



**MONTHLY  
TAX  
UPDATE**

**March 2023**

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# Monthly Tax Update - March 2023

We are honoured to present our March 2023 Monthly Tax Update (“MTU”) which is designed to keep businesses and individuals informed of the latest tax issues and bring value to both.

Each month we will consider the latest changes to the tax rules – legislative, case law, and Authorities announcements and interpretations that bring relevancy to the business environment. Monthly Tax Updates ensure that our valued members are kept in tune with changes in the tax arena. They provide you with an opportunity to stay on top of developments that directly and indirectly affect you and your clients/business. The focus is on key guidance from legislation, tax agencies and the courts that represent new interpretations, as well as guidance on new laws.

The updates are accompanied by an insightful commentary pointing out the key takeaway points from the material. Aside to what our regular Newsletters provide, MTUs are meant to help you:

- Identify new tax planning opportunities.
- Keep you updated with all changes in the tax world.
- Keep you aware of current revenue and fiscal announcements and interpretations.
- Recognize pitfalls many professionals miss.
- Minimize compliance errors and offer practical and effective tax solutions.

The contents of this month's MTU edition are as follows:

- Value of money on person when leaving Zimbabwe
- Inflation indexing in hyper reporting.
- Landmark court ruling on accommodation and meals benefits.
- Two returns despite trading in one currency
- Tax issues of insurance contracts (IFRS17)
- Accounting for VAT on fringe benefits
- Payroll issues of passage benefits
- Returns to be filed in currency of trade.
- Guidance on computing QPDs for 2023
- ZIMRA exchange rates for income tax purposes



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## 1. Matrix Group News!

### 1.1 Inaugural Insurance Tax Indaba

Matrix Tax School in partnership with the Insurance and Pension Funds Commission (IPEC), the Zimbabwe Revenue Authority (ZIMRA) and Public Accountants and Auditors Board (PAAB) hosted the first ever Insurance Tax Indaba on the 15th of March 2023, at Cresta Sango (Msasa). On agenda were IFRS 17 adoption in financial reporting of insurance contracts, Tax Aspects on Implementation of IFRS 17 and the general and trending tax issues of the insurance sector. The Indaba which will be an annual event, and aims to forward the advancement of tax and accounting education within the insurance sector for promotion of sustainable growth in investment and tax revenue mobilisation. A dossier with key matters discussed at the Indaba will be circulated in due course.



## 1.2 Income Tax and Transfer Pricing Seminar



26 April 2023

# Income Tax & Transfer Pricing Seminar



CRESTA SANGO



8.30am - 4pm

Matrix Tax School is inviting you or any of your nominated person to its full day Income Tax and Transfer Pricing Seminar. The seminar seeks to demystify the new laws on preparation and submission of 2 income tax returns for December 2022, transfer pricing considerations on filing income tax returns and the computation of 2023 QPDs:

### Topics for discussion

- Practical examples on computation of income tax liability for December 2022
- Forecasting and computing QPDs for 2023 year of assessment
- Demo completion and filing of income tax return (ITF12C)
- Transfer Pricing adjustments on income tax return (ITF12C)
- Practical example on preparation of Transfer Pricing Return (ITF12C2)
- Returns and filing requirements when trading in a single currency.
- Filing requirements for dormant and shelf companies
- Latest Transfer Pricing Developments and preparedness
- The 2 Business Partner Numbers and practical considerations

### Investment Per Delegate

- US\$100 - MTU Members
- US\$120 - Non-Members



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## 2. New Legislative Provisions

### 2.1 Value of money on person when leaving Zimbabwe.

#### Background

The Reserve Bank of Zimbabwe, in terms of section 40 of the Exchange Control Regulations, 1996, and with the approval of the Minister of Finance and Economic Development, made the Exchange Control (General) (Amendment) Order, 2023 (No. 20) to stipulate new ZWL values that may be taken by a person or in the baggage while leaving Zimbabwe without authorization.

#### Law and interpretation

The maximum amount of ZWL notes and coins that may be taken out of Zimbabwe on the person or in the baggage of a person leaving Zimbabwe without authorisation shall be an equivalent of USD1,000, at the prevailing interbank exchange rate, in the case of demonetised notes and coins. In the case of foreign currency, the amount shall be a total of USD 10,000 or its equivalent in any other currency or combination of currencies, or gold coins.

#### Decision Impact

Taxpayers are warned that it is illegal to leave Zimbabwe with more than US\$10,000 (or equivalent) in cash unless it is left over from funds that one has brought into Zimbabwe and declared on arrival. Proof of declaration should be kept in order to avoid problems with officials on exit. These controls allow the country to better stabilize the economy by limiting out-flows of currency. In the event of the limit being exceeded, the traveler can be arrested and charged with money laundering. Money laundering is a serious offense in Zimbabwe, punishable by a fine or imprisonment, or both. The exact penalty will depend on the amount of money being laundered. Additionally, the un-declared funds will be seized by ZIMRA, and the traveler may have to undergo a lengthy investigation to prove the source and purpose of the funds.

### 2.2 Inflation indexing in hyper reporting.

#### Background

The Minister of Finance and Economic Development, in terms of section 24(2) of the Census and Statistics Act [Chapter 10:29], made a notice through SI 27 of 2023 relating to the definition of inflation and how it is measured.

#### Law and interpretation

The SI redefined the “rate of inflation” as the general increase in price levels of goods and services measured as a weighted average based on the use of Zimbabwean dollars and United States Dollars over a period. The new blended rate resulted in abandoning the publishing of ZWL\$ inflation rates. Entities will therefore have no reference for indexing their ZWL\$ financials.

#### Decision Impact

Blended rate aligns financial reporting to the multicurrency trading and is likely to result in a true and fair in financial measurement and reporting in terms of IAS 29 (Hyper Inflation Reporting) which will be useful in investor decision making process.



## 3. Court Case

### 3.1 Landmark court ruling on accommodation and meals benefits.

Case name	ZIMPLATS v ZIMRA Case No. SC 16/23
Summary of facts	<ul style="list-style-type: none"> <li>• Zimbabwe Platinum Mines (ZIMPLATS) is a company duly registered in terms of the laws of Zimbabwe and is the mining of Platinum in Zimbabwe.</li> <li>• The company built Ngezi, Mupani and Eagle's Nest villages which accommodate employees on shift whereupon they receive free accommodation and meals.</li> <li>• The company gives packed meals to employees who will be on shift in the mines.</li> <li>• Employees take 15-minute breaks to eat packed meals whilst on shift.</li> <li>• ZIMRA carried out a tax review for the ZIMPLATS payroll and assessed the company to PAYE on the said accommodation and meals.</li> <li>• ZIMPLATS objected to the assessments arguing that the employees were not deriving any benefit since the said items were purely designed for the employer's business.</li> <li>• The objection was disallowed resulting in ZIMPLATS approaching Special Court for Income Tax Appeals for determination, but the court stood with the ZIMRA decision.</li> <li>• Unhappy with this, ZIMPLATS approached the Supreme Court hence this court case.</li> </ul>
Jurisdiction	High Court of Zimbabwe
Issues	<ul style="list-style-type: none"> <li>• Whether the Special Court for Income Tax Appeals erred in law by holding that the meals and accommodation provided to employees constituted a taxable advantage or benefit in terms of s 8 (1) of the ITA.</li> <li>• Whether ZIMRA assessments were justified in terms of the law</li> <li>• Whether s 8 (1) (f) of the Income Tax Act contained an exception to the effect that advantages or benefits used, enjoyed or consumed by employees for purposes of the employer's business transactions are not taxable.</li> </ul>
Decision date	• 9 March 2023
Decision	• The Special Court in respect of the taxation of the employees for the benefits given to them at the ZIMPLATS' villages and mines is set aside and is substituted

#### The Facts

Upon establishing its mines, ZIMPLATS built Ngezi, Mupani and Eagle's Nest villages where it accommodates and provides packed meals to employees on shifts. The employees on shift in the mines are only given 15 minutes breaks to eat their packed meals before continuing with their duties. The villages can only be accessed by employees whom it will have authorised to be accommodated there for the periods they will be on shifts and waiting to go on shifts. The company completes forms authorising the admission of employees going on shifts into its villages. The villages do not have individual cooking facilities for the employees and so ZIMPLATS provides the employees in the villages with meals. The villages can only accommodate employees and they do not accommodate the employees' dependents. An employee can only stay in the villages while on shift or waiting to go on shift. When an employee is off duty, they have to go back to their own accommodation. ZIMRA carried out a tax review audit of the company and assessed it to PAYE and penalties for failure to withhold pay as you earn tax on the said accommodation and meal packs. The company filed an objection against the assessment with the Commissioner which was disallowed and eventually appeal to Special Income Tax of appeal which sided with

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Commissioner. The company's bone of contention has always been that the employees were not deriving any benefit from the accommodation arrangements as they were purely designed for the employer's business transactions. On the other ZIMRA's argument, which the Special court upheld, was that the assessments had been done in terms of the law since the employees were getting a benefit from the free accommodation and meals and they were relieved of the financial burden of paying for their own accommodation and buying their own meals. ZIMPLATS was aggrieved by the decision of the Special Court for Income Tax Appeals. It appealed against the decision at the Supreme Court, hence the current court case.

### Competing arguments

Zimbabwe Platinum Mines	
Whether the Special court of appeal erred in its judgement	<ul style="list-style-type: none"> <li>• That the Special Court of Appeal erred in its judgement</li> <li>• That s8(1)(f) of the ITA contained an exception to the effect that advantages or benefits used, enjoyed or consumed by employees for purposes of the employer's business transactions are not taxable.</li> <li>• That the benefits it provided to its employees in the mines and villages were not taxable since they were provided for the employer's business transactions.</li> <li>• That the circumstances surrounding its operations requires that they be provided with temporary accommodation and meals on site for the employer's benefit.</li> </ul>
ZIMRA	
Whether ZIMRA assessments were justified in terms of the law	<ul style="list-style-type: none"> <li>• That the employees enjoyed a benefit that was unrelated to the services they rendered.</li> <li>• That they ought to be taxed on the benefits they received from ZIMPLATS.</li> <li>• That they ought to have found their own accommodation in neighboring towns.</li> <li>• That the benefits provided by ZIMPLATS were not in its line of business and were mainly for the convenience of the employees.</li> <li>• That they have a value that is taxable in terms of s 8 (1) of the Income Tax Act</li> </ul>

### Court reasoning and decision

Whether there are exceptions to taxable benefits and the court erred in its decision.	<ul style="list-style-type: none"> <li>• That the advantages or benefits received by the employees of ZIMPLATS fall within the broad definition of the term gross income.</li> <li>• That the advantages also fall within the exemption under s 8 (1)f of the Act.</li> <li>• That the previous court erred when it held that the accommodation and meals provided by ZIMPLATS serve as a financial relief.</li> <li>• That therefore there is no taxable benefit in the hands of the employees.</li> <li>• That the provision of food to employees working in the mines is for the benefit of the employer's business.</li> <li>• That ZIMPLATS will have brought the employees from their own accommodation and confined him/her in its own accommodation for the efficient running of its mines.</li> <li>• That the meals and accommodation are exempt in terms of s 8 (1) (f) of the same Act.</li> <li>• That the Special Court correctly found that the meals and accommodation fit in the definition of gross income in terms of s 8 (1)(f) of the ITA.</li> <li>• That it however erred in holding that they do not fall within the exemption provided for by s 8 (1) (f) of the ITA.</li> </ul>
Decision	<ul style="list-style-type: none"> <li>• That the appeal has merit</li> <li>• The decision of the Special Court for Income Tax Appeals in respect of the taxation of the employees for the accommodation and meals given to them at the ZIMPLATS's villages and mines is set aside.</li> <li>• That the appeal succeeds with no order as to costs.</li> </ul>



### Decision Impact

The decision will be well received by taxpayers, especially by miners who give maheu and other food packs to employees going underground. The decision also follows on the heels of a successful appeal in IAB Company vs ZIMRA HH 32-22 where it was held that the meals provided to employees provided more beneficial to the employer as they were designed primarily to meet the business objectives of the employers rather than to create an advantage or benefit in the hands of the employee i.e., they are non-compensatory. IAB was providing canteen meals to its factory who existed the factory floor for a 15 minutes break to consume meals in a canteen. Accordingly, taxpayers should be able to prove that the benefits they give to their employees are necessitating ongoing operations of the business to justify exemption since not all benefits are taxable.



## 4. Technical Issues

### 4.1 Two returns despite trading in one currency.

#### Background

ZIMRA has introduced a separate business partner (BP) number to be used for processing of foreign currency returns. This was triggered by the new section 37AA of the Income Tax Act which requires separate income tax returns to be rendered where any part of income from trade or investment is earned in foreign currency.

#### The Law and Interpretation

The foreign currency BP numbers and respective contract accounts were automatically created by the ZIMRA system. The ZIMRA through public notices no.13, 14 and 15 have also instructed for the submission of two returns for income tax, PAYE and VAT respectively. Even if the person has not traded in the other currency a nil return should be filed. ZIMRA public notice 17 specifically states each return is to be submitted on the E-Taxes platform in its currency without that need to convert. The ZIMRA has been silent regarding whether taxpayers will be penalised for not submitting nil returns and the two sets of returns in respect of tax heads required in terms of the law to be paid exclusively in ZWL\$ such non-resident tax on fees, nonresident tax on royalties, shareholders' tax, non-executive director tax on fees to mention but a few.

#### Decision Impact

The introduction of two BP numbers and the mandatory submission of two returns brings about complexity and cost in tax administration. Taxpayers are however encouraged to have mechanisms in place that enable compliance with the status quo. Those that are yet to secure ZWL BP number should follow the normal BP registration process.

### 4.2 Tax issues of insurance contracts (IFRS17)

#### Background

The adoption of IFRS 17 on 1 January 2023 is the most significant change in financial reporting for insurers. The question is whether its adoption would also have an impact on the taxation of insurance contracts going forward. The taxation rules for insurance business are ring fenced to the rest of other businesses and are in terms of s 20 as read with 8th Schedule to ITA. Separate taxation rules also exist between short term insurance and life insurance business. Taxation of short-term insurer is based on cash basis namely premium and other incomes received plus recoveries +/- unexpired risk reserve (URR) LESS claims incurred, reinsurance premium paid, and operating expenses incurred. Whereas the income tax liability of a life insurance is based on actuarial liabilities that is average life actuarial liabilities multiplied by Internal Rate of return on investment (IRR) Plus/(Minus) profit/(loss) on sale of Zimbabwe investments LESS allowance for investing in prescribed asset. The critical question is whether IFRS 17 would warrant a revisit of the tax principles for insurance business for any alignment needed.

#### Law and Interpretation

IFRS 17 replaced IFRS 4 and established new principles for entities to account for insurance contracts. It significantly altered the measurement of income from insurance contracts, particularly those that relate to life and other long-term insurance contracts. Under IFRS 17, reserves will continue to be determined actuarially when insurance contracts are sold. However, IFRS 17 introduced a new reserve, the contractual service margin (CSM), which represents a portion of the profits on underwritten insurance contracts that is deferred and gradually released into income over the estimated life of the underlying group of insurance contracts. Essential insurance revenue will now be reported on the basis of what has actually been earned or received during the period. Reserve for future risks will now be reported as a single line item called liability for remaining coverage (LRC) and the reserve for past risks (comprised of IBNR, IBNER, NOC etc.) will now be reported as one line item called liability for incurred claims (LIC). The changes as envisaged will result in the disappearing of URR, a critical adjustment in the determination of income tax liability of a short term insurer, but otherwise the taxation of short term insurance will remain the same. From life insurance perspective, nothing changes other than the fact that liabilities will be measured differently which might result in a very different profile of tax payment to ZIMRA from the industry

## Decision Impact

A move to IFRS 17 demands a revisit by the government of terminology as per current Income Tax Act for alignment. In fact income tax rules of the insurance sector, which remained constant since 1967 despite demutualisation of the sector in the 1990s, introduction of new and hybrids products, changes in the trading rules etc, requires a major overhaul. Short term insurers in the interim should be able identify the component of URR within LRC so that they continue to enjoy this tax incentive.

## 4.3 Accounting for VAT on fringe benefits

### Background

VAT is levied on all supplies by registered operators regardless of whether they are made to employees or external third parties. This makes the supply of fringe benefits by an employer to its employees VATABLE.

### Law and Interpretation

Section 17 (3) of the VAT Act provides for the collection of VAT on fringe benefits supplied by an employer to its employees. Therefore, where an employer who is a registered operator gives its employees fringe benefits, there is a deemed supply for VAT purposes unless the benefit has come about as a result of any supply of goods or services which are exempt or zero rated in terms of ss 10 and 11 respectively of the VAT Act or is a supply of entertainment. Consideration for the supply of fringe benefits for purposes of s17(3) is determined by reference to the value of the fringe benefit to the employee or cost to employer in accordance with the provisions set out in s 8(1)(f) of the Income Tax Act. A registered operator should compute output tax by multiplying the fringe benefit per payroll by the tax fraction, 15/115. In summary, the VAT to be included in the VAT return is 15/115 of the value used for payroll purposes. Henceforth, the VAT should be paid in the currency in which the fringe benefits are payable to the employees. The output tax should be completed in line 13 (V33) of the VAT return.

## Decision Impact

The supply of fringe benefits by employers to their employees would give rise to output tax. Since the values used for payroll purposes are the same as those used for VAT purposes, the two records must always agree. The provision of fringe benefits which are neither a good nor services such as cash is not subject to VAT.

## 4.4 Payroll issues of passage benefits.

### Background

Remuneration includes any amount which is equal to the value of any advantage or benefit in respect of employment services or other gainful occupation in connection with taking up employment whether in cash or in kind exclusive of benefits that are paid for the convenience of the employer.

### Law and Interpretation

A passage benefit is a cost borne by an employer towards any journey by an employee, his spouse, and children in connection with taking up or termination of employment and any other journey made by the employee during his employment in so far as it is not made for the purposes of a business transaction of the employer. All recruitment and repatriation related trips by the employee should be taxed to the employee to the extent that they are paid by the employer. The first journey on taking up employment and on termination of employment, with each employer, shall not be taxed to the employee. These are relocation expenses to take up or on termination of employment paid for by the employer. They include cost of conveying the employee and family and reasonable settlement costs e.g., occupation in a hotel whilst suitable accommodation is being sought. When the employee continues to stay in a hotel or a guest house after expiry of a reasonable period the benefit will start to accrue and also on the provision of meals during the same period. Home trips provided to employees are normally for holiday purposes and they constitute taxable income.

## Decision Impact

The rules stated above equally apply to resident and non-resident employees. Meanwhile, expatriates and non-resident should take note that their regularly home visits on the employer's ticket are taxable benefits. Additionally, all trips whose time is less than 10% on the business of the employer are private trips and are taxable benefits.



## 5. Announcements and Interpretations

### 5.1 Returns to be filed in currency of trade.

ZIMRA issued public notice 17 of 2023 reminding payment of taxes in the currency of trade. This follows the creation of separate BP numbers, which begin with a “3” for the remittance of tax in foreign currency. The notice has stated that foreign currency returns are to be lodged in foreign currency without converting to ZWL. The returns are to be submitted using ZIMRA E-Taxes Platform and selecting USD Dropdown.

#### Decision Impact

In summary P2, VAT7 return and income tax returns (ITF12C, ITF12C2 and ITF12B) for foreign currency transactions should indicate foreign currency figures. Whilst this may be straightforward for P2 and VAT 7 return, there are practical considerations in respect of income tax returns. The implications are that net profit before tax as per financial statement can no longer be the starting point when computing tax liability if items such as sales, opening stock, purchases, closing stock and expenses which required to be disclosed on the ITF12C return are to be reported in the currency of return. A further headache is with respect to the splitting of the balance sheet (statement of financial position) in support of the ITF12C and ITF12C2 returns. That is, which balance sheet figures to enter on these returns whether to split the balance sheet items and convert to currency of return or not.

### 5.2 Guidance on computing QPDs for 2023

Zimra reminds all taxpayers through public notice 19 of 2023 that for the calculation of provisional tax for each QPD, they are required to estimate the annual tax due and calculate the percentage of tax for the respective quarter. The annual estimated tax should be adjusted depending on the business's performance to update the estimates every quarter. Completed provisional income tax returns (ITF12B) are submitted via relevant email addresses selected from the list provided on the Zimra website. In calculating provisional tax for 2023, taxpayers are required to use the Quarterly Average Auction Exchange Rate (QAAR). Given the fixed dates of the QPDs, the QAAR shall be determined as follows: 1st QPD - 1 Jan 2023 to 20 Mar 2023; 2nd QPD - 23 Mar 2023 to 20 Jun 2023; 3rd QPD - 21 Jun 2023 to 20 Sept 2023; 4th QPD - 21 Sept 2023 to 15 Dec 2023. The daily exchange rates are summed up and then the average is determined. Two ITF12B returns are required each period.

#### Decision Impact

There are multiple impediments in forecasting annual tax liability among them the expected future foreign exchange rates, the proportions of trading in foreign currency and ZWL\$, the economic factors among other issues. The mere fact that s37AA of the ITA gives taxpayers option to use spot rate when computing final tax liability and yet QPDs will be based on QAAR can only also be a source of variation. Therefore, coming with the best estimate is not going to be very easy and yet when QPDs are out by more 10% margin error compared to final income tax liability, interest of 10% p.a on foreign currency (bank rate policy – currently 150% p.a ZWL) applies.

### 5.3 ZIMRA exchange rates for income tax purposes

Zimra issued public notice 20 of 2023 with exchange rates to be used for the purposes of conversion of allowable deductions to enable taxpayers to comply with the requirements for submission of two returns in terms of s 37AA of the ITA. The rates can also be accessed on the ZIMRA website.

Period	Exchange Rate
Q1 2022	121.205
Q2 2022	233.874

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Q3 2022	487.986
Q4 2022	644.458
Q1 2023	808.709
2022 year of assessment	373.632

The public notice stated further that taxpayers should check for spot rates for 2022 on the ZIMRA website and that taxpayers accounting for tax based on approved accounting years should contact their Regional Managers regarding the issue of calculation of exchange rates.

### Decision Impact

The ZIMRA is applauded for issuing the exchange rates as aforesaid which will go a long way in harmonizing tax computations and ensure equitable taxation amongst taxpayers. However, the exchange rates for QPDs for 2022 brings confusion as to what purpose they will serve especially for an already closed period. Does the ZIMRA has in store something for which it will expect to use against taxpayers? Meanwhile, taxpayers should ensure they have used an average rate of 373.632 when computing final income tax for 2022.

## 6. Disclaimer Clauses

*The information contained in this MTU is for general guidance only and is not intended as a substitute for specific advice in considering the tax effects of particular transactions. Whilst a lot of care has been taken in the compilation of the information and opinions contained in this publication, no liability is accepted for the consequences of any inaccuracies contained in this guide. The information does not constitute a legal advice, nor can it be relied on in any dispute with the tax authorities and shall not constitute any legal or tax opinion in this or any jurisdiction. The analysis contained in this MTU is based on the current legal framework which is subject to change and Tax Matrix (Pvt) Ltd, or its employees assume no obligation to update or otherwise revise the materials contained in this or any of its MTUs. In making their considerations, recipients, or people with access to the MTU are advised to make their own independent assessments, and, in this regard, to consult Tax Matrix or their own professional advisors before taking any action. The information and opinions contained in this MTU is valid as at the date of uploading on the website, preparation, or compilation, any of its contents may be subject to change without notice. The information contained and opinions contained in this MTU are for the purpose of general information (“the purpose”) and for no other purpose. The company disclaims any responsibility for the use of the information contained herein for a different purpose or context. The information contained and opinions contained herein must not be copied, published, reproduced, or distributed in whole or in part to others at any time by the recipients. Tax Matrix (Pvt) Ltd retains all intellectual copyright information contained and opinions contained in this MTU. Recipients should seek the written permission of the company before distributing copies of information and opinions contained in the MTU to third parties.*