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Question 1

Part (a) Memo

MEMORANDUM	Marks
To: The Financial Director, Turnkey Ltd From: A. Student RE: VAT Advice	1
(i) Invoices to Botswana government <u>Consulting contract</u> The Botswana government is a non-resident The services rendered to a non-resident are exports as defined Exports are zero-rated supplies under s10(2)(1) of the VAT Act The time of the supply would be when the invoice is issued. Therefore Turnkey would charge VAT at 0% on the invoice <u>Consulting advice</u> The question is whether Turnkey must levy VAT on the \$15,000 consulting invoice Generally the supply of consulting services is standard rated in terms of the VAT Act. However in the case we need to determine whether these consulting services in the case constitute exports. Even though the services are rendered to a non-resident (Botswana Government) the non-resident's representatives were present in Zimbabwe at the time the services were rendered. Therefore, VAT shall be raised on the invoice at standard rate. = 15,000 x 15% = USD2,250	1 1 1 1 1 1 3 1 1
Available	11
Maximum	6
(ii) VAT paid on expenses <u>Expenditure incurred in Botswana</u> All the entertainment expenditure incurred in Botswana by the engineer includes VAT, but it is Botswana VAT, thus Turnkey cannot claim input VAT on that expenditure The fact that the engineer is away from his usual place of residence for at least one night, for business purposes is irrelevant <u>Visit by Botswana official</u> The hotel costs, meals and alcoholic beverages are all entertainment as defined in s2 of the VAT Act. Turnkey cannot claim input VAT on these items as they are prohibited in terms of s16(2) of the VAT Act.	1 1 1 1

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<u>Civil construction advice</u>	
The hotel costs, meals and alcoholic beverages are all entertainment as defined in s2 of the VAT Act.	1
Normally VAT input on these expenses would be prohibited, but the Turnkey engineer is away from his usual place of residence for at least one night, for business purposes.	1
This is an exemption to the general rule under s 16(2)(ii)	1
Therefore, Turnkey can claim input VAT $(390 + 210) = 600 \times 15/115 = \text{USD}78$	1
Available	8
Maximum	6

Part (b) Discuss and conclude on the Zimbabwe income tax consequences for Turnkey of the withholding tax levied by the Botswana Tax Authorities on the consulting fees referred to in point 1.1.

- The consulting fees will be considered to be from a source within Zimbabwe as the services will be rendered within Zimbabwe. The income would accordingly be subject to income tax in Zimbabwe at a rate of 25.75%. **1**
- Botswana levies withholding tax at a rate of 15% on technical fees. **1**
- Botswana and Zimbabwe have a double taxation agreement which stipulates that Botswana can only withhold up to 10% of technical fees. The same income is potentially taxable both in Zimbabwe and Botswana. **1**
- Therefore, 10% tax will be withheld at the source. **1**
- Turnkey will include in its tax return the gross income received from Botswana. **1**
- In accordance with s92 Turnkey will be allowed a relief which is the lower of: **1**
 - o The Zimbabwe income tax suffered on the foreign income on which the relief is to be granted; and
 - o The foreign tax. **1**
- The relief would then be the 10% withholding tax. **1**
- The withholding tax must be converted to USD using the average rate for the period over which the services were rendered. **1**

Communication skills – logical argument **1**

Part (c) Briefly discuss, with supporting calculations, the Zimbabwe income tax implications of the invoiced amounts and the expenses relating to the Botswana contract referred to in point 1.1 for Turnkey's 2015 year of assessment.

Out-of-town expenditure incurred in Botswana

- The costs incurred in Botswana to do the feasibility studies are expenditure incurred in the production of income; the issue is whether or not it is of a capital nature. **1**
- If it is of a capital nature it will not be deduction in terms of s15. **1**
- If it is not of a capital nature it is deductible. **1**
- The total costs $(4,500 + 2,000 + 1,200 = \text{BWP}7,700)$ are to be converted at the spot rate of 8.5.

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- BWP7,700/8.5 = USD906 **1**

Consulting contract

- Even though the contract was awarded on 5 March 2015, the first amount only accrues for gross income purposes when the invoice was issued (31 May 2015). **1**
- The invoiced amount must be converted to USD using the spot rate on invoice date. **1**
- BWP3 million/8 = USD375,000 **1**
- As the debt is still outstanding at the end of the year an unrealised gain or loss will be recognised. **1**
- However, unrealised gains or losses are prohibited deductions per s16 of the income tax act. **2**

Communication skills – clarity of expression **1**

			Marks
Part (d) Calculate Mr Smith’s taxable income for the 2015 year of assessment.			
Mr Smith Tax Computation for the 2015 Year of Assessment			
		\$	
<u>Employment income</u>			
Salary		60,000	1
Rental of apartment in Kisumu paid by employer - exempt		-	1
Motoring benefit: - Zimbabwe (600 x 6)		3,600	1
- Kenya (800 x 5)		4,000	1
Acquisition of motor vehicle - elderly exemption		-	2
Share option scheme - 10,000 x (1 - 0.1)		9,000	1
Medical aid contributions by employer - exempt 3 rd sched		-	1
Medical expenses paid by employer - exempt 3 rd sched			1
Taxable income from employment		76,600	
<u>Trade and investment income</u>			
Rental (400 x5)	2,000		1
/less elderly exemption - first 3k (3 rd sched)	(2,000)	-	1
Interest deemed to be from a source within Zimbabwe	3,500		1
No elderly exemption as interest is not from a financial institution as defined	-	3,500	1
		3,500	
Available			13
Presentation			1
Max			14

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Question 2

- a) Calculate Mr. Murphy's taxable remuneration income for the year ended 31 December 2015.

	\$	
Salary - Gross Income as defined in Section 8 (1)		4,500
Bonus - Gross Income as defined in Section 8 (1)	500	
Less Bonus free threshold up to a maximum of \$1,000	(500)	-
Medical Aid - Exempt per 3rd schedule		-
Botswana Technical fee - Taxable as deemed source is Zimbabwe since services were rendered during a period of temporary absence. Section 12 (1) (c).		458
Motor vehicle benefit - Exempt as he is above 55 years		-
Deemed motoring benefit (300 x 4 months)		1,200
Pension received - Exempt as he is above 55 years		-
Taxable remuneration		<u>6,158</u>

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Calculate Mr. Murphy's taxable income from business operations (not his tax liability)

b) for the tax year ended 31 December 2015

	\$	
Fees - Gross Income		350,000
Purchased debtors - Were not previously included in gross income		-
Bad debts incurred in June - Allowable as they were previously included in income		(177)
Insurance premium for Office and cash in transit - Allowable as it is for trade purposes		(185)
Insurance premium for own life - Not allowable as it is not for trade purposes		-
Legal expenses for purchase agreement - Capital in nature		-
Legal expenses for debt collection - Allowable as it is for trade purposes		(35)
Staff medical aid - Allowable per Section 15 (2)		(1,280)
Medical aid for self - Not for trade purposes as he is not an employee of the company		-
Motor Vehicle expenses - Allowable s15 deduction - (1,880 x 30%)		(564)
Staff salaries - Allowable s 15 (2) deduction		(32,000)
Cash in lieu of leave - Was an allowable s 15 (2) deduction in 2014 tax year (earlier of payment/accrual)		-
Rates on purchased property (25% x 4,400)		(1,100)
Electricity (25% x 3,300)		(825)
75% private expenses not allowable per section 15 (2)		
Telephone allowable per S 15 (2) : (80% x 860)		(688)
Alterations to add property - Capital expense		-
Capital allowances - (Calc. 1)		(666)
Rent received - Section 8 (1)	4,750	
Less elderly persons rental exemption	(3,000)	1,750
Rental levy - Section 15 (2) deduction		(570)
Interest on invested funds in bankers acceptances	3,500	
Less Exemption on deposits with financial institutions	(3,000)	500
		-
Recoupment - no allowances granted on the building as W&T is not apportioned, and the asset was sold in the current year.		
Taxable Income		314,160

Calculations

1) Capital Allowances

Toilet Addition - no W&T in year of sale

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Motor vehicle used (20% x 30% x 900) x (8/12)	36
Note: SIA is not apportioned on a time or usage basis	
Residential & business property - no W&T in year of sale	-
Office equipment [10% x 36,500 x 25% x (8/12)]	608
Computer & generator [(1,000 + 300) x 10% x 25% x (8/12)]	22
	<hr/>
	666

c) **State what credits, if any, Mr. Murphy is entitled to claim for the tax year ended 31 December 2014**

Mr. Murphy is entitled to claim an elderly person's credit of \$900.

For medical expenses he incurred, he received a credit of 50% of the medical expenses: (50% x 320)
= \$160

d) **Calculate Mr. Murphy's capital gains tax liability for the tax year ended 31 December 2014**

Mr. Murphy's capital gains tax liability for the year ended 31 December 2014 :

			\$
Capital gains tax on sale of flat (5% x 115,000)		5,750	
<u>Capital gains tax on sale of house</u>		-	
No replacement PPR, so qualifies for CGT			
Proceeds		167,000	
Recoupment		-	
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		167,000	
Less:			
Cost	120,000		
Capital allowances granted	-		
Inflation allowance (2.5% 120k)	3,000	(123,000)	
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Capital gain		44,000	
Capital gains tax at 20%		8,800	
Less CGT Withholding tax (15% x 120,000)		(18,000)	
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Capital gains refundable		(9,200)	
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Net capital gains refundable		<u>(3,450)</u>	

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e) Calculate Mr. Murphy's VAT liability from business operations for the tax year ended 31 December 2015.

	<i>Output VAT</i> \$	<i>Input VAT</i> \$
Acquisition of business from Mr Murphy Zero rated: no input tax claimed		-
VAT on computer		150
VAT on generator		45
Fees - (350,000 x 15%)	52,500	
Bad debts purchased - not a supply		-
Bad debts incurred in June - (177 x 15%)		26.55
Insurance premiums - exempt supplies		-
Legal expenses : Purchase agreement not a supply		-
:Debt Collection (15% x 35)		5.25
Medical Aid : Staff - Exempt supply		-
: Self - Exempt supply		-
Motor vehicle expenses - (30% x 15% x 1,880)		84.60
Staff expenses : Staff - Not a supply		-
: Cash in lieu of leave - Not a supply		-
Bulawayo City Council Water Bill - (4400*15%*25%)		165
Electricity - (3,300 x 15% x 25%)		123.75
Telephone (860 x 15% x 80%)		103.20
Alterations to property (10,220 X 15%)		1,533
Technical fee (458 x 15%)	68.70	
Sale of residential property (25% x 15% x 167,000)	6,262.50	
	58,831.20	2,236.35
Therefore VAT liability for the year is \$ 56,594.85 (58,831.20 - 2,236.35)		