



National University of Science and Technology

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

**BACHELOR OF COMMERCE HONOURS DEGREE IN ACCOUNTING
SUPPLEMENTARY EXAMINATION: SECOND SEMESTER 2013/2014**

DATE: AUGUST 2014

**SUBJECT: INTRODUCTION TO
TAXATION: CAC2204**

TIME ALLOWED: THREE (3) HOURS

MARKS: 100

INSTRUCTIONS TO CANDIDATES

- i.** Attempt all questions and begin each answer on a new page.
- ii.** In marking papers, the examiner takes into account clarity of expressions, effective arrangement and presentation, as well as legibility of handwriting.
- iii.** Apply the Tax Law provisions for the 2013 tax year.
- iv.** Tax tables are provided in the attached Appendix, on page 6.

Question 1 [25 marks]

Jonathan Gono, aged 58, is the Chief Operating Officer of Liberty Limited and earns \$4 000 a month.

For the year ended 31 December 2013, he enjoyed the following benefits from his employer:

- (i) A bonus of \$7 000
- (ii) Membership of his employer's non-contributory medical aid fund which covers him, his spouse and two children. The monthly contribution is \$200.
- (iii) Jonathan uses a Mazda 626 with an engine capacity of 2000 cc.
- (iv) He stays in a company house for which he pays a monthly rental of \$200. The value of the furniture in the house is \$120 000. The open market rental of the house is \$4 500 per year.
- (v) Jonathan applied for a soft loan from his employer and was granted \$25 000 loan at an interest rate of 3%.
- (vi) Mr Gono's second born son, aged 15, uses a wheelchair as he is disabled.
- (vii) Pension contributions by Mr Gono amounted to \$9 000 for the year under consideration.
- (viii) PAYE amounted to \$9 800.

REQUIRED

Given that for the 2013 tax year, LIBOR was 5% and with reference to the table below:

(a) Calculate Mr Gono's Gross Income for the tax year ended 31 December 2013.

(14 marks)

(b) Calculate Mr Gono's tax liability/refund for the tax year ended 31 December 2013.

(11 marks)

Question 2 [25 marks]

Kuzivakwashe Taona was employed by Kango in Bulawayo up to 31 July 2013, before he resigned to pursue an MSc in Accounting and Finance at NUST. He submitted the following information:

Salary	25 000
Bonus	3 000
Cash in lieu of leave	900
Gratuity	2 000
Interest from Barclays bank	400
Annual subscriptions to Institute of Tax Accountants	800
Medical expenses incurred	2 300
Lotto dividends	1 200
Dividend from OK Zimbabwe	700
Entertainment allowance	650
Rent from house in Lusaka, Zambia	2 500

Additional Information:

1. Kuzivakwashe's wife is blind and he paid \$1 600 to CIMAS.
2. He stayed in a company house in Khumalo for free until the time he left employment. The market rentals for similar houses in Khumalo are \$850 per month.
3. He enjoyed use of a Mercedes benz with an engine capacity of 3 200cc.
4. He bought spectacles for \$1 800 and CIMAS reimbursed him \$1 200.
5. PAYE deductions amounted to \$5 600.

REQUIRE

Calculate Kuzivakwashe's minimum tax liability for the tax year to 31 December 2013. **(25)**

Question 3 [25 marks]

Disappointed Ncube (54) is employed as a Finance manager by Innovator Pvt Ltd. He submits the following information in support of his tax return for the year ending 31/12/13:

<u>Receipts</u>	\$
Salary	120 000
Bonus (The co does not give a bonus)	-
Greenwood Retirement Annuity Fund (note 1)	4 800
Interest from an investment in Standard Chartered, Botswana	1 900
Cellphone Allowance (note 2)	3 700
Dividends from a Company listed on the Lusaka Stock Exchange	2 560
Rent from a house in Randburg, South Africa	4 780
Rent from a house in Gweru	1 200
Gift from a cousin	3 000
Award from Innovator Pvt Ltd (note 3)	5 000
Lotto Win	4 000
Lump sum payment from a Pension Fund (note 4)	34 000
Inheritance from mother`s estate	16 000
<u>Expenses</u>	
Prescribed Drugs	780
Shortfall on doctor`s consultation fees	2 300
Total medical aid contribution (note 5)	2 400
PAYE	48 900

Notes

1. Since the company does not provide for a retirement pension fund, Mr Ncube purchased a RAF for 42 000 over a number of years. ZIMRA allowed \$12 000 of this amount as a deduction. The policy matured this year and he will be getting \$4 800 per annum during this year and 9 other years in future.
2. Mr Ncube was able to prove that 65% of the bill was spent contacting the organisation`s clients.
3. Mr Ncube got the award for being the best manager within Innovator Pvt Ltd Zimbabwe in 2013.
4. Mr Ncube joined a Pension Fund on 1 June 1970 from which he received a lump sum of \$34 000 in August 2013. He used \$9 000 to purchase an Annuity on retirement. He transferred \$13 000 to another Pension Fund and \$7 000 to a benefit fund.
5. Innovator Pvt Ltd pays 80% of the medical aid contributions on behalf of the employees as part of their benefits. The balance is paid by the employee concerned.
6. Innovator Pvt Ltd also paid wages for Mr Ncube`s gardener amounting to \$1 440.

Required

Using the following tax table; calculate Mr Ncube`s

- a. Gross Income
- b. Income
- c. Taxable Income and
- d. Tax liability (refund)

Question 4 [25 marks]

Section A

Briefly state how each of the following expenses are treated for tax purposes:

- a) The cost of initial repairs effected by the landlord on a dilapidated house immediately after purchase but before occupation by a tenant.
- b) The cost of drawing up a lease agreement by the lessor.
- c) Annual subscriptions to the Zimbabwe Institute of Accountants by a retiree who now lives on his pension and investments.
- d) Costs incurred by a taxpayer to replace a wooden door with a steel door on his business premises to deter thieves after a recent spate of break-ins.
- e) Repainting costs on a house in Zambia from which rental income is derived: the landlord is ordinarily resident and a taxpayer in Zimbabwe.

[12 ½ marks]

Section B

Outline the provisions of the Acts and their effect in relation to each of the following:

- a) Profit realised from the sale of immovable property; this being a once-off transaction.
- b) Royalties received by a South African resident from a book written whilst on holiday in Zimbabwe.
- c) Relocation expenses of \$6 500 paid by an employer to an employee to take up office in Victoria Falls (this being the second such payment to the same employee since he joined the company three years back).
- d) Expenses incurred by a taxpayer to charter an air ambulance to airlift his spouse and child who were gored by an errant bull elephant whilst on safari in the Whange Game reserve.
- e) Interest accruing on banked funds donated by a parent to his 6 year old illegitimate child.

[12 ½ marks]

END OF EXAMINATION PAPER

APPENDIX:

Annual Tax Tables for the year ending 31 December 2013:

Tax band (\$)	Rate	Size of Band (\$)	Tax (\$)	Cumulative Tax (\$)
0-3 000	0	3 000	0	0
3 001-12 000	20%	9 000	1 800	1 800
12 001-24 000	25%	12 000	3 000	4 800
24 001-60 000	30%	36 000	10 800	15 600
60 001-90 000	35%	30 000	10 500	26 100
90 001-120 000	40%	30 000	12 000	38 100
120 001 and above.	45%			

AIDS levy is at 3%.