KPMG

GMS Flash Alert

2017-068 | April 14, 2017

Zimbabwe – New Finance Act Contains Some Measures Affecting Individuals

Zimbabwe's Finance Act 2 of 2017 took effect upon its publication Government Gazette No. 18 of 24 March 2017.

The Act contains provisions concerning individuals that affect the taxation of severance, rental income, pension pay-outs, various tax credits, employee fringe benefits, nonresident directors' fees, and permanent establishment.

In most cases, the effective date for these measures is 1 January 2017.

We highlight some of these measures in this GMS *Flash Alert*.

WHY THIS MATTERS

While there have been no significant changes in the taxation of individuals, including employees on international assignment, it is important to be aware of the few changes the Finance Act introduced and to make adjustments – to payroll and to compliance – where appropriate.

However, there are important changes affecting fees paid to nonresident board directors that will lighten the tax burden on such directors.

Also, with the introduction of a defined "permanent establishment" provision in Zimbabwean tax law, awareness needs to be raised around the possibilities of exposing the home company to the risk of establishing a taxable presence in Zimbabwe when it sends employees into Zimbabwe to perform work on behalf of the home company.

© 2017 KPMG Zimbabwe, a Zimbabwe partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss cooperative. All rights reserved.

Background

The Finance Act 2 of 2017, embodies the measures contained in the budget announced by the Minister of Finance and Economic Development on 8 December 2016.

Main Measures Affecting Individuals and Their Employers

Permanent Establishment

The definition of permanent establishment has been introduced into the Income Tax Act with respect to income earned by nonresidents who perform employment services within Zimbabwe, where this is not already captured by an existing Double Taxation Agreement.

Double Taxation Agreements in general specify that income earned from the performance of employment services for a period exceeding in the aggregate 183 days during a 12-month period within Zimbabwe is taxable in Zimbabwe.

Payment of Fees to Nonresident Directors

Payment of fees to nonresident directors currently attracts withholding taxes at 20 percent in accordance with the 33rd Schedule (Tax on Non-Executive Director's Fees), and at 15 percent in accordance with the 17th Schedule (Nonresidents' Tax on Fees). In order to eliminate double taxation of the same income, board fees accruing to non-executive directors are exempt from the nonresidents tax on fees with effect from 1 January 2017. As such, their board fees are only subject to the 20-percent withholding tax in accordance with the 33rd Schedule to Income Tax Act (Chapter 23:06).[1]

Special Economic Zones – Measure Affecting Expatriate Employees

Specialised expatriate staff working for an employer with a Special Economic Zone investment license are to enjoy a preferential flat-tax rate at 15 percent with effect from 1 January 2017.

The "investment license" means an investment license issued in terms of Special Economic Zones Act (Chapter 14:34) issued by statutory instrument number 7 of 2016.

"Special Economic Zone" means any part of Zimbabwe declared as such in terms of the Special Economic Zones Act (Chapter 14:34) issued by statutory instrument number 7 of 2016.

Remittance Incentive

The Reserve Bank of Zimbabwe has incentivized the remittance of funds from overseas into a local bank account channeled through any authorized dealer by crediting the respective bank accounts with a 5-percent incentive. This incentive will apply to remittances received by expatriates and will be exempt from income tax.

Any Other Employment Income (Excluding from Special Economic Zones)

<u>Income Tax Rates and Thresholds</u>

The income tax bands, by which rates of tax are charged, in respect of income from employment are presented below.

- The tax-free band remains at US$3,600 per annum or US$300 per month.

© 2017 KPMG Zimbabwe, a Zimbabwe partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss cooperative. All rights reserved.

- The upper income tax bands remains at US$240,000 per annum or US$20,000 per month. The effective maximum rate of tax (including AIDS levy) is 51.75 percent

There is no change in 2017 as compared with 2016 to the income tax bands.

2016 and 2017 Annual Tax Tables					
US$		**US$**	**US$**		**US$**
0	-	3,600	-		-
3,601	-	18,000	-	20% of excess	3,600
18,001	-	36,000	2,880 +	25% of excess	18,000
36,001	-	60,000	7,380 +	30% of excess	36,000
60,001	-	120,000	14,580 +	35% of excess	60,000
120,001	-	180,000	35,580 +	40% of excess	120,000
180,001	-	240,000	59,580 +	45% of excess	180,000
240,001	-	and over	86,580 +	50%of excess	240,000

Notes: (a) There is a 3% AIDS levy on tax – effective top rate of 51.50%
(b) The table above applies to tax payable by individuals, deceased or insolvent estates and estates of individuals under legal disability.
Source: Finance Act Chapter (23:04).

The maximum tax-free bonus remains at US$1,000.

The tax-free amount allowed in respect of severance income will be the higher of US$10,000 or 1/3 of the severance income, up to a maximum of 1/3 of US$60,000.

Rental income and interest from discounted instruments and deposits earned by elderly persons (a person above 55 years) is exempt from income tax up to a maximum of US$250 per month in respect of each class of income (rent; deposit interest; discounted instruments income).

With effect from 1 January 2016, the tax-free amount permitted in respect of pension income received from the Consolidated Revenue Fund or a pension fund other than a "retirement annuity fund," by a person below the age of 55 years will be the higher of US$10,000 or one-third of the income received, up to the maximum of a third of US$60,000.

Pension income paid from a pension fund or Consolidated Revenue Fund to elderly taxpayers (who are 55 years old or more) is exempt from income tax.

Tax Credits

Medical Expenses

- Invalid appliances, including spectacles (not allowable to nonresidents): 50 percent of cost.
- Medical aid society contributions: 50 percent of cost.
- Other medical expenses, including drugs (not allowable to nonresidents): 50 percent of cost.

Elderly Persons

Persons aged above 55 years or more: US$75 per month.

Incapacitated Persons

- Blind person (not allowable to nonresidents): US$75 per month.
- Disabled person (not allowable to nonresidents and any portion of these credits not used by a married person shall be allowed as a deduction from the income tax of his or her spouse): US$75 per month.

© 2017 KPMG Zimbabwe, a Zimbabwe partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss cooperative. All rights reserved.

- Disabled child (for each) (not allowable to nonresidents and any portion of these credits not used by a married person shall be allowed as a deduction from the income tax of his or her spouse): US$75 per month.

Employee Benefits

- Unless specifically provided for in the Income Tax Act, fringe benefits are taxed in the hands of the employee based on the cost to the employer.

  1. Where a loan or an advance is provided by the employer, the employee taxable benefit is based on a deemed interest at LIBOR plus 5 percent per annum where the loan exceeds US$100. The taxable value is reduced by any interest paid by the employee to the employer on the loan.

     Interest on loans for education, technical training, or medical treatment for the employee, his or her spouse or child, is not subject to income tax.

  2. Where accommodation is provided by the employer, the employee taxable benefit is based on the open-market rental if the accommodation is in urban areas and 7 percent of the cost of the house per annum or 12.5 percent of the basic salary per annum if the accommodation is outside urban areas. The taxable value is reduced by any rental paid by the employee to the employer.

  3. Where an employee has use of a "holiday home," the benefit is calculated based on the open-market rental that would have been charged for the holiday accommodation. The taxable value is reduced by any rental paid by the employee to the employer.

  4. Where furniture and other assets are provided by the employer, the employee taxable benefit is based on 8 percent of the cost of the assets per annum. The taxable value is reduced by any rental paid by the employee to the employer.

  5. Passage benefit (i.e., relocation allowance including airfares) on taking up employment and on termination of employment as well as for travelling to obtain medication is exempt from tax. However, the cost of travelling back to the home country during a period of employment and visiting other countries other than on business is taxable. The cost of travelling on employers' business is not a taxable benefit.

  6. The cost of medical aid contributions and medical expenses incurred by the employer is not a taxable benefit.

  7. 50 percent of tuition fees, schools levies, and boarding fees are exempt from tax for up to three children of teaching and non-teaching school staff where the employee is entitled to free education for his or her children.

  8. Unlimited private use of an employer's motor vehicle triggers a taxable benefit determined by reference to the following standard annual benefits:-

Motoring benefits			Per annum
Engine Capacity			**US$**
0	-	1,500	3,600
1,501	-	2,000	4,800
2,001	-	3,000	7,200
Not exceeding	-	3,000	9,600

Source: Finance Act Chapter (23:04).

FOOTNOTE:

1 Please refer to the Finance Act 3 of 2017 and Income Tax Act (Chapter 23:06) for detailed information.

© 2017 KPMG Zimbabwe, a Zimbabwe partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss cooperative. All rights reserved.

* * * *

For more details on the Zimbabwe budget, see "The Zimbabwe National Budget 2017," a publication of the KPMG International member firm in Zimbabwe.

© 2017 KPMG Zimbabwe, a Zimbabwe partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss cooperative. All rights reserved.

Contact us

For additional information or assistance, please contact your local GMS or People Services professional or one of the following professionals with the KPMG International member firm in Zimbabwe:

Vinay Ramabhai
Tel. +263 04 302600
vramabhai@kpmg.com

Virginia Mutsago
Tel. +263 04 302600
vmutsago@kpmg.com

The information contained in this newsletter was submitted by the KPMG International member firm in Zimbabwe.

© 2017 KPMG Zimbabwe, a Zimbabwean partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

www.kpmg.com

kpmg.com/socialmedia

The KPMG name and logo are registered trademarks or trademarks of KPMG International.

The KPMG logo and name are trademarks of KPMG International. KPMG International is a Swiss cooperative that serves as a coordinating entity for a network of independent member firms. KPMG International provides no audit or other client services. Such services are provided solely by member firms in their respective geographic areas. KPMG International and its member firms are legally distinct and separate entities. They are not and nothing contained herein shall be construed to place these entities in the relationship of parents, subsidiaries, agents, partners, or joint venturers. No member firm has any authority (actual, apparent, implied or otherwise) to obligate or bind KPMG International or any member firm in any manner whatsoever. The information contained in herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

Flash Alert is a GMS publication of KPMG Zimbabwe's Tax practice. To view this publication or recent prior issues online, please click here. To learn more about our GMS practice, please visit us on the Internet: click here.

© 2017 KPMG LLP, a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. Printed in the U.S.A. NDPPS 530159