

BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTANCY

TAX LAW AND PRACTICE 2 (AC412)/ AC216

EXAMINATION PAPER

JUN 2024

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. Which of the following statement(s) is (are) true concerning Value Added Withholding tax?
- i. Value Added Withholding Tax is the final Value Added Tax to be paid by the supplier
 - ii. It is paid by all registered suppliers of taxable supplies above a given threshold
 - iii. It is paid by registered suppliers of taxable supplies who sell goods and services to registered Value Added Withholding Tax agents
 - iv. It is paid by registered suppliers of taxable supplies who sell goods and services to any Value Added Tax registered customer.
 - v. Any Value Added Tax registered customer can deduct the withholding tax and remit it to ZIMRA
- A. (i), (ii), (iii) and (iv)
 - B. (ii), (iii) and (iv)
 - C. (iii) and (iv)
 - D. (iii) only
2. Which of the following will not result in ZIMRA rejecting a claim for a VAT refund?
- A. No business partner number of either the supplier or purchaser on the fiscal tax invoice.
 - B. Value Added Tax (VAT) registration number of the supplier missing on the fiscal tax invoice.
 - C. The name and address of the purchaser missing on the tax invoice
 - D. No description of the goods or services supplied on the tax invoice.
3. Bhungaz Limited is a registered Value Added Tax (VAT) retail operator and had the following sales and purchases for the month of February in 2023 (All amounts stated are inclusive of VAT):

	\$
Sales:	
Beef	60 000
Clothes	100 000
Furniture	240 000

What is the output received by Bhungaz Limited for the month of February 2023?

- A. \$60 000
- B. \$44 348
- C. \$51 000
- D. \$52 174

4. Global (Pvt) Ltd is in the agricultural sector and registered for Value Added Tax (VAT). It acquired the following business assets in March 2023 (All the figures are stated exclusive of VAT where applicable):

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

What is the amount of input tax which cannot be claimed by Global Ltd?

- A. \$7 500
- B. \$33 000
- C. \$6 522
- D. \$28 696

5. GXT (Private) Limited is a category B Value Added Tax (VAT) registered operator. The company's VAT for the month of January 2022 was remitted on 30 June 2022.

By how many days was GXT (Private) Ltd late in remitting the VAT return to ZIMRA?

- A. 97 days
- B. 125 days
- C. 92 days
- D. 60 days

6. Why is it a disadvantage for a small manufacturing company to deal in exclusively exempt supplies?

- A. It cannot register for tax to prove that it is a formal company.
- B. Cost of production is very high as it cannot claim input tax on purchase of raw material.
- C. It cannot do business with VAT registered operators.
- D. It cannot get loans easily from financial institutions.

7. A company donated the following marketable securities to a health institution during the year ended 31 December 2022:

	Date acquired	Cost	Market value
		\$	\$
Quoted shares	2010	20 000	50 000
Unquoted shares	2008	30 000	40 000

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

- A. \$4 150
- B. S\$0
- C. \$3 100
- D. None of the above

8. Mr JT bought 600 000 listed shares at a cost of 10c per share in January 2023. In February 2023 there was a bonus issue of 1 new issue for every 4 held. On 25 March 2023 Mr JT sold 350 000 shares for 30c per share.

Calculate the capital gains tax to be paid by Mr JT on the disposal of the listed shares.

- A. \$15 260

B. \$5 250

C. \$1 575

D. \$2 100

9. On 1 March 2023, Tendai (aged 59) sold 80,000 shares in BH Ltd, an unlisted company. Details of the shares disposed of by Tendai are as follows:

No. of shares	Cost(\$)	Date acquired	Market Share price(\$)
80 000	1.00	2015	1.50

What is the amount of the capital gain tax arising on Tendai's disposal of his BH Ltd shares on 1 March 2023?

A. \$6 000

B. \$4 200

C. \$2 400

D. \$1 800

10. What is the tax liability on a person who sells an immovable property and fails to pay withholding tax to ZIMRA on the disposal of the immovable 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

11. Which of the following taxes may not be considered as having the objective of restricting acquisition or consumption of goods?

A. Value Added Tax

B. Excise duty

C. Carbon tax

D. All of the above

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

- A. Knapsacks sprayers
- B. Agricultural and horticulture produce
- C. Diesel fuel, petrol, jet, paraffin and aviation gasoline
- D. Medicines

13. Which of the following is most likely to be the rationale of import 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. To protect the local industry.

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

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

15. Who is supposed to use the Red Route at the port of entry?

- A. Travellers who are not carrying any dutiable or restricted goods
- B. Travellers who are carrying dutiable or restricted goods
- C. All returning residents entering the country.
- D. All foreigners entering the country.

SECTION B (70 marks)

QUESTION 1

MM Ltd is a VAT registered operator with wholesale and retail shops in both Zimbabwe and South Africa. The information below relates to its income and expenditure for the months of January and February 2023. The amounts shown are VAT exclusive.

Income	US\$
Hardware (standard rated supplies)	520 000
Grocery	350 000
Commission	20 000
Bank loan	200 000
Expenditure	
Purchases (standard rated)	150 000
Purchases (zero rated)	60 000
Purchases (zero rated)	50 00
Stationery	15 000
Telephone -Telone	5 000
Advertising- ZBC	13 000
Employee Pension Contribution- Old Mutual	30 000
Petrol and Diesel	65 000
Motor vehicle servicing	14 000
Subscriptions	17 000
Non-current assets purchase	52 000
Warehouse rentals	21 000
Water and electricity	10 500
Entertainment	23 000
Salaries and wages	600 000

Notes

1. Standard rated hardware supplies include supplies of \$40 000 to non-registered operators while grocery included zero-rated supplies of \$25 000 and exempt supplies of \$30 000.
2. The company issued debit notes for \$22 000 and received credit notes for \$16 000 for the hardware goods. These were in respect of supplies made in January and February 2023.
3. The company allocated the following company vehicles to its senior managers for use in 2023:

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

4. Non-current assets purchased in January 2023:

	\$
Passenger motor vehicle	20 000
Canteen equipment	2 000
Commercial motor vehicle	30 000

5. Commission was received from selling other people's goods.

6. Entertainment is made of the following items:

Travel and subsistence	\$11 000
Amusement and recreation	\$12 000

7. The company paid subscriptions as follows:

Sports club	\$10 000
Rotary Club	\$7 000

8. The owner of the rented warehouse is not registered for VAT

REQUIRED:

- Calculate the VAT payable/ refundable tax and value of supplies for the period. (30 marks)
- By when should MM Ltd remit the VAT to ZIMRA and what would be the penalty for failing to remit the VAT on time? (2 marks)
- Under what circumstance can a VAT registered operator deregister? (3 marks)

[Total: 35 marks]

QUESTION 2

BH Limited sold its manufacturing business assets for US\$11 000 000 on 2 January 2023 to venture into farming business. The commercial assets had been acquired/constructed as follows:

	Date acquired/ constructed	Cost	Sale
	US\$	US\$	US\$
Land	2015	1 000 000	-

Boundary wall	1 January 2019	500 000	1 200 000
Warehouse building	March 2019	2 000 000	4 600 000
Warehouse equipment	July 2019	1 500 000	2 200 000
80 Staff houses	June 2017	2 000 000	2 500 000
Motor vehicles	April 2019	600 000	400 000
Office furniture	May 2019	400 000	100 000
		8 000 000	11 000 000

The proceeds from the sale of the manufacturing assets were applied as follows in 2023:

	US\$
Purchase of a farm land	6 500 000
Construction of farm buildings	1 100 000
Purchase of tractors and other farm equipment	2 000 000
Purchase of livestock and other farm inputs.	1 200 000
Recurrent expenditure	<u>200 000</u>
	<u>11 000 000</u>

Additional information:

BH always claims minimum capital allowances.

Required:

- Explain the conditions for claiming reinvestment relief? (2 marks)
- Calculate the CGT payable by BH Limited on the disposal of the commercial property taking into account any reliefs available. (25 marks)
- What is the rationale for deducting capital gains withholding tax in terms of the capital gains act? (2 marks)

[Total: 29 marks]

QUESTION 3

Explain ways a taxpayer can use to minimise tax liability on deceased person's estate. (6 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 liability tax
\$	%	\$	\$
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.

Allowable pension deductions:

Pension fund contribution ceilings	\$
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

\$

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
<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	24
Individuals-Income from trade and investment	24
Aids levy	3

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	
