

ZIMBABWE EZEKIEL GUTI UNIVERSITY



DEPARTMENT OF ACCOUNTING AND FINANCE

B. COM HONOURS DEGREE IN ACCOUNTING (HACC)

TAX AND LAW PRACTICE (CAC206)

TIME: 3 HOURS

28 NOVEMBER 2018

INSTRUCTIONS

1. Answer all questions.
2. All workings must be shown
3. Start each question on a new page of your answer sheet.

Additional Materials

1. Non- programmable calculators may be used.
2. Income tax Act
3. Capital gains tax Act
4. Valued added tax Act

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

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

Partnerships

Tax @ 25% + 3% Aids Levy

Mining

Tax @ 25% + 3% Aids Levy

Farming

Tax @ 25% + 3% Aids Levy

Capital gains

Immovable property acquired after 1 February 2009 20% of gain

Immovable property acquired prior to 1 February 2009 5% of gross proceeds

Required:

- a) Calculate the partners' joint taxable profits for the year ended 31 December 2017, making use of any available reliefs. **(12 marks)**

Note: You should start your calculation with the partnership profit figure of US\$263 000 and indicate by the use of zero (0) any amounts for which no adjustment is required.

- b) Calculate the taxable income for and tax payable by both Rudo and Tari for the year ended 31 December 2017. **(13 marks)**

Question 2

- a) Outline FOUR potential advantages of voluntary registration for value added tax (VAT). **(6 marks)**

- b) Jill commenced business operations on 28 February 2017. She registered as a value added tax (VAT) operator on 31 October 2017.

The following are Jill's sale and purchases for the year ended 31 December 2017. All Jill's purchases were made from suppliers who are registered VAT operators. All Jill's sales are subject to VAT at the standard rate.

2017	Sales (US\$)	Purchases (US\$)
March	3 000	50 000
April	5 000	—
May	5 800	15 000
June	6 500	12 000
July	22 000	—
August	19 700	—
September	8 500	3 000
October	9 000	—
November	4 000	—
December	4 500	—
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	88 000	80 000

Required:

- i) State, with reasons, the date by which Jill should have registered for value added tax (VAT) purposes and the date by which she should have submitted her first VAT return. **(4 marks)**
- ii) (ii) Advise Jill of the actions which the Zimbabwe Revenue Authority (ZIMRA) may take as a result of her late registration for VAT and her consequent exposure to interest and penalties. **(11 marks)**

Note: You should include calculations, where relevant, in support of your answer.

- c) Outline two circumstances when a trader can recover pre-registration input VAT and any associated conditions for recovery. **(4 marks).**

Question 3

Tom Veld acquired a farm in Mash East province on 4 January 2017 for the purposes of venturing into dairy farming. Tom is a qualified farmer with a masters' degree in animal husbandry and had practiced farming in Australia for ten years before relocating to Zimbabwe. Tom spent the first year putting up infrastructure at his farm and preparing the pastures. He incurred the following costs during the year.

	Cost (\$)
Temporary farm roads	8 000
Farm and pasture fencing	25 000
Clearing and land preparation	15 000
Dam construction	30 000
Sinking of boreholes and wells	24 000
Contour ridges	5 000

Tom acquired the following cattle on 15 February 2017:

	US\$
40 dairy cows	48 000
25 heifers	10 000
30 steers	9 000
2 bulls	2 000

69 000

During the year ended 31 December 2017, a total of 20 calves were born on the farm and 15 steers were sold. The approved fixed standard value is US\$380. Calves are valued at US\$200 each, while the dairy cows and the bulls are valued at the purchase price.

Commercial production of milk and sales commenced on 1 February 2017. Tom recorded a total farm revenue of US\$460 000 for the year ended 31 December 2017. The related farm expenses were:

	US\$
Wages	45 000
Animal feed supplement	26 000
Contour ridges	5 000
Other farm running expenses	80 000

	<u>156 000</u>

Required:

(a) State, with reasons, the taxes for which Tom Veld is obliged to register with ZIMRA and the tax obligation in respect of which he does not need to register. **(6 marks)**

(b) (i) List the special deductions available to Tom Veld for the year ended 31 December 2017. **(3 marks)**

(ii) Calculate the value of Tom Veld's closing livestock for the year ended 31 December 2017. **(8 marks)**

(iii) Calculate Tom Veld's minimum taxable income and tax payable for the year ended 31 December 2017. **(8 marks)**

Question 4

Mark and Mary are married and jointly own the principal private residence (PPR) which they reside in. Mark was born on 15 July 1960 and Mary was born on 24 December 1959. The couple

are contemplating disposing of their PPR. An estate agent has provided the following market values for their property as at 31 August 2014:

	Date acquired/constructed (US\$)	Cost Market value (US\$)
Main residence 15 February 2009	80 000	150 000
Outbuilding 10 April 2009	20 000	35 000
Temporary car shelter 20 November 2009	5 000	6 000
Concrete wall 18 February 2010	30 000	40 000
Lock up garage 13 March 2011	25 000	30 000

The estate agent has advised Mark and Mary that whilst there are many buyers interested in their property just now, they should consider selling as soon as possible in case the property market falls. The estate agent's commission will be 10% of the sales price.

Required:

- a) Calculate the capital gains tax payable by Mark and Mary assuming that they dispose of their property on 31 August 2014. **(16 marks)**
- b) Explain any three capital gains reliefs that can be used by a taxpayer in minimizing capital gains tax **(9 marks)**

THE END