

READING PAPER

ADVANCED ZIMBABWE TAXATION 2018

POSTGRADUATE DIPLOMA IN ADVANCED ACCOUNTING SCIENCES

CTA Level 2 [CAZ2]

DATE: 31 JULY 2018

TEST 4:

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. Deceased Estates and Trusts **[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 are an ITC student employed by PHR Consultants (Pvt) Ltd (PHR), a consulting company in Bulawayo. You have been assigned to a client (Mabura Marashiwa) who among other services, requires tax advice regarding the tax affairs of her late husband Magwiri Marashiwa.

Magwiri was employed by PG Industries Ltd (PG) since 1978 and turned 50 years in 2010. On the 30th of May 2017 Magwiri passed on due to injuries sustained in a car accident. Magwiri had written a will and was married in community of property to Mabura. Mabura received a statement of terminal benefits from PG for Magwiri on the 30th of June 2017 and also a statement from the executor of Magwiri's deceased estate showing all transactions in the deceased estate. Mabura would like a second opinion on a tax computation that had been done for the year ended 31 December 2017 for Magwiri, his estate and a trust for which she is a trustee as well.

The Trust

Magwiri set up Magwiri Trust (The Trust) in 2005 and registered his sole trader retail business to the trust. Magwiri and Mabura have two children Kose (19-year-old boy as at January 2017) and Shoka (born in February 2001) who are the beneficiaries to the trust. Kose is entitled to an annuity of \$200 per month commencing 01 January 2017. He is also entitled to 30% of declared distributions by the Trust. Shoka is still a minor and shall be entitled to the same as Kose once she attains the age of 18 years where the Trust shall pay any cumulative income withheld by the Trust from the year 2016 to her. The Trust shall also pay annually a bursary of \$4,000 per annum to one Chartered Accountants Academy (CAA) CTA student selected by the CAA Alumni Trust Board from qualifying excelling but underprivileged Zimbabweans. Mabura is to get 30% of any declared distributions by the Trust and the distributions are paid out if the net profit before tax for the year is above \$240,000.00. 10% of the distributed funds goes to an orphanage at the selected by the trustees. The undistributed portion is retained in the hands of the Trust.

EXTRACT OF INCOME STATEMENT for MAGWIRI TRUST FOR THE YEAR ENDED 31 DECEMBER 2017			
		2017	2016
Revenue		1,200,000.00	1,000,000.00
Cost of Sales (made up of deductible expenses)		(660,000.00)	(530,000.00)
Gross Profit		540,000.00	470,000.00

EXTRACT OF INCOME STATEMENT for MAGWIRI TRUST FOR THE YEAR ENDED 31 DECEMBER 2017			
		2017	2016
Other Income			
Donations Received	1	2,500.00	-
Rental Income	2	6,000.00	6,000.00
Administrative Costs			
Depreciation	3	(16,000.00)	(13,500.00)
Fines and Penalties	4	(250.00)	-
Other	5	(280,000.00)	(208,000.00)
Finance Income	6	560.00	470.00
Finance Cost	7	(905.00)	(870.00)
Net Profit Before Tax		251,905.00	254,100.00

Notes:

1. Donations Received

In 2017, Magwiri Trust received a donation from a friend of the late Magwiri of \$2,500 to add to the trust income in the hope that it will benefit Magwiri's children through the trust setup.

2. Rental Income

The Trust receives rent from a Belgravia residential property that it owns and holds as investment property. The property was bought in 2015 for \$250,000 and is held at fair value for accounting purposes hence not being depreciated.

3. Depreciation

The depreciation is from a fleet of 6 delivery vehicles which were all purchased in 2013.

4. Fines and Penalties

The fines and penalties all arose from traffic offences

5. Other Expenses

All the other expenses are allowable deductions in terms of the Income Tax Act.

6. Finance Income

The finance income is in respect of interest accrued from trade receivables.

7. Finance Costs

The finance costs are from a loan taken out to buy a piece of land in Mount Pleasant Heights.

8. Distribution

On 30 May 2018 the Trust declared a distribution of \$30,000.00 out of 2017 year profits and on 15 May 2017 the Trust distributed \$25,000.00 out of 2016 year profits.

PG Terminal Benefits

Below is an extract of a statement showing Magwiri’s terminal benefits:

PG Industries Ltd			
Employee Number			EC1000085
Date of Employment			25-Mar-78
Date of Birth			23-Jun-59
Position			Purchasing Manager
Date of Statement			30-Jun-18
Salary annual rate			US\$36,000.00
Grade			3E
Salary year-to-date			US\$15,000.00
Golden Handshake	1		US\$480,000.00
Motor vehicle -	1	Market value of \$15,000 for free	
Loan waiver	1		US\$4,250.00

Notes

1. The golden handshake was declared and paid out post death i.e. 30 June 2017 while the vehicle was given on the 25th of June 2017 while the loan was waived on the 27th of June 2017.
2. Magwiri owned 3 houses in Harare in the suburbs of Ruwa, Monavale and Waterfalls valued at \$57,000, \$68,000 and \$158,000 respectively throughout the year 2017.

3. In 2017, the three houses are being rented out for \$400, \$450 and \$800 per month respectively.
4. On the 2nd of January 2017 Magwiri, lent out \$2,000 apiece to two of his friends Wezhira at 12% per annum and Garanga at 10% per annum, non-compounding for both. In terms of the loan agreement, Wezhira was to repay his loan on the 31st of March but only managed to repay the loan on the 31st of July 2017. Garanga on the other hand was to repay her loan on the 30th of June 2017 but only managed to repay on the 31st of July 2017 as well.
5. On the 5th of July 2017, PG declared a performance bonus equal to 100% of an employee's monthly salary on the date of declaration for all who were in the employ of PG on 31 December 2016.
6. Magwiri stayed in hospital for 2 weeks before passing on. He incurred a bill of \$4,560.00 which was covered by his medical aid on the 8th of July 2017. The medical aid fund did however not cover post death hospital expenses such as injections, mortuary expenses and so on of \$350.00 and was paid out of the estate.
7. Magwiri had written out a will and it bequeathed the following:
 - To his wife the Waterfalls house.
 - To his son Kose, the Monavale house. t
 - To his daughter Shoka, the Waterfalls house but Mabura shall be entitled to the rentals from that house until such time Shoka turns 18 years of age.

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.

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End

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