



*"Investing in Africa's Future"*

## **FACULTY OF MANAGEMENT AND ADMINISTRATION**

**MAC 303 INTRODUCTION TO BUSINESS TAXATION**

**END OF FIRST SEMESTER EXAMINATIONS**

**NOVEMBER/DECEMBER 2016 (2)**

**LECTURER: I. RARAMI**

**DURATION: (3HRS)**

---

### *INSTRUCTIONS*

Answer all 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.

**Tax tables are provided at the end of question paper.**

### QUESTION ONE [25 MARKS]

Madhende (Pvt) Ltd 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 2015 tax year.

Gross profit from sales	620 000
Salaries and wages	20 000
Dividend received	8 500
Interest on loan borrowed to finance trading stock	900
Insurance- Motor vehicle	6 000
Purchase of machinery	8 000
Purchase of motor vehicle	90 000
Bad debts	1 500
Christmas party expenses	15 000

#### Additional Information

1. The company paid retrenchment package to two employees of \$12 000.
2. The company has been sued for breach of contract and has set aside \$30 000 as provision for damages.
3. The company has elected for S.I.A in respect of motor van and machinery.
4. During the year 2015 the company recovered \$6 000 from bad debts previously written off.
5. Provision for bad debts-

2014	\$2 000
2015	\$1 500

#### Required

- a). To calculate the taxable income and the tax payable by Madhende and for the year 2015. **[15 marks]**
- b). Explain your tax treatment of each of the following:
  - i). Bad debts
  - ii). Interest
  - iii). Dividend
  - iv). Christmas party expenses
  - v). provision for bad debts**[2 marks each]**

## QUESTION TWO [25 MARKS]

- a. Explain the concept of provisional tax according to finance Act chapter 23:01 [5 marks]
- b). Bond Note (Pvt) Ltd projected gross income of \$60 000 during the year ended 31 December 2015. The total projected expenses are \$26 000 including depreciation of \$4 000.
- i). Calculate the estimated tax liability for Bond Note Ltd. [6 marks]
- ii). Calculate payments which were made according to quarterly payments dates (QPDs) and indicate the dates. [8 marks]
- c). Explain the concept of withholding tax and give the examples of withholding taxes in Zimbabwe. [6 marks]

## QUESTION THREE [25 MARKS]

- a).i. Define taxation [2 marks]
- ii. State and explain briefly, the nature of the State's Power to tax. [2 marks]
- b) i. What is V.A.T? [2 marks]
- ii. Explain the concept of input tax and output tax on VAT. [6 marks]
- iii. What is the threshold turnover for V.A.T registration purposes for a trader? [1 mark]
- iv. What are the four responsibilities of a VAT registered traders in terms of VAT Act chapter 23:12 [2 marks]
- v. What are the requirements for a tax invoice for a valid claim of input tax on VAT, state four. [2 marks]
- c) i. Give two instances when an objection to an assessment may be rejected by the Commissioner General [2 marks]
- d) State four main requirements to be met before a tax clearance certificate is issued. [2 marks]
- e.i).What is an Annuity? [1 marks]
- ii). What are the characteristics of an annuity? [3 marks]

#### QUESTION FOUR [25 MARKS]

Mr Simbamukaka 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 2015.

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

Livestock

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
50 Calves	5 000	150
<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 2015. [10 marks]
- ii). Prepare a livestock Trading Account for the year ended 31 December 2015. [6 marks]
- iii). State the six expenditure the farmer is allowed to deduct according to the 7<sup>th</sup> Schedule allowances. [6 marks]
- iv). State what the Revenue Authority look at when assessing the farmer to establish whether farming is done for profit making or hobby. [3 marks]

### SUMMARY ON TAX CREDITS-2015

	<b>Elderly Person</b>	<b>Blind Person</b>	<b>Medical Expenses/ Contribution</b>	<b>Mentally or physically Disabled Person</b>
Tax Credit-2012	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	

### 2015 ANNUAL P.A.Y.E TABLE (USD)

#### 1<sup>ST</sup> JANUARY 201 TO 31 DECEMBER 2015 (USD)

<b>Band of Taxable Income (USD)</b>		<b>Tax Rate %</b>		<b>Cumulative Band Deduct (USD)</b>
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

**2014 MONTHLY P.A.Y.E TABLE (USD)**  
**1ST JANUARY 2014 TO 31 DECEMBER 2014 (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