Solution

1. Discuss with supporting calculations the capital gains tax implications on the sale of the shares in Rhodes (Pvt) Ltd from the perspective of Smith and Wesson.
    - The disposal by Smith and Wesson of their interest in Rhodes qualifies as a sale of a specified asset (marketable security) as defined in the capital gains tax act. (2)
    - Therefore S&W will be liable to pay capital gains tax when they sold their holding to BHP. (1)
    - However since they acquired their interest in Rhodes prior to February 2009, the capital gains tax payable will be calculated as 5% of the gross proceeds received on the disposal. (1)
    - $2,500,000 * 5% = $125,000. (1)

    Max 5

2. BHP's CFO has approached you for advice on whether or not they will be able to use the new mine method to claim the capital redemption allowances in respect of the Rhodes mining operations.
    - In terms of the 5th schedule to the income tax act, mining operations are allowed to use the new mine method if they are operating a new mine as defined. (1)
    - A new mine means (5th schedule par 8) any mining undertaking which, in the opinion of the Commissioner, is an independent workable proposition, whether or not it is operated by a person already carrying on mining operations, and which—
        - first commenced regular production on or after the 1st April 1968; or
        - having previously been in production—
            - had been closed down and has subsequently been reopened, or
            - had changed ownership and has been reorganized with substantially new development and new plant;
            - and commenced regular production on or after the 1st April 1968. (max 3)
    - In your case, Rhodes' mining operations were closed down in 2003 and reopened in 2015 after acquisition by BHP, which changes meet the definition for a new mine. (1)
    - Therefore going forward from 2015 Rhodes is legally able to use the new mine method for the purposes of calculating the capital redemption allowance. (1)

    Max 6 marks

3. Calculate the minimum income tax liability of Rhodes for the 31 December 2015 year of assessment. Give a brief explanation for each item adjusted and not adjusted for in your computation.

	$	$	Marks
Net profit before tax		8,560,000	½
Local sales – sect 8 gross income		0	1
Foreign sales – sect 8 gross income		0	1
Smelting by-product sales – sect 8 gross income		0	1
Government grant – sect 8 (1) (m) – the full amount taxable in year of receipt		9,000,000	2
Interest on tax reserve certificate – exempt 3rd schedule		(2,540)	1
Interest on POSB deposit – exempt 3rd schedule (subject to withholding tax which is a final tax)		(15,000)	1
Dividend – Akawa (Pvt) Ltd - exempt		(34,000)	1
Divided – Taguta Ltd - exempt		(45,000)	1
Profit on sale of PPE – does not meet gross income def		(8,500)	1
Loss on disposal of PPE – no expense actually incurred		1,600	1
Proceeds from sale of mining claim – capital in nature		(64,000)	1
Provision for court case – not yet incurred		450,000	2
Provision for doubtful debt- not yet proved to be irrecoverable – sect 15 (2) (g)		2,500,000	1
Loan to director – was never previously included in gross income therefore not deductible		350,000	2
Dividend declared – not incurred for the purpose of trade – sect 15		1,450,000	1
Compensation – dependants – allowed up to max of $200/year – sect 15 (2) (q)		600	2
Compensation – former employee – allowed up to max of $500/year		100	2
Finance costs – limited to a debt to equity ratio of 3:1			½
Current debt to equity ratio = (10,500k+12,000k)/(3,000k) = 7.5:1			2
Interest paid	4,250,000		
Less Deductible interest = 3/7.5*4,250,000	(1,700,000)		1
Adjustment		2,550,000	1
Repair costs – sect 15 (incurred for the purpose of trade)		0	1
Maintenance costs – sect 15 (incurred for the purpose of trade)		0	1

Directors lunches – entertainment – sect 16 - prohibited		8,000	1
Donations			
Mupanda – deductible - sect 15 (2) (r3)		0	1
University of Gondwanaland – sect 15 (2) (r2) – restricted to $100,000		20,000	2
Matusadona government school – not incurred for the purpose of trade		25,000	1
Musorowegomo – sect 15(2) (r3)		0	1
Depreciation – not incurred		50,0000	1
Impairment loss – not incurred		3,580	1
Capital Redemption allowance: New mine method			
Purchase of head office building -	480,000		1
Office rentals	15,000		1
Staff salaries	30,000		1
Business lunches – sect 16 prohibited (entertainment)	0		1
30 single cabs	750,000		1
Double cabs (PMVs) - $10,000 * 10	100,000		1
Purchase of cranes and bulldozers	1,544,000		1
Mine staff houses	200,000		1
Mine clinics refurbishment – up to maximum of $50k	50,000		1
6 beer halls – 6 * $8,000	48,000		1
Capacity increasing costs	150,000		1
Less Recoupment of disposal of machinery	(56,900)	(3,310,100)	1
Other tax deductible - sect 15		0	1
Taxable Income			
Tax @ 25.75%			1
Maximum			**50**

Question 2

a. Discuss with supporting calculations the VAT consequences of the imports in note 13.

Import VAT

- In terms of sect 12 to the VAT Act, import VAT is charged on the importation of goods into Zimbabwe. (1)
- In this case, MS imported building materials which are goods as defined therefore are subject to import VAT. (1)
- The value of supply for the purposes of calculating the import VAT is a function of the value for duty purposes plus import duty paid. (1)
- Therefore the import VAT paid by MS on the importation of the building material is calculated as follows:

	$	
Invoice amount	130,000	(1)
Transport costs upto Beitbridge	5,000	(1)
Duty paid	11,320	(1)
Value of supply	146,320	
VAT @ 15%	21,948	(1)

- Since MS intends to use the building material for their Greendale office park project which is a taxable supply, they will be able to claim an input tax deduction in respect of the import VAT paid. (2)

Transport costs – Beitbridge to Harare

- MS would have been charged VAT on the transportation from Beitbridge to Harare since the services were provided by a registered operator. (1)
- However, MS would be able to claim an input tax deduction in respect of these transport services. (1)
- The amount of the VAT charged would be $3,050 * 15% = $458. (1)

Max 12 marks

b. Calculate the VAT payable by or refundable to MS for the March 2015 tax period. *You can assume that the supply of chickens to local customers is zero rated.*

	$	**Marks**
Output VAT		
Sale of office building - $450k *15%* 50/490	6,888	3
Sales to Kenya and South Africa – zero rated	0	1
Rental Income – Farms – $540,000 *30%*15%	24,300	1
Rental Income – Commercial properties - $540k * 40% * 15%	32,400	1
Rental Income – residential units - exempt	0	2
Employee benefits		
Chickens – zero rated	0	1
Rent – exempt (accommodation)	0	1
School fees - exempt	0	1
Lunch allowance – MS would have been denied an input tax deduction	0	1
Use of motor vehicles – 15*$400 15/115	783	2
Interest on fixed term deposits - exempt	0	1
Dividends – not a supply	0	1
Input VAT		
Insurance premium – financial service - exempt	0	1
Spent barley – zero rated since it's going to be used for agricultural purposes	0	2
Electricity on the farm - $4,530 * 15%	(680)	1
Goods purchased from Irvine's – zero rated	0	2
Farm employee salaries – not a supply	0	1
Chevrolet cruze sedans – prohibited deduction since they qualify as passenger motor vehicles	0	2
Purchase of Greendale house – notional input tax limited to stamp duty paid	(12,000)	2
Food, drinks and disk jockey – entertainment related expenses – prohibited deduction	0	1
Bank charges – financial services as defined	0	1
Import VAT – building materials	(21,948)	½
Transport charges	(458)	½
VAT payable/refundible		
Maximum available		30 marks

c. With reference to the information in note 1 calculate the capital gains tax payable on the disposal of the office building during the 2015 year of assessment, assuming that MS has always claimed the maximum possible capital allowances were applicable.

	$	
Proceeds	490,000	1
Less Recoupment on building ($200k * 2.5% *2)	(5,000)	1
	485,000	
Less		
Cost	(280,000)	1
Inflation allowance (280k * 2.5% * 3)	(21,000)	2
Capital allowances previously granted	5,000	1/2
Capital Gain	189,000	
Tax @ 20%	37,800	1

Maximum available 6