
Answers

Marks

1 Andrew Martin

(a) Calculation of the benefit on the purchase of the vehicle:

	\$000
Market value of vehicle	80 000
Less cost of vehicle	(10 000)
Less inflation allowance:	
915 182.1 – 9 109.9	
<u> </u> x \$10 000 000	(994 602)
9 109.9	<u><u>(924 602)</u></u>

There is therefore no benefit as the original cost of the vehicle and the inflation allowance are more than the market value

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(b) Calculation of Andrew Martin's taxable income from employment for the periods ended 30 June 2006 and 31 December 2006

	30 June 2006	31 December 2006	
	\$000	\$000	
Salary	4 800		½
Profit sharing	2 500		½
Acting allowance	900		½
Entertainment allowance	400		½
Pension, RAF, NSSA contributions (max)	(72)		1
Subscriptions	(250)		1
Use of company house	300	300	1½
Holiday allowance (5 000 x 35)	175		1
Medical aid (exempt)	0	0	½
School fees allowance (50% x 4 800 000)	2 400		1
Motor vehicle benefit (18 000 x 6/12)	9		1
Commutation of pension (105 000 000 – {1/3 x 300 000 000})	5 000		1½
Pension (600 000 x 6)		3 600	1
Benefit on motor vehicle purchase	nil		½
Thirteenth cheque (1 300 000 – 100 000)		1 200	1
Taxable income	<u><u>16 162</u></u>	<u><u>5 100</u></u>	<u><u>13</u></u>

(c) Calculation of Andrew Martin's taxable income and tax payable from business

	\$000	
Gross royalties received:		
Local	20 000	½
Botswana (65 000 x 40)	2 600	1
South Africa (80 000 x 35)	2 800	1
United Kingdom (3 000 x 500)	1 500	1
Training workshop income received (20 000 x 35)	700	1
Less training expenses:		
Travelling expenses (2 000 x 35)	(70)	1
Accommodation (500 x 35)	(17.5)	1
Personal expenses – disallowed	nil	½
SIA on laptop 50% (7 000 x 35)	(122.5)	1
Taxable income	<u><u>27 390</u></u>	
Taxed as follows:		
United Kingdom royalties taxed at 10%	150	1
Balance at 30.9% (27 390 000 – 1 500 000)	8 000	1
Total tax payable	<u><u>8 150</u></u>	<u><u>10</u></u>
		<u><u>25</u></u>

2 Vinepress (Private) Limited

(a) Calculation of the capital gains withholding tax on the sale of the Rusape property

	\$000	
15% x 450 000 000	67 500	1

The withholding tax should be remitted within 30 days from date of sale. Since the date of sale is 30 October 2006, the withholding tax should be submitted by 30 November 2006.

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(b) Calculation of Vinepress (Private) Limited's taxable income and tax payable for the year ended 31 December 2006

	\$000	
Operating profit per income statement	223 000	½
<i>Add:</i>		
Traffic fines	5 000	1
Disallowed pension contributions (80 000 000 – 7 200 000)	72 800	1
Depreciation	113 000	½
Entertainment expenses	94 000	½
Value added tax default penalty	8 000	½
Recoupment (restricted to capital allowances previously granted):		
Passenger motor vehicles:		
Toyota Land Cruiser (10 000 – 2 500)	7·5	1
Mazda B2200 (10 000 – 2 500)	7·5	1
Mazda B1800 (10 000 – 2 500)	7·5	1
Isuzu KB250 (10 000 – 2 500)	7·5	1
Office block (130 000 000 – 0)	130 000	1
Industrial building (170 000 000 – 0)	170 000	1
<i>Less:</i>		
Dividends from listed companies (taxed by withholding at a special rate)	(29 000)	½
Dividends from other companies (taxed by withholding at a special rate)	(22 000)	½
Profit on sale of motor vehicles	(210 000)	½
Interest from commercial bank	(43 000)	½
Capital allowances:		
Wear and tear on:		
Furniture and fittings (100 000 000 x 25%)	(25 000)	½
Office equipment (60 000 000 x 25%)	(15 000)	½
Computer equipment (80 000 000 x 25%)	(20 000)	½
Plant and equipment (180 000 000 x 25%)	(45 000)	½
Commercial vehicles (250 000 000 x 25%)	(62 500)	½
Warehouse (300 000 000 x 2·5%)	(7 500)	1
Office block (350 000 000 x 2·5%)	(8 750)	1
SIA on:		
Office equipment (150 000 000 x 50%)	(75 000)	1
4 Mazda Eagles (1 000 000 x 50% x 4)	(2 000)	1
	<u>251 080</u>	
Less assessed loss brought forward from 2005	(158 000)	1
Taxable income	<u>93 080</u>	
Corporate tax payable at 30·9%	<u>28 762</u>	½
Tax on dividends received:		
Local listed companies (29 000 000 x 15%)	4 350	½
Other companies (22 000 000 x 20%)	4 400	½
Total tax on dividends	<u>8 750</u>	<u>21</u>

(c) The implications for Vinepress (Private) Limited of not submitting provisional tax returns

The company has defaulted in submitting its corporate tax in terms of the quarterly payment date system. The tax should have been computed based on the company's budgeted net profit for the year ended 31 December 2006. 1

The fact that the company has a prior year assessed loss is irrelevant as the assessed loss is allowable in the event of a taxable income position or may be carried forward to the next year in the event that the company records another loss. The position cannot therefore be used as an excuse for not submitting the provisional tax returns as these should be submitted whether a profit has been recorded or not. 1

Vinepress is therefore liable for default penalties and interest in respect of the late payments. 1

Based on the corporate tax of \$28 762 000 computed in (b) above, the following are the due dates and the applicable tax that should have been remitted together with the provisional tax return.

	\$000	
5% on 25 March 2006	1 438	1
10% on 25 June 2006	2 876	1
20% on 25 September 2006	5 752	1
35% on 20 December 2006	10 067	1
		<u>7</u>
		<u>30</u>

3 Farai Ndiweni**(a) (i) Calculation of the withholding tax payable by Farai Ndiweni**

	\$000	
Proceeds from listed shares (30 000 x 45 000)	1 350 000	
Withholding tax at 5%	67 500	1
	<u>100 000</u>	
Proceeds from unlisted shares	100 000	
Withholding tax at 10%	10 000	1
		<u>2</u>

(ii) Calculation of Farai Ndiweni's capital gains position on the disposal of the shares

	\$000	\$000	
Proceeds from listed shares (30 000 x 45 000)		1 350 000	½
Proceeds from unlisted shares		100 000	½
Donated shares (deemed sale)		100 000	1
Less:			
Cost:			
15 000 shares purchased on 23 April 2003		(15 000)	½
15 000 shares purchased on 28 July 2005		(75 000)	½
Unlisted shares		(40 000)	½
Inflation allowance:			
Listed shares purchased in 2003			
2003 (15 000 000 x 365.0%)	54 750		
2004 (15 000 000 x 350.0%)	52 500		
2005 (15 000 000 x 237.8%)	35 670		
2006 (15 000 000 x 1 016.7%)	152 505	(295 425)	1
Listed shares purchased in 2005			
2005 (75 000 000 x 237.8%)	178 350		
2006 (75 000 000 x 1 016.7%)	762 525	(940 875)	½
Unlisted shares purchased in 2004			
2004 (40 000 000 x 350.0%)	140 000		
2005 (40 000 000 x 237.8%)	95 120		
2006 (40 000 000 x 1 016.7%)	406 680	(641 800)	½
Stock brokerage commission (1.5% x 1 350 000 000)		(20 250)	½
Capital loss to be carried forward		<u>(478 350)</u>	

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Since Farai incurred a capital loss on the disposal of his shares, he is entitled to the refund of the withholding tax calculated in (i) above of \$77 500 000 (67 500 000 + 10 000 000).

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(b) Calculation of Farai Ndiweni's capital gain and applicable tax in connection with the disposal of his principal private residence

	\$000	\$000	
Proceeds from the sale of immovable property		830 000	½
<i>Less:</i>			
Cost		(25 000)	½
Improvements		(4 500)	½
Inflation allowance:			
House			
2005 (25 000 000 x 237.8%)	59 450		
2006 (25 000 000 x 1 016.7%)	<u>254 175</u>	(313 625)	½
Improvements			
2006 (4 500 000 x 1 016.7%)		(45 752)	½
Selling expenses:			
Estate agent's commission	43 000		½
Transfer fees	<u>6 450</u>	(49 450)	½
Capital gains withholding tax – not allowed		<u>nil</u>	½
Capital gain		391 673	
<i>Less roll over relief:</i>			
500 000 000 x 391 673 000		<u>(235 948)</u>	1
830 000 000			
Taxable amount		<u>155 725</u>	
Tax at 20%		31 145	½
<i>Less withholding tax</i>		<u>(124 500)</u>	½
Amount refundable		<u>(93 355)</u>	<u>6</u>
			<u>15</u>

4 Exotic Soap Merchants (Private) Limited

(a) VAT registration categories

Category A

Traders registered under this category are required to submit VAT returns for the following two monthly tax periods:

December and January, February and March, April and May, June and July, August and September, October and November

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Category B

Traders in this category are required to submit VAT returns for the following two monthly tax periods: January and February, March and April, May and June, July and August, September and October, November and December

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Category C

The traders registered under this category are required to submit VAT returns on a monthly basis.

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Category D

Trading periods for traders in this category can range from three months to any period as approved by the Commissioner. Traders registered under category D normally have unpredictable trading cycles.

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(b) Exotic Soap Merchants (Private) Limited is obliged to register for VAT because its annual gross revenue exceeds the threshold of \$6 million. The company's monthly average sales of (13 000 000 000/12) \$1.083 billion is way above the yearly threshold implying that the company should have registered voluntarily in the first month of trading.

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(c) Calculation of Exotic Soap Merchants (Private) Limited's potential VAT liability for the year ended 31 December 2006

	\$000	
Output tax (13 000 000 000 x 15/115)	1 695 652	1
Motor vehicle benefit:		
Nissan Almera (15 000 x 15/115)	2	½
Mercedes Benz (18 000 x 15/115)	2	½
Nissan Hard Body (18 000 x 15/115)	2	½
Ford Ranger (24 000 x 15/115)	3	½
Less input tax:		
Raw materials (5 200 000 000 x 15/115)	(678 261)	½
Utility costs (380 000 000 x 15/115)	(49 565)	½
Motor vehicle expenses (2 690 000 000 x 15/115)	(350 870)	½
Salaries and wages	nil	1
Consumables (467 000 000 x 15/115)	(60 913)	½
Communication expenses (43 000 000 x 15/115)	(5 609)	½
Potential VAT payable	<u>550 443</u>	

Exotic Soap Merchants (Private) Limited would only be allowed to claim the input tax above on the basis of the availability of valid tax invoices. ½

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(d) ZIMRA can impose a penalty of up to 100% of the VAT payable, which is equal to \$550 443 000 and charge interest on the outstanding tax based on the minimum lending rate. 2

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5 Factory Safety First Enterprises

(a) Comment on the quarterly payment date (QPD) position of Factory Safety First Enterprises

Total provisional tax for the year based on the taxable income of \$436 million is \$65 400 000 (15% x 436 000 000). 1

The provisional tax should have been paid as follows:

Date	Tax paid \$000	% of tax	
25 March 2006	3 270	5	½
25 June 2006	6 540	10	½
25 September 2006	13 080	20	½
20 December 2006	22 890	35	½
	<u>45 780</u>	<u>70</u>	

The company has paid provisional tax as below:

Date	Tax paid \$000	% of tax paid	
25 March 2006	6 540	10	
25 June 2006	13 080	20	
25 September 2006	22 890	35	
20 December 2006	22 890	35	
	<u>65 400</u>	<u>100</u>	1

Factory Safety First Enterprises has paid the provisional tax due to ZIMRA well in advance as shown above and is therefore not in default. 1

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(b) Computation of Factory Safety First Enterprises' taxable income and tax payable for the year ended 31 December 2006

	\$000	
Net profit per income statement	362 000	½
<i>Add:</i>		
Value added tax paid	11 300	1
PAYE	167 830	1
NSSA penalty	9 470	½
Provision for bad debts (disallowed)	13 500	1
Depreciation	48 000	½
Realised foreign exchange losses (allowable)	nil	½
<i>Less:</i>		
Donation to approved charitable trust	(100)	1
Capital allowances:		
Wear and tear		
Plant and equipment (93 000 000 x 25%)	(23 250)	½
Office equipment (47 000 000 x 25%)	(11 750)	½
SIA		
Commercial vehicles (241 000 000 x 50%)	(120 500)	½
Furniture and fittings (110 000 000 x 50%)	(55 000)	½
Taxable income	<u>401 500</u>	
Tax payable at 15%	60 225	½
3% AIDS levy	1 807	½
Total tax payable	<u><u>62 032</u></u>	

Note: The remaining assets (including the commercial building) will have been fully written off for tax purposes in the years prior to 1 January 2006.

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