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# Answers

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Section A

1 B

2 C

|                                 | Qualifying cost<br>Z\$ | SIA at 25%<br>Z\$ |
|---------------------------------|------------------------|-------------------|
| Farm                            | 0                      | 0                 |
| Tractor                         | 100,000                | 25,000            |
| Passenger vehicle – deemed cost | 80,000                 | 20,000            |
| Commercial vehicle              | 135,000                | 33,750            |
| Fiscal devices (50% x 50,000)   | 25,000                 | 6,250             |
| Irrigation equipment            | 170,000                | 42,500            |
|                                 |                        | <u>127,500</u>    |

3 A

|                                 | Input VAT<br>Z\$ |
|---------------------------------|------------------|
| Delivery van (15/115 x 120,000) | 15,652           |
| Water tank (15/115 x 40,000)    | 5,217            |
|                                 | <u>20,869</u>    |

4 D

$$(40\% \times 20,000 \times Z\$50 \times 5\%) = Z\$20,000$$

5 B

Output VAT on the passenger motor vehicle deemed benefit:  
(15/115 x 76,400 x 2/12) = Z\$1,661

6 D

Recoupment of allowances calculated as follows:

|   | Z\$            |
|---|----------------|
| Factory building, nil income tax value  | 200,000        |
| Plant and equipment (25% x 160,000 x 2) | 80,000         |
|   | <u>280,000</u> |

7 A

8 B

|  | Z\$           |
|--|---------------|
| Rent received (as less than Z\$24,000) | 20,000        |
| Pension                                | 12,000        |
|  | <u>32,000</u> |

9 C

10 D

|   |               |
|---|---------------|
|   | Z\$           |
| Pension fund contributions (12% x 15,000 x 5) | 9,000         |
| Retirement annuity fund (RAF) contributions   | 12,000        |
| NSSA contributions (3·5% x 700 x 5)           | 123           |
|   | <u>21,123</u> |

11 A

(10% x 287,500) = Z\$28,750 and 10 April 2019

12 B

|                                  |            |
|----------------------------------|------------|
|                                  | Z\$        |
| Second QPD (10% x 20,000 x 3/12) | 500        |
| Third QPD (10% x 24,000 x 2/12)  | 400        |
|                                  | <u>900</u> |

13 C

14 C

(5% x 800,000) = Z\$40,000

15 A

|  |               |
|--|---------------|
|  | Z\$           |
| Recurrent expenditure (15% x 400,000 x 9/12) | 45,000        |
| Commercial vehicle (15% x 350,000 x 6/12)    | 26,250        |
|  | <u>71,250</u> |

2 marks each

30

**1 Solarquip (Private) Limited (SPL)****(a) Correct tax deadlines and possible non-compliance penalties**

| Non-compliance issue  | Due date   | Possible penalty                                      |          |
|---|--|---|----------|
| (1) Late submission of the 2019 reconciliation of monthly PAYE returns                          | 31 January 2020  | Civil penalty   |          |
| (2) Late PAYE remittance for the month of December 2019   | 10 January 2020  | 100% penalty on the overdue tax and 10% interest p.a. |          |
| (3) Failure to deduct PAYE from a director's taxable benefit which is tantamount to tax evasion | 10 July 2019 and 10 January 2020                                       | 100% penalty on the overdue tax and 10% interest p.a. |          |
| (4) Late submission of the provisional tax returns  | 25 March 2019<br>25 June 2019<br>25 September 2019<br>20 December 2019 | Civil penalty   |          |
| <i>½ mark each for the correct due date and penalty</i>   |  |   | <b>4</b> |

**(b) Exposure to penalties on the non-payment of the employees' tax**

|   | Z\$           |          |
|---|---------------|----------|
| June 2019:  |               |          |
| PAYE of Z\$82,000 due on 10 July 2019                       |               | ½        |
| 100% penalty  | 82,000        | ½        |
| Interest (10% x 82,000 x 174/365)                           | 3,909         | 1        |
|   | <u>85,909</u> |          |
| December 2019:  |               |          |
| PAYE of Z\$70,000 due on 10 January 2020.                   |               | ½        |
| No penalty as the amount is not due as at 31 December 2019. |               | ½        |
|   |               | <b>3</b> |

**(c) Adjusted provisional tax for the year ended 31 December 2019**

|  | Z\$           |           |
|--|---------------|-----------|
| Loss   | (73,000)      |           |
| Add back:  |               |           |
| Accelerated wear and tear allowance added back (cost has been written off completely in 2015–2018) | 160,000       | ½         |
| Adjusted taxable income  | <u>87,000</u> |           |
| Adjusted provisional tax at 25.75%   | <u>22,403</u> | ½         |
| Remittance in line with the QPDs:  |               |           |
| 10% on 25 March 2019   | 2,240         | ½         |
| 25% on 25 June 2019  | 5,601         | ½         |
| 30% on 25 September 2019   | 6,721         | ½         |
| 35% on 20 December 2019  | 7,841         | ½         |
|  | <u>22,403</u> | <b>3</b>  |
|  |               | <b>10</b> |

**2 Perfect Products (Private) Limited****(a) Conditions for a successful pre-registration input tax claim**

|   |          |
|---|----------|
| The goods or services must have been acquired from a registered value added tax (VAT) operator.   | ½        |
| The proof of acquisition in the form of a valid tax invoice must be available.                    | 1        |
| The pre-registration input tax claim on purchases must further be supported by inventory records. | ½        |
|   | <b>2</b> |

**(b) Valued added tax (VAT) payable/refundable for June 2019 VAT period**

|  | Z\$      | Z\$           |           |
|--|----------|---------------|-----------|
| Output tax:                                  |          |               |           |
| Credit sales (15/115 x 90,000)               |          | 11,739        | 1/2       |
| Cash sales (15/115 x 170,000)                |          | 22,174        |           |
| Zero rated sales cash and credit             |          | 0             | 1/2       |
| Sales returns (15/115 x 20,000)              |          | (2,609)       | 1/2       |
|  |          | <u>31,304</u> |           |
| Less input tax:                              |          |               |           |
| Purchases (15/115 x 210,000)                 | (27,391) |               | 1/2       |
| Shop fixtures and fittings (15/115 x 90,000) | (11,739) |               | 1/2       |
| Office equipment (15/115 x 80,000)           | (10,435) |               | 1/2       |
| Staff expenses                               | 0        |               | 1/2       |
| Delivery truck (15/115 x 130,000)            | (16,957) |               | 1/2       |
| Passenger motor vehicle                      | 0        |               | 1/2       |
| Office rent (15/115 x 20,000)                | (2,609)  |               | 1/2       |
| Rail transport costs                         | 0        |               | 1/2       |
| Stationery (15/115 x 10,000)                 | (1,304)  |               | 1/2       |
| Salaries and wages                           | 0        |               | 1/2       |
| Traffic fine                                 | 0        |               | 1/2       |
| Insurance                                    | 0        |               | 1/2       |
| Bank charges                                 | 0        | (70,435)      | 1/2       |
| VAT refundable                               |          | <u>39,131</u> | <b>8</b>  |
|  |          |               | <b>10</b> |

**3 Stan****Taxable income and tax payable for the year ended 31 December 2019**

|   | Z\$            |           |
|---|----------------|-----------|
| Revenue   | 320,000        | 1/2       |
| Lease premium                                       | 100,000        | 1/2       |
| Rent (10,000 x 6)                                   | 60,000         | 1/2       |
| Lease improvement: 400,000/(120 – 3) x 3            | 10,256         | 1         |
|   | <u>490,256</u> |           |
| Less:   |                |           |
| Salaries and wages                                  | (53,000)       | 1/2       |
| Repairs and maintenance                             | (44,000)       | 1/2       |
| Electricity and water charges                       | (13,000)       | 1/2       |
| Pest control costs                                  | (15,000)       | 1/2       |
| General admin expenses (65% x 67,000)               | (43,550)       | 1/2       |
| Interest paid (15% x 300,000 x 10/12), disallowable | 0              | 1         |
| Demolition expenses                                 | (30,000)       | 1/2       |
| Legal fees, disallowable                            | 0              | 1/2       |
| Municipality inspection fees, disallowable          | 0              | 1/2       |
| Capital allowances:                                 |                |           |
| Warehouse (2.5% x 170,000)                          | (4,250)        | 1/2       |
| Fixtures and fittings (25% x 110,000)               | (27,500)       | 1/2       |
| Diesel powered generator (25% x 25,000)             | (6,250)        | 1/2       |
| Second warehouse (2.5% x 400,000)                   | (10,000)       | 1/2       |
| Taxable income                                      | <u>243,706</u> |           |
| Tax payable at 25.75%                               | <u>62,754</u>  | 1/2       |
|   |                | <b>10</b> |

**Tutorial note:** Re the fraction of 400,000/(120 – 3) x 3: the maximum allowable lease period is 10 years, 120 months, exclude the agreed construction period of three months. The lease improvement is for a period of three months from 1 October to 31 December 2019.

## 4 Estella

- (a) Estella's residential property qualifies as a principal private residence because it meets the prescribed definition of a dwelling since it was used mainly for the purpose of residential accommodation.

1

The residential property remained Estella's main residence despite the fact that she was prevented from residing at the property due to her employment relocation.

1

2

- (b) Capital gains tax payable for the year ended 31 December 2019

|  | Z\$            |           |
|--|----------------|-----------|
| <b>Residential property:</b>   |                |           |
| Gross sale proceeds  | 280,000        |           |
| Capital gains at 5%  | <u>14,000</u>  | 1         |
| <b>Commercial property:</b>  |                |           |
| Sale proceeds  | 520,000        | ½         |
| Less:  |                |           |
| Cost   | (300,000)      | ½         |
| Improvement costs:   |                |           |
| Concrete paving  | (50,000)       | ½         |
| Security wall  | (100,000)      | ½         |
| Selling expenses:  |                |           |
| Advertising  | (6,000)        | ½         |
| Legal fees   | (15,000)       | ½         |
| Estate agent commission  | (26,000)       | ½         |
| Inflation allowance on:  |                |           |
| Property cost (2·5% x 300,000)   | (7,500)        | 1         |
| Improvements:  |                |           |
| Concrete paving (2·5% x 50,000)  | (1,250)        | ½         |
| Security wall (2·5% x 100,000)   | <u>(2,500)</u> | ½         |
|  | 11,750         |           |
| Roll over relief available, as another immovable property was acquired<br>(310,000/520,000 x 11,750) | <u>(7,005)</u> | 1         |
| Capital gain   | <u>4,745</u>   |           |
| Capital gains tax at 20%   | <u>949</u>     | ½         |
|  |                | <u>8</u>  |
|  |                | <u>10</u> |

## 5 Leah

- (a) Classification of the consultancy work

The nature of the engagement is one of self-employment.

1

The signed contract provides that Leah should work independently from her home which degree of autonomy is not present in an employment engagement.

1

2

**Note:** Marks are given for any other valid reason stated, e.g. buying her own equipment, employing an assistant, no supervision on report preparation.

**(b) Taxable income and income tax payable/(refundable) for the period ended 31 July 2019**

|  | Z\$              |   |
|--|------------------|---|
| <b>Employment 1 January 2019 to 30 June 2019</b>                                     |                  |   |
| Salary   | 95,000           | ½ |
| Accommodation allowance  | 0                | ½ |
| Representation allowance   | 0                | ½ |
| Fuel coupons   | 15,000           | ½ |
| Cost of living adjustment  | 18,000           | ½ |
| Travelling and subsistence   | 0                | 1 |
| Motor vehicle benefit (9,600 x 6/12)   | 4,800            | 1 |
| Motor vehicle purchase benefit (50,000 – 35,000)                                     | 15,000           | 1 |
|  | <u>147,800</u>   |   |
| <i>Less:</i>   |                  |   |
| Pension fund contributions, retirement annuity fund and NSSA (13,500 + 20,000 + 147) | (5,400)          | 1 |
| Professional subscriptions   | (8,000)          | ½ |
| Life insurance policy  | 0                | ½ |
| Taxable income   | <u>134,400</u>   |   |
| <br>Tax on sliding scale:  |                  |   |
| Up to Z\$105,000   | 30,485           |   |
| On Z\$(134,400 – 105,000) at 40%   | 11,760           | ½ |
| Gross tax  | <u>42,245</u>    |   |
| <i>Less:</i> Medical aid contributions credit (50% x 16,000)                         | (8,000)          | ½ |
| Medical expenses credit (50% x 8,000 x 50%)  | (2,000)          | ½ |
|  | <u>32,245</u>    |   |
| <i>Add:</i> 3% AIDS levy   | 967              | ½ |
|  | <u>33,212</u>    |   |
| <i>Less:</i> PAYE  | (35,000)         | ½ |
| Tax refundable   | <u>1,788</u>     |   |
| <br><b>Consultancy 1 August 2019–31 December 2019</b>                                |                  |   |
| Consultancy fees (37,000 x 5)  | 185,000          | ½ |
| <i>Less:</i>   |                  |   |
| Assistant's salary (13,000 x 5)  | (65,000)         | ½ |
| Stationery   | (10,000)         | ½ |
| Wear and tear allowance – laptops (40,000 x 10%)                                     | (4,000)          | 1 |
| Taxable income   | <u>106,000</u>   |   |
| <br>Tax at 25.75%  | <u>27,295</u>    | ½ |
|  | <u><b>13</b></u> |   |
|  | <u><b>15</b></u> |   |

## 6 Towelling Company (Private) Limited (TCP)

## Taxable income and tax payable for the year ended 31 December 2019

|   | Z\$      | Z\$           |           |
|---|----------|---------------|-----------|
| Net profit  |          | 109,000       |           |
| Adjustments:  |          |               |           |
| Raw materials destroyed: cost                                 |          | 0             | ½         |
| Bank interest   |          | (15,000)      | ½         |
| Interest on overdue accounts                                  |          | 0             | ½         |
| Profit on marketable securities                               |          | (25,000)      | ½         |
| Depreciation  |          | 35,000        | ½         |
| Salaries and wages  |          | 0             | ½         |
| Sickness benefit fund (65,000 – (12,000 x 5))                 |          | 5,000         | 1         |
| Advertising – erection of a billboard                         |          | 20,000        | ½         |
| Advertising – export promotion qualifies for double deduction |          | (30,000)      | ½         |
| Allowances for receivables                                    |          | 25,000        | ½         |
| Donations – soccer club (40% x 90,000)                        |          | 36,000        | ½         |
| Donations – Education Ministry                                |          | 0             | ½         |
| Operations manager's payment                                  |          | 80,000        | ½         |
| Legal fees:   |          |               |           |
| Attorney's fees   |          | 12,000        | ½         |
| Court expenses  |          | 10,000        | ½         |
| Finance costs:  |          |               |           |
| New premises  |          | 0             | ½         |
| Staff canteen (70,000/700,000 x 84,000)                       |          | 8,400         | 1         |
| Capital allowances:   |          |               |           |
| Neon sign billboard (25% x 20,000)                            | (5,000)  |               | 1         |
| Factory building (5% x 300,000)                               | (15,000) |               | ½         |
| Warehouse (5% x 150,000)                                      | (7,500)  |               | ½         |
| Office building (2·5% x 180,000)                              | (4,500)  |               | ½         |
| Plant and equipment (25% x 200,000)                           | (50,000) |               | ½         |
| Passenger vehicle (25% x 80,000)                              | (20,000) |               | ½         |
| Commercial vehicle (25% x 170,000)                            | (42,500) |               | ½         |
| Office fittings and equipment (25% x 140,000)                 | (35,000) | (179,500)     | ½         |
| Taxable income  |          | <u>90,900</u> |           |
| Tax at 17·5%  |          | 15,908        | ½         |
| 3% AIDS levy  |          | 477           | ½         |
| Tax payable   |          | <u>16,385</u> | <b>15</b> |

**Tutorial note:** The tax rate of 17·5% is a special rate for a manufacturing company whose export volume ranges from 41% to 50% of the total sales volume for the year. TCP's export threshold for the year is 42·85% (90,000/210,000 x 100).



**Additional marking guide for section B***Marks available*    *Marks awarded*

|          |                    |                  |  |
|----------|--------------------|------------------|--|
| <b>1</b> | (a)                | <u>4</u>         |  |
|          | (b)                | <u>3</u>         |  |
|          | (c)                | <u>3</u>         |  |
|          | <b>Total marks</b> | <b><u>10</u></b> |  |
| <b>2</b> | (a)                | <u>2</u>         |  |
|          | (b)                | <u>8</u>         |  |
|          | <b>Total marks</b> | <b><u>10</u></b> |  |
| <b>3</b> |                    | <b><u>10</u></b> |  |
| <b>4</b> | (a)                | <u>2</u>         |  |
|          | (b)                | <u>8</u>         |  |
|          | <b>Total marks</b> | <b><u>10</u></b> |  |
| <b>5</b> | (a)                | <u>2</u>         |  |
|          | (b)                | <u>13</u>        |  |
|          | <b>Total marks</b> | <b><u>15</u></b> |  |
| <b>6</b> |                    | <b><u>15</u></b> |  |