National University of Science and Technology

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

Supplementary PAPER: FIRST SEMESTER 2012/2013

DATE:	**August 2013**
SUBJECT:	**TAXATION 1: CAC4102**
TIME ALLOWED:	**THREE (3) HOURS**
MARKS:	**100**

INSTRUCTIONS TO CANDIDATES

1. **Candidates should attempt all questions and begin each answer on a new page.**

2. **In marking papers, the examiner takes into account clarity of expressions, effective arrangement and presentation as well as legibility of handwriting.**

3. **Apply the Tax Law provisions for the 2012 tax year**

Question 1[25 marks]

i) Leslie is obliged to effect lease improvements to the value of $25 000 on a piece of land he leases from Shoko in terms of a lease agreement. The lease is for a period of 5 years with a possibility to extend the period should he still require the use of the asset at the end of the current period. He also has an option to purchase the property thereafter at $40 000, at which stage the estimated market value of the property will be $50 000.

Required

Advise him of all the tax consequences of such an agreement.

(**10 marks**)

ii) Analyse the following scenario and advise how it fits in with the provisions of the Income Tax Act in the determination of a person's taxable income and the implications for both parties involved in the transaction.
Mr. Tshuma bought a piece of land in the Lochview area of Bulawayo for $16 500 three years ago with the intention of developing a shopping complex in anticipation of an expansion in residential areas in the surrounding suburbs. However due to the economic financial squeeze the anticipated expansion did not materialise and he was forced to dispose part of the land for $25 000, the remaining area was let out on a lease improvement basis to someone who wanted to start a bottle store business. The agreement was that improvements to the value of $59 000 be effected.
These were duly effected and the store was put into use 2 ½ years after the commencement of the agreement at a cost of $72 000 – the agreement was never varied. The lease agreement is for a period of 10 years.
(15 marks)

Question 2[25 marks]

Mr. Zondo bought a building in the Central Business district of Bulawayo in 2009 for $15 000. He immediately converted the structure into five (5) offices for letting purposes at $1 500 per month per office. All the offices got tenants. As a business person he knew the importance of insuring his property hence he took a policy with Zimnat Insurance Company as a contingent measure.

In August 2011 one of the tenants left the air-conditioner running overnight and the wiring overheated and set the building into fire. The insurance company was called in to assess the damage and it paid compensation amounting to $12 500. Mr. Zondo used $10 000 of the compensation to repair the damaged structure.

However because of the damage to the building it became increasingly difficult for him to get any new tenants as the original tenants had secured other places during the period the building was under reconstruction. Eventually he was forced to dispose the building which he sold for $57 000 in March 2012.

Required.

Calculate :

i) Capital gains accruing to him on sale of the property

ii) Rental income accruing to him for the year ended 31/12/2011 given the fact that he paid rates to the City Council amounting to $3 750 and also claimed the amount spent on repairs as an expense.

(15 marks)

b) Zim (Pvt) Ltd constructed a warehouse at a cost of $25 000 five years ago. As the warehouse qualified as an industrial building Special Initial Allowance was claimed and granted by the authorities. The warehouse was insured for $32 000. During the year the warehouse was completely destroyed by a run-away 21 tonner truck. Since it was insured full insurance proceeds were recovered from the insurance company.

Required

Calculate the tax position of Zim (Pvt)Ltd.

(10marks)

Question 3[25 marks]

Highly Favoured Ltd is a manufacturer and retailer of clothing based in Bulawayo. The company has a 31 December year end and is registered for VAT under category C.

The following transactions relate to October 2012:

N. B All amounts are exclusive of VAT where applicable.

1. Purchase of raw materials	12 000 000
2. Purchase of computers	300 000
3. Payroll	80 000
4. ZESA	2 000
5. Canteen meals, fully subsidised by company	14 000
6. Air fares for CEO’s trip to Victoria Falls	1 500
7. Air fares for CEO’s trip to London	3 000
8. Mercedes Benz for the Chief Financial Officer, CEO [3 200 cc]	220 000
9. School fees paid for CEO’s children	8 600
10. ZESA paid on behalf of CEO	2 800
11. Repairs made to the Mercedes Benz used by the CEO	3 700
12. Value of Export sales	8 000 000
13. Value of standard rated sales	19 000 000
14. dividends received from shares listed on the Zimbabwe Stock Exchange	10 000

REQUIRED

Calculate Highly Favoured Ltd's VAT liability for October 2012 and advise the due date of payment of the tax and risks for the failure to pay on time.

Question 4[25 marks]

a] The Capital Gains Act allows for the taxpayer to make an election for the tax to be deferred in certain instances.

Briefly describe six circumstances where such election may be made. [12 marks]

b] Andrew Hatifi, a twenty year old National University of Science and Technology student, inherited a block of flats from the estate of his deceased father in August 2009.

The block of flats is situated in the Avenues of Harare. At the time of inheritance, the block of flats had an estate valuation of $1 000.

Although Andrew has been receiving rental income since the inheritance, he had made a decision to go on a world tour from 1 March 2013, after his final examinations.

In order to finance the tour he decided to sell the block of flats. IN that respect he signed a sale agreement with a consortium of doctors who wished to utilise the block of flats as offices and calling rooms.

The sale agreement, signed on 1 June 2012, included the following terms:

1. Sale price of the block of flats 3 000 000, payable on the following basis:

a] on signing the contract	50%
b] on 15 December 2012	$1 000 000
c] 30 June 2013	$500 000

2. Interest to be charged at the rate of 15% per annum, interest being payable in arrears.

Before going on the tour, he would like to settle his tax affairs and he asks for your advice regarding his tax status.

REQUIRED

Compute the capital gains tax associated with the disposal of the block of flats. In calculating the tax liability, you may effect any statutory dispensations that could assist Andrew to minimise his tax payable per year. [13 marks]

End of Examination Paper