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TEST 3 ON TUTORIAL 103:		
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TUTORIALS STRUCTURE

The tutorial is based on Study Unit H

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 QUESTIONS

Question Number	Topics Covered	Source	Marks	Page number
1	VAT	ICAZ UNISA Test 4 Level 1 2016	40	5
2	VAT	CAA CTA Adapted June 2014 Paper 1	15	14
3	VAT	ICAZ Adapted, ITC June 2015 Paper 1 Question 1	20	17
4	VAT and Taxation of business income	ICAZ Adapted, ITC Jan 2014 Paper 1 Question 1	65	21
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9	VAT and Taxation of Business Income	CAA CTA Adapted June 2017 Paper 1	49	59
10	VAT, CGT and Taxation of Business Income	ICAZ UNISA November 2017 Paper 1	100	67

HOW TO ATTEMPT THESE SELF ASSESSMENT QUESTIONS
The purpose of the self-assessment questions is to assist you in determining if you have mastered the topics covered in this tutorial letter. In order to gain the maximum value from these questions and to improve your exam technique, it is suggested that you approach these questions as follows: 1. Prepare to attempt each of the questions as if it is a formal test or exam by doing the following: a. Ensure that it is quiet and that you will not be disturbed. b. Prepare the place where you are going to attempt the question by only keeping your books that is allowed to be taken into an examination venue and your financial calculator next to you. c. Use reading time for the question as is done in the tests and exam. d. Only start writing when your reading time has lapsed. Attempt the question as seriously as if it was a real test or exam. e. Keep within the time limit when you attempt the question and DO NOT refer to the suggested solution. f. If the time runs out and you prefer to complete the question, complete the question in a different colour pen and make a note of how much extra time you spend on the question. g. Take a quick break after you have completed the question. h. Take sufficient time to mark your answer and to calculate your mark. 2. After marking your own answer, it is very important that you reflect on the mark and how you have experienced the level of difficulty of the question. a. Did you complete your answer in the time limit? b. How many minutes did you use extra? c. How many marks did you score after the available time expired? d. Do you need to refer back to specific study units to clarify the accounting treatment of certain items? e. Is your answer set out in a logical manner, i.e. is it easy to follow your workings when marking your answer? f. Identify how you can improve your exam technique.

QUESTION 1

Impala (Pvt) Limited (Impala) is a company registered in Zimbabwe and has a 31 December year end. Impala 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

Impala established the car rental business in April of 2012 to take advantage of the general global optimism towards the growth of the Zimbabwean economy. Impala'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 Impala's results for the 2012 financial year indicated that a bulk of Impala'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 Impala 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

Impala'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 Impala imports from Japan. However in 2015 business has been slowing down mainly due the liquidity crunch facing consumers in Zimbabwe coupled with companies which have been laying off employees.

Impala 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, Impala decided to hire you as a tax consultant to assist them in the tax return preparation for the 2015 year and also to provide them with some tax planning advice. In the initial planning meeting you had with Impala's finance manager Mr Makamba, he indicated to you that Impala 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 2015 financial year and some accompanying notes.

	Notes	$
Sales:		
Car rental business	1	1 200 000
Car sale business	2	3 200 000
		4 400 000
Less Cost of sales	3	(2 680 000)
		1 720 000
Other Income	4	120 000
		1 840 000
Less Expenses:		
Administration expenses	5	(450 000)
Selling and distribution expenses	6	(620 000)
Finance Costs	7	(260 000)
Profit before tax		**510 000**

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 Impala to have the vehicles fully fueled before they collect the vehicles. Impala 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:

	$
Invoices for bookings made	1 050 000
Fines charged to customers for damages to vehicles	100 000
Fuel sales	50 000
	1 200 000

Note 2: Car sale Business

Impala sales most of their vehicles on cash, however during the 2014 year Impala 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 Impala over a three year period.

However during the 2015 financial year Impala decided to stop selling vehicles on credit given the increased credit risk in the country. The sales breakdown for 2015 was as follows:

	$
Cash sales of new vehicles	1 400 000
Cash sales of second hand motor vehicles	1 800 000
	3 200 000

In 2014 Impala sold two brand new vehicles under the installment credit agreement. The vehicles had a cash price of $28 000 each which was recognised by Impala as revenue in 2014. Both vehicles were sold on 1 May 2014 and the customers will be paying Impala installments of $1 000 per month for 36 months commencing 31 May 2014. Ownership of the vehicles will pass to the customers upon the payment of the final installment to Impala. Impala had imported the vehicles in 2014 for a total landing cost of $21 600 each.

Note 3: Cost of sales

Included in cost of sales are the following amounts:

	$
Opening stock	1 100 000
Purchases: Imported vehicles	2 200 000
Depreciation	300 000
Less closing stock	(920 000)
	2 680 000

Note 4: Other Income

Other income is made up of the following amounts

	$
Fair Value gain on shares	13 000
Finance Income: on vehicles sold under installment credit sales	5 000
Profit on disposal of vehicles: to employees	15 000
Profit on disposal of office building	80 000
Insurance proceeds	7 000
	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 2015 a decision was made to sale part of the fleet that was being used in the car rental business. An auction was held at Impala's office premises where only Impala'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:

Description	Year of purchase	Cost	NBV	Sale Price	Profit on disposal
Mazda 323 sedan	2012	7 000	2 000	3 200	1 200
Toyota corolla sedan	2012	6 800	1 800	3 100	1 300
Toyota prado (SUV)	2012	45 000	18 000	29 000	11 000
Navara twin cab	2013	23 000	14 000	15 500	1 500
					15 000

Disposal of office building:

In February 2015 Impala made a decision to acquire new office premises in the Newlands suburb of Harare. Inorder to fund the acquisition Impala decided to sale the office building in Southerton which they had been using. The Southerton office building was acquired in 2013 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 Impala 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 Impala 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 8: Disposal of warehouse

In October 2015 Impala 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 2015 a buyer was found and the warehouse was sold for an amount of $140 000 which was paid to Impala during the same month. Impala had originally acquired the warehouse in 2012 for an amount of $80 000 from a registered VAT operator. In 2013 the warehouse was gutted by fire and was completely destroyed. Impala received an amount of $120 000 in June 2013 from their insurers in respect of the destroyed warehouse. In that same year Impala 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

The finance manager also informed you that Impala has always claimed the maximum possible capital allowances in any given tax year.

REQUIRED

1	***a. In respect of Note 1 to Note 4 discuss with supporting calculations were relevant the Value Added Tax implications to Impala of the information provided.***	***25***
	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 Impala (Pvt) Ltd.	***5***
	c. With reference to the information in not 8 discuss with supporting calculations the capital gains tax implications of the insurance proceeds received in 2013 and the subsequent disposal in 2015 of the bonded warehouse.	***10***

Solutions

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. 1

Purchases: Imported vehicles

- Goods imported into Zimbabwe are subject import VAT in terms of sect 6 1(b) 1
- 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). 2

Depreciation

- No supply received hence no input tax deduction allowed. 1

Closing stock

- Not a supply since the stock is yet to be sold. 1

Note 4

Fair value gain on shares

- No supply made hence no output tax chargeable 1

Finance income: on vehicles on credit sale

- Finance income is an exempt supply in terms of sect 11 hence no output VAT chargeable. 1

Disposal of motor vehicles.

- These are second hand vehicles hence no Output VAT charged as per sect 6 1(a). 2

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%. 1
- Time of supply is the earlier of receipt of the $210 000 or transfer of ownership 1
- Therefore Kudu should have charged output tax of $210 000 * 15% = $31 500 1
- 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. 2

Insurance proceeds:

- In terms of sect 7 (7) insurance proceeds are a deemed supply, therefore Kudu should account for the related output tax. 1
- Therefore, Kudu should remit output tax of $7 000* 15/115 = $913. 2

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 Impala (Pvt) Ltd. 5 marks*

	$	
Proceeds	210 000	1/2
Less Recoupment – refer to part b	(6 500)	1/2
	203 500	
Less Allowable deductions		
Cost	(130 000)	1
Capital allowances previously granted	6 500	1/2
Inflation allowance: $130 000* 2.5% *3	(9 750)	1
	70 250	
Roll forward relief: $70 250*150/210	(50 179)	2
	20 071	
Tax @ 20%	**4 014**	½

c. *With reference to the information in not 8 discuss with supporting calculations the capital gains tax implications of the insurance proceeds received in 2013 and the subsequent disposal in 2015 of the bonded warehouse. 15 marks*

2013:

- 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

	$	
Proceeds	120 000	1/2
Recoupment - $80 000*2.5%	(2 000)	1
	118 000	
Less allowable deductions		
Cost	(80 000)	1

Capital allowances previously granted	2 000	1/2
Inflation allowance: $80 000*2.5%*2	(4 000)	1
	36 000	
Less Gain not taxable: 110/120*36 000- sect 13 3(b)	(33 000)	2
Taxable Gain	3 000	
Tax @ 20%	600	1/2

- However the $110 000 incurred in constructing the replacement warehouse will not be allowable as a deduction on the subsequent disposal of the new warehouse sect 13 (4). 1

2015

- In 2015 on the disposal of the warehouse the deductible cost would be $80 000 being the cost of the warehouse which was initially purchased in 2012. Sect 13 (4). 1

	$	
Proceeds	140 000	1/2
Recoupment: see part b	(5 500)	1/2
	134 500	
Less allowable deductions		
Cost	(80 000)	2
Capital allowances previously granted	5 500	1/2
Inflation allowance: $80 000*2.5%*4	(8 000)	2
	52 000	
Tax @ 20%	**10 400**	

TUTORIAL 2
Part A

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 instalment 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 instalments 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 2014 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 instalment 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
- Therefore, 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 3 **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:

Current	30days	90 Days	180days	360 + days
$	$	$	$	$
57,500	17,250	14,950	9,200	20,700

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 2

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 1
  - an independent system of accounting is maintained by the concern in respect of the branch or main business 1
- If a branch meets the above test, then it is not required to be registered for VAT purposes as part of the main business. 1
- 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. 1

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

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

Input VAT

Purchases – 40% * $50,000 * 15%	3,000	1
Purchases – from non-registered operators –no VAT would have been Charged on purchase hence no input tax deduction	0	1
Delivery Vehicles:		
1st Vehicle - $11,960 * 15/115	1,560	1
2nd Vehicle - $47,955 * 15/115	6,255	1
Bad Debts written off - $8,000 * 15/115	1,043	1

Rentals:		
April to May Rentals: $14,996 * 15/115	1,956	1
March Rentals: The input tax would have been claimed in the Previous tax period ended 31 March	0	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**	
Total Available marks		**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)

	$ Mark	
Total Output VAT	27,528	1/2
Less Input VAT	(16,001)	1/2
VAT payable	**11,527**	

- 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 4

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.

	$	$
Exports Sales		560 000
Local Sales		8 846 500
Award paid by Commissioner General for recovery of tax revenue		1 880
Residential Property		108 000
Cost of sales	5 720 000	
Advice on indigenization	1 400	
Donations		
Hospital run by the state for medicines	120 000	
Destitute homeless persons rehabilitation fund	60 000	
Independence Celebration	500	
Entertainment		
Teas and staff refreshments	265	
Staff Christmas party	445	
Allowance to managing director	260	
Lunch for Sweety's director	135	
Specific Provision		
Doubtful debts	340 000	
Bonus to be voted at AGM and paid in January 2014	350 000	
Director's fees to be voted at AGM and paid in January 2014	150 000	
Anticipated repairs	60 000	
Other allowable Expenses	361 100	
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	
	9 516 380	**9 516 380**

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

	$	
150 one bedroomed flats at $35 000 each	5 250 000	
VAT	787 500	
		6 037 500
Office Block	12 347 826	
VAT	1852 174	
		14 200 000
Land	1 478 261	
VAT	221 739	
Flats	6 037 500	
Office block	14 200 000	
Land	1 700 000	
		21 937 500

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.	*37*	

Communication skills –clarity of expression ;logical argument	*2*	*39*
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' VAT return	*3*	*3*
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*	*3* *1*	 *4*
d)Discuss the VAT implication of the fees and retained paid to Mr. Shark	*2*	*2*
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*	*15* *1*	 *16*
Total		*65*

TUTORIAL 4 SOLUTION

Part (a) **Marks**

Income tax computation for the year ended 31 December 2013

	$	$	Marks
Net profit		32,625	
Adjustments:			
Award paid by Commissioner for recovery of tax revenue-Exempt 3rd Schedule		(1,800)	(1)
Donations			
Hospital run by the state for medicines	120,000		
Resticted to 100,000 section 15 (2) (r1)	(100,000)	20,000	(2)
Destitute homeless persons rehabilitation	60,000		
Restricted to 50,000 section 15 (2) (r5)	(50,000)	10,000	(2)
Independence Celebration (fails to meet the requirements of section 15 (r))		500	(1)
Entertainment (Section 16 Prohibted deduction)			
Teas and Staff refreshments-section 16 (1) (m)		265	(1)
Staff Christmas party-section 16 (1) (m)		445	(1)
Allowance to managing director-section 16 (1) (m)		260	(1)
Lunch for Sweety's director-section 16 (1) (m)		135	(1)
Specific Provisions			
Doubtful Debts- only actual bad debt are allowable section 15 (2) (g)		340,000	(1)
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		350,000	(1)
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.		-	(1)
Anticipated repairs (add back anticipated costs are costs not acctually incurred for purpose of trade in the 2013 year of assessement)		60,000	(1)
Other allowable Expenses		-	(1)
Salaries and Wages		-	(1)
Club subscription for managing director (not allowable doesn't meet the criteria of section 15 (2) (s))		185	(1)

Part a) Continued

Research into red additive (allowable in full Section 15 2 (m))		- (1)
Unrealized Exchange loss (this is an accounting issue this deduction is only allowable when the actual exchange loss has been realised)		34,250 (1)
Voluntary annuity to former employee	15,000	
Restricted to 500 Section 15 (2) (q)	(500)	14,500 (1)
Transaction 1		
Sale of Trublue powder to New Zealand customer		600,000 (1)
Transaction 2		
Sale to Sweety Pie (Pvt) Ltd (by issuing an Invoice it means this		535,383 (1)
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)		347,826 (1)
Transaction 3		
Sale of containers [(20,000/1,000)kg x $220]		4,400 (1)
Recoupment on sold machinery-section 15 (2) (c)		
Proceeds [(5,000/1,000)kg x $220]	1,100	
Less ITV	-	
Potential Recoupment	1,100	
Limited to Allowances granted	**5,000**	
Actual recuopment	1,100	1,100 (2)
Transaction 4		
Retainer fee paid to Mr Shark -Expenditure not yet incurred not deductible		- (1)
Legal costs paid to Mr Shark (these are costs related that have been incurred to the trade of Dizzy therefore allowable)		(3,000) (1)
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 (3,750,000x2.5%)		(93,750) (2)
Office block-commercial building (12,347,826x2.5%)		(308,696) (1)
Land (no allowance)		- (1)
Twin cab-cost restricted to 10,000 (10,000x25%)		(2,500) (1)
Fiscalized Electronic Register-4th schedule para 2 (3,000x50%x25%)		(375) (2)
Taxable Income		1,941,753

Part b

Marks

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 (1)

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. (1)

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 (1)

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 (2)

VAT Implications

However the provision of residential accomodation is exempt from VAT , therefore no output tax will accrue on the value of the benefit (1)

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 (2)

Part e)	**Marks**
Sale of scrap metal	
Output tax: [$220x(20,000/1,000)kg]x15/115=$573.91	(1)
The scrap metal was being used in the production of Dizzy's taxable supplies therefore it qualifies for VAT considerations therefore charge output tax.	(1)
Sale of packaging machine	
Output tax: [$220x(5,000/1,000)kg]x15/115=$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	(1)
Sale of Trublue to New Zealand customer	
Output tax: $600,000x0%=0	(1)
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	(1)
Purchase of twincab	
Input tax: denied on passenger motor vehicles	(1)
The twincab is a passenger motor vehicle and Dizzy is denied the priviledge to claim input tax on the purchase of passenger motor vehicles in terms of Section 16 of the VAT Act.	(1)
Purchase of Flats	
Input tax:$0	(1)
Dizzy cannot claim input tax as the flast are being used as residential buidlings which is an exempt supply hence cannot claim input tax.	(1)
Purchase of Land	
Input tax:$221,739	(1)
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 ((12 347 826/(5 250 000+ 12 347 826))*221 739 = 155 587	(2)
Purchase of Office Block	
Input tax:$1,852,174	(1)
The office block is beig used for taxable supplies hence Dizzy can claim the input tax in full.	(1)

Tutorial 5

Query 1 **9 marks**

Sahara Enterprises (Pvt) Ltd (Sahara) is a manufacturer of specialised industrial equipment who operates on a rented premises in Southerton Industrial areas in Harare. Sahara is a registered operator in category C. It supplies industrial equipment to various clients in Zimbabwe and Mozambique. As part of its overall risk management policies and procedures, Sahara requires its clients (including the Mozambique clients) to collect the industrial machinery manufactured at its factory door and transport the goods to their final destination themselves. The transport is always done by road. Where the industrial machinery is exported, it is always exported through Forbes boarder post in Mutare. The buyer is always responsible for all costs of transport and insurance from the time the goods leave the factory of Sahara. The buyers are encouraged to engage VAT registered transporters to transport the goods.

As far as billing arrangements go, Sahara is paid 65% of the contract consideration up front, to purchase raw material, and the balance before the goods are loaded at Sahara's factory door. It usually takes three (3 months) from the date of receipt of the deposit to manufacture the industrial equipment and have it ready for collection by the purchaser.

Query 2 **6 marks**

ICTA (Pvt) Ltd (ICTA) imports electrical gadgets from South Africa. ICTA imports the majority of the gadgets through registered clearance agents while some of the gadgets are imported through unregistered agents who sometimes smuggle the goods into Zimbabwe. Acting on a tip off, the Zimbabwe Revenue Authority (ZIMRA)'s Customs and Excise Division and the Zimbabwe Republic Police (ZRP) jointly raided a townhouse in Borrowdale, Harare which was used by ICTA as a warehouse as well as offices.

Apart from the smuggled goods, the team also discovered a VAT registration certificate and copies of VAT returns (VAT 7s) submitted to ZIMRA. Based on the VAT information, the annual turnover of the business was estimated to be $550 000 over the past three (3) years.

Seemingly the total input tax on the purchase of the townhouse and other electrical gadgets which were purchased from other registered operators was claimed. The townhouse was purchased from a registered operator for a consideration of $230 000.

All the company's goods including the townhouse were confiscated. In addition to that, cash amounting to $9 000 which was in a safe in the townhouse was confiscated.

REQUIRED

		MARKS
3	a) With regards to the supply of industrial equipment to Mozambique clients in query 1, discuss the VAT implications of the purchase, transport and the 65% deposit.	9
	b) With reference to information in query 2, advise whether a supply has taken place upon confiscation of cash, electrical gadgets and the townhouse. In your discussion, address the time and value of the supply.	6

Query 1: With regards to the supply of industrial equipment to Mozambique clients, discuss the VAT implications of the purchase, transport and the 65% deposit. (9 marks)

Sale of industrial equipment to Mozambique customers

Generally, exports are zero rated. (1 mark)

In order for the seller to zero rate the exports the following must be fulfilled:

The goods must have been

(a) consigned or delivered by the registered operator to the recipient at an address in an export country as evidenced by documentary proof acceptable to the Commissioner; or (1/2 mark)

(b) delivered by the registered operator to the owner or charterer of any foreign-going aircraft when such aircraft is going to a destination in an export country and such goods are for use or consumption in such aircraft; or (1/2 mark)

(c) removed from Zimbabwe by the recipient, who is a resident of Zimbabwe, for conveyance to an export country in accordance with an export incentive scheme approved by the Minister; (1/2 mark)

(d) removed from Zimbabwe by the recipient, who is not a resident of Zimbabwe, for conveyance to an export country, subject to such conditions as may be set by the Commissioner by notice in a statutory instrument; (1/2 mark)

If the conditions above are not met, the purchase of the machinery by Mozambique customers could be standard rated (1 mark)

On the other hand, the seller could zero rate the sale if he satisfies the Commissioner that he has complied with exchange control regulations (proviso (a) to section 11A of the VAT general regulations, 2003) (1 mark)

Transport of Goods to Mozambique

Transportation of goods from a [place in Zimbabwe to a place in a foreign country or from a place in Zimbabwe to another place in Zimbabwe en-route to a foreign country is zero rated (1 mark).

Therefore, transportation of the goods will be zero rated (1/2 mark).

65% deposit

Generally, the issuance of an invoice triggers the liability to pay VAT irrespective of whether full payment or part payment for the goods/services has been made. (1mark).

Furthermore, in terms of the general time of supply rules: VAT is payable on the earlier an invoice being issued or any payment being made (1 mark)

If the sale of the machinery did not qualify for zero rating, the 65% deposit will have no VAT consequences as the seller is required to account for VAT on the full invoice value (1/2 mark)

Query 2: **Advise whether a supply has taken place upon confiscation of cash, electrical gadgets and the townhouse. In your discussion, address the time and value of the supply. (6 marks)**

VAT is levied on imported goods and input tax is claimable on the imported goods if they are imported for the purposes of making taxable supplies (1 mark).

A person who disposes of goods, either through sale or otherwise, on which input tax was claimed, is deemed to have made a supply of the goods and is required to account for output tax (1 mark).

On the confiscation of cash: no VAT is payable as cash is neither goods nor services as defined (section 2) and therefore is not a supply and hence has no VAT consequences (1 mark).

On the confiscation of electrical gadgets: VAT is payable on the goods as the owner is deemed to have sold the goods (1/2 mark).

The value of such a supply is the lesser of cost or open market value and the time of supply is the day the goods are confiscated. (1 mark)

On the confiscation of the property: VAT is payable as the owner is deemed to have sold the property (1/2 mark).

The value of such a supply is the lesser of cost or open market value and the time of supply is the day the goods are confiscated. (1 mark)

TUTORIAL 6

Part A – 15 marks

Baby Blankets Manufacturers (Pvt) Ltd (Baby Blankets) is a manufacturer of baby blankets. Baby Blankets is registered for VAT and has a 31 December year end. The company is a wholly owned subsidiary of Chipinge Ltd (Chipinge) who is not a VAT registered operator. Chipinge also has a 31 December year end.

As the tax manager of Baby Blankets, it is part of your duties to review the company's VAT affairs at the end of each financial year. During the course of your reviews, you came across the following information. All amounts provided, unless stated, are exclusive of VAT.

1. During the year, the company made the following supplies:

   - 35 000 baby blankets sold to registered operators
   - 6 000 baby blankets sold to non-registered operators.
   - 5 000 baby blankets sold at a discount.
   - 25 000 baby blankets exported to Zambia. The exports were consigned by Baby Blankets to Zambia.

   The blankets are sold to customers for $20 each. However, blankets that fail to meet Baby Blankets' quality control procedures are sold to customers at a discounted price of $12 each.

2. Expenses incurred by Baby Blankets during the year were as follows:

   - Pre-owned Ford Ranger single cab $22 000 purchased from a registered operator. The vehicle was used in the business by the company's driver and is parked at the company's premises overnight.
   - Purchase of local raw material $150 000
   - Purchases of imported raw material at a cost of $200 000 plus freight and insurance up to the port of entry of $2 500. Import duty of 5% was levied on the import.
   - Salaries $25 000
   - Electricity $2 500
   - Municipal rates $8 500

3. On 1 May 2013, Baby Blankets sold 12 000 blankets to a local customer on credit. As at 1 December 2014, the customer had only paid 60% of the debt. It is company policy that any debts that remain unpaid after 12 months from date of purchase should be placed in the provisions for bad debts account before they are written off. By 31 December 2014, the debt had not been paid and as such was sitting in the provisions for bad debts account.

4. Baby Blankets operates in an industrial building which it purchased on 3 January 2014. The property was purchased from a non-registered operator for $450 000. Terms of the purchase were that Baby Blankets will pay a deposit of 50% of the purchase price on signing of the agreement of sale with the balance payable in equal instilments over a 14 months period. Transfer of the property into Baby Blankets' name was to be done through conveyancers appointed by the seller upon payment of the full purchase consideration. The conveyancer's charge was 7.5% of the selling price, 5% of which represented stamp duty. By 31 December 2014, Baby Blankets had not fully paid for the property as well as the conveyancers' fees together with stamp duty.

   Baby Blankets immediately after signing the purchase agreement started to use the property 15% as administration offices and the balance for its manufacturing operations. During the course of the year, Baby Blankets identified the need for more office space for its manufacturing operations and on 1 December 2014, it moved the administrative operations out of the property to create the much needed space for the manufacturing operations.

   Chipinge who owns a property in the same area offered Baby Blankets office space for the administrative functions. In terms of the lease agreement, Baby Blankets would pay a monthly rental of $15 000 payable six months in advance. In terms of the lease agreement, Baby Blankets was to effect alterations to the building to suit its requirements and this expense was to its own account. By 31 December 2014, Baby Blankets had incurred expenses amounting to $12 000 towards the alterations. All the expenses were incurred from registered operators.

Part B – 4 marks

ICAZ (Pvt) Ltd (ICAZ) and AJK (Pvt) Ltd (AJK) are wholly owned subsidiary companies of Haveit Corporation (Haveit). ICAZ holds 25% shareholding in AJK. ICAZ and AJK are registered operators in category C. They maintain separate accounting records and they all have a 31 December financial year end. For the purpose of assessing the group's performance, Haveit consolidates financial records for the two subsidiaries at the end of their respective financial years.

During the current financial year, ICAZ sold goods amounting to $230 000 to AJK who in turn sold the goods for $330 000. ICAZ had purchased the goods from other registered operators for $200 000.

During the current financial year the Zimbabwe Revenue Authority (ZIMRA) requested Haveit to submit a consolidated financial statement for the group for the year ended 31 December 2014. The following trading results were presented:

	ICAZ	**AJK**	**Haveit**
Sales	230 000	330 000	330 000
Cost	200 000	230 000	200 000
Gross Profit (GP)	30 000	100 000	130 000

Allocation of GP	23%	67%	

Three weeks later, ZIMRA wrote to the financial director advising him of the following suggested adjustments:

	ICAZ	AJK	Haveit
Sales	330 000	330 000	330 000
Cost	200 000	330 000	200 000
Gross Profit (GP)	130 000	100 000	130 000
Allocation of GP	100%	0%	

ZIMRA's basis of the proposed adjustment was that ICAZ and AJK were related parties and the price of $230 000 for goods sold by ICAZ to AJK was not an arm's length price and as such an adjustment was necessary.

The financial director of Haveit, is concerned that this adjustment may affect the companies' VAT and has approached you for assistance.

Part C- 6 marks

Easiway Hotels (Easiway) operate a lodge in the resort town of Victoria Falls. Waiters in the hotel's restaurant are entitled to a free meal and a beverage of their choice on completion of each shift. Currently no input or output tax adjustment is made for the free supplies

a) Explain, supported by calculations, the VAT implications to Baby Blankets of each of the transactions.	15
b) Discuss the VAT effect of the price adjustment suggested by ZIMRA.	4
c) (i) Advise Easiway on the income tax and VAT implications of the free supplies to waiters in the restaurant.	5
(ii) What will be the VAT implications to Easiway, if the hotel had organised a function for its clients and the meals and beverages were given to employees as left overs.	1

Explain, supported by calculations, the VAT implications to Baby Blankets of each of the transactions. (15 marks)

(i) Sales of baby blankets to local customers, including discount customers and non-registered operators is subject to VAT at 15% (1 mark).

Output tax therefrom will thus be $132 000 ((35 000 +6 000) * 20 + (5 000 * 12)) * 15% (1 mark)

The supply of blankets to Zambia is a zero rated supply and therefore VAT at 0% is chargeable (1)

(ii) Input tax on expenses will be claimed as follows:

Ford Ranger: no input tax claimable as it is at second hand vehicle which is not subject to VAT but 5% excise duty. (1 mark)

Purchases of raw material: $22 500 (150 000 * 15%) (1/2 mark)

Imported Raw material:	Cost	200 000	
	Insurance and Freight	2 500	
	Value for Duty purposes	202 500	
	5% Duty	10 125	
	Value for tax purposes	212 500	
	Input tax claimable	31 893.75	(2 marks)

Salaries: Not a supply and therefore no input tax claimable. (1/2 mark)

Electricity: $ 375 (2 500 * 15%) (1/2 mark)

Municipal rates: No input tax claimable as rates are exempt from VAT (1/2 mark)

(iii) A registered operator is allowed to claim input tax on debts that have been written off (section 22(1)) (1 mark).

Since the debt is still a provision, no input tax is claimable until the debt has been written off. (1 mark)

(iv) Purchase of the property: A registered operator is allowed to claim notional input tax on the purchase of fixed property from a non-registered operator. (1 mark)

The input tax is limited to stamp duty paid and is only claimable when payment has been made. (1 mark)

In this case the stamp duty has not been paid, hence no input tax is claimable in the current year (1 mark)

Lease of property: No input tax is claimable as Chipinge did not charge VAT on the rentals as it is not registered for VAT (1 mark).

Alterations: Baby blankets is able to claim input tax of $1 800 (12 000 * 15%) incurred on the alterations (1 mark).

b. **Discuss the VAT effect of the transfer pricing adjustment (4 marks).**

ICAZ and AJK are connected persons by virtue of the former's shareholding in the later. 1

Generally, the value of supply on supplies between connected is the open market value of the supply. 1

However, the value could be the purchase consideration paid by the purchaser's if the purchaser is able to claim input tax. 1

Since AJK is a registered operator who is entitled to claim input tax, the value of supply of its purchases from ICAZ is $230 000. 1

Therefore, the transfer adjustment will not affect the $230 000 price. 1

C) **Advise Easiway on the income tax and VAT implications of the free supplies to waiters in the restaurant. (5 marks)**

(i) **Income tax implications**: the provision of free meals and beverages to employees is a taxable benefit in terms of section 8(1)(f) of the Income Tax Act. The value of the benefit will be determined by the cost to the employer of providing such benefit to the employees 2

VAT Implications: an employer who provides fringe benefits to employees is deemed in terms of section 17(3) to have supplied goods and services on which VAT is payable 1/2

The employer is therefore required to account for VAT on the benefit and the value of supply for that supply is the amount as determined for PAYE purposes 1/2

However, in terms of proviso (a) to section 17(3), VAT is not payable on a benefit that has arisen as a result of the supply of entertainment 1/2

Provision of meals and beverages is entertainment as defined (section 16(2)) and as such VAT is not payable on the benefit 1/2

On the other hand, the meals and beverages were supplied in the ordinary course of Easiway's business and the provision of the meals to employees, free of charge, constitutes change of use, from taxable to non-taxable supplies 1

The employer is required to account for VAT on the change of use and the value of such supply is the open market value (section 9(7)) 1

C. II. What will be the VAT implications to Easiway, if the hotel had organised a function for its clients and the meals and beverages were given to employees as left overs. (2 marks)

(ii) If the meals and beverages were supplied to employees as left overs, the employer is allowed to claim input tax and as such no adjustment to output tax is required (section 16(2)(a)(i)A.II. (2 marks).

TUTORIAL 7

Taxperts (Pvt) Ltd (Taxperts) is a consultancy outfit specialising in tax matters and accounting work. Taxperts offers several tax-related services. Taxperts assists clients with preparing the various tax returns, electronic filing and the bookkeeping. Taxperts have also found a business niche in tax planning. The renewed global focus on profit shifting, transfer pricing, and other such matters have created a market for tax planning services. In terms of the preparation and filing of returns, Taxperts is predominantly preoccupied with VAT returns as they are more recurrent and generally the market finds more difficulty in comprehending VAT issues. This has also created a business market for Taxperts. Taxperts has a staff compliment of 23 accountants and you are a recently qualified CA who has joined them at managerial level. You have been given several clients who have presented different queries from different sectors. Your role is to discuss the queries with the clients and write to them so as to guide them on how to treat a transaction with supporting reasons. Your arguments centre whether or not VAT should be charged, if so, the rate of the charge, the time of the supply and the value of supply. You also reference the relevant provisions of the Act or common law where necessary.

The following VAT queries have been presented before you and you must respond the different clients. All figures exclude VAT unless otherwise stated.

1. **Cabot Logistics (Pvt) Ltd (Cabot)**

   Cabot is a cross-border overland transport company operating extensively in the Southern and Central African region. Cabot is a registered operator wholly owned by foreign investors, who only commenced operations in Zimbabwe recently and is not clear on a number of Zimbabwean VAT matters. Through a strategic business alliance with ISO certified Bargo Carriers International Hauliers (Pvt) Ltd. There are in excess of 500 horses and 1200 trailers with varied configuration options available to enable the transportation of a diverse quantity and type of cargo for different customers. Cabot transports products from the leading mining houses within the Democratic Republic of Congo (DRC), Zambia and South Africa, ranging from concentrates to processed metals. Other commodities include fertilizer, tobacco, coal, steel, food aid, project steel work and other general cargo. Cabot also operates a bus charter company within Zimbabwe whilst utilising an Online Reservation System accessed by several agents, customers and it integrates with another National Reservation system. Transporting an average of 680,000 passengers and generating over one million transactions each year in 65 coaches across various bus routes. The routes include foreign destinations namely South Africa and Zambia.

Cabot is a category B registered operator and has presented the following VAT queries for the 2 months ending December 2016:

1.1. Cabot moved goods from Central Africa to South Africa through Zimbabwe during the 2 months under review and charged $745,000 for the freight service. Cabot is not clear on the VAT it should charge

1.2. The VAT implications of ticket sales for fare paying passengers for the cross-border buses and for the local routes.

1.3. During the month of December, 10 coaches were hired from Harare to Victoria Falls to ferry delegates to the resort town for a congress. Each bus was charged $1,200 per day for 4 days. The rest of the tax period the buses are being used for fare paying passengers.

1.4. Cabot acquires spares and stores them centrally. Earlier in the year Cabot acquired tyres worth $408,000 being 2,000 tyres for $204 each (including duty) from Italy to be used by both the haulage trucks and the buses. Change in use of goods. At the time of acquisition, it was estimated that 70% of the tyres will be absorbed by the haulage fleet while the balance would go to the bus fleet. The 70% has therefore been allocated to the haulage fleet business. The estimation was based on expected mileage in both businesses. The business outlook has shifted and the estimated mileages have also changed for both business and therefore the haulage business is expected to use 65% of the tyres. 5% of the 70% has therefore been allocated to the bus fleet. The current average market price for similar tyres is $400 each. This change was determined in November 2016.

1.5. Cabot acquired tyre fitment center machinery for both the haulage trucks and the buses from South Africa for R750,000 (CIF price). The USD/Rand exchange rate was 1:15 and duty was charged at 48% of the CIF price. As with the tyres, the machinery was expected to be used 70% for the haulage trucks but estimate later changed in November 2016 to 65%. Similar new machinery in the market is being sold for $78,600.

1.6. Cabot had to call in a foreign expert mechanic to train local mechanics and to also repair some of the New Volvo fleet trucks for 2 weeks. He also held a similar training with another team of mechanics on the Volvo bus fleet and invoiced R105,000 at a discount as they usually charge out R127,500.

1.7. Fringe Benefits to staff

1.7.1. Cabot offers a motoring benefit for management. 10 managers get the right to use 10 Toyota Hilux D4D 3ltr diesel twin cabs.

1.7.2. The managers also each are staying in company houses. The units are in a cluster development and each unit cost the company $70,000. Average rentals of similar units in a similar area are 550 per unit.

2. Mainway Properties (Pvt) Ltd (Mainway)

Mainway properties are a real estate company and operate a block of flats in the avenues area in Harare. The block has 4 identical floors. The whole ground floor is leased out to two businesses i.e. a pharmacy and a sports shop and this has been cleared by the all the relevant authorities. The rest of the units are fully occupied by residents. Mainway are a category B registered operator. Mainway also sold stands on an instalment credit arrangement. Mainway require advice on the VAT implications on the following transactions:

2.1. Property maintenance costs of $300 were incurred over the 2 months.

2.2. Water and electricity. The flats incurred a water bill of $960 for the two months under consideration. The electricity bill was $840 for the same period.

2.3. Rates. Mainway incurred municipal rates of $350.

2.4. Stands were sold through an instalment credit arrangement. Mainway required a 20% deposit and the balance was payable over 60 months. The stands were similar in size and had a cash price of $8,000. The total payments including deposits over the 60 months would be $12,000 or less depending on the reduced selected period where the buyer can afford a higher repayment instalment and or deposit.

REQUIRED

		Marks
1	Write emails to the Finance Managers for both Cabot and Mainway discussing, with supporting calculations where applicable, the VAT implications for the transactions presented.	**40**

SOLUTION

To: jerry@cabot.com

From: ctamanager@taxperts.org

Date: 30 June 2017

RE: VAT Queries

Dear Jerry

We hope we find you well. We have examined your transactions in relation to the VAT treatment of each. Find hereunder our view as to how you should treat the transactions for VAT purposes.

1.1. **Freight services for goods in transit through Zimbabwe**

- There has been a supply of freight services – s6 and therefore there shall be charged VAT. (**1mark)**
- The freight of goods is from a place outside Zimbabwe (Central Africa) to another place outside Zimbabwe (South Africa) s10(2)(a)(i) and therefore an export. **(1mark)**
- The export supply is therefore zero rated. **(1 mark)**
- The time of supply is earlier of invoice date or date of receipt of proceeds from the supply. **(1 mark)**
- The Value of supply is the consideration less VAT. **(1 mark)**

[MAX 3]

1.2. **Transport service to fare paying passengers**

- Supply of transport of local fare paying passengers is exempt s11 (f). **(1mark)**
- Supply of transport of cross-border fare paying passengers is zero rated. **(1 mark)**
- Input tax can be claimed for the associated costs to the cross-border transport subject to s16(1) and s16(2) provisions. **(1 mark)**

[MAX 2]

1.3. **Transport service – hiring**

- There was a supply of transport service for non-fare paying passengers. There shall be levied VAT on the supply of the transport services s6 **(1mark)**
- This transport service is neither zero rated nor exempt and therefore must be standard rated**. (1mark)**
- The time of supply is the earlier of the invoice date or receipt of the $4,800**. (1mark)**
- The value of supply is the consideration less VAT i.e. $4,800**. (1mark)**
- The VAT payable on the transaction is therefore $4,800 x 15% = $720. **(1mark)**

- The output tax is charged because of the foregoing and because Cabot is a registered operator. **(1mark)**

[MAX 3]

1.4. **Goods acquired to make taxable supplies are subsequently utilised to make non-taxable supplies – s17(1)**

- At acquisition of the tyres there is an output tax charge on the importation of goods s6(1)(b). **(1 mark)**
- Cabot could only claim input tax on the tyres provided they were going to be utilised in the production of taxable supplies - s16(1) **(1mark)**
- Cabot at that point expected that 70% would be used for the haulage business which makes taxable supplies while the 30% would be absorbed in the bus operations which produce non-taxable supplies and therefore 30% of the $408,000 ($122,400) would have been denied input tax claim. **(1mark)**
- The subsequent utilisation was more for making non-taxable supplies. **(1mark)**
- The value of supply is deemed to be the OMV. **(1mark)**
- Computation of adjustment: OMV x (70%-65%) = $800,000 x 5% = $40,000 **(2marks)**

[MAX 5]

Students may have attempted to split the bus service so as to determine the exempt business. This would have been correct although there was not enough information to do so. Where students assumed that the entire bus service was exempt and then did a correct adjustment based on such an assumption, marks for the adjustment principles are to be awarded in full.

1.5. **Imported capital goods with reduction in subsequent taxable usage**

- There shall be levied VAT for the importation of goods s6. The equipment is imported and therefore Vatable **(1mark)**
- The Value of Supply is the value for duty purposes plus the duty **(1mark)**
- The VAT therefore is: [(R750,000 ÷ 15) x 1.48] x 15% = $11,100 **(3marks)**
- Input tax can only be claimed to the extent that the goods will used to make taxable supplies. i.e. 70% of the $11,100 = $7,770 **(1mark)**
- There is a reduction of percentage use of capital goods and this is a deemed supply. An adjustment is necessary per s17(2) only where the operator was initially allowed to claim input tax **(1mark)**
- VAT therefore is:15% x [(R750,000 ÷ 15) x 1.48] x (70% - 65%) = $555 **(2marks)**

[MAX 5]

1.6. **Imported service s13**

- An imported service is a supply of a service made by non-residents to a Zimbabwean recipient consuming the services in Zimbabwe to make non-taxable supplies. **(1mark)**
- The foreign expert supplied a service to a Zimbabwean in Zimbabwe to partly make taxable supplies and partly non-taxable supplies. **(1mark)**
- The service offered to the haulage division is for making taxable supplies and therefore that service does not qualify as an imported service as defined **(1mark)**
- The service offered to the bus fleet was in part used to make non-taxable supplies.
- The value of supply is the greater of the OMV or invoice value of the service. **(1mark)**
- The output VAT is payable by the recipient of the service i.e. Cabot. **(1mark)**
- The VAT payable is: [R127,500 ÷ 15] x 15% = $1,275 **(1mark)**

[MAX 5]

1.7. **Fringe Benefits to staff s17(3)**

- An employer who provides fringe benefits to employees is deemed to have supplied goods or services on which output tax must be accounted for **(1mark)**
- Cabot has provided a motoring and a housing benefit and these are deemed supplies. **(1mark)**
- The Value of supply will be the value determined for PAYE purposes in terms of s8(1)(f) of the Income Tax Act. **(1mark)**
- The right of use of motor vehicles are motoring benefits. The Value of supply is deemed to be $600/month x 2 months x 10 vehicles = $12,000 **(2marks)**
- The VAT payable is $12,000 x 15/115 = $1,565.22 **(1mark)**
- The housing benefit is a supply that is exempt per s11 and therefore s17(3) is inapplicable **(1mark)**

[MAX 4]

We hope you find the above in order.

Kind Regards

……………………………………………….

Mo: +263 77 777 7777

Email: ctamanager@taxperts.co.zw

CTA Manager **[1 Mark]**

To: chris@mainway.org

From: ctamanager@taxperts.org

Date: 30 June 2017

RE: VAT Queries

Dear Chris

We hope we find you well. We have examined your transactions in relation to the VAT treatment of each. Find hereunder our view as to how you should treat the transactions for VAT purposes. Some of the transactions are expenditures which you incurred and therefore the key question is whether or not you can claim input tax or not.

Generally, input tax is claimed on all goods/services provided:

- They are utilised in the production of taxable supplies; and **(1mark)**
- There is a valid tax invoice for the goods or services in which VAT was charged by the supplier. **(1mark)**

[MAX 1]

2.1. Property maintenance costs

- For input tax to be claimed, the tax must have been charged and the supply should be used in making taxable supplies. **(1 mark)**
- The service providers of the maintenance should have been registered operator for them to have charged VAT. **(1 mark)**
- The property maintenance cost was for mixed supplies. The maintenance costs for the residential section of the flats are incurred in production of non-taxable supplies and therefore no input tax can be claimed. **(1mark)**
- The input tax is therefore apportioned based on the floor area. **(1mark)**
- Input tax claim = 25% x $300 x 15% = $11.25 **(1mark)**

[MAX 3]

2.2. Water and Electricity

- The supply of piped water by local authorities is exempt s11 and therefore no input tax consequences **(1mark)**
- The supply of domestic electricity is also exempt. S11. **(1mark)**
- 25% of the electricity is not domestic and therefore Mainway can claim input tax. **(1mark)**

- Input tax claim = (25% x $840 x 15%) = $31.5 **(1mark)**
- The remainder has no VAT consequences and the supply is exempt.

[MAX 3]

2.3. Rates

- The supply is exempt and therefore not VAT consequences **(1mark)**

2.4. **Sale of Stands**

- There has been as supply of goods (land) for the purposes of trade by a registered operator per s6(1)(a) and therefore VAT shall be levied. **(1 mark)**
- The supply is standard rated (**1 mark)**
- The supply has been sold by way of instalment credit arrangement which has special time of supply and value of supply rules as follows:
- Value of Supply shall be the cash price of the land which is $8,000. **(1 mark)**
- The Time of supply shall be the earlier of the registration of the transfer of the land or the date of the agreement or the date of payment of the consideration **(1 mark)**

[MAX 3]

TUTORIAL 8

All amounts, in this case study are in United States dollars and are exclusive of VAT unless otherwise indicated.

ZLF Chartered Accountants (ZLF) is a partnership that offers accounting services. It is an Accredited Training Office (ATO) with the Institute of Chartered Accountants of Zimbabwe (ICAZ) and you are a 3rd year trainee at ZLF. ZLF has a portfolio of clients for whom they prepare tax returns and offer tax planning services. You are currently assigned to working with the Tax team and have been given several clients within that portfolio.

Best End Hospital (Pvt) Ltd (BEH)

BEH is a 100% owned subsidiary of BSMI Holdings Ltd. BSMI Holdings and its subsidiaries have a 31 December financial year end. BEH operates a medium size hospital in the avenues area of Harare. The hospital has a casualty department, general ward, maternity ward, a High Dependence Unit (HDU) and a theatre. It also has a pharmacy and internal dispensary. Revenue is generated from medical services, consumables and drugs in the casualty and hospital sections. BEH is enjoying good business as their hospital is highly rated in terms of service standards which has them being certified on the ISO 9001:2015 Quality Management System standard. BEH entered into some of the following transactions and are seeking specific advice on or assistance with computation of the tax effects of those transactions. BEH is a category A, VAT registered operator. BEH recorded unaudited net profit of $468,560 at the end of the year ended 31 December 2016

1. **Asset disposals.**

   During the year ended 31 December 2016, BEH disposed of several of its assets and need assistance with the Income Tax, Capital Gains Tax and VAT computation.

   1.1. Investment Properties

   BEH owns a portfolio of properties that it holds as investments from which it collects rentals from these properties through a real estate agent. On the 1st of July 2016 BEH disposed of two of these properties to raise a deposit for mortgage financing for a major project to acquire and refurbish another hospital in Harare.

   1.1.1. Property 1

   BEH disposed of a building in Milton park for $89,000. The building was being used as a rehabilitation centre for patients that require physiotherapy by another unit in the BSMI group BSMI Rehabilitation (Pvt) Ltd (Rehab). BEH was leasing the building to Rehab for $700 per month. BEH sold the house to an Indian businessman Omar, who intends to use the property to house his accounting practice business. The property was acquired in January of 2008 for ZWD 78 billion, when the Old Mutual Implied Rate (OMIR) was USD$1: ZWD 1,000,000. The property was acquired from a non-registered operator. Upon purchase in 2008, BEH immediately erected a wall around the property for ZWD 3,5 billion and constructed a gymn for ZWD 6,2 billion in the backyard for the physio therapy patients. BEH was charged selling costs of $2,500 on this transaction from a registered operator. The property had a book value of $72,400 on the disposal date.

1.1.2. Property 2

BEH disposed of an office building located in the downtown area of the Harare Central Business District for $250,000 on 1 June 2016. The property was initially acquired by BEH for $201,000 on the 15th of December 2013 from another registered operator. In the same year of purchase, BEH had immediately repaired the building and re-painted it for a total cost of $5,600. BEH has since been leasing this office building for $1,200 per month. BEH incurred selling costs of $2,500 and paid stamp duty of $5,200 at time of purchase. The book value on the disposal date was $175,500.

1.2. Medical Equipment

During the month of July 2016, the hospital scanner (major piece of equipment) was destroyed by an electric fire. This equipment was insured and the Insurer has already paid BEH a total of $48,000 as insurance proceeds. The equipment was initially acquired in June 2014 for $44,000 and had a book value $28,000 and tax value of $22,000 at the time it was destroyed. The entire $48,000 has since been used to acquire another replacement scanning machine. The new machine was acquired in August 2016 and BEH immediately began to use it. Due to its huge size and operating costs, BEH is one of the few hospitals in Harare offering that scanning service.

1.3. Laboratory

BEH owned a commercial building in the Avenues area which was being used by the BSMI Labs (Pvt) Ltd (Labs) who are a 100% owned subsidiary of BSMI Holdings. BEH was leasing it to Labs for $700 per month and these rentals were included in the calculation of the profit for the year. BEH has not received actual payments from Labs as the group has been centrally setting off intercompany accounts and transferring actual amounts at year end. It was agreed that the Labs should purchase the building from BEH on an instalment credit arrangement. The purchase agreement was signed on the 1st of June 2016. The cash price for the building was $200,000. Labs was to be paid in 48 equal instalments in arrears of $5,000 a month starting the 30th of June 2016. The book value as at that date was $157,500. BEH has incurred selling costs of $1,560 which were expensed in the financial statements. The building was acquired from a registered operator for $180,000 in December 2014.

1.4. Shares

1.4.1. During the year, BEH liquidated its Zimbabwe Asset Management Corporation (Private) Limited (***ZAMCO***) driven Treasury Bills for a total of $10,100. It had acquired them in February of 2013 for $9,800. The bills had been held at cost.

1.4.2. BEH disposed of some of its shares in a subsidiary ambulance company BEMRAS for $25,000, being a 25% stake. BEH had acquired this stake for $18,000 in 2014. BEH remains a major shareholder despite the disposal as they retained a 65% shareholding in BEMRAS. The shares had been held at cost.

1.4.3. BEH also liquidated some of its shares in Econet Wireless Zimbabwe Ltd (EWZ) which is dually listed on the Johannesburg Stock Exchange and Zimbabwe Stock Exchange for $18,500. The shares were acquired for $17,300 in January 2014 and held at cost.

2. Income

During the year 2016 BEH entered the following income transactions:

2.1. Drugs

The hospital dispenses drugs to its hospitalized patients and patients in the casualty ward. These drugs are priced on a cost-plus-mark-up basis. The total prescription drugs income during the months of June and July was $63,250. The pharmacy also sold $43,940 worth of prescription drugs in the same period.

2.2. Consumables (Gloves, syringes)

In discharging their duties, the nurses and doctors use gloves, syringes, cotton wool, swabs etc., which are then billed separately to the patients. The total revenue from the consumables was $20,300 for the months of June and July.

2.3. Consultation fees

Every patient attended to pays a consultation fee for the doctors'. There is a minimum charge of $30 for all patients on admission and additional charges for the admitted patients attended to by BSMI doctors. Where patients are being attended to by their doctor and merely using the hospital facility, the doctors and patients will have a separate billing arrangement. The total consultation fees for the 2 months ending July 31 was $195,400.

2.4. Accommodation

The hospital levies a charge for each bed and the food for each day a patient is in the hospital. This covers the provision of linen, entertainment such as TV service, 24hrs nursing service among others. The income for the two months from these services was $236,420

2.5. Interest on overdue accounts

The hospital automatically charges interest on the receivable outstanding balance for all overdue accounts as at the end of each month at a rate of 6% per annum. Medical aid society balances are however charged interest differently, with a grace period being allowed as it takes slightly longer to recover from medical aid societies. For the months of June and July the total interest charged was $5,460.

2.6. Lease Rentals

BEH is not immediately clear on how the lease rentals for the Rehab, the downtown property and Labs tenants up to July and June respectively are going to be treated for tax purposes. Similar properties on the market are being rented out for $800, $1,350 and $750 respectively.

3. Expenditure

The Accountant is also not clear on the income tax, VAT and any withholding taxes treatment of some the following items of expenditure for the two months ending July 31:

3.1. Medical supplies – oxygen gas

Oxygen gas mainly for the High Dependency Unit was acquired from BOC gases for a total amount of $560 and all of it was used up by year end. BOC allows BEH to purchase the gas on credit, quarterly and BEH shall be making a payment at the end of August. BOC is a registered operator with a valid tax clearance. The Accountant had put the amount into inventory upon purchase but erroneously did not expense it when the gas was subsequently used.

3.2. Drugs and medicines

BEH ordered prescription drugs from local and foreign manufacturers. BEH acquired prescription drugs as defined in the Medicines and Allied Substances Control Act worth $34,500 from a local manufacturer who is a registered operator and imported similar drugs worth $28,800. The local manufacturer has no ITF 263 due to legacy debts for which they are on a payment plan with the Zimbabwe Revenue Authority (ZIMRA). All the drugs were eventually sold during the year. As with most other inventory, the Accountant had erroneously not expensed these amounts from inventory.

3.3. Cleaning material

BEH acquired cleaning material worth $1,600 from a local tax compliant non-VAT registered operator.

3.4. Uniforms

A local tax compliant VAT registered operator supplied BEH with nurses' uniforms worth $5,600. This amount has not yet been paid but shall be settled in 2 equal successive instalments with the last payment being made in October 2016. Uniforms for senior management worth $2,500 are being bought on a lay-by arrangement. The first $1,250 was paid in July and the balance is to be paid in August.

3.5. Locums

BEH pays nurses and doctors from other hospitals on a locum arrangement for shifts done as independent contractors. In reviewing the locum payments sheet the Accountant realized that the nurses and doctors have charged VAT on the amounts they invoiced BEH. The total amount on these invoices was $15,400.

3.6. Staff costs

3.6.1. Salaries

The Accountant is not immediately clear why employees cannot charge VAT for their employment services.

3.6.2. Fringe benefits – housing and motoring

BEH awards motoring benefits to some of its staff members. Three senior management staff have the right of use of 3 Toyota Fortuner 2.8 litre diesel SUVs. The vehicles were imported on the 3rd of June from Japan. The CIF cost to Beitbridge was $18,500 each and the duty was at 48,5% of the value for duty purposes. All three members are given fuel coupons of 150 litres per month. Of the fuel awarded, 60% was used for business purposes. The coupons in use for the whole year were acquired in bulk on the 1st of June when the price of diesel was $1.05/ltr. At year end the average market price for the fuel was $1.15/ltr. The accountant had recognized in inventory the entire cost of fuel bought for the year but by year end she erroneously had not expensed the used fuel.

The 3 senior managers are also provided housing accommodation by BEH in a cluster development in Emerald Hill. The units are rented for $800 per month.

3.6.3. Board fees

BEH non-executive directors, who are all VAT registered operators are paid on a retainer basis plus sitting fees. On 30 July 2016 BEH paid board fees for the second quarter ending 30 June after the board meeting held on the 24th of July 2016. The payment was broken down as follows:

	#	RETAINER	SITTING ALLOWANCE	TOTAL
Executive Directors	3	600	450	**1,050**
Non-Executive Directors	4	800	600	**1,400**
Totals	**7**	**1,400**	**1,050**	**2,450**

Assume that these are the same payments BEH made for the other three quarters. The Accountant was not clear on the recognition criteria for accounting purposes and had recorded these amounts in a suspense account by the end of the year.

3.7. Dividend

BEH paid an interim dividend of $25,000 at the end of July 2016. This amount has been expensed to the statement of comprehensive income for 2016.

3.8. Training

BEH engaged a German team of experts in the use of radioactivity equipment for a refresher training for BEH staff for €4,500 in July. The exchange rate was USD1.7: €1. This amount shall be paid in full in September of 2016. Also in the German team was a pharmacist, who was to train the BEH pharmaceutical team on the dispensation of chemotherapy prescription drugs. The training costs for the radioactivity equipment were incorrectly capitalized to the cost of equipment.

	REQUIRED	MARKS
1.	Calculate VAT payable by or refundable to BEH based on the transactions given for the months of June and July 2016. Support each entry with a brief explanation.	40
2.	Discuss the VAT implications of the asset disposals in note 1. Include in your discussion the input tax implications at the time of acquisition and the output tax at the point of sale. Mark Allocation shall be as follows: Note 1.1. 6 Note 1.2. 3 Note 1.3. 3 Note 1.4.1. and 1.4.3. 3	15

SOLUTION

Calculate VAT payable or refundable by BEH based on the transactions given for the months of June and July 2016.

		VAT Payable/ (Refundable)	
		$	
1.1.1	Sale of Property 1 [89,000 x 15%] s6(1)(a)	13,350.00	1
	Lease Rentals on Property 1 s6(1)(a) supply of commercial rentals (1 month) [800 x 15%] - connected persons	120.00	2
	Selling costs [15% x2,500] (s16(1) input tax claim)	(375.00)	1
1.1.2	Sale of Property 2 [250,000*15%]	37,500.00	1
	Lease Rentals on Property 1 s6(1)(a) supply of commercial rentals (1 month) [1,200 x 15%] - assuming sold 1 July	180.00	1
	Alternative: If a student has the property being sold on 1 June, meaning no rentals, award 1 mark	-	
	Selling costs [15% x2,500] (s16(1) input tax claim) - registered operator	(375.00)	1
1.2	Medical Equipment [deemed supply whose input tax was denied]	-	2
1.3	Commercial building sold [200k x 15%]	30,000.00	2
	Selling costs [15% x 1,560] (s16(1) input tax claim) - registered operator	(234.00)	1
1.4.1	Treasury Bills [exempt s11 financial service]	-	1
1.4.2	Shares in Subsidiary [financial service]	-	1
1.4.3	Shares in Econet [financial services]	-	1
2.1	Sale of prescription Drugs [s10 zero rated]	-	1
2.2	Charge for consumables [20,300 x 15%] - medical consumables not Medical services	3,045.00	1
2.3	Consultation Fees [exempt medical services]	-	1
2.4	Accommodation [exempt medical services]	-	1
2.5	Interest on Overdue Accounts [exempt financial services]	-	1
3.1	Oxygen Gas - taxable supply [560 x 15%]	(84.00)	2
3.2	Drugs & Medicines - from local supplier [zero rated]	-	1
	Drugs & Medicines - Imported - [zero rated]	-	1
3.3	Cleaning Material [no input to claim] - purchased from non-registered operator	-	1
3.4	Instalment credit arrangement Uniforms - supplies used to make non-taxable supplies	-	1
	Laybye Uniforms - supplies used to make non-taxable supplies	-	1

3.5	Locums [exempt medical services therefore per s16(1) one cannot claim input tax which was not charged]	-	1
	Salaries [employment income excluded from the definition of trade]	-	1
3.6.2	Fringe Benefits - Deemed supply - Motoring benefit [$600/mth/car x 2 mths x 3 cars x 15/115]	469.57	4
	Alternative: If a student has no VAT output for motoring benefit because BEH makes exempt supplies, award 4 mark		
	Fringe Benefits - Fuel [exempt]	-	1
	Fringe Benefits - housing benefit [exempt]	-	1
	Imported PMVs - no input VAT	-	2
3.6.3	Board Fees - Executive Members - [Employment income and excluded from the definition of trade]	-	1
	Board Fees [only for non - exec] [1400 x 15%]	(210.00)	2
3.7	Dividend Paid [not supply]	-	1
3.8	Training - Imported Service [(4,500 x 1.7) x 15/115]	997.83	2
	Training - Pharmacist - not an imported service. To be used to make taxable/zero-rated supplies	-	2
	VAT PAYABLE	**84,384.39**	45

2. Discuss the VAT implications of the asset disposals in note 1. Include in your discussion the input tax implications at the time of acquisition and the output tax at the point of sale.

1.1.1	**Property 1**	
	S16(1) allows VAT Input to be claimed if:	
	a - the operator charged VAT per s6	1
	b - the taxpayer used the product or service to make taxable supplies	1
	While the property was acquired from a non-registered operator, notional input tax could have been claimed as it is a fixed property transaction.	1
	The property was being rented out commercially and therefore this is a taxable supply	1
	Therefore, BEH would have been able to claim input tax at time of acquisition.	1
	BEH is a registered operator who has supplied goods i.e. the property in the course or furtherance of trade and therefore there shall be VAT levied. S6(1)(a)	1
	The property is a standard rated supply i.e. at 15%	1
	The Value of the supply is the consideration less VAT - $89,000	1
	The time of supply is the earlier of the invoice date or receipt of payment from Omar	1
	Max	**3**
1.1.2	**Property 2**	
	BEH acquired the property from another registered operator so was charged VAT and used it to make taxable supplies and therefore must have claimed input tax.	2
	BEH is a registered operator who has supplied goods i.e. the property in the course or furtherance of trade and therefore there shall be VAT levied.	1
	The property is a standard rated supply i.e. at 15%	1
	The Value of the supply is the consideration less VAT - $250,000	1
	The time of supply is the earlier of the invoice date or receipt of payment from the buyer.	1
	Max	**3**
1.2	**Medical Equipment**	
	When the equipment was purchase, it was to be used to make non-taxable supplies and therefore could not claim VAT	1
	Proceeds received from an insurer as an indemnification for loss, are a deemed supply which attracts VAT. However, the input tax for this item was denied and therefore no output tax shall be levied.	2

1.3	**Laboratory**	
	BEH purchased the property from a registered operator, and can therefore claim input tax since the property is investment property being rented out commercially hence a taxable supply per s6(1)(a).	2
	BEH is a registered operator who has supplied goods i.e. the property in the course or furtherance of trade and therefore there shall be VAT levied.	1
	The property is a standard rated supply i.e. at 15%	1
	The Value of the supply is the cash value - $200,000	1
	The time of supply is the earlier of the delivery of the property or invoice date.	1
1.4	**Shares**	
	The sale of treasury bills and shares is a financial service as defined, and are exempt.	2
	On the acquisition of the ZAMCO bills and the shares, they cannot claim input tax as they would not have been charged VAT given that the sales are exempt	2
	The supply of shares is a financial service and hence an exempt supply. There shall be no output tax on the sale transactions	1
		24

TUTORIAL 9

Details of retail business Activities

In 2014 Aloice registered his retail businesses for VAT purposes as he had reached the minimum registration threshold of $60,000. Aloice provided you with the following information related to his retail business for the 2016 financial year:

	Notes	$
Sales	1	320,000
Cost of sales	2	(105,000)
Gross Profit		215,000
Loss on Disposal of vehicle	3	(2,000)
Administration expenses	4	(43,500)
Staff costs	5	(42,660)
Net Profit for the year		**126,840**

Notes

1. Included in the sales figure for the year is an amount of $10,000 related to items that Aloice sold to his twin sister who was also opening a retail outlet of her own. Had Aloice sold these items to his normal customers he would have realized a total of $14,000. Aloice also informed you that his sister has not yet registered her shop for VAT purposes as she is yet to reach the minimum registration threshold.
2. The cost of sales balance is made up of the following amounts:

	$
Opening stock	15,000
Purchases of trading stock	84,000
Stock given as Christmas gifts to Aloice's children	4,500
Stock write offs – damaged by rats	3,000
Customs duty – for imported trading stock	10,500
Closing stock	(12,000)
Cost of sales	**105,000**

NB: All the amounts in this computation are recorded at cost; with the exception of the write offs, the stock was written down from a cost of $3,500 to a net realisable value of $500 after extensive damage, the costs to sell the inventory are negligible.

3. In March Aloice sold to his twin sister one of the delivery vehicles that he was using in his retail business. Aloice sold the vehicle for $3,000 and at the time this vehicle had a market value of $4,500 which was determined by a local car dealer. The vehicle had initially been bought in 2014 for a cash price of $15,000 and Aloice had always been using the vehicle

in his retail operations. At the time of sale, the delivery vehicle had a net book value of $5,000. Aloice contends that the sale of the vehicle will not have any income tax implications since the proceeds are capital in nature.

4. Included in Administration expenses are the following amounts:

	$
Shop rentals	36,000
Shop neon sign	2,500
Accounting fees	1,500
Subscriptions to retailers' association of Zimbabwe*	500
Depreciation	3,000
	43,500

* The subscription is for the annual period March 2016 to February 2017.

5. Aloice employees 12 shop floor assistants and 1 accountant for his retail business. He pays the shop floor assistants a basic salary of $250 per month each and a monthly transport allowance of $20 each. The accountant who was recruited in April of 2016 is paid a monthly basic salary of $400 and a monthly transport allowance of $20. For the 2016 year of assessment Aloice was not withholding PAYE from his employees' salaries.
6. On 1 June 2016 Aloice took a 50-inch television set that he was using at his residence and started using it in one of his shops. The television is connected to Supersport channels which normally broadcast sporting activities and this was done to create a better shopping experience for Aloice's clients. Aloice had initially acquired the television set brand new in 2014 for an amount of $2,400 from a local shop in Harare.
7. Aloice has the following assets that he uses in his retail business:

DESCRIPTION	YEAR ACQUIRED	COST ($)	USEFUL LIFE (YRS)
Shop furniture and fittings - 1	2009	3,000	5
Shop furniture and fittings - 2	2014	5,000	5
Pick-up truck	2015	12,000	6
Water dispensers	2015	500	2

Required		
a)	Discuss the VAT and Income tax implications of the sale of $10,000 made by Aloice to his twin sister.	**13**
b)	With reference to note 3, discuss whether you agree with Aloice's position that the disposal of the vehicle will not give rise to Income Tax consequences.	**4**
c)	Calculate the income tax payable for the 2016 year of assessment from Aloice's retail operations.	**27**
d)	Based on the information in note 5 discuss the whether Aloice will be required to register as an employer for tax purposes.	**5**

SOLUTION

Part B		
a.	Discuss the VAT and Income tax implications of the sale of $10,000 made by Aloice to his twin sister.	**13**

		MARKS
VAT		
-	The issue is on determining the value of the supply	**1**
-	This is a sale of goods between connected persons at a price below the market value.	**1**
-	S9 states that the value of supply between connected persons is the open market value if the buyer cannot claim input VAT.	**1**
-	Aloice's twin sister is not a registered operator, and cannot claim input tax.	**1**
-	Thus the value of the supply is the open market value of $14,000	**1**
-	Output tax would amount to $14k x 15% = $2,100	**1**
Income Tax		
-	The issue is determining whether this is a controlled transaction and what the selling price is for income tax purposes.	**1**
-	Aloice and his twin sister are associates as defined in s2	**1**
-	Uncontrolled transactions are any transactions between independent persons (35^{th} schedule paragraph 1)	**1**
-	Thus, the transaction is controlled as the 2 siblings are not independent	**1**
-	The taxable income for controlled transactions is determined with reference to the arm's length principle, where the conditions of the transaction do not differ from an uncontrolled transaction. (s98B(1))	**1**
-	Using the comparable price method, the selling price in an uncontrolled transaction would be $14,000.	**1**
-	Thus, the deemed selling price for this transaction is $14,000	**1**

b.	With reference to note 3, discuss whether you are in agreement with Aloice's position that the disposal of the vehicle will not give rise to Income Tax consequences.	

	MARKS
- Aloice is correct in stating that the proceeds from the sale of the vehicle are capital in nature, given that he is not in the business of selling vehicles.	**1**
- However, s8(1)(j) includes in gross income, the amount recouped on capital allowances previously granted upon the sale of an asset.	**1**
- Where disposal is by way of scrapping and the proceeds are less than the ITV then a scrapping allowance may be granted.	**1**
- Recoupment is calculated as the selling price, less income tax value, limited to the capital allowances previously granted.	**1**
- Since Aloice and his sister are associates as defined transactions between them are controlled transactions	**1**
- In this case, the selling price would need to be determined with reference to s98B which establishes the arm's length principle.	**1**
- No recoupment in this case as sale proceeds were less than the ITV	**1**
- No scrapping allowance either as the disposal was not as scrap.	**1**
-	
-	

c.	**Calculate the income tax payable for the 2016 year of assessment from Aloice's retail operations.**	

Aloice Trade Income Tax Computation for the 2016 Year of Assessment			
	$		**MARKS**
NPBT		126,840	**0.5**
Note 1			
Sales to sister:			
- Amount charged	(10,000)		**1**
- Comparable price - s98B + 35th schedule	14,000		**1**
		4,000	**0.5**
Note 2			
Cost of sales:			
- Opening stock - deductible s15(2)(u)	-		**1**
- Purchases - deductible s15(2)	-		**1**
- Stock used for Xmas:			
- Not deductible	4,500		**1**
- Write offs - carried at lower of cost and MV	3,000		**1**
- Customs duty - part of cost to acquire	-		**1**
- Closing stock - s8 special inclusion	-	7,500	**1**
Note 3			
Loss on disposal - not incurred		2,000	**1**
Recoupment:			

Aloice Trade Income Tax Computation for the 2016 Year of Assessment			
- Deemed selling price - s98B transfer pricing	4,500		**1**
- Less ITV (15k x 25% x 2)	(7,500)		**1**
- Possible scrapping allowance	(3,000)		**1**
- No scrapping allowance as vehicle not scrapped but sold	-	-	**1**
Note 4			
Shop rentals - incurred		-	**1**
Shop neon sign - capital nature/improvement		2,500	**1**
- Sign wear and tear @ 2.5%		(625)	**1**
Accounting fees - incurred		-	**1**
RAZ subscriptions - incurred		-	**1**
Depreciation - not incurred		3,000	**1**
Note 5			
Staff costs - incurred		-	**1**
Note 6			
TV - asset for provision of entertainment - no W&T		-	**1**
Note 7			
Capital allowances:			
- Furniture and fittings 1 - exhausted		-	**1**
- Furniture and fittings 2 - 5k x 25%		(1,250)	**1**
- Truck - SIA 25% x 12k		(3,000)	**1**
- Water dispensers - SIA 25% x 500		(125)	**1**

Aloice Trade Income Tax Computation for the 2016 Year of Assessment			
Taxable income		**139,986**	
Tax payable @ 25.75%		36,046	**1**
		Available	**27.5**
		Max	**27**

d.	Based on the information in note 5 discuss the whether Aloice will be required to register as an employer for tax purposes.	

	MARKS
- Paragraph 2 of the 13th schedule states that every person who becomes an employer shall register within 14 days of becoming an employer.	**1**
- Employers are liable to withhold PAYE on behalf of employees.	**1**
- Employment income is only taxed to the extent that an individual earns more than $300 in a month.	**1**
- Between January and March, Aloice would not have needed to register as an employer as none of the employees earned over $300 during that time, thus there was no PAYE to withhold.	**1**
- However, given that the accountant earns more than $300, Aloice became liable to register as soon as the accountant started work.	**1**

TUTORIAL 10

All amounts are in United States Dollars and are exclusive of VAT unless otherwise indicated

You're a student trainee at GMPK in the 3rd year of your training contract and have been assigned to the Tax department. GMPK has a range of clients for whom they offer tax services and your manager Ben Ndoro has assigned you to work on COZIMO (Pvt) Ltd (COZIMO)

COZIMO is a Zimbabwean company that is a distributor for Mercedes-Benz, Jeep, Chrysler, Dodge, Fiat, Alfa Romeo and GWM passenger vehicles in Zimbabwe, as well as the official dealership for Mitsubishi. It is also the official distributor for Daimler Trucks and Buses which include Mercedes-Benz, Freightliner and FUSO light, medium and heavy duty commercial vehicles. COZIMO's Head Office is in Harare, on a 30-acre plot on Simon Muzenda Road, Msasa. COZIMO is 100% owned by ZIMO Holdings Ltd, a company listed on the Zimbabwe Stock Exchange (ZSE) and the Johannesburg Stock Exchange (JSE). COZIMO is a **category C** VAT registered operator.

As an official distributor of the above franchises, COZIMO is required to support the products through maintaining sales showrooms, workshops, genuine parts and continuous training of personnel to ensure established service back up throughout Zimbabwe. The after-sales service is based at Douglas Road comprising of the Mercedes-Benz, Jeep and Chrysler workshops which service other franchises such as Mitsubishi and GWM. COZIMO also operates the Commercial Vehicle Workshop, the Body Repair Centre for accidental damages to vehicles and the Central Parts Department which stocks parts for all COZIMO's franchises.

The commercial vehicle, GWM and Mitsubishi sales are based at the Harare Showgrounds. The passenger vehicle sales are based at Borrowdale Sam Levy's Village and Strachan's Chambers in Harare's CBD.

Instalment Sale

COZIMO sells some vehicles on instalment sale arrangements. Instalment sales are the simple, traditional route to financing vehicle ownership. Financing periods can be structured from 12 - 60 months or longer dependant on client needs.

Lease

COZIMO leases vehicles giving clients the right to use it for an agreed period, during which time clients pay rentals. At the end of the term, the clients have three options,

i. return the goods;
ii. acquire ownership or
iii. extend the lease.

COZIMO would like GMPK to review its business and advise on the tax consequences of its whole business in connection with the 2016 tax year of assessment. COZIMO's Chief Executive Officer got wind that ZIMRA was going to be tightening its tax surveillance and monitoring. He heard that there is an amnesty period of up to 31 December 2016 where all declared transactions prior to that date shall not accrue penalties and interest. The following specific transactions have been identified for the review discussions.

PART 1

1. **Car Sales Business - Distribution**

   COZIMO sells both brand new and used commercial and passenger vehicles.

   1.1. During the year, COZIMO imported brand new vehicles from foreign countries (mainly South Africa and Italy). These cars were mostly resold. However, some of the vehicles were allocated for use in the following COZIMO business units:
   - 2 light commercial trucks were retained for use in the workshop department;
   - one passenger motor vehicle was allocated to the financial services division for use in the division and;
   - 3 passenger vehicles were allocated for use as demo cars, and as workshop courtesy vehicles.

   1.2. COZIMO sells pre-owned cars on behalf of individuals. In terms of this arrangement, individuals can bring their vehicles to any one of COZIMO's showrooms, where COZIMO would market and sell the vehicle on behalf of the individuals. Under this arrangement COZIMO would then charge the original owner of the vehicle a commission ranging between 5% to 10% of the sale proceeds.

   1.3. Earlier in the year COMIZO imported pre-owned vehicles for resale given that demand for brand new vehicles was on a downward trajectory.

   1.4. COZIMO has a foreign branch in Botswana and transfers brand new motor vehicles from its stock holding from time to time to its Botswana branch. The Botswana branch has a standalone accounting system.

   1.5. COZIMO offers a lay-by scheme which has a 5% discount on the cash price. Customers can pay for the vehicles over 3 instalments in three months to access the discount.

   1.6. For the Instalment sale arrangements, COZIMO sold new cars by taking a 25% deposit of the cash prices and the balance being payable over agreed periods of time including the interest component. The maximum credit period is 12 months.

1.7. During the year COZIMO repossessed two vehicles initially sold by way of instalment credit arrangement, whose payments were in arrears. On repossession, the client forfeited 70% of the instalments she had paid to date. The 30% was refunded and amounted to $3,000. At the time of sale, the two vehicles had a cash price of $30,000 each.

2. Leasing Business

COZIMO leased 57 vehicles in different classes during the year. Under the lease arrangements, a customer pays a non-refundable deposit of not less than 15% of the cash price followed by rentals for a defined period. Thereafter the lessee has an option to own the vehicle by paying a bullet payment at the end of the lease term or returning the vehicle and leasing out another via a rollover facility.

During the year COZIMO was sued by two of its lease clients. The clients expected much higher trade in values as they wanted to upgrade to newer models but had not understood the terms when they signed up initially. COZIMO engaged South African experts on the matter to assist in their defence case who charged R105,000 for the service. The exchange rate was $1: R15 at the time of bringing in the experts. The same team also trained the financial services division on the legal matters attendant to the financial services that the division is offering.

3. Workshop business

COZIMO has a state of the art workshop which offers various services and products. The workshop has a parts shop which sells spares to walk in clients whose cars are not necessarily repaired in the workshop. These spares are all imported "genuine" spares. The work shop repairs motor vehicles from engine maintenance, suspension maintenance and body work. COZIMO has a body shop for restoration of accident damaged vehicles to as good as new as is possible.

During the year the workshop entered into the following transactions:

3.1. Acquired some material from Italy i.e. paint, thinners and other such sundries for spray-painting.

3.2. Enlisted the services of Italian experts for training technical staff in motor mechanics, panel beating and spray-painting.

3.3. Acquired some workshop material from local VAT registered dealers.

3.4. Purchased fuel for $8,200 for the whole year for the workshop staff and the courtesy vehicle.

3.5. Offered a Jeep Cherokee SUV 4.2 litre to the General Manager (GM) for use on both business and private errands. The G.M. also gets $200 per month worth of fuel.

3.6. Provides accommodation at the company house in Borrowdale for the G.M. The house cost 305,000 to construct. Rentals of similar houses in the area are currently $650 per month.

3.7. The G.M. gets a monthly cash allowance $500 over and above his salary.

3.8. COZIMO also pays school fees of $9,000 per annum for the GM's son who learns at Peterhouse school.

3.9. The workshop offers teas, newspapers snacks to its customers in the workshop waiting area for those jobs that are done while the customer waits such as tyre change etc. During the year they bought a new water dispenser and an LED television for customers to watch, all from a VAT registered supplier.

Financial Services Division

COZIMO has a financial services division which offers financial packages for prospective buyers. Here buyers take loans to buy the cars on COZIMO's terms. This division also offers insurance packages for the purchased vehicles.

PART 2

During the year COZIMO disposed of a few assets as shown in the table below:

ASSET	ACQUISITION DATE	COST	NBV	DISPOSAL DATE	PROCEEDS
Old Workshop building	05 July 1968	25,000.00	Nil	23 July 2016	28,000.00
Light commercial truck	01 June 2014	21,000.00	10,150.00	28 Dec 2016	7,500.00
Treasury Bills	30 Sept 2015	10,000.00	12,000.00	30 Sept 2016	12,000.00
Shares in Econet Wireless Zimbabwe (EWH) Ltd. (listed on the ZSE)	31 Oct 2016	35,000.00	32,000.00	05 Dec 2016	32,000.00
Milton Park Residential House	23 July 2008	ZWD 40million	50,000.00	03 July 2016	105,000.00
Mercedes Benz C-Class	01 June 2014	53,000.00	21,500.00	18 Aug 2016	36,000.00
*Office building	25 Mar 2009	110,000.00	88,000.00	11 Mar 2016	95,000.00

*The office building was sold to a company owned by COZIMO. The market value of the building was $102,000.

- On the 3rd of February, a fire broke out in the showroom and two vehicles were destroyed before the fire could be put out. The fire destroyed part of the showroom as well. One of the vehicles was a Fiat light passenger courtesy vehicle and the other a pre-owned FUSO light truck vehicle that was up for sale. The Fiat had been bought in Jan 2014 for $35,000 and the FUSO in March 2015 for 18,000 respectively. The vehicles were both insured and the insurance paid 16,000 for the Fiat and $18,000 for the FUSO.

<table>
<tr><th colspan="2" rowspan="2">QUESTION 1 REQUIRED</th><th colspan="2">Marks</th></tr>
<tr><th>Sub-total</th><th>Total</th></tr>
<tr><td>a)</td><td>Discuss, with supporting calculations where relevant, the VAT consequences to COZIMO of the transactions detailed in the following notes:
i. Car sale business - Notes 1.1. to 1.5
ii. The leasing business in note 2; and
iii. The workshop business – 3.1; 3.3 to 3.9 (Ignore 3.2)
Your discussion should address the following key issues were applicable:
▪ the classification of whether the supply is taxable or not and at what rate;
▪ whether input tax can be claimed or output tax should be charged;
▪ the time of supply;
▪ the Value of supply; and
▪ the supporting calculation.</td><td>20
10
20</td><td>50</td></tr>
<tr><td>b)</td><td>Discuss, with supporting calculations, the Income tax implications to COZIMO of the asset disposals in Part 2 for the year ended 31 December 2016.</td><td>25</td><td>25</td></tr>
<tr><td>c)</td><td>Calculate the Capital Gains Tax payable by COZIMO's on the asset disposals in Part 2 in the year ended 31 December 2016. For each transaction or event, provide a brief explanation of the CGT treatment.</td><td>19</td><td>19</td></tr>
<tr><td>d)</td><td>Calculate the output VAT on each of the assets disposed of by COZIMO in PART 2 of the scenario. Provide a brief explanation where there are no output VAT consequences.</td><td>6</td><td>6</td></tr>
</table>

SOLUTION

a)	Based on all the information scenario, discuss, with supporting calculations, the VAT consequences of COZIMO's:		
	iv. Car sale business;	20	
	v. The leasing business; and	5	50
	vi. The workshop business	25	

	Marks
Students may go on to state *"VAT shall be levied on supply by any registered operator of goods or services … furtherance of trade … trade means any trade or activity etc.…"* ***Grant 1 mark*** *for* ***first time mention****, and* ***½ mark*** *for each* ***<u>note if mentioned</u>****. The student is not wrong in putting that on paper, but that is not where the issue is, which is why full marks are not being awarded.*	
i. <u>Car sale business</u>	
1.1. <u>Imports – brand-new</u>	
Output tax arises on importation of goods s6(1)(b).	**1**
COZIMO imported motor vehicles and therefore the import VAT shall be charged.	**1**
Motor vehicles are standard rated; thus, VAT will be charged at 15%	**1**
The value of supply shall be the value for duty purposes plus duty.	**1**
The time of supply shall be the date of entry into Zimbabwe.	**1**
<u>Input tax</u>	
Input tax can be claimed if a person was charged VAT on purchase and also if the supply is to be used to make taxable supplies	**1**
COZIMO was charged VAT on import	**1**
COZIMO will use some of the cars to make taxable supplies and one was to be used in the making of non-taxable supplies.	**1**
The vehicle to be used in the financial services division does not therefore qualify for an input tax claim, as it will be used for making non-taxable supply.	**1**
However, s16 prohibits the claiming of input VAT on passenger motor vehicles, thus COZIMO cannot claim VAT on any of the imported PMVs.	**1**
COZIMO may claim input tax on all the other vehicles.	**1**
<u>Resale</u>	
Upon sale of the brand-new vehicles COZIMO shall charge output tax on the sales at the standard rate	**1**
Any vehicles sold second-hand shall not have VAT charged on them	**1**
The value of supply is consideration less VAT	**1**
Time of supply is the earlier of invoice or payment	**1**

MAX	**7**
1.2. <u>Pre-owned vehicles</u>	
S6(1)(a) of the VAT Act prohibits the charging of VAT on the sale of second hand motor vehicles.	**1**
Given that both the pre-owned and used vehicles are second hand, COZIMO cannot charge output tax on those sales.	**1**
However, COZIMO receives a commission for providing the customers with a resale service.	**1**
This is a standard rated supply and shall be taxed VAT at a rate of 15%	**1**
Max	**3**
1.3. <u>Imported pre-owned</u>	
Here students may repeat discussion in note 1.1, only award ½ marks *Students may end up arguing that these vehicles can be charged VAT, based on the fact that they not new to Zimbabwe. Markers are to award marks in such cases.*	
Output VAT is charged on the import of goods, thus COZIMO would be charged import VAT when the vehicles enter Zimbabwe.	**1**
Input tax shall be claimable if VAT was charged and if the person shall be using the goods to make taxable supplies.	**1**
Input VAT cannot be claimed as they are making non-taxable supplies (sale of 2^{nd} hand MV)	**1**
Upon selling them, the second-hand motor vehicles shall not have any VAT consequences per S6(1)(a) and therefore no input taxes are claimable on expenditures to make such non-taxable supplies.	**1**
For passenger motor vehicles, COZIMO cannot claim input tax on the purchase, given the provision of s16(2)	**1** **(ALT)**
Max	**3**
1.4. <u>Transfers to foreign branch</u>	
In accordance with s7(8), any transfers to an independent branch by a registered operator are a deemed supply.	**1**
The Botswana branch is independent since it is a business that can be separately identified and has an independent system of accounting. S2 Interpretation of **Trade para II.**	**1** **1**
Thus, COZIMO should charge output VAT on the transfers to the independent branch.	**1**

The value of supply shall be open market value if the Botswana branch cannot claim input VAT, otherwise it is the consideration less VAT.	**1**
The time of supply shall be the date of transfer.	**1**
However, given that the transfers are to a branch outside Zimbabwe, the deemed sales are zero-rated in accordance with s10.	**1**
Max	**4**
1.5. <u>Lay-bye</u>	
Under s7(4) a lay-bye agreement of more than $25 attracts is a deemed supply.	**1**
For brand-new vehicles COZIMO would charge VAT at the time the vehicles are delivered to the customers.	**1**
The value of supply is the consideration less VAT	**1**
The value of supply should be calculated net of the 5% discount	**1**
For second hand vehicles, COZIMO cannot charge VAT given the provision in s6(1)(a)	**1**
Max	**3**
This section was scoped out from being tested during the exam, but is left in place for the sake of students' use	
1.6. <u>Instalment Sales Arrangements</u>	
COZIMO shall charge output VAT for supplies on instalment sales arrangements for brand new motor vehicles only.	**1**
The time of supply shall be the earlier of the goods being delivered or the signing of the credit agreement s8(3)(c)	**1**
The value of the supply shall be the cash price of the vehicles s9(6)	**1**
The interest portion shall not be charged VAT as it is a financial service as defined, and is thus exempt from VAT.	**1**
1.7. <u>Repossession</u>	
Repossession of goods sold under ISA is a deemed sale in accordance with S7(9).	**2**
Given that COZIMO had to repossess the vehicles, and was previously charged output VAT, they shall make an input adjustment on the outstanding cash balance.	**1**
Since COZIMO paid back the entire amount paid by the customer, they shall make an input tax adjustment for the entire amount of output tax they had previously charged to the transaction.	**1**
Available	
Max	**20**

ii. <u>Leasing business</u>	
<u>Lease</u>	
*Though interest was not mentioned in the scenario, students may discuss interest imputed into the periodic payments. Given that scenario is not clear on this, allow **1 mark** for interest in lease payments discussion.*	
Given that COZIMO supplies these goods under a rental agreement, the rentals are subject to output VAT.	**1**
The deposit and rental payments shall be charged VAT at a rate of 15%	**1**
The rental payments are successive supplies in the case of a rental agreement.	**1**
The time of supply – for successive supplies – is when the payments are made or become due, whichever is earlier.	**1**
Value of supply is consideration less VAT.	**1**
In the case that a customer decides to purchase the vehicles and starts making bullet payments, this would constitute sale of a second-hand vehicle. Thus, no VAT shall be charged	**1**
ALTERNATIVE	
This is an instalment credit agreement in accordance with s2 of the VAT Act, this is a supply subject to VAT.	**1**
The supply is standard rated	**1**
Value of supply is the cash value of the vehicles.	**1**
Time of supply is the earlier of delivery of the vehicles or payment of the first instalment. ***[here students may include the signing of the agreement, which is ok]***	**1**
Interest included in the payments is not subject to VAT as it is a financial service, which is exempt in accordance with s11.	**1**
<u>Litigation and training</u>	
In accordance with s6, VAT is charged on imported services. Thus, it is important to define imported services.	**1**
An imported service is a supply made by a non-resident for consumption by a resident registered operator in the making of non-taxable supplies.	**1**
<u>For litigation:</u> - The supplier is a non-resident (South African lawyer); - The recipient of the service is a resident; and - The services are consumed in the making of **taxable** supplies (leasing vehicles).	 **0.5** **0.5** **0.5**
Thus, no VAT shall be charged on the supply by the South African lawyer.	**1**
For leases training: - The supplier is a non-resident (South African lawyer);	 **0.5**

- The recipient of the service is a resident; and	**0.5**
- The services are consumed in the making of **non-taxable** supplies (financial services).	**0.5**
Thus, output VAT shall be charged on the supply by the South African financial services legal experts.	**1**
COZIMO shall be required to account for the output VAT and not the service providers.	**1**
This is a standard rated supply (VAT @ 15%)	**1**
Time of supply is the earlier of invoice or payment.	**1**
Value of supply is the higher of OMV or invoice value of the service.	**1**
Available	**17**
Max	**10**
iii. <u>Workshop business</u>	
3.1. <u>Paint acquisition</u>	
In accordance with s6(1)(a), VAT shall be charged on the import of goods.	**1**
Thus, COZIMO shall be charged VAT on the import of the painting inventory.	**1**
This is a standard rated supply	**1**
Since the inventory would be used to make taxable supplies in the course of trade, COZIMO will be allowed to claim an input tax deduction on the purchase.	**1**
TOS is the date the paint is brought into Zimbabwe for use in the business.	**1**
VOS is CIF + duty	**1**
Max	**3**
Again, this was scoped out from testing during the exam setting process, and has been included in solution for completeness.	
3.2. <u>Italian mechanics</u>	
The service was supplied by a non-resident supplier	**0.5**
The service was consumed by a resident operator	**0.5**
The service was consumed in the making of taxable supplies.	**0.5**
Thus, no VAT would be charged on the transaction as this is not an imported service as defined.	**1**
3.3. <u>Workshop material</u>	
This is a standard rated supply	**1**
COZIMO may claim input tax on the materials, given that they were purchased from VAT registered operators and they were charged output tax on them.	**1**
TOS is earlier or invoice or payment	**1**

VOS is consideration less VAT	1
Max	**3**
3.4. <u>Fuel expenses</u>	
No input tax can be claimed on fuel since no VAT was levied on fuel upon purchase	1
Work shop staff:	
Fuel for the workshop staff is a fringe benefit	1
Fringe benefits are a deemed supply, and attract output VAT.	1
However, given that the supply of fuel is exempt, no VAT shall be charged for availing the staff with this benefit.	1
Max	**3**
3.5. <u>Manager Jeep</u>	
The supply of the Jeep is a fringe benefit and attracts output VAT.	1
VAT is charged based on the value of the benefit for PAYE purposes.	1
The value for the Jeep is $800 per month for PAYE purposes.	1
VAT is charged using the tax fraction, thus output VAT will be 15/115 x 800 = 104.35 per month.	2
Fuel is exempt; thus, no VAT output shall be charged on this fringe benefit.	1
Max	**4**
3.6. <u>Accommodation</u>	
The supply of residential accommodation is an exempt supply.	1
Thus, no output VAT shall be charged for the supply of the accommodation to the general manager.	1
Max	**1**
3.7. <u>Cash allowances</u>	
Cash is excluded from the definition of goods in s2.	1
Thus, no output VAT shall be charged on the supply of cash to the GM.	1
Max	**2**
3.8. <u>School fees</u>	
This is a fringe benefit to the employee; thus, COZIMO shall consider output VAT	1
This is a supply of education services, and education services are exempt from VAT	1
Thus, the fees payment will not attract VAT.	1
Max	**2**

3.9. <u>Entertainment</u>	
Entertainment is defined as the provision of any food, beverages...entertainment, amusement…., or hospitality of any kind by a registered operator to anyone in connection with his trade.	**1**
The supplies in this case meet the definition of entertainment.	**1**
Thus, COZIMO cannot claim input VAT on the TV or the water dispenser, as they are to be used for the purposes of entertainment.	**1**
Max	**2**
Available	**29**
Max	**20**

b)	Discuss, with supporting calculations, the Income tax implications of the asset disposals in Part 2.	25	25

	Marks
<u>Old workshop</u>	
Proceeds from the disposal of the workshop are capital in nature, thus they are excluded from gross income.	**1**
S8 brings into gross income recoupment calculated on the disposal of the assets.	**1**
Since the building was acquired during the Zimbabwe dollar era, it is impracticable to calculate recoupment on it.	**1**
<u>Truck</u>	
S8(1)(j) of the Income Tax Act brings into gross income any amount of capital allowances previously granted recovered upon sale of an asset as a recoupment.	**2**
The recoupment shall be calculated as proceeds less income tax value, limited to the capital allowances granted.	**1**
It would be calculated as:	
Selling price 7,500 *Less* ITV (10,500) Possible scrapping allowance (3,000)	**0.5** **0.5** **0.5**
In this case, the recoupment calculation gives rise to a possible scrapping allowance.	**1**
Paragraph 4 of the 4^{th} schedule only allows a deduction of scrapping allowance in cases where the asset is actually scrapped and not sold.	**1**
<u>Treasury bills</u>	
The definition of gross income per s8 of the Income Tax Act excludes amounts that are capital in nature.	**1**
The income arising from the sale of the TBs is capital in nature given that COZIMO is not in the business of buying and selling TBs.	**1**
Thus, there will be no income tax implications on this transaction.	**1**
<u>Econet shares</u>	
The income arising from the sale of the shares is capital in nature given that COZIMO is not in the business of buying and selling shares.	**1**
Thus, there will be no income tax implications on this transaction.	**1**
<u>Milton Park House</u>	

There were no capital allowances granted on this building, thus there will be no recoupment.		1
<u>Mercedes</u>		
There is a possible recoupment on this transaction given that capital allowances were previously granted on the asset.		1
However, given that the asset is a passenger motor vehicle, under the 4th schedule its cost is limited to $10,000, thus a restriction shall also be applied to the selling price.		2
The recoupment shall be calculated as:		
Proceeds (10k/53k x 36k)	6,792	1.5
Less ITV	(5,000)	1
Potential recoupment	1,792	0.5
Limited to capital allowances previously granted	5,000	1
Actual recoupment	1,792	1
<u>Office building</u>		
A potential recoupment arises on the transfer.		0.5
The 4th schedule para 8(3) allows a transfer of assets between companies under common control to be deemed to have occurred at the income tax value of the asset.		1
Given that the selling price and the ITV would be the same, the recoupment would be nil.		1
Therefore, the building will be transferred at $90,750 (110k – 2.5%x110k x7)		1
Here some students will discuss transfer pricing provisions, only award 1 mark as the relevant principle is the issue regarding transfer between companies under common control		
<u>Damaged vehicles</u>		
In cases where assets are damaged and insurance pays out, it is a deemed disposal, and recoupment is to be calculated if the asset was being utilised in the production of income.		1
Given that COZIMO shows no intention to replace the assets, the provision in s8(1)(j)(i) will not apply, and recoupment is to be charged in full.		2
Recoupment would be calculated as:		
Fiat		
Proceeds (10k/35k x 16k)	4,571	1.5 1

Less ITV (5,000) Potential scrapping allowance 429 Given that the vehicle was not scrapped, no deduction would be allowed.		**0.5** **1**
There is no recoupment on the FUSO truck as it is part of inventory, thus the 18k relating to the truck will be included in gross income in full.		**1**
	Available	**31**
	Max	**25**

c)	Calculate the CGT consequences of the asset disposals in Part 2. For each transaction in the table provide a brief explanation of the CGT treatment.	19	19

	Marks
General	
Capital gains tax is levied on the gain arising from the **disposal of specified assets**.	**1**
Specified assets are **immovable property**, and any **marketable security**.	**1**
Old workshop	
$28,000 x 5% = $1,400.00.	**1**
The asset was acquired before 01 Feb 2009 and so 5% is applied to the proceeds on disposal to come up with the CGT payable.	**1**
Light commercial truck	
The truck is movable property, and thus, does not meet the definition of a specified asset.	**1**
Therefore, no CGT arises on this transaction.	**1**
Treasury bills	
Treasury bills are specified assets as defined, thus, the transaction attracts CGT.	**1**
Treasury bills are a loan to the state, the maturity of which is exempt from CGT in accordance with s10(c)	**1**
Econet shares	
The shares are specified assets as defined, thus, the transaction attracts CGT.	**1**
S10 of the CGT Act exempts from CGT amounts accruing from the sale of listed shares.	**1**
However, sales of listed shares are subject to a withholding tax.	**1**
Withholding tax would be 1% x 32k = $320	**1**
Milton Park House	
The Milton Park house is a specified asset, and thus, its disposal attracts CGT.	**1**
CGT is charged at a rate of 5% on gross proceeds on immovable property acquired before 2009.	**1**
CGT on the house would be 5% x 105k = $5,250	**1**
C-Class	

The vehicle is not a specified asset as it is movable property, thus, its disposal does not attract CGT.			**1**
<u>Office building</u>			
The sale is of a specified asset (immovable property), thus it attracts CGT.			**1**
S15 stipulates that, upon sale, the seller may elect to transfer the asset(s) at an amount (deemed selling price) equal to the deductions allowed under s11(2)			**2**
Thus, CGT would be:			
Proceeds		112,750	**0.5**
Less Recoupment		-	**1.0**
GCA		112,750	
less			
Cost	110,000		**0.5**
Capital allowances granted (2.5% x 110k x 7)	(19,250)		**1.0**
Inflation allowance (2.5% x 10k x 8)	22,000	(112,750)	**1.0**
Capital gain		-	
CGT @ 20%		-	***1.0***
Only award mark for rate application if student missed the transfer concept			
<u>Fire damaged vehicles</u>			
Both assets damaged by fire do not meet the definition of a specified asset.			**1**
Thus, the indemnity receipt does not attract CGT.			**1**
NB: Only vehicle insurance was mentioned, and not insurance for the showroom			
Available			**27**
Max			**20**

d)	Calculate the VAT payable or refundable on the assets disposed of by COZIMO in PART 2 of the scenario. Provide a brief explanation in your computation for the treatment of each transaction.	6	6

	$	Marks
	Output	
Old workshop (28k x 15%)	4,200	**1.0**
Truck - no VAT on 2nd hand vehicles	-	**1.0**
Treasury bills - financial service - exempt s11	-	**1.0**
Shares - financial service - exempt s 11	-	**1.0**
Milton park house (15% x 105k)	15,750	**1.0**
Office building (102k x 15%) - unregistered connected person	15,300	**2.0**
ALT		
Office building (95k x 15%) - registered connected person	14,250	**2.0**
Mercedes - no VAT on 2nd hand vehicles	-	**1.0**
Fiat - no VAT on 2nd hand vehicles	-	**1.0**
FUSO light - no VAT on 2nd hand vehicles	-	**1.0**
Total	35,250	
VAT liability	35,250	
	Available	**10.0**
	Max	**6.0**