

## **READING PAPER 2**

**ADVANCED ZIMBABWE TAXATION 2017**

**POSTGRADUATE DIPLOMA IN ADVANCED ACCOUNTING SCIENCES**

**CTA Level 1 [CAZ1]**

**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 7 pages including this top page.

**Question 1**

**100 Marks**

**All amounts are in United States Dollars and are exclusive of VAT unless otherwise indicated**

**PART A**

Ms Christina Mabwe was employed by Batvest Financial Solutions as a marketing manager and retired on the 31<sup>st</sup> of August 2016. Christina turned 65 in July 2016. You're a CTA level 1 student and good friends with Christina's daughter. Christina has approached you with a list of transactions she entered in the year ended 31 December 2016 and needs your advice on the different tax implications. Christina is a VAT registered operator as she about to buy a retail supermarket and so she has voluntarily reistered.

	<b>Notes</b>	<b>\$</b>
Salary		16,000
1 <sup>st</sup> and 2 <sup>nd</sup> quarter performance bonuses		1,000
Dividends from a local private company		1,500
Dividends from CBZ Building society		535
Rental Income	1	4,050
Lumpsum receipts from pension fund	2	54,000
Lumpsum receipt from a Retirement Annuity Fund (RAF)	3	98,000
Gratuity		2,500
Cash in Lieu of Leave		6,000
Medical Expenses paid for by former employer for disabled son's wheelchair		700
Motoring Benefit	4	-
Housing Benefit	5	-
Loan Benefit	6	-
Medical Aid employer contributions		480

	Notes	\$
Repairs of principal private residence	Refer to PART B	
Medical Aid self-contributions		960
Pension fund self-contributions		2,800
Pension fund employer contributions		1,200
RAF self-contributions		1,000
NSSA		196
Pension annuity	7	2,000
Subscription to the Chartered Marketers' Association		536
Paid up medical expenses for Christina not covered by medical aid		452
Interest received in savings account from a local bank		1,650
Electricity Charges		360
City Council Rates		150

Notes:

1. Rentals Received  
Being rentals from a Kuwadzana house that she inherited from her late father on the 1<sup>st</sup> of January 2015.
2. Lumpsum receipt from registered Pension Fund. Christina's total pension entitlement is \$150,000.
3. Lumpsum receipt from RAF. His pension entitlement is \$270,000. Assume that all her contributions to the RAF were allowed as a deduction.
4. Christina had the use of a VW Amarok, Twin cab 2.4-liter petrol vehicle from the beginning of the year to the retirement date. On retirement, Batvest sold the vehicle to her for \$4,300. Its market value then was \$22,000.
5. Christina stayed in a Batvest house and moved out on the 1<sup>st</sup> of October 2016. The house cost Batvest \$165,000 to construct. Furniture also cost Batvest \$23,000. Rentals in the same area for a similar house were \$600 during the 2016 year.
6. Christina had taken out an interest free loan of \$5,000 on the 1<sup>st</sup> of February. On the 31<sup>st</sup> of August, the principal amount was netted off from part of her retirement proceeds.

7. Batvest contributed 50% to Christina’s pension. Over the years Christina’s contribution exceeded the limit by \$5,000. She receives an annuity of \$500 per month starting September 2016. Her life expectancy is 10 years from retirement date.

**PART B**

Christina also entered into the following transactions and would want you to review and advise on the Capital Gains Tax consequences.

1. Christina acquired a house in 2014 in the Water falls area for \$67,000 from a VAT non-registered operator. She was staying in a company house ever since and moved into the Waterfalls house on the 1<sup>st</sup> of October 2016. She however had always been looking to move to the Northern side of town and on receiving lumpsums from pension she disposed of the Waterfalls home for \$80,000 and bought another in Borrowdale West for \$120,000. She moved into the Borrowdale home on the 23<sup>rd</sup> of December 2016. She paid \$2,000 for the conveyancing costs and \$6,000 in stamp duty. During her short stay in the Waterfalls home she had incurred the following expenditures from registered operators:

	\$
) Roof Repairs	1,011
) Re-painting	500
) Water drainage construction	450
) Durawall	1,500
) Drilling of borehole	3,450

2. Christina disposed of 7,000 shares in Lake Harvest (Pvt) Ltd. The shares had a market value of \$7,500. She had acquired the shares in January of 2014 for \$6,780.
3. Christina disposed of the Kuwadzana house on the 28<sup>th</sup> of December 2016 to her husband for \$37,000. She had inherited the house from her deceased father at the beginning of the year 2015. The deceased estate valuation was \$35,000 at that time. The fair market value of the house now is \$42,000.
4. Christina sold her Toyota wish Passenger Motor Vehicle for \$3,500 to her son. The car had cost her \$5,000 in September 2015 and its fair value was \$4,500 on the date of disposal.
5. Christina also disposed of a commercial property she had built for \$35,000 in Marondera on the 31<sup>st</sup> of January 2013. Christina sold the property so that she concentrates on starting a business in Harare. She agreed on a cash selling price of \$50,000 for the property. The buyer then negotiated to pay in 4 equal instalments over 2 years of \$15,000 each instalment commencing 30 November 2016, 31 May 2017, 30 November 2017 and finally 31 May 2018.

**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

*Aggregate maximum contributions to all the above per employee per year US\$5 400*

**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:
  - o Industrial buildings – 5%
  - o Farm Buildings – 5%
  - o Commercial buildings – 2.5%
  - o Motor Vehicles – 20%
  - o 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** .....