

<b>Part A</b>		
<b>a</b>	<p><b>With reference to the information provided in Part A Notes 1 to 3 discuss whether or not Aloice’s conclusions in respect of the transactions is correct. Base your discussion on the requirements of the Income Tax Act.</b></p> <p><b>i. Note 1</b></p> <p><b>ii. Note 2</b></p> <p><b>iii. Note 3</b></p>	<b>15</b>

	<b>MARKS</b>
<b>i. Note 1</b>	
- The 13 <sup>th</sup> schedule of the income tax act defines remuneration as being any amount of income which is paid or payable to any person in cash or otherwise and whether or not in respect of services rendered.	<b>1</b>
- This means that one does not necessarily have to have rendered any services for income to be considered as being remuneration income.	<b>1</b>
- Since an employee is a person who receives remuneration, Aloice is an employee of the council and therefore receives employment income.	
- There was also a contract of employment between Aloice and City council	<b>1</b>
- Under the said contract, Aloice would have been entitled to the \$8,000 payment.	<b>1</b>
- Thus, even though no service was rendered, the amount is taxable under employment income.	<b>1</b>
<b>ii. Note 2</b>	
- The source of income from services rendered is where the services are rendered.	<b>1</b>
- However, s12(c) of the income tax act stipulates that in the case where an ordinary resident earns income while temporarily absent from Zimbabwe, said income will be deemed to be from a source within Zimbabwe.	<b>1</b>
- Temporary absence is a period of no more than 183 days in aggregate	<b>1</b>
- Aloice was outside Zimbabwe for ≈ 120 days (30 x 4)	<b>1</b>
- This means that the allowances granted to him by Tshwane Metro council is deemed to be from a source within Zimbabwe, and thus constitutes gross income and will be taxable in Zimbabwe	<b>1</b>
<b>iii. Note 3</b>	
- The issue at hand is whether the cash in lieu of leave was accrued in the 2016 year of assessment.	<b>1</b>
- Income is taxed at the earlier of receipt or accrual.	<b>1</b>
- Accrual is discussed in court cases, and it was concluded as being the time the taxpayer becomes entitled to the income, or the time the amount becomes due and payable – refer Lategan vs CIR	<b>2</b>
- Though City council signed a payment plan with Aloice, he had become entitled to the full amount upon his resignation.	<b>1</b>
- Although payment is going to be made in 2017, the income accrued in 2016, and shall therefore be taxed in the 2016 year of assessment.	<b>1</b>

b.	Assuming that the Harare City council is a VAT registered operator, discuss the VAT consequences to the council arising from the information detailed in note 8.	8
		<b>MARKS</b>
<u>Motoring benefit</u>		
-	S17(3) of the VAT Act states that an employer who provides fringe benefits to employees is deemed to have supplied goods or services.	1
-	City council granted a motoring benefit to Aloice, and thus are deemed to have made a supply.	1
-	The value of the supply is determined with reference to the value determined for PAYE purposes under s8(1)(f) of the Income Tax Act.	1
-	The value for PAYE is \$6,400	1
-	Output VAT is calculated using the tax fraction:	1
-	$15/115 \times 6,400 = \$835$	1
<u>Sale</u>		
-	VAT is not charged on the sale of 2 <sup>nd</sup> hand vehicles by resident suppliers.	1
-	Thus, there would be no VAT arising from this transaction.	1
<u>Sale at below market value</u>		
-	The disposal at below market value is a fringe benefit to the employee and therefore a deemed supply for which VAT may arise.	1
-	The benefit is on a second-hand motor vehicle for which ordinarily the disposal has no VAT consequences per s6(1)(a) and therefore no VAT consequences shall arise with the deemed supply.	1
<b>Alternative</b>		
-	No output VAT is charged on the disposal, as input tax was denied given that it is a PMV	1

<b>C</b>	Calculate the income tax payable by Aloice for the 2016 year of assessment in respect of his employment income.	<b>16</b>
	For items which are neither taxable nor deductible indicates using a zero in your computation. Provide a brief explanation for treatment of all items.	

Aloice Employment Income Tax Computation for the 2016 Year of Assessment			
	\$		MARKS
Gross basic salary - s8 GI		64,000	<b>0.5</b>
<b>Note 1</b>			
Cash in lieu of notice - s8 GI		8,000	<b>1</b>
<b>Note 2</b>			
Allowance - s12c		4,000	<b>1</b>
<b>Note 3</b>			
Cash lieu of leave - s8 GI, accrued - due and payable		10,000	<b>1</b>
<b>Note 4</b>			
Cash out pension fund - taxed at highest marginal tax rate		-	<b>1</b>
Pension contributions - deductible		(1,200)	<b>1</b>
<b>Note 5</b>			
Loan waived - fringe benefit		3,000	<b>1</b>
Loan benefit - s8(1)(f) (1+5)% x 5k x 6/12 - upto June		150	<b>1</b>
Loan benefit - s8(1)(f) (1+5)% x 3k x 2/12 - upto Aug		30	<b>1</b>
<b>Note 6</b>			
Medical aid contributions - s16 domestic expenditure		-	<b>1</b>
<b>Note 8</b>			
Motoring benefit - s8(1)(f) 800 x 8		6,400	<b>1</b>
Motor vehicle disposal - s8(1)(f) 7.2k - 5k		2,200	<b>1</b>
Taxable income		96,550	
Tax on first 60k	14,580		<b>1</b>
Tax on 36,550 @ 35%	12,793		<b>1</b>
Lump sum tax:			
Tax on 50k @ highest marginal rate 35%	17,500		<b>1</b>
	44,873	44,873	
Tax credits:			
- Medical Aid ((250-50) x 12/2)		(1,200)	<b>2</b>
<b>Tax payable</b>		<b>44,873</b>	
AIDS Levy @ 3%		1,346	<b>1</b>
		46,219	

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PAYE deducted	(16,000)	
Tax payable	<b>30,219</b>	
	Available	<b>16.5</b>
	Tax	

<b>d. Assuming that Aloice was retrenched instead of resigning, discuss the income tax treatment of the lumpsum receipt of \$50,000 from the Harare Municipality Pension fund.</b>	<b>4</b>
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	<b>MARKS</b>
- S8(1)(r) brings into gross income any amount received or accrued by way of commutation of a pension or annuity which is payable from a pension fund.	<b>1</b>
- An amount constitutes the retrenchment package if it is received because of a retrenchment.	<b>1</b>
- However, the amount would have been received by Aloice even if he were not retrenched, and thus is not an amount received as a result of retrenchment.	<b>1</b>
- The amount is received from a pension fund, and is thus, taxable in full in accordance with s8(1)(r).	<b>1</b>
- The lumpsum is taxed at Aloice's highest marginal tax rate	<b>1</b>

<b>Part B</b>	
e. Discuss the VAT and Income tax implications of the sale of \$10,000 made by Aloice to his twin sister.	<b>13</b>

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

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

<b>Aloice Trade Income Tax Computation for the 2016 Year of Assessment</b>			
	\$		MARKS
NPBT		126,840	<b>0.5</b>
<b>Note 1</b>			
Sales to sister:			
- Amount charged	(10,000)		<b>1</b>
- Comparable price - s98B + 35th schedule	14,000		<b>1</b>
		4,000	<b>0.5</b>
<b>Note 2</b>			
Cost of sales:			
- Opening stock - deductible s15(2)(u)	-		<b>1</b>
- Purchases - deductible s15(2)	-		<b>1</b>
- Stock used for Xmas:			
- Not deductible	4,500		<b>1</b>
- Write offs - carried at lower of cost and MV	3,000		<b>1</b>
- Customs duty - part of cost to acquire	-		<b>1</b>
- Closing stock - s8 special inclusion	-	7,500	<b>1</b>
<b>Note 3</b>			
Loss on disposal - not incurred		2,000	<b>1</b>
Recoupment:			
- Deemed selling price - s98B transfer pricing	4,500		<b>1</b>
- Less ITV (15k x 25% x 2)	(7,500)		<b>1</b>
- Possible scrapping allowance	(3,000)		<b>1</b>
- No scrapping allowance as vehicle not scrapped but sold	-	-	<b>1</b>
<b>Note 4</b>			
Shop rentals - incurred		-	<b>1</b>
Shop neon sign - capital nature/improvement		2,500	<b>1</b>
- Sign wear and tear @ 2.5%		(625)	<b>1</b>
Accounting fees - incurred		-	<b>1</b>
RAZ subscriptions - incurred		-	<b>1</b>
Depreciation - not incurred		3,000	<b>1</b>
<b>Note 5</b>			
Staff costs - incurred		-	<b>1</b>
<b>Note 6</b>			
TV - asset for provision of entertainment - no W&T		-	<b>1</b>
<b>Note 7</b>			

<b>Aloice Trade Income Tax Computation for the 2016 Year of Assessment</b>			
Capital allowances:			
- Furniture and fittings 1 - exhausted		-	<b>1</b>
- Furniture and fittings 2 - 5k x 25%		(1,250)	<b>1</b>
- Truck - SIA 25% x 12k		(3,000)	<b>1</b>
- Water dispensers - SIA 25% x 500		(125)	<b>1</b>
<b>Taxable income</b>		<b>139,986</b>	
Tax payable @ 25.75%		36,046	<b>1</b>
		Available:	<b>27.5</b>
		Max:	<b>27</b>

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

	<b>MARKS</b>
- Paragraph 2 of the 13 <sup>th</sup> schedule states that every person who becomes an employer shall register within 14 days of becoming an employer.	<b>1</b>
- Employers are liable to withhold PAYE on behalf of employees.	<b>1</b>
- Employment income is only taxed to the extent that an individual earns more than \$300 in a month.	<b>1</b>
- 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.	<b>1</b>
- However, given that the accountant earns more than \$300, Aloice became liable to register as soon as the accountant started work.	<b>1</b>

**Part C**

- a. Calculate the Capital Gains tax payable by Aloice on the disposal of the Budiriro house.

**Aloice Capital Gains Tax Computation for the 2016 Year of Assessment**

	\$		MARKS
Sale proceeds - s8		45,000	1
Recoupment (20k x 2.5% x 7)		(3,500)	1
GCA - s8		41,500	
Cost - s11	26,694		1
Interest payments - deductible under Income tax	(6,694)		1
Capital allowances - s11	(3,500)		1
Inflation allowance - s11 (2.5% x 8 x 20k)	4,000		1
	20,500	(20,500)	1
Capital gain		21,000	
Tax @ 20%		4,200	1
		Available	8