



Zimbabwe 2020 National Budget Statement Review

Taxation Proposals

14 November 2019

‘Gearing for Higher Productivity, Growth and Job Creation’

The Honourable Minister of Finance and Economic Development, Professor Mthuli Ncube presented the 2020 Zimbabwe National Budget Statement to the Parliament of Zimbabwe on 14 November 2019.

The Minister proposed a number of fiscal and other regulatory reforms aimed at job creation, productivity and economic growth and this he seeks to achieve through targeted support to industry. The Minister further states that the measures seek to enhance revenue collection through advancing the ongoing tax administrative reforms aimed at plugging revenue leakages.

The full statement may be downloaded from <http://www.zimtreasury.gov.zw/>.

Unless otherwise specified the proposals are intended to come into effect from 1 January 2020.

For clarification, please do not hesitate to contact us.

Yours faithfully,

DELOITTE & TOUCHE
TAXATION SERVICES



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Income Tax

Pay As You Earn

2019 Tax Year

It is proposed for Pay as You Earn purposes to have two tax years for the year 2019 as follows.

- 1 January 2019 to 31 July 2019; and
- 1 August 2019 to 31 December 2019.

It is proposed to change the annual rates of income tax from employment as follows:

Lower Limit	Upper Limit	Specified Percentage
0	ZWL24 000	0%
ZWL24 001	ZWL90 000	20%
ZWL90 001	ZWL180 000	25%
ZWL180 001	ZWL360 000	30%
ZWL360 001	ZWL600 000	35%
ZWL600 001+ more		40%

It is further proposed to review the annual rates of income tax where a person earns income from employment in foreign currency as follows:

Lower Limit	Upper Limit	Specified Percentage
0	USD840	0%
USD841	USD3 600	20%
USD3 601	USD12 000	25%
*USD12 001	USD10 000	30%
*USD4 800	USD36 000	35%
USD36 000+		40%

*NB: The draft finance bill appears to have an error on the last fourth and fifth tax bands.

Deemed Motoring Benefits

With effect from 1 January 2020, it is proposed to review the annual deemed motoring benefits per annum as follows:

Engine Capacity	Current Deemed Benefit	Proposed Deemed Benefit
0-1 500cc	ZWL28 800	ZWL54 000
1 501cc-2 000cc	ZWL34 400	ZWL72 000
2 001cc-3 000cc	ZWL57 600	ZWL108 000
Above 3 000cc	ZWL76 400	ZWL144 000

Remuneration in other foreign currency other than United States Dollars

Where one earns income denominated in a foreign currency other than the United States dollar, the equivalent amount in United States dollars is determined by applying the international cross rate of exchange of that currency for the United States Dollar prevailing on the day the income is received or accrued.

Remuneration paid in foreign currency and Zimbabwe Dollar

It is proposed that from 1 August 2019, the taxable income from employment of a person who receives income partly in Zimbabwe Dollars and partly in United States Dollars is taxed as if the income was all denominated in United States Dollars, with the Zimbabwe Dollar portion of the income being converted to its United States Dollar equivalent at the interbank rate prevailing when the income was received.

Bonus tax –free threshold

With effect from 1 November 2019, it is proposed to review the bonus tax-free portion from ZWL1 000 to ZWL5 000.

It appears no bonus free threshold has been set for foreign currency earners.

Taxation of retrenchment packages

With effect from 1 November 2019, it is proposed to review the non-taxable portion of the retrenchment package from ZWL10 000 to ZWL 50 000 or one third of the package up to a maximum of ZWL 60 000 whichever is greater.

It appears the minister’s intention is to increase the maximum exempt amount from ZWL60 000 to ZWL 80 000. However the bill has not changed the maximum subject to the exemption from the ZWL 60 000.

It appears no provisions have been made for foreign currency denominated retrenchment packages.

Corporate Tax

Corporate Income Tax rate

It is proposed to review the corporate income tax rate from 25% to 24%. The 3% aids levy still applies.

Payment of certain taxes in foreign currency

It appears the payment of tax in foreign currency now include the payment of royalties where royalties are settled in foreign currency.

Note, the cross referenced section 37A appears incorrect, royalties are under 37B.

Taxation of e-commerce transactions

It is proposed to review the minimum threshold for non-resident persons that provide satellite broadcasting services or facilitate trade of goods and services through electronic commerce platforms from ZWL500 000 to USD500 000.

It is further proposed that a non-resident person liable to pay tax in Zimbabwe appoints a representative taxpayer resident in Zimbabwe and must notify the Commissioner of the appointment within thirty days of becoming liable to pay the tax.

Treasury Bills

It is proposed to backdate the effective date of the exemption from Income Tax, on interest earned by financial Institutions on Treasury Bills to 24 November 2014 if the term sheet specifies that income from Treasury Bills in question was exempt from tax.

Mining Capital Allowances

It is proposed to extend the definition of expenditure on equipment to include tangible or intangible property in the form of computer software that is acquired, developed or used by a taxpayer in connection with his or her mining operations.

Interest Expenditure on foreign loans

It is proposed to disallow interest on foreign loans in excess of the interest that would have been payable at the highest interbank rate of exchange offered by any authorized dealer at the time the interest accrues.

Intermediated Money Transfer Tax:

It is proposed to increase the maximum amount applicable to the tax to ZWL1 250 000 and a maximum amount of tax of ZWL25 000.

Note that the Bill does not provide for the proposal of the minimum amount. However, the speech proposes a minimum amount of ZWL100.

Withholding Tax on local payments

It is proposed to amend the definition of “Payee” for local withholding tax purposes to further exclude a non-resident person:

- i. whose supplies of satellite broadcasting services or electronic commerce platforms are more than USD500 000; and
- ii. who is a non-executive director. The effect is that 10% withholding tax is not deducted where they do not hold a tax clearance certificate.

Withholding Tax on non-executive directors' fees

It is proposed to make withholding tax on non-executive directors' fees a final tax.

Youth Employment Tax Credit

It is proposed to introduce a tax credit of ZWL\$500 per month per employee for corporates that employ additional employees in a year of assessment. The credit will, however, be limited to a maximum of ZWL\$60 000 per year of assessment. The proposed effective date in the speech is 1 January 2020, however there is no effective date in the Finance Bill.

The tax credit can be enjoyed by employers who meet the following conditions:

- The company should be registered for Personal Income Tax and compliant for the preceding tax period;
- Tax credit will only be claimed after the additional employee has served a period of 12 consecutive months;
- Employees should be aged 30 years and below at the time of employment;
- For the purposes of the incentive, “employee” excludes a trainee, intern and apprentice;
- The minimum wage payable to new employees should be at least ZWL\$2 000 per month;
- The tax credit will not apply to supervisory grades; and,
- The tax credit will not apply to corporates with a turnover exceeding an equivalent of US\$1 million.

Tax Exemption on Venture Capital Financing

The following conditions have been proposed for venture capital companies to qualify for tax exemption:

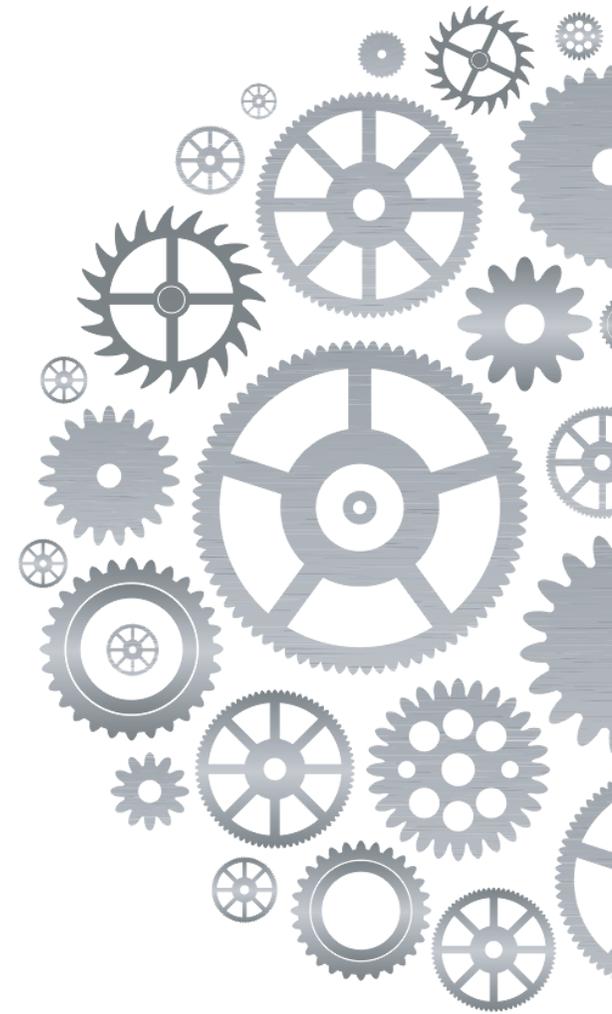
- The Venture Capital Fund or company as well as the Recipient Company should be residents and also be tax compliant;
- The Recipient Company should not be listed on the stock exchange;
- Recipient Companies should be in critical sectors of the economy, in particular, agriculture, mining, manufacturing and tourism;
- The Venture Capital Fund or company should not control (directly or indirectly through a related entity) a Recipient Company in which it holds shares; and
- Recipient Companies should primarily be financed through equity as opposed to debt.

The Venture Capital Fund shall not benefit from tax exemption if they invest in the following:

- Trade carried on in respect of immovable property;
- Trade carried on by financial institutions;
- Trade carried on in respect of financial or advisory services, including trade in respect of legal services, tax advisory services, stock broking services, management consulting services, auditing or accounting services; and
- Trade carried on in respect of gambling.

Transfer Pricing

It appears the draft Bill has an error suggesting the repealing of paragraph 5 of the 35th Schedule. We however note that paragraph 4 (5)(e) is a repetition of paragraph 4 (5)(d) and we believe the Bill intended to address the duplication.



Value Added Tax

Rates of tax

It is proposed to reduce the standard rate of VAT from 15% to 14.5%.

Input tax

The Minister proposes to amend the definition of “input tax” to include VAT on imported services. Therefore, this can now be claimed where it has been paid and an invoice is issued by the supplier.

** Note that the bill makes reference to section 15 (2) (a) instead of section 15 (2)*

Certain imported services deemed to be locally supplied

The Minister proposes to levy VAT on the supply, in Zimbabwe, of radio and television services or of electronic services from an electronic commerce operator domiciled outside Zimbabwe.

The obligation to charge and account for tax will rest with the supplier or his or her appointed representative in Zimbabwe.

The importation of such services is deemed to be a supply made in Zimbabwe and therefore not subject to VAT on imported services.

- *Note that the bill refers to section 38 instead of section 13.*

VAT arising from change of use

Finance Act 1 of 2018 amended section 17(1) by the insertion of a proviso which excludes the collection of VAT in cases where the nature of supply is changed through an amendment of the VAT Act (i.e. reclassification of a supply from taxable to exempt).

The Minister proposes to change the effective date of the above mentioned amendment from 14 March 2018 to 1 January 2014 to align the amendment to the date of reclassification of the goods.

Capital Gains Tax

Payment in respect of the disposal of a marketable security shall be deemed to be in foreign currency unless the seller provides documentary proof issued by:

- a registered stockbroker who mediated the transaction; or
- a financial institution through which the sale was effected;
- showing that the security in question was sold for Zimbabwe dollars.

If proof is not available, the Capital Gains Tax calculated therefrom shall be payable in foreign currency.

Mining Royalties

The rate of royalties on sale of diamonds is to be reduced to 10% from 15%. No royalty will be payable in respect of diamonds sold to a local manufacturer at a discount equivalent to the royalty.

A royalty of 2% will be payable on black granite and other cut or uncut dimensional stone with effect from 23 February 2019.

Other changes in Legislation

Revenue Authority Act

The Minister proposes to exclude penalties or charges and interest imposed at the discretion of the Commissioner in the calculation of rewards to whistle blowers.

The Minister proposes to reduce the maximum number of days on which fines for late submission of returns is calculated to 91 days from 181 days.

Customs & Excise Act

Rates of exchange: conversion of foreign currency

It is proposed to provide for the conversion of the value or cost in foreign currency of any imported goods into local currency using the designated customs rates of exchange applicable on the day of entry of the goods.

It is also proposed to provide for the conversion of specific rates of duty expressed in United States Dollars in the Customs & Excise Tariff Handbook into Zimbabwe Dollars at the prevailing customs exchange rate on the date of Customs clearance.

Exchange Control Act

A new section in the Exchange control Act grants the President the power to enforce the exclusive use of the Zimbabwe dollar for domestic transactions providing for civil penalties in respect of non-compliance.

Proposals in the Speech but not in the Finance Bill

PAYE

Proposal to exempt from tax on deemed motoring benefits executives of grant aided institutions entitled to condition of service vehicles, on condition that their remuneration is pegged to equivalent civil service grades.

Income Tax

Since their tax is collected on a gross basis the Minister proposed to remove legislative reference to assessed losses in the computation of taxable income of non-resident person that provides satellite broadcasting services or facilitates trade of goods and services through electronic commerce platforms.

Intermediated Money Transfer Tax (IMTT)

- The obligation to pay IMTT rests on the person undertaking the transaction, not the mediator, hence financial institutions will withhold and remit the tax to ZIMRA.
- It is proposed to exempt from IMTT, social transfers by Development Partners accredited in terms of the Privileges and Immunities Act [Chapter 3:03].
- Furthermore, for the avoidance of doubt, all other bulk payments through mobile *Money Banking Platforms* attract intermediated money transfer tax.

Value Added Tax

The Minister propose to increase the VAT threshold from ZWL60 000 per annum to ZWL1 000 000 per annum.

Capital Gains Tax

Minister propose to exempt from capital gains tax donations of houses to community development trusts from capital gains tax.

Customs & Excise Duty

Support to Industry

- **Suspension of Duty on Semi-Knocked Down (SKD) Kits**

Government has proposed to remove SKD kits from the specified list of goods liable for duty in foreign currency and the Facility has been extended for a further 3 years, beginning, 1 December 2019.

- **Paint Manufacturing Industry**

In order to promote price competitiveness of paint manufacturers, the Minister has proposed to ring-fence under suspension of excise duty, 150 000 litres, per month, of illuminating power kerosene imported by Approved Paint Manufacturers, with effect from 1 January 2020, for a period of 12 months.

- **Small Scale Furniture Manufacturers**

In order to promote growth and formalisation of small scale manufacturers, a Duty Refund Facility has been proposed, whereby Small Scale Furniture Manufacturers pay duty on imported raw materials, and claim it on a quarterly basis with effect from 1 January 2020.

- **Pharmaceutical Manufacturers Rebate**

It is proposed to provide for additional raw materials to be imported under *Rebate of Duty*, with effect from 1 January 2020 as follows.

Additional Raw Materials under the Pharmaceutical Manufacturers Rebate

Tariff Code	HS Description
2817.00.00	Zinc Oxide/Zinc Peroxide
2839.90.00	Other Silicates
2909.49.00	Other ether, alcohols
2933.39.90	Other
2935.90.00	Sulphonamides
3204.17.00	Pigments and preparations
3206.49.00	Colourants and Dyes
3912.39.90	Other Cellulose Acetates
3912.90.00	Other Cellulose Ethers

- **Dairy Industry**

Suspension of Duty on Milk Powder

In order to enhance the production of milk powder it is proposed, with effect from 1 January 2020 to extend duty suspension on milk powder for the year 2020, as follows.

Ring-fenced Allocation under Suspension of Duty on Milk Powder

Name of Dairy Processor	Proposed Allocation for 2020	
	FCMP (Kg)	SMP (Kg)
Dairibord Zimbabwe (Pvt) Ltd	500 000.00	1 000 000.00
Dendairy (Pvt) Ltd	1 000 000.00	100 000.00
Machiareer Inv (Pvt) Ltd	75 000.00	-
Carnethy Estate (Pvt) Ltd	50 000.00	-
Kershelmar Dairies (Pvt) Ltd	100 000.00	100 000.00
Gouda Gold T/A Yomilk	100 000.00	100 000.00
Prodairy (Pvt) Ltd	1 500 000.00	-
Kefalos Cheese Products	100 000.00	175 000.00
Milkzim (Pvt) Ltd	10 000.00	-
Alpha Omega Dairy	90 000.00	30 000.00
Competitive Brand Shapers T/A CBS	100 000.00	-
Humara Foods	40 000.00	-
Sedgemoor Dairies	50 000.00	-
Nestle Zimbabwe (Pvt) Ltd	-	300 000.00

Suspension of Duty on Raw Cheese.

The Government has proposed to suspend duty on ring-fenced quantities of raw cheese, amounting to 25 000 kgs per month, for a period of 12 months beginning 1 January 2020.

- **Clothing Manufacturers' Rebate**

The Clothing Manufacturers Rebate facility is proposed to be extended for a further 2 years, beginning 1 January 2020, in order to lower the cost of production.

- **Luggage Ware Manufacturers' Rebate**

The rebate is proposed to be extended by a further period of 2 years beginning 1 January 2020. The rebate of duty is also proposed to be extended to include input materials and components used in the production of handbags.

- **Suspension of Excise Duty on Raw Wine**

The excise duty free ring-fenced import quota is proposed to be increased from 175 000 litres to 200 000 litres of raw wine for a period of 2 years effect from 1 January 2020.

- **Tourism Industry**

- i. *Rebate of Duty on Capital Equipment*

In order to assist operators to mobilise funding for rehabilitation and acquisition of capital equipment, the Minister of Finance has proposed to extend the Rebate of Duty on Goods of Capital Nature used in the Tourism Industry by a further 3 years with effect from 1 January 2020.

- ii. *Suspension of Duty: Safari Operators*

It is proposed to extend the Suspension of Duty on motor vehicles used by Safari Operators for game views and drives for 24 months, beginning 1 January 2020.

- iii. *Suspension of Customs Duty on Vehicles: Car Hire Companies*

In order to reduce the replacement cost and also facilitate expansion of car rental fleet, it is proposed to introduce a Suspension of Duty facility to car hire companies for a period of 12 months beginning 1 January 2020.

The conditions of suspension of Duty are as follows;

- Beneficiaries of this facility should have been registered with the Zimbabwe Vehicle Rentals Association and the Zimbabwe Tourism Business Council for a minimum of three years.
- The Suspension of Duty facility will also be restricted to new vehicles and the ring-fenced allocation is as follows:
 - 50 light passenger motor vehicles of CIF values not exceeding US\$50 000; and,
 - 30 shuttle buses of a carrying capacity of between 8–60 passengers.
- The ring-fenced allocation will be determined by the size of business based on previous tax returns, and also limited to a maximum of 5 vehicles per operator.

- iv. *Suspension of Customs Duty on Specified Vehicles: Tour Operators*

The Minister has proposed to extend the Suspension of Duty on the remaining 56 vehicles for a further 1 year beginning 1 January 2020.

- v. *Cross-Border Luxury Coaches*

It is proposed to extend the suspension of duty on the outstanding quota of luxury buses for a period of 12 months, taking into account developments in the motor industry.

- vi. *Public Services Buses (Capacity 60 Passengers)*

In order to assist the bus operators to replenish their fleet, the Government has proposed to extend the importation of 100 buses at a rate of Customs Duty of 5% for 12 months beginning 1 January 2020.

The allocation of the ring-fenced quota will be determined by the size of businesses based on previous tax returns, but limited to a maximum of 5 buses per operator.

Other Measures

• Excise Duty on Tobacco

It is proposed to increase the rate of Excise Duty from the specific rate of ZWL\$50 per 1 000 cigarettes to ZWL\$100 per 1 000 cigarettes, with effect from 1 December 2019, in line with global trends.

• Immigrants Rebate

The Minister proposed to limit the value of imported vehicles by returning student to USD5 000 with effect from 1 January 2020.

• Export Tax on raw hides

The Minister proposes to extend the suspension of export tax on the export of excess raw hides for a further 2 years with effect from 1 January 2020.

• Exemption of Duty on Alternative Energy Sources

Customs duty on Solar Home Lighting Kits (Solar Home Systems), Light – Emitting Diode (LED) Lamps and Solar Street Lights is proposed to be removed.

• Exemption of Customs Duty on Sanitary Wear

Duty exemption on sanitary wear is proposed to be extended for a period of twelve months with effect from 1 January 2020. The customs duty exemption is proposed to be extended to sanitary cups and pants on the list of duty free products.

• Rebate of Duty Facility on Motor Vehicles Imported by Serving Public Servants

The rebate of duty is proposed to be amended with effect from 01 January 2020 to include the following additional conditions;

- i. Only motor vehicles purchased from traceable and registered Car Dealers shall be eligible for rebate of duty;
- ii. Provide for the requirement for proof of source of funds where Treasury has reservations;
- iii. In cases of suspected undervaluation, ZIMRA will revalue the motor vehicle in line with the existing Customs Valuation regulations; and,
- iv. Variations in the maximum import values, depending on Grade as follows:

Grade of Senior Public Servant	Maximum Amount (US\$)
B1 – B5 or equivalent	3 500
C1 – C5 or equivalent	5 000
D1 – D5 or equivalent	7 500
E1 – E3 or equivalent	10 000

Failure to meet the above additional conditions will result in disqualification of applications.

- **Rebate of Duty on Goods Imported for Use in Approved Projects**

In order to ensure transparency and accountability in the utilization of the Facility, it is proposed to grant rebate of duty subject to fulfilling the following additional conditions with effect from 1 January 2020.

- i. Completed Feasibility Studies endorsed by the responsible Ministry;
- ii. Proof of funding for the project;
- iii. Evidence of the physical place of business where the project will be undertaken; and
- iv. Compliance to regulatory requirements such as Environmental.

The rebate of duty shall not be extended to beneficiaries who fail to demonstrate utilization of previous concessions.

- **Regulation of Clearing Agents**

The period to acquire a recognised diploma with a recognised academic institution or professional body which is expiring on 31 December 2019 is proposed to extend for another twelve months to 31 December 2020 to allow directors, managers, partners and employees of clearing agents to finalise their studies.

Designation of Port of Entry and Customs House

- **Mlambapele Port of Entry**

It is propose to upgrade the port of entry from an official entry and exit point to a designated port of entry with effect from 01 December 2019.

The Port of Entry is proposed to operate from 7.30 am to 4.30 pm daily, thus, aligning to the operating times of the adjacent Border Post.

- **Gwanda Customs House**

In line with the ease of doing business and in order to reduce customs compliance costs of clients such as Blanket Mine, Vambachikwe and Portland Cement, the Minister of Finance is proposing to appoint a Customs House in Gwanda with effect from 01 December 2019.

- **Customs Dry Ports**

In order to reduce congestion and improve trade facilitation in particular at Beitbridge and Forbes ports of entry, government has proposed to designate Customs Dry Ports in Masvingo, Bulawayo, Makuti and Mutare.

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