



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF LAW BUSINESS INTELLIGENCE AND, ECONOMICS

DEPARTMENT OF ACCOUNTING, FINANCE AND HUMAN CAPITAL MANAGEMENT

MAIN EXAMINATION PAPER

COURSE TITLE	STRATEGIC TAXATION REVIEW
COURSE CODE	CAC 409
DURATION	3 Hours
LEVEL	4.2
DATE	11 APR 2023

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 ONE

Tapiwanashe P/L is a duly incorporated company in Zimbabwe specialising in car rentals and safaris. On 1 January 2021, the company entered into a lease agreement with Properties Ltd for a property situated in Bindura CBD for a period of 8 years. In terms of the lease agreement signed, the following terms were to be implemented by Tapiwanashe P/L:

1. Lump sum payment of \$30 000 was payable upon signing the lease agreement.
2. Rentals of \$1500 were payable in advance starting 1 January 2021.
3. Tapiwanashe P/L was requested to erect a building to the value of \$200 000 to specified plan.

After six month Tapiwanashe P/L completed the building at a cost of \$180 000. The building was approved by the lessor to have met the agreed specification, but an expert advised that the building was worth \$220 000. Tapiwanashe P/L however, occupied the building on 1 September 2021.

Required

- a) Show the amounts that are deductible in the hands of Tapiwanashe P/L in respect of the lease agreement. [8]
- b) Show the amounts that are taxable in the hands of Properties Ltd [6]
- c) Assuming that Properties Ltd agree to sell the property being leased to Tapiwanashe P/L on 31 December 2021 for a consideration of \$230 000 and that 60% the total expenditure incurred by Tapiwanashe Ltd with respect to the lease, will be offset part of the consideration.
 - i. Explain the tax implication of that arrangement on both parties to the lease. [5]
 - ii. Compute the figure for recoupment, if any, to be taxed in the hands Tapiwanashe P/L [6]

TOTAL 25 Marks

QUESTION TWO

Jubika (Pvt) ltd acquired a piece of land with the intention of developing commercial stands for resale. The land was subdivided into 50 stands.

Cost of land	US\$ 240 000
Survey fees	US\$ 71 500
Road and sewerage reticulation	US\$ 19 500

30 Stands were sold on 30 November 2020 for US\$15 000 each and 20 stands were sold in February 2021 for US\$30 000 each on the following conditions of sale:

- a) A deposit of 50% on signing the agreement.
- b) The balance is payable with effect from the month of sale @ US \$15 000/month, until full payment is made.
- c) Interest @ 25% on all overdue accounts.
- d) Ownership to be transferred upon full payment of the purchase price.

Administration expenses were as follows:
Year ended 31 December 2020 US\$36 000
Year ended 31 December 2021 US\$48 000

Year Ended 31 December 2022 US\$50 000

Required

Compute the tax liability for each of the three years in question [25 Marks].

QUESTION THREE

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 2021 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 Ezekiel Guti University'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\$30 000 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\$20 000 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 2021. 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\$13 000 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\$32 000.

11. Depreciation for the year was US\$35 000.

12. Included in Net Profit were foreign incomes as follows, dividends from a company registered in the United Arab Emirates of \$25000 (Net of NRT \$5000), Belarus \$30 000 (Net of NRT 10%), foreign Interest from a Abuja Commercial Bank \$10 000 (Net of NRT \$1000) and rental income from a property registered in the Republic of South Africa of \$2500 per month.

13. ASL's non-current assets as at 1 January 2021 were as follows:

	Date acquired/ constructed	Cost US\$	Income tax value US\$
Office building (constructed)	2017	150 000	112 500
Factory building (constructed)	2019	200 000	100 000
Furniture and fixtures (acquired)	2015	120 000	0
Two passenger vehicles (acquired)	2019	80 000	10 000
Commercial vehicles (acquired)	2017	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 2021. (34 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.

(4) Briefly outline the provisions of Section 91 of the Income Tax Act.

TOTAL 30 Marks

QUESTION FOUR

Rowai Watambura (RW) aged 65 years has been employed as a Finance Director for Omega Investments for a number of years. During his tenure of employment he acquired several properties in Zimbabwe from profit sharing proceeds from his employment. He also sits on a board of directors for several companies. As a chartered accountant he is a man of integrity and has always declared his incomes to Zimra. On 12 July 2022 on one of his business trips to Mutare he was involved in a serious accident that almost claimed his life. The doctors who assessed his condition declared that he was permanently disabled and was in the best interest of his health to resign from employment and rest to which he consented. On 30 September he resigned from his employment and unfortunately on 30 November he died from the serious injuries sustained in the accident. The following financial information is presented to you as a consultant for expert advice

1. Salary \$120000 per annum, as their long serving employee the company paid the salary up to 31 December 2022
2. Annual bonus \$10500 (not voted for). Its is the company policy that an employee who works for at least 8 months in a calendar year is entitled to bonus. This was paid on 8 December 2022
3. Gratuity on retirement due to ill heath \$25890
4. RW received as part of his severance pay a Toyota D4D which he was using during the tenure of his employment. The market value of the car was assessed to be \$35600 and at the time of retirement it had a net book value of \$12500.
5. RW received a loan from his employer on 1 August 2022 to meet his medical expenses. The loan amount was \$21500 at 2% per annum. However his medical bill amounted to \$17500 only. The loan remained unpaid at the end of the year though the interest was paid back in full.
6. On 15 December 2022 a foreign bank in which he had invested paid interest to his estate of \$12650 (NRT \$5000). The amount reflected in his bank account on 21 December 2022 as \$12550 after bank charges of \$100.
7. RW received director's fees of \$11000 from Omega Investments on 1 November 2022 and a further \$18620 on 2 December 2022 from Chitota Investments a company on which he sits on the board of directors.
8. Profit sharing from 2021 financial performance amounted to \$22550. This has not been paid by year ended 31 December 2022 because the company had experienced serious cash flow challenges; however the company promised to pay by 10 January 2023. On 11 January 2023 the full amount was paid into RW bank account.
9. At the time of his death, RW bank account had a fat \$45600 positive bank balance.

Required

Discuss the treatment of each of the above transaction in determining the taxable income of RW, clearing indicating tax credits if available and distinguishing between pre and post income. [20 Marks)

END OF EXAMINATION PAPER

APPENDICE TO TAXATION PAPER

1. Individual Tax Table

From	To	Amount in Bracket	Tax Rate (%)	Tax (\$)	Cumulative Tax (\$)
0	to 3 000	3 000	0%	0	0
3 001	to 12 000	9 000	20%	1 800	1 800
12 001	to 24 000	12 000	25%	3 000	4 800
24 001	to 60 000	36 000	30%	10 800	15 600
60 001	to 90 000	30 000	35%	10 500	26 100
90 001	to 120 000	30 000	40%	12 000	38 100
120 001	to 240 000	120 000	45%	54 000	92 100
240 001	and above	-	50%	-	-

2. Corporate Tax **24%**

3. AIDS Levy **3%**

4. Motoring benefit:	Engine capacity	Monthly benefit
	Up to 1 500cc	US\$300.00
	1 501cc to 2 000cc	US\$400.00
	2 001cc to 3 000cc	US\$600.00
	3 001cc and above	US\$800.00

NB: These RATES are for Examination purpose only.