



**ZIMBABWE EZEKIEL GUTI UNIVERSITY**

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**FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING**

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**DEPARTMENT OF ACCOUNTING AND FINANCE**

**EXAMINATION PAPER**

**COURSE CODE** : CAC 206  
**COURSE TITLE** : TAX LAW AND PRACTICE  
**DURATION** : 3 Hours  
**DATE** : 28 May 2019

**INSTRUCTIONS TO CANDIDATES:**

1. Answer ALL questions only.
2. Use of silent non-programmable calculators is allowed
3. Use tax rates and allowances provided in the paper.
4. Each question carries 25 Marks.
5. Start each question on a new page of your answer sheet..

### Question One

Nhamo and Sibonile are partners in an Accountancy firm called N and S Accounting Services. Sibonile joined the firm in 2009 when she relocated to Zimbabwe from UK where she was practising as a Chartered Accountant. Nhamo has been in practice for seven years. The partners submitted the following profit and loss account in support of income returns for the tax year ended 31 December 2018.

		\$
<b><i>Income:</i></b>		
Fees accrued		400 500
Bad debts recovered	1	8 500
Bank interest		7 500
Debenture interest		2 900
Local dividends		<u>1 000</u>
		<b>420 500</b>
<b><i>Less Expenses</i></b>		
Insurance premiums:		
- loss of profit		2 000
- fire		1 000
- partnership joint life policy		3 800
- life policies for the benefit of :		
Nhamo		1 600
Sibonile		1 000
Medical aid contributions:		
Nhamo		500
Sibonile		300
Staff		1 100

Staff salaries		6 800
Interest on capital: Nhamo		4 800
Sibonile		4 400
Bad debts	2	10 000
Trade subscriptions		100
Legal expenses: debt collection		600
Attendance at approved course		9 000
Depreciation		<u>8 000</u>
Net profit		<b>365 500</b>

1. Bad debts recovered include an amount of \$600 on account of a loan awarded to Nhamo and previously written off as bad and not allowed as a deduction for tax purposes.

2. Bad debts are made up as follows:	\$
Provisions for doubtful debts calculated at 5% of debtors	4 300
Fees unpaid	2 600
Loan to Sibonile now irrecoverable	<u>2 800</u>
	<u>9 700</u>

3. Attendance to a trade convention:	\$
Nhamo	3 000
Sibonile	6 000

**Additional Notes:**

1. Nhamo and Sibonile share profit in the ratio of 60% and 40%
2. Partners drawings were Nhamo \$8 000 and Sibonile \$9 000.
3. (a) Non-current assets in the hands of the partnership at the beginning of the year are as follows:

Description of Asset	Date Acquired	Cost(\$)
Office Furniture and Equipment	Jan 2006	15 000
Office building	Jan 2011	70 000
Truck (single cab)	Jun 2007	70 000

(b) The partnership elects to claim SIA.

4. Nhamo borrowed money to purchase his share in the partnership practice. Interest payable during the year amounted to \$1 200.
5. Nhamo and Sibonile paid \$3 000 and \$5 500 respectively to approved retirement annuity funds.
6. Nhamo travels extensively for the practice and provides his own transport. He rented a car for \$900 a month for six (6) months from 1 January 2018 to 31 June 2018.
7. On 1 July 2018 Sibonile purchased a Ford Ranger double cab for \$35 000. Her running expenses for six months to 31 December 2018 were \$10 000. It has been established that she uses the car for the partnership's business to the extent of 90%.
8. Nhamo is unmarried but has a disabled child aged 5. In addition to his income from the partnership, he had the following income:

Dividends from companies registered in Zimbabwe	\$4 000
Interest on tax reserve certificates fully utilised in payment on tax	\$240
Rents from UK property	\$7 200
9. Sibonile is married with two children, and during the year her medical aid shortfalls were \$600.

**Required:**

- a) Explain how the taxation of income from a limited liability company is different from the taxation of a partnership income. **(5 marks)**
- b) Calculate the tax payable by Nhamo and Sibonile in respect of the tax year ended 31 December 2018. **(30 marks)**

**[Total: 35marks]**

### Question Two

Mr. Bobo aged 55, is a livestock farmer in Mashonaland Central Province. His farm has a livestock assessed carrying capacity of land (ACCL) of 1000 herd. During the year ended 31 December 2018, Mr. Bobo was forced to sell 40% of his herd due to drought.

Mr. Bobo's livestock as at 1 January 2018 was as follows:

Cattle	Quantity	Approved valuation (\$)	Livestock value (\$)
Bulls	10	PPV 200	2 000
Cows	330	FSV 100	33 000
Oxen	270	FSV 80	21 600
Heifers	45	FSV 50	2 250
Tollies	30	FSV 40	1 200
Calves	<u>15</u>	FSV 20	<u>300</u>
Total	<u>700</u>		<u>60 350</u>

Livestock activities during the year ended 31 December 2018:

1 bull was stolen.

180 cows and 120 oxen were sold due to the drought.

40 cows and 60 oxen were sold to butcheries in Harare in a normal sale.

20 heifers and 10 tollies were regraded to cows and oxen respectively.

10 calves were graded to heifers and 5 calves to tollies.

100 calves were born during the year.

Non-current asset register as at 1 January 2018:

	Year acquired	Cost (\$)	Net book value(\$)
Security fence	2016	50 000	50 000
Farmhouse	2014	100 000	100 000
Staff housing (3 units)	2017	120 000	120 000
Tractor	2014	48 000	nil
Boreholes	2017	15 000	15 000
Deep tanks	2011	32 000	30 400

Commercial vehicle	2016	15 000	12 000
Passenger vehicle	2017	20 000	19 000
3 wells	2010	17 000	17 000

Mr. Bobo's policy on non-current assets has always been to claim the maximum capital allowances possible in any given year.

Mr. Bobo's income and expenditure details from his farming operations for the year ended 31 December 2018 are as follows:

	Note	\$
<b>Income</b>		
Drought induced sales		200 000
Normal sales		90 000
Profit on sale of the commercial vehicle	1	8 000
<b>Expenditure</b>		
Stock feed		30 000
Direct livestock expenses		5 000
Wages		18 000
Livestock purchases	2	206 750

**Notes:**

1. The commercial vehicle was sold at the market value of \$20 000 during the year.
2. Mr. Bobo purchased 500 cattle for \$206 750 on 31 December 2018 in order to restock his herd which was depleted due to the drought-induced sales. The cattle were delivered in the following year. The classes of cattle purchased is shown in the table below:

Cattle	Quantity	Purchase Price	Livestock value (\$)
Bulls	15	700	10 500
Cows	300	450	135 000
Heifers	100	400	40 000
Calves	<u>85</u>	250	<u>21 250</u>
Total	<u>500</u>		<u>206 750</u>

**Additional Notes:**

- i. Mr. Bobo's two wives are blind.
- ii. Mr. Bobo has a son aged 30 who is physically disabled. The son helps Mr. Bobo in keeping records on farm activities.

**Required:**

- a) Explain and calculate the tax reliefs available to Mr. Bobo for the year ended 31 December 2018 in connection with the drought. **(6 marks)**
- b) Calculate the livestock closing stock value as at 31 December 2018. **(10 marks)**
- c) Calculate the minimum tax payable by Mr. Bobo for the year ended 31 December 2018. **(9 marks)**

**[Total: 25 marks]**

**Question Three**

Gemstone Mining (Pvt.) Ltd situated 20kms Northwest of Bindura, incurred the following capital expenditure, year 1 and 2 being pre-production. Production stage was reached in the current year i.e. year 3.

<b>YEAR 1 &amp; 2</b>	<b>\$</b>
Plant and Machinery	450 000
Shaft Sinking	100 000
Mine Building	300 000
Salaries and wages	<u>250 000</u>
	<u>1 100 000</u>
 <b>CURRENT YEAR</b>	
Salaries and wages	560 000
Passenger Motor Vehicle	116 000
Lease premiums	<u>100 000</u>

**Note:**

Life of mine is 4 years from the end of year 3.

**Required:**

- a) Calculate Capital Redemption Allowance based on:
- i. Life of mine method (6 marks)
  - ii. New mine method (6 marks)
  - iii. Mixed mine method (6 marks)
- b) State any two tax planning techniques which can be used by miners to reduce their tax liability. (2 marks)

[Total: 20 marks]

**Question Four**

VOLCANO Ltd is a retail company which is registered for VAT. The following are the transactions of VOLCANO for the year ending 31 December 2018. Prices are inclusive of VAT where applicable.

Sales	\$
Milk	20 000
Beef	30 000
Fruits	25 000
Soft drinks	10 000
Bottled water	10 000
<b>Purchases</b>	
Beef	15 000
Butter	17 000
Cigarettes	3 000
Rice	7 500
Drugs	20 000

VOLCANO's operating expenses for the year ended 31 December 2018 (VAT inclusive as appropriate)

	\$
Salaries and wages	10 000

Repairs and maintenance	6 000
Fuel expenses	20 000
Telephone expenses –Land line	3 000
Rent - staff quarters	50 000

**Additional information:**

1. During the year, the company acquired a passenger motor vehicle worth \$50 000 and a commercial motor vehicle worth \$40 000.
2. The company's senior managers were allocated the following company cars during the year:

Type of motor vehicle	Engine capacity
Isuzu KB single cab	1 800cc
Toyota Hilux single cab	3 600cc

3. Credit sales of water from the previous year worth \$1 000 were declared bad debts.

**Required:**

- a) Calculate the VAT for VOLCANO Ltd for the year ended 31 December 2018. **(20 marks)**
- b) Explain the rationale for making certain goods zero rated instead of exempt. **(2 marks)**
- c) Outline the advantages of being a VAT registered operator. **(3 marks)**

**[Total: 25 marks]**

-----END OF EXAMINATION QUESTIONS-----

## TAX RATES AND ALLOWANCES

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

### Rates – Individuals

Year ended 31 December 2018

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 2018

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 2018

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 2018**

***Motor vehicles***

	<i>US\$</i>
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
<b><i>Wear and tear</i></b>	
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	20% of gain

securities acquired after 1/2/2009:	
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	
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	