

# **BINDURA UNIVERSITY OF SCIENCE EDUCATION**

**FACULTY OF COMMERCE**

**DEPARTMENT OF ACCOUNTANCY**

**NOV 2023**

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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 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 one of the following is not the purpose of the tax system in Zimbabwe?
  - A. To promote or protect local industries
  - B. To discourage demand of demerit goods
  - C. To address market failure
  - D. None of the above.
2. Which one of the following is a regressive tax system in terms of Zimbabwean tax laws?
  - A. Income Tax Act [Chapter 23:06]
  - B. Value Added Tax Act [Chapter 23:12]
  - C. Capital Gains Tax Act [Chapter 23:01]
  - D. Estate Duty Act [Chapter 23:03].
3. Which one of the following forms is submitted by the employer to ZIMRA every month when remitting PAYE?
  - A. ITF1
  - B. P1
  - C. P2
  - D. P3.
4. Mr JT is employed by a university as a director. He stays in a university accommodation situated at the university farm located 40km from the town. The house was constructed at a cost of \$70 000. Mr JT earns \$8 000 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 \$1 500.

**Determine Mr JT's taxable housing benefit for the year.**

- A. \$18 000
- B. \$12 000
- C. \$4 900
- D. \$9 600.

5. Mr. Johns is employed by CCC Ltd and earns a monthly salary of \$150 000. The monthly deductions against his salary during the 2021 tax year were as follows:

Contribution to Retirement Annuity Fund	\$100
NSSA	\$225
Life policy	\$80
Funeral policy	\$50
Contribution to employer's pension fund	\$150
Medical aid contribution	\$100

Calculate Mr Johns' maximum monthly allowable tax deduction.

- A. \$475
  - B. \$250
  - C. \$575
  - D. None of the above.
6. BH private limited company is a fertilizer manufacturing company. In 2021, BH opened a branch in Bindura town and incurred the following expenses:
- i. Built a factory building for \$300 000.
  - ii. Paid \$500 000 to MM, a fertilizer manufacturing company operating in Bindura in an agreement in which MM will not supply fertilizer in Bindura until the year 2030
  - iii. Donated \$20 000 towards the construction of BH managing director's church in Bindura
  - iv. Donated \$8 000 to Bindura University's Accountancy department for the prize money of the best student in tax.

Identify the allowable deductions for BH for the 2021 tax year

- A. (i), (ii), (iii) and (iv)
- B. (i), (ii) and (iv)
- C. (i) and (iv)
- D. None of the above.

7. Ms. Juliana aged 56 was awarded a 10 year loan of \$300 000 by her employer on 1 January 2021. The loan attracts an interest rate of 5%. The loan amount was used as follows:

	\$
Juliana's university fees	30 000
Capital for a small business	40 000
Purchase of a motorized wheel chair for a physically disabled son aged 30 and the son who works for a local NGO.	20 000
Donation to a local clinic	30 000

The unutilised loan amount in Ms. Juliana's bank account as at 31 December 2021 was \$200 000

Determine Ms. Juliana's tax credit in 2021 tax year.

- A. \$120 000
  - B. \$20 000
  - C. \$10 000
  - D. None of the above.
8. Mr. Musorobhangu turned 55 years on 1 February 2020 and is self employed as a builder. He earned \$120 000 taxable income during the 2021 tax year. Mr. Musorobhangu incurred \$20 000 medical expenses during the year.

Calculate the tax credit applicable to Mr. Musorobhangu in 2021

- A. \$20 000
  - B. \$10 900
  - C. \$10 000
  - D. None of the above.
9. On 31 December 2021, MM Ltd, a small and medium enterprise sold an accident damaged passenger motor vehicle for \$20 000. The motor vehicle had been purchased on 1 January 2021 for \$25 000. MM Ltd has always elected Special Initial Allowance to calculate capital allowances.

What is the amount to be included in MM's gross income for the year ended 31 December 2021 in respect of the disposal of the motor vehicle?

- A. \$2 500
- B. \$7 500
- C. \$500
- D. \$17 500.

10. Peter, Tom, Tatenda and Grace are partners of a small manufacturing company. Each partner has a shareholding of 25% in the company. In 2018 the partners embarked on an aggressive marketing strategy with the objective of expanding their operations to export markets. In 2018 the partners attended trade conventions in European countries in an attempt to achieve their objective of setting export markets. The cost of attending the trade convention for each partner was as follows:

○ Peter	-	\$15 000
○ Tom	-	\$20 000
○ Tatenda	-	\$10 000
○ Grace	-	\$12 000

Determine the partnership's allowable deduction in respect of trade convention.

- A. \$57 000
- B. \$10 000
- C. \$20 000
- D. \$11 400.

11. Which one of the following costs incurred by a farmer is eligible for Special Initial Allowance (SIA) deduction?

- A. Stumping and clearing of land and fencing
- B. Works for the prevention of soil erosion
- C. Sinking of boreholes and wells
- D. Construction of dip tank.

12. Mr Zharawanya sold his farm to Mr Hondo for \$100 000 000. The farm had cabbages on it at the time of the sale. Mr Hondo immediately sold the cabbages for \$25 000 as the cabbages were ready for the market and donated some of the cabbages to members of the community. Mr. Hondo has the following views in respect of calculation of income tax for the above

transactions:

- i. The \$100 000 000 paid to Mr. Zharawanya is capital in nature and not to be treated as an allowable deduction
- ii. The few cabbages which were harvested for his family consumption are not part of gross income
- iii. The cabbages donated to the community are exempt from tax.
- iv. The sale of cabbages for \$25 000 is not taxable income.

Which of the above views are correct?

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

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

- A. Holders of special mining leases are taxed at 15% instead of 25%
- B. Assessed losses are carried forward indefinitely
- C. Rebate of duty on goods for the prospecting and search for mineral deposits
- D. All of the above.

14. VAT exempt supplies are different from zero rated supplies in that:

- i. An exempt supplier cannot register for any tax while a zero rated supplier can
- ii. A zero rated supplier can claim input tax while an exempt supplier cannot
- iii. Exempt supplies are usually for basic goods and services while zero rated supplies are not
- iv. Suppliers and consumers have no value added tax burden on zero rated supplies while they both have tax burden on exempt supplies

Which one combination of the above statements is correct?

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

D. iii and iv.

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

- 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. None of the above.

## SECTION B (70 marks)

### QUESTION 1

Mr. IM aged 56 is a finance director of a manufacturing company, Megan Limited which is based in Harare. Mr. IM also sits on the board of directors of another company, Fibro Limited as a non-executive director. He is also into consultancy services, teaches at a local university on a part time basis and is an examiner for a professional Accountancy body. The following information relates to Mr. IM's income from Megan Limited.

		\$
Salary		360 000
Performance related bonus	(1)	0.1% of revenue
Retention allowance		1% of salary
Entertainment allowance	(2)	20 000
Grocery allowance		10 000
Cellphone allowances		5 000
Domestic workers		7 200
Spouse allowance	(3)	30 000
Education allowance		20 000
Medical aid contribution		6 000
Employer pension contribution		12 000
Retirement annuity fund		(6 000)
Employee pension contribution		(7 000)
Contribution to medical aid society		(8 000)
Funeral policy		(5 000)
Membership subscription to ICAZ and CIS		(6 000)

**Notes:**

1. The annual revenue of Megan Limited for the 2021 year was \$15 000 000.
2. Entertainment allowance consists of the following:

	\$
Subscription to sports club	5 000
Subscription to DSTV	3 000
Entertainment of company clients	10 000
Subscription to Gymnasium	2 000
<b>Total</b>	<b>20 000</b>

3. Mr. IM's contract of employment states that Megan Limited will pay his spouse an annual allowance of \$30 000.



**Additional information:**

1. Mr. IM drives a company vehicle, a Ford Ranger, with engine capacity of 3 000cc.
2. Mr. IM lives in a company house located on a farm, 30km away from Harare.
3. Mr. IM was given 10 000 shares as part of his remuneration 5 years ago and sold the shares on 1 December 2021 at \$2.00 per share.
4. Mr. IM was given 15 000 share options in 2021 with an exercise price of \$2.50 in 2025. The market price of the share at the time the share option was awarded was \$4.00.
5. Mr. IM's other income:
  - i. Mr. IM was paid \$20 000 sitting allowance by Fibro Limited in 2021
  - ii. Mr. IM was paid \$10 000 by the accountancy professional body, being amount for setting and marking an examination.
  - iii. Mr. IM was paid \$15 000 by a local university, being amount for part time teaching and marking of examination scripts.

**Required:**

- a) Explain the tax treatment of the following:
  - i. Additional information no. 3 (1mark)
  - ii. Additional information no.4 (2 marks)
  - iii. Additional information no. 5 (3 marks)
- b) Explain whether or not Mr. IM should submit returns to ZIMRA. (2 mark)
- c) Compute Mr.IM's tax liability for the year ending 2021. (27 marks)

**[Total: 35 marks]**

## QUESTION 2

MH (Private) Limited is a company that operates in the food industry and commenced its operation in 2018. The following is MH's income statement for the year ending 31 December 2021.

### MH's income statement for the year ended 31 December 2021:

	Note	\$
Revenue		200 000
Cost of sales		(150 000)
Gross profit		50 000
Other income	(1)	180 000
Distribution costs	(2)	(50 000)
Administrative expenses	(3)	(60 000)
Other expenses	(4)	(20 000)
Finance costs	(5)	(15 000)
Profit before tax		85 000
Income tax expense	(6)	(22 000)
Profit for the period		63 000

### Notes:

1. Other income includes \$10 000 profit on the sale of some delivery vehicles. The delivery vehicles sold had been purchased in 2018 for \$100 000 and were sold during the 2021 year for \$50 000.

2. Distribution costs comprise:

	\$
Delivery costs	25 000
Salaries and wages for marketing and sales department	20 000
Depreciation charge for delivery vehicles	<u>5 000</u>
	<u>50 000</u>

3. Administrative expenses comprise:

	\$
Salaries and wages	35 000
Donations ( <i>see below</i> )	10 000
Value Added Tax (VAT) late payment charge	6 000
Depreciation	7 000
Staff canteen provisions	2 000
	60 000

As part of MH's corporate social responsibility investment, the following amounts were donated during the year to:

The CEO's church	\$7 000
A Sports club (for recurrent expenses)	\$3 000

4. Other expenses comprise:

	\$
Rent of unoccupied property	6 000
Traffic fines	2 000
Renewal of business licences	12 000
	20 000

5. Finance charges:

The interest was on a loan of \$75 000 advanced by a local financial institution on 1 January 2021 and was used to procure raw materials.

**Additional information**

MH owned the following non-current assets as at 31 December 2021:

	Date acquired	Cost/valuation (\$)
Commercial buildings	2017	90 000
Furniture and equipment	2018	10 000
Furniture and equipment	2019	40 000
Commercial vehicles	2018	60 000
Passenger motor vehicles	2020	20 000

MH has always claimed the maximum capital allowances possible in any given year.

**Required:**

- (a) Explain, citing two examples, why some expenses are disallowed deductions.  
(3marks)

(b) Calculate corporate tax payable by MH for the year ended 31 December 2021.  
(22 marks)

[Total: 25 marks]

### QUESTION 3

Explain the differences in the tax treatment of the following:

- i. The income tax effect on the purchase of a passenger motor vehicles and commercial motor vehicles by a company. (2 marks)
- ii. The VAT effect of purchasing raw materials to manufacture taxable supplies and exempt supplies by a VAT registered operator. (2 marks)
- iii. The VAT effect of purchasing and giving employees passenger motor vehicles or commercial motor vehicles as company cars. (2 marks)
- iv. The VAT effect of supplying zero rated supplies or exempt supplies. (2 marks)
- v. Tax avoidance and tax evasion. (2 marks)

[Total: 10mrks]

-----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.**

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:**

<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:

	%
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:**

	\$
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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	