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 2 [CAZ 2]

TEST 1: 15 MARCH 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 2 questions.**

1.	**GROSS INCOME – CASE LAW**	**[15 MARKS]**
2.	**INDIVIDUAL TAX**	**[25 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 7 pages including this top page.**

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Question 1

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 follow:

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.

Part B

Tawanda Gate is the operations director of Makuti (Pvt) Ltd (Makuti), a company which manufactures plastic products. Tawanda started working for Makuti when he was only 24 years of age, some 30 years ago and he has risen through the ranks to his current position. You were provided with the following information in respect of Tawanda's employment income for the year of assessment ended 31 December 2015:

	Notes	$
Gross Basic Salary	1	30 000
Bonus		1 500
Cash in lieu of leave		2 500
Long service award	2	5 000
Fuel allowance	3	2 400
Education assistance	4	8 000
NSSA contribution	5	(294)
Pension fund contributions	6	(3 200)
Retirement annuity Fund (RAF) contributions	7	(1 200)

Notes:

1. During the 2015 tax year Tawanda received his full gross salary of $30 000 as cash, with Makuti remitting the monthly Pay As You Earn (PAYE) to the tax authorities at the company's cost. The total PAYE remitted during the year amounted to $4 800.

2. In October 2015 a function was hosted to celebrate Tawanda's 40 years of service to Makuti. During the ceremony Tawanda receive a cash amount of $5 000 as well as a fully paid for holiday package to Cape Town. The holiday package including flights cost Makuti $3 000.

3. Tawanda receives a monthly fuel allowance of $200 and has use of a company allocated vehicle. From January to May Tawanda had use of a Mazda 323 with an engine capacity of 2,000ccs and on 31 May Makuti sold this vehicle to Tawanda for an amount of $1 500. The market value of the vehicle on 31 May 2015 was $2 500. From 1 June 2015 onwards Tawanda was allocated a brand new Isuzu KB twin cab with an engine capacity of 3,000ccs.

4. The educational assistance was in respect of Tawanda's daughter's schools fees for the year at Arundel Girls College.

5. The NSSA contribution was deducted from Tawanda's salary and remitted to NSSA. Makuti also contributed an equivalent amount to NSSA for the benefit of Tawanda.

6. The pension fund contributions are to a registered pension fund.

7. Tawanda contributes to a retirement annuity fund with Old Mutual. In September 2015 Tawanda decided to cash out from the fund and he received a lump sum of $45 000 plus a monthly annuity of $300 commencing 1 October 2015. At the time of exiting the RAF Tawanda's pension entitlement was $90 000.

8. During the 2015 tax year Tawanda paid for the following medical expenses:

	$
Hospital bills for Tawanda's mother	2 300
Wheel chair for Tawanda's 30 year old son who is disabled	600
Medical Aid contributions:	
Tawanda	600
Tawanda's wife	600
Daughter at Arundel girls college	300
30 year old disabled son	300
	4 700

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

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