

READING PAPER

ADVANCED ZIMBABWE TAXATION 2018

POSTGRADUATE DIPLOMA IN ADVANCED ACCOUNTING SCIENCES

CTA Level 2 [CAZ2]

DATE: 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. 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 8 pages including this top page.

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

You recently passed your CTA exams and are preparing to write your ITC exams. You are training with Arsene Chartered Accountants (Arsene) and have been assigned to the firm's tax service line.

One of the clients you have been assigned to is Mou Richards (Pvt) Ltd (Mou). Mou is a hardware provider in Zimbabwe with headquarters in Graniteside, Harare, and operates 18 stores nationwide with over 450 employees. Mou brings a fresh and innovative approach to building and home improvement solutions for domestic, contracting and industrial customers. Over the years it has formed strong, loyal partnerships with many large companies and have helped thousands of people to complete their 'DO IT YOURSELF' projects. Mou's product range is extensive and carries over 15,000 product lines in Painting, Plumbing, Electrical, Building, Hand & Power Tools, Outdoor, Gardening, Automotive & many more. Since the opening of its first branch, Mou has developed and changed a great deal, but the concept and spirit of their business remains largely unchanged. Mou is a category A VAT registered operator.

You have also been providing assistance on one of Arsene's long standing clients, Nero Trump who is a sole trader operating a block of flats in Harare and is a category B VAT registered operator.

PART 1

From late 2016, Mou has been experiencing cash flow challenges due to depressed business and the foreign currency shortages prevailing in the country has resulted in stock shortages given that Mou sells a lot of imported goods. Below are some few transactions that Mou entered into in the month of March 2017 and for which Mou would like to consult on.

Loan Borrowing

Mou borrowed \$1 million from MebBank Bank of Zimbabwe (MebBank) in July of 2014 and was to repay the loan by 30 June 2016 including interest. Mou failed to pay the remaining balance of the loan of \$40,000 by 30 June 2016. On the 2nd of March 2017 MebBank attached Mou's movable property (furniture, I.T. equipment and a motor vehicle) with a carrying amount of \$65,000 in the books of Mou as that date and sold it for \$45,000 in order to recover its debt. MebBank retained the entire \$45,000 as full and final settlement of the loan balance owed to them by Mou.

Imported shower cubicles

On 28 March 2017 Mou sold 30 imported shower cubicles under a lay-by agreement, to a Chinese investor who was developing a cluster of houses in Mount Pleasant Heights. The selling price of each cubicle is \$450 and the customer paid \$225 per cubicle on the 28th of March 2017 and was to pay the remaining \$225 per cubicle on the 28th of April 2017. Mou delivered the 30 cubicles to the Chinese investor on the 28th of April 2017. Mou had initially imported 50 of these cubicles from Malaysia for a purchase price of \$60 per cubicle, shipment costs (up to Beitbridge port of entry) of \$25 per cubicle, import duty of \$36 per cubicle, road transport to Harare from Beitbridge of \$5 per cubicle. The purchase from Malaysia happened on the 5th of March 2017 and Mou received the goods in Harare on the 26th of March 2017. Mou went on to donate one of these cubicles to Senga Old People's Home (in Gweru), which home is run by an association not for gain, as part of its corporate social responsibility on the 29th of March 2017.

Accident Damaged vehicle

On the 1st of March one of Mou's employees was involved in a near fatal accident in a Mou owned Toyota Hilux 3000cc single cab bakkie which had been bought brand new from a VAT registered operator in 2016. The employee has always had free personal use of the vehicle since November 2016, but the vehicle was written off after the accident. Mou's insurers paid Mou \$32,000 on the 25th of March in respect of this vehicle and Mou had not replaced the vehicle at the end of March 2017.

Monarch Steel

Mou had ordered and received door frames and window frames on credit from Monarch Steel on 01 January 2017 worth \$78,000 and was to pay for this order by the 31st of January 2017. By 29 March 2017 Mou had not yet fully paid for the order and so Monarch Steel repossessed the window frames and door frames that had not been paid for. The repossessed windows had originally been invoiced to Mou by Monarch for \$53,000 on 01 January. Mou normally sells these goods at cost plus 20% mark up.

Botswana Branch

To shore up foreign currency, Mou transferred inventories worth \$68,000 to a Mou branch in Francistown Botswana on the 18th of March 2017. The branch in Botswana has a separate accounting system and operates independently.

PART 2

Nero Trump is a sole trader who owns a block of flats with 4 floors and 20 apartments on each floor in the Avenues area in Harare. Each apartment is rented out for \$500 per month and occupancy levels have been 68% on average for the past 3 years. All the apartments on the ground floor are rented out to council licensed businesses which include three Pharmacies in three of the apartments, DHL operating in 6 of the rooms and medical doctors' rooms in the rest of the 11 apartments. The rest of the floors (from the 1st floor to the 3rd) are used for residential purposes and Nero stays in one of the apartments on the first floor. Nero has brought you an income and expenditure statement for the month of June 2017 below:

NERO TRUMP

INCOME AND EXPENDITURE SCHEDULE FOR THE MONTHS OF MAY AND JUNE 2017

	Notes	USD	USD
Rental Income	1		52,000.00
Utilities charge	2		4,800.00
Water and Rates	2	(4,800.00)	
Electricity	2	(80.00)	
Repairs and Maintenance	3	(3,433.00)	
Printing and stationery	4	(410.00)	
Bank charges	5	(900.00)	
Lease charges	6	(804.00)	(10,427.00)
Net Profit Before Tax			46,373.00

1. Rental Income

52 apartments of the possible 80 apartments at \$500 each, were occupied over the two months ending 30 June 2017 and the \$52,000 rental income is on an accrual basis. All the ground floor rooms were occupied for the month of March 2017. Only 80% of the ground floor customers paid their rentals in time and the other 20% only paid their March rentals of \$2,000 in May of 2017. The 32 occupied units out of the remaining 60 residential units from 1st floor to the 3rd floor were all paid for in the month of March 2017

2. Utilities

Water - Each apartment has a water meter and is billed according to their consumption. The bills are consolidated into one bill in Nero's account for the entire building and paid for by Nero after recovering from each tenant.

Electricity – Each apartment is on a prepaid meter arrangement and each tenant pays for their electricity costs and Nero incurred electricity costs of \$40 for his first-floor apartment where he stays.

3. Repairs and Maintenance

The repairs and maintenance expense is made up of caretaker's March salary of \$300 (which was only paid on the 3rd of May 2017), replacement tools at \$154 which were purchased from a VAT registered operator, lawnmower fuel \$40, pesticides \$89 purchased from a VAT registered operator, \$2,300 worth common building bricks for landscaping and also \$550 worth of common building bricks for repairing a cracked wall all purchased from a VAT registered operator. Excluded from the Income and Expenditure statement were the costs of a perimeter wall constructed from the 3rd of March 2017 to the 15th of March 2017 for \$7,500 (Construction done by a VAT registered operator) , as this cost was capitalised.

4. Telephone, Printing and Stationary

These were all supplied by VAT registered operators.

5. Leasing charges

Nero leased an Isuzu double cab vehicle with an engine capacity 3200cc from Stannic leasing house in January of 2017. His lease instalments are \$1,625 per month and from his amortisation schedule the interest expense in respect of the lease for the month of

June was \$402 which he recognised in his books of accounts using the effective interest rate method.

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**