



**AFRICA
UNIVERSITY®**
A United Methodist-Related Institution

“Investing in Africa’s future”

COLLEGE OF BUSINESS, PEACE, LEADERSHIP & GOVERNANCE

MAC 303: INTRODUCTION TO BUSINESS TAXATION

END OF SECOND SEMESTER FINAL EXAMINATIONS

NOVEMBER/DECEMBER 2019

LECTURER: I. RARAMI

DURATION: 3 HRS

INSTRUCTIONS

Answer **ALL** questions in Section A and Section B

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.

SECTION A: [40 MARKS]

1. During the year ended 31 December 2018, Ron contributed a total of US\$5 000 to a medical aid society in Zimbabwe and his employer reimbursed him US\$2 000 of this amount. In addition, during the year, he incurred US\$6 000 of costs in respect of his son who was hospitalised. US\$4 800 of these costs were paid by the medical aid society.

Ron is not ordinarily resident in Zimbabwe.

What is the amount of Ron's total tax credit for 2018 in respect of medical expenses?

- A US\$5 500 B US\$1 500 C US\$2 100 D US\$4 200

2. Mr Jones is an accountant with a local company. During the year ended 31 December 2018 he earned the following amounts:

Dividends from South Africa	\$1000
Salary (earned during his Botswana posting for 4 months)	\$1500
Zimbabwe salary	\$2000
Bonus (not received by year end)	\$600

What is his total taxable income for the year ended 31 December 2018?

- A \$2 600 B \$5 100 C \$3 600 D \$4 100

3. Mr John received a loan of \$5000 from his employer on 1 March 2018. He used 40% of the amount to purchase drugs for medicating his son, the other amount he used to purchase building materials for his house. He was also given a car on the same date, engine capacity 3300cc.

What is the total taxable benefit to Mr John? Libor is 1.5%.

- A \$8 195 B \$9 795 C \$11 000 D \$8 162.5

4. Mapuranga was retrenched during the year ending 31 December 2018. He received the following amounts:

Severance pay	\$15 000
Long service award	\$4 000
Pension lump sum	\$10 000

Cash in lieu of leave \$1 200

What is Mapuranga's taxable amount of his retrenchment pay.

A \$9000 B \$12667 C \$20200 D \$19000

5. Which of the following is NOT taxable to employees:

- i. Passage benefit to the extent used for private purposes
- ii. Entertainment allowance paid to an employee which is expended on company guests
- iii. Motor vehicle disposed to an employee at below the market value
- iv. Retrenchment pay below \$10 000.

A (i) and (ii) B (ii) only C (iv) only D (ii) and (iv)

6. The following statements are with regard to Pay As You Earn (PAYE) and Final Deduction System (FDS)

- i. The advantage of FDS over PAYE is refunds are done promptly
- ii. Under FDS, credits and deductions are claimed during the year and need not wait for assessment
- iii. Under PAYE the obligation of assessment rests with the employer.

Which of the above statement/s is are not true?

A (i) only B (iii) only C (i) and (ii) only D None

7. Nursery (Private) Ltd commenced business operations on 1 July 2018 and employs five full-time employees. The monthly payroll is as follows:

US\$

Employee 1 (aged 67)	1 000
Employee 2 (aged 72)	850
Employee 3	750
Employee 4	600
Employee 5	<u>500</u>
Gross	<u>3 700</u>

What is the total amount of National Social Security Authority (NSSA) contributions payable by Nursery (Private) Ltd for the year ended 31 December 2018?

- A US\$777 B US\$1 554 C US\$672 D US\$378

8. Peter is employed and earns a gross monthly salary of US\$6 000 during the year ended 31 December 2018. He contributed 5% of his monthly salary towards a registered retirement annuity fund. On 1 June 2018, Peter became a member of a pension fund into which he contributed 7.5% of his monthly salary in addition to his payments to the registered retirement annuity fund. This pension fund had not yet registered with the Commissioner of Insurance, Pension and Provident Funds as at 31 December 2018.

What is the amount of Peter's allowable deductions in respect of his contributions to the pension funds for the year ended 31 December 2018?

- A US \$5 400 B US \$3 600 C US \$2 700 D US \$6 750

9. Miss Mega resigned from her employment with Peach & tree (Pvt) Ltd and received a lump sum refund of \$24 000. She had been working for her employer for the past 10 years. During her time with Peach & Tree a total of \$4 200 of her contribution was disallowed as deduction. She transferred \$10 000 to Old Mutual Retirement Annuity Fund.

What is her taxable income?

- A \$9800 B \$8000 C \$19800 D \$14000

10. Which of the following is not a characteristic of an industrial building?

- i. Building which was created on or after 1st of April 1975
- ii. Building containing or used for the of operating machinery
- iii. A warehouse used for storage of raw materials which are to be used for manufacture of other goods.
- iv. Staff welfare building.

- A (i) and (ii) B (iii) only C (i) only D (iii) and (iv)

11. Jac & Co. purchased a Toyota corolla for its Accountant for \$22 000 in 2017. The car was sold in July 2018 for \$15 000 assuming the car qualified for SIA.

What is the recoupment?

- A \$4000 B \$1818 C \$1800 D \$818

12. A & B Co. had the following assets in its asset register on 1 January 2018.

	Cost	Date purchased	ITV
Motor vehicle	50 000	Jan 2017	40 000
Manufa Building	130 000	Mar 2017	65 000
Shop building	170 000	Jan 2018	N/A

What is total capital allowance chargeable?

- A 44 750 B 23 000 C 87 500 D 83 000

13. The following are some of the characteristics of Special Initial Allowance

- SIA applies to half of the purchase cost of a fiscalised electronic register.
- SIA structure for SMEs is 50% in the first year and then 25% for each of the next two years.
- Is granted on purchased immovable property
- Is not granted to an asset used for less than 90% for the purpose of trade.

Which of the above statement/s is are true?

- A (i) and (ii) only B (i), (ii) and (iii) only
C (ii) and (iii) only D (i), (ii) and (iv) only

14. ABC Ltd incurred the following expenses in connection with its employees.

Christmas Party \$18 000

Attendance at a trade mission by Operations director \$5 000

Subscriptions to professional institutes for senior management \$2 300

What are the total deductible expenses for ABC Ltd?

A \$25 300 B \$4 800 C \$22 800 D \$7 300

15. Matimba (Pvt) Ltd had the following estimated taxable income for the three quarters of 2018.

What is provisional tax payable in respect of those three quarters?

Quarter	Taxable income \$
Q1	36 000
Q2	80 000
Q3	105 000

A \$55 250 B \$56 908 C \$13 775 D \$14 188

16. Which of the following is not gross income to a farmer?

- A Livestock rationed
- B Opening stock of livestock
- C Donated livestock
- D Stock attached by order of court.

17. Tino is in the process of finalising her value added tax (VAT) return for the month of August 2018. Her VAT payable for the month is US\$6 300 before taking into account the following VAT inclusive adjustments:

	US\$
Sales value of goods applied to own use	2 200
Recovery of impaired debts	3 000
Purchases returns	1 200

What is the adjusted VAT payable by Tino for the month of August 2018?

A US\$7 135 B US\$12 700 C US\$7 260 D US\$6 534

18. Mary registered for value added tax (VAT) under category A on commencement of business operations on 1 January 2018. Mary's VAT inclusive sales and purchases for her first quarter are as follows:

Sales:		Purchases:	
Month	US\$	Month	US\$
January	6 000	January	2 000
February	10 000	February	4 000
March	15 000	March	7 000

What is the net amount of value added tax (VAT) payable by Mary for the tax period which includes the results from March 2018?

A US\$2 100 B US\$2 700 C US\$1 826 D US\$2 347

19. Jack Ltd is a category B operator. The following are his sales (all VAT exclusive)

November 2017	23 000
December 2017	20 000
January 2018	35 000
February 2018	28 000

What is the amount that Jack Ltd should declare as output tax in its first VAT return for 2018 tax year?

A \$9 450 B \$8 250 C \$5 250 D \$15 900

20. Mudzi (Pvt) Ltd purchased goods from registered and un-registered VAT suppliers. The following are the purchases made in the month of March 2018.

Name of supplier	VAT number	Value of purchases \$
ABC (Pvt) Ltd	20641Y	10 350
Mangoro Pesticides Ltd	N/A	16 100
TN Wholesalers	30126N	41 400
Lobels bread	14672A	13 800

What is the amount for VAT input tax amount in respect of purchased made in March?

A \$9 832.5 B \$8 550 C \$10 650 D \$12 247.5

SECTION B: [60 MARKS]

QUESTION ONE [20 MARKS]

Chipo Rugare is the operations director of Shingashinga (Pvt) Ltd (Shinga), a company which manufactures plastic products. Chipo Rugare started working for Shinga 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 Chipo Rugare'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 Chipu Rugare received her full gross salary of \$30 000 as cash, with Shinga 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 Chipu Rugare's 40 years of service to Shinga. During the ceremony Chipu Rugare 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 Shinga paid \$3 000.

3. Chipu Rugare receives a monthly fuel allowance of \$200 and has use of a company allocated vehicle. From January to May Chipu Rugare had use of a Mazda 323 with an engine capacity of 2,000ccs and on 31 May Shinga sold this vehicle to Chipu Rugare for an amount of \$1 500. The market value of the vehicle on 31 May 2018 was \$2 500. From 1 June 2018 onwards Chipu Rugare was allocated a brand new Isuzu KB twin cab with an engine capacity of 3,000ccs.

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

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

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

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

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

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

Required:

Compute Chipo Rugare's tax liability for the year ended 31 December 2018. **[20 marks]**

QUESTION TWO [20 MARKS]

Mr Machangisi 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>
<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:

- a). Prepare a livestock reconciliation statement for the year ended 31 December 2018. **[8 marks]**
- b). Prepare a livestock Trading Account for the year ended 31 December 2018. **[6 marks]**
- c) Using the relevant sections of the ITA, explain the treatment and valuation of the following:
 - i. Inherited livestock
 - ii. Donated livestock
 - iii. Livestock consumed by the farmer **[6 marks]**

QUESTION THREE [20 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)

j). The cost of the fiscal machine is claimed 50% at the end of the year.
[10 marks]

ii). 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]

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