

READING PAPER

ADVANCED ZIMBABWE TAXATION 2017

POSTGRADUATE DIPLOMA IN ADVANCED ACCOUNTING SCIENCES

CTA Level 2 [CAZ2]

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 5 questions.
 - a. CAPITAL GAINS TAX [10 MARKS]
 - b. CAPITAL GAINS TAX [10 MARKS]
 - c. CORPORATE TAX [8 MARKS]
 - d. TAXATION OF INDIVIDUALS [9 MARKS]
 - e. TAXATION OF INDIVIDUALS [3 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 4 pages including this top page.

Mr. Peter Gatsi, is a 54-year-old Zimbabwean resident and has a diverse portfolio of investments, both in Zimbabwe and abroad. Mr. Gatsi is also the Chief Executive Officer of Beta Ltd, the leading producers of sparkling beverages in Zimbabwe. He has approached your firm of consultants, Taxplanners (Pvt) Limited (Taxplanners) in which you are a 3rd year trainee in their tax department, for assistance in respect of his employment income for the 2016-year assessment and two of his investments:

- Construco (Pvt) Ltd, a company based in Harare.
- Utanda (Pvt) Ltd, a company based in Bulawayo

1. Construco (Pvt) Ltd

Construco (Pvt) Ltd (Construco) is a medium sized business which operates in the construction industry and has over the years focused on the construction of low income houses. Mr. Gatsi has a 60% controlling equity stake in Construco which he bought in 2008 from a consortium of Indian investors, who relocated back to India at the height of hyperinflation in Zimbabwe. At the turn of dollarisation in 2009, Construco saw a boom in its construction business as banks in Zimbabwe had resumed providing mortgage finance to individuals after Zimbabwe adopted the multi-currency system in February 2009. However, over the past 3 years, Construco has been making losses and in order turn around the fortunes of the company, Mr. Gatsi is considering implementing the following initiatives.

Initiative 1

In 2010 at the height of the construction boom in Zimbabwe, Construco had surplus cash and entered into a share buyback agreement with the consortium of Indian investors for the purchase of the remaining 40% issued share capital of Construco. Construco bought back the 40% stake for its fair value of \$500,000 at the time in 2010 and has been holding the shares as treasury shares. At time the shares were bought back the consortium of Indian investors had an office in Zimbabwe from where they managed their Zimbabwean investment activities, even though the individuals making up the consortium were now ordinarily resident in India.

In order to alleviate working capital challenges Construco was facing Mr. Gatsi approached Thinkworks Capital and offered to sell to them the 40% equity stake in Construco for \$700,000, which was the fair value of a 40% holding in Construco at the time. However, Thinkworks Capital counter offered to pay \$550,000 for the stake seeing how desperate Mr. Gatsi was. Mr. Gatsi agreed to the offer from Thinkworks and Construco duly sold the 40% shareholding to Thinkworks in July 2016.

Initiative 2

Since 2009 after dollarisation Construco had been investing its surplus cash in buying shares on the Zimbabwe Stock Exchange. As an initiative to raise much needed cash Construco's board of directors approved that the company sell some of its holding in the listed companies. In September 2016, Construco was able to sell its holding in Rioboard Ltd, a company listed on the ZSE for a cash consideration of \$120,000.

Initiative 3

In order to further augment its cash position Construco's board of directors approved that the company sell its office building in Newlands, a suburb in the low density areas of Harare. It was agreed

that the proceeds from the sale would be acquire another property in the Ruwa industrial area in Harare, as Construco's board were of the opinion that they will be able to get a larger property in that area using the proceeds from sale of the Newlands property. The Newlands office building was duly sold in October 2016 for a total consideration of \$180,000, with \$130,000 being allocated to the building and \$50,000 being for the land. This property had initially been constructed by Construco in 2010 for cash amount of \$110,000, with \$70,000 allocated to the building and \$40,000 to the land portion. Construco had always used this property to house their offices since acquisition and had always claimed the maximum possible capital allowances on the property in terms of the requirements of the Income Tax Act.

Construco went on to purchase a property in Ruwa for \$150,000 using the proceeds from the disposal of the Newlands property. They immediately moved into the property from where they are now operating from.

2. Utanda (Pvt) Ltd

Utanda (Pvt) Ltd (Utanda), is a supplier of heavy duty construction equipment and is wholly owned by Mr. Gatsi. In July 2016 Utanda entered into a contract for the supply of earthmoving equipment to Construco (Pvt) Ltd under the following terms:

- The sale price for the equipment was agreed at \$120,000, payable to Utanda in 12 equal monthly installments starting August 2016.
- The equipment was delivered to Construco on the 1st of August 2016 and were immediately brought into use.

Utanda had initially imported this equipment from India and had incurred a total cost of \$105,000 to bring the equipment up to their warehouse in Belmont, Bulawayo. Utanda also incurred direct selling costs of \$3,000 when they sold the equipment to Construco. For all their equipment sales Utanda ordinarily charges a mark of 30%, which is line with what other retailers of construction equipment charge.

3. Mr. Gatsi's employment income

Mr. Gatsi is in the process of negotiating for a revised employment contract with Beta Ltd and has requested your advice in respect of the following item he has been offered.

a) Motor vehicle benefit: He has been offered two options:

Opition1: Beta Ltd acquires a Mercedes Benz E300 with an engine capacity of 4,500ccs, which will be allocated to Mr. Gatsi. Mr. Gatsi will be allowed to use the vehicle for his personal business and Beta Ltd will be responsible for all the motor vehicle running costs including fuel costs. This vehicle will be sold to Mr. Gatsi in 5 years' time at its market value at the time.

Option 2: Beta will provide him with a motor vehicle loan of \$60,000 at zero percent interest rate payable in equal monthly installments over a 5-year period. Mr. Gatsi will be allowed to claim any costs he incurs from using his personal vehicle in discharging Beta Ltd business activities.

b) Beta has offered to either pay for his annual subscription to Institute of Directors Zimbabwe (IODZ) or increase Mr. Gatsi's salary with an amount equivalent to the annual subscription to IODZ from which he would pay the subscription on his own.

- c) He has also been offered an option buy 10,000 shares in Beta Ltd in 3 years' time for \$0.2/share on conditions that he stays in the employee of Beta for at least 3 years from the date of offer. Currently Beta Ltd shares are trading at \$0.35/share on the ZSE and the price is expected to have doubled in three years' time given expected growth trajectory for Beta.

On another unrelated matter he has requested your advice in respect of a lump sum receipt of \$50,000 that his wife received from a registered pension fund after she had retired in November 2016. All her pension contribution to this fund had been allowed as a deduction. From December 2016 going onwards Mr. Gatsi's wife will be receiving a monthly annuity of \$500 for the next 10 years. At the time of her retirement Mr. Gatsi's wife was 52 years of age.