



COLLEGE OF BUSINESS, PEACE, LEADERSHIP AND GOVERNANCE

NMAC 402: TAX LAW AND PRACTICE

END OF FIRST SEMESTER EXAMINATION

NOVEMBER 2022

LECTURER: DR P KORERA

DURATION: 3 HOURS

INSTRUCTIONS

You are required to answer questions as instructed

Answer **ALL** questions

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

Credit will be awarded for logical, systematic and neat presentations

QUESTION 1 (25 Marks)

- a) Gross income means “The total amount received by or accrued to...A person in any year of assessment from a source within Or deemed to be within Zimbabwe.....”

Using case law to support your answer, explain the meaning of the following phrases:

1. “Total amount” [3]
 2. “Accrued” [3]
 3. “Source and Deemed source” [4]
 4. “Received by” [3]
- b) Explain briefly using case law, how the Commissioner determines the taxability of the following amounts using the source concept:
1. Royalties earned by the author of a book [3]
 2. Dividends of shares in a company [3]
 3. Salary paid by an employer [3]
 4. Rental income of immovable property [3]

QUESTION 2 (25 Marks)

Miss Henrietta Davies was employed as marketing supervisor by Concord Investments (Private limited) in Bulawayo. She is ordinarily resident in Zimbabwe. However, for the tax year ended 31 December 2021, she received the following income and incurred the following expenses before her registration at the end of October 2020.

Income	\$
Salary	19 800
Annual Bonus	1 600
Income from Sale of Private Clothes	6 000
Entertainment Allowance	800
Annuity for services Rendered in Denmark	600
Damages Awarded [note 1]	4 000
Purchased Annuity	16 000
Interest from the Bank	12 000
Profit from Sale of Inheritance	14 000
Medical Shortfalls Incurred	(1 800)
NSSA contributions by Employer	(1 000)
Pension Contributions to Registered Pension Fund	(5 800)
Compensation for Leave not taken	1 300
Employee's Tax Deducted	(4 700)

Additional information provided by employer.

1. During the year, Miss Henrietta Davies went into a dispute with her employer and was dismissed by the company end of September and appealed through the court and was finally awarded damages of \$ 4000 as she won the case against her employer.
2. Miss Henrietta purchased a retirement annuity Fund from First Mutual Life for \$16 000. She will be entitled to receive \$250 per month for the next 8 years.

3. In February, Concorde Investments (Private) limited provided Miss Henrietta with a free use of Isuzu Double Cab with engine capacity 3000 cc for which the cost of importation of the motor vehicle was \$20 000 to the employer.
4. She was staying in her house in Pumula North suburb of Bulawayo where she acquired the house for \$30 000 and the rentals for the similar property were \$600 per month.
5. The employer gave \$2 400 to Miss Henrietta Davies as a token of appreciation for her outstanding achievement in marketing the company products which includes \$400 canteen meals provided by the employer.
6. Miss Henrietta Davies is a custodian of her late sister's son Philip who is disabled and has a wheelchair which costed the employer \$6000 the previous year.
7. Her employer was providing her with groceries of \$160 per month which were purchased from Bulawayo manufacturers during the year.

Required:-

- a) State the due date for payment of PAYE to ZIMRA. [2]
- b) List three benefits from employment income that are exempted from tax for the year. [3]
- c) Calculate tax liability from employment income for Miss Henrietta Davies for the year ended 31 December 2021. [20]

QUESTION 3 (25 Marks)

The profit and loss account of KND [Private] Limited, a retail and investment company, for the current year is as follows;

	\$
Gross profit	1 560 000
Profit on sale motor vehicle	5000
Interest from Standard Chartered Bank	11 000
Interest from OND [Private] Limited	21 000
Zimbabwe Company dividends	3 250
Less; Expenses	
Depreciation	180 000
General expenses	36 800
Rent	60 000
Bad debts	9 700
Donations	2 900
Advertising	14 600
Interest paid	6 000
Salaries and wages	340 000
Provision of director's fees	200 000
Motor vehicle and travelling expenses	450 000

Telephone, electricity and stationary	240 000
Trading profit	60 250

You are provided with the following additional information

- Included in profit on sale of shares - the company, which deals in shares, bought and sold the shares in question within two month, is included in Gross Profit.
- Interest received [\$21 000] interest on a loan the company advance to OND [Private] Limited.
- Include in general expenses of \$36 800 are;
 - \$3 500 finances charges on purchases of furniture
 - \$6 000 life assurances premiums on the life of Managing Director. The policy is ceded to the company.
 - \$9 000 to Wako Enterprises [Private] Limited under an agreement whereby only goods supplied by KND [Private] Limited are to be sold by Wako Enterprises [Private] Limited.
 - \$500 fine imposed by ZIMRA; one of the company's employees used the wrong tariff code when filling out a bill of entry for the importation of trading stock.
 - \$980 being the balance of the company formation costs written off.
 - \$220 pilferage of cash by an ex-employee.
 - \$900 valuation fees for fire insurance.
- Include in rent of \$60 000 is;
 - \$10 000 being a premium paid for the right of use of trading store fifteen years.
 - \$2 000 rent for an empty shop.
- During the year a motor vehicle was disposed for \$7000, it was purchased two years ago for \$16 000, maximum capital allowances has been applied to the asset. The motor vehicle in question is not included in in the asset register in note 6.
- The following is an extract from the company's asset register as at 1 January 2021:

Asset	Cost \$	Date Acquired	ITV \$ 1/01/21
Delivery truck	17 000	June 2020	8 500
Computer Equipment	14 000	Jan 2019	2 800
Mercedes Benz	15 000	Oct 2018	2 500
Shop Building	40 000	Jan 2018	37 000

- Donations of \$152 900 is made up as follows:
 - \$102 000 to Harare Hospital for the purchase of drugs
 - \$50 900 to Destitute homeless persons.

Required

Calculate the tax liability of KND (Pvt) Ltd for the year ended 31 December 2021

[25]

QUESTION 4 (25 Marks)

Ray and Royne are trading in partnership for the past four years sharing profits in the ratio 1:1 respectively. Their business has been manufacturing of building materials. For the year ended 31 December 2021, the partnership's accounts reflected a net loss of \$480 000 after charging the following.

	\$
Depreciation of assets	40 000
Medical aid contributions: employees	10 000
Ray	1 200
Royne	1 000
Electricity and water	8 000
Pension contributions employees	16 000
Ray	6 200
Royne	4 800
Motor vehicle expenses (note 1)	12 000
Insurance	3 000
Donations (note 2)	
Vat	30 000
Computer equipment	6 000
Mercedes benz (import)	18 000
Interest (note 3)	1 500
Interest on capital : Ray	1 400
Royne	1 300
Salaries and wages : employees	60 000
Ray	9 000
Royne	9 000
Selling and marketing	13 000

The following information is provided

1. Royne uses the partnership motor vehicle and it was discovered by ZIMRA that 60% of vehicle expenses were for his private personal business.
2. During the year, the partnership gave Ray building materials amounting to \$8 000 and \$10 000 was given to Chinyaradzo Children's home a registered charitable organisation.
3. Included in interest of \$1 500 is \$600 interest on loan used to purchase raw materials by the partnership.

Required:-

Calculate the taxable income for the partners for the year ended 31 December 2021. [25]

END OF EXAMINATION PAPER