

a)	Based on all the information scenario, discuss, with supporting calculations, the VAT consequences of COZIMO's:		
	i. Car sale business;	20	
	ii. The leasing business; and	5	50
	iii. The workshop business	25	

	Marks
Students may go on to state "VAT shall be levied on supply by any registered operator of goods or services ... furtherance of trade ... trade means any trade or activity etc..."	
<b>Grant 1 mark for first time mention, and ½ mark for each <u>note if mentioned</u>. The student is not wrong in putting that on paper, but that is not where the issue is, which is why full marks are not being awarded.</b>	
i. <u>Car sale business</u>	
<b>1.1. Imports – brand-new</b>	
Output tax arises on importation of goods s6(1)(b).	<b>1</b>
COZIMO imported motor vehicles and therefore the import VAT shall be charged.	<b>1</b>
Motor vehicles are standard rated; thus, VAT will be charged at 15%	<b>1</b>
The value of supply shall be the value for duty purposes plus duty.	<b>1</b>
The time of supply shall be the date of entry into Zimbabwe.	<b>1</b>
<b><u>Input tax</u></b>	
Input tax can be claimed if a person was charged VAT on purchase and also if the supply is to be used to make taxable supplies	<b>1</b>
COZIMO was charged VAT on import	<b>1</b>
COZIMO will use some of the cars to make taxable supplies and one was to be used in the making of non-taxable supplies.	<b>1</b>
The vehicle to be used in the financial services division does not therefore qualify for an input tax claim, as it will be used for making non-taxable supply.	<b>1</b>
However, s16 prohibits the claiming of input VAT on passenger motor vehicles, thus COZIMO cannot claim VAT on any of the imported PMVs.	<b>1</b>
COZIMO may claim input tax on all the other vehicles.	<b>1</b>
<b><u>Resale</u></b>	
Upon sale of the brand-new vehicles COZIMO shall charge output tax on the sales at the standard rate	<b>1</b>
Any vehicles sold second-hand shall not have VAT charged on them	<b>1</b>
The value of supply is consideration less VAT	<b>1</b>
Time of supply is the earlier of invoice or payment	<b>1</b>
	<b>MAX 7</b>
<b>1.2. Pre-owned vehicles</b>	

S6(1)(a) of the VAT Act prohibits the charging of VAT on the sale of second hand motor vehicles.	<b>1</b>
Given that both the pre-owned and used vehicles are second hand, COZIMO cannot charge output tax on those sales.	<b>1</b>
However, COZIMO receives a commission for providing the customers with a resale service.	<b>1</b>
This is a standard rated supply and shall be taxed VAT at a rate of 15%	<b>1</b>
<b>Max</b>	<b>3</b>
<b>1.3. Imported pre-owned</b>	
<i>Here students may repeat discussion in note 1.1, only award ½ marks Students may end up arguing that these vehicles can be charged VAT, based on the fact that they not new to Zimbabwe. Markers are to award marks in such cases.</i>	
Output VAT is charged on the import of goods, thus COZIMO would be charged import VAT when the vehicles enter Zimbabwe.	<b>1</b>
Input tax shall be claimable if VAT was charged and if the person shall be using the goods to make taxable supplies.	<b>1</b>
Input VAT cannot be claimed as they are making non-taxable supplies (sale of 2 <sup>nd</sup> hand MV)	<b>1</b>
Upon selling them, the second-hand motor vehicles shall not have any VAT consequences per S6(1)(a) and therefore no input taxes are claimable on expenditures to make such non-taxable supplies.	<b>1</b>
For passenger motor vehicles, COZIMO cannot claim input tax on the purchase, given the provision of s16(2)	<b>1 (ALT)</b>
<b>Max</b>	<b>3</b>
<b>1.4. Transfers to foreign branch</b>	
In accordance with s7(8), any transfers to an independent branch by a registered operator are a deemed supply.	<b>1</b>
The Botswana branch is independent since it is a business that can be separately identified and has an independent system of accounting. S2 Interpretation of <b>Trade para II.</b>	<b>1 1</b>
Thus, COZIMO should charge output VAT on the transfers to the independent branch.	<b>1</b>
The value of supply shall be open market value if the Botswana branch cannot claim input VAT, otherwise it is the consideration less VAT.	<b>1</b>
The time of supply shall be the date of transfer.	<b>1</b>
However, given that the transfers are to a branch outside Zimbabwe, the deemed sales are zero-rated in accordance with s10.	<b>1</b>
<b>Max</b>	<b>4</b>

<b>1.5. Lay-bye</b>	
Under s7(4) a lay-bye agreement of more than \$25 attracts is a deemed supply.	<b>1</b>
For brand-new vehicles COZIMO would charge VAT at the time the vehicles are delivered to the customers.	<b>1</b>
The value of supply is the consideration less VAT	<b>1</b>
The value of supply should be calculated net of the 5% discount	<b>1</b>
For second hand vehicles, COZIMO cannot charge VAT given the provision in s6(1)(a)	<b>1</b>
<b>Max</b>	<b>3</b>
<i>This section was scoped out from being tested during the exam, but is left in place for the sake of students' use</i>	
<b>1.6. Instalment Sales Arrangements</b>	
COZIMO shall charge output VAT for supplies on instalment sales arrangements for brand new motor vehicles only.	<b>1</b>
The time of supply shall be the earlier of the goods being delivered or the signing of the credit agreement s8(3)(c)	<b>1</b>
The value of the supply shall be the cash price of the vehicles s9(6)	<b>1</b>
The interest portion shall not be charged VAT as it is a financial service as defined, and is thus exempt from VAT.	<b>1</b>
<b>1.7. Repossession</b>	
Repossession of goods sold under ISA is a deemed sale in accordance with S7(9).	<b>2</b>
Given that COZIMO had to repossess the vehicles, and was previously charged output VAT, they shall make an input adjustment on the outstanding cash balance.	<b>1</b>
Since COZIMO paid back the entire amount paid by the customer, they shall make an input tax adjustment for the entire amount of output tax they had previously charged to the transaction.	<b>1</b>
<b>Available</b>	
<b>Max</b>	<b>20</b>
<b>ii. Leasing business</b>	
<u>Lease</u>	
<i>Though interest was not mentioned in the scenario, students may discuss interest imputed into the periodic payments. Given that scenario is not clear on this, allow <b>1 mark</b> for interest in lease payments discussion.</i>	
Given that COZIMO supplies these goods under a rental agreement, the rentals are subject to output VAT.	<b>1</b>
The deposit and rental payments shall be charged VAT at a rate of 15%	<b>1</b>

The rental payments are successive supplies in the case of a rental agreement.	<b>1</b>
The time of supply – for successive supplies – is when the payments are made or become due, whichever is earlier.	<b>1</b>
Value of supply is consideration less VAT.	<b>1</b>
In the case that a customer decides to purchase the vehicles and starts making bullet payments, this would constitute sale of a second-hand vehicle. Thus, no VAT shall be charged	<b>1</b>
<b>ALTERNATIVE</b>	
This is an instalment credit agreement in accordance with s2 of the VAT Act, this is a supply subject to VAT.	<b>1</b>
The supply is standard rated	<b>1</b>
Value of supply is the cash value of the vehicles.	<b>1</b>
Time of supply is the earlier of delivery of the vehicles or payment of the first instalment. <i>[here students may include the signing of the agreement, which is ok]</i>	<b>1</b>
Interest included in the payments is not subject to VAT as it is a financial service, which is exempt in accordance with s11.	<b>1</b>
<b><u>Litigation and training</u></b>	
In accordance with s6, VAT is charged on imported services. Thus, it is important to define imported services.	<b>1</b>
An imported service is a supply made by a non-resident for consumption by a resident registered operator in the making of non-taxable supplies.	<b>1</b>
<b><u>For litigation:</u></b>	
- The supplier is a non-resident (South African lawyer);	<b>0.5</b>
- The recipient of the service is a resident; and	<b>0.5</b>
- The services are consumed in the making of <b>taxable</b> supplies (leasing vehicles).	<b>0.5</b>
Thus, no VAT shall be charged on the supply by the South African lawyer.	<b>1</b>
<b><u>For leases training:</u></b>	
- The supplier is a non-resident (South African lawyer);	<b>0.5</b>
- The recipient of the service is a resident; and	<b>0.5</b>
- The services are consumed in the making of <b>non-taxable</b> supplies (financial services).	<b>0.5</b>
Thus, output VAT shall be charged on the supply by the South African financial services legal experts.	<b>1</b>
COZIMO shall be required to account for the output VAT and not the service providers.	<b>1</b>
This is a standard rated supply (VAT @ 15%)	<b>1</b>
Time of supply is the earlier of invoice or payment.	<b>1</b>
Value of supply is the higher of OMV or invoice value of the service.	<b>1</b>

	<b>Available</b>	<b>17</b>
	<b>Max</b>	<b>10</b>
<b>iii. <u>Workshop business</u></b>		
<b>3.1. <u>Paint acquisition</u></b>		
In accordance with s6(1)(a), VAT shall be charged on the import of goods.		<b>1</b>
Thus, COZIMO shall be charged VAT on the import of the painting inventory.		<b>1</b>
This is a standard rated supply		<b>1</b>
Since the inventory would be used to make taxable supplies in the course of trade, COZIMO will be allowed to claim an input tax deduction on the purchase.		<b>1</b>
TOS is the date the paint is brought into Zimbabwe for use in the business.		<b>1</b>
VOS is CIF + duty		<b>1</b>
	<b>Max</b>	<b>3</b>
<i>Again, this was scoped out from testing during the exam setting process, and has been included in solution for completeness.</i>		
<b>3.2. <u>Italian mechanics</u></b>		
The service was supplied by a non-resident supplier		<b>0.5</b>
The service was consumed by a resident operator		<b>0.5</b>
The service was consumed in the making of taxable supplies.		<b>0.5</b>
Thus, no VAT would be charged on the transaction as this is not an imported service as defined.		<b>1</b>
<b>3.3. <u>Workshop material</u></b>		
This is a standard rated supply		<b>1</b>
COZIMO may claim input tax on the materials, given that they were purchased from VAT registered operators and they were charged output tax on them.		<b>1</b>
TOS is earlier or invoice or payment		<b>1</b>
VOS is consideration less VAT		<b>1</b>
	<b>Max</b>	<b>3</b>
<b>3.4. <u>Fuel expenses</u></b>		
No input tax can be claimed on fuel since no VAT was levied on fuel upon purchase		<b>1</b>
Work shop staff:		
Fuel for the workshop staff is a fringe benefit		<b>1</b>
Fringe benefits are a deemed supply, and attract output VAT.		<b>1</b>
However, given that the supply of fuel is exempt, no VAT shall be charged for availing the staff with this benefit.		<b>1</b>
	<b>Max</b>	<b>3</b>

<b>3.5. <u>Manager Jeep</u></b>	
The supply of the Jeep is a fringe benefit and attracts output VAT.	<b>1</b>
VAT is charged based on the value of the benefit for PAYE purposes.	<b>1</b>
The value for the Jeep is \$800 per month for PAYE purposes.	<b>1</b>
VAT is charged using the tax fraction, thus output VAT will be $15/115 \times 800 = 104.35$ per month.	<b>2</b>
Fuel is exempt; thus, no VAT output shall be charged on this fringe benefit.	<b>1</b>
<b>Max</b>	<b>4</b>
<b>3.6. <u>Accommodation</u></b>	
The supply of residential accommodation is an exempt supply.	<b>1</b>
Thus, no output VAT shall be charged for the supply of the accommodation to the general manager.	<b>1</b>
<b>Max</b>	<b>1</b>
<b>3.7. <u>Cash allowances</u></b>	
Cash is excluded from the definition of goods in s2.	<b>1</b>
Thus, no output VAT shall be charged on the supply of cash to the GM.	<b>1</b>
<b>Max</b>	<b>2</b>
<b>3.8. <u>School fees</u></b>	
This is a fringe benefit to the employee; thus, COZIMO shall consider output VAT	<b>1</b>
This is a supply of education services, and education services are exempt from VAT	<b>1</b>
Thus, the fees payment will not attract VAT.	<b>1</b>
<b>Max</b>	<b>2</b>
<b>3.9. <u>Entertainment</u></b>	
Entertainment is defined as the provision of any food, beverages...entertainment, amusement..., or hospitality of any kind by a registered operator to anyone in connection with his trade.	<b>1</b>
The supplies in this case meet the definition of entertainment.	<b>1</b>
Thus, COZIMO cannot claim input VAT on the TV or the water dispenser, as they are to be used for the purposes of entertainment.	<b>1</b>
<b>Max</b>	<b>2</b>
<b>Available</b>	<b>29</b>
<b>Max</b>	<b>20</b>



<u>Mercedes</u>		
There is a possible recoupment on this transaction given that capital allowances were previously granted on the asset.		<b>1</b>
However, given that the asset is a passenger motor vehicle, under the 4 <sup>th</sup> schedule its cost is limited to \$10,000, thus a restriction shall also be applied to the selling price.		<b>2</b>
The recoupment shall be calculated as:		
Proceeds (10k/53k x 36k)	6,792	<b>1.5</b>
Less ITV	(5,000)	<b>1</b>
Potential recoupment	1,792	<b>0.5</b>
Limited to capital allowances previously granted	5,000	<b>1</b>
Actual recoupment	1,792	<b>1</b>
<u>Office building</u>		
A potential recoupment arises on the transfer.		<b>0.5</b>
The 4 <sup>th</sup> schedule para 8(3) allows a transfer of assets between companies under common control to be deemed to have occurred at the income tax value of the asset.		<b>1</b>
Given that the selling price and the ITV would be the same, the recoupment would be nil.		<b>1</b>
Therefore, the building will be transferred at \$90,750 (110k – 2.5%x110k x7)		<b>1</b>
<b><i>Here some students will discuss transfer pricing provisions, only award 1 mark as the relevant principle is the issue regarding transfer between companies under common control</i></b>		
<u>Damaged vehicles</u>		
In cases where assets are damaged and insurance pays out, it is a deemed disposal, and recoupment is to be calculated if the asset was being utilised in the production of income.		<b>1</b>
Given that COZIMO shows no intention to replace the assets, the provision in s8(1)(j)(i) will not apply, and recoupment is to be charged in full.		<b>2</b>
Recoupment would be calculated as:		
Fiat		
Proceeds (10k/35k x 16k)	4,571	<b>1.5</b>
Less ITV	(5,000)	<b>1</b>
Potential scrapping allowance	429	<b>0.5</b>
Given that the vehicle was not scrapped, no deduction would be allowed.		<b>1</b>
There is no recoupment on the FUSO truck as it is part of inventory, thus the 18k relating to the truck will be included in gross income in full.		<b>1</b>
<b>Available</b>		<b>31</b>
<b>Max</b>		<b>25</b>

c)	Calculate the CGT consequences of the asset disposals in Part 2. For each transaction in the table provide a brief explanation of the CGT treatment.	19	19
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	Marks
<b><u>General</u></b>	
Capital gains tax is levied on the gain arising from the <b><u>disposal of specified assets</u></b> .	<b>1</b>
Specified assets are <b><u>immovable property</u></b> , and any <b><u>marketable security</u></b> .	<b>1</b>
<b><u>Old workshop</u></b>	
$\$28,000 \times 5\% = \$1,400.00$ .	<b>1</b>
The asset was acquired before 01 Feb 2009 and so 5% is applied to the proceeds on disposal to come up with the CGT payable.	<b>1</b>
<b><u>Light commercial truck</u></b>	
The truck is movable property, and thus, does not meet the definition of a specified asset.	<b>1</b>
Therefore, no CGT arises on this transaction.	<b>1</b>
<b><u>Treasury bills</u></b>	
Treasury bills are specified assets as defined, thus, the transaction attracts CGT.	<b>1</b>
Treasury bills are a loan to the state, the maturity of which is exempt from CGT in accordance with s10(c)	<b>1</b>
<b><u>Econet shares</u></b>	
The shares are specified assets as defined, thus, the transaction attracts CGT.	<b>1</b>
S10 of the CGT Act exempts from CGT amounts accruing from the sale of listed shares.	<b>1</b>
However, sales of listed shares are subject to a withholding tax.	<b>1</b>
Withholding tax would be $1\% \times 32k = \$320$	<b>1</b>
<b><u>Milton Park House</u></b>	
The Milton Park house is a specified asset, and thus, its disposal attracts CGT.	<b>1</b>
CGT is charged at a rate of 5% on gross proceeds on immovable property acquired before 2009.	<b>1</b>
CGT on the house would be $5\% \times 105k = \$5,250$	<b>1</b>
<b><u>C-Class</u></b>	
The vehicle is not a specified asset as it is movable property, thus, its disposal does not attract CGT.	<b>1</b>

<u>Office building</u>	
The sale is of a specified asset (immovable property), thus it attracts CGT.	<b>1</b>
S15 stipulates that, upon sale, the seller may elect to transfer the asset(s) at an amount (deemed selling price) equal to the deductions allowed under s11(2)	<b>2</b>
Thus, CGT would be:	

Proceeds	112,750	<b>0.5</b>
Less Recoupment	-	<b>1.0</b>
GCA	112,750	

*less*

Cost	110,000	<b>0.5</b>
Capital allowances granted (2.5% x 110k x 7)	(19,250)	<b>1.0</b>
Inflation allowance (2.5% x 10k x 8)	22,000	<b>1.0</b>
Capital gain	-	
CGT @ 20%	-	<b>1.0</b>

<b>Only award mark for rate application if student missed the transfer concept</b>	
<u>Fire damaged vehicles</u>	
Both assets damaged by fire do not meet the definition of a specified asset.	<b>1</b>
Thus, the indemnity receipt does not attract CGT.	<b>1</b>
<b>NB: Only vehicle insurance was mentioned, and not insurance for the showroom</b>	
<b>Available</b>	<b>27</b>
<b>Max</b>	<b>20</b>

d)	Calculate the VAT payable or refundable on the assets disposed of by COZIMO in PART 2 of the scenario. Provide a brief explanation in your computation for the treatment of each transaction.	6	6
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		<b>Marks</b>	
		<b>\$</b>	
		Output	
Old workshop (28k x 15%)		4,200	<b>1.0</b>
Truck - no VAT on 2nd hand vehicles		-	<b>1.0</b>
Treasury bills - financial service - exempt s11		-	<b>1.0</b>
Shares - financial service - exempt s 11		-	<b>1.0</b>
Milton park house (15% x 105k)		15,750	<b>1.0</b>
Office building (102k x 15%) - unregistered connected person		15,300	<b>2.0</b>
<b>ALT</b>			
Office building (95k x 15%) - registered connected person		14,250	<b>2.0</b>
Mercedes - no VAT on 2nd hand vehicles		-	<b>1.0</b>
Fiat - no VAT on 2nd hand vehicles		-	<b>1.0</b>
FUSO light - no VAT on 2nd hand vehicles		-	<b>1.0</b>
Total		35,250	
VAT liability		35,250	
		<b>Available</b>	<b>10.0</b>
		<b>Max</b>	<b>6.0</b>