

READING PAPER

ADVANCED ZIMBABWE TAXATION 2018

POSTGRADUATE DIPLOMA IN ADVANCED ACCOUNTING SCIENCES

CTA Level 1 [CAZ1]

DATE: 31 JULY 2018

TEST 4:

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 2017.
- c) This paper comprises of 1 question.
 - 1. Partnerships and Farming **[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.

All amounts are in United States Dollars and exclude VAT unless otherwise stated.

Maskiri and Roki are in partnership called MR Farming (MR), operating a 10,000-acre farm in the Matusadonha belt in Muzabani, North West of Zimbabwe with an assessed carrying capacity of 2,500 cattle. The farm is being used for cattle ranching activities and since it is in a remote area the partnership operates a lodge mainly used by hunters who are largely foreign but visit the game reserve nearby. The Matusadonha belt also has beautiful scenery which is a tourist attraction. The partners share profits in ratio of 2:1 between Maskiri and Roki respectively and have operated since 2010 when they bought the farm for \$18 million.

You are a CTA student and sister to Roki and the partners have engaged you as their bookkeeper. You are preparing the tax computation based on the following Income and Expenditure and other information

**EXTRACT OF INCOME STATEMENT for MAGWIRI TRUST FOR THE YEAR ENDED 31
DECEMBER 2017**

| | Notes | Amount |
|------------------------------|-------|-------------------|
| Revenue | 1 | 634,000.00 |
| Cost of Sales | | (348,700.00) |
| Gross Profit | | 285,300.00 |
| Administrative Costs | | |
| Livestock Expenses | | (54,000.00) |
| Repairs and Maintenance | | (18,000.00) |
| Fencing | 2 | (2,500.00) |
| Staff costs | 3 | (36,000.00) |
| Depreciation | | (7,400.00) |
| Roads | 4 | (8,800.00) |
| Contour Ridging | 5 | (2,500.00) |
| Fuels and Oils | | (26,880.00) |
| Water Furrows | 6 | (3,560.00) |
| Net Profit Before Tax | | 125,660.00 |

Notes

1. Revenue and Cost of Sales

Revenue is made up of the following line items:

| | |
|------------------|-----------|
| Cattle sales | \$400,000 |
| Lodge operations | \$234,000 |

The 2016-2017 farming year was declared a drought year by the relevant Ministry and in January 2017 MR was forced to sell 1,100 cattle for \$200 each on average to get a total of \$220,000 revenue from forced sales which had cost MR \$170,000. Another herd of 450 cows was sold for \$180,000 later in December 2017 but were not drought forced sales. MR had started the year with 2,000 cattle, in January 80 died due to the drought, while there were very low births of only 20 during the whole year in December 2017. The Fixed Standard values for both cows and oxen is \$200.

- The lodge operations were depressed due to the drought which also adversely affected tourist arrivals.
- In September of 2017 a good rainy season began and in October an MR began to restock its herd by buying 2,630 in October for \$458,000.00.

2. Fencing

MR erected a fence to create an enclosure for feeding livestock for \$2,150. MR also repaired sections of the perimeter fence for \$350.

3. Staff Costs

- 3.1. The partners received salaries of \$6,000 each for the whole year.
- 3.2. The partnership took out insurance policies on the lives of the partners wherein the Partnership is the beneficiary if any of the partners dies. MR paid \$1,200 for each partner.
- 3.3. MR contributed \$840 for each partner for their medical aid expenses for the year.

4. Roads

MR created and maintained temporary roads during the year for access to paddocks and for the safari tours.

5. Contour Ridging

For the purposes of prevention of soil erosion, MR ploughed some sections of the farm with contour ridges.

6. Water furrows

Due to the drought, MR created huge water troughs feeding from its main reservoir. The water had to be channelled to those troughs using water furrows which were built for \$3,560.

MR has the following assets:

| | DATE OF ACQUISITION | COST | CARRYING AMOUNT |
|--|---------------------|----------------------|----------------------|
| Farm land | 28-Feb-10 | 18,000,000.00 | 23,500,000.00 |
| Tractor | 31-Jul-15 | 56,000.00 | 28,933.33 |
| Staff Housing - 10 Units constructed for equal costs | 30-Mar-11 | 285,000.00 | 147,250.00 |
| Lodges 20 years | 26-Jun-12 | 350,000.00 | 125,000.00 |
| Motor Vehicles - 2 x Toyota Prados | 03-Mar-15 | 130,000.00 | 67,166.67 |
| Water Reservoirs constructed | 09-Sep-11 | 15,000.00 | 2,500.00 |
| Dip Tank | 05-Apr-14 | 1,200.00 | - |
| Cattle Pens | 05-May-14 | 16,000.00 | 5,700.00 |
| | | 18,853,200.00 | 23,876,550.00 |

APPENDIX 1 – TAX RATES

1. Annual Tax Rates

Individuals

Employment Income – 1 January to 31 December 2017

| 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 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 |
| Staff House (actual cost not to exceed \$25 0000) | 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)

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 2017 is assumed at 1% unless stated otherwise in the scenario/required.

.....
.....

End