



“Investing in Africa’s future”

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

MAC 402: TAX LAW AND PRACTICE

END OF SECOND SEMESTER FINAL EXAMINATIONS

APRIL/MAY 2019

LECTURER: I. RARAMI

DURATION: 3 HRS

INSTRUCTIONS

Answer all four (4) 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.

Use of a non-programmable calculator is permissible.

MAC 402: TAX LAW AND PRACTICE.

PAGE 1 OF 8

Answer all questions in Answer Books provided

QUESTION ONE [20 MARKS]

Munya Munya is the operations director of Mutasatasa (Pvt) Ltd (Mutasatasa), a company which manufactures plastic products. Munya started working for Mutasatasa when he was only 24 years of age, some 30 years ago and he has risen through the ranks to his current position. You were provided with the following information in respect of Munya'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 Munya received his full gross salary of \$30 000 as cash, with Mutasatasa 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.
2. In October 2018 a function was hosted to celebrate Munya's 40 years of service to Mutasatasa. During the ceremony Munya 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 Mutasatasa paid \$3 000.
3. Munya receives a monthly fuel allowance of \$200 and has use of a company allocated vehicle. From January to May Munya had use of a Mazda 323 with an engine capacity of 2,000ccs and on 31 May Mutasatasa sold this vehicle to Munya for an amount of \$1 500. The market

value of the vehicle on 31 May 2018 was \$2 500. From 1 June 2018 onwards Nyash was allocated a brand new Isuzu KB twin cab with an engine capacity of 3,000ccs.

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

5. The NSSA contribution was deducted from Munya's salary and remitted to NSSA. Mutasatasa also contributed an equivalent amount to NSSA for the benefit of Munya.

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

7. Munya contributes to a retirement annuity fund with Old Mutual. In September 2018 Munya 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 Munya's pension entitlement was \$90 000.

8. During the 2018 tax year Munya paid for the following medical expenses:

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

Required:

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

QUESTION TWO [25 MARKS]

Murambi and Chikanga are in partnership sharing profits equally. Partnership profits per Accounts for the year ended 31 December 2018 is \$150 000 after charging the following expenses.

Depreciation	12 000
Rates	6 000
Rent	1 900
Entertainment	700
Architects Fees	15 000
Purchase of Motor Vehicle	25 000
Accounting Fees	1 250
Electricity	10 000
Murambi's salary	70 000
Motor Vehicle Expenses	10 000
Interest on Capital Accounts: Murambi	7 000
Chikanga	4 000
Life insurance: Murambi is beneficiary	2 500
Joint Life policy	2 000

Further Information:

1. The partnership has a P.O.S. B account on which interest of \$9 000 has been credited to the Account.
2. Special Initial Allowance has always been claimed. The following assets were bought a year ago and their Income Tax Values are:
 - a). Furniture and Fittings \$75 000 (original cost \$100 000)
 - b). Machinery \$ 9 000 (original cost \$ 12 000)S.I.A was claimed the previous year.
3. Murambi uses the car 25% for private purposes.

Required:

- a). Calculate each partner's taxable income. **[19 marks]**
- b). Calculate each partner's tax payable **[6 marks]**

QUESTION THREE [25 MARKS]

Mr Hupfumikuvatema 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.

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

Herd	Cost \$	Fixed Standard Value
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> Calves	<u>5 000</u>	<u>150</u>
<u>353</u>	<u>35 750</u>	

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 2017. **[5 marks]**
- ii). Prepare a livestock Trading Account for the year ended 31 December 2017. **[4 marks]**

B. He also returned the following information, in respect of his Diamond Mining activities.

The balance of Unredeemed Capital Expenditure in the accounts of Hupfumikavatema Diamond Mine comprised of the following:

Mining Buildings	25 000
Shaft Sinking	5 000
Machinery and plant	15 000
Interest (Allowable)	1 200
Salaries and Bonuses	18 000
Staff Housing	30 000
Passenger Motor Vehicle	10 000
Repairs	<u>2 800</u>
	<u>107 000</u>

Sale of diamond ore for the year amounted to \$100 000 and sale of machinery realised \$8 000. The cost of Staff housing is restricted to \$25 000. The following expenses were also incurred.

Extraction cost of minerals	16 000
Wages and Salaries	22 000
Mine Building improvements	8 000
Repairs	5 400
Interest (Allowable)	2 000

Required:

Calculate the taxable income for the mine using

- i). New Mine Basis
- ii). Life of Mine Method
- iii). Mixed Method Basis
- iv). Given that all the above methods of calculating taxable income are which one would you prefer and why? **[16 marks]**

QUESTION FOUR

a). The Capital Gains Tax Act deems certain receipts and accruals to be gross capital amounts. State five such circumstances and how the amount is determined in each circumstance. **[10 marks]**

b). State the income Tax Advantages of:

- i). locating a factory at a Growth Point Area (G.P.A). **[2 marks].**
- ii). Applying for an export processing Zone licence, state four. **[2marks]**

c).i). What does the term Q.P.D stands for in relation to the payment of provisional tax. **[1 marks].**

ii). State the dates when such payments should be made and the percentages. **[2 marks]**

iii). State the dates when payment for V.A.T and P.A.Y.E were made in 2017. **[1 mark]**

d). Dr Kambarami is a Zimbabwean resident who recently emigrated to South Africa for greener pastures. She needs to Clear a few tax issues before she finally settles there. She has, over the years, accumulated different types of incomes from all over the world. She approached you for advice on each of the following amounts. She would like to find out whether the amounts will be taxed in Zimbabwe when she starts residing in South Africa. Advise her and give reasons for your answer on each type of income, supporting your answers with legal precedents where possible.

- i). Royalties from a Zimbabwean Company of \$5000, the royalty is being paid for a medical formula which she produced whilst in Tanzania.
- ii). Interest from Standard Bank of R 10000, a financial institution in South Africa.
- iii). Annual Pension from her former Zimbabwean employer of \$10000.
- iv). She will lease her Mutare residence to a South African International company which has agreed to pay her R5000 monthly with effect from the time she resides in that country.
- v). Dividends \$5000 from Trust Holdings Zimbabwean, a company registered on the Zimbabwe Stock Exchange.

[5 marks]

e). State any four estate planning options. **[2 marks].**

END OF PAPER

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

1ST JANUARY 2018 TO 31 DECEMBER 2018 (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)

1- 300	Multiply By	Nil	Nil	Nil
300- 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		1 035
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