Question 1

ii	With reference to the information in Note 6 discuss the income tax implications of these transactions in the hands of the affected employees.

- Fringe benefits are gross income as per s8 (1)(f) of the income tax act. (1)
- The value of the benefits to be taxed is determined with reference to:
    - The value to the employee for use of a residence or furniture; and (1)
    - For any other benefit, the cost to the employer. (1)

<u>Motoring benefit</u>

- The value of the benefit is ascertained with reference to the vehicle's engine capacity. (1)
- 3,000cc vehicles have a value of $600 per month attached to them. (1)
- $600 is to be included in each of the 3 managers' gross income each month they have use of the vehicles. (1)

<u>Fuel allowance</u>

- The fuel allowances by way of coupons are gross income in the employees' hands. They are fringe benefits to the extent to which the fuel was for private use.
- The fuel was for private use. Travelling to and from work is considered private use.
- The benefit is valued at the cost to the employer.
- The cost to the employer was 5 x 25ltr/mth x $1,1/ltr for each employee for the two months ending September.

<u>Company housing</u>

- The value of the housing benefit is determined with reference to its value to the employee. (1)
- The amount to be included in the employees' gross income is $700 per month. (1)

<u>Lunch coupons</u>

- The value attached to the lunch coupons would be based on the cost to the employer. (1)
- The vouchers awarded to the employees were worth $4,200, thus that is the amount to be included as part of their gross income. (1)

<u>Entertainment allowances</u>

- The entertainment allowances are gross income in the hands of the employees, but only to the extent to which they were not expended on entertaining clients. (1)
- The value to be included in the gross income of the employees would be determined using the cost to the employer. (1)
- The amount to be included in gross income of the employees would be 40% x $2,500 = $1,000. (1)

Total available **13 marks**

b	i	Write an email to the finance manager in respect of the proposed disposal of GP's glass business unit (as detailed in note 10) in which you advise GP of the VAT implications of the two options under considerations. In your email highlight the most tax efficient way from a VAT perspective of disposing of the Glass business unit.

To: CFO@gp.org.zw

From: TaxMan@cca.org.zw

RE: VAT Implications of disposal of Glass CGU

Dear Sir/Madam

Given the two options available to you, this email serves to advise you on which option gives the better benefit for VAT purposes.

<u>Disposal of individual assets</u>

- Disposal of the individual assets of GP Glass would be considered a supply for VAT purposes. (1)
- GP would be expected to account for VAT on all the items they would have initially claimed input VAT on purchase, e.g. trading stock. (1)
- The value of the supply would be the selling price of the individual assets less VAT. (1)
- The time of the supply would be the earlier of the issue of an invoice or payment of consideration. (1)
- For all standard rated items the VAT would be charged at 15% and at 0% for all Zero rated items. (1)
- The implication of this form of disposal would be that all items disposed of would be 15% more expensive after taking into account the output VAT on the qualifying items. (2)

<u>Disposal of CGU</u>

- The disposal of a CGU/going concern is a supply for VAT purposes. (1)
- S10(1)(e) however provides for the sale of a business as a going concern to be zero-rated, dependent on the following conditions:
    - Sale is between registered operators; (1)
    - The operators agree in writing that the sale is of a going concern; (1)
    - All assets necessary to carry on trade are sold in as part of the sale; and (1)
    - The parties are to agree that the sale price includes VAT at 0%. (1).
- Therefore if GP is to take this option and meet the requirements above the sale would be charged VAT at 0% (1)

Thus the option that would benefit you more would be the sale of the business as a going concern as this would attract output tax at a rate of 0%, therefore making the disposal more attractive to potential buyers. (2)

Kind Regards,

Tax Man

Total Available	15 marks

ii	Discuss the capital gains implications of selling shares in the company that operates the glass business unit or selling the individual assets forming part of the glass business unit. In your discussion you should clearly indicate which option would be more favorable to GP

<u>Sale of individual assets</u>

- CGT arises on the disposal of specified assets. (1)
- Specified assets include immovable property, and marketable securities. (1)
- Upon the sale of GP Glass assets, only their specified assets would attract capital gains tax. (1)
- This means that potentially only their land and buildings (if they are not leasing) and any marketable securities they may hold would attract any capital gains tax. (1)

<u>Sale of shares</u>

- The shares are a marketable security. (1)
- Their sale would attract CGT at a rate of 5% on gross proceeds if they were purchased before 2009, and 20% on the capital gain if they were purchased after. (1)
- The shares would however be sold at a price that is reflective of the value of the net assets of the company, meaning that the amount that will be taxed for CGT purposes will be higher than if an asset stripping exercise was embarked upon. (2)

In conclusion, asset stripping would be a better option for GP from a CGT perspective. (1)

Total available **9 marks**

c	i	With reference to the information in Note 11, discuss whether or not GP will be required to register the new company for VAT purposes. In your discussion you may look at the following areas: • Liability for registration; and • Registration procedures

- In accordance with the s23 of the VAT Act, the new venture would be required to register for VAT purposes if it is expected to make taxable supplies exceeding $60,000 per annum ; or (1)
- If there are reasonable grounds to believe sales will exceed that amount at any point in the following 12 months. (1)
- Since they are projecting monthly says of $12,000 the new business venture will be required to register for VAT purposes from Day 1 as they will most likely to exceed the $60,000 threshold. (2)
- Therefore the new business will be required to register for VAT purposes within 30days of commencement of business. (1)
- To be registered for VAT purposes the following should accompany the application:
  - Banking details
  - Company registration documents;
  - Details of public officer; and
  - Director's details

  Max 3 marks

Total Available **8 marks**

ii	Assuming the new company above is not required to be registered for VAT purposes, advice GP’s management on the pros and cons of being a VAT registered operator.

<u>Advantages of voluntary registration</u>

- The VAT registration certificate is a prerequisite by most suppliers for consideration to participate in tenders. (1)
- Being VAT compliant is also a consideration by ZIMRA for the issuance of a tax clearance certificate which saves on potential withholding tax of 10% from invoices issued to customers. (1)
- Avoidance of potential penalties and interest from late VAT registration. (1)
- Input tax claim from purchases obtained from VAT registered suppliers; and (1)
- If supplies are made mainly to registered operators, more would be willing to make purchases as they would get a VAT input allowance. (1)

Total available 5 marks

Question 2

With reference to the information provided calculate the capital gains/loss and any capital gains tax payable arising from the transactions in respect of the following tax payers:

i. Shiri
ii. Rekeni