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BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTANCY

JUN 2024

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

EXAMINATION PAPER

PROGRAMMES:

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

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.

SECTION A: MULTIPLE CHOICE QUESTIONS (30 marks).

1. Which one of the following is NOT an obligation of the Zimbabwe Revenue Authority?
 - A. Provide customised tax advice to taxpayers
 - B. Assess and collect tax from taxpayers.
 - C. Enforce import, export and exchange controls.
 - D. Provide policy advice to government on fiscal and economic issues.
2. Which one of the following is NOT classified as a person in terms of Zimbabwean tax laws?
 - A. Partnership Business
 - B. Trust
 - C. Company
 - D. Private Business Corporation
3. Mr. Command is into farming business and had the following employees from January to December 2021
 - i. A farm manager earning \$40 000 per month
 - ii. An accounts clerk earning \$15 000 per month
 - iii. 50 casual workers earning \$4 000 per worker per month
 - iv. 4 student attaché getting an allowance of \$2 000 per month
 - v. 2 domestic workers earning \$2 000

Which groups of employees were required to pay National Social Security Authority (NSSA) contribution for the year ending 2021 in terms of Zimbabwean laws?

- A. i, ii, iii and iv
 - B. i and ii
 - C. i, ii and iii
 - 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 is \$1 000.

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

- A. \$9 600
- B. \$12 000
- C. \$18 000
- D. \$0

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 income 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 of the above

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

- A. Money received by players for winning a match
- B. Money received by an employee in a hunting competition
- C. An allowance paid to a pastor by the church.
- D. All 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 2021 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 2021, the company successfully applied for a five-year loan of \$2 000 000 with an interest rate of 10% per annum from a leading local financial institution. The loan was used in 2021 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	\$500 000
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 2021 in respect of the loan?

- A. \$200 000
- B. \$60 000
- C. \$120 000
- D. \$110 000

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 in order 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 so as to reduce the employer taxable income .

Identify two scenarios in which there is tax evasion

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

10. Simon and Peter are partners of a law firm called SP Partners. In 2021 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 2021 was \$3 000.

What was Peter's allowable deduction in 2021 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 2021 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. Fixed Standard Values approved by tax authorities.

C. Cost and maintenance value of the livestock.

D. The purchase price of the livestock.

13. Which one of the following are tax incentives 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 of the above.

14. What is (are) the advantages to the taxpayer of voluntarily registering for VAT?

A. Can claim input tax.

B. The money received from customers can be used to finance the business before being remitted it to ZIMRA.

C. May be an indicator that the business is run in a formal manner.

D. All of the above.

15. Which one of the following is an example of tax avoidance?

A. An employer selling a motor vehicle to an employee at below market price when the employee turns 55 so that the employee is not taxed on the benefit of buying the motor vehicle at lower price.

B. An employee upgrading his medical aid scheme so as to take advantage of high tax credits.

C. Negotiating with the employer to be awarded a soft loan to purchase own car instead of being given a company vehicle which would attract motoring benefits.

D. All of the above.

SECTION B (70 marks)

QUESTION 1

Mr TK aged 56 is a managing director of a Telecommunication company and holds only 1% shares in the company. The following are his transactions for the year ending 2021:

- i. He received an annual salary of \$72 000 and a bonus of \$6 000.
- ii. In addition to the annual salary, he received the following allowances:

- a grocery allowance of \$1 000 per month,
 - an airtime allowance of \$300 per month,
 - clothing allowance of \$500 per month,
 - entertainment allowance of \$400 per month.
- iii. Mr TK lives in a company house located in a low density suburb of Harare and he does not pay any rent although the market rental for similar houses in the area is \$3 000 per month.
 - iv. He drives a company car; a Toyota Hilux Twin cab with engine capacity 3 000cc. The car is used for both business and private trips.
 - v. Mr TK was given a loan of \$40 000 by the company and the loan is payable within 3 years at 10% per annum. Fifty per cent (50%) of the loan was used to finish construction of his house in Mt pleasant, 20% was given to the daughter as a wedding present and the remaining 30% was school fees for children studying at a local university.
 - vi. The company paid \$2 000 for the medication of his wife who had been injured in a road traffic accident. The wife was certified by the doctor to be permanently disabled.
 - vii. He purchased a wheel chair for the wife at a cost of \$3 000.
 - viii. Mr TK received a pension from another telecommunication company he once worked for before he joined the present company. He began receiving the pension of \$500 a month five years ago. Before he began receiving the pension he had contributed \$10 000 and he is entitled to receive the pension of \$500 for 20 years beginning from the first year, which was five years ago.
 - ix. During the year Mr TK contributed \$600 towards medical aid and 20% of the contribution was for the benefit of his parents and in-laws while the rest was for the benefit of his immediate family.
 - x. Mr TK contributed a total of \$9 000 towards pension fund administered by employer, Retirement Annuity Fund and NSSA during the year.
 - xi. Mr. TK received annual rental income of \$6 000 from the leasing of his house in the low density suburb of Bindura.
 - xii. Mr TK received income from the following investments:

• Interest from a building society	- \$1 000
• Interest from a commercial bank	- \$2 000
• Dividends from a local company	- \$1 500
• Dividends from a South African company	- \$1 900

[Assume there is no double taxation agreement between Zimbabwe and South Africa]

Required:

- a) Calculate tax payable by Mr TK for the year ending 2021.

(25 marks)

b) Explain the tax treatment of :

- i. Pension from another telecommunication company which Mr TK once worked for before he joined the present company. (2 marks)
- ii. The loan of \$40 000 received from the company. (3 marks)

[Total: 30 marks]

QUESTION 2

Jacob and Jane are partners in a law firm called Jacob and Jane Legal Practitioners. The partners submitted the following profit and loss account in support of income returns for the tax year ended 31 December 2021.

Income	\$	\$
Fees accrued		100 000
Bad debts recovered		10 000
Bank interest		2 000
Debenture interest		3 000
Local dividends		1 000
Total		116 000
Deductions:		
Insurance premiums:		
- loss of profit	2 000	
- fire	1 000	
- partnership joint life policy	4 000	
- life policies for benefit of :		
Jacob	2 000	
Jane	1 000	10 000
Medical aid contributions:		

Jacob	600	
Jane	400	
Staff	1 000	2 000
Staff salaries		7 000
Interest on capital : Jacob	5 000	
Jane	4 000	
		9 000
Bad debts		9 000
Subscription to Law society		10 000
Legal expenses: debt collection		500
Attendance at approved course		9 000
Depreciation		6 000
Total deductions		62 500
Net profit		53 500

Notes:

1. Jacob and Jane share profit at the ratio of 60% : 40% respectively
2. Partners drawings were Jacob \$8 000 and Jane \$9 000.
3. Bad debts recovered include an amount of \$6 000 in respect of a loan previously written off as bad and not allowed as a deduction for tax purposes.
4. Bank interest includes \$600 from POSB and \$400 from FBC building society.
5. Bad debts are made up as follows:

	\$
Provisions for doubtful debts calculated at 5% of debtors	4 000

Fees unpaid	2 000
Loan to former manager now irrecoverable	3 000
Total	9 000

6. Attendance at a course:

	\$
Jacob	3 000
Jane	6 000

This represented the cost of lectures including travelling and hotel bills.

Additional information:

1. Non-Current Assets in the hands of the partnership at the beginning of the year were as follows:

Description of Asset	Date acquired	Cost (\$)
Office Furniture and Equipment	Jan 2012	15 000
Ford Ranger Twin cab	Jan 2020	40 000
Truck (single cab)	Jun 2016	30 000
Mercedes Benz 'S' class	July 2021	60 000

2. During the year the truck was traded in for a second-hand land cruiser. A trade in value of \$4 000 was given on the truck and the cost of the land cruiser was \$50 000.
3. The partnership elects to claim SIA.
4. Jacob and Jane paid \$3 000 and \$5 000 respectively to approved retirement annuity funds.

5. Jacob is unmarried but has a disabled child aged 5. In addition to his income from the partnership, he had the following income:

	\$
Dividends from companies registered in Zimbabwe	4 000
Interest on tax reserve certificates fully utilised in payment on tax	1 000
Rents from UK property	7 000

6. Jane is married with two children, and during the year her medical aid shortfalls was \$800.

REQUIRED:

Calculate the tax payable by Jacob and Jane in respect of the tax year ended 31st December 2021. (26 marks)

QUESTION 3

Explain the tax treatment in each of the following scenarios in respect of the person receiving the payment and the person making the payment in each case:

- i. Payment made to a competitor by a company so that the competitor does not supply goods similar to those supplied by the company; (2 marks)
- ii. A payment of 10% of business profit made by a business owner in respect of tithes. The tithes was paid to the business man's church; (2 marks)
- iii. A donation of \$2 000 by an employee towards the cost of repairing an office building belonging to a professional body to which he is a member; (2 marks)
- iv. A tip given to a waiter by guests at a restaurant; (2 marks)
- v. Prize money paid to a professional hunter; (2 marks)
- vi. An incentive paid by parents to the headmaster of a school; (2 marks)
- vii. Winning a lottery. (2 marks)

[Total: 14marks]

-----End of examination questions-----

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.

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 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	