Answers

Marks

1 Anne Gray

(a) Taxation of fringe benefits

Most fringe benefits are valued for tax purposes on the basis of the cost to the employer. 1

However, the housing and the furniture benefit are valued for tax purposes by reference to the value to the employee (irrespective of the cost incurred by the employer in the provision of that benefit). 1

Motor vehicle benefits are valued for tax purposes on the basis of the stipulated deemed benefits set out in the tax legislation, which are dependent on the vehicle's engine capacity. 1

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(b) Amounts to be exempted from gross income

	US$		Reason	
Annual bonus	1 000	½	Statutory – maximum tax free bonus	½
Tuition fees, levies and boarding fees	13 500	½	50% of teaching staff incentives – exempt	½
Retirement annuity ($750 x 7)	5 250	½	Elderly taxpayer's exemption	½
Rental income	3 000	½	Elderly taxpayer's exemption	½
Motor vehicle acquisition benefit (5 000 – 2 000)	3 000	½	Elderly taxpayer's benefit	½
			2½ + 2½ =	5

(c) Taxable income and income tax payable for the year ended 31 December 2013

Employment income

		US$	
Salary received (4 000 x 12)		48 000	½
Annual bonus (less exemption) (4 000 – 1 000)		3 000	½
Tuition, levies and boarding fees – 50%		13 500	½
Housing and furniture benefit (400 x 12)	4 800		½
Less: Rent paid (300 x 12)	(3 600)		½
		1 200	
Motor vehicle benefit ((2 400 x 2/12) + (4 800 x 10/12))		4 400	1
Motor vehicle acquisition benefit – exemption		0	½
Matured retirement annuity – exemption		0	½
Pension fund contributions (7·5% x 4 000 x 12)		(3 600)	1
NSSA contributions		(202)	½
RAF contributions		(1 500)	½
Acting allowance		12 000	½
Subscriptions to Teachers Union (15 x 12)		(180)	½
Funeral policy (disallowed)		0	1
Life insurance policy (disallowed)		0	1
Total taxable income		76 618	
Tax on sliding scale:			
Up to US$60 000		15 600	
(76 618 – 60 000) x 35%		5 816	
Gross tax		21 416	½
Less: Elderly person credit		(900)	½
Blind person credit		(900)	½
Medical credit (8 000 x 40%) x 50%)		(1 600)	1
		18 016	
Add 3% AIDS levy		540	½
		18 566	
Less PAYE		(17 000)	½
Tax payable		1 566	

			Marks
Non-employment income			
		US$	
Translation of text books (5 000 x 4)		20 000	½
Rent received	15 000		½
Less: Rent exemption	(3 000)		½
		12 000	
Sub contracts with other schools, etc	30 000		½
Less: School resources expenses (10%)	(3 000)		½
		27 000	
Interpreter services		10 000	½
Taxable income		69 000	
Tax payable at 25%		17 250	½
Add 3% AIDS levy		518	½
		17 768	
Total income tax payable (1 566 + 17 768)		19,344	
			17
			25

Tutorial note: *The tuition fees, levies and boarding fees benefits are treated as specific staff incentives. 50% of these specific staff incentives are exempted from tax on fringe benefits.*

2 Exquisite Baths Industries (Private) Limited (EBI)

(a) Capital allowances – year ended 31 December 2013

	US$	
Factory building (200 000 x 25%)	50 000	1
Showroom ((100 000 + 8 750 (working)) x 25%)	27 188	1
Plant and machinery (110 000 x 25%)	27 500	1
Office building (120 000 x 2·5%)	3 000	1
Furniture and equipment (60 000 x 25%)	15 000	1
Commercial vehicles (50 000 x 25%)	12 500	1
Passenger vehicles (10 000 x 3 x 25%)	7 500	1
	142 688	

Working – Calculation of capitalised interest on showroom

((100 000/200 000 x 30 000) x 7/12) – US$8 750 1

Classification of the showroom

The showroom is classified as an industrial building due to its proximity to the factory building, which meets the definition of an industrial building. The showroom qualifies for a special initial allowance (SIA) of 25% of cost upon election. 1

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(b) Provisional tax payable

	US$	
Projected taxable income	360 000	½
Less: Assessed loss brought forward	(112 000)	½
Adjusted taxable income	248 000	
Tax payable at 25·75%	63 860	1
10% tax due on 25 March 2013	6 386	½
25% tax due on 25 June 2013	15 965	½
30% tax due on 25 September 2013	19 158	½
35% tax due on 20 December 2013	22 351	½
	63 860	4

(c) Taxable income and corporate tax payable for the year ended 31 December 2013

	US$	Marks
Net profit for the year	315 000	
Add:		
Trade marks registration	30 000	1
Market research expenses	0	½
Donation – disallowed portion	20 000	1
Depreciation	67 000	½
Two trade conventions and trade mission	25 000	½
Underpinning of the office building	28 000	1
Out of court settlement – restraint of trade	50 000	1
Fine	40 000	½
Canteen rental expenses	0	½
Other canteen expenses	0	½
Overdraft interest – recurrent expenditure	0	½
– showroom (capitalised – part (a))	8 750	½
Prohibited expenses (40% x 230 000)	92 000	1
Less:		
Rental income	0	½
VAT refund	(20 000)	1
Interest received	(10 000)	½
Trade convention (one allowable)	(2 500)	½
Trade mission (one allowable)	(2 500)	½
Foreign marketing expenses (double deduction)	(63 000)	1
Capital allowances – part (a)	(142 688)	½
Assessed loss brought forward	(112 000)	½
Taxable income	323 062	
Tax payable at 25·75%	83 188	½
Less: Provisional tax – part (b)	(63 860)	½
Tax payable	19 328	15

(d) Tax advantage – increased export market sales

EBI's export sales for the year ended 31 December 2013 constituted 35% of its total sales revenue (US$70 000/US$1 980 000). If EBI's export sales increased to account for 50% of its total sales, EBI would qualify to be taxed at a reduced rate of corporate tax of 20%. 2

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3 Jon Ndoro

(a) Capital gains tax implications – wedding gift

The wedding gift is a deemed disposal for capital gains tax purposes. 1

As this is a disposal of listed shares acquired by John after 1 February 2009, capital gains tax is chargeable at 1% of the market value of the shares. 1

Capital gains tax liability

	US$	
Deemed proceeds (10 000 x 2·50)	25 000	1
CGT at 1%	250	1
		4

(b) Tax treatment of a principal private residence used for business purposes

A principal private residence (PPR) is treated as a commercial building for tax purposes. As such, the building qualifies for wear and tear allowance at 2·5% of the cost from the date the property is used for business purposes. The capital allowances claimed can be deducted from the business income earned from the rental of the PPR. 2

(c) Calculation of income tax payable for the year ended 31 December 2013

	US$	Marks
Recoupment on:		
Main residence (120 000 x 2·5% x 2)	6 000	½
Concrete wall (30 000 x 2·5% x 2)	1 500	½
Double lock up garage (50 000 x 2·5% x 2)	2 500	½
Swimming pool (20 000 x 2·5% x 2)	1 000	½
Swimming pool equipment (10 000 x 25% x 2)	5 000	½
Furniture, fittings and equipment (40 000 x 25% x 2)	20 000	½
Less: Selling expenses on movables (80 000 x 10%)	(8 000)	½
Taxable income	28 000	
Tax payable at 25·75%	7 210	½

Calculation of capital gains tax payable for the year ended 31 December 2013

Immovable property

	US$	US$	Marks
Sale proceeds of:			
Main residence		200 000	
Concrete wall		50 000	
Double lock up garage		70 000	
Swimming pool		30 000	
Total gross sales proceeds		350 000	1
Less: Recoupment (from (c) above) on:			
Main residence	6 000		
Concrete wall	1 500		
Double lock up garage	2 500		
Swimming pool	1 000	(11 000)	½
Less: Cost of:			
Main residence	120 000		
Concrete wall	30 000		
Lock up garage	50 000		
Swimming pool	20 000		
Less: Capital allowances (calculated as recoupment above)	(11 000)	(209 000)	½
Less:			
Inflation allowance on:			
Main residence (2·5% x 120 000 x 5)	15 000		½
Concrete wall (2·5% x 30 000 x 4)	3 000		½
Double lock up garage (2·5% x 50 000 x 4)	5 000		½
Swimming pool (2·5% x 20 000 x 3)	1 500	(24 500)	½
Selling commission (10% x 350 000)		(35 000)	½
Capital gain		70 500	
CGT at 20%		14 100	½
			9
			15

Marks

4 K&T architects and structural engineers

(a) Taxation of partnership income

Partnership income is taxed in the hands of the individual partners in accordance with their profit sharing ratios. The partnership is not a taxable person. Instead each partner is required to report his/her share of the partnership's taxable profit or loss in his/her individual tax return and pay income tax on this. 2

(b) Calculation of the joint partnership taxable income/(loss) for the year ended 31 December 2013

	US$	Marks
Profit for the year	250 000	½
Add:		
Parking fines	6 000	½
Excess staff pension contributions (18 000 – (3 x 5 400)	1 800	1
Joint life insurance policy	8 000	1
Depreciation	23 000	½
Less:		
5% cost of fixed assets – Kuda (5% x 130 000 x 12)	(78 000)	½
Tonde (5% x 80 000 x 12)	(48 000)	½
Capital allowances – Office premises (2·5% x 130 000)	(3 250)	½
Office furniture and equipment (25% x 80 000)	(20 000)	½
Passenger motor vehicles (25% x 20 000)	(5 000)	½
Joint taxable income	134 550	6

(c) Calculation of the taxable income and income tax payable by the partners for the year ended 31 December 2013

	US$ Kuda	US$ Tonde	Marks
Equal share of joint taxable income	67 275	67 275	½
5% fixed assets cost	78 000	48 000	½
Business mileage claim	24 000	20 000	1
Salaries	60 000	60 000	½
Pension contributions	10 000	10 000	½
Maximum pension contributions allowable	(5 400)	(5 400)	½
Insurance life policy	8 000	5 000	1
Medical aid contributions	6 000	4 000	½
Interest on capital accounts	16 000	14 000	1
Taxable income	263 875	222 875	
Tax payable at 25·75%	67 948	57 390	1
			7
			15

5 AGL Communications Technologies Limited (AGL)

(a) (i) Zero rated supplies

- Basic foodstuffs such as mealie-meal, sugar, milk, etc
- Agricultural inputs such as seed, fertilisers, pesticides, etc
- Day old chicks weighing not more than 185g
- Exported goods

THREE only required – ½ mark each, maximum 1½

(ii) Exempt supplies

- Educational services
- Medical services
- Rentals from residential properties
- Water for domestic use
- Electricity for domestic use
- Fuel

THREE only required – ½ mark each, maximum 1½

3

Marks

(b) Obligations as a VAT registered operator

- To charge VAT on all taxable supplies
- To issue VAT invoices, credit notes or debit notes, as appropriate
- To complete and file VAT returns on or before the filing date
- To calculate and remit the VAT payable on or before the due date
- To retain VAT accounting records for at least six years after the tax period to which they relate
- To advise ZIMRA of any changes relating to the business – for example, a change in business name or cessation of trade

FOUR only required. ½ mark each, maximum 2

(c) VAT records – October 2013

AGL must retain its VAT records for six years following the end of the tax period to which they relate – i.e. until 31 October 2019 in respect of the VAT records relating to October 2013. 1

(d) VAT payable by or refundable to AGL for the month of October 2013

	US$	Marks
Sales revenue (45 000 x 15/115)	5 870	½
Repair invoices (12 000 x 15/115)	1 565	½
Less: Sales returns (8 000 x 15/115)	(1 043)	1
Purchases (19 000 x 15/115) – claimable	(2 478)	½
Purchases (8 000) – no VAT charged	0	½
Investment interest	0	½
Rental expense (8 500 x 15/115)	(1 109)	1
Salaries and wages	0	1
Repairs and maintenance – no VAT charged	0	½
Interest paid	0	½
Bad debts written off (6 000 x 15/115)	(783)	1
Motor vehicles – engine capacity 3200cc (4 800 x 15/115 x 1/12 x 2)	104	½
– engine capacity 2000cc (2 400 x 15/115 x 1/12 x 3)	78	½
– engine capacity 1300cc (1 800 x 15/115 x 1/12)	20	½
VAT payable	2 224	9
		15