



National University of Science and Technology

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

**SUPPLEMENTARY EXAMINATION PAPER:
2011/2012**

DATE: May 2012

SUBJECT: TAXATION I: CAC 4102

TIME ALLOWED: THREE (3) HOURS

MARKS: 100

INSTRUCTIONS TO CANDIDATES

1. Answer all questions
2. All workings should be shown
3. All answers should be presented in good style
4. Begin each full question on a new page

Question 1 [25 marks]

Mr. Burrows is employed by a local engineering company as its marketing manager. He submits the following information in support of his return of income for the year ended 31/12/2011.

	\$
Salary	78 500
Production bonus	11 200
Disability benefit (compensation)	30 000

The following expenses were incurred during the year:

Retirement annuity fund policy	3 000
Medical aid contributions	1 500
PAYE deducted	23 700
Prescribed drugs	1 200
Hospital bills shortfall	2 000
Funeral	900

He advises Zimra that:

- a) He was involved in a car accident during the year whilst on duty and as a result of the accident his left leg was paralysed from the hip downwards. He also suffered serious injuries which necessitated an operation however this left his right arm shorter than the left. His condition has been described as permanent by his family doctor.
- b) Employees contribute 6% of their basic salary to an approved pension scheme administered by the employer.
- c) The disability benefit was received from the employer's insurance scheme which covers injury whilst on employer's business, this, however, covers \$16 000 being loss of income during his period of hospitalisation.
- d) An audit of his tax affairs revealed that he had been paid the following amounts which he has not declared in his return of income. He was not aware that these receipts are taxable and his explanation has been accepted by the tax authorities.

	\$
i) Entertainment allowance	6 300
ii) Telephone allowance	1 300

- iii) Domestic worker's wages 1 200
- iv) 50% of both hospital bills shortfalls and drugs are borne by the employer.

However, he has proved that he had entertained clients on company business to the tune of \$2 300.

He also claims that 45% of his telephone calls were spent on contacting the company's clients; the claim is accepted by ZIMRA.

Required

Calculate his tax payable or refundable for the year ended 31 December 2011. [25]

Rates of tax for the period under review

<u>Band Income</u>	<u>Rate</u>
\$0 to 1920	0%
1921 to 6 000	20%
6001 to 12 000	25%
12001 to 18 000	30%
18 001 and above	35%

Question 2 [25 marks]

(a) Sections 46 and 47 of the Income Tax Act provide for the amendment of assessments issued by the Commissioner of taxes.

- i) Outline the circumstances under which assessments can be amended per these sections. [4]
- ii) Explain the essential differences in the determination of the period within which amendments can be made. [5]

- (b) (i) What are the major differences between Value Added Tax (VAT) and Sales Tax (GST)? [2]
- Discuss the advantages of VAT over Sales Tax. [4]

(ii) List any seven goods or services which are exempt from VAT and any three that are zero-rated. [10]

Question 3 [25 marks]

3.0

James Nyoni paid \$84 000 into his Retirement Annuity Fund policy over some years and only \$24 000 was allowed as a deduction by the tax authorities over the same period. The policy matured during the current tax year and according to his insurers he will be getting \$9 600 per annum as his annuity. His life expectancy has been assessed as 10 years from date of maturity of the policy, how much is taxable in the current year and subsequent years? **[10]**

3.1

Mr. Tshuma was forced by the nature of his job to regularly transfer such that he ended buying and selling houses as he moved from one town to the other, he had no intention of profiteering from these transactions.

	<u>Details</u>	<u>Date</u>	<u>Amounts</u>
			\$
House 1	cost	2005	50 000
	Sale	2007	90 000
House 2	Cost	2008	70 000
	Sale	2010	100 000
House 3	Cost	2011	120 000

Calculate the capital gains for each transaction in terms of Section 21 of the Capital Gains Tax Act **[15]**

Question 4 [25marks]

Loyola is an astute old lady who is a government pensioner after having worked for the state for over 40 years. Apart from her monthly pension she has a number of investments which she entered into some years specifically to cater for her during her old age.

She also has flat in town which she inherited from her late father and she is letting this property out for rental.

The following information is supplied with her return of income for the year ended 31 December 2011.

	\$
Pension	13 700
P.O.S.B interest	4 800
Barclays bank interest	3 700
Interest on a loan to her friend's company	4 500
Rental income	<u>4 200</u>
Total	<u>30 900</u>

Notes

- i) The rates for the flat were \$502
- ii) She sold 300 of her Old Mutual Shares for \$720; these had been bought for \$125 some years back.
- iii) She is 70 years of age.

Required

Determine the taxable income for her for the year under review and explain the treatment of each item of income accruing to her. **[25]**

End of Examination Paper

