Answers

	Marks
1 Moira Demo	
(a) (i) Breached ZIMRA requirements	
Employees tax (PAYE) registration requirements:	
Moira Demo should have registered for PAYE within 14 days of becoming an employer and remitted the employees tax deducted on the 10th of every month.	1½
Corporate tax registration requirements:	
Moira Demo should have registered for corporate tax on the commencement of her business operations and remitted the tax on the due quarterly payment dates (QPDs).	1½
	3
(ii) Possible consequences of the breach of ZIMRA requirements (as in (i) above)	
ZIMRA can backdate both the employees tax (PAYE) and corporate tax registration to the date when the business operations commenced. All the outstanding tax returns will have to be submitted and the taxes due paid.	1
ZIMRA can impose a penalty of 100% of the overdue tax, as well as charge interest of 10% p.a.	1
	2
(b) Tax planning	
Moira Demo can maximise the capital allowances available in respect of her business assets by electing to claim the 25% special initial allowances on the qualifying assets instead of settling for wear and tear allowances.	1
Moira Demo can also eliminate the risk of possible tax penalties and interest by submitting all her tax returns on the due dates, as well as paying the requisite taxes on or before the due dates.	1
	2
(c) Compare and contrast the tax treatment of the representation allowances	
From the Ministry of Health and Child Welfare: The whole amount is exempt from tax since Moira Demo is in the civil service.	1
From Sight Restoration: As this is from a private organisation, the whole amount is subject to tax and will be included in her taxable income.	1
	2
(d) (i) NSSA contributions for the year ended 31 December 2012	
Calculated at 3% of U$200 per month (3% x 200 x 12) = US$72 for the year.	1

(ii) PAYE (employees tax) for private practice for the year ended 31 December 2012

	US$	Marks
Salary	60 000	½
School fees benefit	15 000	½
Home security benefit	10 000	½
Gym subscriptions benefit	4 000	½
South Africa trip – exempt	0	1
Utility bills benefit	5 000	½
RAF contributions	(3 000)	½
Motor vehicle benefit	3 600	½
Taxable income	94 600	
Tax at the marginal rate of tax (45% x 94 600)	42 570	1
AIDs levy (3% x 42 570)	1 277	½
Total PAYE	43 847	6

			Marks
(iii)	**Taxable income and tax payable for the year ended 31 December 2012**		
		US$	
	Salary from Ministry of Health	30 000	½
	On call allowance	12 000	½
	Accommodation allowance – exempt	0	½
	Transport allowance – exempt	0	½
	Bonus (2 500 – 700)	1 800	1
	Representation allowance – exempt	0	½
	Cash in lieu of leave	2 500	½
	Employee pension contribution	(2 250)	½
	NSSA contribution (from (d)(i) above)	(72)	1
	Loan repayment – disallowed	0	½
	Loan benefit on amount used to sink borehole: (6 000 x 7·5% x 6/12)	225	2
	Subscription to professional association	(2 000)	½
	Life policy stop order – disallowed	0	½
	Taxable income from private practice (from (d)(ii) above)	94 600	½
	Salary from Sight Restoration	16 000	½
	Attendance allowance	20 000	½
	Representation allowance	7 000	½
	Total taxable income	179 803	
	Tax on sliding scale:		
	Up to US$120 000	38 100	
	(179 803 – 120 000) x 45%	26 911	
	Gross tax	65 011	½
	Less: medical credit (8 000 + 4 000) x 50%	(6 000)	1
		59 011	
	Add: 3% AIDS levy	1 770	½
		60 781	
	Less: PAYE (14 000 + 19 930)	(33 930)	1
	Tax payable	26 851	14
			30

2 Absolute Milling Company (Private) Limited (AMC)

(a) Tax obligations in respect of the transfer of assets

	Marks
The transfer of the fixed assets and the stock will be treated as deemed sales.	1
AMC is obliged to account for capital gains tax on the transfer of the immovable properties. The capital gains tax should be remitted to ZIMRA within three working days of the date of accrual of the sale proceeds.	2
AMC should account for value added tax (VAT) on the transferred stock (where applicable). The transaction should be included in AMC's VAT return for the month of transfer and the VAT paid to ZIMRA by the 25th day of the following month.	2
The deemed sale of stock should also be included in AMC's gross income for the year.	1
	6

(b) Underpaid provisional corporate tax for the year ended 31 December 2012

	US$	Marks
Projected taxable income	480 000	½
Less: assessed losses brought forward	(45 000)	½
Adjusted taxable income	435 000	
Tax (including AIDS levy) at 25·75%	112 013	½
Less: tax paid	(50 000)	½
Corporate tax underpaid	62 013	2

		Marks

(c) Capital gains tax payable for the year ended 31 December 2012

Deemed gross proceeds at market value:

	US$	
Town milling buildings	400 000	½
Town warehouses	300 000	½
Harare No. 1 milling building	430 000	½
Harare No. 1 warehouse	320 000	½
Total gross proceeds	1 450 000	
Capital gains tax at 5%	72 500	1
		3

(d) Taxable income and tax payable for the year ended 31 December 2012

	US$	
Profit before tax	560 000	
Add:		
Sales value of transferred stock (375 000 + 500 000)	875 000	1
Hire of milling plant	0	½
Motor vehicle expenses	0	½
Vehicle licence penalty	7 000	½
Replacement of a vehicle trailer	118 000	½
Staff costs	0	½
PAYE on arrears of salaries	0	½
PAYE penalty	47 250	½
Software upgrade	0	½
Allowance for receivables	40 000	½
Depreciation	44 000	½
Disposal cost of the milling plant	0	½
Disposal cost of the milling building and warehouse (43 000 + 32 000)	75 000	½
General entertainment	42 000	½
Management staff share scheme	40 000	1
Finance costs on trade payables	0	½
Finance costs on long-term borrowings	60 000	½
Recoupment on fixed assets	1 200 000	1
Less:		
Profit on sale of assets	(260 000)	½
Capital allowances:		
Vehicle trailer (25% x 118 000)	(29 500)	½
Office building (2·5% x 200 000)	(5 000)	½
Commercial vehicles (25% x 150 000)	(37 500)	½
Assessed losses brought forward	(45 000)	½
Taxable income	2 731 250	
Corporate tax (including AIDS levy) at 25·75%	703 297	½
Less: provisional tax paid	(50 000)	½
Tax payable	653 297	14
		25

3 Billy Wells

(a) Definition of a principal private residence (PPR)

For capital gains purposes, a PPR is a building used by the taxpayer as a sole residence situated in Zimbabwe. It includes all ancillary buildings and structures associated with a domestic dwelling and a registered piece of land of not more than two hectares surrounding the residence and used for domestic purposes. 2

The PPR must have been the taxpayer's main or sole residence with the taxpayer ordinarily staying at the property during the period of ownership for at least four years before the disposal date or any other period approved by ZIMRA. 1

Marks

Only one residence is considered as a PPR in the case of a taxpayer owning more than one such property and the residence must have been the taxpayer's main dwelling place. 1

The taxpayer's sole or main residence will continue to be their PPR, even if the taxpayer has been prevented from residing at the property due to employment commitments or such other circumstances as approved by ZIMRA. 1

5

(b) Rollover disallowance

ZIMRA's disallowance of the rollover claim is justifiable in that in this case, the partially developed residential plot does not qualify as a PPR. 1

Although an undeveloped residential property if held for the purposes of being developed into a PPR ordinarily qualifies as a PPR, it cannot qualify as a PPR if it is disposed of without the key improvements which enable the property to be a dwelling being in place. 1

Rollover relief also does not apply in instances where land or the improvements associated with a residential property are disposed of separately from the actual dwelling house. 1

3

(c) Capital gains withholding tax

Asset	**US$**	
Immovable property: 15% of the sale proceeds of US$100 000	15 000	½
Quoted shares: 1% of the sale proceeds of US$15 000	150	½
Unquoted shares: 5% of the sale proceeds of US$30 000	1 500	½

The withholding tax is the final tax in the case of the quoted shares. ½

The withholding tax is not the final tax in the case of either the immovable property ½
or the unquoted shares. ½

3

(d) Capital gains tax on the disposal of the unquoted shares

		US$	
Sale proceeds		30 000	½
Less:			
Cost	20 000		½
Inflation allowance (2·5% x 20 000 x 4)	2 000		1
5% disposal expenses	1 500	(23 500)	½
Capital gain		6 500	½
Capital gains tax at 20%		1 300	½
Less: withholding tax paid		(1 500)	½
Amount refundable		200	4
			15

4 Tom Veld

(a) Tax registration

Tom Veld is obliged to register for value added tax (VAT) since his sales for the year are above the minimum threshold of US$60 000. 1

His taxable supplies are subject to VAT at the rate of 0% due to the nature of his business. ½

Tom is also required to register for corporate tax and remit the tax in line with the quarterly payment dates (QPDs). ½

Tom is not under an obligation to register for employees tax (PAYE) since his employees' wages are all below the taxable threshold of US$250 per month. 1

3

Tutorial note: *Tom might be required to register for PAYE if he, himself, is in receipt of a salary or benefits from his business operations, but the question does not indicate that this is the case.*

Marks

(b) Pre-trading expenditure

Tom Veld can claim relief on the pre-trading expenditure incurred before 1 February 2012 since the amounts were incurred within the minimum period of 18 months before commencement of the trade. 1

(c) (i) Special deductions for the year ended 31 December 2012

	US$	Marks
Temporary farm roads	8 000	½
Farm and pasture fencing	25 000	½
Clearing and land preparation	15 000	½
Dam construction	30 000	½
Sinking of boreholes and wells	24 000	½
Contour ridges	5 000	½
	107 000	3

(ii) Closing livestock value at 31 December 2012

	US$	Marks
Calves (20 x 200)	4 000	½
Steers (15 x 380)	5 700	½
Heifers (25 x 380)	9 500	½
Dairy cows (valued at purchase price)	48 000	) ½
Bulls (valued at purchase price)	2 000	)
	69 200	2

(iii) Minimum taxable income and tax payable for the year ended 31 December 2012

	US$	Marks
Farm revenue	460 000	½
Closing stock (from (c)(ii) above)	69 200	½
Less:		
Purchases of livestock	(69 000)	½
Special deductions (from (c)(i) above)	(107 000)	½
Wages (10 000 + 28 000 + 45 000)	(83 000)	½
Animal feed supplement	(26 000)	½
Other running expenses	(80 000)	½
SIA on:		
Dip tanks (25% x 18 000)	(4 500)	½
Borehole equipment (25% x 14 000)	(3 500)	½
Staff houses (25% x 10 000 x 6)	(15 000)	1
Taxable income	141 200	
Tax payable (including AIDS levy) at 25·75%	36 359	½
		6
		15

5 Rhino Printers Limited (RPL)

(a) Value added tax (VAT) on transferred stock

As a registered operator, RPL is obliged to account for output tax on the stock transferred to their subsidiary, Rhino Booksellers (Private) Limited (RB). ½

The output tax should be included in RPL's VAT return for the period and the tax remitted to ZIMRA by the 25th of the month following the end of the period. 1

The output tax to be accounted for by RPL is (15/115 x 200 000) = US$26 087 ½

2

Marks

(b) VAT payable by/refundable to RB for the year ended 31 December 2012

	US$	
Output tax (15/115 x 118 000)	15 391	½
Less:		
Input tax on:		
Transferred stock (equivalent to (a) above)	(26 087)	1
Repairs and maintenance (15/115 x 23 000)	(3 000)	½
Staff costs	0	½
Rental expenses	0	1
Loan establishment fee	0	1
Other general expenses (15/115 x 18 000)	(2 348)	½
Refundable amount	16 044	5

(c) (i) VAT deregistration

A registered operator can deregister either on the cessation of trade or when the operator is no longer making taxable supplies. 1

A registered operator can also deregister:

- when their turnover falls below the annual minimum threshold of US$60 000; or ½
- in the case of an operator who was voluntarily registered, when they can no longer meet the set conditions. ½

The registered operator is required to notify ZIMRA in writing within 21 days of a cessation of trade. 1

3

(ii) RB's VAT deregistration

Although RB's sales for the months of June to December 2012 are below the monthly threshold of US$5 000, their annual turnover is still well above the minimum threshold of US$60 000. 1

Therefore, deregistration is only possible by reference to the winding up of RB. Since a resolution was passed for RB to cease operations on 10 January 2013, its VAT deregistration will take effect from that date. 1

2

(iii) VAT to be accounted for on closing stock

RB must account for VAT on the closing stock held at the date of deregistration on which input tax has previously been claimed. 1

The VAT payable to ZIMRA will be as follows:

	US$	
Sales value of closing stock: (121 070 x 1·3)	157 391	1
Output tax to be accounted for (15% x 157 391)	23 609	1
		3
		15