



"Investing in Africa's Future"

FACULTY OF MANAGEMENT AND ADMINISTRATION

MAC 402 TAX LAW AND PRACTICE

END OF FIRST SEMESTER EXAMINATIONS

NOVEMBER/DECEMBER 2016 (1)

LECTURER: I. RARAMI

DURATION: (3 HRS)

PARALLEL

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]

Kugutakushanda (Pvt) Ltd was engaged in farming operations in the Odzi Area. The company's trading and profit and loss account for the year ended 31 December 2015 was as follows:

Opening Inventory	\$	Sales (Normal)	\$
2 bulls (at cost)	36000	150 oxen at	900000
300 oxen at \$5000 each	1500000	50 cows at	225000 1125000
100 cows at \$4000 each	400000	Epidemic Sales	
60 heifers at \$3000 each	180000	100 oxen at	700000
70 tollies at \$3000 each	210000	50 cows at	275000
50 calves at \$2000 each	100000	80 tollies &	
	2426000	heifers	328000 1303000
300 Purchases	750000	Closing Inventory	
Profit	1322000	2 bulls (at cost)	36000
		336 oxen at \$5000	1680000
		38 cows at \$4000	152000
		50 heifers & tollies	150000
		26 calves at \$2000	52000
<u>882</u>	<u>4498000</u>	<u>882</u>	<u>4498000</u>

Profit and Loss Account

Wages -herdman	206400	Livestock profit	1322000
Interest on loan	45500	Sales of manure	32000
Loan raising fess	2500		
Depreciation	64000		
Livestock feed	118350		
Repairs	84250		
Net profit	833400		
	<u>1354400</u>		<u>1354400</u>

In late January 2015, the Odzi Area was hit by an anthrax epidemic. This forced the company to sell 230 herd of cattle in February 2015. The concerted efforts by the Veterinary Services Department to contain the disease, the epidemic was controlled. The company sold and additional 200 herd in June. In October 2015, the company decided to restock the farm just before the rains and so bought 300 herd of cattle.

The carrying capacity of the farm was determined to be 375 herd by the Department of Conservation and Extension Services.

Calculate the company's minimum taxable income or loss and the tax payable, if any, considering all available tax concessions to the company.

NOTES

1. There were no income tax values on the company's old assets. However, the company bought additional grazing land from an adjacent farm, in November 2015.
2. The following were bought/constructed before the cattle could be moved in December 2015.

a). Fencing around the grazing land	\$55000
b). Additional water points and boreholes sunk	\$78000
c). Farm roads	\$80000

Interest and fees on loan represents the loan raising fees and interest on the loan of \$500000 borrowed to buy the additional land.

[25 marks]

QUESTION TWO [25 MARKS]

Passmore (Pvt) Ltd is a company incorporated in Zimbabwe. The company is in the business of manufacturing children toys. For the ended 31 December 2015, it submits the following incomplete financial information.

Receipts

1. Gross profit	2 500 000
2. Bad debts recovered	5 000
3. P.O.S.B interest	1 000
4. C.B.Z Bank interest	3 000
5. Withholding tax	(900)
6. Realised exchange gains on payment of trade debtors	25 000

Payments

1. Salaries and wages	88 000
2. Export market development expenditure	30 000
3. Retrenchment package	30 000
4. Donations to approved charitable organisation	1 000
5. Donation to the 21 st February Movement	600
6. School fees for the director's children	4 000
7. Repairs to office furniture	5 000
8. Legal expenses in relation to sale agreements	6 000

Notes

- a. The company lost \$10 000 through theft by the director and \$5 000 through theft by the cashier.
- b. Workers who worked through lunchtime were supplied with lunch worth \$10 000.
- c. \$10 000 was paid to an ex-employee to induce him not to engage in a similar business for the next three years.

d. Passmore (Pvt) Ltd in March had estimated that the company is going to make a profit of \$2 600 000 by the end of the year. In December they re-estimated their profit for the year to \$2 300 000 and they have been paying their provisional tax.

Required

a). To calculate the company taxable payable/refundable after taking into account provisional tax paid. **[20 marks]**

b). Comment on the tax treatment for bad debts, exchange rate profit, school fees, embezzled amounts and lunch. **[5 marks]**

QUESTION THREE [17 MARKS]

Taruza Chiadzwa returned the following information, in respect of his Diamond Mining activities.

The balance of Unredeemed Capital Expenditure in the accounts of Taruza Chiadzwa Diamond Mine comprised of the following:

	\$
Mining Buildings	25 000
Shaft Sinking	5 000
Machinery and plant	15 000
Interest (Allowable)	1 000
Salaries and Bonuses	18 000
Staff Housing	30 000
Passenger Motor Vehicle	10 000
Repairs	<u>2 000</u>
	<u>106 000</u>

Sale of diamond ore for the year amounted to \$100 000 and sale of machinery realised \$8 000. The cost of Staff housing is restricted to \$25 000. The following expenses were also incurred.

	\$
Extraction cost of minerals	16 000
Wages and Salaries	22 000
Mine Building improvements	8 000
Repairs	5 400
Interest (Allowable)	2 000

Required:

Calculate the taxable income for the mine using

i). New Mine Basis **[5 marks]**

- ii). Life of Mine Method. [5 marks]
- iii). Mixed Method Basis. [5 marks]
- iv). Given that all the above methods of calculating taxable income are which one would you prefer and why? [2 marks]

QUESTION FOUR [8 MARKS]

- a). The Capital Gains Tax Act deems certain receipts and accruals to be gross capital amounts. State four such circumstances and how the amount is determined in each circumstance. [4 marks]
- b.i). What is "rollover relief"? [1 mark]
- ii). In what circumstances may it be available to the tax payer.? [1 mark]
- iii). Define the term "specified asset" as it is used in the Capital Gains Act (Chapter 23:01) [1 mark]
- c). State any two estate planning options. [1 mark]

QUESTION FIVE [25 MARKS]

The following information was submitted by Mrs. Miracle Money for the year 2015 tax year.

INFLOWS:

	\$
Salary	8 550
Dividends received (unlisted company)	785
Barclays interest (RTI deducted)	71
Rentals from Greenside house	3 600
Share of profits from piggery venture	1 960
Bonus	2 238
Sale of Sakubva House	24 100
Mother's portion of daughter's bride price.	2 237
Gift from a friend in United States	1 200
Allowances from employer	<u>1 440</u>
	<u>46 181</u>

She also claims the following deductions:

	\$
Pension contributions	494
Maintenance cost of Greenside House	278
Burial society subscription	96
Medical expenses	230
P.A.Y.E deducted by employer	2 741
Cost of hosting in-laws on daughter's marriage	150

Mrs Miracle Money got into the business with family of rearing pigs at Mutare Show Grounds. Her share of the annual profits was \$1 960.

Required:

Compute Mrs Miracle Money's tax liability for the year ended 31 December 2015. [25 marks]

END OF PAPER

SUMMARY ON TAX CREDITS-2015

	Elderly Person	Blind Person	Medical Expenses/ Contribution	Mentally or physically Disabled Person
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)

1ST JANUARY 2015 TO 31 DECEMBER 2015 (USD)

Band of Taxable Income (USD)		Tax Rate %		Cumulative Band Deduct (USD)
1- 3 600	Multiply By	Nil	Nil	Nil
3 601- 18 000	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
240 001 & above	Multiply By	50%	Less	33 420

2015 MONTHLY P.A.Y.E TABLE (USD)
1ST JANUARY 2015 TO 31 DECEMBER 2015 (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	1 035
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
 1501cc to 2 000cc
 2001cc to 3 000cc
 Above 3 000cc

US\$ 300 per month
 US\$ 400 per month
 US\$ 600 per month
 US\$ 800 per month