



**National University of
Science and Technology**
Think in Other Terms



FACULTY OF COMMERCE

DEPARTMENT OF FINANCE

BACHELOR OF COMMERCE HONOURS DEGREE IN FISCAL STUDIES

FINAL EXAMINATION – DECEMBER 2014

VALUE ADDEDV TAX II [CFS 4103]

TIME ALLOWED: 3 HOURS

INSTRUCTIONS TO CANDIDATES

1. Answer ALL questions in Section A and Choose TWO questions from section B
2. Quote relevant legislation where applicable.
3. Write legibly.
4. Show ALL workings

INFORMATION FOR CANDIDATES

1. The paper contains Six (6) printed papers including cover page.
2. Part marks are indicated in brackets at the end of each part question.

ADDITIONAL MATERIAL

1. The VAT Act (Chapter 23:12) and the General Regulations may be allowed in the examination room.

SECTION A (40 MARKS): ANSWER ALL QUESTIONS

- a) What two forms of arrangements or directions can the Commissioner give when he is satisfied that in consequence of the manner in which any registered operator or class of registered operators conducts his or their business, difficulties, anomalies or incongruities have arisen arise in regard to the application of the Value Added Tax Act [Chapter 23:12] ? **(2)**
- b) 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)**
- c) 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? **(4)**
- d) Mr Phiri, a registered operator, who operates from home, decides to dispose of his house for \$45,000.00 on the 14th of September 2014. He purchased the house on the 30th of May 2001. He was using one of the rooms as his office and this constituted only 23% of the building. On the 12th of April 2006, the house was re-painted at a cost of \$1030, 00 (inclusive of VAT). Mr Phiri correctly apportioned the tax and claimed 23% of it as input tax. What are the VAT implications of this transaction? **(5)**
- e) Matope Properties sold its lease on leasehold land that was being used for residential accommodation in Lusaka, Zambia, to Murozvi Properties, a Zambian property management company. The amount paid for the disposal of the lease was \$1200.00. What are the VAT implications of this supply? **(2)**
- f) 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)**
- g) Richmond Limited, a registered operator has a VAT debt of \$34500, 00, comprising of tax due of \$12,000.00, penalty of \$12,000.00, additional tax of \$10,000.00 and interest for late payment of tax amounting to \$500.00. The company has entered into a payment plan with the Commissioner and has immediately paid \$ 7000.00. How is this amount allocated to the debt by the Commissioner? **(3)**

- h) 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)**
- i) If a company that owns and administers a fixed property in which it has a loan obligation, allocates or transfers its loan obligation to any person who is or will be a shareholder of such company, what are the VAT implications such a transfer?
- (3)**
- j) What (5) instances are allowable in the Act where a taxpayer may raise an objection against the Commissioner?
- (5)**
- k) 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)**

SECTION B (60 MARKS): ANSWER ANY THREE QUESTIONS

QUESTION 1

Pioneer Transport P/L, a Registered Operator, which has its year-end on the 28 February, operates a local long haulage transport company and an international bus transport services. However the international buses also carry local fare paying passengers. The company in its previous year's financial statements showed that of the total revenue from operations of \$2,500,000.00, \$878,500.00 came from transports of local fare paying passengers. On the 28th of April 2009 it purchased a purchased building to be used for truck and bus repairs and servicing from Manhando Properties for an amount of \$245,000.00, inclusive of VAT. Manhando Properties is a Registered Operator.

Pioneer Transport P/L, determines that a three-quarters of its annual turnover is derived from local long haulage transport operations.

However by 28 February 2009, Pioneer Transport P/L, finds that its income from the long haulage transport operations had dropped drastically to 40%, owing to increased competition from the resuscitated National Railway of Zimbabwe. The open market value for building by the year end was determined to be \$120,000.00.

Due to increased demand from international passenger the company, decided to cease carrying on local fare paying passengers with effect from the 1st of March 2010 and concentrate in the local long haulage trucking business. The open market value of the building as at the 31st of December 2010 is \$125,000.00.

REQUIRED: Discuss ALL the relevant VAT implications, of the above transactions citing the relevant sections of the Act, the supply, its timing and consideration. Calculate the VAT payable if any and by whom. **(20 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 \$27,200.00 (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 \$20,500.00. 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 \$15,000.00. A year later on the 28th of February 2009, the use of the transformers had increased to 80% and the open market value was \$18,000.00.

REQUIRED

Discuss the VAT implications of the above.

(20Marks)

QUESTION 3

- i. CBE Properties, purchased building from a Mr Moyo , who is not registered for VAT for a purchase price of \$100,000.00 on 15 June 2008. CBE Properties made a down payment of \$50,000.00 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 \$50,000.00 on the 14th of August 2008. Stamp duty at the rate of 10% was paid to effect the transfer of the property at the Deed Registry on the 17th of August 2008.

The open market value of the building at the time of purchase was \$150,000.00.

CBE 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.

- ii. On the 3rd of December 2009, the company sold its business to Tande Properties for an amount of \$25,000.00. Tande Properties' only director owns 5.5% of CBE Properties' issued share capital and is also a registered operator. The two companies entered into an agreement confirming that the business is being sold as a going concern and as an income earning activity at the date of disposal. The open market value of the whole business was \$150,000.00. Included in the sale were the following goods: 1 x Nissan Double Cab valued at \$12,000.00; 1 x Mazda 3 valued at \$10,000.00; 3 x Capri fridges valued at \$2000.00 (used by managers); 1 x generator valued at \$600.00 (used at the residential premises)
- iii. On the 30 of March 2010, Tande decided convert all the offices into residential apartments. The open market value of the buildings was \$120,000.00.

REQUIRED: What are the VAT implications of the above transactions?

(20 Marks)

QUESTION 4

- i. Flair Furnitures was incorporated on the 12th of January 2008. However before its incorporation, Mr Mafuta, who later became one of the company's five directors had made the following purchases: on the 1st of March 2007, he purchased 5 computers valued at \$7500 (including VAT); on the 30th of July 2007, a lumber assembler valued at \$3,000.00; on the 5th of August 2007, a

boring and sanding machinery valued at \$5,400.00 (including VAT); on the 3rd of November 2007, a second building from a non - registered operator for a value of \$95,000.00 (stamp duty at the rate of 10% was paid) and two delivery trucks on the 2nd of December 2007, valued at \$33,350.00 (inclusive of VAT).

However, when the company was duly incorporated, Mr Mafuta was reimbursed all the expenses he incurred with the exception of boring and sanding machine as the company was now short of cash.

- ii. Flair Furniture's entered into an instalment credit agreement with Dandaro Furniture Retailers, for the supply of lounges suites valued at \$58695.64 (including VAT and finance charges at 10% of the cash value) for a payment period of 36 months commencing on the 1st of June 2010. Both are registered operators in category C. After making regular monthly payments for 6 months, Dandaro Furniture stopped paying as the company faced serious viability problems. A liquidator for the company was appointed by the high court on the 10th of March 2011. Flair Furniture determined that the debt owed by Dandaro was uncollectable and there wrote off the debt in their financial statements.

However, a year later, on the 18th of June 2012, Dandaro began operations again as the new investors inject some cash into its operations. It made an payment of \$20,000.00 on the 20th of July 2012 towards the debt.

- iii. The Mr Shoko commenced his grocery trading in 2002. On the 1st of July 2003 he purchased a computer for \$250.00 (including Sales Tax) for the purpose of his business. On the 1st of January 2004 he registered for VAT purposes as a sole proprietor. On that date he was still using the computer 100% to make taxable supplies.
- iv. Mr Jones commenced his computer repair business in 2002. On the 3rd of May 2003 he purchased a computer for \$300.00 (including Sales Tax) for his private use. On the 1st of January 2004 he registered for VAT purposes as a sole proprietor. On that date he was still using the computer for private use. On the 4th of June 2005, he decided to transfer the computer to his business for use in maintaining accounting records for his computer repair business and also for his private use. He determines that the computer would be used 20% for private use whilst the remainder would be for his business.

REQUIRED: What are the VAT implications of the above transactions? Please cite relevant legislation. **(20 Marks)**

END OF EXAMINATION PAPER