Answers

Marks

1 Mark Mhizha

(a) (i) Tax treatment of the World Health Organisation (WHO) award and related payment by the Ministry of Health and Child Welfare

The award is taxable since, from the information given, the originating cause of the income is the services rendered to the Ministry of Health. (The award came as a consequence of the research work he carried out as an employee.) The amount is therefore included in the gross income of Mark Mhizha. 1

The payment by the Ministry Health and Child Welfare is also taxable as it was paid as a consequence of the award. The amount constitutes part of Mark Mhizha's gross income. 1

2

(ii) Provision for impaired debts

The general provision for impaired debts is not an allowable expense. In this case 5% of the debtors book amounting to US$9 000 is not deductible for tax purposes. The general provision for impaired debts could easily be manipulated by taxpayers to reduce their tax burdens and is therefore not deductible.

However, the specific impaired debts provision which refers to Ellen Cox and Peter Meki totalling US$2 000 is an allowable expense. On the specific impaired debts, the onus still lies with the taxpayer to prove to ZIMRA the merits of the claim. 2

(b) (i) Income tax calculation: Employment income

	US$	Marks
Salary	25 000	½
Accommodation allowance (exempt)	0	1
Representation allowance (exempt)	0	1
Clothing allowance	1 500	½
Bonus (2 500 – 400)	2 100	1
Cash in lieu of leave	2 000	½
Holiday allowance	4 000	½
Entertainment allowance	3 800	½
Subscriptions	(1 200)	½
Pension, RAF and NSSA contributions (1 875 + 2 700 + 750)	(5 325)	1
On call allowance	4 500	½
Motor vehicle benefit	4 800	½
WHO award	35 000	½
Achievement payment	5 000	½
Private Voluntary Organisation (PVO) salary and allowances	8 000	½
Taxable income	89 175	
Tax on sliding scale:		
Up to US$18 000	4 104	½
(US$89 175 – US$18 000) x 35%	24 911	½
Gross tax	29 015	
Less credits:		
Disabled person	(900)	1
Medical expenses (40% x 4 500 x 50%)	(900)	1
	27 215	
Add 3% AIDS levy	816	½
Tax payable	28 031	

Marks

Income tax calculation: Business income

	US$	
Net profit	25 000	½
Add:		
Motor vehicle expenses (30% x 7 500)	2 250	1
Renovations	8 000	½
Building extension	12 000	½
Provision for impaired debts (5% of debtors book)	9 000	1
Less capital allowances:		
Practice building (17 000 x 2·5%)	(425)	½
Motor vehicle (10 000 x 25%)	(2 500)	½
Computer equipment (5 000 x 25%)	(1 250)	½
Practice building renovation (8 000 x 2·5%)	(200)	½
Taxable income	51 875	
Tax at 25%	12 969	1
3% AIDS levy	389	½
Tax payable	13 358	20

(ii) Mark Mhizha's PAYE for the month of December 2010 should be remitted to ZIMRA on 10 January 2011. 1

25

2 Payroll Services (Private) Limited

(a) (i) Tax implications of the payment of the restraint of trade

The amount paid of US$148 000 is generally of a capital nature and hence not deductible in the hands of Payroll Services (Private) Limited (PSL). 2

There is, however, a need to prove to ZIMRA that the accrual is indeed in restraint of trade and hence capital in nature. 1

3

(ii) Value added tax (VAT) position

PSL's turnover of US$2 450 000 is well above the threshold of US$60 000 required for VAT registration. 1

PSL is therefore in breach of the requirements and has an output tax exposure of US$367 500 (US$2 450 000 x 15%). The company faces the risk of a penalty and interest charge for non-compliance. 2

From the available information, the subsidiary company, PS Properties (Private) Limited (PPL) received rental income of US$120 000 during the year. The amount is also above the registration threshold of $60 000 per year. 1

PPL is also in breach and the output exposure is US$18 000 (US$120 000 x 15%) and a possible penalty and interest charge for failure to register for VAT. 1

5

(iii) Tax advantages

When PSL acquires the commercial building, capital gains tax ordinarily should be chargeable in the hands of the seller, the subsidiary company in this case. The tax advantage is that at group level this tax can be waived when the subsidiary makes an election to transfer the building at cost or income tax values since the two companies are under the same control. 2

Marks

(b) (i) Calculation of the capital gains tax

The IT hardware is not a specified asset for capital gains tax purposes. There is therefore no capital gains tax implication on the disposal thereof. 1

	US$	US$	
Securities:			
Proceeds	80 000		½
Less: cost	(50 000)	30 000	½
		30 000	
Capital gains tax at 5%		1 500	1
			3

(ii) Calculation of the income tax liability

	US$	
Net profit	875 000	½
Add:		
Depreciation	250 000	½
Goodwill amortisation	20 000	½
Restraint of trade	148 000	½
Recoupment on IT hardware (10% x 350 000)	35 000	1
Less:		
Net bank interest	(50 000)	½
Profit on sale of assets	(100 000)	1
Capital allowances:		
IT hardware (10% x 650 000)	(65 000)	1
Furniture and fittings (10% x 400 000)	(40 000)	1
Commercial vehicles (20% x 360 000)	(72 000)	1
IT hardware (25% x 600 000)	(150 000)	1
Mercedes Benz (25% x 10 000)	(2 500)	1
Software	0	1
Taxable income	848 500	
Tax at 25%	212 125	½
Add 3% AIDS levy	6 364	½
	218 489	
Less provisional tax paid	(100 000)	½
Tax payable	118 489	12

(iii) Calculation of the outstanding provisional tax

The fact that Payroll Services (Private) Limited paid US$100 000 as provisional tax on 20 December 2010, the last quarterly payment date, the assumption is that the amount constituted 35% of the total provisional tax for the year. The total provisional tax for the year is therefore US$285 714 (US$100 000/35%) 2

The outstanding provisional tax that should have been paid is as follows:

	US$	
10% x 285 714 due on 25 March 2010	28 571	1
25% x 285 714 due on 25 June 2010	71 429	1
30% x 285 714 due on 25 September 2010	85 714	1
Total	185 714	5
		30

Marks

3 Phillip Cavendish

(a) The building being let out by Phillip Cavendish does not qualify for capital allowances since only 50% of the floor space is being used in the production of income. 1

The qualifying criteria is that the building should have been erected on or after 1 April 1975 and that at least 90% of the floor area should be used for the purposes of trade. 2

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(b) (i) Calculation of the capital gains tax withholding tax

The amount is calculated as 15% of the market value of US$180 000 which is US$27 000. The capital gains tax should be remitted to ZIMRA by no later than the third working day of the date of receipt of the sale proceeds. 2

(ii) Calculation of the minimum tax liability

Capital gains tax

There is no capital gains chargeable on the disposal of the principal private residence since Phillip Cavendish is above 55 years old. 1

	US$	Marks
Capital gains tax on disposal of securities:	20 000	
Less exemption – elderly taxpayer	(1 800)	½
	18 200	
Withholding tax at 1%	182	½

Disposal of the second residential property

	US$	US$	Marks
Deemed sale proceeds		180 000	½
Less recoupment: on property (2·5% x 80 000 x 2)		(4 000)	½
On outbuilding (2·5% x 30 000)		(750)	½
Less:			
Cost – property	80 000		½
– Outbuilding	30 000		½
Recoupment as above (4 000 + 750)	(4 750)		
Inflation allowance – property (2·5% x 80 000 x 3)	6 000		½
– outbuilding (2·5% x 30 000 x 2)	1 500		½
Property transfer costs	15 000	(127 750)	½
Capital gain		47 500	
Tax at 20%		9 500	½

Income tax calculation

	US$	Marks
Pension (exempt)	–	½
Financial institutions interest (40 000 – 3 000)	37 000	½
Net rental income (24 000 – 3 000)	21 000	½
Add:		
Local church donations	1 000	½
Taxable income	59 000	
Financial institutions interest: 37 000 at 20%	7 400	½
Tax at 25% of 22 000	5 500	½
Add 3% AIDS levy	165	½
Tax payable	13 065	

10

15

Marks

4 Organic Farm Products

(a) (i) Zero-rated supplier vs an exempt supplier

A zero-rated supplier is registered for value added tax (VAT) as a supplier that trades in goods chargeable at an output tax rate of 0% but claims full input tax deduction on all its procurements of goods and services. 2

An exempt supplier trades in goods and services that are exempt from VAT and hence does not charge output tax and cannot claim input tax on its purchases of goods and services. 2

4

(ii) Useful documents to claim zero-rate

- Tax invoice
- Agreement of sale
- Lease agreement
- Contract document
- Debit/credit notes as appropriate

1 mark each maximum 2

(iii) Circumstances in which input tax is not deductible

- When goods and services are acquired exclusively for the making of an exempt supply 1
- When goods and services are procured from non-registered operators 1
- When goods and services are procured for general entertainment purposes 1

3

(b) Calculation of the VAT position

	US$	
Output tax		
Sales (zero-rated)	0	½
Less:		
Input tax		
Purchases (all zero rated except gas heaters and lamps)	0	½
Gas heaters and lamps (15/115 x 10 000)	(1 304)	½
Staff costs	0	½
Repairs and maintenance (15/115 x 8 000)	(1 043)	½
Stationery (15/115 x 2 000)	(261)	½
Communication expenses (15/115 x 4 500)	(587)	½
Amortisation of intangible assets	0	½
Motor vehicle expenses (15/115 x 13 000)	(1 696)	½
Traffic fines	0	½
Depreciation	0	½
Computer maintenance costs (15/115 x 5 000)	(652)	½
VAT refundable	(5 543)	6
		15

5 Ed and Meg Mabasa

(a) (i) Partnership profit generally accrues on the accounting date, but in cases where a new partner is admitted, a new partnership comes into existence and the partnership profit is deemed to accrue on that admission date. 1

Where the partnership operations are continuing after the change in membership, ZIMRA does not normally require the financial statements to be drawn up on that date. What is required is the basis used to determine the share of profit. Thus Ed and Meg Mabasa will each be taxed on half of the profits accruing up to 31 March 2011 and on one third each of the profits accruing after 31 March 2011. The new partner will be taxed on one third of the profits accruing after 31 March 2011. 1

2

	Marks
(ii) Taxation of partners' income	
The partners income is taxed at the rate of tax of income from trade or investment which is 25% and also subjected to the AIDS levy of 3% of tax due.	1
The tax should be calculated on the basis of the projected income for the year and remitted to ZIMRA in accordance with the quarterly payment date system as follows:	
10% on 25 March	
25% on 25 June	
30% on 25 September	
35% on 20 December	2
	3

(b) Calculation of the minimum taxable income and tax payable for the year ended 31 December 2010

	US$	
Net profit	342 000	½
Add:		
Partners' excess pension contributions (7 000 – 5 400) x 2	3 200	1
Motor vehicle expenses – disallowed (20% x 15 000)	3 000	½
Depreciation	12 000	½
Insurance premium (joint life policy)	8 000	½
Recoupment on computer equipment (3 500 – 875)	2 625	1
Less:		
Bank interest	(4 000)	½
Profit on sale of computer equipment	(2 500)	½
Company dividends	(7 200)	½
Capital allowance on:		
Passenger motor vehicles (10 000 x 25%) x 2	(5 000)	½
Joint taxable income	352 125	

Shared as follows:

	Ed US$	Meg US$	
Share of taxable income (50%)	176 062	176 063	½
Salary	30 000	25 000	½
Medical aid contributions	5 000	5 000	½
Grocery allowance		20 000	½
School fees allowance	16 000		½
Interest on capital accounts	3 000	2 000	½
Taxable income	230 062	228 063	
Tax at 25%	57 516	57 016	½
AIDS levy at 3%	1 725	1 710	½
Tax payable	59 241	58 726	10
			15