Question 1

Discuss the VAT consequences for the month of September 2017 to DRM for following transactions:

	Marks
a. Medical Aid Costs	
The medical Aid society did not charge DRM any VAT since this is a medical service that they are providing in the form of medical assurance	**1**
No input tax can be claimed if VAT was not charged by the supplier ***section 16(1) and section 15***	**1**
Section 17(3) of the VAT Act states that an employer who provides fringe benefits to employees is deemed to have supplied goods or services and therefore incurring a medical cost on behalf of the employee was a deemed supply to the employee.	**1**
However, the supply was of an exempt benefit, therefore no Output VAT consequences.	**1**
Available ***Max***	***4*** ***2***
b. First Aid Kit Drugs	
Section 16(1) allows VAT Input to be claimed if:	
a - the operator charged VAT per ***section 6***	**0.5**
b - the taxpayer used the product or service to make taxable supplies	**0.5**
The drugs are over the counter drugs which are standard rated.	**1**
Therefore, DRM will be able to claim input tax at time of acquisition.	**1**
Available ***Max***	***3*** ***2***
c. School Fees for Employees' Children	
Section 17(3) of the VAT Act states that an employer who provides fringe benefits to employees is deemed to have supplied goods or services.	**1**

In this case the fringe benefit was for educational services which is an exempt supply, therefore no VAT implications.	**1**
DRM will not be able to claim Input tax on the payment as they were not charged by the supplier. ***Section 16(1)***	**1**
The supplier did not charge VAT because the service is an educational service as defined and therefore exempt per ***section 11***	**1**
Available ***Max***	***4*** **3**
d. Fees to universities, polytechnics and CAA	
Section 16(1) allows VAT Input to be claimed if:	
a - the operator charged VAT per s6	**0.5**
b - the taxpayer used the product or service to make taxable supplies	**0.5**
DRM will not be able to claim Input tax on the payment as they were not charged by the supplier.	**1**
The supplies from the universities and polytechnics are educational services as defined and therefore exempt supplies	**1**
However, DRM will be able to claim input tax on the $9,000 training cost paid to CAA, as this was a standard rated taxable supply, on which VAT was charged.	**1**
Section 17(3) of the VAT Act states that an employer who provides fringe benefits to employees is deemed to have supplied goods or services.	**1**
In this case the fringe benefit was for educational services which is an exempt supply, therefore no VAT implications on the polytechnic and university supplies.	**1**
There is no fringe benefit in the hands of the employees per section 8(1)(f) of the Income Tax Act and therefore no deemed supply to the employees for the CAA training.	**1**
Available ***Max***	***7*** **5**

e. Rentals and security deposit	
Section 17(3) states that an employer who provides fringe benefits is deemed to have supplied goods or services on which output tax should be accounted for.	**1**
DRM is deemed to have supplied residential accommodation which however is an exempt supply, so no output VAT arises.	**1**
Section 16(1) allows VAT Input to be claimed if:	
a - the operator charged VAT per s6	**0.5**
b - the taxpayer used the product or service to make taxable supplies	**0.5**
DRM cannot claim any VAT from the suppliers of the service since the supply of residential accommodation is an exempt supply and therefore no VAT was charged to DRM ***section 16(1) and section 15***.	**1**
The security deposit paid by DRM is not for any service supplied but a refundable amount insuring against any breakages or such contingent liabilities hence no VAT was charged by the landlord as there is no supply.	**1**
Available ***Max***	***5*** ***5***
f. Stannic lease	
The lease of a fixed property cannot be an instalment credit arrangement (ICA) since *section 2* definition of an ICA applies to movable corporeal goods while this is fixed property. The lease therefore remains a pure rental agreement. ***Section 2 of VAT Act – rental agreement and instalment credit agreement***	**1**
Stannic is therefore deemed to be successively supplying the building every month***. Section 8(3)***	**1**
The value of supply is the consideration less VAT i.e. $2,600 and therefore stannic charges VAT of [$2,600 x 15% = $390] which DRM is charged by Stannic.	**1**
The interest component of the lease is a financial services supply and therefore exempt from VAT.	**1**
Section 16(1) allows VAT Input to be claimed if:	
a - the operator charged VAT per ***section 6***	**0.5**

b - the taxpayer used the product or service to make taxable supplies	**0.5**
DRM will be able to claim the $390 input VAT for the month of September 2017.	**1**
Stannic is also offering a financial services supply for which DRM is paying interest.	**1**
No VAT can be claimed on the interest portion as it is exempt from VAT. ***Section 11***	**1**
Available ***Max***	***8*** ***5***
g. Fuel and oils	
Section 16(1) allows VAT Input to be claimed if:	
a - the operator charged VAT per s6	**0.5**
b - the taxpayer used the product or service to make taxable supplies	**0.5**
DRM will not be able to claim input VAT as no VAT was charged since fuels and oils are exempt supplies.	**1**
Section 17(3) states that an employer who provides fringe benefits is deemed to have supplied goods or services on which output tax should be accounted for.	**1**
The value of the supply will be determined with reference to the value for PAYE purposes made in ***section 8(1)(f)*** of the Income Tax Act.	**1**
However, no output VAT shall be charged on the fuel and oils as it is an exempt supply. ***Section 11 a.r.w. the Finance Act.***	**1**
Available ***Max***	***5*** ***5***
h. Directors' loans	
This is the provision of a financial service as defined by DRM to directors	**1**
Financial services are VAT exempt; thus, no VAT shall be charged on the service.	**1**
Available ***Max***	***2*** ***2***

i. Imported Landrover	
Section 6(1)(b) provides for the levying of VAT on importation of goods.	**1**
DRM imported the Landrover and therefore the import VAT was charged and collected at the time the goods entered into Zimbabwe for home use at the standard rate.	**1**
The value of supply shall be the value for duty purposes plus duty. [($36,000 + $1,500) + (37,500 x 96%)] x 15% = $11,025	**1** **1**
The import vat paid can then be claimed per s16(1) if: - The tax has been paid and - The goods are to be used in the making of taxable supplies.	**1**
However, s16 prohibits the claiming of input VAT on passenger motor vehicles, thus DRM cannot claim VAT on the Landrover.	**1**
Available ***Max***	***6*** ***6***
j. Unbundling transaction	
The transfer of assets to GR is a supply of a group of assets that can be used as a business unit and therefore the disposal of a going concern	**1**
Disposal of a business as a going concern is a zero-rated supply per ***section 17***	**1**
The receipt of shares in GR in exchange of the supplied assets is not a supply on GR and therefore no VAT was charged to DRM and therefore no input tax can be claimed ***section 16(1)***	**1**
The immediate disposal of part of DRM's stake in GR to management and the trust for which periodic payments shall be made is a supply by DRM of shares in GR.	**1**
The supply of shares in GR by DRM is a financial service as defined ***section 2***	**1**
The supply of financial service is exempt form VAT ***(section 11)*** and therefore no VAT shall arise from the GR dividend that shall be paid directly to DRM to pay off the purchase consideration debt.	**1**
Available ***Max***	***6*** ***4***

Communication and layout	**2**

Question 2

Calculate the Taxable income for the year ended 31 December 2017 from the listed transactions in Part 1 for DRM.

		$	**Marks**
Employer contribution to staff medical aid – staff cost allowable deduction [$37,500 x 4]	***S15(2)(a)***	(150,000)	**1**
Over-the-counter drugs – staff cost allowable deduction	***S15(2)(a)***	(5,200)	**1**
School fees – staff cost allowable deduction	***S15(2)(a)***	(24,500)	**1**
Staff educational, grants bursaries or scholarships	***S15(2)(p)***	(7,800)	**1**
Staff training – allowable deduction	***S15(2)(a)***	(9,000)	**1**
Lease payments – allowable deduction [$3,000 x 4 months]	***S15(2)(d)***	(12,000)	**1**
Staff accommodation [$2,000 x 4 months]	***S15(2)(a)***	(8,000)	**1**
Security deposit – capital in nature	***S15(2)(a)***	-	**1**
Fuels and oils - staff cost allowable deductions	***S15(2)(a)***	(3,500)	**1**
Loan pay-outs – capital in nature	***S15(2)(a)***	-	**1**
Loan interest [$20,000 x 3 directors x 3% p.a. ÷ 12 months x 4 months]	***S8(1)(a)***	600	**3**
Acquisition of motor vehicle – capital in nature	***S15(2)(a)***	-	**1**
Capital allowances – Landrover – [$10,000 x 25%]	***S15(2)(c)***	(2,500)	**1**
Disposal of assets to GR – capital in nature	***S8(1)(a)***	-	**1**
Receipt of $280,000 p.a. from GR pay-out – receipt of purchase consideration in instalments – capital in nature	***S8(1)(a)***	-	**1**
Taxable Income/(Tax loss)		**(221,900)**	
Available ***Max***			***17*** ***12***

Question 3

Calculate the Income Tax Payable for the year ended 31 December 2017 for the following taxpayers:

		$	Marks
a. Tongai Mupeta			
Salary – Pre-death gross employment income	***S8(1)(a)***	5,100	**1**
Lumpsum payment from pension fund – exempt (above 55 yrs)	***3rd sch***	-	**1**
Gratuity – exempt (above 55yrs)	***3rd sch***	-	**1**
Annuity -	***S8(1)(a)***	75	**1**
Employer payments for medical expenses [$365 + $70] - exempt	***S8(1)(a)***	-	**1**
Contribution to medical Aid – prohibited deduction	***S16(1)***	-	**1**
Taxable Income		**5,175**	
Income tax thereon - [$5,175 – $3,600] x 20%		315	**1**
Tax Credits			
Medical expenses credit [$195 ÷ 2]		(97.5)	**1**
Elderly persons credit [$900 x 4months / 12 months]		(300)	**2**
Assessed loss from employment income		***(82.5)***	
Interest income [$1,000 x 2% per month x 4 months]		80	**1**
Dividend income [R11,500 ÷ 11.5 = $1,000] Post death income	***S12***	-	**1**
		80	
Tax thereon from trade and investment income @ 25.75% [80 x 25%]		***20.6***	**1**
Total tax loss [20.6-82.50]		***(61.90)***	**0.5**
Available ***Max***			***13.5*** ***10***

b. Tongai's deceased estate			
Performance bonus	***S11(4)***	1,700	**1**
Exempt portion	***3rd sch***	(1,000)	**1**
Interest on loan to Tendai – (income from an asset not in a deceased estate)	***S11(1)***	-	**1**
Pension lumpsum payment – pre-death income		-	**1**
Taxable Income		**700**	**1**
Tax thereon from employment income		**-**	**1**
Foreign Dividend -deemed from a source and post death trade and investment income	***S12***	1,000	**1**
Tax thereon from trade and investments [25% x $1,000]		***250***	**1**
Total tax payable [250 + 0]		***250***	**1**
Available ***Max***			***9*** ***8***
c. (i) The Trust			
Taxable income		70,000	**0.5**
Distribution to beneficiaries (definition of person)	***S2***	(20,000)	**0.5**
Trust Taxable income		**50,000**	
Tax Thereon @ 25.75% [50,000 x 25.75%]		12,875	**2**
(ii) Jeanie			
Trust income – [$20,000 x 50%]		10,000	**2**
Income deemed from trust [$20,000 x 2 x 16.67%]		6,667	**2**
Annuity [$5,000 x 83.33%]		4,167	**2**
Taxable income for Jeanie		**16,667**	
(iii) The adult child			
Income from the trust [$20,000 x 16.67%]		3,333	**2**
Annuity [$5,000 x 16.67%]		833	**2**

Taxable income for adult child		**4,167**	
Available			***13***
Max			***12***

Question 4

Discuss with supporting calculations, the Capital Gains Tax Consequences for the 2017 year of assessment on the following transactions:

		Marks
a. The CBD building leased from Stannic to DRM in the hands of both DRM and Stannic Lease.		
CGT arises where there has been a disposal or deemed disposal of a specified asset	***S8(1)(a)***	**1**
Stannic has not sold the specified asset but leased it to DRM and therefore no CGT arises.	***S8(1)(a)***	**1**
DRM has also not disposed of a specified asset but rented it out and therefore no CGT arises	***S8(1)(a)***	**1**
Available ***Max***		***3*** ***3***
b. The unbundling of GR in the hands of DRM.		
The transfer of assets from DRM to GR are disposals of asset		**1**
The specified assets shall be the immovable property i.e. the office buildings and the workshops.		**1**
The rest of the assets transferred are not specified assets as they are movables and therefore no CGT can arise from their disposal		**1**
The transfer of these assets is a disposal other than by way of sale and therefore the Commissioner deems the assets to have been sold at their market prices.		**2**
Office Buildings. The CGT shall be calculated by applying 5% to the deemed proceeds of \$300,000 since the buildings were acquired prior to 01 February 2009. [\$300,000 x 5% = \$15,000]		**1** **1**
Workshops The CGT shall be computed by matching the gross carrying amount to allowable deductions after adjusting for items that are revenue in nature.		**1**

Recoupment is deducted from the gross carrying amount since it is included in gross income. Recoupment = [1,2mln – (800,000 x 85%)] = 520k limited to $120k		**1** **3**
The cost of $800k is an allowable deduction		**1**
The capital allowances granted of 120k are deducted from the cost		**1**
Inflation allowance is granted at 2.5% per annum from year of purchase including year of disposal on a straight-line basis. Inflation allowance = [800k x 2.5% x 4 years] = 80k		**1** **1**
The receipt of shares in GR is a receipt of a specified asset but does not have CGT consequences to DRM since DRM is not disposing of the shares.		**1**
Available ***Max***		***16*** ***10***
c. **The transfer of Tongai's house to his wife**		
Upon Tongai's death, the house was transferred to Tongai's deceased estate and at that stage no CGT consequences arose. ***Section 11(1) of the Income Tax Act*** (Assets in a deceased estate) ***a.r.w. section 9 of the CGT Act*** (deemed accruals)		**1**
The transfer of the house to the wife from the estate shall also not have any CGT consequences since amounts received or accrued on distribution by an executor of an estate on specified assets are exempt from CGT ***section 10(b) of the CGT Act***		**1**
Available ***Max***		**2** **2**
Communication and layout		**2**