

**COLLEGE OF
AND GOVERNANCE**
NMAC 310: TAXATION,



BUSINESS, PEACE, LEADERSHIP

TAX LAW & PRACTICE

END OF FIRST SEMESTER EXAMINATION

NOVEMBER 2022

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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)

Mr T. Moyo, a Zimbabwean resident always, aged 45 years, based on his excellent work performance, he was offered the position of financial director of Superstar (Pvt) Ltd (Superstar) a company listed on the Zimbabwe Stock Exchange. He took up his new position on 1 January 2021. The financial year end of Superstar is 31 December.

Superstar offered Moyo the following remuneration package.

- i) A salary of ZWL \$550,000 per month.
- ii) Continued membership of the group's pension fund which is a defined contribution scheme. Moyo is obliged to make monthly contributions equal to 6% of his gross salary. Superstar will contribute 9% of his basic salary.
- iii) An interest free loan equivalent to his annual basic salary. Moyo received the loan at commencement of employment and the loan is repayable on 31 December 2022. Due to Moyo's excellent work performance in the 2021 tax year the repayment of 50% of the loan advanced was waived on 15 December 2021.
- iv) An entertainment allowance of ZWL\$20,000 per month of which Moyo proved to the company that he always expended 40% of the allowance entertaining the company's clients.
- v) Superstar will cover the cost of 100% of medical aid fund contributions which amounted to ZWL\$300,400 during the 2021 tax year.

On leaving his previous employment, to take up the employment with Superstar, Moyo received the following exit package from Tedco (Pvt) Ltd (Tedco), the previous employer, in February 2021.

- i) He received an Isuzu Twin Cab which he used while he was the finance director.

of Tedco and paid ZWL \$150,000 for the motor vehicle; however, the vehicle had a market value of ZWL \$250,000 as at that date.

- ii) He was also paid the following amounts:

| | ZWL\$ |
|-----------------------|------------------|
| Cash in lieu of leave | 800 000 |
| Gratuity | 1 000 000 |
| Total | 1 800 000 |

During the 2021 tax year, Moyo incurred the following expenditures which he paid for himself:

Moyo was admitted to the Institute of Chartered Accountants of Zimbabwe (ICAZ) in February 2021 and he paid the following amounts in respect of his membership:

| | |
|---|---------------|
| Membership joining fee | ZWL\$60 000 |
| Annual subscription fee (effective from 1 Jan 2021) | 35 000 |
| Total | 95 000 |

NB: Superstar deducted PAYE amounting to ZWL\$650 000 during the 2021 tax year which the company remitted to the Zimbabwe Revenue Authority.

Required

Calculate Moyo's taxable income from employment and the tax payable for the tax year ended on 31 December 2021. For amounts which are not taxable and not deductible provide a brief explanation. (Assume Libor of 5% and that the attached tax tables refer to the January 2021 to December 2021 tax period) **(25 marks)**

Question 2: (25 marks)

Zimtoy (Pvt) Ltd (Zimtoy) is a Zimbabwe incorporated company whose main business is the manufacture of children's playground equipment. You are presented with the following unadjusted results from its trading activities for the 2021 tax year.

| | ZWL\$ |
|---|--------------|
| a) Gross profit from sales | 62 000 000 |
| b) Salaries and wages | 2 000 000 |
| c) Dividend received | 850 000 |
| d) Interest on loan borrowed to finance trading stock | 90 000 |
| e) Insurance-Motor vehicle | 600 000 |
| f) Purchase of machinery | 800 000 |
| g) Purchase of Lorry | 9 000 000 |
| h) Purchase of Mazda 323 | 160 000 |
| i) Bad debts | 150 000 |
| j) Christmas party expenses | 1 500 000 |

Additional information:

- i) The company paid retrenchment packages to two employees of ZWL\$1 200 000.
- ii) The company has been sued for breach of contract and has set aside ZWL\$3 000 000 as provision for damages.
- iii) The Company has elected for SIA in respect of motor van and machinery.
- iv) During the year 2021 the company recovered ZWL\$800 000 from bad debts previously written off
- v) Provision for bad debts for 2021 was ZWL\$ 500 000

Required:

- a) Calculate the taxable income and tax payable by Zimtoy for year 2021 **(17 marks)**
- b) Explain your tax treatment of each of the following:
 - i) Bad debts **(2 marks)**
 - ii) Dividends **(2 marks)**
 - iii) Christmas party expenses **(2 marks)**
 - iv) Provision for bad debts. **(2 marks)**

Question 3:

- a) Mr. Shumba died on 31 March 2021. His will states that:
 - A farm in Banket to his son together with ZWL\$10 000 000 cash.
 - A block of flats to his daughter plus ZWL \$5 000 000 cash.
 - The remainder of the estate left to the deceased's brother.
 - The executor's Final Liquidation and Distribution account was confirmed by the Master of High Court on 30 November 2021.

Required

Giving brief reasons, you are required to advise on what amounts and operations may result in taxable income accruing to Mr Shumba's

- i. son **(4 marks)**
 - ii. daughter **(4 marks)**
 - iii. brother **(4 marks)**
 - iv. his estate **(4marks)**
- b) Mr X borrowed ZWL\$ 1 000 000 from his employer on 1st of April 2021 at no interest. Assuming the LIBOR rate is 7%,

- i. Calculate Mr X's taxable income from this transaction. **(3marks)**
- ii. Calculate Mr X's taxable income if Mr X is asked to pay 6% by his employer. **(3 marks)**
- iii. What if he had been asked to pay an interest rate of 14% by the employer. **(3 marks)**

Question 5: (25 marks)

- a) Calculate tax payable for a company with taxable income of \$1 000 000 which had paid its QPDs for year 2021 based on a budgeted Profit of \$800 000. **(4 marks)**
- b) Using examples, differentiate capital and revenue expenses **(4 marks)**
- c) "Tax exemptions are based on type of taxpayer and those based on nature of income". Using examples, explain these two bases for tax exemptions. **(4 marks)**
- d) Sales tax was replaced by Value Added Tax (VAT) in Zimbabwe. Outline some of the advantages and disadvantages of VAT. **(6 marks)**
- e) State any two (2) examples of prohibited deductions and two (2) examples of allowable deductions under company taxation. **(2 marks)**
- f) Explain the following terms: **(5 marks)**
 - i) presumptive tax
 - ii) indirect taxation
 - iii) passage benefit
 - iv) ascertained beneficiary
 - v) beneficiary with a contingent right

| MONTHLY TABLE | | | | | | | | Example | |
|---------------|------------|-----------|--------------|-------------|-----|--------|-----------|----------------------------------|--|
| Rates | | | | | | | | If an employee earns | |
| from | - | to | 10,000.00 | multiply by | 0% | | - | \$18 200 per month | |
| from | 10,000.01 | to | 30,000.00 | multiply by | 20% | Deduct | 2,000.00 | The tax will be calculated thus: | |
| from | 30,000.01 | to | 60,000.00 | multiply by | 25% | Deduct | 3,500.00 | | |
| from | 60,000.01 | to | 120,000.00 | multiply by | 30% | Deduct | 6,500.00 | \$18 200 x 20% - \$2,000.00 = | |
| from | 120,000.01 | to | 250,000.00 | multiply by | 35% | Deduct | 12,500.00 | \$1,640.00 per month | |
| from | 250,000.01 | and above | | multiply by | 40% | Deduct | 25,000.00 | | |
| ANNUAL TABLE | | | | | | | | Example | |
| Rates | | | | | | | | If an employee earns | |
| from | 0 | to | 120,000.00 | multiply by | 0% | Deduct | - | \$5000 000 per year | |
| from | 120,001 | to | 360,000.00 | multiply by | 20% | Deduct | 24,000 | The tax will be calculated thus: | |
| from | 360,001 | to | 720,000.00 | multiply by | 25% | Deduct | 42,000 | | |
| from | 720,001 | to | 1,440,000.00 | multiply by | 30% | Deduct | 78,000 | \$5000 000 x 40%-\$300 000.00 | |
| from | 1,440,001 | to | 3,000,000.00 | multiply by | 35% | Deduct | 150,000 | \$1,700,000.00 per annum | |
| from | 3,000,001 | and above | | multiply by | 40% | Deduct | 300,000 | | |

Aids Levy is 3% of the Individuals' Tax payable

END OF EXAMINATION PAPER