



**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  
**LEVEL** : 2.2  
**DATE** : 20 NOV 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 1

Florence and Lindalis are partners in a Law firm called Law ladies partners. The partners submitted the following profit and loss account in support of income returns for the tax year ended 31 December 2019.

		\$
<b><i>Income:</i></b>		
Fees accrued		370 000
Bad debts recovered	1	8 500
Bank interest		7 500
Interest on drawings: Florence		20 000
Lindalis		10 000
Interest on tax reserve certificate		2 900
Foreign dividends		<u>1 000</u>
		<b>420 000</b>
<b><i>Less Expenses</i></b>		
Insurance premiums:		
- claims against the law firm by clients		2 000
- fire		1 000
- partnership joint life policy		3 800
- life policies for the benefit of :		
Florence		1 600
Lindalis		1 000
Medical aid contributions:		
Florence		500
Lindalis		300
Staff		1 100

Staff salaries		6 800
Interest on capital: Florence		4 800
Lindalis		4 400
Bad debts	2	10 000
Trade subscriptions		100
Legal expenses: debt collection		600
Attendance to a church conference		9 000
Depreciation		<u>8 000</u>
Net profit		<b>365 000</b>

1. Bad debts recovered include an amount of \$600 on account of a loan awarded to an employee and previously 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 Lindalis now irrecoverable	<u>2 800</u>
	<u>9 700</u>

3. Attendance to a church conference: \$

Florence	3 000
Lindalis	6 000

**Additional Notes:**

1. Florence and Lindalis share profit in the ratio of 60% and 40%
2. Partners drawings were Florence \$8 000 and Lindalis \$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(S)
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. Florence borrowed money to purchase his share in the partnership practice. Interest payable during the year amounted to \$1 200.
5. Florence and Lindalis paid \$3 000 and \$5 500 respectively to approved retirement annuity funds.
6. Florence travels extensively for the practice and provides her own transport. She rented a car for \$900 a month for the year.
7. On 1 July 2019 Lindalis purchased a Ford Ranger double cab for \$35 000. Her running expenses for six months to 31 December 2019 were \$10 000. It has been established that she never used the car for the partnership's business during the year.
8. Florence is married to a husband aged 57. In addition to her income from the partnership, she had the following income:

Dividends from companies registered in Zimbabwe	\$4 000
Representing a client in the High Court of South Africa	\$24 000
Rents from UK property	\$7 200

9. Lindalis has two disabled children aged 10 and 35 and during the year her medical aid shortfalls were \$10 000.

### Required

Calculate the tax payable by Florence and Lindalis in respect of the tax year ended 31 December 2019.

**[Total: 25 marks]**

## QUESTION 2

Mr. Dick aged 55, is a livestock farmer in Matabeleland North Province. His farm has a livestock Assessed Carrying Capacity of Land (ACCL) of 2 000 herd. The 2 000 herd can be accommodated on the farm as shown below:

Class	Number
Bulls	100
Cows	850
Oxen	200
Heifers	500
Tollies	200
Calves	150
	2 000

In March 2018 Mr. Dick was forced to sell 700 cows, 150 oxen and 50 bulls due to an outbreak of foot and mouth disease. He elected to take advantage of the provision of 7<sup>th</sup> schedule paragraph 5: Relief from Enforced Sales.

On 31 December 2018, Mr. Dick restocked his herd as the disease out-break had been put under control. The number of cattle purchased during the restocking exercise was 1 700 at a cost of \$486 000.

Mr. Dick's livestock as at 31 December 2017 was as follows:

Class	Number	Livestock value (\$)	Total (\$)
Bulls	100	FSV 750	75 000
Cows	800	FSV 500	400 000
Oxen	200	FSV 400	80 000
Heifers	450	FSV 450	202 500
Tollies	200	FSV 320	64 000
Calves	150	FSV 300	45 000
	1 900		866 500

Livestock activities during the year ended 31 December 2018:

- i. 2 bulls were stolen.
- ii. 700 cows, 150 oxen and 50 bulls were sold due to the outbreak of the foot and mouth disease.
- iii. 100 cows and 300 heifers were sold to butcheries in Harare before the drought.
- iv. 200 heifers and 100 tollies were regraded to cows and oxen respectively
- v. 50 calves were graded to heifers and 30 calves to tollies
- vi. 400 calves were born during the year.
- vii. The livestock purchases during the year were as follows:

Class	bulls	cows	oxen	Heifers	tollies	calves
Number	60	400	40	900	200	100
Price(\$)	300	307.50	250	300	250	150
Value (\$)	18 000	123 000	10 000	270 000	50 000	15 000

Fixed asset register as at 1 January 2018:

	Year acquired/constructed	Cost (\$)
Security fence	2014	50 000
Staff housing (3 units)	2018	120 000
Tractor	2017	48 000
Boreholes	2017	15 000
Deep tanks	2015	32 000
Commercial vehicle	2005	15 000
Passenger vehicle	2016	20 000
3 wells	2010	17 000

Mr Dick's policy on fixed assets has always been to claim the maximum capital allowances possible in any given year.

The income and expenditure details from farming operations for the year ended 31 December 2018 were as follows:

	Note	\$
<b>Income</b>		
Disease induced sales		800 000
Normal sales		200 000
<b>Expenditure</b>		
Direct livestock expenses		150 000
Wages		30 000
Livestock purchases		486 000

**Required:**

- a) Explain and calculate the tax reliefs available to Mr. Dick for the year ended 31 December 2018. (8 marks)

b) Calculate the livestock closing stock value as at 31 December 2018. (7 marks)

c) Calculate the **minimum tax payable** by Mr. Dick for the year ended 31 December 2018. (10 marks)

[Total: 25 marks]

### QUESTION 3

MM (Private) Limited mines gold in two locations namely Mazowe and Mvurwi. The company started mining in the two locations in 2017. The following were extracted from the financial records of the two mining locations for the year ending 2018:

	MAZOWE	MVURWI
Revenue	15 000 000	10 000 000
Operational costs	13 000 000	3 000 000
Other income	2 500 000	1 000 000
Administrative expenses	2 500 000	913 000
Other expenses	1 000 000	228 940
Finance charges	500 000	958 060

The two mining locations' non-current asset registers revealed the following information:

#### Mazowe non-current asset register

Description of Asset	Year acquired	Original cost (\$)
Excavating Equipment	2012	45 000
1 Staff housing	2014	80 000
Truck (single cab)	2017	40 000
Ford Ranger double cab	2013	60 000
Commercial buildings	2018	500 000
Furniture and equipment	2013	100 000
Lorries	2018	800 000

**Mvurwi non-current asset register.**

Asset	Year acquired	Cost
Tractors and trailers x 30	2015	600 000
Commercial motor vehicles x 3	2015	100 000
Computes x 10	2015	10 000
Other tools and equipment	2015	50 000
Trucks x 20	2017	600 000
Passenger motor vehicles x 5	2017	250 000
Trucks x 10	2017	200 000

**Required:**

Calculate the tax to be paid by MM in 2018 assuming it uses Life of Mine method to calculate capital redemption allowance **[Total: 25 marks]**

**QUESTION 4**

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 exclusive of VAT.

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

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

	<b>\$</b>
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
Toyota Camry	1 800cc
Toyota Hilux single cab	3 600cc

**Required:**

- a) Calculate the VAT for VOLCANO Ltd for the year ended 31 December 2018. (20 marks)
- b) Outline instances when a trader who registered for VAT compulsorily may be deregistered (5 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:**

	<b>%</b>
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**

	<b>%</b>
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	