

READING PAPER

ADVANCED ZIMBABWE TAXATION 2017

POSTGRADUATE DIPLOMA IN ADVANCED ACCOUNTING SCIENCES

CTA Level 1 [CAZ1]

TEST 2: 25 APRIL 2017

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 2016 (including legislation proposed in December 2016 and that was promulgated as at 1 January 2017).
- c) This paper comprises of 2 questions.
 - 1. INDIVIDUAL TAX [30 MARKS]
 - 2. CAPITAL GAINS TAX [10 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 3 pages including this top page.

Question 1

Bruce Trump is a 58-year-old Zimbabwean who is employed by Farlarge Cement (Pvt) Ltd (Farlarge). Farlarge is a leader in supplying building materials with presence in 90 countries. Farlarge flagship cement products are the Portland, Masenry and Subset brands which have different applications in terms of the products and different setting periods. The subset brand is the strongest and sets the fastest and is applied to products such as block concrete, brick and block-making, precast operations, structural concrete applications and dam/reservoir construction. Bruce is employed in the Stores Department as a Manager. He has been employed by Farlarge (formerly Round Cement) for the past 26 years. Bruce is contemplating retirement and has been offered a Voluntary Early Retirement (VER) package and seeks to understand the tax implications for such a move. Under the scheme his last working day would be the 31st of December 2016. Farlarge has obtained approval of this scheme from the Minister of Labour and Social Welfare.

You are a CTA student with an accounting firm Chinoz Chartered Accountants, but happen to be neighbours with Bruce. You also get along very well with Bruce son whom you attended school with up to university level. Bruce has approached you with a paper prepared by the HR department, showing the anticipated tax position at the end of the year if Bruce takes the VER package.

Salary (Jan – Dec 16) (1,800 x 12)		21,600.00
Bonus (13 th cheque)		1,800.00
Lump-sum receipt from VER		16,900.00
Golden handshake		2,800.00
Motoring benefit	1	
Share options	2	
School Fees	3	1,800.00
Cash in Lieu of Leave		1,800.00
Contributions to Pension Funds:		
RAF contributions - annual	4	(3,000.00)
Pension fund contributions	4	(2,000.00)
Medical Aid Contributions:		
Employer contributions		540.00
Employee contributions		540.00

1. Motoring Benefit –
 - 1.1. Bruce uses a Toyota single cab 2x4 Hilux 2.4D pick up which he takes home after hours. It's engine capacity is 2400cc.
 - 1.2. If Bruce takes the VER he has the option to buy it for 20% of its book value. Its book value on the 31st of December 2016 shall be \$15,000 and the expected market value shall be 16,500.
2. Farlarge has a share option scheme for its managers and Bruce decided to exercise options on the 1st of July 2016. The options were granted on 01 January 2010. The market value of the shares on the 1st of July 2016 was \$101.15. The exercise price of the shares was \$80. The Consumer Price Index (CPI) on the exercise date was 96.4 index points and 90.2 index points on the 1st of January 2010

3. Farlarge pays for school fees for 2 of Bruce's children in a high school in Harare.
4. Bruce contributed 100% to a pension scheme and a Retirement Annuity Fund.

Bruce apparently has other sources of income and would like you to assess the tax implications of his business portfolio.

1. Bruce has received dividends from the following investments:
 - 1.1. \$2,100 from Netcare. Netcare is a South African entity in the healthcare sector and this amount is net of a 10% withholding tax and transfer charges of \$10.
 - 1.2. \$1,210 from Beconet wireless Zimbabwe, a ZSE listed company.
2. \$554 expected at the end of the year from ABSA Investment house, a South African Investment house as interest on a money market investment. This amount is net of bank transfer charges of \$6. This is an annual interest amount.
3. Rentals
 - 3.1. \$400 per month being rentals from a Kuwadzana house.
 - 3.2. Bruce also receives rentals of from a Zambian property he bought when he worked for the Zambian sister company many years ago.
 - 3.3. \$650 per month since 01 March 2016 from a shop he built in the new suburb of Damofalls. The total cost of construction was \$37,500.00. He had disposed of another similar shop in Timire Park which had given him rentals of \$375 up to 28 Feb 2016 on the same day. The Timire shop was constructed in 2011 and brought into use on the 4th of March 2011 at a cost of \$17,800

Bruce disposed of a number of assets during the year and would like to determine the CGT consequences of these disposals.

1. Shares in NT Holdings

Bruce disposed of shares in NT for \$2,700.00. He had acquired them in 2008 for ZWD 14billion. The exchange rate was \$1: 1 000 000.

2. Computer hardware

Bruce had to dispose of computer equipment which he was using in the Timire shop for \$550. The equipment had a carrying amount of \$400, and had been purchased for \$800. Bruce had claimed SIA and accelerated W&T of a total of \$400 up to 31 Dec 2015.

3. House

In January 2016, Bruce disposed of a house in Greendale in which he had been staying due to water shortages in the area for \$135,000.00. Bruce acquired a similar property in Monavale for \$123,500.00 and moved in immediately. The Greendale was acquired at a bargain in May of 2009 for \$83,000.00. Bruce improved the property putting pre-cast walling and a swimming pool in January of 2010 for a total cost of \$14,500.

4. Timire shop

The Timire shop was disposed of for \$25,000