

ZIMBABWE EZEKIEL GUTI UNIVERSITY



DEPARTMENT OF ACCOUNTING AND FINANCE

B.COM ACCOUNTING

COURSE: INTRODUCTION TO TAX LAW AND PRACTICE

COURSE CODE: CAC202

4 DECEMBER 2018

DURATION: 3 HOURS

INSTRUCTIONS TO CANDIDATES

1. No cell phones are allowed in the examination venue.
2. Use of silent, non-programmable calculators is allowed.
3. Answer all questions.
4. Begin each question on a new page.
5. The number of marks for each question or part question is shown in brackets.
6. Use tax rates and allowances provided in the examination paper

QUESTION 1

- a) Explain the features (principles) of a good tax system (6 marks)
- b) Explain the following concepts in relation to the Zimbabwean tax system:
- i. Judicial management (3 marks)
 - ii. Final deduction system (3 marks)
 - iii. Provisional tax system (3 marks)
- c) Explain the powers and obligations of the Zimbabwe Revenue Authority (ZIMRA) (5 marks)

[Total: 20 marks]

QUESTION 2

- a) Zimbabwe's tax laws give taxpayers obligations as well as rights. Discuss the obligations and rights of taxpayers (10 marks)
- b) Explain giving relevant examples the difference between tax evasion and tax avoidance (10 marks)

[Total: 20 marks]

QUESTION 3

Mr. Bhungaz aged 36 is a managing director of a manufacturing company. The following are his transactions for the year ending 2017:

- i. He received an annual salary of \$82 000 and a bonus of \$10 000.
- ii. In addition to the annual salary, he received the following allowances:
 - a grocery allowance of \$1 500 per month,
 - an airtime allowance of \$200 per month,
 - clothing allowance of \$500 per month,
 - Entertainment allowance of \$600 per month.
- iii. Mr. Bhungaz lives in a company house located in a low-density suburb of Harare and pays rent of \$500 per month although the market rental for similar houses in the area is \$3 000 per month.
- iv. He drives a Toyota Hilux Twin cab with engine capacity 3 000cc.
- v. Mr Bhungaz was given a 5-year loan of \$40 000 by the company and the loan is payable at 10% per annum. Of the loan amount, 50% was used to finish constructing a house in Mt pleasant, 20% was given to the daughter as a wedding present and the remaining 30% was school fees for children studying at a local university.
- vi. The company paid \$2 000 for the medication of his wife who had been injured in a road traffic accident. The wife was certified by the doctor to be permanently disabled.
- vii. He purchased a wheel chair for the wife at a cost of \$3 000.
- viii. During the year Mr. Bhungaz contributed \$1 000 towards medical aid and 20% of the contribution was for the benefit of his parents and in-laws while the rest was for the benefit of his immediate family.

- ix. Mr Bhungaz contributed a total of \$9 000 towards pension fund administered by employer, Retirement Annuity Fund and NSSA during the year.
- x. He received annual rental income of \$10 000 from the leasing of his house in the low-density suburb of Bindura.
- xi. Mr. Bhungaz received income from the following investments:
 - Interest from a building society - \$1 000
 - Interest from a commercial bank - \$2 000
 - Dividends from a local company - \$ 1 500
 - Dividends from a South African company -\$1 900

[Assume there is no double taxation agreement between Zimbabwe and South Africa]

Required:

Calculate tax payable by Mr Bhungaz for the year ending 2017 (30 marks)

[Total: 30 marks]

QUESTION 4

Bhungaz pharmaceutical is a producer of pharmaceutical products. It made a net profit of \$150 000 in 2017 which was arrived at after accounting for the following transactions:

	\$
Fine for dumping waste in council dam	15 000
Licence to manufacture antibiotic chemicals	20 000
ABT Holdings (note 1)	18 000
GMT Pharmacy (note 2)	40 000
Repairs (note 3)	12 000
Advertising (note 4)	25 000
Bad debts (note 5)	20 000
Medical expenses for employees	30 000
Educational grants (note 6)	10 000
Donations (note 7)	10 000
Pre- production expenses (note 8)	30 000
Attendance at a trade convention (note 9)	12 000

Notes:

1. The amount was for a research conducted by ABT on the effect of a new drug on patients.
2. The money was to guarantee selling of Bhungaz's brands only by GMT Pharmacy (restraint of trade).
3. Repairs consist of cost of repairing delivery vans-\$4 000 and \$8 000 for painting a warehouse which had never been painted before.
4. The money was to advertise to raise share capital (\$15 000) and for the sale of drugs (\$10 000).

5. Of the amount \$5 000 was for provision for bad debts.
6. \$1 000 was paid to managing director's son who is studying music at a local university, \$5 000 was paid to the managing director's daughter studying pharmacy at a South African University and \$4 000 was paid to one of the employees' daughter studying pharmacy at a university in U.K.
7. \$2 000 was donated to a primary school, \$3 000 was donated to a local clinic, \$1 000 was donated to the MD's church while \$4 000 was donated to the MD's political party.
8. Pre-production expenses include:
 - \$20 000 for installation of machinery
 - \$10 000 for salaries.
9. In addition to the above, the company acquired the following assets at the beginning of the 2014 year and these are the only assets in its asset register:

A Toyota Hilux double cab	\$ 22 500
A Nissan sunny (Ex-Japanese)	\$12 000
A delivery truck	\$50 000.

Required:

Calculate the tax payable by the company assuming it elects to claim special initial allowance.

[Total: 20 marks]

QUESTIONS 5

Explain the rationale for the following tax treatments:

- i. Passenger motor vehicles are granted capital allowance on restricted cost yet commercial vehicles are granted capital allowance on full cost. (2 marks)
- ii. Allowable deductions pertaining to donations to schools and hospitals are limited to \$100 000; (2 marks)
- iii. The fringe benefits of civil servants awarded by the state are exempt income while those for other taxpayers are taxable; (2 marks)
- iv. Rent expense for unoccupied property is not an allowable deduction; (2 marks)
- v. Foreign dividends are taxable in Zimbabwe (2 marks)

[Total: 10 marks]

-----**End of Examination Paper**-----

TAX RATES AND ALLOWANCES

The following tax rates and allowances are to be used when answering the questions:
Tax Rates – Individuals

Year ended 31 December 2017

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 above	50		

NB.

1. The AIDS levy of 3% of income tax payable, less credits remains in place.
2. The bonus tax free portion is \$1 000.

Allowable deductions year ended 31 December 2017

Pension fund contribution ceilings	US\$
In relation to employers in respect of each member	5 400
In relation to employees by each member of a pension fund	5 400
In relation to each contributor to a retirement annuity fund of funds	2 700
National Social Security: (up to US\$700 monthly)	3.5 % of gross salary

NB Aggregate maximum contribution to all above per employee per year- \$5 400

Credits for the year ended 31 December 2017

Disabled/blind person	US\$ 900*
Elderly person (55 years and over)	US\$ 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.

Deemed benefits year ended 31 December 2017

Motor vehicles

	US\$
Up to 1500cc	3 600
1501 to 2000cc	4 800
2001 to 3000cc	7 200

3001 and above	9 600
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Loans

The deemed benefit per annum is calculated at a rate of LIBOR +5% of the loan amount advanced. (Assume *LIBOR* is 5.3%)

Value added tax (VAT)

Standard rate 15%

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

Income Tax rates

	%
Companies	25
Individuals-Income from trade and investment	25
Aids levy	3

Capital gains tax

Disposal of listed marketable securities acquired after 1/2/2009	1% of gross proceeds
Disposal of immovable property and unlisted marketable securities acquired in Zimbabwe dollars, prior to 1/2/2009:	5% of gross proceeds
Disposal of immovable property and unlisted marketable securities acquired after 1/2/2009:	20% of gain
On principal private residence where seller is over 55 years	0%
On other immovable property acquired on or after 1/2/2009	20% of gain
Inflation allowance	2.5%

Capital gains withholding tax on sale proceeds

	%
Immovable property	15
Marketable securities(listed)	1
Marketable securities (unlisted)	5

Note: the withholding tax is not final on the seller. Actual liability is assessed in terms of the Capital Gains Tax Act.

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-residents' tax

	%
On interest	nil
On interest	15
On certain fees and remittances	15

Residents' tax on interest

	%
From building societies	20
From other financial institutions (including discounted securities)	20

Elderly taxpayers (55 years and over) exemptions from income tax are as follows:

	US\$
Rental income	3 000
Interest on deposits with financial institutions	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 also exempt.	
Benefit derived from the acquisition of a passenger motor vehicle from an employer is exempt	