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ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING

DEPARTMENT OF ACCOUNTING AND FINANCE

MAIN EXAMINATION PAPER

COURSE CODE	CAC 225
COURSE TITLE	ADVANCED TAXATION
SPECIAL REQUIREMENTS	INCOME TAX ACT (CHAPTER 23:06) CAPITAL GAINS TAX (CHAPTER 23:01) FINANCE ACT (CHAPTER 23:04)
DURATION	3 Hours
LEVEL	2.2
DATE	06 OCT 2022 06 OCT 2022

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 [ ]
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 1

a)

On 1 May 2019 Mundonda purchased a plot of land for $750 000. Erection of a factory on this land commenced on 15 May 2019. It was completed on 30 September 2019 at a cost of $1 750 000. This factory was brought into use in a process of manufacture on 1 October 2019.

As a result of continued unrest in the vicinity of this factory, the board of directors of Mundonda decided on 1 July 2021 to dispose of the land and buildings as soon as practically possible. The land and buildings were sold to an unrelated party on 31 October 2021 for $2 450 000 ($750 000 for the land and $1 700 000 for the building). Mundonda continued to use the land and buildings in its process of manufacture for the period 1 July 2021 to 31 October 2021.

In anticipation of the proposed sale, Mundonda on 1 July 2021 entered into a 30-year operating lease agreement with Tongai Ltd for the lease of an industrial site in a trouble-free area. This lease agreement stipulated that Mundonda would –

- pay a premium of $84 000 on 1 July 2021;
- erect a factory on the site at a cost of $2 670 000; and
- from 1 July 2021, pay an annual rental in advance of $60 000 a year (subject to an annual escalation of $3 000 each year).

Erection of the factory commenced on 1 August 2021. It was completed on 31 October 2021. The factory was brought into use on 1 November 2021. The cost of the factory was $3 204 000.

REQUIRED

With reference to the above , discuss the tax treatment of the transactions detailed .

Support your discussion with calculations. **[Total: 15 Marks]**

b)

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. 10 MARK

QUESTION 2

Mr Torima was employed by Takaendesa (Pvt) Ltd (Takaendesa) for the past 20 years and held the position of Finance Director for the past three years. Mr Torima became seriously ill and on 26 February 2015 he was diagnosed with a terminal illness. He retired with effect from 28 February 2015 on the ground of ill health. He died on 31 March 2015 and his estate was wound up on 30 September 2015.

Mr Torima, who was 52 years old, was ordinarily resident in Zimbabwe. He was married out of community of property to Nyarai who is disabled and unemployed.
They have three little children, Tapiwa who is 23 years of age, Tanaka who is 20 years of age and Tashingiswa who is 16 years of age.

1. Mr Torima received the following remuneration from Takaendesa for the period 1 January 2015 to 28 February 2015:

	$
Salary	5 000
Bonus, voted 10 February 2015	2 000
Director's fees, voted 10 February 2015	1 000
Entertainment Allowance(of which $200 had been used in entertaining business guests)	500
	8 500

2. Mr Torima had the use of a company vehicle with an engine capacity of 1 400cc (Assume annual benefit of $3600)
3. On 1 January 2015 Takaendesa granted Mr Torima an interest-free loan of US$5 000 to finance his medical expenses. Takaendesa also paid medical expenses amounting to US$ 3 000 in February 2015 on behalf of Mr Torima.

4.When Mr Torima retired at the end of February he was given the company vehicle which had purchased by Takaendesa in November 2014 at a cost of US$5 000 and which at 28 February 2015 had a market value of US$ 4 000.

5. Mr Torima owned a block of flats in Zimbabwe which was let at a monthly rental of $400 from 1 January 2015 to 31 December 2015. In January 2015 he had erected a fence along one boundary at a cost of US$ 2 500. At 31 December 2014 Mr Torima had an assessed loss of $700.

6. On 15 January 2015 Garikai (Pvt) Ltd, a Zimbabwean subsidiary of Takaendesa, voted a director's fees of $2 000 to Mr Torima, who had also been a non-executive director of this company.

7. Mr Torima made the following bequests in terms of his will:
(i)To his sister, Fadzayi Janyure, the sum of $2 000.
(ii)To his wife, Nyarai, the family home and any moveable assets (including motor vehicle) as well as an annuity of $300 to be paid out of rental income from the block of flats.
(iii)The flats were bequeathed jointly to Tapiwa, Tanaka and Tashingiswa. Mr Torima stipulated that the rental income from the flats would be held in a trust for any child who was under the age of 21.
If either of his sons died before they reached the age of 21, any accumulated rent would be paid immediately to his estate. However, if Tashingiswa died before she was 21 years of age, her share would fall away and would be given to her surviving brothers.

8. The residue of the estate would be divided equally amongst the three children.

9. Operations during the administration period from 1 April 2015 to September 2015:

	US$
Rental Income(6x$400)	2 400
Interest arising on a loan to a Zimbabwean registered company	320
	2 720
Annuity to: Nyarai(6X$300)	(1800)
Maintenance costs(all allowable)	(480)
	440

Required:
(a)Calculate the 2015 tax liability of Mr Torima for the period 1 January to his date of death.(Use effective PAYE rate of 23,5% before credits) **[18marks]**

(b)Calculate the taxable income of each of the beneficiaries at 30 September 2015, when the estate was wound up. Provide explanations for your answers. **[12marks]**

QUESTION 3

CHOTO is in the business of buying and selling plots. He bought a plot for US$10 000 and sold it for US$40 000 on the following conditions of sale:

a) 25% deposit on signing the agreement.

b) The balance to be paid over a period of 3 years at US$10 000 /annum, commencing in the year the deposit is paid. He sold the plot in February 2009.

In 2011 the buyer could not raise the annual installment. He had, with the sellers' permission constructed a cottage on the plot. He negotiated that he finds a buyer for both the plot and the cottage. The property was resold for US$60 000 in 2012 and the first purchaser paid US$6 000 for the cottage as well.

The second purchaser negotiated to pay for the plot under the terms of the original agreement which the seller accepted.

Required:
Calculate the taxable income in the hands of the seller for each of the three years in question (2009-2011). (15 marks]

QUESTION 4

a) In the following transactions i to v below indicate whether the transaction fall under section 98A or 98B of the ITA Chapter 23:06 also indicate the amount of adjustment if any that the commissioner may effect in the computation of Taxable Income. Assume all transactions are between associated persons as defined in Section 2A of the same Act.

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. (5 Marks)

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. (5 Marks)

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. (5 Marks)

iv. During the year of assessment Entity X purchased goods for a consideration of $1,600 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 $1,750. 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)

v. During the 2016 year of assessment P ltd sold goods to S ltd an associated company for a sale consideration of $3,333. P ltd had originally bought these goods from an independent entity for a purchase consideration of $2,950. Ordinarily for similar uncontrolled transactions P ltd charges a margin of 20% 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)

(b). **Your friend is contemplating evading paying tax because in his opinion the tax rates are very high and there are so many tax heads involved.**

Advise your friend on the benefits of being tax compliant. (5 Marks).

END OF EXAMINATION QUESTION PAPER

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