

CTA PART 1 2017 TAXATION MID-YEAR PAPER 1: SOLUTION

A. With reference to the information in Note 1.1 discuss the income tax implications to Zimdis of the prepayment of \$245 560 and the expenditure incurred in respect of serving the contract for the 2015 and 2016 year of assessment.

MARKS

2015 Year of assessment		
1	The pertinent question with regards to the amount of \$245,560, is whether the it has been received or not in the 2015 year of assessment.	1
2	According to S8 gross income, income is included as part of gross income if it has either been received or has accrued.	1
3	Received on the other hand means that the taxpayer has received for their own benefit and or on their own behalf. - Geldenhuys case.	1
4	It can be assumed that the amount of \$245,560 was received for Zimdis' s benefit, since Zimdis did not hold this money separately and could apply it to some other use in the interim with a 2016 deliverable.	1
5	The \$245,560 would have been included in Zimdis' s gross income for the 2015 year of assessment.	1
6	According to S15(2)(cc), an allowance can be allowed to the taxpayer for estimated expenditure to be incurred in future year of assessments if it relates to gross income in the current year.	1
7	The estimate of \$180,560 will be allowed as a deduction in the 2015 year of assessment.	1
2016 year of assessment		
8	S (15) (2)(cc) further states that such allowance will be included in the income of the taxpayer in the following year and so the \$180,560 should be included in gross income in the 2016 year of assessment.	1
9	The amount of \$169,456 was incurred in the production of income, and therefore is an allowable deduction as per s15(2) in the 2016 year of assessment.	1
10	The \$245,560 received in 2015 will not be included in gross income in 2016 since it would have been taxable in the previous year.	1
Presentation and communication		1
Total		11
Maximum		10

Commented [EW1]: Award this mark where a student clearly separate discussion between 2015 & 2016.

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B. Discuss the Value-Added Tax implication to Zimdis of the prepayment and the instalment sale agreement as detailed in Note 1.1 and 1.2.

1.1

There shall be levied and charged VAT for the supply of goods by a registered operator on or after the fixed date in the course or furtherance of trade - s6(1)(a) 1

Zimdis is supplying goods (spirit wines), is a registered operator and doing so in the furtherance of trade as defined in section 2 of the VAT Act. 2

Wines are taxable supplies since they are not exempt. 1

According to Sect 10 of the VAT Act, zero-rated supplies include exports. 1

Since Zimdis is selling to a foreign customer in Zambia, they are exporting and therefore the Zimdis shall account for output tax at 0%. 1

The general value of supply rule shall be the consideration less VAT and therefore the \$245,560 is the consideration. 1

Generally, time of supply is the earlier of a payment being received or the delivery of the supply has been made. 1

The time of supply is when Zimdis received the prepayment from the customer, which in this case is 2015. 1

While the output tax is nil, Zimdis can claim input tax on zero rated supplies as they remain taxable supplies. 1

The \$169,456 is a cost incurred in making taxable supplies. An assessment of whether any VAT was paid in respect of these cost should be made and subject to all the requirements of s 16, Zimdis can claim the input tax. 1

TOTALS 11

Max 7

1.2

Zimdis supplied goods and a credit to a wholesaler in Botswana and since Zimdis is a registered operator and it was for the purposes of trade, Zimdis must levy VAT per s6(1)(a) for the taxable supplies. 1

The credit is an exempt supply. Exempt supplies are excluded from the section 2 definition of trade and therefore no VAT should be levied per s6(1)(a). 1

The wine is a taxable supply being exported to Botswana and included in exports that are zero rated per s10 and therefore taxed at 0%. 1

The input vat on costs incurred to supply this wine is therefore claimable as the wine supply is a taxable supply. 1

The value of supply is the cash value of goods. $[560,000/1.3 \times 1.25 = 538,461.50]$ 3

The time of supply the earlier of goods being delivered or the signing of the agreement, which in this case is the 1st of October 2016. 1

TOTALS 8

Max 7

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Calculate the taxable income and income tax payable by Zimdis for 2016 year of assessment. You should start your computation with the net profit before tax of \$2,402,306.

	\$	
Profit before tax	2,402,306.00	
1.1 S 15 (2)(cc) Allowance previously granted	180,560.00	1
Deferred Income [S8, gross income]	(245,560.00)	1
Cost of Sales on sales to Zambia S15(2)	-	1
1.2 S17 Allowance, Installment Credit Sales (3/6 x 0.23 x 560k)	(64,615.38)	2
Installment Sales [received and accrued S8, gross income]	-	1
2.1 S15(2)(gg) Export development expenditure [double deduction]	(26,000.00)	1.5
Marketing of Johnny Walker [allowable, purposes of trade S(15)(2)]	-	1
2.2 Depreciation [not incurred]	130,000.00	0.5
Overhead under absorption charge (deductible since it has been indicated that they are allowed)	-	1
Payment for late payment of duties [prohibited deduction]	16,000.00	1
3.1 Compensation for repairs [revenue nature]	-	1
Compensation for stock [revenue nature]	-	1
3.2 Profit on Disposal [not received]	(20,000.00)	1
Recoupment on sale of trucks	40,000.00	2
Allowances previously granted - 25k x 5=125k. Proceeds - 5 x 8k = 40k		
4 Travelling & Accommodation Costs [for the purposes of trade]	-	1
Motor Vehicles [for the purposes of trade]	-	1
5 Administration Staff costs [for the purposes of trade]	-	1
Cost of shares awarded to directors -prohibited sect 16(1)(l)	63,546.00	1
Insurance premiums	-	1
Depreciation [not incurred]	56,000.00	0.5
Sponsorship of premier soccer league Zimdis cup [disallowed, S15 (2)]	80,000.00	1
6 Other operating expenses [deductible]	-	1
7 Finance Income [Gross Income]	-	1
8 Exchange Loss [capital nature]	121,914.00	1
9 Boiler Equipment [SIA on (1,093,892-1,200-141,221)	(237,867.75)	3
Staff training costs [for the purposes of trade]	(1,200.00)	1
10 Prepayment [allowable deduction]	(4,000.00)	1
TAXABLE INCOME	2,491,082.87	
TAX PAYABLE @20%	498,216.57	1.5
	Presentation	1
		33

Deduct ½ if student adds AIDS Levy

WORKINGS:

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Installment Sale

Cost	430,769.23
GP	129,230.77
GP %	0.23

Recoupment

Proceeds	40,000.00
ITV	-
Potential Recoup	40,000.00
Ltd to 125000	

D. Discuss with supporting calculations the VAT implication of the insurance proceeds received by Zimdis as detailed in note 3.1

The pertinent issue in question is whether the insurance proceeds constitute proceeds from a supply.	1
According to Sect 7(7) of the VAT Act, where a registered operator receives an indemnity payment under a contract insurance in the furtherance of trade, it shall be deemed to be a supply.	1
Zimdis has received an indemnity payment from a contract of insurance, therefore these can be deemed to be a supply under the VAT Act.	1
The insurance proceeds are for two deemed supplies, being second hand motor vehicles and inventory.	1
For the indemnification of the repairs, in order for output tax to be levied, Zimdis needs to have employed the services of a mechanic who is a registered operator and claimed input tax on the repairs	1
OR	
If Zimdis had the repairs done by an unregistered party, then no output tax would be levied on the indemnification	1
The value of the supply is consideration less VAT i.e. \$7k x 100/115	1
In the case of the inventory, output tax is levied as it is a deemed supply since input tax had been claimed at the time of acquisition of the goods.	1
The value of supply is the consideration less VAT i.e. [\$8,000 x 100/115]	2
The Time of supply is the date of receipt of payment	1
Totals	9
	Max 9

E. Discuss whether Mineentra School of Engineering will be required to withhold employees tax on the amounts payable to Peter for the 2016 year of assessment.

According to the Income Tax Act, any resident or non-resident employer, who employer, who employs one or more members of staff whose gross pay, including benefits and allowances exceeds \$300 per month is required to register with ZIMRA, withhold PAYE from employees on their employment income and remit PAYE to the commissioner by the 10th of the month following the deduction.	1
The pertinent question is whether or not MSE has an employer employee relationship with Peter and if there is	1
Employment income is income earned by an individual in respect of services rendered under any contract of employment and any amount received due to the cessation of employment.	1
An employee means an individual to whom remuneration is paid or payable at an annual rate in respect of the year of assessment concerned;	1
“remuneration” means any amount of income which is paid or payable to any person by way of any salary, leave pay, allowance, wage, overtime pay, bonus, gratuity, commission, fee, emolument, pension, superannuation allowance, retiring allowance, stipend or commutation of a pension or an annuity, whether in cash or otherwise and whether or not in respect of services rendered	1
MSE offered a remuneration package and therefore points towards Peter being an employee.	1
Peter accrues leave days and therefore this points to an employment contract between Peter and MSE and leave pay is remuneration.	1
MSE therefore has an employer employee relationship with Peter as MSE remunerates Peter for services rendered in a contract of employment.	1
Peter is earning at \$300 per lecture plus other benefits, therefore his benefits exceed \$300 per month.	1
Since Mineentra meets all the conditions stated above, they need to register with ZIMRA and withhold and remit employees tax.	1
TOTAL	10
	Max 8

F. Discuss the income tax implications to Peter of the relocations expenses of \$1 500 paid by MSE.

The pertinent issue in question is whether the relocation expenses paid by MSE constitute a benefit to Peter. 1

According to Sect 8(1)(f), a passage benefit is the costs borne by the employer towards the employee, his spouse and children in connection with his taking employment or on the termination of his employment, service, office or other gainful occupation. 1

The costs incurred by MSE for Peter's relocation, meet the definition of passage benefit. 1

Therefore, these costs are a benefit to Peter and should be included in his gross income. 1

However, Sect 8(1)(f), further states that the benefit is excluded if it represents the first time such benefit is granted by the employer to that employee. 1

This is the first-time Peter is receiving this benefit from MSE, hence it is excluded from the general rule. 1

Therefore, this amount will not be included in Peter's gross income. 1

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Calculate the taxable income and income tax payable by Peter on income arising from the information provided.

	\$	
Lecture Fees [S8, gross income] [(300*26) + (200*6)]	9,000.00	2
Lecture flat fee [S8, gross income]	7,500.00	1
Signing on fee	3,000	2
Accrued Leave days [neither received or accrued]	-	1
Employer Contribution to pension fund [exempt]	-	1
Motoring Benefit [S8, gross income] [9*600]	5,400.00	2
School fees Waiver [S8, gross income] [700/.6*.4*50%]	233	2
Interest free loan [S8, gross income] [exempt, for education purposes]	-	1
Passage benefit [S8, gross income] [exempt, first time granted]	-	1
Employer Contribution to medical aid [exempt]	-	1
Annual subscriptions engineering society of Zimbabwe [allowable]	(600.00)	1
TAXABLE INCOME	24,533.33	
Tax per Tables		
First \$18 000	2,880.00	1
From (\$18,000 - \$24,533.33) x 25%	1633.33	1
Credits:		
Medical Expenses Credit [800*50%]	(400.00)	1
	4,113.33	
AIDS Levy @ 3%	123.40	1
TOTAL TAX PAYABLE	4,236.73	

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