

<b>Part (a)(i) Calculate the capital gain or capital loss (if any) resulting from the sale of shares in Avion for Kubanda for the 2020 year of assessment</b>			<b>Marks</b>											
The capital gain/loss will be calculated as follows:														
1	Proceeds on sale (Exempt)	0	2											
2	Withholding Tax on Listed Shares (1%*240,000)	(2,400)	2											
<b>Available</b>			<b>4</b>											
<b>Maximum</b>			<b>4</b>											
<b>Total for part (a)(i)</b>			<b>4</b>											

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Part (a)(ii) Discuss, with calculations where relevant, the impact of the settlement of the loan from Medupi on Kubanda's taxable income for the 2020 year of assessment.	Marks												
<b>Disposal of Truck</b>													
- There is a deemed disposal of a truck	1/2												
- The disposal is of a capital nature and therefore proceeds or gains are not included in gross income.	1												
- There is recoupment of some of the capital allowances previously granted and the amount recouped of 1.1million is included in gross income.	1												
<b>Loan Repayment</b>													
- There is an outlay to pay off a debt. The expenditure is capital in nature and therefore not deductible <i>section 15(2)(a)</i>	1												
<b>Interest</b>													
- The loan accrued interest in the year of assessment and this is deductible for tax purposes.	1												
- The Principal is the tree and the interest is the fruit hence interest is revenue in nature	1/2												
- The loan repayment amount of 1.1mln exceeds that of the loan balance of 1 046 475. The excess is an additional interest cost of 53,525 is deductible.	1												
<b>Controlled Transaction</b>													
Medupi and Kubanda are associated persons, hence the transaction is a controlled transaction which is subject to section 98.	1/2												
<b>Available</b>	<b>6.5</b>												
<b>Maximum</b>	<b>4</b>												
<b>Total for part (a)(ii)</b>	<b>4</b>												
<b>Total for part (a)</b>	<b>8</b>												

<b>Part (b) Discuss, with calculations where relevant, the income tax consequences for Medupi of the loan settlement (including any interest owing) with Kubanda for the 2020 year of assessment.</b>		<b>Marks</b>											
	<b>Acquisition of Truck</b>												
	The acquisition is of a capital nature and therefore not deductible. <i>Section 15(2)(a)</i>	1											
	The truck is eligible for capital allowances (both SIA and W&T) <i>section 15(2)(c)</i>	1											
	Therefore the SIA allowance for Medupi based on the acquisition of the truck in 2020 should be ZWL1 100 000 x 25% = ZWL275 000	1											
	<b>Loan Repayment</b>												
	There is a receipt from a debtor and the receipt is of a capital nature. The amount is excluded from gross income	1											
	<b>Interest</b>												
	- The loan accrued interest in the year of assessment and this interest income is included in gross income.	1											
	- The loan repayment amount of 1.1mln exceeds that of the loan balance of 1 046 475. The excess is an additional interest cost of 53,525 is included in gross income.	1											
		1											
	<b>Controlled Transaction</b>												
	Medupi and Kubanda are associated persons, hence the transaction is a controlled transaction which is subject to section 98.	1											
	<b>Available</b>	<b>8</b>											
	<b>Maximum</b>	<b>7</b>											
	<i>Communication skills – presentation</i>	<i>1</i>											
	<b>Total for part (b)</b>	<b>8</b>											

<b>Kusile</b>												
<b>Part (c) Discuss the income tax consequences for Kusile and Kubanda with regard to the loan advanced to Kubanda as well as its partial write-off during its 2020 year of assessment.</b>		<b>Marks</b>										
	The interest income accrued by Kusile on the loan qualifies as gross income, section 8.	1										
	The advanced loan payment is a transaction of a capital nature hence not deductible.	1										
	The partial write off is a loss to Kusile, in the production of income.	1										
	The write off will not be deductible under 15 (2) (g) as a bad debt because the loan would not have previously been included in the taxable income of Kusile.	1										
<b>Kubanda</b>												
	The shareholder's loan is not a receipt [Genn], hence will not be included in gross income.	2										
	Kubanda acquired the loan to purchase a capital asset, hence the interest if of a capital nature and not deductible.	1										
	The loan waiver is a receipt to Kubanda; however, it is a receipt of a capital nature, hence will not be included in gross income.	1										
	Kusile and Kubanda are associated persons, hence the transaction is a controlled transaction which is subject to section 98.	1										
<b>Available</b>		<b>8</b>										
<b>Maximum</b>		<b>5</b>										
<b>Total for part (c)</b>		<b>5</b>										