QUESTION 1 **21 marks**

Elton Shumba is the financial director of Wonderland (Pvt) Ltd. He is also a non-executive director of Neverland (Pvt) Ltd, which is the holding company of Wonderland (Pvt) Ltd.

Elton is 60 years of age. He had contracted polio during his youth and is confined to a wheelchair.

For the period 1 February 2014 to 31 December 2014 Elton received the following remuneration from the company, which was all paid in USD. (Elton was on unpaid leave for the month of January and received no remuneration.)

	Note	US $
Salary		60 000
Director's fees , voted for on 30 September 2014		2 000
Medical aid contributions paid by the company		3 600
Medical expenses paid by the company in July 2014		1 000
Entertainment allowance	1	2 400
		69 000
Elton's pension fund contributions to the company's approved pension fund for the period 1 February to 31 December 2014		3 575
PAYE deducted for the period 1 February to 31 December 2014		22 700

Notes

1 During the 2014 tax year Elton entertained clients at a cost of US $950.

Additional information

- For the period January 2014 to September 2014 he had the use of a company vehicle with an engine capacity of 1500 cc. In October 2014 the company sold the vehicle to Elton for US $2 000. The market value of the vehicle was US $3 500 and the cost to the company was US $5 450.

- In September 2014 Elton exercised an option to acquire 200 shares in Wonderland (Pvt) Ltd at US $2 per share. At that date the market value of these shares was US $3 per share. The option had been offered in February 2012 when the market value of the shares was the equivalent of US $3,50 per share.

- Elton owns two flats, one of which is his principal private residence and another, which was let throughout the year for US $9 600. The monthly levy of $500 per month was paid by

Elton. Elton enclosed the balcony of the rented flat in September 2014 at a cost of US $1 800.

- Elton received a pension of US $200 per month from an approved pension fund from his previous employer.

- On 30 September 2014 Neverland (Pvt) Ltd paid Elton director's fees amounting to US $500 less US $100 withholding tax.

- In September 2014 Elton invested funds in bankers' acceptances. Interest on these bankers' acceptances amounted to US $4 000 for the year.

Other Information

Consumer price indices that may be relevant were as follows

February 2012	**0.95%**
December 2013	**1.84%**
September 2014	**1.25%**
December 2014	**1.28%**

REQUIRED

	Marks
You are required to calculate Elton's tax liability on employment income for the year ended 31 December 2014. Provide detailed explanations to support your calculations whenever necessary.	20
Presentation marks: Arrangement and layout, clarity of explanation, logical argument and language usage.	1

ITC 2010 Adapted

Question 2

Ignore Value-Added Tax (VAT).

Developers Ltd ('Developers') is a company listed on the Zimbabwe Stock Exchange (ZSE). Its primary business is the development of residential properties that the company sells or leases to unconnected third parties. The company has two wholly-owned subsidiaries:

- Equipment Ltd ('Equipment') (a Zimbabwean resident company that manufactures and sells home appliances locally and in the region and holds an investment portfolio); and
- Cleaners Ltd ('Cleaners') (a company registered and effectively managed in Mauritius that provides cleaning services to customers). It derives its income from a foreign business establishment in Mauritius.

The Developers group could have established Cleaners in either Zimbabwe or Mauritius, but chose Mauritius based on its 'favourable financial and business environment'. All three companies have a 31 December year end. The functional currency of all three companies, as determined in accordance with IAS 21 *The Effects of Changes in Foreign Exchange,* is the USD.

You were provided the following information in respect of one of developers' properties.

1 On 14 September 2012 Developers commenced with the construction of its own office building. This building was funded from surplus cash and it was brought into use on 1 April 2013 at a total cost of $360 000 (which is not less than the arm's length price of the building). No further capital costs were incurred in respect of this building before it was sold.

On 1 September 2014 Developers decided to sell its own office building and to rent office facilities from an unconnected third party. Management were of the opinion that it could probably sell the building at a substantial profit, given the rising prices of office buildings. Accordingly, the building was actively marketed and advertised from 1 September 2014. After receiving numerous offers, the building was eventually sold for a cash amount of $500 000 on 15 December 2014. Allowable selling costs amounted to $25 000.

Management consulted senior counsel specialising in tax who confirmed in writing that the sale of this office building would not constitute gross income in terms of section 8.1 of the Income Tax Act. Furthermore, if Developers promptly submitted the computation of capital gains tax, the Zimbabwe Revenue Authority (ZIMRA) would waive the automatic 15% withholding tax on the proceeds of the sale.

On 1 September 2014 the carrying amount of the building was lower than its fair value less cost to sell.

The following information relates to Developers' own office building:

	$
Depreciation from 1 January to 31 August 2014	14 400

In 2008 Developers had also sold its previous owner-occupied office building, for a similar reason.

2 Additional information

The Developers group has won awards from the Zimbabwe Investment Authority for its export performance and from ZIMRA for the administration of its PAYE and VAT responsibilities.

However, shortly after the group's year end, the following headline appeared in the business media: '*Leading listed group does not pay its fair share of taxes*.'

QUESTION 1 – REQUIRED		**Marks**	
		Sub-total	**Total**
(a)	With reference to note 1, discuss, with reference to relevant case law, whether the receipt of $500 000 from the sale of Developers' own office building on 1 September 2014 is of a capital nature in terms of the gross income definition in section 8.1 of the Income Tax Act. Ignore the recoupment of the amounts previously deducted in terms of the Fourth Schedule of the Income Tax Act.	13	
	Communication skills – clarity of expression; logical argument	*2*	15
Total			**17**

ITC Jan 2015 Adapted