



AFRICA
UNIVERSITY
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COLLEGE OF BUSINESS, PEACE, LEADERSHIP & GOVERNANCE

MAC 303: INTRODUCTION TO BUSINESS TAXATION (1)

END OF SECOND SEMESTER FINAL EXAMINATIONS

APRIL/MAY 2019

LECTURER: I. RARAMI

DURATION: 3 HRS

INSTRUCTIONS

Answer all questions

Start each question on a new page in your answer booklet.

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

Show all your workings

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

Tax tables are provided at the end of question paper.

Use of a non-programmable calculator is permissible.

QUESTION ONE [22 MARKS]

- a).i. Define taxation **[2 marks]**
- ii. State and explain briefly, the nature of the State's Power to tax. **[2 marks]**
- iii. Explain the concept of withholding tax and give the types of withholding taxes in Zimbabwe? **[3 marks]**
- b) i. What is V.A.T ? **[2 marks]**
- ii. What is the threshold turnover for V.A.T registration purposes for a trader? **[1 mark]**
- iii. What are the four responsibilities of a VAT registered traders in terms of VAT Act chapter 23:12 **[2 marks]**
- iv. When should VAT returns of sales and payment of VAT be submitted to the Commissioner General? **[1 mark]**
- v. State four main characteristics of tax invoice. **[2 marks]**
- v). Outline the formula for calculating value added tax **[2 marks]**
- vi). If the returns of VAT and payment are not submitted on time, what is the implication on the trader? **[1 mark]**
- c) i. Give two instances when an objection to an assessment may be rejected by the Commissioner General **[2 marks]**
- d) State four main requirements to be met before a tax clearance certificate is issued. **[2 marks]**

QUESTION TWO [25 MARKS]

Tricious Carol is the operations director of Sharmah (Pvt) Ltd (Sharmah), a company which manufactures plastic products. Tricious Carol started working for Sharmah when she was only 24 years of age, some 30 years ago and she has risen through the ranks to her current position. You were provided with the following information in respect of Tricious Carol's employment income for the year of assessment ended 31 December 2018:

	Notes	\$
Gross Basic Salary	1	30 000
Bonus		1 500
Cash in lieu of leave		2 500
Long service award	2	5 000
Fuel allowance	3	2 400
Education assistance	4	8 000
NSSA contribution	5	(294)
Pension fund contributions	6	(3200)
Retirement annuity Fund (RAF) contribu	7	(1 200)

Notes:

1. During the 2018 tax year Tricious Carol received her full gross salary of \$30 000 as cash, with Sharmah remitting the monthly Pay As You Earn (PAYE) to the tax authorities at the company's cost. The total PAYE remitted during the year amounted to \$4 800.

1. In October 2018 a function was hosted to celebrate Tricious Carol's 40 years of service to Sharmah. During the ceremony Tricious Carol receive a cash amount of \$5 000 as well as a fully paid for holiday package to Cape Town. The holiday package including flights cost Sharmah paid \$3 000.

2. Tricious Carol receives a monthly fuel allowance of \$200 and has use of a company allocated vehicle. From January to May Tricious Carol had use of a Mazda 323 with an engine capacity of 2,000ccs and on 31 May Sharmah sold this vehicle to Tricious Carol for an amount of \$1 500. The market value of the vehicle on 31 May 2018 was \$2 500. From 1 June 2018 onwards Tricious Carol was allocated a

brand new Isuzu KB twin cab with an engine capacity of 3,000ccs.

3. The educational assistance was in respect of Tricious Carol's daughter's schools fees for the year at Hill Crest College.

4. The NSSA contribution was deducted from Tricious Carol's salary and remitted to NSSA. Sharmah also contributed an equivalent amount to NSSA for the benefit of Triciuos Carol.

5. The pension fund contributions are to a registered pension fund.

6. Tricious Carol contributes to a retirement annuity fund with Old Mutual. In September 2018 Tricious Carol decided to cash out from the fund and he received a lump sum of \$45 000 plus a monthly annuity of \$300 commencing 1 October 2018. At the time of exiting the RAF Tricious Carol's pension entitlement was \$90 000.

7. During the 2018 tax year Tricious Carol paid for the following medical expenses:

Hospital bills for Tricious Carol's mother	2 300
Wheel chair for Tricious Carol's 30 year old son who is disabled	600
Medical Aid contributions:	
Tricious Carol	600
Tricious Carol husband	600
Daughter at Hill Crest College	300
30 year old disabled son	<u>300</u>
	<u>4 700</u>

Required:

Compute Tricious Carol's tax liability for the year ended 31 December 2018. **[25 marks]**

QUESTION THREE [14 MARKS]

Mr Hondoyeminda has just been resettled in the rich Odzi farming and mining area. He commenced livestock farming and mining. He submitted the accounts supporting his return of income for the year ended 31 December 2018.

He also returned the following information, in respect of his livestock farming activities, the following purchases were made during the year of assessment:-

Livestock		Cost \$	Fixed Standard Value
Herd			
1	Stud bull	500	_____
1	Stud bull	550	_____
1	Stud bull	4 500	_____
100	Cows	7 700	400
50	Heifers	6 000	350
50	Tollies	5 500	300
100	Oxen	6 000	300
<u>50</u>	<u>Calves</u>	<u>5 000</u>	<u>150</u>
353		35 750	

There were 60 births during the current year, 4 deaths (being 2 tollies and 2 cows) and 80 sales (i.e 30 tollies and 50 oxen) amounting to \$75 000.

Promotions in the various categories were:-

- 10 heifers to cows
- 30 calves to heifers
- 40 tollies to oxen
- 30 calves to tollies

The cost of running the herd was \$32 000 all of which is allowable for tax purposes. The Fixed Standard Values (F.S.V) were accepted by the Commissioner and bulls are valued by reference to the minimum purchase price value of \$200.

Required:

- i). Prepare a livestock reconciliation statement for the year ended 31 December 2018. **[8 marks]**
- ii). Prepare a livestock Trading Account for the year ended 31 December 2018. **[6 marks]**

QUESTION FOUR [9 MARKS]

i) State TRUE or FALSE

a). No benefit accrues to a tax payer where the employee purchases groceries from the employer at cost.

b). Where an employer advances an interest free loan to his employee using money that the employer has borrowed from a financial institution, no benefit arises to the employee.

c). Where a company purchases a passenger motor vehicle for use by the financial manager and the manager uses the car to the extent of 95% for private purposes, the company cannot be granted special initial allowance.

d). Where a provisional notice of assessment is raised in terms of the Income Tax Act, the commissioner can amend it even after the expiry of 6 years from the end of the relevant year of assessment.

e). The commissioner does not entertain any objection which is not delivered at his office or posted to him in sufficient time to reach him on or before the last day appointed for lodging objection. (i.e within 30 days after the date of issue of the notice of assessment).

f). Provision for bad debt for the previous year is added back to the profit, while the provision for bad debts for the current year are deducted.

g). Income from a partnership business is taxed in the hands of the individual partner at 25% and income earned as a salary from the same partnership is taxed using the individual tax tables.

h). A commercial building constructed at a growth point shall qualify for wear and tear only in spite of an election to claim SIA by the tax payer.

i). All donations to charitable organisations are not allowed as deductions in terms of section 15(2)

[9 marks]

QUESTION FIVE [30 MARKS]

You are required to state in one sentence the rules for determining the source of each of the following specific types of income.

- a). Annuities
- b). Author's royalties
- c). Director's fees
- d). Dividends
- e). Interest
- f). Rental from immovable property.
- g). Rental from movable property
- h). Remuneration of employees
- i). Fees for professional services
- j). Share sales

[10 marks]

k.i). What is an Annuity?

[2 marks]

ii). Name two types of annuities

[2 marks]

ii). What are the characteristics of an annuity?

[3 marks]

l). i). What are the major 3 differences between the ordinary (P.A.Y.E) pay as you earn and the (F.D.S) final deduction system.

[3 marks]

ii). Employees under F.D.S are not required to fill tax returns for that income, but there are circumstances where employees are required to fill tax returns. State four of these circumstances.

[2 marks]

c). On the 25th of Mach 2018, Tapis Tapiwa Ltd, estimated that they were going to make a profit of \$300 000 by the end of the year. In September, the finance manager, Macherechere, estimated that that they were going to make a profit of \$350 000 because of a big contract that they recently signed with Muzambi Diamond mine.

i). Calculate the provisional tax that was paid by Tapis Tapiwa Ltd every quarter.

[8 marks]

END OF PAPER

SUMMARY ON TAX CREDITS-2018

	Elderly Person	Blind Person	Medical Expenses/ Contribution	Mentally or physically Disabled Person
Tax Credit-2018	900	900	\$1 for every \$2 paid	900
Apportionment of credit	Yes	No	No	No
Transfer between spouses	No	Yes	No	No
Blind child				Grant credit
T/p not ordinarily resident in Zim during any part of the period of assessment	Grant credit	Grant credit	Grant credit only in respect of medical aid contribution	No credit
Blind taxpayer		Grant credit		
Medical exps for a child who is no longer a minor child			G/credit in respect of invalid fittings/ appliances	

2018 ANNUAL P.A.Y.E TABLE (USD)

1ST JANUARY 2018 TO 31 DECEMBER 2018 (USD)

Band of Taxable Income (USD)		Tax Rate %		Cumulative Band Deduct (USD)
1- 3 600	Multiply By	Nil	Nil	Nil
3 601- 18 001	Multiply By	20%	Less	720
18 001- 36 000	Multiply By	25%	Less	1 620
36 001- 60 000	Multiply By	30%	Less	3 420
60 001-120 000	Multiply By	35%	Less	6 420
120 001-180 000	Multiply By	40%	Less	12 420
180 001-240 000	Multiply By	45%	Less	21 420
240 000 & above	Multiply By	50%	Less	33 420

2018 MONTHLY P.A.Y.E TABLE (USD)

1ST JANUARY 2018 TO 31 DECEMBER 2018 (USD)

Band of Taxable Income (USD)		Tax Rate %	Tax (USD)	Cumulative Band Deduct (USD)
1- 300	Multiply By	Nil	Nil	Nil
301- 1 500	Multiply By	20%	Less	60
1 501- 3 000	Multiply By	25%	Less	135
3 001- 5 000	Multiply By	30%	Less	285
5 001- 10 000	Multiply By	35%	Less	535
10 001- 15 000	Multiply By	40%	Less	1 045
15 001- 20 000	Multiply By	45%	Less	1 785
20 000 & above	Multiply By	50%	Less	2 785

DEEMED MOTORING BENEFITS

Engine Capacity

Value

1500cc or less	US\$ 300 per month
1501cc to 2 000cc	US\$ 400 per month
2001cc to 3 000cc	US\$ 600 per month
Above 3 000cc	US\$ 800 per month