AFRICA UNIVERSITY
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"Investing in Africa's future"

COLLEGE OF BUSINESS PEACE LEADERSHIP GOVERNANCE (CBPLG)

MAC 402: TAX LAW AND PRACTICE

END OF SECOND SEMESTER FINAL EXAMINATIONS

APRIL/MAY 2019

LECTURER: TRUST MAWERE

DURATION: 3 HRS

INSTRUCTIONS

Answer **QUESTION 1and 2** from **Section A (COMPULSORY)**

Answer any **TWO** questions from **Section B**

All questions carry equal marks (20).

DO NOT repeat material.

Write legibly.

SECTION A

Question 1

(a) Mr. K Sibanda commenced livestock farming in February 2017 and immediately made the following purchases:

Animals	Cost($)	FSV
1 Stud Bull	$1,255	
1 Stud Bull	$1,850	
1 Stud Bull	$1,500	
110 Cows	$21,000	$150
100 Oxen	$16,600	$150
50 Heifers	$16,000	$150
60 Tollies	$15,400	$140
70 Calves	$12,100	$100
393		

During the year ended 31st December 2017 there were

- 60 births,
- 4 deaths(2 cows & 2 tollies) and
- 80 sales for $260,000 (30 tollies & 50 oxen).

There was a serious drought which forced the sale and death of the head mentioned the whole area was declared a drought stricken area by the Minister.

Promotions in categories were:
a) 10 Heifers to cows
b) 30 Tollies to oxen
c) 30 Calves to heifers
d) 30 Calves to Tollies
The cost of running the herd for the year was $13,500.

Following early rains in November Mr Ngulube replenished his head with 20 cows and 20 heifers at a cost of $180,000

There were no births in November and Dec.
The assessed carrying capacity of the land is 450 head
Mr Ngulube made all elections in terms of the 7th schedule of the Income Tax Act

Prepare a Livestock Reconciliation then Tax computations for the year ended 31 December 2017 on the basis of Fixed Standard Values, except for bulls which are to be valued by reference to the minimum "Purchase Price Value" as requested by the taxpayer

(35marks)

1(b) List 5 allowable deductions applicable to farmers in terms of the 2nd paragraph of the 7th schedule. (5 marks)

<u>Question 2</u>

Kwamawere P/L a property developer sold a property. In this case ownership, of property passes upon payment of the full of the purchase price.
In a Suspensive sale arrangement he would receive instalments on
$450,000 payable as follows:

- $50,000 in year 2015
- $200,000 in year 2016 and
- $200,000 in 2017

Suppose the taxpayer incurred the following expenses in the year of sale
$100,000 in the year of sale**.**

Calculate the respective tax payable for each of the 3 years (20 marks)

SECTION B

<u>Question 3</u>

5) Tax Avoidance, Tax Eversion and Tax Planning are three terms that are generally mixed up, explain giving practical examples the distinction between the three.
(20 marks).

<u>Question 4</u>

Maxmill (Pvt) Ltd incurred the following expenditure during the tax year ended 31st December 2017 while establishing a 'new mine'.

• Buildings	$300,000
• Equipment	$400,000

- Shaft sinking $ 200,000
- Interest on loans for mining operations $410,000
- Premium paid for use of machinery $250,000
- Administration and management $450,000
- Development expenditure $300,000

During the tax year ended 31st December 2018 the company transacted business as follows:

- Net profit after allowable expenses $1,500,000

Current Capital expenditure incurred was;

- Construction of Railway Lines $150,000
- Sinking of boreholes $50,000
- Passenger motor vehicle $455,000
- 3 trucks purchased @ $60,000 each $180,000
- A clinic was constructed at a cost of $990,000
- Staff housing for a nurse at the clinic was $295,000

The Life of the mine is estimated as 10 years from the end of the year of assessment. The mine is established.

*Compute the taxable income for the company using the new mine methods. (**20 marks)***

<u>Question 5</u>

After a memorable wedding, in December 2010. Mr. Choga bought a house in Hatfield, Harare, in March 2011 at a cost of $70,000. Subsequently he made the following additions to the house:

- Domestic Quarters (May 2011) $20,000
- Electrified Durawall (June 2012) $10,000
- Drive Way (July 2014) $ 5,000

After a witchcraft allegation dispute with his neighbours, Mr Choga sold their house. In December 2016, Mr. Choga sold the house, put the children in a boarding school and

moved into a company house, before expending all the proceeds to purchase another family home in Mandara for $ 250,000 The selling price of the Hatfield house was $155,000. He incurred the following selling expenses in the year of sale:
a) Repainting $2,000
b) Agents commission $6,750

Calculate the capital gains tax due to be paid by Mr. Choga on the above transactions assuming an election had been made in terms of Section 21 of the Capital Gains Act. ***(20***

End of Paper