Contents

TEST 4 ON TUTORIAL 104:		
Personnel	**Telephone Number**	**Email**
Lecturers		
Zvinotendesa Mapetere	+263 4 702 532-5	zvino@caa.ac.zw
Fungai Charumbira	+263 4 702 532-5	fungai@caa.ac.zw
Philip Chambati	+263 4 702 532-5	philip@caa.ac.zw

Tests TIMETABLE

SCOPE	TEST NUMBER	TEST DATE
Tutorial 1	Test 1	
Tutorial 2	Test 2	
Tutorial 3	Test 3	
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TUTORIALS STRUCTURE

The tutorial is based on Study Units I – M.

PRESCRIBED METHOD OF STUDY

1. Please read the prescribed study material for every study unit thoroughly before you study the additional information in section A of every study unit.
2. Do the other questions (section B) in the study unit and make sure you understand the principles contained in the questions.
3. Consider whether you have achieved the specific outcomes of the study unit.
4. After completion of all the study units - attempt the self-assessment questions to test whether you have mastered the contents of this tutorial letter.

SELF ASSESSMENT QUESTIONS

Question Number	Topics Covered	Source	Marks
1	Mining	CAA CTA Adapted June 2016 Paper 2 Question 2	35
2	Deceased Estates and Trusts	CAA CTA Adapted June 2016 Paper 2 Question 1	65
3	Mining	CAA CTA Adapted June 2016	20
4	Farming	CAA CTA Adapted June 2016	30
5	Farming	ICAZ CTA Test 3 2016	40
6	Partnerships & Farming	ICAZ CTA Test 3 2016	40
7	Partnerships, VAT & Taxation of Corporates	ICAZ Adapted, ITC June 2014 P4Q1	47
8	VAT, Estate Duty, Taxation of Corporates	ICAZ Adapted, ITC June 2013 P1Q1	70

HOW TO ATTEMPT THESE SELF ASSESSMENT QUESTIONS
The purpose of the self-assessment questions is to assist you in determining if you have mastered the topics covered in this tutorial letter. In order to gain the maximum value from these questions and to improve your exam technique, it is suggested that you approach these questions as follows: 1. Prepare to attempt each of the questions as if it is a formal test or exam by doing the following: a. Ensure that it is quiet and that you will not be disturbed. b. Prepare the place where you are going to attempt the question by only keeping your books that is allowed to be taken into an examination venue and your financial calculator next to you. c. Use reading time for the question as is done in the tests and exam. d. Only start writing when your reading time has lapsed. Attempt the question as seriously as if it was a real test or exam. e. Keep within the time limit when you attempt the question and DO NOT refer to the suggested solution. f. If the time runs out and you prefer to complete the question, complete the question in a different colour pen and make a note of how much extra time you spend on the question. g. Take a quick break after you have completed the question. h. Take sufficient time to mark your answer and to calculate your mark. 2. After marking your own answer, it is very important that you reflect on the mark and how you have experienced the level of difficulty of the question. a. Did you complete your answer in the time limit? b. How many minutes did you use extra? c. How many marks did you score after the available time expired? d. Do you need to refer back to specific study units to clarify the accounting treatment of certain items? e. Is your answer set out in a logical manner, i.e. is it easy to follow your workings when marking your answer? f. Identify how you can improve your exam technique.

TUTORIAL 1 **35 marks**

Minerals (Private) Limited is a company registered in Zimbabwe and operates a gold mine located in Mvurwi. The company commenced its operations in 2009 after the adoption of the multi-currency system in Zimbabwe and has over the years seen tremendous growth in its production.

In February 2016 Minerals' finance manager sent to your office the audited financial statements for the year ended 31 December 2015 and have requested that you prepare their annual income tax return which was due to be submitted by the 30th of April 2016. All amounts are exclusive of Value Added Tax unless specifically indicated otherwise.

Detailed below is an extract of statement of comprehensive income for the year ended 31 December 2015:

	Note	US $000
Sales	**1**	13,000
Cost of sales	**2**	(8,200)
Gross Profit		4,800
Other Income	**3**	500
Administration expenses	**4**	(900)
Selling and distribution expenses	**5**	(1,100)
Staff costs	**6**	(800)
Profit before interest and tax		2,100
Finance Charges	**7**	(700)
Profit before tax		1,400

Extract of the statement of financial position as at 31 December 2015:

	Note	US $000
Equity and Liabilities		
Share Capital		10
Retained earnings		2,200
		2,210
Non-Current Liabilities		
Long term interest bearing loan		8,200
Deferred tax		300
		8,500

Current liabilities		
Trade payables		700
Deferred Revenue	**1**	40
Current portion of long term interest bearing loan		640
		1,380
Total Equity and Liabilities		12,090

Notes

1. During the 2015 financial year Minerals exported 60% of their production output in quantity to customers in China.
2. Included in cost of sales were the following items:

	$
Depreciation	56,000
Closing stock recorded at Net Realisable Value (Cost $30,000)	24,000

3. Other income includes the following amounts amongst others:

		$
Dividend from Econet Limited (Listed on the ZSE)		13,000
Unrealised exchange gain on debtors		6,700
Profit on disposal of Motor Vehicles – see note 8		5,000
Dividend for Probeats Limited (South African Company)	14,000(net)*	

*Minerals received the dividend of $14,000 in August 2015 after the deduction of South Africa Withholding tax of $800. You also incurred bank transfer charges of $200 in respect of this dividend.

4. In June 2015 Minerals was fined $20,000 by the Environment Agency (EMA) for failing to comply with environmental regulations in their mining process. This amount plus $2,000 in legal fees incurred in respect of the EMA fine has been expensed in the general administration expenses.

   The company also paid insurance premiums of $9,000 in December 2015 in respect of insurance cover for the period 1 January 2016 to 31 December 2016. This amount has been capitalised as a prepayment in the financial statements.

5. Included in selling and distribution expenses are the following amounts:

	$
Advertising costs at the Zimbabwe International Trade Fair	5,300
Depreciation	80,000
Lunches with clients	9,200

6. Included in staff costs is an amount of $2,500 paid to a former employee who was injured at work. The employee was permanently injured when a metal casing fell on his legs and he was forced to retire as a result of those injuries.
   Also recorded under staff costs are the following donations made during the year:

	$
Donation to Midlands State University: Construction of Lecture rooms	120,000
Donation to the Chief Mvurwi	3,000
	123,000

7. The finance charge relate to interest paid in respect of the long term interest bearing loan. The loan was used to finance Mineral's working capital requirements.

8. In May 2015 the company sold two Toyota Corolla sedan vehicles for $8,000 each. These vehicles had been initially acquired in 2012 for $18,000 each and have always been used in Minerals trading operations.

9. Capital expenditures during the year were as follows:

	$
Construction of mine hospital staff housing – (10 units @ $15,000 each)	150,000
Shaft sinking	50,000
3 Twin cabs – (@ $30,000 each)	150,000

In your discussions with the finance manager he indicated to you that Minerals uses the new mine method for the purposes of calculating the Capital Redemption Allowance.

Required:

a) Calculate Minerals (Private) Limited taxable income and tax payable for the year ended 31 December 2015. **35 marks**

SOLUTION

COMPUTATION OF MINERALS (PVT) LTD TAXABLE INCOME AND TAX PAYABLE FOR THE YEAR ENDED 31 DECEMBER 2015

	$	Marks
Profit Before Tax	1,400,000	½
Deferred revenue – s 8 (earlier of receipt or accrual)	40,000	1
Export sales (s8 Gross income)	-	1
Cost of sales:		
Depreciation (not incurred s 15(2))	56,000	1
Closing stock (NRV not acceptable valuation method; 2nd schedule)	6,000	1
Other Income:		
Local listed co dividend (exempt) (s14 and 3rd schedule)	(13,000)	1
Unrealised exchange gain on debtors (not received s8 Gross Income)	(6,700)	1
Profit on disposal of Motor Vehicles (not received s8 Gross Income)	(5,000)	½
Foreign dividend (Probeats ltd) (taxed at a different rate of tax)	(14,000)	½
Bank charges on gross income from a deemed source (foreign dividend) (prohibited)	200	1
EMA fine – (expenditure falls upon the taxpayer as a lawbreaker rather than as a businessperson.)	20,000	1
Legal expenses related to the EMA fine	2,000	1
Insurance prepayment – s15(2) deduction at the earlier of payment or accrual.	(9,000)	1
Advertising @ ZITF -	0	1
Selling and Distribution depreciation (not incurred s 15(2))	80,000	1
Lunches with clients (entertainment - prohibited deduction s 16 (1)(m))	9,200	1
Voluntary payments to former employee – restricted to $500 p.a. s 15 (2)(q)	2,000	2
Donation to MSU – Approved research institution - s 15 (2)(r2) limited to $100,000	20,000	1
Donation to chief Mvurwi – (not for the purpose of trade)	3,000	1
Finance Charges – **see Note 1** – (s 16 (1)(q))	175,000	3
Capital Redemption Allowance:		

Mine Hospital Staff Housing	(150,000)	**1**
Shaft sinking	(50,000)	**1**
Motor Vehicles – x 3 Passenger Motor Vehicles	(30,000)	**2**
Recoupment Motor Vehicles – Deemed Proceeds ($16,000 * $20,000/$36,000)	8,889	**2**
	1,537,400	
Tax payable @ 25.75%	**395,581**	**1**

	US $ '000	
Foreign dividend – Probeats Ltd gross amount (14,000 + 800)	14,800	2
Tax Thereon (14,800 x 20%)	**2,960**	**1**
Less Double taxation relief	**(800)**	**2**
Tax payable	**2,160**	
Total Available		**34**

Calc 1

Thin capitalization computations:

Long term Borrowings (8,200+640) 8.840

Equity 2,210

Therefore, current ratio is 4:1 and excess interest is ¼ of $700,000.

$700,000 x 25% = **$175,000**

TUTORIAL 2 **65 marks**

You have recently been transferred to the tax services department of Bonde Chartered Accountants after you had indicated your intention to specialise in tax related services. Tapiwa Mapande a manager in the tax department was your assigned supervisor and he gave you a file for one his clients Jonathan Pinkett. The file given to you contained the following information.

Background information.

Jonathan Pinkett died on the 31st of Mach 2015 after a long battle with prostate cancer which had seen him hospitalised during the last weeks of March. At the time of his death, Jonathan was survived by his wife Patricia and three children, Martin (27 years of age), Pauline (24 years of age) and Nolan (17 years of age). Jonathan was born in 1965 in the then republic of Rhodesia which later on became Zimbabwe after attaining independence in 1980. At the time of his death, Jonathan was employed by the ministry of home affairs as a security adviser.

Jonathan's widow, Patricia has approached you, that you assist her with the preparation of her family's income tax returns for the 2015 year. After a meeting held with Patricia, she provided you with the following information.

Receipts and Expenses: January to December 2015:

	Notes	**$**
Salary: January to April	1	8,000
Cash in lieu of leave	2	1,500
Bonus	3	1,600
Fuel Allowance	4	300
Housing allowance		400
Funeral assistance	5	500
Pension lump sum	6	15,000
Pension annuity	6	800
Medical Expenses	7	(3,500)
NSSA Contributions – Self		(72)
Executors expenses	8	(800)

Notes

1. In terms of his employment contract with the ministry of home affairs Jonathan was on $2,000 monthly salary. When Jonathan passed on the permanent secretary in the Ministry decided to pay Jonathan's deceased estate the salary for the month of April and the amount was paid to the estate on the 18th of May 2015.
2. In May 2015 the ministry of home affairs paid this amount to Jonathan's deceased estate in connection with the leave days he had accumulated at the time of his death.
3. The government of Zimbabwe made an announcement that they will be paying bonuses to all civil servants in respect of the 2014 year on the 22nd of December. On the same day all employees in the Ministry of home affairs were informed that they will only be paid their bonuses in May of 2015. The $1,600 was paid to Jonathan's deceased estate on the 22nd of May 2015.
4. The fuel allowance was received during the months of January to March 2015 and Jonathan never kept a log book of his travels.
5. The $500 was given to Jonathan's wife from the ministry of home affairs to assist with Jonathan's funeral expenses.
6. In August 2015 Jonathan's deceased estate received a lump sum of $15,000 from NSSA and Jonathan's pension entitlement from NSSA amounted to $30,000. With effect from September NSSA paid a monthly annuity of $200 in respect of Jonathan's policy.
7. In June 2015, the executors of Jonathan's deceased estate paid the amount of $3,500 to Avenues Clinic in respect of Jonathan's medical bills that had been accumulated up to the date of his death.
8. This was in connection with the fees charged by the executors in administering Jonathan's deceased estate.

Assets Details

At the time of his death on the 31st of March 2015, Jonathan had the following assets with attached values for estate valuation purposes:

	Notes	$
Mazda 323 sedan Vehicle		3,200
3 Bedroomed flat in the Avenues area of Harare*	1	70,000
Commercial property in the Harare CBD*	2	150,000
Family house in Chisipite – co-owned with Patricia		90,000
Bank balances		30,000

Notes:

1. For the 2015 year the 3 bedroomed apartment was being leased out for a monthly rental of $600.
2. The commercial property was also being leased out for the 2015 year for a monthly rental of $1,800.

   *Jonathan acquired both properties in 2007.

Jonathan's will

The terms of Jonathan's will were as follows:

- The mazda 323 sedan vehicle and the 3 bedroomed apartment were bequeathed to his wife Patricia.
- The commercial property in the Harare CBD was bequeathed to the Pinkett Trust.
- The residue in the estate was bequeathed to Patricia.

The affairs of Jonathan's deceased estate were wound up on the 31st of August 2015 where the final distribution account was filed with the master of the high court.

You were also provided with the following information in connection with the Pinkett Trust

The Pinket trust was formed by Jonathan Pinket in the early 90's with an initial donation to the equivalent of $100 being made. Over the years the Pinket trust has acquired assets which generate income for distribution to the beneficiaries of the trust in terms of the trust deed. The following is an extract from the accounting records of the Pinket Trust for the year ended 31 December 2015.

	Notes	$
Income		
Rental Income	1	35,000
Realised exchange gain	2	500
Unrealised exchange gain	2	300
Insurance proceeds	3	1,200
Interest income	4	1,600
Annuity	5	4,500
Dividends	6	1,500
Expenditures and distributions		
Deductible Repairs and maintenance costs on properties		(2,000)
Properties caretakers salaries		(2,500)
Trustee's fees		(5,500)
Annuity	7	(6,000)
Other distributions	8	(4,500)
Donations	9	(1,200)

Notes

1. Included in the rental income is an amount of $5,600 received in connection with a rented property located in South Africa. The $35,000 includes rental income arising from the commercial building received from Jonathan's estate. At the beginning of the 2015 tax year all the capital allowances related to the rented out properties had been fully exhausted.
2. The realised and unrealised gains were all in connection with amounts owed from the tenant in South Africa.
3. The $1,200 insurance proceeds was received in connection with damages to one of the rented out properties. The full costs of repairing the damages are included in the repairs and maintenance amount.
4. The interest income of $1,600 was received net of Zambian withholding tax. The Zambian withholding tax amounted to $160.
5. In March 2015 the trust purchased an annuity for $30,000 from New Mutual. In return for this capital contribution the trust will be receiving a monthly amount of $500 for the next 8 years commencing 1 April 2015.
6. The dividend was received from Build a House Building society registered in terms of the Banking Act of Zimbabwe.
7. The annuity was paid to the following beneficiaries of the Trust:

	$
Martin	3,000
Pauline	2,000
Nolan	1,000
	6,000

8. Over and above the annuities above the following distributions were made to the beneficiaries:

	$
Martin	2,500
Pauline	2,000
	4,500

The above distributions were all made from current year profits.

9. The Pinket Trust made a cash donation of $1,200 to the buy Zimbabwe campaign.

Terms of the Pinket Trust deed:

The beneficiaries to the Pinket Trust deed are Martin, Pauline and Nolan. All the beneficiaries to the trust receive a monthly annuity from the trust and hold an equal share in the remaining trust income. The balance of the income to the Trust would be held in trust for any beneficiary below the age of 21 and if any of the beneficiaries were to die before reaching the age of 21, any accumulated income would be paid to the executors of their deceased estates. The

Trustees have discretion over the amount to be distributed to the beneficiaries with vested rights.

Required:

a) Discuss with reference to the income tax act and applicable case law, in which tax year will the bonus of $1,600 be taxable. **7 marks**

b) Calculate the taxable income and any income tax liability for Jonathan Pinkett for the period of assessment up to the date of his death. Provide a brief reason for amounts added/deducted in the tax computation with reference to the information as provided by Patricia. **14 marks**

c) From the available information, calculate the taxable income for Jonathan's deceased estate for the 2015 year of assessment. For items which are not taxable provide a brief explanation. **10 marks**

d) Calculate the taxable income for the year ended 31 December 2015 in respect of the following tax payers:
   i. The Pinkett Trust - **19 marks**
   ii. Martin Pinkett - **3 marks**
   iii. Pauline Pinkett - **3 marks**
   iv. Nolan Pinkett - **2 marks**
   v. Patricia Pinket - **3 marks**

Presentation and clarity of communication **3 marks**

SOLUTION

1a

- The issue at hand is to determine the tax year in which the $1,600 bonus shall be taxable. 1 mark
- The bonus is included in gross income in the year in which it accrues for tax purposes. 1 mark
- Accrual for tax purposes happens when either an amount becomes **due and payable** or when a taxpayer becomes **entitled** to it. 1 mark
- An amount accrues in the tax year in which the taxpayer becomes entitled to it. (CIR v People's Stores (Walvis Bay) (Pty) Ltd 1990 or Lategan vs CIR. So it accrues despite the fact that it may only be due and payable in the future. The entitlement principle is affirmed by section 10 (7). 2 marks
- From the foregoing the bonus was announced in the 2014 tax year. This is the year in which the taxpayer became entitled to the amount despite it being payable after the last day of the 2014 year of assessment. 1 mark
- Therefore the bonus of $1,600 will be taxable in the 2014 tax year of assessment. 1 mark

Total Available **7 marks**

SOLUTION 1 b

COMPUTATION OF INCOME TAX LIABILITY FOR JONATHAN PINKETT FOR THE PERIOD OF ASSESSMENT UP TO THE DATE OF HIS DEATH

EMPLOYMENT INCOME

	$	Marks
Salary – (January – March) section 8 (April salary is a post death award)	6,000	1
Cash in Lieu of Leave – S 11(4) (no right to claim amount during lifetime)	-	1
Bonus – (Taxable in the 2014 year of assessment)	-	1
Fuel allowance (S 8 gross income)	-	1
Housing allowance (S 8 gross income)	-	1
Funeral assistance (post death income s 11(4))	-	½
Pension Lump sum (post death income s 11(4))	-	½
Pension annuity (post death income s 11(4))	-	½
NSSA Contributions - self	(72)	1
Executor's expenses (post death expenses s 11(4))	-	½
TAXABLE INCOME	**6,628**	
Tax thereon: 0-3600 = 3,600 x 0% = 0 3,601 – 6,628 = 3,028 x 20% = 605.60	605.60	2
Medical Credits (3,500÷2)	(1,750)	1
ASSESSED LOSS FOR JONATHAN PINKETT	**(1,144.40)**	

TRADE AND INVESTMENT

	$	Marks
Rental Income - Apartment (3months x $600)	1,800	1
Rental Income - Commercial Property (3months x $1,800)	5,400	1
TAXABLE INCOME	**7,200**	
TAX PAYABLE @ 25.75%	**1,854**	**1**
Total Available		**14**

1 c

COMPUTATION OF TAXABLE INCOME FOR JONATHAN PINKETT'S DECEASED ESATE

	$	Marks
Salary – April – Jonathan had no right to claim this salary as he did not work for the month of April	0	1
CILOL – sect 11 (4) (a)	1,500	2
Funeral Assistance – sect 11 (4) (b) – ex-gratia payment	0	2
Pension annuity – sect 11 (4) (a)	800	2
Executor's expenses	(800)	1
Lump sum – sect 11 (4) (a) and 8 (1) (r)	15,000	2
Taxable Income	**16 500**	
Total Available		**10**

1d (i)

COMPUTATION OF TAXABLE INCOME FOR THE PINKETT TRUST FOR THE YEAR ENDED 31 DECEMBER 2015

	$	Marks
Rental Income – s 8	35,000	1
South African rental (foreign rentals not from source within Zim)	(5,600)	1
W&T Commercial building inherited from Jonathan – 2.5% x 150k	(3,750)	2
Realised exchange gains (gains on receivables not from a source within Zimbabwe)	-	1
Unrealised exchange gains (gains on receivables not from a source within Zimbabwe)	-	1
Insurance proceeds (Burmah Steamship) filling a hole in profits	1,200	1
Interest Income – Gross ($1,600 + $160) (0.5 for net, 0.5 for withholding)	1,760	1
Annuity [(($500 x 8yrs x 12months) – $30,000)÷96months] x 9months	1,688	2
Dividend from building society	1,500	2
Deductible R&M expenses	(2,000)	1
Properties caretakers' salaries	(2,500)	1
Trustee's fees	(5,500)	1
Annuity paid - deductible	(6,000)	2
Other distributions	(4,500)	1
Cash donation (not for the purposes of trade)	-	**1**
Total TAXABLE INCOME	**11,298**	
Less Taxable in the hands of beneficiaries with vested rights		
Martin ($11,298 * 1/3)	**(3,766)**	**1**
Pauline ($11,298*1/3)	**(3,766)**	**1**
Taxable income in the hands of the trust	**3,766**	
Total Available		**19**

1d (ii)

COMPUTATION OF TAXABLE INCOME FOR MARTIN PINKETT FOR THE YEAR ENDED 31 DECEMBER 2015

	$	Marks
Annuity - Trust	3,000	1
Distributions - Trust	2,500	1
Share of trust taxable income	3,766	1
Taxable Income	**9,266**	
Total Available		**3**

1d (iii)

COMPUTATION OF TAXABLE INCOME FOR PAULINE PINKETT FOR THE YEAR ENDED 31 DECEMBER 2015

	$	Marks
Annuity - Trust	2,000	1
Distributions - Trust	2,000	1
Share of trust taxable income	3,766	1
Taxable Income	**7,766**	
Total Available		**3**

1 d (iv)

COMPUTATION OF TAXABLE INCOME FOR NOLAN PINKETT FOR THE YEAR ENDED 31 DECEMBER 2015

	$	Marks
Annuity - Trust	1,000	2
Total Available		**2**

1d (v)

COMPUTATION OF INCOME TAX LIABILITY FOR PATRICIA PINKETT FOR THE YEAR ENDED 31 DECEMBER 2015 – TRADE AND INVESTMENT INCOME

	$	Marks
Rental Income - Apartment (9 months x $600)	5,400	1
Capital allowances : 3 Bedroomed flat (exhausted)	-	2
TAXABLE INCOME	**3,650**	
Total Available		**3**

TUTORIAL 3

LuluRock (Pvt) Ltd is a mining company operating in the Great Dyke belt of Zimbabwe. The company mainly mines platinum although it also used to mine chrome. The chrome ore industry has been facing a growing number of challenges since the global financial crisis of 2008 that saw the plummeting of prices of chrome ore and ferrochrome. There has been a downward trend since then coupled with rising production costs. Most chrome ore is now mined from the “difficult- to-mine, labor-intensive” thin seams of the Great Dyke because the large podiform-type chrome ore deposits have been largely depleted. This significantly increases prospecting costs.

LuluRock is owned by 4 directors who hold an equal equity stake in the company. Three of the directors are Chinese and based in China whilst the one is Zimbabwean and locally based. In order capitalize the business to fund its long term strategy to gradually exit the chrome arena and focus on the platinum mining, LuluRock borrowed from a Malaysian venture capitalist in a mezzanine debt arrangement an amount of $75 million.

The net profit before tax for the year ended 31 December 2015 reflected an amount $450,000 after the following adjustments were effected:

INCOME		
Profit on disposal : Insurance Proceeds	1	35,000
Profit/(loss) on Disposals		
- Trailers	2	7,100
- Excavators	2	(80,000)
- Mining Claims	2	5,000
EXPENSES		
Depreciation		4,132,000
Shaft sinking		1,420,000
Development Expenditure		7,235,000
Boreholes		233,000
Prospecting expenditure		3,622,000
Interest Expenses	3	3,780,000
Administration Expenses	4	5,783,000

Capital Expenditures incurred in the year 2015 were as follows:

Construction of mining buildings		350,000
Construction of staff houses	5	1,250,000
House for the Zimbabwean Director		40,000

Other information:

1. **Insurance Proceeds**

   Two vehicles were destroyed by a veld fire and LuluRock received compensation as follows:

   - Toyota Hilux Double cab $35,000
   - Isuzu Single cab bakkie $20,000

-
- The Toyota was bought in December of 2013 for $46,000 and the Isuzu in January of 2014 for $30,000.

2. **Disposals**

ASSET(S)	COST	PURCHASE DATE	SELLING PRICE	PROFIT ON DISPOSAL
Trailers x 2	150,000	June 2009	7,100	7,100
Excavators	1,200,000	Jan - 2012	400,000	(80,000)
Mining claim	500,000	Jan - 2010	255,000	5,000

3. **Interest Expenses**

   The interest was payable to the Malaysian venture capitalist. The average debt to equity ratio of LuluRock during the year ended 31 December 2015 was 9:2

4. **Administration Expenses**

   Included in the administration expenses were the following:

   - Entrance fees for mine engineers into their Engineering association $5,000
   - Allowances to directors for client networking $4,800
   - Rentals - new offices which were being refurbished for 2017 occupation $9,600
   - Lease rentals for Twin cab $10,100

5. **Staff Housing**

   LuluRock developed dwellings for its platinum mine operations during the year 2015. It has two major cluster development sites. The one site has 30 identical housing units constructed for a total of $660,000. The second site has 15 identical units constructed by the balance.

For the purpose of determining the Capital Redemption Allowances (CRA), the company has made an election to use New Mines basis.

Required:

Calculate the taxable income and income tax liability of LuluRock (Pvt) Ltd for the year of assessment ended 31 December 2015. Please provide reasons where amounts do not need to be adjusted.	20

SOLUTION

	$	Marks
Net profit before tax	450,000	½
Note 1		
Profit on disposal – does not meet the gross income definition	(35,000)	1
Note 2		
Trailers -Profit on disposal -	(7,100)	1
Excavators – loss in disposals	80,000	1
Mining claim	(5,000)	1
Depreciation – no expense incurred	4,132,000	½
Shaft sinking – capital in nature	1,420,000	½
Development expenses – capital in nature	7,235,000	½
Boreholes – capital in nature	233,000	½
Prospecting expenses – capital in nature	3,622,000	½
Note 3		
Interest expense – sect 16 (1) (q) - $3,780,000 – 3/4.5 *$3,780,000	1,260,000	3
Note 4		
Entrance fees – capital in nature	5,000	1
Allowances for directors – prohibited – sect 16(1) (m)	4,800	1
Rentals – vacant – sect 16 (1) (i)	9,600	1
Lease rentals – limited to $10,000 p.a – sect 16(1)(k)	100	1
Capital Redemption Allowance – CRA – w1	(13,787,900)	5 ½
Taxable income	4,616,500	
Tax @ 25.75%	**1,188,749**	1
Total Available		**21 ½**

Working 1 - CRA

	$	Marks
Shaft sinking	1,420,000	½.
Development expenditure	7,235,000	½.
Boreholes	233,000	½.
Prospecting expenses	3,622,000	½.
Mine buildings	350,000	½.
Construction of staff houses -	1,250,000	½.
House for Director	40,000	½.
Recoupment		
Toyota Hilux	(35,000)	½.
Isuzu Single cab bakkie	(20,000)	½.
Trailers	(7,100)	½.
Excavators	(400,000)	½.
	13,687,900	

TUTORIAL 4 **30 marks**

Nokuthula Mlambo is a keen farmer who inherited lot 9 Watershed farm 11km due south of Gweru city centre in January 2015 following on from the death of her father in September of 2014. She rears cattle, grows crops and is into poultry as well. Nokuthula has a large dam that she constructed and seeded fish, not as a commercial activity but as a hobby. Given that the Gweru area is in a region not so good for a number of commercial crop varieties, Nokuthula's strategy is to focus on the livestock vertical. Within this portfolio she wants to grow the range to dairy farming and as such she has begun investing in that project. She has since employed an agronomist manager looking to complete capital investment projects to grow her business.

The inherited farm assets were as follows:

		Market Value	**Estate Valuation**
Land		2,500,000	2,400,000
Farm House – used by Nokuthula as her residence		26,000	24,000
Fowl Run		2,500	2,500
Cattle pen		5,000	5,000
Dip Tank		3,500	3,500
Irrigation Equipment		57,000	59,000
Permanent Roads		15,000	15,000
Tractor		22,000	22,000

The following is a summary of Income and expenses for the Nokuthula:

		$
RECEIPTS/INCOME		
Livestock sales		19,500
Maize sales		15,000
Vegetables sales		2,400
Poultry sales	1	23,500
Loan proceeds	2	25,000
EXPENSES		
Livestock Purchases		75,000
Seeds		3,300
Water furrows		3,130
Boreholes	3	7,900
Temporary farm roads		1,230
Stock-feed		2,400
Fuel – Generator, delivery van		2,430
Stumping and clearing of land		980

Interest Expense	2	1,320
Other expenses	4	15,271

1. **Poultry Sales**
   Poultry sales have significantly improved due to a rise in demand on cheaper poultry products by the Midlands State University community and canteens. Due to Nokuthula's low prices against high quality, part of the receipts for poultry sales are receipts of $5,300 received in advance for orders yet to be supplied. This amount of $5,300 has not been included in the total poultry sales figure of $23,500.

2. **Loan Interest Expense**
   Nokuthula took out a loan from the bank in July 2015, secured against the farm, of $25,000 and applied it as follows:

	$
Acquisition of farming equipment in July 2015 and brought into use in same month	8,000
Tuition for Agronomist's Masters in Horticulture	2,000
Additional piece of land for farming	15,000

The total interest charged on the loan from August 2015 to December 2015 amounted to $1,320

3. **Boreholes**
   Cost incurred in respect of the sinking of the borehole was as follows:
   - Borehole equipment 3,000
   - Sinking of the borehole 4,900

4. **Other Expenses**
   Part of other expenses are payments to the day old chicks supplier in advance of $1,750 at year end as there is high demand

LIVESTOCK ACTIVITIES

	DESCRITPTION	QUANTITY	COST OR SP OR ESTATE VALUATION	PPV/FSV (Unit)
			$	$
INHERITED LIVESTOCK	Bulls	2	980	
	Dairy Cows	-	-	
	Oxen	40	12,800	
	Cows	75	21,750	
	Tollies	15	3,000	
	Heifers	19	3,990	
	Calves	33	4,950	50
PURCHASES	Bulls	-	-	500
	Dairy Cows	5	3,300	600
	Oxen	40	12,400	320
	Cows	50	14,900	300
	Tollies	15	2,985	200
	Heifers	10	2,120	210
SALES	Oxen	20	5,000	
	Cows	40	12,000	
	Tollies	5	1,000	
	Heifers	5	1,500	
DEATHS	Oxen	1		
	Cow	2		

- During the year, 3 calves were born. Their FSV was $80.
- 13 calves were promoted to tollies and 20 to heifers.
- 7 heifers were donated to the African Union Chairperson in recognition of his sterling work in championing agro initiatives across the continent thereby creating a huge single market for farming produce.

Assume that Nokuthula would want to take advantage of all available reliefs in the determination of her income tax payable.

Required:

a. Calculate the closing stock value in respect of livestock held by Nokuthula as at 31 December 2015.	8
b. Calculate Nokuthula's taxable income and income tax payable for the 2015 tax year assuming Nokuthula claims the maximum possible capital allowances and deductions.	22

SOLUTION

a) Livestock closing stock as at 31 December 2015: Livestock reconciliation

	Bulls	Dairy Cows	Oxen	Cows	Tollies	Heifers	Calves	Total	Marks
Opening stock	-	-	-	-	-	-	-	-	
Inherited livestock	2	0	40	75	15	19	33	184	2
Purchases	0	5	40	50	15	10	0	120	1
Sales	0	0	(20)	(40)	(5)	(5)	0	(70)	1
Deaths	0	0	(1)	(2)	0	0	0	(3)	1
Births	0	0	0	0	0	0	3	3	1
Promotions					13	20	(33)	0	1
Donations	0	0	0	0	0	(7)	0	(7)	1
Total	**2**	**5**	**59**	**83**	**38**	**37**	**3**	**227**	
FSV/PPV ($)	500	600	320	300	200	210	50		2
Closing stock ($)	1,000	3,000	18,880	24,900	7,600	7,770	150	63,300	1
Total available									**11**

b) Nokuthula's income tax computation for the year ended 31 December 2015

	$	Marks
Livestock sales – sect 8(1)	19,500	½
Maize sales – sect 8(1)	15,000	½
Vegetable sales – sect 8(1)	2,400	½
Poultry sales – sect 8 (1)	23,500	½
Receipts in advance – sect 8(1)	5,300	2
Loan proceeds – capital in nature	0	½
Livestock purchases – sect 15 (2) (a)	(75,000)	1
Seeds – sect 15 (2) (a)	(3,300)	½
Water furrow – farm improvement 4th schedule - SIA 25%*$3,130	(783)	2
Borehole equipment – SIA $3,000 * 25%	(750)	2
Sinking of borehole – 7th schedule expense	(4,900)	1

Temporary farm road – sect 15	(1,230)	1
Stock feed – sect 15	(2,400)	½
Fuel – sect 15	(2,430)	½
Stumping and clearing of land – 7th schedule	(980)	1
Interest expense : allowable to the extend loan used for qualifying expenses : ($8,000 + $2,000)/$25,000 * $1,320	(528)	2
SIA on equipment: 25% * $8,000	(2,000)	1
Tuition for agronomist – sect 15	(2,000)	1
Other expenses – sect 15	(15,271)	1
Inherited livestock – sect 15 (2) (v)	(47,470)	1
Closing stock – sect 8(1) (h)	63,300	1
Donated stock – deemed sale – 7 * $210	1,470	1
Inherited assets		
Land – does not rank for capital allowances	0	½
Farm House – does not meet farm improvement definition	0	1
Fowl Run – W&T 5%*2,500	(125)	1
Dip Tank – 7TH Schedule expense therefore no deduction in current year	0	1
Irrigation Equipment – W&T 10% * $59,000	(5,900)	1
Permanent Roads – W&T 5% * $15,000	(750)	1
Tractor – W&T 20% *$22,000	(4,400)	1
Assessed loss		
Total Available		28 ½

TUTORIAL 5 **30 marks**

Takura Mazanda is a 53 year old dairy and tobacco farmer with a farm located in Wedza in Mashonaland East. Over the years Takura has seen his farming operations struggle to keep afloat due the continued drought conditions which have been affecting Zimbabwe. In October 2015 Takura made a decision to sale his farming operations and pursue other business interests. He found a buyer for the farm end of October and the sale of the farm was effected on the 1st of November 2015.

In light of his decision to sell his farming operations Takura provided you with the following information that he wants you to use in assisting him in preparing his tax returns for the 2015 year of assessment.

Livestock Figures

1. Opening stock as at 1 January 2015 was valued at $25,000(dairy cattle)
2. Closing stock as at 31 October 2015 valued at $28,000 (dairy cattle)

Takura sold the farm for an amount of $438 200 which was distributed as follows:

	Year of acquisition/construction	Cost($)	Sale price ($)
Land	2011	120 000	220 000
Farmhouse^	2012	24 000	35 000
Security Fence	2011	6 000	6 500
Staff housing (5 units)	2012	40 000	50 000
Deep tank	2013	8 000	9 000
Dam	2014	21 000	30 000
Tobacco barn	2014	20 000	28 000
Tractor	2013	14 500	9 000
Delivery vehicle	2014	9 500	6 200
Dairy Cattle			34 500
Goodwill			10 000
Total Sale Proceeds			**438 200**

All the immovable assets above were constructed by Takura.

^Takura and his family have always occupied the farmhouse.
Takura's policy has to always claim the maximum possible capital allowances in any given year.

Takura used the proceeds from the disposal of the farm house to acquire a house at Wedza growth point for an amount of $25 000, where he moved in with his family.

You were also provided with the following in respect of Takura's farming operations up to 31 October 2015.

	Notes	USD
Income		
Milk sales		30,000
Tobacco sales		100,000
Expenditure		
Stock feed		1,000
Fertilisers		7,000
Tobacco seeds		3,000
Deeping chemicals and vaccines		1,500
Land clearing costs		1,200
Wages: tobacco		8,000
Wages: dairy cattle		2,500
Donations to local heroes day celebrations		4,000
Temporary farm road		800
Stumping and clearing of land		1 200

Required:

a) Discuss with supporting calculations the income tax implications of the disposal of the farm by Takura on the 1st of October 2015. Your answer should give a detailed explanation for each item sold with reference to the breakdown given in the scenario. **23 marks**

Presentation and communication skills **2 marks**

b) In respect of the income from farming operations calculate the taxable income and tax payable for the year ended 31 December 2015. **15 marks**

SOLUTION

a. Discuss with supporting calculations the income tax implications of the disposal of the farm by Takura on the 1st of October 2014.

- On disposal of the farm assets Takura has to calculate recoupment on the assets over which he had been claiming capital allowances: sect 8 2 1

	Cost($)	Sale price ($)	ITV	Recoupment	Explanation	Marks
Land	120 000	220 000	0	0	No capital allowances on land, therefore zero recoupment	2
Farmhouse^	24 000	35 000	0	0	The house was occupied by Takura hence no capital allowances granted	2
Security Fence	6 000	6 500	0	0	7th schedule expense, therefore no recoupment since no capital allowances previously claimed	2
Staff housing (5 units)	40 000	50 000	10 000	30 000	Recoupment limited to capital allowances previously granted	2
Deep tank	8 000	9 000	4 000	4 000	Recoupment limited to capital allowances previously granted	2
Dam	21 000	30 000	0	0	7th schedule expense, therefore no recoupment since no capital allowances previously claimed	2
Tobacco barn	20 000	28 000	15 000	5 000	Recoupment limited to capital	2

					allowances previously granted	
Tractor	14 500	9 000	7 250	1 750		2
Delivery vehicle	9 500	6 200	7 125	0	Amount sold below ITV therefore no recoupment. No scrapping allowance granted since vehicle was not scrapped	2
Goodwill		<u>10 000</u>	0	0	Proceeds capital in nature	2
Total Recoupment				**<u>40 750</u>**		

- The amount received in respect of the disposal of the dairy cattle will be brought in gross income. Sect 8 2

Presentation and communication 2 marks

Total **25 marks**

b. In respect of the income from farming operations calculate the taxable income and tax payable for the year ended 31 December 2015.

	$	$	Marks
Milk sales		30 000	½
Tobacco sales		100 000	½
Opening stock		(25 000)	1/2
Closing stock		28 000	½
Stock feed		(1 000)	1
Fertilisers		(7 000)	1
Tobacco seeds		(3 000)	1
Deeping chemicals and vaccines		(1 500)	1
Land clearing costs		(1 200)	1
Wages: Tobacco		(8 000)	1
Wages: dairy cattle		(2 500)	1
Donations		0	1
Temporary farm road		(800)	1
Stumping and clearing of land – 7th schedule		(1 200)	1
Recoupment – see part a		40 750	1
Disposal of dairy cattle		34 500	1
		179 050	
Tax @ 25.75%		46 105	1
			15

TUTORIAL 6 **40 marks**

You are a 3rd year trainee accountant working for Hot Shot Chartered Accountants a firm providing auditing and tax advisory services. Since the commencement of your articles you have been assigned to the audit and assurance service line of the firm where you have excelled and have recently been promoted to audit supervisor. However at a recent meeting with your training manager where he reviewed your training records it was noted that you were still lagging behind in taxation residual skills which you are required to have as part of your training programme. Your manager therefore negotiated with the firm's tax advisory service line that you be seconded to their department for three months in order for you to acquire the taxation residual skills.

In your first month with the tax advisory team you were assigned to work on a tax file for one of the firm's clients, Murimi Wanhasi Farmers (Murimi). In order for you to familiarize yourself with the client you were provided a file which contained background information on Murimi.

Background information: Murimi Wanhasi Farmers

Murimi is a partnership business between two brothers, Mike Ross and Harvey Specter and their main business operations involve tobacco farming and the rearing of livestock. Mike and Harvey inherited the 50 hectare farm which is located in Bindura in 2009 after their grandfather passed on. From that year the two brothers decided to operate the farm in partnership and they duly registered a partnership deed which had a profit sharing ratio of 50:50. The farm is not registered for VAT after farmers operating in the Bindura got a special dispensation from the Ministry of Agriculture which lobbied for them not to be required to be VAT registered. The Assessed Carrying Capacity (ACCL) of the farm is 230 herd of cattle

Current year

Mike and Harvey have requested your firm to assist them in preparing their annual income tax returns for the 2015 fiscal year, as they would want to have done so before the 30 April deadline. They therefore provided you with the following information in respect of their trading affairs for the financial year ended 31 December 2015:

Murimi Wanhasi Farmer Trading account for the year ended 31 December 2015:

	Notes	**$**
Sales : Tobacco Sales		350,000
: Livestock Sales		70,000
Other income	**1**	2,300
Livestock purchases	**2**	20,000
Farm expenditures	**3**	5,500
Opening stock livestock	**4**	26,000
Closing stock livestock	**4**	35,000
Bad debts	**5**	4,500
Donation to Chief Negomo of Bindura		1,000
Mike's subscriptions to Farmers Union of Zimbabwe		500
Educational Grant	**6**	2,000
Trade mission to Brazil	**7**	6,500
Domestic Maid Salary: Harvey		1,200
Salaries : Mike		30,000
: Harvey		30,000
: Staff		50,000
Income Tax paid: QPD's	**8**	6,000
Medical Aid contributions: Mike		600
: Harvey		640
: Staff		3,200
Drawings : Mike		5,000
: Harvey		5,000
Rental payments	**9**	6,200
Other farm expenses – which are all tax deductible		25,000

Notes

1. Other income is made up of interest charged on amounts owed from Boka tobacco auction floors. The balance owed had been outstanding for 2 years and when Boka settled their account with Murimi, they were charged this interest amount.
2. Included in livestock purchases are 50 cows which were bought in June 2015. The cows were bought to restock the herd after adverse drought conditions experienced in 2014. At the time these cows were bought Murimi had 200 herd of cattle. The cows were bought for a total consideration of $10,000.

Mike and Harvey also inherited another 30 herd of cattle from their uncle who passed on in June. At the time they received the herd of cattle they had a deceased estate valuation of $8,000. The herd given to Mike and Harvey had an opening stock valuation of $7,500 in the uncle's livestock trading account valued at fixed standard value. On receipt of this herd of cattle they immediately included it as part of their farming operations.

3. During the year the following expenditures were incurred on the farm:

	$
Construction of water furrows for the tobacco fields	2,300
Temporary farm roads	1,200
Stumping and clearing of land	2,000
	5,500

4. At the beginning of the year Murimi Farmers had 150 herd of cattle and 270 herd of cattle at the end of the year.
5. Murimi wrote off the total amount of $4,500 owed to them by Premier tobacco auctioneers after they read newspaper reports indicating that the auction floor was facing liquidation. After further investigation they received a letter from Premier's liquidators that they will be paying all creditors $0.30 for every dollar owed. However Mike and Harvey still decided to write off the full amount as they didn't anticipate that they would receive even a single dollar from Premier.
6. Murimi awarded a bursary to Harvey's son who is studying for higher nation diploma in agricultural sciences at Kushinga Pikelela Polytechnic College in Marondera. The two brothers agreed to award this bursary since they anticipated that Harvey's son would come and work for them once he had completed his studies.
7. In July 2015 Mike and Harvey were part of a trade mission organized by the ministry of agriculture which visited Brazil. The total cost of $6,500 was incurred equally between Mike and Harvey.
8. This amount relates to income tax paid from Murimi's bank accounts in respect of Mike and Harvey's income tax returns on the quarterly payment dates. $2,500 was paid for Mike and the balance of $3,500 was for Harvey.
9. The rental payments relate to a lorry that is leased to Murimi from Mike. Mike bought the lorry for a total cost of $12,000 in 2012 and has been leasing the vehicle to Murimi ever since. The lorry is used 100% by Murimi.

10. You were also provided with the following information of farm expenditures which were made on the farm in previous years:

Item	Year of expenditure	Cost (US$)
Sinking of 2 boreholes	2013	5,200
Borehole equipment	2013	4,500
Irrigation equipment	2014	8,200
Cattle dip tank	2013	6,000
Twin cab for the farm manager	2014	32,000

Other Information

You have also been informed that Mike and Harvey have always claimed the maximum possible capital allowances and reliefs in any given tax year.

Required:

For the year ended 31 December 2015 calculate the income tax payable by Mike and Harvey. In your calculations with reference to the notes provide a brief explanation for items which are neither taxable nor deductible.	40

SOLUTION

COMPUTATION OF TAX PAYABLE BY MIKE AND HARVEY FOR THE YEAR 31 DECEMBER 2015

	$	$	Marks
Sales : Tobacco (s8 gross income)		350 000	1/2
Livestock sales (s8 gross income)		70 000	½
Other Income (s8 gross income)		2 300	1
Livestock purchases (s15(2) deduction)		(20 000)	1
Restocking Allowance (s15(2) deduction) (10 000 x 50% x 30/50)		(3 000)	2
Inherited livestock (s 15(2) (v) @ deceased estate valuation)		(8 000)	2
Farm expenses: - Water furrows (capital in nature)		-	
- Temporary roads (s15(2) deduction)		(1 200)	1
- Stumping and clearing - 7th schedule		(2 000)	1
Opening stock livestock (s15(2) deduction)		(26 000)	1
Closing stock livestock (s8 gross income)		35 000	1
Bad debts (70% proved to be uncollectable: $4 500 * 70%)		(3 150)	2
Donation – disallowed – not for the purposes of trade		-	1
Mike’s subscriptions to Farmers’ Union of Zimbabwe		(500)	1
Educational grant – allowable but taxable in Harvey’s hands (sect 15 (2) (p), since granted to Harvey’s near relative		(2 000)	2
Trade mission to Brazil (s15(2) deduction) (limited to 2 500 per partner)		(5 000)	2
Domestic maid salary – Harvey		(1 200)	1
sSalaries – (30k + 30k +50k)		(110 000)	1
Tax paid on behalf of the partners – deduction		(6 000)	1
Medical Contributions – deduction (600 + 640 + 3 200)		(4 440)	1
Drawings – Capital in nature (5 000+5 000)		-	1

Rental payments – s 15(2) deduction		(6 200)	1
Other farming expenses – given that they are all deductible		(25 000)	1
Capital allowances :			
• Water furrows – 4th schedule farm improvement. (25% x 2 300)	(575)		1
• Sinking of 2 boreholes (7th schedule allowance) - 2013	-		1
• Borehole equipment (Acc W&T – 4 500 x 25%)	(1 125)		1
• Irrigation equipment (Acc W&T – 8 200 x 25%)	(2 050)		1
• Cattle dip tank (4th schedule farm improvement) – (Acc W&T – 6 000 x 25%)	(1 500)		1
• Twin Cab - PMV (Restricted cost to 10 000) – 25% *$10 000	(2 500)	(7 750)	1
PARTNERSHIP TAXABLE INCOME		**227 900**	

	MIKE	**HARVEY**	**Marks**
Share of Taxable Income (50% of 227 900 each) – s10 – deemed accrual	113 950	113 950	½
Subscriptions to Farmers' Union of Zimbabwe - s8-gross income	500	-	½
Exemption	(500)	-	½
Educational Grant - s8-gross income	-	2 000	1
Domestic Maid salary - **s8-gross income**	-	1 200	1
Salaries - **s8-gross income**	30 000	30 000	½
Drawings – **Capital in nature**	0	0	½
Tax Payments – QPDs - **s8-gross income**	2 500	3 500	1
Medical Aid contributions (Partnership) - **s8-gross income**	600	640	1

Lease rentals - **s8-gross income**		6 200	-	1
Capital Allowances – Lorry (Acc W&T – 25% x 12 000) **(4th schedule asset)**		(3 000)	-	2
PARTNERS' TAXABLE INCOME		**150 250**	**151 290**	
Tax thereon at 25%		37 563	37 823	**½**
Less Credits				
Medical Aid Contribution (50%)		(300)	(320)	**1**
		37 263	37 503	
Add 3% Aids Levy		**1 118**	**1 125**	**1**
		36 145	**38 628**	
Less Amounts Paid on QPD's		(2 500)	(3 500)	1
Total tax liability		**33 645**	**35 128**	
Total Available				**46**
Maximum				**40**

TUTORIAL 7 **47 marks**

Part I: Mr B Gallant and Partman (Pvt) Ltd

Mr Gallant is the sole shareholder of Partman (Pvt) Ltd ('Partman'), a company registered in Zimbabwe. Partman is registered for VAT under category C and has a 31 December year end. Partman was incorporated in 2005 and has been manufacturing components and parts for the motor industry in a factory in Mutare since incorporation.

The following information has been extracted from the books and records of the company at 31 December 2013:

	Notes	$
Sales	5	(885 000)
Unrealised foreign exchange gain		(2 000)
Profit on disposal of asset	6	(11 517)
Cost of sales	1	457 778
Insurance	2	555
Bad and doubtful debts	3	2 600
Cost of preparing tenders for anticipated sales to South Africa		120
Interest – Zimbabwe Revenue Authority		15 000
Legal expenses – advice on indigenisation		105
Depreciation	7	13 667
Other tax deductible expenditure		46 100
Salaries and wages	4	325 811
Travelling expenses to attend a trade fare in South Africa		2 100
Valuation fee for insurance purposes	6	270
Profit before tax		34 411

NOTES

1 In December 2013 Mr Gallant took consumable stores with an opening stock value of $1 500 for private use.
2 Insurance premium on Mr Gallant's own life amounted to $555.
3 Bad and doubtful debts:

	$
Specific debts considered to be bad	1 600
Specific provision for doubtful debts	750
Loan to a former employee considered to be irrecoverable	250
	2 600

4 Included in salaries and wages is an amount of $75 000 representing a specific provision for bonuses ($50 000 for Mr Gallant and $25 000 for the other employees). The bonus was voted in December 2013 but due to cash flow problems will only be paid in January 2014.

5 On 20 December 2013 the company received an advance payment of $4 000 for goods to be delivered in January 2014. Believing that this would not be taxable until 2014, the amount was not included in the sales total of $885 000.

6 On 2 April 2013 Partman acquired a second-hand machine for its manufacturing operations for $50 000.
Partman bought a new machine on the same date for $22 800 (inclusive of VAT).

Both machines were brought into use by Partman immediately after they were acquired.
On 1 June 2013 a fire in the factory destroyed the second-hand machine and some of the company's trading stock. Partman was insured against this event in terms of its comprehensive insurance policy.

The insurance company settled the claim on 15 June 2013 for an amount of $99 750 as follows:

	$
Second hand machine	59 850
Trading stock (original cost $40 000)	39 900
	99 750

7 The accountant had written off depreciation of $1 667 on the destroyed second-hand machine with regard to the two months it had been used before the fire and recorded the insurance payment as follows:

	$	$
Bank	99 750	
Provision for accumulated depreciation	1 667	
Second-hand machine		50 000
Purchases		39 900
Profit on machine		11 517

	101 417	101 417

The company decided not to claim any capital allowance, as the machine had been bought and destroyed in the same year.

The destroyed machine was not replaced by a new machine as the market conditions were poor and sales were declining.

Depreciation comprises the following:

	$
Second-hand machine	1 667
New machine	8 000
Other assets all already written off for tax purposes (the value of these other assets was $40 000)	4 000
	13 667

Part II: Partnership business

Mr X and Mr R formed a business on 1 March 2007. The business had at first been profitable but in the 2010 year of assessment the business operations were negatively impacted by imports of cheap clothing from abroad and local competition.

The partnership has a 31 December year end and the profits and losses of the partnership are shared equally. Neither Mr X nor Mr R carried out any other business operations. The partnership's assessed losses for the last three years of assessment were as follows:

Year of assessment	$
2010	15 000
2011	13 000
2012	13 000
	41 000

Although the partnership had taxable income of $10 000 for the 2013 year, both Mr X and Mr R realised that the partnership could no longer survive in the tough economic conditions and they ceased trading on 27 December 2013 and deregistered as a VAT vendor on the same day.

The following assets were on hand on 27 December 2013:

	Cost	Open market value
	$	$
Delivery truck	40 000	15 000
Trading stock	27 500	14 000
Ten sewing machines, which all had the same value	20 000	7 000

	87 500	36 000

During the 2014 year of assessment Mr R purchased and let property and Mr X became employed.

PART I of QUESTION 1 – REQUIRED	Marks	
	Sub-total	Total
Prepare an income tax computation for Partman commencing with the net profit of $34 411 and justify your approach with appropriate reasons. Also calculate any tax liability.	26	
Communication skills – logical argument	1	27
Total for part I		**27**

PART II of QUESTION 1 – REQUIRED		Marks	
		Sub-total	Total
(a)	Discuss, with supporting calculations, the VAT implications for the Mr X and Mr R partnership when it ceased to trade and deregistered as a VAT vendor.	13	
	Communication skills – clarity of expression	1	14
(b)	Discuss the tax treatment for the partners for the 2013 year of assessment. Also discuss whether either Mr X or Mr R can claim a portion of the loss during the 2014 year of assessment.	6	6
Total for part II			**20**

SOLUTION

Part 1 Question 1: Partman (Pvt) Ltd Income Tax computation for the year ended 31 December 2013

	$	$	Marks
Profit before tax		34 411	½
Sales – Amount received in advance qualifies as gross income – sect 8		4 000	2
Unrealized foreign exchange gain – not realized therefore not gross income		(2 000)	2
Profit on disposal of assets – accounting entry		(11 517)	½
Disposal of second hand plant – no recoupment since no capital allowances had been claimed on the equipment		0	1
Insurance proceeds on destroyed stock – Sect 8 (1) (h)		39 900	2
Cost of sales –stock taken for private use – sect 8 (1) (h)		1 500	2
Insurance premium – capital in nature		555	2
Specific debts – allowable – sect 15(2)(g)		0	½
Provision for doubtful debts – not allowable- sect 15(2)(g)		750	½
Loan to former employee- not allowable since was never previously included in gross income – sect 15(2)(g)		250	2
Cost of tenders – export market development expenditure – sect 15 (2)(gg)		(120)	2
Interest ZIMRA – not allowable sect 16 (1) (d)		15 000	1
Legal expenses – advice on indigenization – capital in nature		105	2
Depreciation		13 667	½
SIA New Machine - $22 800*100/115*25%		(4 957)	2
Other tax deductible expenses -		0	
Salaries and wages – bonus - since bonus was voted for in December the expenditure was incurred in 2013.		0	1
Travelling expenses Trade fare in SA – export market development expenses – sect 15 (2) (gg)		(2 100)	2
Valuation fee for insurance - allowable		0	1
Taxable Income		89 444	
Tax @ 25.75%		23 032	1
			26

Part II – Question 1 - a

- In terms of sect 7(2) the partnership is deemed to have made a supply of goods held by them upon being deregistered and should account for output tax. 2 marks
- However the deemed supply is limited to the extent of those assets over which the Partnership would have been able to claim an input tax deduction on purchase in terms of sect 15. 2 marks
- The time of supply is the day before deregistration which in this case is 26 December 2013. 2 marks
- The value of supply is the lesser of cost or open market value – sect 9(5). 2 marks
- The partnership would have been able to claim input tax on the purchase of the assets, therefore the output tax on deregistration is calculated as follows: 1 mark

	$	
Delivery truck - $15 000*15/115	1 957	1 mark
Trading stock -$14 000*15/115	1 826	1 mark
Ten sewing machines - $7 000*15/115	913	1 mark
	4 696	

- However the partnership still remains responsible for any duties or obligations under the Act while it was registered. 1 mark

Part II-Question 1 – b

- The partners are taxed on the partnership taxable income in their individual capacities. 1 mark
- The partnership taxable income is apportioned to Mr X and Mr R based on their profit sharing ratio of 50:50. 1 mark
- According to sect 15(3) the partners will be able to claim the assessed losses for 2010,2011 and 2012 as a deduction against the taxable income for 2013. 1 mark
- According to sect 15(3) no assessed loss attributable to business operations carried on by a taxpayer shall be allowable as a deduction from income received by or accruing to him under a contract of employment. Therefore Mr X will not be able to claim the assessed losses from the partnership as a deduction against his employment income. 2 marks
- Since the partnership ceased trading in 2013 Mr R will not be able to carry forward the assessed losses to claim them as a deduction against income from his property business in 2014. 2 marks

TUTORIAL 8

Emerald Properties Ltd

Emerald Properties Ltd ('Emerald') is a listed property company. It has one million equity shares in issue which are widely held. Emerald is a resident as defined and does not form part of a group of companies as defined.

Emerald is a registered value added tax (VAT) vendor and its financial year and tax year of assessment end on the last day of December. Emerald obtained a ruling to determine input tax in accordance with the turnover method where the ratio of taxable supplies to total supplies is 90 : 100.

Emerald's portfolio of investment properties consists of –

- commercial properties (shopping centres and office buildings); and
- residential properties

Information on the 2014 year of assessment

The following was captured when completing the tax return (ITF 12(c)) for the 2014 year of assessment. All amounts exclude VAT where relevant:

Information on the 2014 year of assessment

The following was captured when completing the tax return (ITF 12(c)) for the 2014 year of assessment. All amounts exclude VAT where relevant:

	Notes	$
Income items		
Commercial properties gross rentals		3 600 000
Residential properties gross rentals		400 000
Total rental income (other income)		4 000 000
Interest – financial institutions / other		25 000
Accounting profit on disposal of assets	1.2	1 200
Expense items		
Depreciation and fair value adjustment	1	(320 600)
Medical, pension and provident fund contributions		(120 000)
Salaries and wages	4	(902 200)
Other		(1 368 890)
Net profit – subtotal (profit per financial statements)		1 314 510
Debit adjustments		
Accounting profit on disposal of fixed and / or other assets	1.2	(1 200)
Capital allowances not claimed in the income statement		
Special Initial Allowance on ten-tonne trucks		(112 500)
Wear and tear allowances		(162 800)
Credit adjustment		
Depreciation according to financial statements	1.1–1.3	170 600

Provisions not deductible in current year		5 300
Accounting / fair value adjustments to comply with IFRS	1.4	150 000
Other		2 500
Recoupment of allowances previously granted		1 200
Taxable income		1 367 610

Notes

1 Depreciation and impairment

		$
1.1	Depreciation on motor vehicles (excluding the company car of the Managing Director (MD))	148 000
1.2	Depreciation on the MD's old company car	6 000
	Depreciation on the MD's new company car The MD's old car was traded in during the year. The trade-in resulted in a profit of $1 200 (see note 4.8).	1 600
1.3	Two second-hand ten-tonne trucks were acquired on 1 November 2014 from a non-vendor for a cash payment of $450 000. The trucks were immediately brought into use wholly for business purposes. Depreciation was calculated as follows: $450 000 x 20% x 2/12	15 000
1.4	Emerald has adopted the fair value model for its investment properties in terms of the IAS 40, Investment Property. The buildings (excluding those referred to in note 3) are revalued annually and the fair value adjustment in the current year has resulted in a reduction in fair value of The existing buildings (excluding those referred to in note 3) do not qualify for any tax allowances as they were acquired prior to 1 February 2009 (dollarisation date).	150 000
		320 600

3 The company's MD, Mr Sibanda, is ordinarily resident in Zimbabwe. He advised that he has received the following foreign South African income during the year ended 31 December 2014:

		R
2.1	Director's fees from a South African quoted company, which has its head office in Johannesburg	50 000
2.2	Rent received from a holiday cottage in Natal which is let for part of the year	10 000

2.3	Interest from the South African Post Office Savings Bank	2 000
2.4	Interest from a South African financial institution	12 000
2.5	Royalties paid in South Africa from the sale of a book he wrote on Zimbabwe wildlife. The book was written in Zimbabwe	20 000
		94 000

3 On 1 January 2014 Emerald decided to enter the low-cost housing market. The directors identified a tract of land on which to build 100 low-cost residential units. The land identified for the development is owned by the Municipality of Bulawayo but is not for sale. However, the Municipality of Bulawayo was prepared to enter into a 30-year lease of the land on the following terms:

- A monthly rental of $3 000 is payable in advance.
- The rental is subject to an annual escalation based on the inflation rate.
- Emerald must erect low-cost housing on the land at a cost of at least $2 million.

The lease was signed on 1 March 2014 and the first month's rental was paid on that date.

Construction of the 100 low-cost residential units commenced on 1 April 2014 and they were completed at a cost of $23 400 each on 31 October 2014. Emerald commenced letting the units on 1 November 2014 for a monthly rental of $230.

4 The following amounts have been included in salaries and wages:

		$
4.1	Contributions to the medical aid scheme Emerald pays 100% of employee contributions in terms of the rules of this fund. All employees are obliged to belong to the medical aid scheme. Approved remuneration amounts to $600 000. The Zimbabwe Revenue Authority (ZIMRA) approved the deduction.	120 000
4.2	Emerald's share of Workers' Compensation Fund contributions	6 000
4.3	Bonuses for the year Bonuses accrued to senior management during the year, but were only paid after the year end. No employees' tax (PAYE) was deducted from these amounts.	150 000
4.4	A gratuitous lump sum was received by the executor on behalf of Mr Andrew Moyo's estate Mr Moyo was a founding member and senior executive of Emerald who died unexpectedly in October 2014. At a Board of Directors' meeting in December 2014 the directors of Emerald decided to	50 000

		$
	award Mr Moyo the lump sum posthumously (after death) due to his years of dedicated service to the company.	
4.5	Increase in provision for leave pay	5 300
4.6	Penalties incurred for late payment of PAYE to ZIMRA	2 500
4.7	Net salaries and wages, including PAYE	515 960
4.8	Other benefits / allowances granted to employees In addition to the employer's contribution to the medical aid scheme (see note 4.1 above), Emerald provided the following fringe benefits: A monthly travel allowance of $1 200 to each of the three maintenance foremen A company car to the MD. Emerald acquired a Mazda BT50 twin cab on 1 January 2013 at a cost of $36 000 (including VAT) and granted the exclusive use thereof to the MD. The Mazda BT50 twin cab was traded in on 1 November 2014 for an amount of $24 000. On the same date a new Toyota Vigo twin cab was acquired at a cost of $48 000 (including VAT). The MD is required to pay the cost of private fuel and maintains a logbook to record his mileage.	43 200
4.9	The balance of the salary and wages expenditure is deductible for income tax purposes	9 240

Share incentive scheme

During the 2013 financial year, Emerald implemented an executive share incentive scheme to promote the growth of the company and incentivise and retain its senior executives. The scheme was implemented with effect from 1 November 2013.

On 1 November 2013 each of the five senior executives received 1 200 Emerald shares for no consideration in return for services to be rendered over the next five years. Emerald acquired the 6 000 shares in the market at a cost of $25 per share.

During this five-year period, the executives may not dispose of or otherwise encumber these shares.

In the event that an executive leaves the employment of Emerald within this five-year period, other than due to death, disability or retirement, the executive must sell the shares to

Emerald at $25 per share. In the event of death, disability or retirement all restrictions on the shares will be lifted.

The market value of Emerald shares at the date of Mr Moyo's death was $26,50 per share. Mr Moyo did not bequeath his shares and the executor sold the shares during the 2014 year of assessment for $29,50 per share.

Acquisition of office block

Emerald acquired an office block from Diamond (Pvt) Ltd ('Diamond'), which is not a connected person in relation to Emerald, for $7,5 million on 1 December 2014. Emerald financed the acquisition by issuing 250 000 new equity shares to the seller.
Diamond is a registered VAT vendor which only makes taxable supplies. It held the office block as a capital asset. The sale qualified as the sale of a going concern. Emerald uses the office block wholly to make taxable supplies.

No tax allowances were allowed on the building because the company acquired the new office block prior to 1 February 2009 (dollarisation date).

The market value of Emerald shares immediately prior to the transaction was $30 per share and on 2 December 2014 the market value was $32 per share.

The market value of the office block at 1 December 2014 was $8,3 million.

ZIMRA query

After submitting its tax returns for the year, Emerald received a request for further information from ZIMRA. ZIMRA wants the company to pay VAT of $560 000, based on total rental income of $4 million.

REQUIRED		**Sub-total**	**Total**
(a)	Advise the MD, Mr Sibanda, on the Zimbabwe tax implications of his foreign income totalling R94 000. You are not required to calculate the tax payable (if any). Communication skills – clarity of expression	6 1	 7
(b)	Discuss, with reasons, the correctness of the output VAT amount of $560 000 in terms of the ZIMRA query with reference to the actual amount of output VAT payable. Include the effect of all supplies in terms of the VAT Act. Communication skills – clarity of expression	9 1	 10
(c)	Calculate, supported with reasons, the tax allowances in respect of the two second-hand ten-tonne trucks and the low-cost residential units in order to determine if the amounts ($112 500 and $162 800 respectively) used in the ITF 12(c) are correct.	7	7

(d)	Explain, with supporting calculations, the income tax and estate duty implications of the gratuitous lump sum and the executive share incentive scheme shares awarded to Mr Moyo for Emerald, Mr Moyo and Mr Moyo's estate. Communication skills – layout and structure	16 1	 17
(e)	Discuss, with supporting calculations, all tax implications (income tax, capital gains tax and VAT) for both Emerald and Diamond in respect of the acquisition of the office block. Communication skills – logical argument	10 1	 11
(f)	Explain any changes in the VAT implications of the acquisition of the office block for both Emerald and Diamond if the purchase price had been paid by bank transfer and not by the issue of 250 000 new equity shares.	2	2
(g)	Calculate, with supporting reasons, the deferred tax implications of the office block in the financial statements of Emerald -at the end of December 2014	2	2
(h)	Describe the tax implications of the following expenses in Emerald's financial statements as well as the tax implications (if any) for the individuals in receipt of these benefits: Medical aid Bonuses for the year Workers' Compensation Fund Increase in leave pay Penalties to ZIMRA Travel allowance Company car benefit. Communication skills – clarity of expression	13 1	 14
	TOTAL		70

SOLUTION

Question 1 (a)

Director fees:

The director's fees are not taxable since the head office of the company in which he holds the directorship is in South Africa. So any of the income earned from his position as a director is not from a source within Zimbabwe, therefore not taxable in Zimbabwe (1)

Rental Income:

The source of the rental is where the property is situated, which in this case is South Africa. Therefore the rent is not taxable in Zimbabwe.(1)

Interest from SA POSB

Interest from the SA POSB is deemed to be earned from a source within Zimbabwe therefore taxable in Zimbabwe in terms of sect 12 (2). However the income is exempt from Zimbabwe Income taxes in terms of the 3rd schedule. (2)

Interest from South Africa Financial Institution

Interest from the SA Financial Institution is deemed to be earned from a source within Zimbabwe therefore taxable in Zimbabwe in terms of sect 12 (2). (1)

Royalties

The royalties are taxable in Zimbabwe since Mr Sibanda wrote the book whilst resident in Zimbabwe. Therefore the source of the royalties is where Mr Sibanda exercised his wits in writing the book. (1)

Question 1 (b)		
The provision of commercial properties is a standard rated supply, therefore VAT should be levied at the standard rate of 15% of all rental income earned. (1)		
The provision of residential properties is an exempt supply in terms of the VAT act; therefore no Output Tax should be levied on the rentals earned from residential properties. (1)		
Therefore ZIMRA is incorrect in charging $560,000 as the VAT output should be calculated as follows. (1)		
Rentals from commercial properties	3,600,000	
Residential Properties	nil	(1)
VAT output ($3,600,000 *15%)	540,000	(2)
Interest – Financial Institutions		
No VAT accrues on Interest since its arising from financial services which constitutes an exempt supply. (1)		
Disposal of Twin Cab – Passenger motor Vehicle		
Since no input tax would have been claimable on the purchase of the Twin Cab, therefore no Output tax will arise on the disposal of the Twin Cab. (2)		

Question 1 (c)	$	$
Low cost residential Units		
The construction of the residential units was in terms of a lease agreement, therefore these qualify to be lease improvement in terms of Sect 15 (2) (e). (1)		
Emerald has 2 options: Either 1)To claim capital allowances in terms of the 4th schedule or 2) To claim a deduction over the lesser of 10 years or the remaining lease period. (1)		
Since the houses are commercial buildings as defined by the 4thschedule it would be advantageous for Emerald to claim a deduction in respect of the cost incurred on the construction over the lesser of the lease term and 10years. (1)		
Cost Incurred ($23,400 *100)	2,340,000	
Allowable Deduction ($2,340,000/120*2)		39,000 (1)
Therefore Emerald should not have claimed wear and Tear Allowances in respect of these buildings. (1)		
Two second hand ten-tonne trucks		
The trucks are being used for the purpose of trade, therefore emerald is eligible to claim Capital allowances in respect of the cost of acquisition (i.e. SIA or W&T). (1)		
Therefore it's correct for emerald to claim the SIA of $112,500. (1)		

Question 1 (d)
Gratuitous Lump sum payment
Mr Moyo: Pre-Death Period

Since at the time of death the board had not yet voted to award Mr Moyo the gratuity, this means he had no right to the income. (1) Therefore the gratuity does not form part of gross income at the time of death. (1)

Post Death period: Deceased Estate

Income Tax Act:
The gratuitous lump sum payment was awarded and paid after the late Mr Moyo had died and as Mr Moyo had no right to it in his lifetime (the decision to pay the lump sum was made in December 2014 after Mr Moyo had already died), it is not taxable in the hands of his estate (post death period). – sec 11(4) (b) (2)

Estate Duty Act:
Since Mr Moyo did have a right to the gratuity at the time of his death, the amount received from the gratuity will not form part of the deceased estate property for the purposes of calculating the dutiable amount. – Sect 4(2). (2)

In the Hands of Emerald

Also note that as Mr Moyo had no right to the lump sum, Emerald will not be allowed a deduction in respect of the payment (2)

Share Incentive Scheme – Sect 8 (1) (t)

Mr Moyo:

On 1 November 2013:

On this date we need to determine whether Mr Moyo had received the benefit of 1 200 shares by applying the definition of gross income as per the income tax act. (1)

In terms of case law received by means received by the taxpayer for his own behalf for his own benefit (Geldnhuys v CIR,). (1)
Even if the share award has conditions attached, Mr Moyo will be under no obligation to return at the shares to Emerald at any given future date at no consideration; therefore we can conclude that he received the shares on 1 November 2013. (2)

In light of the above to be included in Mr Moyo gross income will be share award at an amount of $25 per share(determined with reference to the costs to Emerald – sect 8 (1) (f)). (1)

Therefore taxable amount = $25 * 1 200 = 30 000 (1)

Pre death period – 2014:

No income tax implications.

Emerald:

In terms of sect 16 (1) (l) the cost of $25 per share incurred by Emerald in awarding the shares to Mr Moyo will not be allowed as deduction. (2)

Mr Moyo's Deceased Estate

Income tax Act:

The disposal of the shares by the executers will not give rise to gross income to the deceased estate as the proceeds are capital in nature. (2)

Estate duty Act:

Since Mr Moyo had rights to the shares at the time of his death, the shares will therefore constitute property as defined in terms of Sect 4(2) of the estate duty act. (2)

Therefore the shares will be included in the calculation of the dutiable amount at the following amount:

$26.50 * 1 200 =31 800 (1)

Question 1 (e)
Acquisition of Office Block

Diamond
VAT
The sale qualified as a sale of a going concern, there VAT output tax would be calculated at 0% resulting in no output tax chargeable in terms of Section 18 (1). (2)

Income Tax
There are no income tax implications on the sale of the building since no capital allowances were allowed, therefore no recoupment arises as these are limited to previous allowances claimed =0. (2)

Capital Gains Tax
As the property was acquired prior to 1 Feb 2009, Capital Gains tax will be calculated at a flat rate of 5% on the gross proceeds of $7,500,000. (1) i.e 375,000 (1)

Emerald

VAT
Emerald will not be able to claim input tax deduction since the property was acquired as a going concern i.e. as a Zero rated supply to Emerald. (2)

Income Tax
The building is a commercial building as defined. Therefore Emerald can claim Wear and Tear at rate of 2.5% on the cost of $7,500,000 = 187,500 (1)

Capital Gains Tax
There are no capital gains tax implications for Emerald. (1)

Question 1(F)
There are no changes as the sale would still qualify as a deemed sale of a going concern, therefore VAT would be levied at 0% regardless of the mode of payment. (2)

Question 1 (g)	**$**	**$**
Deferred Tax		
Cost of property	7,500,00	
Less ITV ($7,500,000-$187,500)	(7,312,500)	
Temporary Difference	187,500	
Deferred Tax @ 25.75%	48,281	(2)

Question 1 (h)

Medical Aid

Allowable deduction to Emerald Section 15 (2) (j). (1)
Not a taxable benefit in the hands of the employee. Section 14 3rd Schedule. (1)

Bonuses

The amount of the bonuses paid is deducted to Emerald as this was incurred in the purposes of trade as a payment to employees for services rendered. (1)

In the hands of the employee the bonus is taxable; however the 1st $1,000 receivable to each employee is exempt. Section 8(1) and 3RD Schedule. (1)

Workers Compensation Fund

Allowable deduction to Emerald Section 15 (20) (h). (1)
Not a taxable benefit in the hands of the employee. Section 14 3rd Schedule. (1)

Leave Pay:

The actual cash paid in respect of leave days is deductible, however provisions are not deductible. (1)
In the hands of the employee cash in lieu of leave is included as gross income. (1)

Penalties to ZIMRA

Prohibited deduction in terms Section 16. (1)

Travel Allowance

Deductible expense for Emerald in terms of Section 15 as it was incurred for the purposes of trade. (1)
Taxable in the hands of the employee unless, they can prove the allowance was spent on Emerald's business Section 8 (1) (f). (1)

Company car benefit

The benefit to the employee is deemed a supply for the company for which output VAT should be remitted to Zimra at the cash amount equivalent to the benefit calculated for PAYE purposes. Section 7 VAT Act. (1)
A benefit accrues to the employee for the use of the vehicle and this is calculated based on the engine capacity of the vehicle. (1)