KPMG

TAX ADVISORY SERVICES

Zimbabwe Budget Summary 2008

TAX

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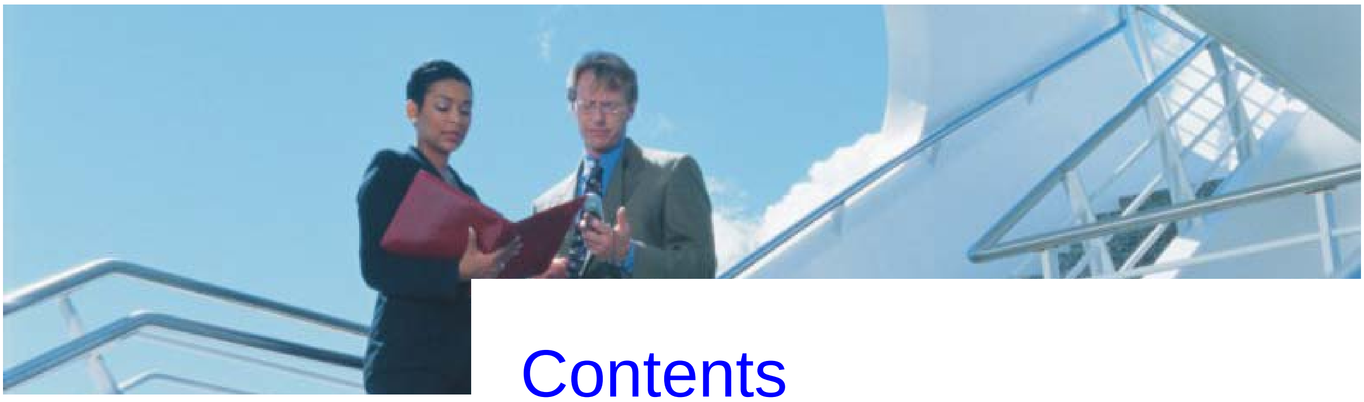

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An overview of 2008 Budget

KPMG is pleased to present our commentary and report on the 2008 Budget.

- With effect from 1 January 2008, the threshold for the highest rate of tax has been increased to $500 million per month. Once again, some effort has been made to alleviate the tax burden arising from income tax from employment income for employees in the lowest tax bracket. The non-taxable threshold is now $30 million per month.
- For the elderly, rental income and investment income will be tax free up to a maximum of $250 million per month.
- The tax free bonus quantum has been increased to $75 million per annum with effect from 1 November 2007.
- The profit arrived at, after adjusting for inflation, from the disposal of shares obtained by employees under a share option scheme will be subject to income tax with effect from 1 January 2008.
- The Reserve Bank of Zimbabwe 'special interest' associated with the surrender of foreign currency with be exempt from withholding tax with effect from 1 October 2007.
- With effect from 3 December 2007, the valuation of imported goods for duty purposes will be based on the effective rate of exchange of the Reserve Bank of Zimbabwe.
- Tax allowances for motor vehicles and staff housing are now based on 50% of the actual cost subject to a maximum of $100 billion. In addition, the special initial allowance on all qualifying assets has been increased from 50% to 100% with effect from 1 January 2008.
- The VAT registration threshold will increase to $120 billion with effect from 1 January 2008.
- The remittance period for capital gains withholding tax has been reduced to thirty days from the date of the receipt of payment.
- The 10% withholding tax on tenders and contracts is now applicable to contracts of $500 million or higher. We await clarification of this significant increase as prescribed in the Finance Bill on promulgation.

We trust that you will find the tax report useful. Should you have any queries or desire additional information, please contact your partner at KPMG, or our Tax Director and his team.

The KPMG partners

1. Features of the taxation proposals Bill at a glance

The Minister of Finance and Economic Development today presented his 2008 budget proposals to Parliament on 29th November 2007.

The proposals, contained in the Finance (No 2) Bill, 2007, have yet to be debated in Parliament, and may be amended before being passed into law.

In this tax document the main provisions of the budget proposals and their effects on taxpayers are summarised.

1.1 Individual Tax

	Effective Date
1. Tax on Employment Income The income tax bands, by which rates of tax are charged, in respect of income from employment, have been altered (see table). The current tax free band of Z$4 million increases to Z$30 million per month. The upper income tax band increases from Z$70 million to Z$500 million per month.	01/01/2008
The maximum tax free bonus has increased from Z$100 thousand p.a. to Z$75 million p.a.	01/11/2007
The deduction for contributions to pension funds by both employees and employers will be increased from Z$900 000 p.a. to Z$11, 5 million p.a.	01/01/2008
The tax free commutation in respect of a severance package will increase from the higher of Z$1 billion or 1/3 of the severance package, subject to a maximum of 1/3 of Z$10 billion of the severance package, whichever is the greater.	01/12/2007
The deemed taxable amount of motoring benefits will be increased to a minimum of Z$40 million per month and maximum of Z100 million per month.	01/01/2008
2. Credits Income tax credits for the elderly (defined as being 55 years and older), blind and disabled persons have been increased from Z$120 000 to Z$300 million p.a.	01/01/2008
3. Elderly Persons Income earned by elderly persons is exempt from tax up to a maximum of Z$250 million per month for each class of income. Pension income for taxpayers who are 55 years old or more will be exempt from tax.	01/01/2008

1.2 Corporate Tax

1. Corporate Tax Payment System (see the detailed table on last page).	

2. Capital Allowances The maximum allowances for specified capital additions will be increased as follows: Passenger motor vehicle allowance is now based on 50% of actual cost or Z$100 billion whichever is the lesser. Staff housing allowance is based on 50% of actual cost or Z$100 billion per unit whichever is the lesser.	01/01/2008 01/01/2008

1.3 Other Taxes

1. Value Added Tax (VAT) The threshold for registering for VAT is to be increased from Z$2,4 billion to Z$120 billion.	01/01/2008

2. Estate Duty The tax free threshold has been increased from Z$100 million to Z$25 billion above which dutiable estates will be taxed at a flat duty rate of 5%. RBZ interest payable on acquittal of Export documentation – exempt.	01/01/2008 01/10/2007

3. Carbon Tax Carbon tax has increased from $5 000 per lire to $100 000 per litre. However, carbon tax will continue to be paid on the basis of engine capacity on foreign registered motor vehicles. The tax will be payable in foreign currency. **4. NOCZIM Debt Redemption Levy** The levy has been increased from Z$2 500 per litre to Z$25 000 per litre.	01/01/2008 01/01/2008

5. Customs Duty The list of luxury goods on which duty is payable in foreign currency has been expanded. Notable inclusions are building materials, items of clothing and footwear etc.	06/09/2007

6. Cheques Stamp duty on cheques will be increased from Z$5 000 per transaction to Z$50 000 per transaction.	01/01/2008

1.4 Individual Tax Rates

Taxable income from employment							Basic income tax payable
Rate bands from 1.1.2007 to 30.6.2007							
$		$	$		%		$
0	-	600 000			0%		
600 001	-	1 200 000			25%	of excess over	600 000
1 200 001	-	1 800 000	150 000	+	30%	of excess over	1 200 000
1 800 001	-	6 000 000	330 000	+	35%	of excess over	1 800 000
6 000 001	-	18 000 000	1 800 000	+	40%	of excess over	6 000 000
18 000 001	-	30 000 000	6 600 000	+	45%	of excess over	18 000 000
30 000 001	-	and over	12 000 000	+	47.5%	of excess over	30 000 000

There is a 3% AIDS levy on tax: effective top rate of 48.925%.

Taxable income from employment							Basic income tax payable
Rate bands from 1.7.2007 to 31.8.2007							
$		$	$		%		$
0	-	3 000 000			0%		
3 000 001	-	6 000 000			25%	of excess over	3 000 000
6 000 001	-	10 000 00	750 000	+	30%	of excess over	6 000 000
10 000 001	-	22 000 000	1 950 000	+	35%	of excess over	10 000 00
22 000 001	-	36 000 000	6 150 000	+	40%	of excess over	22 000 000
36 000 001	-	50 000 000	11 750 000	+	45%	of excess over	36 000 000
50 000 001	-	and over	18 050 000	+	47.5%	of excess over	50 000 000

There is a 3% AIDS levy on tax: effective top rate of 48.925%.

Taxable income from employment							Basic income tax payable
Rate bands from 1.9.2007 to 31.12.2007							
$		$	$		%		$
0	-	16 000 000			0%		
16 000 001	-	32 000 000			25%	of excess over	16 000 000
32 000 001	-	48 000 000	4 000 000	+	30%	of excess over	32 000 000
48 000 001	-	120 000 000	8 800 000	+	35%	of excess over	48 000 000
120 000 001	-	200 000 000	34 000 000	+	40%	of excess over	120 000 000
200 000 001	-	280 000 000	66 000 000	+	45%	of excess over	200 000 000
280 000 001	-	and over	102 000 000	+	47.5%	of excess over	280 000 000

There is a 3% AIDS levy on tax: effective top rate of 48.925%.

Taxable income from employment							Basic income tax payable
Rate bands from 1.1.2008 to 31.12.2008							
$		$	$		%		$
0	-	360 000 000			0%		
360 000 001	-	960 000 000			25%	of excess over	360 000 000
960 000 001	-	2 220 000 000	150 000 000	+	30%	of excess over	960 000 000
2 220 000 001	-	3 480 000 000	528 000 000	+	35%	of excess over	2 220 000 000
3 480 000 001	-	4 740 000 000	969 000 000	+	40%	of excess over	3 480 000 000
4 740 000 001	-	6 000 000 000	1 473 000 000	+	45%	of excess over	4 740 000 000
6 000 000 001	-	and over	2 040 000 000	+	47.5%	of excess over	6 000 000 000

There is a 3% AIDS levy on tax: effective top rate of 48.925%.

The above tables apply to the tax payable by individuals, deceased or insolvent estates and estates of individuals under legal disability.

1.5 Fringe Benefits

Fringe benefits are taxed on the basis of cost to the employer except in the case of housing and use of furniture where the taxable benefit is the value to the employee.

Motor Vehicles

- Benefits derived from the private use of an employer's motor vehicle are to be determined by reference to the following standard deemed benefits:

Motor Vehicles			2007 Z$	2008 Z$	
Not Exceeding	-	1500 cc	$ 2 400 000	$ 480 000 000	Per annum
1501cc	-	2000 cc	$ 4 000 000	$ 720 000 000	Per annum
2001cc	-	3000 cc	$ 5 000 000	$ 900 000 000	Per annum
Exceeding	-	3000 cc	$ 6 700 000	$ 1 200 000 000	Per annum

Disposal of Motor Vehicles by Employer to Employee (w.e.f. 01/01/2006):

1. Benefit is the difference between the market value of vehicle at time of sale less the cost plus an inflation allowance.
2. Persons over 55 years are exempt.

1.6 Deductions and Credits

Contributions to Registered Pension and Retirement Annuity Funds

Details	Maximum Allowable Deduction	
Individual / Employee	**2007 Z$**	**2008 Z$**
• Registered pension fund contributions	$ 900 000	$ 11 500 000
• Registered retirement annuity fund contributions	$ 900 000	$ 11 500 000
• Registered pension and retirement annuity fund contributions	$ 900 000	$ 11 500 000
Employer	**2007 Z$**	**2008 Z$**
• Registered pension fund contributions (per employee)	$ 900 000	$ 11 500 000

Individual Tax Credits

Details	% Amount
Medical expenses (person and family)	
Invalid appliances, including spectacles	50% of cost (2)
Medical aid society contributions	50% of cost
Other medical expenses, including drugs	50% of cost (2)
Elderly persons (persons aged above 55 years or more)	Z$300 000 000
Incapacitated persons	
Blind person	Z$ 300 000 000 (1)
Disabled person	Z$ 300 000 000 (1) (2)
Disabled child (for each)	Z$ 300 000 000 (1) (2)

(1) 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.

(2) Not allowable to non-residents.

1.7 Companies – Income Tax Rates

	2007	2008
Standard rate (1)	30%	30%
New manufacturing project in growth point areas (2)	10%	10%
New project providing infrastructure (2)	15%	15%
Approved BOOT and BOT arrangement (2) (3) (4)	0%	0%
Industrial park developer (2) (3)	0%	0%
Licensed investor (2) (3)	0%	0%
Special mining lease	25%	15%
Mining companies and mining trusts	15%	15%
Pension funds (5)	15%	15%
Manufacturing company with 50% exports of the value of goods	20%	20%
Banking institutions levy (6)	5%	5%

Notes:

The Standard Rate and 3% AIDS levy also applies to a Trust.

(1) Plus 3% AIDS levy giving an effective rate of 30.9%.

(2) Applicable for first five years.

(3) Thereafter 15% for the next five years.

(4) Thereafter 20% for the next five years.

(5) Suspended until further notice.

(6) Calculated on the net profit (subject to reduction in proportion to SME portfolio).

1.8 Withholding Taxes

	Statutory	UK (1)	Germany (1)	Netherlands (1)
Non-residents' tax on:				
Interest	10%	10%	10%	10%
Dividends				
- ZSE listed companies	15%	5% (2)	10% (2)	10% (2)
- Other companies	20%	5% (2)	10% (2)	10% (2)
Fees	20%	10%	7.5%	20%
Allocable expenditure	20%		20%	20%
Royalties	20%	10%	7.5%	10%
Residents' tax on:				
Dividends				
- ZSE listed companies	15%			
- Other companies	20%			
Interest - Banks and Building Societies	20%(3)(9)			
RBZ Treasury bills & discounted instruments	20%(3)(5)(6)			
Capital gains:				
- Marketable securities	5% (4)(7)			
- Immovable property	15%			
Rent payable by informal traders	10%			
Property or insurance Commission	20%			
ATM transactions and intermediary transactions	Z$25 000 for every transaction.			
Cheques	Z$50 000 for every transaction			

(See notes, on above table, overleaf)

Notes:

(1) There are also double tax agreements with: Sweden, Norway, South Africa, Bulgaria, Mauritius, Canada, Poland, France and Malaysia.

(2) Provided recipient is a company which controls directly or indirectly at least 25% of the voting power in the company paying the dividends.

(3) This is a final tax.

(4) With effect 17/10/2005

(5) Payable on maturity with effect 1/12/2005.

(6) Persons over 55 years exempt on the first Z$3 billion per annum.

(7) a) Capital Gains Withholding Tax (CGWHT) need not be withheld where the amount is exempt.
b) Shall be paid within thirty days of receipt.

1.9 Other Taxes

	Statutory	UK	Germany	Netherlands
Foreign Dividends				
Income tax on foreign dividends	20%			
VAT:				
- Zero rated goods and services	0%			
- Standard rated goods and services	15%			
Capital gains tax	20% (1)			
(1) Exempt if gain arises from the disposal of a Principal Private Residence by persons aged 55 years and over.				

VAT Registration Thresholds

	2007 Z$	2008 Z$
Compulsory	2,4 billion	120 billion (1)
Voluntary		(2)

(1) Applies to new registrants only

(2) Registered taxpayers whose turnover is below the threshold may be accommodated under voluntary registration.

Carbon Tax

With effect from 1 January 2008:

Now payable by fuel procuring company or person or entity at the rate of Z$100 000 per litre on importation of the fuel.

Visitors using vehicles registered outside Zimbabwe will pay carbon tax based on engine capacity or vehicle as follows:

			US$	
Not Exceeding	-	1500 cc	72.00	per month or part thereof
1501 cc	-	2000 cc	132.00	per month or part thereof
2001 cc	-	3000 cc	180.00	per month or part thereof
Exceeding	-	3000 cc	360.00	per month or part thereof

Presumptive Tax		
Hair salons	Z$50 million per quarter	01/01/2008
Small scale miners	5% of purchase price of precious metals or stones	
Taxi operators	Z$75 million per quarter year	01/01/2008
Commuter transport	Z$75 million per quarter year 8-24 seater bus Z$150 million per quarter year 25-36 seater bus Z$200 million per quarter year 37+ seater bus	01/01/2008
Haulage trucks	Z$200 million per quarter year - carrying capacity 10t - 20t	01/01/2008
	Z$400 million per quarter year - carrying capacity 10t – less + one or more trailers aggregating less than 20t	01/01/2008
	Z$480 million per quarter year – carrying capacity 20t+	01/01/2008
Driving schools	Z$150 million per quarter year - providing class 4 tuition	01/01/2008
	Z$200 million per quarter year – providing class 1 & 2 whether or not in addition to providing other classes	01/01/2008
Crossborder traders	10% of value for duty purposes	01/01/2008

Persons over 55 years – Exempt Income
The first Z$250 million per month in interest income from deposits
The first Z$250 million per month in interest income from treasury bills and other discounted instruments
The first Z$250 million per month in rental income
Pension receipts from Pension Funds or Consolidated Revenue Fund

1.10 Capital Allowances

Asset	Investment Allowance %	Special Initial Allowance %	Wear & Tear Allowance % on cost
Farm improvements (2)	-	100 (1)	5
Industrial buildings	15 (3)	100 (1)	5
Railway lines	-	100 (1)	5
Staff housing (4)	15 (3)	100 (1)	5
Articles, implements, machinery	15 (3)	100 (1)	10 (5)
Motor vehicles (6)	-	100 (1)	20 to 33,33 (5)
Commercial buildings	15 (3)	100 (7)	2,5

Notes:

1. 100% SIA in year of purchase in respect of movables and 100% SIA in year of construction in respect of immovables.
2. Include permanent schools, nursing homes, hospitals and clinics. Cost of each school, nursing home, hospital and clinic no longer restricted.
3. Only in growth point areas. Buildings constructed and alterations to existing buildings and articles, implements, machinery and utensils must be new or unused (excluding motor vehicles).
4. From 1 January 2008 capital allowances on staff housing will be based on 50% of actual cost or Z$100 billion whichever is the lesser.
5. Wear and tear calculated on reducing balance.
6. From 1 January 2008 capital allowances on passenger motor vehicle will be based on 50% of actual cost or Z$100 billion whichever is the lesser.
7. Only in growth point areas.
8. Capital allowances on plant and machinery by small to medium enterprises at a rate of 150%.

Transfer Duty

Price/Value of immovable property			Basic transfer duty payable				
$		$	$		%		$
1	-	5 000	60				
5 001	-	15 000	60	+	2.5	of excess over	5 000
15 001	-	100 000	310	+	5.0	of excess over	15 000
100 001		And over	4 560	+	6.0	of excess over	100 000

Estate Duty

With effect from 1 January 2008:

Tax free portion is Z$25 billion.

2. Quarterly Payment Dates (QPD's)

The following QPD's apply to companies and individuals who have a tax liability arising from trade and investment income

Taxable Income for the year ended 31 December	Percentages	Payment dates
2007	10%	25/03/07
	25%	25/06/07
	30%	25/09/07
	35%	20/12/07
2008	10%	25/03/08
	40%	25/06/08
	40%	25/09/08
	10%	20/12/08

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