

ZIMBABWE EZEKIEL GUTI UNIVERSITY



**DEPARTMENT OF ACCOUNTING AND FINANCE
B. COM ACCOUNTING (HONS)**

COURSE: STRATEGIC TAX REVIEW

COURSE CODE: CAC409

4 DECEMBER 2018

DURATION: 3 HOURS

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.
4. Begin each question on a new page.
5. The number of marks for each question or part question is shown in brackets.
6. Use tax rates and allowances provided in the examination paper

QUESTION 1

Golden limited is a mining company that operates two mines, one in Shamva and the other in Kadoma. Golden limited prepares consolidated financial statements of the two mines for external reporting although the two mines have independent financial accountants who prepares and maintains financial statements for each mine. In 2017, the mine in Shamva reported a loss and Golden limited decided to offset the loss against the profit reported by the mine in Kadoma for the purpose of calculating tax payable by Golden limited.

Required

- a) Explain whether the approach for calculating tax by Golden limited was correct (4 marks)
- b) Outline the tax incentives available to miners (4 marks)
- c) How is determination of recoupment by miners different from that of other taxpayers (2 marks)

[Total: 10 marks]

QUESTION 2

Mrs. Anderson's property situated in Borrowdale was gutted by fire on 20 January 2016 and all the property including household furniture, a Toyota Hilux double cab, a Nissan Navara double cab and Isuzu pick-up truck were destroyed by the fire. However, all the property was insured and Mrs. Anderson received compensation from the insurance company on 25 April 2016 as follows:

	(\$)
House	2 000 000
Household furniture	20 000
Toyota Hilux	40 000
Nissan Navara	45 000
Isuzu pick up	35 000
Total	2 140 000

The above assets had been acquired as follows:

	Year acquired	Cost (\$)
House	2006	1 000 000
Household furniture	2012	30 000
Toyota Hilux	2011	50 000
Nissan Navara	2015	55 000
Isuzu pick up	2016	30 000

Mrs. Anderson was aged 50 at the time the property was gutted by fire. On 1 December 2016, Mrs. Anderson purchased a house in Msasa Park for \$500 000 using part of the money received from the insurance company. She stayed in the Msasa Park house for eight months before selling the property again so as to acquire another property in Mt Pleasant as she was not comfortable staying in Msasa Park. The Msasa Park house was sold on 1 September 2017 for \$600 000 and the Mt Pleasant house was acquired on 25 December 2017 for \$1 800 000.

The remaining \$1 500 000 compensation received from the insurance company for the Borrowdale house burnt, was used to purchase 1 000 000 shares of IM Holding company, an unlisted entity, at \$1.50 per share on 10 June 2016. On 1 October 2017, Mrs. Anderson sold 200 000 shares for 2.50c per share in order to purchase the latest Mercedes Benz in competition with her friend. The money received from the insurance company for the Toyota Hilux, Nissan Navara and Isuzu pick –up truck was used to acquire a farm in Bindura.

Required:

- a) Define a principal private residence for capital gains tax purposes, clearly identifying the conditions necessary for a property to qualify as such. (5 marks)
- b) Explain whether Mrs. Anderson’s Borrowdale and Msasa Park houses are principal private residences. (5 marks)
- c) Calculate the capital gains tax payable by Mrs. Anderson in 2016 and 2017. (25 marks)

[Total: 35 marks]

QUESTION 3

- a) Taxation of informal businesses is problematic in most countries. Outline the provisions of the Zimbabwe tax system which were put in place to tax the informal sector. (10 marks)
- b) Discuss citing relevant examples the notion by informal business operators that the current system of presumptive tax used to tax informal business operators is not fair and justifiable. (10 marks)

[Total: 20 marks]

QUESTION 4

The information below relates to the estate of Mr. Death who died in 2017:

Asset	Notes	Cost (\$)	Market value (\$)
Matrimonial house in Harare	(1)	200 000	250 000
A house in Masvingo	(2)	150 000	185 000
A house in Bulawayo	(3)	100 000	95 000
A house in Mutare	(4)	120 000	115 000
A ford ranger double cab		70 000	50 000
Five commuter omnibuses used in transport business		100 000	40 000
Shares invested in listed companies	(5)	300 000	800 000
Shares invested in unlisted companies		200 000	-
A house in South Africa	(6)	50 000	67 000
A house in Zambia		30 000	34 000
Clothes		10 000	8 000
Furniture		50 000	40 000

Notes:

1. The house was jointly owned by Mr. Death and his wife.
2. The house is owned by a company in which Mr. Death had a 50% shareholding.
3. The house had been pledged as a collateral security for a loan acquired from a financial institution. Mr. Death died just after accessing the loan and the loan was not repaid and is not insured.
4. The house was owned by a company in which Mr. Death has 100% shareholding
5. The shares were donated to a registered children's home but were still in Mr. Death's name in the company's share register. Mr. Death made the donation at the time he was admitted in Hospital.
6. Mr. Death had donated the South African house to his cousin five years before he died in response to doctors' advice that he had only five years to live.
7. The medical bill related to Mr. Death's illness at the time of death was \$60 000. Eighty percent (80%) of the medical bills were settled by the medical aid society.

8. Funeral expenses and cost of holding a memorial service was \$30 000. The expenses were reimbursed and paid to Mr. Death's wife by the companies in which Mr. Death had some shareholding.
9. The expense incurred in winding up the estate was \$10 000.

Required:

- a) Calculate the tax obligation of Mr. Death's deceased estate. (20 marks)
- b) Explain how Mr. Death could have reduced the tax liability on his estate. (5 marks)

[Total: 25 marks]

QUESTION 5.

- a) Outline the focus of the Customs and Excise Act [Chapter 23:02]. (6 marks)
- b) Explain the following rebates in terms of the Custom and Excise Act (chapter 23:02):
- i. Gift rebate. (2 marks)
 - ii. Diplomatic rebate. (2 marks)

[Total: 10 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 2016

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 2016

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 2016

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 2016

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
<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

	%
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 securities acquired after 1/2/2009:	20% of gain
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%
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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:

	%
By a company listed on the Zimbabwe Stock Exchange	10
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	