



# The Zimbabwe 2020 National Budget

**Budget Highlights  
and Tax Summary**

14 November 2019

# Overview

Honourable Mthuli Ncube, Minister of Finance and Economic Development, presented the 2020 National Budget Statement on Thursday, 14 November 2019 with the theme “Gearing for higher productivity, growth and job creation”

This summary includes the key proposals from the 2020 National Budget Statement and the related draft Finance Bill. We have also included a summary of other key existing tax provisions. We do note that there are some inconsistencies between the Budget Statement and the draft Finance Bill which will need to be clarified in the Finance Act

The 2020 National Budget Statement and draft Finance Bill proposals are still to be promulgated into law

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour 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.

# Key Highlights

## Economic Growth



- Economy projected to grow by 3% in 2020, a turnaround from a contraction of 6.5% in 2019.

## Revenue

ZWL58.6 billion



- Taxes to contribute the bulk of the revenue.

## Expenditure

ZWL63.6 billion



- Health, education and security allocated a significant portion of the budget.

## Value Added Tax



**With effect from 01 January 2020**

- Marginal reduction of standard tax rate from 15% to 14.5%.
- VAT registration threshold increased from ZWL60,000 to ZWL1,000,000
- Foreign radio and television broadcasters and e-commerce service rendering services to Zimbabwean residents to account for VAT.
- VAT on imported services claimable as input tax.

## Corporate Tax



**With effect from 01 January 2020**

- Marginal reduction of the corporate tax rate from 25% to 24%.
- Disallowable excess interest on foreign loans to be computed using the highest interbank rate.
- Withholding Tax on Non Executive Directors Fees is final and no tax credit claimable.
- Conditions introduced for Venture Capitalists to qualify for Income Tax exemption.

## Pay As You Earn



**With effect from 01 January 2020**

- Reduction of the monthly deemed motoring benefit values.
- Monthly tax free threshold increased from ZWL700 to ZWL2,000.
- Tax free portion of severance pay increased **with effect from 01 November 2019**.
- Annual bonus tax free threshold increased from ZWL1,000 to ZWL5,000 **with effect from 01 November 2019**.

# Key Highlights

## Mining



### With effect from 01 January 2020

- Capital Redemption Allowance for miners to include expenditure on tangible and intangible computer software.
- Royalties on diamonds reduced from 15% to 10%.
- Royalties on black granite and cut or uncut dimensional stone introduced with effect from 23 February 2019.

## Customs Duty

- Value of goods imported expressed in a currency of a given foreign country, will be converted to the Zimbabwean Dollar selling rate for that foreign currency.
- Duty free importation of LED solar lights and home lighting kits.

## Corporate Tax



### With effect from 01 January 2020

- The definition of payee under withholding taxes related to section 80 for contracts and tenders excludes a non-resident person liable to pay the withholding taxes for fees, remittances, royalties and non-resident non-executive director.

## Capital Gains Tax

- CGT on marketable securities is assumed to be in foreign currency unless documentary proof provided to confirm sale in ZWL.

## Excise Duty

- Excise Duty on cigarettes increased from ZWL50 to ZWL100 per 1000 cigarettes with effect from 01 December 2019.

## IMTT



### With effect from 01 January 2020

- Tax free threshold increased from ZWL20 to ZWL100.
- Maximum IMTT reviewed from ZWL15,000 to ZWL25,000 for transactions exceeding ZWL1,250,000.

### *The following is In the statement but not in the bill*

- Clarification on the obligation to pay IMTT is with the person undertaking the transaction, and not the financial institutions that are required to withhold and remit the tax to ZIMRA.
- IMTT exemption to include transfers by Development Partners accredited in terms of the Privileges and Immunities Act, with effect from 1 January 2020

# Key Proposed Changes

## Corporate Tax: Venture Capital Company or Fund

Definition of a “qualifying venture capital company or fund” excludes the following:

- activities in respect of the sale, leasing or other dealing with immovable property;
- activities carried out by financial institutions;
- financial or advisory services (including legal services, tax advisory services, stock broking services, management consulting services and auditing or accounting services);
- activities in respect of gaming or games of chance;

The following conditions are required for a venture capital company or fund to qualify for the corporate tax exemption;

- the recipient of the funds must not be listed on a stock exchange; and
- the recipient is or proposes to be active in agriculture, mining, manufacturing, tourism or other aspect of the economy deemed by the Minister by statutory instrument to be critical for national development; and
- the venture capitalist cannot have any control or controlling stake in the recipient and the mode by which the venture capitalists finances recipients is by means of equity rather than debt.”

## Youth Employment Tax Credit

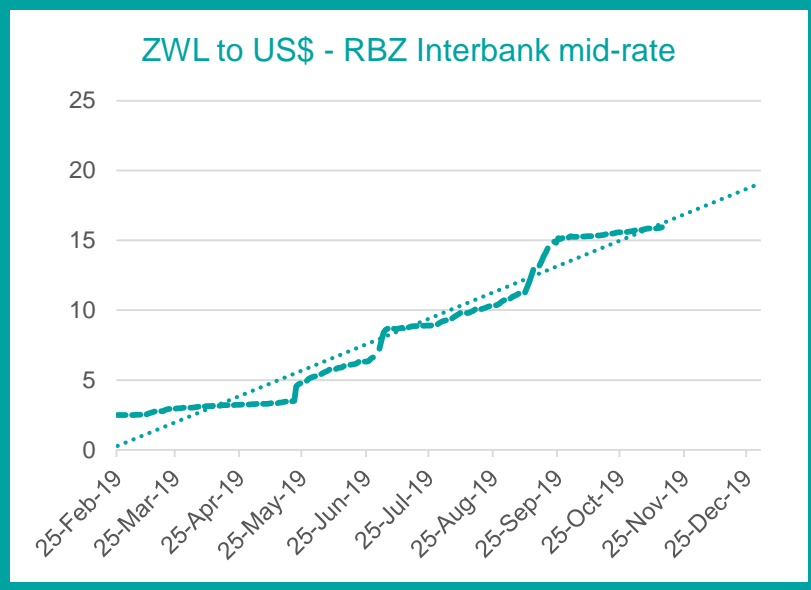
With effect from 1 January 2020,

- Introduction of tax credit amounting to ZWL500 per month per employee for corporates that employ additional employees in a year of assessment
- The credit is limited to a maximum of ZWL60,000 per year of assessment.
- employee excludes a trainee, intern and apprentice and a managerial employee
- employer must be a registered taxpayer and tax compliant for the preceding year of assessment;

- the credit may not be claimed before the additional employee completes twelve months’ of continuous employment
- New employee must earn not less than two thousand dollars per month; and
- the credit may not be claimable by companies or trusts with an annual turnover exceeding the equivalent of one million United States dollars.

### Exchange rate USD:ZWL

*SI33 introduced the Interbank system for trading foreign currency. From February to November 2019, the ZWL has depreciated by over 600%*



Source: [https://www.rbz.co.zw/documents/Exchange\\_Rates/2019](https://www.rbz.co.zw/documents/Exchange_Rates/2019)

# Employee Tax

## Pay As You Earn ("PAYE")

- Proposed amendments of employment tax rates Zimbabwean dollar earnings
- There were no changes to the monthly tax tables for the foreign currency income



## Deemed motoring benefits

- Proposed amendments of deemed motoring benefit values



United States Dollar 2020 tax tables

US\$	US\$	US\$ / %	%	US\$
0	- 840	0%	-	-
841	- 3 600	20%	of excess over	840
3 601	- 12 000	552 + 25%	of excess over	3 600
12 001	- 24 000	2 652 + 30%	of excess over	12 000
24 001	- 36 000	6 252 + 35%	of excess over	24 000
36 001	- and over	10 452 + 40%	of excess over	36 000

Zimbabwean Dollar 2020 tax tables

ZWL	ZWL	ZWL / %	%	ZWL
0	- 24 000	0%	-	-
24 001	- 90 000	20%	of excess over	24 000
90 001	- 180 000	13 200 + 25%	of excess over	90 000
180 001	- 360 000	35 700 + 30%	of excess over	180 000
360 001	- 600 000	89 700 + 35%	of excess over	360 000
600 001	- and over	161 700 + 40%	of excess over	600 000

Zimbabwean Dollar Monthly Deemed Motoring Benefit Values

Engine Capacity	1 Jan to 31 Jul 2019 <sup>(1)</sup>	1 Aug to 31 Dec 2019	1 Jan to 31 Dec 2020
CC	ZWL	ZWL	ZWL
Up to 1 500	300	5 760	4 500
1 500 to 2 000	400	6 880	6 000
2 000 to 3 000	600	11 520	9 000
3 000 and more	800	15 280	12 000

<sup>(1)</sup> We note that these values were US\$ for the period 1 January 2019 to 22 February 2019.



# 2019 key tax provisions



# Corporate Tax

## Intermediated Money Transfer Tax (IMTT)

- Finance Act Number 1 of 2019 amended the basis of calculating IMTT. IMTT is a tax levied on all transactions mediated by financial institutions and mobile money platforms. Tax is charged at 2% of the transaction value.
- IMTT is a prohibited deduction for income tax purposes.

## 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%.

## Payment of tax in underlying 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.
- Moreover, RBZ regulations make it illegal to settle local transactions using foreign currency, save for a few exemptions, which do not include payments for tax.

## Transfer Pricing

- SI 109 of 2019 was gazetted on 10 May 2019, setting out the transfer pricing documentation guidelines.
- Taxpayers are now obliged to submit their transfer pricing documents within seven days of being requested by ZIMRA. In other jurisdictions, this period ranges from 30 to 60 days.
- Failure by taxpayers to comply with these Regulations will result in penalties being levied on the taxpayers.
- The following penalties are applicable for non-compliance with the transfer pricing regulations:
  - 10% of the shortfall tax liability where taxpayer was in compliance with 35th schedule and contemporaneous transfer pricing documentation.
  - 30% of shortfall tax liability on non-compliance with 35th schedule or non-existence of contemporaneous transfer pricing documentation.
  - 100% of shortfall tax liability on tax evasion and deliberate postponement of tax liability where no transfer pricing document exist.

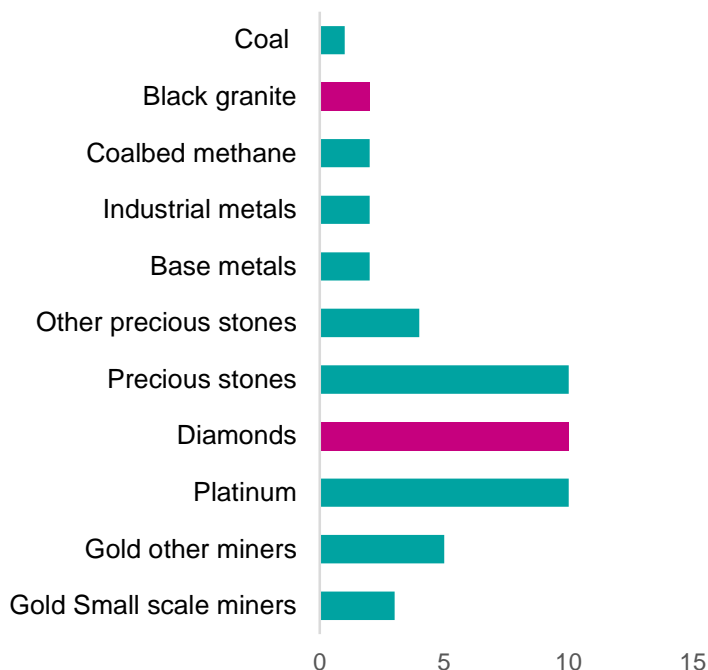
## Major Tax Developments in the International Arena

- The Organisation for Economic Cooperation and Development (OECD) through its Base Erosion and Profit Shifting (BEPS) project proposed a number of actions to improve transparency and counter abuse of tax treaties.
- BEPS Action 1 proposes the taxation of the digital economy. This proposal should come into effect by 2020.
- Countries that are now at various stages of implementation of digital tax include South Africa, Hungary, France, the European Union, the United Kingdom and Zimbabwe.
- The requirement for greater transparency is now imperative for taxpayers, as for example, the US through the Foreign Account Tax Compliance Act ("FATCA"), is obtaining reports on US residents and citizens.
- It is important for Zimbabwean businesses to consult their tax advisors as these and other developments may have significant implications on their businesses.



# Corporate Tax

## Mining royalty rates



## Notes

- Mining royalties are tax deductible with effect from 01 January 2020.
- The royalty rate on gold produced by small scale producers is 2%, by large scale producers is 3% (where price is below US\$1,200 per ounce) and 5% (where price is above US\$1,200) with effect from 01 August 2019.
- VAT on export of unbenefited platinum commencing on 01 January 2022.
- The 2% royalty on black granite and other cut or uncut dimensional stones was introduced with effect from 23 February 2019.
- The royalty rate on diamonds was reduced from 15% to 10% with effect from 01 January 2020.

Asset	Capital allowances rates	
	SIA	Wear & tear
Farm improvements	25%	5%
Industrial building	25%	5%
Railway lines	25%	5%
Staff housing	25%	5%
Articles, implements & machinery	25%	10%
Passenger Motor vehicles	Limited to 25% of \$80,000	Limited to 20% of 80,000
Commercial building	0%	2.5%
Computer software	25%	0%
New Mine Method		
Mining equipment and related capital expenditure	100%	
Pre-production mining expenditure	100%	
Environmental restoration/ mining rehabilitation	100%	
Clinic or hospital	100% of \$400,000	

# VAT, WHT, Customs & Excise

## Value Added Tax

### Time of Supply

- The definition of the time of supply of goods or services has been extended to be the earlier of any one of the following;
  - Invoicing for the goods or services; or
  - Receipt of the consideration (payment) for the goods or services; or
  - Removal of a moveable goods from the place of sale; or
  - At the point in time that the recipient takes possession of an immoveable property; or
  - At the point in time that the service is performed

### Imported Services

- The supply of imported services has been extended to include services supplied to locally registered entities by foreign service providers.
- All businesses importing any type of service for consumption in Zimbabwe are now liable to pay 15% VAT.
- VAT on imported services is not claimable as input tax for 2019, however the 2020 Finance Bill has proposed for it to be claimable with effect from 01 January 2020.
- The VAT is payable in ZWL within 30 days from the earlier of invoice date or payment.

## Customs and Excise

“Payment of duty in foreign currency for specified goods including motor vehicles”

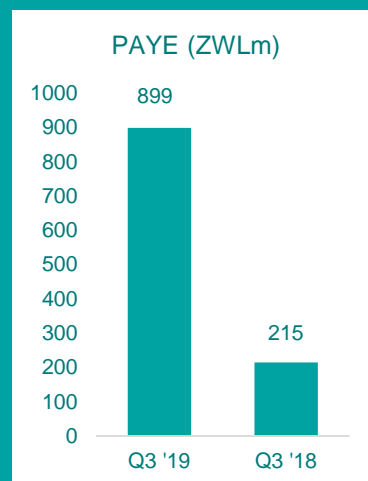
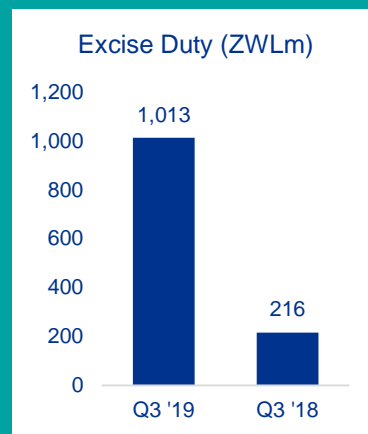
### Excise duties are as follows

- Cigarettes: increased from to ZWL50 per 1000 sticks for the period 02 August 2019 to 30 November 2019.
- Alcohol: increased to between ZWL3,00 and ZWL5,00 per litre from 02 August 2019.

### Withholding Taxes

- NRTRF to be withheld on the payment of foreign fees by local taxpayers. Fees include managerial, technical or administrative services or any other services. Rate of tax is 10% before tax relief.
- NRTR to be withheld on payment for the use of rights like copyright, trademarks, or patents. Rate of rate is 15% before tax relief.
- NRST is to be withheld on the payment of dividends to foreign shareholders. Rate of tax is 10% before tax relief.

## Major Contributors of Q3 2019 Fiscal Performance



Source: ZIMRA Q3 2019 Report

# Employee Tax

## Pay As You Earn ("PAYE")

### Amendments of employment tax rates separating United States dollars and Zimbabwean dollar earnings

- With effect from the 1st August, 2019, a new FDS year of assessment starts and ends on the 31<sup>st</sup> December 2019. Taxpayers have to submit two ITF16s for 2019.
- The schedule below shows the amendment of taxable income levels being the levels earned from employment for the period beginning on the 1st August, 2019, and ending on the 31st December.
- It is proposed in the 2020 Finance Bill, that 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 of receipt of the income. This provision is proposed to be effective from 01 August 2019.

United States Dollar 2019 (1 August to 31 December) tax tables

US\$	US\$	US\$	%	US\$
0	-	350	0%	-
351	-	1 500	20%	of excess over 350
1 501	-	5 000	230 + 25%	of excess over 1 500
5 001	-	10 000	1 105 + 30%	of excess over 5 000
10 001	-	15 000	2 605 + 35%	of excess over 10 000
15 001	-	and over	4 355 + 40%	of excess over 15 000

Zimbabwean Dollar 2019 (1 August to 31 December) tax tables

ZWL	ZWL	ZWL / %	%	ZWL
0	-	3 500	0%	-
3 500	-	15 000	20%	of excess over 3 500
15 001	-	50 000	2 300 + 25%	of excess over 15 000
50 001	-	100 000	11 050 + 30%	of excess over 50 000
100 001	-	150 000	26 050 + 35%	of excess over 100 000
150 001	-	and over	43 550 + 40%	of excess over 150 000



## Contact Details



Vinay Ramabhai  
Partner  
[vramabhai@kpmg.com](mailto:vramabhai@kpmg.com)  
+263 242 302 600  
+263 782 403 877



Steve Matoushaya  
Director  
[scmatoushaya@kpmg.com](mailto:scmatoushaya@kpmg.com)  
+263 242 303 700  
+263 772 240 537



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