Answers

Section B *Marks*

1 Mukudzei

(a) Capital losses are carried forward and deducted from capital gains arising in the same year from the sale of either an immovable property or a marketable security. ½

Only capital losses of more than US$100 can be carried forward to future years. 1

Capital losses can be carried forward to future years for an indefinite (unrestricted) period. 1

Capital losses can only be deducted from capital gains and not from any other form of income. ½

3

(b) Capital gains tax payable for the year ended 31 December 2015

	US$	US$	
Immovable property			
Proceeds:			
Factory building	350 000		½
Security wall	100 000	450 000	½
Less recoupment:			
Factory building	200 000		1
Security wall (25% x US$80 000 x 3)	60 000	(260 000)	1
		190 000	
Less cost:			
Factory building	200 000		½
Security wall	80 000		½
Less capital allowances	(260 000)	(20 000)	½
Less inflation allowances on:			
Factory building (2·5% x US$200 000 x 6)	30 000		½
Security wall (2·5% x US$80 000 x 3)	6 000	(36 000)	½
Less estate agent commission (US$450 000 x 10%)		(45 000)	½
Capital gain		89 000	
Less assessed loss		(15 000)	½
		74 000	
Capital gain tax at 20%		14 800	½
			7
			10

2 Ben

(a) The gross rent from the commercial property is more than the value added tax (VAT) registration threshold of US$60 000, therefore, the assumption is that Ben should have been remitting VAT on the due dates and also remitting provisional tax in accordance with the quarterly payment dates (QPDs). 1½

The fact that Trent Limited deducted withholding tax on contracts at 10% (US$16 000) from Ben's commercial property rent indicates non-compliance in that Ben failed to produce evidence that he was fully tax compliant since he did not possess a tax clearance certificate. 1½

Ben is therefore exposed to a penalty of 100% of the unpaid tax, as well as interest at the rate of 10% on the unpaid tax from the due date. 1

4

		Marks
(b) Income tax payable for the year ended 31 December 2015		
	US$	
Gross rent from commercial property	160 000	½
Gross rent from holiday cottage (not from a Zimbabwean source)	0	½
Non-executive director's fees	40 000	½
Gross income	200 000	
Less:		
Commercial property management fees	(12 000)	½
Wear and tear on commercial property (2·5% x US$150 000)	(3 750)	1
Holiday cottage management fees	0	½
Taxable income	184 250	
Tax payable at 25·75%	47 444	½
Less tax withheld on non-executive director's fees	(8,000)	½
Withholding tax on contracts (ITF 263)	(16 000)	½
	23 444	
10% of tax payable due on 25 March 2015	2 344	¼
25% of tax payable due on 25 June 2015	5 861	¼
30% of tax payable due on 25 September 2015	7 033	¼
35% of tax payable due on 20 December 2015	8 206	¼
	23 444	
		6
		10

3 (a) John

(i) John is obliged to check Jen's tax clearance certificate (ITF263) for validity each time he makes a payment to her for the cleaning services. 1

(ii) When making payments for the cleaning services, John is obliged to deduct 10% of the invoice amount as withholding tax and remit this to the Zimbabwe Revenue Authority (ZIMRA) within ten days of payment. 1½

John should also issue a withholding tax certificate to Jen as evidence of the tax having been withheld and remitted to ZIMRA. ½

2

(b) Mary

(i) The property, plant and equipment is deemed sold at the revalued amount, which should be its market value, on 1 July 2015. Accordingly, a recoupment arising on the deemed sale should be included in gross income. 1½

The incorporated business can claim capital allowances on the higher revalued amount. ½

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(ii) The incorporation of a business results in the creation of a new taxpayer (the company) which is considered to be separate from the previous sole proprietor. 1

Therefore, following the incorporation of a business, all the trading losses incurred before incorporation are disregarded and cannot be claimed as a deduction. 1

2

(iii) Mary should account for two separate periods in the year 2015: 1 January to 30 June 2015 as a sole proprietor and 1 July to 31 December 2015 for the incorporated business. 1½

Two separate income tax returns should be submitted to ZIMRA. ½

The assessed loss of US$80 000 which was incurred in 2008 should not have been carried forward beyond the six-year period. The valid accumulated loss is therefore US$55 000. ½

	Marks
The assessed loss of US$55 000 can be claimed as an allowable deduction from the gross income generated in the period 1 January to 30 June 2015.	½
	3
	10

4 Pest Trackers Limited (PTL)

(a) PTL's annual turnover is more than US$240 000, therefore, its value added tax (VAT) registration category should be category C and its VAT returns should be submitted on a monthly basis. 1

(b) VAT payable/refundable for the year ended 31 December 2015

	US$	
Output tax:		
Standard rated sales (70% x US$450 000 x 15%)	47 250	1
Zero rated sales	0	½
Passenger vehicle, 3300cc (15/115 x US$9 600/12 x 4)	417	1
	47 667	
Input tax:		
Raw material purchases (15/115 x US$ (180 000 + 90 000))	(35 217)	1
Fiscalised electronic registers (50% x US$30 000)	(15 000)	1
Packaging materials (15/115 x US$40 000)	(5 217)	½
Rent (15/115 x US$20 000)	(2 609)	½
Staff costs	0	½
Depreciation	0	½
Plant and machinery (15/115 x US$120 000)	(15 652)	½
Furniture, fittings and equipment (15/115 x US$110 000)	(14 348)	½
Delivery van (15/115 x US$70 000)	(9 130)	½
Passenger motor vehicle	0	1
VAT refundable	49 506	
		9
		10

5 Lilly Lake

Taxable income and income tax payable for the year ended 31 December 2015

	US$	*Marks*
From employment		
Salary	15 000	½
Bonus (US$1 500 – US$1 000)	500	1
Cash in lieu of leave	3 200	½
Accommodation allowance	2 500	½
Clothing allowance	3 000	½
Unutilised medical care allowance	8 000	½
Loan benefit (1% + 5%) x US$20 000 x 9/12	900	1
Less:		
Pension fund and RAF contributions (US$3 600 + US$1 700)	(5 300)	1
Medical insurance policy	0	½
Loan repayment	0	½
Motor vehicle benefit	7 200	½
Taxable income	35 000	
Tax on sliding scale:		
Up to US$18 000	2 880	
On US$(35 000 – 18 000) at 25%	4 250	
Gross tax	7 130	½
Less elderly person's credit	(900)	½
	6 230	
Add 3% AIDS levy	187	½
	6 417	
Less PAYE	(6 000)	½
Tax payable	417	
From royalties		
Gross royalties	35 000	½
Marketing and publishing costs (60% x US$18 000)	(10 800)	½
Taxable income	24 200	
Tax at 25·75%	6 232	½
Less withholding tax	(5 250)	½
Tax payable	982	
From other sources		
Gross savings interest	16 000	½
Matured treasury bills interest	10 000	½
Less:		
Savings interest exemption	(3 000)	½
Treasury bills interest exemption	(3 000)	½
Taxable income	20 000	
Tax at 15% (withheld at source – final tax)	3 000	1
Gross dividends	12 000	½
Tax at 10% (withheld at source – final tax)	1 200	½
		15

Marks

6 Best Bakers Limited

Taxable income for the year ended 31 December 2015

	US$	
Net profit	180 000	
Adjustments:		
Rental income	0	½
Bank interest	(15 000)	½
Lease premium (US$100 000 – US$10 000)	90 000	1
Profit on the sale of plant and equipment	(45 000)	½
Recoupment on plant and equipment	30 000	1
Depreciation	38 000	½
Capital allowances (SIA) on additions:		
Plant and equipment (25% x US$80 000)	(20 000)	½
Delivery vehicle (25% x US$65 000)	(16 250)	½
Passenger motor vehicle (25% x US$10 000)	(2 500)	1
Export market development – double deduction (40% x US$150 000)	(60 000)	1
Donations:		
Harare Children's Home	0	½
Member of parliament	15 000	½
Loss on sale of passenger motor vehicle	15 000	½
Recoupment on passenger motor vehicle (working)	5 714	1½
Entertainment costs – disallowable (30% x US$25 000)	7 500	½
Trade mark registration and patent application – capital expense	12 000	1
Wheat production expenses:		
Direct farm expenses	0	½
Farm overheads	0	½
Farm acquisition	55 000	½
Land clearing	0	½
Dam construction	0	½
Finance charges – farm acquisition (55/200 x US$30 000)	8 250	1
Taxable income	297 714	
		15

Working: Recoupment on sale of passenger motor vehicle

Actual cost of motor vehicle US$35 000

Deemed cost of motor vehicle US$10 000

Deemed proceeds (based on market value) = US$ (20 000/35 000 x 10 000) = US$5 714

Recoupment (deemed proceeds – ITV) = US$ (5 714 – 0) = US$5 714

Tutorial note: *Since the cost of a passenger motor vehicle is restricted for income tax purposes, it also follows that the market value on disposal should be restricted to a deemed value.*