



**ZIMBABWE EZEKIEL GUTI UNIVERSITY**

---

**FACULTY OF BUSINESS, ECONOMICS AND  
ACCOUNTING**

---

**DEPARTMENT OF ACCOUNTING AND FINANCE**

**MAIN EXAMINATION PAPER**

---

**COURSE CODE** : **CAC 409**

**COURSE TITLE** : **STRATEGIC TAXATION REVIEW**

**SPECIAL REQUIREMENTS** : **INCOME TAX ACT (CHAPTER 23:06)**  
**CAPITAL GAINS TAX (CHAPTER 23:01)**  
**FINANCE ACT (CHAPTER 23:04)**

**DURATION** : **3 Hours**

**LEVEL** : **4.2** **06 JUL 2022**

**DATE**

**INSTRUCTIONS TO CANDIDATES:**

1. No cell phones are allowed in the examination venue.
2. Answer all questions.
3. Non-programmable calculators maybe used
4. Begin each question on a new page.
5. The number of marks for each question or part question is shown in brackets [ ]

## QUESTION ONE

Martha Limited in February 2010 acquired 40 hectares of land for \$600,000.00 which it subdivided for development and resale. 60 plots of 0.5 ha each thus became available, with the balance of the land being used for roads and other amenities. Development costs were:

	\$
Survey fees	10,000
Levelling and so on	25,000
Roads	76,000
Water reticulation	<u>89,000</u>
Total	<u>200,000</u>

Sales of 40 plots were effected on 30 September 2015 at \$20,000.00 each, half of which was payable immediately and half on 30 June 2016. The balance was however paid on 30 September 2016 thus delaying by 91 days at which day ownership was effected. Interest at 20% per annum was receivable on amounts outstanding.

The remaining plots were sold for cash on 1 May 2017 at \$22,000 each. Assuming that all other terms were met, for the taxable income of Martha Limited for the years ended 31 December.

### **Required:**

**Calculate the taxable income in the hands of the seller for each of the three years in question. [25 marks]**

## QUESTION TWO

1. Company X and Company Y are associate companies as defined in section 2A of the Income Tax Act. In July 2016 they entered into a transaction in which Company X transferred one of its rental earning properties to Company Y. The decision was made when X's management noted that they could reduce their taxable income by transferring this property to Y since Y has been incurring significant losses over the past 4 years. Discuss the implications of the above transaction with reference to the requirements of sect 98A. Use examples to illustrate the impact of the decision on tax payable to Zimra. (5 Marks)
2. During the year of assessment Entity X purchased goods for a consideration of \$1,300 from entity Y which is an associated enterprise. Entity X then went to sell the goods to an independent entity for a sale consideration of \$1,700. Ordinarily Entity X earns

a margin of 20% on all sales of these goods. Calculate the transfer price for the goods purchased from entity Y, that should be used in calculating entity X's taxable income. ( 5 Marks)

3. During the 2016 year of assessment P ltd sold goods to S ltd an associated company for a sale consideration of \$3,000. P ltd had originally bought these goods from an independent entity for a purchase consideration of \$2,700. Ordinarily for similar uncontrolled transactions P ltd charges a mark-up of 25% on such sales of these goods. Calculate using the cost-plus method the transfer price to be used for the sale transaction in determining P ltd.'s taxable income for the year. (5 Marks)

4. Chiro Chimwe Limited (CCL) produces Zumbani leaves for the local markets. The net profit before tax for the year ended 31 December 2017 is US\$102 000 after taking the following into account:

i. CCL sold 20% of its production output to an associate company, Sambiri (Private) Limited (SPL) 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.

ii. CCL paid a total of US\$60 000 to SPL for equipment hire. The equipment is used by CCL to offload zumbani on arrival at the processing plant. The open market charge for hire of equivalent equipment is US\$45 000.

iii. 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 SPL's seasonal workers. SPL pays all of its seasonal workers the minimum industry wage of US\$260 per month. The work done for CCL was of a similar type and carried out in similar conditions to the seasonal work done for SPL.

iv. CCL's non-current assets as at 1 January 2017 were as follows:

	Date acquired/ constructed	Cost US\$	Income tax value US\$
Office building (constructed)	2007	150 000	112 500
Factory building (constructed)	2015	200 000	100 000
Furniture and fixtures (acquired)	2014	120 000	30 000
Two passenger vehicles (acquired)	2016	80 000	15 000
Commercial vehicles (acquired)	2016	90 000	67 500

**Required:**

**(a) Calculate the taxable income and corporation tax payable by Chiro Chimwe for the year ended 31 December 2017. (15 Marks)**

Notes:

(1) You should start your calculation with the net profit before tax of US\$102 000 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 THREE**

Mr. Chimukoko 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**

- (a) Compute Mr. Chimukoko's tax payable after granting any relief available to him. (15 Marks.)
- (b) State the provisions of Section 93 of the Income tax Act (5 Marks)

**20 MARKS**

**QUESTION FOUR**

Mr Gutu, who is 50 years old, purchased a principal private residence (PPR) and incurred a cost of \$45 000 Zimbabwe Dollars in August 2008. This property was sold on 30 June 2016 and US\$90,000.00 was realized.

**Required**

- a) How much capital gains tax is payable?
- b) If Mr Gutu used US\$50,000.00 to buy another PPR, what will be the capital gains tax payable?

Assuming the property referred to in a) and b) above was purchased on 10 May 2010 for US\$60,000.00 and sold on 30 June 2017 for US\$90,000.00

- c) How much is the capital gains tax payable?

- d) If Mr Gutu used US\$75,000.00 to buy another PPR, compute the capital gains tax payable?
- e) If Mr Gutu used US\$100,000.00 to buy another PPR, compute the capital gains tax payable. **(25 marks)**

**END OF EXAMINATION QUESTION PAPER**