READING PAPER

ADVANCED ZIMBABWE TAXATION 2019

POSTGRADUATE DIPLOMA IN ADVANCED ACCOUNTING SCIENCES

CTA Level 1 [CAZ1]

TEST 1: 12 MARCH 2019

Time allowed 1 hour 15 minutes including 15 minutes 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 2018
c) 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.
d) Except where expressly stated, amounts are in United States Dollars ($).
e) Fifteen minutes reading time is allowed before attempting any questions.
f) This reading paper consists of 7 pages including this top page.
All amounts are in United States Dollars and Exclude VAT unless otherwise stated.

You are employed by Musiiwa Consultants (MC) who offer tax consultancy services and you have been assigned to work on Dr. Mbwende Hove’s tax affairs. Dr. Hove is a general practitioner in the medical profession, who operates a surgery in Fife street in the Avenues area of Harare and owns the property from which he operates from. The property was originally a block of residential flats with 4 floors and each floor has 10 identical apartments. In 2014 Dr Hove managed to get all the necessary regulatory approval to use the ground floor only for commercial purposes and the rest of the floors from the 1st floor were leased for residential purposes. Dr Hove occupies 2 of the 10-ground floor apartment for his business operations. He uses one apartment for the surgery and the other for a boutique or clothing shop project which he intends to eventually pass on to his disabled daughter. Dr. Hove also does locum work (i.e. part-time jobs) for Avenues clinic and Harare Hospital and is a category B VAT registered operator as he is a sole trader with revenues exceeding $60,000.

The Surgery

Dr Hove employs 5 staff members, namely, 3 nurses, an Admin clerk and a security guard at the surgery. In June 2019 Dr. Hove obtained a $25,000 loan from a local bank and invested in the surgery, the boutique and in the rest of the property which houses the surgery. The loan has a tenure of 5 years and repayments commenced on the 30th of June 2019 at $500 a month. The June instalment included an interest component of $83. For the surgery he imported medical equipment including digital scales, monitoring equipment, reclining beds and new furniture for the front office. For all these imports, the foreign suppliers charged $12,575, then they were shipped for $3,450 including insurance before paying customs duty of $7,235. In the months of May and June the Dr Hove posted revenue of $33,000 from consultation fees and $2,800 from consumables (such as injection needles cotton e.t.c.) and $14,500 in locum fees from the hospitals. The staff remuneration amounted to $6,580 while inventories from registered operators for medical supplies cost $4,800. Subscription and or licence fees to non-registered regulatory authorities and professional institutes amounted to $840 for the period commencing 01 June 2019 to 31 May 2020. Printing and stationery costs from non-registered operators amounted to 2,520 for the two months while $3,200 was written off on 30 June for consultation fees for patients who died before paying some of their bills. Dr Hove was owed as at 30 June a total of $18,290 by medical aid societies and he also incurred phone bills of $450, 60% of which were for the surgery, 30% for the boutique and the rest was private.
The Boutique

In June 2019, Dr. Hove redecorated the interior of the boutique by way of shop fittings, new furniture and painting for $4,500 all supplied by VAT registered operators. He imported inventory worth $5,200 being clothes and shoes for the months of May and June. The freight costs were $500 to the Zimbabwean border and $200 to Harare (by registered operator) with the total customs duty paid being $2,040. Merchandise sales were $8,210 while staff remuneration was $1,500. Printing and stationery costs amounted to $450.

Other

Dr Hove received total rental income of $1,600 per apartment for the months of May and June 2019 and incurred maintenance costs of $3,500 for the 2 months. The maintenance costs were $700 paid to the caretaker, plumbing services of $1,200, borehole pump repairs of $1,600, both plumbing and borehole services being from VAT registered operators. The Doctor paid a total of $2,400 for council piped water for the entire premise and $3,100 for electricity for the entire premise as well. All tenants share the bill equally although the intention is to install prepaid electricity and water meters for each apartment by December 2019. All apartments were occupied during this period.
APPENDIX 1 – TAX RATES

1. Annual Tax Rates

Individuals

Employment Income – 1 January to 31 December 2019

<table>
<thead>
<tr>
<th>Segment of Income per annum</th>
<th>Amount</th>
<th>Rate within segment (%)</th>
<th>Tax</th>
<th>Cumulative Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 4,200</td>
<td>4,200</td>
<td>0%</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>4,201 – 18,000</td>
<td>13,800</td>
<td>20%</td>
<td>2,760</td>
<td>2,760</td>
</tr>
<tr>
<td>18,001 – 60,000</td>
<td>42,000</td>
<td>25%</td>
<td>10,500</td>
<td>13,260</td>
</tr>
<tr>
<td>60,001 – 120,000</td>
<td>60,000</td>
<td>30%</td>
<td>18,000</td>
<td>31,260</td>
</tr>
<tr>
<td>120,001 – 180,000</td>
<td>60,000</td>
<td>35%</td>
<td>21,000</td>
<td>52,260</td>
</tr>
<tr>
<td>180,001 – 240,000</td>
<td>60,000</td>
<td>40%</td>
<td>24,000</td>
<td>76,260</td>
</tr>
<tr>
<td>240,001 and above</td>
<td></td>
<td>45%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- 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**

<table>
<thead>
<tr>
<th>Engine capacity</th>
<th>Benefit ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 – 1 500 cc</td>
<td>300</td>
</tr>
<tr>
<td>1 501 – 2 000 cc</td>
<td>400</td>
</tr>
<tr>
<td>2 001 – 3 000 cc</td>
<td>600</td>
</tr>
<tr>
<td>3 001 – and above</td>
<td>800</td>
</tr>
</tbody>
</table>

8. **Capital allowances**

   Maximum deemed costs to be used in determining capital allowances

<table>
<thead>
<tr>
<th>Asset</th>
<th>Deemed cost ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Passenger Motor Vehicle</td>
<td>10 000</td>
</tr>
<tr>
<td>Staff House (actual cost not to exceed $25 000)</td>
<td>10 000</td>
</tr>
<tr>
<td>School, clinic, hospital, nursing home</td>
<td>10 000</td>
</tr>
</tbody>
</table>

9. **Capital Allowances: Mining**

   Maximum deemed costs to be used in determining the capital redemption allowance.

<table>
<thead>
<tr>
<th>Asset</th>
<th>Deemed cost ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Passenger motor vehicle</td>
<td>10 000</td>
</tr>
<tr>
<td>Staff housing, occupied by shareholder</td>
<td>10 000</td>
</tr>
<tr>
<td>School, clinic, hospital, nursing home</td>
<td>50 000</td>
</tr>
</tbody>
</table>

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..........................................................