Answers

Section A

1 D

2 A

3 B

	US$
Industrial building:	
5% x US$200 000 – wear and tear calculated on cost	10 000
Plant and equipment:	
10% x US$90 000 – wear and tear calculated on ITV	9 000
	19 000

4 A

	US$
Medical credit – 50% x (US$4 000 + US$2 000)	3 000
Disabled person credit	900
	3 900

5 C

(1% x US$50 000) + (5% x US$40 000) = US$2 500

6 B

The taxable passage benefit is the cost to JPL Limited (JPL) of US$2 500 (50% x US$5 000) in respect of Elisha's relocation to the Chegutu branch. JPL's cost of US$7 000 in respect of Elisha's relocation from Mutare to Harare is not taxable in this case, since it was offered to him on taking up employment with JPL for the first time.

7 C

8 D

	US$
Output tax (15% x US$60 000)	9 000
Input tax:	
Plumbing equipment (15% x US$20 000)	(3 000)
Poultry feed (0% x US$30 000)	0
	6 000

9 B

10 C

	US$
Pension fund contributions (7·5% x US$1 200 x 7)	630
NSSA contributions (3·5% x US$700 x 12)	294
	924

Marks

11 A

(10% x US$8 000 x 3/12) + (10% x US$8 000 x 2/12) = US$333

12 C

(15% x US$250 000) = US$37 500

13 D

(US$90 000/10) = US$9 000

14 B

Corporation tax (25·75% x US$25 000) = US$6 438
1st QPD (10% x US$6 438) = US$644
3rd QPD (30% x US$6 438) = US$1 931

15 A

(US$1 500 x 15) = US$22 500

2 marks each **30**

Section B *Marks*

1 KM (Private) Limited

(a) Election to transfer non-current assets to KM (Private) Limited (KM) at income tax values

(i) Capital allowance implications for KM

Capital allowances can only be claimed by KM based on the income tax values as established in the hands of the transferor, Mighty M Limited. 1

Special initial allowance (SIA) can only be claimed on the transferred movable assets (i.e. the factory equipment) at their respective income tax values. KM must make an election to claim SIA as normal. 1

SIA is not claimable on the transferred immovable property (i.e. the factory building). ½

However, wear and tear allowance is claimable on the transferred factory building at its respective income tax value. 1

No capital allowances can be claimed in respect of the commercial vehicle as its income tax value is nil. ½

4

(ii) Maximum capital allowances

	US$	
Factory building (5% x US$120 000)	6 000	1
Factory equipment (25% x US$60 000)	15 000	1
	21 000	2

(b) Tax treatment of interest payable

Total interest payable (20% x US$230 000 x 10/12) = US$38 333

	Allowable interest US$	Disallowable interest US$	
Factory building (100 000/230 000 x US$38 333)		16 667	1
Delivery truck (80 000/230 000 x US$38 333)	13 333		1
Raw material (30 000/230 000 x US$38 333)	5 000		1
Factory plant (20 000/230 000 x US$38 333)		3 333	1
	18 333	20 000	4
			10

Tutorial notes:

1. *The interest in respect of the factory building and factory plant is disallowable because it is in relation to capital.*
2. *The interest in respect of the purchase of raw materials is revenue related and therefore allowable.*
3. *The delivery truck was brought into use for trade purposes during the year, therefore the related interest payable is allowable.*

Marks

2 Comp Services Limited (CSL)

(a) CSL's value added tax (VAT) registration category is C. This is because its annual turnover is above the minimum threshold of US$240 000 for the category. 1

(b) Obligations of category C VAT registered operators

To submit VAT returns on the 25th of every month following the VAT period which is every month end. ½

To remit the respective VAT on the 25th of every month following the VAT period. ½

To record all sales using fiscal memory devices purchased from approved suppliers. 1

2

(c) VAT payable or refundable for the year ended 31 December 2017

	US$	US$	
Output tax:			
Turnover (15/115 x US$540 000)		70 435	½
Returned goods (15/115 x US$20 000)		(2 609)	½
Input tax:			
Legal fees	0		½
Impaired debt (15/115 x US$30 000)	3 913		1
Inventory purchases (15/115 x US$160 000)	20 870		½
Inventory purchases returned (5% x US$20 870)	(1 044)		½
Overdraft interest paid	0		½
Passenger vehicle	0		½
Salaries and wages	0		½
Flower seeds, fertiliser and chemicals	0		½
Packaging material (15/115 x US$24 000)	3 130		½
All risk insurance	0		½
Office rent (15/115 x US$36 000)	4 696	(31 565)	½
VAT payable		36 261	**7**
			10

3 QT Limited

(a) Valuation of immovable property

The benchmark for the valuation of immovable property is the open market value for similar properties 1
although the Zimbabwe Revenue Authority (ZIMRA) might accept a property value as declared by the ½
taxpayer.

Where ZIMRA is of the opinion that the declared property value falls short of the open market value, it may ½
either uplift the property value or request a valuation report from a property valuer registered with the 1
Valuers Council of Zimbabwe.

3

Marks

(b) Capital gains tax (CGT) payable for the year ended 31 December 2017

	US$	US$	
Deemed sale proceeds:			
Land	180 000		½
Boundary wall	120 000		½
Warehouse building	380 000	680 000	½
Recoupment on:			
Boundary wall (2·5% x US$50 000 x 4)	5 000		½
Warehouse building (2·5% x US$200 000 x 3)	15 000	(20 000)	½
		660 000	
Less:			
Cost (US$100 000 + US$50 000 + US$200 000)	350 000		1
Capital allowances previously claimed (US$5 000 + US$15 000)	(20 000)		½
Inflation allowance:			
Land (2·5% x US$100 000 x 6)	15 000		½
Boundary wall (2·5% x US$50 000 x 5)	6 250		½
Warehouse building (2·5% x US$200 000 x 4)	20 000	(371 250)	½
Potential capital gain		288 750	
Less relief on staff canteen and office building costs:			
(US$390 000/US$680 000 x US$288 750)		(165 607)	1
Capital gain		123 143	
CGT at 20%		24 629	½
			7
			10

4 Eve

(a) Eve's residence status will be determined by reference to the total number of days she stayed outside Zimbabwe during the year ended 31 December 2017. 1

If the period of absence does not exceed an aggregate period of 183 days in the year, Eve will be treated as remaining resident and ordinarily resident in Zimbabwe for tax purposes. 1

Since Eve stayed a total of five and a half months in Botswana (i.e. less than 183 days), the income she received from that country is taxable in Zimbabwe. 1

3

Marks

(b) Taxable income and income tax payable for the year ended 31 December 2017

	US$	
Botswana contract fees (US$45 000/0·85)	52 941	½
Interest received (US$9 400/0·90)	10 444	½
Local contract fees	63 000	½
Rent paid	(12 000)	½
Laptop procurement	0	½
SIA on laptop (25% x US$3 000)	(750)	½
General administration expenses (70% x US$18 000)	(12 600)	½
Taxable income	101 035	
Tax at 25·75%	26 017	½
Double taxation relief on:		
Contract fees (lower of		
local tax (25·75% x US$52 941 = US$13 632)		½
and foreign tax (15% x US$52 941 = US$7 941))	(7 941)	1
Interest (lower of local tax (25·75% x US$10 444 = US$2 689) and foreign tax (10% x US$10 444 = US$1 044)	(1 044)	1
Provisional tax paid	(15 500)	½
Tax payable	1 532	**7**
		10

5 Jacob Leaf

(a) Actions to avoid non-compliance penalties

(i) To register as a taxpayer with the Zimbabwe Revenue Authority (ZIMRA) for the rental income and contract fees received. ½

To register as an employer with ZIMRA since the salary for the personal assistant falls within the taxable bracket. ½

(ii) To submit the applicable tax returns to ZIMRA within the set time limits. ½

(iii) To remit the due tax to ZIMRA within the prescribed timeframes. ½

2

	US$	Marks
(b) Taxable income and income tax payable/(refundable) for the year ended 31 December 2017		
Part-time employment		
Salary (US$2 500 x 12)	30 000	½
Bonus (US$2 500 – US$1 000)	1 500	½
Holiday allowance	5 000	½
Accommodation allowance (US$500 x 12)	6 000	½
Profit share	7 000	½
Motor vehicle usage benefit (10/12 x US$9 600)	8 000	½
Motor vehicle purchase benefit – elderly taxpayer exemption	0	½
Pension received – elderly taxpayer exemption	0	½
	57 500	
Less:		
Retirement annuity fund (RAF) contributions	(2 000)	½
NSSA contributions (3·5% x US$700 x 12)	(294)	½
Professional subscriptions	(700)	½
Benefit fund contributions – not allowable	0	½
Life insurance – not allowable	0	½
Taxable income	54 506	
Tax on sliding scale:		
Up to US$36 000	7 380	½
On US$(54 506 – 36 000) at 30%	5 552	½
Gross tax	12 932	
Less credits:		
Elderly person	(900)	½
Medical aid society contributions credit (50% x US$4 600)	(2 300)	½
	9 732	
Add 3% AIDS levy (3% x US$9 732)	292	½
	10 024	
Less PAYE	(11 000)	½
Tax payable/(refundable)	(976)	
Other income		
Gross rent	36 000	½
Contract fees	45 000	½
Rent exemption for elderly taxpayers	(3 000)	½
Estate agent fees	(3 600)	½
Salary paid to personal assistant	(9 000)	½
Taxable income	65 400	
Tax at 25·75%	16 841	½
Less withholding tax on contract fees	(4 500)	½
Tax payable/(refundable)	12 341	**13**
		15

6 All Soy Limited (ASL)

(a) Related party transactions

(i) The transactions are not consistent with the arm's length principle. 1

(ii) The Zimbabwe Revenue Authority (ZIMRA) might make transfer pricing adjustments to increase the taxable income. 1

(iii) ZIMRA might also charge interest and penalties on the understated income. 1

3

(b) Taxable income and corporation tax payable for the year ended 31 December 2017

	US$	*Marks*
Net profit before tax	92 000	
Adjustments:		
Transfer pricing adjustments:		
Understated revenue (180 000 – 150 000)	30 000	½
Overstated equipment hire costs	60 000	½
Equipment hire at fair market price	(40 000)	½
Overstated wages and salaries	40 000	½
Wages and salaries at arm's length (US$250 x 100)	(25 000)	½
Donations:		
University of Zimbabwe	0	½
Mega Soy (Private) Limited	20 000	½
Ministry of Education	0	½
Allowance for trade receivables	28 000	½
Impaired debts (50% x US$32 000)	16 000	½
Legal fees	12 000	½
VAT penalty	8 500	½
Commercial bank interest	(10 000)	½
Trade receivables interest	0	½
Market research expenses – double deduction	(14 000)	½
Depreciation	35 000	½
Capital allowances:		
Office building (2·5% x US$150 000)	(3 750)	½
Factory building (25% x US$200 000)	(50 000)	½
Furniture and fixtures	0	½
Passenger vehicles (25% x US$10 000 x 2)	(5 000)	½
Commercial vehicles (25% x US$90 000)	(22 500)	½
Taxable income	171 250	
Tax at 15%	25 688	½
3% AIDS levy (US$25 688 x 3%)	771	½
	26 459	
Less provisional tax paid	(17 000)	½
Tax payable	9 459	**12**
		15