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Question 1: CTA FT July 2020 Test 2: Daniel Garwe

Topics Covered

- Taxation of individuals
- Disposal of PPR
- VAT implications
- CGT implications
- Income tax implications
- Substantive procedures over impairment of receivables, equity settled share-based payments.
- NOCLAR
- Taxation of Trusts

All amounts include VAT and are in USD unless otherwise stated.

Daniel Garwe is a retired army general who retired from active service when he reached the age of 50. After his retirement he decided to be active in his mining business which he had started 8 years ago by becoming its CEO. The mine called Clandyke Mine was owned by the Garwe Family Trust. In March of 2020 at 63 years old Mr Garwe decided to retire as CEO of Clandyke Mine to pave way for a younger and fresher mind which would inject a sense of new beginnings for the mine. For his retirement he received the following package.

		USD $
1.	Golden Handshake	10,000
2.	BMW 3 series	44,500
3.	Pension Receipt	see note below
4.	Cash in lieu of leave	3,000
5.	Retirement home	See note below

1. The golden handshake was 10% of his 2020 annual salary.
2. He received a brand-new BMW 3 series saloon vehicle (2000 cc) with a market value of $44,500 which was the cost to Clandyke Mine.
3. Garwe contributed to a registered pension fund during his 13 years that he worked at Clandyke. Clandyke contributed the same amount to the fund as Mr Garwe contributed over the 13 years. His contributions all of which were not allowed as deductions totalled $97,000 over the 13 years

and his total entitlement from the pension fund was $750,000. Garwe received a Lumpsum of $50,000 and would receive an annuity of $1,500 monthly.

4. Contractually Cash in lieu of leave is paid out at retirement or termination of employment. However, for Daniel his cash in lieu of leave was paid to his estate after he died.
5. The retirement home was a two bedroomed garden flat that is situated in Avondale West and was bought by Clandyke for $90,000.

Unfortunately, in July of 2020 Mr Garwe passed away due to Covid. He was survived by his wife Jane (68 years old) and their two sons Gerald (32 years old) and Gary (27 years old). Both Gerald and Gary were not yet married at the time their father passed away. In his will Daniel left the following to his family.

To Jane:

- The retirement home and the family home which had values of $110,000 and $227,000 respectively on the date that Daniel died and $120,000 and $230,000 respectively on the date of transfer which was the 1st of October when the deceased estate was wound up.
- She is to be a beneficiary of the family trust (Garwe trust) and receive $5,000 monthly.
- She is to receive any pension benefits that would have been received by Daniel had he been alive.

To Gary and Gerald

- They are to receive $2,500 monthly from the family trust when they attain the age of 30 years.

Jane went on to sell the family home to Gary when he got married in December 2020 as she had settled for the smaller and easier to manage retirement home. She had been using the family home as her only residence before she sold to Gary. She sold the house for 30% less than the market value of $315,000. Gerald will only be married in 2021 and a date has not yet been set.

Garwe Trust

The Garwe Trust (GT) is a family trust that was set up by Daniel to safeguard his assets and ensure his legacy is not forgotten. He appointed 3 trustees a mining engineer, a lawyer and a chartered accountant. The trustees earned $1,000 monthly for the duties they performed. Daniel ceded the mining company, block of flats and two retail stores to GT. Below is an extract from the mining company's financial statements:

	Notes	USD '000'
Revenue	1	69,762
Royalties	2	(3,498)
Production costs	3	(36,753)
Depreciation	4	(4,019)
Management fee	5	(3,960)
Other income	6	2,358
Other expenses	7	-
Impairment loss on trade receivables		(181)
Administrative expenses		(40)
Cash-settled share-based expense	8	(581)
Equity-settled share-based expense	9	(806)
Net foreign exchange (loss)/gain		(375)
Net finance cost		(69)
Profit before tax		**21,838**
Tax expense		(7,587)
Profit for the year		**14,251**

Notes

1. During a review of the Financial statements the Financial Director, Mr. Gwaza (CA(Z), realized that included in revenue were sales made through a South African broker and not done directly through Fidelity. The proceeds from the sale were deposited directly into a South African bank account under the name of GT. Mr Gwaza realized that the financial manager had together with the CEO pushed through the transaction without his knowledge.
2. Royalties are paid to Mine and Minerals Commission of Zimbabwe (MMCZ) on yearly basis.
3. This included the total cost of purchasing 6 pairs of carbon sticks used in the leeching process. Only 2 of the six pairs were used by year end.

N.B each pair lasts for 6 months.

4. Includes depreciation of two new excavators worth $20,000 each bought during the year. The useful life of the excavators is estimated to be 15 years.
5. The mining company pays a management fee to GT although the company has a fully functional board of directors.
6. Included is a profit on disposal of two tipper trucks to Gerald for 18,000 when the carrying amount for the trucks was $17,000. The rest is debenture interest from a debenture that matured in 2020 after 3 years. The accountant used an effective interest rate of 12.3% while the coupon rate of the debenture is 10%.
7. Includes $4,000 interest on a loan taken from a Malaysian bank used to purchase the excavators. The loan was for $40,000 with the principal payable in 3 years and an interest rate of 10% p.a.
8. The mining company hired a consultant to develop an expansion plan for the mine. The expansion was estimated to take two years. The consultant would be paid based on the increase in the share price of the company over the next two years from the date of implementation. The consultant took 3 months from January to develop the plan and delivered the plan on the 30th of March 2020. The mining company started implementing the plan on the 1st of May 2020.
9. The mining company in 2019 issued 1,000 share options to its employees as part of an approved share ownership scheme. The share options had an exercise price of $15 per share. After completion of the 3-year vesting period, the employees will receive shares with a total value equal to the intrinsic value of the options.

Required	Sub-Total	Total
1. Discuss the income tax treatment of Daniel's retirement package in the hands of Daniel and the hands of Glandyke mine. Communication: logical flow	**18** **1**	**19**
2. Discuss the tax treatment of the sale of family home by Jane to Gary in the hands of Jane. Communication: logical flow	**6** **1**	**7**
3. Discuss the i. Income tax and (8 marks) ii. VAT treatment (7 marks) of the two share-based payments made (notes 8 and 9) in the hands of the mining company. Assume the amounts given are correct no need for a recalculation.	**15**	**5**
4. Describe the substantive procedures would you perform over the impairment of trade receivable. Assume they elected to use the practical expedient. Communication: logical flow	**10** **1**	**11**
5. Describe the substantive procedures would you perform over the equity settled share-based payments. Communication: logical flow	**10** **1**	**11**
6. Provide the actions that should be taken by Mr CA (Z) in light of the findings included in Note 1.	**8**	**8**
7. With the information available calculate the taxable income for Garwe Trust. Communication: presentation and layout	**27** **1**	**28**
Total		**100**

Question 1 Suggested Solution

1	**1. Discuss the income tax treatment of Daniel's retirement package in the hands of Daniel and the hands of Clandyke mine.** **Communication: logical flow**	**25** **1**
	Golden handshake	
	Daniel received the golden handshake on termination of his employment and a golden handshake is gross income as **sec8(1)(b)** and are included in definition of remuneration	**1**
	Thus, the amount should therefore be included into Daniel's gross income for employment income	**1**
	BMW 3 Series and retirement home	
	Amounts that are capital in nature are not included in gross income	**1**
	Sec 8(1)(b) arw the 13th schedule includes in gross income any amounts received on cessation of employment as they are received for services rendered (remuneration).	**1**
	The two assets are received on termination of employment and thus are revenue in nature	**1**
	The amount to be included will be based on **sec 8(1)(f)** as the assets are benefits to Daniel and will be the cost to the employer	**1**
	The amount included in Daniel's gross income will be $44,500 and $90,000 for the BMW and Home respectively.	**1**
	Pension lumpsum	
	Sec 8(1)(n) allows into gross income any amount received by way of commutation of a pension fund if the pension itself would not have been subject to income tax	**1**
	Since Daniel's contributions of $97,000 were not allowed as deductions thus the contributions would have been subject to tax	**1**
Alt.	Any pension receipt to taxpayer who attained the age of 55 years before commencement of the year of assessment shall be exempt.	**1**
	Since Daniel is 63 years old, he is eligible for this exemption on his pension	**1**
	The whole amount shall not be included in his gross income	**1**
	Annuity of $1,500	

	Sec 8(1)(a) includes into gross income all amounts received by way of an annuity	**1**
	Since Daniel receives the 1,500 annuity, it shall form part of his gross income	**1**
	However, any pension receipt to taxpayer who attained the age of 55 years before commencement of the year of assessment shall be exempt.	**1**
	Since Daniel is 63 years old, he is eligible for this exemption on his pension	**1**
	Thus, the $1,500 annuity will not be included in Daniel's gross income	**1**
	Cash in lieu of leave	
	Amounts are included in gross income when they accrue i.e. are due and payable (delfos) or entitlement(lategan)	**1**
	The cash in lieu of leave is due and payable to Daniel when he retired as that is when a contractual right arises	**1**
	Thus, the amount although received after death accrued before death	**1**
	And should be included in Daniel's gross income for employment income	**1**
	In the hands of Mining company	
	Sec 15(2)(a) allows a deduction for expenditure incurred for purposes of trade excluding those which are capital in nature	**1**
	The Mining company incurred all the expenses for purposes of its trade when terminating the contract of Daniel	**1**
	Therefore, the Mine is allowed a deduction for expenditure on golden handshake and cash in lieu of leave.	**1**
	The purchase of the house and BMW were expenditure on assets with an enduring benefit, thus it was capital in nature	**1**
	No deduction shall therefore be deducted on the purchase of the assets	**1**
	However, they incur a loss for the purpose of trade on transfer to Daniel as it's part of the termination of Daniel's employment contract	
	The $44,500 and $90,000 will thus be deductible for Clandyke	**1**
	Amounts are deductible when the taxpayer incurs the expenditure or loss	
	The company did not incur the pension receipts as these were paid out by the pension fund	**1**
	Thus, Clandyke cannot deduct the pension lumpsum or annuity	**1**
	Available	**27**
	Maximum	**20**
	Communication	**1**
2	**Discuss the tax treatment of the sale of family home by Jane to Gary in the hands of Jane.** **Communication: logical flow**	**6** **1**
	VAT	
	VAT is charged by a registered operator	**1**

	Jane is not a registered operator therefore no VAT is charged	**1**
	Income tax	
	Amounts are included in gross income when they are not of a capital nature	**1**
	Jane sold a house which is a tree (visser case)	**1**
	Therefore the amount is of a capital nature and not included in gross income	**1**
	CGT	
	CGT arises when there is a disposal of a specified asset	**1**
	Specified assets are immovable properties or marketable securities	**1**
	The house is an immovable property being disposed of thus, CGT arises	**1**
	The sale of a PPR by an elderly is exempt from CGT	**1**
	The family home is PPR as defined as it was Jane's main residence	**1**
	Jane is 68 years old and at the time of disposal is over 55 years of age **(sec (10)(l))** elderly therefore she is exempt from CGT.	**1**
	Available	**10**
	Maximum	**6**
	Communication	**1**
3	**Discuss the income tax and VAT treatment of the two share-based payments made (notes 8 and 9) in the hands of the mining company. Assume the amounts given are correct no need for a recalculation.**	**15**
	Income tax treatment	
	Note 8	
	Sec 15(2)(a) allows a deduction amounts not of a capital nature	**1**
	The expenditure is part of the operations of the mine thus are revenue in nature	**1**
	Thus, will be deductible	**1**
	Note 9	
	Sec 15(jj) allows the deduction of the fair value of shares pursuant to an approved share ownership scheme	**1**
	The Clandyke scheme is approved and thus it will be able to deduct the fair value of the shares	**1**
	The deduction will however only happens on vesting as this is when Clandyke pays or gives the shares to the employees which happens in 3 years' time	**1**
	Before vesting no amount is deductible as no expenditure would have been incurred	**1**
	Amounts are included in gross income when they are not of a capital nature	**1**
	The proceeds from the issue of shares adds to the income earning structure thus is capital in nature	**1**
	Therefore, it shall not form part of gross income	**1**

	Available	**11**
	Maximum	**8**
	VAT treatment	
	Note 8 and 9	
	Input VAT shall be claimed whenever a registered operator was charged and is using the good/service to make taxable supplies	**1**
	The consultant charged VAT assuming they are registered, and the Mine is using his services to make taxable supplies	**1**
	Therefore, the Mine can claim input VAT	**1**
	The claim is made using the tax fraction based on the value of shares	**1**
	Note 9 – on issue of shares	
	VAT is charged when there is a supply of a good or service in the furtherance of trade	**1**
	In this case **(note 8)** the Mine has supplied shares which are financial services as defined	**1**
	Financial services are exempt from VAT	**1**
	Therefore, no VAT shall be charged	**1**
Alt	For the employment services received, there is no trade	**1**
	Employer/employee relationships are excluded from the definition of trade	**1**
	Therefore, there shall be no VAT consequences	**1**
	Available	**8**
	Maximum	**8**
4	**What substantive procedures would you perform over the impairment of trade receivable. Assume they elected to use the practical expedient.** ***Communication: logical flow***	**10** **1**
	Obtain a signed and dated management representation letter to confirm all assertions	**1**
	Agree the opening balance on the accumulated impairment account to previous year's closing balance to confirm accuracy	**1**
	Inspect the schedule for unusual amounts such as negative balances and zero balances to confirm accuracy	**1**
	Cast and cross cast the receivable schedule to confirm accuracy	**1**
	Consider the overall effectiveness of the internal controls relating to accounts receivables	**1**
	Recalculate the closing balance to confirm accuracy	**1**
	Agree the amount in the general ledger to trial balance and statements of financial position to confirm accuracy	**1**

	Perform a positive debtor's circularization to confirm rights and accuracy of the debtor's balance	**1**
	Perform analytical procedures year on year to confirm reasonability of changes in the receivable balance and confirm with management	**1**
	Inspect the bank statement for any receivable balances that may have been paid close to year end to confirm it has not been included as part of receivables balance	**1**
	Available	**10**
	Maximum	**10**
	Communication	**1**
5	**What substantive procedures would you perform over the equity settled share-based payments.** **Communication: logical flow**	**10** **1**
	Obtain a signed and dated management representation letter confirming all assertions	**1**
	Inspect the contract to confirm the transaction will be settled by issuing The Mining company's own shares	**1**
	Inspect the share certificates to confirm the following:	
	They are in the name of The Mining company	**1**
	The grant date of transaction is in 2019	**1**
	1000 shares were issued	**1**
	Inspect the agreement to confirm the exercise price is 15 per share	**1**
	Enquire from management that share options have only been given to employees of The Mining company	**1**
	Inspect the board minutes to confirm it was approved by the board of directors	**1**
	Inspect the articles of association to confirm the company has ability to issue more shares	**1**
	Inspect the share options register to confirm all employees granted the shares are employees of the Mining company	**1**
	Inspect the share options condition to confirm they are equity settled	**1**
	Inspect the financial statement disclosures to confirm all relevant disclosure notes are made per IFRS 2	**1**
	Inspect the financial statements to confirm the share-based payment was correctly expensed	**1**
	Inspect the share option scheme register and agree all employees thereon to current employees' files with HR to verify that these employees were not included in the calculations.	**1**
	Obtain the grant date fair value of equity shares from market and recalculate the expense to verify accuracy.	**1**

	Enquire with management their expectation of any employees that will leave before the vesting date to verify whether correct numbers of employees has being used	**1**
	Available	**16**
	Maximum	**10**
	Communication	**1**
6	**Provide the actions that should be taken by Mr CA (Z) in light of the findings included in Note 1.**	8
	Obtaining an understanding of the matter	
	Mr CA(Z) shall obtain an understanding of the nature of this non-compliance, which in this case is the direct sale of minerals to South African market and not subsequently remitting proceeds through the RBZ	**1**
	This occurred through the authorization of the board members and funds remained in the South African account	**1**
	Mr CA(Z) shall discuss the issue with other board members and clarify that selling minerals without approval of Fidelity could result in its license being revoked	**1**
	In addition, failure to remit funds to RBZ could also result in material penalties as this is a direct violation of the monetary policy of Zimbabwe	**1**
	Addressing the matter	
	Mr CA (Z) shall advise those charged with governance of appropriate actions to rectify this non-compliance; in this case this will include remitting the funds in the South African market to RBZ	**1**
	For the sale of minerals without proper Fidelity channels can be addressed by disclosing the matter to Fidelity	**1**
	Determining whether further action is needed	
	Mr CA(Z) shall assess the appropriateness of the response of management if any is taken	**1**
	In determining further action needed he shall consider the nature and extent of this non-compliance, in this case this may result in a license being revoked thus it is urgent and pervasive	**1**
	Documentation	**1**
	Mr CA(Z) shall document how management responded to the matter and, The course of action he considered, judgments made and decisions that were taken	**1**
	Available	**10**

	Maximum	**8**
	Communication	**1**
7	**With the information available calculate the taxable income for Garwe Trust.** **Communication: presentation and layout**	**20** **1**

W1 Calculation of Mine taxable income

Details	Brief narration		Amount '000	
Profit before tax			21,838	0.5
Revenue	Source is Zimbabwe	1	0	1
Royalties	Allowable deduction	1	0	1
Production costs	Allowable deduction	1	0	1
4 chairs unused 36,753/6* 4	Gross income – closing inventory	1	24,502	1
Depreciation	Capital nature	1	4,019	1
CTA Excavators (20000*2)	CRA allowance	1	(40)	1
Profit on disposal (1000*2)	Not received or accrued	1	(2)	1
Interest on loan	capital in nature	1	44	1
Equity settled SBP (income earning structure improvement)	Capital in nature	1	581	1
Cash settled SBP	not incurred	1	806	1
Net foreign exchange loss	Not yet realised	1	375	1
Alt Net foreign exchange loss	Realized (An alternative exists as the scenario was not clear on whether the exchange losses were realized or not)	1	0	1
Management fees Amount spent – 3,960 1%*40,293=402.93 (1) Prohibited portion =3,960 – 402.93 (1)	Prohibited deduction	1	3,557	2
Taxable income for mine due to Trust	Gross income (W1)	1	8,805	1

<u>Taxable income for Garwe Trust</u>

Taxable income from Mine	Gross income	1	8,805	1
Trustee fees (1000*3*12)	Allowable deduction	1	(26,)	1
Distribution to Jane (5,000*5)	Allowable deduction	1	(25)	1
Distribution to Gerald	satisfied (2,500*5)	1	(12,5)	1
Distribution to Gary	Condition not satisfied	1	0	1
Income from retail shops	Non provided this year	1	0	
Income from block of flats	Non provided this year	1	0	
Taxable income for Trust			8,741	1P
Available		**20**		**20**
Maximum				**27**
communication				**1**

Question 2: CTA FT/L2 APPLIED TAXATION 2020 END OF YEAR PAPER 2

Topics Covered

- Discussion of Income Tax & VAT implications of transactions
- Taxation of corporates
- Key ethical considerations
- Key strategic considerations
- Risks relating to revenue contracts
- Key governance considerations

Scenario

All amounts are in ZWL and are inclusive of VAT unless otherwise stated

TrippleChoice is one of the fastest-growing video-entertainment providers globally, delivering entertainment products and services to 15.1 million households across 50 countries on the African continent. On 27 February 2019, TrippleChoice Group Limited (TrippleChoice Group) listed on the Zimbabwe Stock Exchange (ZSE) and was unbundled from Caspers Limited on 4 March 2019. TrippleChoice Group is the parent company of TrippleChoice Zimbabwe (including ExtremeSport, Q-Net and YStv Media Sales), TrippleChoice Africa Holdings, Showmax Africa and Irdeto.

ExtremeSport

ExtremeSport is Africa's premier sports broadcaster, producing and broadcasting local and international sport for pay-TV subscribers across sub-Saharan Africa. ExtremeSport channels broadcast most of the globe's major sporting events and leagues including football, rugby, cricket, tennis, golf, motorsport, cycling, boxing, wrestling and athletics.

YStv Media Sales

YStv is a sub-Saharan African video entertainment company owned by TrippleChoice. It was launched in 1995 and provides multiple entertainment channels and services to customers across the continent via satellite, online and mobile apps. YStv Media Sales is the sales arm of TrippleChoice, providing dynamic media solutions, handling commercial airtime, on-air sponsorships, content integration, and online sales across a variety of 130+ channel brands on linear TV, Video On Demand (VOD), social media, and digital platforms.

Q-Net

Founded in 1985, Q-Net has grown from a single channel to nearly 40 and offers both international and local content to African customers in nearly 50 countries. Q-Net partners with the best service providers to produce and acquire the most thrilling and informative video entertainment. In this way, Q-Net plays a leading role in developing and upskilling the industry. Q-Net's mission is to create relevant, aspirational video entertainment that resonates with communities.

Irdeto

Irdeto protects platforms and applications for video entertainment, video games, connected transport and IoT connected industries. Irdeto's solutions and services enable customers to protect their revenue, create new offerings and fight cybercrime. With 50 years of expertise in security, Irdeto's software security technology and cyberservices protect over 5 billion devices and applications for some of the world's best-known brands. With a unique heritage in security innovation, Irdeto is the well-established and reliable partner to build a secure future where people can embrace connectivity without fear.

Tripple Choice Zimbabwe Statement of Comprehensive Income
For the year ended 31 December 2019

	Notes	2019	2018
		ZWL(000)	ZWL(000)
Revenue	1	51,387	50,095
Cost of providing services and sale of goods	2	(28,454)	(29,203)
Selling, general and administration expenses	2	(14,571)	(13,645)
Net impairment (loss)/reversal on trade receivables		(175)	149
Other operating gains/(losses) - net	3	80	(33)
Operating profit		**8,267**	**7,363**
Interest income	4	435	910
Interest expense	4	(1,039)	(1,437)
Net foreign exchange translation losses	4	(2,256)	(1,492)
Empowerment transaction		-	(2,564)
Share of equity accounted results		(44)	(171)
Other losses	4	(49)	(112)
Profit before taxation		**5,314**	**2,497**

Notes

1. Revenue

The company recognises revenue from the following major sources:

- Subscription fees
- Set-top box sales
- Installation revenue
- Advertising revenue
- Technology contracts and licensing

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The company recognises revenue when it transfers control of a product or service to a customer.

Revenue is measured as the fair value of the consideration received or receivable from the sale of goods and services in the ordinary course of the company's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

Subscription fees

Pay-television, subscription video-on-demand, transactional video-on-demand and access fees are earned over the period the services are provided. Subscription revenue arises from the monthly billing of subscribers for pay-television and online services provided by the company. Some of TrippleChoice’ s subscribers access the various services offered by TrippleChoice from outside Zimbabwe.

Revenue is recognised in the month the service is rendered. Any subscription revenue received in advance of the service being provided is recorded as deferred revenue as part of accrued expenses and other current liabilities and recognised as revenue in the month the service is provided.

Set-top box sales

Revenue is recognised at a point in time when the devices are provided to the customer. Payments for the devices are either received upon delivery of the device or through extension of credit to the customer. Repayment terms for credit sales are up to 24 months with a nominal interest being charged, however the extended repayment terms are deemed insignificant to the company.

Advertising revenue

The company primarily derives advertising revenues from advertisements broadcast on its video-entertainment platforms and shown online on its websites and instant messaging windows as well as sponsorship revenues earned on major events. Advertising revenues from video-entertainment platforms are recognised upon showing. Online advertising revenues are recognised over the period in which the advertisements are displayed. Sponsorship revenues are recognised over the period of the event. Advertising revenue is billed in arrears with 30-day payment terms.

Technology contracts and licensing

For contracts with multiple obligations (e.g. maintenance and other services), the transaction price is allocated between each of the obligations based on the price that the company would charge if the goods or services were sold separately.

The company recognizes revenue allocated to maintenance and support fees, for on-going customer support and product updates, prorated over the period of the relevant contracts. Contract periods generally range from between 3-5 years. Payments for maintenance and support fees are generally made in advance and are non-refundable. For revenue allocated to consulting services and for consulting services sold separately, the group recognises revenue as the related services are performed.

The company enters into arrangements with network operators whereby application software is licensed to network operators in exchange for a percentage of the subscription revenue they earn from their customers. Where all of the software under the arrangement has been delivered, the revenue is recognised as and when the network operator reports to the company its revenue share, which is generally done on a quarterly basis.

Under arrangements where the company has committed to deliver unspecified future applications, the revenue earned on the delivered applications is prorated recognised over the subscription period. Standard payment terms for network operators are 30 days.

2. Expenses by nature

Operating profit includes the following items:

a. Cost of providing services and goods

	2019	**2018**
	ZWL (000)	ZWL (000)
Content[1]	18 764	17 715
Set-top purchases	4 855	6 056
Depreciation: Owned assets	592	-
Depreciation: Right of use asset for transponders	1 357	-
Other[2]	2 886	5 432
	28 494	**29 203**

b. Selling, general and administration expenses

[1] Included in the content is amortisation of programme and film rights of ZWL12.8 million. All the content access fees were paid to foreign suppliers by TrippleChoice, in return for rights to broadcast various shows and sporting events.

[2] Includes various costs such as agency fees, license fees, communication and network costs

Employee costs[3]	6 256	5 541
Sales and marketing[4]	2 410	2 467

3. Other gains/(losses) – net

Other operating gains/(losses) – net

	2019	2018
	ZWL (000)	ZWL (000)
Dividend received[5]	21	19
Other gains[6]	87	-
Impairment of property plant and equipment	(28)	(52)
	80	**33**

Other losses

Loss on acquisition of assets and liabilities[7]	**(49)**	**(112)**

[3] Included in the employee costs is a total amount of $340 000 that was paid to three technicians that were seconded to TrippleChoice Zambia for a period of 7 months. During this period of secondment, the technicians continued to receive their monthly salaries from TrippleChoice Zimbabwe.

[4] TrippleChoice incurred a total of $230 000 in respect of visits by its marketing team to Lesotho as part of a project to setup TrippleChoice Lesotho. The visits were part of the feasibility study to assess the viability of setting up operations in Lesotho.

[5] These were all received from companies registered and with trading activities in Zimbabwe.

[6] As part of the transitional services and separation agreements with the group's previous owners, certain once off operating costs were reimbursed during the year amounting to $87 000.

[7] From February 2019, the company took over the management of our cash collections in Angola from an agent. This amount relates to the costs of assuming this management function.

4. Interest (Expense)/Income

	2019	2018
	ZWL (000)	**ZWL (000)**
Interest expense		
Loans and overdrafts	(4)	(485)
leases[8]	**(**713)	(650)
Other[9]	(322)	(302)
	(1 039)	**(1 437)**

5. Share options

Employees of TrippleChoice participated in share options granted under two separate schemes. The share options were granted by TrippleChoice Zimbabwe who has the obligation to settle the options with the employees. As such, the share options were classified as equity settled by TrippleChoice Zimbabwe.

All share options were granted with an exercise price of not less than 100% of the market value of the TrippleChoice Zimbabwe share price on grant date. The share options vested in tranches over a period of four to five years as follows:

- Options granted before 25 August 2017: one third vests after years three, four and five.
- Options granted after 25 August 2017: one quarter vests after years one, two, three and four.

The share options expire ten years after the offer date.

All unvested awards were accelerated on listing date and participants were able to exercise all their profitable awards for 60 days starting on the date of listing (27 February 2019) until 27 April 2019.

No additional options were issued in the current financial year, all options outstanding were settled on/before the 27th of April 2019.

[8] Relates primarily to transponder leases of $656 000 (FY18: $650 000)

[9] Relates mainly to discounting on programme and film rights of $233 000 (FY18: $220 000).

Project Multivest

In May 2019, TrippleChoice' s Board of directors approved a project for the expansion of its video content production facilities. The board is of the view that the company should see significant cost savings in the medium to long-term should the company be able to produce most of its video content in house. Currently the company is paying millions of dollars to foreign entities to obtain rights to air their content on TrippleChoice' s various channels. Given the specialised nature of the equipment required for the production facilities TrippleChoice had to import most of these from India. The following was therefore incurred in respect of the imported equipment and ancillary services.

	USD
Outside broadcasting VAN (OB Van)	340 000
Video Camera's	21 000
Sound proofed mobile recording studio	135 000
Editing software – licence fees (renewed annually)	8 000
Training costs[10]	13 000
Freight and insurance charges	7 000
Toyota double cab for use by production crew	60 000

[10] A team from India had to come through and train TrippleChoice's technicians on how to operate the purchased equipment.

Required		Marks	
a)	With refence to information in note 1 to the statement of comprehensive income discuss the income tax and Value Added tax treatment of the following revenue streams generated by TrippleChoice:		
	i. Subscription fees	**11**	
	ii. Set-top box sales	**7**	
	iii. Advertising revenue	**6**	
	iv. Technology contracts and licensing	**9**	
	Where applicable make references to case law to support your conclusions.		
	Communication: Logical flow	**1**	**32**
b)	With reference to the information in note 2, discuss the income tax consequences to TrippleChoice:		
	i. Amortisation of the programme and film rights	**4**	
	ii. Content access fees paid to foreign suppliers	**5**	
	iii. The salaries paid to the technicians during their time away on secondment. Also include consequences from the perspective of the employees.	**10**	
	iv. Sales and marketing costs	**5**	
	Communication: Logical flow	**1**	**25**
c)	Using only the available information in the case study to determine TrippleChoice' s taxable income for the year of assessment ended 31 December 2019.	**10**	
	Start the calculation at Profit Before Tax		
	Communication: Presentation and Layout	**1**	**11**
d)	Write a MEMO to the production manager of TrippleChoice in which you identify and discuss some of the key ethical considerations they	**8**	

	should make when developing video content target for children below the age of 16. **Communication: Logical flow**	**1**	**9**
e)	Discuss the key strategic considerations that would have been made by Caspers Limited, in making the decision to unbundle and separately list Tripple Choice Group on the Zimbabwe Stock Exchange.	**7**	**7**
f)	With reference to Tripple Choice Group's revenue lines, discuss the risks arising from how the revenue contracts are structured and provide recommendations on how these risks can be mitigated.	**5**	**5**
g)	Describe the key governance consideration that would have been made by Tripple Choice Group before rolling out the share option scheme. You may assume that Tripple Choice subscribes to the requirements of the King IV Code on Corporate Governance. **Communication: Logical flow**	**8** **1**	**9**

Question 2: Suggested Solution

a.	**With refence to information in note 1 to the statement of comprehensive income discuss the Income Tax and Value Added tax treatment of the following revenue streams generated by TrippleChoice:**	
	i. Subscription fees	
	Income Tax Implications	
	Gross income is an amount received by, on own behalf and for own benefit which is not of a capital in nature	1
	The subscription fees are an amount that TC is receiving in their normal business operations of providing video on demand, pay TV and online services.	1
	The amounts are from a source that is within Zimbabwe as the originating cause that gave rise to those amounts is the rendering of services from Zimbabwe.	1
	The subscriptions are revenue in nature and are from a source within Zimbabwe thus shall form part of the gross income	1
	Subscriptions received in advance	
	Any amounts received by TC that constitutes prepayment for goods/services that will be used up in subsequent years of assessment shall not form part of the gross income **Sec 8(3)**	1
	Thus, the deferred revenue shall not be included in the gross income for the current year of assessment	1
	The amounts shall be included in gross income in the year of assessment to which they relate, or the goods or services will be delivered/consumed	1

	VAT Implications	
	VAT is levied when there has been a supply of taxable goods by a registered operator as per **sec 6(1)**	1
	There is a supply of online services, pay Tv etc. which are taxable services	1
	VAT shall be levied at the standard rate of 15%	1
	Generally, the TOS is the earlier of payment, delivery or invoice being issued.	1
	The nature of TC's business, the TOS for the prepaid services shall be the time when the consideration is received For the other services the TOS will be when the service is performed	1 1
	The VOS is the consideration less VAT	1
	Revenue amounts given already excludes VAT hence that amount will be the value of supply	1
	The service supplies made by a local supplier (TC) to a foreign recipient (online viewers) qualify to be exported services - **Sec 10(2)(l)**	1
	For the supplies that are being made to the customers abroad they qualify to be exported services	1
	VAT shall be levied at zero percent	1
	Output VAT shall therefore be zero	1
	ii. Set-top box sales	
	Income Tax Implications	
	The set box sales are being done in the normal business operations of TC as it is also in the business of selling devices to customers	1

	As such, the sale from box sales shall be included in gross income for TC	1
	Sales made with a credit extension shall be included in gross income in the year of assessment when the amount has accrued in the favour of TC	1
	The amount accrues to TC in future year of assessment (after 24 months) and it is at this point that the amount becomes due and payable to TC/accrue to TC.	1
	However, the 24 months are being said to be insignificant as hence the amount shall accrue to TC at the time they deliver the devices to the customer	1
	TC may be able to claim a credit sales relief on the credit sales in terms of **section 18** of the income tax act	1
	The interests that are charged on the extended repayment terms shall form part of the gross income since they are earned on normal credit terms on the revenue generating operations of TC.	1
	VAT Implications	
	There is a supply of devices as per **sec 6(1)**	
	VAT shall be levied at the standard rate of 15%	1
	The TOS is the earlier of consideration being received, delivery or invoice being issued	1
	The TOS for TC shall be earlier of consideration being received or invoice being issued, but since payment maybe done after 24 months, the earlier time would be the delivery date	1
	The VOS shall therefore be consideration less VAT	1
	Any interests on the extended terms shall not have any VAT implications since it is a financial service as defined hence exempt	1

	iii. Advertising revenue	
	Income Tax Implications	
	Revenues derived from advertisements on online entertainment platforms shall form gross income as the amounts are due and payable upon the viewing or showing of the advert in any year of assessment.	1
	Amounts are included in the gross income when they are due and payable to TC	
	However, for adverts that have not been shown the amount in respect of them shall not be included in gross income since the amounts have not accrued to TC hence are not due and payable.	1
	Both adverts shown locally and internationally shall be included in gross income as those amounts are from a source within Zimbabwe given the fact that the originating cause for those amounts are operations being undertaken in Zimbabwe**. Lever Bros Case.**	1
	VAT Implications	
	VAT is levied when there has been a supply as per **sec (6)1**.	
	The adverts are services that are being offered by TC hence it is a supply as defined	1
	VAT shall be levied at the standard rate of 15% for all the local viewing of adverts	1
	For the viewing of adverts abroad, the VAT shall be levied at zero percent as these are exports **sec 10(2)i**	1
	iv. Technology contracts and licensing	
	Income Tax implications	

	Maintenance and other services	
	Any amounts received by TC that constitutes prepayment for goods/services that will be used up in subsequent years of assessment shall not form part of the gross income **Sec 8(3)**	1
	Thus, the maintenance and support fees received in advance shall not be included in the gross income for the current year of assessment	1
	The amounts shall be included in gross income in the year of assessment to which they relate, or the goods or services will be delivered/performed	1
	The amounts are received in respect of a future year of assessment as the service will be provided in the future period, however, TC can use the amounts so received for any other purposes since it shall not be refunded at any point in time hence received for own benefit and own behalf.	1
	The amounts are revenue in nature as they are as a result of the normal business transactions being the support services to their online businesses	1
	Arrangements with other network providers	
	The amounts received from the licensing to the network operators are revenue in nature given the fact that it is part of their business operations	1
	The amounts shall be included in gross income when the network operators have rendered the service, which is a time when the share of the revenue accrues to TC	1
	Thus, the amounts shall be included in gross income for that portion of revenue	1

	For the unspecified future applications, nothing has accrued as yet to TC and the amounts shall be included in the gross income when the amounts become due and payable to TC i.e. when the applications have been delivered.	1
	VAT Implications	
	TC is supplying the maintenance services and other services which is a supply of a services as defined	1
	The services shall be standard rated at 15% to the extent that they relate to the local maintenance services	1
	For maintenance services to customers abroad, TC is a local supplier, and the recipients are in foreign countries hence exported services	1
	Exported services are zero rated supplies as per Sec 10(2)(l)	1
	The TOS shall be the earlier of invoice date, consideration being received or when service is performed	1
	For TC, the TOS will be the time when consideration is received since they are receiving some payments in advance for the maintenance services.	1
	The VOS shall be the consideration less VAT	1
	Available	**53**
	Communication	**1**
	Maximum	

b.	**With reference to the information in note 2, discuss the income tax consequences to TrippleChoice:**	
	Income tax implications	
	i. Amortization of the programmed and film rights	
	Sec 15(2) allows TC to deduct expenses or/and losses that are incurred for the purposes of trade or in the production of income which are not of a capital in nature	1
	The acquisition costs of the film rights are capital in nature as the film rights will be used by TC in to provide enduring benefits in the provision of online content.	1
	The film rights acquisition costs shall not be allowed as a deduction given they are of a capital in nature	1
	However, TC shall be able to claim capital allowances on the acquisition costs of the film rights	1
	ii. Content access fees paid to foreign suppliers	
	Content access fees are expenses that were actually incurred for the purposes of trade as they were paid to their foreign suppliers.	1
	Content access fees shall therefore be allowed as a deduction as per **sec 15(2)**	1
	Royalties are defined as any amount from a source within Zimbabwe payable as consideration for the right to use, any literary, dramatic, musical, artistic, scientific or other work whatsoever (including cinematograph films or recordings) in which any copyright exists (19th Sch).	1
	The content access fees are for the right to use/broadcasting rights of various shows which makes them qualify to be royalties	1

	Payers of royalties to a non-resident person are required to withhold non-residents' tax on royalties from those **royalties (19th Sch para 2(1)).**	1
	Since the payments were to a non-resident company (foreign supplier) a withholding tax of 15% on the royalty fees payable should be deducted.	1
	iii. The salaries paid to the technicians during their time away on secondment. Also include consequences from the perspective of the employees.	
	Implications to TC	
	Expenses or losses incurred in the production of income or for the purposes of trade shall be allowed as a deduction	1
	The costs of $340 000 that were paid to three technicians is an expense that was incurred in for the purposes of trade as they were paid to their employees who were on duty.	1
	The expense shall be allowed as a deduction as there is no restriction on location where the costs were incurred from	1
	Implications in the hands of the employees	
	Sec 8(1)b brings into gross income any amounts received by employees from employment	1
	The amounts have been received from Zambia, which is a source outside Zimbabwe	1
	However, **sec 12(c)** deems such amounts to be from a source within Zimbabwe if they were received during a period of temporary absents.	1

	A period of temporary absent is a period not exceeding 183 days during the year of assessment	1
	The amounts that are received by the employees in the period when they are temporarily absent from Zimbabwe will be brought into gross income	1
	The employees were absent for a period more than 183 days hence the amounts were not earned during a period of temporary residence.	1
	The amounts shall not be included in the gross income of the employees as they exceeded the temporary period of 183 days.	1
	iv. Sales and marketing costs	
	The costs were actually incurred by TC for the purposes of trade as they were setting up the TrippleChoice Malawi	1
	The costs shall be allowed as a deduction even though they were incurred in Lesotho	1
	Export market development expenditure is defined as expenditure which is not of a capital in nature incurred for the purposes of seeking opportunities to export goods outside Zimbabwe which includes research on obtaining information relating to markets outside Zimbabwe.	1
	The marketing expenditure incurred by TC qualifies to be export development expenditure as it was incurred in trying to research on a market in Lesotho	1
	Sec 15(2)gg allows for deduction of any export-market development expenditure incurred by the taxpayer during the year of assessment, together with an amount equal to 100% of such expenditure	1

	Thus, the amount shall be double deducted as per **sec 15(2)gg**	1
	Available	
	Communication	1
	Maximum	**26**

c.	**Using only the available information in the case study determine TrippleChoice' s taxable income for the year of assessment ended 31 December 2019.**		
		000	
	Profit Before Tax	5 314	1
	Depreciation: Owned assets : ROUA	592 1357	1 1
	Capital Allowances: Owned assets – Sec 15(2)c (amount not available) : ROUA	0	1
	Film rights – Sec 15(2) Capital in nature	12 800	1
	Capital allowances on film rights - 4th Sch (amount not available)	( )	1
	Sales and Marketing – Sec 15(2) gg	(2410)	1
	Operating costs – Capital in nature	87	1
	Loss on acquisition – Capital in nature	49	1
	Discounting film rights – not actually incurred	233	1
	Dividends received (local – exempt, 3rd Sch para 9)	(21)	1
	Impairment loss on trade receivables – sec 15(2)g	175	1
	Impairment of PPE – Sec (15(2)) CIN	28	1
s	FCTR – Sec 15(2) not actually incurred	2 256	1
	Taxable income	22 870	1P
	Available		
	Maximum		**15**

d.	**Write a MEMO to the production manager of TrippleChoice in which you identify and discuss some of the key ethical considerations they should make when developing video content target for children below the age of 16.** **Communication: Logical flow**	**8** **1**
	MEMORANDUM	
	To : Production Manager	
	From : CTA Student	
	Subject : Ethical Issues	1P

	Date : DD/MM/2020	
	Please find below the ethical issues that may need your considerations when coming up with video content for children below the age of sixteen.	
	Making use of psychologists	1
	Psychologists understand the behaviour of children and what may affect/influence the behaviour of children. This will ensure that the content that may be uploaded suits well the children that are being targeted.	1
	Targeting children alone	1
	TC may consider making content that is not directed to children only as children are a bit naïve or lacks maturity. They lack abilities to weigh on what is good and what is not good.	1
	Consent from parents/adults	1
	TC must consider having the parents' consent when coming up with material they think would be of interest to children since parents are mature enough to understand that some content may contain some manipulations which are meant to appeal to children. TC may indicate age restrictions on their content e.g. not for people under 16 years	1
	Need for responsible marketing	1
	Responsible marketing given most children would want to portray or imitate the character of the models whom they see in the video contents published on TV.	1
	Regulations	1
	TC may need to consider any limitations or restrictions that comes through legislation (Zimbabwe Constitution) when it comes to coming up with online content given that anyone below 16 years of age is a minor.	1
	Any other valid point	**1**
	Available	**11**

	Communication	1
	Maximum	**8**

e.	**Discuss the key strategic considerations that would have been made by Caspers Limited, in making the decision to unbundle and separately list Tripple Choice Group on the Zimbabwe Stock Exchange.**	**7**
	Key strategic considerations	
	Caspers would have considered the transferability of the shares in TrippleChoice in the future as per the ZSE Listing rules and the companies Memorandum & Articles of Association should they want to dispose them.	**1**
	They would have considered any new opportunities that comes with efficiencies as a result of unbundling.	**1**
	They would have considered any transaction costs associated with unbundling e.g. professional valuation fees, legal costs etc.	**1**
	Caspers would have considered any legacy issues from administration, debts, operations etc. as a result of the unbundling of TrippleChoice.	**1**
	Considerations would have been made on tax implications based on Zimbabwean tax as unbundling may constitute a taxable transaction thus may give rise to - value added tax, capital gains tax and income tax consequences. - dividends tax that may arise in the future - tax implications to foreign shareholders/non-residents	**1**
	Considerations would have been made on any implications to the controlling stake as well as to the minority shareholders.	**1**
	Caspers would have considered any financial performance improvements as a result of value creation on ZSE, additional profits & cash inflows coming from TrippleChoice.	**1**
	Caspers would have considered: - the availability of business opportunities going forward	**1**

	- diminishing business opportunities due to lack of synergies - that business may have grown hence the need for unbundling in order to better manage the different portfolios.	
	They would have considered the impact of widening the options to invest in for locals and foreign investors.	**1**
	They would have considered the widening of growth opportunities for staff and management e.g., the new unbundled company would require its own executive team.	**1**
	Caspers would have considered the socio-economic transformations to locals/nation through fostering technological innovation (now more focus on it), increase employment opportunities for locals as well as being beneficial to the suppliers of all input required	**1**
	Unbundling of the group would result in value unlocking for current shareholders as the value of the separated entities maybe higher than the value of the combined entity.	**1**
	Available	**11**
	Communication	1
	Maximum	**8**

f.	**With reference to Tripple Choice Group's revenue lines, discuss the risks arising from how the revenue contracts are structured and provide recommendations on how these risks can be mitigated.**			**5**
	Revenue Item	**Risks**	**Recommendations**	
	Subscription fees	Sending bill to incorrect customer	Automated billing	**2**
		For foreign payments there may not be platforms to make payments	Avail mobile payment methods such as mukuru, visa or paypal	**2**

	Set-top box sales	There could be delivery of faulty devices which may lead to customers not paying for the delivered results	There will be need to test devices before delivery	**2**
	Advertising revenue	There is a risk that some customers that Tripple Choice is extending credit to will not be able to make payments There is a risk that payments may not be received for the extended payment terms (the longer the period the risky the credit becomes)	There is need to assess the credit risk associated with each customer before we offer credit. Continuous assessment of the credit risk is needed even for this extended period	**2** **2**
	Technology contracts and licensing	There is a risk that for the payments made in advance, Tripple Choice may fail to provide the service resulting in some litigations and lawsuits	Set aside funds in a separate account to be used in future periods when the services will be rendered	**2**
	Available			**12**
	Maximum			**5**

g.	**Describe the key governance consideration that would have been made by Tripple Choice Group before rolling out the share option scheme.** **You may assume that Tripple Choice subscribes to the requirements of the King IV Code on Corporate Governance.** **Communication: Logical flow**	**8** **1**
	TrippleChoice would have considered being honest in their awarding the share schemes across all the employees disclosing all details to the employees.	**1**
	Compliance with constitution/laws would have been considered as there may be some laws regulating share schemes as per income tax act.	**1**
	Tripple Choice management would have considered the level of accountability that is required.	**1**
	Tripple Choice would have considered fairness/equality between all employees from management to the rest of the employees	**1**
	Transparency would have been a key factor to be considered given the implications that may arise from the awarding of the share scheme to employees	**1**
	Tripple Choice would have considered how the remuneration policy will be affected by the share schemes to be introduced.	**1**
	Tripple Choice would have considered the impact the share scheme will have to the socio-economic transformation of the society and how the society will view it	**1**
	Available	**7**
	Communication	**1**
	Maximum	**8**

Question 3: ITC November 2020 Adapted: NAMA

Topics Covered

- Income tax implications of leasing,
- construction of assets used for trade,
- purchase of shares and,
- controlled transactions.

QUESTION **38 marks**

ll amounts are in Zimbabwean Dollars (ZWL) and exclude VAT unless otherwise stated

AAA Nama (Pvt) Ltd ('Nama') is a medium-sized meat supplier operating in Marondera. Nama is a VAT registered operator. Its business operations entail the processing of beef and other meats. Nama subscribes to fair treatment of animals and fair trade with its suppliers. Nama has a 31 December financial year end.

1	**Fire in the beef-processing factory**

Since 2013, Nama has conducted its beef-processing operations from a factory situated in Marondera. On 1 May 2021 a fire broke out in the factory and completely destroyed it. None of the factory workers were injured during the incident. On 1 June 2021 the insurer paid out compensation amounting to ZWL14,95 million (including VAT) in relation to the factory building and ZWL230 000 (including VAT) in relation to the machinery.

Nama had constructed the factory building for ZWL13,3 million. It was completed and brought into use on 1 February 2013. If a similar factory building had been purchased at that date instead of it being constructed by Nama, it would have cost ZWL12 million.

Second-hand production machinery, which had been purchased on 1 February 2021 at a cost of ZWL690 000 (including VAT) from a VAT registered operator in an arm's length transaction, was also completely destroyed in the fire.

Management considered, with regard to the financial year ended 31 December 2021 (FY2021), if there were any indicators of impairment on the carrying amount of the beef factory, and, if so, whether Nama should recognise any associated impairment. Management stated that, as the insurance sufficiently covered the loss of the factory, no impairment was required on the beef factory.

2 Construction of a new factory

The proceeds received from the insurer in respect of the destroyed factory building were used to pay a third party (not an associated or connected person in relation to Nama) to construct a new factory. It was completed at a cost of ZWL12,5 million and brought into use on 1 November 2021.

During the construction Nama attempted to speed up the building process to ensure completion by 1 November 2021, and as a result was fined ZWL100 000 (which is not included in the ZWL12,5 million) for contravening building construction regulations. Nama paid the fine on 1 October 2021.

Nama decided to purchase units in a newly constructed block of flats to be used as accommodation for their factory workers. They purchased 20 of the 100 available flats for ZWL840 000 (including VAT) each on 1 June 2021 and paid for the units in cash on that date. As part of management efforts to speed up construction of the factory, Nama allowed the construction workers to occupy all 20 flats rent-free from this date to 31 October 2021, at which date the construction workers moved out.

From 1 November 2021 the flats were leased at ZWL3 000 per month each to 20 factory workers. The rental was payable monthly in advance, on one-year lease agreements. All monthly rentals for FY2021 were received on the due dates.

3	Lease of production machinery

Nama decided not to purchase new production machinery to replace that destroyed in the fire. Instead, it is entered into a finance lease agreement with LeaseLet (Pvt) Ltd ('LeaseLet'). In terms of this agreement Nama would pay LeaseLet ZWL15 000 (including VAT) per month for a period of five years, beginning on 1 November 2021. ZIMRA practice allows for a straight-line allocation of finance costs in terms of such agreements.

The arm's length cash cost of the machinery at the commencement of the lease agreement was ZWL575 000 (including VAT). The machinery was commissioned and brought into use on 1 November 2021.

4	Purchase of shares in Landic (Pvt) Ltd ('Landic')

Nama would like to use an existing storage facility that is situated on a site next to the new factory. The shareholders of Landic, the company that owns and rents out the facility, did not want to sell the storage facility and land directly, but preferred instead to sell 100% of the ordinary shares in Landic to Nama for ZWL4,3 million. Nama signed the agreement to purchase the shares on 1 November 2021 and began using the storage facility on the effective date, being 1 November 2021.

Nama requested their legal advisors, Man & Associates, to carry out a due diligence on Landic, which cost ZWL25 000 excluding VAT.

Nama obtained a loan of ZWL4,3 million from Squared Bank on 1 November 2021 to fund the purchase of the shares in Landic. No transaction costs were incurred. The interest expense on the loan for the period 1 November to 31 December 2021 amounted to ZWL85 000 and was settled in cash on 31 December 2021.

On 1 November 2021 Nama signed a 15-year lease with Landic for use of the storage facility. In terms of the lease agreement Nama pays a non-refundable ZWL100 000 premium to Landic up front and ZWL20 000 per month (excluding VAT) in arrears. This is a market-related rental. No transaction costs were incurred. Landic is a VAT registered operator.

In terms of local authority health regulations, the storage facility must have a consistent supply of water. Landic accordingly agreed, within the terms of the lease agreement, that Nama would drill and install a borehole. Nama paid the full cost of the borehole installation and piping of water across the facility, which amounted to ZWL120 000 (excluding VAT).

Nama also replaced worn-out electrical cables, light bulbs and internet connectivity cabling throughout the full warehouse before taking occupancy of the premises, at a cost of ZWL180 000 (excluding VAT).

5 Taxable income

The taxable income of Nama for the year of assessment ended 31 December 2021, excluding the effects of the information in items 1 to 4, was ZWL15,604 million.

6 Expansion into the vegetarian-meat market

6.1 Research and development of a new product

Mr Taylor Selebi, the founder, majority shareholder and managing director of Nama, was intrigued by an article published in a scientific journal highlighting the success of meat substitutes in the United States of America. These were quoted as being 'almost indistinguishable from real meat'. Taylor started researching the scientific requirements and processes required to produce plant-based meat substitutes.

On 1 January 2019, after performing extensive research and having developed a workable design, Taylor rented a small laboratory in Technopark, Marondera, in which to undertake research and testing of a plant-based meat substitute, for a period of five years. The initial rental amounted to ZWL15 000 per month, excluding water and electricity, and the rental increases by 5% per annum on the anniversary of the lease. In the event of an early termination, a cancellation fee of ZWL180 000 would become payable.

Taylor hired two food science graduates, Mr Sandile Ishmail and Ms Julia van Dyk, as well as a bio-chemical engineer, Mr Aphiwe Vambe, to work on this new project. Taylor also hired Ms Megan Smythe, an experienced food scientist, to lead the team. All four started their employ with Nama on 1 January 2019.

Taylor and Megan defined their mission as the creation of a sustainable vegetable protein that looks, feels and tastes so much like real meat that even meat lovers would happily buy it. Nama registered a trademark and copyright for the names vMeat© and vBeef© on 31 October 2019. After discussing possible marketing strategies, Taylor and Megan decided to use vMeat© as the go-to market brand.

By 1 August 2019, Megan and her team had made meaningful progress in their research and announced that they were confident they had created a successful product. The product was primarily based on the inclusion of two chemicals, EE-G243 and AF-723, into their products. These chemicals, which Megan and her team had developed, add the necessary flavour and texture to their vegetarian product so that it mimicked real meat.

The Nama Board of Directors met on 1 September 2019 and were impressed by the progress made by the team. The Board remains committed to the vMeat project and has approved the project budget for the next ten years.

By 15 September 2019 Taylor had already decided that the development would be viable, and from this date dedicated an existing member of the Nama accounting department to maintain separate records for vMeat. This would enable Nama to reliably determine the cost of development, production and profit.

6.2 Production and distribution during the trial period

The company decided on a three-year production trial period for the vMeat product, with a commencement date of 1 January 2020.

The rebuilt factory buildings owned and used by Nama in the processing of its traditional beef meat products have a large unused space that could be used for the production of the vMeat product. The space is otherwise expected to remain idle for the foreseeable future. Nama does not intend sub-letting the space. The unused space would be available for the entire trial period. A market-related rental for a similar space is ZWL25 000 per month.

A part of the building wall is unstable due to damage caused by a tractor hitting the wall. The wall would need to be reinforced immediately and also rebuilt before this section of the building could be used. Nama obtained two quotes to reinforce and rebuild the wall. One was from a builder with extensive building knowledge and expertise for ZWL500 000 and the second was a cheaper quote from a newly qualified builder with limited experience for ZWL400 000. Taylor felt it would be preferable to use the more experienced builder to ensure that the wall was completed by 31 December 2021.

Nama would have to purchase machinery and equipment of ZWL3 million for use in the trial production. This machinery and equipment would have to be sold and replaced after the trial production period because of the significant increase in the expected post-trial consumer demand. The market value of the machinery and equipment at the sale date would be ZWL400 000.

The trial production process would be largely mechanical and require five full-time staff (currently in Nama's employ), including Megan. These full-time staff members are regarded as scarce labour and consequently Nama does not envision retrenching any of the staff in the foreseeable future. The vMeat team would move out of the laboratory into the manufacturing building once it was ready to be occupied. Should Nama choose not to cancel the laboratory contract, the laboratory space would remain unused for the duration of the rental contract. A mechanical engineer would also need to be recruited from 1 January 2021 at an annual salary of ZWL850 000.

The cleaning and delivery staff from Nama's current operations would reallocate time from their existing roles to work on the vMeat side. It is estimated that this would require 15% of their total available hours. The total salary cost per annum for the cleaning and delivery staff is currently ZWL1,2 million.

The process of making vMeat is water and electricity intensive. In production test runs in the laboratory, water and electricity costing ZWL3 500 were used to produce 1 000 kg of vMeat in one month, and ZWL2 000 to produce 500 kg of vMeat in the next month, based on FY2019 prices. It is expected that the fixed portion of water and electricity costs incurred during the test runs, which is specific to the production of vMeat, will double during the trial production of vMeat in Nama's own manufacturing buildings.

Direct materials for the production of each kilogram of vMeat, based on FY2020 prices, will require the following ingredients:

Ingredients	**Kg**	**Price / kg ZWL**	**Cost of vMeat / kg ZWL**
Vegetable protein	0,75	54	40,50
EE-G243 flavouring and binding agent	0,10	275	27,50
AF-723 texture additive	0,50	78	39,00
Colourant powder	0,01	120	1,20
Total direct material cost per kg			**108,20**

Nama would also have to make an upfront investment of ZWL250 000 in packaging materials and other raw materials to start the vMeat trial production process. The working capital requirements from 2021 to the end of the trial period in 2024, as reflected in the budgeted statement of financial position, are as follows:

	2021 ZWL	2022 ZWL	2023 ZWL	2024 ZWL
Working capital investment	(250 000)	(291 500)	(339 889)	–

According to current market research on expected customer demand, conducted by Nama at a cost of ZWL100 000, there are encouraging signs of a strong demand for vMeat, priced at between ZWL140/kg and ZWL160/kg. The research indicated that both a direct retail store sales strategy and partner distribution network would be required to secure a meaningful market share within the Matabeleland region.

The following are the forecast sales volumes for vMeat, based on the assumption of an average price of ZWL150/kg and delivery of the product to the market using both a direct retail store sales strategy and partner distribution network:

Probability	Kg sold per month
30%	20 000
50%	10 000
20%	5 000

Taylor has set sales volume growth targets of 10% per year, which is similar to the growth Nama experienced when it started its beef processing operations. Due to the fast obsolescence of food products, Nama does not intend holding any opening or closing inventory of either the raw materials or of finished goods.

Nama would need to acquire a delivery vehicle at a cost of ZWL1,4 million on 1 January 2021, to meet customer demands arising from forecast sales. This would ensure on-time deliveries and enable Nama to open additional direct sales stores in nearby regions.

6.3 Bulk processing after the trial period

The cost of new bulk processing machinery and equipment to be used for the production of vMeat after the trial period is currently ZWL5,8 million. The price is not expected to increase in view of competitive pressures arising from Chinese and Indian companies entering the local market. The new bulk processing machinery and equipment are expected to have a ten-year commercial life and would be able to produce up to 75 000 kg of vMeat per month.

7 Outsourcing production of vMeat

As an alternative to producing in-house, Nama could outsource the production of vMeat to Yarnworths (Pvt) Ltd ('Yarnworths') because it has the required machinery and equipment to produce vast quantities of the vMeat product. Taylor raised some concerns about using a competitor to produce and sell its products, as Yarnworths is currently selling their own house brand meat-substitute products, called 'Veggie Power'. However, according to Megan, Yarnworths would be happy to discuss potential production process synergies with the vMeat team.

The Yarnworths marketing manager suggested a selling price of ZWL125/kg for vMeat to be produced and delivered to Yarnworths stores, fixed for the full trial period. If Nama wanted delivery to their own stores or other retailers, delivery and other related costs would be for their own account. Legal fees relating to drawing up the contract would amount to ZWL50 000. Yarnworths has expressed a keen interest in this venture and would be open to other ideas from the vMeat team, given their reputation in the industry.

In the event production was outsourced, the laboratory lease would be honoured as development and research would still be maintained in-house. The unused factory space would not be required under the outsourcing arrangement.

8 Additional information

- ZIMRA expects the company rate of income tax to be 24.72% with effect from 1 January 2021.
- VAT shall be 15%
- ZIMRA considers the processing of beef and other meats as well as the production of meat substitutes to be a process of manufacture.
- Nama accounts for property, plant and equipment and investment property using the cost model.
- Nama's weighted average cost of capital is 14% (after tax).
- Nama's incremental borrowing rate is 14% (before tax).
- Nama's direct costs, water and electricity, and salaries and wages are expected to increase annually by an inflation rate of 6%.
- vMeat's average selling price per kg is expected to increase by an inflation rate of 6% per annum.
- The Special Initial Allowance and annual Wear and Tear Allowance are as follows:
  - Production machinery 4 years
  - Delivery vehicles 4 years
- Depreciation as per the accounting policies of Nama is as follows:
  - All buildings 30 years
  - Production machinery 4 years
  - Delivery vehicles 4 years
- Assume that Nama will make use of all possible tax benefits and will therefore elect any option available that will minimise or defer the company's income tax liability.

REQUIRED		**Marks**	
		Sub-total	**Total**
(a)	Discuss the income tax consequences of the information contained in item 4 for Nama for the year of assessment ended 31 December 2021.	12	
	Communication skills – logical argument	*1*	13
(b)	Calculate the taxable income of Nama for the year of assessment ended 31 December 2021 based on all the available information provided in items 1 to 5.	21	21
(c)	Discuss whether the amount spent to rebuild the wall mentioned in item 6.2 would be deductible for income tax purposes in respect of Nama's year of assessment ended 31 December 2021.	4	4
Total			**38**

Part (a)	Discuss the Income tax consequences of the information contained in Item 4 for Nama for the year of assessment ended 31 December 2021	
General principles		
An amount is allowable as a deduction if it is not capital in nature per ***section 15(2)(a)***		1
Capital in nature is not defined in the Income Tax Act and common law is applied to mean expenditure with an enduring benefit or expenditure that changes the income earning structure or the tree and fruit principle.		1
Case Law: George Forest or any other		1
1. Purchase of the equity shares in Landic		
1.1	The purchase of the equity shares would be capital in nature as they were purchased with the intention to acquire an asset that had an enduring benefit to Nama.	0.5
1.2	As such the purchase price of ZWL4,3 million for the equity shares will not be deductible in terms of 15(2)(a) of the Income Tax Act.	0.5
2. Legal Costs for Share Acquisitions		
	The legal costs are also capital in nature since they were incurred to acquire a capital in nature item.	0.5
	The legal costs are therefore not deductible.	0.5
3. Payment of monthly rental to Landic		
3.1	The lease arrangement with Landic is a transaction between associates and therefore is a controlled transaction.	0.5
3.2	The expenses should be at arm's length and the determination of the arm's length price should be after a functional and economic analysis. Apply the most suitable transfer pricing method of the five methods.	0.5
3.3	In this case the price was market based and is an acceptable comparable price.	1
3.4	The monthly lease payments are revenue in nature and for the purposes of trade and are therefore allowable deductions	1

4. Loan principal from Squared Bank		
4.1	Receipt of ZWL 4,3 million loan principal is the receipt of a tree in the tree and fruit principle.	0.5
4.2	Therefore, the principal is not included in Nama's gross income.	0.5
5. Interest on Loan from Squared Bank		
5.1	As the interest was incurred on a loan that was used to specifically fund expenditure which was capital in nature, it would follow that the incurred interest would also not be deductible for income tax purposes.	1
6. Lease premium		
6.1	Lease premium creates an enduring benefit for the lessee making it capital in nature S15(2) d(i)	1
6.2	The cost of the lease is amortised over the duration of the lease or 10 years whichever is less	0.5
6.3	In the year of assessment 2021 it will be apportioned over two months (2/12*120000)/10	0.5
7. Lease Improvements - Borehole		
7.1	According S15(2)e (i) the lessee can claim a lease allowance on mandatory improvements over the lesser of 10 years or life of lease	1
7.2	NAMA improved the property through a borehole and can claim lease allowance over 10 years	0.5
8. Repairs		
8.1	Replacement of worn-out electrical cables, light bulbs, and internet are repairs and maintenance in terms of the Income Tax Act s15(2) are revenue in nature and therefore deductible.	1
Available		**14.5**

Maximum	**12**
Communication skill – logical argument	***1***
Total for part (a)	**13**

Part (b) Calculate the taxable income of Nama for the year of assessment ended 31 December 2021 based on all the available information provided in items 1 to 5.			**Marks**
	ZWL	**ZWL**	
Taxable income excluding presented information		15 604 000	1
Recoupment on Factory and Machinery			
Old Factory Recoupment [(14.95m x 100/115)[1] – (0*ITV)[1] = 13mln] Limited to capital allowances granted of 13.3mln[1] Portion used to reimburse must be excluded from the recoupment computation [13 mln x 0.5m/13m][2]		500 000	5
Wear and tear allowance			
Old machinery			
Cost ZWL690 000 including VAT 1 Feb 2018	690 000		
Cost excluding VAT	600 000		
(230 000 x 100/115)[1]-(600 000)[1] = (400 000)		0	2
Recoupment		0	1
Construction fines for new factory (not deductible)		0	1
Flats (cost ZWL840 000 x 20 flats including VAT)	16 800 000		
Flats (cost excluding 15% VAT)	14 608 695		
Wear and tear allowance on commercial buildings (Flats) [14 608 696 x 2.5%] = 365 217.4		(365 217.4)	2
Rental income from flats			
ZWL3 000 x 2 months: 20 flats		120 000	1
New machinery lease from 1 November 2021			
60 monthly payments of ZWL15 000 including VAT			
60 monthly payments of ZWL13 043 excluding VAT			
Lease payments (2 months)		(26 086)	1
Purchase of shares in Landic			
Purchase of shares in LANDIC(Capital in nature)		0	1
Legal costs for share acquisition(Capital in nature)		0	1
Lease fee (Nov to Dec 2021 at ZWL20 000 per month)		(40 000)	1
Loan principal (Capital in nature)		0	1
Interest on Loan (capital in nature)		0	1
Lease premium (100000/10 x2/12)		(1 667)	2

Lease improvement allowance over 10 years(2/12 x 120000/10)		(2 000)	2
Repairs and maintenance in terms of agreement		(180 000)	1
New factory cost 1 November 2021	12 500 000		
Special initial allowance 24%		(3 125 000)	1
Adjusted taxable income			
Available			25
Maximum			21
Communication and presentation			1

Question 3: Suggested Solution

Part (c)	**Discuss whether the spend to rebuild the wall mentioned in item 6.2 would be deductible for income tax purposes in respect of Nama's year of assessment ended 31 December 2021.**	**Marks**
Deductibility of expenditure		
1.1	***Section15(2)(b)(i)*** is used to determine if the expenditure is in respect of a repair and if deductible	1
1.2	In order to qualify as a repair:	
1.2.1	There has been damage to the asset caused by the tractor hitting the wall	1
1.2.2	The asset has been restored to its original condition, as the wall was unstable and needed to be reinforced. There is no mention of improvement.	1
1.2.3	That fact that a more expensive quote is to be accepted does not change the fact that the ZWL500 000 would be deductible as an expense need only be *actually incurred, not necessarily incurred on the best terms*.	1
1.2.4	Therefore, the ZWL 500 000 would be repairs and deductible in terms of s11(d) for the year of assessment ended 31 December 2021.	1
Available		**5**
Maximum		**4**
Total for part (c)		**4**

Question 4: CTA FT/L2 APPLIED TAXATION 2020 END OF YEAR PAPER 1: Price Holdings

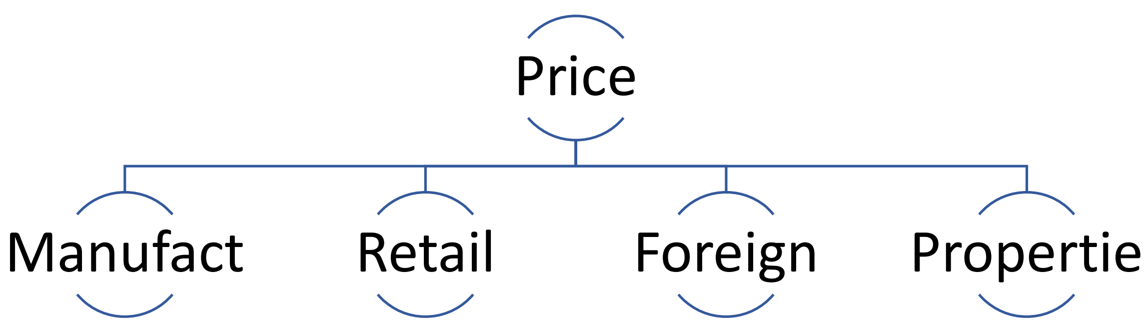
Topics Covered:

- Transfer Pricing
- Taxation of Corporates
- CGT
- VAT

All amounts are in United States Dollars (USD) and include Value Added Tax (VAT) unless otherwise stated

You are a recent CTA graduate working in the tax department for CBS (Pvt) Ltd (CBS). CBS is a new business school that develops business leaders and offers limited technical advisory services in order to improve on its curriculum. You have been assigned to work on the tax affairs of Price Holdings Ltd (Price) which was incorporated in Zimbabwe in July 1985. Price is the holding company to a group of companies and below (Figure 1) is the current group structure. Price is an investment vehicle and a controlling shareholder in Manufact (Pvt) Ltd (Manufact), Retail (Pvt) Ltd (Retail), Foreign (Pvt) Ltd (Foreign) and Propertie (Pvt) Ltd (Propertie).

Manufact manufactures electronic equipment and wholesales them to customers in bulk. Some of Manufact customers include Retail and Foreign who both retail electronic and other products. Foreign is incorporated and operates from Mauritius while Propertie is in the real estate busines and currently owns the properties that all the entities in the group are used for manufacturing and administration purposes.



Below are a few transaction notes that Price presented to you for your consideration.

Figure 1- Current Group Structure

Note 1

Propertie owns the land and buildings used by Manufact, Retail and Foreign and leases the buildings to them. Below are details for the properties:

PROPERTY DETAIL	LESSEE	COST TO MANUFACT	ACQUISITION DATE	ACC DEPN @ 2015	RENTALS per mth
Land	Retail	12,000	14 May 1985	-	-
	Foreign	60,000	31 July 2008	-	-
	Manufact	120,000	03 Jan 1985	-	-
[1]Buildings	Retail	24,500	14 May 1985	18,375	4,000
	Foreign	360,000	31 July 2008	72,000	256,500
	Manufact	683,500	03 Jan 1985	512,625	12,500

[1]Propertie was only formed in February 2015 and all the land and buildings listed here were belonging to Price by then. Price transferred these assets to Propertie as a shareholder's loan to Propertie. All these assets were transferred to Propertie on the 1st of March 2015 at their market values of: USD450,000 for the land and building used by Retail (USD150,000 land andUSD300,000 buildings), USD440,000 for the property Foreign is leasing (USD70,000 land and USD370,000 buildings) and USD7,3 million USD1,2 million land and USD6,1 million) for the one Manufact is using.

Retail and Foreign sell the products from Manufact for both cash and credit. There are two types of credit arrangements as follows:

- A customer can pay a 24% deposit and pays instalments over an agreed period with interest on top of the principal component. The customer collects the equipment immediately and title passes immediately to the customer. The seller however retains the right to repossess the asset in the event that the customer has defaulted.
- Some corporate clients that use very large electronic billboards cannot afford an outright purchase upfront and they lease the equipment over a maximum of 5 years paying lease rentals, the total of which includes an interest component over and above the cash price. Title does not pass to the lessee but lessee is responsible for the repairs, the maintenance and the insurance of the equipment in case it is damaged before the end of the lease period. At the

end of the lease period the customer has an option to buy by making a smaller bullet payment or they could return the equipment.

In February 2020 there was an outbreak of the Covid-19 respiratory disease, and this resulted in a national lockdown to November 2020. The initial lockdown levels resulted in shutting down of businesses nationwide and this in turn resulted in clients eventually not being able to meet their obligations. Within the Price group of companies, all leasing subsidiaries negotiated for lower rentals of 30% of the contractual amount between May 2020 and September 2020 from Price. Thereafter the rentals were raised to 80% for the months of October and November before reverting to the 100% amount in December going forward. The rentals not paid are to be recovered in latter periods from February 2021 to June 2021 where tenants will be paying 170% of the contract rental amount.

Due to the pandemic, most businesses had to let go of most arrangements that resulted in fixed costs and some businesses would rather rent spaces and equipment only for the duration that they need the office space and furniture as opposed to renting the property on an annual basis. Propertie renovated one of its properties to allow desk hiring and boardroom hiring to allow customers to rent out office space and furniture only for the time that they need it such as meetings and face to face collaborations. Price rents out one of the properties for events such as seminars from Propertie and Propertie charges out contingent rentals that depend on how well Price performs in terms of the seminar turnout. After each event, Price declares the top-line and Propertie charges the rental of the venue as a percentage of the seminar sales.

Manufact applies a mark-up of 7.5% on products that it sells to Foreign but for similar products to other unrelated parties it sells with a 43% mark-up and in the market similar products have an average 55% mark-up. Assume that Foreign is selling its products in Mauritius and is taxed at a 3% corporate tax rate.

Note 2

Price has established lines of credit and borrows on behalf of its subsidiaries. In June 2019 Price borrowed 100,000 from a foreign entity and the foreign entity is owned by an in-law to Price's major shareholder Mr Priceless Wakanda. The loan was at 7% non-compounding interest per annum for 5 years and Price used USD60,000 of it to lend to Propertie and 40,000 of it to Foreign at 10% per annum for both entities. Assume that the average bank lending rates for similar loans are 12% per annum. Propertie used the 60,000 to acquire more land and Foreign used it to acquire vending software for its online sales.

Note 3 – Employment Taxes

Price would like to restructure for efficiency by proposing Price Group CEO and the Price Group Finance Directors to be seconded to Propertie as CEO and as Finance Directors respectively. Under this arrangement, Propertie shall pay directly to the executives a proportionate salary to the services that they would have rendered. Propertie does not intend to discontinue paying management fees to Price. The alternative payment arrangement is for Price to charge Propertie the cost of employment of the executives attributable to work done for Propertie on a cost recovery model and additionally charge a mark-up on the management fees.

	REQUIRED	*MARKS*	*TOTAL*
1	From information in Note 1, discuss, with supporting calculations, the Zimbabwe Income Tax treatment of: **Communication – Logical flow**	**1**	**51**
	a. Land and Buildings in the hands of Propertie in the 2019 year of assessment.	**17**	
	b. The credit transactions in the hands of both Retail and Foreign in the 2020 year of assessment.	**12**	
	c. The lending arrangements in the 2020 year of assessment in the hands of Price in Note 2.	**11**	
	d. The Employment Tax implications in the hands of the employees and in the hands of Propertie of the options in Note 3	**10**	
2.	Discuss with supporting calculations, the Zimbabwean CGT treatment of the land and buildings in the hands of Price at the time of transfer to Propertie. **Communication – Logical flow**	**9** **1**	**10**
3	Discuss the Zimbabwean VAT treatment of the credit transactions of Retail and Foreign detailed in Note 1. **Communication – Logical flow**	**11** **1**	**12**
4	Discuss the Income Tax and VAT implications to the lease changes as a result of the Covid-19 pandemic in the hands of Propertie in the 2020 year of assessment **Communication – Logical flow**	**11** **1**	**12**
	Discuss the Transfer Pricing treatment of Manufact sales to Retail and Foreign. **Communication – Logical flow**	**14** **1**	**15**

Question 4: Suggested Solution

1. **From information in Note 1, discuss, with supporting calculations, the Zimbabwe Income Tax treatment of:**	
a. Land and Buildings in the hands of Property in the 2019 year of assessment.	**17**
b. The credit transactions in the hands of both Retail and Foreign in the 2019 year of assessment.	**12**
c. The lending arrangements in the 2019 year of assessment in the hands of Price in Note 2.	**11**
d. The Employment Tax implications in the hands of the employees and in the hands of Property of the options in Note 3	**10**

a.	**Land and Buildings in the hands of Propertie in the 2019 year of assessment.**	
	Propertie is renting out the buildings as part of its trade and in production of income and are therefore eligible for capital allowances.	**1**
	S 15 (2)(c) a.r.w. the ***14th schedule*** classifies buildings rented out under commercial buildings	**1**
	The buildings being used by Retail and Foreign are classified as commercial buildings since the tenants are using them for retailing purposes.	**1**
	While the buildings that are being used by Manufact are being used for manufacturing purposes they are still commercial buildings to Propertie since Propertie is renting them out by Propertie.	**1**
	Assets not classified under the fourth schedule cannot claim capital allowances	**1**
	The land is not classified as commercial or industrial building or any of the other fourth schedule assets thus will not claim capital allowances in the cost	**1**
	Commercial buildings are not eligible to claim SIA but can claim wear and tear at a rate of 2.5% p.a on cost	**1**
	The assets in question were acquired on credit and their costs were the fair values on date of acquisition.	**1**
	• Retail - 2.5% * 300, 000 = 7,500 p.a	**1.5**

	• Foreign – 370 000* 2.5% = 9 250 Manufact – 6100 000 * 2.5% = 152 500	
	Rental income	
	Transactions between associates give rise to controlled transactions **(35th sch)**	**1**
	Companies are associates if they are under common control ***(sec 2)***	**1**
	Retail, Manufact and Propertie are all under the control of Price thus are associated with each other and Price	**1**
	The rental income to Propertie is therefore controlled transactions.	**1**
	The amount to be included in gross income for Propertie will be based on the arm's length principle determined by any one of the six methods prescribed by the commissioner in the 35th sch	**1**
	Only income from a source or source deemed to be from Zimbabwe can be included in gross income.	**1**
	The source of income is the place where the originating cause of the income occurred.	**1**
	The originating cause of the rentals is the awarding of the right to use the asset and the place is where the asset is situated.	**1**
	The source of rentals for Foreign will therefore be Mauritius	**1**
	Therefore, not included into gross income	**1**
	Interest cost	
	Interest expense shall only be deductible if it is not of a capital nature	**1**
	Amounts that are used to purchase an asset from which fruits stem are capital in nature **(Visser)** as they are a tree	**1**
	Interest on the loan is a cost for acquiring a tree and thus is also a tree and capital in nature	**1**
	Therefore, the interest is of a capital nature and shall not be deductible from gross income	**1**

	The interest will be deducted through the claiming of capital allowances as explained above.	1
	Available	**24**
	Maximum	**17**

b. The credit transactions in the hands of both Retail and Foreign in the 2020 year of assessment.		
	Credit Sales	
	Amounts accrue when their due and payable (delfos) and will be included in gross income	1
	On delivery as the ownership passes to the buyer the full amount (cash value) of the goods become due and payable to Retail and thus accrue	1
	The full amount (cash value) including the deposit will be included into Retail's gross income	1
	Section 18 then grants a relief for credit sales for the amount not yet received in the year of assessment (Balance relief= Full amount – (24% deposit + principal component)	1
	Interest on the credit sale will accrue to Retail on a time proportion basis **(Burgess)**	1
	Interest included in the instalment payment will be included in gross income as it accrues daily	1
	Corporate sales	
	Amounts that are of a revenue nature are included in gross income	1
	Amounts that are a result of use or stem from an asset are revenue in nature (tree and fruit) ***(Visser)***	1
	Lease payments are result of granting corporate clients the right to use the billboards thus are fruits of the billboards and are revenue in nature	1
	The lease payments over the 5-year period will thus be included in gross income	1
	In the event the client makes a bullet payment, that payment will be for the asset that generates the lease payment s and is thus payment for the tree	1
	The bullet payment will thus be capital in nature and not be included in gross income	1
	In the event they return the billboard no income tax implications arise for Retail	1
	The billboards that Retail will be leasing out are trees that generate income and thus capital in nature	1
	In accordance with ***sec 15(2)(c)*** Retail will be able to claim capital allowances on the cost of the billboards.	1

	Billboards are classified as articles, implements or machinery	1
	Articles implements and machinery can claim SIA or wear and tear	1
	Retail may elect to claim SIA of 24% as this minimizes their tax liability.	1
	In the event of the bullet payment Retail will calculate recoupment and include in gross income.	1
	The recoupment will be limited to the capital allowances previously granted over the 5-year lease period.	1
	Foreign Sales	
	Amounts that are from a source outside Zimbabwe will not be included in gross income.	1
	The source is determined by the location of the originating cause of the transaction.	1
	The location of the originating cause of sales is where the sale happened and for foreign the sale is happening in Mauritius.	1
	Therefore, the amounts from both the credit and corporate sales by Foreign are not included in Foreign's gross income.	1
	Available	24
	Maximum	12

c.	**The lending arrangements in the 2020 year of assessment in the hands of Price in Note 2.**	
	Sec 15(2)a allows a deduction for expenditure incurred in the production of income	**1**
	Price is producing interest income to the extent that it on lends the money it has borrowed for the foreign entity	**1**
	the interest expense as it relates to the funds that are lent to foreign and Propertie are for the production on income and thus deductible	**1**
	7% * 100,000 = 7,000 deductible in the 2020 year of assessment	**1**
	Companies are associates if controlled by the same person with their associates or the persons that control the companies are in themselves associates ie act in accordance with the direction, requests, suggestions, or wishes of each other. ***(sec 2A)*** Control is determined by majority voting rights or practical control of the activities (***sec 2B)***	**1** **1**
	Priceless would act in accordance with the wishes of his in-law and is thus an associate of his in-law. Priceless controls Price as the major shareholder and the in-law controls the foreign entity thus Price and the foreign entity are also associates.	**1** **1**
	Transactions between associates are controlled transaction as per ***35th schedule.***	**1**
	Controlled transactions should be consistent with the arm's length principle. An arm's length price is determined by using the most appropriate of the 5 methods.	**1**
	The amount to be deductible for the interest expense will be determined by applying any of the 5 applicable transfer pricing methods	**1**
	Not enough information is given to apply the most appropriate method	
	However, if the loan caused the debt-to-equity ratio of Price to exceed 3:1 the excess interest will be prohibited ***(sec 16 (q))***	**1**
	The excess interest will be deemed to payment of dividend	**1**
	A non-resident shareholders tax of 15% will be withheld on the deemed dividend	

	Interest income	**1**
	Amounts that are from a source outside Zimbabwe will not be included in gross income	**1**
	The source is determined by the location of the originating cause of the transaction	**1**
	The location of the originating cause of interest is where the credit facility is availed which for Foreign is happening in Mauritius and for Propertie in Zimbabwe	**1**
	Thus, the interest from Foreign will be from a source outside Zimbabwe and not be included in Price's gross income.	**1**
	However, ***sec (12)(2)*** deems foreign interest to be from a source within Zimbabwe and the interest will be included in gross income for Price.	**1**
	Propertie and Foreign are both owned by Price and thus are associates of Price.	**1**
	Thus, the interest income is a controlled transaction and subject to the arm's length principle.	**1**
	Arm's length price is determined by using the most appropriate of the 5 methods.	**1**
	The comparable uncontrolled price for interest is the bank interest rate as it set by independent parties.	**1**
	Interest income will be included at the 12% and the 10%	**1**
	(60,000 + 40,000) * 12% = 12,000 will be included in gross income	**1**
	Available	**25**
	Maximum	**11**

d.	**The Employment Tax implications in the hands of the employees and in the hands of Propertie of the options in Note 3**	
	<u>Employees</u>	
	S*ec* 8(1)(b) includes into gross income any amount received in respect of services rendered or to be rendered.	**1**
	Under option 1, the CEO and FD will be rendering their services to Propertie a subsidiary, and this is a rendering of service under employment	**1**

	These amounts are still remuneration as per ***13th schedule***, are subject to PAYE tables.	**1**
	Under option 2, the CEO and FD are rendering service under their current employment contract for Price.	**1**
	Therefore, they are both still employees as defined, thus their remuneration is subject to taxation under PAYE.	**1**
	<u>Propertie</u>	
	S15 allows a deduction for amounts incurred for purposes of trade	**1**
	Remuneration paid under option 1 to the CEO and FD are salaries incurred for trade thus are deductible.	**1**
	Under option 2, the management fees are also incurred for purposes of trade thus are deductible.	**1**
	The management fees should not exceed 1% of the amount obtained as follows ***sec 16(r)(ii)***: A-(B+C) A= total of S15 deductions B= expenditure on management fees paid C= expenditure deductible under S15 2 (f) (i)	**1**
	If the management fees exceed this amount, the excess will be deemed as a dividend paid out thus no deduction shall be allowed	**1**
	A resident shareholders tax of 15% will be withheld on the deemed dividend	**1**
	Communication: Logical argument	**1**
	Available	**12**
	Maximum	**10**

2. **Discuss with supporting calculations, the Zimbabwean CGT treatment of the land and buildings in the hands of Price at the time of transfer to Propertie.**

	Capital gains tax shall be levied on the disposal of specified assets	**1**
	Specified assets are immovable property or marketable securities	**1**

	The transfer of land and buildings by Price is a deemed disposal	**1**
	Land and buildings are immovable property thus attract CGT	**1**
	Since the buildings were acquired prior to 22 Feb 2019, CGT shall be calculated at 5% of proceeds as follows:	**1**
	Calculated as 5% * (440,000+450,000+7,300,000) = 409,500	**1.5**
	Price and Propertie are under common ownership and can thus elect to transfer at cost ***(sec 15)***	**1**
	The transaction is in the course group reconstruction thus Price can make the election.	**1**
	The election results in Price not being charged any CGT	**1**
	Communication: logical argument	**1**
	Available	**10.5**
	Maximum	**10**

3. Discuss the Zimbabwean VAT treatment of the credit transactions of Retail and Foreign detailed in Note 1		
	Credit sale	
	An instalment credit agreement under sale has the following conditions	
	i) Fixed determinable amount of money	**0.5**
	ii) Aggregate amount greater than cash price	**0.5**
	iii) Amount includes a finance charge	**0.5**
	iv) Delivery does not mean ownership or seller has right to repossess on default	**0.5**
	The credit sale for meets the definition of an ICA as	
	i) There is a fixed price for the goods	**0.5**
	ii) The amount is greater than the cash value as interest is paid above the principal	**0.5**
	iii) A finance charge (interest) is paid	**0.5**
	iv) Retail has the right to repossess the goods on default	**0.5**

	A VAT registered operator shall charge VAT whenever there is a supply for a good or service in the furtherance of trade	**1**
	Retail supplied goods on an instalment credit agreement	**1**
	The time of supply is the earlier of invoice, receipt of payment or delivery of goods ***(sec 8(1))***	**1**
	The value of supply shall be deemed to be the cash value of that supply ***(sec 9(6))***	**1**
	The interest component is a financial service	**1**
	Financial services are exempt from VAT thus none shall be charged	**1**
	An instalment credit agreement under lease has the following conditions v) Rent is a determinable amount of money vi) Aggregate amount greater than cash price vii) Amount includes a finance charge viii) Lessee assumes risks of damages, maintenance, and insurance	 **0.5** **0.5** **0.5** **0.5**
	The lease for Manufact meets the definition of an ICA as i) The lease payments are a determinable amount ii) The amount is greater than the cash value as interest is paid above the principal iii) A finance charge (interest) is paid iv) Client takes full risk as they do the repairs, maintenance and pay insurance.	 **0.5** **0.5** **0.5** **0.5**
	The time of supply is the earlier of invoice, receipt of payment or delivery of goods ***(sec 8(1))***	**1**
	The value of supply shall be deemed to be the cash value of that supply ***(sec 9(6))***	**1**
	The interest component is a financial service	**1**
	Financial services are exempt from VAT thus none shall be charged	**1**
	The above only relates to Retail as Foreign is not a registered operator in Zimbabwe it will not apply	**1**
	Communication; Logical flow	**1**
	Available	**20**

	Maximum	**12**

4. Discuss the Income Tax and VAT implications to the lease changes as a result of the Covid-19 pandemic in the hands of Propertie in the 2019 year of assessment		
	<u>Income tax</u>	
	Companies are associates if controlled by the same person with their associates or the persons that control the companies are in themselves associates ie act in accordance with the direction, requests, suggestions, or wishes of each other. ***(sec 2A)*** Control is determined by majority voting rights or practical control of the activities (***sec 2B)***	**1**
	Propertie is under the same control as Manufact, Retail and Foreign thus are associated to them. It also owned by Price and is thus an associate of price	**1**
	Controlled transactions are transactions between associates	**1**
	All lease agreements in the group will thus be controlled transactions as they are between associates	**1**
	The commissioner will make an assessment of amounts for associates and included into gross income amounts that reflect the arm's length transaction price.	**1**
	Arm's length price is determined by using the most appropriate of the 5 methods.	**1**
	Rent is not a unique product and market information on comparable properties accessible thus the most appropriate maybe an uncontrolled comparable price	**1**
	Propertie may not include amounts in gross income at the reduced prices of 30% for the May-june period or the 80% or 100% the amount will be dependent on the Commissioner's assessment	**1**
	For the office space the most appropriate method may not be uncontrolled comparable price given that seminar are unique and the cost structure may be varied between entities The most appropriate methods would be more likely the two profit split methods	**1** **1**

	<u>VAT</u>	
	VAT shall be charged whenever there is a supply of a good or service	**1**
	Propertie has supplied a standard rated service, the use of buildings or the office space.	**1**
	The office space and buildings are deemed to be successively supplied for each successive period.	**1**
	The time of supply is the earlier of when the payment becomes due or is received whichever is earlier.	**1**
	The value of supply shall be consideration less VAT.	**1**
	Communication- logical flow	**1**
	Available	**15**
	Maximum	**12**

5. Discuss the Transfer Pricing treatment of Manufact sales to Retail and Foreign.		
	Companies are associates if controlled by the same person with their associates or the persons that control the companies are in themselves associates i.e. act in accordance with the direction, requests, suggestions, or wishes of each other. ***(sec 2A)*** Control is determined by majority voting rights or practical control of the activities (***sec 2B)***	**1**
	Manufact is under the same control as Retail and Foreign thus are associated to them.	**1**
	Controlled transactions are transactions between associates	**1**
	The sales between Manufact Retail and Foreign are controlled transactions as they are between associates	**1**
	The commissioner will make an assessment of amounts for associates and included into gross income amounts that reflect the arm's length transaction price	**1**
	Arm's length price is determined by using the most appropriate of the 5 methods	**1**
	From the information given the cost-plus mark-up method will be for the sic may be an appropriate method to determine the arm's length price	**1**
	The 7,5% mark-up is not applicable as it is the mark-up used in controlled transactions	**1**
	The 43% and 55% are both applicable as both are uncontrolled transaction as they are sales to independent parties	**1**
	To choose the more appropriate markup the principle of comparability is used based on the difference between the controlled and uncontrolled transaction that could affect the financial indicator The indicator chosen in this case is cost as we are using the cost-plus method	**1**
	the 55% mark-up can be used as it is the market average however there will be differences in the cost structures within the market thus may need to be adjusted for those differences to be comparable to Manufact	**1** **1**

	the 43% mark-up is comparable and is based on the same cost structure for associates as it is for independent parties	**1**
	Thus the 43% mark-up may be used to determine the amount to be included in gross income for the sales to Foreign and Retail	**1**
	the indicator chosen in this case is cost as we are using the cost-plus method	
	Communication-logical flow	**1**
	Available	**15**
	Maximum	**15**

Question 5: CTA PART TIME LEVEL 2 AND FULLTIME JANUARY INTAKE - APPLIED TAXATION 2020 TEST 2 – INTEGRATED PAPER 1

Topics Covered

- Deceased Estates & Trusts
- Related Party transactions
- CGT
- Income Tax
- Journal entries for amounts received from employer

All amounts are in Zimbabwean Dollars (ZWL) and include VAT unless otherwise stated

You are a recent CTA graduate and a trainee Accountant at an Accounting firm Amabhukbhuk Private Limited (Pvt) Ltd (Amabhukbhuk). You have been assigned to work on tax advice for Nkululeko Nsingo a widower, and for a trust, Nsingo Trust, he formed with his wife.

Cynthia Nsingo was a Finance Manager at McDowells Bricks (Pvt) Ltd (McDowells) in Bulawayo, she had served in different capacities in the company for the past 17 years and in August 2019 fell seriously ill. McDowells has a 31 December year end. Cynthia got hospitalised and went on paid leave on 17 August 2019 but died on the 10th of September 2019 at 47 years of age. Cynthia's estate was wound up by the Administrator on the 3rd of December 2019. Cynthia was married to Nkululeko Nsingo out of community of property, and they had three children together, Peter, Nqobile and Njabulo whose ages in 2019 were 23, 17 and 14 respectively. Cynthia made out a will bequeathing her Khumalo house to a family trust called Nsingo Trust and her shares in a private company to her husband. She also had bequeathed her income from RAF annuity to the family trust. The rest of her personal belongings were not mentioned in the will, the personal belongings included clothes, household goods which were all later distributed to her mother in Filabusi. All terminal benefits from work were then distributed to the family trust when her deceased estate was wound up.

As a Finance Manager, Cynthia was earning 25,500 per month up to September 2019 and was entitled to use her employer's vehicle for both business and personal use. Her logbook showed that 55% of her mileage was for personal use and she had been using this vehicle for the past three years. The vehicle is a Ford Ranger T6 twin cab – engine capacity 3200cc – and McDowells gave it to her estate for free in gratitude for her long service when she died. McDowells was responsible for the licencing, insurance, and maintenance of this vehicle up to the 30th of September when it transferred the vehicle to Cynthia's estate and the total cost was 4,000 for ten months ending 30 September 2019 commencing 01 December 2018. McDowells also provided Cynthia 250 litres of diesel a month and this cost McDowells 22,500 in 2019. Cynthia was staying in a company house in Hillside paying rentals of 5,000 per month and her surviving family continued to stay there for free from the month of September up until 31 December 2019 after she died. Rentals of similar houses in the area were 4,000 a month. McDowells was paying for 50% of her medical aid contributions of 4,500 per month from January to September and McDowells also contributed 100% to a registered Retirement Annuity Fund. Her total RAF fund contributions for the 9 months ending September were 3,600 and they were all allowable deductions. While hospitalised, Cynthia incurred hospital expenses of 7,450 which were not covered by her medical aid and were paid out of her estate in October 2019. After her death, the RAF paid out a lumpsum payment of 100,000 on the 10th of October 2019 into Nsingo Trust. Thereafter, the fund is paying a monthly annuity of 5,000 for 10 years starting on the 28th of October 2019 into the Nsingo Trust.

Cynthia was operating a grinding mill in Luveve and a small hardware shop in Cowdry Park through a private company called Safe Investments. She owned 90% of the shares at the time of her death and she bequeathed all of them to her husband while the other 10% belonged to her workmate. The total company was valued at 150,000 at the time of her death. During the year in May 2019 Safe Investments paid Cynthia a dividend of 4,000 and management fees of 6,000 for the term ending 30 April 2019. You can assume Safe Investments was evenly earning taxable income of 37,200 per month in the year of assessment.

Cynthia was also into poultry, she sells only broiler chickens and eggs, as a sole trader and on her death, her husband continued with the poultry business until December 2019 when the family had to relocate from the Hillside property where the fowl runs had been built. The taxable income for the poultry business was 38,000 for the 12 months up to 31 December 2019. In July 2019, one of Cynthia's clients ordered chickens for 18,000 but failed to pay at the end of the same month as they normally do. Cynthia agreed to accrue non-compounding interest for the months of July and August at 10% per month and the revised due date of the principal 18,000 amount was now the 31st of August 2019. This client however only managed to pay at the end of September 2019.

Cynthia owned a property in Khumalo – a suburb in eastern Bulawayo - which she inherited from her late father in 2011. This property was valued at 80,000 when she inherited it and at 1,000,000 on the 28th of September 2019 and Cynthia bequeathed to Nsingo Trust in her will.

Nsingo Trust was sponsored by Cynthia in January 2018 together with Nkululeko. Cynthia initially wanted to protect the ownership of the house that she inherited from her father to ensure that it is jointly owned by her children in the event of her death instead of her husband since if the husband remarried and then also died, the property could become that of the new wife. But as she ventured into small businesses, she and her husband realised that it is a good way of protecting the family assets and of ensuring that the benefits of the assets are enjoyed by their children. They formed the Nsingo Trust with her husband and appointed 2 trustees, a lawyer and a Chartered Accountant. The house was being rented out and in the year of assessment it was rented for 4,000 a month in advance from January to June and for 7,000 a month in advance July to December. The trustees receive retainer fees once a year and in 2019 they received 3,000 each for their services. The trust deed stated that profit after expenses from the trust was to be shared equally amongst her three children annually and in 2019 the trust made profits of 56,000 after deducting trustees' fees and 4,000 in other deductible expenses but excluding the lumpsum from the RAF and the annuities.

In November 2019, Nkululeko was considering transferring his assets to the trust as well as to be the beneficiary of the income of the trust until his death, at which stage the new beneficiaries would become his children. He is uncertain about how this would work if he died before Njabulo becomes 18 years of age and whether to actually transfer specific assets from the trust to each of the children and wind up the trust. Nkululeko owns shares in Safe Investments (90% that was bequeathed to him by his wife), Econet ZSE listed shares valued at 780,000, a Nkulumane house valued at 250,000 as at 31 December 2019 earning rentals of 5,500 per month as at that date. He also owns a Mazda BT50 single cab 2400cc diesel car which is being used on an adhoc basis by Safe Investments for no charge. The BT50 was valued at 100,000 as at 31 December 2019. Nkululeko is not sure whether he must donate the assets of the trust or give them to the trust in an interest free long-term loan arrangement. The legal costs of transferring the assets into the trust will amount to 5,000 if done by the 31st of December 2019.

Additional information

- Assume fringe benefits charge out rates are used as cost for accounting.
- Assume IFRS is applied for accounting for all above transactions.
- For any limits and amounts please make sure you use the ones in the appendix and for those not in the appendix use the limits in your legislation.

Required	Marks
a. Discuss, with supporting calculations, any CGT and income tax implications that may arise in the hands of the Trust and in the hands of Nkululeko for the options he is considering on transferring assets into the family trust.	45
Communication – logical argument & flow	1
b.	
i. Calculate with brief narrations, the Income tax payable by Cynthia in the 2019 year of assessment.	18
Communication - presentation	1
ii. Calculate, with brief narrations, the income tax payable by Cynthia's Deceased Estate in the 2019 year of assessment.	4
Communication - presentation	1
c. Identify the related parties of McDowells and provide supporting disclosures for the year ended 31 December 2019.	9
Communication – clarity of expression	1
d. Prepare journal entries in relation to amount received by Cynthia from her employer for the period ended 31 December 2019.	9
• Include total single tax journal	
• Communication, journal narrations	1
e. Discuss the accounting treatment of the transaction between the poultry business and the defaulting customer.	10
TOTAL	**100**

Question 5: Suggested Solution

	a. Discuss, with supporting calculations, any CGT and income tax implications that may arise in the hands of the Trust and in the hands of Nkululeko for the options he is considering on transferring assets into the family trust.	
	Trust	
	CGT Implications	
1.	Capital Gains Tax arises when there has been disposal or deemed disposal of a specified asset.	1
2.	Specified assets are immovable property and marketable securities.	1
	Shares are marketable securities hence specified assets as defined.	1
	Shares in Safe Investments	
3.	Nkululeko is the one donating or transferring the shares hence the Trust has not disposed of the shares.	1
4.	As such, there are no any CGT implications as there is no any specified asset that was disposed of by the Trust	1
	Econet ZSE listed Shares	
5.	The Trust has not disposed of any shares.	1
6.	As such, there are no any CGT implications that will arise.	1
	Nkulumane House	

	The house is an immovable property thus a specified asset.	1
7.	The Trust has not disposed of this house.	1
8.	As such, there are no any CGT implications that will arise.	1
	Mazda BT50 Single cab	
	The Mazda BT50 is movable hence not a specified asset as defined.	1
9.	The Trust will not be charged any CGT as there is no specified asset disposed	1
	Income Tax Implications	
10.	A trust will only be a taxpayer when it earns income to which there is no vested beneficiary.	1
	Shares in Safe Investments	
11.	Shares are of a capital in nature as they are an investment (tree) that can yield some fruits in the form of dividends.	1
12.	The amount for the Safe investment and Econet shares will not be included in gross income.	1
	Nkulumane House	
13.	The receipt is of a capital nature to the trust, and it is therefore excluded from gross income for the Trust.	1
14.	The rentals from the Nkulumane house are the fruits from the house hence revenue in nature.	1
15.	However, the rentals shall not be included in the gross income of the Trust as it accrues to the vested beneficiary being Nkululeko.	1
16.	The trust can claim capital allowances on the value of the house on donation date (250,000)	1
	The house is classified as a commercial building.	1
	Capital allowance will be 250,000*2.5% = $6,250.	1
	Mazda BT50 Single cab	

17.	The motor vehicle bequeathed to the Trust is of a capital nature.	1
18.	The Trust shall therefore not include the amount in its gross income.	1
19.	The trust is not using the asset for the purpose of trade thus will not claim capital allowances.	1
	Legal Costs	
20.	**Sec 15(2)** provides for expenditures and losses incurred for the purposes of trade or in the production of income to be allowed as a deduction.	1
21.	The legal costs of 5 000 for transferring the assets shall not be allowed as a deduction as they were not incurred by the trust but were incurred by Nkululeko.	1
	Nkululeko	
	CGT Implications	
	Shares in Safe Investments	
22.	The donation of shares to the trust is a deemed disposal of a specified asset as per **sec 8(2)(b)** of the CGT Act.	1
23.	CGT shall be levied on the fair market price as per the commissioner general's opinion at a rate of 5% on the proceeds since they were acquired prior to Feb 2019.	1
	Econet ZSE listed Shares	
24.	The donation of listed shares to the trust is a deemed disposal of shares as per **Sec 8(2)b** of the CGT Act	1
25.	The capital gain shall be levied on the fair market value of the shares as per the commissioner general 's opinion.	1
26.	Listed shares are CGT exempted; however, CGT WHT applies.	1
27.	The CGT WHT shall be levied at 1%x780 000 = 7 800.	1
	Nkulumane House	

28.	The donation of the Nkulumane house to the trust is a deemed disposal of a specified asset as per **sec 8(2)b** of the CGT Act.	1
29.	The capital gain shall be levied on the fair market value of the shares as per the commissioner general 's opinion.	1
30.	The house is a property hence shall be levied CGT at the rate of 5% of the proceeds	1
31.	CGT shall thus be 250 000*5% = 12 500	1
	Mazda BT50 Single cab	
32.	The Mazda BT50 is not a specified asset as defined.	1
33.	As such, Nkululeko shall not be charged CGT on the disposal of the motor vehicle.	1
	Income Tax Implications	
34.	***Sec 15(2)*** provides for expenditures and losses incurred for the purposes of trade or for the production of income to be allowed as a deduction given, they are not of a capital in nature.	1
	Shares in Safe Investments and Econet shares	
35.	Shares are of a capital nature hence they shall not be allowed as a deduction as per ***section 15(2).***	1
36.	Nkululeko shall not be allowed to claim a deduction on the shares as they are a disposal/donation of an investment which is a tree.	1
	Nkulumane House	
37.	Nkululeko shall not be allowed to claim a deduction on the Nkulumane House as it is of capital nature. The house is a tree, and the rental are the fruits.	1
38.	Rentals of 5 500 shall be included in the gross income of Nkululeko as they are revenue in nature	1

39.	The rentals accrue to Nkululeko as he is the vested beneficiary of the trust in which he has made the donation of the house			1
40.	There are no capital allowances on the house as it was not purchased or acquired by Nkululeko			1
	Mazda BT50 Single cab			
41.	The motor vehicle (Mazda BT50) is of capital nature hence shall not be allowed as a deduction in the hands of Nkululeko.			1
	Legal Costs			
42.	Legal costs shall be allowed as a deduction in the hands of Nkululeko as they are revenue in nature.			1
	Available			**53**
	Communication – logical flow & argument			1
	Maximum			**47**
	b. Income Tax			
	iii. Calculate with brief narrations, the Income tax payable by Cynthia in the 2019 year of assessment.			
	Calculation of income tax payable from employment for Cynthia in the 2019 year of assessment			
	Transaction	**Brief narration**	**Amount**	
43.	Salary (25 500*9 months) ^{1}	Sec 8(1)b$^{0.5}$	229,500	1.5
	Motor vehicle use benefit $_{76,400*8}$^{1}	Sec 8(1)f for 3200cc$^{0.5}$	611,200	1.5
	Insurance, maintenance and license	Sec 8(1)f not benefit $^{0.5}$	0$^{0.5}$	1
	Fuel benefit	Sec 8(1)f$^{0.5}$	22,500 $^{0.5}$	1

	Rentals	sec 16(1)	0	1
	McDowells Medical Aid Contributions	Exempt, Sec 14 & 3rd Sch$^{0.5}$	$0^{0.5}$	1
	Employee Medical Aid Contributions 18	Prohibited private expense sec 16$^{0.5}$	$0^{0.5}$	1
	RAF Contributions by employer	Sec 8(1)b$^{0.5}$	3 600$^{0.5}$	1
	Taxable income from employment		373 464	
	Tax from employment at 20%$^{0.5}$		**74 693**	0.5
	Calculation of tax payable from trade and investments for Cynthia for the 2019 year of assessment.			
	Transaction	**Brief narration**	**Amount**	
	Dividend received	Exempt, 3rd Sch$^{0.5}$	$0^{0.5}$	1
	Management fees	Sec 8(1)$^{0.5}$	6 000$^{0.5}$	1
	Taxable income 90%*37 200*8 months$^{1.5}$	Include gross income	267 840	2
	Taxable income from poultry business 38000*8/12^{1}	Include gross income	25 333	1.5
	Interest 10%*18000*2$^{1.5}$	Sec 11(4) claim rights$^{0.5}$	3 600	2
	Khumalo House	Sec 15, Capital in nature$^{0.5}$	$0^{0.5}$	1
	Rentals received 4 000$^{0.5}$*6$^{0.5}$ + 7000$^{0.5}$*3$^{0.5}$	Sec 8(1)$^{0.5}$	45 000	2.5
	Taxable income from Trade & Investments		347 473	
	Tax from Trade and Investments at 25%$^{0.5}$		**86 868**	0.5
	Total Tax before credits (83 394+74 693)		**158 087**	

	Less credits			
	Medical expenses 50%*7,450^{1}	Sec 7 (c) arw Charging Act$^{0.5}$	(3 725)	1.5
	Medical Aid Contributions 50%*4 500^{01}	Sec 7 (c) arw Charging Act$^{0.5}$	(2 250)	1.5
	Total After Credits		152 112	
	Aids Levy@3%$^{0.5}$		4 563	0.5
	Total tax payable by Cynthia		**156 675**	1C
	Available			**22**
	Communication - presentation			**1**
	Maximum			**18**
	iv. Calculate, with brief narrations, the income tax payable by Cynthia's Deceased Estate in the 2019 year of assessment.			
	Transaction	**Brief narration**	**Amount**	
44.	Motor vehicle /Long service awards	Sec 8(1)b Capital in nature$^{0.5}$	0$^{0.5}$	1
	Housing benefit	Gratuitous receipt	0	1
	RAF lump sum (100,000-(1/3*raf value (not given)) (Award if student shows there is a limit to the inclusion)	Right to claim$^{0.5}$ s8(1)(n)	66,667	2
	RAF annuity (5,000*3)	Right to claim s8(1)(a)	15,000	1.5
	Debtor (poultry business)	Accrued pre-death$^{0.5}$	0$^{0.5}$	1
	Taxable income for the deceased estate		41,500	
	Tax payable by the deceased estate @25.75%		**10,686**	1C

	Available			**6.5**
	Communication - presentation			1
	Maximum			**4**
	c. Identify the related parties of McDowells and provide supporting disclosures for the year ended 31 December 2019. Communication – clarity of expression			9 1
	A *related party* is a person or entity related to the entity that is preparing its financial statements. a) A person or a close member of that person's family is related to a reporting entity if that person: I. has control or joint control of the reporting entity. II. has significant influence over the reporting entity; or III. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity b) An entity is related to a reporting entity if any of the following conditions applies: I. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary, and fellow subsidiary is related to the others) II. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity. The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity **(IAS 24 para 9**)			**1P**
	Identification of Related Parties			

	Cynthia Nsingo is a member of the key management personnel (finance manager) of McDowells.	1
	Nkululeko Nsingo is also a close member of Cyntia Nsingo as he is a spouse of Cyntia Nsingo which therefore makes him a related party of McDowells.	1
	Peter, Nqobile and Njabulo are also related parties as there are children of Cynthia Nsingo (close members).	1
	Nsingo Trust which was the family trust can also influence decisions that are made by Cynthia Nsingo and as well qualify as a dependant of Cynthia.	1
	Supporting Disclosures	
	McDowells shall disclose key management personnel (Cynthia Nsingo) compensation in total and for each of the following categories:	
	I. short-term employee benefits This includes motor vehicle benefit, salary, medical aid contributions and housing benefit.	1
	II. post-employment benefits 1. This includes Retirement Annuity Fund.	1
	2. other long-term benefits;	1
	3. termination benefits; and	1
	4. share-based payment.	1
	5. **communication – clarity of expression**	1
	Available **Maximum**	**11** **10**
	d. Prepare journal entries in relation to amount received by Cynthia from her employer for the period ended 31 December 2019. • Include total single tax journal 6. • Communication, journal narrations	9 1
	e. **Journal Entries**	
	DR Salary (P/L) (25500*9) 229500 CR Bank (SFP) 229500	1J 1F

	f. Recognition of salary expense			
	DR Medical Aid Expense (P/L) (0.5(4500*9) CR Bank (SFP) **Recognition of medical aid costs**	20250	 20250	**2**
	DR Insurance / Maintenance Cost (P/L) Cr Bank (SFP) **Recognition of maintenance cost**	4000	 4000	**2**
	DR Motor vehicle expense (P/L) CR Bank (SFP) **Recognition of diesel costs**	22500	 22500	**2**
	DR Rental Expense (P/L) (4000-500) *9) CR Bank (SFP) **Recognition of rent expense**	31500	 31500	**2**
	DR Contributions to RAF (P/L) CR Bank (SFP) **Recognition of contribution made towards RAF**	3600	 3600	**2**
	DR Tax Payable (SFP) (229500+20250+4000+22500+31500) *0.2575 CR Tax Expense (P/L) **Recognition of tax expense**	79245.6	 79245.6	**2**
	Available			**14**
	e. Discuss the accounting treatment of the transaction between the poultry business and the defaulting customer.			**10**
	Recognition -Step 1			
	There is need to make an assessment on whether the poultry business arrangement with a customer meet the criteria required to recognise a contract, as a contract with customers as per **IFRS 15 para 9**.			

	It appears that the contract has already been approved as it is not the first time dealing with the customers and both parties are aware of the rights regarding the chickens to be delivered. The entity can also identify the payment terms attached to the transaction (which is one-month period despite the customer defaulting), and it is also probable that the entity will collect consideration relating to the disposed chickens. **f.** Therefore, the poultry contract meets the criteria as per IFRS 15 para 9	**1** **1** **1**
	Step 2: Identification of Performance Obligations	
	At inception of a contract an entity shall assess the goods (chickens) promised in the contract and shall identify the performance obligations. The poultry contract has one promise which is delivery of chicken to the customer.	**1**
	A good that is promised to a customer is distinct if both of the following criteria are met:	**1P**
	The customer can benefit from the chickens either on its own or together with other resources that are readily available to the customer.	
	The entity's promise to transfer the chickens to the customer is separately identifiable from other promises in the contract. (IFRS 15 para 27)	
	The customers can benefit from the chickens on its own through consumption and there are also not highly interrelated to other products thus make it a single performance obligation.	**1**
	Step 3: Transaction Price	
	The transaction price is the amount of consideration a company expects to be entitled to from the customer in exchange for transferring goods or services excluding amounts received on behalf of third parties eg VAT (IFRS 15 para 47).	**1P**
	The price of the chickens ordered is 18000. However, there is need to consider whether there is not any significant financing component on the value of chickens	**1**

	since the customers defaulted. The transaction price will therefore be 38000 after considering interest charges.	
	Step 5: Revenue Recognition	
	An entity satisfies a performance obligation by transferring control of a promised of a promised good or service to the customer. The customer obtains control of an asset if:	**1P**
	The customer has the ability to direct the use of the asset and	
	The customer has the ability to receive substantially all the remaining benefits from the asset.	
	A performance obligation can be satisfied either at a point in time (such as when goods are delivered to a customer) or over time.	
	The performance obligation can be satisfied at a point in time when the chickens are delivered.	**1**
	The revenue should be recognised when the chickens are delivered to the customer.	**1**
	Available **Maximum**	**11** **10**
	TOTAL Available	**112**
	TOTAL Communication	5
	TOTAL Maximum	**100**

Question 6: CTA LEVEL 2 AND FULLTIME APPLIED TAXATION – PAPER 2 2020 TEST 2

Topics Covered

- Tax implications of restructuring and expansion into foreign countries
- Factors to consider before expanding
- Taxation of individuals
- VAT

All amounts are in Zimbabwean Dollars (ZWL) and include VAT unless otherwise stated.

QUESTION A

You are a CTA graduate and work for CAA Business School Private Limited (CBS) as a second-year trainee accountant. Your manager Ovidy has assigned you to work on a client called Quaran Private Limited (Quaran) in the education and advisory service industry who want to leverage on CBS tax expertise for their business. Quaran is registered with the Ministry of Primary, Secondary and Tertiary Education as an institution providing educational services. Quaran has recently decided to expand into Botswana where the country has a very good sovereign rating which is strategic for raising capital in the global financial markets. Quaran is therefore considering incorporating an entity Quaran Holdings (QH) in Botswana which shall then own Quaran in a share swap. Quaran is currently owned equally by Coronat and Ovidy. Coronat and Ovidy will therefore receive shares in QH in exchange for them transferring their shareholding to QH. Quaran is a category C VAT registered operator.

Current Quaran Business

Quaran currently runs an academy that is training Chartered Accountants in Zimbabwe. For the past two years it has been attracting a few clients from South Africa and Botswana who have been taking the course online. From time to time the foreign clients were then travelling to the nearest examination centres in Zimbabwe to write their examinations. Quaran invoices all of its students once a year (beginning January) for a full year's tuition, learning material (such as hardcopy legislation handbooks), exam fees and other ancillary services such as library fees (where applicable). Quaran also is involved in advisory work in IFRS, Audit and Tax. This business portfolio also has local and foreign clients. The advisory portfolio contributes 30% of the business turnover while the rest is from the academy portfolio. Of the academy revenue, 93% is for tuition. During the year Quaran entered the following specific transactions:

- Invoiced 3 Botswana students who live and paid from Botswana and invoiced 4 South African students who live in South Africa. Two of the South Africans paid their courses in full in advance (December 2021) while the one paid half of the fees in January and stopped participating in March while one participated to the end but has not paid ZWL$4,000 of her fees. Her 2022 results are withheld pending payment.
- Quaran improved its online learning technology by engaging an Information Technology. specialist who is South African and does all the work from South Africa for R50,000 (Rand). He invoiced them on the 10th of February 2022 and Quaran paid on the 15th of February.
- Quaran also acquired computer hardware in December 2021 to improve online delivery for R254,000 from South Africa. However, due to the Covid-19 virus the Chinese manufacturer although the shipped the hardware FOB on 29th of December 2021 they only arrived in Zimbabwe on the 5th of March 2022. The freight and insurance cost R5,000 and effective duty was 40%. Quaran only paid for the invoice when the goods arrived in Zimbabwe.
- Quaran's printing room caught on fire in February 2022 and destroyed a heavy-duty printer and some recording equipment. The printer was in its 3rd year of being leased from a Mozambican company based in Mozambique for 4 years after which ownership would be transferred to Quaran. Quaran was responsible for the repairs of the printer and the insurance. The lease instalments include a finance component over and above the recovery of the cost of the printer. Quaran's insurer paid ZWL$78,000 for the printer to enable Quaran to replace it with a new one and paid Quaran ZWL$125,000 for recording equipment. Quaran managed to replace the printer by buying another one worth ZWL$92,000 from a registered operator and replaced the recording equipment by buying better equipment for ZWL$98,000 from a registered operator. The recording equipment had been bought for ZWL$8,000 from a non-registered operator in 2016 and Quaran had always been claiming the capital allowances that gives it the best tax advantage.

Post Restructuring transactions

Upon restructuring, it is expected that Quaran shall be paying a dividend to QH, management fees to QH and possible interest on borrowings as QH is likely to source funding for Quaran to use in its day to day business. Ignore the Zimbabwe-Botswana Double Taxation Agreement and answer as if it is not in existence.

Currency pair	Date	Rate
Rand:ZWL	29 December 2021	4.10
	Average December	4.20
	Average 2021	3.25
	10 February 2022	4.04
	15 February 2022	4.06
	Average February 2022	4.10
	5 March 2022	3.47
	Average March 2022	3.50

QUESTION B

Lockdown, Isolation, 21-Days and Virulent are 4 employees who stopped working for Quaran in the year 2022.

Lockdown

Lockdown died of electrocution in a freak power cable accident in her bathroom on 30 March 2022. She had been receiving a salary of ZWL$15,000 on the 25th of every month and had accumulated 21 leave days which were paid in April in lieu of leave. Quaran paid ZWL$20,000 towards her funeral expenses and a long service golden handshake of ZWL$150,000 to her family in May 2022.

Isolation

Isolation retired on the 30th of April of 2022 since she had turned 55 years on the 12th of January 2022. She received a lumpsum payment from her pension fund of ZWL$450,000 paid out of a fund amount of ZWL$900,000. Quaran was contributing 100% into this pension fund and all of it was allowable at ZWL$32,500. Isolation was receiving a salary of ZWL$300,000 a month from Quaran before her retirement. Quaran also paid her a lumpsum of ZWL$300,000 to thank her for the services rendered and allowed her to buy the company vehicle she had been using for a third of the book value of ZWL$80,000 when its market value was ZWL$320,000.

21-Days

In September 2022, after fully migrating to a more Information Technology based delivery system Quaran decided to lay off some employees in a retrenchment scheme that was approved in October by the relevant Ministry. 21-Days was retrenched on the 30th of November 2022 and received a lumpsum payment of ZWL$180,000 from the pension fund amount of ZWL$500,000. Both 21-Days and Quaran were contributing equally into the pension fund and all contributions in the past were allowed at ZWL$32,500. Subsequently he began receiving an annuity of ZWL$8,000 per month for the next 20 years.

Virulent

Virulent is a marketing guru who resigned from Quaran in December 2022 to pursue another challenge in the SADC region. She was however paid a thank you in appreciation of the sterling work that she did in building Quaran in its formative years and received a gratuitous pay-out of ZWL$200,000. Virulent was also allowed to purchase the Quaran Toyota Fortuner 2800cc diesel SUV which she was using for business and private use. She bought the vehicle for

ZWL$200,000 from Quaran when its book value was ZWL$160,000 and market value was ZWL$800,000. Quaran had imported the vehicle in 2018 for a total cost excluding VAT of ZWL$240,000. She was receiving a salary of ZWL$80,000 a month and fuel of 200ltrs every month worth ZWL$18,000. In July 2018 she took out a loan from Quaran of ZWL$50,000 and was expected to pay interest of 1.5% per annum on the loan.

Additional information

Vat shall be 15%

	Required	Marks	Total
1.	Discuss, with supporting calculation where relevant, the tax implications of the restructuring and expansion into Botswana in the hands of:		
	Quaran	5	
	QH	17	
	Ovidy and Coronat	7	
	Communication: Presentation and Logical flow	2	31
2.	Discuss with supporting calculations, the Income Tax and VAT treatment of identified transactions in Quaran's current business.		
	South African and Botswana invoices	13	
	The I.T. specialist's services	15	
	Communication: Presentation and Logical flow	1	29
3.	Discuss the income tax implications to the 4 employees of the amounts they received.		
	Lockdown	5	
	Isolation	7	
	21-Days	4	
	Virulent	7	
	Communication: Logical flow	1	24
4.	Discuss the considerations that Quaran needs to take before expanding into Botswana?	15	
	Communication: Logical flow	1	16
	TOTAL		100

	Required	MARKS
1	Discuss the tax implications of the restructuring, expansion and post restructuring into Botswana in the hands of:	
	a. Quaran	
	b. QH	
	c. Ovidy and Coronat	
a.	Quaran Pvt Ltd	
	Income Tax Implications	
	Quaran has not entered into any share transaction hence there are no income tax implications	1
	VAT implications	
	VAT is charged when there is a supply of a good or service – Sec 6(1).	
	No VAT implications as Quaran has not supplied shares or charged for the shares	1
	CGT implications	
	CGT is levied when there has been a disposal of a specified asset.	1
	Specified asset means immovable property and any marketable security.	1
	Immovable property includes land and buildings whilst marketable securities include debentures, shares, unit trusts, bonds and stock.	1
	Quaran had not disposed of any specified asset during the period hence there are no CGT implications.	1
	Available	6
	Maximum	5
b.	**QH**	
	Income Tax Implications	

Question 6 Suggested Solution

	An amount is included in gross income when it is from a source (or deemed to be from a sources) in Zimbabwe and is not of a capital nature	
	True source of an income is the location of the originating cause of the transaction.	1
	The source of dividend is the location of the investment or where the share register is kept.	1
	QH investment is in Zimbabwe therefore the true source is in Zimbabwe	1
	The source of interest income is where the credit facility is given.	1
	QH grants the credit facility to Quaran in Zimbabwe thus the true source of the interest is Zimbabwe	1
	Source for management fees is where the services are rendered	1
	The management services are rendered Zimbabwe thus the true source is Zimbabwe	1
	the dividends, interests and management fees are the fruits from the investment in shares (tree) – Vissier Case hence revenue in nature.	2
	The income shall be liable to tax in Zimbabwe as it was generated in Zimbabwe and the fact that Zimbabwe is source based and is of a revenue nature.	1
	Given that there is no double taxation agreement between Zimbabwe and Botswana, the income from interest, dividends and management fees may be liable to tax in both Zimbabwe and Botswana as QH is incorporated in Botswana.	1
	However, Section 93 gives relief where there is no double taxation agreement based on section 92 although this is at the Commissioner General's discretion.	1
	VAT implications	

	QH shall claim input tax on the share transfer on restructuring when they were charged VAT, when they are making taxable supplies and when they have proper documents.	1
	QH was not charged output VAT on the shares as the shares are financial services as defined hence VAT exempt.	1
	Also, the shares are from the shareholders, Coronat and Ovidy who are not VAT registered operators, hence QH was not charged output tax.	1
	As such, there are no VAT implications on the restructuring transaction.	1

	Output VAT shall be levied by a registered operator (R/O) when there has been a supply - Sec 6(1)	1
	QH is not a registered operator as it is incorporated in Botswana hence shall not be able to charge output VAT on its management services.	1
	There are no any VAT implications on the management services.	1
	The dividends are not a supply as defined hence there are no any VAT implications.	1
	There are no VAT implications on the interests as they are financial services as defined and QH is not a R/O hence cannot charge output VAT.	1
	CGT implications	
	CGT is levied when there has been a disposal of a specified asset.	1
	Specified asset means immovable property and any marketable security.	1
	QH acquired share which are specified assets.	1
	QH did not dispose of any specified asset during the period hence there are no any CGT implications.	1
	Available	25
	Maximum	20

c.	Ovidy and Coronat	
	Income Tax Implications	
	For the amount to be included in gross income, it should not be of capital nature	
	sale of shares is the disposal of the tree as the shares gives rise to dividends which are revenue in nature (fruit)	1
	the sale of shares shall not be included in the gross income of Ovidy and Coronat	1
	VAT implications	
	VAT is levied when there is a supply by a registered operator - sec 6(1)	1
	Ovidy is not a registered operator hence the sale of shares is not a supply as defined - Sec 2	1
	there are no VAT implications	1
	CGT implications	
	CGT is levied on the capital gain arising from the disposal of a specified asset	1
	specified asset means—immovable property; or any marketable security	
	marketable securities include debenture, shares or stock	1
	the shares are therefore a specified asset as defined in sec 2	1
	CGT is thus levied at 5% of the proceeds (assuming its after 22 February 2019)	1
	Ovidy and Coronat will be liable to 5% of the 50% shares disposed each.	1
	Available	10
	Maximum	8
	Communication	2

2	**Discuss with supporting calculations, the Income Tax and VAT treatment of identified transactions in Quaran's current business.**	

	a. South African and Botswana invoices	
	b. The I.T. specialist's services	
a.	**South African and Botswana invoices**	
	Income tax implications	
	The source of income is the location of the originating course.	1
	The source of the income from foreign students is Zimbabwe as the originating cause of the income is the educational services being offered by Quaran in Zimbabwe (Lever Bros).	2
	Botswana students	
	The payments by the Botswana students shall be included in full in the gross income for Quaran as it was received by Quaran in the 2019 YOA and is of revenue in nature.	1
	South Africa students	
	<u>2 students: Advance payment</u>	
	the advance payment was made in December 2018 being for the 2019 YOA	1
	the fees shall be included as gross income in the 2019 YOA as the services will be consumed in 2019 by the students – Sec 8(3)	2
	<u>1 student who paid half fees and stopped participation</u>	
	gross income is the amount received by or that accrue to any person in any YOA.	
	The half fees paid is an amount that has been received by Quaran hence it shall be included in gross income subject to sec 8(3)	1
	Quaran shall only include in its gross income the amounts relating to the 3 months until March as the balance has not been consumed as no services were rendered after the student stopped participation.	1

	The other half that was not paid up does not accrue as no services were rendered to the student hence Quaran was not entitled to the amount.	1
	As such, Quaran shall not include the balance not yet paid in its gross income as they had not rendered the service hence it was not due and payable to Quaran.	1
	<u>1 student with 4,000.00 accruing</u>	
	gross income is the amount received by or that accrue to the taxpayer in any YOA.	
	The student received educational services during the 2019 YOA hence the amount of 4,000.00 accrue to Quaran in the 2019 YOA.	1
	The amount of 4,000.00 is due and payable to Quaran in the 2019 YOA as the student's results have been withheld.	1
	the 4,000.00 accruing shall therefore be included in Quaran's gross income in the 2019 YOA.	1
	VAT implications	
	VAT is levied when there has been a supply of a service sec 6(1)b by a registered operator	1
	Quaran is a registered operator hence is obliged to charge output VAT on its supplies	1
	Botswana & South African students	
	since Quaran is registered with the Ministry of Education, its lectures, learning material, exam material, library material are educational services as defined - Sec 11(g)	1
	educational services are VAT exempt as Quaran is registered with the Ministry - sec 11(g)	1
	there are no VAT implications	1

	Available	19
	Maximum	13
b.	**The I.T. specialist's services**	
	Income tax implications	
	Expenditure on the income earning structure of a business is capital in nature	1
	The online technology is part of the income earning structure of the business as it is the technology that allows the students to learn online	1
	since the costs were for the improvement of the income earning structure, they are capital in nature. And will not be allowed as a deduction	1
	The online technology is computer software and will be granted an allowance as per sec 15(2)c)When owing to a variation in the rate of exchange of currency between Zimbabwe and any other country, the amount actually paid in ZWL differs from the liability incurred prior to the variation, the amount to be deducted shall be the amount actually paid in ZWL - Sec 15(1)a.	1
	Quaran can claim SIA on the cost of the improvement made by the specialist	1
	The cost will be amount paid in ZWL 50,000ZAR*4.06 i.e. ZWL203,000.00. thu.	1
	Capital allowances 24%*203,000	1
	VAT implications	
	Import VAT shall be levied when there has been an importation of services into Zimbabwe by any person – Sec 6(1)c	
	An imported service is a supply of services by a supplier who is who is resident outside Zimbabwe to a recipient who is a resident of Zimbabwe to the extent that such services are utilised in Zimbabwe – Sec 2	1
	The IT specialist is a foreign supplier resident in South Africa and Quaran is a local/Zimbabwe resident and the services are being utilised in Zimbabwe as the online learning technology is being utilised in Zimbabwe.	1

	As such, the IT specialists' services are imported services as defined by sections 6(1)(c) and section 13 of the VAT Act.	1
	Quaran shall be charged import VAT for the IT specialist's services - sec 6(1)c	1
	it shall be levied at the standard rate of 15%.	1
	The time of supply (TOS) is the time the consideration is paid, or invoice issued whichever is earlier. In this case, the earlier is the invoice date 10/02/2022.	1
	The value of supply (VOS) is deemed to be the consideration paid or open market value whichever is greater.	1
	since there is no OMV, then the VOS is ZAR 50,000.00*4.04 i.e., 202,000.00.	1
	output VAT is therefore 15%*50,000.00*4.04 i.e., 30,300.00.	1
	Input Tax	
	For Quaran to claim input tax, they need to be a registered operator, they should have been charged, should be making taxable supplies and should have the proper documentation	1
	Quaran are a category C VAT R/O, they have been charged Import VAT and they are making both taxable (advisory) and non-taxable supplies (educational services)	1
	the specialist's costs were specifically the online learning, which is an educational service and is a non-taxable supply	1
	as such, Quarn shall not be able to claim the input tax	1
	Available	20
	Maximum	15

3	**Discuss the income tax implications to the 4 employees of the amounts they received.**	
a.	**Lockdown**	5

	Income Tax	

	Employment income is income earned by an individual in respect of services rendered under any contract of employment and any amount received due to the cessation of employment (Section 8 (1) (b).	1
	The benefits received by Lockdown before death qualify as employment income as per 13 th Schedule.	1
	The salary received of $45000(15000*3) is part of employment income and is included in Lockdown's gross income and taxable in his hands.	1
	Amount paid to Lockdown in relation to leave days is also part of employment benefits and forms part of gross income and thus taxable in his hands.	1
	Long service golden handshake of ZWL$150,000 can be regarded as gratuity as it was a compensation of long service, and it also forms part of remuneration and shall be included in Lockdown's gross income and thus taxable (Section 8 (1) (b)).	1
	As for the $20000 that was paid by the employer towards funeral expenses. , it is also a benefit which arose due to the previous employment contract which Lockdown had and this makes it a taxable benefit in the hands of Lockdown .	1
	3rd Schedule only exempt an amount accruing by way of a benefit in respect of the injury, sickness or death of a person which is paid to the person or his dependents or deceased estate— (a) By a trade union; or (b) From a benefit fund; or (c) In terms of a policy of insurance covering accident, sickness, or death; or (d) By a medical aid society and which is not this case of Lockdown.	1
b.	Isolation	7
	Isolation retired on the 30th of April of 2022 since she had turned 55 years on the 12th of January 2022, and she is an elderly person as defined.	1
	The salary received before retirement date of $120000 (30000*4) forms part of her gross income and thus taxable.	1
	Since Isolation is an elderly person the benefit of the motor vehicle ($320000-$80000) will be exempt from tax (*Section 14 a.r.w 3rd Schedule*).	2
	A lumspum of ZWL$300,000 paid by Quaran as a way to thank Isolation for the services rendered qualify as gratuity as thus taxable in the hands of Isolation *(Section 8 (1)(b).*	1
	Since Isolation is an elderly person, an elderly credit of $117,000 per annum is granted. Amount which will be granted will be $3000 (4/12*$117,000).	1 1
	In terms of *section 8(1)(r)* to the Income Tax Act any amount received by way of commutation (lump sum) of a pension which is payable from the pension fund, is fully taxable.	1

	However, the exemption as per *3rd Schedule Paragraph 6 (h1),* do not apply since the employment ceased due to retirement and not retrenchment.	1
	The whole $450000 received from the pension fund will be taxable.	1
c.	**21-Days**	4

	In terms of *section 8(1)(r)* to the Income Tax Act any amount received by way of commutation (lump sum) of a pension which is payable from the pension fund, is fully taxable.	1
	However, as per the *3rd Schedule Paragraph 6 (h1)*, the lumpsum amount is exempt to the extent of the $ 800,000 or 1/3rd of such amount (whichever is the greater) of the amount which is paid to the employee on the cessation of his or her employment, where his or her employment has ceased due to retrenchment and the exemption shall apply only to the extent of $3,600,000.	1
	21-Days was retrenched on the 30th of November 2022 and received a lumpsum payment of ZWL$180,000 and of the amount received there is a portion which is exempted.	
	Calculation of the exempt portion 1/3*180,000 =60,000 $180,000 will be exempted since its 1/3 is less than than $800,000, specified as per 3rd Schedule.	1
	No amount will be taxable.	1
	In the case of a pension annuity the sum is taxable in equal streams in each year until the person dies. The pension is taxable in full on receipt or accrual basis, subject to certain adjustments. The amount which was (disallowed contribution) not allowed as deduction during the time of contribution will be received tax free where it is included in the pension being received. The dis- allowed portion should be deducted equally over the life of the pension from the annual pension being received.	1
d.	Virulent	7
	Gratuitous pay-out of ZWL$200,000 is part of employment benefit and forms part of Virulent's gross income and thus taxable in full *(Section 8(1)(b).*	1
	Virulent was using Toyota Fortuner 2800cc diesel SUV which is a motor vehicle benefit as per *Section 8 (1) (f).* As part of the benefit amount of $162,000 will be fully taxable.	1
	According to Section 8 (1) (f) a taxable benefit arises when an employee acquires a motor vehicle at a price below the market price. The benefit is determined as follows: ($800,000-$160,000) = $640,000	2
	Salary is employment benefit and forms part of Virulent's gross income and thus taxable. Amount of$960,000($80000*12) will be taxable .	1
	As for the fuel benefit the portion that was used for own use is taxable which is $ 216,000 ($18000*12).	1

	A loan from Quaran of ZWL$50,000 result in a loan benefit which will be taxable. The deemed benefit per annum is calculated at the rate of LIBOR plus 5% of the amount of the loan. The benefit will be $3,000 (5% + 1% *50,000).	1 1
	Discuss the income tax implications to the 4 employees of the amounts they received.	
e.	**Lockdown**	5
	Income Tax	

	Employment income is income earned by an individual in respect of services rendered under any contract of employment and any amount received due to the cessation of employment *(Section 8 (1) (b)*.	1
	The benefits received by Lockdown before death qualify as employment income as per *13 th Schedule*.	1
	The salary received of $45,000(15,000*3) is part of employment income and is included in Lockdown's gross income and taxable in his hands.	1
	Amount paid to Lockdown in relation to leave days is also part of remuneration and forms part of gross income thus taxable in his hands .	1
	Long service golden handshake of ZWL$150,000 can be regarded as gratuity as it was a compensation of long service, and it also forms part of remuneration and shall be included in Lockdown's gross income and thus taxable *(Section 8 (1) (b)).*	1
	As for the $20,000 that was paid by the employer towards funeral expenses , it is also a benefit which arose due to the previous employment contract which Lockdown had and this makes it a taxable benefit in the hands of Lockdown .	1
	3rd Schedule only exempt an amount accruing by way of a benefit in respect of the injury, sickness or death of a person which is paid to the person or his dependents or deceased estate— (a) By a trade union; or (b) From a benefit fund; or (c) In terms of a policy of insurance covering accident, sickness or death; or (d) By a medical aid society and which is not this case of Lockdown.	1
f.	**Isolation**	7
	Isolation retired on the 30th of April of 2022since she had turned 55 years on the 12th of January 2022, and she is an elderly person as defined.	1
	The salary received before retirement date of $1 200000 (300 000*4) forms part of her gross income and thus taxable.	1

	Since Isolation is an elderly person the benefit of the motor vehicle ($320,000-$80,000) will be exempt from tax (*Section 14 a.r.w 3rd Schedule*).	2
	A lumspum of ZWL$300,000 paid by Quaran as a way to thank Isolation for the services rendered qualify as gratuity as thus taxable in the hands of Isolation (*Section 8 (1)(b).*	1
	Since Isolation is an elderly person, an elderly credit of $117 000 per annum is granted. Amount which will be granted will be $3,000 (4/12*117 000).	1 1
	In terms of *section 8(1)(r)* to the Income Tax Act any amount received by way of commutation (lump sum) of a pension which is payable from the pension fund, is fully taxable.	1
	However, the exemption as per *3rd Schedule Paragraph 6 (h1)*, do not apply since the employment ceased due to retirement and not retrenchment.	1
	The whole $450,000 received from the pension fund will be taxable.	1
g.	**21-Days**	4
	In terms of *section 8(1)(r)* to the Income Tax Act any amount received by way of commutation (lump sum) of a pension which is payable from the pension fund, is fully taxable.	1
	However, as per the *3rd Schedule Paragraph 6 (h1)*, the lumpsum amount is exempt to the extent of the $ 8000,000 or 1/3rd of such amount (whichever is the greater) of the amount which is paid to the employee on the cessation of his or her employment, where his or her employment has ceased due to retrenchment and the exemption shall apply only to the extent of $3,600,000.	1
	21-Days was retrenched on the 30th of November 2022 and received a lumpsum payment of ZWL$180,000 and the whole amount will be taxed.	
	In the case of a pension annuity the sum is taxable in equal streams in each year until the person dies. The pension is taxable in full on receipt or accrual basis, subject to certain adjustments. The amount which was (disallowed contribution) not allowed as deduction during the time of contribution will be received tax free where it is included in the pension being received. The dis- allowed portion should be deducted equally over the life of the pension from the annual pension being received.	1
h.	**Virulent**	7
	Gratuitous pay-out of ZWL$200,000 is part of employment benefit and forms part of Virulent's gross income and thus taxable in full (*Section 8(1)(b).*	1
	Virulent was using Toyota Fortuner 2800cc diesel SUV which is a motor vehicle benefit as per *Section 8 (1) (f).* As part of the benefit amount of $162,000 will be fully taxable.	1
	According to *Section 8 (1) (f)* a motor vehicle purchase benefit is taxable. ($800,000-$160,000) = $640,000	2
	Salary is employment benefit and forms part of Virulent's gross income and thus taxable. Amount of $960,000($80,000*12) will be taxable.	1

	As for the fuel benefit the portion that was used for own use is taxable which is $ 216,000 ($18,000*12).	1
	A loan from Quaran of ZWL$50,000 result in a loan benefit which will be taxable. The deemed benefit per annum is calculated at the rate of LIBOR plus 5% of the amount of the loan. The benefit will be $3000 (5% + 1% *50000).	1 1

4	Discuss the considerations that Quaran needs to take before expanding into Botswana?	

	Botswana government's policy on foreign owned companies. Are there any indigenisation laws in place?	1
	Political landscape in Botswana, corruption and rent seeking behaviour by politicians.	1
	Whether they would be able to comply with Botswana's Ministry of Education's laws and regulations.	1
	Whether expropriation of profits from Botswana will be possible.	1
	Consider performing due diligence (own assessment) of Botswana's sovereign rating so that the ability to raise capital on the global financial market is not overrated.	1
	Will the global financial market find QH attractive enough so that they can provide capital.	1
	Does expansion into Botswana fit in with the strategy of Quaran?	1
	Are Coronat and Ovidy willing to do a share swap and own a stake in QH?	1
	Are there any double taxation agreements between Zimbabwe and Botswana?	1
	Consider tax implications on the management fees and withholding tax on the payment of dividends to QH.	1
	Does Botswana have adequate IT and other infrastructure to accommodate online learning and business?	1

	Are there adequate human resources with the required skills to conduct business in Botswana or personnel must be sent from Zimbabwe?	1
	Diversification of country risk as operations will be expanded into Botswana which has relatively a better economy than Zimbabwe.	1
	Level of competition in Botswana's educational services sector.	1
	Attitude of Botswana citizens towards conducting business with foreign owned entities, as preference might be given to local entities.	1
	Opportunities which might arise because of expansion into Botswana, for example, pathway in establishing a regional/global footprint.	1
	Whether rebranding of QH will be necessary, judging by the current reputation of Quaran.	1
	Available **Maximum**	17 15

Question 7: CTA 2018 L2 END OF YEAR EXAMINATION QUESTION 2

Topics Covered:

Calculation of Tax Payable by Deceased Estate and Trust

ALL AMOUNTS ARE IN ZIMBABWEAN DOLLARS AND EXCLUDE VAT

Tongai Mupeta was employed by DRM as a health and safety officer and had been with the company for 25 years. In February 2021, he turned 58 but was diagnosed with colon cancer and retired on 30 March 2021 before passing-on on the 26th of April 2021. Tongai was married to Pearl out of community of property and left behind 3 children, two of them being minors.

You are a recent CTA graduate working at Taxperts Consultancy. Mrs. Mupeta has approached your firm to assist her with the tax computations for Tongai for the 2021 year of assessment since part of the income is employment income. She gave you the following information:

Monthly salary for 2021 was $17,000 per month

Performance related bonus declared on the 1st of May 2021 for all employees who were employed by DRM as of 31 December 2020 $200,000.

Tongai had lent Tendai (a co-worker) $1,000,000 on 01 December 2020 and this was due to be repaid on the 31st of March 2021. The loan attracted interest of 24% per annum non-compounding but was payable monthly. Tendai only managed to repay the loan on 31 May 2021.

On 01 May 2021, Tongai's registered pension fund paid out a lumpsum of $450,000 from a fund amount of $1,200,000 as Tongai had opted to commute his pension before he died.

On 8 June 2021, Tongai received a dividend of R11,500 in an offshore account from a listed investment in South Africa. The exchange rate applicable was $1: R15.5.

During Tongai's retirement party on the 10th of April, DRM committed to pay a once-off gratuity lumpsum of $7,000,000 and a monthly annuity of $7,500 for five years from 1 May 2021.

In February 2021, DRM paid for a shortfall of $3,650 on Tongai's medical aid for a special scan. They also paid $7,000 for crutches for his son who injured his tendons while participating in sports at school.

Tongai contributed $19,500 towards his medical aid fund during the 2021 year of assessment.

Tongai had prepared a will and according to the will, his wife Pearl was to take their house which had a market value of $850,000 at the time of his death and $920,000 at the end of the year.

Tongai bequeathed his small retail business of two supermarkets to a Trust that was created out of the will. The trustees were to be his wife (to direct operations), an appointed lawyer (for all business secretarial work) and a Chartered Accountant friend (for the finances). The beneficiaries of the trust were to be his wife and three children with income going to be distributed depending on the financial performance of the trust and the ages of the children. The trust is to distribute to beneficiaries any profits more than $500,000 per annum in the ratios of 50% to his wife and 16.67% each to his three children. For amounts due to those children that would not have reached 18 years of age the amounts shall accrue to their mother.

The trust made profits of $720,000 (Taxable Income being $700,000 of this) evenly throughout the 2021 year of assessment and only one child was above the age of 18. Of the trust income, $50,000 of it was exempt income being dividends from a local listed company. The trustees were each paid $7,500 a month since 31 July 2021.

Required

	Calculate, with brief narrations, the Income Tax payable for the year ended 31 December 2021 for the following people: Tongai Mupeta (10) Tongai's Deceased Estate (8) The Trust & It's Beneficiaries (12)	30

Question 7: Suggested Solution

Tongai Mupenda's tax payable from employment for the year ended 31 December 2021				
	Narration	**$**		
Salary (17,000*3 months)	Section 8(1)b	51,000.00	1	
Bonus	Voted after death-not taxable	-	1	
Pension receipts	Not taxable	-	1	
Gratuity paid by DRM	Section 8(1)b	7,000,000.00	1	
Medical contributions	Private expense	-	1	
Medical expenses by DRM (7,650+7,000)	Exempt	-	1	
Taxable income		7,051,000.00		
Upto		3,768,000	1c	
Tax on differential 1,051,000*40%		420,400	1c	
Tax Credits				
Elderly Taxpayer (117,000*3/12)		(29,250.00)	1	
Medical Short fall (3,650*50%)		(1,825.00)	1	
Medical aid contributions by Tongai (19,500*50%)		(9,750.00)	1	
Tax Payable		4,174,575	1c	
Available			12	
Maximum			10	

b.

Tongai's Deceased Estate Taxable income for the year ended 31 December 2021

	Narration	$		
Bonus	Section 11 (4)	200,000.00	1	
Exempt Portion	3rd Schedule	(100,000.00)	1	
Interest on loan to Tendai	Not an asset in a deceased Estate	-	1	
Annuity	Section 11(4)(b)ii	-	1	
Pension	Pre Death	-	1	
Foreign Dividends (11,500/15.5)	Deemed Source	741.94	1	
Taxed at 20%		(741.94)		
Taxable income		100,000.00		
Tax @24.72%		24,720.00	1	
Foreign Dividends Tax at 20%		148.39	1	
Available			8	
Maximum			8	

c.

Taxable income in the Trust's hands			
Taxable income		700,000.00	1
Distribution to beneficiaries		(200,000.00)	1
Trust Taxable income		900,000.00	1
Tax @ 24.72%		231,750.00	1
Pearl's Taxable income			
Income form Trust (200,000*50%)		100,000.00	1
Income deemed from Trust (200,000*2 minor children*16.67%)		66,680.00	2
Annuity		112,500.00	1
Taxable income for Pearl		**279,180.00**	
Tax Payable by Pearl @24.72%		71,888.85	1
Taxable income for the adult child			
Trust Income (200,000*16.67%)		33,340.00	1
Annuity (7,500*5)		37,500.00	1
Taxable Income		70,840.00	
Tax Payable by the adult child @24.72%		18,241.3	1
Available			12
Maximum			12

QUESTION 8 - CTA L2/FT TEST 1 2022

Topics Covered

-Income tax

-VAT

C All amounts are exclusive of value added tax (VAT) and are in the United States Dollars (USD) uness otherwise stated. Tomas Tsvigiri Ltd (TT), is a leading agri-business company which is involved in the farming of sugar, ethanol, animal feeds and cattle, with a significant asset base and footprint in the Southern Africa region. TT implements a stakeholder-inclusive approach, in which the governing body takes account of the legitimate and reasonable needs, interests and expectations of all. The company created mutually beneficial relationships with various of its stakeholders i.e., its shareholders, government, private farmers and their representative bodies, employees, as well as the communities surrounding TT's farms that are impacted by the company's operations. TT was formed through a merger between the Tomas Corporation Limited and the Tsvigiri Group Limited, with both their operations dating back to the 1800s. TT had a primary listing on the Zimbabwe Stock Exchange since 1985. TT has operations in 5 Southern African countries (South Africa, Botswana, Mozambique, Angola and Zimbabwe) and is headquartered the lowveld region in Zimbabwe. TT is registered for VAT under category C and has a 31 December year end. TT has always been in compliance with the regulations set by the Sugar Production Control Act (SPCA).

The Zimbabwean sugar operations consist of the Triangle plant and a 50,3% stake in Hippo Valley Estates. The operation has a combined sugar milling capacity of more than 640 000 tonnes. The total refined sugar installed capacity is 620 000 tones, and the Triangle ethanol plant has an installed capacity of 41 million litres over a 48-week production season.

TT's sugar, Sunsweet® brand is the leading sugar brand in Zimbabwe. The country's lowveld region has excellent topography and climate, an established water storage and conveyance infrastructure for irrigation, and is recognised globally as a highly competitive sugar producing area. TT's Zimbabwean operations also include the country's largest cattle herd and extensive game reserves, which have significant potential for tourism.

In South Africa TT operates four sugar mills located in KwaZulu-Natal on the north coast and in the Zululand region. Together, these mills can produce more than 1 million tonnes of sugar per year from cane sourced from rain-fed estates, large-scale commercial, and small-scale private farmers in rural KwaZulu-Natal. The mills are not independent branches as the accounting system and management are run from the Triangle offices in Zimbabwe.

TT is also involved in the process of converting non-agricultural land into agricultural land (land conversions) by collaborating closely with the public sector, communities, and other businesses. These partnerships continue to increase in scope and socio-economic impact. Their development activities support a comprehensive, embedded social programme and are yielding increasing opportunities for well-located, affordable neighborhoods', enabling transformation of ownership and participation in the real estate value chain.

TT Chief Financial of TT officer needs advice on the following issues that arose during the 2021 financial year:

Transfers

Transfer to KwaZulu Natal

Due to a drought that hit the KwaZulu Natal region, TT had to transfer 1 000 tones of sugar a month for the whole of 2021 year of assessment from Triangle to avoid customer supply disruptions. The sugar transferred to Kwazulu Natal had a market value of US$498 per tonne and this was delivered by an independent Zimbabwean local transporter who charged US$110 per tonne per kilometer.

Transfer of land

TT has 50 000 hectares of land which it has always held with the intention for future sugar farming expansion. The management at TT has decided that instead of continuing holding the land, its better to put the land to use while also giving back to the community. The following land deal was finalized in the 2021 year of assessment:

TT transferred land to some residents of Triangle.

TT transfers the land to local Triangle resident for no consideration.

Resident agrees to sale all produce to TT at prevailing markets rates.

TT will build access roads for ease of transporting sugarcanes. They estimate it will cost ZWL3 600 000 through a non-registered operator.

TT will also offer the farmer a 22% pa interest loan of ZWL540 000 to assist them to buy farming equipment. The loan is repayable in 3 years in a once-off bullet payment.

Sugar sales

As part of their expansion program TT bought 300 hectares of land along the Zambezi River, from Mr. Ndebele, a chartered accountant (CA (Z)), where they plan to do crocodile farming. Mr. Ndebele is not VAT registered operator. For the land TT gave Mr. Ndebele 300 tonnes of sugar at US$619 per ton as well as 20% shareholding in the crocodile business valued at US$300 000 for the 20% only. The US$619 per tonne was 80% above the market price and the seller agreed that the value of the land is equal to the value of the sugar that he received. Mr. Ndebele is a long-time friend of the CEO and Chairman of the TT board. The transaction was approved by both the CEO and Chairman without it being tabled for any annual general meeting or board meeting. Both the CEO and Chairman are CA(Z)'s and the Chairman was CEO of TT 3 years ago before he was appointed chairman of the board. The other investor in the crocodile farming business Mr. Khumalo, an old friend of the CEO of TT from university.

Sale of property

TT sold some vehicles and equipment at an internal auction. The vehicles sold have the following details:

Vehicle type and year of purchase	Engine capacity	Purchase price	Book Value (ZWL)	Market value (ZWL)	Auction price (ZWL)
Chevy Spark Sep 2019	1 200cc	300 000	200 000	219 000	125 000
C Class Feb 2020	2 000cc	7 500 000	6 750 000	6 900 000	3 250 000

Both vehicles were bought by Mr. Abrahams who works at TT as a Production manager. Abrahams is 58 years old and did not use of any of the vehicles as an employee.

The equipment sold was as follows:

Equipment type and year purchased	Purchase price (USD)	Book Value (USD)	Market value (USD)	Auction price (USD)

3 * forklifts Oct 2018	3 000(each)	1 000(each)	300(each)	150 (each)
100 HP Electric motor Feb 2020	7 500	6 750	6 900	3 250
60 pairs gumboots Jan 2020	15 each	0 each	5 each	2 each

The forklifts were sold to JJ construction, a VAT registered operator. JJ intends to use the forklifts at their warehouse.

The electric motor was sold to Jim Bone an employee of TT. Jim wants to use the electric motor at his welding shop where he has a machine that uses the motor. Jim is not VAT registered and the welding shop is also not VAT registered and is run as a sole trading business by Jim.

The gumboots were sold to Sarah Garwe, also an employee of TT who owns a clothing shop in Glen View 8. Sarah intends to resale the gumboots as they are still in good condition and has a market for them. The clothing shop is VAT registered but Sarah is not. The gumboots managed to be sold for $7 a pair at Sarah's shop.

Repairs

TT has a plant that required a major repair during the 2021 year of assessment. Unfortunately, there are no local experts for the repair work and TT had to enlist the services of Robert Van Helsing (Robert), a German engineer. TT paid for Robert's flight to and from Germany as well as the covid tests he had to undergo. They also paid for his room and board whilst he was in Zimbabwe for the 2 months, he had to fix the plant. The following are the costs that TT incurred:

Description	Cost
Return ticket from Germany – Qatar Airways	USD 3 500
Hotel – Meikles (VAT registered)	USD 7 200

Lunch and dinner from a VAT registered supplier	ZWL 240 000
Spares – import from China includes duty	USD 35 000
Repairs cost – paid to Van Helsing after repairs were finished	USD 17 500

Audit

TT has been audited Erring and Yonda Chartered Accountants for the last 5 years. The board has recommended that for the 2021 audit they change their auditor after failing to settle the outstanding balances from previous years. The Audit committee has suggested Riske Auditors (Riske) to replace Erring and Yolanda. The CEO effectively authorized the appointment of Riske for the audit of the 2021 financial statements. Riske is a small audit firm which is run by 2 partners both of which have many years of auditing experience. One of the partners at Riske, Mr. Khumalo, used to be a study partner of TT's CEO whilst doing CTA at Unisa. The firm has a staff compliment of 15 junior audit staff, 5 managers and an HR officer. Riske has no international affiliates. None of the 5 managers have ever audited a business with international branches but have extensive audit experience with the manufacturing industry. Currently, none of Riske clients is listed on the ZSE but both partners have previously audited ZSE listed entities. The 2 partners each currently have 4 clients each which they are currently working on.

<u>APPENDIX 1 – TAX RATES</u>

For any rates and amounts for employment income refer to the tax tables given below;

Segment of income per annum (ZWL)	Amount (ZWL)	Rate within segment (%)	Tax	Cumulative tax
Up to 300,000	300,000	0%		0
300,001 to 720,000	720,000	20%	144,000	144,000
720,001 to 1,440,000	1,440,000	24%	360,000	504,000

1,440,001 to 2,880,000	2,880,000	30%	864,000	1,368,000
2,880,001 to 6,000,000	6,000,000	35%	2,400,000	3,768,000
6,000,001 and above		40%		
Segment of income per annum (USD)	Amount (USD)	Rate within segment (%)	Tax	Cumulative tax
Up to 1,200	1,200	0%		0
1,201 to 3,600	3,600	20%	720	720
3,601 to 12,000	12,000	24%	3,000	3,720
12,001 to 24,000	24,000	30%	7,200	10,920
24,001 to 36,000	36,000	35%	12,600	23,520
36,001 and above		40%		

Required		Marks	Total marks
	Discuss with calculations, the income tax and VAT implications to TT for the 2021 year of assessment of the transactions in: Note 1,1 Note 2.	 8 16	 24
	Discuss the income tax and VAT implications to TT for the 2021 year of assessment of the transactions in note 1.2. *Communication: Logical flow*	29 1	 30

	Discuss any ethical concerns you may have with the transaction in Note 2. *Communication: Logical flow*	9 1	10
	Discuss the income tax and VAT implications of the transactions in Note 3 in the hands of TT in the 2021 year of assessment. *Communication: Logical flow*	20 1	21
	Total	85	

QUESTION 8 SOLUTION

a.	Discuss the income tax and VAT implications to TT of the transactions in 1. Note 1,1 3. Note 2	Marks
	Note 1.1	
	Income tax implications	
	Amounts are included in gross income when they have been received by a taxpayer.	1
	The plants in KwaZulu Natal are an extension of TT operation hence there is no transaction done as The KwaZulu natal plants are branches of TT and they are not separate tax payers.	1
	, therefore the $498 per tonne does not constitute gross income as TT is not entitled to the amount.	1
	TRANSPORT SERVICES	
	Allowable deductions are actually amounts that have been paid or incurred or paid. CALTEX OIL VS SIR	2
	The transport costs will be incurred by TT will be deductible this this amount has been paid to the transporter	
	VAT implications	
	Transactions which are not part of trade do not attract VAT (section 6(1)(a)).	1
	The definition of trade excludes transfers to a branch which is not independent and a branch is independent when it has a separate accounting system. (section 2(a) proviso II)	1
	The plants in KwaZulu Natal region do not have separate accounting systems hence they are not independent.	1
	The supply of the sugar to these branches does not constitute trade.	1
	Therefore, No VAT shall arise.	1

	TRANSPORT SERVICES	
	VAT is claimed when charged and when making taxable supplies.	
	TT is making taxable supplies (sugar is a taxable supply)	
	Option 1: Assume that the transporter is a registered operator- The transporting services would have been charged tax at ZERO as per section 10(h)	
	Option 2: Assume that the transporter is not a registered operator, there TT was not charged and cannot claim input tax.	
	Available	8
	Maximum	6
	Note 2	
	Income tax implications	
	Acquisition of land	
	Amounts which are capital in nature are not allowed a deduction section 15.	1
	The intention of the transaction is acquire land.	
	Land provides an enduring benefit to TT as it can be used for more than a year of assessment hence it is capital in nature.	1
	The acquisition will not be allowed a deduction.	1
	Land does not rank for capital allowances hence no capital allowances are claimable.	1
	VAT implications	
	Acquisition of land	
	TT was not charged VAT as the previous owner is not registered for VAT.	1
	However, TT is a registered operator and claim notional input tax on the where stamp duty was paid on the transfer.	1

	Acquisition of land using Sugar	
	The use of sugar to acquire land constitute trade hence a taxable supply as per section 6(1) (a).	1
	The sugar is standard rated.	
	Time of supply is earlier of invoicing, delivery or payment.	1
	Value of supply is consideration less VAT.	1
	Consideration for the sugar is the land, therefore value of the land is the consideration.	1
	VAT charged will be $27,855 (15%*300tonnes*$619)	1
	Shares issue	
	Share issue is outside of TT's hands as they are shares in a newly formulated company/business.	1
	Available	17
	Maximum	15
b.	**Discuss the income tax and VAT implications to TT for the 2021 year of assessment of the transactions in note 1.2.** ***Communication: Logical flow***	29 1
	Note 1.2	
	Income tax implications	
	Transfer of land	
	Amounts which are capital in nature are not included in gross income section 8.	1
	The transfer of land to the local Triangle residents for no consideration is a disposal of the land.	1

	The land is a tree from which fruits in the form of farm produce thus it is capital in nature. Visser case	1
	The disposal of land will not be included in the gross income as it is of a capital nature.	1
	Land does not rank for capital allowances hence no recoupment shall arise.	1
	The donation of the land will not be deductible as it is not one of section 15(2) donations	
	Acquisition of sugar cane	
	Amounts incurred for the purposes of trade are allowed a deductions section 15.	1
	Amounts are for the purposes of trade when they are a necessary concomitant of trade. PE Tramway case.	1
	The acquisition of all sugar produce from farmers is to enable TT to produce sugar hence it is a necessary concomitant of trade.	1
	The purchase price of the farm produce will beat market rates hence it will be an allowed deduction.	1
	Access roads	
	Access roads will be a donations to the farmers but the donation does not meet th section 15(2)r donations.	
	Loan	
	Expenditure incurred is allowed a deduction when it has been incurred.	1
	Incurred means a taxpayer has an unavoidable obligation to pay/settle.	1
	TT will receive a once-off bullet payment in 3 years hence on giving the loan it did not incur an amount.	1
	The $540,000 will not be allowed a deduction.	1
	22% interest	

	Amounts which are revenue in nature are included in gross income. Section 8(1).	1
	The interest is a fruit of the loan granted to the farmers hence it is revenue in nature.	1
	Amounts are included in gross income when accrued to a taxpayer.	1
	Accrued means the taxpayer is entitled to the amount or it became due and payable.	1
	At the end of each year, the 22% interest becomes due and payable to TT hence it shall be included in TT's gross income.	1
	VAT Implications`	
	The transfer of land constitutes a taxable supply as per section 6(1)(a).	1
	The transfer of land constitute trade as TT is using the land to secure the acquisition of farm produce from farmers (consideration).	1
	The land is standard rated hence VAT shall be charged at 15%.	1
	Time of supply is the earlier of invoice ,delivery or payment of any consideration, registration of transfer of ownership or where there is no payment date of agreement	1
	Value of supply is consideration less VAT.	1
	Loan	
	Financial services are exempt for VAT section 11.	1
	Both loan and 22% interest are financial services hence no VAT will be charged.	1
	Available	31
	Maximum	29
c.	**Discuss any ethical concerns you may have with the transaction in Note 2**	Marks
	It is a concern that there is no compliance with the requirements of the COBE on the following items:	1

	The CEO and the Chairman authorized the issue of shares without the authorization by the board of directors.	1
	The acquisition of the land was not approved by the board of directors but was only approved by the CEO and Chairman	1
	Both the CEO and the chairman did not disclose conflict of interest on the transaction that involved their friend Mr Ndebele.	1
	Section 54 prescribes that the directors should act in good faith and in the best interest of the company buying /selling the property at 80% above the market value of the sugarcane was not in the best interest of the company.	1
	Section 55 of the COBE requires directors to act with loyalty when performing their duties, but not disclosing their relation a. The CEO and the Chairman were not being loyal.	
	In relation to CPC, the integrity of the CEO and the Chairman is questionable as:	1
	They are colluding to inflate prices and defraud their close business associates	1
	They are not complying with the applicable rules and regulations set out by the COBE by authorizing the issue of new shares without the authorization of the board.	
	The King IV requires that those charged with governance should lead in acting ethically and effectively, the CEO and the chairman both did not behave in an ethical manner and effectively by concluding a deal that is highly inflated without consulting the board.	1
	The CEO and the Chairman are carrying out reckless trading as they are charging amounts which are exorbitantly high than the normal transactions which is not in compliance with regulations put in place by Sugar Production Control Act.	1
	The non-compliance with the Act will result in the following:	1
	Reputational damage	1

	Heavy fines and penalties which may affect the liquidity of the organization Loss of operating license for non-compliance	1
	The company is not fairly applying the good for self and good for others principle as: Bad for others Inflating the sugar price will defraud Mr. Ndebele who is going to be an important shareholder in the Crocodile farming business Good for self By inflating the sugar prices, TT will be acquiring the land at very low prices which will result in a cash saving.	 1 1
	Available	11
	Maximum	9
	Communication	1
d.	**Discuss the income tax and VAT implications of the transactions in note 3 in the hands of TT.**	Marks
	Income tax implications.	
	Amounts which are capital in nature are not included in gross income.	1
	The motor vehicles, forklifts and electric motor and gumboots are capital in nature as they offered an enduring benefit to TT as they can be used for more than one year of assessment.	1
	Hence the amounts received are not included in gross income.	1
	However, section 8(1)(j) brings recoupment into gross income	1
	Recoupment is the difference between the proceeds and the income tax value limited to the capital allowances previously granted	1
	Recoupment on Chevy Spark: Proceeds (100,000/300,000*125,000) 41,667	 1

	ITV 100,000 - (100,000*24%*2years) 50,000 Recoupment 0	1
	Recoupment on C Class: Proceeds (100,000/7,500,000*3,250,000) 43,333 ITV 100,000 - (100,000*24%*1year) 75,000 Recoupment 0	 1 1
	Recoupment on 3 forklifts: Proceeds (150*3) 450 ITV 3000 - (3000*24%*3years) 750 Recoupment 0	 1 1
	Recoupment on Electric motor: Proceeds 3,250 ITV 7500 - (7500*24%*1year) 5625 Recoupment 0	 1 1
	Recoupment on gumboots Proceeds ($2*60) 120 ITV 900-(900*24%*1) 674 Recoupment 0	 1 1
	VAT implications	
	TT sold goods through an internal auction which does not meet the definition of an auctioneer	1
	The sale of second motor vehicles excluded from sec 6(1)(a) therefore TT cannot charge	1
	TT sold 3 forklifts, an electric motor and gumboots TT shall be responsible for charging and remitting VAT to ZIMRA as these are taxable supplies	1
	All the supplies are standard rated	1
	Time of supply is the earlier of invoicing or delivery or payment.	1
	Value of supply is the consideration less VAT.	1
	Value of supply shall be as follows:	1.5

	3 forklifts is USD450 (0.5marks) Electric moto USD3,250 (0.5marks) Gumboots USD2 (0.5marks)	
	VAT charged is therefore 3 forklifts USD65.25 (0.5marks) Electric motor USD471.25 (0.5marks) Gumboots USD0.29 respectively (0.5marks)	1.5
	Available	**24**
	Maximum	**19**

QUESTION 9 - CTA L2/FT EOS 2022

Topics Covered

- VAT.
- Income tax
- Ethics

All amounts are exclusive of value added tax (VAT) and are in ZWL unless otherwise stated.

Hometogo Private Limited ("Hometogo") is medium sized organization incorporated in Zimbabwe and it is a subsidiary of Airbnb Limited, a company which is resident in Namibia. Hometogo provides an online marketplace that enables people to list, find and rent accommodation such as single rooms, apartment houses etc., for a processing fee. Hometogo has its own board of directors which ensures compliance with the requirements of the National Code of Corporate Governance of Zimbabwe (NCCGZ) and its operations are independent of the operations of the parent. The company is registered as per the requirements of the Zimbabwean Companies and Other Business Entities Act (COBE).

The company grew tremendously since inception due to its limited business risks as its business model enables it to be the biggest accommodation provider in Zimbabwe even when the company neither owns nor rents a single room. The business model builds on the strong belief that house owners are willing to rent out free space to strangers.

1. Business Operations

The company is consistently building and maintaining a host network which enables the owners of different properties to list their properties for rental purposes. This is enabled by a matching algorithm which matches a host (property owner) and the traveler (the client). Users from all over the world can access the host network remotely and input the locations where they are interested in visiting and the algorithm matches the user preferences with available accommodation properties which are available in the selected locations.

On the other hand, the company is also consistently building strategic partnerships with owners of the different properties. This enables the company to have a steady supply/access to different properties all over Zimbabwe. Most property owners welcomed this innovation as it is an easier way to manage their properties whilst getting high returns on their properties. This model has been very fruitful to both parties as it enables the parties to have a wider market as clients or users of these properties come from all over the world. The other benefit to both parties is easy access to foreign currency as the prices of accommodation are quoted in foreign company has a strict policy of selecting property owners to work with as it is the quality of the service provided by these owners that determines the customer retention of Hometogo (a poor service on the property owner's part will not enable Hometogo to retain clients and will lead to poor recommendations). Hometogo and every property owner (host) negotiate a unique contract which has unique terms and conditions as well as methods of payment.

To ensure the safety of the properties used, the company built strategic partnerships with insurance companies (property insurance for hosts and guests and this increased the willingness of property owners (hosts) to provide their properties to travelers).

Hometogo's operations have significantly grown over the years as the company got strong support from the Ministry of Tourism in Zimbabwe. The company was appreciated by the ministry as it attracts foreign travelers which is significantly bringing traffic to tourist attracting places such as Victoria Falls and Nyanga. The greatest challenge faced by Hometogo is that its businessis a bit seasonal as its clients tend to travel a lot during holidays such as Christmas and Easter. The travelers have shown support to Hometogo as the travelers can conveniently find a selectionof accommodation at affordable prices in the comfort of their homes. Travelers can easily access book and pay for accommodation remotely via the Hometogo mobile app or website.

In January 2021, the management of Hometogo acknowledged the dynamic shifts which are being witnessed in the business world mainly due to the vast innovations in the technological world. As such, the management reinvented its marketing policy and abandoned the traditional marketing strategies and adopted an aggressive marketing policy based on the followership of social media influencers such as bloggers, photographers, actors, and musicians. These individuals are contracted to share stories of their individual travel whilst marketing the Hometogo facilities and services. Each influencer is contracted on a 24-month contract, and they are required to post/share stories related to Hometogo on their social media handles on Instagram, twitter, YouTube and Facebook at least once every month. This marketing strategy currently uses international influencers only as these individuals can reach a wider audience with more disposable income.

2. Pending lawsuit

Hometogo is being sued by a collective social media activist for violation of confidentiality polices. This court case was considered to be strong as there are numerous online complaints from different individuals who raised concerns that Hometogo was selling their private information collected on their online platforms to third parties for marketing purposes despite the outlining on all their online platforms that the company will maintain confidentiality of all their users' information. In the meeting meant to establish a strategy of handling the lawsuit, the operations director of Hometogo, Mrs. Mukanya highlighted that the modern day is characterized by the dog-eat-dog[1] mantra even though she acknowledged that the lawsuit needed to be managed strategically otherwise it would significantly affect their operations.

3. Expansion plans

In the 2020 annual general meeting, the board agreed to diversify the company's operations by venturing into a taxi service business. The taxi service business will start as an extension/division of Hometogo operations with the aim of unbundling the division into a separate legal entity after assessing the performance of the division in two years' time. The strategy to be adopted for the taxi service business is to leverage on the modern technology whereby customers can book a taxicab from any location using a mobile application connected to the internet. The business will have a central base which will be able to track the locations of all its taxis and allocate the available taxis to the location where a taxi is booked. To develop the application, Hometogo contracted a local software developer who was still in process of developing the application as at 31 December 2021 and the delay was due to unforeseen circumstances outside both parties control.

For the services being rendered the software developer invoiced $1,800,000 but Hometogo agreed to settle the software developer by transferring an office building in Harare central business district (CBD) as full and final settlement. Ownership was set to be transferred on 31

[1] used to refer to a situation of fierce competition in which people are willing to harm each other in order tosucceed.

December 2021. The building had been acquired in March 2018 through a court case as full and final settlement of an outstanding balance of $1,700,000 as one of the debtors of Hometogo was declared bankrupt. Hometogo had been renting out the building to an unconnected person at market related rentals.

The accountant of Hometogo is not sure of the value of the property for the purpose of concluding the transfer to the software developer. As such, a separate sworn valuer was contracted to value the property and the following valuations were presented:

Flea market mall

Most buildings in Harare CBD are now being converted for use as flea market malls. The office building can easily be converted into flea-market malls at insignificant costs. Similar flea market malls are valued at $1,400,000 based on discounted future cashflows.

Market Values

This method was used to determine the potential market value of the building and the value determined was $1,200,000. A total of three similar building prices realized upon the disposal of the buildings were averaged to determine the market value of the building. The first building was sold for $1,300,000 by Old Propertie Holdings, a well-established real estate dealer. The second building was sold for $1,100,000 through a court order by a family which was struggling to settle an outstanding loan balance. The third building was sold for $1,200,000 by another real estate company called Matamba Properties.

Discounted Valuations

This method used the future expected cashflows for the remaining useful life of the building which was estimated to be 14 years and were discounted using the weighted cost of capital and gave a value of $1,600,000

Residential flats

The building could also be converted into small residential flats for bachelors which are averagely valued at $1,750,000 using future cashflows. However, the costs of conversion were material as each flat will have to be fitted with toilet facilities. On top of that, the building is situated at the heart of the CBD and City of Harare does not allow buildings inthat area to be used for residential purposes.

4. Transactions concluded during the 2021 financial year

4.1 Hometogo platforms collected a total of $300 million in the FY2021 on behalf of the property owners of which 20% of that amount is estimated to be collected from Zimbabwean travelers. Hometogo also received $5 million (not included in the $300 million) as processing fee for the use of its platform by travelers. 20% of the processing fees is also estimated to be access to Hometogo's platform by Zimbabwean travelers.

4.2 The Ministry of Tourism and Hospitality Industry of Zimbabwe provided Hometogo with funding totaling $5 million in the FY2021. The amount was provided to enable Hometogo develop a world class, safe and secure algorithm as this was the strongest point of the business. The Ministry of Tourism is considered as a key partner of Hometogo and the management of Hometogo believe this relationship can significantly benefit the business as it can have influence on the development of policies that can benefit the business.

4.3 A total of $1.8 million was spent on marketing services received from a local VAT registered operator. This amount was paid on 1 January 2021.

4.4 Hometogo paid management fees of $3.5 million to its parent company in the FY2021. Hometogo only received the invoice relating to this expenditure in early 2022.

4.5 Hometogo received a consignment comprising of 10 heavy duty laptops from China at a totalcost of $100,000 including freight and duty charges. The laptops arrived at the Beitbridge boarder post on 15 February 2021 and were delivered to Hometogo offices the following day.Upon delivery, the IT department established that the laptops were not compatible with the operating systems of Hometogo. To avoid the shipment complications such as delays due tolockdowns, Hometogo management decided to donate all the laptops to the Harare Children's Home for learning purposes. The management saw this as an opportunity to fulfiltheir corporate social responsibility duty.

5. Employee related costs.

The algorithm is to be monitored 24 hours every day and as such, the IT team monitors the system in rotated shifts. Hometogo thus provides free meals to all its IT staff members to ensure continuous monitoring of the system. A total cost of $16,500 was incurred on the staff meals for the FY 2021.

On top of that, Hometogo supports its employees by contributing to two retirement funds on behalf of their employees. The arrangement is as follows:

- Hometogo contributes 50% to a pension fund on behalf of the employee.
- The employee has an option to select a retirement annuity fund of their choice and Hometogo will assist the employee by contributing another 50% of the contributions.

During the year, the company's Head of IT, Mr. Jongwe a 54-year-old man, was forced to retire after sustaining injuries in a car accident. Upon retirement on the 1st of October, Mr. Jongwe was entitled to a $5,000 monthly annuity from the pension fund. Mr. Jongwe's contributions were all allowed a deduction for income tax purposes.

Mr. Jongwe selected to contribute to the Munhenzva retirement annuity fund (Munhenzva), his total entitlement from Munhenzva was $60,000. The retirement annuity fund paid $40,000 as a lumpsum on his retirement. The retirement annuity fund will also pay $1,000 annually beginning January 2022.

6. Additional information

- The company has never declared any dividends since its incorporation despite vast profits generated during this period.
- The company prepares its financial statements using the International Financial Reporting Standards (IFRS).
- Assume a Namibian Corporate tax rate of 24%.
- The company is also a registered VAT operator under category B and has a year end of 31 December.

APPENDIX 1 – TAX RATES

1. For any rates and amounts for employment income refer to the tax tables given below;

Segment of income per annum (ZWL)	Amount (ZWL)	Rate within segment (%)	Tax	Cumulative tax
Up to 300,000	300,000	0%		0
300,001 to 720,000	720,000	20%	144,000	144,000
720,001 to 1,440,000	1,440,000	24%	360,000	504,000
1,440,001 to 2,880,000	2,880,000	30%	864,000	1,368,000
2,880,001 to 6,000,000	6,000,000	35%	2,400,000	3,768,000
6,000,001 and above		40%		

Segment of income per annum (USD)	Amount (USD)	Rate within segment (%)	Tax	Cumulative tax
Up to 1,200	1,200	0%		0
1,201 to 3,600	3,600	20%	720	720
3,601 to 12,000	12,000	24%	3,000	3,720
12,001 to 24,000	24,000	30%	7,200	10,920
24,001 to 36,000	36,000	35%	12,600	23,520
36,001 and above		40%		

Required		Marks	
a.	Discuss the income tax implications of the transactions in **note 4.1** to **4.3** in the hands of Hometogo in the 2021 year of assessment. ***Communication: Logical flow***	**16** **1**	**17**
b.	Discuss the income tax and VAT implications of management fees in **note 4.4** in the hands of Hometogo in the 2021 year of assessment. ***Communication: Logical flow***	**15** **1**	**16**
c.	Discuss the VAT implications of 10 heavy duty laptops in **note 4.5** in the hands of Hometogo in the 2021 years of assessment.	**10**	**10**
d.	In a memo, advise the management of Hometogo on the income tax implications of the expansion plans in **note 3.** Assume a market value of $1,600,000 was agreed. ***Communication: Memo format***	**11** **1**	**12**
e.	Write an email to Mr. Jongwe in which you advise him on the income tax implications of the amounts he received from Hometogo in the 2021 year of assessment ***Communication: Clarity of expression***	**15** **1**	**16**
f.	Discuss any ethical concerns notable in the scenario in the hands of Hometogo	**7**	**7**
g.	Discuss the VAT implication of the transaction on the **note 4.1**	**7**	**7**
Total		**85**	

QUESTION 9 - SOLUTION

a	**Discuss the income tax implications of the transactions in note 4.1 to 4.3 inthe hands of Hometogo in the 2021 year of assessment**	16 1C
	Note 4.1	
	300 million collected from Zimbabwean and non-Zimbabwean travellers	
1.	Amounts are only included into gross income if they are received by the taxpayer for his own behalf and his own benefit	1
2.	Geldenhuys vs CIR	1
3.	The whole amount of 300 million received from should be paid over to homeowners since the travellers book rooms and pay for them using Hometogo platforms	1
4.	The payments in respect of accommodation that are made via Hometogo platforms are not received by Hometogo on their own behalf and benefit	1
5.	The whole payment of 300 million will not be included in gross income, only the portion which relates to the fees received in return for services rendered by Hometogo shall be taxable in their own hands	1
	Service fees received by Hometogo	
6.	The source of income for services rendered is where the services are rendered COT (SR) vs Shein 1958v	1
7.	Hometogo is providing a service of linking travelers to vacant properties of home owners and they are earning fees in reciprocation for offering that Service	1
	The source of all fees earned by Hometogo is Zimbabwe since they are rendering those services in Zimbabwe	1
	All the fees charged by Hometogo are therefore taxable in Zimbabwe since their true source is Zimbabwe	1
	Both the 80% and 20% received from local and foreign customers is taxable	1
	Therefore, shall be included in the gross income in 2021 year of assessment.	1
	Note 4.2	
	Sec 8(2)m any amount received or accrued by way of grant or subsidy in respect of any expenditure allowed or allowable as a deduction under this Act or a previous law	1
		1

	The government grant is being used to incur an expenditure that will not be allowed as a deduction as the amount will be of capital nature since it will be used to build a structure which will be used to generate revenue through quality services	2
	Therefore, the grant will not be included in gross income as it is of capital nature.	1
	Note 4.3	
	Amount allowed as a deduction when incurred for the purpose of trade	1
	Marketing expenses are incurred for purpose of trade as incurred to boost the sales of the entity	1
	Therefore 1.8million is allowed as a deduction.	1
	TOTAL AVAILABLE	17
	REQUIRED	16
	Communication mark-Awarded for discussion of all point 4.1, 4.2 & 4.3	
B	**Discuss the income tax and VAT implications of management fees in note 4.4 in the hands of Hometogo in the 2021 year of assessment.** **Communication: Logical flow**	15 1C
	Income tax	
1.	Amounts are allowed as deductions when incurred for the purpose of trade	1
2.	Management fee was paid for the purpose of trade as it is paid for management services from the parent company (Namibia).	1
3.	Port Elizabeth Tramway Case	1
4.	Therefore, $3,5millionwould ordinarily be allowed as a deduction.	1
5.	However there is a section 16(1)(r) which caps the amount which can be deducted on management fees that are paid between associated entities	1
6.	The expenditure should not exceed 1% of the expenditures allowed under section 15 by Hometogo excluding the fees, administration and management expenses they paid to persons outside of Zimbabwe	1
7.	The excess portion of the management fees is a deemed dividend paid out to the parent company in Namibia and Hometogo should withhold 10% non residents shareholders tax and remit it to ZIMRA	1
8.	Parties are associates if one party controls the other.	1
9.	Hometogo is being controlled by the parent to which they paid the management fees therefore they are associates as defined.	1

10.	A controlled transaction is a transaction between associates. Therefore, this a controlled transaction.	1
11.	Uncontrolled transaction price should be used to determine the management price to be paid to the parent.	1
	VAT Implications	
1.	Vat shall be levied on the imported services as per sec 6c	1
2.	Imported services are supply of services that is made by a supplier who is not resident in Zimbabwe to the extent that such services are utilised or consumed in Zimbabwe.	1
3.	Management services were offered by the parent company Airbnd which is resident in Namibia and the services are consumed by Hometogo a company incorporated in Zimbabwe.	1
4.	Therefore, it is an imported service	1
5.	Imported services shall be levied at the standard rate of 15%	1
6.	TOS Sec 13(2) is deemed to take place at the time an invoice is issued by the supplier, or the time of any payment is made by the receipt in respect of that supply, whichever time is the earlier.	1
7.	The time of supply is when Hometogo paid the management fee to a parent is it was the earlier.	1
8.	The VOS is the value of consideration or open market value of the supply, whichever is greater	1
9.	The supply was done to a connected person therefore the value of supply is open market value.however since Hometogo is claiming input tax, the value of supply will be consideration less VAT. Section 9(4).	1
10.	Therefore, the VAT will be charged as $3.5m x15% = $525,000.	1
11.	Input tax shall be claimed when • It was charged • Making taxable supplies.	2
12.	The import vat was charged on the imported services	1
13.	The management fee was paid to enhance production of the subsidiary.	1
14.	Therefore, Hometogo shall claim input tax using the 15/115* 3.5million=$456,522.	1
	TOTAL AVAILABLE	***21***
	REQUIRED	***15***
C	**Discuss the VAT implications of 10 heavy duty laptops in note 4.5 in the hands of Hometogo in the 2021 years of assessment.**	10
	Import vat shall be levied on imported goods sec 6(b)	1

	Imported goods are standard supplies, therefore, standard rate of 15% shall apply	1
	TOS- is when goods entered for home consumption sec 12	1
	The TOS of laptops is 15 February 2021 when they were received.	1
	The value of supply is deemed to be the value for customs duty purposes plus duty	1
	The value of supply is cost of machine $100,000 (assume it's the cost for duty purposes)	1
	Therefore, import vat is = $10,000*15%=$1,500	1
	Input vat	
	Input vat is claimed when: 1. It was charged 2. Making taxable supplies 3. Valid tax invoice and bill of entry	1
	Input Vat was charged when laptops were imported	1
	Laptops were donated to Harare Children's home as a corporate social responsibility, therefore, are not used to make taxable supply.	1
	Therefore, no input tax is claimed.	1
	Donation to Harare children's home	
	The donation is to an association not for gai and thus there is no consideration and no trade.	1
	Therefore, there is no VAT charged	1
	TOTAL AVAILABLE	***16***
	REQUIRED	***10***
d	**In a memo, advise the management of Hometogo on the income tax implications of the expansion plans in note 3.**	11
	Assume a market value of $160,000 was agreed **Communication**	1C
	MEMO From: CTA Student To: Hometogo management Date: 31 December 2021 Subject: the income tax implication on the expansion plan	1
	Software developer $180,000	
	Expenditure is allowed as a deduction if its not of capital nature	1
	Expenditure was paid to the developer who is developing the earning structure of the entity (software) that will be used to in business processes	1

	The software has enduring benefit, therefore its capital nature that will not be allowed as a deduction.	1
	Therefore $180,000 will not be allowed as a deduction.	1
	However software is included within the definition of articles implements and machinery and is therefore a ranking asset in terms of the 4th Schedule of the Income Tax Act	1
	The software will therefore claim SIA at 24% in the first year of use and accelerated wear and tear at 24% in the three subsequent years of assessment	1
	Settling payment: office building	
	Amounts are included in gross income when are not of capital nature.	1
	Settling the expenditure using an office resulted in deemed disposal of the office building	1
	The total value of the office building valued $160,000 is deemed to have been disposed at market value, however the $160,000 will not be included in gross income as it was received on the disposal of the tree where fruits administration work was carried in that office therefore its of capital nature.	1
	The office building was used for trading purpose and claiming capital allowance on the building therefore there is possible recoupment. Sec 8(1)i	1
	Recoupment shall be included in the gross income limited to capital allowance granted on the office building.	1
	Capital allowance was charged at 2.5% on cost since it's a commercial building.	1
	Capital allowance granted = 2.5%*$170,000*3 years =12,750 granted. Potential recoupment= 160,000-(170,000-12750) =2,750 potential recoupment.	2

	Therefore $2,750 shall be included in gross income.	1
	The difference between the invoice of $180,000 and $160,000 is a concession or arrangement by a creditor is brought into gross income by section 8(1)(k) of the Income Tax Act and therefore taxable in the Hands of Hometogo	1
	Communication is awarded for memo format	
	TOTAL AVAILABLE	15
	REQUIRED	11

e	**Write an email to Mr.Jongwe in which you advise him on the income tax implications of his transaction in the 2021 years of assessment** ***Communication***	15 1C
	Amount received in respect of services rendered under contract of employment is included in the gross income.	1
	Sec 8(1)f includes employment benefit in the gross income of the employee.	1
	IT staff were receiving meals when monitoring systems. The staff was operating on shift system therefore night shift was their normal working hours.	1
	Therefore, staff meals are employee benefit and should be included in the gross income at a cost to the employer.	1
	50% Pension fund contribution by employer	
	The contribution is an employee benefit which means the gross income definition	1
	However, the employer contribution is excluded from the definition of remuneration liable to employees tax in the 13th schedule and is therefore not taxable.	1
	The contributions by the employees on their behalf will be deductible for tax purposes	1
	50% retirement annuity fund	
	The contribution by employer is an employee benefit which meets the gross income definition	1
	However, the contribution is excluded from the definition of remuneration liable to employees tax in the 13th schedule	1
	Amount of contribution to a benefit or pension fund is allowed as a deduction. Sec 15(2)h	1

	The 50% contributed by the employee is allowed as deduction subject to restrictions imposed in the 6th Schedule	1
	Monthly annuities	
	Amount received by way of the annuity is wholly included in the gross income	1
	Monthly payment (receipts) is included in your gross income when received.	1
	Munhunenza Retirement annuity	
	Sec 8(1)n includes the amount received from the retirement fund where one contributed to.	1
	Mr Jongwe was contributing to Munhunenzva before therefore the entitled is included in his gross income.	1
	The commutation is only included to the extent to which it exceeds 1/3 of the total value of the pension	1
	The taxable portion is therefore 40,000-(60,000*1/3) which results in 20,000 being taxable	1
	Therefore $20,000 will be exempted from Gross income.	1
	TOTAL AVAILABLE	***17***
	REQUIRED	***15***
f	**Discuss any ethical concerns notable in the scenario in the hands of Hometogo**	
	National Code of Corporate Governance of Zimbabwe	
	The director of the entity has a legal duty of good faith (Principle 61) means that they have to act in the best interest of the company at all times. Directors didn't act in the best interest of the entity by sharing customer confidential information to 3rd parties. This will result in huge fines to the entity that can erode company profits. This can also affect the company image as customers may not be willing to associate with the company which may affect the going concern and reputation of the entity.	1
	the director has a duty of care means expected a reasonable person in charge of the company assets of an incapacitated, that they are good stewards of the company's assets. Directors didn't to practise duty of care as they use the company asset (database) careless by allowing 3rd party to use it which doesn't benefit the entity. This may affect the total value of intangible assets of the entity as customer will end up refusing to use Hometogo as an agent.	1
	The director has a moral duty of speaking the truth all the time (principle 72). Director didn't speak truth to customers when providing information that they will also sale the information. This will affect the company image and reputation as they will not fulfil their promises.	1
	COBE	
	The officers of the entity did not act with good faith of the entity and best interest of the entity by selling customer information to 3rd party which resulted in fines. This is non-compliance with COBE Section 54	1
	Directors of Hometogo broke the duty of loyalty by using the entity's assets for the benefit of the 3rd party for their marketing purposes. This is non- compliance with section 55 which requires a director not to use property of the entity for the benefit of another person.	1

	Good for self	
	The information collected online was sold to the 3rd party as price. This was good to Hometogo as it was a way of raising their total revenue for the year.	1
	Bad for other	
	Actions by Hometogo may result on misuse of citizens confidential information. The information was be used to commit criminal activities which may tarnish individual image	1
	Giving information to the 3rd party results in breaking the right of customers/ citizens to keep confidential information secretly.	1
	The information sold to the 3rd party only benefited Hometogo and not the owner of the information. Giving such information directed to the 3rd party could have given (customers) them an extra income.	1
	TOTAL AVAILABLE	9
	REQUIRED	6
G	**Discuss the VAT implication of the transaction on the note 4.1**	
	5 million processing fees	
	VAT shall be levied on the supply of services in the furtherance of trade carried by him.	1
	Hometogo is in the business of providing agent service (platform) to the house owner and is a registered operator therefore shall levy output tax on the service provided.	1
	Online agent services are standard supplies therefore shall be levied at 14,5%	1
	TOS is the earlier of payment or invoicing or when the service was rendered. Sec 8(1)(e)	1
	The time of supply is when the house owner paid to be registered on the platform.	1
	The value of supply is consideration less VAT	1
	The value of supply is amount charged to house owners and travellers.	1
	300 million collected	
	The letting of houses meets the definition of a commercial rental establishment and is thus a vatable supply	1
	However, the scenario is not clear on whether the homeowners are vat registered and thus cannot charge VAT	1
	Hometogo is an agent for a non-registered operator and thus will not charge VAT	1
	TOTAL AVAILABLE	10
	REQUIRED	10

QUESTION 10 :2023 EOY

All amounts are in United States Dollars (US$) and inclusive of VAT unless otherwise stated

Background information

You are a CTA graduate in the tax advisory department of BDM Chartered Accountants (''BDM''), an auditing and advisory firm with operations across the major cities of Zimbabwe. In the past couple of years, the Zimbabwe Revenue Authority (ZIMRA) has been on a drive to increase tax collections and has increased tax audits of corporate companies. Given the increased scrutiny by ZIMRA, one of BDM's audit clients, Mashonaland Hardon Company (Private) Limited (''MHC''), has approached your department for tax advice in respect of their 2022 year of assessment transactions. MHC fully comply with Companies and Other Business Entities Act (COBE) and King IV requirements. You then scheduled a meeting with the MHC audit team to obtain background information on the client.

Mashonaland Hardon Company (Private) Limited

MHC is a trailblazer. The company was founded in 1966 and is committed to maximise the potential of property investments under its management. Its core business is focused on the delivery and investment management of quality commercial, industrial, retail, specialised and residential properties with a strong emphasis on ensuring premises functionality to tenants whilst sustaining and maintaining a firm asset base for clients and shareholders. MHC property portfolio includes prime commercial, industrial, retail, and residential properties spread across the country. MHC renowned real estate services are offered through the three functional units, Property Research and Development, Property Management and Facilities Management.

At the height of the property boom MHC had opened a retail outlet which focused on the supply of building material amongst other construction related material. MHC is a registered operator under category B in terms of the Value Added Tax (VAT) Act and has US$ as its functional and reporting currency. You must presume that MHC is not an SME.

MHC's finance manager Mr. Simplex Maphosa provided you with a file with detailed notes of transactions entered into in the 2022 year of assessment.

The correct Net profit before tax for the year 2022 was US$554,000 after taking into account the below transactions:

1. MHC purchased secondhand office furniture from Hummer and Tongoo Auctioneers for US$15,000. The secondhand furniture belonged to a non-registered operator who was forced to sell the furniture due to liquidity problems.
2. MHC sold 12 identical housing units with a total construction cost of US$3,500,000, which was incurred evenly over 3 years starting 2019 ending 2022 (the year of disposal). The total cash value of the houses was US$7,200,000. All the housing units sold are being used by MHC customers for residential accommodation purposes. The terms of the sale were such that each customer paid a deposit equal to 20% of the cash value and would pay an instalment of US$96, 000 a year for the next 5 years. The customer would receive the title deeds to the property on paying the deposit. The instalment payments would be made at the end of each year in arrears and MHC had the right to repossess the units if the customers default on payment of which in the past 7 years MHC has not had to repossess any properties. The deposit was included in the net profit before tax.
3. MHC also leased out 3 commercial units in Harare CBD for offices that cost US$160,000 each to construct in 2021. The cash value of each unit was US$300,000. The lease agreement required the customer to pay US$2,000 a month for 15 years which includes a total interest component of US$60,000. All the 3 leases were signed in January of 2021 and each lease has an option for the customer to pay a once off bullet payment of US$10,000 to gain ownership at the end of the lease term. As at 31 December 2022 all customers expressed willingness to exercise this clause. Any damages to the property were the responsibility of MHC. The incremental borrowing rate for MHC is 8 .3% p.a.
4. MHC leases construction equipment with a cash value of US$98,000 from a registered operator in the construction industry who scaled down operations. The lease agreement required MHC to pay US$2,000 a month for 10 years which includes an interest component. The lease was signed in January of 2022 with an option for MHC to pay a once off bullet payment of US$13,000 to gain ownership at the end of the lease.

   As at 31 December 2022 MHC expressed no willingness to exercise this option. Any damages to the equipment are the responsibility of MHC. The interest rate implicit in the lease is 12.7%. p. a
5. MHC has a practice of awarding fringe benefits to its staff members. Mr. Maphosa provided you the following figures of the amounts of the total fringe benefits awarded to employees calculated in terms of the Income Tax Act for PAYE purposes.

Benefit	Amount US$
a) Wi-Fi	5,000
b) Housing Allowance	36,000
c) Golf Club Subscriptions	1,200
d) Fuel Allowance	10,000
e) Grocery Allowance	12,000

6. Also, on the 17th of September 2022, MHC sold an office block for an amount of US$310,000 to an unconnected individual with no tax clearance. Before selling, MHC was leasing out the block under a 10-year finance lease agreement commencing 01 June 2018 and MHC cancelled the lease agreement on the 30th of April 2022. MHC initially incurred a total cost of US$45,000 in constructing the office building in 2018 and the lessee effected obligatory improvements in terms of the lease agreement amounting to US$12,000. The improvements were completed in 2019 and brought into use by the lessee in the same year.
7. To fund a construction project in Chisipiti, MHC issued 100, US$12,000, 6-year convertible debentures with a 19% coupon and all the debentures were taken up by individual persons.
8. MHC installed new software to help value properties and the license for this software was purchased from a Chinese vendor and renewable every three years. To help their staff with this new software, MHC hired a Ugandian expert to come for three weeks and train their staff. The cost of the training was US$8,000, the accommodation and food for the expert was US$1,800 and US$300 respectively while the 3-year license cost for the software was US$2,500. Accommodation and food were supplied by a VAT registered vendor with their ITF263.
9. MHC had the following assets in its asset register at the end of 2022:

Asset	Acquisition date/lease date	Cost US$
Land	31 October 2018	1,800,000
Buildings	30 June 2021	560,000

Software	22 February 2019	40,000
Computer Equipment	1 March 2021	12,000
Furniture and Fittings	31 December 2017	23,000

10. All other expenses amounting to US$345,000 were tax deductible.

11. During 2022 the Board of MHC decided to sell some of its stands in Ponoma and instructed management to record amounts which are lesser than what it received in its receipt books. The main aim was to pay a lesser Capital Gain tax. The customers for such stands were also given US$200 bribes and were provided with receipts with amounts not matching what they paid.

Additional Information

Mr. Maphosa also indicated to you that MHC has always claimed the maximum possible capital allowances where applicable and have always claimed input tax for VAT purposes were applicable.

Unless otherwise indicated MHC purchases all its supplies from VAT registered operator.

APPENDIX 1 – TAX RATES

For any rates and amounts for employment income refer to the tax tables given below.

Segment of income per annum (ZWL)	Amount (ZWL)	Rate within segment (%)	Tax	Cumulative tax
Up to 1,100,000	1,100,000	0%	0	0
1,100,001 to 3,840,000	3,840,000	20%	548,000	548,000
3,840,001 to 6,576,000	6,576,000	25%	684,000	1,232,000
6,576,001 to 9,312,000	9,312,000	30%	820,800	2,052,800
9,312,001 to 12,000,000	12,000,000	35%	940,800	2,993,600

12,000,001 and above		40%		
Segment of income per annum (USD)	**Amount (USD)**	**Rate within segment (%)**	**Tax**	**Cumulative tax**
Up to 1,200	1,200	0%	0	0
1,201 to 3,600	3,600	20%	480	480
3,601 to 12,000	12,000	25%	2,100	2,580
12,001 to 24,000	24,000	30%	3,600	6,180
24,001 to 36,000	36,000	35%	4,200	10,380
36,001 and above		40%		

REQUIRED

		Marks	
		Sub-total	Total
A.	Draft a memo to the Finance Manager of Mashonaland Hardon Company (Private) Limited in which you discuss the VAT implications to Mashonaland Hardon Company (Private) Limited of the transactions in the notes 1 – 5 for the 2022 year of assessment.	39	41
	Communication skills – Presentation and layout	2	
B.	Discuss any withholding tax consequences to Mashonaland Hardon Company (Private) Limited for transaction in note 8 for the 2022 year of assessment.	5	5

C.	Calculate Mashonaland Hardon Company (Private) Limited's taxable income for the 2022 year of assessment. Limit your calculation to note 1 – 6 and note 10 – 11. Support each entry with a brief narration on whether or not to include in taxable income. Where no adjustment is necessary, indicate by way of a zero. *Communication skills – Presentation and layout*	28 2	30
D.	Discuss the tax implications to Mashonaland Hardon Company (Private) Limited for the 2022 year of assessment, making reference notes 6 and 7 *Communication skills – Logical flow*	16 1	17
E.	Discuss any ethical concerns that may arise as a result of selling the Pomona Stands (Note 12). As part of your discussion limit your answer to King IV and COBE requirements.	7	7
	TOTAL MARKS		100

SOLUTION