

**BINDURA UNIVERSITY OF SCIENCE EDUCATION**

**FACULTY OF COMMERCE**

**NOV 2024**

**DEPARTMENT OF ACCOUNTANCY**

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**TAX LAW AND PRACTICE 1 (AC211)/TAXATION (BS211)**

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**EXAMINATION PAPER**

**PROGRAMMES:**

Bachelor of Accountancy (Honours) Degree  
BBA Police and Security Studies  
Bcom Financial Intelligence  
Bcom Banking and Finance

**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 cellphones 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.

**SECTION A: MULTIPLE CHOICE QUESTIONS (30 marks).**

1. Which one of the following is NOT an obligation of the Zimbabwe Revenue Authority?
  - A. Provide tax advice to taxpayers.
  - B. Assess and collect tax from taxpayers.
  - C. Enforce import, export, and exchange controls.
  - D. None of the above.
  
2. Which one of the following is classified as a person in terms of Zimbabwean tax laws?
  - A. A sole trader.
  - B. Private Business Corporation.
  - C. Company.
  - D. All the above.
  
3. Mr. Chinos is into farming business and had the following employees from January to December 2023.
  - i. A farm manager
  - ii. 3 volunteers
  - iii. 50 casual workers
  - iv. 4 student attaché getting allowances.
  - v. 2 domestic workers

Which groups of employees were required to pay National Social Security Authority (NSSA) contribution for the year ending 2023 in terms of Zimbabwean laws?

- A. i, ii, iii, iv and v
  - B. i, iii, iv and v
  - C. i, iii and iv
  - D. i and iv
  
4. Miss SQ is employed by a university as a director. She stays in a university accommodation situated at the university farm located 40km from the town. Miss SQ earns \$12 000 per month and colleagues who are in the same salary grade live in university flats located in the low-density suburb of the town. The colleagues

pay monthly rental expense of \$800 to the university and the monthly rental expense for similar flats in the area are \$1 000. Miss SQ pays rent of \$500 per month to the university.

Determine Miss SQ's taxable housing benefit for the year.

- A. \$9 600
- B. \$12 000
- C. \$18 000
- D. \$6 000

5. The income tax principle is that Pay As You Earn is paid by an employer for services rendered to an employee as long as the employee - employer relationship can be proved. There are instances when the person's income is taxable even if it is not paid by the employer.

Which one of the following incomes is taxable to the recipient although it is not paid by the employer?

- A. Tip received by a waitress from customers.
- B. Money paid to a Zimbabwean author by a foreign publisher.
- C. Money given to the pastor by members of the church.
- D. All the above,

6. Which one of the following receipts is not taxable income?

- A. Bonus received by football players for winning a match.
- B. Money received by a professional hunter in a hunting competition.
- C. Money received from an international forex trading broker.
- D. None of the above.

7. A bus driver employed by BBC Ltd turned 55 years on 31 March 2020 and had to retire since he had reached the compulsory retirement age in terms of his employment contract with BBC. BBC contributes 80% to Old Mutual for its employees. Over the years the driver's contribution exceeded the limit by \$150 000. The driver began receiving pension income of \$10 000 per month with effect from

25 April 2020. His life expectancy is expected to be 25 years from the date of retirement.

What is the bus driver's taxable pension income for the 2022 tax year?

- A. \$85 500
- B. \$90 000
- C. \$0
- D. \$120 000

8. BH (Pvt) Ltd specialises in the manufacturing of medical equipment. On 1 January 2023, the company successfully applied for a five-year loan of \$2 000 000 from its sole shareholder at 0% interest rate. The loan was used in 2020 as follows:

Advertising costs- foreign markets	\$400 000
Soft loan to company directors at 0% interest rate	\$100 000
Loan to employees at 0% interest rate	\$500 00
Acquisition of raw material	\$200 000
Paid to GM Engineering for restraint of trade-local market	\$700 000
Balance not yet used and kept in the Bank account	\$100 000

What is the interest to be deducted for tax purpose in 2023 in respect of the loan assuming that LIBOR is 5%.

- A. \$0
- B. \$20 000
- C. \$160 000
- D. \$10 000

9. Some taxpayers argue that there is a thin dividing line between tax evasion and tax avoidance. Consider the following scenarios:

- i. An employer providing free lunch to employees instead of paying them very high salaries.

- ii. An employer granting employees very high travelling and subsistence allowances to reduce employee taxable income.
- iii. An employer selling a motor vehicle to an employee and changing ownership only when the employee turns 55 years.
- iv. An employer contributing 100% medical aid for employees to reduce the employer taxable income.

Identify two scenarios in which there is tax avoidance.

- A. i and ii
- B. i and iv
- C. iii and iv
- D. ii and iv

10. Thom and Peter are partners of a law firm called TP Partners. In 2022 Peter acquired a Mercedes Benz 'S' class for \$50 000 with engine capacity 2 000cc. The motor vehicle is used in conducting the partnership's business. The running expenses for the motor vehicle in 2022 was \$3 000.

What was Peter's allowable deduction in 2022 relating to the Mercedes Benz?

- A. \$3 000
- B. \$53 000
- C. \$5 500
- D. None of the above

11. GM is a manufacturing company whose annual turnover was \$1 000 000 in 2022 and \$600 000 of the turnover were exports to South Africa.

Which of the following tax rate is applicable to GM?

- A. 20%
- B. 15%
- C. 24%
- D. 17.5%

12. Which of the following basis is most common for valuing closing stock of

livestock?

- A. Market price similar livestock.
- B. Cost and maintenance value of the livestock.
- C. The purchase price of the livestock.
- D. None of the above.

13. Which one of the following tax incentives is available to miners?

- A. The rate of tax for exporting firms is less than 24%.
- B. Assessed losses are carried forward indefinitely.
- C. Duty is exempted on any machinery imported by exporters.
- D. All the above

14. Who is eligible for voluntarily VAT registration?

- A. Suppliers of VAT taxable supplies
- B. Those above the minimum VAT registration threshold
- C. Small and medium enterprises
- D. Those below the minimum VAT registration threshold

15. Which of the following forms is completed when one registered as an employer?

- A. ITF 12
- B. P1
- C. P2
- D. ITF1

## SECTION B (70 marks)

### QUESTION 1

Explain the purpose of taxation in terms of tax laws of Zimbabwe (10 marks).

### QUESTION 2

The following information relates to employment income and expenses of Mr. Mujolo employed by CCC Ltd as an accountant. The transactions relate to the 2022 financial year:

- (i) He was paid a monthly salary of \$4 000, and the company deducted PAYE of \$1200. He also made a total monthly contribution of \$650 towards retirement annuity fund, employer's pension scheme and NSSA.
- (ii) He was given an allowance of \$1 200 by CCC Ltd to meet employment expenses and used only \$550 to purchase a personal laptop for \$550 and the laptop is used for the company's business.
- (iii) The company gave Mr. Mujolo a birthday gift of \$500 on his 60th birthday celebrations.
- (iv) Throughout 2022, Mr. Mujolo used a company car, a Toyota GD6, with engine capacity 3 300 cc and the car was used 60% for the employer's business. On 1 December he purchased the car from the company for \$3 000 and the market price of the car was \$40 000.
- (v) On 1 January 2022, Mr. Mujolo borrowed \$20 000 from the company and used \$10 000 of the amount to finish construction of his house and the other \$10 000 was used to pay for school fees for his children. The money was repaid on 30 June 2022 and there was no interest paid on the borrowed funds as Mr. Mujolo was not expected to pay interest.
- (vi) The company rented a house for him at a monthly rental fee of \$1 000. However, the company effected a monthly rental deduction of only \$300 on his pay slip.
- (vii) On 1 September 2022 Mr. Mujolo borrowed a further \$12 000 (interest free) from the company to help pay for the medical expenses of his 35-year daughter who had been involved in a motor accident which left her confined to a wheelchair for life.

(viii) Mr. Mujolo received interest of \$500 from a building society and dividends of \$150 from a local company.

(ix) Mr. Mujolo has a blind wife, a 15-year-old blind son and a 40-year-old disabled daughter who works for GALES rehabilitation center.

**REQUIRED:**

- a) Calculate tax payable by Mr. Mujolo from his employment income for the tax year 2022. (20 marks)
- b) Explain the provisional tax system and the Final Deduction tax system in terms of the Income Tax Act (Chapter 23:06). (5 marks)
- c) Explain Mr. Mujolo's responsibility towards the submission of returns and payment of tax in terms of the Income Tax Act (Chapter 23:06). (5 marks)

**[Total: 30 marks]**

**QUESTION 3**

FAZ (Pvt) Ltd is a manufacturing company which exports 60% of its products. The financial records of FAZ (Pvt) Ltd for the financial year ended 31 December 2022 are as follows:

	<i>note</i>		<b>USD</b>
Gross profit			822 280
<b>Less: Operating expenses</b>			
Bad debts	(i)	3 190	
Depreciation		106 090	
Gifts and donations	(ii)	3 090	
Professional fees	(iii)	12 400	
Repairs and renewals	(iv)	128 200	
Other expenses	(v)	<u>426 920</u>	<u>679 890</u>
Operating profit			142 390



Profit from sale of non-current assets	(vi)	78 100
Disposal of building	(vii)	<u>12 330</u>
Income from investments loan interest		232 820
Less: Interest payable	(viii)	<u>48 600</u>
		<u>184 220</u>

#### Notes

(i) Bad debts are as follows.

	USD
Trade debtors recovered from previous year	(4 780)
Trade debtors written-off	<u>7 970</u>
	<u>3 190</u>

(ii) Gifts and donations are as follows:

	USD
Gifts from customers (food hampers that cost \$ 30 each)	720
Long service award to employee	360
Donation to approved charitable organization	850
Free advertisement in the charity magazine	<u>80</u>
	<u>2 010</u>

(iii) Professional fees are as follows:

	USD
Accountancy and audit fees	5 400
Legal fees in connection with issue of share capital	2 900
The cost of registering the company's trademark	800
Legal fees in connection with the renewal of a 35-year property lease	1 300

Debt collection	1 100
Legal fees in connection with a court action for noncompliance with Health and Safety Legislation	<u>900</u>
	<u>12 400</u>

(iv) Repairs and renewals:

The figure of \$128 200 for repairs and renewals includes \$41 800 for replacing the roof of the office building, which was in a bad state of repair, and \$53 300 for extending the office building.

(v) Other expenses:

Other expenses include \$21 160 for entertaining suppliers, \$800 for counselling two employees who were made redundant, and the cost of seconding an employee to a charity for \$6 400. The remaining expenses are all fully allowable.

(vi) The profit of \$78 100 is in respect of a freehold office building that was sold on 20 February 2022 for \$223 473. The office building was purchased on 18 August 2012 for \$ 197 900. The wear and tear allowance from August 2012 to date of disposal was \$44 528. The building has always been used by Turn Around (Pvt) Ltd for trading purposes.

(vii) Income from investments loan and from investments relates to interest of \$12 330 from a financial institution which was taxed at the source.

(viii) Interest payable was in respect of loan notes used for purposes of trade interest of \$48 600 paid on 31 January 2022.

**Additional Information:**

On 1 January 2022 the tax written down values of plant and machinery were as follows:

	USD
Delivery motor vehicles	12 200
Passenger Motor Vehicles	220 800
Equipment	<u>3 100</u>

The following transactions took place during the year ended 31 December 2022.

28 February 2022	Sold a passenger motor vehicle	34 800
7 March 2022	Purchased delivery vehicles	57 600
1 May 2022	Sold equipment	460
15 May 2022	Purchased equipment	26 800

The passenger motor vehicle which was sold on 28 February 2022 for \$ 34 800 was originally purchased for \$ 33 600 in 2018. The equipment that was sold for \$ 460 was originally purchased on 5 April 2019 for \$900.

**REQUIRED:**

- a) FAZ (Pvt) Ltd.'s minimum taxable income for the year ended 31 December 2022. Your computation should commence with profit before taxation figure of \$ 184 220. (25 marks)
- b) Compute tax payable by FAZ (Private) Limited. (5 marks)

**[Total: 30 marks]**

-----END OF EXAMINATION PAPER-----

## 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.**

1. The AIDS levy of 3% of income tax payable, less credits remains in place.
2. The annual bonus tax free portion is \$700.
3. The exempt portion of retrenchment package is the greater of US\$10,000.00 or one third of the package, up to a maximum of US\$37,500.00.

### Allowable pension deductions:

<b>Pension fund contribution ceilings</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
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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*

	\$
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:

	%
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

**Capital gains tax**

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) held less than six months	2%
Marketable securities(listed) held more than six months	1.5%
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	