

READING PAPER

ADVANCED ZIMBABWE TAXATION 2018

POSTGRADUATE DIPLOMA IN ADVANCED ACCOUNTING SCIENCES

CTA Level 1 [CAZ 1]

19 JUNE 2018

TEST 3:

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 2017.
- c) This paper comprises of 1 question.

1. GROSS INCOME AND VAT

[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 5 pages including this top page.

All amounts are in United States Dollars and exclude VAT unless otherwise stated.

Fortune (Pvt) Ltd ("Fortune") is a Zimbabwe resident company that manufactures and sells leather shoes both locally and internationally. Fortune is a category B VAT registered operator and makes only taxable supplies.

You have been requested to assist Fortune in calculating their VAT payable/refundable for the tax period ending June 2017. On the 1st of July the accountant calculated the net VAT payable due to ZIMRA to be \$5,467 for the period ending 30 June 2017. As you were performing substantive procedures to verify the accuracy of the accountant's calculation you found a file with transactions which had not been accounted for in preparing the VAT return for the June 2017 tax period.

The following are the transactions in the file which have not been considered:

- ❖ Export sales of shoes to the United Kingdom for \$500,000.
- ❖ Indemnity payment received
A laptop, purchased in 2015 from a VAT registered operator for \$570 was stolen on 15 May 2017. The insurance company paid out an indemnity payment of \$750 on 15 June 2017, on which date Fortune used the proceeds to purchase a new laptop for \$1,000 from a VAT registered operator.
- ❖ On 10 June 2017, Fortune flew in an embroidery expert from India to help train staff on new type of shoe they are going to be manufacturing starting in 2018. Fortune paid \$2,500 to this expert. The expert covered his own travel costs, to and from India.
- ❖ Fortune holds a current account with Harare Bank, and received interest on the account of \$53,000 for the month of May.
- ❖ Transport expenses incurred for business purposes, which consists of:
 - Air tickets for local flights for \$13,000
 - Air tickets for international flights for \$55,000
- ❖ Car hire
Fortune hired a passenger motor vehicle as defined for use by the Indian expert during his stay in the country from Shumba car rentals for \$1,360. Associated costs were insurance of \$115, maintenance expenses of \$175 and petrol expenses of \$350.

- ❖ Taxi fares paid for sales persons (when on business) who do not own their own cars of \$1,500.
- ❖ Depreciation of \$425,000 on the company's assets written off for accounting purposes for May and June 2017.
- ❖ Company car
The managing director has the free personal use of a new Toyota Fortuner 2700cc engine, which the company purchased on 1 January 2017 for \$300,000 from which date he began using it. The managing director bears the full cost of maintaining the vehicle and paid \$450 for fuel.
- ❖ The company supplied fuel for private use by employees, directors and family members of the senior management team worth \$550.
- ❖ Fortune incurred costs to purchase leather from Argentina totalling \$10,000. Fortune also paid \$2,000 import duty for the goods in June of 2017.
- ❖ Fortune sold shoes worth \$9,000 on 6 month lay-by agreements with various local clients from 1 May to 30 June 2017.
- ❖ In 2012 when Fortune was incorporated, the company purchased a factory building for \$500,000 and a house situated in Mount Pleasant for \$125,000 which they used as offices both from VAT registered operators. After a board resolution in April, management decided to move its office to the factory building in Msasa and instead give the managing director the house to occupy as his residence, the market value of the house was now \$127,500. The managing director moved into the house on 1 May 2017 indefinitely, free of charge. Similar houses in Mount Pleasant are being rented out at \$1,500 per month.

APPENDIX 1 – TAX RATES

1. Annual Tax Rates**Individuals**

Employment Income – 1 January to 31 December 2017

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

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

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
Staff House (actual cost not to exceed \$25 0000)	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 2017 is assumed at 1% unless stated otherwise in the scenario/required.

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