

**READING PAPER**

**ADVANCED ZIMBABWE TAXATION 2017**

**POSTGRADUATE DIPLOMA IN ADVANCED ACCOUNTING SCIENCES**

**CTA Level 2 [CAZ 2]**

**TEST 4: 01 AUGUST 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.
- c) This paper comprises of 2 questions.
  1. Mining [20 marks]
  2. Farming [20 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 9 pages including this top page.

**Question 1**

Union Caribade (Pvt) Ltd (Union) is a small mining company which mines chromium ore. The chromium commodity prices have considerably increased in the year 2016 and this has resulted in the national production of chrome going up by more than 3000%. Union would like to take advantage of the positive movement in the metal prices by increasing production in the short-run to maximise profits.

In order to increase production, Union had to resuscitate dormant mining claims. This involved sinking new shafts. Some of the old shafts were filled with water and had to be drained using water pumps.

Union also increased on its search for new claims in order to increase its number of claims. On the existing ones, the following expenditures were further incurred:

Two new boreholes were sunk	6,700
Extraction expenditure	104,580
Research and analysis of the mining area’s historic exploration data	8,900
Exploratory Drilling	5,450
Royalties	36,560
Trenching	2,540
Sinking new shafts	7,800
Lease Premiums on earth moving machines	10,100
Acquisition of 3 claims	75,000
Acquisition of haulage trucks (4 x \$65,000)	260,000
Construction of permanent roads	1,560,000
Construction of new office block	85,000

Union is 48% owned by Chinese investors and the rest are local. The foreign investors were instrumental in obtaining funding for the operation. The Debt to Equity ratio as at year end was 9:2. For the year 2016, Union incurred \$30,000 in finance costs. Union also paid management and administration fees of \$100,000 to the Chinese directors for management services rendered. Total other tax deductible expenses for Union were \$2,200,000 for the year.

A Mazda Everest SUV vehicle belonging to Union was involved in an accident and costs amounting to \$4,500 were incurred in effecting repairs on the car. Compensation amounting to \$3,700 was received from their insurers.

Union had to dispose of old equipment as it had acquired new equipment. The following items of equipment were disposed of:

- Generators [Proceeds - \$5,600; cost \$7,200 in 2014]
- Water Pumps [Proceeds – \$2,300; cost \$2,100 in 2015]
- Office buildings in Harare [Proceeds – \$170,000; cost \$155,000 in 2010]

Union had been incurring losses for the past 8 years when the prices of the commodity had slumped. Below is Union’s history of assessed losses:

2009	(2,300)
2010	(1,100)
2011	(1,005)
2012	(3,240)
2013	(950)
2014	(1,111)
2015	(345)

(The exchange rate at the end of the 2008 year of assessment was 1USD: ZWD 1,000,000,000)

\*Union uses the new mine method to calculate Capital Redemption Allowance.

**Question 2**

Mr Jeremiah Mutema is a farmer in the Shangani area in the Midlands province. While Jeremiah does a little bit of crop production i.e. maize and soya beans, he is mainly into cattle rearing. The farm is segmented into paddocks and has 6 paddocks. The farm’s Assessed Carrying Capacity of the Land (ACCL) is 80. The 2015-2016 rainy season was not good and the Midlands region was declared a drought stricken region by the Minister of Agriculture. During the 2016 year of assessment, Jeremiah got information from the Meteorological department showing that the following farming season would be much better as more rains were expected. Jeremiah decided to invest the following items on his farm during the 2016 year of assessment:

Constructed a new dip tank in paddock 5	3,000
Erected a new fence around paddock 5	2,500
Repaired dip tank in paddock 3	1,500
Contour ridging	550
Farm Houses for staff (10 Units for 3,500 each)	35,000
Sunk a borehole in paddock 5	3,500
Water furrows	2,100
Tractor – John Deere brand	75,000
Constructed temporary roads	1,100
Built a permanent road in paddock 5	1,700

In January 2016, because of the drought, Jeremiah was forced to sell 85 cows and realised \$34,425. The FSVs for the cows were \$300. The direct livestock expenses were \$5,560. Opening livestock was 120 head and closing was 90 head.

In November 2016 Jeremiah began restocking the herd that had been depleted by the forced sales. He acquired 55 cattle for \$18,200, to take his stock to 90 at the end of the year.

Jeremiah uses a Toyota Hilux D4D 4X4 3 litre single cab mainly for the farming operation and for his personal errands. In the year 2016, he used it 60% for the business and 40% for private travel based on the mileage. Jeremiah does not receive remuneration from the business but draws from profits.

Jeremiah contributed the following amounts into pension funds during the year ended 31 December 2016:

A registered RAF	\$2,100
A registered Pension Fund	\$2,800

Jeremiah has a physically disabled child who is no longer a minor. He recently acquired wheelchair for the child for \$800.

**APPENDIX**

**1. Annual Tax Rates**

**Individuals**

Employment Income – 1 January to 31 December 2016

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.

**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**

	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 US\$5 400</i>	

**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**

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

**8. 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

### 9. 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

### 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 2016 is assumed at 1% unless stated otherwise in the scenario/required.

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