

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 14 JUNE 2018

INSTRUCTIONS

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

Question 1

Pauline Dickens, was employed by Encor (Private) Limited, a licensed investor operating in the Kwekwe Export Processing Zone, with effect from 1 September 2016. Prior to that date she was an employee of the Ministry of Manpower Development, as a lecturer at the Harare Polytechnic. Her income and other entitlements for the 2016 tax year were as follows:

Ministry of Manpower Development	\$
Lecturing fees for the period January – July 2016	2500
Housing allowance	6 00
Transport allowance	120
Government pension fund contributions (January – July)	(1250)
Pension refund on resignation from Government	840

Encor (Private) Limited	\$
Salary (September – December 2016)	2800
Educational allowance	3600
Housing benefit	240
Representation allowance	80
Clothing allowance	600

Foreign income

Company dividends from South Africa	\$2500
Tax deducted at source	<u>\$(750)</u>
	\$ 1750
Interest from Botswana bank	\$1000
Tax withheld at source	<u>\$(150)</u>
	\$ 850

Notes

1. Pauline Dickens is entitled to free use of a company vehicle supplied by Encor (Private) Limited, a Toyota Conquest sedan with an engine capacity of 1600cc.

2. Encor (Private) Limited has also put Pauline Dickens as a beneficiary on a non-contributory medical aid, and pension fund, valued at \$800 and \$1200 per annum respectively.
3. The total aggregate employee's tax deducted from the income of Pauline Dickens by Encor amounted to \$900

Required:

Compute the taxable income of Pauline Dickens in respect of the tax year ended 31 December 2016 (25 marks)

Question 2

KARIBA Limited local company which is engaged in the retail business. The year ended 31 December 2016 is KARIBA's first year of trading and the following is as statement of profit or loss for the year ended 31 December 2016.

	Note	US\$
Gross profit		450 000
Bank interest received		2 000
Company dividends received		20 000
Motor vehicle expenses		(14 000)
Insurance and licensing		(7 000)
Marketing expenses		(25 000)
Depreciation		(37 000)
Salaries and wages		(115 000)
Staff pension contributions (five employees)		(35 000)
Staff medical aid contributions		(40 000)
Repairs and maintenance	1	(30 000)
Legal fees	2	(3 000)
Donations to a local church		(8 000)
Renewal of operating licences		(9 000)
Other administration expenses		(45 000)
Interest paid	3	(12 000)

Net profit before tax

92000

Notes

- i) The repair and maintenance cost all relates to the purchase of permanent fixtures and fittings.
- ii) The legal fees were in respect of employee contracts.
- iii) The interest paid was in respect of a loan to purchase shares in another company.

Additional information

KARIBA's non-current asset registers shows the following assets which had been in use since the commencement of trade:

Cost	(US\$)
Furniture and fittings	40 000
Commercial vehicles	100 000
Office equipment	30 000
Three passenger vehicles	50 000

	220 000

Required:

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

Question 3

The following items have been charged against profit in the accounts of William Oakley, a shoe manufacturer, for the year ended 31 March 2016.

- i) In repairs and renewals, an amount of \$2,000 was included for the fitting of security bars over the factory windows as a precaution against theft.
- ii) A loan of \$100 to a former employee was written off.
- iii) 'Oakley' calendars were sent as gifts in December 2015, they cost \$52 each.
- iv) Incidental costs incurred in obtaining a bank loan for the business, \$350.
- v) A donation of 5 pairs of running shoes, which came to a total of \$200, when sponsoring a local charity raising money by organising a marathon.

- vi) A lease rental of \$4,000 per annum on a car provided for a senior employee. The car cost \$14,000.
- vii) Registering a patent for a new shoe design, \$1,275.
- viii) A \$100 parking fine this was incurred by an employee on a business trip to Harare.
- ix) Payment of \$6,000 re-location expenses to a new employee.
- x) In repairs and renewals, an amount of \$2,000 to re-condition a second-hand sewing machine bought for \$10,000. The repairs were necessary before the machine could be used in the business.
- xi) Golf lessons for William, which cost \$350.

Required:

You are required to state how you would deal with each of the items when preparing the tax adjusted trading profit, for the year ended 31 March 2016. You should give a brief explanation for your treatment of each item. **(25 marks)**

Question 4

- a) Explain the role of taxation in a modern economy **(13 marks)**
- b) During the current year of assessment Mr Bhuka earned the following income from foreign sources:
 - i) Dividends from Zulu Ltd, a company listed on the Johannesburg Stock Exchange valued at \$25 000 net of Non-residents tax (N.R.T) of \$5 000
 - ii) Bank interest from Ekeme Banking Corporation, a Nigerian bank located in Abuja. The amount was \$10 000 gross of 10% of Non-residents tax on Interest.
 - iii) Rental income of \$40 000 from a commercial property in London, United Kingdom

Required:

Calculate tax payable by Mr Bhuka from income earned from foreign sources **(12 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