Answers

Marks

1 Matt Thomas

(a) (i) Operation of the PAYE system:

PAYE is deducted on a monthly basis by an employer through the final deduction system (FDS). The tax is calculated on the basis of the taxable monthly income. PAYE is then remitted to ZIMRA on the 10th of the month following deduction. 1

The system operates in such a way that the total PAYE deducted for an employee over the course of the year matches the full year tax liability. 1

Any tax refund or shortfall is corrected in the month following that of over payment or under payment through the reduction or increase of that month's PAYE. 1

3

(ii) Tax treatment of the non-employment related income

Proceeds from sale of a motor vehicle – US$5 000:
The amount is not taxable as it is of a capital nature. The amount is also of a private nature. ½

Net rental income from South Africa – US$11 000:
Not taxable as the source of income is not from Zimbabwe. The source of income is determined by where the property is located. 1

Proceeds from sale of household effects – US$2 700:
Not taxable as the amount is of a private/domestic nature. ½

Net rental income from Nyanga – US$8 200
The amount is taxable subject to an elderly taxpayer exemption of US$3 000. 1

Gain on disposal of non-listed marketable securities – US$13 000:
The amount is subject to capital gain tax after exempting US$1 800 applicable to elderly taxpayers. 1

NSSA pension – US$3 800:
The amount is exempted in full since Matt Thomas is an elderly taxpayer. 1

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(iii) Tax treatment of the compensation for loss of employment

The amount is part of Matt Thomas' gross income for the year and should be taxed in full. 2

(iv) Part-time allowances

The pay from the part-time engagements is taxable and PAYE should have been deducted. 1

Matt Thomas' tax obligation is to disclose the fact to each employer that he is in receipt of other taxable employment income. 1

This will enable his secondary employers to tax his allowances at his highest marginal tax rate. 1

3

		Marks

(b) **Calculation of Matt Thomas' taxable income and tax payable**

Employment income:

	US$	
Salary	25 000	½
Thirteenth cheque (2 000 – 500)	1 500	½
Pension received – exempt	0	½
Fuel allowance	1 200	½
Housing allowance	2 300	½
Wages from part-time engagements	13 000	½
Cash in lieu of leave	1 800	½
Loan benefit (7·5% x 12 500) – 500	438	½
Annuity (2 500 – 10 000/10)	1 500	½
RAF contributions	(2 700)	½
DSTV subscriptions – disallow	0	½
Subscriptions to the press – disallow	0	½
Subscriptions to approved professional institutions	(1 500)	½
Loss of employment	66 000	½
Taxable income	108 538	
Tax on sliding scale:		
Up to US$18 000	3 960	
(108 538 – 18 000) x 35%	31 688	
Gross tax	35 648	½
Less credits		
Medical aid contributions (4 500 x 50%)	(2 250)	½
Elderly person	(900)	½
	32 498	
Add 3% AIDS levy	975	
	33 473	
Less PAYE	(14 000)	½
Tax payable	19 473	

Other income:

	US$	
Net rental income from Nyanga	8 200	½
Less exemption	(3 000)	½
	5 200	
Tax at 25·75%	1 339	½

	US$	
Gain on disposal of marketable securities	13 000	½
Less exemption	(1 800)	½
Adjusted capital gain	11 200	
Capital gain tax at 20%	2 240	½
		12
		25

Marks

2 Mwenje Yepasi Limited

(a) (i) Classification of the showrooms:

Mwenje Yepasi Limited (MYL)

The showroom is classified as an industrial building due to its proximity to the manufacturing building. 1

Capital allowance (80 000 x 25%) US$20 000 ½

Candle Light (Private) Limited

The showroom is classified as a commercial building. 1

Capital allowance (60 000 x 2·5%) US$1 500 ½

3

(ii) Sale and part lease-back agreement

Candle Light (Private) Limited

The following amounts are included in gross income:

	US$	
Rent (3 000/12 x 7)	1 750	½
Lease premium	6 000	½
	7 750	

Allowable deductions:		
Capital allowances:		
Shop (50 000 x 2·5%)	1 250	½
Showroom (60 000 x 2·5%)	1 500	½
	2 750	

Property owner

The following amounts are deductible:

	US$	
Rent (3 000/12 x 7)	1 750	½
Lease premium (6 000/120)	50	½
	1 800	3

(iii) Tax implication on dividend payment

There is no tax implication when a local company pays a dividend to another local company as the dividend is not subject to withholding tax. 2

(b) (i) Calculation of outstanding corporate tax

Since MYL is fully tax compliant, the assumption is that the corporate tax payable in accordance with the prior quarterly payment dates has been paid as at 30 November 2011. The only outstanding quarterly payment date would therefore be 20 December, with the balance of 35% of the tax being due.

Outstanding corporate tax (35/65 x 125 531) US$67 594 1

The remittance date of the tax to ZIMRA is 20 December 2011. 1

2

(ii) Calculation of the output tax

The turnover for the year amounted to US$3 000 000 and the monthly revenue had been consistent throughout the year.

The turnover for the month of December is therefore – US$ 250 000 (3 000 000/12)

Output tax (15% x 250 000) US$37 500 1

The amount should be remitted to ZIMRA on 20 January 2012. 1

2

Marks

(iii) Calculation of the capital allowances

	US$	
Manufacturing building – fully depreciated	–	½
Showroom (25% x 80 000)	20 000	½
Administration block (2·5% x 70 000)	1 750	½
Furniture and fittings (25% x 40 000)	10 000	½
Computer equipment (25% x 18 000)	4 500	½
Five passenger motor vehicles (25% x 50 000)	12 500	½
Commercial vehicles – fully depreciated	–	½
Staff bus (25% x 45 000)	11 250	½
Manufacturing building extension – 25% (43 000 + 6 500)	12 375	1
	72 375	5

(iv) Calculation of the taxable income and tax payable

	US$	
Net profit	551 000	½
Add:		
Manufacturing building extension	43 000	½
Depreciation	60 300	½
General entertainment costs	15 000	½
Donation	8 000	½
HR manager trade convention costs (20 000 – 2 500)	17 500	1
Interest paid	6 500	1
Recoupment on computer equipment (10 000 – 2 000) x 75%	6 000	1
Less:		
Profit on disposal of shares	(13 100)	1
Profit on sale of computer equipment	(3 200)	1
Net dividend	(16 700)	½
Interest from financial institutions	(5 400)	½
Export market development expenses – double deduction	(32 000)	1½
Capital allowances as above	(72 375)	½
Taxable income	564 525	
Corporate tax at 25%	141 131	1
3% AIDS levy	4 234	½
	145 365	
Provisional tax paid (125 531 + 67 594) – (a)(ii) above	(193 125)	1
Tax refundable	(47 760)	13
		30

Tutorial note on tax treatment of trade convention costs:
The maximum allowable deduction per trade convention is US$2 500 per year. Only a maximum of two trade conventions per year are recognisable for tax purposes which gives an aggregate allowable deduction of US$5 000.

3 Greenland Investments Limited

(a) (i) Available tax dispensations

Capital gains tax relief resulting from the capital gain deferment when 65% of the proceeds from the disposal of the Murambinda branch are applied to fund the extension of the Newlands branch. An election can also be made to transfer all the movable assets at income tax values, thus deferring the taxation on recoupment. 1 1

2

(ii) Tax treatment of the assessed losses

The trading assessed loss is an allowable deduction in the following year and the loss can be carried forward for a maximum period of six years. 1

Marks

The capital loss incurred on the disposal of a specified asset is treated as an allowable deduction in the year in which another specified asset is disposed. Unlike the trading loss which can only be carried forward for a maximum period of six years, the capital loss is not subject to any time limit. 1

2

(iii) For the year ended 31 December 2011, the trading loss of US$17 700 (11 200 + 6 500) will be allowed as a deduction against the income for that year. ½

The capital loss of US$8 700 will also be allowed as a deduction on the gain to be realised on the disposal of the branch assets which are specified assets. ½

1

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

	US$	Marks
Recoupment:		
Murambinda branch building (75% x 120 000)	90 000	½
15% growth point investment allowance – not subject to recoupment	–	½
Furniture and equipment – transferred at income tax value	–	½
Three passenger vehicles – transferred at income tax value	–	½
Rusape branch building (2·5% x 150 000) x 2 years	7 500	½
Furniture and equipment (75% x 42 000)	31 500	½
Five passenger vehicles (75% x 50 000)	37 500	½
Delivery truck (75% x 15 000)	11 250	½
	177 750	4

(ii) Calculation of capital gain and tax payable

Murambinda building:

	US$	US$	Marks
Sale proceeds		180 000	½
Recoupment		(90 000)	½
Less:			
Cost	120 000		
Recoupment	(90 000)	(30 000)	½
Inflation allowance (2·5% x 120 000 x 3)		(9 000)	½
Disposal cost (10% x 180 000)		(18 000)	½
Potential capital gain		33 000	
Less rollover relief (65% x 33 000)		(21 450)	1
Capital gain		11 550	

Rusape branch:

	US$	US$	Marks
Sale proceeds		200 000	
Recoupment		(7 500)	½
Less:			
Cost	150 000		
Recoupment	(7 500)	(142 500)	½
Inflation allowance (2·5% x 150 000 x 3)		(11 250)	½
Disposal cost (10% x 200 000)		(20 000)	
Capital gain		18 750	
Add capital gain – Murambinda branch		11 550	
Total capital gain		30 300	
Less capital loss		(8 700)	½
Capital gain for the year		21 600	
Capital gain tax at 20%		4 320	½
			6
			15

Marks

4 Marine Life Enterprises Limited

(a) (i) Tax implication of the transfer of the fixed assets

Luxury Boats (Private) Limited (LBP) is a subsidiary of Marine Life Enterprises Limited (MLE) since the latter owns 80% (400 000/500 000 x 100) of its shares. ½

Ocean Deep Accessories (Private) Limited (ODA) is an associate company since MLE owns 40% (400 000/1 000 000) of its shares. ½

The potential tax arising from the transfer of the life boats to LBP can be deferred when MLE elects to transfer the assets at the income tax values since the companies are under the same control. The recoupment on the assets will then be taxed when the assets are sold outside the group. 2

Since ODA is an associate company of MLE, the tax implication of the transfer of the lifebelts manufacturing plant is that the transaction is a deemed sale. The recoupment arising from the transfer is therefore taxable. The amount is calculated as follows:

US$140 000 x 10% – US$14 000 2

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(ii) Statutory tax registration requirements

All three companies are obliged to register for the following taxes:

PAYE
The companies should register within 14 days of becoming an employer. 1

Corporate tax
The companies should register and remit corporate tax in accordance with the quarterly payment dates. 1

Value added tax (VAT)
The companies should register voluntarily within three months of operations if the monthly sales amount is US$5 000 or more. 1

3

(iii) VAT implication

All the intercompany transactions for registered operators should include the VAT element in the form of either output tax or input tax. The difference between the two taxes should be remitted to ZIMRA on the 20th of the month following the tax period. 2

(b) Calculation of the VAT position

Marine Life Enterprises Limited

	US$	Marks
Output tax (15/115 x 1 710 000)	223 043	½
Input tax (15/115 x 975 000)	(127 174)	½
Returns (15/115 x 20 000)	2 609	1
VAT payable	98 478	

Luxury Boats (Private) Limited

	US$	Marks
Output tax (15/115 x 395 000)	51 522	½
Input tax (15/115 x 960 000)	(125 217)	½
VAT refundable	(73 695)	

Ocean Deep Accessories (Private) Limited

	US$	Marks
Output tax (15/115 x 580 000)	75 652	½
Input tax (15/115 x 750 000)	(97 826)	½
Returns (15/115 x 20 000)	(2 609)	1
VAT refundable	(24 783)	5
		15

Marks

5 Runako Meza

(a) (i) Accounting of business set-up costs

These are pre-trading expenses and should be allowable as a deduction on commencement of income generation, provided that the expenses are not capital in nature. ½

	US$	Marks
Market research costs – allowable	3 500	½
Business consultant costs – allowable	5 800	½
Stock procurement – allowable	60 000	½
Office furniture and equipment – capital in nature	–	
Wages – allowable	2 300	½
Shop rent – allowable	3 000	½
	74 600	3

(ii) Taxpayer obligations

Runako Meza is obliged to register and remit PAYE on the 10th of the month following the month of deduction. She is required to submit the quarterly payment date returns on the due dates. She is also required to register for value added tax (VAT) since her monthly sales exceed the minimum threshold for registration. ½ ½ 1

2

(b) (i) VAT treatment of pre-trading expenses

Runako Meza is not entitled to claim input tax on the pre-trading expenses as the assumption is that she was not yet a registered operator. The requirement for VAT registration is that the operator is required to trade for three months during which period, if the monthly sales are within the threshold of US$5 000, the operator can then register voluntarily for VAT. Input tax is only claimable if the supplies have been obtained from VAT registered operators. 2

(ii) Calculation of the tax liability

Corporate tax:

	US$	Marks
Gross profit	5 250	
Less:		
Pre-trading expenses	(74 600)	½
Operational expenses	(30 000)	½
Capital allowances: wear and tear		
Office furniture and equipment (30 000 x 10%) x 5/12	(1 250)	½
Executive desk (5 900 x 10%) x 5/12	(246)	½
Add:		
Executive desk	5 900	½
Assessed loss to be carried forward	(94 946)	

Capital Gains tax

	US$	Marks
Proceeds from undeveloped property	65 000	½
Proceeds from unlisted shares	24 000	½
Less:		
Cost:		
Undeveloped property	(42 000)	½
Unlisted shares	(15 000)	½
Inflation allowance:		
Undeveloped property (2·5% x 42 000 x 2)	(2 100)	½
Unlisted shares (2·5% x 15 000 x 3)	(1 125)	½
Capital gain	28 775	
Capital gain tax at 20%	5 755	½
		6

	Marks
(iii) Investment income	
The tax is subject to withholding tax deductible at source as follows:	1
15% on dividends (4 200 x 15/85) – US$ 741	½
20% on interest (8 000 x 20/80) – US$2 000	½
	2
	15