

Payroll Compliance

A short guide for payroll professionals navigating the latest employees' tax legislation.

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1. General Information

1.1 Official currency

The Zimbabwean Dollar is the official currency. However, the US Dollar is still in use.

Currency code is ZWL / RTGS

1.2 Tax year

January to December

1.3 Revenue service

Zimbabwe Revenue Authority - ZIMRA

www.zimra.co.zw

2. Pay As You Earn (PAYE)

2.1 Multi-currency payroll

According to the Zimbabwe Revenue Authority, separate ITF16 annual returns must be submitted for a year of assessment where different currencies were paid to employees, so as to reflect the remuneration paid in the Zimbabwean dollar(ZWL) and the US dollar(US\$).

Where an employer pays employees in both the ZWL and the US\$, the ZWL income should be converted to US\$ and then added to the US\$ income. Then all the taxable income will be taxed using the US\$ tax tables.

2.2 Tax Tables

ZWL annual tax table

From	To	Rate
0	1 100 000	X 0%
		Deduct -

1 100 001	3 840 000	X	20%	Deduct	220 000
3 840 001	6 576 000	X	25%	Deduct	412 000
6 576 001	9 312 000	X	30%	Deduct	740 800
9 312 001	12 000 000	X	35%	Deduct	1 206 400
12 000 001	and above	X	40%	Deduct	1 806 400

USD annual tax Table

					Rate		
from	0	to	1 200,00	X	0%	Deduct	-
from	1 200	to	3 600,00	X	20%	Deduct	240
from	3 601	to	12 000,00	X	25%	Deduct	420
from	12 001	to	24 000,00	X	30%	Deduct	1 020
from	24 001	to	36 000,00	X	35%	Deduct	2 220
from	36 001	and above		X	40%	Deduct	4 020

Aids Levy is 3% of the Individuals' Tax payable

2.3 Taxable Income

According to Section 8(1) (a), (b), (c), (f), (n), (r) and (t) of the Income Tax Act (Chapter 23:06), income includes:

- Salary, gratuity, cash in lieu of leave, retrenchment package, commutation of pension, pension refund, bonus, wages, overtime pay, fees, stipend, retirement allowance and grant, commission and annuity.
- Deemed benefits/advantages such as housing, soft loan, education, passage, telephone, grocery, furniture, entertainment allowance, electricity, water, clothing, transport, holiday allowances and security services.
- Deemed motoring/vehicle use benefits.

Advances - Advances against salary, bonus or commission constitute remuneration and PAYE can be deducted. An employer is responsible for the deduction of correct PAYE from any payment he makes and is also responsible for any under deductions.

Allowances – allowances such as representation, travelling, entertainment and subsistence are

taxable to the extent that they are not expended on the employer's business. They should be added to the other income when calculating PAYE. This excludes allowances paid to civil servants.

Cash allowances for fuel are fully taxable in the hands of the employee.

Arrear Salary (back pay) – arrears of salary, wages, etc. become taxable on the date on which the decision to pay them is made.

Bonuses and Commission – a bonus or commission is subject to PAYE on the date the amount is declared or paid whichever is the earlier except where the amount is in the form of a percentage of the profits, in which event the accounting date becomes the accrual date.

Communication of amounts due under a contract of employment – where an employer terminates the services of an employee before the expiry date of the contract and pays him the amount due per contract for the remaining period, the amount is subject to PAYE.

Directors' fees – directors' fees are subject to PAYE if the director performs other services as an employee, i.e. working director. Directors' fees paid to a non-working director are not subject to PAYE.

Refund of pension contributions – When an employee withdraws from an approved pension fund, the employer is required to apply for a tax deduction directive from the nearest ZIMRA office. PAYE should be deducted in accordance with that directive.

3. Fringe Benefits

All benefits or advantages whatsoever (except where specifically exempted), granted in lieu of or in the nature of "remuneration" are liable to Employees' Tax (Pay As You Earn) in terms of the Income Tax Act. An example is that of a motoring benefit which an employer may offer to an employee for usage of a motor vehicle as part of the employee's conditions of employment. The motoring benefit granted in this case constitutes remuneration and should be subjected to PAYE in terms of the Income Tax Act.

3.1 Use of employer's motor vehicle

The value of motoring benefit should be determined based on "cost to the employer". The cost to the employer in this case is determined based on a deemed cost which is provided for in the Finance Act.

The deemed cost basis of valuing the motoring benefit is also mandatory in the sense that the

prescribed amounts are not subject to variation in relation to the running costs or the vehicle's value. Calculations of the benefit are based on the engine capacity of the vehicle and are not subject to apportionment between business and private usage of the vehicle allocated to the employee. The benefit is, however, reduced proportionally if the employee uses the vehicle for only part of the tax year.

Engine capacity	USD Deemed value	ZWL Deemed value
Up to 1500cc	625,00	312 000,00
Over 1500cc -2000cc	830,00	415 000,00
Over 2000cc -3000cc	1 250,00	625 000,00
Over 3000cc	1 660,00	830 000,00

3.2 Accommodation

In terms of section 8(1) (f) of the Income Tax Act, a benefit arises when:

- Employer rent holiday homes or own a holiday home and the employee can use such accommodation.
- Housing is provided to executives free of rent or at very low rent
- Housing costs, e.g. gardener, maid, water and electricity are paid by the company

The taxable value in the above scenarios is the cost to the employer. For valuation of quarters or residences other than those mentioned above, the respective employers may engage and agree with ZIMRA before determining the benefit.

In cases where the Employer buys a house in another area for their staff member, then the taxable benefit should be:

- Within the Municipal area - The open market rental value
- Outside municipal area - The greater of 12.5% of the employee's salary or 7% of the cost of the house.

3.3 Furniture

8% of the cost of the furniture is the taxable benefit.

3.4 Passage Benefit

The benefit covers the cost borne by an employer on travels by an employee, spouse or children, which are not for the purposes of the employer's business. This includes the cost on taking up of employment or termination of employment where such costs have been previously offered to the employee.

This means that you can only get an exemption when you first take up employment or on your first termination of employment with an employer, otherwise, the passage benefit is taxable.

3.5 Share option Scheme

In scenarios where employees can buy shares at a discount price, the employee should be taxed on the difference between the purchase price and the market value.

3.6 School fees benefit

Where the employer pays school fees for the employee's children, the cost of the fees payable becomes taxable in the hands of the employee. In cases where the employer is a school and the employee's child is admitted/enrolled at the school without paying school fees or pays fees that are less than those paid by other students attending the same school, the foregone fees become a taxable benefit in the hands of the employee. In addition, any school fees discounts or reductions granted because of the employer-employee relationship become taxable benefits in the hands of the employee.

3.7 Loans

Low or Nil interest Loans attract Tax. The deemed benefit is the difference between the Interest charged by the company and the Interest % published by ZIMRA.

The prescribed interest rates are based on the London Inter-Bank Offered Rates (LIBOR). The LIBOR rates for other periods can be obtained from the ZIMRA website.

- Prescribed interest rate for loans in forex is LIBOR rate plus 5% for loans exceeding USD100.
- Prescribed interest rate for loans in ZWL is 15% for loans exceeding ZWL8 000.

This does not apply to loans for: Education, Technical Training, Medical Treatment of the employee, his spouse or child.

3.8 Data and Airtime benefit

The provision of data and airtime by the employer to the employee for use at the home or outside work premises is a benefit which is taxable in the hands of the employee. The deemed benefit is 30% of the cost to the employer.

3.9 Other benefits

There are several benefits that can be granted to employees. Employers are, therefore, advised to contact their nearest office for guidance on tax treatment if needed

4. Exempt Income

Income Tax Act, Third Schedule

4.1 Refunds/Reimbursements

Any amount of reimburse nature is exempt from tax, if proof of such an expense is provided.

4.2 Director's fees

Director's fee paid to a non-working director is not subject to P.A.Y.E.

4.3 Income to civil servants

Benefits and allowances paid to civil servants.

4.4 Bonus

Exempt bonus or performance-related award is ZWL500 000 (USD320).

This applies to any bonus, annual bonuses or performance related awards. If an employee receives more than one bonus in a year, then the aggregate amount of the bonuses should be considered for this exemption.

4.5 Severance pay, gratuity or similar benefit

Severance pay, gratuity or similar benefit, other than a pension or cash in lieu of leave, which is paid to an employee on the cessation of his or her employment, where his or her employment has ceased due to retrenchment

- where the package is in ZWL, the exempt portion is the greater of ZWL5 000 000 or one third of the package up to a maximum of ZWL18 750 000.
- where the package is in USD, the exempt portion is the greater of USD3 200 or one third of the package up to a maximum of USD15 100.

4.6 Relocation Allowance / Passage Benefit

Relocation allowance (Passage benefit) is exempt if it is paid in connection with either:

- Taking up of employment with an employer
- Termination of such employment with that employer.

One can only get an exemption when you first take up employment or on your first termination of employment with an employer.

For each employee you only enjoy the benefit once, but throughout one lifetime he can enjoy that benefit for as many times as one changes employers. Note that if you go back to a previous employer then you are no longer covered if you once enjoyed a tax-free relocation allowance.

5. Tax deductions

5.1 Pension, NSSA and Retirement Annuities Combined.

The maximum allowable deduction for pension contributions has been increased to ZWL1 500 000 or USD3 000 per annum.

5.2 Subscription contributions, Trade Unions and NEC Levy

Amounts paid to approved associations by employees registered with such an association are tax deductible.

(Subscriptions to sporting or recreation clubs is not tax deductible)

Income Tax Act (CAP 23:06) Section 15, Paragraph (s) allows the deduction of subscriptions in respect of membership of business, trade, technical or professional associations. Note that the deductions of the fees can be allowed to Clients in employment whether or not it is a condition of the employer that they be members of any association. The reference to "continued membership" rules out any allowance in respect of entrance fees. Note also that the subscriptions need not be related to the trade carried on – e.g., a chartered accountant turned farmer can still claim the annual subscription to the Institute.

Contributions by employees to industrial councils and trade unions may be allowed in full in terms of this paragraph.

5.3 Tradesman Tools

The full amount of the tools purchased is tax deductible. The employer should keep the receipts for at least 6 years.

5.4 Donations

Donations made by an employee to:

- the National scholarship fund;
- the National bursary fund;
- charitable trusts responsible for Social Welfare or Health; or
- the state, for use in purchasing of medical equipment, drugs or hospital construction or maintenance should be treated as tax deductible.

6. Tax Credits

Credits are meant to reduce the tax payable and therefore increase disposable income for the taxpayer. Credits are designed for specific categories of taxpayer to address special social welfare needs such as expenses towards improvement or maintenance of health and/or the control of permanent physical, mental and visual disability.

If a credit result in negative PAYE, the credit should be limited, and the excess should be carried over to the next pay period. PAYE may not be negative due to credits given. Any excess in December fall away.

6.1 Elderly Person's Credit

Employees over 55yrs – ZWL450 000 (USD900) per year.

The Age Credit is granted to employees who attained the age of 55 years **prior** to the commencement of the year of assessment. This age limit was reduced from 59 to 55 years by the Finance (No.3) Act 10 of 2009 with effect from the 8th January 2010.

Where the assessment period is less than 12 months, the amount (credit) shall be reduced proportionately.

The tax return should be accompanied by proof of the taxpayer's age in the form of a birth certificate or national identification card showing the date of birth.

6.2 Blind Person's Credit

The credit for this category is ZWL450 000 (USD900) per annum spread over 12 months.

To qualify, the person claiming the credit must have medical proof supplied by a specialist medical practitioner, specifying the degree of his blindness. If an employee becomes blind during the year, they should be given the full credit, not pro rata.

A non-resident individual who is blind person can claim this credit.

6.3 Mentally or physically disabled person's credit

The credit for this category is ZWL450 000(USD900) per annum spread over 12 months

To qualify, the person claiming the credit must have medical proof supplied by a specialist medical practitioner, of permanent substantial disability (which excludes blindness, for which a separate credit is available). Temporary disability such as is caused by injury due to an accident or illness for which rehabilitation or cure can reverse the condition does not qualify as disability for purposes of the credit.

If an employee becomes disabled during the year, they should be given the full credit, not pro rata.

Disabled person's credit is not applicable to non-residents and blind taxpayers.

When calculating tax credits, note that blindness is not considered a disability. If an employee is blind and has another disability, then he is entitled to both the Blind person's credit and the Disabled person's credit.

6.4 Credit for Cost of Purchasing Invalid Appliances (Residents Only)

The credit for this category is 50% of the total cost of the appliance used by the taxpayer, his/her spouse or any of his/her children including legally adopted children in respect of any of the following appliances:

- a wheelchair,
- any artificial limb, leg callipers or crutch; or
- any special fitting for the modification or adaptation of a motor vehicle, bed, bathroom or toilet to enable its use by a person suffering from a physical defect or disability; or
- spectacles or contact lenses

The taxpayer should complete a return and attach evidence of such purchase and proof of the cost thereof. Please note that this credit is open to residents of Zimbabwe only.

6.5 Medical Aid Expenses (Residents Only)

50% of medical aid expenses paid by the employee can be deducted from income tax.

All contribution or payments made should have been in respect of the taxpayer, his spouse and

children.

The items are included:

- services rendered by a medical or dental practitioner to an employee, his spouse or children;
- drugs and medicine supplied;
- accommodation, maintenance, nursing and treatment in or at hospital, maternity-home, nursing-home, sanatorium, surgery, clinic or similar institution;
- conveyance by ambulance; and
- Contributions paid to a medical scheme/fund, including medical shortfall.

Medical Shortfall

If an employee belongs to a Medical Aid Scheme, but the Medical Aid Fund does not cover all the medical costs, the amount paid in by the employee to cover the shortfall qualifies for the Medical Expenses Credit.

Tax credit amounts for shortfall payments only apply for Main Member and direct family members – spouse and children.

In submitting a tax return, the taxpayer should attach evidence of the expenses claimed in their original forms.

To claim the medical expenses credit, the taxpayer must have been ordinarily resident in Zimbabwe in the period of assessment.

Medical expenses refer to an amount that has been paid by the employee herself and will not be refunded from any source whatsoever. If someone else pays for you then you do not get the credit at all.

7. National Social Security – NSSA

Operations by NSSA started in October 1994 with two schemes: The National Pension Scheme (NPS) and the Workers Compensation Insurance Fund (WCIF) also known as The Accident Prevention Scheme.

These two schemes cover members in formal employment and are therefore referred to as occupational schemes.

7.1 Pension and other benefits scheme (NPS)

This is based on a 50/50 contribution from the employers and employees. Workers are entitled to a number of benefits after contributions for a minimum set period and after meeting the qualifications of each of the benefits.

This scheme is important as it provides some form of security during retirement, invalidity or death of a breadwinner who was a member of the scheme.

It is a compulsory requirement that every working Zimbabwean above the age of 16 years and below the age of 65 who is in a permanent, seasonal, contract or temporary employment joins this scheme and contribute towards it. However, domestic workers and the informal sector are not included.

7.2 Contributions

- The employee contribution rate will be 4.5% of the actual basic salary in the month, subject to the prevailing ceiling for the insurable earnings.
- The employer contribution rate will be 4.5% of employee's actual basic salary in the month, subject to the prevailing ceiling for the insurable earnings.

Actual basic salary means the basic salary earned by that employee in that month.

If there is any back pay on the basic salary in the reporting month, then it should be added to the current basic salary for the calculation on the WCIF and NPS.

The maximum amount of monthly insurable earnings in respect of which contributions are payable shall be 75% (seventy-five per cent) of the previous month's Total Consumption Poverty Line (TCPL) for an average of five persons per household. Where the TCPL figure is not available or published, the last published figure remains applicable.

The national TCPL figures are published by Zimbabwe National Statistics Agency (ZIMSTAT) and accessible on [**www.zimstat.co.zw/pdl/**](http://www.zimstat.co.zw/pdl/)

NSSA will in turn publish the quarterly insurable earnings applicable for each month by the 1st of each month on the NSSA website [**www.nssa.org.zw**](http://www.nssa.org.zw)

This means that the insurable earnings ceiling in the payroll system will need to be reviewed on a quarterly basis.

7.3 Accident, Prevention and Workers Compensation Scheme (WCIF)

The worker's compensation scheme administered by the National Social Security Authority is intended to cushion employees and their dependants against financial consequences of injuries caused by work-related accidents.

The scheme is employer-funded insurance that provides financial relief to employees and their families when an employee is injured or killed in a work-related accident suffers from a work-related disease or dies from such a disease.

All employers, except for the government, informal sector employers and domestic workers are required by law to contribute to the scheme.

When an employer commences business he or she is required to go to the nearest NSSA office to complete registration forms indicating estimated earnings of his or her employees.

The scheme is fully funded by Employers, no employee contributes towards the scheme.

The minimum insurance premium the employer is required to pay will be calculated using a risk factor related to the line of business the company is involved in.

The premium is calculated as a percentage of the actual basic salary earned by the employees. The percentage may vary from year to year.

The insurance year runs from January 1 to December 31 every year.

7.4 Foreign Currency Remittances [SI 393/93 Section 11(4)]

Section 11 (4) provides that any person in Zimbabwe who earns remuneration in a currency other than that of Zimbabwe is required to pay his contributions in foreign currency.

(a) For the purposes of applying contribution rates, the income earned in USD should be converted to its equivalent ZWL at the interbank rate prevailing when the income is paid.

(b) If income is denominated in a foreign currency other than the USD, the equivalent amount in USD shall be calculated using the international cross rate of exchange of that currency in USD prevailing on the day the income is paid.

(c) Where an individual earns remuneration in a combination of USD and ZWL, for the purposes of calculating contributions due, the incomes earned shall be treated separately as in (a) and (b) above

www.nssa.org.zw/

8. National Aids Trust Fund – AIDS Levy

The National Aids Trust Fund (NATF) commonly known as the National Aids Levy was introduced by the Government in 2000 through the National Aids Council Act Chapter 15/14 of 2000. The Act mandated individuals and companies in Zimbabwe to pay 3% of their income and corporate tax toward the NATF which would be used to finance various programs to respond to the HIV and AIDs pandemic.

In addition to the PAYE the employee contributes the Aids levy, currently 3% of the PAYE amount after deducting the applicable credits.

Values deducted should be reported on ZIMRA form P2 as part of the Employer Remittance.

www.nac.org.zw/

9. ZIMDEF – Manpower Development Fund

There has been some degree of confusion regarding your liabilities which are payable in terms of Section 53 (1) of Manpower Planning and Development Act No 24 of 1994. Levy is calculated as **1%** of the TOTAL GROSS WAGE BILL which includes the following:

- Salaries and wages of all employees and agents;
- Cash in lieu rations;
- Any bonuses paid in terms of a contract of services or for work performed;
- The employer's pension and medical aid contributions;
- Cost of living, housing, holiday, education, climatic and other allowances of similar nature.
- Leave pay;
- Commissions;
- The value of free food, free quarters, including rent paid on behalf of any employees, electricity, water and any other remuneration in kind;
- Director's fees and all other pre-tax emoluments paid to directors;
- Any other remuneration or moneys that may be specified in statutory Instrument in terms of subsection (2)

The leviable income should exclude Gratuity, Long Service Awards & Retrenchment Package.

Levy is payable on monthly basis and any delay attracts a surcharge and interest.

www.zimdef.org.zw/

10. Standards Development Levy

The Standards Development Fund was established through the Act of Parliament No. 3 of 1987.

The Minister of Industry and Commerce is empowered to impose a levy of 0.5% of the total remuneration payable by the employer to his employees. The payments are paid four times a year as follows: due on January 15th, 15th April, 15th July and 15th October each year.

Only the employer contributes towards this fund.

The amount to be declared as “remunerations” must include:

- Salaries and Wages
- Cash in lieu of rations
- Any bonus paid in terms of a contract of employment
- Cost of living, housing, transport, education and climatic allowances and other allowances of like nature.
- Leave Pay
- Commission
- Value of free food & free quarters including rent, electricity and water paid on behalf of any employee and any other remuneration in kind.
- Director’s fees and all other pre-tax emoluments paid to directors.

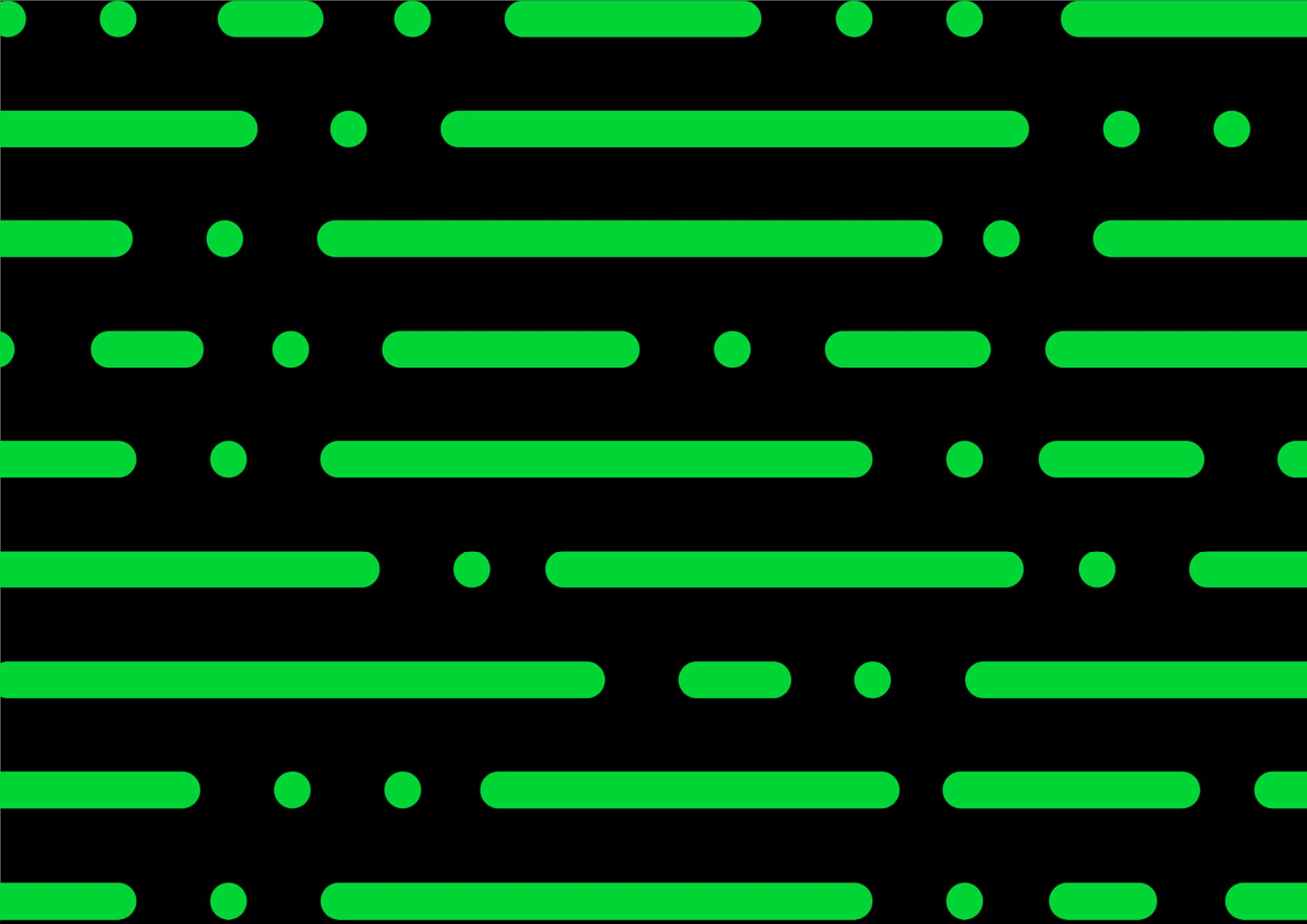
The main function of the Fund is to collect a levy of **0.5%** and distribute it to beneficiaries who are involved in the development and promotion of standards and quality of goods and services.

The Levy is receipted at the three regional offices: Harare Mutare & Bulawayo

www.miit.gov.zw/

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