

ZIMBABWE EZEKEL GUTI UNIVERSITY



**FACULTY OF COMMERCE
DEPARTMENT OF ACCOUNTING AND FINANCE**

COURSE: INTRODUCTION TO TAX LAW AND PRACTICE

COURSE CODE: CAC202

DURATION: 3 HOURS

INSTRUCTIONS

1. Answer all questions
2. Show all your workings
3. Write neatly
4. Start each question on a separate page

Question 1

Farm Technology (Private) Limited is a manufacturing company which has been operating in Gwanda for the past three years. Gwanda was designated a growth point with effect from January 2016. Farm Technology's assets as at 1 January 2016 were as follows:

Asset	Cost	Date of purchase	Income tax value
Manufacturing machinery	\$28 000	2003	\$14 000
Isuzu horse and trailer	\$100 000	2002	\$25 000
Toyota Twin-cab	\$ 85 000	2003	\$5 000
Delivery tractor	\$48 000	2003	\$24 000

Other assets acquired during the year were:

Second-hand machinery	\$24 000
New manufacturing machinery	\$200 000
Mazda B1800 truck	\$76 000
Toyota Prado (for Managing Director)	\$180 000

The company also constructed a staff canteen within its industrial premises at a cost of \$60 000

Required:

- Compute the maximum capital allowances and growth point incentive allowances that can be claimed by Farm Technology (Private) Limited in respect of the tax year ended 31 December 2016. (16 marks)
- Outline any three basic taxation principles that a good tax system should be guided by. (9 marks)

Question 2

Josh Oak is a veterinary surgeon in the government department of animal husbandry and veterinary services. For the past five years he was based at the head office in Harare but was transferred to the Mash East office on 15 June 2016. The following are the details of his earnings during the year ended 31 December 2016:

Employment income

Salary and benefits

- i) Salary of US\$28 000. In addition, Josh received a bonus of 10% of his salary on 30 November 2016.
- ii) Fringe benefits of US\$10 000 being accommodation allowance of US\$4 000, representation allowance of US\$3 000, fuel allowance of US\$1 000 and school fees allowance of US\$2 000 for his minor children.
- iii) The standard relocation allowance of US\$5 000 when he transferred to the Mash East office. The actual expenses incurred by Josh in the transfer amounted to US\$3 500.
- iv) An interest free loan of US\$15 000 received from his employer on 1 August 2016. Josh applied US\$10 000 towards his post graduate studies and US\$5 000 towards the purchase of a vehicle for his wife. The LIBOR for the year ended 31 December 2016 averaged 1.5% per annum.
- v) Use of an employer allocated vehicle with an engine capacity of 3 200cc
- vi) A total of US\$12 000 from a matured retirement annuity fund (RAF). His contributions to the fund over the years were allowed as a deduction. Payments by Josh
- vii) Pension contributions amounting to 7.5% of his salary. Josh also contributed US\$4,000 towards his RAF.
- viii) Professional subscription fees of US\$1 500.
- ix) Medical aid contributions of US\$6 000.
- x) The PAYE deducted by Josh's employer for the year amounted to US\$9 400.

Other income

- xi) Net rental income of US\$23 000 from a holiday cottage in Botswana.
- xii) Net non-executive director's fees (after deduction of withholding tax at source) of US\$8000

Required

Calculate the taxable income and income tax payable by Josh Oak for the year ended 31 December 2014 (25 marks)

Question 3

MT (Private) Limited a large wholesale company. The following is MT's statement of profit or loss for the year ended 31 December 2014:

	Note	US\$
Revenue		930 000
Cost of sales	1	(410 000)
Gross profit		520 000
Other income	2	140 000
Distribution costs	3	(130 000)
Administrative expenses	4	(290 000)
Other expenses	5	(40 000)
Finance costs		(30 000)
Net profit before tax		170 000

1. Included in the cost of sales is the cost of computers valued at US\$50 000 purchased for office use on 20 November 2014 but included as part of opening inventory (stock) in error.

2. Other income relates to the profit of commercial vehicles. The commercial vehicles were originally purchased by MT for US\$150 000 and were sold for US\$290 000.

3. Distribution costs are made up as follows:

Motor vehicle running and maintenance costs	US\$ 40 000
Insurance and licensing costs	20 000
Purchase of vehicle tracking equipment and radios	68 000
Traffic fines	2 000
	<hr/>
	130 000

4. Administrative expenses are made up as follows:

General repairs and maintenance costs	US\$ 27 000
Office renovations and partitioning	80 000

Staff expenses	93 000
Litigation costs – municipality by-law violation	10 000
General administrative costs	30 000
Entertainment	15 000
Depreciation	35 000
	290 000

Additional information

MT's non-current asset register as at 31 December 2013 shows the following assets:

	Cost (US\$)	Tax value (US\$)
Shop premises	210 000	194 250
Commercial vehicles	150 000	75 000
Furniture and office equipment	70 000	nil
Passenger vehicles	100 000	nil
	530 000	269 250

MT's policy on non-current assets is to claim the maximum capital allowances on qualifying assets.

Required:

Calculate the taxable income of and corporate tax payable by MT (Private) Limited for the year ended 31 December 2014, making use of any available reliefs. **(25 marks)**

Question 4

The training partner in an accounting firm gives you the assignment to do some research into the deductibility of the following expenditures. The notes are to be used in a training seminar shortly.

- a) John Mafios is a university lecturer in the engineering department. During the recently ended tax year he converted a storeroom at the back of his garage into an office cum workshop. He uses this home office for the preparation of his lectures and preparation of relevant experiments, all to do with his work as a lecturer. He estimates a notional

monthly rent of \$2 400 000 for this office. He bought some computer equipment and engineering software, which he placed in the office and uses it extensively in his preparations. The equipment cost \$20 000 000. John Mafios assigns his gardener the duty of cleaning the office twice a week. The annual cost of this work according to his estimates came to \$500 000.

- b) Ben Brown is a practising medical doctor, in August 2016 he underwent an eye operation, which was essential for him to remain in medical practice. The operation cost him \$13 000 000 of which \$3 000 000 was recovered from his medical aid society. According to him the expense was incurred for the purposes of trade and should be allowed as a deduction rather than for him to obtain only a medical credit, which is 50% of the shortfall.
- c) Shungu Commuter bus company has been doing business between Bulawayo and Beitbridge for the past two years. In the past year it experienced a substantial increase in its business expenses due to speeding fines and money paid to touts used to lure customers at the bus stations. The company is also considering setting up a fund to be used to attempt bribing traffic police to induce them to be lenient.
- d) During the year ended 31 December 2016, the company's financial director embezzled \$2m from the business.
- e) During the year ended 31 December 2016, Gang Ltd incurs \$50,000 in seeking legal advice on employee disputes. Is this amount allowable for tax?
- f) Your client's driver has been fined \$100 for failing to display a valid licence disk.
- g)

Required

Prepare a report for the training partner comprising brief notes on the deductibility of the expenditures outlined above. (25 marks)

*****THE END OF PAPER*****

Tax rates and allowances are to be used when answering the questions.

Tax rates – Individuals employment income

Taxable income band	Rate of tax	Amount within band	Cumulative income tax liability
US\$ %		US\$	US\$
Up to 3 600	0	3 600	0
3 601 to 18 000	20	14 400	2 880
18 001 to 36 000	25	18 000	7 380
36 001 to 60 000	30	24 000	14 580
60 001 to 120 000	35	60 000	35 580
120 001 to 180 000	40	60 000	59 580
180 001 to 240 000	45	60 000	86 580
240 001 and over	50		

Credits per year

	US\$
Disabled / blind person	900*
Elderly person (55 years and over)	900*
Medical aid society contributions	50%
Medical expenses	50%

Deemed benefits for the year- Motor vehicles

Engine capacity :	US\$
Up to 1500cc	3 600
1501 to 2000cc	4 800
2001 to 3000cc	7 200
3001cc and above	9 600

Loans

The deemed benefit per annum is calculated at a rate of LIBOR + 5% of the loan amount advanced.

Capital allowances	%
Special initial allowance (SIA)	25
Accelerated wear and tear	25

Wear and tear:

Industrial buildings	5
Farm buildings	5
Commercial buildings	2, 5
Motor vehicles	20
Movable assets in general	10

Tax rates – Other than employment income

Year ended 31 December 2016

Companies'	%
Income tax: Basic rate	25
AIDS levy	3

Tax rates of Income from foreign investments

Foreign dividends	20
Interest	25

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