

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

NOTES

- 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 9 pages including this top page.

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

You're a student trainee at GMPK in the 3rd year of your training contract and have been assigned to the Tax department. GMPK has a range of clients for whom they offer tax services and your manager Ben Ndoro has assigned you to work on COZIMO (Pvt) Ltd (COZIMO)

COZIMO is a Zimbabwean company that is a distributor for Mercedes-Benz, Jeep, Chrysler, Dodge, Fiat, Alfa Romeo and GWM passenger vehicles in Zimbabwe, as well as the official dealership for Mitsubishi. It is also the official distributor for Daimler Trucks and Buses which include Mercedes-Benz, Freightliner and FUSO light, medium and heavy duty commercial vehicles. COZIMO's Head Office is in Harare, on a 30-acre plot on Simon Muzenda Road, Msasa. COZIMO is 100% owned by ZIMO Holdings Ltd, a company listed on the Zimbabwe Stock Exchange (ZSE) and the Johannesburg Stock Exchange (JSE). COZIMO is a **category C** VAT registered operator.

As an official distributor of the above franchises, COZIMO is required to support the products through maintaining sales showrooms, workshops, genuine parts and continuous training of personnel to ensure established service back up throughout Zimbabwe. The after-sales service is based at Douglas Road comprising of the Mercedes-Benz, Jeep and Chrysler workshops which service other franchises such as Mitsubishi and GWM. COZIMO also operates the Commercial Vehicle Workshop, the Body Repair Centre for accidental damages to vehicles and the Central Parts Department which stocks parts for all COZIMO's franchises.

The commercial vehicle, GWM and Mitsubishi sales are based at the Harare Showgrounds. The passenger vehicle sales are based at Borrowdale Sam Levy's Village and Strachan's Chambers in Harare's CBD.

Instalment Sale

COZIMO sells some vehicles on instalment sale arrangements. Instalment sales are the simple, traditional route to financing vehicle ownership. Financing periods can be structured from 12 - 60 months or longer dependant on client needs.

Lease

COZIMO leases vehicles giving clients the right to use it for an agreed period, during which time clients pay rentals. At the end of the term, the clients have three options,

- i. return the goods;
- ii. acquire ownership or
- iii. extend the lease.

COZIMO would like GMPK to review its business and advise on the tax consequences of its whole business in connection with the 2016 tax year of assessment. COZIMO's Chief Executive Officer got wind that ZIMRA was going to be tightening its tax surveillance and monitoring. He heard that there is an amnesty period of up to 31 December 2016 where all declared transactions prior to that date shall not accrue penalties and interest. The following specific transactions have been identified for the review discussions.

PART 1

1. Car Sales Business - Distribution

COZIMO sells both brand new and used commercial and passenger vehicles.

- 1.1. During the year, COZIMO imported brand new vehicles from foreign countries (mainly South Africa and Italy). These cars were mostly resold. However, some of the vehicles were allocated for use in the following COZIMO business units:
 - 2 light commercial trucks were retained for use in the workshop department;
 - one passenger motor vehicle was allocated to the financial services division for use in the division and;
 - 3 passenger vehicles were allocated for use as demo cars, and as workshop courtesy vehicles.
- 1.2. COZIMO sells pre-owned cars on behalf of individuals. In terms of this arrangement, individuals can bring their vehicles to any one of COZIMO's showrooms, where COZIMO would market and sell the vehicle on behalf of the individuals. Under this arrangement COZIMO would then charge the original owner of the vehicle a commission ranging between 5% to 10% of the sale proceeds.

- 1.3. Earlier in the year COMIZO imported pre-owned vehicles for resale given that demand for brand new vehicles was on a downward trajectory.
- 1.4. COZIMO has a foreign branch in Botswana and transfers brand new motor vehicles from its stock holding from time to time to its Botswana branch. The Botswana branch has a standalone accounting system.
- 1.5. COZIMO offers a lay-by scheme which has a 5% discount on the cash price. Customers can pay for the vehicles over 3 instalments in three months to access the discount.
- 1.6. For the Instalment sale arrangements, COZIMO sold new cars by taking a 25% deposit of the cash prices and the balance being payable over agreed periods of time including the interest component. The maximum credit period is 12 months.
- 1.7. During the year COZIMO repossessed two vehicles initially sold by way of instalment credit arrangement, whose payments were in arrears. On repossession, the client forfeited 70% of the instalments she had paid to date. The 30% was refunded and amounted to \$3,000. At the time of sale, the two vehicles had a cash price of \$30,000 each.

2. Leasing Business

COZIMO leased 57 vehicles in different classes during the year. Under the lease arrangements, a customer pays a non-refundable deposit of not less than 15% of the cash price followed by rentals for a defined period. Thereafter the lessee has an option to own the vehicle by paying a bullet payment at the end of the lease term or returning the vehicle and leasing out another via a rollover facility.

During the year COZIMO was sued by two of its lease clients. The clients expected much higher trade in values as they wanted to upgrade to newer models but had not understood the terms when they signed up initially. COZIMO engaged South African experts on the matter to assist in their defence case who charged R105,000 for the service. The exchange rate was \$1: R15 at the time of bringing in the experts. The same team also trained the financial services division on the legal matters attendant to the financial services that the division is offering.

3. Workshop business

COZIMO has a state of the art workshop which offers various services and products. The workshop has a parts shop which sells spares to walk in clients whose cars are not necessarily repaired in the workshop. These spares are all imported "genuine" spares. The work shop repairs motor vehicles from engine maintenance, suspension maintenance and body work. COZIMO has a body shop for restoration of accident damaged vehicles to as good as new as is possible.

During the year the workshop entered into the following transactions:

- 3.1. Acquired some material from Italy i.e. paint, thinners and other such sundries for spray-painting.

- 3.2. Enlisted the services of Italian experts for training technical staff in motor mechanics, panel beating and spray-painting.
- 3.3. Acquired some workshop material from local VAT registered dealers.
- 3.4. Purchased fuel for \$8,200 for the whole year for the workshop staff and the courtesy vehicle.
- 3.5. Offered a Jeep Cherokee SUV 4.2 litre to the General Manager (GM) for use on both business and private errands. The G.M. also gets \$200 per month worth of fuel.
- 3.6. Provides accommodation at the company house in Borrowdale for the G.M. The house cost 305,000 to construct. Rentals of similar houses in the area are currently \$650 per month.
- 3.7. The G.M. gets a monthly cash allowance \$500 over and above his salary.
- 3.8. COZIMO also pays school fees of \$9,000 per annum for the GM's son who learns at Peterhouse school.
- 3.9. The workshop offers teas, newspapers snacks to its customers in the workshop waiting area for those jobs that are done while the customer waits such as tyre change etc. During the year they bought a new water dispenser and an LED television for customers to watch, all from a VAT registered supplier.

Financial Services Division

COZIMO has a financial services division which offers financial packages for prospective buyers. Here buyers take loans to buy the cars on COZIMO's terms. This division also offers insurance packages for the purchased vehicles.

PART 2

During the year COZIMO disposed of a few assets as shown in the table below:

ASSET	ACQUISITION DATE	COST	NBV	DISPOSAL DATE	PROCEEDS
Old Workshop building	05 July 1968	25,000.00	Nil	23 July 2016	28,000.00
Light commercial truck	01 June 2014	21,000.00	10,150.00	28 Dec 2016	7,500.00
Treasury Bills	30 Sept 2015	10,000.00	12,000.00	30 Sept 2016	12,000.00
Shares in Econet Wireless Zimbabwe (EWH) Ltd. (listed on the ZSE)	31 Oct 2016	35,000.00	32,000.00	05 Dec 2016	32,000.00
Milton Park Residential House	23 July 2008	ZWD 40million	50,000.00	03 July 2016	105,000.00
Mercedes Benz C-Class	01 June 2014	53,000.00	21,500.00	18 Aug 2016	36,000.00
*Office building	25 Mar 2009	110,000.00	88,000.00	11 Mar 2016	95,000.00

*The office building was sold to a company owned by COZIMO. The market value of the building was \$102,000.

-) On the 3rd of February, a fire broke out in the showroom and two vehicles were destroyed before the fire could be put out. The fire destroyed part of the showroom as well. One of the vehicles was a Fiat light passenger courtesy vehicle and the other a pre-owned FUSO light truck vehicle that was up for sale. The Fiat had been bought in Jan 2014 for \$35,000 and the FUSO in March 2015 for 18,000 respectively. The vehicles were both insured and the insurance paid 16,000 for the Fiat and \$18,000 for the FUSO.

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:

- 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**