

**CTA LEVEL [2] TAX] – [2018] TEST [2]: SOLUTION**

---

To: [Pete.M@uk.com](mailto:Pete.M@uk.com)

From: [caastudent@caa.ac.zw](mailto:caastudent@caa.ac.zw)

Date: 24 April 2018

**RE: Tax implications of transactions.**

Dear Peter

Following from your email find below the tax treatment of the transactions you sent.

**Commented [EW1]:** In your solution can you clearly separately identify where you discuss income tax implications and cgt implications. You can make use of subheadings.

**1. Finance Director**

**a. Salary – (Income tax consequences only)**

- The salary amount for inclusion in gross income for the year 2017 is \$27,000 [\$4,500\*6] as you were in employment with PGI until June. **1mark**
- The full amount (including \$4,500 for June) is included in the calculation of PAYE as you accrued the full amount. **1mark**
- It is accrued because the Jan-June salary is due and payable (Delfos) to you as you have provided the service and also you became entitled to it (Lategan) **1mark**

**b. Share option scheme (Income Tax Consequences only)**

- To be included in your employment income is the fringe benefit of buying shares at below market price **1mark**
- $(\$20 - \$11) * 10,000 \text{ shares} = \$9,000$  **1mark**
- The income from the sale of the shares is not employment income as it is not a result of the employment contract between you and PGI **1mark**
- The income may be included in trade and investment **1mark**
- The proceeds from disposal are capital in nature. **1mark**
- Shares are a tree and the fruits thereof are dividend and also you are not in the business of trading in shares **1mark**
- Upon sale of the 2,000 shares, they will also be capital in nature and excluded from gross income. **1mark**

**c. Golden Parachute (Income Tax Consequences)**

- \$185,000 as a golden parachute is part of your employment income **1mark**
- 

**d. Motor Vehicles**

**i) Use benefit (Income Tax Consequences)**

- For the two vehicles while still in employment with PGI, a motoring benefit accrues to you and is included in gross income based on the engine capacity and the time that you enjoyed the benefit **2mark**
- Value of benefit will be:  
Benz  $\$600 * 6 = \$3,600$  **1mark**  
Discovery  $\$800 * 6 = \$4,800$  **1mark**

**ii) Purchase benefit**

**CTA LEVEL [2] TAX] – [2018] TEST [2]: SOLUTION**

- Purchasing motor vehicles from your employer at below market price is a fringe benefit which is a resultant of employment and is included in gross income s8(1)(g) **1mark**
- Value of benefit  
Benz: \$38,000-\$5,000=\$33,000 **1mark**  
Discovery: \$45,000-\$10,000=\$35,000 **1mark**

iii) Other benefits

- The cost of repairs and fuel are not included in your employment income since the repair at that time was to your employer’s vehicle **1mark**
- The insurance for the 1<sup>st</sup> half of the year is not a benefit to you but that of the last is and so [600 x 6mths/12mths] = \$300 shall be included in gross income **1mark**

**Housing benefit – CGT and Income Tax Implications**

- You received a housing benefit from January to June 2017 and it is valued at the value to employee of [800/mth x 6mths] = \$4,800.00 and this should be included in gross income. **1 mark**
- A fringe benefit is also included in your employment income for buying a house at below market price **1mark**
- The value of benefit [\$102,000-\$45,000] = \$57,000.00 **1mark**
- There are CGT implications if you then sell the house as this will be a disposal of a specified asset i.e. immovable property **1mark**
- This would be the disposal of a Principal Private Residence (PPR) but the proceeds will not be used to acquired another PPR and so CGT arises. **1mark**

	USD	USD	Mark
Proceeds		90,000	<b>0.5</b>
Less – Allowable deductions			
Cost	(45,000)		<b>0.5</b>
Inflation allowance	(2,250)	(47,250)	<b>0.5</b>
Capital gain		42,750	
CGT Thereon @ 20%		8,850	<b>0.5</b>

- Sale of the house will not be included in gross income as it of a capital nature **1mark**
- Rental income is included trade and investment income included in gross income but not subject to PAYE **1mark**
- An exemption of \$3,000 is allowed as you are 55 years of age. **1mark**
- Annuity

## CTA LEVEL [2] TAX] – [2018] TEST [2]: SOLUTION

---

- An annuity is included in the employment income as it results in employment  
**1mark**
  - The inclusion will be the  $\$200 \times 6 = \$1,200$  **1mark**
  - The full amount accrues to you even though it has not been paid you are entitled to the amount **1mark**
- e. School Fees benefit**
- Accrues to you as you received it at the point PGI assumed the obligation on your behalf regardless that they haven't settled it. **1mark**
  - The payment for your wife's doctorate studies will be included in your employment income calculation even though PGI are not allowed to deduct it as you are a connected person as per the s15(q) definition. **1mark**

**32available marks**

### Part 2.

#### Transfer price

- MRP and GMTS are associates if they are controlled by a person along with 1 or more associate as per sec 2A **1mark**
- A person controls a company when they have the majority of voting rights or influence that they factually control the company. **1mark**
- In the case of MRP and GMTS, MRP is controlled by GM and GM has 25% and the two brothers are involved in the management of GMTS hence deemed to control **1mark**
- In that respect GMTS and MRP are associates thus s98B will apply. **1mark**
- Since the two are associates, transactions between them are controlled transactions. **1 mark**
- A consideration has to be made of whether the transactions were at arm's length. **1mark**
- The price that MRP normally sales to third parties (uncontrolled transaction) is  $\$500,000 \times 1.2 = \$600,000$  but they sold it to an associate for  $\$564,000$ . **1mark**
- Commissioner has a variety of transfer prices to use and with the given information an uncontrolled transaction is used **1mark**
- Commissioner will apply  $\$600,000$  in MRP's gross income and GMTS as a deduction. **1mark**

**9 available marks**