



# Zimbabwe 2018 National Budget

## Taxation Proposals

### *"Towards a New Economic Order"*

The Hon, Minister of Finance and Economic Development P.A. Chinamasa presented the 2018 Zimbabwe National Budget Statement to the Parliament of Zimbabwe on 7 December 2017.

The Minister proposes a number of fiscal and other regulatory reforms envisaged to incentivize compliance and encourage investments in all sectors of the economy. The reforms recognise agriculture and the mining sectors as pivotal to the restoration of Zimbabwe's economy. Included in the reforms are fiscal measures to incentivize transfer of skills to smallholder farmers and amendment of the indigenisation legislation to relax restrictions on foreign investments in mining and other sectors.

We summarize herein the proposed fiscal measures and where applicable certain other matters of relevance. These proposals are still to be legislated as such may be subject to change and accordingly this document can only be used for information purposes. If you need any further clarification, please do not hesitate to contact us. 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 2018.

Yours faithfully,

DELOITTE & TOUCHE  
TAXATION SERVICES

# Income Tax

## Employee Tax (PAYE)

No changes

## Corporate Tax

### Deductibility of Prepaid Expenditure

Currently the deduction of prepayment of goods or services has been subject to various interpretation and/or tax treatment. The draft finance bill proposes to exclude expenditure that constitutes prepayment of goods, services or benefits relating to subsequent years of assessment. The prepaid amounts will be deductible in the respective years there are expensed or utilized.

### Anchor Farmer Incentive

To incentivize financial and technical support to small holder farmers it is proposed to avail an additional deduction of fifty per centum (50%) of the amount of any expenditure relating to technical and support services that is incurred by the a taxpayer who is an 'anchor farmer' to a smallholder farmer during the year of assessment .

An anchor farmer is defined as a person engaged in commercial farming, who provides inputs, agronomic advice and marketing opportunities to a group of smallholder farmers.

### Thin Capitalization

Zimbabwe currently imposes a thin capitalization restriction on the deduction of costs associated with debt (interest and other costs of borrowing) where the debt to equity ratio exceeds 3:1.

In recognition of the need to recapitalize companies, it is proposed to exclude from the application of the rule local borrowings provided that the contracting parties are non-related i.e. not associates.

The draft bill proposes to define the term 'equity' to mean, issued and paid-up capital, unappropriated profits, reserves, realised reserves and interest-free loans from shareholders.

### Recovery of taxes

As a measure to hold directors accountable for the tax affairs of companies they represent, it is proposed in the following circumstances that directors would be held jointly and severally liable for any tax due and payable:

If a company (the "old company") is wound up voluntarily, whether in Zimbabwe or in its country of incorporation, and—

(a) The directors of the old company incorporate or register another company or other entity (hereinafter called the "new company or entity") that carries out substantially the same business as the old company; or



(b) The whole or a substantial part of its business and property wherever situate is transferred to another company or entity which will be or has been formed, incorporated or registered under any law.

#### \*<sup>1</sup>Withholding Tax on Contracts

10% withholding tax on contracts will not apply on the purchase of tobacco on the auction floor or contract tobacco where the farmer or seller does not hold a valid tax clearance certificate (ITF263). This proposal applies to cases in which tobacco levy is payable.

#### Export Incentive Exemption

With effect from 1 June 2016 and every subsequent tax year, (retrospective effect) export incentive receipts are exempt from Income Tax.

#### Special Mining Lease (Residential and Health Facilities)

In recognition of the efforts in developing communities in mining areas it is proposed to increase the deductible expenditure on residential units and clinics to \$25 000 and \$150 000 respectively for expenditure incurred on or after 1 January 2018 .

#### \*Power Generation Exemption

The demand of electricity is expected to rise on the back of anticipated growth in the economy. To facilitate investment in the power-generating project it is proposed to avail a 5-year tax holiday to licensed power generating projects. Thereafter, a corporate tax rate of 15% will apply.

#### \*Income tax deduction of input tax

Amounts claimed as an input tax refund will not be claimed as an income tax deduction against capital goods or any other expenditure. We believe this has always been the case but the proposal seeks to clarify any misinterpretation or application of the legislation.

#### \*Presumptive Tax - Designation of Collecting Agents

It is, proposed to remove the requirement for a contract between ZIMRA and agencies appointed to collect presumptive taxes.

#### \*Sports Betting Levy

Upon recognition of the increased income generation from sport betting a 5% levy on gross takings from bookmakers is proposed.

# Value Added Tax (VAT)

## Exportation tax on un-beneficiated platinum

The implementation of this tax has been postponed to 1 January 2019. The export tax rates will be applied on a sliding scale dependent on stage of beneficiation.

Rate of tax on value of minerals	Stage of beneficiation
5%	The miner has built a plant in Zimbabwe capable producing platinum group concentrates
2.5%	In addition to the plant (concentrator) above, the miner has built a smelter to produce matte
1%	In addition to the concentrator and smelter, the miner has built in base metal refinery
-	In addition to the concentrator, smelter, base metal refinery, the miner has built a precious metal refinery

## \* Export tax on lithium

The 2018 budget proposes to impose an export tax of 5% on the gross value of exported lithium.

## \*Export tax on un-beneficiated dimensional stones

To encourage beneficiation of dimensional stones such as granite, it is proposed to impose a staggered export tax on the export of un-beneficiated dimensional stones as follows:

Dimensional stone	Uncut	Cut only	Cut and polished
Export tax	5%	2.5%	-

## \*Exemption of certain goods

The following products will be exempt from VAT:

Sheep and Goat meat

## \*Withholding tax on VAT

It is proposed to reduce the rate of VAT withholding tax applied by appointed agents from 2/3 to 1/3 of the output tax.

## Clarity on VAT exemption of financial services

Following inclusion of services provided by banking agents and providers of mobile banking /payment platforms into the definition of financial services, the definition of financial services has been clarified to include : any service provided by or on behalf of a banking institution registered or required to be registered in terms of the Banking Act [Chapter 24:20]



### \*VAT Adjustment on Change in Use

VAT registered operators are allowed to claim input VAT on capital goods used to manufacture taxable supplies. However, in circumstances where the manufacturer changes use of the capital goods to produce exempt supplies, the plant and equipment is deemed to have been disposed, hence output VAT is payable.

The decision by Government to exempt previously zero-rated supplies, such as margarine, eggs, rice and meat implies that plant and equipment used by registered operators was deemed to have been disposed, resulting in an unplanned output VAT liability. In order to mitigate the impact of the VAT liability on affected suppliers, it is proposed that the deeming provision shall not apply where change of use is emanating from Government policy.

### \*Value Added Tax on Locally Purchased Goods

It is proposed to extend the Value Added Tax Refund facility on goods locally purchased for use on Approved Projects by all Development Partners.

The refund facility will also be provided to Agents who are contracted by such Development Partners.

Refunds should be processed within 30 days



# Customs and Excise

## Customs Duties, Incentives and Controls

### \*Cement Manufacturing Industry

In order to reduce the cost of production, 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 local cement manufacturing industry has adequate capacity to produce ton clinker, which is the key raw material in cement manufacturing. It proposed to remove ton clinker from the Open General Import Licence in order to support local production.

### \*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.

### Duty on Tyre Casing

It is proposed to ring-fence 150 000 tyre casings imported by approved tyre re-treaders at a lower rate of duty of 15%.

### \*Rebate on medical equipment

To facilitate restoration of the medical services infrastructure it is proposed to extend the rebate of duty facility on capital equipment imported by approved medical institutions and practitioners.

### \*Customs Duty on Luxury Buses

In an effort to continue encouraging local operators that service cross border routes to register luxury buses locally, it is proposed to ring-fence suspension of duty on outstanding quota of luxury buses for a further 1 year.

### \*Furniture Industry

In support of local production, Government introduced the Furniture Manufacturer's Rebate with effect from 1 January 2016. It is proposed to extend the list of raw materials that can be imported under the Furniture Manufacturer's Rebate.

### \*Dairy Industry

It is proposed to extend the suspension of duty on powdered milk facility for a period of twenty-four months, in order to augment insufficient domestic production of raw milk.

### \*Textile and clothing Industry

In order to minimise false declaration, the Minister proposes 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.

The clothing manufacturers' rebate, which was availed by Government with effect from 1 January 2016, will be extended for a further two years beginning 1 January 2018.

#### \*Tourism Sector

The tourism rebate on motor vehicles availed to approved safari operators will be extended by a further two years beginning 1 January 2018.

#### \*Soap Manufacturers

It is proposed to include under the soap manufacturers' rebate scheme, selected inputs such as caustic soda, sodium carbonate and silicate, among other base chemicals for soap manufacturers.

#### \*Rebate of Duty on Goods Imported by Development Partners under an Aid or Technical Cooperation Agreement

It is proposed that goods imported by Development Partners under an Aid or Technical Cooperation Agreement be exempt from Customs Duty and import Value Added Tax (VAT).

#### Excise Duty

##### \*Raw Wine

In an effort to avoid double taxation on imported raw wine, it has been proposed to increase suspension of excise duty on importation of raw wine from 30 000 to 90 000 liters under the ring-fenced facility for approved manufacturers for another one year beginning 1 January 2018.

#### Application of special excise duty on airtime

The effective date of the additional 5% special excise duty on airtime designated as a health service levy is clarified in the draft finance bill. This is effective from 23 March 2017.

#### Administration

##### Bonded Warehouses

The definition of bonded warehouse has been expanded to scope in any warehouse for securing goods imported by a private proprietor ("private warehouse") or any warehouse securing goods imported by one or more importers ("public warehouse").

##### \*Enhanced Security at Beit Bridge Border Post

In order to decongest the Beit Bridge Border Post, Government has installed a Closed Circuit Television system, which monitors adherence to border procedures by ZIMRA and other agencies. In addition, security forces will be deployed to remove touts, vendors and beggars from the Customs Controlled Area.

##### \*Temporary Exportation of Motor Vehicles

It is proposed to automate the recording of vehicles exported temporarily.

#### \*Penalty for Failure to Report Malfunctioning or Theft of Fiscal Devices

It is proposed 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. 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.

ZIMRA will, thus, be expected to develop a platform to facilitate reporting of faulty or stolen devices.

#### \*Ports Authority

In order to enhance efficiency at Ports of Entry, Government is in the process of establishing a National Ports Authority, whose mandate is to maintain infrastructure and manage the administrative affairs of Border Posts, among others.

#### \*Pre-clearance of goods

In order to ease congestion, which is a major barrier to trade, it is proposed that mandatory pre-clearance of commercial cargo transported by road, be implemented with effect from 1 February 2018.

#### \*Incentive for Approved Power Generation Projects

It is proposed to regularise the exemption of diesel imported for use in approved power generation projects from Carbon tax, NOCZIM Debt redemption levy and Strategic Fuel Reserve levies, with effect from 1 January 2017.



### Other short term measures

To improve entry and exit efficiencies Government is, implementing the following short-term measures:

- Full roll out of the Electronic Cargo Tracking System;
- Connection of electronic manifest control system to the ASYCUDA World Server;
- Harmonisation of Container Depot operations to 24 hours in line with the Border Post operating hours;
- Connection of mobile scanners to ASYCUDA World Server in order to enable real time entry and timely acquittal of goods;
- Relocation of passenger buses carrying commercial cargo to a transit shed for purposes of clearance. This assists to provide convenience to travelers with nothing to declare;
- Implementation of the e-customs initiative for the advance clearance and online payment of relevant charges for tourist motor vehicles;
- Enhancement of the current status where searches are conducted at a single bay by all agencies, thereby minimising delays and inconveniences arising from multiple searches;
- Implementation of a single and central payment window for duty, fees and other charges;
- Installation of a public address system to facilitate efficient clearance of travellers;
- Construction of a customs barrier that is accessed through an electronic control;
- Installation of an electronic system that sequences and notifies the next person to be served;
- Construction of a shed for storage of seized vehicles; and
- Construction of a clearance booth and post signage.



# Mines and Minerals

## Royalties

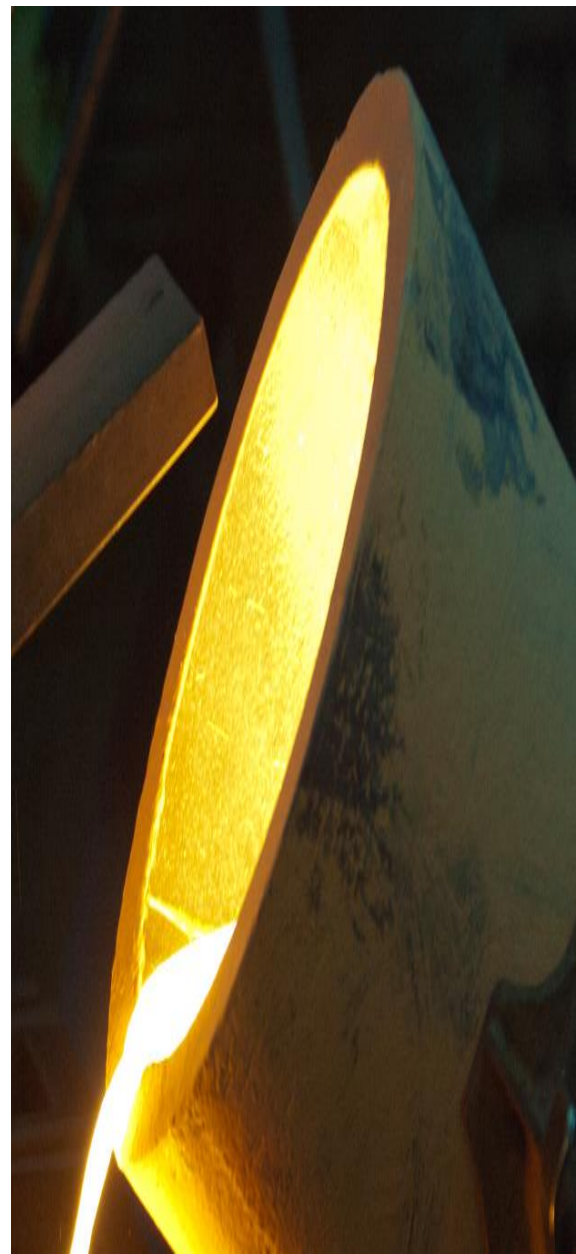
It is proposed to amend the legislation to provide for a price discount on diamonds sold to domestic firms that are engaged in beneficiation activities.

The price discount will be equivalent to the value of the diamond royalty for-gone.

\*It is proposed to reduce the royalty rate of platinum from 10% to 2.5 % with effect from 1 April 2017 to August 2019

## \*Mining Fees and Charges

It is proposed to review downwards ground rental fees in retrospect from \$3 000 to \$225 per hectare per annum for diamond mining companies.





# Tax Administration

## Interest on tax penalty

The finance bill proposes to remove interest on penalties as follows

Section repealed	Effect of proposed repeal
Appointment of public officers	Public officers will not be liable to penalties on default by the tax payer There will be no interest on additional tax (penalties) for failure to appoint a public officer
Withholding tax on contracts	Interest on penalties will be repealed on failure to withhold 10% on local contracts
Non-resident shareholders' tax	The provision empowers the Commissioner to collect residence shareholders' tax pending an objection. It is proposed to repeal this provision
Employee tax	Interest on penalty for failure to withhold and remit employee's tax will fall away
Non-residents' tax on remittances	Interest on penalty for failure to withhold and remit non-residence tax on remittance will fall away
Non-residents' tax on royalties	Interest on penalty for failure to withhold and remit non-residence tax on royalties will be repealed
Withholding Tax on Interest	Interest on penalty for failure to withhold and remit tax on interest by a financial institution will be repealed
Tobacco Levy	Interest on penalty for failure to withhold and remit tobacco levy by an auctioneer or contractor will fall away
Automated financial transactions tax (ATM tax)	Interest on penalty for failure to withhold and remit ATM tax by a financial institution will be repealed
Presumptive tax	The lessor obligated to withhold presumptive tax on rental will not suffer an additional tax for failure to withhold such tax. In any case, the interest on the additional tax has also been repealed.
Intermediated money transfer tax (IMT tax)	Additional tax (penalty) on failure to remit IMT tax by the financial institution will be repealed
Property or insurance commission tax	Additional tax (penalty) on failure to remit commission tax by the principal will fall away
Tax on non-executive director's fees	Additional tax (penalty) on failure to remit non-executive director's tax on fees by the payer or agent will fall away
Petroleum importers levy	The civil penalty of US\$30 per day for failure to remit the levy will be repealed



### Tax Amnesty

Under the operation restore legacy, the Minister has proposed a full waiver of interest and additional tax (penalties) on voluntary disclosure of any tax irregularities arising from the period beginning 31 March 2015 to 1 December 2017 under a Tax Amnesty. The amnesty does not extend to the principal tax due.

The amnesty period commences from 1 January 2018 and ends 30 June 2018. During this period, taxpayers may remit the principal tax in installments, with the last installment payable no later than 30 June 2018.

### \*Interface with Government Payments System

In order to enhance transparency, the 2018 Budget proposes that the Government Payments System be interfaced with the Mobile Money Platforms through which Treasury can monitor, in real time, daily departmental revenue receipts.



# Other general matters

## Indigenisation and Economic Empowerment

The draft Finance Bill includes a number of significant amendments to the Indigenisation and Economic Empowerment Act. Notably, diamond and platinum mining are the only sub-sectors designated as 'extractive.' Accordingly, the proposed amendments will confine the 51% /49 % Indigenisation threshold to only the two sub-sectors.

The 51% /49% threshold will not apply to the rest of the extractive sector, nor will it apply to the other sectors of the economy, which will now be open to any investor regardless of nationality.

The other proposals, which at this stage require further detailed analysis, appear to introduce special conditions applicable to sectors reserved for Zimbabwean residents.

## Other Proposals

Without elaborating on further detail, the Finance Bill included a list of other legislative amendments in his speech, which include:

1. Amnesty for Hoarding Cash
2. Amnesty for externalization of funds and assets under the Exchange Control Regulations
3. Corporate governance considerations for appointment of non-executive directors in banking institutions



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