

NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY

FACULTY OF COMMERCE

DEPARTMENT OF FINANCE

BACHELOR OF COMMERCE HONOURS DEGREE IN FISCAL STUDIES

PART IV SUPPLIMENTARY EXAMINATION – NOVEMBER 2014

VALUE ADDED TAX II – CFS 4103

TIME ALLOWED: 3 HOURS

INSTRUCTIONS TO CANDIDATES:

- i. Answer **ALL** Questions in Section A.
- ii. Choose **TWO** Questions in Section B.
- iii. Quote relevant legislation where applicable.
- iv. The VAT Act (Chapter 23:12) and the General Regulations may be allowed in the examination room.
- v. The paper consists of 5 printed pages.
- vi. All currency values are in US\$.

SECTION A (50 MARKS)

- a) What conditions must be available before the Commissioner issues a directive deeming a body of persons to be carrying on the trade of a single person? (3)
- b) What is time and value of supply rules for the following deemed provisions:
 - i. Supply of fringe benefits to employee by his employer
 - ii. Partly taxable supply of capital goods which is subsequently reduced in taxable usage
 - iii. Goods used wholly for taxable supplies but now used wholly for exempt purpose.

(6)
- c) Mr Gwarada, a registered operator, purchased his house in May 2001. He has been living in this house since. He made renovations to the house in 2004 at a cost of \$2500, inclusive of VAT. He was able to claim a portion of this amount, 30%, as input tax as he was utilizing one of the rooms as an office. In January 2005, he decided to dispose of the house. What are the VAT implications of this transaction? (4)
- d) Under what circumstances is a taxable supply of the share (and the related loan obligation) by the share block developer, for the purposes of claiming an input tax credit, be deemed to be a supply of the share (and related loan obligation) by the share block company? (2)

- e) Muroro Leisures, a registered operator involved in marketing leisure spots, was contracted by Mavende Resorts, a Zimbabwean based company to market holiday homes for Cape Grace Hotels in South Africa. Muroro was paid \$1250.00 for the services it rendered in securing clients for Mavende Resorts. What are the VAT implications of such a supply? (3)
- f) Mr Moyo owns a building, 52% of which is let for residential purposes and 48% for commercial purposes. Should Mr Moyo dispose of the building what are the VAT implications? (2)
- g) Under what three (3) circumstances can input VAT not be an allowable deduction? (3)
- h) Rockfeller Manufacturing, a Canadian based shoe manufacturing company, purchases raw hides from a Zimbabwean company Nyamuzihwa Trading for \$5000.00. The amount includes the cost of processing the hide into leather and Nyamuzihwa Trading arranges for the raw hides to be forwarded to Mutare Leather Tanning Company for processing into leather and subsequently exporting the leather to Rockfeller Manufacturing in the Canada. What are the VAT implications of the above transaction? (5)
- i) What is the value of supply for second hand goods that are exported in terms of Section 10(1)(a), where a deduction of input tax on their initial acquisition had been made by any other person, where the supplier and that other person are connected persons. (3)
- j) A company carrying on business through its registered office in Malawi and a branch in Zimbabwe hires, under rental agreements, some earth moving equipment from a lessor who is a Registered Operator in Zimbabwe. Rentals are payable monthly. The lessee's intention, at the time of entering into the agreement, is to use the hired equipment alternatively in Malawi and Zimbabwe, for a month at a time in each country. What are the VAT implications? (5)
- k) JJ & Associates, a legal company in Zimbabwe is engaged by Mrs Manley resident in UK to supply legal services relating to the sale of her house in Glen Lorne, Harare. The services included the drafting of an agreement for the sale, legal advice in relation to the sale transaction and ancillary services leading up to the completion of the sale transaction. What are the VAT implications of the supply of legal services to Mrs Manley? Please provide relevant legislation and case law to back your response (5).
- l) Give four examples of tax benefits as defined which may result from a scheme entered into which the Commissioner, having regard to the substance of such scheme is satisfied that it was entered into or carried out by means or in a manner which would not normally be employed for bona fide business purposes. (4)
- m) What (5) instances are allowable in the Act where a taxpayer may raise an objection against the Commissioner? (5)

SECTION B (50 MARKS)

QUESTION 1

Zvenhamo Enterprise P/L operates wholesale and retail shops in Chinhoyi. The company started operating on the 1st of February 2001. The company was not registered for then repealed Sales Tax. However, on the 1st of March 2004, the company attained the requisite registration threshold and registered for VAT in category 'B'. The company had purchased the following goods before the 1st of January 2004: a delivery truck purchased on the 20th of April 2002 for \$10500.00 (inclusive of Sales Tax); computers for use in the business purchased on the 3rd of March 2003 for \$1500.00; stock valued at \$25000.00, inclusive of Sales Tax purchased on the 20th of December 2003. The company also operated a staff canteen which supplies subsidized meals to staff and two fridges were purchased in 2002 for a value of \$1200, inclusive of Sales Tax. The open market value of the above goods is \$10,000.00; \$2000.00; \$24000.00 and \$1500, respectively.

On the 3rd of February 2004, the company also bought an Isuzu KB single cab for \$22500,00, and double cab for \$25400,00, all inclusive of VAT. The open market values for the two trucks are \$23000.00 and \$25000.00, respectively.

Due to the company's expansion drive, it acquired a factory shell in Mhangura which it intended to renovate and operate a retail shop. The building was acquired from a Mr Phiri, a non – registered operator for \$17000, 00 on the 25th of February 2004. The building was paid for in cash and on the 29th of February 2004, the building was registered in the deeds registry after stamp duty at 10% was paid. The open market value of the building was \$25000, 00.

REQUIRED

Discuss the VAT implications of the above. Please calculate any output tax payable or input tax claimable, where applicable. (25 Marks)

QUESTION 2

ZESA Holding (Pvt)(Ltd), is a company involved in the provision of electricity to households and commercial entities in Zimbabwe. The company is registered for VAT on an invoice basis and accounts for VAT on a monthly basis and has a financial year end of the 28th of February. On the 25th of May 2006, ZESA Holding (Pvt)(Ltd), imported 3 transformers from Germany, at a cost of \$27200.00 (including import VAT). At that time the registered operator determines that the transformers will be used 75% for commercial electricity and the remainder on electricity from the residential areas. On 28th February 2007, ZESA Holding (Pvt)(Ltd), determined the transformer was used 60% on commercial electricity. At that stage the open market value of the transformers was \$20500.00. Another year later, on 28th of February 2008, the registered operator determined that the use of the transformers had decreased to 55%. The open market value then was \$15000.00. A year later on the 28th of February 2009, the use of the transformers had increased to 80% and the open market value was \$18000.00.

REQUIRED

Discuss the VAT implications of the above. (25Marks)

QUESTION 3

Commercial Bank of Zimbabwe's property mortgage division is registered for VAT in category "C". The mortgage division sold a house to Mrs Mangena, a non – registered operator through a 10 year home loan scheme for \$143,520.00 (inclusive of VAT), at 10% per interest rate ,on the 4th of August 2009. Mrs Mangena has been making monthly repayments of \$1196,00 consisting of the principal amount of \$1050, and insurance of \$146.00. However, as a result of the borrower repeatedly defaulting on agreed instalments the bank had no option but to cancel the home loan agreement on the 30th of May 2013. The amount of the unrecovered loan balance was \$95680.00. The bank's lawyers, Kativhu and Associates, took the borrower to court and a judgement was obtained against the defaulter from the High Court. A Deputy Sheriff was appointed by the court to attach the property and dispose of it at a sale in execution. However the bank's reserve price of \$100,000.00 was not achieved at the auction. The property was then bought into possession by

the bank at a nominal value of \$1000.00. The property was later sold by the bank as a 'property in possession' to a Mrs Mutasa for value of \$120,000.00 inclusive of VAT.

REQUIRED

Discuss the VAT implications of the above considering both the output tax accounted for and input tax claimed (25 Marks)

QUESTION 4

- a) Redfern Properties, a Registered Operator purchased a building from Logjam Properties (Pvt)(Ltd) , also a Registered Operator, for a consideration of \$150000.00 on 3 March 2008. Redfern Properties used 60% of the building as residential apartments while 40% consisted of offices. On the 2nd of November 2008, Redfern Properties decided to convert all offices into residential apartments. The open market value of the building on the said date was \$200000.00

Redfern Properties is registered on the invoice basis. The company is in possession of the necessary documentation and the full purchase price of the building was paid on 3rd of March 2008. The building was registered in the Deeds Office on the above date.

- b) Redfern Properties, purchased building from a Mr Ngoma , who is not registered for VAT for a purchase price of \$100000.00 on 15 June 2008. Redfern Properties made a down payment of \$50000,00 on that date. The company determines that it would utilize 40% of the building as residential apartments while the remaining 60% would be used as offices. The company made a final payment of the remaining \$50000,00 on the 14th of August 2008. Stamp duty amounting to \$10000,00 was paid to effect the transfer of the property on the 17th of August 2008.

The open market value of the building at the time of purchase was \$150000, 00.

Redfern Properties is registered on the invoice basis and submits return on or before the 20th of the every month. The company is in possession of the necessary documentation.

REQUIRED: What are the VAT implications of the above transactions? Carry out and input 25 Marks