
Answers

Section B

Marks

1 Mpho – Farming taxable income for the year ended 31 December 2016

	US\$	US\$	US\$	
Sales (30 000 + 600 000)			630 000	½
Less:				
Opening stock – horses				
Stallions (5 x US\$2 200)		11 000		½
Colts (30 x US\$400)		12 000		½
Mares (70 x US\$1 500)		105 000		½
Fillies (20 x US\$850)		17 000		½
Foals (40 x US\$200)		8 000		½
		<u>153 000</u>		
Horse purchases		6 000		½
Other farm purchases		<u>150 000</u>		½
		309 000		
Less closing stock – horses				
Stallions (5 + 3 x US\$2 200)	17 600			½
Colts (30 – 30 + 15 x US\$400)	6 000			½
Mares (70 x US\$1 500)	105 000			½
Fillies (20 – 20 + 25 x US\$850)	21 250			½
Foals (40 – 40 + 60 x US\$200)	<u>12 000</u>			½
		(161 850)		
			(147 150)	
Gross profit			<u>482 850</u>	
Less:				
Farm overheads (80% x US\$250 000)			(200 000)	½
Land clearing			(50 000)	½
Dam construction			(90 000)	½
Capital allowances:				
Commercial vehicles (25% x US\$200 000)			(50 000)	½
Staff houses (5 units) – disallowed (cost exceeds limit)			0	½
Stables (25% x US\$120 000)			(30 000)	½
Farm fixtures (25% x US\$150 000)			<u>(37 500)</u>	½
Taxable income			<u><u>25 350</u></u>	
				<u>10</u>

2 Quality Leather (Private) Limited (QL)

(a) Other tax registration obligations

- (i) QL should register for pay as you earn (PAYE) within 14 days of staff recruitment. The average monthly salary of the permanent employees is US\$600 which is above the non-taxable threshold of US\$300 per month. 1½
- The PAYE returns should be submitted on the 10th of every month. ½
- (ii) QL should also register for value added tax (VAT) on attainment of the minimum monthly turnover threshold of US\$5 000. The yearly projected turnover is US\$280 000 which is above the minimum threshold of US\$60 000. 1½
- The VAT returns should be submitted on the 25th of every month. ½

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(b) Provisional corporation tax and payments due in respect of each quarterly payment date (QPD) for the year ended 31 December 2016

	US\$	
Net profit	45 000	½
Add: depreciation	22 000	½
	<u>67 000</u>	
Less special initial allowance (SIA) on:		
Furniture and equipment (25% x US\$80 000)	(20 000)	½
Commercial vehicles (25% x US\$50 000)	(12 500)	½
Passenger motor vehicle (25% x US\$10 000)	(2 500)	½
Taxable income	<u>32 000</u>	
Provisional tax at 20%	6 400	1
3% AIDS levy	192	½
	<u>6 592</u>	
QPDs:		
25 March 2016 (10% x US\$6 592)	659	½
25 June 2016 (25% x US\$6 592)	1 648	½
25 September 2016 (30% x US\$6 592)	1 978	½
20 December 2016 (35% x US\$6 592)	2 307	½
	<u>6 592</u>	<u>6</u>
		<u>10</u>

3 Peter**Capital gains tax (CGT) payable for the year ended 31 December 2016**

	US\$	US\$	
Marketable securities:			
CGT on quoted shares (1% x US\$30 000) (note 1)		<u>300</u>	½
Unquoted shares:			
Sales proceeds	12 000		½
Less:			
Cost	(5 000)		½
Inflation allowance (2.5% x US\$5 000 x 6) (note 2)	(750)		½
Capital gain	<u>6 250</u>		
CGT at 20%		<u>1 250</u>	½
Industrial building:			
Sale proceeds US\$(150 000 + 180 000 + 50 000)	380 000		½
Less recoupment on:			
Factory building (fully depreciated)	(120 000)		½
Factory wall (25% x US\$30 000 x 3)	(22 500)		½
	<u>237 500</u>		
Less:			
Cost US\$(100 000 + 120 000 + 30 000)	250 000		½
Capital allowances previously granted US\$(120 000 + 22 500)	<u>(142 500)</u>		½
	(107 500)		
Inflation allowance:			
Land (2.5% x US\$100 000 x 7)	(17 500)		½
Building (2.5% x US\$120 000 x 6)	(18 000)		½
Wall (2.5% x US\$30 000 x 4)	(3 000)		½
Capital gain	<u>91 500</u>		
Capital gain tax at 20%		<u>18 300</u>	½

Notes:

1. Donated shares are treated as a deemed disposal for capital gains tax purposes.
The market value of the shares is treated as the deemed sale proceeds and capital gains tax is therefore chargeable in the same way as an ordinary sale of shares.
2. The inflation allowance on the bonus shares will still be computed from the date the original shares were acquired.

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4 QN Limited

(a) Non-deductible input value added tax (VAT)

	US\$	
Purchases (15/115 x US\$6 000)	783	½
Passenger motor vehicle (15/115 x US\$20 000)	2 609	1
Office building rent (15/115 x US\$6 000)	783	½
	<u>4 175</u>	<u>2</u>

(b) VAT payable or refundable for the month of May 2016

	US\$	
Turnover at standard rate (15/115 x US\$30 000)	3 913	½
Turnover at zero rate (0% x US\$10,000)	0	½
Returned goods (15/115 x US\$8 000 x 90%)	(939)	½
Motor vehicle benefit (15/115 x US\$9 600 x 1/12)	104	½
Output tax	<u>3 078</u>	
Less input tax:		
Purchases (US\$18 000 – US\$6 000) x 15/115)	(1 565)	½
Purchases returns (15/115 x US\$4 000)	522	½
Passenger motor vehicle	0	½
Furniture and fittings (15/115 x US\$12 000)	(1 565)	½
Computer equipment (15/115 x US\$3 000)	(391)	½
Salaries and wages	0	½
Medical aid contributions	0	½
Office building rent	0	½
Depreciation	0	½
Stationery (15/115 x US\$1 800)	(235)	½
Repairs and maintenance (15/115 x US\$2 500)	(326)	½
Interest on overdraft	0	½
VAT refundable	<u>482</u>	<u>8</u>
		<u>10</u>

5 XLM Limited

Taxable income and corporation tax payable for the year ended 31 December 2016

	US\$	
Profit before taxation	13 000	
Adjustments:		
Bank interest received	(4 000)	½
Rent received	0	½
Lease premium (US\$40 000 – US\$8 000)	32 000	1
Profit on sale of commercial vehicle	(10 000)	½
Recoupment on commercial vehicle (US\$50 000 – US\$12 500)	37 500	1
Depreciation	13 000	½
Salaries and wages	0	½
NSSA penalty	3 000	½
Former employee payment (restraint of trade)	20 000	½
Impairment loss – trade debt	0	½
Impairment loss – allowances for receivables	5 000	½
Export market research expenses – double deduction	(10 000)	½
Local trade fair exhibition expenses	0	½
Trade mission expenses (US\$7 000 – US\$2 500)	4 500	½
Donations:		
Harare Hospital children's ward	0	½
Food hampers	8 000	½
General entertainment expenses	11 000	½
Legal expenses	12 000	½
Dumping fine	4 000	½
Factory loading bay redesign	24 000	½
General administrative expenses (25% x US\$35 000)	8 750	½
Interest payable – factory bay redesign	0	½
Unproductive interest (US\$6 000/US\$30 000 x US\$ 5 000)	1 000	1
Capital allowances:		
Special initial allowance (SIA) on factory loading bay (25% x US\$24 000)	(6 000)	½
Wear and tear on commercial building (2.5% x US\$300 000)	(7 500)	½
Taxable income	<u>159 250</u>	
Tax at 25%	39 813	½
3% AIDS levy (39 813 x 3%)	1 194	½
Tax payable	<u>41 007</u>	

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6 Joanne River

(a) Difference in tax treatment of salary from employment and salary from partnership

The difference is how the salary is subjected to tax. The salary from employment is taxed in accordance with the final deduction system (FDS) and subjected to PAYE.

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The salary from the partnership is treated as an allowable deduction in the calculation of the joint taxable income and then subjected to corporation tax together with the share of profit in the individual partner's income tax computation.

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(b) Taxable income and income tax payable for the year ended 31 December 2016

	US\$	
Employment:		
Salary	18 000	½
Bonus (US\$1 800 – US\$1 000)	800	½
Transport allowance	4 000	½
Tuition fees benefit (US\$3 000 x 3 x 50%)	4 500	1
Accommodation benefit (US\$250 x 12) – (US\$100 x 12)	1 800	½
Loan benefit (US\$4 000 x 6% x 10/12)	200	½
	<u>29 300</u>	
<i>Less:</i>		
Pension fund contributions	(3 000)	½
NSSA contributions	(294)	½
Taxable income	<u>26 006</u>	
Tax on sliding scale:		
Up to US\$18 000	2 880	
On US\$(26 006 – 18 000) at 25%	2 002	½
Gross tax	<u>4 882</u>	
<i>Less credits:</i>		
Disabled person	(900)	½
Medical aid contributions credit (50% x US\$1 200)	(600)	½
	<u>3 382</u>	
<i>Add</i> 3% AIDS levy (3 382 x 3%)	101	½
	<u>3 483</u>	
<i>Less</i> PAYE	(3 200)	½
Tax payable	<u>283</u>	
Partnership:		
Joint partnership profit (US\$25 000 x 3)	75 000	½
Office expenses	0	½
Staff salaries	0	½
Partners' salaries	0	½
<i>Insurance:</i>		
Partnership joint life policy	30 000	½
Partners' life policies	0	½
Interest on capital accounts	0	½
Adjusted joint taxable income	<u>105 000</u>	
Adjusted share of profit (US\$105 000/3)	35 000	½
<i>Add:</i>		
Salary	60 000	½
Insurance policy (US\$24 000/3)	8 000	½
Interest on capital accounts (US\$21 000/3)	7 000	½
Taxable income	<u>110 000</u>	
Tax at 25.75%	<u>28 325</u>	½

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