Zimbabwe 2015 Budget Proposals

27 November 2014

This bulletin summarises proposed tax changes contained in the Budget Statement presented to the Parliament of Zimbabwe on 27 November 2014. All changes are effective from 1 January 2015 unless otherwise stated.

The information contained in this bulletin is based only on the Budget Statement and the Draft of the Finance Bill of November 2014. It is subject to revision on promulgation of the relevant legislation after passage through Parliament. Clients are advised against acting on the contents of the bulletin without consulting PwC.

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A. Proposed Changes - Income Tax

1. Corporate tax rates

The Corporate tax rate has remained at 25.75% (inclusive of the 3% AIDS levy). The rate for holders of special mining leases is unchanged at 15%. The Minister announced that the 3% Aids Levy will be extended to Companies and Trusts carrying out mining activities.

At present manufacturers who export more than 50% of manufactured output (by volume) are subject to a reduced tax rate of 20%. The threshold and tax rates that are proposed (as stated in the speech) to be altered and widened as follows;

Exporting between 30% - 40%:	20%
Exporting between 41% - 50%	17.5%
Exporting over 51%	15%

2. Tobacco levy

A tobacco levy of 0.015% on sellers of auction tobacco is proposed to be introduced. At present, a levy of 1.5% is charged on buyers that will continue.

3. Non-residents' tax on fees

In the speech the Minister proposed to exempt exporting companies from Non-Residents' Tax on Commission Fees.

4. Mining sector

Diamonds sold by mining companies to licensed local diamond manufacturers will not be subject to the 15% royalty charged on the gross fair market value of diamonds produced.

The Minister stated that the reform to existing mining legislation would be announced in March 2015.

5. Withholding amount on contracts where an ITF263 is not produced

The minimum amount in respect of which a tax clearance certificate (ITF263) must be requested or 10% withheld and remitted to ZIMRA has been increased from an aggregate of US$250 to US$1,000 in a year of assessment. The application of the requirement from on "each payment" to an aggregate of the stipulated amount per year of assessment was introduced with effect from 1 October 2014.

6. Exemption of income

It is proposed to exempt from income tax interest earned on loans granted to the Zimbabwe National Water and the Zimbabwe Power Company and Zimbabwe Electricity Transmission and Distribution Company. In the speech, the exemption is with retrospective effect from 1 February 2009.

7. Excessive payments on interest subject to resident or non-residents' shareholders tax

It is proposed to exempt from residents' or non-residents' shareholders tax, interest payments on loans that are deemed under the Income Tax Act to be "excessive". This arises where the debt to equity ratio of the borrowing Company exceeds 3:1. The measure is only in relation to loans beneficial to the state. It is unclear at this stage how this will apply in practice because the existing legislation under which the changes should fit into relates to "... a local branch or subsidiary of a foreign company, or a subsidiary of a local company, in servicing any debt(s) contracted in connection with the production of income".

8. Deduction on pension lump-sum contributions

It is proposed to allow additional employer lump pension contributions which are the subject of an actuarial assessment, as a deduction. This is intended to encourage employers to inject capital into the pension funds thereby enhancing pension pay-outs. The amounts could also be considered as a deduction under the existing legislation.

9. Deduction of expenditure on computer software

It proposed to allow the cost of acquisition and development computer as a deduction over four years.

10. Submission of returns – dormant companies

The Minister proposes that dormant companies cease to be required to furnish returns in cases where there were no trading activities during the year of assessment. Please note that the public officer or a director of the Company must make, within 30 days of the date requiring submission of returns, a sworn statement to the effect that the Company did not trade. It is hoped that it will be clarified whether this exemption from submitting returns will apply to Trusts and individuals previously registered with the Commissioner General for the carrying on of a trade or profession.

11. Secrecy provisions

It was proposed as outlined in the speech, that the secrecy provisions binding the Revenue Authority from disclosing information coming to its knowledge during operations, be amended to permit sharing information with specified arms of government and quasi-government entities.

12. Penalties and transparency

It was stated that regulations will be gazetted to bring into effect a penalty loading model. This is to enhance transparency.

13. Rates of tax – individuals

Business and Investment income continue to be taxed at 25.75% (25% plus the 3% AIDS levy).

The annual rates of tax commencing from 1 January 2015 will be as follows (amounts in US$) - note a new tax bracket:

Bands of Income			Amt. in band	Rate	Cum. Tax
0	to	3 600	3 600	0	0
3 601	to	18 000	14 400	20	2 880
18 001	to	36 000	18 000	25	4 500
36 001	to	60 000	24 000	30	7 200
60 001	to	120 000	60 000	35	21 000
120 001	to	180 000	60 000	40	24 000
180 001	to	240 000	60 000	45	27 000
240 001	and	above		50	

Monthly tax applicable can be calculated on the basis of the simplified Ready Reckoner table below:

Taxable income range			Co-efficient	Deduct	Subtract Personal Credits & add 3% Aids Levy
0	to	300	0	0	}
301	to	1 500	0.20	60	}
1 501	to	3 000	0.25	135	}
3 001	to	5 000	0.30	285	}
5 001	to	10 000	0.35	535	}
10 001	to	15 000	0.40	1 035	}
15 001	to	20 000	0.45	1 785	}
20 001	and	above	0.50	2 785	}

The maximum effective rate (inclusive of the 3% AIDS levy) remains at 51.5%

14. Retrenchment package

The tax free portion remains unchanged at the greater of US$10 000 or 1/3 of the package. In any event the exemption should not exceed 1/3 of US$60 000 (US$20 000).

15. Motoring benefits

The annual figures for motoring benefits remain unchanged as follows (amounts in US$):

Engine Capacity			Deemed Benefit 2014	Deemed Benefit 2015
Below		1 500cc	3 600	3 600
1 501	to	2 000cc	4 800	4 800
2 001	to	3 000cc	7 200	7 200
3 001	and	above	9 600	9 600

B. Tax amnesty

The period for the payment of taxes disclosed and approved under the amnesty provisions is proposed to be extended to the 31 December 2015 from 31 March 2015. Further, the Commissioner General is empowered to extend the payment period beyond the 31 December 2015.

The Minister also proposed that early settlement of taxes determined under the amnesty provisions qualify for a 5% per annum discount and the provisions equally apply to persons who paid taxes under the amnesty but before enactment of the provisions of the 27 November 2014 Finance Bill. The discount can only be utilised against "future" tax liabilities.

C. Proposed Changes –Value Added Tax ("VAT")

16. Deferment of VAT on the importation of capital goods

The VAT Act in section 12A provides for the deferment of VAT in respect of imported capital goods proved to the satisfaction of the Commissioner to qualify as such. The deferment period currently stands at 90 days from the date of importation. It is proposed that the deferment period be increased with effect from1 January 2015, depending on the value of the equipment (US$) as follows:

100 000 -1 000 000	90 days
1 000 001 – 10 000 000	120 days
Above 10 000 000	180 days

17. Zero rating of sugar cane

The Bill proposes to zero rate sugar cane with retrospective effect from February 2009. This treatment is in line with the treatment of the final product (sugar) which is currently zero rated and is meant to provide relief to the sugar cane producers.

18. Zero rating of livestock

The Bill proposes to zero rate livestock in order to re-align the treatment of the livestock in the hands of the farmer and the final product (meat) at the abattoir, which is currently zero rated.

19. VAT on export of un-beneficiated platinum

Currently the VAT Act in section 12D provides for the levying of VAT at the rate of 15% on the exportation of un-beneficiated platinum with effect from 1 January 2015. In recognition of the strides that the platinum producers have taken to beneficiate the mineral in the country and to give ample time for putting in place the required infrastructure, it is proposed that the export tax be deferred to 1 January 2017.

20. VAT on clearing agents fees

The services of clearing agents are currently subject to VAT at the rate 15% at the value determined by the service provider. However, it is proposed that the VAT legislation prescribes for the value of the supply to be deemed at a minimum of US$50.00 clearance fee per bill of entry.

21. Hotel accommodation supplied to foreign visitors

This was mentioned in last year's Budget, but the introduction has been deferred. This will be done sometime in the future by way of a Statutory Instrument in the Government Gazette that will amend the VAT regulations.

D. Customs & Excise

22. Proposed changes

Various measures on Customs and Excise duties are proposed. The bulk of the proposed changes will, however, take effect on publication of the respective Statutory Instruments which will contain more details - the proposed date generally being 1 January 2015.

Measures are being undertaken to level the playing field between locally manufactured and imported goods. The measures proposed are in the form of protective measures (increase in duties on finished products) and measures aimed at promoting the local industry (reduction in duties of inputs and importation of raw materials under rebate).

23. Protective measures

Mechanically de-boned meant – the duty rate reduced from 10% to 5% for approved producers. However, for the other importers, the applicable duty rate stands at 40%;
Cooper and aluminium electric cables – the rates to be increased to 30% and 20% in respect of the general and preferential ((SADC) rates respectively.
Furniture industry - the increase in duty varies from 5%-40% in respect of the general rate and 5%-25% with respect to the preferential rate (SADC).

24. Supportive measures - Rebate and suspension facilities

For a number of industries the adoption of a rebate and suspension facility has been opted for as a better mode of protecting the local industry. This implies the importation of raw materials and other specified goods without the payment of duties for a limited period for goods to be used in the specific industry. The end result is a lower production cost and a competitive price in the face cheap imports:

- Dairy – the suspension on duty applicable to milk powder is proposed to be extended for a period of 12 months.
- Clothing manufacturers – the rebate has been extended for a further 12 months;
- Tourism industry – rebate applicable on the importation of capital goods to be extended for another period of 12 months;
- Safari operators – the suspension of duty on motor vehicles imported by safari operators to be extended for a period of 12 months;
- Baking industry – the suspension of duty applicable on the importation of wheat to be extended for a period of 12 months;
- Bottler Grade Sugar imports – the duty applicable on bottler grade sugar to be suspended for a period of 6 months. This is applicable to imports by approved manufacturers;
- Electrical manufacturers – the list of qualifying goods is to be extended with effect from 1 January 2015.

25. Other issues

The 5% excise duty on airtime to be applicable on supplies by licensed operators only. Therefore operators who on sell air time will not be subject to this duty.

The period during which goods cleared for export should be taken out of the country to be extended from 10 to 30 days.

The duty on cigarettes to be increased from US$15.00 per thousand to US$20.00 per thousand with effect 1 December 2014.

The duty rate on clear beer to be reduced from 45% to 40%.

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