

NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY

DEPARTMENT OF ACCOUNTING

FIRST SEMESTER EXAMINATION - 2010

TAXATION I CAC 4102

TIME ALLOWED: 3 HOURS

Instructions to candidates

- Answer all questions
- All amounts are us dollar denominated.
- Tax year is year ended 31/12/2009
- Start each answer on a new page
- State reasons for the treatment of certain amounts

<u>Question</u>	<u>Topic</u>	<u>Mark</u>
1	Individual Taxation	25
2	Tax Theory	30
3	Partnerships	30
4	Capital Gains Tax	<u>15</u>
		<u>100</u>

QUESTION 1**(25 marks)**

Mr. Zulu, a Quantity Surveyor, is ordinarily resident in Bulawayo. He is employed by M & C (Pvt) Ltd, a renowned firm of construction engineers whose business interest extend beyond the borders of the country.

In terms of his contract of employment his salary is pegged at \$3 600.00 per month. He is entitled to a 13th cheque equal to his salary.

Because the company has business interests outside the country his contract stipulates that from time to time he may be called upon to work outside with payments thereto being met by the foreign branch.

As a chartered professional he is required to pay monthly subscriptions of \$200.00 for his membership of the Institute of Chartered Quantity Surveyors (Zim). He is also a member of a local social club and pays \$15.00 per month for his membership

Mr. Zulu inherited two town houses from the estate of his late father sometime back and he lets these to tenants. The cost of repairs, maintenance and municipal rates are his responsibility.

Notes

- He joined the company in November of the previous year of assessment
- He was seconded to the Botswana branch of the company from mid April to end of August and received \$12,500 for services rendered.

His income from local investments consists of:

1. Interest ex Zimbank	\$2000.00
2. Interest from a local company	\$4500.00
3. Dividends from same company	\$3000.00

- Rent receivable \$7200.00
- Rates and repairs \$1650.00
- Medical aid contributions for self and family \$ 450.00
- P.A.Y.E. deducted at source \$12930.00

Mr. Zulu has the use of the company vehicle whose engine capacity is 3000 cc.

Tax rates for the year under review have been pegged by the minister at:

\$0	to	\$1 650	0%
\$1 651	to	\$5 500	20%
\$5 501	to	\$11 000	25%
\$11 001	to	\$16 500	30%
\$16 501	to	\$33 000	35%
\$33 001 and above			37.5%
AIDS levy is still pegged at			3%

Trade and investment income 30%

Deemed motoring costs are as follows:

Up to 1500 cc	\$50
1501 to 2000cc	\$60
2001 to 3000cc	\$80
Over 3000cc	\$100

These costs are per month

You are required to determine Mr. Zulu's tax liability for the year ended 31/12/2009.

QUESTION 2

(30) marks

a) Define gross income and give a summary of how taxable income is arrived at.

[5 marks]

b) The general deduction formula specifically excludes expenditure and losses of a capital nature; discuss the implications of this exclusion with reference to two decided cases (cite the cases)

[5 marks]

c) M Ltd enters into a lease agreement with L (being the lessee) where, in addition to an annual rental of \$20 000 he must pay a further \$5 000 as a premium. Calculate the taxable income of the lessor and deductions available to the lessee where the lease period is indefinite. **[5 marks]**

d) B enters into a lease arrangement with More Holdings (Pvt) Ltd (being the lessor) the effect of which is that B should effect some improvements on the property to a value of \$3 000 000. The actual costs on completion of the improvements was \$3 500 000. The lease period per the agreement was 15 years. The improvements were completed in May of the second year of the existence of the agreement.

REQUIRED:

i) compute the gross income accruing to More Holdings during the lease period in terms of Section 8 (1) (e) of the Act

ii) determine all deductions applicable to B assuming he makes an election in terms of section 15 (2) c as read with the 4th schedule of the Act. **[10 marks]**

c) List circumstances where future untaxed installments are brought to tax.

[5 marks]

QUESTION 3**(30 marks)**

Julie and Mandy practice as partners in an accounting firm in Bulawayo. They submit accounts in support of their tax returns for the year ended December 2009 reflecting a profit of \$12 000 000.00 The profit sharing ratio is; Julie 65% and Mandy 35%. Other details on the accounts submitted are as follows:

Accruals

POSB interest	\$25 000.00
Dividends from quoted company (Zimbabwe)	\$3 000.00

Deductions

Partners' salaries

Julie	\$2 500 000.00
Mandy	\$2 000 000.00
Employees wages	\$1 500 000.00

Insurance Premiums:

Possible loss of profit	\$ 5 000. 00
Joint life policy-partnership is beneficiary	\$ 7 000.00

Partners' life policy- partners benefit

Julie	\$3 000.00
Mandy	\$2 500.00

MASCA contributions

Julie	\$1 500.00
Mandy	\$1 500.00
Employees	\$700.00

Drawings:

Julie	\$400.00
Mandy	\$350.00

Depreciation of \$360 has been provided on assets of the partnership

ADDITIONAL INFORMATION:

During the year the partnership purchased computers for \$1 800.00 and the necessary allowances were claimed.

Julie is a keen amateur golfer and belongs to sporting club- subscriptions paid by the partnership for her membership amounted to \$400.00 during the year under review.

Both ladies have the use of the partnership motor vehicles for personal use; Julie's being a 2500cc twin cab and Mandy having a 2litre Mazda 626

The I.T.V. of assets ranking for capital allowances at the beginning of the year was as follows:

Office furniture and equipment	\$700.00
Delivery motor cycle	\$500.00

You are required to compute the minimum taxable income for the partners for the year ended December 2009

[30 marks]

QUESTION 4 **(15 marks)**

a) Define "marketable security"

[3 marks]

b) Limo purchased his principal residence in March 2009 for \$90 000.00, he had some improvements being made on the property, being an extension to the kitchen and added a study all to the tune of \$5 000.00. In November he disposed of this property under a suspensive sale arrangement to Jabulani for \$150 000.00. The sale arrangement stipulates that the buyer pays \$70 000.00 in the first year and \$40 000.00 each in the subsequent two years.

You are required to calculate the capital gain accruing to Limo for the three years ending 2009; 2010 and 2011.

[12 marks]