOMA IN APPLIED ACCOUNTING SCIENCES**

**CTA Level 2 [CAZ 2]**

**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 ACCRUING 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.

## **APPLIED ZIMBABWE TAXATION (CAZ 2) LEVEL 2 TEST 3**

### **Question 1**

You are a 3<sup>rd</sup> year trainee accountant working for Hot Shot Chartered Accountants a firm providing auditing and tax advisory services. Since the commencement of your articles you have been assigned to the audit and assurance service line of the firm where you have excelled and have recently been promoted to audit supervisor. However at a recent meeting with your training manager where he reviewed your training records it was noted that you were still lagging behind in taxation residual skills which you are required to have as part of your training programme. Your manager therefore negotiated with the firm's tax advisory service line that you be seconded to their department for three months in order for you to acquire the taxation residual skills.

In your first month with the tax advisory team you were assigned to work on a tax file for one of the firm's clients, Murimi Wanhasi Farmers (Murimi). In order for you to familiarize yourself with the client you were provided a file which contained background information on Murimi.

#### **Background information: Murimi Wanhasi Farmers**

Murimi is a partnership business between two brothers, Mike Ross and Harvey Specter and their main business operations involve tobacco farming and the rearing of livestock. Mike and Harvey inherited the 50 hectare farm which is located in Bindura in 2009 after their grandfather passed on. From that year the two brothers decided to operate the farm in partnership and they duly registered a partnership deed which had a profit sharing ratio of 50:50. The farm is not registered for VAT after farmers operating in the Bindura got a special dispensation from the Ministry of Agriculture which lobbied for them not to be required to be VAT registered. The Assessed Carrying Capacity (ACCL) of the farm is 230 herd of cattle

#### **Current year**

Mike and Harvey have requested your firm to assist them in preparing their annual income tax returns for the 2015 fiscal year, as they would want to have done so before the 30 April deadline. They therefore provided you with the following information in respect of their trading affairs for the financial year ended 31 December 2015:

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### Murimi Wanhasi Farmer Trading account for the year ended 31 December 2015:

	Notes	\$
Sales : Tobacco Sales		350,000
: Livestock Sales		70,000
Other income	1	2,300
Livestock purchases	2	20,000
Farm expenditures	3	5,500
Opening stock livestock	4	26,000
Closing stock livestock	4	35,000
Bad debts	5	4,500
Donation to Chief Negomo of Bindura		1,000
Mike's subscriptions to Farmers Union of Zimbabwe		500
Educational Grant	6	2,000
Trade mission to Brazil	7	6,500
Domestic Maid Salary: Harvey		1,200
Salaries : Mike		30,000
: Harvey		30,000
: Staff		50,000
Income Tax paid: QPD's	8	6,000
Medical Aid contributions: Mike		600
: Harvey		640
: Staff		3,200
Drawings : Mike		5,000
: Harvey		5,000
Rental payments	9	6,200
Other farm expenses – which are all tax deductible		25,000

### Notes

1. Other income is made up of interest charged on amounts owed from Boka tobacco auction floors. The balance owed had been outstanding for 2 years and when Boka settled their account with Murimi, they were charged this interest amount.
2. Included in livestock purchases are 50 cows which were bought in June 2015. The cows were bought to restock the herd after adverse drought conditions experienced in 2014. At the time these cows were bought Murimi had 200 herd of cattle. The cows were bought for a total consideration of \$10,000.

Mike and Harvey also inherited another 30 herd of cattle from their uncle who passed on in June. At the time they received the herd of cattle they had a deceased estate valuation of

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\$8,000. The herd given to Mike and Harvey had an opening stock valuation of \$7,500 in the uncle's livestock trading account valued at fixed standard value. On receipt of this herd of cattle they immediately included it as part of their farming operations.

3. During the year the following expenditures were incurred on the farm:

	\$
Construction of water furrows for the tobacco fields	2,300
Temporary farm roads	1,200
Stumping and clearing of land	<u>2,000</u>
	<u>5,500</u>

4. At the beginning of the year Murimi Farmers had 150 herd of cattle and 270 herd of cattle at the end of the year.
5. Murimi wrote off the total amount of \$4,500 owed to them by Premier tobacco auctioneers after they read newspaper reports indicating that the auction floor was facing liquidation. After further investigation they received a letter from Premier's liquidators that they will be paying all creditors \$0.30 for every dollar owed. However Mike and Harvey still decided to write off the full amount as they didn't anticipate that they would receive even a single dollar from Premier.
6. Murimi awarded a bursary to Harvey's son who is studying for higher nation diploma in agricultural sciences at Kushinga Pikelela Polytechnic College in Marondera. The two brothers agreed to award this bursary since they anticipated that Harvey's son would come and work for them once he had completed his studies.
7. In July 2015 Mike and Harvey were part of a trade mission organized by the ministry of agriculture which visited Brazil. The total cost of \$6,500 was incurred equally between Mike and Harvey.
8. This amount relates to income tax paid from Murimi's bank accounts in respect of Mike and Harvey's income tax returns on the quarterly payment dates. \$2,500 was paid for Mike and the balance of \$3,500 was for Harvey.
9. The rental payments relate to a lorry that is leased to Murimi from Mike. Mike bought the lorry for a total cost of \$12,000 in 2012 and has been leasing the vehicle to Murimi ever since. The lorry is used 100% by Murimi.

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10. You were also provided with the following information of farm expenditures which were made on the farm in previous years:

Item	Year of expenditure	Cost (US\$)
Sinking of 2 boreholes	2013	5,200
Borehole equipment	2013	4,500
Irrigation equipment	2014	8,200
Cattle dip tank	2013	6,000
Twin cab for the farm manager	2014	32,000

#### Other Information

You have also been informed that Mike and Harvey have always claimed the maximum possible capital allowances and reliefs in any given tax year.

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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)

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

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