
Answers

Marks

1 John Kyle

(a) Factors which determine whether an engagement is treated as employment or self-employment

Employment engagement

- Employee subject to the organisation’s code of conduct.
- Employee entitled to leave and benefits such as pension, medical aid, etc.

Self-employment engagement

- The contractor is independent of the employer.
- Raises an invoice for the work completed.

Note: Other relevant factors will also be awarded credit.

½ mark each, maximum 2

(b) Tax treatment of the following:

(i) Earnings from subcontracted work

The amount is subject to PAYE since it was paid consequent to John Kyle being an employee and rendering his services to his employer.

1

(ii) Passage benefit

The amount is exempted from tax since it was incurred by the employer for the first time since John’s engagement.

1

(iii) Conference allowance

The US\$5 000 relating to John’s spouse shopping is taxed in his hands. The amount relating to travelling and other direct conference expenses is not taxable.

1

(iv) PAYE

The amount is treated as a taxable benefit and included in John’s gross income.

1

(v) NSSA compensation

The amount is of a capital nature and exempted from tax.

1

(c) (i) Calculation of the taxable benefits

Housing benefit (12.5% of salary: 12.5% x 80 000) less rent charged by employer (10 000 – 3 000)
US\$7 000

1

Furniture benefit (8% of furniture cost: 8% x 35 000) US\$2 800

1

2

(ii) Calculation of the taxable income and tax arising from the share transactions

Taxable income – corporate tax rate

30 000 x 1.50 – US\$45 000

1

Tax at 25.75% – US\$11 588

½

Capital gains tax

Disposal of 10 000 shares at \$7 per share

Gross proceeds – US\$70 000

1

Tax at 1% of proceeds – U\$700

½

3

(iii) Calculation of the taxable income and tax payable by John Kyle for the year ended 31 December 2012**Employment income**

	US\$	
Salary	80 000	½
Earnings from subcontracted work	95 000	½
Passage benefit – exempt	0	½
Director's fees	40 000	½
Thirteenth cheque (7 000 – 700)	6 300	1
Representation allowance	10 000	½
Conference allowance ((b)(iii) above)	5 000	½
Fuel allowance (1/3 x 12 000)	4 000	½
Motor vehicle benefit – 3300cc	4 800	½
Leave pay	6 700	½
Performance bonus	9 500	½
Housing benefit ((c)(i) above)	7 000	½
Furniture benefit ((c)(i) above)	2 800	½
PAYE benefit	23 000	½
NSSA compensation – not taxable	0	½
Funeral policy contributions – not allowable	0	½
Subscriptions to the Institute of Geological Surveys	(4 000)	½
Pension contributions (maximum)	(5 400)	½
Taxable income	<u>284 700</u>	
Tax on sliding scale:		
Up to US\$120 000	38 100	
(284 700 – 120 000) x 45%	<u>74 115</u>	
Gross tax	112 215	½
Blind person's credit (apportioned for ½ the year (900 x 50%))	(450)	1
	<u>111 765</u>	
Add: 3% AIDS levy	3 353	½
Tax payable	<u><u>115 118</u></u>	

Business income

	US\$	
Rental income	95 000	
Contract fees	65 000	
Shares	45 000	
Taxable income	<u>205 000</u>	1
Tax at 25.75%	<u><u>52 788</u></u>	½
		<u>13</u>
		<u>25</u>

2 Green Feeds Limited (GF)**(a) (i) Taxation of income**

GF qualifies for a special rate of tax of 20% since the company exports over 50% of their manufacturing output.

1

Calculation:

	Export volume	
2010 (500 000/1 000 000 x 100)	50%	
2011 (800 000/1 400 000 x 100)	57%	
2012 (950 000/1 550 000 x 100)	61%	
		<u>1</u>
		<u>2</u>

(ii) Tax treatment of the interest

Interest income of US\$122 800
 Interest from the financial institutions of US\$12 300 is taxed at source and therefore exempted from the gross income of GF. 1

The interest on overdue credit customers of US\$110 500 is normal business income and is included in the gross income. ½

Interest expense of US\$58 000
 The following interest is not allowable:

	US\$	
Purchase of shares (150 000/290 000 x 58 000) – capital expense	30 000	½
Fencing of one farm (35 000/290 000 x 58 000) – unproductive interest	7 000	½
Motor vehicle (30 000/290 000 x 58 000) – excess of the restricted amount	6 000	½
Motor vehicle (5 000/290 000 x 58 000) – non-business portion	1 000	½
	44 000	

Allowable interest

Fencing of one farm (35 000/290 000 x 58 000)	7 000	½
Sinking of boreholes (30 000/290 000 x 58 000)	6 000	½
Motor vehicle (5 000/290 000 x 58 000)	1 000	½
	14 000	5

(iii) Conditions for the deductibility of impaired debts

- The debt must have been incurred by a taxpayer in the production of income. 1
 - The debt must be due and payable to the taxpayer. ½
 - The debt must be proved to be irrecoverable. ½
- 2

(b) (i) Calculation of the provisional tax

Projected taxable income – US\$345 500
 Taxed at 20.6% including AIDS levy – US\$71 173 1

	US\$	
Tax due on:		
25 March 2012 – 10%	7 117	
25 June 2012 – 25%	17 793	
25 September 2012 – 30%	21 352	
20 December 2012 – 35%	24 911	2
	71 173	3

(ii) Calculation of the taxable income and tax payable

	US\$	
Net profit	1 815 000	½
<i>Add:</i>		
Interest – disallowed	44 000	½
Canteen expenses – executive staff	41 000	½
Provision for directors' fees	160 000	½
Lump sum payment	72 300	½
Penalty for late PAYE	6 300	½
Employee end of year party	0	½
Vehicle lease hire (restricted to 10 000 per vehicle – private use disallowed 96 000 – 40 000 + 50% x 40 000)	76 000	1
Repairs and maintenance (50% x 20 000)	10 000	1
Depreciation	60 000	½
Impaired debts – 1% of debtors book	105 000	½
Purchased debts	37 000	½
Insolvent debtor	0	½
Legal fees	3 000	½
Legal fees – preparation of contracts	0	½
Rental of unproductive farming land	14 000	1
Trade mark registration	20 000	½
Entertainment of prospective clients	0	½
<i>Less:</i>		
Interest from financial institutions	(12 300)	½
Compensation from insurance	(15 000)	½
Advertising and promotion – double deduction	(35 000)	1
Capital allowances: wear and tear		
Factory building (5% on cost)	(6 250)	½
Office building (2.5% on cost)	(2 500)	½
Plant and machinery (17.5% – reducing balance) (working)	(9 529)	1½
Staff houses – 3 units (5% on restricted cost of 10 000)	(1 500)	½
Staff houses – 5 units (disallowed – cost per unit over 25 000)	0	½
Vehicle (20% on 10 000 – business use)	(1 000)	½
Taxable income	<u>2 380 521</u>	
Corporate tax at 20%	476 104	½
3% AIDS levy	14 283	½
	<u>490 387</u>	
<i>Less: provisional tax paid</i>	(71 173)	½
Tax payable	<u><u>419 214</u></u>	<u>18</u>
		<u>30</u>

Working:

Plant & machinery allowance – reducing balance	
Cost in 2010	80 000
Wear & tear allowance 2010 at 17.5%	(14 000)
	<u>66 000</u>
Wear & tear allowance 2011 at 17.5%	(11 550)
	<u>54 450</u>
Wear & tear allowance 2012 at 17.5%	9 529
	<u>9 529</u>

3 G&P Transporters (Private) Limited**(a) (i) (1) Chargeable assets**

– Office building	½
– Paved parking yard	½
	<u>1</u>

(2) Exempt assets

- Goodwill.
- Disposal of a principal private residence by an elderly person.
- Transfer of specified assets to beneficiaries in a deceased estate.
- Disposal of specified assets by a registered licensed investor or industrial park developer.
- Disposal of specified assets by non-profit organisations.

$\frac{1}{2}$ mark each, maximum 1

Note: *The list is not limited to the above but are some of the common exempt assets.*

(ii) Tax treatment of the proceeds of goodwill received

Proceeds from the sale of goodwill are neither a receipt from the disposal of immovable property nor from marketable securities. As such, the proceeds from the sale of goodwill on the disposal of the Bulawayo business is exempted from capital gains tax.

2

(iii) Capital gains tax reliefs

On transfer of the immovable assets from the unincorporated family business to the company owned by the family members, George and Peter Moyo can elect to transfer the assets at the income tax values, thereby deferring potential capital gains tax to when the immovable assets are sold by the company to unrelated parties.

1½

G&P Transporters can also elect to claim rollover relief on the disposal of the immovable Bulawayo property to the extent that the amount is not fully applied towards the acquisition of the Harare immovable property.

1½

3

(b) (i) Calculation of the potential taxable income

	US\$	
Recoupment on:		
Haulage trucks (120 000 x 50% SIA)	60 000	½
Office building (100 000 x 2.5%)	2 500	½
Paved parking yard (60 000 x 2.5%)	1 500	½
Office equipment (25 000 x 50%)	12 500	½
	<u>76 500</u>	<u>2</u>

(ii) Calculation of the capital gain and tax payable

	US\$	
Sale proceeds (150 000 + 80 000 + 50 000)	280 000	½
Recoupment (7 500 + 4 500 + 15 000)	(27 000)	1
<i>Less:</i>		
Cost (100 000 + 60 000 + 30 000)	190 000	
Recoupment	<u>(27 000)</u>	½
	90 000	
<i>Inflation allowance:</i>		
Office building (2.5% x 100 000 x 4)	10 000	½
Paved parking yard (2.5% x 60 000 x 4)	6 000	½
Security wall (2.5% x 30 000 x 3)	2 250	½
	<u>(18 250)</u>	
Disposal expenses (10% x 280 000)	(28 000)	1
	43 750	
Roll over relief (140 000/280 000 x 43 750)	(21 875)	1
	<u>21 875</u>	
Tax at 20%	<u>4 375</u>	½

6

15

4 Floor Tiles (Private) Limited (FT)

(a) (i) Advantages of voluntary VAT registration

- The VAT registration certificate is a prerequisite by most suppliers for consideration to participate in tenders. 1/2
 - Being VAT compliant is also a consideration by ZIMRA for the issuance of a tax clearance certificate which saves on potential withholding tax of 10% from invoices issued to customers. 1/2
 - Avoidance of potential penalties and interest from late VAT registration. 1/2
 - Input tax claim from purchases obtained from VAT registered suppliers. 1/2
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- (ii) FT should have registered for VAT when they attained a sales threshold of US\$5 000 monthly. They should therefore have registered for VAT in the month of May 2012, and submitted the respective first VAT return on 25 June 2012. 1/2
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(iii) Statutory duties of a registered operator (R/O)

- Complete and submit the VAT return as well as the remittance by the 25th day of the month following the end of a tax period.
- Issue tax invoices for taxable supplies.
- Keep accounting records for a minimum period of six years after the relevant tax period.
- Advise ZIMRA of any changes in business related issues such as change of address, cessation of trade, etc.
- Allow ZIMRA officials access to business records and entry to business premises on request.
- Account for VAT on closing stock on cessation of trade.

1/2 mark each, maximum 2

(iv) ZIMRA's actions

- Backdating the VAT registration to when the minimum monthly threshold was attained. 1/2
 - Charge the output tax from the backdated VAT registration date. 1/2
 - Charge penalties of 100% on overdue output tax. 1/2
 - Charge 10% interest p.a on outstanding output tax. 1/2
-

(b) (i) Calculation of output tax exposure

	US\$	
Output VAT		
May 2012 (15% x 5 300)	795	1/2
June 2012 (15% x 6 200)	930	1/2
	1 725	
	1 725	
100% penalty	1 725	1/2
10% interest (10% x 1 725 x 2/12)	29	1/2
	1 754	2
	1 754	

(ii) Input tax

	US\$	
May 2012 (15/115 x 3 200)	417	1
June 2012 – purchases obtained from unregistered operators	0	1
	417	2
	417	

(iii) Calculation of the VAT payable

	US\$	
Output tax		
Total sales from July (15% x 48 900)	7 335	1
Less: input tax		
Purchases from registered operators (15/115 x 15 300)	(1 996)	1
Motor vehicle expenses (15/115 x 2 400)	(313)	½
Stationery (15/115 x 1 000)	(130)	½
Payroll costs	0	½
Other office expenses (15/115 x 900)	(117)	½
VAT payable	<u>4 779</u>	<u>4</u>
		<u>15</u>

5 Jean Milton**(a) (i) Commercial building definition**

A commercial building refers to a building which was constructed on or after 1 April 1975 and is used for the purposes of trade to the extent of at least 90% of the building's floor area. 1

From the available information, Jean Milton's office buildings do qualify for the commercial building's definition since the buildings are used wholly for business purposes. 1

2**(ii) Exemptions from Jean Milton's gross income**

Jean Milton is an elderly taxpayer, hence the following amounts are exempted from her gross income: ½

	US\$	
Rental income	3 000	½
Pension received	13 000	½
Interest from discounted instruments	3 000	½

2**(iii) Tax accounting of income received****(1) Income from voluntary organisations**

The income forms part of Jean Milton's gross income for the year. ½

Jean Milton should also project the estimated taxable income to be received from the voluntary organisations and aggregate the amount with her other taxable income from business to come up with estimated tax to be remitted to ZIMRA in line with the Quarterly Payment Date (QPD) requirements. ½

(2) Rental income

The income forms part of Jean Milton's gross income from her ordinary business operations.

The income should be accounted for tax purposes in the same way as her other business taxable income. The estimated tax should be remitted to ZIMRA in line with the QPDs. ½

2

(b) Calculation of the provisional taxable income and tax payable**Business related income:**

	US\$	
Income from voluntary organisations	80 000	½
Rental income (132 000 – 3 000)	129 000	½
<i>Less:</i>		
Motor vehicle expenses (20 000/35 000 x 25 000 x 60%) + (15 000/35 000 x 25 000)	(19 285)	1
Security	(15 000)	½
Cleaning	(12 000)	½
Consultancy fees	(20 000)	½
Donations – disallowed	0	½
Salaries and wages	(33 000)	½
Capital allowances:		
Commercial buildings (2.5% x 250 000)	(6 250)	½
Motor vehicles – SIA (25% x 10 000 x 2)	(5 000)	½
Taxable income	<u>98 465</u>	
Tax payable at 25%	24 616	½
Add: AIDS levy 3%	738	½
	<u>25 354</u>	
Pension received – exempt in full	<u>0</u>	½
Tax withheld from interest:		
Interest from discounted instruments (17 000 – 3 000 x 15%)	<u>2 100</u>	1
Tax withheld from dividends:		
Quoted shares (10/90 x 12 000))	1 333	½
Unquoted shares (15/85 x 9 000)	1 588	½
	<u>2 921</u>	
		<u>9</u>
		<u>15</u>