

INCOME TAX ACT

For Income tax purposes Passenger Motor Vehicles (PMV) are limited in terms of the cost the taxpayer can claim capital allowances for. This also impacts on the recoupment as recoupment is limited to capital allowances claimed and so calculation of recoupment for PMVs takes into cognisance the limitation of cost. See 4th schedule clauses quoted below:

*Passenger Motor Vehicles (PMV) are defined **IN THE 4TH SCHEDULE** as any motor vehicle propelled by mechanical or electrical power and intended or adapted for use or capable of being used on roads mainly for the conveyance of passengers, including an estate car, station wagon, van or similar vehicle but excluding any vehicle –*

(a) which is used wholly or almost wholly—

(i) for the conveyance of passengers for gain; or

(ii) by a person operating a hotel for the conveyance of guests; or

*(b) which has seating accommodation for **15 or more passengers**, excluding the driver of the vehicle; or*

(c) which was purchased by the taxpayer for the purpose of being leased to a particular person and has been so leased and where the taxpayer—

(i) will not be entitled to the return of the vehicle at the expiry of the period of the lease; and

(ii) has given or is required to give an option to purchase or other right in relation to the acquisition or disposal of the vehicle to the lessee or any other person;

Limitation on cost of passenger motor vehicle

14. (1) *In calculating, for the purpose of paragraphs 2, 3, 4, 7, 9 or 11, the cost of a passenger motor vehicle and any additions or alterations thereto, any amount in excess of—*

*(o) **US\$ 10,000.00** shall be disregarded, where the vehicle was purchased on or after the 1st January, 2009.*

PS No special mention of second hand motor vehicles under the INCOME TAX ACT in terms of claiming capital allowances.

VAT ACT

- The VAT Act has provisions for 2nd hand motor vehicles and separate ones for passenger motor vehicles as well.
- Section 6(1)(a) provides that the levying charging and collection of VAT shall not be applicable to the supply of second hand motor vehicle. See excerpt in italics below.
- This means that save for the imported second hand motor vehicles, the supply of all other second hand motor vehicles shall not have any output tax consequences.
- On the input tax side, one cannot claim input tax where VAT was not charged in the first place and also if the car is not being used to make taxable supplies

*Provided that this paragraph shall not apply to the supply of **second-hand motor vehicles** that are subject to special excise duty on sales or disposals of second-hand motor vehicles referred to in [section 172B of the Customs and Excise Act \[Chapter 23:02\]](#).*

The VAT Act s16(2) also provides for the prohibition of claiming input VAT on PMVs. This is a separate provision from s6(1)(a).

The key difference between these two provisions is that s6 bars a taxpayer from levying and collecting VAT when supplying a second-hand vehicle whether it is a PMV or not. S16(2) on the other hand bars a taxpayer from claiming input VAT from a PMV whether it is new or not.

Illustrative examples:

Advise the Output and input VAT consequences on the transactions below.

Scenario 1

A retail entity imports a 2nd hand delivery vehicle for use in the retail trade and later sells it

Solution

- *The vehicle meets the definition of goods as defined, and has been imported*
- *The provision in s6(1)(a) does not apply as the 2nd hand vehicle is not purchased locally*
- *Import VAT shall be charged on the purchase. The entity shall pay the VAT when the goods enter into Zimbabwe for home use.*
- *The retail business can claim input tax as the business was charged the VAT.*
- *On the subsequent sale of the vehicle, no VAT shall be charged as it is the sale of a second hand motor vehicle (s6(1)(a))*

Scenario 2

A school imports a 2nd hand delivery vehicle for use at the school and later sells it

Solution

- *The vehicle meets the definition of goods as defined, and has been imported*
- *The provision in s6(1)(a) does not apply as the 2nd hand vehicle is not purchased locally*
- *Import VAT shall be charged on the purchase, even though the vehicle will be used in the making of non-taxable supplies. The school shall pay the VAT at the time the vehicles enters the country for home use.*
- *The school cannot claim input VAT because they are using the car to make non-taxable supplies.*
- *On the subsequent sale of the vehicle, no VAT shall be charged as it is the sale of a second hand motor vehicle (s6(1)(a))*

Scenario 3

A retail entity buys a 2nd hand delivery vehicle locally, for use in retail trade and later sells it.

Solution

- *The provision in s6(1)(a) applies here as the 2nd hand vehicle is purchased locally*
- *As no output VAT was charged on the sale, the retailer may not claim input VAT*
- *On the subsequent sale of the vehicle, no VAT shall be charged as it is the sale of a second hand motor vehicle (s6(1)(a))*

Scenario 4

A school buys a 2nd hand delivery vehicle locally, for use at the school and later sells it.

Solution

- *The provision in s6(1)(a) applies here as the 2nd hand vehicle is purchased locally*
- *The school may not claim input VAT as the vehicle was never charged VAT in the first place. Furthermore even if it had, it was used to make non-taxable supplies.*
- *On the subsequent sale of the vehicle, no VAT shall be charged as it is the sale of a second hand motor vehicle (s6(1)(a))*

Scenario 5

A retail entity imports a 2nd hand PMV for use in the retail trade and later sells it

Solution

- *The vehicle meets the definition of goods as defined, and has been imported*
- *The provision in s6(1)(a) does not apply as the 2nd hand vehicle is not purchased locally*
- *Import VAT shall be charged on the purchase and so the retail entity shall pay VAT at the time the vehicle enters the country for home consumption.*
- *The entity CANNOT claim input tax on this car because it is a PMV S16(2)*
- *On the subsequent sale of the vehicle, no VAT shall be charged as it is the sale of a second hand motor vehicle (s6(1)(a))*

Scenario 6

A school imports a 2nd hand PMV for use at the school and later sells it

Solution

- *The vehicle meets the definition of goods as defined, and has been imported*
- *The provision in s6(1)(a) does not apply as the 2nd hand vehicle is not purchased locally*
- *Import VAT shall be charged on the purchase and so the retail entity shall pay VAT at the time the vehicle enters the country for home consumption.*
- *The entity cannot claim VAT because s16(1) provides that input tax cannot be claimed on goods/services to be used to make non-taxable supplies.*
- *On the subsequent sale of the vehicle, no VAT shall be charged as it is the sale of a second hand motor vehicle (s6(1)(a))*

Scenario 7

A retail entity buys a 2nd hand PMV locally, for use in retail trade and later sells it.

Solution

- *The entity cannot claim VAT because he was never charged VAT in the first place s16(1). The seller was selling a second hand motor vehicle so they didn't charge VAT.*
- *On the subsequent sale of the vehicle, no VAT shall be charged as it is the sale of a second hand motor vehicle (s6(1)(a))*

Scenario 8

A school buys a 2nd hand PMV locally, for use at the school and later sells it.

Solution

- *The entity cannot claim VAT because he was never charged VAT in the first place s16(1). The seller was selling a second hand motor vehicle so they didn't charge VAT.*
- *On the subsequent sale of the vehicle, no VAT shall be charged as it is the sale of a second hand motor vehicle (s6(1)(a))*

Scenario 9

A retail entity imports a brand-new delivery vehicle for use in the retail trade and later sells it

Solution

- *The vehicle meets the definition of goods as defined, and has been imported*
- *Import VAT shall be charged on the purchase. The entity shall pay the VAT when the goods enter into Zimbabwe for home use.*
- *The retail business can claim input tax as the business was charged the VAT.*
- *On the subsequent sale of the vehicle, no VAT shall be charged as it is the sale of a second hand motor vehicle (s6(1)(a))*

Scenario 10

A school imports a brand-new delivery vehicle for use at the school and later sells it

Solution

- *The vehicle meets the definition of goods as defined, and has been imported*
- *Import VAT shall be charged on the purchase, even though the vehicle will be used in the making of non-taxable supplies. The school shall pay the VAT at the time the vehicles enters the country for home use.*
- *The school cannot claim input VAT because they are using the car to make non-taxable supplies.*
- *On the subsequent sale of the vehicle, no VAT shall be charged as it is the sale of a second hand motor vehicle (s6(1)(a))*

Scenario 11

A retail entity buys a brand-new delivery vehicle locally, for use in retail trade and later sells it.

Solution

- *The provision in s6(1)(a) does not apply here as vehicle is purchased brand new*

- *The retailer may claim input VAT on the transaction*
- *On the subsequent sale of the vehicle, no VAT shall be charged as it is the sale of a second hand motor vehicle (s6(1)(a))*

Scenario 12

A school buys a brand-new delivery vehicle locally, for use at the school and later sells it.

Solution

- *The provision in s6(1)(a) does not apply here as vehicle is purchased brand new*
- *The school may not claim input VAT as it will be used in the making of non-taxable supplies*
- *On the subsequent sale of the vehicle, no VAT shall be charged as it is the sale of a second hand motor vehicle (s6(1)(a))*

Scenario 13

A retail entity imports a brand-new PMV for use in the retail trade and later sells it

Solution

- *The vehicle meets the definition of goods as defined, and has been imported*
- *Import VAT shall be charged on the purchase. The entity shall pay the VAT when the goods enter into Zimbabwe for home use.*
- *The retail business CANNOT claim input tax on a PMV S16(2).*
- *On the subsequent sale of the vehicle, no VAT shall be charged as it is the sale of a second hand motor vehicle (s6(1)(a))*

Scenario 14

A school imports a brand-new PMV for use at the school and later sells it

Solution

- *The vehicle meets the definition of goods as defined, and has been imported*
- *Import VAT shall be charged on the purchase. The entity shall pay the VAT when the goods enter into Zimbabwe for home use.*
- *The school cannot claim VAT because it is using the vehicle to make non-taxable supplies s16(1). Furthermore it is a PMV.*
- *On the subsequent sale of the vehicle, no VAT shall be charged as it is the sale of a second hand motor vehicle (s6(1)(a))*

Scenario 15

A retail entity buys a brand-new PMV locally, for use in retail trade and later sells it.

Solution

- *The provision in s6(1)(a) does not apply here as vehicle is purchased brand new*

- *S16(2) prohibits the claiming of input VAT on the purchase of PMVs*
- *On the subsequent sale of the vehicle, no VAT shall be charged as it is the sale of a second hand motor vehicle (s6(1)(a))*

Scenario 16

A school buys a brand-new PMV locally, for use at the school and later sells it.

Solution

- *The provision in s6(1)(a) does not apply here as vehicle is purchased brand new*
- *However, the school may not claim input VAT as the vehicle will be used in the making of non-taxable supplies S16(1). Furthermore it is a PMV.*
- *On the subsequent sale of the vehicle, no VAT shall be charged as it is the sale of a second hand motor vehicle (s6(1)(a))*