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# Answers

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Section A

1 B

2 C

	Qualifying cost Z\$	SIA at 25% 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 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
	<hr/>
	21,123

**11 A**

$(10\% \times 287,500) = \text{Z\$}28,750$  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
	<hr/>
	900

**13 C****14 C**

$(5\% \times 800,000) = \text{Z\$}40,000$

**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
	<hr/>
	71,250

2 marks each

**30**

Section B Marks

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 25 June 2019 25 September 2019 20 December 2019	Civil penalty	
		<i>½ mark each for the correct due date and penalty</i>	<u>4</u>

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

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

	Z\$	
Loss	(73,000)	
<i>Add back:</i>		
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>	3
	<u>10</u>	

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
	<u>2</u>

(b) Valued added tax (VAT) payable/refundable for June 2019 VAT period	Z\$	Marks
Output tax:		
Credit sales (15/115 x 90,000)	11,739	½
Cash sales (15/115 x 170,000)	22,174	
Zero rated sales cash and credit	0	½
Sales returns (15/115 x 20,000)	<u>(2,609)</u>	½
	<u>31,304</u>	
Less input tax:		
Purchases (15/115 x 210,000)	(27,391)	½
Shop fixtures and fittings (15/115 x 90,000)	(11,739)	½
Office equipment (15/115 x 80,000)	(10,435)	½
Staff expenses	0	½
Delivery truck (15/115 x 130,000)	(16,957)	½
Passenger motor vehicle	0	½
Office rent (15/115 x 20,000)	(2,609)	½
Rail transport costs	0	½
Stationery (15/115 x 10,000)	(1,304)	½
Salaries and wages	0	½
Traffic fine	0	½
Insurance	0	½
Bank charges	<u>0</u>	½
VAT refundable	<u>39,131</u>	<u>8</u>

3 Stan

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

	Z\$	½
Revenue	320,000	½
Lease premium	100,000	½
Rent (10,000 x 6)	60,000	½
Lease improvement: $400,000/(120 - 3) \times 3$	<u>10,256</u>	1
	<u>490,256</u>	
<i>Less:</i>		
Salaries and wages	(53,000)	½
Repairs and maintenance	(44,000)	½
Electricity and water charges	(13,000)	½
Pest control costs	(15,000)	½
General admin expenses (65% x 67,000)	(43,550)	½
Interest paid (15% x 300,000 x 10/12), disallowable	0	1
Demolition expenses	(30,000)	½
Legal fees, disallowable	0	½
Municipality inspection fees, disallowable	0	½
Capital allowances:		
Warehouse (2.5% x 170,000)	(4,250)	½
Fixtures and fittings (25% x 110,000)	(27,500)	½
Diesel powered generator (25% x 25,000)	(6,250)	½
Second warehouse (2.5% x 400,000)	<u>(10,000)</u>	½
 Taxable income	<u>243,706</u>	
 Tax payable at 25.75%	<u>62,754</u>	½

**Tutorial note:** Re the fraction of  $400,000/(120 - 3) \times 3$ : 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.

		<i>Marks</i>
<b>4</b>	<b>Estella</b>	
<b>(a)</b>	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
		<u><u>2</u></u>

**(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><u>14,000</u></u>	1
<b>Commercial property:</b>		
Sale proceeds	520,000	½
<i>Less:</i>		
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><u>(2,500)</u></u>	½
	11,750	
Roll over relief available, as another immovable property was acquired (310,000/520,000 x 11,750)	<u><u>(7,005)</u></u>	1
Capital gain	<u><u>4,745</u></u>	
Capital gains tax at 20%	<u><u>949</u></u>	½
	<u><u>8</u></u>	
	<u><u>10</u></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
	<u><u>2</u></u>

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

*Marks*

(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	$\frac{1}{2}$
Accommodation allowance	0	$\frac{1}{2}$
Representation allowance	0	$\frac{1}{2}$
Fuel coupons	15,000	$\frac{1}{2}$
Cost of living adjustment	18,000	$\frac{1}{2}$
Travelling and subsistence	0	1
Motor vehicle benefit ( $9,600 \times 6/12$ )	4,800	1
Motor vehicle purchase benefit ( $50,000 - 35,000$ )	<u>15,000</u>	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)	$\frac{1}{2}$
Life insurance policy	0	$\frac{1}{2}$
Taxable income	<u><u>134,400</u></u>	
 Tax on sliding scale:		
Up to Z\$105,000	30,485	
On Z\$(134,400 – 105,000) at 40%	<u>11,760</u>	$\frac{1}{2}$
Gross tax	42,245	
<i>Less:</i> Medical aid contributions credit ( $50\% \times 16,000$ )	(8,000)	$\frac{1}{2}$
Medical expenses credit ( $50\% \times 8,000 \times 50\%$ )	<u>(2,000)</u>	$\frac{1}{2}$
	<u>32,245</u>	
<i>Add:</i> 3% AIDS levy	967	$\frac{1}{2}$
	<u>33,212</u>	
<i>Less:</i> PAYE	<u>(35,000)</u>	$\frac{1}{2}$
Tax refundable	<u><u>1,788</u></u>	
 <b>Consultancy 1 August 2019–31 December 2019</b>		
Consultancy fees ( $37,000 \times 5$ )	185,000	$\frac{1}{2}$
<i>Less:</i>		
Assistant's salary ( $13,000 \times 5$ )	(65,000)	$\frac{1}{2}$
Stationery	(10,000)	$\frac{1}{2}$
Wear and tear allowance – laptops ( $40,000 \times 10\%$ )	<u>(4,000)</u>	1
Taxable income	<u><u>106,000</u></u>	
 Tax at 25·75%	<u><u>27,295</u></u>	$\frac{1}{2}$
	<u><u>13</u></u>	
	<u><u>15</u></u>	

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

*Marks*

**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 ( $65,000 - (12,000 \times 5)$ )	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 ( $40\% \times 90,000$ )	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 ( $70,000/700,000 \times 84,000$ )	8,400	1	
Capital allowances:			
Neon sign billboard ( $25\% \times 20,000$ )	(5,000)	1	
Factory building ( $5\% \times 300,000$ )	(15,000)	½	
Warehouse ( $5\% \times 150,000$ )	(7,500)	½	
Office building ( $2.5\% \times 180,000$ )	(4,500)	½	
Plant and equipment ( $25\% \times 200,000$ )	(50,000)	½	
Passenger vehicle ( $25\% \times 80,000$ )	(20,000)	½	
Commercial vehicle ( $25\% \times 170,000$ )	(42,500)	½	
Office fittings and equipment ( $25\% \times 140,000$ )	(35,000)	(179,500)	½
Taxable income	90,900		
Tax at 17.5%	15,908	½	
3% AIDS levy	477	½	
Tax payable	16,385	<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% ( $90,000/210,000 \times 100$ ).

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

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