



*“Investing in Africa’s future”*

**COLLEGE OF BUSINESS, PEACE, LEADERSHIP &  
GOVERNANCE**

**MAC 402: TAX LAW AND PRACTICE**

**END OF SECOND SEMESTER COMPETENCE BASED EXAMINATIONS**

**MAY/JUNE 2020**

**LECTURER: I. RARAMI**

**DURATION: 48 Hours**

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***INSTRUCTIONS***

Answer **ONE** question

The marks allocated to each question are shown at the end of the question

Show all your workings where it is required

Credit will be given for presentations that are neat, logical and grammatically well constructed.

## **QUESTION ONE [25 MARKS]**

AU Limited operates a leading educational institution in Zimbabwe and a training and advisory consultancy. AU offers a variety of courses. You are the junior accountant at AU and are responsible for the accounting function wherein you prepare the financial reports. Your job also involves preparation various tax returns.

### **NOTES**

1. AU is recruiting a key staff member for the Administration of its finance and is discussing with the candidate a suitable remuneration package.

a). Motoring benefits

i). AU could import a passenger motor vehicle and assign it to the candidate, who will assume ownership of the vehicle at the end of 3 years for free. The vehicle shall have a cost of \$20 000 and an engine capacity of 3000cc.

ii). AU could assist the candidate with finance to import the passenger motor vehicle for \$20 000, with an engine capacity of 3000cc. The candidate shall then have to repay the loan by serving 3 years for AU. If the candidate decides to terminate employment, they shall pay for the outstanding balance allocated based on the time served.

b). Other allowances

i). AU shall provide a housing allowance of \$300.

ii). AU shall pay for the relocation expenses up to \$1 200 for the candidate to move from Harare to Mutare where the candidate currently resides.

iii). The candidate shall receive cash allowance of \$300 per month for use as the candidate pleases.

iv). AU shall pay for the candidate's ICSAZ subscription for \$600 per annum. AU shall also pay for the candidate's Leo's club, Toastmasters club and Golf club subscription for a total of \$850 per annum.

2. Bad Debts

AU wrote off debts for the following:

i). For students who lost their parents to death and initially thought they could raise the balance on their school fees of \$320 for the year 2015 academic year.

ii). A loan of \$650 was advanced to a former attachee for fee in the final year of an undergraduate degree program on condition that they will repay it or return to AU to serve AU. The attachee migrated to United Kingdom upon completion of the degree and has since been avoiding communication for two years.

iii). A student tuition 2013 debt of \$540 which has been written off in December 2015 was subsequently recovered. The commissioner has granted an allowable deduction at the year end.

**Required:**

Discuss the income tax implication for the year ended 31 December 2019 of the transactions the above NOTES:

i). Note 1. Your discussion should focus on the tax implication:

a. in the hands of the candidate

b. in the hands of AU **(20 marks)**

ii). Note 2. In the hands of AU **(5 marks)**

**QUESTION TWO (25 MARKS)**

This question consists of different independent scenarios. You should respond to each scenario by referencing the applicable legislation and using relevant case law to support your answer.

**Scenario A**

Sosana is employed as a tour operator for Shapie African Tours Limited (SAT Ltd), a Zimbabwean company running tours in South Africa, Zambia and Botswana. Sosana earns a fixed salary of \$1 200. Sosana currently works on a month-on month-off basis for one month she is out of Zimbabwe leading a tour and for one month she is at home in Mutare with her husband and children, and works at her office at SAT Ltd planning her next tour.

Sosana's son Gilbert is studying tax as part of his BAcc honours at Africa University and recently told Sosana about "residency" test. Sosana is now considering discussing with her employer whether she can spend more time outside Zimbabwe each year, in the hope that this will exclude her from the definition of resident and reduce her taxable income.

Required:

You are required to advise Sosana, with reasons, as to whether her plan will exclude her from the definition of resident, and how else she might reduce Zimbabwean income tax on her salary. **(7 marks)**

### **Scenario B**

The Simba Active range of gyms and Crouching Super shoes intent brokering a deal, whereby Simba Active will offer free gym access to all Crouching Super Shoes employees, in return for which Crouching Super will supply free training shoes to Simba Active. The company will inturn provide the shoes to its employees. The two companies believe that this will result in no gross income for either company, sine no money has changed hands, and what has been received is for the benefit of their employees.

A regular gym membership at Simba Active cost \$60, while the retail price of a pair of Crouch Super shoe is \$50.

### **Required**

You are required to advise Simba Active with reasons whether its understanding of gross income is correct, and if not, how ZIMRA will view this transaction. **(9 marks)**

### **Scenario C**

The managing director Mr Raramisai of Raise Machine Manufacturing Ltd (RMM Ltd) a large company comes to you, and asks whether it is advisable to form a consultancy company for the purpose of limiting his personal tax. He earns well in excess of \$1 000 000 per year, and he says that a friend he met at the golf course advised him that he should form a consultancy company to which his salary would be paid without P.A.Y.E being deducted.

You required to advise Mr Raramisai on the tax issues in the above scenario? **(5 marks)**

### **Scenario D**

Mrs Dhibhora is a widow who has been operating a furniture shop on a cash basis in Mutare for many years. Due to the increase in supplier prices, she has now decided to start selling the furniture on credit terms extending over two to three years.

She has now made sales amounting to \$1 000 000 and she estimates her profit to be more than \$500 000. She vaguely remembers that she is taxable on all profit she made in any year. She wants to know whether or not there is tax relief available since she will only receive the bulk of her income in future tax years.

**Required**

Advise her

**4 marks)**

**END OF PAPER**