



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
DURATION : 3 Hours
DATE : 27 May 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 in **Section A and Section B**.
4. Begin each question on a new page for Section B only.
5. The number of marks for each question or part question is shown in brackets []

SECTION A: ANSWER ALL QUESTIONS

1. Which of the following is **NOT** taxable to employees:

- i. Passage benefit to the extent used for private purposes
- ii. Entertainment allowance paid to an employee which is expended on company guests
- iii. Motor vehicle disposed to an employee at below the market value
- iv. Retrenchment pay below \$10 000.

A (i) and (ii) B (ii) only C (iv) only D (ii) and (iv)

2. The following expenses were suffered by an employee during the tax year ended 31 December 2015.

	\$
NSSA	350
Pension Fund	6 000
Medical Aid contribution	240
Subscription to professional association	300

What are the total deductions claimable?

A \$5 400 B \$5 700 C \$5 940 D \$6 290

3. Which of the following is **NOT** a characteristic of an employee?

- i. Has no independence in execution of his or her work
- ii. Receives remuneration fixed by employer
- iii. Is entitled to leave
- iv. Is paid fees to which he or she has the power to charge.

A (i) only B (ii) only C (iii) only D (iv) only

4. 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

5. What is the maximum allowable contribution for arrears pension contribution?
 A \$2 700 B \$5 400 C \$1 800 D \$700

Question 6, 7 and 8 are based on the information below:

FDE Ltd constructed/ purchased the following assets during 2015 tax year:

	\$
Factory building	200 000
Plant & Machinery	110 000
Office building	120 000
Furniture & Equipment	60 000
Commercial vehicles	50 000
Three passenger vehicles	80 000

6. What is the amount of SIA chargeable on immovable properties?
 A \$53 000 B \$30 000 C \$80 000 D \$50 000
7. Using the same information in question what is the total capital allowances in respect of motor vehicles.
 A \$27 500 B \$20 000 C \$32 500 D \$26 000
8. What are total capital allowances chargeable on all of the above assets?
 A \$155 000 B \$105 000 C \$115 500 D \$142 500
9. Sonpin Pvt (ltd) purchased a Toyota corolla for its Accountant for \$22 000 in 2017. The car was sold in July 2018 for \$15 000 assuming the car qualified for SIA what is the recoupment?

A \$4000 B \$1818 C \$1800 D \$818

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

A 10% B 25% C 20% D 5%

11. Collin Sithole who is employed by Burger Bar was provided with company house by his employer on 1 January 2018. The house is in the affluent suburb of Murambi in Mutare. Burger Bar incurred \$240 000 in construction of the house. The market rental for the house is S\$2 000 per month. Burger Bar charges Collin \$50 per month for occupation of the house.

What is the amount of the fringe benefit to be included in James's gross income for the year ended 31 December 2018?

A \$14 000 B \$23 400 C \$13 650 D \$16 450

12. Which transaction is of a capital nature?

- i. Acquisition of shares so as to sell them when they appreciate in value
- ii. Disposal of a manufacturing building
- iii. Purchase of raw materials for manufacturing purposes

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

13. 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

14. Which of the following credits is not apportioned?

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

15. Mrs Dhikerere was offered a company house in Mountain View in Chipinge by Moiplats Plantation (Pvt) Ltd her employer. On 1 January 2018 she paid monthly rentals of \$200. The Chipinge Town Council 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 Dhikerere?

A \$2 400

B \$4 800

C \$3 000

D \$7 200

16. Mr John received a loan of \$5000 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. Libor is 1.5%

What is the total taxable benefit to Mr John?

A \$8 195

B \$9 795

C \$11 000

D \$8 162.5

17. Hlanganiphai 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 Hlanganiphai's taxable amount of his retrenchment pay?

A \$9 000

B \$12 667

C \$20 200

D \$19 000

18. Mulotshwa, Rwanga and Joromi were retrenched during the year ended 31 December 2018 receiving \$9000, \$54000 and \$72000 respectively as retrenchment packages.

What is their total exemption?

A \$30 000

B \$47 000

C \$35 000

D \$49 000

19. During the tax year ended 31 December 2018 Prisca was entitled to a gross basic salary of \$15 000. Calculate the employer's contribution of NSSA.

- A \$525 B \$1050 C \$294 D \$300

20. Lizwe has the free use of a Toyota Fortuner engine capacity 3 100 cc. During the year of assessment ended 31 December 2018 he used the vehicle for 26 000km for business out of a total mileage of 38 000km.

Calculate Lizwe's motor vehicle benefit.

- A \$1 515, 79 B \$2 273, 68 C \$3 031, 58 D \$6 568, 42

SECTION B: ANSWER ALL QUESTIONS.

Begin each question on a new page.

Question One

Noah Mutema is currently employed by Britex Pvt (ltd). His salary is currently pegged at \$4 800 per month and every end of November is guaranteed a 13th cheque equivalent to his salary of \$4 800. Noah Mutema has approached you for advice in establishing his tax liability for the current year ending 31 December 2018.

He went on to provide you with the following information which you have indicated to him that this information is very vital in the determination of his taxable income:

	\$
Cash salary of \$4 800 per month	57,600
Annual bonus \$4 800 payable November each year	4,800
First Mutual non-contributory medical aid- Employer contributes	3,500
ZIMNAT-Pension fund membership own contributions (10% salary)	5,850
Pension fund membership own contributions (\$300 per month)	3,600
Performance related bonus	350
Won African Lotto-windfall	15,000
Cash in lieu of leave	2,300
Leave pay	4,800

You have further established that:

1. Noah is 42 years and is married with two minor children. He joined Medsure Medical Aid in his private capacity where he is contributing \$420 per month (\$5 040) to cover his family members.
2. At Britex Noah has the free use of a motor vehicle engine capacity 2500cc. The car is both used for business and private purposes. During the year 2018 the vehicle was used 75% for business.
3. Noah acquired a \$25 000 loan at an interest rate of 2% p.a. and you are told the Libor rate is 0.6%.
4. Britex is also subsidising school fees payment of one of Noah minor child who is enrolled at Hillcrest primary school. The subsidy is equivalent to three quarters of the annual fees of \$2 400.

Required:

Calculate the tax liability for Noah Mutema for the assessment year ended 31 December 2018.

[Total 20 marks]

Question Two

BTL is a company in the timber products manufacturing business for domestic and office furniture. Its business thrust is oriented for both the local and export markets. The following financial statements were submitted to Zimra for assessment year ended 31 December 2018.

	Notes	\$	\$
Gross profit			3,000,000
Other income			
Export incentive bonus			40,000
Interest from commercial bank (net)			10,000
Dividends: OK Zimbabwe Ltd			15,000
Profit on disposal of Mercedes Benz	2		2,000
			<u>3,067,000</u>
Less: expenses			
Administration expenses	3	240,000	
Distribution expenses	4	400,000	
Other expenses	5	133,000	
Repairs and maintenance		280,000	
Miscellaneous	6	87,000	
Bad debts		72,000	
Donations	7	100,000	(1,312,000)
Net profit			<u>1,755,000</u>

Additional information provided:

1. The company had the following assets in its asset register as at 1 January 2018.

Asset	Date acquired	Cost
		\$
Freehold land	1-Mar-14	80,000
Manufacturing block	1-Mar-14	85,000
Administration block	1-Sep-15	70,000
Computer equipment	Jun-16	18,000
5 Passenger Motor Vehicles	Aug-17	70,000
Commercial vehicles	Apr-16	60,000
Staff Bus	Nov-17	45,000

The manufacturing building was acquired together with the business stand, the administration block was however, constructed. The company had a policy of claiming maximum capital allowances possible on fixed assets.

2. A Mercedes Benz with a book value \$6 000 was involved in an accident on 31 October 2015. The company received \$8000 as compensation from Zimnat Insurance Company. The car was bought for \$15 000. The Mercedes Benz is one of the passenger motor vehicles, two of the Passenger Motor Vehicle were bought for \$14000 each and the other two cars were bought for \$27 000

3. Administration expenses:

	\$
Extension of administration building	43,000
Depreciation	72,000
General repairs and maintenance	8,000
General entertainment costs	15,000
Salaries and wages	102,000
Total	240,000

4. Distribution expenses

	\$
Selling and marketing	192,000
Legal fees- lawsuit against a client	82,000
Cost of sending sample to a potential customer in Botswana	56,000
Other distribution cost	70,000
Total	400,000

5. Other expenses

	\$
Ex-gratia payments (to 10 former employees)	76,600
HR manager trade convention costs	20,000
Cash stolen by cashier	36,400
Total	133,000

6. Miscellaneous expenses

Penalty on breaching customs procedures	12,000
Legal cost of being sued by a customer	33,400
Interest charged on overdue PAYE	16,000
Repairs to CEO's Borrowdale house	25,600
Total	87,000

7. Donations

	\$
Chief executive's wedding 20 000	20,000
National scholarship fund 80 000	80,000
Total	100,000

Required:

Compute the minimum taxable income for BTL for the year ended 31 December 2018.

[Total: 25 Marks]

Question Three

- a) The general rule is that, income is not taxable unless it is from a Zimbabwean source or deemed to be from a source within Zimbabwe. **For each of the following cases determine and explain the sources of income:**
- i. Director's fees: The Board of Directors Annual General meetings and extraordinary meetings of Digitec ltd are usually held in in Mauritius because of the attractive tourism sites in that country. Digitec ltd is a company registered in Zimbabwe and its head office is in Mutare. The directors earned directors fees for meetings held in Mauritius for this particular year. **[3 marks]**.
 - ii. Tanaca is ordinarily resident in Zimbabwe. She is happily married to Jabu and both of them earn significant returns from their various investments. Specifically, Tanaca is receiving a lucrative regular interest from secured debentures issued by Pick N Pay a retail company incorporated in South Africa. **[3 marks]**
 - iii. Kharukai Dhlamini authored a novel "The Bantu BeNtau will never surrender" which won the United Nations Indigenous Writers Book Prize in 2018. The wits and labour in writing this book was exercised in the cool and serene environment of the Chimanimani mountainous town of Zimbabwe. However the book was ultimately published and printed by Butterworth (Pvt) ltd South Africa. **[3 marks]**
- b) Sithembile Muzulu is employed as a Bookkeeper by Vumber Tours. She received a salary of \$48 000 p.a. and \$10 000 housing allowance. She also received an annual bonus of \$4 000 and a cost of living adjustment allowance of \$3 800. Sithembile paid \$3 000 for his family medical expenses.

Required:

Calculate her tax payable for the tax year 2018. [6 marks]

[Total: 15 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.	