Tests TIMETABLE

<table>
<thead>
<tr>
<th>Scope</th>
<th>Test Number</th>
<th>Test date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tutorial 1</td>
<td>Test 1</td>
<td>15 March 2016</td>
</tr>
<tr>
<td>Tutorial 2</td>
<td>Test 2</td>
<td>26 April 2016</td>
</tr>
<tr>
<td>Tutorial 3</td>
<td>Test 3</td>
<td>21 June 2016</td>
</tr>
<tr>
<td>Tutorial 4</td>
<td>Test 4</td>
<td>02 August 2016</td>
</tr>
</tbody>
</table>

Study Units in module covered in this tutorial letter

Study Unit K
Study Unit L
PRESCRIBED METHOD OF STUDY

1. Please read the prescribed study material for every study unit thoroughly before you study the additional information in section A of every study unit.
2. Do the other questions (section B) in the study unit and make sure you understand the principles contained in the questions.
3. Consider whether you have achieved the specific outcomes of the study unit.
4. After completion of all the study units - attempt the self-assessment questions to test whether you have mastered the contents of this tutorial letter.
### SELF ASSESSMENT INTEGRATED QUESTIONS

<table>
<thead>
<tr>
<th>Question Number</th>
<th>Topics Covered</th>
<th>Source</th>
<th>Marks</th>
<th>Page number</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Capital Gains Tax</td>
<td>ICAZ Adapted, ITC Jan 2010 Paper 1 Question 1</td>
<td>15</td>
<td>4</td>
</tr>
<tr>
<td>2</td>
<td>Capital Gains Tax</td>
<td>(Test 3 2013)</td>
<td>40</td>
<td>9</td>
</tr>
<tr>
<td>3</td>
<td>Capital Gains Tax</td>
<td>ICAZ Adapted, ITC June 2015 Paper 1 Question 1</td>
<td>24</td>
<td>14</td>
</tr>
<tr>
<td>4</td>
<td>VAT</td>
<td>CAA CTA Adapted June 2014 Paper 1</td>
<td>20</td>
<td>18</td>
</tr>
<tr>
<td>5</td>
<td>VAT</td>
<td>ICAZ Adapted, ITC June 2015 Paper 1 Question 1</td>
<td>20</td>
<td>21</td>
</tr>
<tr>
<td>6</td>
<td>VAT and Taxation of business income</td>
<td>ICAZ Adapted, ITC Jan 2014 Paper 1 Question 1</td>
<td>65</td>
<td>25</td>
</tr>
<tr>
<td>7</td>
<td>VAT and Capital Gains Tax</td>
<td>CAA Supplementary Exams 2015</td>
<td>45</td>
<td>36</td>
</tr>
</tbody>
</table>
TUTORIAL 1

All amounts in the question exclude Value Added Tax (VAT).

Better Blanket Manufacturers (Pvt) Ltd (‘BBM’) is a company registered in Zimbabwe and is registered for VAT. The company's financial year end is 31 December.

BBM manufactures all types of blankets which it sells to independent retail outlets throughout Zimbabwe. It also sells blankets to Botswana to a limited extent.

BBM owns a number of shares which it holds for investment purposes.

With the exception of the factory building, the assets the company had purchased in prior years had a ‘nil’ income tax value at 31 December 2008.

BBM had a profit before tax of US $5 million for the year of assessment ended 31 December 2014. The company did not have an assessed loss for either income tax or capital gains purposes. The profit before tax of US $5 million at 31 December 2014 comprises the following items of income and expenditure:

<table>
<thead>
<tr>
<th>Notes</th>
<th>Expenditure US $</th>
<th>Income US $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales: Blankets</td>
<td>450 000 000</td>
<td></td>
</tr>
<tr>
<td>Cost of sales: Blankets</td>
<td>443 344 950</td>
<td></td>
</tr>
<tr>
<td>Dividend income</td>
<td></td>
<td>28 000</td>
</tr>
<tr>
<td>Depreciation of all assets</td>
<td>323 600</td>
<td></td>
</tr>
<tr>
<td>Impairment loss – second-hand plant</td>
<td>30 000</td>
<td>5 30 000</td>
</tr>
<tr>
<td>Impairment loss on shares</td>
<td>4 54 000</td>
<td></td>
</tr>
<tr>
<td>Insurance payment received</td>
<td>56 000</td>
<td>3 56 000</td>
</tr>
<tr>
<td>Net gain on sale of shares</td>
<td>79 900</td>
<td>4</td>
</tr>
<tr>
<td>Gain on sale of laboratory land and buildings</td>
<td>705 000</td>
<td>2</td>
</tr>
<tr>
<td>Interest on loan utilised for the purchase of shares</td>
<td>60 000</td>
<td>4</td>
</tr>
<tr>
<td>Lease of passenger vehicle from September 2014</td>
<td>35 000</td>
<td></td>
</tr>
<tr>
<td>Loss on sale of equipment</td>
<td>8 000</td>
<td>2</td>
</tr>
<tr>
<td>Loss on sale of factory land and buildings</td>
<td>442 500</td>
<td>6</td>
</tr>
<tr>
<td>Donation to the Destitute Homeless Persons Fund</td>
<td>60 000</td>
<td></td>
</tr>
<tr>
<td>Donation to a political organisation</td>
<td>20 000</td>
<td></td>
</tr>
</tbody>
</table>
### Additional information (notes)

#### 1 Sales

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale of blankets in Zimbabwe</td>
<td>US $385 000 000</td>
</tr>
<tr>
<td>Export sale of blankets</td>
<td>US $50 000 000</td>
</tr>
<tr>
<td>Sale of fuel</td>
<td>US $10 000 000</td>
</tr>
<tr>
<td>Sale of scrap</td>
<td>US $5 000 000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>US $450 000 000</strong></td>
</tr>
</tbody>
</table>

#### 2 Research and development

The company had set up its own research and development division in an attempt to discover better methods of dying the yarn used in the manufacture of its blankets. In March 2014 the company purchased a building adjacent to its factory which was to be used as a laboratory. This building cost US $500 000 and land cost a further US $10 000. The experiments were not a success. As the company was short of funds and due to unrest in the area it sold the land and buildings on 15 November 2014 for US $1 215 000, of which amount US $215 000 was allocated to the land. On 1 November 2014 the company sold the laboratory equipment for US $232 000. This had been purchased in March 2014 at a cost of US $240 000.

#### 3 Insurance payment

In October 2014 a computer which had been purchased in the previous tax year for US $60 000 was destroyed by a power surge. The company received US $56 000 from an insurance company.
4  **Sale of shares**

The company sold a listed market security in September 2014 for US $100 000. These shares had been purchased in March 2014 at a cost of US $20 100.

In March 2014 the company borrowed funds to purchase three listed securities. The company sold one of these, which it purchased at a cost of US $20 100, in September 2014 for US $100 000.

The other two, which are dividend-yielding investments, had cost US $500 000. These two listed securities were included in the company's balance sheet at their current market value of US $446 000. The decrease in the value of this investment of US $54 000 was treated as an impairment loss.

5  **Impairment loss on second hand plant and machinery**

Zimbabwe Blankets (Pvt) Ltd, a company which had purchased plant used in its operations at a cost of US $200 000 in March 2014, sold this plant to BBM for US $250 000 on 31 August 2014. The company brought these assets into use on 1 September 2014 and the assets were capitalised at this cost. However, an independent valuation was obtained according to which the assets were valued at US $220 000 and BBM immediately impaired the plant and machinery to this market value of US $220 000.

6  **Factory buildings and improvements to leasehold property**

In May 2009 BBM purchased a plot of land for the equivalent of US $500 000. It erected a factory on this land at a cost of US $1 942 500. This building was brought into use on 1 October 2009. As a result of continued unrest in the vicinity of this factory, BBM also sold this land and buildings on 15 November 2014 for US $2 million, being US $300 000 for land and US $1 700 000 for the buildings.

On 1 November 2014 BBM entered into a 20-year lease agreement with Tan Queray Ltd for the lease of a factory in a trouble-free area. The lease agreement stipulated that BBM would pay a premium of US $84 000 on 1 November 2014 and a monthly rent of US $10 000 (subject to an annual escalation clause).

7  **Pension contributions**

The company joined a new approved pension scheme in February 2014, in terms of which contributions amounted to 6.5% of each employee’s salary. Included in the amount paid were contributions by the following persons:
### Property of CAA Learning Media

**Managing director** | US $ | 6,000  
**Finance director**  | US $ | 5,000  
**Sales director**  | US $ | 4,500  

**8 Provisions**

<table>
<thead>
<tr>
<th>Description</th>
<th>US $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provision for leave pay calculated on the basis of number of days leave due x monthly salary</td>
<td>586,000</td>
</tr>
<tr>
<td>Provision for director's fees to be voted on at the next annual general meeting</td>
<td>14,000</td>
</tr>
<tr>
<td>Provision for anticipated repairs to manufacturing plant</td>
<td>220,000</td>
</tr>
<tr>
<td>Provision for valuation fee of assets to be carried out in January 2015</td>
<td>180,000</td>
</tr>
</tbody>
</table>

**REQUIRED**

<table>
<thead>
<tr>
<th>Calculation</th>
<th>Marks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Calculate any capital gains tax liability or loss. Show all workings.</td>
<td>14</td>
</tr>
</tbody>
</table>

**Presentation marks:** Arrangement and layout, clarity of explanation, logical argument and language usage.  

**Marks:** 1
### Question 1 (b) – Capital Gains Tax

#### Research and Development

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds</td>
<td>$1,215,000</td>
</tr>
<tr>
<td>Recoupment – acquired and sold in the same year</td>
<td>- (1)</td>
</tr>
<tr>
<td>Less</td>
<td></td>
</tr>
<tr>
<td>Cost</td>
<td>(510,000) (1)</td>
</tr>
<tr>
<td>Inflation allowance ($510,000 * 2.5%)</td>
<td>(12,750) (1)</td>
</tr>
<tr>
<td>Capital Gain</td>
<td>692,250</td>
</tr>
<tr>
<td>Tax @ 20%</td>
<td>138,450 (1)</td>
</tr>
<tr>
<td>Capital Gains Withholding Tax @15% of $1,215,000</td>
<td>(182,250) (1)</td>
</tr>
<tr>
<td>Capital Gain Refundable</td>
<td>(43,800) (1)</td>
</tr>
</tbody>
</table>

#### Sale of shares

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Listed shares – Capital Gains calculated at 1% of the gross proceeds for listed shares ($100,000 * 1%)</td>
<td>1,000 (2)</td>
</tr>
</tbody>
</table>

#### Sale of Factory Building

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds</td>
<td>2,000,000</td>
</tr>
<tr>
<td>Recoupment – acquired and sold in the same year</td>
<td>(1,700,000) (1)</td>
</tr>
<tr>
<td>Less</td>
<td>300,000</td>
</tr>
<tr>
<td>Cost</td>
<td>2,442,500 (1)</td>
</tr>
<tr>
<td>Less Capital Allowances previously claimed</td>
<td>(1,942,500) (1)</td>
</tr>
<tr>
<td>Inflation allowance ($2,442,500 * 2.5% * 6)</td>
<td>366,375 (1)</td>
</tr>
<tr>
<td>Capital Loss</td>
<td>(866,375) (1)</td>
</tr>
</tbody>
</table>


You are a tax consultant with Mutumwa & Co consultancy. One of your clients (Tanatswa) has sent you an email requesting for assistance on some tax matters.

**Matter 1**

In January 2011 Tanatswa inherited a house from his uncle who had died of cancer and at that time the house had a market value of $130,000. The house is located in the leafy suburbs of Borrowdale. When Tanatswa assumed ownership of the house, he moved into the house with his family. At the time he relocated to the new house in Borrowdale he sold off his house in Norton which he had been living in for the past 2 years. He sold the house for an amount of $30,000 and Tanatswa had paid an amount of $15,000 when he originally acquired the house in the year 2009. In September 2012 Tanatswa decided to dispose of the house in Borrowdale as he discovered that the cost of maintaining the house was well above his current income. At the end of September, he found a buyer willing to pay an amount of $145,000 for the house. Tanatswa then used the sale proceeds to acquire a new house in the medium density suburb of Hatfield for an amount of $80,000 and at that time the new house became his primary place of residence.

**Matter 2**

Tanatswa also owns a small construction company as a sole trader. The business commenced operations in the 2009 tax year and in that same year he acquired office premises for an amount of $23,000. When acquired the building it was automatically eligible for capital allowances under the income tax act since it was used for the purposes of trade. The building qualified as a commercial building for income tax purposes. Due to the liquidity challenges facing the economy the construction industry went on a downward trend and in October 2012 Tanatswa decided to cease the operations of his construction company. In November he was able to find a buyer for the office premises who paid him an amount of $37,000 for the building. In 2011 Tanatswa made capital improvements amounting to $5,000 on the property but did not claim any capital allowances on these improvements. On the date of disposal, the premises had an Income tax value of $20,700.

**Matter 3**

In February Tanatswa’s employer (Munhondo (Pvt) Ltd – Listed on the ZSE) decided to award employees shares in the company as part of a scheme to ensure compliance with the country’s indigenisation laws. As part of the employee share ownership scheme a Trust was set up and all the employees of Munhondo (Pvt) Ltd were eligible to be members of the trust sharing equally
the assets and income of the Trust. As at 28 February 2012 the date on which the Trust was set up there were 150 employees under the employment of Munhondo (Pvt) Ltd who were eligible to be members of the Trust. A total of 30 000 shares were awarded to the Trust at no purchase consideration and as at that date the Fair Market value of each share was $2. Munhondo purchased the shares awarded to the trust from the ZSE at the fair market price stated above. In October of 2012 Tanatswa got a job offer from Newdawn (Pvt) Ltd which he decided to take up. Since one of the conditions of membership to the Munhondo employees Trust was continued employment with the company he was therefore no longer eligible to continue as a member of the Trust. The Trust sold his shares at a value of $2.50 for each share he was entitled to.

Question 2

<table>
<thead>
<tr>
<th>Question 2</th>
<th>Marks</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Discuss the tax treatment of Matter 1 in terms of the Capital Gains Tax Act and calculate the taxable gains where applicable.</td>
<td>10</td>
</tr>
<tr>
<td>b. Discuss the tax treatment of Matter 2 in terms of both the Income Tax Act and the Capital Gains Tax Act. Clearly indicate which provision of the Tax acts is applicable at each stage of the transaction.</td>
<td>10</td>
</tr>
<tr>
<td>c. Matter 3:</td>
<td></td>
</tr>
<tr>
<td>i. In the hands of both Munhondo and Tanatswa discuss the Tax implications of the share ownership scheme in terms of the Income Tax act and Capital Gains tax act. Assume that the employee share ownership scheme was approved by the relevant ministry. (15)</td>
<td></td>
</tr>
<tr>
<td>ii. Record the journals that will be required to record the share ownership scheme in the accounting records of Munhondo (Pvt) Ltd in terms of the applicable Financial Reporting standards. Assume the shares immediately vest on grant date. (5)</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>5</td>
</tr>
</tbody>
</table>
### Matter 1

**Disposal of Norton House**

The proceeds from the sale of the Norton house is taxable under the capital gains tax act since it constitutes the disposal of a specified assets (immovable property).

Therefore the Capital gain taxable is calculated as follows:

<table>
<thead>
<tr>
<th>Item</th>
<th>Calculation</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Capital Amount (Sect 8(1) a)</td>
<td>30 000</td>
<td>1</td>
</tr>
<tr>
<td>Less Section 11 Deductions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of acquiring the house (Sect 11(2) (d))</td>
<td>(15 000)</td>
<td>1</td>
</tr>
<tr>
<td>Inflation allowance Sect 11 (2) © ($15 000*2.5%*2)</td>
<td>(750)</td>
<td>1</td>
</tr>
<tr>
<td>Capital Gain</td>
<td>14 250</td>
<td></td>
</tr>
</tbody>
</table>

Since the proceeds on the disposal were not used to acquire another residence Sect 21 election is not available to Tanatswa.

**Disposal of Borrowdale House**

The proceeds from the sale of the Borrowdale house is taxable under the capital gains tax act since it constitutes the disposal of a specified assets (immovable property).

However the proceeds of the disposal have been used to acquire another PPR hence Sect 21 election is available where the Capital Gain is not taxable.

But in terms of Sect also if the full proceeds are not used in acquiring another PPR the portion not used as such is taxable.

Therefore the Capital gain taxable is calculated as follows:

<table>
<thead>
<tr>
<th>Item</th>
<th>Calculation</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Capital Amount (Sect 8(1) (a))</td>
<td>145 000</td>
<td>1</td>
</tr>
<tr>
<td>Less Section 11 Deductions:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inheritance Cost – Sect 11 (2) (a)</td>
<td>(130 000)</td>
<td>2</td>
</tr>
<tr>
<td>Inflation allowance Sect 11(2) © ($130 000*2.5%*2)</td>
<td>(6 500)</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>8 500</td>
<td></td>
</tr>
<tr>
<td>Less Gain Related to acquisition of new PPR ($80 000/$145 000*$8 500)</td>
<td>(4 690)</td>
<td>2</td>
</tr>
<tr>
<td>Taxable Capital Gain</td>
<td>3 810</td>
<td>14</td>
</tr>
</tbody>
</table>

10 max
Matter 2

Disposal of Property: Income Tax Act

In terms of Sect 8 (1) (j) A recoupment arises on the disposal of the property since capital allowances were granted on the use thereof;  
Recoupment calculated as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>$</th>
<th>$</th>
<th>Marks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds</td>
<td>37 000</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Less Income Tax Value</td>
<td>(20 700)</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Potential Recoupment</td>
<td>16 300</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Actual Recoupment (Limited to allowances previously granted) $23 000-$20 700)</td>
<td>2 300</td>
<td>2</td>
<td></td>
</tr>
</tbody>
</table>

Disposal of Property: Capital Gains Tax

The disposal of the property also attracts Capital Gains Tax as it constitutes the disposal of a specified asset
The taxable capital gain is calculated as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>$</th>
<th>$</th>
<th>Marks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds</td>
<td>37 000</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Less Recoupment (Gross Income) – Sect 8 Income Tax Act</td>
<td>(2 300)</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Gross Capital Amount</td>
<td>34 700</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Less Deductions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquisitions Cost</td>
<td>23 000</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Less Allowances claimed under Sect 15 Income taxes</td>
<td>(2 300)</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td></td>
<td>20 700</td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>Improvements – Sect 11</td>
<td>5 000</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Inflation allowance: Cost of property ($23 000*2.5%*4) – Sect 11(2)</td>
<td>2 300</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>: Improvements ($5 000*2.5%*2) – Sect 11(2)</td>
<td>250</td>
<td>28 250</td>
<td>1</td>
</tr>
<tr>
<td>Taxable Capital Gain</td>
<td>6 450</td>
<td></td>
<td>1</td>
</tr>
</tbody>
</table>
Matter 3: Required (i)  

<table>
<thead>
<tr>
<th></th>
<th>$</th>
<th>$</th>
<th>$</th>
<th>Marks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tanatswa</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>On the day that Tanatswa became eligible for the shares in the Trust on 28 February 2012 a benefit in terms of Sect 8(1) (f) accrues</td>
<td></td>
<td></td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>The benefit is determined as follows:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market value at grant date: ($2*30 000/150)</td>
<td>400</td>
<td></td>
<td></td>
<td>3</td>
</tr>
<tr>
<td>Less Amount paid for shares</td>
<td></td>
<td></td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>Taxable amount</td>
<td>400</td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>The benefit is taxable at PAYE rates</td>
<td></td>
<td></td>
<td></td>
<td>1</td>
</tr>
</tbody>
</table>

**On the subsequent disposal of the shares by the trust**

Then proceeds from the sale are exempt in terms of the 3rd schedule |         |         |         | 2     |

**Munhondo**

In terms of Sect 15 (2) (jj) the cost of acquiring the shares ($2*30 000) is an allowable deduction in the hands of Munhondo. |         |         |         | 3     |

Matter 3: Required (ii)

Journals to record the share ownership scheme  

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Dr Staff Costs ($2*30 000)</td>
<td>60 000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cr Bank/ SBP liability</td>
<td>60 000</td>
<td></td>
<td></td>
<td>2</td>
</tr>
</tbody>
</table>

The benefit accrued at grant date, hence vests immediately. It is cash settled SBP because Mudondo had to go and acquire the shares on the ZSE.

**Presentation**  

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>5</td>
</tr>
</tbody>
</table>
TUTORIAL 3
Retirement of Mr Cheda

Mr Cheda, a 61-year-old employee of Pine Jel, held a 4% interest in Pine Jel and managed one of the company’s divisions. During labour unrest he was attacked by striking workers and the company paid for an air ambulance to fly him to a Johannesburg hospital, at a cost of $640. Pine Jel also paid for Mr Cheda’s medical costs in Johannesburg, which amounted to the equivalent of $4 400.

Mr Cheda was so traumatised by the incident that he was unable to continue to work. His doctor later advised the company that Mr Cheda would not be able to return to work at all.

Mr Cheda took early retirement on 31 October 2014.

Mr Cheda’s cumulative pay slip for the period January 2014 to 31 October 2014 showed the following:

<table>
<thead>
<tr>
<th>Description</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary</td>
<td>48 000</td>
</tr>
<tr>
<td>Bonus</td>
<td>4 000</td>
</tr>
<tr>
<td>Leave pay</td>
<td>2 000</td>
</tr>
<tr>
<td>Medical aid contributions</td>
<td>2 800</td>
</tr>
<tr>
<td>Retirement package paid by the company</td>
<td>50 000</td>
</tr>
</tbody>
</table>

The retirement package and accumulated leave were paid to Mr Cheda by means of a single electronic transfer on 31 October 2014.

Mr Cheda had paid his annual contribution of $6 000 to an approved retirement fund in January 2014.

Mr Cheda informed Pine Jel that he would like to dispose of his 4% shares in the company, which he had purchased in May 2010 for $7 500. Neither the company nor the other shareholders were aware of any person who might be interested in purchasing the shares from Mr Cheda. The shareholders all agreed that the 4% interest was worth $40 000. The company offered to buy back the shares when its cash flow position improved.

Mr Cheda was interested in buying a twin a cab vehicle for his own use. Pine Jel had such a vehicle, which has a market value of $39 000, and the shareholders agreed that the company could purchase Mr Cheda’s shares in exchange for the vehicle. This vehicle had originally cost $49 000. Mr Cheda accepted the offer and the exchange took place on 30 November 2014.
Mr Cheda did not dispose of any other specified assets during 2014 year and did not earn any other income during his 2014 year of assessment.

Various fees paid during the year ended 31 December 2014

During August 2014 Pine Jel engaged the services of a tax consultant who rendered the following services to the company:

<table>
<thead>
<tr>
<th>Service Description</th>
<th>Cost ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preparation of computation and return</td>
<td>300</td>
</tr>
<tr>
<td>Correspondence with the Zimbabwe Revenue Authority in connection with VAT penalties</td>
<td>150</td>
</tr>
<tr>
<td>Drafting of resolution to enable the company to purchases its shares from Mr Cheda</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>550</td>
</tr>
</tbody>
</table>

The company also incurred the following legal costs in August 2014:

<table>
<thead>
<tr>
<th>Service Description</th>
<th>Cost ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alteration to its Articles of Association</td>
<td>320</td>
</tr>
<tr>
<td>Advice on the issue of new shares and proposed purchase by Pine Jel of own shares</td>
<td>525</td>
</tr>
<tr>
<td></td>
<td>845</td>
</tr>
</tbody>
</table>

REQUIRED TUT 3

Prepare computations for Mr Cheda, taking into account all types of income for purposes of both income tax and capital gains tax

- Calculate any income tax and capital gains tax payable for the tax year ended 31 December 2014.
- Cite relevant sections of the Acts.
### SOLUTION 3

**Mr Cheda Tax Computations**

<table>
<thead>
<tr>
<th>Employment Income</th>
<th>$</th>
<th>$</th>
<th>Marks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary – sect 8 (1) (b)</td>
<td>48 000</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Bonus – sect 8 (1) (b)</td>
<td>4 000</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Exempt – 3rd schedule par 4 (o)</td>
<td>(1 000)</td>
<td>3 000</td>
<td>1</td>
</tr>
<tr>
<td>Leave pay – sect 8 (1) (b)</td>
<td>2 000</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Medical aid contributions – 3rd schedule par 8 (2)</td>
<td>0</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Costs of air ambulance – exempt 3rd schedule par 8 (1)</td>
<td>0</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Medical costs in Jo,burg – exempt 3rd schedule par 8(1)</td>
<td>0</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Retirement package – sect 8 (1) (b) – not under an approved retirement scheme therefore 3rd schedule exemption not available</td>
<td>50 000</td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>Contribution to RAF – sect 15 (h) - limited to $2 700 per year</td>
<td>(2 700)</td>
<td>100 300</td>
<td>2</td>
</tr>
</tbody>
</table>

**Tax using tax tables:**

- On the 1st $90 000  | 26 100 |       | 1     |
- On the diff – ($100 300 - $90 000)*40% | 4 120 | 30 220 | 1     |

**Less Credits**

- Elderly person’s credit - $900 * 10/12 | (750) |       | 2     |

Add 3% AIDS levy  | 884 |       | 1     |
<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Proceeds – value of received vehicle – sect 8 (1) (a)</td>
<td>39 000</td>
</tr>
<tr>
<td>Less sect 10(m)exemption – Mr Cheda is over 55 years</td>
<td>(1 800)</td>
</tr>
<tr>
<td><strong>Less deductions</strong></td>
<td></td>
</tr>
<tr>
<td>Cost of purchase – sect 11(2)</td>
<td>(7 500)</td>
</tr>
<tr>
<td>Inflation allowance – 2.5%<em>7 500</em>5</td>
<td>(938)</td>
</tr>
<tr>
<td><strong>Total deductions</strong></td>
<td>28 762</td>
</tr>
<tr>
<td><strong>Tax @ 20%</strong></td>
<td>5 752</td>
</tr>
</tbody>
</table>
TUTORIAL 4 – (VAT)

Part A 35 Marks

Parkview (Pvt) Ltd is a company incorporated and registered in Zimbabwe responsible mainly for manufacturing equipment for scientific laboratories, but also started a research and development (R&D) division on 1 January 2014. The company has a financial year end of 31 December 2014. The company is a VAT registered operator in terms of the VAT Act and is registered under category B. All amounts below exclude value-added tax (VAT), unless otherwise stated.

Manufacturing division

1) Sales for the year amounted to $2,500,000. Excluded from this amount is the sale of high-end scientific equipment sold in terms of suspensive sale arrangements (also an installment credit sale as defined in the VAT Act). Five such arrangements were entered into in the current year of assessment. Each provides that a deposit of $14,996 (Inc. VAT) be paid on order and installments of $4,991 (Inc. VAT) per month for 60 months to be paid from the date of delivery. The equipment would sell for $237,061 (including VAT) if payment were immediately settled (i.e. this is the cash cost of the equipment). Two of the agreements began on 1 November 2014 and the other three began on 1 December 2014.

2) Cost of sales amounted to $2,100,000 for all sales and the gross profit percentage is 17% (excluding VAT).

3) One manufacturing machine had to be replaced. The machine had been originally acquired new and unused on 1 June 2011 for $200,000 and was sold for $210,000 on 1 May 2014. The replacement machine was acquired new and unused on 17 May 2014 and brought into use from 1 June 2014 at a cost of $400,000.

4) The annual building insurance was paid by the company on 1 December 2014 for the period 1 December 2014 to 30 November 2015. The insurance premium amounted to $35,000. On 1 December 2013, the premium paid was $31,000 covering the period 1 December 2013 to 30 November 2014.

5) Doubtful debts in the company’s financial records are recorded as $150,000 for the 2013 year of assessment and $130,000 for the 2013 year of assessment. Debts written off as bad in October 2014 amounted to $17,000. This includes a loan of $1,000 to a former employee who cannot be traced and the balance related to standard rated supplies.

6) Other tax deductible expenses amounted to $250,000.

7) The company has an assessed income tax loss brought forward from the 2013 year of assessment of $65,000.

Research and Development (R&D) division

8) The company spent $200,000 on salaries for its technical scientific staff in the R&D division. Other expenditure of a revenue nature directly used for the R&D activities
amounted to $50,000. All the projects conducted by the company are approved by the Minister of Science and Technology prior to their commencement. Parkview received a grant of $500,000 from the Ministry of Science and Technology to fund part of the salaries of the staff in the technical department for the next 3 years.

9) Equipment used by the R&D division cost $45,000 in the current year of assessment.
10) Staff salaries relating to the marketing department tasked with generating R&D business amounted to $50,000.

Other information:

a) The company has always applied any provision which reduces its liability for income tax, without incurring penalties.

b) A first provisional tax payment of $50,000 was made by the company on 30 September 2014. The return was submitted the same day.

All sales by Parkview were to local customers during the year under review

Required

Part A

a) Discuss with supporting calculations the Value Added Tax implications of the information in Note 1, Note 4 and Note 5. Your discussions should cover the following key areas: 15 marks

- Time of Supply
- Value of Supply
- Tax period
Solution TUTORIAL 4 – (VAT)
Discuss with supporting calculations the Value Added Tax implications of the information in Note 1, Note 4 and Note 5. Your discussions should cover the following key areas:

- Time of Supply
- Value of Supply
- Tax period

Note 1
- The sales of $2,500,000 constitute taxable supplies since Parkview is in the business of selling equipment which is standard rated. 1
- Therefore, Parkview should have charged output tax of $375,000($2,500,000 * 15%). 1
- The sale arrangement as detailed in note 1 meets the definition of an installment sale agreement. 1
- The time of supply in terms of section 8 would be date on which delivery of the equipment to the customers was done which is this case is the 1st of November and 1st of December 2014. 2
- The value of supply is the cash price of the equipment being $237,061. 1
- The value of supply is based on the cash price since the installments receivable from the customers includes finance charges which are exempt from VAT. 1
- Thereon the Parkview should charge the following Output VAT:
  - 1 November = $237,061 * 15/115 * 2 = $61,842 1
  - 1 December 2014 = $237,061 *15/115 * 3 = $92,763 1
- The Output VAT arising from the above is falling within the tax period ended 31 December 2014 since Parkview is under category B. 1

Note 2
- The supply of insurance services is a financial service as defined – Sec 2 (1). 1
- Therefore, no VAT is charged on the insurance premiums payable by Parkview since financial services are exempt from VAT. Sec 11(a). 1

Note 5
- In terms of section 22 Parkview is able to claim an input tax deduction in respect of amounts written off as bad debts. 1/2
- Parkview will not be able to claim an input tax deduction on the loan written off since the supply giving rise to the initial loan is not a taxable supply. (i.e. constitutes a financial service as defined hence exempt from VAT). 2
- On the balance of $16,000 Parkview will be able to claim an input tax deduction as follows:
  - Time of Supply: October 2014 1/2
  - Value of Supply: $16,000 1/2
  - Input tax deduction: $16,000 * 15% = $2,400 1/2
  - The input tax deduction will be made in the tax period ended 30 October 2014. 1/2
TUTORIAL 5  (VAT)  20 marks

Afrizim (Pvt) Ltd (Afrizim) is a registered value-added tax (VAT) operator. The company has branches all around Zimbabwe and one in Botswana. The branch in Botswana is considered to be independent for VAT purposes by the company and the Zimbabwe Revenue Authority (ZIMRA). The company had a number of transactions for its April to May 2014 (two months) VAT period. These are detailed below.
All amounts are stated VAT inclusive, where appropriate, unless otherwise indicated.

(i) Various products (none of which are exempt or zero-rated) were acquired for $50,000 (excluding VAT where appropriate). Of these goods, 60% were acquired from non-registered VAT operators.

(ii) $20,000 (excluding VAT) of goods acquired by the company was dispatched to the Botswana branch. The remaining $30,000 of goods was transferred to dependent branches throughout Zimbabwe.

(iii) The Botswana branch recorded sales of $75,000 (all to non-Zimbabwean customers). The Zimbabwean branches recorded sales of $189,750.

(iv) The company acquired and took delivery of two delivery vehicles during the VAT period. The first vehicle was acquired in April second-hand from a VAT registered operator. The payment terms for this vehicle are $2,000 for six months with a separate invoice issued for each payment. The cash cost of this vehicle is $11,960. The second vehicle was acquired in May, new from a dealership which is a VAT registered operator and the payment terms require a deposit of $3,000 and payment of $780 for 60 months with no residual payment. The cash cost of this vehicle is $47,955.

(v) The company wrote off bad debts amounting to $8,000. The debts related to standard rated supplies.

(vi) Rentals paid for the premises of the Zimbabwean branches amounted to $14,996 for the months of April and May. A further $2,013 was paid in respect of rental owed for the month of March for one branch.

(vii) An inspection of the creditors age analysis as at 31 May 2014 indicated the following:

<table>
<thead>
<tr>
<th></th>
<th>Current</th>
<th>30days</th>
<th>90 Days</th>
<th>180days</th>
<th>360 + days</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>57,500</td>
<td>17,250</td>
<td>14,950</td>
<td>9,200</td>
<td>20,700</td>
<td></td>
</tr>
</tbody>
</table>

All the suppliers from which the above purchases were made are VAT registered operators and the purchases were all standard rated.

(viii) On 1 April 2014 Afrizim acquired a building in Gweru from a non-registered operator. The purchase price for the building was $132,000 and the purchase consideration was payable in 6 equal instalments commencing on 1 April 2014. Afrizim (Pvt) Ltd paid stamp duty of $6,500 on 15 April 2014 after which the property title deeds where transferred to Afrizim. A new retail branch was opened in the building effective 1 May 2014.

(ix) During the same VAT period Afrizim granted the following benefits to its employees:
Entertainment allowances  $3,400
Fuel allowances 1,700
Cellphone allowances 600

(x) In-order to comply with a directive from the Ministry of Finance Afrizim acquired a fiscalised electronic register for an amount of $299.

Required

(a) Explain when a branch may be classified as ‘independent’ for value added tax (VAT) purposes and the possible implications of this status for both the branch and the head office.
   3 marks

(b) Calculate the input and output VAT effects for the above transactions (i) to (x). You must clearly indicate by the use of a zero where a transaction does not give rise to a VAT effect and briefly state the reason for such nil effect.
   15 marks

(c) Calculate whether a payment is due to ZIMRA or a refund is due from ZIMRA for this VAT period and indicate the date by which payment must be made and the date by which the return must be filed.
   2 marks
SOLUTION TUTORIAL 5

Explain when a branch may be classified as ‘independent’ for value-added tax (VAT) purposes and the possible implications of this status for both the branch and the head office. (3 marks)

- In terms of section 2 to the VAT act the definition of trade excludes independent branches. For a branch to be defined as independent the following requirements have to be met:
  1. the branch or main business can be separately identified
  2. an independent system of accounting is maintained by the concern in respect of the branch or main business

- If a branch meets the above test, then it is not required to be registered for VAT purposes as part of the main business.

- Therefore, in our scenario since the Botswana branch is operated independently it’s not required to be registered for VAT purposes as part of Afrizim’s trade.

Calculate the input and output VAT effects for the above transactions (i) to (x). You must clearly indicate by the use of a zero where a transaction does not give rise to a VAT effect and briefly state the reason for such nil effect. (15 marks)

### Output VAT

<table>
<thead>
<tr>
<th>Description</th>
<th>$</th>
<th>Marks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transfer to Botswana branch – zero rated export sales</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Transferred to dependent branches – no supply since branches are part of Afrizim’s trade</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Sales: Botswana branch – not part of Afrizim’s trade</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Sales: Zimbabwean Branches - $189,750 *15/115</td>
<td>24,750</td>
<td>1</td>
</tr>
<tr>
<td>Creditors above 360 days – Output tax adjustment ($20,700 * 15/115)</td>
<td>2,700</td>
<td>2</td>
</tr>
<tr>
<td>Employee benefits:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Entertainment – No output VAT since no input tax can be claimed on</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Entertainment expenditures</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fuel Allowance – fuel is an exempt supply hence no output tax adj</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Cellphone allowance – (600 *15/115)</td>
<td>78</td>
<td>1</td>
</tr>
<tr>
<td>Total Output VAT</td>
<td>27,528</td>
<td></td>
</tr>
</tbody>
</table>

### Input VAT

<table>
<thead>
<tr>
<th>Description</th>
<th>$</th>
<th>Marks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchases – 40% * $50,000 * 15%</td>
<td>3,000</td>
<td>1</td>
</tr>
<tr>
<td>Purchases – from non-registered operators –no VAT would have been charged on purchase hence no input tax deduction</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Delivery Vehicles:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st Vehicle - $11,960 * 15/115</td>
<td>1,560</td>
<td>1</td>
</tr>
<tr>
<td>2nd Vehicle - $47,955 * 15/115</td>
<td>6,255</td>
<td>1</td>
</tr>
<tr>
<td>Bad Debts written off - $8,000 * 15/115</td>
<td>1,043</td>
<td>1</td>
</tr>
</tbody>
</table>
Rentals:
April to May Rentals: $14,996 * 15/115 1,956 1
March Rentals: The input tax would have been claimed in the 0 1
Previous tax period ended 31 March 1
Acquisition of building: $6,500 * 44,000/132,000 2,167 2
Fiscalised electronic register - $299 *15/115 * 50% 20 1
Total Input VAT 16,001 19

Calculate whether a payment is due to ZIMRA or a refund is due from ZIMRA for this VAT period and indicate the date by which payment must be made and the date by which the return must be filed. (2 marks)

<table>
<thead>
<tr>
<th>$</th>
<th>Mark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Output VAT 27,528</td>
<td>1/2</td>
</tr>
<tr>
<td>Less Input VAT (16,001)</td>
<td>1/2</td>
</tr>
<tr>
<td>VAT payable 11,527</td>
<td></td>
</tr>
</tbody>
</table>

- The VAT of $11,527 must be paid on or before the 25th of June 2015 1/2
- The return for the tax period should be submitted on or before 25th of June 2015 1/2
TUTORIAL 6

Ignore Value Added Tax unless specifically stated otherwise.

Dizzy chemicals (Pvt) Ltd (Dizzy) are registered in Zimbabwe. It is a VAT registered company and has at 31 December year end.

Dizzy manufacture a variety of food colorants and additives. It manufactures these additives from raw material which are sourced both locally and abroad. It converts the raw materials to amongst others the trademark additive, TruBlu, at its factory in Mutare.

TruBlu is its biggest seller since it is made from natural ingredients only. It is sold in a powder from which must be carefully packaged to preserve the vivid shade of blue that customers desire. Excessive exposure to sunlight can cause the colour to fade. The powder also has a tendency to absorb moisture, which impacts on its weight.

TruBlu is sold to customers locally and throughout the world. Dizzy refuses to bear the transport risk of its exports and therefore it ships all goods free on board. As a courtesy to its customers, Dizzy will make the shipping arrangements and then bill the customers for the shipping costs.

It should be noted that when goods are exported they are accompanied by a goods delivery note. Upon arrival customers send samples of TruBlu they have received to a testing facility agreed to in the sales agreement. The testing facility then performs two tests:

- The first test is to measure the shades of blue of the additive, and
- The second test is to determine the moisture content.

The result of the two tests are compared to agreed ranges determined by Dizzy and its customers. If the results are within the required range, the final price of the product is determined by multiplying the weight of the product by the agreed price per kilogram for the trademark additive. Dizzy will then issue an invoice for this final price.

If the results fall outside the accepted range – in other words, if the powder is either too wet or the colour has faded too much – the customer is entitled to return the powder to Dizzy. Alternatively, the customer has the option of accepting the powder at a reduced price. This reduced price is negotiated at that time and is depended on the extent of the degradation.

The following information has been extracted from the books of the company at 31 December 2014.
<table>
<thead>
<tr>
<th>Description</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports Sales</td>
<td>560 000</td>
</tr>
<tr>
<td>Local Sales</td>
<td>8 846 500</td>
</tr>
<tr>
<td>Award paid by Commissioner General for recovery of tax revenue</td>
<td>1 880</td>
</tr>
<tr>
<td>Residential Property</td>
<td>108 000</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>5 720 000</td>
</tr>
<tr>
<td>Advice on indigenization</td>
<td>1 400</td>
</tr>
<tr>
<td>Donations</td>
<td></td>
</tr>
<tr>
<td>Hospital run by the state for medicines</td>
<td>120 000</td>
</tr>
<tr>
<td>Destitute homeless persons rehabilitation fund</td>
<td>60 000</td>
</tr>
<tr>
<td>Independence Celebration</td>
<td>500</td>
</tr>
<tr>
<td>Entertainment</td>
<td></td>
</tr>
<tr>
<td>Teas and staff refreshments</td>
<td>265</td>
</tr>
<tr>
<td>Staff Christmas party</td>
<td>445</td>
</tr>
<tr>
<td>Allowance to managing director</td>
<td>260</td>
</tr>
<tr>
<td>Lunch for Sweety's director</td>
<td>135</td>
</tr>
<tr>
<td>Specific Provision</td>
<td></td>
</tr>
<tr>
<td>Doubtful debts</td>
<td>340 000</td>
</tr>
<tr>
<td>Bonus to be voted at AGM and paid in January 2014</td>
<td>350 000</td>
</tr>
<tr>
<td>Director’s fees to be voted at AGM and paid in January 2014</td>
<td>150 000</td>
</tr>
<tr>
<td>Anticipated repairs</td>
<td>60 000</td>
</tr>
<tr>
<td>Other allowable Expenses</td>
<td>361 100</td>
</tr>
</tbody>
</table>
Salaries and Wages | 2 106 815  
|----------------|----------------|
Club subscription for managing director | 185  
|----------------|----------------|
Research into red additive | 163 400  
|----------------|----------------|
Unrealized Exchange loss | 34 250  
|----------------|----------------|
Voluntary annuity to former employee | 15 000  
|----------------|----------------|
Total | 9 483 755  
|----------------|----------------|
Profit | 32 625  
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>9 516 380</td>
<td>9 516 380</td>
</tr>
</tbody>
</table>

During Dizzy’s 2014 year of assessment it had the following unusual transactions, which are not reflected in the above income statement unless specifically indicated.

**Transaction 1**

On 15 May 2014 (It shipped TruBlu at an expected selling price of $1 500 000 (1000kg at $ 1500 per kg) to a customer in New Zealand on 20 November 2014.

The agreed testing procedures were completed on 25 November 2014. The shipping delay had a negative effect on the TruBlu powder, and its colour had faded to a level below the accepted range. Furthermore, the weight of the product had increased in transit to 1200 kg due to moisture absorbed during the trip. Because the customer was desperate for the TruBlu, it agreed to purchase the powder for a total price of $ 600 000. After negotiations, an invoice was issued on 20 December 2014 at this price.

**Transaction 2**

Sweety Pie (Pvt) Ltd (Sweety), a loyal local customer, is introducing a new range of sweets that require a bright red additive. Although Dizzy does not produce this additive it agreed to produce such an additive as a special order for Sweety. Research commenced on 15 November 2014 and Dizzy delivered the additive to Sweety on 16 December 2014.

An invoice was issued on 27 December for $615 690 ($535 383 plus VAT $ 80 307) and was paid in January 2015. This invoice is not included in local sales reflected in the income and expenditure account.
Sweety was delighted with the additive and on 20 December made an advance payment of $400 000 for further additives to be delivered in January 2015.

**Transaction 3**

In December, Dizzy disposed of some of its shipping containers to Joe Shipping (Pvt) Ltd (‘Joe shipping ’). These containers weighted 20 000 kg. A representative from Joe shipping collected these containers on 21 December 2014, paying the agreed price of scrap metal of $220 per tonne (one tonne =1000 kg)

When collecting these containers, the representatives from Joe Shipping noticed a broken packaging machine that Dizzy was no longer using and which weighed 5000 kg. Joe shipping purchased this machine on the same conditions as the containers and paid and exported the machine and containers to South Africa on 27 December 2014. The machine had been bought by Dizzy in May 2010 for $5000.

**Transaction 4**

Dizzy had purchased and paid for raw material from an offshore supplier. Cheapnnasty PLC (Cheapnnasty). When Dizzy performed the usual spot check on this purchase to ensure quality, it was found that the shipment was contaminated with a pesticide. Cheapnnasty refused to accept liability for the contaminated raw materials in advance. This was included in cost of sales.

Dizzy appointed Mr. S Shark, a local attorney, to recover the money that had been paid. A first hearing of the matter was held in November 2014 but it was postponed pending the outcome of independent laboratory testing of the raw materials. The results of the tests were only expected in January 2015.

Dizzy had paid a $30 000 retaining fee to Mr. Shark before he commenced work and did not issue a tax invoice for this amount. He charges a rate of $1000 per day and in December he invoiced Dizzy $3 000 for three days’ work. The balance of his fee i.e. being kept in his attorney’s trust account. It is anticipated that Mr. Shark’s next invoice will be issued only on 31 January 2015.

**Transaction 5**

Some of Dizzy’s employees failed to find accommodation near the factory due to residential accommodation shortages in the area. A local builder, Mr. Bob Bouwer, identified this as an opportunity and constructed 150 one bedroomed flats a well and an office block near Dizzy’s factory. Mr. Bouwer then sold the property to Dizzy on 1 June 2014 for $21 937 500 (VAT inclusive).
The agreed selling price was made up as follows

<table>
<thead>
<tr>
<th>Description</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>150 one bedroomed flats at $35 000 each</td>
<td>5 250 000</td>
</tr>
<tr>
<td>VAT</td>
<td>787 500</td>
</tr>
<tr>
<td></td>
<td>6 037 500</td>
</tr>
<tr>
<td>Office Block</td>
<td>12 347 826</td>
</tr>
<tr>
<td>VAT</td>
<td>1852 174</td>
</tr>
<tr>
<td></td>
<td>14 200 000</td>
</tr>
<tr>
<td>Land</td>
<td>1478 261</td>
</tr>
<tr>
<td>VAT</td>
<td>221 739</td>
</tr>
<tr>
<td>Flats</td>
<td>6 037 500</td>
</tr>
<tr>
<td>Office block</td>
<td>14 200 000</td>
</tr>
<tr>
<td>Land</td>
<td>1 700 000</td>
</tr>
<tr>
<td></td>
<td>21 937 500</td>
</tr>
</tbody>
</table>

The Flats were led to the company employees with the effect from 1 July 2014 at a monthly rent of $120. The market value of the flats was $200 per month.

During the tax year Dizzy purchased a twin cab for $16 000 and a Fiscalised Electronic Register for $3 000.

**Question 1 - Required**

a) Prepare an income tax computation for the year ended 31 December 2014 commencing with the profit of $32 625 as per the income statement provided in the scenario. Give reasons for each
amount considered. You are not required to calculate any tax liability or loss.

Communication skills – clarity of expression; logical argument

<p>| | | |</p>
<table>
<thead>
<tr>
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<tbody>
<tr>
<td>37</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

B) Discuss the VAT consequences of the $400 000 received from Sweety and advise when the invoice for $615 690 should be included in Dizzy’s VAT return

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>3</td>
<td></td>
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</tr>
</tbody>
</table>

C) Discuss any tax and VAT implication with regard to the letting of the flats to employees (with calculations if necessary).

Communication Skills – Clarity of Expression

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

D) Discuss the VAT implication of the fees and retained paid to Mr. Shark

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

e) State how the following transaction should be treated for VAT (reasons should be given):

- Sale of scrap metal
- Sale of packaging machine
- Sale of TruBlu to New Zealand customer
- Purchase of twin cab
- Purchase of Flats
- Purchase of Land
- Purchase of Office Block

Communication Skills - Clarity of Expression

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>15</td>
<td>16</td>
</tr>
<tr>
<td>-------</td>
<td>----</td>
<td>----</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>65</td>
<td></td>
</tr>
</tbody>
</table>
### Part (a) Marks

**Income tax computation for the year ended 31 December 2013**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net profit</td>
<td>$32,625</td>
</tr>
<tr>
<td><strong>Adjustments:</strong></td>
<td></td>
</tr>
<tr>
<td>Award paid by Commissioner for recovery of tax revenue-</td>
<td>(1,800)</td>
</tr>
<tr>
<td>Exempt 3rd Schedule</td>
<td></td>
</tr>
<tr>
<td><strong>Donations</strong></td>
<td></td>
</tr>
<tr>
<td>Hosipital run by the state for medicines</td>
<td>$120,000</td>
</tr>
<tr>
<td>Restricted to 100,000 section 15 (2) (r1)</td>
<td>(100,000)</td>
</tr>
<tr>
<td>Destitute homeless persons rehabilitation</td>
<td></td>
</tr>
<tr>
<td>Restricted to 50,000 section 15 (2) (r5)</td>
<td>(50,000)</td>
</tr>
<tr>
<td>Independence Celebration (fails to meet the requirements of section 15 (r ))</td>
<td>500</td>
</tr>
<tr>
<td><strong>Entertainment (Section 16 Prohibited deduction)</strong></td>
<td></td>
</tr>
<tr>
<td>Teas and Staff refreshments-section 16 (1) (m)</td>
<td>$265</td>
</tr>
<tr>
<td>Staff Christmas party-section 16 (1) (m)</td>
<td>$445</td>
</tr>
<tr>
<td>Allowance to managing director-section 16 (1) (m)</td>
<td>$260</td>
</tr>
<tr>
<td>Lunch for Sweety's director-section 16 (1) (m)</td>
<td>$135</td>
</tr>
<tr>
<td><strong>Specific Provisions</strong></td>
<td></td>
</tr>
<tr>
<td>Doubtful Debts- only actual bad debt are allowable</td>
<td></td>
</tr>
<tr>
<td>section 15 (2) (g)</td>
<td>$340,000</td>
</tr>
<tr>
<td>Bonus to be voted at AGM and paid in January 2014 - Section 15 general deduction formula as the bonus is a discretionary payment that is yet to be approved</td>
<td>$350,000</td>
</tr>
<tr>
<td>Director’s fees to be voted at AGM and paid in January 2014 as at year end the fees had been incurred hence allowable as a deduction.</td>
<td>-</td>
</tr>
<tr>
<td>Anticipated repairs (add back anticipated costs are costs not actually incurred for purpose of trade in the 2013 year of assessment)</td>
<td>60,000</td>
</tr>
<tr>
<td>Other allowable Expenses</td>
<td>-</td>
</tr>
<tr>
<td>Salaries and Wages</td>
<td>-</td>
</tr>
<tr>
<td>Club subscription for managing director (not allowable doesn't meet the criteria of section 15 (2) (s))</td>
<td>185</td>
</tr>
</tbody>
</table>


**Part a) Continued**

Research into red additive (allowable in full Section 15 2 (m)) -

Unrealized Exchange loss (this is an accounting issue this deduction is only allowable when the actual exchange loss has been realised)

Voluntary annuity to former employee

Restricted to 500 Section 15 (2) (q)

**Transaction 1**

Sale of Trublue powder to New Zealand customer

**Transaction 2**

Sale to Sweety Pie (Pvt) Ltd (by issuing an Invoice it means this advanced payment from Sweety - Section 8 gross income definition. Since Dizzy Chemicals is VAT registered the time of supply is the earlier of receipt or invoicing therefore the prepayment is deemed to include output VAT. (400 000* 100/115)

**Transaction 3**

Sale of containers [(20,000/1,000)kg x $220]

Recoupment on sold machinery-section 15 (2) (c)

**Transaction 4**

Retainer fee paid to Mr Shark - Expenditure not yet incurred not deductible

Legal costs paid to Mr Shark (these are costs related that have been incurred to the trade of Dizzy therefore allowable)

**Transaction 5**

Capital Allowances-section 15 (2) (c)

150 one bedroomed flats-commercial building and/or SIA cannot be claimed on purchased building cost limited to $25,000

Office block-commercial building (12,347,826x2.5%)

Land (no allowance)

Twin cab-cost restricted to 10,000 (10,000x25%)

Fiscalized Electronic Register-4th schedule para 2 (3,000x50%x25%)

---

**Taxable Income**

1,941,753
**Part b**

Dizzy Chemicals is VAT registered the time of supply is the earlier of receipt or invoicing therefore the prepayment is deemed have been supplied on 20 December 2014 and to include output VAT. (400 000*15/115) of 52 174

Sale to Sweety Pie (Pvt) Ltd (by issuing an invoice it means this sale now accrues as a sale is recognised at the earlier of receipt or accrual to Dizzy Chemicals therefore its due and payable to them or Dizzy is entitled to receiving the income.

The invoice of $615,690 will be accounted for on invoice received or issued irrespective of whether payment has been made or received therefore included for Vat on the 27th of December

Therefore output tax: $615,690x15/115=$80,307.39

**Part c)**

**Tax Implications**

The letting of the flats to the employees at fee below market rentals for similar properties will ammount to a benefit that is taxable in the hands of the employees. Section 17 (3)

The benefit will be the difference between the market rental and the actual rental being paid by the employees

Total benefit taxable in the hands of employees: $(200-120)x6x150=$72,000

**VAT Implications**

However the provision of residential accomodation is exempt from VAT, therefore no output tax will accrue on the value of the benefit

**Part d)**

Dizzy will only be able to claim VAT on a valid tax invoice and the $30 000 reatiner fee does not have a valid tax invoice. Mr Shark only issued a valid tax invoice for $3 000 hence Dizzy can only claim VAT input on that invoice i.e. (3000x(15/115)) =391.30
Part e)  

**Sale of scrap metal**

Output tax: \[220 \times \left(\frac{20,000}{1,000}\right) \times 15 \times \frac{1}{115} = 573.91\]

The scrap metal was being used in the production of Dizzy's taxable supplies therefore it qualifies for VAT considerations therefore charge output tax.  

**Sale of packaging machine**

Output tax: \[220 \times \left(\frac{5,000}{1,000}\right) \times 15 \times \frac{1}{115} = 143.48\]

The packaging machine was used in the production of taxable supplies therefore Dizzy was not denied to claim input tax when it purchased the machine hence charge output tax.

**Sale of Trublue to New Zealand customer**

Output tax: \[600,000 \times 0\% = 0\]

The sale of Trublue to New Zealand is an export, exports for the purposes of VAT are zero rated therefore charge output tax at 0%. Section 10 of the VAT Act.

**Purchase of twincab**

Input tax: denied on passenger motor vehicles

The twincab is a passenger motor vehicle and Dizzy is denied the privilege to claim input tax on the purchase of passenger motor vehicles in terms of Section 16 of the VAT Act.

**Purchase of Flats**

Input tax:$0

Dizzy cannot claim input tax as the flats are being used as residential buildings which is an exempt supply hence cannot claim input tax.

**Purchase of Land**

Input tax:$221,739

The land is being used for both the residential and the office block. Input tax can only be claimed to the extent that the land is being used to make taxable supply i.e. used for the office block in proportion to the flats and office block \((\frac{12,347,826}{5,250,000+12,347,826}) \times 221,739 = 155,587\)

**Purchase of Office Block**

Input tax:$1,852,174

The office block is being used for taxable supplies hence Dizzy can claim the input tax in full.
Tutorial 7

Kudu (Pvt) Limited (Kudu) is a company registered in Zimbabwe and has a 31 December year end. Kudu operates a car rental business as well as a car sale business. All amounts provided in the scenario are exclusive of VAT unless otherwise indicated.

Car rental business

Kudu established the car rental business in April of 2012 to take advantage of the general global optimism towards the growth of the Zimbabwean economy. Kudu’s strategic drive in this business is to provide low cost rental cars to tourists as well as business delegates visiting Zimbabwe. An analysis of Kudu’s results for the 2012 financial year indicated that a bulk of Kudu’s car rental business was being driven by Zimbabwean returning residents who hire vehicles when they come for back for the holiday periods especially the December period. In light of this market development Kudu made a decision to acquire a fleet of off roader vehicles to cater for potential returning residents who would want vehicles to travel to their rural homes.

Car Sale business

Kudu’s car sale business sales both brand new and second hand vehicles targeting mainly the Zimbabwean local market. The car sale business was set up in 2011 and has seen tremendous growth in the sale of second hand motor vehicles especially sales of vehicles that Kudu imports from Japan. However in 2014 business has been slowing down mainly due the liquidity crunch facing consumers in Zimbabwe coupled with companies which have been laying off employees.

Kudu is a VAT registered operator under category C.

Due to the increased scrutiny by the Zimbabwe Revenue Authority of companies in the car rental and car sale business, Kudu decided to hire you as a tax consultant to assist them in the tax return preparation for the 2014 year and also to provide them with some tax planning advice. In the initial planning meeting you had with Kudu’s finance manager Mr Makamba, he indicated to you that Kudu would want to minimise their tax liabilities taking advantage of all the tax reliefs and incentives which may be available to them.

You were provided with the following income statement for the 2014 financial year and some accompanying notes.
### Sales:

<table>
<thead>
<tr>
<th>Notes</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1 200 000</td>
</tr>
<tr>
<td>2</td>
<td>3 200 000</td>
</tr>
</tbody>
</table>

### Less Cost of sales

<table>
<thead>
<tr>
<th>Notes</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>(2 680 000)</td>
</tr>
</tbody>
</table>

### Other Income

<table>
<thead>
<tr>
<th>Notes</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>120 000</td>
</tr>
</tbody>
</table>

### Less Expenses:

<table>
<thead>
<tr>
<th>Notes</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>(450 000)</td>
</tr>
<tr>
<td>6</td>
<td>(620 000)</td>
</tr>
<tr>
<td>7</td>
<td>(260 000)</td>
</tr>
</tbody>
</table>

### Profit before tax

<table>
<thead>
<tr>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>510 000</td>
</tr>
</tbody>
</table>

### Extract of the statement of financial position

<table>
<thead>
<tr>
<th>Equity</th>
<th>Notes</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share Capital</td>
<td></td>
<td>150 000</td>
</tr>
<tr>
<td>Share Premium</td>
<td></td>
<td>300 000</td>
</tr>
<tr>
<td>Retained Earnings</td>
<td></td>
<td>710 000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 160 000</td>
</tr>
<tr>
<td>Long term liabilities</td>
</tr>
<tr>
<td>----------------------------------------------------------</td>
</tr>
<tr>
<td>Loans</td>
</tr>
<tr>
<td>Deferred tax</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Short term liabilities</td>
</tr>
<tr>
<td>Short term portion of loan borrowings</td>
</tr>
<tr>
<td>Trade payables</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Total equity and liabilities</td>
</tr>
</tbody>
</table>

**Notes:**

**Note 1: Sales car rental business**

When customers make a booking they indicate the number of days they would want to use the vehicle for. A customer will only be able to collect the vehicle upon paying the amount due based on the number of days the customer would want to make use of the vehicle. Customer should have a valid drives license before they are granted the right of use of the rental vehicle. Some customers request Kudu to have the vehicles fully fueled before they collect the vehicles. Kudu would then charge the cost of the fuel to the customer’s account. Included in the total sales for the car rental business are the following amounts:

<table>
<thead>
<tr>
<th></th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Invoices for bookings made</td>
<td>1 050 000</td>
</tr>
<tr>
<td>Fines charged to customers for damages to vehicles</td>
<td>100 000</td>
</tr>
<tr>
<td>Fuel sales</td>
<td>50 000</td>
</tr>
<tr>
<td></td>
<td>1 200 000</td>
</tr>
</tbody>
</table>

**Note 2: Car sale Business**

Kudu sales most of their vehicles on cash, however during the 2013 year Kudu decided to sale some of their vehicles on an installment credit sale basis. Upon signing the credit sale agreement the customer would collect the vehicle and pay Kudu over a three year period. However during
the 2014 financial year Kudu decided to stop selling vehicles on credit given the increased credit risk in the country. The sales breakdown for 2014 was as follows:

\[
\begin{align*}
\text{Cash sales of new vehicles} & \quad 1,400,000 \\
\text{Cash sales of second hand motor vehicles} & \quad 1,800,000 \\
\end{align*}
\]
\[\text{Total sales} = 3,200,000 \]

In 2013 Kudu sold two brand new vehicles under the installment credit agreement. The vehicles had a cash price of $28,000 each which was recognised by Kudu as revenue in 2013. Both vehicles were sold on 1 May 2013 and the customers will be paying Kudu installments of $1,000 per month for 36 months commencing 31 May 2013. Ownership of the vehicles will pass to the customers upon the payment of the final installment to Kudu. Kudu had imported the vehicles in 2013 for a total landing cost of $21,600 each.

**Note 3: Cost of sales**

Included in cost of sales are the following amounts:

\[
\begin{align*}
\text{Opening stock} & \quad 1,100,000 \\
\text{Purchases: Imported vehicles} & \quad 2,200,000 \\
\text{Depreciation} & \quad 300,000 \\
\text{Less closing stock} & \quad (920,000) \\
\end{align*}
\]
\[\text{Total cost of sales} = 2,680,000 \]

**Note 4: Other Income**

Other income is made up of the following amounts

\[
\begin{align*}
\text{Fair Value gain on shares} & \quad 13,000 \\
\text{Finance Income: on vehicles sold under installment credit sales} & \quad 5,000 \\
\text{Profit on disposal of vehicles: to employees} & \quad 15,000 \\
\text{Profit on disposal of office building} & \quad 80,000 \\
\text{Insurance proceeds} & \quad 7,000 \\
\end{align*}
\]
\[\text{Total other income} = 120,000 \]

Fair value gain on shares
This was a measurement gain as recognised in terms of IFRS 9
**Profit on disposal of motor vehicles to employees:**

In August of 2014 a decision was made to sale part of the fleet that was being used in the car rental business. An auction was held at Kudu’s office premises where only Kudu’s employees were allowed to participate in the auction. All the vehicles which were auctioned had originally been acquired second hand from Japan. Details of the vehicles auctioned off are as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Year of purchase</th>
<th>Cost</th>
<th>NBV</th>
<th>Sale Price</th>
<th>Profit on disposal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mazda sedan</td>
<td>2011</td>
<td>7 000</td>
<td>2 000</td>
<td>3 200</td>
<td>1 200</td>
</tr>
<tr>
<td>Toyota corolla sedan</td>
<td>2011</td>
<td>6 800</td>
<td>1 800</td>
<td>3 100</td>
<td>1 300</td>
</tr>
<tr>
<td>Toyota prado (SUV)</td>
<td>2011</td>
<td>45 000</td>
<td>18 000</td>
<td>29 000</td>
<td>11 000</td>
</tr>
<tr>
<td>Navara twin cab</td>
<td>2012</td>
<td>23 000</td>
<td>14 000</td>
<td>15 500</td>
<td>1 500</td>
</tr>
</tbody>
</table>

<p>| | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>15 000</td>
</tr>
</tbody>
</table>

**Disposal of office building:**

In February 2014 Kudu made a decision to acquire new office premises in the Newlands suburb of Harare. In order to fund the acquisition Kudu decided to sale the office building in Southerton which they had been using. The Southerton office building was acquired in 2012 for a purchase price of $130 000 from a VAT registered operator and had been brought into use during the same year. The building was sold for $210 000 to an unconnected person and part of the proceeds were used to acquire the new building in Newlands for an amount of $150 000. The new building in Newlands was acquired from a VAT registered operator.

**Insurance proceeds:**

The insurance proceeds were received by Kudu in respect of a claim they made to their insurance company in respect of two of their rental vehicles which had been accident damaged. The total costs incurred in respect of the damages amounted to $8 200 and Kudu received the repair services from a VAT registered operator. The $8 200 incurred in respect of the repairs was expensed under selling and distribution expenses.
Note 5: Administration expenses:
Included in the total administration expenses are the following amounts amongst others:

<table>
<thead>
<tr>
<th>Expense Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Donation to Harare High Government school for the acquisition of books</td>
<td>£12 000</td>
</tr>
<tr>
<td>Depreciation</td>
<td>£13 000</td>
</tr>
<tr>
<td>Entertainment allowance: paid to marketing department employee</td>
<td>£15 000</td>
</tr>
<tr>
<td>Staff lunches</td>
<td>£4 500</td>
</tr>
</tbody>
</table>

Note 6: Selling and distribution expenses:
Included in the total administration expenses are the following amounts amongst others:

<table>
<thead>
<tr>
<th>Expense Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Travel costs to Zambia: to meet a potential customer</td>
<td>£2 300</td>
</tr>
<tr>
<td>Advertising costs</td>
<td>£14 000</td>
</tr>
<tr>
<td>Bad debts: loan to former employee</td>
<td>£800</td>
</tr>
</tbody>
</table>

Note 7: Finance costs
The finance costs were incurred in respect of the long term borrowings as shown in the statement of financial position extract. The borrowings were used to fund the acquisition of motor vehicles for reselling in the car sale business.

Note 8: Disposal of warehouse
In October 2014 Kudu decided to dispose a bonded warehouse that they had been using to store their stock of motor vehicles. The decision was made to unlock liquidity by selling the warehouse and leasing it back from the new owners. In November 2014 a buyer was found and the warehouse was sold for an amount of £140 000 which was paid to Kudu during the same month.

Kudu had originally acquired the warehouse in 2011 for an amount of £80 000 from a registered VAT operator. In 2012 the warehouse was gutted by fire and was completely destroyed. Kudu received an amount of £120 000 in June 2012 from their insurers in respect of the destroyed warehouse. In that same year Kudu constructed a replacement warehouse on the same premises as the destroyed warehouse for a total cost of £110 000 and the new warehouse was brought into use during the same year.
Additional information

You were also provided the following in respect of assets held by Kudu as at 31 December 2014. The assets exclude any assets that are discussed in the notes above:

<table>
<thead>
<tr>
<th>Description</th>
<th>Year of purchase</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mazda Atenza sedans X10</td>
<td>2012</td>
<td>80 000</td>
</tr>
<tr>
<td>Toyota corolla sedans X5</td>
<td>2011</td>
<td>25 000</td>
</tr>
<tr>
<td>Isuzu KB double cabs X5</td>
<td>2014</td>
<td>125 000</td>
</tr>
<tr>
<td>Office furniture</td>
<td>2011</td>
<td>15 000</td>
</tr>
<tr>
<td>Computer equipment</td>
<td>2012</td>
<td>10 000</td>
</tr>
</tbody>
</table>

The motor vehicles above exclude any vehicle held for resale in the car sale business.

The finance manager also informed you that Kudu has always claimed the maximum possible capital allowances in any given tax year. From the Kudu’s returns on the Quarterly Payment Dates you were able to ascertain that a total of $145 000 was paid to ZIMRA during the 2014 year.

**Required**

1. a. In respect of Note 1 to Note 4 discuss with supporting calculations were relevant the Value Added Tax implications to Kudu of the information provided.
   b. With reference to the information provided in Note 4 calculate the capital gains tax payable on the disposal of the office building in Southerton by Kudu (Pvt) Ltd.
   c. With reference to the information in not 8 discuss with supporting calculations the capital gains tax implications of the insurance proceeds received in 2012 and the subsequent disposal in 2014 of the bonded warehouse.
Solution

a. In respect of Note 1 to Note 4 discuss with supporting calculations were relevant the Value Added Tax implications to Kudu of the information provided. 25 marks

**Note 1**

Invoices for bookings made
- The supply of a motor vehicle under a rental agreement is a deemed supply in terms of sect 7 (10). 1
- The time of supply would be the earlier of a payment being received or customer making use of the vehicle. 1
- The output tax would be calculated as follows: $1 050 000 * 15% = $157 500 1

Fines for damages to vehicles
- The fine has been charged by Kudu in the furtherance of trade hence subject to VAT. 1
- The amount of output tax would be: $100 000 * 15% = $15 000 1

Fuel
- Fuel is an exempt supply in terms of sect 11 therefore no output tax charged. 1

**Note 2**

Cash sales of new vehicles
- The supply of new vehicles has been made in the furtherance of trade therefore subject to VAT. 1
- The time of supply would be the earlier of delivery of the vehicle and the receipt of the cash. 1
- The value of supply would be the cash price of the motor vehicles 1
- Output tax: $1 400 000 * 15% = $210 000 1

Cash sales of second hand motor vehicles
- In terms of sect 6 1 (a), the sale of second hand motor vehicles is not subject to VAT. 2

Installment credit sale
- The value of supply for sales under installment credit sale agreement is the cash price of the vehicles, which in this case is $28 000 each. 1
- The time of supply is the earlier of delivery and signing of the sale agreement, therefore in this case the time of supply is 1 May 2013. 1
- Output tax that should have been charged: $28 000 * 2 * 15% = $8 400 1

**Note 3**

Opening stock
- Kudu would have claimed an input tax deduction in respect of the stock in the year of purchase. 1
Therefore in 2014 no further input tax deduction.

Purchases: Imported vehicles
- Goods imported into Zimbabwe are subject import VAT in terms of sect 6 1(b)
- Since Kudu is a motor dealer the company will be able to claim an input tax deduction in respect of the import VAT regardless of the fact that some of the vehicles may be passenger motor vehicles as defined. Sect 16 2 d (i).

Depreciation
- No supply received hence no input tax deduction allowed.

Closing stock
- Not a supply since the stock is yet to be sold.

Note 4
Fair value gain on shares
- No supply made hence no output tax chargeable

Finance income: on vehicles on credit sale
- Finance income is an exempt supply in terms of sect 11 hence no output VAT chargeable.

Disposal of motor vehicles.
- These are second hand vehicles hence no Output VAT charged as per sect 6 1(a).

Disposal of office building.
- Since the building was being used in the making of taxable supplies the sale of the building attracts output tax at the standard rate of 15%.
- Time of supply is the earlier of receipt of the $210 000 or transfer of ownership
- Therefore Kudu should have charged output tax of $210 000 * 15% = $31 500
- The new building in Newlands was bought from a registered operator and is being used for the purposes of making taxable supplies. Kudu will be able to claim an input tax deduction of $150 000 * 15% = $22 500.

Insurance proceeds:
- In terms of sect 7 (7) insurance proceeds are a deemed supply, therefore Kudu should account for the related output tax.
- Therefore Kudu should remit output tax of $7 000* 15/115 = $913.
b. With reference to the information provided in Note 4 calculate the capital gains tax payable on the disposal of the office building in Southerton by Kudu (Pvt) Ltd. 5 marks

\[
\begin{array}{lcl}
\text{Proceeds} & \$ & 210 000 \\
\text{Less Recoupment – refer to part b} & (6 500) & 1/2 \\
\end{array}
\]

Less Allowable deductions

\[
\begin{array}{lcl}
\text{Cost} & (130 000) & 1 \\
\text{Capital allowances previously granted} & 6 500 & 1/2 \\
\text{Inflation allowance: $130 000* 2.5% *3} & (9 750) & 1 \\
\text{Roll forward relief: $70 250*150/210} & (50 179) & 2 \\
\end{array}
\]

\[
\begin{array}{lcl}
\text{Tax @ 20%} & 4 014 & ½ \\
\end{array}
\]

c. With reference to the information in not 8 discuss with supporting calculations the capital gains tax implications of the insurance proceeds received in 2012 and the subsequent disposal in 2014 of the bonded warehouse. 15 marks

2012:

- The compensation from the insurance company constitutes a deemed sale in terms of sect 8 2(b). 1
- Since the proceeds from the insurance company were used to construct a replacement asset the proceeds from the insurance company will taxed to the extent of proceeds not used in the construction of the replacement asset. Sect 13 3(b). 2

\[
\begin{array}{lcl}
\text{Proceeds} & \$ & 120 000 \\
\text{Recoupment - $80 000*2.5%} & (2 000) & 1 \\
\end{array}
\]

Less allowable deductions

\[
\begin{array}{lcl}
\text{Cost} & (80 000) & 1 \\
\text{Capital allowances previously granted} & 2 000 & 1/2 \\
\text{Inflation allowance: $80 000*2.5%*2} & (4 000) & 1 \\
\end{array}
\]

\[
\begin{array}{lcl}
\text{Less Gain not taxable: 110/120*36 000- sect 13 3(b)} & (33 000) & 2 \\
\text{Taxable Gain} & 3 000 & \\
\end{array}
\]