

**READING PAPER**

**APPLIED ZIMBABWE TAXATION 2016**

**POSTGRADUATE DIPLOMA IN APPLIED ACCOUNTING SCIENCES**

**CTA Level 2 [CAZ 2]**

**TEST 4: 2 AUGUST 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. VARIOUS TRANSACTIONS [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 6 pages including this top page.

## APPLIED ZIMBABWE TAXATION (CAZ 2) LEVEL 2 TEST 4

### Question 1

You are a supervisor in the tax advisory department of Sterling Chartered Accountants, one of the big four auditing and advisory firms with operations across the major cities of Zimbabwe. In the past couple of years the Zimbabwe Revenue Authority has been on a drive to increase tax collections and this has seen the tax collector increased tax audits of corporate companies. Given the increased scrutiny by ZIMRA one of Sterling's audit clients, Afribrite (Private) Limited, has approached your tax department for tax advice on transactions that they effected during the 2015 tax year of assessment.

In light of this request from Afribrite you scheduled a meeting with the Afribrite audit team to obtain background information on the client.

### Background information

Afribrite (Private) Limited is a property development company involved in the development and construction of low cost housing. From 2009 to 2013 the company had seen tremendous growth in its operations given the housing boom arising from the use of the multi-currency system and the general optimism that was trending in the Zimbabwean economy. However over the last 2 years business levels have been on a downward trend mainly due to tough economic conditions currently prevailing in Zimbabwe. The proliferation of bogus property developers in recent years has also compounded Afribrite's woes as potential home owners have now become more cautious with their acquisitions in the property market. At the height of the property boom Afribrite had opened a retail outlet which focused on the supply of building material amongst other construction related material. Afribrite is a registered operator under category B in terms of the Value Added Tax Act.

-Afribrite's finance manager Mr Thuso Ristepile provided you with a file with details of transactions that they effected during the 2015 year of assessment. **All amounts are exclusive of VAT unless otherwise indicated.**

### Transaction 1:

Afribrite purchased second hand office furniture from ADC Auctioneers for an amount of \$15,000. The second hand furniture belonged to a non-registered operator who was forced to sell the furniture due to liquidity problems. Mr Thuso was not sure whether or not Afribrite will be able to claim input tax on the purchase of the furniture.

### Transaction 2:

During the year Afribrite sold housing units with a total construction cost of \$1,500,000 for a total sales value of \$3,200,000. All the housing units sold are being used by the customers for residential accommodation purposes. These houses were sold in Afribrite's ordinary trading operations.

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### Transaction 3:

Afribrite has a practice of awarding fringe benefits to its staff members. Mr Thuso provided you the following figures of the amounts of the total fringe benefits awarded to employees calculated in terms of the Income Tax Act for PAYE purposes.

	\$
Fuel allowance	12,000
Housing allowance	20,000
Cellphone allowance	8,000
Groceries	<u>5,000</u>
	<u>45,000</u>

### Transaction 4:

Also during 2015, Afribrite sold an office block for an amount of \$110,000 to an unconnected person. Before sale, this office block was being leased out under a finance lease agreement commencing July 2011 and Afribrite cancelled the lease agreement in March of 2015. Afribrite initially incurred a total cost of \$60,000 in constructing the office building in 2011 and the lessee effected obligatory improvements in terms of the lease agreement amounting to \$12,000. The improvements were completed in 2012 and brought into use by the lessee in the same year.

### Other information

Mr. Thuso also indicated to you that Afribrite has always claimed the maximum possible capital allowances where applicable and have always claimed input tax for VAT purposes were applicable. Unless otherwise indicated Afribrite purchases all of their supplies from VAT registered operator.

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### 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.

#### 1. 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

#### 2. Allowable pension deductions

	US\$
In relation to employers: in respect of each member	5 400
In relation to employees: by each member of a pension fund	5 400
In relation to each contributor to a retirement annuity fund or funds	2 700
National Social Security contributions (on a maximum monthly gross salary of US\$700)	3.5% of gross salary
<i>Aggregate maximum contributions to all the above per employee per year</i>	<i>US\$5 400</i>

#### 3. Bonus exemption - \$1 000

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### 4. 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

### 5. 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.

### 6. 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

### 7. 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

### 8. 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

### 9. 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%
  -

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### **10. 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)

### **11. 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%

### **12. 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 2015 is assumed at 1% unless stated otherwise in the scenario/required.

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