



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING

DEPARTMENT OF ACCOUNTING AND FINANCE

EXAMINATION PAPER

COURSE CODE : CAC 202
COURSE TITLE : INTRODUCTION TO TAX LAW AND PRACTICE
SPECIAL REQUIREMENTS :
DURATION : 3 Hours
LEVEL : 2.1
DATE : 15 FEB 2022

INSTRUCTIONS TO CANDIDATES:

1. No cell phones are allowed in the examination venue.
2. Answer any **ALL** questions.
3. Begin each question on a new page.
4. The number of marks for each question or part question is shown in brackets []

QUESTION ONE

This question consists of three independent scenarios. You should respond to each scenario by referencing the applicable legislation and using relevant case law to support your answers.

Your answers do not need to be in any specific format (such as a memo).

Scenario A

Jill Pearson is employed as a tour operator for African Overlander Ltd, a Zimbabwean company running tours into Botswana and Mozambique. Jill earns a fixed monthly salary of \$1,200. Jill currently works on a month-on/month-off basis – for one month she is out of Zimbabwe leading a tour, and for one month she is at home in Gweru with her husband and children, and works at her office at African Overlander planning her next tour.

Jill's son Henry is studying Income Tax as part of his BCom degree, and recently told Jill about the "residency" test. Jill is now considering discussing with her employer whether she can spend more time outside Zimbabwe each year, in the hope that this will exclude her from the definition of Resident and reduce her taxable income.

You are required to advise Jill, with reasons, as to whether her plan will exclude her from the definition of Resident, and how else she might reduce the Zimbabwean income tax on her salary.

[8marks]

Scenario B

The Seldom Active range of gyms and Crouching Tiger shoes intend brokering a deal, whereby Seldom Active will offer free gym access to all Crouching Tiger employees, in return for which Crouching Tiger will supply free training shoes to Seldom Active. The company will in turn provide the shoes to its employees. The two companies believe that this will result in no gross income for either company, since no money has changed hands, and what has been received is for the benefit of their respective employees.

A regular gym membership at Seldom Active costs \$60, while the retail price of a pair of Crouching Tiger shoes is \$50.

You are required to advise Seldom Active, with reasons, whether its understanding of gross income is correct, and if not, how ZIMRA will view this transaction.

[9 marks]

Scenario C

Mike Turner runs a used car business. Mike pays a small firm of accountants to keep his accounting records and file his tax returns. Mike's daughter Mini (a recently-qualified chartered accountant) recently sold her car, and Mike was surprised to hear that Mini does not believe that she will pay any tax on the sale, even though she made a profit on the sale. "I pay a fortune in tax on my car sales," moaned Mike. "Perhaps I should get better accountants!"

You are required to explain to Mike why his car sales are included in gross income, while his daughter's sale is not, and whether either Mike or Mini are entitled to any deduction of costs in respect of their sales.

[9 marks]

[Total 25marks]

QUESTION TWO

a) Nobahle is a Zimbabwean who has been out of the country for some time now. He approaches you for advice on whether the following amounts are taxable or not. Advise him with the aid of celebrated cases or appropriate law if possible on the following:

- 1) Director's fees received from a company, with its head office in Zimbabwe but has a representative office in Botswana where he used to work as an executive director, the amount is \$3 000 [3marks]
- 2) He received royalties from a book he wrote whilst outside Zimbabwe [3marks]
- 3) He received rent income from a property in Zambia. [3 marks]
- 4) He is receiving an annuity of \$200 out of a contract he signed whilst ordinarily resident in Zimbabwe. [3 marks]
- 5) He received dividends from a South African Company of \$9 000, net of \$1 000 expenses. [3 marks]

b) In January 2015 Tamuka acquired a lorry for \$16 000 which was to be used for the purpose of trade. The taxpayer elected to claim the maximum allowances available in terms of the 4th schedule. In June 2018 the lorry was scrapped as it had been involved in an accident and was damaged beyond repair. The taxpayer sold the scrap to a local garage for an amount of \$2 000.

Required

Calculate the scrapping allowance available to the taxpayer
marks]

[10

[Total
25marks]-

QUESTION THREE

PETER is employed as a deputy director in the Ministry of Mining. He is also in receipt of property and investment income from a number of business ventures. The following information refers to PETER's earnings and deductions for the year ended 31 December 2020:

Employment:	US\$
Salary	26 000
Bonus	3 000
Accommodation allowance	5 000
School fees allowance	10 000
Representation allowance	8 000
Clothing allowance	2 000
Pension fund contributions	(2 500)
Retirement annuity fund (RAF) contributions	(1 700)
Professional subscriptions	(500)
PAYE	(10 000)
Medical aid contributions	(5 000)
PETER also makes use of an employer-allocated motor vehicle with an engine capacity of 3300cc	
Property and investments:	
Net rental income from a property in Mozambique	25 000
Net rental income from guest houses in Victoria Falls	20 000
Royalties from locally published books	15 000
Withholding tax on royalties from locally published books	(2 250)
Royalties from publications in South Africa	30 000
Foreign income tax on royalties	(5 250)
Non-executive director's fees	28 000
Withholding tax on non-executive director's fees	(5 600)

Required:

Calculate PETER's taxable income and tax payable for the year ended 31 December 2020.
 Note: You should indicate by the use of zero (0) any amounts which are not required to be included or which are not deductible in calculating taxable income.

[25
 marks]
 [Total 25marks]

QUESTION FOUR

Fire Fighter(Pvt) Ltd is a company operating in Zimbabwe. For the year ended 31 December 2020, it produced the following statement of comprehensive income and supporting information:

	\$	\$
Sales		370 000
Less Cost of Sales		(190 000)
Gross Profit		180 000
Interest from foreign account		3 800
Dividends received from Ninora Corporation		70 000
		253 800
Less Operating Expenses		
Depreciation	750	
Salaries	35 000	
Repairs and Maintenance	9 000	
Administration	8 500	
Director's Fees	15 000	
Value Added Tax Paid	20 000	
Dividends Paid	38 000	
Dividends distribution expenses	3 000	
Research into foreign transport market	10 080	
Donations	8 950	(148 280)
Net Profit		105 520

Additional Information:

- i) Repairs and maintenance included the following:
 - o New parts purchased 2 500
 - o Crack filling 1 800
 - o Foundation underpinning 3 900
- ii) Part of administration includes an allowance for the transport manager who travelled to China to purchase new buses. The allowance was US\$400.
- ✓ Donations included the following:
- iii) Scholarships awarded to students to undertake a course in engineering at the National University of Science and Technology (NUST). The students were the relatives of the managing director of the company and were:
 Cousin- US\$4 500 and niece -US\$4 150
- iv) The company had an assessed loss carried forward of US\$13 000 which was omitted by the accountant in coming up with these accounts.
- v) The company has the following assets in its balance sheet:

	Cost	ITV
Office buildings	180 000	95 000
Warehouse (purchased)	30 000	7 500
Fleet of buses	1 300 000	980 000

Haulage trucks	1 800 000	100 000
Mercedes Benz E350	32 000	5 000
Nissan Hardbody (10 units)	188 000	144 000

The company has always claimed maximum capital allowances.

REQUIRED:

Calculate the company's tax liability for the year ended 31 December 2020 [25marks]

[Total 25marks]

END OF EXAMINATION QUESTION PAPER