



*"Investing in Africa's Future"*

**COLLEGE OF BUSINESS, PEACE, LEADERSHIP AND  
GOVERNANCE**

**COURSE TITLE: MAC 402 Tax Law and Practice**

**SEMESTER 2: Final Examination April-May 2018**

**LECTURER: Dr S N Chuchu**

**TIME: 3 HOURS**

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***INSTRUCTIONS***

Answer **all five (5)** 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 logical, systematic and neat presentations.



### Question 1

Gemini Limited is a gold producing mine in Mashonaland East Province. The company sold gold worth \$5 000 000 during the year ended 31 December 2017. The following expenditure was incurred during the same year:

	\$
Steam generated	30 000
Mining buildings constructed	45 000
Earth moving plant	185 000
Staff clinic constructed	116 000
Mine doctor's house constructed	12 000
Shaft sinking	40 000
Renewal of boiler	10 000
Administration	24 000
Interest	15 000
Salaries	135 000
Insurance	15 000

#### Additional information:

1. The company sold mining claims (originally purchased for \$6 000 for resale) for \$42 000 and excess equipment for \$36 000 during the year.
2. The generator replaced had blown up when there was a mine explosion and the company recovered \$30 000 from the insurance claim. The original cost of the generator was \$25 000.
3. Administration expenses included \$2 800 being penalty imposed by ZIMRA for late payment of tax due. Another \$4 500 was a donation to a local soccer team.
4. The company paid interest of \$15 000 for a bank loan of \$100 000, which was used to finance working capital.
5. The company had \$165 000 balance of unredeemed capital expenditure on 31 December 2016.
6. The estimated life of the mine is 19 years from the end of 2017, and the company claims capital redemption allowances under Paragraph 2 of the 5<sup>th</sup> Schedule of the Income Tax Act.

#### Required:

Compute the company's minimum taxable income/maximum assessed loss for the year ended 31 December 2017. [20 marks]

### Question 2

(a) Do courts recognize tax avoidance schemes? [4 marks]

(b) Peter Moyo was employed in Harare. He was retrenched in 2017 and decided to go and live at his farm in Magunje. He sold his residence in Harare on 26 September 2017 for \$69 000. The residence had been purchased in 2012 for \$30 000, excluding transfer fees of \$500. The following additions were made to the property:



		\$
Borehole	1 May 2012	2 000
Garage and workshop	1 August 2014	3 500
Tarring of driveway	1 December 2015	900
Swimming pool	1 September 2015	1 700

Mortgage bond interest on the residence was incurred as follows:

	\$
Year ended 31 December 2012	1 200
Year ended 31 December 2013	1 800

Peter used an inheritance from his father's estate to pay off the mortgage bond on 1 January 2014.

The expenditure incurred in connection with the sale of the property was as follows:

	\$
Advertising	300
Repainting the garage and workshop	420
Estate agent's commission	500

**Required:**

Compute the capital gains tax payable/assessed capital loss for the year ended 31 December 2017. [16 marks]

**Question 3**

John Shumba purchased a piece of land just outside Harare for \$40 000 with the intention of becoming a property developer. He sub-divided the land into 10 plots and each would be sold for \$18 000. The following development costs were incurred:

	\$
Surveys	4 000
Road and sewerage	5 000

Seven plots were sold on 1 February 2016 and three were sold in March 2017 on the following conditions of sale:

- A deposit of 20% on signing of the agreement.
- The balance is payable with effect from the month of sale at \$800 per month per plot, until full payment is made.
- Interest at 15% per annum is payable on outstanding amounts.
- Ownership is transferred when full payment is made.

Administration expenses of \$700 and \$850 were incurred for the two years, respectively.

**Required:**

Compute the tax payable by John Shumba for the two years ended 31 December 2016 and 2017. [20 marks]



#### Question 4

(a) What constitutes an estate of a deceased person?

[4 marks]

(b) Aquarius Limited is a manufacturer in Mutare. For the year ended 31 December 2017, the following financial information was presented:

	\$
	1 250 000
<b>Income</b>	
Operating income	1 000 000
Export incentive from the government	200 000
Foreign bank interest	50 000
	(1 150 000)
<b>Expenditure</b>	
Credit Losses	50 000
Depreciation	50 000
Insurance	100 000
General expenses	50 000
Salaries and wages	500 000
Marketing and packaging	100 000
Raw materials	300 000
<b>Profit before tax</b>	<u>100 000</u>

#### Additional information:

1. An amount of \$5 000 included in credit losses is 10% allowance for credit losses.
2. Marketing and packaging included the following:

	\$
New product launch party for top management	20 000
VIP customers' dinner	10 000
Exhibiting at the Shanghai Expo	65 000

3. The company had the following assets as at 1 January 2017:

	Cost	ITV
	\$	\$
Factory buildings	750 000	370 500
Furniture and equipment	180 000	100 000
Motor vehicles	300 000	75 000

The company elected to claim special initial allowance on factory buildings and motor vehicles, but not on furniture and equipment.

4. During 2017, the following assets were acquired:

	\$
Laptops	36 000
Mazda Eagle Twin cab	45 000
Addition to warehouse (constructed)	150 000
Fixtures and fittings	<u>110 000</u>
	<u>341 000</u>



**Required:**

Compute the company's minimum tax liability/ maximum assessed loss for the year ended 31 December 2017. **[18 marks]**

**Question 5**

Alpha Limited was incorporated in January 2017. In March 2017, the company acquired a farm in Masvingo Province under the Government sponsored A2 land resettlement scheme and immediately commenced livestock farming operations.

The company paid amount of \$120 000 allocated to the farm improvements on the farm as follows:

	\$
Ranching land	Nil
Farm manager's house	20 000
Staff housing (10 units)	30 000
Dam	25 000
Farm implements	<u>45 000</u>
	<u>120 000</u>

In April 2017, the company purchased the following livestock:

	\$
3 stud bulls	2 400
150 cows	60 000
90 oxen	32 000
28 heifers	7 000
35 tollies	5 600
50 calves	<u>5 200</u>
	<u>112 200</u>

Livestock movements between 1 April 2017 and 31 December 2017 were as follows:

- 25 calves were born on the farm during the year
- 40 calves were reclassified to heifers
- 10 calves were reclassified to tollies
- 5 tollies were slaughtered for rations
- 20 tollies reclassified to oxen
- 22 heifers were reclassified to cows.

**Additional information:**

1. Forty cows and fifty oxen were sold for \$45 000 to some private abattoirs during the first half of the year.
2. In July 2017, the farm was declared as an epidemic area by the Minister of Agriculture due to an outbreak of foot and mouth disease. The company was forced to sell 30 cows for \$21 000 as a result of the epidemic disease.
3. Eventually in October 2017, the epidemic disease was brought under control and the farm was declared by the Minister of Agriculture to be free from foot and mouth disease. The company restocked the farm with 50 cows which were



purchased for \$30 000 in October 2017. The department of Agricultural Research and Extension Services determines the carrying capacity of the farm at 270 herd.

4. The head's direct running expenses for the year amounted to \$8 000. All expenses are allowable for tax purposes.
5. The following expenditure was incurred during the year:

	\$
Stumping and clearing of land	3 000
Sinking of boreholes and wells	12 000
New fencing erected	2 600
Borehole equipment	15 000

6. The approved fixed standard values (FSVs) of the livestock are as follows:

Class	\$
Bulls	8 00
Cows	600
Oxen	450
Heifers	500
Tollies	250
Calves	150

**Required:**

Compute the company's minimum tax liability/ maximum assessed loss for the year ended 31 December 2017. **[20 marks]**



## TAX LAW AND PRACTICE MAC 402 REQUIREMENTS

### 1. Requirements

Tax Law and Practice MAC 402 is an open book examination. The candidate is allowed to take into the examination room unmarked copies of the following Acts:

- Income Tax Act [Chapter 23:06]
- Capital Gains Tax Act [Chapter 23:01]
- Finance Act [Chapter 23:04]
- Value Added Tax Act [Chapter 23:12]
- Estate Duty Act [Chapter 23:03]
- Administration of Estates Act

### 2. Tax Rates for Companies

	%
Basic income tax rate	25*
Manufacturing company exporting at least 30% of output	20
Manufacturing company exporting at least 41% of output	17.5
Manufacturing company exporting at least 51% of output	15
Mining companies	25*

\*Plus 3% AIDS levy

### 3. Rates of Capital Allowances

- Special Initial Allowance – 25%
- Accelerated Wear and Tear – 25%
- Wear and Tear on:



- Industrial buildings – 5%
- Farm improvements – 5%
- Commercial building – 2.5%
- Motor vehicles – 20%
- Movable assets (general rate) – 10%

#### 4. Capital Gain Tax

	Withholding tax	Capital gains tax
	%	%
Sale of immovable property	15	20
Sale of principal private residence (PPR)	15	20
Sale of PPR by a 55 year old or more	0	0
Listed marketable securities	1	exempt
Unlisted marketable securities	5	20

**END OF PAPER**