

BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTANCY

Nov 2022

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TAX LAW AND PRACTICE 2 (AC412)

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EXAMINATION PAPER

PROGRAMMES:

Bachelor of Accountancy (Honours) Degree

TIME ALLOWED: 3 HOURS

INSTRUCTIONS TO CANDIDATES:

1. Answer all questions in section A and section B. Each question in section A carries 2 marks.
  2. No cell-phones are allowed in the examination.
  3. Use of silent non-programmable calculators is allowed.
  4. Use tax rates and allowances provided in the paper.
  5. Assume that the currency in use is United States Dollars (\$) unless advised otherwise.
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**SECTION A: MULTIPLE CHOICE QUESTIONS (30 marks)**

1. In terms of the Value Added Tax Act (Chapter 23:12), Value Added Withholding tax is withheld from:
  - A. Unregistered suppliers of taxable supplies above a given threshold.
  - B. Unregistered suppliers of taxable supplies below a given threshold.
  - C. Registered suppliers of taxable supplies who sell goods and services to registered Value Added Withholding Tax agents.
  - D. Registered suppliers of taxable supplies who sell goods and services to any Value Added Tax registered customer.
  
2. Which of the following statements is/are true in respect of the information which must be included on a valid tax invoice?
  - i. The business partner numbers of both the supplier and purchaser must be included on the tax invoice.
  - ii. The name, address and value added tax (VAT) registration number of the supplier must be included on the tax invoice.
  - iii. The name and address of the purchaser must be included on the tax invoice.
  - iv. The description of the goods or services supplied must be included on the tax invoice.
  - A. i and iv only
  - B. ii, iii and iv only
  - C. ii and iii only
  - D. i, ii, iii and iv
  
3. Bhungaz Limited is a registered Value Added Tax (VAT) operator and had the following sales and purchases for the month of December in 2021. All amounts stated are exclusive of VAT:

	\$
Sales	600 000
Purchases:	
Plumbing equipment	200 000
Poultry feed	300 000

What is the VAT payable by Bhungaz Limited for the month of December in 2021?

- A. \$15 000
  - B. \$13 044
  - C. \$52 173
  - D. \$60 000
4. Shumba (Pvt) Ltd is in the agricultural sector and registered for Value Added Tax (VAT). It acquired the following business assets (all figures are stated inclusive of VAT where applicable):

	Cost (\$)
Tractors	150 000
Commercial vehicle	70 000
Passenger vehicle	50 000
Total	270 000

What is the amount of input tax which can be claimed by Shumba Ltd?

- A. \$9,130
  - B. \$35,217
  - C. \$28,696
  - D. \$10,500
5. From whom should the Value Added Withholding tax be withheld?
- A. The suppliers of VAT withholding agents who are not registered for VAT.
  - B. The suppliers of VAT withholding agents who are registered for VAT.
  - C. Any supplier who is not registered for tax.
  - D. Designated withholding agents.

6. A medical doctor donated the following marketable securities to a health institution during the year ended 31 December 2021:

	Date acquired	Cost	Market value
		\$	\$
Quoted shares	2014	20 000	50 000
Unquoted shares	2012	30 000	40 000

What was the doctor's Capital Gains Tax (CGT) payable on the donated marketable securities?

- A. \$4 500
  - B. S\$0
  - C. \$1 000
  - D. None of the above
7. An investor acquired 600 000 shares at a cost of 10c per share in January 2017. In January 2018 there was a bonus issue of 1 new issue for every 4 held. Four years later he sold 350 000 shares for 30c per share.

Calculate the capital gains tax to be paid by the investor.

- A. \$14 280
  - B. \$12 600
  - C. \$0
  - D. None of the above
8. On 1 June 2021, Tendai (aged 49) sold 80,000 shares in CCC Ltd, an unlisted company, for \$180,000. Details of the shares disposed of by Tendai are as follows:

No. of shares	Type of shares	Date acquired	Share price
80 000	Ordinary	2015	\$1.50

What is the amount of the capital gain arising on Tendai's disposal of his CCC Ltd shares on 1 June 2021?

- A. \$180 000
- B. \$1 800

C. \$60 000

D. \$39,000

9 What is the penalty on a capital gains withholding tax agent who fails to withhold tax on the disposal of a client's immovable property and the client proceeds to pay the withholding tax for the property?

A. 15% of the gross capital amount,

B. 15% of the gross capital amount and 100% of the amount not withheld

C. 15% of gross capital amount, 100% of the amount not withheld and 10% per annum interest on amount due

D. 100% of the amount not withheld and 10% per annum interest on amount due

10 An investor acquired 600 000 shares at a cost of \$0.10 per share in January 2016. In January 2017 there was a bonus issue of 1 new issue for every 4 held. In 2021 he sold 350 000 shares for \$0.30 per share.

Calculate the capital gains tax to be paid by the investor.

A. \$15 400

B. \$14 560

C. \$12 760

D. None of the above

11. Which of the following taxes may be considered as having the objective of restricting acquisition or consumption of goods?

A. Value Added Tax

B. Excise duty

C. Both A and B above

D. Neither A nor B

12. Which one of the following goods can be imported without an import licence?

A. Milk

B. Potatoes, Tomatoes and Onions

C. Second-hand clothes

D. Drugs

13 What is the rationale of special excise duty?

- A. To discourage consumption of goods which have a negative effect on the environment
- B. To discourage consumption of goods which have potential to destroy the moral fabric
- C. To discourage consumption of goods which may pose health risks to citizens
- D. All of the above

14 Which one of the following items is excluded from the determination of a traveller's rebate?

- A. Passenger motor vehicles
- B. Refrigerators
- C. Clothes
- D. Computers.

15 What could be the reason why some taxpayers do not take advantage of the tax amnesty provision when it is introduced?

- A. Do not know existence of the system
- B. Do not have the money to meet their tax obligations.
- C. Are afraid of being under watchful eye of ZIMRA in future
- D. All of the above.

## SECTION B

### QUESTION 1

Bhungaz Limited compulsorily registered for VAT in 2014 when its retail business was performing very well. However, in 2021 Bhungaz was faced with a difficult operating environment resulting in reduced turnover and profitability. The management of Bhungaz is of the view that the compliance costs of VAT registration are very high and therefore Bhungaz should apply for VAT deregistration. They believe that their application for deregistration will be successful since their annual turnover was below the threshold for the past two

years. The following information refers to Bhungaz trading operations for the year ended 31 December 2021. All figures are stated inclusive of VAT, where applicable.

(1) Turnover	
	\$
Clothes items	10 000
Stationary	5 000
Beef	50 000
Fuel	15 000
Mealie-meal	4 000
Bread	6 000
Building Bricks	10 000
Defective goods returned	<u>(8 000)</u>
	<u>92 000</u>

10% of the defective goods returned are zero rated and 20% exempt

(2) Purchases (all standard rated)		\$
Domestic goods to make taxable supplies		40 000
Domestic goods to make taxable supplies		18 000
Goods to make taxable supplies returned for poor quality		<u>(4 000)</u>
		<u>54 000</u>

Domestic goods valued at \$6 000 were procured from non-VAT registered traders.

(3) Non-current assets purchased in 2021		\$
Passenger motor vehicle, engine capacity, 3 300cc		20 000
Canteen equipment		2 000
Commercial motor vehicle		30 000
		<u>52 000</u>

<b>(4) Other expenses</b>	
	\$
Salaries and wages	10 000
Medical aid contributions	2 000
Traffic fines	5 000
Office building rent	6 000
Depreciation	3 500
Stationery	1 800
Repairs and maintenance	2 500
Interest on overdraft	1 500
Municipal rates	10 000
	42 300

**Additional notes:**

1. The office building rent was paid to the owner, LM who is not registered for VAT.
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
Mercedes Benz Sedan C class	2 500cc
Mazda BT50 Double cab (new shape)	3 000cc
Toyota Hilux single cab	3 600cc

**Required:**

- a) What are the requirements for compulsory VAT registration and the penalty if one fails to register? (2 marks)
- b) Under what circumstance can a VAT registered operator deregister? (3 marks)
- c) Advise Bhungaz Limited whether or not deregistration would make it more profitable. (3 marks)



- d) Explain whether Bhungaz's application for deregistration will be successful  
(2 marks)
- e) Calculate the total non-deductible input tax incurred by Bhungaz Limited for the 2021 year.  
(2 marks)
- f) Calculate the VAT payable by or refundable to Bhungaz limited for the year ended 2021.  
(28 marks)

**[Total: 40 marks]**

## QUESTION 2

Mr. JT aged 56, retired from employment at a mine in Mutare on medical grounds in 2016. At the time of retiring, he owned a house in Harare's leafy suburb of Greendale. He had built the house in 2006 at a cost of \$500 000 and never stayed at the house as he was based in Mutare. The house was rented out to a Bank and he received a monthly rental of \$1 000. Due to economic hardship, Mr. JT sold his Greendale house in March 2019 for \$1 000 000 and immediately used the proceeds to buy two houses, one in Ruwa and the other in Westgate. He stayed in the Ruwa house and leased out the Westgate house so as to get regular income. In 2020, Mr. JT donated the Westgate house to his daughter. If he had sold the house he was going to get \$400 000. Mr. JT was awarded a farm by the government in Bindura in 2021 and he permanently relocated to Bindura to pursue farming activities. The Ruwa house was then occupied by his uncle at no charge and there was no change in the ownership of the house. If he had sold the Ruwa house he could have received \$200 000.

The information below relates to Mr. JT's houses.

House	Year acquired/constructed	Original cost	Selling Price
Greendale house	2006	\$500 000	1 000 000
Ruwa house	2019	\$100 000	-
Westgate house	2019	\$300 000	-

The agreement of sale of the Greendale house was that the buyer would pay for the house in three instalments as follows:

Instalment	year	Amount(\$)
1 <sup>st</sup> instalment	2019	500 000

2 <sup>nd</sup> instalment	2020	300 000
3 <sup>rd</sup> instalment	2021	200 000
Total		1 000 000

**Required:**

- Classify each of Mr JT's houses as either principal private residence or not. (3 marks)
- Outline the circumstances in which capital gains withholding tax is not paid. (5 marks)
- What objective(s) does capital gains withholding tax seek to achieve? (2 marks)
- Calculate Mr JT's capital gains tax liability for the years 2019, 2020 and 2021 (20 marks)

**[Total: 30 marks]**

-----End of Examination Questions-----

**TAX RATES AND ALLOWANCES**

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

**Individuals Employment Income- USD TABLE**

Taxable income band	Rate of tax	Amount within band	Cumulative income tax liability
\$	%	\$	\$
Up to 1 200	0	1 200	0
1 201 to 3 600	20	2 400	480
3 601 to 12 000	25	8 400	2 580
12 001 to 24 000	30	12 000	6 180
24 001 to 36 000	35	12 000	10 380
36 001 and above	40		

**NB.**

- The AIDS levy of 3% of income tax payable, less credits remains in place.
- The annual bonus tax free portion is \$700.

### Allowable pension deductions:

<b>Pension fund contribution ceilings</b>	<b>\$</b>
In relation to employers in respect of each member	3 000
In relation to employees by each member of a pension fund	3 000
In relation to each contributor to a retirement annuity fund of funds	3 000
National Social Security : (up to 5 000\$ monthly)	4.5 % of gross salary

**NB Aggregate maximum contribution to all above per employee per year- \$3 000**

### Credits for the year:

Disabled/blind person	\$900
Elderly person (55 years and over)	\$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 motoring benefits:

#### *Motor vehicles*

	<b>\$</b>
Up to 1500cc	625
1501 to 2000cc	830
2001 to 3000cc	1 250
3001 and above	1 660

#### *Loans*

The deemed benefit per annum is calculated at a rate of LIBOR +5% of the loan amount

Advanced if loan amount is above \$100. (Assume LIBOR is 5.3%)

#### Value Added Tax (VAT)

Standard rate 14.5%

#### Capital allowances:

	<b>%</b>

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	24
Individuals-Income from trade and investment	24
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 prior to 22/2/2019:	5% of gross proceeds
Disposal of immovable property and unlisted marketable securities acquired after 22/2/2019:	20% of gain
On principal private residence where seller is over 55 years	0%
On other immovable property acquired on or after 2/2/2019	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:

	\$
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	