

2018 NATIONAL BUDGET

TAX HIGHLIGHTS



2018 NATIONAL BUDGET STATEMENT: TAXATION

The Finance Minister, Honourable Patrick Chinamasa presented the 2018 National Budget Statement to the Parliament of Zimbabwe on the 7th of December 2017, under the theme “Consolidating Economic Development and Transformation through Domestic Resource Mobilisation and Utilisation”

The policy measures and interventions enunciated in the 2018 Budget seek to re-orient the Budget towards support for developmental programmes and projects, as well as those centred on poverty alleviation.

Furthermore, drawing from the macro-economic framework, the 2018 Budget also calls for adherence to fiscal anchors for the containment of the Budget deficit to sustainable levels.

Complementary measures aimed at transforming the business environment and stimulating production, as well as curbing corruption, and addressing rampant rent-seeking behaviours, and market indiscipline, are also part of the Budget. The budget proposals are still to be enacted into law.

We advise clients to seek our professional advice before making any decisions regarding the tax proposals in this bulletin.

KEY HIGHLIGHTS

1. Income Tax
 - 1.1 Withholding Tax Proposals
 - 1.2 Presumptive Tax Issues
 - 1.3 Royalties Tax Issues
 - 1.4 Levies
 - 1.5 Tax Amnesty
2. VAT Proposals
3. Customs Duty Measures
4. Indigenization & Empowerment

Salient features of the taxation proposals in the 2018 National Budget Statement are summarized below: -

1. INCOME TAX

Removal of input VAT from deductible expenditure

In order to reduce taxable income, taxpayers claim income tax expenses, including input Value Added Tax which would have been refunded.

With effect from 1st January 2018, it is proposed to disallow the input VAT component from deductions allowable in the determination of taxable income.

Prepayments

Current legislation allows taxpayers to claim deductions on the prepaid expenses, thereby prejudicing the fiscus.

In order to ensure that expenses are accounted for in the period in which they are incurred, it is proposed with effect from 1 January 2018 that prepaid expenses are claimed proportionally in the years in which they are utilized.

Thin Capitalisation

Current legislation disallows excess interest where the debt to equity ratio exceeds 3:1. It is proposed to allow the interest if the debt is locally contracted on condition that the parties are unrelated.

The 2018 Budget proposes to define equity to include issued and paid up share capital, unappropriated profits, reserves, realised reserves and interest free loans from shareholders.

1. INCOME TAX (cont'd)

Capital Allowances: - Special mining lease holders

With effect from 1 January 2018, it is proposed to review the limits of capital allowances claimable on expenditure incurred by holders of special mining lessees as follows: -

- Staff housing, from US\$10 000 to US\$25 000; and
- Schools, hospitals, clinics and nursing homes, from \$100,000 to US\$150 000.

Exemption on Export and foreign remittance incentive

It is proposed to back date the effective date for the exemption of the Export and Foreign remittance Incentives from 23 March 2017 to 1 June 2016.

Agriculture

It is proposed to provide for a 150% allowable deduction on expenditure related to technical and support services availed to smallholder farmers by anchor farmers.

Power Generation

It is proposed to exempt power generation projects from Corporate Income Tax for the first 5 years of operation, with effect from 1 January 2018. Thereafter, a corporate tax rate of 15% will apply.

1.1. WITHHOLDING TAX ON TENDERS

It is proposed to exempt registered buyers of tobacco from the requirement to withhold the 10% tax on contracts, with effect from 1 January 2018.

1.2. PRESUMPTIVE TAX

With effect from 1 January 2018, it is proposed to remove the requirement for a contract between ZIMRA and agencies appointed to collect presumptive taxes.

1.3. ROYALTIES

Value Addition and Beneficiation: Royalty on Un-Beneficiated Raw Diamonds

It is proposed to amend the legislation to provide for a 15% price discount on diamonds sold to domestic firms that are engaged in beneficiation activities, with effect from 1 January 2018.

Reduction of Mineral Royalties for Platinum

It is proposed to align the royalty rates for platinum to 2.5% on all platinum group mining companies with effect from 1 April 2017, until August 2019.

1.4. LEVIES - CORPORATE TAX

Levy on Sport Betting

With effect from 1 January 2018, it is proposed to levy 5% of gross takings by bookmakers.

Effective date for Health Levy

In order to avoid retrospective collection of revenue, the 2018 Budget proposes that the Health Levy be effective from 23 March 2017 and not 1 January 2017 as previously promulgated.

1.5. TAX AMNESTY

Amnesty for Interest and penalties on outstanding taxes

It is proposed to provide for an amnesty for interest and penalties on outstanding taxes accrued prior to 1 December 2017, for taxpayers that come forward and settle their obligations within the period ending 30 June 2018.

Moratorium on tax arrears for companies assisted by the Zimbabwe Asset Management Corporation

In support of initiatives to restructure the balance sheets of companies whose debts were taken over by the Zimbabwe Asset Management Corporation, Government will consider, where warranted, a moratorium on tax arrears owed by companies that benefited from the debt assumption.

Interest on Penalties

It is proposed to repeal interest on penalties, with effect from 1 January 2018.

Exemption of Taxes and Levies on Fuel Imported for Approved Power Generation Projects

It is proposed to regularize the exemption of diesel imported for use in power generation Projects with effect from 1 January 2018.

2. VALUE ADDED TAX PROPOSALS

VAT Withholding

In order to minimise cash flow challenges on VAT registered operators, it is proposed to review the VAT withholding rate from 10% (2/3 of output tax) to 5% (1/3 of output tax) with effect from 1 January 2018.

Furthermore, VAT withholding tax will, however, not apply on transactions between compliant VAT registered taxpayers who would have been appointed as withholding agents.

VAT Exemption on Goat and Sheep Meat

It is proposed to exempt goat and sheep meat from VAT, with effect from 1 January 2018.

VAT on Capital Equipment arising from Change of Policy

The change of use of capital goods used to manufacture taxable supplies to produce exempt supplies normally results in payment of output VAT following from the input VAT that would have been claimed on the capital goods

With effect from 1 January 2018, it is proposed that no VAT will be payable where the change of use is caused by Government change of policy.

VAT exemption on financial services

Due to a drafting error, it is proposed to amend the definition of financial services to include any service provided by or on behalf of the banking institution registered or required to be registered in terms of the Banking Act (Chapter 24:20)

Penalty for failure to report malfunctioning or theft of fiscal devices

It is proposed with effect from 1 January 2018 to impose a penalty of US\$25 per device per day, up to a maximum of 181 days, for failure to report malfunctioning or theft of fiscal devices within eight hours.

2. VALUE ADDED TAX (cont'd)

Penalty for failure to report malfunctioning or theft of fiscal devices (cont'd)

It is further proposed to impose a fine not exceeding Level 7 of the Standard Scale of Fines or imprisonment for such a period not exceeding twelve months where the maximum period of 181 days has lapsed.

VAT on locally purchased goods

With effect from 1 January 2018, it is proposed to extend the Value Added Tax Refund facility on goods locally purchased for use on Approved Projects to all Development Partners, rather than applying this on a case by case basis.

It is further proposed that the refunds will be processed within a period not exceeding 30 days.

VAT on unbeneficiated Platinum

With effect from 1 January 2018, the collection of VAT on export of beneficiated platinum has been deferred to 1 January 2019.

It is proposed to reduce the export tax to 5% as follows;

Level of beneficiation	Export Tax on Un-beneficiated Platinum %
PGM Concentrate	5
White Matte	2.5
PGM and Base Metal	1
Precious Metal Refinery	0

VAT on unbeneficiated Lithium

It is proposed to impose an export tax of 5% on the gross value of unbeneficiated lithium with effect from 1 January 2019.

The rate of the export tax is staggered at rates of tax ranging from 0% to 5% depending on the level of beneficiation.

Dimensional Stones	Export Tax
Uncut	5%
Cut only	2,5%
Cut and polished	0%

VAT on unbeneficiated Black Granite

With effect from 1 January 2018, export tax at 5% will be collected on unbeneficiated black granite

3. CUSTOMS AND EXCISE DUTIES PROPOSALS

Special Duty on Airtime

The effective date for special exercise duty on airtime is 23 March 2017.

Designation of Rutenga as a Port of Entry

It is proposed to designate Rutenga as a new Port of Entry, with effect from 1 January 2018. Goods may be entered through the port in terms of section 14 of the Customs and Excise Act.

Duty on Commercial Tyres

It is proposed to ring-fence importation of 100 000 tyres at a lower duty rate of 15% for the first quarter of 2018.

Tyre Re-Treading

It is proposed to ring-fence 150 000 tyre casings imported by approved tyre re-treaders at a lower rate of duty of 15%, with effect from 1 January 2018.

Suspension of Customs Duty on Luxury Buses Imported by Approved Importers

It is proposed to extend the ring-fenced suspension of duty on the outstanding quota of luxury buses by a further 1 year.

Health Sector

The rebate facility for duty on capital equipment currently applicable to the mining, agriculture, manufacturing and power generating sectors is to be extended to approved medical institutions and medical practitioners, with effect from 1 January 2018.

Furniture Manufacturers

It was proposed to extend the list of raw materials that can be imported under the Furniture Manufacturer’s Rebate as below:

3. CUSTOMS AND EXCISE DUTIES PROPOSALS (cont’d)

Tariff Code	Description	Rate of Duty (%)
3208.90.00	Other paints and varnishes	20
3916.90.00	Of other plastics	10
3921.90.90	Other plates, sheets, film	10
3926.30.00	Fittings for furniture, coachwork or the like	40
4408.10.10	Planed, sanded or finger-jointed sheets for veneering	10
4408.10.90	Other Sheets for veneering	10
4811.9020	Paper foil for use in the manufacture of furniture	10
5507.00.00	Artificial staple fibres carded, combed. Otherwise processed for spinning.	10
5515.99.10	Canvas weighing not less than 340g/m ²	10
5515.9990	Other	10
7317.00.00	Nails	20
8302.42.00	Other, suitable for furniture	20
5515.99.10	Canvas weighing not less than 340g/m ²	10
5515.9990	Other	10
7317.00.00	Nails	20
8302.49.90	Other	20
9401.90.00	Parts of Seats	20

Bonded Warehouses

With effect from 1 January 2018, the definition of Bonded warehouse is extended to include both private and public warehouse.

For ease of monitoring, importations into Private Bonded Warehouses will be linked to the proprietors’ Business Partner Numbers, whereas Public Bonded Warehouses will be manned by ZIMRA officers.

3. CUSTOMS & EXCISE DUTIES PROPOSALS -cont'd

Dairy Industry

The supply of raw milk remains inadequate and there is need to augment supplies through importation of milk powder. It is proposed to extend the facility for another 24 months, subject to the ring-fenced milk powder requirements for the year 2017 as tabulated below;

Name of Company	Full Cream Milk Powder (kgs)	Skimmed Milk Powder (kgs)
Alpha Omega Dairy	100 000	-
Carnethy Estate (Pvt) Limited	60 000	-
Competitive Brand Shapers	80 000	-
Dairibord Zimbabwe	1 220 000	1 500 000
Dendairy	1 800 000	670 000
Gouda Gold	90 000	-
Kefalos	120 000	75 000
Kershelmar Dairies	40 000	20 000
Nestle Zimbabwe	-	300 000
Probrands	500 000	50 000

Ministry of Finance

Textile Industry

It is proposed to introduce a Fabric Specification Declaration Form that will be used in the verification of fabrics.

It is further proposed to increase Customs Duty on Cotton Fabric from 10%, to 30% plus \$2.50 per kilogram, with effect from 1 January 2018.

Fabric Structure	Woven/Weft Knitted/Warp Knitted or Non Woven
Composition	100% Cotton/100% Polyester/65%polyester & 35% Cotton etc Precise % of the fibre or yarn composition must be provided
Weight	The weight of fabric in both grams per square metre and the weight of fabric per running metre.
State	Whether the fabric is loom or greigh or unbleached state/ dyed/ bleached/printed or Yarn dyed.
Yarn Type	Whether staple fibre yarn/texturised filament yarn/ untexturised filament yarn etc

3. CUSTOMS AND EXCISE DUTIES PROPOSALS (cont'd)

Fees on Cancellation of Export Bill of Entry

It is proposed that the fee for cancellation of an export bill be reduced from the current US\$50 to US\$10, with effect from 1 January 2018.

Mandatory Pre-clearance of goods

It is proposed that mandatory pre-clearance of commercial cargo transported by road at ports of entry, be implemented with effect from 1 February 2018.

This policy will also apply where a transporter consolidates consignments imported by private individuals.

Temporary Exportation of Motor Vehicles

Motor vehicles exported temporarily to be recorded on the automated system at all border posts.

Rebate of Duty on goods imported by Development Partners under an Aid or Technical Cooperation Agreement

It is proposed to exempt goods imported by development partners under an Aid or Technical Cooperation Agreement from Customs Duty and import Value Added Tax (VAT).

Clothing Manufactures' Rebate

It is proposed to extend the clothing manufacturer's rebate facility by a period of a further two years to 31 December 2019.

Customs Duty on White Cement

It is proposed to ring-fence importation of white cement used in the production of tile adhesive by approved manufacturers at a reduced duty rate of 5%. The duty was previously at \$100 per tonne.

3. CUSTOMS AND EXCISE DUTIES PROPOSALS (cont'd)

Soap Manufacturers

It is proposed to extend the list of raw materials covered under the existing rebate scheme to include selected inputs such as caustic soda, sodium carbonate and silicate, among other base chemicals.

Exemption of Taxes and Levies on fuel imported for Approved Power Generation Projects

With effect from 1 January 2017, government will regularise the exemption of diesel imported for use in approved power generation projects from carbon tax, Noczim Debt redemption and strategic fuel reserve levies.

Suspension of Excise Duty on Raw Wine

It is proposed to extend the ring-fenced excise duty free importation of raw wine for another period of twelve months to 31 December 2018.

It further proposed to increase the quantity of imported raw wine under concession from 30 000 to 90 000 litres.

Luggage Ware Manufacturers' Rebate

With effect from 1 January 2018, it is proposed to extend the rebate facility for a further period of two years.

Rebate of Duty on Capital Goods Imported by Tourism Operators

It is proposed to extend the rebate of duty for a further period of two years to 31 December 2019.

4. INDIGENISATION & IMPOWERMENT

Suspension of Duty on Motor Vehicles Imported by Safari Operators

With effect from 1 January 2018, it is proposed to avail the suspension of duty facility for the next two years.

Ton Clinker

With effect from 1 January 2018, it is proposed to remove ton clinker from the Open General Import Licence in order to support local production.

Mattresses

With effect from 1 January 2018, mattresses are removed from the Open Import General Licence

Amendments to the Indigenisation and Economic Empowerment Act

The requirement for a 51% indigenous shareholding is now limited to businesses involved in the extraction of diamonds and platinum and will not apply to the rest of the extractive sector, nor will it apply to the other sectors of the economy which will be open to any investor regardless of nationality.

Reserved Sector

Investment in the reserved sectors will continue to be restricted to Zimbabwean citizens and entry into the sector by non-Zimbabweans will only be by special dispensation granted by government.

5. TAX RATES

No adjustments were made for the tax bands for individuals on income earned from employment, hence tax will be calculated as follows;

INDIVIDUAL TAX RATES FROM EMPLOYMENT INCOME

2018 ANNUAL PAYE TABLE				
1 st January 2018 - 31 st December 2018				
Band of Taxable Income US\$	Amount US\$	Tax Rate %	Tax US\$	Cumulative Tax US\$
1 - 3 600	3,600	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 more		50%		

Annual Ready Reckoner Table: 1st January 2018 - 31st December 2018

Band of Taxable Income US\$		Tax Rate %		Cumulative Band Deduct US\$
1 - 3 600	Multiple By	0%	Less	-
3 601 - 18 000	Multiple By	20%	Less	720
18 001 - 36 000	Multiple By	25%	Less	1,620
36 001 - 60 000	Multiple By	30%	Less	3,420
60 001 - 120 000	Multiple By	35%	Less	6,420
120 001 - 180 000	Multiple By	40%	Less	12,420
180 001 - 240 000	Multiple By	45%	Less	21,420
240 001 and more		50%	Less	33,420

Monthly Table: 1st January 2018 - 31st December 2018

Band of Taxable Income US\$	Amount US\$	Tax Rate %	Tax US\$	Cumulative Tax US\$
1 - 300	300	0%	-	-
301 - 1 500	1,200	20%	240	240
1 501 - 3 000	1,500	25%	375	615
3 001 - 5 000	2,000	30%	600	1,215
5 001 - 10 000	5,000	35%	1,750	2,965
10 001 - 15 000	5,000	40%	2,000	4,965
15 001 - 20 000	5,000	45%	2,250	7,215
20 001 and more		50%		

Monthly Ready Reckoner Table: 1st January 2018 - 31st December 2018

Band of Taxable Income US\$		Tax Rate %		Cumulative Band Deduct US\$
1 - 300	Multiple By	0%	Less	-
301 - 1 500	Multiple By	20%	Less	60
1 501 - 3 000	Multiple By	25%	Less	135
3 001 - 5 000	Multiple By	30%	Less	285
5 001 - 10 000	Multiple By	35%	Less	535
10 001 - 15 000	Multiple By	40%	Less	1,035
15 001 - 20 000	Multiple By	45%	Less	1,785
20 001 and more		50%	Less	2,785



MORE INFORMATION:

Should one of the above topics affect your current situation, or should you require further information please do not hesitate to contact us.

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