



AFRICA
UNIVERSITY
A United Methodist-Related Institution

“Investing in Africa’s future”

COLLEGE OF BUSINESS, PEACE, LEADERSHIP & GOVERNANCE

NMAC 310: TAXATION, TAX LAW AND PRACTICE

END OF SECOND SEMESTER EXAMINATIONS

MAY 2021

LECTURER: I. RARAMI

TIME: 7 HOURS

INSTRUCTIONS

Answer **ONE** question

The marks allocated to each question are shown at the end of the question

Show all your workings where it is required

Credit will be given for presentations that are neat, logical and grammatically well constructed.

QUESTION ONE: [100 MARKS]

A)

a).Biltong Maura Company Limited has approached you to assist their company to comply with the Value Added Tax (VAT) regime in Zimbabwe. They have asked you to assist with VAT returns and payment of the related tax.

Required:

Advise the company on the related requirements including VAT returns, submissions and payment dates. **(20 marks)**

(b) A person with turnover below the registrable level could apply voluntarily to the Commissioner- General to be registered as a taxable person.

Required:

Outline the circumstances under the Commissioner General could turn down the request to register. **(10 marks)**

c). Mutero Chibharo Enterprise Limited is a dealer in rice. It buys its rice from the Rice Masters, a wholesaler, and sells to retailers. It has not been deducting withholding tax on payments to its suppliers and its management is contemplating doing so to avoid any possible penalties from Zimbabwe Revenue Authority. It has received a letter from the Zimbabwe Revenue Authority informing of an upcoming tax audit on its activities. Ahead of the tax audit, the management has invited you, as a Tax Consultant, to assist at ensuring that all tax issues have been considered and computations as well as payments are up to date

Required:

Advise the Company on the withholding tax situation. **(10 marks)**

B).

Your junior accountant is not sure how to treat the following and is asking you to assist. In each of the scenarios below, state whether or not the expenditure will be allowed as a deduction from the business income of a sole trader and why.

- i. Rent for accommodation hired for the managing proprietor
- ii. Penalty for not filing tax returns on time
- iii. Cost of goods withdrawn by the proprietor
- iv. Payment to the local authority in respect of rates

v. Cost of air ticket incurred for the medical treatment of the mother of the proprietor. **(20 marks)**

C).

You are a tax consultant at Raramai Tax Consultants. There is a Tax Seminar at Africa University and you have been asked to present a paper on tax systems in Zimbabwe, with particular reference to road tolls. In your presentation, discuss the extent to which the road tolls system (tollgate), as a form of tax, satisfies the qualities of a good tax system and give your comments. **(40 marks)**

QUESTION TWO: [100 MARKS]

a). Mrs Jean Money, who is 50 years old approaches you with regards to her 2019 tax return. She outlines the following facts to you.

1. In 2016 she had drafted in Zimbabwe, a manuscript on her late husband's life as a doctor. She had taken the manuscript to Sydney, Australia, where she was able to conclude a publishing contract with Australian publisher. The book was duly published in January 2018.

The book sold well in Australia and New Zealand but had not yet been sold in Zimbabwe. By June 2018 royalties amounting to \$300 000 had accrued to Mrs Money. As she was of the opinion that she is not taxable in Zimbabwe on this income, she invested \$10 000 in a holiday cottage in Sydney, while \$20 000 was invested in the Australian Post Office Bank.

2. By 31 December 2019 further royalties of \$20 000 and \$100 000 net rent had accrued to her in Australia. She also received \$20 000 interest from the Australian Post Office Bank. Jean Money paid Australian tax of 20 000 on her royalties in the 2019 tax year.

3. She also leases her Harare residence to a South African International company which has agreed to pay her R5000 per month.

4). She also received Interest from Miracle Money In-pocket Ltd a financial Institution in Ghana.

5). Annual pension from former Zimbabwean employer of \$25 000.

6). Dividends from T.N Holdings a company registered on the Zimbabwe Stock exchange. The dividends will be roughly \$50 000.

Explain the tax liability of the incomes mentioned above, supporting your answer with legal precedent where possible. **(50 marks)**

b). Mutare Manufacturers Ltd has two warehouses situated in different locations. One is in the same premises as his factory and it is used for the storage of raw materials which are used in the factory. The other is ten kilometres away and is used to store goods which have been bought from another trader. The junior accountant thinks the warehouses are industrial buildings and Special Initial Allowance must be claimed.

i). Discuss whether the accountant is correctly quoting the relevant section of the Act. **(10 marks)**

ii). When is the special initial allowance granted on movables and immovables used for trade? **(5 marks)**

c). You are the senior accountant and you are reviewing the work of your junior accountant. State whether it is true or false and briefly give your reason.

i). No benefit accrues to a tax payer where the employee purchases groceries from the employer at cost.

ii). 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.

iii). 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.

iv). 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.

v). 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).

vi). 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.

vii). 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.

viii). 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.

ix). All donations to charitable organisations are not allowed as deductions in terms of section 15(2) **(35 marks)**

QUESTION THREE (100 MARKS)

a). Mary Bowman once worked for Kondo flower exporting company in Odzani near the City of Mutare. Mary with her vast experience is contemplating starting a flower exporting business. She approached you for advice regarding the Pay As You Earn (P.A.Y.E) requirements for her ten (10) members staff.

i). Advise her on important issues she should be aware of. **(12 marks)**

ii). She also requested your advice on what other benefit she can give to her employees with less tax burden on them. **(12 marks)**

b). Mr Chibharo Mutero runs a retail grocery chain business in Mutare. He decides to employ his son, Taxman to do his books for the business, and handle other financial matters. Mr Mutero approaches you for advice on the best arrangement that would reduce his tax liability without any additional tax burden on his son Taxman. What consideration would you advise Mr Mutero to take in determining Taxman's remuneration.

Advise him on the maximum level of remuneration that will result in a reduction of tax and will not result in Taxman paying tax. **(20 marks)**

c) Mr Mutero later considers buying his son a car to use for his leisure as well as his official duties. Mr Mutero is also contemplating giving Taxman a loan to buy the car of his choice, but subject to a limit of \$15 000.

Advise Mr Mutero on how he can provide his son with the car while minimising his son's tax liability. **(15 marks)**

d). Explain to Mr Mutero:

i. differences between Pay As You Earn (P.A.Y.E) and Final Deduction System (FDS) **(10 marks)**

ii. The methods that he can use to calculate the tax using FDS. **(10 marks)**

iii. Why sometimes employees still need to submit a return at the end of the year. **(10 marks)**

e). Explain to Mr Mutero the terms progressive, regressive, and proportional taxes referring to examples. **(11 marks)**

END OF PAPER