Answers

Section A

1 B

50% x (5 000 – 2 000) = US$1 500

Tutorial note: *Medical expenses credit on other medical expenses including drugs is not allowable to non-residents.*

2 C

Output tax – 15/115 x (10 000 + 15 000) = US$3 261
Less input tax – 15/115 x (4 000 + 7 000) = US$ 1 435

VAT payable = US$1 826

3 B

Listed shares – (35 000 x 1%) = 350

Unlisted shares

	US$
Proceeds	31 500
Cost	(18 000)
Inflation allowance (2·5% x 18 000 x 5)	(2 250)
	11 250
CGT at 20%	2 250

Total CGT – 350 + 2 250 = US$2 600

4 D

3·5% x (700 + 600 + 500) x 6 = US$378

Tutorial note: *Tax payers aged 65 and above do not contribute towards the monthly NSSA contributions.*

5 A

6 A

5 000 + 40 000 + (25% x 20 000) = US$50 000

7 D

(420 000 x 0%) + (380 000 x 15%) = US$57 000

8 B

9 D

Due date is the 10th of every month following the month of deduction therefore May – 15 days, June – 20 days = 35 days late.

10 A

(1 800/85% – 1 800) + (3 000/90% – 3 000) = US$651

Marks

11 A

	US$
VAT payable	6 300
Add:	
Goods applied to own use (2 200 x 15/115)	287
Impaired debts (3 000 x 15/115)	391
Purchases returns (1 200 x 15/115)	157
	7 135

12 C

Only the contributions to the registered retirement annuity fund are allowable for deduction as the pension fund is not registered. These are subject to the contribution limit.

13 A

Amount of compensation is less than the cost, therefore no capital gain.

14 C

(2 000 x 7) – (50 x 7) =US$13 650

15 D

(15 000/25%) = US$60 000 which is the total tax payable, third QPD is 30% x 60 000 = US$18 000

2 marks each **30**

Section B *Marks*

1 Mark and Mary

(a) Delay to disposal – tax planning

Since Mary will become 55 years old, and thus an elderly tax payer, on 24 December 2014, disposing of their principal private residence (PPR) after this date will make her eligible for the exemption from capital gains tax (CGT) on her share of the capital gain. 1

Mark will become 55 years old on 15 July 2015. If the couple wait and dispose of the property after July 2015, the full gain on the disposal of the PPR will be exempt from capital gains tax. 1

If the couple did not wish to wait to 15 July 2015, Mark could elect to transfer his share of the PPR to Mary. As this is a transfer of a PPR between spouses, the sales price for CGT purposes will be deemed to be equal to Mark's allowable cost – in other words, the transfer will give rise to neither a gain nor a loss. This would allow Mary to sell the property after she turns 55 years old on 24 December 2014 and for the full gain to be exempted for CGT purposes. 2

4

(b) Capital gains tax calculation – 31 August 2014

	US$	
Sale proceeds: (150 000 + 35 000 + 40 000 + 30 000)	255 000	1
Temporary car shelter	0	½
Less:		
Cost (80 000 + 20 000 + 30 000 + 25 000)	(155 000)	1
Inflation allowance on:		
Main residence (2·5% x 80 000 x 6)	(12 000)	½
Outbuilding (2·5% x 20 000 x 6)	(3 000)	½
Concrete wall (2·5% x 30 000 x 5)	(3 750)	½
Lock up garage (2·5% x 25 000 x 4)	(2 500)	½
Estate agent commission (10% x 255 000)	(25 500)	½
Capital gain	53 250	
Taxed as follows:		
Mark – 50% of the gain (26 625 x 20%)	5 325	½
Mary – 50% of the gain (26 625 x 20%)	5 325	½
		6
		10

2 Carpets Galore Limited

(a) The August 2014 VAT return is due on 25 September 2014. 1

(b) VAT interest and penalties

	US$	
July VAT return:		
100% penalty for late payment	10 000	1
Late return penalty – 5 days late (5 x $30)	150	1
Interest (10% x 10 000 x 2/12)	167	1
	10 317	3

Tutorial note: *Both the VAT return and payment of VAT for July were due on 25 August. Thus the return is 5 days late and payment is 2 months (61 days) late.*

Marks

(c) VAT payable for the month of August 2014

	US$	
Output tax:		
Sales (40 000 x 15%)	6 000	½
Exempt supplies	0	1
Sales returns (5 000 x 15%)	(750)	½
Less input tax:		
Purchases (15 000 x 15/115)	(1 957)	½
Purchases for US$10 000	0	½
Stationery (4 000 x 15/115)	(522)	½
Depreciation	0	1
Repairs and maintenance	0	½
Other expenses (9 000 x 15/115)	(1 174)	½
Purchases returns	0	½
	1 597	6
		10

Tutorial note: *No input tax is recoverable where the supplier does not have a valid VAT registration number.*

3 Evergreen Panel Beaters (Private) Limited

(a) EPB: Adjusted taxable income and tax payable

	US$	
Taxable income	280 000	
Less:		
Rent paid (8 000 x 12)	(96 000)	1
Lease premium (60 000/10)	(6 000)	1
Lease improvement allowance on:		
Industrial building (150 000/10 x 8/12)	(10 000)	1
Concrete wall (50 000/10 x 8/12)	(3 333)	1
Interest (100 000 x 20% x 3/12) – disallowed	0	1
Interest (100 000 x 20% x 8/12)	(13 333)	1
Adjusted taxable income	151 334	
Tax payable at 25·75%	38 969	1
Less provisional tax paid	(28 000)	1
Shortfall	10 969	8

Tutorial note: *The deductions allowed in respect of a lease are restricted to the relevant consideration divided by the number of years of the lease or one-tenth of the consideration, whichever is greater. As the lease is for 20 years, the one-tenth restriction is used.*

(b) Z Limited – Amounts to be included in gross income

	US$	
Premium	60 000	½
Rent	96 000	½
Lease improvements:		
Industrial building	10 000	½
Concrete wall	3 333	½
	169 333	2
		10

Marks

4 Maria

(a) **(i)** Maria's income tax self-assessment return should have been submitted to ZIMRA on 30 April 2014. 1

(ii) ZIMRA's remedies for late submission of an income tax return

(i)	Issue an estimated notice of assessment for the outstanding return.	½
(ii)	Charge a late return penalty of US$30 per day for up to 181 days.	½
(iii)	Charge a 100% penalty of the estimated tax due.	½
(iv)	Charge interest of 10% per annum on any outstanding tax.	½
		2

(b) Calculation of tax shortfall or tax overpaid for the year ended 31 December 2013

	US$	
Net profit before tax	15 800	
Add:		
Depreciation	5 500	½
Salaries and wages	0	½
Office rent	0	½
Restraint of trade payment (capital)	1 800	½
Traffic fine	1 000	½
Recoupment on office equipment	10 000	1
Less:		
Proceeds on disposal of non-current assets	(7 000)	½
Company dividends received	(8 000)	½
Accelerated wear and tear allowance on:		
Furniture and fittings (25% x 15 000)	(3 750)	½
Computer equipment (25% x 9 000)	(2 250)	½
Taxable income	13 100	
Tax payable at 25·75%	3 373	½
Provisional tax paid	(13 000)	½
Withholding tax on contracts	(5 000)	½
Tax overpaid	14 627	7
		10

Marks

5 Josh Oak

Taxable income and income tax payable by Josh Oak for the year ended 31 December 2014

	US$	
From employment:		
Salary	28 000	½
Bonus (2 800 – 1 000)	1 800	1
Accommodation allowance	0	½
Representation allowance	0	½
Fuel allowance	1 000	½
School fees allowance	2 000	½
Relocation allowance (5 000 – 3 500)	1 500	½
Loan benefit on US$10 000 used for post graduate studies	0	½
Loan benefit on wife's vehicle purchase (5 000 x 6·5% x 5/12)	135	1
Motor vehicle benefit	9 600	½
Pension and RAF contributions – maximum allowance	(5 400)	½
Receipt from matured RAF – taxed at a special rate	0	½
Subscription fees	(1 500)	½
Taxable income	37 135	
Tax on sliding scale:		
Up to US$24 000	4 800	
(37 135 – 24 000) x 30%	3 941	
Gross tax	8 741	½
Less medical aid credit (6 000 x 50%)	(3 000)	½
	5 741	
Add 3% AIDS levy	172	½
	5 913	½
Add tax on RAF receipt (12 000 x 30%)	3 600	½
	9 513	
Less PAYE	(9 400)	½
Tax payable	113	

	US$	US$	
From other income:			
Net rental from Botswana holiday cottage		0	½
Non-executive director's fees (8 000/80%)		10 000	1
Net rent	77 000		½
Add permanent repairs	10 000		½
Less capital allowance (200 000 + 10 000) x 2·5%	(5 250)		½
	81 750/4	20 438	½
Taxable income		30 438	
Tax at 25·75%		7 838	½
Less withholding tax on non-executive director's fees		(2 000)	½
Tax payable		5 838	
			15

6 AB Limited

(a) Tax treatment of assessed trading losses brought forward

The assessed losses can be carried forward for a maximum period of six years from the initial year the loss was recorded and deducted against the first available taxable profits. 1

(b) Corporate tax computation for the year ended 31 December 2014

	US$	US$	*Marks*
Net profit before tax		117 000	½
Add:			
Motor vehicle expenses		0	½
Insurance and licensing		0	½
Marketing expenses		0	½
Depreciation		37 000	½
Salaries and wages		0	½
Staff pension contributions		35 000	½
Staff medical aid contributions		0	½
Entertainment		10 000	½
Repairs and maintenance (capital)		30 000	½
Legal fees		0	½
Donations		8 000	½
Renewal of operating licences		0	½
Other administration expenses		0	½
Interest paid		12 000	½
Less:			
Bank interest received		(2 000)	½
Company dividends		(20 000)	½
Prior year suspense sales allowance		0	1
Staff pension contributions (5 400 x 5)		(27 000)	½
Capital allowances:			
Furniture and fittings (30 000 + 40 000) x 25%	17 500		1
Commercial vehicles (100 000 x 25%)	25 000		½
Office equipment (30 000 x 25%)	7 500		½
Passenger vehicles (10 000 x 3 x 25%)	7 500	(57 500)	½
		142 500	
Less assessed losses brought forward (35 000 + 22 000)		(57 000)	1
Taxable income		85 500	
Corporate tax payable at 25·75%		22 016	½
			14
			15