Answers

Section A

1 D

Prescribed rate of interest – 1·5% + 5% = 6·5%
Relevant loan – $6 000
Taxable benefit – (6·5% – 2%) x $6 000 x 9/12 = US$203

Tutorial note: *Any loan which is granted by an employer for the purposes of medical treatment of the employee is not treated as a loan benefit for income tax purposes.*

2 A

Copy of proof of payment of the sales price, agreement of sale and completed return for remittance of capital gains tax (CGT1 form).

3 C

4 D

Allowable deduction of US$800 and medical expenses credit of (50% x 3 000) = US$1 500.

5 C

6 D

(10% x 10 000) = US$1 000, remittance date on the 10th day of the month following the month of payment which is 10 July 2014.

7 C

8 A

	US$
Proceeds	7 000
Elderly taxpayer's exemption (over 55)	(1 800)
Cost	(2 500)
Inflation allowance (2·5% x 2 500 x 5)	(313)
	2 387
CGT at 20%	477

9 B

2 700 + (3·5% x 700 x 12) = US$ 2 994

10 D

VAT	**US$**
Sale – net of return	
15/115 x (20 000 – 6 000) =	1 826
Passenger vehicle – deemed supply	
7 200 x 15/115 x 1/12 =	78
	1 904

Tutorial note: *The motor vehicle benefit provided to the production manager is treated as a taxable supply on which output VAT is payable based on the deemed value of the taxable benefit.*

Marks

11 B

	US$
Refund of contributions	40 000
Less: refund relating to contributions disallowed (capital)	(8 000)
	32 000

US$32 000 x 46·35% (45% + 3% AIDS levy) = US$14 832

Tutorial note: *Given the level of Ted's employment income, his marginal rate of tax for the year ended 31 December 2014 is 45%.*

12 A

13 A

	US$
Interest from commercial banks – (2 500 x 15%)	375
Dividends – (1 200 x 10%)	120
	495

Tutorial note: *Interest earned on deposits invested with the Post Office Savings Bank of Zimbabwe are exempt from income tax and thus not subject to withholding tax.*

14 C

($30 x 181 days x 100%) = US$5 430

Tutorial note: *The $30 per day penalty is chargeable up to a maximum period of 181 days after the due date of 30 April 2014.*

15 B

Gross management fees (100/85 x 35 000) = US$41 176
Foreign tax at 15% (41 176 x 15%) = US$6 176
Zimbabwe tax (41 176 x 25·75%) = US$10 603
Relief is the lesser of the two taxes = US$6 176

2 marks each **30**

Section B *Marks*

1 (a) Megan

(i) The expropriation of Megan's property by the Ministry of Transport is treated as a deemed disposal for capital gains tax purposes for proceeds equal to the compensation received. 1

(ii) Capital gains withholding tax payable

	US$	Marks
15% x 250 000	37 500	1

(iii) Capital gains tax

	US$	US$	Marks
Proceeds		250 000	½
Less recoupment on:			
Perimeter wall (30 000 – 21 000)	(9 000)		
Factory building (80 000 – 64 000)	(16 000)	(25 000)	1
		225 000	
Less:			
Cost	160 000		½
Less capital allowances (see recoupment calculation above)	(25 000)	(135 000)	½
Inflation allowance on:			
Land (2·5% x 50 000 x 6)	(7 500)		½
Perimeter wall (2·5% x 30 000 x 6)	(4 500)		½
Factory building (2·5% x 80 000 x 4)	(8 000)	(20 000)	½
Capital gain		70 000	
Capital gain tax at 20%		14 000	½
Less: withholding tax paid (from part (ii))		(37 500)	½
Tax refundable		(23 500)	
			5

(b) Tatenda

Capital gains tax – part disposal of shares

	US$	Marks
Proceeds (12 000 x $1·20)	14 400	½
Less:		
Cost (12 000/15 000 x $5 000)	(4 000)	1½
Inflation allowance (2·5% x 4 000 x 5)	(500)	½
Capital gain	9 900	
Capital gain tax at 20%	1 980	½
		3
		10

Marks

2 M&C (Private) Limited

(a) Staff costs

(i) Disallowable pension fund contributions

	US$	
Employer pension contributions (600 x 6 x 12)	43 200	1
Allowable pension contributions (5 400 x 6)	(32 400)	1
	10 800	2

(ii) Disallowable benefit fund contributions

	US$	
Employer benefit fund contributions (200 x 6 x 12)	14 400	1
Allowable benefit fund contributions (1 500 x 6)	(9 000)	1
	5 400	2

(b) Bad debt recovery

As M&C (Private) Limited (M&C) recovered amounts from its customer which had previously been treated as a bad debt for tax purposes and given tax relief in the tax return for the year ended 31 December 2013, M&C will be required to include the US$20 000 as taxable income in the year ended 31 December 2014. 2

(c) Provisional tax

	US$	
Original estimate of taxable income	300 000	
Add:		
Disallowable pension contributions (from (a) (i))	10 800	½
Disallowable benefit fund contributions (from (a) (ii))	5 400	½
Recovery from Volatile Limited (part (b))	20 000	½
Revised taxable income	336 200	
Corporate tax at 25·75%	86 572	½
Tax due on:		
25 March 2014 – 10%	8 657	½
25 June 2014 – 25%	21 643	½
25 September 2014 – 30%	25 972	½
20 December 2014 – 35%	30 300	½
	86 572	4
		10

3 (a) Advantages of voluntary VAT registration

– Allows the recovery of input tax on purchases from VAT registered suppliers
– Avoids the possibility of penalties and interest for late registration
– A VAT registration certificate is a condition for participation in government tenders
– May facilitate the issue of a tax clearance certificate from ZIMRA (as VAT compliance is a consideration)

½ mark per advantage 2

(b) Jill

(i) Latest date for registration

A trader is liable to register for VAT once the value of their taxable supplies is expected to exceed US$60 000 within a period of 12 months. Therefore, Jill should have projected her monthly sales for the year and registered for VAT once her monthly turnover exceeded the threshold of US$5 000 (US$60 000/12) per month. Therefore, she should have registered by 30 April 2014. 1

Her first VAT return should have been submitted by 25 May 2014. 1

2

Marks

(ii) Tax consequences of late VAT registration

As a result of Jill's late registration for VAT, the Zimbabwe Revenue Authority (ZIMRA) can backdate her VAT registration date to the effective date of registration. Jill would then become liable to account for output tax on her sales from 1 April 2014. 1

Late payment interest of 10% per annum and penalties of 100% will be chargeable on the outstanding output tax from 1 April 2014. Based on Jill's figures, her output tax exposure (including interest and penalties) as a result of her late registration would be: 1

	US$	
Output VAT		
April – September 2014		
(5 000 + 5 800 + 6 500 + 22 000 + 19 700 + 8 500) x 15/115	8 804	1
Add: 100% penalty	8 804	½
Add: 10% interest (10% x 8 804 x 6/12)	440	½
	18 048	4

(c) Pre-registration input VAT

Pre-registration input VAT can be claimed in respect of inventory which is still held by the trader at the date of registration. 1

In order to be able to claim pre-registration input VAT in respect of such inventory, the trader must maintain proper inventory records. 1

2

10

Tutorial note: *In the absence of such adequate inventory records, ZIMRA can decide the period in respect of which the pre-registration VAT may be claimed.*

4 Rudo and Tari

(a) Taxable share of partnership profit

	US$	
Partnership profit	263 000	
Add:		
Staff costs	0	½
Donation to the national scholarship fund	0	½
Donation to R&T Foundation	20 000	½
Insurance	0	½
Annuity for late employee's widow	0	1
Interest on capital accounts	0	½
Depreciation	23 000	½
Less:		
Interest from commercial banks	(10 000)	½
Insurance claim	(48 000)	½
Capital allowances:		
Furniture and fittings (25% x 40 000)	(10 000)	½
Computer equipment (nil tax value)	0	1
Office building (2·5% x 120 000)	(3 000)	½
Joint taxable profits	235 000	
		7

			Marks
(b) Partners' taxable income and tax payable			
		US$	
Taxable profits of partnership shared as follows:			
Rudo (3/5 x 235 000)		141 000	½
Tari (2/5 x 235 000)		94 000	½
		235 000	
	Rudo US$	**Tari US$**	
Partnership profit (as above)	141 000	94 000	
Salary	40 000	30 000	½
Insurance – life policy	5 000	5 000	½
Interest on capital accounts	8 000	6 000	½
	194 000	135 000	
Tax payable at 25·75%	49 955	34 763	½
			3
			10

5 Tom Mbizi

(a) Taxable income and income tax payable by Tom Mbizi for the year ended 31 December 2014

	US$	
Salary and benefits		
Salary (7 000 x 12)	84 000	½
Bonus (7 000 – 1 000)	6 000	1
School fees allowance (4 500 x 3)	13 500	½
Cash in lieu of leave	10 000	½
Entertainment allowance (3 000 x 2)	6 000	½
Accommodation allowance (850 x 12)	10 200	½
Clothing allowance (500 x 4)	2 000	½
Representation allowance	8 000	½
Employee of the year award	15 000	1
Motor vehicle benefit (2001 to 3000cc)	7 200	½
Deductions		
Pension contributions (750 x 12) – capped at maximum allowable	(5 400)	1
Mortgage bond repayment	0	½
Insurance	0	½
Tuition fees	0	½
Taxable income	156 500	
Tax on sliding scale:		
Up to US$120 000	38 100	
(156 500 – 120 000) x 45%	16 425	
Gross tax	54 525	½
Less: medical aid credit (4 500 x 50%)	(2 250)	1
	52 275	
Add: 3% AIDS levy	1 568	½
	53 843	
Less: PAYE	(49 500)	½
Tax payable	4 343	11

(b) Tax reliefs – Farmers

General

– 100% special deductions on specific farming capital expenditure (such as expenditure on boreholes, fencing and water conservation works) incurred during the year. 1

– The special capital expenditure is not subject to recoupment. 1

Marks

Specific reliefs – loss of livestock due to drought, disease, etc

– Enforced livestock sale relief is available whereby the taxable income arising from sale of livestock due to drought, epidemic disease, etc can be taxed over three years (in equal yearly instalments) if an election is made. 1

– A restocking allowance of 50% of the cost of restocking a herd may be claimed where the herd has been depleted in a drought proclaimed area due to both forced sales and death. 1

4

15

6 MT (Private) Limited

(a) Operation of the relief

Where the necessary conditions are met, the transfer of the assets is deemed to take place at the relevant assets' tax value (regardless of the actual consideration received). This will avoid any capital gain or any recoupment of capital allowances for MT (Private) Limited. 2

Conditions for the transfer of assets relief

– The transfer of the assets must be between companies under the same control. 1

– MT (Private) Limited and TT Limited must make an election to the effect that the transfer price shall be equal to the income tax value of the transferred assets. ½

– The transfer of assets must be for a reason associated with a merger, scheme of reconstruction or other business combination motives which is justifiable to the Zimbabwe Revenue Authority (ZIMRA). ½

4

(b) Corporate tax computation for the year ended 31 December 2014

	US$	
Net profit before tax	170 000	
Add:		
Cost of computers (wrongly included in opening inventory)	50 000	½
Motor vehicle running and maintenance costs	0	½
Insurance and licensing	0	½
Vehicle tracking equipment (capital)	68 000	½
Traffic fines	2 000	½
General repairs and maintenance	0	½
Office renovations (capital)	80 000	½
Staff expenses	0	½
Litigation costs – muncipality by-law violation	10 000	½
Administrative costs	0	½
Entertainment	15 000	½
Depreciation	35 000	½
Hire of plant and equipment	0	½
Lease agreement – compensation paid to landlord	22 000	½
Less:		
Other income	(140 000)	½
Capital allowances:		
Shop premises (2·5% x 210 000)	(5 250)	½
Furniture and office equipment (nil tax value)	0	½
Passenger vehicles (nil tax value)	0	½
Computers (50 000 x 25%)	(12 500)	½
Vehicle tracking equipment (68 000 x 25%)	(17 000)	½
Office renovations (80 000 x 25%)	(20 000)	½
Taxable income	257 250	
Corporate tax payable at 25·75%	66 242	½
		11
		15