



# 2020 Mid-Term Fiscal Policy Review

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*“Gearing for higher productivity, growth and job creation”*

KPMG Zimbabwe

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July 2020

# Overview

## "Gearing for higher productivity, growth and job creation"

On Thursday, 16 July 2020, the 2020 Mid-Term Fiscal Policy Review was presented by the Honourable Mthuli Ncube, Minister of Finance and Economic Development.

The Mid-Term Budget and Economic Review continued with the theme from the 2020 National Budget: "Gearing for higher productivity, growth and job creation".

This summary includes the key proposals and changes from the 2020 Mid-Term Fiscal Policy Review Statement and the Finance Bill of 2020 which is yet to be gazetted into law.

This document expresses the views of KPMG and should not be interpreted as tax advice. You are encouraged to seek specific tax advice based on your requirements.

### **Key highlights include:**

- Amendments to the 2% IMTT tax thresholds and introduction of IMTT on Nostro foreign currency account transfers.
- Revision of PAYE tax tables effective 1 August 2020.
- Tax free Risk allowances for Frontline Public Health Personnel for the period 1 April 2020 to 31 March 2021.
- Introduction of tax administration responsibilities for foreign satellite broadcasting services and electronic commerce platform providers.
- Mining royalties continue to be collectable in foreign currency to the extent the amounts from which they are withheld are foreign currency amounts.

- The budget statement also highlights that mineral royalties are calculated on gross proceeds and not amounts net of processing costs.

### **Key proposals included in the budget statement but excluded from the finance bill were as follows:**

- Exemption of VAT on domestic tourist accommodation services for the period 1 August 2020 to 31 July 2021.
- Deductible health related donations to be increased to the local currency equivalent of US\$100,000.
- Revised calculations for Excise duty on fuel effective 1 August 2020.

- Please contact any one of the team members listed at the end of the presentation should you wish to discuss the content of this document.

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# 1 Key proposed changes

# Key proposed tax changes

## Revenue measures

- Amendments to the 2% IMTT tax thresholds and introduction of IMTT on Nostro foreign currency account transfers.
- Amendment to employment tax rates with increase in tax free threshold from ZWL2,000 to ZWL5,000 per month and highest tax band at the rate of 40% on income over ZWL100,000 per month.
- Tax free Risk allowances for Frontline Public Health Personnel for the period 1 April 2020 to 31 March 2021.
- Mining royalties continue to be collectable in foreign currency to the extent the amounts from which they are withheld are foreign currency amounts. The royalty is calculated on the gross value of proceeds.
- Introduction of Victoria Falls Securities Exchange which will enjoy specific tax benefits.

## Measures in the statement but not in Finance Bill

- Deductible health related donations to be increased to the local currency equivalent of US\$100,000.
- 12 months VAT exemption on domestic tourist accommodation from 1 August 2020.
- Excise duty on fuel sold in local currency is currently pegged at a specific rate of ZWL17.2 and ZWL14.3 for petrol and diesel, respectively. Government proposes an Automatic Excise Duty Adjustment Mechanism, using the monthly movement of foreign currency exchange rates with effect from 1 August 2020.
- Customs duty exemption for approved manufacturing companies on importation of Top Dressing Fertilisers for the 2020/2021 cropping season. There is no effective date.
- Customs duty exemption on single cabs and double cab trucks donated to Government by Development Partners from 1 August 2020.



# Key proposed tax changes

## INTERMEDIATED MONEY TRANSFER TAX (“IMTT”)

- IMTT has been introduced on nostro foreign currency account transfers with effect from 1 August 2020 based on the budget statement we believe this is targeted at domestic nostro transactions.
- With effect from 1 August 2020, the tax free threshold will increase from ZWL100 to ZWL300 and the USD tax free threshold has been set at USD5.
- Maximum IMTT reviewed from ZWL25,000 to ZWL50,000 for transactions exceeding ZWL2,500,000 and the IMTT on USD amounts the maximum set at USD 2,000 for transactions exceeding USD100,000.

## DEEMED TAXABLE INCOME FOR FOREIGN SATELLITE BROADCASTING SERVICES AND ELECTRONIC COMMERCE PLATFORM PROVIDERS

The Finance Act No.1 of 2019 introduced the tax on annual sales exceeding US\$500,000. Gross sales are taxed at 5%. Amendment to provision to include the following:

- Requirement for tax registration
- Remittance of tax and filing of tax return on a quarterly basis
- Requirement for annual notification to Commission General by 31 March where they remain liable to pay tax
- Failure to declare and remit taxes, the Commissioner General shall estimate tax and levy 100% penalty

## INCOME TAX – EXEMPTIONS

- Any income accruing to Special Purpose Vehicles wholly owned by IDBZ to construct student accommodation and supporting infrastructure at any public university. This is with effect from 1 January 2020.
- Effective 1 August 2020, monetary benefits received instead of a motor vehicle in terms of the conditions of service of employment for the following:
  - A chairperson, vice chairperson, commissioner and secretary of an independent constitutional commission
  - A member of the Civil Service of the rank of Chief Director and Director
- Effective 1 April 2020, risk allowances payable to frontline public sector health personnel involved in fighting Covid-19.

## MINING ROYALTIES

- With effect from 22 February 2019 until 31 December 2020, royalties collectible in foreign currency to the extent the amounts they are withheld from are foreign currency amounts.
- Amounts on which royalties are withheld are assumed to be in foreign currency unless documentary proof provided to confirm sale in ZWL.
- Effective from 1 January 2021 mining royalties will be deducted on face value of invoice by the authorised persons.
- Royalties are payable by the 10th of the month following month of accrual. The Commissioner shall levy a penalty of 100% where the royalties are not paid timeously.



# Victoria Falls Securities Exchange

The Zimbabwe Government intends to set up an Offshore Financial Services Centre (OFSC) as part of efforts to develop the financial services sector, through provision of opportunities for global investment.

The Victoria Falls Special Economic Zone has created an opportunity to set up the VFEX OFSC, as a subsidiary of the main board of the Zimbabwe Stock Exchange. The VFEX will thus be operated from the central business district of Victoria Falls.

## **Dividends taxation**

With effect from 1 August 2020, Non-Resident Shareholders Tax shall be calculated at the rate of:

- 10 percent on a dividend distributed from a security listed by a registered securities exchange (other than the Victoria Falls Stock Exchange)
- 5 percent on a dividend distributed from a security listed on the Victoria Falls Securities Exchange
- 15 percent in the case of any other dividend.

## **Exemption from corporate tax**

The Victoria Falls Securities Exchange is exempted from payment of Income Tax with effect from 1 August 2020.

## **Capital Gains Tax**

Amounts received or accrued on the sale or disposal of shares or other marketable securities listed on the Victoria Falls Securities Exchange is exempted from Capital Gains Tax with effect from 1 August 2020.

# Employees Tax

## Pay As You Earn

"Reduction in employment tax rates"

- With effect from 01/08/20, the following changes have been made in respect of income from employment:
  - The tax free threshold has been reviewed from ZWL2 000 to ZWL5 000 per month.
  - The upper Income tax band has been reviewed from ZWL50 000 to ZWL100 000 per month, above which income is taxed at the marginal rate of 40%.

## Payment of remuneration in foreign currency

- There are no proposed changes to the monthly tax tables for the foreign currency income.
- Where income is denominated in a foreign currency other than the United States dollar, the equivalent amount in United States dollars shall be calculated at the prevailing exchange rate on the day the income is received or accrued.

## Year of assessment

With effect from the 1st August, 2020, a new FDS year of assessment starts and ends on the 31st December 2020. Taxpayers will have to submit two ITF16s for 2020.

The schedule opposite shows the amendment per month of taxable income levels being the levels earned from employment for the period beginning on the 1st August, 2020, and ending on the 31st December 2020.

## Reminder

Where an employee earns income partly in US\$ and in ZWL, the taxable income will be calculated using the US\$ tax table. The ZWL portion will need to be converted into US\$ at the interbank rates prevailing at the date the income was received..

## Proposed Zimbabwean Dollar 1 August to 31 December 2020 monthly tax tables

ZWL		ZWL	ZWL / %	%	ZWL
0	-	5 000	0%	-	-
5 001	-	15 000	20%	of excess over	5 000
15 001	-	30 000	3 000 + 25%	of excess over	15 000
30 001	-	60 000	10 500 + 30%	of excess over	30 000
60 001	-	100 000	19 500 + 35%	of excess over	60 000
100 001	-	and over	33 500 + 40%	of excess over	100 000

## Current Zimbabwean Dollar 1 January to 31 July 2020 monthly tax tables

ZWL		ZWL	ZWL / %	%	ZWL
0	-	2 000	0%	-	-
2 001	-	7 500	20%	of excess over	2 000
7 501	-	15 000	1 100 + 25%	of excess over	7 500
15 001	-	30 000	2 975 + 30%	of excess over	15 000
30 001	-	50 000	7 475 + 35%	of excess over	30 000
50 001	-	and over	13 475 + 40%	of excess over	50 000

## Current United States Dollar 1 January to 31 December 2020 monthly tax tables

USD		USD	USD / %	%	USD
0	-	70	0%	-	-
71	-	300	20%	of excess over	70
301	-	1 000	46 + 25%	of excess over	300
1 001	-	2 000	221 + 30%	of excess over	1 000
2 001	-	3 000	521 + 35%	of excess over	2 000
3 001	-	and over	871 + 40%	of excess over	3 000



# 2

## Other key current provisions

# Other key tax provisions

## Payment of taxes in foreign currency

- Section 14 of the Finance Act prescribes the payment of taxes in the currency in which transactions were conducted.
- This implies payment of tax in foreign currency for all tax heads, where applicable.
- Amendment from the Finance Act no 3 of 2019 excluded the following taxes from payment in foreign currency with effect from 22 February 2019;
  - Non-Resident Shareholders' Tax
  - Resident Shareholder's Tax
  - Non-Resident's Tax on Fees
  - Non-Resident's Tax on Remittances
  - Non-Resident's Tax on Royalties
  - Resident's Tax on Interest
  - Non-Executive Director's Fees

## Transfer Pricing

- SI 109 of 2019 was gazetted on 10 May 2019, setting out the transfer pricing documentation guidelines.
- Further to the Transfer Pricing Return (ITF12C2) published in March 2020, ZIMRA has issued Transfer Pricing Practise Notes which are to be considered together with the Transfer Pricing Provisions under Section 98B, as read with the 35th Schedule of the Income Tax Act [Chapter 23:06]. The Transfer Pricing Practise Notes are in line with the OECD, UN and ATAF TP Guidelines. In addition, ZIMRA has also released a list of the countries it considers to be beneficial tax jurisdictions. Taxpayers with transactions with a party in those countries are also required to submit a Transfer Pricing Return (ITF12C2).



## Digital Tax

- The Finance Act No.1 of 2019 introduced the taxation of non-resident satellite broadcasters and e-commerce platforms whose Zimbabwean annual sales exceed US\$500,000.
- Gross sales are taxed at 5%.

# Deductibility of fees

## Restrictions on the deductibility of fees between associated companies

- The Finance Act No.2 of 2017 amended Section 16(1)(r) to include fees. Below are the extracts of statute provisions before and after the amendment:

### Before

- *(r) in the case of expenditure incurred on general administration and management in favour of a company of which the taxpayer is the subsidiary or holding company or (where the company is a foreign company) the local branch*

### After

- *(r) in the case of expenditure incurred on fees, administration and management in favour of a company of which the taxpayer is an associated enterprise, or (where the company is a foreign company) the local branch*
- The term 'fees' is not defined under the Income Tax Act and it would seem the intention of the amendment above was to widen the restriction of deductibility of related party expenditure to include technical fees.

## Recent court case (TL v ZIMRA – HH 413-20 ITC 2/19)

### Judgement

- 1) Commissioner can only re-open assessments beyond the prescription period of 6 years after he or she is satisfied that there is, on the part of the taxpayer, evidence of:
  - a) Fraud
  - b) Misrepresentation
  - c) Willful or non-disclosure of facts

## Recent court case (TL v ZIMRA – HH 413-20 ITC 2/19) - continued

### Judgement

- 2) Management services versus technical services:

TL paid for services based on technical services agreement and ZIMRA disputed these as management fees requesting for invoices and other information.

Judge ruled: TL indeed rendered technical services which services were paid for in terms of the agreement. These were technical fees. The respondent, in my view, therefore erred in law in disallowing deductions in respect of the technical fees. In addition ZIMRA had accepted withholding taxes paid under that agreement.

### Comments

This in our view places the burden of proof of fraud, misrepresentation or willful non-disclosure of facts on the Commissioner to prove that the taxpayer has committed any one or all of the offences listed above in order to reopen tax assessments beyond the prescription period.

The judgement in this case is recent and it is yet to be established as to whether ZIMRA will make an appeal on the ruling.

# Covid-19 impact and tax measures

31 Aug 20

## **Extension of the Submission of Income Tax Returns (ITF12C, ITF12C2 (transfer pricing return), ITF1 and CGT1) – ZIMRA Public Notice Number 22 of 2020**

The due dates for the submission of the Income Tax Returns (ITF12C, ITF1 and CGT1) has been extended to 31 August 2020. This applies to all taxpayers with a 31 December 2019 year end. Taxpayers with approved year end dates other than 31 December 2019 are expected to submit their returns on the dates previously agreed by ZIMRA

## **Publication of the Zimbabwe Transfer Pricing Practise Notes – Public Notice 21 of 2020**

Further to the Transfer Pricing Return (ITF12C2) published in March 2020, ZIMRA has issued Transfer Pricing Practise Notes which are to be considered together with the Transfer Pricing Provisions under Section 98B, as read with the 35th Schedule of the Income Tax Act [Chapter 23:06]

## **Expedited VAT Refunds Processing - Public Notice Number 20 of 2020**

ZIMRA will endeavour to expedite the processing of legitimate VAT refunds and process such refunds within 30 days provided that the taxpayers meet specified criteria. Public Notice Number 20 of 2020, sets out the criteria and procedures to be followed by taxpayers to facilitate this process

30 Mar 20

## **Rebate of Duty on essential goods imported for the fight against Covid-19 – Statutory Instrument 88 of 2020**

With effect from 30 March 2020, was introduction of a rebate of duty on essential goods imported for the fight against Covid-19. Statutory Instrument Number 88 of 2020 provides a comprehensive list of the goods that qualify for the duty rebate





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