Answers

Marks

1 Mark and Ellen Mari

(a) (i) Consultancy services income:

The income from consultancy services should be treated as business income and taxed in terms of the Quarterly Payment Dates (QPDs) system. Ellen Mari should project her estimated consultancy fees as well as the related expenses for the year and then calculate the provisional taxable income. The amount is taxed at a corporate tax rate of 25% and 3% AIDS levy is also chargeable on the tax. 3

(ii) **Calculation of the National Social Security Authority (NSSA) contributions for the year**

The NSSA contributions payable by the employer are restricted to 3% of the gross monthly salary up to a maximum amount of US$200 per employee per month.

	US$	Marks
(3% x 150) x 12 + (3% x 180) x 12	119	1
(3% x 200 x 3) x12	216	1
	335	2

(iii) **Calculation of the withholding tax on the non-executive director's fees**

The withholding tax is 20% of the amount received and the amount should be remitted to ZIMRA within 10 days after the payment date or accrual, whichever is earlier. ½

	Withholding tax	Remittance date	Marks
20% of US$1 800	US$360	13 March 2011	½
			1

(b) (i) **Calculation of the taxable income and tax payable by Ellen Mari for the year ended 31 December 2011**

	US$	US$	Marks
Gross consultancy income		360 000	½
Less: allowable expenses:			
Advertising and promotion	42 000		½
Laptop	0		½
Office rent	5 800		½
Utility bills	1 500		½
Entertainment	8 580		½
Underpinning of the office building	0		½
Waste dumping fine	0		½
Printing and stationery	8 600		½
Internet charges	2 400		½
Electricity reconnection	0		½
Motor vehicle expenses (50% x 18 000)	9 000		½
Legal fees	26 000	(103 880)	½
Net amount		256 120	
Ellen Mari's taxable amount – 45%		115 254	½
Tax at 25%		28 814	½
Add: 3% AIDS levy		864	½
Tax payable		29 678	

Tax treatment of the operational expenses

(1) Entertainment – US$13 200:
US$8 580 – 65% allowable incurred for business purposes. ½
US$4 620 – 35% disallowed as it is a private expense. ½

(2) Underpinning of the office building – disallowable as capital in nature. A capital allowance can be claimed by ESD on the total amount. ½

Marks

(3) Electricity reconnection charges – disallowable as this a default charge and hence not for business purposes. ½

10

(ii) **Calculation of the taxable income and tax payable by Mark Mari for the year ended 31 December 2011**

	US$	Marks
Salary	18 000	½
Transport allowance	9 000	½
Accommodation allowance	12 000	½
Bonus (1 500 – 500)	1 000	1
Holiday allowance	5 500	½
School fees assistance	10 000	½
Staff loan benefit (6·5% x 24 300 x 6/12)	790	½
Credit card limit	5 000	½
Pension and RAF contributions – max	(5 400)	½
Approved subscriptions	(3 800)	½
Loan repayment	0	½
Contributions to a social club	0	½
Stop order	0	½
Taxable income	52 090	
Tax on sliding scale:		
Up to US$18 000	3 960	
(52 090 – 18 000) x 35%	11 932	
Gross tax	15 892	½
Less: credits		
Medical aid contributions (7 000 x 50%)	(3 500)	½
	12 392	
Add: 3% AIDS levy	372	½
	12 764	
Less: PAYE	(17 000)	½
Tax refundable	(4 236)	9
		25

2 Just Toys (Private) Limited (JT)

(a) (i) Definitions of transfer pricing

Transfer pricing is the pricing of intercompany transactions which take place between affiliated enterprises or between the head office and branch. The transfer pricing process determines the amount of income that each party earns.

Transfer pricing is the manipulation of prices and other terms of trade between related parties on cross-border transactions.

Transfer pricing involves the pricing of goods and services outside the normal commercial parameters so as to gain some tax advantages.

Only one definition required 2

(ii) Transfer pricing aim

The transfer pricing rules aim to adjust prices in order to reflect an arm's length price which would have applied, had the transaction occurred under normal commercial circumstances between unrelated parties. 2

(b) (i) Amounts to be used for calculating the lease improvement allowances

Administration block

There is no lease improvement allowance as the actual cost incurred is less than US$100 000. 1

	Marks
Warehouse building	
The lease improvement allowance is calculated based on US$100 000, as there was no escalation clause signed by the two parties before the completion of the building.	1
	2

(ii) Value added tax (VAT) implication of the hire purchase agreement

VAT is payable on the actual cost of the two passenger vehicles before adding finance charges or other related hire purchase charges.	1
JT can elect to claim special initial allowance (SIA). Alternatively, wear and tear can be granted on the total purchase price of the passenger vehicles, subject to the restriction of the purchase price to US$10 000 per vehicle.	1
	2

(iii) Obligation to ZIMRA

JT is obliged to request a tax clearance certificate (ITF 263) from the provider of the payroll function and the Avondale shop kitchen fittings supplier before making any payments for the services rendered.	1
In the absence of the tax clearance certificate, JT is obliged to deduct 10% of the invoice amount and remit it to ZIMRA within 10 days.	1
	2

(c) (i) Calculation of the capital allowances

Since JT does not have a formal tax policy on fixed assets, wear and tear allowance is granted on qualifying assets. For immovable assets, the allowance is calculated on a straight-line basis while the reducing balance method is applied on the movable assets. ½

Four months ended 31 December 2010

	Wear and tear US$	Income tax value US$	
Commercial vehicles (20% x 53 000 x 4/12)	3 533	49 467	1
Furniture and fittings (10% x 80 000 x 4/12)	2 667	77 333	1
Avondale shop (2·5% x 70 000)	1 750	68 250	½
	7 950		
Year ended 31 December 2011			
Commercial vehicles (20% x 49 467)	9 893		½
Furniture and fittings (10% x 77 333)	7 733		½
Avondale shop (2·5% x 70 000)	1 750		½
Paving around Avondale shop (2·5% x 53 200)	1 330		½
Passenger motor vehicles (20% x 10 000 x 2)	4 000		½
Avondale shop kitchen (10% x 29 000)	2 900		½
	27 606		6

Marks

(iii) Calculation of the taxable income and tax payable

	US$	
Net profit per accounts	196 000	½
Add:		
Pension contributions – 3 employees (32 200 – 16 200)	16 000	½
Replace faulty electrics	0	½
Outsourcing of payroll function	0	½
Avondale shop paving	53 200	½
Computer repairs	0	½
Fuel and maintenance	0	½
Passenger vehicles	62 500	½
Traffic fine	1 200	½
Insurance and leasing costs	0	½
Avondale shop kitchen	29 000	½
Utility payments	0	½
Depreciation	37 000	½
Rental expenses	0	½
Interim audit fees	0	½
Donation to Mayor's Christmas fund	0	½
Donation to Ministry of Health	0	½
Local church donation	5 000	½
Less:		
Bank interest received	(6 000)	½
VAT refund	(10 000)	½
Lease premium (50 000/8)	(6 250)	1
Lease rental (3 200 x 12)	(38 400)	1
Lease improvements (100 000/8)	(12 500)	½
Capital allowances (from (b)(ii) above)	(27 606)	½
Taxable income	299 144	
Corporate tax at 25%	74 786	½
3% AIDS levy	2 244	½
Tax payable	77 030	14
		30

3 Joe and Pat Lemon

(a) (i) Tax implications of the transfer

The transfer of the immovable business assets between a wife and a husband is a deemed sale and hence capital gains tax would arise in the hands of Pat Lemon. 1

Corporate tax would also be chargeable to Pat Lemon on the recoupment arising from the deemed sale. ½

The transfer of the movable assets is also a deemed sale that gives rise to the taxation of the recoupment so arising from the transaction. ½

Tax dispensations

Since the transfer is between a wife and a husband, Pat Lemon can elect to transfer the assets at income tax values and hence defer the taxation of the potential recoupment. ½

The potential capital gains tax can also be deferred if Pat Lemon elects to transfer the immovable assets at the values equal to the deductions available. ½

3

(ii) Tax relief

Rollover relief
Capital gains tax can be deferred on the sale of the Mt Pleasant flat since part of the proceeds were applied towards the acquisition of the Monavale house. The tax is only levied on the gain applicable on the unexpended amount. 1

Joe Lemon is exempted from the capital gains tax on the disposal of the flat since he is an elderly taxpayer. 1

Marks

Qualifying criteria
An election for rollover must be made by Joe and Pat Lemon on or before the date on which the tax return is submitted for capital gain assessment. ½

Joe and Pat Lemon acquired another residence within the prescribed period which is before the end of the year following that of sale. ½

3

(b) Calculation of the tax payable

Pat Lemon

	US$	US$	
Corporate tax on recoupment			
Industrial building (80 000 – 20 000)		60 000	½
Security wall (20 000 – 5 000)		15 000	½
Plant and machinery (45 000 – 11 250)		33 750	½
Commercial building (60 000 – 57 000)		3 000	½
Furniture and fittings (32 000 – 8 000)		24 000	½
		135 750	
Tax at 25·75%		34 956	½
Disposal of unlisted shares			
Sale proceeds		9 400	
Capital gains tax at 5% of the gross proceeds		470	1
Transfer of business assets			
Deemed sale proceeds (110 000 + 25 000 + 75 000)		210 000	½
Recoupment (60 000 + 15 000 + 3 000)		(78 000)	½
Less:			
Cost (80 000 + 20 000 + 60 000)	160 000		
Recoupment	(78 000)	(82 000)	½
Inflation allowance:			
Industrial building (2·5% x 80 000 x 3)	6 000		½
Security wall (2·5% x 20 000 x 3)	1 500		½
Commercial building (2·5% x 60 000 x 3)	4 500	(12 000)	½
Capital gain		38 000	
Tax at 20%		7 600	½
Joe Lemon			
Gross proceeds on listed shares		10 300	½
Less: exemption		(1 800)	½
Capital gain		8 500	
Tax at 1%		85	½
			9
			15

4 Ray Mopani

(a) (i) Procedures for dealing with objections and disputes

Any aggrieved taxpayer has the right to object to an assessment by lodging the objection in writing to ZIMRA within 30 days from the assessment date. 1

The grounds of the objection must be clearly stated in the objection notice to ZIMRA. 1

Ray Mopani should have lodged his VAT objection for the month of July by 30 October 2011. 1

3

Marks

(ii) ZIMRA due dates for the VAT returns

July 2011 return – 20 August 2011	½
August 2011 return – 20 September 2011	½
	1

(iii) Two circumstances in which input VAT is prohibited

If the procurement is for making non-taxable supplies.
Purchases from non-registered operators.
For expenditure on entertainment.
On subscriptions.
On acquisition of a passenger motor vehicle.

1 mark each, maximum 2

(b) (i) Calculation of VAT payable for the month of August 2011

	US$	US$	
Output VAT			
Sales (15/115 x 350 000)		45 652	½
Sales returns (15/115 x 14 500)		(1 891)	1
Toyota vehicle (15/115 x 4 800)		626	½
Nissan vehicles (15/115 x 3 600) x 2		939	½
Input VAT			
Purchases (15/115 x 120 000)	15 652		½
Fiscalised electronic registers (50% x 40 000)	20 000		1
Repairs and maintenance (15/115 x 18 000)	2 348		½
Entertainment	0		1
Printing and stationery (15/115 x 23 000)	3 000		½
Salaries and wages	0		½
Rent (15/115 x 15 000)	1 957	(42 957)	½
VAT payable		2 369	7

(ii) Calculation of the interest on overdue VAT

	US$	
July 2011 (10% x 20 500 x 21/365)	118	1
August 2011 (10% x 2 369 x 13/365)	8	1
		2
		15

5 Kitchen Accessories (Private) Limited

(a) (i) Main purpose of taxation

The main purpose of taxation is revenue generation for the government as the taxes are required to pay for public goods and services, for example, public educational services, national defence, maintenance of infrastructure, etc. 1

Features of a good tax system

The basic taxation rules must be seen to be fair, simple and efficient. A good tax system must raise revenue in a manner that treats individuals fairly, minimises interference in economic decisions and must not impose undue costs on taxpayers and administrators. The rules must therefore be guided by the equity, efficiency and simplicity principles. ½

Equity principle:
Requires that tax contributions be socially just in that taxpayers should make tax contributions according to their ability to pay. ½

Simplicity principle:
The tax rules must be simple to understand, stable, predictable and reliable for making long-term plans. ½

Efficiency principle:
The tax system must ensure that economic decisions are diverted to best locations, thereby acting as a resource allocator. ½

3

Marks

(ii) Direct and indirect taxation

Direct tax
Direct taxes are paid by individuals/organisations on whom tax is levied. The tax is actually borne by the individual or company and it is the same individual or company which is liable to pay that tax. 1

Example:
Corporate tax ½

Indirect tax
Indirect tax is borne by someone other than the person responsible for paying it to the tax authority. The tax is often included in the price of a commodity. 1

Example:
Value added tax ½

3

(iii) Tax avoidance and tax evasion

Tax avoidance
Is legal, and involves taking advantage of enacted tax legislation in order to reduce the tax liability, for example, claiming the maximum allowable deductions available. 1

Tax evasion
Involves deliberate misrepresentation of facts or concealment of information by taxpayers in order to reduce the tax liability illegally, for instance, understating sales revenues. 1

2

(b) Calculation of the provisional taxable income and tax payable

	US$	Marks
Budgeted profit	120 000	½
Add:		
Patent registration	13 000	½
Legal fees	9 500	½
Depreciation	43 000	½
Initial business licence	17 000	½
Less:		
Dividend income	(25 000)	½
Capital allowances: special initial allowance (SIA)		
Passenger vehicles (25% x 10 000) x 3	(7 500)	½
Furniture and fittings (25% x 355 000)	(88 750)	½
Taxable income	81 250	
Tax payable at 25%	20 313	½
Add: AIDS levy 3%	609	½
	20 922	
Tax remitted in line with QPDs as follows:		
10% on 25 March 2011	2 092	½
25% on 25 June 2011	5 231	½
30% on 25 September 2011	6 276	½
35% on 20 December 2011	7 323	½
	20 922	7
		15