



COLLEGE OF BUSINESS, PEACE, LEADERSHIP AND GOVERNANCE

NMAC 402: TAX LAW AND PRACTICE

END OF FIRST SEMESTER EXAMINATION

APRIL 2023

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)

You are given the following types of incomes for each person identified. Advice whether the incomes are taxable in Zimbabwe and give your reasons for your answers. Additional marks will awarded for quoting the relevant sections of the Income Tax Act.

- a) Interest of \$15 000 payable by YL (Private) Limited, a company registered in Zimbabwe, on a loan borrowed from ZH Inc. a company incorporated in Russia. [2]
- b) Dividends of \$80 000 payable to each of the following persons;
 - o A Zimbabwean registered company \$25 000
 - o Petros Muloisi, a Malawian resident \$15 000
 - o A Zimbabwean pension fund \$17 000
 - o XMY, a partnership in Harare \$13 000
 - o DYZ, a medical aid society operating in Zimbabwe \$10 000 [5]
- c) An annual pension of \$500 accruing to Molly Zuo from DRC Congo. The pension is from services rendered to a private company whilst Molly was working in the DRC for 20 years. [2]
- d) A pension of \$ 9 000 accruing to the retired M Tokoyo, a former Zimbabwean civil servant who rendered 10 years' service in South Africa and 15 years' service in Zimbabwe. [2]
- e) Proceeds from the sale of minerals of \$61 000 from a mine in Zambia by a miner who is a resident of Zimbabwe. [2]
- f) A bad debt recovered of \$3 500 by LP (Pvt) Ltd from a former staff member who had previously borrowed \$4 000 from the company. [2]
- g) Proceeds of \$1 500 from the disposal of Zimbabwean listed shares by a Tanzanian resident who is in the business of buying and selling shares worldwide. [2]
- h) Zimbabwean Bank interest of \$2 000 accruing to Mrs. J. Jonnes a sixty nine year old retiree. [2]
- i) Interest of \$1 600 accruing to a local bank from mortgage loans advanced to locals during the year. [2]
- j) A commutation of a pension of \$45 000 payable to an employee who was retrenched by DTT (Pvt) Ltd, at 39 years of age. [2]
- k) A payment to a French resident for the right of use of software license by a Zimbabwean Company operating in the computer industry. [2]

QUESTION 2 (25 Marks)

Mr. Zing Cho is employed as a manager by Ximex (Pvt) Ltd Company. The remuneration from the company is detailed below:

- a) A salary of \$2 000 per month and a thirteenth cheque of \$700 plus performance related bonus of \$2 000.
- b) Occupation of a company house. The monthly market rental is \$4 500 and he pays \$4 000 per month.
- c) Mr Zing Cho is a Chinese from China who joined on 1 January 2021. The company paid for his relocation expenses of \$3 900. This is the first time the company has done so.
- d) He uses the company's 4 x 4 Toyota with an engine capacity of 4 500cc. During the year his private mileage was 20 000km out of a total mileage of 49 000 km.
- e) He borrowed \$ 20 000 for school fees for his son's education in China. Average LIBOR for the year was 0.6%.
- f) The company pays for his canteen expenses of \$40 per month.
- g) The company pays the school fees for his children at the university for \$25 000 per year.
- h) Mr. Zing Cho contributes \$6 000 towards a medical aid of which 50% is paid by the employer.
He pays the rest. He incurred medical shortfalls of \$1 500 during the year.
- i) He was granted 15 000 shares under an employer share option plan at 70 cents a share. The market value per share was 100 cents on the date of exercise. The inflation indexes were 1.25 and 1.65%. He had not exercised his option to buy the shares at 31 December 2021.
- j) He contributes \$9 000 to a retirement annuity fund.

REQUIRED:

Determine Mr. Zing Cho's taxable income for the year ended 31 December 2021. **[25]**

QUESTION 3 (25 Marks)

PTM Ltd is a manufacturer of farm equipment and operates from rented premises. Its profit for the year 2021 was \$95 000. The profit was arrived at after making the following deductions:

i.	Exchange loss: payable on machinery imported	10 000
ii.	BHP Engineering (note 1)	15 000
iii.	Lease improvements (note 2)	70 000
iv.	Costs in issuing shares	30 000
v.	Rent	12 000
vi.	Salaries and wages	20 000
vii.	Electricity	3 000
viii.	Interest for late payment of VAT to ZIMRA	5 000
ix.	Fine for not remitting PAYE to ZIMRA	25 000
x.	Fee for preparing tax returns	500
xi.	Electricity connection : New factory	2 000
xii.	Loan raising fee: Purchase of equipment	4 000

xiii.	Interest on loan used to construct building	5 000
xiv.	Depreciation	24 500
xv.	Donations :	
	• Zimbabwe trade fair	2 000
	• National Bursary fund	10 000
	• Society for the aged and destitute	15 000
	• Political party	5 000
xvi.	Group accident insurance for benefit of employees	10 000
xvii.	Medical aid contributions for employees	18 000
xviii.	Attendance to a trade conventions to MD	6 000

NOTES

1. The money was for preventing BHP from manufacturing products similar to those manufactured by PTM
2. A lease agreement was signed on 1 January 2021 with Mutual properties for a 20 year lease period. PMT was to pay a monthly rent of \$1 000 and to extend the factory at a cost of \$60 000. The construction was completed on 31 March 2021 at a cost of \$70 000 and the extended factory was used as from 1 May 2021
3. The company had the following assets at the beginning of the year:

Asset	Cost	ITV
Delivery truck	50 000	25 000
Equipment	100 000	25 000
Computers	2 000	1 000
Mazda BT50 single cab	30 000	5 000

The company purchased an additional delivery truck on 31 December 2021 for \$60 000.

The company claims SIA on its assets

Required:

Calculate tax payable by PMT for the 2021 tax year.

[25]

QUESTION 4 (25 Marks)

Kuda and Tonde Kupara are brothers and equal partners in their partnership business, K&T architects and structural engineers.

The partnership is in its third year of trading and operates from office premises owned by Kuda. Tonde provides all of the office furniture and equipment used by the partnership. In line with the partnership agreement, Kuda and Tonde are entitled to a monthly payment equal to 5% of the cost of their fixed assets which are used by the partnership.

Kuda and Tonde use their own personally acquired motor vehicles for partnership business and charge the partnership for the business mileage incurred.

The partnership employs three staff in addition to the partners. The partnership's statement of profit or loss for the year ended 31 December 2021 is as detailed below:

	Note	US\$
Income		730 000
<i>Less expenses:</i>		
Distribution expenses	1	(160 000)
Administrative expenses	2	(290 000)
Other expenses	3	<u>(30 000)</u>
Profit for the year		250 000

Notes:

1. Distribution expenses comprise:

	US\$
Motor vehicle running expenses	70 000
Insurance and licensing	40 000
Parking fines	6 000
Business mileage claim: Kuda	24 000
Tonde	<u>20 000</u>
	160 000

2. Administrative expenses comprise:

	US\$
Salaries: Staff	40 000
Kuda	60 000
Tonde	60 000
Pension fund contributions: Staff	18 000
Kuda	10 000
Tonde	10 000
Insurance premium: Partnership joint life policy	8 000
Loss of profit	20 000
Partners life policies – Kuda	8 000
Tonde	5 000
Medical aid contributions: Staff	3 000
Kuda	6 000
Tonde	4 000
Depreciation	23 000
Repairs and maintenance	<u>15 000</u>
	290 000

3. Other expenses comprise:

	US\$
Interest on capital accounts: Kuda	16 000
Tonde	<u>14 000</u>
	<u>30 000</u>

The following is an extract from the fixed asset register for the year ended 31 December 2021:

	Cost US\$	Income tax value US\$
Office premises	130 000	120 250
Office furniture and equipment	80 000	20 000
Passenger motor vehicles (2)	60 000	5 000

Required:

- a) Briefly explain, in general terms, how partnership income is taxed. [5]
- b) Calculate the joint partnership taxable income/(loss) for the year ended 31 December 2021. [10]
- c) Calculate the taxable income and income tax payable by both Kuda and Tonde for the year ended 31 December 2021. [10]

END OF EXAMINATION PAPER**TAX TABLES**

tax bands USD (monthly)	tax rate (%)	cumulative tax USD
1 - 70	0	0
71 - 300	20	46
301- 1 000	25	221
1 001 - 2 000	30	521
2 001- 3 000	35	871
3 001+	40	

The tax is exclusive of 3% Aids Levy which is calculated on after credit tax payable.

MOTOR VEHICLE BENEFIT

Engine Capacity	Deemed (annual) Cost
Up to 1500cc	\$675
Over 1,500cc to 2,000cc	\$900
Over 2,000cc to 3,000cc	\$1 350
Over 3,000cc	\$9800

TAX CREDITS

Elderly person	\$90 per annum
Mentally or physically disabled	\$90 per annum
Blind person	\$90 per annum
Medical expenses	50% of medical expenses paid

PENSION AND RETIREMENT ANNUITY FUND CONTRIBUTIONS RESTRICTIONS

- Contributions to one Pension fund (plus NSSA) –\$720 per annum.
- Contributions to one Retirement annuity fund –\$720 per annum.
- Contributions to two or more Pension funds –\$720 per annum.
- Contributions to two or more Retirement annuity funds –\$360 Per annum.

- Contributions to Pension fund(s) and Retirement annuity fund(s) –\$720 Per annum.

Bonus exempt portion \$700 per annum

Corporate income tax rate 24 %

Aids levy 3%

Restrictions on assets

Passenger Motor Vehicle \$10 000

Staff housing \$25 000

School, hospital, nursing home, clinic for farm \$80 000

House for staff at a school, hospital, nursing home, clinic. \$80 000

Special Initial Allowance 25%

Rates of Wear & Tear on Assets

<u>Movable asset</u>	<u>W & T Rate</u>
Bicycles	25%
Bulldozers	25%
Caravans	20%
Carpets (not fitted)	25%
Combine harvesters	25%
Computers	10%
Cranes (mobile)	15%
Fans	20%
Heavy lorries (rough roads)	25%
Library books	33⅓%
Machinery <i>which works:</i>	
☐ 1 shift per day	10%
☐ 2 shifts a day	17½%

☑ 3 shifts per day	25%
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Motor Cars	20%
Portable electric organ	20%
Tractors	20%
TV Sets	20%
Commercial building	2,5%
Other qualifying immovable assets	5%
Accelerated wear and tear	25%