



National University of Science and Technology

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

SUPPLEMENTARY EXAMINATION PAPER: 2011/2012

DATE: MAY 2012

**SUBJECT: INTRODUCTION TO
TAXATION: CAC 2204**

TIME ALLOWED: THREE (3) HOURS

MARKS: 100

INSTRUCTIONS TO CANDIDATES

1. Answer Any four (4) questions
2. Use the examination book provided
3. Use black or blue pen
4. Begin each question on a new page and
5. Submit all answer books

QUESTION 1 (25 MARKS)

Melody Smith is 29 years old and unmarried. Her income and expenses for the current year of assessment were as follows:

	\$
Income	
Salary	200 000
Interest on fixed deposit	22 000
Rental income	36 000
Travelling allowance from employer (note 3)	20 000
Bonus from employer	17 000
Expenses	
Medical aid fund contributions (note 1)	4 800
Retirement annuity fund contributions (note 2)	12 000
Rental expenses (all deductible for normal tax purposes)	5 500

Notes

1. Melody contributes \$400 per month to the medical aid fund. Her employer contributes \$100 per month to the fund as well. Medical expenses amounting to \$13 300 were not covered by Melody's medical aid fund and she had to pay them herself.
2. Melody's employer is not aware that she makes monthly contribution to a retirement annuity fund.
3. According to Melody's tax consultant, Melody will be able to deduct \$7 500 as travelling expenses. You can accept that the consultant is correct.
4. Melody was employed by the company for the full year of assessment, and she received the same salary every month.

Required:

Calculate the total employees' tax liability that Melody's employer would have deducted for the current year of assessment.

QUESTION 2 (25 MARKS)

The training partner in an accounting firm gives you the assignment to do some research into the deductibility of the following expenditures: the notes are to be used in a training seminar shortly.

- a) Jimmy Mapondera is a university lecturer in the engineering department. During the recently ended tax year he converted a storeroom at the back of his garage into an office cum workshop. He uses his home office for the preparation of his lectures and preparation of relevant experiments, all to do with his work as a lecturer. He estimates a notional monthly rent of \$ 2 400.00 for this office

He bought some computer equipment and engineering software, which he placed in the office and uses it extensively in his preparations. The equipment cost \$ 20 000.00 Jimmy Mapondera assigns his gardener the duty of cleaning his office twice a week. The annual cost of this work came to \$ 500.00

- b) Benjamin Nkomo is a practicing medical doctor. In August 2005 he underwent an eye operation which was essential for him to remain in medical practice. The operation

cost him \$ 13 000.00 of which \$ 3 000.00 was recovered from his medical aid society. According to him the expense incurred was for the purposes of trade and should be allowed as a deduction rather than for him to obtain a medical credit which is 50% of the shortfall.

- c) Shingirai Commuter Bus Company has been doing business between Bulawayo and Beitbridge for the past two years. In the past year it experienced a substantial increase in its business expenses due to speeding fines and money paid to touts used to lure customers at the bus terminus. The company is also considering setting up a fund to be used to attempt bribing traffic to induce them to be lenient. The company would like to know whether these expenses could be claimed as deductions for tax purpose.

Required

Prepare a report comprising of brief notes on the deductibility of the expenditures outline above. **(25 Marks)**

QUESTION 3 (25 MARKS)

A senior partner in a large accounting firm assigns the following tax planning problems to you on your being attached to the Business Services Department for experience purpose, for you to research and make recommendations.

- a) Having regard to the tax legislation relating to the determination of employee's motoring benefits, the board of a medium sized company called Harare Makers Pvt Ltd wants to pay allowances for their managers to ensure that they effectively pay no tax on their benefits. There are two levels of management, top management, who are entitled to Mercedes Benz SL 500 (engine capacity 3000 cc) and middle management who are entitled to Mercedes Benz C220 sedans (engine capacity 1800 cc). The other information available about the managers is as follows:
- i. The average remuneration for each of the managers prior to allowances is in excess of \$ 40 000 per year evenly spread
 - ii. The average annual depreciation charges in the company books for each of the SL 500 and C 220s are \$ 4 000 and \$ 3 000 respectively
 - iii. Repairs per year per car are on average \$ 3 000 and \$ 2 100 for the SL 500 and the C 220 respectively, These costs include VAT at 15%
 - iv. On average each of the managers use their company car 20% for business purposes while the rest is private

Required

On the basis of the information you are required to:

- i. Briefly comment on the tax consequences of the proposal that the company pays tax on the motoring benefit on behalf of the managers; determine how much car allowance should be given to each manager to give effect to the company's objectives above. **(10 Marks)**
- ii. Comment generally on the VAT implications to the company on the use of the cars by managers. **(10 Marks)**

- b) John Ching'ombe, a marketing director has just resigned from his former employer, a milk manufacturer. Because of his of potential new products being developed by the company, he accepts a lump sum of \$ 600 000 from the company as a payment to bar him from engaging in products similar to what the company is producing for a period of two years.

Required

Outline in point form whether or not the amount is deductible to the company and whether or not the amount is taxable in John's hands. **(5 Marks)**

QUESTION 4 (25 MARKS)

Five years ago, Mrs Gertrude Mwarima, a cordon bleu chef, opened a cookery school. For this purpose he formed a company, and named it Gertrude's Cookery School (Private) Limited. Gertrude Mwarima is its sole proprietor and one of its employees.

The company is not registered with the Ministry of Education and is therefore registered for VAT purposes. It has to submit a two monthly VAT return and its tax periods a February, April, June, August, October and December of each year.

The school enrolls a total of 20 housewives each year. It is closed during the school holidays and therefore operates over three terms per year. The housewives are charged a fee of \$ 230 per term (which this includes VAT of \$ 30).

You have recently qualified as a chartered accountant. Gertrude Mwarima has approached you with the following VAT and normal income tax queries either relating to her or the company, or to both of them.

- a) The company employs three full time assistants in addition to Gertrude. These three receive the following employment 'perks':
- i. The company has an agreement with a local taxi operator, to transport the assistants to and from the cookery school. The school is responsible for and pays the cost of this transport to the taxi operator. The taxi operator drives an 18-seater minibus.
 - ii. The assistants drink tea and are provided with lunch at the company canteen at no charge daily. The company pays the full cost of the ingredients for these teas and lunches. The lunches are usually meals that have been prepared by trainees during lessons.
 - iii. Once a year, the company purchases six uniforms for each assistant. The uniforms, which consist of the 'standard' chef uniform and aprons, are purchased from a local catering supplier. The assistants are required to wear these uniforms while they are on duty.
 - iv. One assistant Nobuhle has an 18 year old daughter. Gertrude, in her capacity as owner of the company, has agreed that the daughter could attend the cookery school for the year at no cost. Her attendance is over and above that of the 20 fee paying trainees.

Required

Explain to Gertrude what normal income tax implications these employment perks would have on the three assistants. Also explain what VAT implications the provision of these perks would have on the company. **(12 marks)**

- b) As indicated above the school charges a fee of \$ 230 per term which includes VAT of \$ 30. A group of trainees has approached Gertrude requesting that she deregister the school as a VAT trader since it no longer meets the turnover threshold of \$ 60 000. The trainees, who are not VAT traders and therefore cannot claim an input tax deduction, feel that the school would be in a position to charge a lower fee.

The only other receipt or accrual that the school receives is the gross rental of \$ 22 000 a month from a factory building it owns and lets.

Required:

Explain to Gertrude whether it would be possible for the school to deregister as a VAT trader. If it is possible, explain what process would have to be followed to achieve this objective and what the normal tax and VAT consequences of deregistering would be. **(13 marks)**

QUESTION 5 (25 MARKS)

Mapfumo T Mangena, ordinarily a resident in the republic, dies on 25 May. His wife died two years before, leaving him with their two sons Naison and Nathaniel. No estate duty was payable on her estate as her net estate was less than \$ 1 500 000. Information relating to Mapfumo's estate is as follows:

- a) Residence in Famona, Bulawayo – valuation \$600 000
The residence is bequeathed to Naison Mangena, son of Mapfumo. Two years before his father's death, with the written approval of his father, Neil effected improvements to the residence at a cost of \$20 000. These improvements increased the value of the residence by \$50 000 at the date of death of the deceased.
- b) At the date of his death Mapfumo owned a squash court complex in respect of which he had donated the usufruct to his sons Neil and Lee (50%:50%) on 1 January the previous year, at which date the complex was worth \$200 000. On the date of Mapfumo's death the market value was \$250 000. This is the only donation Mapfumo made during his life.
- c) Furniture and private property – valuation \$150 000
- d) The farm ' Inkomo' in Beatrice
- Market Value \$500 000
 - Land Bank Value \$300 000
- e) On Mapfumos' death, his cousin, Steven, was paid out \$ 800 000 in a life policy taken out on Mapfumo's life by Steven. Steven had taken out the policy to enable him in the event of Mapfumo's death to purchase Mapfumo's shares in a private company they

jointly owned. This had been agreed between Steven and Mapfumo and the company was responsible for payment of the premiums.

- f) Auditor's valuation of Mapfumo's interest in the above mentioned company
\$600 000
- g) Proceeds from selling fixed property in Sandton, Johannesburg South Africa,
\$1 505 000 Mapfumo got this property as a donation thirty years ago from his aunt.
She is a South African Resident.
- h) Water and electricity due to the Johannesburg Municipality on the property in
Sandton (refer to key note 7 above) \$40 000
- i) At the date of his death Mapfumo controlled the profits of a trust. He had the right to
decide what should happen to the profits and was also entitled to dispose of them.
This right is deemed to be property in terms of the Act. The Commissioner for Inland
Revenue has determined the annual value of such profits at \$ 1 000
- j) Fifteen years prior to his death Mapfumo had received as a donation from his uncle a
Lamborghini, which at that date had been worth \$ 110 000. His uncle died a week
after his generous gesture and Mapfumo paid the donations tax of \$ 20 000 in respect
of that donation. At the date of Mapfumo's death the car was worth \$ 70 000
- k) Bank overdraft – Bank in Zimbabwe \$129 733
- l) Outstanding income tax due to Mapfumo as calculated by the executor \$ 7 225
- m) Executors remuneration \$ 60 847

Required:

Calculate the total estate duty payable in respect to Mapfumo's estate.

Age Next Birthday	Mapfumo	Naison	Nathaniel
1 January – previous year	67	27	28
25 May – current year	68	28	29

Julius Mapokereke, a bachelor has decided to move to New Zealand. He sold all his assets and has approached you to calculate the total capital gain or loss that resulted from the sale.

The following items were sold:

1. An 11 meter private fishing boat was sold for \$ 60 000 on 1 December. It was purchased second hand on 1 May 2001 for \$50 000. Improvements of \$20 000 were made on 1 June to get the boat seaworthy. Julius did not value the boat on 1 October 2001.
2. Julius's primary residence is on Lake Chivero which he bought in 1982 for \$1 520 000 (including transfer duty of \$242 000). Julius had the house valued on 1 October 2001. The market value was \$1 850 000 and the estate agent's valuation fee amounted to R 5 000. The house was sold for \$1 900 000 on 1 January.
3. Julius sold his Mercedes Benz for \$150 000 on 1 February. He purchased it on 1 March 2003 for 250 000.

On 20 February Julius went to Sun Casinos at ZITF show grounds in Bulawayo and won \$130 000 on the roulette tables.

A capital gain of \$500 000 was calculated by a tax consultant on the sale of a holiday home in Durban in September 2004.

Required:

Calculate the taxable capital gain or loss for the current year of assessment. Julius had an assessed a capital loss of \$140 000 for the previous year of assessment.

END OF EXAMINATION PAPER