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# Answers

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Section B

Marks

1 (a) Blue (Private) Limited's value added tax (VAT) periods and return submission dates

As a category A VAT operator, for the six-month period ended 30 November 2016 Blue (Private) Limited is required to submit a VAT return after each two-month VAT period ending, 31 July, 30 September and 30 November.

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The VAT return submission dates for the six-month period ended 30 November 2016 are 25 August 2016, 25 October 2016 and 25 December 2016.

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(b) Blue (Private) Limited's VAT payable/refundable for the six-month period ended 30 November 2016

	July US\$	September US\$	November US\$	
Supply of goods – 15/115(45000, 58000, 40000)	5 870	7 565	5 217	1
Supply of services – 15/115(22000, 0, 28000)	2 870	0	3 652	1
Debit notes – 15/115(5000, 0, 0)	(652)	0	0	1/2
Purchases – 15/115(25000, 18000, 26000)	(3 261)	(2 348)	(3 391)	1
Credit notes – 15/115(1000, 0, 4000)	130	0	522	1/2
Stationery – 15%(15600, 12700, 8400)	(2 340)	(1 905)	(1 260)	1
Office rent – 15%(2400, 2400, 2400)	(360)	(360)	(360)	1
Fuel – exempt	0	0	0	1/2
General repairs – 15%(2300, 2800, 2400)	(345)	(420)	(360)	1
Bank charges – exempt	0	0	0	1/2
VAT payable	<u>1 912</u>	<u>2 532</u>	<u>4 020</u>	<u>8</u>
				<u>10</u>

2 Maureen

(a) An estimated assessment can be issued by Zimbabwe Revenue Authority (ZIMRA) under the following circumstances:

- (i) When a taxpayer has failed to submit a return on time. 1
- (ii) When a taxpayer is unable to submit an accurate return due to circumstances beyond the taxpayer's control (for instance if the taxpayer has to leave the country). 1
- (iii) When a taxpayer has not kept proper accounting records. 1

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(b) Maureen's view is incorrect as she is obliged to submit her annual income tax return on the stipulated date. 1

The estimated assessment does not absolve Maureen from her statutory responsibility even though the assessment is favourable.

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(c) The tax consequences of Maureen's failure to submit the return are as follows:

- (i) The return for the year ended 31 December 2015 should have been submitted on 30 April 2016 since Maureen is on self-assessment. 1
- (ii) The penalty for non-submission of the income tax return is calculated at US\$30 for every day the return remains outstanding up to a maximum penalty of US\$5 430 (\$30 x 181 days). 1
- (iii) For failing to remit the tax payable of US\$26 000 on 30 April 2016, a 100% penalty is chargeable which amounts to US\$26 000. 1
- (iv) In addition to the 100% penalty, interest of 10% per year is chargeable on the outstanding tax for the period the amount remains unpaid. 1

(v) The estimated assessment is a direct consequence of failure to submit the return on the stipulated date, therefore a 100% penalty of US\$18 000 and interest at 10% per year are also due and payable.	<b>Marks</b>
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### 3 Exclusive Hair Growers Limited

- (a) The tax relief available to Exclusive Hair Growers Ltd (EHG) is rollover relief. In this case, since the proceeds received on the disposal of the Harare properties were only partially applied towards the acquisition of the new business property in Rusape, a partial rollover relief claim can be made. 1
- The following conditions must be met in order to qualify for rollover relief:
- An election for rollover relief must be made. ½
  - The election must be made on or before the date of submitting the capital gains tax (CGT) return for assessment. ½
  - The old property disposed of and the new property acquired must both be immovable property. ½
  - The title deeds to the new property acquired must be in the taxpayer's name. Alternatively, there must be proof of ownership or intent to acquire. ½
  - The old property disposed of and the new property acquired must both be used for the purposes of the trade. There must be continuity of use of the business property. ½
  - The reinvestment of the proceeds received from the disposal of the old property must be made on or before the end of the year of assessment following the year of the sale. ½
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(b) Capital gains tax payable for the year ended 31 December 2016

	US\$	US\$	
Sale of industrial building	200 000		
Sale of commercial building	<u>220 000</u>	420 000	1
Less recoupment on:			
Industrial building	100 000		
Commercial building (US\$120 000 x 2.5% x 4)	<u>12 000</u>	(112 000)	1
		308 000	
Less allowable deductions:			
Cost of industrial building	100 000		½
Cost of commercial building	120 000		½
Less capital allowances	<u>(112 000)</u>	(108 000)	½
Inflation allowance:			
Industrial building (US\$100 000 x 2.5% x 7)	17 500		½
Commercial building (US\$120 000 x 2.5% x 5)	<u>15 000</u>	(32 500)	½
		167 500	
Less partial rollover relief (US\$330 000/US\$420 000 x US\$167 500)		(131 607)	1
Capital gain		<u>35 893</u>	
Capital gains tax at 20%		<u>7 179</u>	½
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## 4 CC Holdings Limited

- (a) The residence of a company is determined by reference to the place of its central management and control. 1  
 It is the place where the controlling power is exercised and board decisions are made and that place is where the head office is situated. 1  
 The residence of CC Holdings Limited is therefore Lusaka, Zambia. 1  
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- (b) For tax purposes, the deduction of the management fees paid by a local company to a foreign holding company is restricted to 1% of the local company's allowable expenses. 1/2  
 The management fees allowed as a deduction are subject to a 15% non-resident tax on fees. 1/2  
 The excess management fees paid are deemed dividends paid to the parent company and subject to withholding tax on non-resident shareholders. 1/2

**Calculation of CC Zim (Private) Limited's allowable expenses:**

	US\$	
Employment expenses	150 000	1/2
Lease premium (US\$45 000/10)	4 500	1
Distribution expenses	90 000	1/2
General administration expenses (US\$70 000 x 60%)	42 000	1/2
Allowable expenses	<u>286 500</u>	
Allowable management fees (US\$286 500 x 1%)	<u>2 865</u>	1/2
Non-resident tax on fees (US\$2 865 x 15%)	<u>430</u>	1/2
Excess management fees:		
Management fees paid	36 400	1/2
Less allowable amount	(2 865)	1/2
Deemed dividends paid	<u>33 535</u>	
Withholding tax at 15%	<u>5 030</u>	1
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## 5 Perfect Harvest Limited

## (a) Tax relief

The tax relief is the reduced corporate tax rate depending on the export sales volume as follows:

Export volume	Corporate tax rate	
30%–40%	20%	½
41%–50%	17.5%	½
51% and above	15%	1
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## (b) Taxable income and tax payable for the year ended 31 December 2016

	US\$	
Net loss	(95 000)	
Adjustments:		
Net interest received	(12 000)	½
Net foreign exchange gain	(25 000)	½
Hire of equipment	0	½
Compensation for loss of income	(30 000)	½
Salaries and wages	0	½
PAYE penalty	10 000	½
Sickness benefit fund (US\$40 000 – (US\$1 500 x 20))	10 000	½
Provision for employee awards	20 000	½
Trade convention attendance (US\$17 000 – US\$2 500)	14 500	½
Advertising – double deduction	(30 000)	½
Donations:		
Research institute	0	½
Local church	30 000	½
Entertainment (US\$50 000 x 25%)	12 500	½
Repairs and maintenance	0	½
Loss on sale of a commercial vehicle	13 000	½
Recoupment on commercial vehicle	50 000	½
Legal fees – shareholders' agreements	20 000	½
Legal fees – employee contracts	0	½
Underpinning of the factory building	35 000	½
Employees' teas and refreshments	0	½
Impairment loss	19 000	½
Finance costs – establishment fee (110/150 x US\$16 000)	11 733	½
Finance costs – interest (110/150 x US\$30 000)	22 000	½
Taxable income	<u>75 733</u>	
Tax at 15%	11 360	½
3% AIDS levy (US\$11 360 x 3%)	341	½
	<u>11 701</u>	
Less provisional tax paid	(10 000)	½
Tax payable	<u>1 701</u>	<u>13</u>
		<u>15</u>

## 6 Don Churu

## (a) Valuation of employee fringe benefits

In general, the valuation of fringe benefits is based on either the cost to the employer or the value to the employee unless specifically provided for in the tax legislation.

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

	US\$	
Salary	21 000	1/2
Bonus (US\$2 100 – US\$1 000)	1 100	1
Accommodation benefit (US\$150 x 12)	1 800	1/2
Motor vehicle purchase (US\$12 000 – US\$6 000)	6 000	1/2
Motoring benefit – old vehicle (US\$7 200 x 5/12)	3 000	1/2
Motoring benefit – new vehicle (US\$9 600 x 7/12)	5 600	1/2
Motor vehicle maintenance allowance	1 500	1/2
Holiday benefit (US\$50 x 10)	500	1/2
Donations received:		
Safety clothing	0	1/2
Food hampers	0	1/2
Second hand clothing	0	1/2
Loan benefit ((1% + 5% – 2%) x US\$6 000 x 7/12)	140	1
	<u>40 640</u>	
Less:		
Pension fund and RAF contributions – max deduction	(5 400)	1
Subscriptions	(1 000)	1/2
Satellite television subscriptions	0	1/2
Funeral insurance policy	0	1/2
Loan repayment	0	1/2
All risk insurance policy	0	1/2
Taxable income	<u><u>34 240</u></u>	
Tax on sliding scale:		
Up to US\$18 000	2 880	
On US\$(34 240 – 18 000) at 25%	4 060	
Gross tax	<u>6 940</u>	1/2
Less medical aid contributions credit (50% x US\$7 000)	(3 500)	1
	<u>3 440</u>	
Add 3% AIDS levy (US\$3 440 x 3%)	103	1/2
	<u>3 543</u>	
Less PAYE	(3 000)	1/2
Tax payable	<u><u>543</u></u>	<u>13</u>
		<u>15</u>