



*"Investing in Africa's Future"*

## **FACULTY OF MANAGEMENT AND ADMINISTRATION**

**MAC 303 INTRODUCTION TO BUSINESS TAXATION**

**END OF FIRST SEMESTER EXAMINATIONS**

**APRIL/MAY 2018**

**LECTURER: I. RARAMI**

**DURATION: (3 HRS)**

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### *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

- a).i. Define taxation [2 marks]
- ii. State and explain briefly, the nature of the State's Power to tax. [2 marks]
- iii. What are the characteristics of an annuity? [3 marks]
- b) i. What is V.A.T ? [2 marks]
- ii. What is the threshold turnover for V.A.T registration purposes for a trader? [1 mark]
- iii. What are the four responsibilities of a VAT registered traders in terms of VAT Act chapter 23:12 [2 marks]
- iv. When should VAT returns of sales and payment of VAT be submitted to the Commissioner General? [1 mark]
- v. State four main characteristics of tax invoice. [2 marks]
- vi). Outline the formula for calculating value added tax [2 marks]
- vi). If the returns of VAT and payment are not submitted on time, what is the implication on the trader? [1 mark]
- 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]



## QUESTION TWO

Mr Hondoyeminda 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 2017.

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 2017. **[8 marks]**
- ii). Prepare a livestock Trading Account for the year ended 31 December 2017. **[6 marks]**



### QUESTION THREE

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)

[9 marks]

ii). Kupfuma Kurich is a managing director of Taletale (Pvt) Ltd a local company that exports most of its products. He has one primary school going age child Sara. Kupfuma Kurich is a hard worker and in appreciation of his efforts and in an attempt to retain this human asset, the company increased his annual salary to \$ 100 000. The company also decided to give him the following incentives from 1 January 2017.



- a). Company furniture \$5 000
  - b). Company house in Murambi, market rental \$1 500 per month
  - c). School fees for his child for 2017 \$2 500
  - d). New Company car 3000cc
  - e). Entertainment allowance \$10 000. Allowances expended on employer's business was \$8 200.
- He paid \$2500 medical expenses for his daughter and \$1400 to her medical aid society.

**Required.**

From the information given, Kupfuma Kurich's tax payable.

**[15 marks]**

**QUESTION FOUR**

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]**

k.i). What is an Annuity?

**[2 marks]**

ii). Name two types of annuities

**[2 marks]**

ii). What are the characteristics of an annuity?

**[3 marks]**

**QUESTION FIVE**

a). i) Below are the earning details for Farirai Mutero for the month of January 2017. Farirai Mutero is disabled.

Basic salary	2800
Pension Contribution	80
NSSA	6



Trade union subscription	20
Old Mutual Retirement Annuity Fund contribution	50
Medical Aid contribution	300
Medical Expenses for January	200

Calculate F. Mutero's P.A.Y.E for January 2017 under Final Deduction System, using the forecasting method. **[10 marks]**

b). i). What are the major 4 differences between the ordinary (P.A.Y.E) pay as you earn and the (F.D.S) final deduction system. **[4 marks]**

ii). Employees under F.D.S are not required to fill tax returns for that income, but there are circumstances where employees are required to fill tax returns. State four of these circumstances. **[4 marks]**

c). On the 25<sup>th</sup> of March 2017, Miracle Money Ltd, estimated that they were going to make a profit of \$300 000 by the end of the year. In September, the finance manager, Ms Mandimandi, estimated that that they were going to make a profit of \$350 000 because of a big contract that they recently signed.

i). Calculate the provisional tax that was paid by Miracle Gold Ltd every quarter. **[7 marks]**



### SUMMARY ON TAX CREDITS-2017

	<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	

### 2017 ANNUAL P.A.Y.E TABLE (USD)

#### 1<sup>ST</sup> JANUARY 2017 TO 31 DECEMBER 2017 (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



**2017 MONTHLY P.A.Y.E TABLE (USD)**  
**1<sup>ST</sup> JANUARY 2017 TO 31 DECEMBER 2017 (USD)**

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