Answers

Section A

1 C

(3·5% x 700 x 8) = US$196

2 B

3 A

Deemed loan benefit interest rate = 5% + 1·5% – 3·5% = 3%
Taxable loan amount = 3,000 + 5,000 = 8,000
Taxable loan benefit = 8,000 x 3% x 9/12 = US$180

4 D

Due date is 25 September 2018. Return submission on 25 November 2018 is 60 days late.

5 A

	US$
Proceeds	180,000
Less:	
Elderly person's exemption	(1,800)
Cost (80,000 x 1·50)	(120,000)
Inflation allowance (2·5% x 120,000 x 7)	(21,000)
Capital gain	37,200

6 C

Capital gains tax and corporation tax.

7 B

Deemed selling price = 10,000/60,000 x 45,000 = US$7,500
Income tax value = 10,000 – (25% x 10,000 x 3) = US$2,500
Recoupment = 7,500 – 2,500 = US$5,000

8 D

Residential apartments and staff houses.

9 D

	US$
Commercial vehicle (25% x 70,000)	17,500
Factory building (5% x 200,000)	10,000
Computer software (25% x 30,000)	7,500
Computer hardware (25% x 60,000)	15,000
	50,000

10 C

(25·75% x 20,000 x 10%) = US$515

Marks

11 B

	US$
Pension fund contributions (7·5% x 60,000)	4,500
Benefit fund contributions	0
NSSA contributions (3·5% x 700 x 12)	294
	4,794

12 C

Six years after the tax year to which the accounting records relate, not the due date for submission of the tax return.

13 A

(15/115 x 70,000) = US$9,130

14 B

(400 x 8) = US$3,200

15 D

(60,000 x 1%) = US$600

2 marks each **30**

Section B *Marks*

1 Roadside Milling Company Limited (RMC)

(a) Capital losses

Capital losses can be carried forward and allowed as a deduction from capital gains arising in a future year of assessment. ½

Although there is no limit to the number of years a capital loss can be carried forward, there is a limit to the amount of the capital loss which can be carried forward. 1

A capital loss of US$100 or less cannot be carried forward and should be written off in the respective year of assessment. The capital loss of US$80 in respect of marketable securities incurred in 2011 can therefore not be carried forward and must be written off in 2011. 1

The capital loss of US$5,000 in respect of the Gweru factory incurred in 2013 can be carried forward and allowed as a deduction from capital gains arising in the year ended 31 December 2018. ½

3

(b) Capital gains tax (CGT) payable

	US$	US$	
Deemed sale proceeds:			
Land		200,000	½
Factory building		300,000	½
Concrete wall		110,000	½
		610,000	
Less recoupment on:			
Factory building	150,000		½
Concrete wall (80,000 – 40,000)	40,000	(190,000)	½
		420,000	
Less:			
Cost (100,000 + 150,000 + 80,000)	330,000		1
Capital allowances (150,000 + 40,000)	(190,000)		½
Inflation allowances on:			
Land (2·5% x 100,000 x 9)	22,500		½
Factory building (2·5% x 150,000 x 5)	18,750		½
Concrete wall (2·5% x 80,000 x 3)	6,000	(187,250)	½
Capital gain		232,750	
Less capital loss brought forward		(5,000)	1
Taxable amount		227,750	
CGT at 20%		45,550	½
			7
			10

2 Rima (Private) Limited (Rima)

(a) The company directors' opinion on income tax registration is incorrect because companies are required to register with the Zimbabwe Revenue Authority (ZIMRA) for corporation tax within 30 days of incorporation. 1

(b) Statutory compliance obligations

To register for corporation tax within 30 days of incorporation (i.e. by 5 February 2018) and submit a copy of the memorandum and articles of association to ZIMRA. ½

To submit provisional tax returns and provisional tax in line with the quarterly payment dates (QPDs). ½

To register as an employer with ZIMRA within 14 days of recruiting staff earning a minimum of US$300 per month. ½

The average monthly earnings per employee is US$400 (2,000/5). Rima should therefore submit monthly employees' tax/PAYE returns on the 10th of each month and remit the PAYE due on the same date. ½

		Marks
To register for value added tax (VAT) on the basis of the projected revenue of US$280,000 which is in excess of the minimum threshold of US$60,000 per year.		½
VAT returns should be submitted to ZIMRA on the 25th of every month together with the VAT remittance.		½
		3

(c) Provisional tax payable for the period ended 31 December 2018

	US$	
Profit before tax	47,000	½
Add:		
Company registration	5,000	½
Depreciation	36,000	½
Rent	18,000	½
	106,000	
Less:		
Capital allowances on:		
Plant and equipment (25% x 100,000)	(25,000)	½
Office building (2·5% x 170,000)	(4,250)	½
Taxable income	76,750	
Provisional tax at 25·75%	19,763	1
Payable as follows:		
10% on 25 March 2018	1,976	½
25% on 25 June 2018	4,941	½
30% on 25 September 2018	5,929	½
35% on 20 December 2018	6,917	½
	19,763	
		6
		10

3 Farm Feed Limited (FFL)

(a) Value added tax (VAT) payable or refundable for the month of July 2018

	US$	
Output tax:		
Sales – zero rated	0	½
Discounted sales – zero rated	0	½
Sales returns	0	½
Impaired debts	0	½
Motoring benefit (15/115 x 9,600 x 1/12)	104	1
	104	
Less input tax:		
Raw materials procured – zero rated	0	½
Salaries and wages	0	½
All risk insurance policy	0	½
Interest on overdraft facility	0	½
Repairs and maintenance (15/115 x 17,000)	(2,217)	1
Stationery (15/115 x 14,000 x 50%)	(913)	1
Fiscal devices (50% x 26,000)	(13,000)	1
VAT refundable	16,026	
		8

(b) Requirements for registered VAT operators to claim input tax

(1) Fiscal/tax invoices

Each input tax claim must be supported by a valid fiscal or tax invoice. The tax invoice must contain all the required information to qualify as a tax invoice. 1

	Marks
(2) Period of input tax claim	
The valid tax invoice must be submitted to the Zimbabwe Revenue Authority (ZIMRA) within the period the registered VAT operator is required to furnish a VAT return or 12 months from the tax invoice date, whichever is the longer period.	1
	2
	10

4 Tinei, Temba and Thoko partnership

(a) Tax implications of new partner admission

A new partnership comes into existence. The tax year must be split pre and post the admission of a new partner and taxable income determined separately for each part-year. 1

(b) Partners' taxable income and tax payable for the year ended 31 December 2018

Nine-month period ended 30 September 2018:

	US$	
Partnership profit	32,000	½
Add: Joint life insurance policy	16,000	½
	48,000	
Less: Interest from commercial bank	(15,000)	½
Joint partnership profit	33,000	

	Tinei US$	Temba US$	
Share of partnership profit (33,000/2)	16,500	16,500	½
Salary	21,000	21,000	½
Life insurance policy	20,000	14,000	½
Medical aid contributions	6,000	6,000	½
Taxable income for the period	63,500	57,500	

Three-month period ended 31 December 2018:

	US$	
Partnership profit	36,000	½
Add: Depreciation	30,000	½
Less capital allowances on:		
Plant and equipment (10% x 75,000)	(7,500)	½
Passenger vehicle (20% x 10,000)	(2,000)	½
Joint partnership profit	56,500	

	Tinei US$	Temba US$	Thoko US$	
Share of partnership profit (56,500/3)	18,833	18,833	18,833	½
Salary	10,000	10,000	10,000	½
Interest on capital accounts	26,000	22,000	16,000	½
Taxable income for the period	54,833	50,833	44,833	
Add: Prior taxable income	63,500	57,500	0	½
Taxable income for the year	118,333	108,333	44,833	
Tax at 25·75%	30,471	27,896	11,544	1½
				9
				10

Marks

5 Stacy

(a) Tax reliefs to mitigate the effects of the drought

(i) Enforced livestock sale relief.	½
Stacy can elect to have the taxable income emanating from the sale of her 50 dairy cows taxed equally over three years.	½
Once the election is made, it becomes irreversible.	½
(ii) Restocking allowance.	½
On restocking the livestock sold due to the drought effect, Stacy would be entitled to a restocking allowance of 50% of the purchase price.	½
The allowance is limited to the livestock purchased as would not exceed the assessed carrying capacity of the farm.	½
	3

(b) Taxable income and income tax payable/(refundable) for the year ended 31 December 2018

	US$	
Employment		
Salary	8,000	½
Cash in lieu of leave	3,000	½
Transport allowance	1,500	½
Accommodation allowance	1,000	½
	13,500	
Less:		
Pension fund contributions, retirement annuity fund (RAF) and NSSA (2,500 + 2,400 + 98)	(4,998)	1
Professional subscriptions	(500)	½
Funeral insurance policy	0	½
Taxable income	8,002	
Tax on sliding scale:		
Up to US$3,600	0	
On US$(8,002 – 3,600) at 20%	880	½
Gross tax	880	
Less credits:		
Medical (50% x (3,600 + 900))	(2,250)	½
	(1,370)	
Add: 3% AIDS levy	0	½
	0	
Less: PAYE	(1,400)	½
Tax refundable	1,400	

	US$	US$	*Marks*
Farming			
Revenue		220,000	½
Less:			
Opening inventory (800 x 150)	120,000		½
Closing inventory (800 x 100)	(80,000)	(40,000)	½
Gross profit		180,000	
Less:			
Farm fencing (50% x 20,000)	10,000		½
Dairy cattle expenses	33,000		½
Staff expenses	35,000		½
General repairs	25,000		½
Wear and tear on:			
Tractor (20% x 46,000)	9,200		1
Staff housing – supervisor	0		½
Staff housing – (5% x 60,000)	3,000	(115,200)	½
Taxable income		64,800	
Tax at 25·75%		16,686	½
			12
			15

6 (a) BL Limited (BL)

Taxable income or assessed loss for the period ended 31 December 2018

	US$	
Net loss	(17,000)	
Adjustments:		
Bank interest received	(8,000)	½
Interest paid – disallowed	15,000	½
Allowable interest paid (10% x 150,000 x 8/12)	(10,000)	1
Depreciation	31,000	½
Donations:		
Private nursing home	10,000	½
Ministry of Health	0	½
Lease premium – disallowed	60,000	½
Allowable lease premium (60,000 x 9/120)	(4,500)	1
Lease improvement allowance:		
(400,000 + 150,000)/(120 – 7) x 2	(9,735)	1½
Wear and tear on excess construction costs:		
(2·5% x (450,000 – 400,000) + (180,000 – 150,000))	(2,000)	1½
Rent (1,000 x 2)	(2,000)	½
Capital allowances:		
Plant and equipment (25% x 180,000)	(45,000)	½
Office furniture and fittings (25% x 210,000)	(52,500)	½
Fiscal devices (50% x 50,000 x 25%)	(6,250)	1
Office rent	(150,000)	½
Assessed loss	(190,985)	**11**

Marks

(b) Max Limited

Adjusted taxable income and tax payable for the year ended 31 December 2018

	US$	Marks
Taxable income	112,000	
Adjustments:		
Lease premium	60,000	½
Lease improvements: (400,000 + 150,000)/(120 – 6) x 3	14,474	1½
Rent (1,000 x 2)	2,000	½
Wear and tear on:		
Commercial building (2·5% x 400,000)	(10,000)	½
Boundary wall (2·5% x 150,000)	(3,750)	½
Adjusted taxable income	174,724	
Tax at 25·75%	44,991	½
		4
		15