

**CTA PART 1 2017 TAXATION MID-YEAR PAPER 2: 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% x 2,500] (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
	<i>Alternative: If a student has the property being sold on 1 June, meaning no rentals, award 1 mark</i>	-	
	Selling costs [15% x 2,500] (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

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	<i>Alternative: If a student has no VAT output for motoring benefit because BEH makes exempt supplies, award 4 mark</i>		
	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
	Training - Imported Service [(4,500 x 1.7) x 15/115]	997.83	2
3.8	Training - Pharmacist - not an imported service. To be used to make taxable/zero-rated supplies	-	2
	<b>VAT PAYABLE</b>	<b>84,384.39</b>	<b>45</b>

**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
<b>1.4 Shares</b>	
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

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**Discuss the Capital Gains Tax Implications for BEH on asset disposals**

**1.1.1 Property 1**

Capital gains arises on the disposal of a specified asset.		1
The property is an immovable property, therefore a specified asset as defined and will attract CGT.		1
The property was purchased before February 2009, therefore CGT is 5% on proceeds.		1
[89,000*5%]	<b>4,450</b>	1
	<b>Max</b>	<b>4</b>

**1.1.2 Property 2**

Capital gains arises on the disposal of a specified asset and this property is an immovable property, therefore a specified asset as defined which will attract CGT.		1
Proceeds	250,000	0.5
Recoupment	(15,075)	1
	<b>234,925</b>	
<b>Allowable Deductions</b>		
Cost	(201,000)	0.5
Inflation Allowance [201,000*.025*4]	(20,100)	2
Capital Allowances – mark awarded as long as figure is the same as recoupment	15,075	0.5
Selling Costs	(2,500)	1
Capital Gain	26,400	
CGT @ 20%	<b>5,280</b>	0.5
	<b>Max</b>	<b>5</b>

**1.2 Medical Equipment**

Specified assets are defined as either immovable property or marketable securities.		1
The hospital scanner is a movable component, therefore will not attract CGT.		2

**1.3 Laboratory**

Capital gains arises on the disposal of a specified asset and this property is an immovable property, therefore a specified asset as defined which will attract CGT.		1
Proceeds	240,000	0.5

Recoupment	(9,000)	1
	<b>239,100</b>	
<b>Allowable Deductions</b>		
Cost	180,000	0.5
Inflation Allowance [180000*.025*3]	(13,500)	2
Capital Allowances – mark awarded as long as figure is the same as recoupment	9,000	0.5
Selling Costs	(1,560)	1
Capital Gain	404,940	
Allowance: (40/48 x 404 940)	(337,450)	2
CGT @ 20%	<b>80,988</b>	0.5

**1.4.1 Treasury Bills**

The treasury bills are marketable securities, therefore a specified asset as defined and will attract CGT. 1

Proceeds	10,100	0.5
Cost	(9,800)	0.5
Inflation Allowance [9800*.025*4]	(980)	2
Capital loss	(680)	
CGT @	-	
Max		2 marks

**1.4.2 Shares**

The shares are marketable securities; therefore, a specified asset as defined and will attract CGT. 1

Proceeds	25,000	0.5
Cost	(18,000)	0.5
Inflation Allowance [18000*.025*3]	(1,350)	2
Capital Gain	5,650	
CGT @ 20%	<b>1,130</b>	0.5

**Alternative – Assuming BEMRAS is listed**

Proceeds from disposal of a listed investment are exempt from CGT.	2
The proceeds however, attract 1% withholding tax	1

**1.4.3 Listed Shares**

Proceeds from disposal of a listed investment are exempt from CGT. 1

The proceeds however, attract 1% withholding tax 1

Max

2 marks

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### Compute the Taxable Income of BEH for the 2016 year of assessment

	Net Profit	468,560.00	0
1.1.1	Property 1 - Recoupment	16,600.00	2
	Profit on Disposal [not received] [89,000-72,400]	(16,600.00)	0.5
1.1.2	Property 2 - Recoupment	15,075.00	2
	Profit on Disposal [not received] [250,000-175,500]	(74,500.00)	0.5
1.2	Medical Equipment – Recoupment postponed, compensation immediately used to acquire new equipments(1)(j)	-	1
	Profit on Disposal [not received] [44,000-28,000]	(16,000.00)	0.5
	SIA on new equipment (48k x 25%)	(12,000)	1
1.3	Laboratory - Recoupment	9,000.00	2
	Profit on Disposal [not received] [240,000-157,500]	(82,500.00)	0.5
1.4.1	Disposal of Treasury Bills [profit on disposal not received]	(300.00)	0.5
1.4.2	Disposal of Shares [profit on disposal not received]	(7,000.00)	0.5
1.4.3	Disposal of Shares [profit on disposal not received]	(1,200.00)	0.5
2.1	Sales of Drugs [63250+43940] [S8, gross income]	-	0.5
2.2	Sales of Consumables [S8, gross income]	-	0.5
2.3	Consultation Fees [S8, gross income]	-	0.5
2.4	Accommodation [S8, gross income]	-	0.5
2.5	Interest on Overdue Accounts [S8, gross income]	-	0.5
2.6	Lease Rentals Rehab [800 x 5]	-	0.5
	Lease Rentals Laboratory [700*6]	-	0.5
	Lease rentals – Downtown property [1.2k x 12]	-	0.5
3.1	Oxygen Gas [for the purposes of trade]	(560)	1
3.2	Drugs and Medicines [34,500+28,800] [for the purposes of trade]	(63,300.00)	1
3.3	Cleaning Material [for the purposes of trade]	-	0.5
3.4	Uniforms - Installment Agreement [received and accrued s8]	-	0.5
	Uniforms - Lay Bye [received and accrued s8]	-	0.5
3.5	Locums [for the purposes of trade]	-	0.5
3.6.1	Salaries [for the purposes of trade]	-	0.5
3.6.2	Fringe Benefits - motoring benefit [no deduction]	-	0.5
	Fringe Benefits - Fuel [150*3*7*1.05] [for the purposes of trade]	(3,307.50)	2
	Fringe Benefits - housing benefit [800*3*12] [for trade]	-	0.5
3.6.3	Board Fees - Exec [for the purposes of trade]	(9,800.00)	1
3.7	Dividend Paid [not for production of income]	25,000.00	0.5
3.8	Training [for the purposes of trade] (4,500 * 1.7)	(7,650.00)	1
	<b>TAXABLE INCOME</b>	<b>265,977.50</b>	<b>24.5</b>



**WORKINGS:**

1.1.1	<b>Recoupment</b>	
	Proceeds	89,000.00
	ITV	(72,400.00)
		<b>16,600.00</b>
1.1.2	<b>Recoupment</b>	
	Proceeds	250,000.00
	ITV [201000-(201000*2.5%*3)]	(185,925.00)
		<b>64,075.00</b>
	ltd to [201000*.025*3]	<b>15,075.00</b>
1.2	<b>Recoupment</b>	
	Proceeds	48,000.00
	ITV	(22,000.00)
		<b>26,000.00</b>
	ltd to [44000-22000]	<b>22,000.00</b>
1.3	<b>Recoupment</b>	
	Proceeds	240,000.00
	ITV [180000-(180000*2.5%*2)]	(171,000.00)
		<b>69,000.00</b>
	ltd to [180000*.025*2]	<b>900.00</b>