Answers

Marks

1 Nic Page

(a) Tax obligations of Organo Products Limited (Organo)

Before payment of the consultancy services fees, Organo should request a valid income tax clearance certificate from PCPL. In the absence of the tax clearance certificate, a deduction of 10% of the consultancy fees should be made and remitted to ZIMRA within 10 days from the date of payment. 2

(b) Tax registration obligations and submission of tax returns by Page Catering (Private) Limited (PCPL)

(i) Corporate tax:
PCPL should have registered for corporate tax with effect from the commencement of the business operations on 5 June 2013 when the consultancy services agreement was signed with Organo. PCPL should have submitted returns in line with the quarterly payment dates (QPDs) so the first return will be due on 25 June 2013. 2

(ii) Employees tax (PAYE):
PCPL became an employer on 1 August 2013, and it is obliged to have registered for PAYE within 14 days from that date, hence latest date of registration is 15 August 2013. PAYE returns are due on the 10th of the month following the tax period (month of PAYE deduction), so, the first return will be due on 10 September 2013. 2

(iii) Value added tax (VAT):
The threshold for VAT registration is an annual sales revenue of US$60 000 or US$5 000 per month. The catering services contract is for a monthly income of US$10 000, therefore PCPL should have registered for VAT from the month of August 2013. The VAT returns should be submitted on the 25th of the month following the end of the tax period. 2

(c) NSSA contributions of PCPL as employer

	US$	Marks
Nic Page ($700 x 3·.5% x 5)	123	1
2 permanent employees ($700 x 3·5% x 2 x 5)	245	½
3 permanent employees ($500 x 3·5% x 3 x 5)	263	½
	631	2

		Marks
(d) Taxable income and tax payable by/refundable to Nic Page for the year ended 31 December 2013		
	US$	
Total salary received (10 000 + 8 000)	18 000	½
Leave pay	2 000	½
School fees allowance	5 000	½
Housing allowance	2 500	½
Bonus (2 000 – 1 000)	1 000	1
Refund of benefit fund contributions (interest only)	3 000	1
Annuity (7 000 – (15 000/10))	5 500	1
Fuel allowance (30% x 15 000)	4 500	½
Loan benefit ((0·5% + 5% – 1%) x 15 000 x 10/12)	563	1
Motor vehicle deemed benefit (4 800 x 5/12)	2 000	1
Motor vehicle acquisition benefit (45 000 – 20 000)	25 000	½
Employee benefit fund contributions (non-registered scheme)	0	½
Pension contributions, RAF & NSSA (maximum amount)	(5 400)	1
Loan repayment (disallowed)	0	½
Home insurance policy contributions (disallowed)	0	½
Funeral insurance policy contributions (disallowed)	0	½
Total taxable income	63 663	
Tax on sliding scale:		
Up to US$60 000	15 600	
(63 663 – 60 000) x 35%	1 282	
Gross tax	16 882	½
Less: medical credit (3 000 x 50%)	(1 500)	½
	15 382	
Add: 3% AIDS levy	461	½
	15 843	
Less: PAYE (18 500 + 7 600)	(26 100)	½
Tax refundable	10 257	
Refund of pension fund contributions:		
Amount withdrawn	92 500	
Less: transferred to CIPF scheme	(30 000)	
Taxable amount	62 500	1
Tax payable (62 500 x 35%)	21 875	½
Add: 3% AIDS levy	656	½
	22 531	
		15
		25

2 H&H Motor Spares (Private) Limited (H&H)

(a) (i) Commercial property owner – tax treatment of the lease agreement amounts

Lease premium:
The total lease premium of US$60 000 is included in gross income in the year of receipt. 1

Rent received:
The total rent received of US$33 000 is included in gross income in the year of receipt. ½

Capital allowances:
Capital allowances are claimable on the value of the improvements made by H&H as provided for in the lease agreement, i.e. the warehouse and pavement. The annual allowance is therefore: (300 000 + 50 000) x 2·5% = US$8 750 1½

3

Marks

(ii) Action which should have been taken by H&H to minimise its tax liability

The specific requirement in the lease was for H&H to construct a warehouse at a total cost of not less than U$300 000. H&H should have sought approval from the property owner for the price escalation to US$350 000 well before the completion of the building. Price escalation approval should also have been sought in the same way for the pavement. 1

Because H&H failed to do this, it can only claim a lease improvement allowance on the stipulated amount of US$300 000 and not on the unapproved actual cost of US$350 000. Lease improvement allowance for the pavement should also be claimed on the approved cost of US$50 000. 1

2

(b) Taxable income and tax payable for the year ended 31 December 2013

	US$	
Profit before tax	730 000	½
Add:		
Repairs and maintenance	0	½
Fuel and licensing	0	½
Salaries and wages	0	½
Lease premium and warehouse rent	93 000	½
Donations – hospital	0	½
– social club	10 000	½
VAT late payment charge	5 000	½
Depreciation	40 000	½
Provision for directors' fees	30 000	½
Protective clothing	0	½
Staff canteen provisions	0	½
Entertainment	20 000	½
Repairs and maintenance – leased properties	0	½
– unproductive property	12 000	1
Legal fees	5 000	½
New business licences	8 000	½
Renewal of business licences	0	½
Finance cost on overdraft facility	0	½
Finance cost on capital expenditure	50 000	½
Recoupment on sale of commercial vehicles	200 000	½
Less:		
Rental income	0	½
Profit on sale of commercial vehicles	(300 000)	½
Leased premises rent (3 000 x 11)	(33 000)	½
Lease premium (60 000/10 x 11/12)	(5 500)	1½
Lease improvements ((300 000 + 50 000)/10 x 6/12)	(17 500)	1½
Capital allowances:		
Commercial properties (2·5% x 300 000)	(7 500)	½
Furniture and equipment (25% x 150 000)	(37 500)	½
Commercial vehicles (25% x 180 000)	(45 000)	½
Taxable income	757 000	
Corporate tax (including AIDS levy) at 25·75%	194 928	½
Less: provisional tax paid	(46 351)	½
Tax payable	148 577	
		18

Marks

(c) (i) Provisional tax payable

Revised projected taxable income of US$815 000
Corporate tax at 25·75% = US$209 863 ½

Quarterly payment	Date due*	Amount	1*
1st QPD – 10%	25 March 2013	US$20 986	½
2nd QPD – 25%	25 June 2013	US$52 466	½
3rd QPD – 30%	25 September 2013	US$62 959	½
4th QPD – 35%	20 December 2013	US$73 452	½

Shortfall on 1st and 2nd QPDs (20 986 + 52 466 – 46 351) = US$27 101 ½

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(ii) Potential penalty and interest payable as at 31 December 2013

	US$	
3rd QPD 100% penalty	62 959	½
3rd QPD interest (10% x 62 959 x 97/365)	1 673	½
4th QPD 100% penalty	73 452	½
4th QPD interest (10% x 73 452 x 11/365)	221	½
	138 305	

Position re the shortfall from QPDs 1 and 2
Since the original 1st and 2nd QPDs were paid on time, the potential 100% penalty on the shortfall amount will be waived but the interest will be chargeable. 1

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3 Jacob and Anne Dube

(a) Documents required for a capital gains tax clearance application

– Completed capital gains tax form (CGT 1 form)
– Copy of the agreement of sale
– Copy of the deed of transfer or title deeds of the plot
– National Identity documents
– Marriage certificate
– Proof of the cost incurred in effecting the improvements on the plot

FOUR only required – ½ mark each point, maximum 2

(b) (i) Amounts to be included in gross income

	US$	
Recoupment on:		
Staff housing (40 000 – 0)	40 000	½
Permanent roads (10 000 – 2 500)	7 500	1
Office building (30 000 – 27 000)	3 000	½
Furniture and office equipment (50 000 – 0)	50 000	½
Tractors (45 000 – 11 250)	33 750	½
	134 250	3

Marks

(ii) Capital gains tax (CGT) payable on the disposal of immovable business assets

Year ended 31 December 2013

	US$	US$	Marks
Sale proceeds of:			
Land		100 000	
Staff housing		100 000	
Permanent roads		20 000	
Dam and boreholes		70 000	
Office building		50 000	
Total gross sales proceeds		340 000	1
Less: recoupment (from (i) above) on:			
Staff housing	40 000		
Permanent roads	7 500		
Office building	3 000	(50 500)	½
Less: cost of:			
Land	50 000		
Staff housing	40 000		
Permanent roads	10 000		
Dam and boreholes	35 000		
Office building	30 000		
Less: capital allowances previously granted (same as recoupment above)	(50 500)	(114 500)	1
Less:			
Inflation allowance on:			
Land (2·5% x 50 000 x 5)	6 250		½
Staff housing (2·5% x 40 000 x 5)	5 000		½
Permanent roads (2·5% x 10 000 x 4)	1 000		½
Dam and boreholes (2·5% x 35 000 x 5)	4 375		½
Office building (2·5% x 30 000 x 5)	3 750	(20 375)	½
Selling commission (10% x 340 000)		(34 000)	½
Capital gain before CGT allowance on debtors		120 625	
Less:			
CGT allowance on land value not yet settled (100 000 x 120 625/340 000)		(35 478)	1
Capital gain		85 147	
CGT at 20%		17 029	½
Year ended 31 December 2014			
2013 CGT allowance on debtors		35 478	½
CGT at 20%		7 096	½
			8

Tutorial note: *The dam and boreholes are immovable assets subject to CGT. Since the cost of the assets qualified as special deductions applicable to farmers, no capital allowances should therefore have been claimed.*

(c) CGT reliefs available to Jacob and Anne on the disposal of the homestead

Jacob is an elderly taxpayer, hence his share of the capital gain from the disposal of a principal private residence is exempt from CGT. 1

Anne can make an election for a partial rollover relief on the gain applicable to the amount not expended on the acquisition of another principal private residence, such as the new residence in Bulawayo. 1

2

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Marks

4 Curios & Souvenirs Unlimited (Private) Limited (CSU)

(a) Issuance of a valid income tax clearance certificate

For CSU to be issued with an income tax clearance certificate on 1 April 2013, the company must have complied with the following requirements:

Corporate income tax: submitted its first quarterly payment date (1st QPD) tax return and paid the 10% provisional tax due on 25 March 2013. 1

Employees tax (PAYE): PAYE returns should have been submitted and PAYE remitted on or before the following due dates:

December 2012 return by 10 January 2013	1
January 2013 return by 10 February 2013	1
February 2013 return by 10 March 2013	1
	4

Tutorial note: *ZIMRA normally issues income tax clearance certificates valid from 1 January or the application date after this date to 30 June each year and the other tax clearance certificate valid from 1 July or any date after this up to 31 December.*

(b) (i) Four categories of value added tax (VAT) period

Category A is a two-month tax period in which a registered operator is required to submit a single VAT return for the tax period ending 31 January, 31 March, 31 May, etc. 1

Category B is also a two-month tax period and the VAT returns are submitted for the tax period ending 28 February, 30 April, 30 June, etc. 1

Category C is a one-month tax period and the VAT returns are submitted for the tax period which is at the end of every month. 1

Category D is meant for seasonal operators like farmers who may want to submit their VAT returns less frequently, in line with the nature of their business. 1

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(ii) Next VAT period after 31 August 2013

The next VAT period is a two-month period ended 31 October 2013. ½

The due date for the submission of the VAT return for this period is 25 November 2013. ½

1

(c) VAT payable or refundable for the year ended 31 December 2013

	US$	
Output tax on:		
Sales (5 200 + 55 000 + 50 000 + 53 000 + 40 000 + 47 000) x 15%	37 530	1½
Less: input tax on:		
Purchases (3 000 + 20 000 + 20 000 + 20 000 + 15 000 + 15 000) x 15/115	(12 130)	1
Salaries and wages (not applicable)	0	½
Stationery (15/115 x 9 000)	(1 174)	½
General repairs and maintenance (70% x 15 000 x 15/115)	(1 370)	1
Motor vehicle expenses (80% x 12 000 x 15/115)	(1 252)	1
Cleaning and other general expenses (5 000 x 15/115)	(652)	½
VAT payable	20 952	6
		15

5 **(a) Mutsa Shangu**

(i) Implications of ordinary residence

The fact that Mutsa is ordinarily resident in Zimbabwe implies that:

– she spent more than 183 days in Zimbabwe in the tax year; and 1
– the income earned during her temporary absence is deemed to be from a Zimbabwean source. 1

2

Marks

(ii) Taxable income and tax payable for the year ended 31 December 2013

	US$	Marks
Freelance income	70 000	½
Film production income	60 000	½
Rental income from Botswana house (exempt)	0	1
Zimbabwe bank interest (exempt)	0	1
Travelling expenses	(15 000)	½
Film production expenses (all allowable)	(41 000)	1
Foreign marketing expenses (double deduction)	(15 000)	1
Botswana house repairs and maintenance (disallowed)	0	½
Capital allowances:		
Office furniture and equipment (25% x 25 000)	(6 250)	½
Film production equipment (25% x 30 000)	(7 500)	½
Passenger motor vehicle (25% x 10 000)	(2 500)	½
Taxable income	42 750	
Tax payable at 25·75%	11 008	½
Tax payable on non-executive director's fees: US$48 000 x 20%	9 600	1
Tax payable on foreign dividends (from Botswana company): US$12 000 x 20%	2 400	1
		10

(b) Two major sources of tax revenue law

Legislative law:
The drafted tax law is promulgated by parliament and the existing law is updated yearly through the Finance Bill. Legislative law also includes government statutory instruments which are issued from time to time. 1½

Judicial law:
When tax disputes are brought before the courts, the judges preside over these tax issues and case law is created. The judges' opinions are binding and can be used as a basis for interpretation and application of other tax issues as sources of law. 1½

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