Answers

Section B *Marks*

1 Sawmill Limited

(a) Tax audit findings

(i) The omission of the senior managers' employment benefits from the payroll system resulting in their non-taxation is an intentional act to evade the payment of the employees' tax due, which is illegal. This willful act amounts to tax evasion. 1

(ii) This is neither tax avoidance nor tax evasion as it is a late submission of both the self-assessment return and the quarterly payment date (QPD) return. 1

(iii) The deliberate omission of the output tax from the value added tax (VAT) returns results in the understatement of the VAT payable which is an illegal act and constitutes tax evasion. 1

(iv) The incorrect recording of the passenger motor vehicle is a falsification of records which resulted in the illegal claim of input tax. This is an act of tax evasion. 1

4

(b) Maximum penalties and interest

		US$	Marks
(i)	100% penalty (employees' tax due)	30 900	½
	Interest (10% x US$30 900 x 51/365) (from 11 November 2017 to 31 December 2017)	432	1
		US$	
(ii)	Penalty for late submission of 2016 self-assessment return (US$30 x 153 days (1 May 2017–30 September 2017))	4 590	1
	Penalty for late submission of 2017 3rd QPD return (US$30 x 5 days (26 September to 30 September 2017))	150	½
		US$	
(iii)	Output tax on:		
	1500cc motor vehicle (15/115 x US$3 600 x 11 ÷ 12)	430	
	2500cc motor vehicle (15/115 x US$7 200 x 11 ÷ 12)	861	
		1 291	1
	100% penalty	1 291	½
	Interest (10% x US$1 291 x 334/365)	118	½
		US$	
(iv)	Understated input tax (15/115 x US$42 000)	5 478	½
	100% penalty	5 478	½
			6
			10

2 NN Transport Limited (NN)

(a) Tax treatment of Nick Payne's assessed losses on takeover by NN

Following the takeover, the assessed losses from Nick Payne's business would not ordinarily be allowed as a deduction from the taxable income of NN for the year ended 31 December 2017. 1

This is due to the fact that assessed losses are not ordinarily transferable between a sole trader and a corporate entity. 1

However, the fact that the Zimbabwe Revenue Authority (ZIMRA) approved NN's scheme of reconstruction is a clear indication that the motive of the business takeover is not to benefit from the assessed losses. In this case, ZIMRA might allow NN to deduct the assessed losses. 1

Nick Payne is allowed to claim the assessed losses against the taxable income for the period 1 January 2017–31 March 2017. The remainder of the losses cannot be carried forward by Nick Payne since he ceased business operations on 31 March 2017. 1

4

Marks

(b) Taxable income/assessed loss for the year ended 31 December 2017

	US$	Marks
Taxable income of NN	90 000	½
Add recoupment on the trucks:		
Truck 1 (US$100 000 – US$25 000)	75 000	1
Truck 2 (US$120 000 – US$60 000)	60 000	1
Taxable income of hardware business:		
Revenue	60 000	½
Trading expenses (75% x US$60 000)	(45 000)	1
Irrecoverable trade receivables – irrecoverable (25% x US$20 000)	5 000	1
Intangible assets amortisation (10% x US$100 000)	10 000	1
Adjusted taxable income	255 000	**6**
		10

3 Tino and Chenai

(a) Tino and Chenai's residential property qualifies as a principal private residence because it was their sole residence and they had lived in the property for more than the minimum period of four years prior to the date of disposal. 1

The fact that the outbuilding was used as a hairdressing salon does not prevent the property qualifying as a principal private residence as it was used mainly for the purpose of residential accommodation. 1

2

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

	US$	US$	Marks
Sale proceeds		500 000	½
Less:			
Cost (US$(30 000 + 180 000 + 35 000 + 70 000))	315 000		2
Inflation allowance on:			
Undeveloped land (2·5% x US$30 000 x 8)	6 000		½
Main residence (2·5% x US$180 000 x 8)	36 000		½
Boundary wall (2·5% x US$35 000 x 7)	6 125		½
Outbuilding (2·5% x US$70 000 x 6)	10 500		½
Estate agent commission (5% x US$500 000)	25 000	(398 625)	½
Capital gain		101 375	
Less elderly taxpayer exemption – Tino (50% x US$101 375)		(50 688)	½
Chenai's share of capital gain to be taxed		50 687	
CGT at 20%		10 137	½
			6

(c) As Tino is over 55 years old, he is the one exempted from his share of the capital gain. In order to avoid the taxation of her share of the capital gain, Chenai can opt to transfer her share of the value of the property to Tino who can then dispose of the property. Transfers between a husband and wife do not attract capital gains tax. 1

If Tino and Chenai could have waited until after 5 November 2017 to dispose of their property, they would both have benefitted from the elderly taxpayer exemption and there would be no CGT to pay. 1

2

10

Marks

4 Chemco (Private) Limited (Chemco)

(a) Chemco is not obliged to register for value added tax (VAT) because its turnover for the year is less than the minimum registration threshold of US\$60 000 per year. Chemco's average monthly sales for the first five months of trading is also less than the minimum registration threshold of US\$5 000 per month. 1

(b) **Advantages of Chemco voluntarily registering for VAT**

– It would be able to take advantage of the input tax claim on non-current assets, purchases and other expenses. 1

– As a VAT registered operator, Chemco would be able to participate in government tenders (since VAT registration is a prerequisite). 1

– By registering voluntarily, Chemco could avoid potential late registration penalties on exceeding the registration threshold. 1

3

(c) **VAT payable or refundable for the period 1 August to 31 December 2017**

	US$	
Output tax:		
Sales (15% x US\$23 100)	3 465	½
Less input tax:		
Factory plant and equipment (15/115 x US\$70 000)	(9 130)	½
Delivery van (15/115 x US\$45 000)	(5 870)	½
Passenger motor vehicles	0	1
Office furniture and equipment (15/115 x US\$60 000)	(7 826)	½
Purchases (15/115 x US\$32 000)	(4 174)	½
Office rent (15/115 x US\$5 750)	(750)	½
Staff expenses	0	½
Stationery (15/115 x US\$2 400)	(313)	½
Depreciation	0	½
General administrative expenses (15/115 x US\$12 000)	(1 565)	½
VAT refundable	26 163	6
		10

5 Mark Tembo

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

	US$	*Marks*
Employment:		
Salary	26 000	½
Bonus (US$3 000 – US$1 000)	2 000	1
Accommodation allowance – exempt	0	1
School fees allowance	10 000	½
Representation allowance	8 000	½
Clothing allowance	2 000	½
Motor vehicle benefit	9 600	½
	57 600	
Less:		
Pension fund contributions	(2 500)	½
Retirement annuity fund (RAF) contributions	(1 700)	½
Professional subscriptions	(500)	½
Taxable income	52 900	
Tax on sliding scale:		
Up to US$36 000	7 380	½
On US$(52 900 – 36 000) at 30%	5 070	½
Gross tax	12 450	
Less credits:		
Medical aid contributions credit (50% x US$5 000)	(2 500)	½
	9 950	
Add 3% AIDS levy (3% x US$9 950)	299	½
	10 249	
Less PAYE	(10 000)	½
Tax payable	249	

	US$	
Property and investments:		
Rental income from property in Mozambique	0	1
Local rental income	20 000	½
Local royalties	15 000	½
South African royalties	30 000	1
Non-executive director's fees	28 000	½
Gross income/Taxable income	93 000	
Tax on taxable income at 25·75%	23 948	½
Less withholding tax on local royalties	(2 250)	½
Less withholding tax on non-executive director's fees	(5 600)	½
Less double taxation relief on South African royalties: (Lower of local tax on the royalties (25·75% x US$30 000) = US$7 725 and foreign tax = US$5 250)	(5 250)	1½
Tax payable	10 848	**15**

Marks

6 Zim Motors (Private) Limited (ZM)

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

	US$	Marks
Profit before taxation	8 000	
Adjustments:		
Bank interest received	(5 000)	½
Dividend received – exempt	(20 000)	½
Interest on overdue trade receivables	0	½
Distribution costs	0	½
Staff expenses	0	½
Traffic fine	3 000	½
Management fees (working)	27 982	½
Rent paid	0	½
Depreciation	20 000	½
General expenses (35% x US$22 000)	7 700	½
Loss on disposal of commercial vehicle	12 000	½
Recoupment on commercial vehicle (US$38 000 – 0)	38 000	1
Interest payable	0	½
Capital allowances:		
SIA on new commercial vehicle (25% x US$100 000)	(25 000)	½
Furniture and equipment	0	½
Wear and tear on warehouse (2·5% x US$100 000)	(2 500)	½
Taxable income	64 182	
Tax at 25%	16 046	½
3% AIDS levy (US$16 046 x 3%)	481	½
Tax payable	16 527	

Working – Management fees (allowable portion):

	US$	US$	Marks
Distribution costs		30 000	½
Admin expenses – allowable:			
Staff expenses	80 000		½
Rent paid	40 000		½
General expenses	14 300		½
SIA	25 000		½
Wear and tear	2 500		½
Interest payable	10 000	171 800	½
Total allowable expenses		201 800	
Allowable management fees (1% x US$201 800)		2 018	1
Disallowable portion (US$30 000 – US$2 018)		27 982	½
Tax on at 15% (15% x US$27 982)		4 197	½
			15