



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING

DEPARTMENT OF ACCOUNTING AND FINANCE

EXAMINATION PAPER

COURSE CODE : CAC202
COURSE TITLE : INTRODUCTION TO TAX LAW AND PRACTICE
SPECIAL REQUIREMENTS : NON-PROGRAMABLE CALCULATOR
DURATION : 3 Hours
LEVEL : 2.1
DATE : 13 NOV 2019

INSTRUCTIONS TO CANDIDATES:

1. No cell phones are allowed in the examination venue.
2. Answer **all** questions in **Section A and Section B**.
3. Begin each question on a new page for **Section B only**.
4. The number of marks for each question or part question is shown in brackets
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SECTION A: ANSWER ALL QUESTIONS

1. The definition of a person includes:

- i. A company
- ii. A trust
- iii. A deceased estate

Which statement is true?

- A (i) only
- B (i) and (ii) only
- C (i) and (iii) only
- D (iii) only

2. Mr Jones is an accountant with a local company. During the year ended 31 December 2018 he earned the following amounts:

Dividends from South Africa	\$1,000
Salary (earned during his Botswana posting for 4 months)	\$1,500
Zimbabwe salary	\$2,000
Bonus (not received by year end)	\$600

What is his total taxable income for the year ended 31 December 2018?

- A \$2 600
- B \$5 100
- C \$3 600
- D \$4 100

3. Runesu retired from employment on 30 October 2018. He will be receiving a lump sum payment of \$360,000 from a retirement annuity fund as a pension. His pension entitlement is \$480,000.

How much income is taxable in his hands?

- A \$200,000
- B \$120,000
- C \$480,000
- D \$100,000

4. Which of the following is an exemption applicable to individuals?

- A Maintenance (Alimony)
- B Dividend from local companies
- C Interest from financial institution
- D Salary paid to a civil servant

5. Which of the following credits is not apportioned?

- A Elderly person
- B Disability
- C Medical aid contribution
- D Medical expenses

6. Mrs Lingala was given a company house in Marlborough in the beginning of the year by her employer. She paid monthly rentals of \$200. The market rentals for similar houses are \$600 per month. The cost to the employer of maintaining the house is \$250 per month.

What is the taxable housing benefit to Mrs Lingala?

- A \$2,400
- B \$4,800
- C \$3,000
- D \$7,200

7. Mr Jonasi received a loan of \$5,000 from his employer on 1 March 2018. He used 40% of the amount to purchase drugs for medicating his son, the other amount he used to purchase building materials for his house. He was also given a car on the same date, engine capacity 3300cc.

What is the total taxable benefit to Mr Jonasi? Libor is 1.5%.

- A \$8,195
- B \$9,795
- C \$11,000
- D \$8,162.5

8. Mapuranga was retrenched during the year ending 31 December 2018. He received the following amounts:

Severance pay	\$15,000
Long service award	\$4,000
Pension lump sum	\$10,000
Cash in lieu of leave	\$1,200

What is Mapuranga's taxable amount of his retrenchment pay?

- A \$9,000
- B \$12,667
- C \$20,200
- D \$19,000

9. Mango, Ralph and Joyce were retrenched during the year ended 31 December 2018 receiving \$9,000, \$54,000 and \$72,000 respectively as retrenchment packages.

What is their total exemption?

- A \$30 000
- B \$47 000
- C \$35 000
- D \$60 000

10. Which of the following benefits are valued on the basis of cost to the employer?

- i. Housing
- ii. Motoring
- iii. Passage
- iv. Furniture

- A (ii) only
- B All of them
- C (ii) and (iii) only
- D (i) and (iv) only

11. What is the rate of W&T for motor vehicles?

- A 10%
- B 25%

- C 20%
- D 5%

12. Benjamin Makura is 65 years old and retired on 1 August 2018. He was employed by Sonpin Accounting solutions since 1998. His employer contributed 50% to Zimnat Pension Fund for its employees. Over the years Makura's contribution exceeded the limit by \$35,000. He will be receiving \$1,000 per month in arrears with effect from September 2018. His life expectancy is 10 years.

Compute his taxable income for the year ended 31 December 2018.

- A \$5,167
- B \$2,877
- C \$4,333
- D \$2,833

13. Jack & Co. purchased a Toyota corolla for its Accountant for \$22,000 in 2018. The car was sold in July 2018 for \$15,000.

Assuming the car qualified for SIA what is the recoupment?

- A \$4,000
- B \$1,818
- C \$1,800
- D \$818

14. Omo Limited was incorporated on 20 November 2016 and commenced business operations on 5 January 2018. The company incurred the following expenses between 20 November 2016 and 4 January 2018:

Stationery	\$5,000
Repairs and maintenance	\$40,000
Purchase of 10 motor cycles	\$20,000

What is the maximum amount of tax deduction which Omo Limited can claim in respect of the above expenses for the year ended 31 December 2018?

- A \$50,000
- B \$45,000
- C \$65,000
- D \$49,000

15. **Which of the following donations has a maximum ceiling of \$50 000.**

- A Donation to Ministry of Health
- B Donation to charitable trusts
- C Donation to Private Partnership Fund
- D Donation to Higher and Tertiary Ministry

SECTION B: ANSWER ALL QUESTIONS

Question 1

In most developing nations tax is seen as a punishment or evil committed particularly on the poor people. The belief is buttressed by the alleged corrupt and non-accountable governments in some of these developing countries causing the citizens to evade paying taxes. As an analogy, one of the reasons which caused the indigenous Zimbabweans people to wage a protracted war against the British colonialists was hut tax. The war resulted in the independence of Zimbabwe and a black government was established in 1980.

Nonetheless independence did not remove taxes but instead increased the number of tax heads being charged on individuals, corporations, trusts and deceased people's property. Just recently in January 2019 the Zimbabwe citizenry demonstrated against what they called the wanton price increases triggered by the introduction of a 2% tax on all electronic money transfers as well as an increase on petroleum fuel (diesel and petrol).

This hatred of paying taxes had created a culture of tax evasion. Tax evasion is widespread throughout the Zimbabwean society, as witnessed by the rampant smuggling of goods through our porous boundaries and border posts, particularly with countries such as Mozambique, South Africa, Botswana and Zambia. Similarly, tax evasion is seemingly permanently embedded in the informal sectors including SMEs, short distance passenger transport operators and vendors. Their hatred for paying taxes is epitomized by their willingness to pay bribes to the police and other law enforcers. The vendors are always involved in running battles with police and municipality security officers.

Required:

In light of the above case:

- a) Discuss, why the Zimbabwean government is still imposing taxes on its citizenry.[10]
- b) Identify any tax evasion incidences in the above case and distinguish tax evasion from tax avoidance.[7]
- c) Describe the sources of tax law in Zimbabwe [8]

[Total 25marks]

Question 2

Chanxonda Sibiya is a divorcee of 57 years of age. Sibiya has been working as a Software Engineer for the construction industry for the past 26 years with Royal Building Contractors (RBC). He decided to retire on 31 December 2018. The following information relates to Chanxonda Sibiya for the tax assessment year ended 31 December 2018:

Income and expenses	Notes	Amount \$
Salary		48,000
13th Cheque Bonus		4,000
Performance related incentive		1,000
Free use of motor vehicle	1	?
Reimbursive travel allowance	2	4,500
First Mutual Medical Aid contribution (RBC wholly contributed)	3	3,160
Contribution to a Pension Fund paid by RBC		6,800
Lumpsum receipts	4	45,600
Other Income receivable		
Lumpsum from a pension fund (total receivable)	5	86,000
Annuity from a pension fund	5	5,000
Expenses		
Own contribution to Medical Aid Society		2,200
Extra Medical expenses		2,400
Contribution to a Pension Fund (own contribution)		6,700

Notes:

- Chanxonda Sibiya had the exclusive use of a 4x4 Toyota Fortuner. RBC outsources the services of Sibiya to various other clients in the construction industry. However, Sibiya also uses this company car for private purposes. The details of the travelling expenses are as follows:

Killometres travelled for business during the year	38 000km
Killometres travelled for private purposes	12 000km
Total killometres travelled	50 000km

The engine capacity for the Toyota Fortuner was 3200cc

Chanxonda was also given an option to purchase the Toyota Fortuner. He chose to exercise the option and purchased the Fortuner at \$4 000. The market price of a similar Toyota Fortuner was \$15 000.

- During the 2018 tax year, Chanxonda was involved in an accident with the Toyota Fortuner. The vehicle was at a garage for panel beating and spray painting for the whole month of June. During that period Chanxonda was using a company hired Ford Ranger of engine capacity 3000cc. RBC paid \$1 per km for a total of 3 500km travelled. However, 1 000km were travelled for private purposes.

3. Chanxonda is a member of a Medical Aid Society with no dependents. In terms of the rules of the fund, Chanxonda and RBC contributed equal amounts to the medical aid society. Other qualifying medical expenses paid by Chanxonda amounted to \$1500.
4. On his retirement the following lump sums were receivable to Chanxonda Sibiya from RBC:

	Amount \$
Accumulated leave	6,000
Gratuity	15,700
Severancy pay	6,800
Restraint of trade payment (NB)	45,600

NB: Chanxonda Sibiya and RBC signed a restraint of trade agreement prohibiting Sibiya from using Software developed specifically for RBC for any other business for the next five years.

5. Chanxonda received a lump sum payment of \$86,000 being a commutation of his pension. The gross pension entitlement prior to the commutation amounted to \$180,000. His monthly pension from 1May 2018 was \$600 per month.

Required:

Calculate Chanxonda Sibiya tax payable for the assessment year ended 31 December 2018.

[Total 25 marks]

Question 3

Katakata (Private) Limited is a Zimbabwean incorporated company based in Lytton industrial area. The company is in the business of manufacturing various plastic products. On 1 January 2018, the following assets were shown in its asset register:

Assets	Cost	Year acquire	Month	Income Tax Value(ITV)
	\$			\$
Industrial land	500,000	2016	January	500,000
Delivery truck	10,000	2017	July	9,000
Computers	4,000	2015	January	1,000
Warehouse	50,000	2017	January	48,750
Factory building	200,000	2015	February	170,000
Mercedes Benz	20,000	2017	December	7,500
Industrial machinery	30,000	2017	March	22,500

Additional information:

1. The company disposed the existing machinery for \$24,000 on 30 June 2018 and replaced it with a new machinery which was bought for \$50,000. The cost of bringing the machinery to its useful state was incurred as follows:
 - Import duty (Beitbridge border post) \$2,500
 - Installation \$1,500
 - Alteration of the factory building so as to fit the new machinery \$2,000
2. The company bought a Nissan Primera for the finance director on 20 February 2018, for \$14,000.
3. The delivery truck was involved in an accident on 30 October 2018, the insurance company paid the company \$9,000 in compensation. The directors have since found a similar truck for replacement.

Required:

Calculate the maximum allowances and income to be included in the computation of tax liability for Katakata. [20 marks]

THE END

ZEGU TAXATION: JUNE AND NOVEMBER 2019

TAX RATES AND ALLOWANCES

The following tax rates and allowances are to be used when answering the questions.

Tax rates – Individuals employment income for the year ended 31 December 2018:

TAXABLE INCOME BAND	RATE OF TAX	AMOUNT WITHIN BAND	CUMULATIVE INCOME TAX LIABILITY
\$	%	\$	\$
Up to 3 600	0	3,600	-
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		

NB. The AIDS levy of 3% is chargeable on income tax payable, after deducting credits.

Allowable deductions year ended 31 December 2018:

Pension fund contribution ceilings	\$
(a) In relation to employers: in respect of each member	5,400
(b) In relation to employees: by each member of a pension fund	5,400
(c) In relation to each contributor to a retirement annuity fund or funds	2,700
(d) National Social Security contributions (on a maximum monthly gross salary)	3.5% Gross salary
Aggregate maximum deductible contributions to all the above per employee per year \$5 400	

Credits year ended 31 December 2018:

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

*The amount is reduced proportionately if the period of assessment is less than a full tax year.

Motor vehicles deemed benefits year ended 31 December 2018:

Engine capacity:	\$
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.

Value added tax (VAT):

Standard rate	15%
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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 2018:

Companies:	%
Income tax Basic rate	25
Aids levy	3
Individuals:	%
Basic rate Trade investment income	25
Aids Levy	3

Withholdings Taxes:

Withholding taxes	%
On dividends distributed by a Zimbabwean resident company to resident shareholders other than companies and to non-resident shareholders:	
By a company listed on the Zimbabwe Stock Exchange	10
By any other company	15
Informal traders	10
Foreign dividends	20
Non-executive director's fees	20
Contracts (ITF 263)	10

Non-residents' tax	%
On interest	nil
On certain fees and remittances	15
On royalties	15
Residents' tax on interest	%
From building societies	15
From other financial institutions (including discounted securities)	15

Exemptions for elderly taxpayer (55 years) for the year ended 31 December 2018:

	\$
Rental income	3,000
Interest on deposits with a financial institution	3,000
Interest on discounted instruments	3,000
Income from the sale or disposal of marketable securities	1,800
Pension	No limit
Income from the sale or disposal of a principal private residence is exempt.	
Benefit derived from the acquisition of a passenger motor vehicle from an employer is exempt.	