

TAXATION

END OF YEAR EXAM PAPER 2 SOLUTION 2016

CTA PART TIME

COMPUTATION OF THE INCOME TAX PAYABLE BY KK FOR THE 2015 YEAR OF ASSESSMENT

Net Profit Before Tax

PROFIT ON DISPOSAL - LAND(NOT RECEIVED) S8

LOSS ON DISPOSAL - BUILDING (NOT INCURRED) S15(2)

PROFIT ON DISPOSAL- BUSES (NOT RECEIVED) S8

DEPRECIATION

CAPITAL ALLOWANCES

DONATIONS:

- 21st FEBRUARY MOVEMENT - (S15(2)) NOT FOR THE PURPOSES OF TRADE

- JAIROS JIRI - (S15(2)) NOT FOR THE PURPOSES OF TRADE

- SOS CHILDREN'S HOME (S15(2)(r) ALLOWABLE DEDUCTION

- WEDDING - (S15(2)) NOT FOR THE PURPOSES OF TRADE

- UNIVERSITY OF ZIMBABWE (ALLOWABLE DEDUCTION) S15(2)(r2)

EMPLOYEE BENEFITS - CFO BENEFITS SINCE OCT ((12,000+1,000)x3mths) + (600 x 12)

FORENSIC ENGAGEMENT (ALLOWABLE DEDUCTION) S 15(2)

REPAIRS - TOYOTA RAUM VEHICLES (ALLOWABLE DEDUCTION) S 15(2)

SPARES (ALLOWABLE DEDUCTION) S 15(2)

TRAFFIC FINES (PROHIBITED DEDUCTION) S 16

ZINARA LICENCES (ALLOWABLE DEDUCTION) S 15(2)

REPAIRS AND MAINTENANCE (ALLOWABLE DEDUCTION) S 15(2)

EMPLOYEE BENEFITS (EXCLUDING CFO COSTS) (ALLOWABLE DEDUCTIONS) S 15(2)

TRANSPORT FEES - (GROSS INCOME) S 8

DRIVERS' COMMISSION (ALLOWABLE DEDUCTION) S 15(2)

INTERNATIONAL DRIVERS' ALLOWANCES (ALLOWABLE DEDUCTION) S 15(2)

ENTERTAINMENT EXPENSES - FOOD AND BEVERAGES - (PROHIBITED DEDUCTION) S16

FRINGE BENEFITS:

LUNCH - ENTERTAINMENT (PROHIBITED DEDUCTIONS) S 16

FUEL - (ALLOWABLE DEDUCTION) S15(2)

PROVISION FOR BAD DEBTS (NOT INCURRED) S15(2)

INSURANCE PREMIUMS (ALLOWABLE DEDUCTIONS) S 15(2)

\$	\$	MARKS
	34,650,000	0.50
	(150,000)	1
	35,000	1
	(16,000)	1
	302,533	0.5
	200,500	4
	54,000	1
	150,000	1
	-	1
	8,500	1
	-	1
	7,200	1
	-	1
	-	1
	-	1
	112,000	1
	-	1
	-	1
	-	1
	-	1
	-	1
	-	1
	14,700	1
	65,000	1
	-	1
	121,500	1
	-	1
	35,554,933	22

COMPUTATION OF CAPITAL GAINS TAX PAYABLE BY KK FOR THE 2015 YEAR OF ASSESSMENT

\$

MASVINGO GARAGE

Proceeds from Disposal (200,000+30,000)

Recoupment

Costs

Cost of Garage

(130,000)

Inflation allowance (2.5% x 3 x 130,000)

(9,750)

Capital Gain

Capital Gains Tax @ 20%

The sale of the garage to MP is a sale to a party under the same control and therefore the proceeds are deemed to be at the total amount of the allowable deductions resulting in nil CGT. This is due to the effect of deferring the CGT until the asset is sold outside the group where the cost shall be that of the original seller.

MASVINGO BUSES

Capital Gains Tax is calculated on specified assets.

Specified assets are immovable property and marketable securities.

Buses are therefore not specified assets and so no CGT consequences.

MUTARE OFFICE BUILDING

Proceeds from disposal

Recoupment

Cost

Cost of office building

(100,000)

Capital allowances granted

5,250

Inflation allowance (2.5% x 6 x 100,000)

(15,000)

Additions (25,000 + 2,500)

(27,500)

Inflation allowance (2.5% x 5 x 27,500)

(3,438)

Capital Gain

Capital Gains Tax @ 20%

NT

<u>\$</u>	<u>MARKS</u>
-----------	--------------

139,750	1
-	
<u>139,750</u>	
	1
<u>(139,750)</u>	1
-	
<u>-</u>	
<u>-</u>	1

proceeds
as a way
the original

	2
230,000	1
<u>(5,250)</u>	2
224,750	
	1
	0.5
	1
	1
	1
<u>(140,688)</u>	1
84,062.50	
<u>16,812.50</u>	1
<u>16,812.50</u>	15

6,250

6,250	-	-	-
--------------	---	---	---

COMPUTATION OF CAPITAL ALLOWANCES

ASSET	TYPE OF CAPITAL ASSET
HARARE OFFICE BUILDING	(IMMOVABLE)COMMERCIAL BUILDING
GWERU OFFICE BUILDING	(IMMOVABLE)COMMERCIAL BUILDING
GARAGES	(IMMOVABLE)COMMERCIAL BUILDING
HAULAGE TRUCKS	MOVABLE ASSETS
DELIVERY VANS	MOVABLE ASSETS
MASVINGO GARAGE - LAND	IMMOVABLE - DOES NOT QUALIFY FOR EITHER DEP /K ALLOWANCES
MASVINGO GARAGE - BUILDINGS	(IMMOVABLE)COMMERCIAL BUILDING
BUSES	MOVABLE ASSETS
18-TONNE TRUCKS	MOVABLE ASSETS
TOYOTA RAUMS	MOVABLE ASSETS - PASSENGER MOTOR VEHICLES
MUTARE OFFICE BUILDING	(IMMOVABLE)COMMERCIAL BUILDING

TYPE OF ALLOWANCE	COST	OPENING ITV	ALLOWANCE FOR THE YEAR	CLOSING ITV
2.5% W&T - STRAIGHT LINE	120,000	105,000	3,000	102,000
2.5% W&T - STRAIGHT LINE	80,000	74,000	2,000	72,000
2.5% W&T - STRAIGHT LINE	370,000	351,500	9,250	342,250
SIA & ACCELERATED W&T	1,500,000	-	-	-
SIA & ACCELERATED W&T	350,000	-	-	-
NONE	50,000	50,000	-	-
2.5% W&T - STRAIGHT LINE	80,000	76,000	-	-
SIA & ACCELERATED W&T	240,000	120,000	-	-
SIA & ACCELERATED W&T	700,000	-	175,000	525,000
SIA & ACCELERATED W&T	45,000	-	11,250	33,750
2.5% W&T - STRAIGHT LINE	65,000	59,750	-	-
		836,250	200,500	1,075,000

PROCEEDS FROM DISPOSAL	POTENTIAL RECOUPMENT	ACTUAL RECOUPMENT/S CRAPPING ALLOWANCE	DEPRECIATION	ANNUAL DEPRECIATION CHARGE
-	-	-	2,667	
-	-	-	1,750	
-	-	-	32,667	
-	-	-	142,000	
-	-	-	32,500	
200,000	-	-	-	
30,000	(46,000)	THE BUILDING WAS NOT SCRAPPED		7,500
184,000	64,000	64,000	-	36,000
-	-	-	69,700	69,700
-	-	-	15,000	15,000
161,000	101,250	5,250	6,250	6,250
575,000	119,250	69,250	302,533	134,450

CARRYING AMOUNT	PROFIT/LOSS ON DISPOSAL	PROCEEDS		
			-	
			-	
			-	
			-	
			-	
			-	
65,000	(35,000)	30,000		
168,000	16,000	184,000		
630,300	-	-	105,300	27114.75
30,000	-	-		
893,300	(19,000)	214,000		

TAXATION

END OF YEAR EXAM PAPER 2 SOLUTION 2016

CTA PART TIME

COMPUTATION OF THE INCOME TAX PAYABLE BY EVA FOR THE 2015 YEAR OF ASSESSMENT

EMPLOYMENT INCOME

Salary (8,500 x 12) s8 Gross Income

Commission (135,000 x 8.5%) s8 gross income

Housing allowance (800 x 12) s8 gross income

Loan receipts - capital in nature

Loan interest benefit - [(Libor+1%)-interest paid] x 45,000 x 6/12

Employer contribution - Medical Aid (40% x 185 x 12)

Employee contribution - Medical Aid (60% x 185 x 12) - prohibited deduction s16

Appendicitis medical costs - prohibited deduction s16

Exercise of share options - (15,000 x (7-(4.5 + (102-89.5)/89.5) x 4.5)

Directors' fees

Pension fund contributions:

- Employer contributions (125 x 12 x 50%) exempt income

- Employee contributions (125 x 12 x 50%) s15(2) allowable deduction

Proceeds from Greendale house - Capital in nature

Holiday trip to Zanzibar - s 8 gross income

Holiday costs - prohibited deductions

Apply tax tables

Tax on the 1st \$120,000

Tax on the balance (163,836-120,000)*40%

Medical credit:

- Appendicitis (1,320 ÷ 2)

(660)

- medical aid contributions (185 x 12) ÷ 2

(1,110)

Disabled persons - Invalid appliances

Add 3% Aids Levy

\$	MARKS
----	-------

102,000	1
11,475	2
9,600	1
-	
1,350	3
888	1
-	1
	1
28,073	4
1,200	1
-	1
750	1
-	1
8,500	1
-	1
<hr/> 163,836	
#####	1
<hr/> #####	1
#####	
	1
(1,770)	1
(900)	1
<hr/> 50,444	
1,513	1
<hr/> 51,958	26

COMPUTATION OF CAPITAL GAINS TAX PAYABLE BY EVA FOR THE 2015 YEAR OF ASSESSMENT

	\$	\$	MARKS
<u>GREENDALE HOUSE</u>			
Proceeds from Disposal		560,000	1
Recoupment		-	
Costs		<u>560,000</u>	
Cost of Garage	(350,000)		1
Inflation allowance (2.5% x 6 x 350,000)	(52,500)		1
Swimming pool	(2,000)		1
Inflation allowance (2.5% x 4 x 2,000)	<u>(200)</u>	<u>(404,700)</u>	1
Capital Gain		155,300	
Rollover Relief $480/560 \times 155,300$		(133,114)	2
		<u>22,186</u>	
Capital Gains Tax @ 20%		<u>4,437</u>	1
			8

6,250

6,250	-	-	-
--------------	---	---	---

