

ZIMBABWE EZEKIEL GUTI UNIVERSITY



DEPARTMENT OF ACCOUNTING AND FINANCE

B.COM ACCOUNTING

COURSE: INTRODUCTION TO TAX LAW AND PRACTICE

COURSE CODE: CAC202

DURATION: 3 HOURS

22 January 2019

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

Discuss the purpose of the tax system in Zimbabwe (20 marks)

QUESTION 2

Mr. RQ aged 56 is employed by BH Limited as an accountant. The following is Mr. RQ's income received from BH limited.

Mr. RQ's earnings and deductions from BH for the year ending 30 June 2017.

	<i>notes</i>	\$
Salary		15 000
Passage benefit	(1)	1 000
Short course fees		5 000
Conference allowance	(2)	12 000
Fuel allowance	(3)	1 000
Medical aid contribution		2 000
Contribution to sports club		1 000
Leave pay		1 000
Performance bonus		2 000
Funeral policy contributions		(500)
Medical aid contribution		(400)
Pension contributions		(600)
NSSA		(252)
PAYE		(1 000)

Notes:

- (1) The money was for relocation of Mr. RQ upon termination of his employment.
- (2) The conference was held in China for five days. However, Mr. RQ extended his stay by 10 days so that he could spend some time conducting his personal business. The Government of Zimbabwe financed the trip in full and the money was spent as follows:

	\$
Air fare	3 000
Family Shopping	5 000
Accommodation, meals and related direct expenses	2 000
Conference fee	2 000
Total	12 000

- (3) Fuel allowance is the amount paid by the police to Mr. RQ to cover the fuel expenses for his company allocated vehicle, a Ford Ranger, engine capacity 3 300cc. The total

mileage for the six months was 10 000km of which 2 000 km was directly related to the business of the employer.

(4) Mr. RQ's wife is blind

Required:

a) Calculate Mr. RQ's tax obligation for the year ending 31 December 2017. (30 marks)

[Total: 30 marks]

QUESTION 3

GM (Private) Limited manufactures and exports furniture to South Africa. The following is the income statement for the company for the year ending 31 December 2017:

	Note	\$
Revenue		20 000 000
Cost of sales	1	<u>(10 400 000)</u>
Gross profit		9 600 000
Other income	2	3 700 000
Selling and distribution expenses	3	(3 000 000)
Administrative expenses	4	(3 000 000)
Other expenses		(1 500 000)
Profit before tax		5 800 000
Tax expense		<u>(1 450 000)</u>
Net profit		<u>4 350 000</u>

Notes:

1. Cost of sales comprise of:

	\$
Cost of direct material	3 000 000
Inventory damaged by fire but insured	400 000
Inventory theft by employees	600 000
Cost of direct labour	4 000 000
Depreciation of plant and machinery	400 000
Factory overheads	<u>2 000 000</u>
	<u>10 400 000</u>

2. Other income includes:

	\$
Gain on disposal of fixed assets	37 000
Decrease in provision for bad debts	400 000
Bad debts recovered	200 000

Interest income on bank deposits	100 000
Exchange gain	100 000
Government Subsidy	10 000
Rental from investment property	1 200 000
Interest on tax reserve certificates	400 000
Dividends from a South African company	590 000
Dividends received from a local company	<u>663 000</u>
	<u>3 700 000</u>

Note: Assume there is no double taxation agreement between South Africa and Zimbabwe.

3. Selling and distribution expenses include:

	\$
Transportation	1 000 000
Salaries and wages for marketing and sales department	800 000
Depreciation charge for delivery trucks	400 000
Sales commission	95 000
Entertainment- customers	100 000
Traffic fines	5 000
Cost of setting up market in South Africa	500 000
Provision for bad debts	<u>100 000</u>
	<u>3 000 000</u>

4. Administrative expenses include:

	\$
Salary of administration staff	1 500 000
Penalty for not paying corporate tax	300 000
Depreciation of head office building	100 000
Rent: Administration and management offices	600 000
Rent: Unoccupied offices in South Africa	<u>500 000</u>
	<u>3 000 000</u>

7. Legal cost for a lawsuit by former employees who were unfairly dismissed by GM

Additional information:

1. The company's estimated profit for the 2017 year was \$10 000 000.

2. The following information was extracted from the company's asset register on 31 December 2016:

Asset	Year acquired	Net book value (\$)	Accumulated depreciation (\$)
Head office building	2015	5 000 000	600 000
Plant and equipment	2009	5 000 000	3 600 000
Mazda BT50 Single cab	2007	1 000	20 000
Toyota Hilux single cab	2014	15 000	25 000
Nissan Navara double cab	2014	40 000	5 000
Isuzu double cab	2016	45 000	3 000
BMW X5 passenger motor vehicle	2015	50 000	1 000
Delivery trucks x 10	2015	4 500 000	500 000
Machines	2008	200 000	10 000 000
Commercial stand-un developed	2012	185 000	15 000

Note: GM has always claimed Special Initial Allowance on its assets.

Required:

- Calculate the tax to be paid by GM in terms of the provisional tax system. (2 marks)
- Calculate the corporate tax to be paid by GM for the year ending 31 December 2017. (28 marks)

[Total: 30 marks]

QUESTION 4

Explain the tax treatment in each of the following scenarios in respect of the person receiving the payment and the person making the payment in each case:

- Payment made to a competitor by a company so that the competitor does not supply goods similar to those supplied by the company; (2mark)
- A payment of 10% of business profit made by a business owner in respect of tithes. The tithes were paid to the business man's church; (2 marks)
- A donation by an employee towards the cost of repairing an office building belonging to a professional body to which he is a member; (2 marks)
- A tip given to a waiter by guests at a restaurant; (2 marks)
- Prize money paid to a professional hunter; (2 marks)
- An incentive paid by parents to the headmaster of a school; (2 marks)
- Winning a lottery. (2 marks)
- Subscription to a sports club by the employer on behalf of the employee (2 marks)
- Subscription to a professional body by an employee (2 marks)
- Travel and subsistence allowance granted to an employee by an employer (2 marks)

[Total: 20 marks]

-----**End of 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

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
<i>Wear and tear</i>	
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:

	%
	10
By a company listed on the Zimbabwe Stock Exchange	15
By any other company	10
Informal traders	20
Foreign dividends	

Non-residents' tax

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

Residents' tax on interest

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

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

	US\$
	3 000
Rental income	3 000
Interest on deposits with financial institutions	3 000
Interest on discounted instruments	1 800
Income from the sale or disposal of marketable securities	No limit
Pension	
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	