



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING

DEPARTMENT OF ACCOUNTING AND FINANCE

EXAMINATION PAPER

COURSE CODE : CAC 409
COURSE TITLE : Strategic Tax Review
SPECIAL REQUIREMENTS : Non- programmable Calculator
DURATION : 3 Hours
LEVEL : 4.2
DATE : 15 NOV 2019

INSTRUCTIONS TO CANDIDATES:

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

QUESTION 1

- a) Explain how the principles applied in the taxation of mining business are different from those applied in the taxation of other businesses. (10 marks)
- b) Explain the incentives and disincentives available to miners. (5 marks)
- c) 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.

YEAR 1 & 2	\$
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>

CURRENT YEAR

Salaries and wages	560 000
Passenger Motor Vehicle	116 000
Lease premiums	<u>100 000</u>
	<u>776 000</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 (4 marks)
 - ii. New mine method (2 marks)
 - iii. Mixed mine method (4 marks)

[Total: 25 marks]

QUESTION 2

Mr. Adams, aged 56, sold his Mandara home for US\$2 000 000 in November 2011 and used US\$1 000 000 to acquire another home in Greendale in January 2012. The Mandara home had been acquired in 1999 for ZW\$10 000 000. The Greendale home was later sold for \$US1 800 000 on 30 December 2017 and another one purchased in Borrowdale for US\$1 600 000 on 31 December 2017. Mr. Adams donated the Borrowdale house to his son immediately after buying it. Mr. Smith who was Mr. Adams' neighbor sold a similar house for US\$2 500 000 in October 2017.

US\$500 000 from the disposal of the Mandara home was used to purchase 1 000 000 shares of IM Holding Company, a listed entity, at \$0.50 per share in January 2014. In June 2014 there was a bonus issue of 1 new issue for every 4 shares held. Mr. Adams sold all the shares for 1.50c per share in 2017 and used the whole amount to purchase a house for his daughter. Mr. Adams was charged 10% selling commission for the disposal of the Mandara and Greendale houses and the shares.

Required:

- a) Calculate the capital gains tax to be paid by Mr. Adams in the years 2011 and 2017.
(20 marks)
- b) Explain the rationale of Capital Gains withholding tax and outline the circumstances in which it is not payable
(5 marks)
- c) Outline the provisions of the Capital Gains Tax Act (Chapter 23:01) which in your view are unfair to the taxpayer.
(5 marks)

[Total: 30 marks]

QUESTION 3

The current system of presumptive tax used to tax informal business operators is not fair. Discuss

(25 marks)

[Total: 25 marks]

QUESTION 4.

- a) Outline the focus of the Customs and Excise Act [Chapter 23:02].
(10 marks)
- b) Briefly explain the following rebates in terms of the Custom and Excise Act (chapter 23:02):
 - i. Gift rebate.
(3 marks)

- ii. Diplomatic rebate. (2 marks)
- iii. Immigrants rebate. (2 marks)
- iv. Traveler's rebate. (3 marks)

[Total: 20 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

Income Tax rates

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%

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	