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General Notice 274 of 2010.¹

REVENUE AUTHORITY ACT [CHAPTER 23:11]

**Provisional General Ruling Conversion of Closing Balances for
Tax Purposes**

NOTICE is hereby given, in terms of section 34D of the Revenue Authority Act [Chapter 23:11] as read with paragraph 10 to the Fourth Schedule of the same Act, that the Commissioner-General of the Zimbabwe Revenue Authority has issued the following binding general ruling:—

Purpose of ruling

1. The purpose of this general ruling is to provide guidelines on how the Commissioner-General shall exercise his discretion in approving rates of exchange applied in converting the 2008 closing balances that were expressed in Zimbabwean dollars to US dollars, for taxation purposes.

Background

2. (1) The transition from the Zimbabwean dollar currency to the multi-currency system has presented challenges to both the Tax Authority and Taxpayers, including that of determining value of balances of items that have an impact on the 2009 accounts and Income tax returns in US dollars.

(2) The Finance Act, 2009, (No. 5 of 2009) gave the taxpayers latitude to work-out the rates of exchange applicable to their varying circumstances.

(3) The Act gave the Commissioner-General the authority to manage the process and the tax consequences by approving the rates of exchange put forward by taxpayers.

¹ This notice was published in the Zimbabwean Gazette dated 1st October 2010.

(4) The Act also requires the Commissioner-General to issue a general binding ruling on the manner in which he or she shall exercise this discretion.

Relevant law

3. (1) Section 34D of the Revenue Authority Act [*Chapter 23: 11*] as read with the Fourth Schedule to the Revenue Authority Act gives the Commissioner-General of the Zimbabwe Revenue Authority (ZIMRA) powers to make advance tax rulings on any provision of that Act, whether on his own initiative or on application by any person interested in a transaction that is or may be liable to tax.

(2) Section 4A of the Finance Act [*Chapter 23:04*] effective from the 1st January, 2009, obliges every individual, partnership, company, trust, pension fund or other juristic person to express any final balance for the financial year ending 31st December, 2008, in "United States dollars at such rate of exchange as the Commissioner may approve".

(3) The same section provides that; ". .the Commissioner-General shall . . . issue a binding general ruling on the manner in which he or she shall exercise his or her discretion."

Scope of this ruling

4. This ruling will only apply to movable and immovable assets, trading stock and assessed losses. The ruling shall not apply to outstanding Zimbabwe dollar monetary balances such as, bank balances, creditors, debtors, and other liabilities as at 31st December, 2008, which should reflect actual values agreed by the parties to the transaction.

Taxable income accrued in foreign currency

5. (1) Where it is proved that the taxpayer's income for the period prior to 1st January, 2009, was received or accrued in foreign currency and the financial statements were prepared in foreign currency, the Commissioner-General will ,subject to subsections (2) and (3), accept reasonable closing balances in foreign currency as opening balances for the 2009 tax year in terms of subsection (4) to section 4A of the Finance Act [*Chapter 23:04*].

(2) In the case where the financial statements were prepared in denominations other than the United States dollars the Commissioner-General will accept the use of international cross rate of exchange as at 31st December, 2008, or such other rate as will give substantially similar results.

(3) In the case where the financial statements were prepared in Zimbabwean dollars, the Commissioner-General will accept the use of the same rate as was used to convert

the foreign currency transaction or balances into Zimbabwean dollars or such other rate as will give substantially similar results.

Taxable income accrued in Zimbabwe dollars

6. The Commissioner-General will approve rates of exchange whose net effect will achieve the following—

(a) Assets acquired or constructed in foreign currency:

Balances equal to the cost in foreign currency, less notional wear and tear claimable to 31st December, 2008.

(b) Assets acquired or constructed in Zimbabwean dollars Z\$:

Balances in foreign currency that is approximately equivalent to the replacement value, less notional wear and tear claimable to 31st December, 2008.

(c) Trading stock acquired in foreign currency and recorded in Zimbabwean dollars Z\$:

Where trading stock was initially acquired in foreign currency but recorded in Zimbabwean dollars, the Commissioner-General will accept the use of the same rate as was used to convert the foreign currency transaction or balances into Zimbabwean dollars or such other rate as will give substantially similar results;

(d) Trading stock acquired in Zimbabwean dollars Z\$:

Where trading stock was acquired and recorded in Zimbabwean dollars the Commissioner-General will accept the use of an exchange rate that results in a value in foreign currency approximately equivalent to the replacement value.

Assessed losses

7. For all assessed losses in Zimbabwean dollars as at 31st December, 2008, the Commissioner-General will accept the use of an exchange rate that is based on an average of the exchange rates contained in paragraphs 5 and 6 above or any other rate that would give a result which closely approximate the loss in foreign currency had the financial statement to which the losses relate had been prepared in foreign currency.

Submissions

8. Any person affected by this ruling may lodge submissions with the Commissioner-General thereto in writing addressed to the Commissioner-General ZIMRA Head Office, ZB Centre, 6th Floor, corner Kwame Nkrumah Avenue/First Street, Harare, P.O. Box 4360, Harare, or on e-mail pr@zimra.co.zw.

G. T. PASI,
Commissioner-General.
1-10-2010.