



**ZIMBABWE EZEKIEL GUTI UNIVERSITY**

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**FACULTY OF BUSINESS, ECONOMICS AND  
ACCOUNTING**

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**DEPARTMENT OF ACCOUNTING AND FINANCE  
EXAMINATION PAPER**

<b>COURSE TITLE</b>	<b>STRATEGIC TAXATION REVIEW</b>
<b>COURSE CODE</b>	<b>CAC 409</b>
<b>DURATION</b>	<b>3 Hours</b>
<b>LEVEL</b>	<b>4,2</b>
<b>DATE</b>	<b>17 FEB 2022</b>

**INSTRUCTIONS TO CANDIDATES:**

1. No cell phones are allowed in the examination venue.
2. Answer **all** questions.
3. Non-programmable calculators may be used
4. Begin each question on a new page.
5. The number of marks for each question or part question is shown in brackets [ ]
6. You may bring into the examination unmarked copies of:

**INCOME TAX ACT (CHAPTER 23:06)**

**CAPITAL GAINS TAX (CHAPTER 23:01)**

**FINANCE ACT (CHAPTER 23:04)**

## QUESTION ONE

Alluta Soya Limited (ASL) produces fresh Soy milk for both the local and export markets. The net profit before tax for the year ended 31 December 2017 is US\$92 000 after taking the following into account:

1. ASL sold 20% of its production output to an associate company, Muto Soya (Private) Limited (MSPL) for US\$150 000 and sold a further 20% to other wholesalers for US\$180 000. The products concerned were identical in nature and quantity and were supplied on identical terms except for the price. 60% of the production output was exported.
2. ASL paid a total of US\$60 000 to MSPL for equipment hire. The equipment is used by ASL to offload the soya beans on arrival at the processing plant. The open market charge for hire of equivalent equipment is US\$40 000.
3. Soya beans with a total value of US\$10 000 were donated to the University of Zimbabwe's agricultural research unit to develop a pest resistant hybrid seed and to research other versatile soya products not currently available on the local market. Soy milk valued at US\$20 000 was also donated to MSPL for their staff gift packs. The Ministry of Education also received a donation of soy milk valued at US\$15 000 for their primary school feeding scheme.
4. Wages and salaries paid amounted to US\$180 000. Of this amount, US\$40 000 was paid to 100 contract workers for a period of one month. The contract workers are MSPL's seasonal workers. MSPL pays all of its seasonal workers the minimum industry wage of US\$250 per month. The work done for ASL was of a similar type and carried out in similar conditions to the seasonal work done for MSPL.
5. Allowances for trade receivables for the year amounted to US\$28 000. Impaired debts amounted to US\$32 000. Only 50% of the impaired debts meet the Zimbabwe Revenue Authority's (ZIMRA's) criteria for write off.
6. Legal fees paid totaled US\$12 000. The amount was paid to settle a dispute in which ASL was successfully sued by a supplier for breach of contract.
7. ASL incurred a value added tax (VAT) penalty for under declaring a sales invoice for the month of January 2018. The penalty was US\$8 500.
8. ASL earned interest from commercial banks of US\$10 000 during the year. Interest earned on trade receivables amounted to US\$7 000.
9. Included in the market research expenses of US\$23 000 is an amount of US\$14 000 paid to an advertising company based in South Africa for the marketing of soy milk in that country.
10. Provisional tax paid for the year was US\$17 000.
11. Depreciation for the year was US\$35 000.
12. ASL's non-current assets as at 1 January 2017 were as follows:

Date acquired/	Cost	Income tax value
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	constructed	US\$	US\$
Office building (constructed)	2007	150 000	112 500
Factory building (constructed)	2015	200 000	100 000
Furniture and fixtures (acquired)	2012	120 000	0
Two passenger vehicles (acquired)	2015	80 000	10 000
Commercial vehicles (acquired)	2016	90 000	67 500

Required:

(a) Comment briefly on the related party transactions detailed in the question from a transfer pricing perspective and indicate the actions which the Zimbabwe Revenue Authority (ZIMRA) might take to ensure comparability of the transactions. **[6 marks]**

(b) Calculate the taxable income and corporation tax payable by Alluta Soy Limited for the year ended 31 December 2017. **[24**

**Marks]**

Notes:

(1) You should start your calculation with the net profit before tax of US\$92 000 and indicate by the use of a zero (0) any amounts referred to in the question for which no adjustment is required.

(2) You should assume that the company claims the maximum available capital allowances.

(3) You should account for inter-company transactions in the tax computation on the assumption that the transfer pricing rules will be applied.

**[TOTAL 30 Marks]**

## QUESTION TWO

Morris Murwiri (Morris) has been a Bulawayo (Byo) resident since his birth in 1982 and as such has always been a Zimbabwean resident at all times. In March 2009 Morris' father passed away and in terms of his father's will he inherited the following assets:

ASSET	Market Value	Deceased Estate Valuation
Toyota Prado	18,000	17,000
House in Sunning Hill (Byo)	60,000	55,000
1000 Econet Shares	3,600	3,600
One bedroom Flat Byo CBD	25,000	25,000

Morris assumed effective ownership of the above mentioned assets on the 1st of August 2009. During August 2009 Morris immediately moved into the House in Sunning Hill since

he had been renting an apartment in the Bulawayo CBD. Therefore, the Sunning Hill house became his principal private residence as defined in the Capital Gains Tax Act.

Morris decided to lease the one bedroomed flat to a tenant who in terms of the lease agreement is paying a monthly rental of \$600 for the duration of the lease term which is 5 years. Since the Toyota Prado was still in good condition Morris sold his old Mazda 323 for an amount of \$1,500 and started using the Toyota Prado for his personal use.

Over the years Morris made the following improvements to his properties:

<b>House in Sunning Hill</b>	<b>USD</b>
Swimming Pool-2011	5,000
Durawall-2010	3,000
Drilling of borehole-2010	2,000

<b>One bedroomed flat in Byo</b>	<b>USD</b>
Lock-up garage-2012	4,000

Since 2008 Morris has been in the employment of the Zimbabwe Revenue Authority (ZIMRA) working in the authority's tax compliance department. In 2013 as a result of ZIMRA'S rotation policy for its employees Morris was transferred to work in the Beitbridge ZIMRA office effective 1 March 2013. Due to the relocation Morris decided to dispose of his two properties in Bulawayo as follows:

**Sunning Hill Residence:**

Morris disposed of the house through a real estate agency in Bulawayo which charged him a commission of 5% of the gross sale proceeds. In April a buyer was found and a sale price of \$150,000 was agreed on, which was immediately settled by the buyer in the same month.

The proceeds to the transaction of \$120,000 (net of withholding tax and commission fee) were transferred to Morris' Barclays Bank account on the 2nd of May 2013.

**One bedroomed apartment**

Due to his high asking price and the liquidity challenges that were prevailing in the Zimbabwean economy Morris had difficulty in disposing off the apartment. However, in October 2013 a buyer was found and the following terms were agreed:

USD

**Sale Price** **40,000**

Payable in the following instalments

30 October 2013	15,000
31 January 2014	10,000
30 April 2014	10,000
31 July 2014	5,000

As at 31 December the buyer had already settled the 1st instalment which was due on the 30th of October 2013.

### **New house**

Upon relocating to Beitbridge Morris decided to acquire another house using the proceeds from the disposal of his house in Bulawayo. In October he acquired a house for \$80,000 which he immediately moved into with his family.

### **Other Transactions**

During the 2013 tax year Morris also entered into the following transactions:

1. He disposed of 600 of the Econet shares he inherited from his father's deceased estate. The total proceeds from the disposal were \$2,400.
2. Due to the high maintenance costs of the Toyota Prado he decided to dispose of the vehicle and acquire a smaller cheaper car. He therefore disposed of the Prado for an amount of \$15,000 and acquired an Isuzu single cab for \$12,000.

### **REQUIRED**

(a) In respect of the 2013 tax year calculate the Capital Gains Tax payable/refundable by or to Morris. Assume that Morris has always claimed the maximum available capital allowance on the one bed roomed apartment in terms of the Income Tax Act. Your answer should address the disposal of the following assets:

- Sunning Hill Residence **[14 marks]**
- One bed roomed apartment **[6 marks]**
- Econet shares **[3 marks]**
- Toyota Prado **[2 marks]**

(b) Outline the impact of a taxpayer making an election provided for in Section 21 of the Capital Gains Tax Act (CAP 23:01) **[5 Marks]**

**[TOTAL 30**

**Marks]**

### QUESTION THREE

Tenson Komboni Ltd acquired a piece of land with the intention of developing residential stands for resale. The land was subdivided into 60 stands.

Cost of land	US\$ 120 000
Survey fees	US\$ 11 500
Road and sewerage reticulation	US\$ 19 500

40 Stands were sold on 28 February 2014 for US\$16 000 each and 20 stands were sold in March 2015 for US\$40 000 each on the following conditions of sale:

- A deposit of 40% on signing the agreement.
- The balance is payable with effect from one month following that of sale @ US \$24000 per month, until full payment is made.
- Interest @ 25% on all overdue accounts.
- Ownership to be transferred upon full payment of the purchase price.

Administration expenses were as follows:

Year ended 31 December 2014 US\$16 000

Year ended 31 December 2015 US\$19 000

Year Ended 31 December 2016 US\$30 000

Required.

Calculate the taxable Income for Tenson Komboni for each of the years [25marks]

[Total 25marks]

### QUESTION FOUR

- According to the Estate Duty Act, what is the meaning of 'property'? [4 marks]
- What constitutes an estate of a deceased person? [2marks]
- Define the following terms in regard to estates:
  - Usufruct [2marks]
  - Ascertained beneficiary [2marks]
- Mr. JAMES is ordinarily resident in Zimbabwe. During the current year of assessment, he earned the following income from foreign sources:
  - Dividends from Global International, a company listed on the New York Stock Exchange valued at \$25 000 net of Non-residents tax (N.R.T) of \$5 000.

- Bank interest from Young & Poor Banking Corporation, a British bank located in London. The amount was \$10 000 gross of 10% of Non-residents tax on Interest.
- Rental income of \$40 000 from a commercial property in Dubai, United Arab Emirates. No tax was charged on this income.

**Required**

Compute Mr. JAMES's tax payable after granting any relief available to him. [5 Marks]

[Total 15 MARKS]

**END OF EXAMINATION QUESTION PAPER**