

READING PAPER 2

ADVANCED ZIMBABWE TAXATION 2017

POSTGRADUATE DIPLOMA IN ADVANCED ACCOUNTING SCIENCES

CTA Level 2 [CAZ2]

FINAL EXAMINATION: 09 OCTOBER 2017

Time allowed 3 hours including 30 minutes reading time

- a) Answer all questions, clearly showing workings.
- b) The examination is based on legislation that was in force as at 31 December 2016
- c) 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.
- d) Except where expressly stated, amounts are in United States Dollars (\$).
- e) Thirty minutes reading time is allowed before attempting any questions.
- f) This reading paper consists of 8 pages including this top page.

Question 1

100 Marks

Mr Tariro Gatsi, a Zimbabwean resident, is a 54-year-old widower and is employed by Zee Cellular Ltd (A VAT registered operator) as the finance director. Over and above the income that he earns from his employment, Tariro has various income generating activities that he undertakes and he has always looked at the most tax efficient way of managing his affairs. As a finance person by trade Tariro has over time developed the habit of keeping financial records of all his income generating activities and investments which are as follows:

- Employment income;
- The Gatsi Trust;
- Gatsi bottle stores;
- Properties Investment portfolio.

In February 2017 Tariro approached Tax Matters Consultancy (TT), a firm of tax practitioners seeking tax related advice about his affairs. He provided TT Matters with the following information.

All amounts are exclusive of Value Added Tax unless otherwise indicated.

1. Employment Income

Tariro has been in the employee of Zee Cellular Ltd for the past 25 years and has held various positions within the organisation over the years. Detailed below is information about his employment with Zee Cellular for the 2016 year of assessment:

- 1.1. During 2016 Tariro received a total net salary of \$40,800 after the deduction of Pay as you earn (PAYE) of \$6,400 and N SSA pension contributions of \$294. The total net salary includes a monthly transport allowance of \$400, which he received for the 12 months in 2016. Due to the cashflow challenges that Zee Cellular was facing towards the end of 2016, Tariro is yet to receive his net salary of \$3,400 for the month of December and is not sure whether his employer was correct in deducting the PAYE relating to this salary as noted on his payslip.
- 1.2. From 1 May to 31 August 2016, Tariro was seconded to Vodacell South Africa. During the secondment period Tariro received a monthly allowance of \$500 from Vodacell, over and above his normal salary that he continued to receive from Zee Cellular. Tariro received this monthly allowance net of 10% South African withholding tax.
- 1.3. During 2016 Tariro had the right of use of an Isuzu KB double cab vehicle with an engine capacity of 3,200ccs. Tariro was also in receipt of monthly fuel coupons of 200 liters and Zee Cellular acquired the fuel coupons in bulk for a cash consideration of \$1.25 per liter. In terms of the log book which Tariro keeps, he used the 60% of the fuel allocated to him for personal purposes.

- 1.4. Zee Cellular contributed \$294 to NSSA pension fund for the benefit of Tariro.
- 1.5. In August 2016, Tariro bought a second hand single cab truck from Zee Cellular for an amount of \$6,000. At the time that he purchased this vehicle it had a market value of \$7,200 and Zee Cellular had initially bought this vehicle brand-new from a VAT registered operator.
- 1.6. Tariro received board sitting fees of \$4,000 from Zee Cellular for the board meeting that he attended during 2016. He has been arguing with the payroll manager who wanted to include these fees as part of his employment income for the purposes of calculating PAYE as in Tariro's opinion, Zee Cellular is only supposed to withhold 20% from the board and not subject them to PAYE.
- 1.7. Zee Cellular paid \$12,000 during the year for Tariro's daughter's schools fees at the University of Gondwanaland.
- 1.8. During the year Tariro paid medical expenses of \$8,000 for his 21-year-old daughter mentioned above, of which he was only able to recover 60% of this amount from his medical aid society.
- 1.9. Zee Cellular contributes \$200 per month to Good health medical aid society for the benefit of Tariro.

2. The Gatsi Trust

In 2009, Tariro's father, the late Tyson Gatsi, set up the Gatsi Trust. When he set up the trust, Tariro donated shares in Econet Wireless Limited (a company listed on the Zimbabwe Stock Exchange) with a market value of \$100,000 at that time, a commercial building in the Avondale area of Harare which had a market value of \$180,000 at that time and a 30% shareholding in Pipes Ltd a company registered and with operations in Mozambique.

The Gatsi Trust is **not a VAT registered operator**.

The following are the key terms from the Gatsi Trust:

- 2.1. Tariro Gatsi and his daughter, Tanyaradzwa have a right to 30% each of the income generated by the Trust, however the trustees will have discretion of the timing of the distributions. Distribution to Tanyaradzwa will only be made to her upon her reaching the age of 25.
- 2.2. The remaining 40% will be held in trust for distribution to charitable organisations which shall be identified at the sole discretion of the trustees.

2.3. Trust Makoni and Nyasha Chawanda prominent lawyers with a law firm in Harare were appointed as the trustees of the Gatsi Trust and will be paid a fee of 10% of annual income generated by the trust.

2.4. Tanyaradzwa to receive a monthly annuity of \$200 from the Trust.

The following information was provided in connection with the activities of the Gatsi Trust for the 2016 year of assessment:

	\$
Rentals - Avondale property	50,000
Rentals – Residential property in Westgate	12,000
Dividends from Econet (net of 10% withholding tax)	6,000
Dividends from Pipes Ltd (net of 15% withholding tax)	13,000
Annuity – paid to Tanyaradzwa	(2,400)
Trustees fees	(8,100)
Donation to Chinyaradzo Children’s home	(5,000)
Distribution to Tariro – made from prior year income	(2,000)

During the year the Gatsi Trust sold a residential Unit in Warren Park for an amount of \$45,000. The trust had initially acquired the property in 2013 for an amount of \$33,000 and over the years had never claimed capital allowances on this property.

3. Gatsi bottle stores

Tariro operates 3 bottle stores in the high-density suburbs of Highfields, Mabvuku and Glenview all in Harare. Tariro has employed 3 bartenders in each of the bottle stores whom he pays a monthly salary of \$240 each plus transport allowance of \$50 each per month. Each store has a manager who is responsible for the general administration of the shops and he pays these managers monthly salaries of \$420 plus \$50 transport allowance. Tariro’s shops are not registered for VAT purposes as he is of the understanding that small businesses are not required to register.

Tariro pays himself a monthly fee of \$100 for the bookkeeping work that he does for his bottle stores. He has provided you with the following information in respect of transactions effected by the bottle stores:

3.1. In June 2016 brought 10 garden chairs and a television set from his home for use at the bottle stores. He had initially acquired the garden chairs and television set in 2014 for a

purchase price of \$500 and \$2,000 respectively. This television set is used in the bottle stores to screen soccer matches and this has seen an increased number of customers visiting Tariro's bottle stores.

- 3.2. In December 2016 Tariro received an order to supply soft drinks and alcoholic beverages for a wedding party which is going to be held in February 2017. He received an amount of \$8,000 as full and final payment for this order. Tariro has estimated that it will cost him \$5,600 to service this order and he is going to incur this cost when he delivers on the order in 2017.

4. Properties investment portfolio

The only transaction that Tariro effected in his properties investment portfolio was the disposal of a commercial property had been leasing to a local media company which was liquidated. Tariro sold the property for a cash consideration of \$120,000 which he had initially acquired in 2013 for an amount of \$50,000. In 2015 the media company leasing the property had effected contractual lease improvements to the tune of \$20,000 and this amount was within the range stipulated in the lease agreement. Tariro had always claimed the maximum possible capital allowances on this property.

Appendix

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.

1. 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

2. 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>	

3. Bonus exemption - \$1 000

4. 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

5. 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.

6. 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

7. 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

8. 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

9. 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%

10. 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)

11. 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%

12. 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**