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READING PAPER 1

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 7 pages including this top page.**

All amounts are in United States Dollars and are exclusive of VAT unless otherwise indicated. All purchases or supplies were from VAT registered operators unless otherwise stated.

PART A

KO group is a leading supermarket retailer whose business covers three major categories, comprising groceries, basic clothing and textiles and houseware products. The groceries category includes dry groceries, butchery, delicatessen, takeaway, bakery, provisions and fruit and vegetable sections.

KO Zimbabwe Limited trades under three highly recognised brand names, KO Stores, Bon Voyage' Stores, and KO mart. The diversified distribution channel allows the Group to target all segments of the market. In this regard, the Group has specifically profiled its stores in terms of design, product range, services and other offerings in a way that effectively caters for the specific requirements in the low, middle and high-income consumer categories.

KO Zimbabwe Limited has maintained its position as one of the dominant supermarket retailers in the country's competitive retail sector, despite the effect of liquidity constraints and low disposable incomes. The Group has developed its own brands through the KO Pot 'O' Gold, KO Value, Bon Voyage Premier Choice and Shoppers' Choice labels.

You are a Certificate in Theory of Accounting (CTA) student and a third-year trainee at KO and have been assigned to work on the following tax queries of the entity in preparation of the 2016 annual report.

1. KO has a diverse and huge source of receipts and the following need to be reviewed in terms of VAT and Income Tax:
   1.1. Deposits for returnable containers. KO sells some beverages in returnable containers. A deposit of the container is charged depending on the size of the container and the material. The deposits are collected together with the product amount and banked together. The suppliers of the beverages would have charged KO inclusive of an amount for the container at the time of acquisition.
   1.2. KO has agency arrangements with some VAT registered suppliers for slow moving products or new products, wherein suppliers are willing to allow KO to merchandise their wares without KO paying for them. When the wares are then sold by KO, then KO is paid a commission, which is usually a pre-agreed percentage of the selling price.
2. KO has a relatively few foreign transactions whose VAT and Income Tax Implications need to be considered:

2.1. Foreign interest – KO received foreign interest of $538,000. This was net of transfer charges of $2,000 and net of withholding tax in the foreign country of 10%.

2.2. Dividends – KO received foreign dividends of $176,500 net of transfer charges of $3,500.

3. KO made the following asset disposals for which VAT and Income Tax and CGT consequences may arise.

3.1. A delivery truck was disposed for a total of $26,000 in November 2016. It had originally been purchased in 2014 for $70,000 from a VAT registered operator and had a book value of $12,000. A profit on disposal of $14,000 was correctly recorded in the books of accounts.

3.2. During the month of January one of the warehouses caught fire which destroyed inventories which had been purchased for $33,200 from registered operators but had been written down to a Net Realisable Value of $25,000 in the accounting records. The fire also destroyed the warehouse building itself which had a book value of $45,000 for accounting purposes. KO had constructed the warehouse in January 2014 for $48,000. KO received compensation of $80,000 (being $30,000 for the inventories and $50,000 for the warehouse) KO has already applied $30,000 of the $80,000 to replenish its inventories and will use the balance of $50,000 to reconstruct the warehouse by June 2017.

3.3. KO acquired a house for use as offices for $145,000 from a non-registered operator in Milton Park in May 2016. KO already has a property portfolio which it holds for speculative purposes. As they were about to begin renovations, KO realised that the property will not suit the ambience required since a new funeral parlour had thereafter moved into a neighbouring property. The parlour is very busy and this causes crowds of mourners at KO's entrance. KO profitably sold the property for $150,000 in December 2016.

4. KO facelifted its First Street branch in 2016. It put in ceramic tiles which cost $23,000 and replaced the vinyl ones which are old fashioned and had begun to crack. KO also changed the ceiling to put in one that allows better room temperature regulation for $14,500. Both expenditures were paid to a VAT registered operator.

5. KO is leasing a property at the Chisipite shopping centre. In terms of the lease agreement KO is obliged improve the property for up to $500,000 in January 2016. KO commenced the work on 1 February 2016 and completed the improvements on the 31st of March 2016 for $535,000. They immediately brought the improvements into use when the remaining lease period was 50 months.

6. KO entered into several transactions detailed below:

6.1. On the 31st of July 2016, KO disposed Investment Property being a block of flats for $780,000 in the Avenues area. The property was acquired for ZWD 4,500,000 in 1995 when the exchange rate was ZWD 10: USD 1

6.2. On the 3rd of August 2016, KO disposed of Econet Wireless Zimbabwe (EWZ) shares and received $99,000 being an amount net of withholding tax. EWZ shares are listed on the Zimbabwe Stock Exchange (ZSE). They had acquired the shares for $93,000 in July of 2014.

6.3. On the 9th of August 2016, KO also disposed of treasury bills issued by the Ministry of Finance of Zimbabwe worth $270,000 that it had acquired for $256,000 in July 2015.

7. KO would like to review the Income tax and VAT calculations on some of its employee benefits listed below:

7.1. Motoring benefits to its managers. 30 branch managers have the right of use of Ford Ranger T6 twin cabs (4x4) 3.2 litre diesel cars. Two of these are being sold to the employees at below their market values by a cumulative $15,500. Three of the vehicles were bought in March 2016 for 3 newly promoted managers who were not entitled to company vehicles previously. The managers were allocated the vehicles on the 1st of April 2016. 3 Executive directors each have the right of use of an SUV Range Rover 4.5 ltr and a Toyota Hilux Twin 4 ltr v6 Twin cab. It is estimated that on average all these vehicles are used 40% for private use and 60% business.

7.2. Housing benefits to managers. The 30 managers all live in KO houses except for 3 managers who live in houses rented by KO. The 3 rented houses cost KO $18,000 during the year 2016 and the average rentals for the other 27 houses owned by KO is $600 per month.

7.3. Staff was awarded cash allowances totalling $2,700,000 during the 2016 year.

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:
     - 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.

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