

**Question 1**

***Discuss the income tax implications to CCT for the 2017 year of assessment of the following transactions:***

	<b>Marks</b>
<b>a. The \$2,500 consultation fees.</b>	
<b>Section 15(2)(a)</b> allows for expenditure incurred for the purposes of trade.	<b>1</b>
CCT received tax services which are part of its trading costs hence are for the purposes of trade.	<b>1</b>
Therefore, the \$2,500 is allowable as a deduction in the 2017 year of assessment.	<b>1</b>
<b>Available</b>	<b>3</b>
<b>Max</b>	<b>3</b>

<b>b. Acquired plant and machinery.</b>	
<b>Section 15(2)(a)</b> allows for expenditure incurred for trade purposes as a deduction for the purposes calculating taxable income, which is not of a capital nature.	<b>1</b>
To determine whether expenditure is of a capital nature we refer to case law, which states that expenditure is capital in nature if it creates an enduring benefit.	<b>1</b>
<b>Tree and Fruit - Visser case</b>	<b>1</b>
The plant and machinery purchased is of a capital nature, therefore no deduction is allowed.	<b>1</b>
<b>Section 15(2)(c) a.r.w. 4<sup>th</sup> schedule</b> , allows for a deduction of capital allowances on assets used for the purposes of trade.	<b>1</b>
Accordingly, the plant and machinery will be able to claim S.I.A at 25%.	<b>1</b>
<b>Available</b>	<b>6</b>
<b>Max</b>	<b>5</b>

<b>c. The \$150,000 from the three shareholders</b>	
The \$150,000 from the shareholders can be characterised as a loan received given that its repayable to the shareholders.	<b>1</b>
The loan is of a capital nature hence it cannot be included in gross income.	<b>1</b>
<b><i>Tree and Fruit - Visser case</i></b>	<b>1</b>
However, the interest on the loan can be deducted since the principal amount will be used for trade i.e. to buy assets to be used in business. (see definition of <b><i>trade section 2 of the Income Tax Act</i></b> )	<b>2</b>
<b><i>CIR v Genn 1955</i></b>	
<ul style="list-style-type: none"> <li>• The 12% interest on the loan from Coronat of \$30,000 is incurred over 60 months and incurred with passage of time.</li> </ul>	<b>1</b>
<ul style="list-style-type: none"> <li>• Therefore <math>[12\text{months}/60\text{months} \times \\$30,000 = \\$5,000]</math> is incurred in the 2017 year of assessment.</li> </ul>	<b>1</b>
<ul style="list-style-type: none"> <li>• The Interest on the loan from Chemist is limited to <math>[\\$31,800 - \\$26,500 = \\$5,300]</math>.</li> </ul>	<b>1</b>
<ul style="list-style-type: none"> <li>• This interest is incurred over 2 years and therefore <math>[\\$5,300/2 = \\$2,650]</math> is deductible in the 2017 year of assessment.</li> </ul>	<b>1</b>
<ul style="list-style-type: none"> <li>• The interest cost of replacement of the Econet shares over and above the \$23,500 has not been incurred yet and therefore no deduction is allowed in the 2017 year of assessment.</li> </ul>	<b>1</b>
<ul style="list-style-type: none"> <li>• The interest of \$10,000 on the Gunhill property loan is incurred over two years and the allowable deduction is limited to <math>[11\text{mths}/24\text{mths} \times \\$10,000 = \\$4,583]</math> for the year 2017.</li> </ul>	<b>1</b>
CCT shall have to consider if the total debt does not exceed the 3:1 debt to equity threshold. Any interest cost as a result of debt in excess of this ratio is a deemed dividend distribution. <b><i>Section 16(1)(q)</i></b>	<b>1</b>
CCT shall have to withhold on shareholders taxes if there is any deemed dividend. <b><i>Sections 28 a.r.w. 15<sup>th</sup> schedule and section 26 a.r.w. 9<sup>th</sup> schedule</i></b>	<b>1</b>
<b><i>Available</i></b>	<b>13</b>
<b><i>Max</i></b>	<b>9</b>

<b>d. Dividend declared</b>	
Dividend are a distribution of profits and not expenditures or losses and therefore do not rank for deductions.	<b>1</b>
<ul style="list-style-type: none"> <li>• CCT shall withhold 15% of the dividend upon payment as this is not being to another corporate but to individual shareholders. <b>Section 28 (Resident shareholders' tax) a.r.w. 15<sup>th</sup> schedule</b></li> <li>• [\$3,500 x 15% = \$525] for each shareholder should have been withheld.</li> </ul>	<b>1</b> <b>1</b>
The dividends were not paid in 2017 and therefore the withholding taxes are received in 2018 although the dividends were declared in 2017.	<b>1</b>
The withholding tax is CCT's responsibility to remit within 10 days of date of the distribution of the dividend i.e. 25 February 2018.	<b>1</b>
<b>Available</b>	<b>5</b>
<b>Max</b>	<b>5</b>

<b>e. Directors fees paid</b>	
<b>Section 15(2)(a) of the Income Tax Act</b> allows for expenditure actually incurred for trade purposes as a deduction for the purposes calculating taxable income.	<b>1</b>
Therefore, the director's fees are allowable as a deduction in the 2017 year of assessment.	<b>1</b>
The amount was incurred for the purposes of trade by CCT as it is a business expenditure. See definition of trade <b>section 2 of the Income Tax Act</b>	<b>1</b>
The directors' fees for Coronat and Tichafara are employment income to the directors since <b>section 36 J of the Income Tax Act</b> subjects receipts of directors subject to PAYE to be employment income.	<b>1</b>
For the Tichafara's fees, 20% should be withheld from them <b>section 36J</b>	<b>1</b>
<b>Available</b>	<b>5</b>
<b>Max</b>	<b>4</b>

<b>f. Motoring benefit and related insurance, fuel and repairs costs granted to Coronat.</b>	
<b>Section 15(2)(a) of the Income Tax Act</b> allows for expenditure actually incurred for trade purposes as a deduction for the purposes calculating taxable income.	<b>1</b>
These staff expenses were incurred for the purposes of trade by CCT and therefore allowable deductions.	<b>1</b>
The granting of the right to use the vehicle is not cost-based but based on engine capacity and no deduction is allowable.	<b>1</b>
CCT can claim capital allowances in particular S.I.A on the motor vehicle in accordance with <b>Section 15(2)(c) arw 4<sup>th</sup> Schedule</b>	<b>1</b>
The fuel costs are all for purposes of trade i.e. the business portion and the private portion, as the private business portion is a staff cost for the purposes of trade and so are deductible. <b>Section 15(2)(a)</b>	<b>1</b>
The deductible amount is [ $\$300/\text{months} \times 10 \text{ months} = \$3,000$ ]	<b>1</b>
The repairs and maintenance costs of \$1,300 are also for the purposes of trade as above and therefore deductible in full as they are a staff costs regardless of what the employee used the vehicle for.	<b>1</b>
The insurance costs of [ $\$1,200 \times 10\text{mths}/12\text{mths} = \$1,000$ ] is deductible as it is staff cost incurred for the purposes of trade. <b>Section 15(2)(a)</b>	<b>2</b>
<b>Available</b>	<b>9</b>
<b>Max</b>	<b>9</b>

<b>g. Disposal of motor vehicle to Coronat.</b>	
<b>Section 15(2)(a)</b> allows for expenditure actually incurred for trade purposes but that is not capital in nature as a deduction for the purposes calculating taxable income.	<b>1</b>
CCT incurred a loss by selling the vehicle at below its carrying amount but the loss is capital in nature.	<b>1</b>
CCT is not in the business of buying and selling cars and therefore the disposal is capital in nature.	<b>1</b>
CCT disposed of the vehicle for \$5,500 when its ITV was \$16,000 and therefore would have claimed a scrapping allowance had the vehicle been disposed of by way of scrapping.	<b>1</b>
<b>Available</b>	<b>4</b>
<b>Max</b>	<b>2</b>

<b>h. Tichafara's Dubai trip. Also further discuss the income tax implications in the hands of Tichafara</b>	
<b>Section 15(2)(a)</b> allows for expenditure incurred for trade purposes or in the production of income as a deduction for the purposes calculating taxable income if it is not capital in nature.	<b>1</b>
The expenses were incurred for the purposes of trade by CCT as they were for a business trip in part but also a staff cost in part hence trade either way.	<b>1</b>
<b>For Tichafara:</b>	
The flight costs of \$2,100 are not included in gross income as these were not a benefit or advantage to him and therefore excluded from gross income. <b>Section 8(1)(g)</b>	<b>1</b>
The board and accommodation for 5 days were an advantage and included in his gross income [5days/10days x \$2,000 = \$1,000] <b>section 8(1)(g)</b>	<b>1</b>
The taxi fares are not an advantage to him and not included in gross income	<b>1</b>
The out of town allowance is remuneration <b>per the 13<sup>th</sup> schedule</b> and included in gross income in full,	<b>1</b>
<b>Communication and Layout</b>	<b>2</b>
<b>Available</b>	<b>8</b>
<b>Max</b>	<b>5</b>

**Question 2**

**Calculate Chemist's Taxable income for the 2017 year of assessment from ALL the given transactions.**

		\$	Marks
<b>Trade &amp; Investment Income</b>			
Sale of shares to minority shareholder (capital in nature)	<b>Section 8(1)(a)</b>	0	<b>2</b>
Gain on replacement of Econet shares (not accrued)	<b>Section 8(1)(a)</b>	0	<b>2</b>
Dividend Income from CCT (exempt)	<b>3<sup>rd</sup> Schedule</b>	0	<b>2</b>
Dividend Income from Econet (exempt)	<b>3<sup>rd</sup> schedule</b>	0	<b>2</b>
Sale of Econet Shares (capital nature)	<b>Section 8(1)(a)</b>	0	<b>2</b>
Interest on loan to CCT [\$31,800-26,500)/2) = \$2,650] (allowable deduction)	<b>Section 8(1)(a)</b>	2,650	<b>3</b>
Proceeds from conforming insurance policy (deductions denied)	<b>Section 8(1)(a)</b>	0	<b>2</b>
London company dividend (not from a source)	<b>Section 8(1)(a)</b>	0	<b>2</b>
CCT Board fees (\$300/sitting x 4 sittings)	<b>Section 8(1)(a)</b>	1,200	<b>2</b>
<b>Taxable Income</b>		<b>3,850</b>	
<b>Available</b>			<b>20</b>
<b>Max</b>			<b>15</b>

**Question 3****Calculate Tichafara's Capital Gains Tax for the 2017 year of assessment.**

	\$	Marks
<b>Disposal of Gunhill House:</b>		
Proceeds	260,000	<b>1</b>
Recoupment (PPR no capital allowances)	0	<b>0.5</b>
<b>GCA</b>	<b>260,000</b>	
<b>Allowable Deductions:</b>		
Cost	(167,000)	<b>0.5</b>
Inflation Allowance [167,000*2.5%*7]	(29,225)	<b>1.5</b>
Swimming Pool	(10,000)	<b>0.5</b>
Inflation Allowance [10,000*2.5%*6]	(1,500)	<b>1.5</b>
House Extension	(15,000)	<b>0.5</b>
Inflation Allowance [15,000*2.5%*6]	(2,250)	<b>1.5</b>
Gazebo	(1,500)	<b>0.5</b>
Inflation Allowance [1,500*2.5%*6]	(225)	<b>1.5</b>
Capital Allowance (PPR no capital allowances)	0	<b>0.5</b>
<b>Capital Gain</b>	<b>33,300</b>	
S17 Relief	(33,300)	<b>1</b>
<b>Disposal of 2% stake in CCT:</b>		
Marketable Securities purchased before February 2009		<b>1</b>
Proceeds	100,000	<b>0.5</b>
CGT @ 20%	<b>20,000</b>	<b>1</b>
<b>Communication skills - Presentation</b>		<b>1</b>
<b>Available</b>		<b>14.5</b>
<b>Max</b>		<b>9</b>

**Question 4**

**Advise both Coronat and CCT on the most efficient option in respect of the motor vehicle transactions looking at each individual taxpayer's perspective.**

	Marks
<b>Option 1</b>	
<b>Coronat:</b>	
Coronat is receiving a benefit through the right of use of a motor vehicle, this will be included in his gross income, calculated using the engine capacity of the vehicle.	<b>1.5</b>
<b>Section 8(1)(f)</b>	
Coronat will include in his gross income \$600 for the motoring benefit.	<b>1</b>
When Coronat purchases the vehicle, he will include in his gross income the difference between the market value and the purchase price.	<b>1</b>
The disposal of the vehicle at below market price is a deemed supply by CCT to its employee and VAT may potentially arise.	<b>1</b>
The disposal of a second-hand Passenger motor vehicle by a non-car dealer will not have output tax consequences per <b>section 6(1)(a) of the VAT Act</b> and also because passenger motor vehicles are denied VAT at acquisition <b>section 16(2) of the VAT Act</b>	<b>1</b>
<b>Act</b>	
<b>CCT:</b>	
CCT can claim capital allowances in particular S.I.A on the motor vehicle in accordance with <b>Section 15(2)(c) arw 4<sup>th</sup> Schedule</b>	<b>1</b>
The capital allowances shall be limited to \$10,000 since the vehicle shall be a passenger motor vehicle.	<b>1</b>
<b>Section 15(2)(a)</b> allows for expenditure actually incurred for trade purposes but that is not capital in nature as a deduction for the purposes calculating taxable income.	<b>1</b>
CCT will a incurr a loss by selling the vehicle at below its carrying amount but the loss is capital in nature.	<b>1</b>
CCT is not in the business of buying and selling cars and therefore the disposal is capital in nature.	<b>1</b>



On disposal, there is potential for recoupment which shall need to be calculated and included in CCT's gross income if any.	<b>1</b>
<b>Option 2</b>	
<b>Coronat:</b>	
The receipt of a vehicle is included in gross income as remuneration i.e. section <b>8(1)(f) a.r.w. the 13<sup>th</sup> schedule.</b>	<b>1</b>
The amount to include in gross income is the cost to the employer <b>section 8(1)(f)</b>	<b>1</b>
The benefit is for service to be rendered hence it is remuneration and revenue in nature.	<b>1</b>
The fringe benefit is a deemed supply for VAT purposes but for a second-hand motor vehicle by a non-car-dealer and therefore no output VAT arises. <b>Section 6(1)(a) and section 16(2)</b> [input tax denied on passenger motor vehicle acquisition]	<b>1</b>
<b>CCT:</b>	
<b>Section 15(2)(a)</b> allows for expenditure actually incurred for trade purposes but that is not capital in nature as a deduction for the purposes calculating taxable income.	<b>1</b>
The acquisition of the vehicle on behalf of Coronat is a payroll expense i.e. remuneration and is deductible in full in the year incurred.	<b>1</b>
<b>Option 3</b>	
<b>Coronat:</b>	
The loan receipt in the form of a motor vehicle is of a capital nature for Coronat and will not be included in gross income.	<b>1</b>
The interest on loan is less than libor plus 5% so the difference is included in gross income. i.e.	<b>1</b>
[(6%-4%) x 20,000 = 400] per annum	<b>1</b>
The salary increment is gross income in the hands of <b>Section 8(1)(a)</b>	<b>1</b>
<b>CCT:</b>	
<b>Section 15(2)(a)</b> allows for expenditure actually incurred for trade purposes but that is not capital in nature as a deduction for the purposes calculating taxable income, the granting of the loan to Coronat is of a capital nature, therefore not deductible.	<b>1</b>

TAXATION LEVEL 2 END OF YEAR EXAM - PAPER 1 SOLUTION

The salary increment is a staff cost to CCT, therefore it's an allowable deduction.	<b>1</b>
The finance income from Coronat is gross income in the hands of CCT.	<b>1</b>
<b>Conclusion</b>	
Coronat should choose option 1 as this will result in the least tax liability for him.	<b>1</b>
<b>Available</b>	<b>25</b>
<b>Max</b>	<b>15</b>

**Question 5**

Discuss the VAT implications to CCT of the following transactions:

	<b>Marks</b>
<b>a. The \$2,500 consultation fees</b>	
The consultation is a supply according to S6(1)(a).	<b>1</b>
Therefore, CCT can claim input VAT under S16 since TAS is a registered operator.	<b>1</b>
<b>Available</b>	<b>2</b>
<b>Max</b>	<b>2</b>
<b>b. The \$300,000 received from the shareholder in January 2017</b>	
The \$300,000 received from the shareholder does not constitute a supply.	<b>1</b>
Therefore, there are no VAT implications on the \$300,000.	<b>1</b>
<b>Available</b>	<b>2</b>
<b>Max</b>	<b>2</b>
<b>c. Interest on all shareholders' loans</b>	
Interest in a financial service as defined.	<b>1</b>
Financial Services are exempt from VAT.	<b>1</b>
<b>Available</b>	<b>2</b>
<b>Max</b>	<b>2</b>

<b>d. The \$36 million tender revenue</b>	
S6(1)(a) requires a registered operator to charge output VAT on the supply of goods or services in the furtherance of trade.	<b>1</b>
The tender is a supply therefore, output VAT should be charged by CCT.	<b>1</b>
The supply is a standard rated supply.	<b>1</b>
The time of supply is the earlier of invoice and a payment being made.	<b>1</b>
The scenario is not clear as to the timing of an invoice.	<b>1</b>
The value of supply is consideration less VAT.	<b>1</b>
36,000,000*15%	<b>1</b>
<b>Available</b>	<b>7</b>
<b>Max</b>	<b>4</b>
<b>e. The fringe benefits to the executive directors</b>	
An employer who provides fringe benefits to employees is deemed to have supplied goods or services on which output tax should be accounted for.	<b>1</b>
Value of supply will be the value determined for PAYE purposes ito section 8(1)(f) of the Income Tax Act.	<b>1</b>
If the fringe benefit is a supply of an exempt benefit, then the supply will be exempt from VAT.	<b>1</b>
The residential accommodation given to ICT director will be exempt from VAT	<b>1</b>
<b>Available</b>	<b>4</b>
<b>Max</b>	<b>4</b>
<b>f. The Dubai trip for Tichafara</b>	
An employer who provides fringe benefits to employees is deemed to have supplied goods or services on which output tax should be accounted for.	<b>1</b>
Value of supply will be the value determined for PAYE purposes ito section 8(1)(f) of the Income Tax Act.	<b>1</b>
	<b>1</b>

TAXATION LEVEL 2 END OF YEAR EXAM - PAPER 1 SOLUTION

The \$750 allowance is a cash allowance which doesn't not meet the definition of a good, therefore no VAT consequences arise.	<b>1</b>
<b><i>Available</i></b>	<b>3</b>
<b><i>Max</i></b>	<b>3</b>