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# Answers

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**Section B**

**Marks**

**1 Caleb**

- (a) Caleb's gym building will be classified as a commercial building. 1  
 A commercial building is defined as a building which was constructed on or after 1 April 1975 of which 90% of the floor area is used for the purposes of trade or in the production of income. 1  
2

**(b) Additional provisional tax payable for the year ended 31 December 2015**

	US\$	
Estimated net profit	112 000	
Add depreciation	15 000	½
	<u>127 000</u>	
Less SIA on gym equipment (25% x 80 000)	(20 000)	1
Less wear and tear on gym building (2.5% x 150 000)	(3 750)	½
Taxable income	<u>103 250</u>	
Corporate tax at 25.75%	<u>26 587</u>	1
Provisional tax payable as follows:		
10% on 25 March 2015 (10% x 26 587)	2 659	1
25% on 25 June 2015 (25% x 26 587)	6 647	½
30% on 25 September 2015 (30% x 26 587)	7 976	½
35% on 20 December 2015 (35% x 26 587)	9 305	1
	<u>26 587</u>	
		<u>6</u>

- (c) The assistant trainers' salaries are above the annual minimum threshold of US\$3 600, so Caleb is obliged:
- to register for PAYE within 14 days of his becoming an employer; and 1
  - to deduct PAYE and remit it to ZIMRA by the tenth day of the following month. 1
- 2  
**10**

**2 Tanya**

- (a) The Bulawayo residence qualifies to be classified as a principal private residence (PPR) because it is Tanya's sole residence, which she owned for a period of more than four years before disposal. 2  
 The fact that Tanya was leasing out her residence at the time of sale does not disqualify the property from being a PPR. The situation was a direct consequence of her employment obligation. 1  
3

**(b) Capital gains tax on the disposal of the Bulawayo property**

	US\$	US\$	
Proceeds		320 000	½
Less recoupment (main residence and swimming pool only)		<u>(30 000)</u>	1
		290 000	
Less cost:			
Main residence	180 000		½
Swimming pool	40 000		½
Swimming pool equipment	0		½
Less capital allowances	<u>(30 000)</u>	(190 000)	½
Less inflation allowance on:			
Main residence (2.5% x 180 000 x 7)	31 500		½
Swimming pool (2.5% x 40 000 x 5)	<u>5 000</u>	(36 500)	½
Less selling expenses (10% x 320 000)		<u>(32 000)</u>	½
Capital gain		31 500	
Less allowance on amounts not yet due (160 000 x 31 500/320 000)		<u>(15 750)</u>	1
Adjusted capital gain		<u>15 750</u>	
Capital gains tax at 20%		<u>3 150</u>	1
			<u>7</u>
			<u>10</u>

**3 Pat**

**(a) Value added tax (VAT) deregistration**

A VAT operator can be deregistered under the following circumstances:

- (1) If ZIMRA is satisfied that the value of the operator's taxable supplies in the following one year will not exceed the minimum threshold of US\$60 000. ½  
 ZIMRA will cancel the operator's VAT registration from the date the request is made or any other agreed date. ½
- (2) If ZIMRA is satisfied that the operator is no longer making taxable supplies. ½  
 Deregistration will be made from the last day of the operator's tax period or any other date which ZIMRA might consider. ½
- (3) The VAT operator notifies ZIMRA in writing within 21 days of the date of cessation of trade, clearly indicating the actual date when business operations ceased and ZIMRA is satisfied that the operator has no intention to resume business operations within the following one year. 1  
 The deregistration will be effected from the date of trade cessation. ½
- (4) A VAT operator who registered under voluntary registration can be compulsorily deregistered by ZIMRA on failure to comply with the conditions of voluntary registration. ZIMRA will notify the operator of this decision in writing. ½

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**(b) VAT operator obligations on deregistration**

- (1) Account for output tax on his inventory and all qualifying non-current assets on which input tax was previously claimed. 1
- (2) Surrender the VAT registration certificate to ZIMRA. ½
- (3) Pay any outstanding VAT liabilities. ½

2

**(c) VAT payable on deregistration**

## Output VAT

	US\$	
Inventory (15/115 x 120 000)	15 652	½
Commercial vehicles (15/115 x 80 000)	10 435	½
Passenger motor vehicles	0	1
Furniture and fittings (15/115 x 40 000)	5 217	½
Computer equipment (15/115 x 20 000)	2 609	½
Office equipment (15/115 x 10 000)	1 304	1
	<u>35 217</u>	
		<u>4</u>
		<u>10</u>

**Tutorial note:** Output tax on the non-current assets on deregistration is computed on the lesser of cost and the market value of the asset.

**4 CB (Private) Limited**

- (a)** Employers are required to register with the National Social Security Authority (NSSA) within 30 days of commencing business operations. 1
- (b)** CB (Private) Limited should have remitted the NSSA contributions for the months of October and November 2015 on 10 November 2015 and 10 December 2015 respectively. 1
- (c)** The NSSA levies a surcharge of 10% of the amount due for every month the contributions are remitted late. The maximum surcharge is 50% of the amount due if the remittance is late by five months or more. 1
- 2

**(d) (i) October 2015 remittance and surcharge**

	Employee contribution US\$	Employer contribution US\$	Total remittance US\$	
Employee 1 (3 200/12 x 3.5%)	9	9	18	½
2 (6 000/12 x 3.5%)	18	18	36	½
3 (8 400/12 x 3.5%)	25	25	50	1
4 (8 400/12 x 3.5%)	25	25	50	1
			<u>154</u>	
Add 20% surcharge (two months late)			31	1
			<u>185</u>	
				<u>4</u>

**(ii) Ordinary contributions for the year ended 31 December 2015**

	US\$	
Total employees' salaries	26 700	
Less excess amounts for employees 3 and 4: [(8 500 – 8 400) + (9 000 – 8 400)]	(700)	1
	<u>26 000</u>	
Employees' contributions (3.5% x 26 000)	910	½
Employer contribution (3.5% x 26 000)	910	½
Total ordinary contributions for the year	<u>1 820</u>	
		<u>2</u>
		<u>10</u>

## 5 Richard Skill

## (a) Deduction of PAYE from part-time earnings

The reason given by Richard's part-time employer is not valid. 1/2

Richard's part-time earnings are well above the minimum taxable threshold for employee's remuneration of US\$3 600 per year (or the equivalent amount for any shorter period of the engagement). 1

Richard should request the private college, his part-time employer:

- to deduct PAYE from his earnings; and 1/2
- if necessary, obtain a ZIMRA tax deduction directive to give to the college. 1/2

Richard is also obliged to obtain an employee's tax certificate (form P6) detailing his earnings and deductions during the engagement period from the private college. 1

He is further obliged to complete and submit an income tax return (form ITF1) for the year ended 31 December 2015 in line with the stipulated deadline. 1/2

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## (b) Taxable income and income tax payable for the year ended 31 December 2015

	US\$	
Salary (12 500 + 9 600)	22 100	1/2
Cash in lieu of leave	2 400	1/2
Accommodation allowance	0	1/2
Transport allowance	0	1/2
Education benefit (6 000 – (6 000/4 x 3 x 50%))	3 750	1
Acting allowance	1 200	1/2
Cell phone allowance	400	1/2
Bonus (exempt – less than US\$1 000)	0	1
Clothing allowance	600	1/2
Annuity [(7 000 x 5) – (20 000 – 15 000)/5]	6 000	1
<i>Less:</i>		
Pension contributions	(5 300)	1/2
Professional subscriptions	(500)	1/2
Life insurance policy	0	1/2
Funeral insurance policy	0	1/2
Bank loan repayment	0	1/2
Taxable income	<u>30 650</u>	
Tax on sliding scale:		
Up to US\$18 000	2 880	
(30 650 – 18 000) at 25%	<u>3 163</u>	
Gross tax	6 043	1/2
Less medical aid credit (1 500 x 50%)	<u>(750)</u>	1/2
	5 293	
Add 3% AIDS levy	<u>159</u>	1/2
	5 452	
Less PAYE	<u>(4 500)</u>	1/2
Tax payable	<u>952</u>	

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6 Sky (Private) Limited

(a) Industrial park developer's tax reliefs

- The income from the initial five years of business operations is not taxable and thereafter the tax rate is 25%.
- Rebate of customs duty charged on the importation of business non-current assets.
- Exemption from withholding tax on dividends, fees and royalties.
- Exemption from capital gains tax.
- Export sales are zero rated.

FOUR items only required, 1 mark each, maximum

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(b) Corporate tax computation for the year ended 31 December 2015

	US\$	
Net profit	315 000	
<i>Add:</i>		
Donation (120 000 – 100 000)	20 000	1
Motor vehicle repairs and maintenance costs	0	½
Marketing costs – local	0	½
Allowance for receivables	70 000	½
EMA dumping fines	5 000	½
Trade convention costs (10 000 – 2 500)	7 500	1
Foreign exchange losses (unrealised)	65 000	½
Legal fees (21 000 – 12 000)	9 000	½
Property management costs	0	½
Interest on overdraft facility	0	½
Interest on long-term loan (capital)	30 000	1
Establishment fee re long-term loan (capital)	3 000	½
<i>Less:</i>		
Bank interest	(60 000)	½
Rent received	0	½
Hire of equipment	0	½
Insurance proceeds	(100 000)	½
Marketing costs – foreign (double deduction)	(60 000)	½
Taxable income	<u>304 500</u>	
Corporate tax payable at 25%	76 125	½
AIDS levy	0	½
	<u>76 125</u>	

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