National University of Science and Technology

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

SECOND SEMESTER EXAMINATION PAPER: 2011/2012

DATE:	**MAY 2012**
SUBJECT:	**TAXATION II: CAC4202**
TIME ALLOWED:	**THREE (3) HOURS**

MARKS: 100

INSTRUCTIONS TO CANDIDATES

1. Answer all questions in **Section 1** and any one (1) question in **Section 2**
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

Section 1

Question 1. [**25 marks**]

Indigenous Mines (Pvt} Ltd is a mine owning company controlled by four individuals. It produces gold from its own gold mine and other minerals are from tributed mines.
The following accounts are submitted for the year ended 31.12.2011.

a. Gross sales:

	$
• Gold	800 000
• Silver	200 000
• Copper	100 000

The estimated life of the mine is 17 years from the end of the year of assessment.

b. Mining profit per accounts $380 000 after charging and claiming the following expenses for tax purposes:

• Mining expenses	8 000
• Depreciation	2 500
• Tribute fees	5 000

c. The following prospecting fees were incurred during the previous year before commencement of mining operations and are claimable in terms of S15(2)(f)(ii) against income from mining operations:

• Removal of overburden	5 000
• Salaries and wages	7 200
• Sinking of boreholes	3 000
• Shaft sinking	2 500
• Company formation fees	700
• Depreciation	500

d. The balance of unredeemed capital expenditure at the end of the previous year of assessment was $150 000.

e. Capital expenditure incurred during the year is $55 000. This amount was not taken into account in arriving at the mining profit. The company claims these expenses in terms of paragraph 4(2) to the 5th schedule. In addition the cost of replacing a workshop destroyed by fire ($30 000) is claimed in terms of paragraph 6 to the 5th schedule.

f. Equipment bought for $15 000 in the previous year was sold for $25 600 during the current year.

g. The mining store realised a profit of $10 500.

h. Mining claims pegged two years back were sold for $13 000; the company did not discharge onus placed on it to prove that these were not held for speculative purposes.

Required:
Compute the taxable income /assessed loss of the company on the basis of:-

- Paragraph 4(2) to the 5th schedule.
- Paragraph 4(4) and 4(8) to the 5th schedule.
- That the company claims paragraph 2 to the 5th schedule.

Question 2. [**25 marks**]
Steers (Pvt) Ltd submits the following accounts in support of its return for the year ended December 2011.

Livestock Trading Account

Herd	**$**		**Herd**	**$**
2 Bulls at cost	2 400	150	sales	110 000
200 cows @ FSV 650	130 000	4	deaths	----
50 oxen @FSV 600	30 000	2	donations	----
20 heifers @FSV 450	9 000		**Closing stock**	
15 tollies @ FSV 450	6 750	2	bulls @ cost	2 400
25 calves @ FSV 350	8 750	222	cows @ FSV 600	133 200
150 purchases (cows)	91 200	63	oxen @ FSV 550	34 650
76 births	----	15	heifers @FSV 400	6 000
		6	tollies @ FSV 400	2 400
Profit	37 150	76	calves @FSV 35	26 600
540	**315 250**	**540**		**315 250**

Profit and Loss Account

Accountancy fees	2 500	Livestock profit	37 150
Depreciation	7 000	Grazer and dipping fees	13 000
Donations	3 000	Groundnuts sales	8 500
Dipping and vet fees	5 000	Zimplow company dividends	7 000
Fertiliser and seeds	3 500	Profit on sale of motor vehicle	4 000
Interest	2 000		
Fuel	3 500		
Repairs (motor vehicles)	5 750		
General expenses	4 000		
Salaries	4 000		
Herdsman's wages and rations	7 250		
Net profit	22 150		
	69 650		**69 650**

The following information is supplied:-

a. Cattle sales were in respect of 150 cows sold in May to mitigate against the impact of drought. The company makes an election in terms of paragraph 5(1) of the 7th schedule. Four calves died due to the prevailing drought conditions.

b. The fixed standard values (FSV) per the opening stock were approved by the tax authorities two years ago but due to the prevailing drought conditions the taxpayer unilaterally reduced them for some of classes of livestock for the purposes of the closing stock. Bulls are valued at Purchase PriceValue (PPV).

c. Two oxen were donated to the Matabeleland South Independence Day celebrations. Of the $3 000 donations, $2 000 was for the procurement of anti-retroviral drugs for St. Joseph's hospital in Kezi and the remaining amount was donated towards the Hero's Day commemorations.

d. 20 heifers were promoted to cows;15 tollies to oxen and of the 21 calves remaining 6 became tollies and the rest heifers.

e. During November the company purchased 152 cows to restock the herd depleted by drought, it claims restocking allowance in terms of the Act. The Department Of Agritex assesses the carrying capacity of the land (ACCL) 284.

f. The following expenditures were incurred during the year:

• A tractor purchased for	$ 16 500
• Pick-up truck cost	27 300
• Small reservoir constructed for	5 000
• Fencing for the paddocks	3 700
• Borehole sunk for	3 500
• Contour ridging to prevent soil erosion	2 300
• Staff housing- one unit	27 500
• Clinic for farm workers and their families	97 000
	182 800

The income tax values (ITV) of existing assets as at the end of the previous year of assessment were as follows:

• Farm improvements (cost $35 000)	22 500
• Motor vehicles	16 500
• MF tractor	5 000

The motor vehicle sold had been bought some 5 years back for $16 700 and SIA had been granted over the years.

Required

i) Draw up a livestock reconciliation account and;

ii). Compute the minimum taxable income/maximum loss for the company for the year under review.

Question 3 [**25 marks**]

a).Mr. Nyoni created an inter vivos trust and donated certain assets to the trust which was administered by a board of trustees. Among the assets donated were two rent-yielding flats in Bulawayo and a Lusaka house. The block of flats were C and D.

Block C rentals were $10 000 per month after deducting allowable expenses. The conditions attaching to this block in terms of the trust deed were:

- **a.** That 50% of the rentals each year must be paid to his son John, born out of wedlock.
- **b.** The other 50% to be accumulated for his daughter aged 21 years who will only be paid her share if she is still alive and unmarried on her 25th birthday.
- **c.** Should he die this flat should devolve upon his wife and she will have total discretion as to the disbursement of income arising there from.
- **d.** Mr. Nyoni retained a vested interest on income accruing from Block D and the trustees had total discretion on what amounts were to be paid to him each year. The trust submitted the following accounts in respect of this flat and the Lusaka house for the year ended 31.12.2011.

Expenses	$	**Income**	$
Administrators' fees	6 000	Rent	36 000
Improvements on flat	10 000	Lusaka rent	12 500
Repairs to flat	4 500	Company dividends	7 000
Payments to Mr. Nyoni	15 000	Bank interest	4 500
Profit	24 500		
	60 000		**60 000**

Required

- **i.** Advise who is taxable on what income and the reasons thereon. **[5 Marks]**
- **ii.** Assume Mr. Nyoni only had a contingent right to the income from Block D, who would be taxable on the income then? Support your answer by reference to decided case laws. **[10 Marks]**

b).Mr. Liver passed away on 31/03/2010. His Will specifically bequeathed to his mother $50 000 and to his son a flat in the central business district of Harare. A third of the income from the flat was to devolve upon his disabled sister who stays with his mother. The remainder of his estate was left to his son and daughter in equal shares.

The executors of the estate made distributions to the son and daughter on 01/10/2010. The accounts were confirmed by the Master of the High Court on 30/11/2010.

Required

Determine on whose hands the income accruing to the estate will be taxed for the years ending 31/12/2010 and 31/12/2011. Give reasons for your answer**.** **[10 Marks]**

Section 2

Question 4 [**25 marks**]

a. "Transfer pricing is a modern day economic exploitation". Critique this assertion with reference to the tax implications of the practice particularly with regards to Southern African economies. What methods can the tax authorities employ to counter this practice. **[10 Marks**]

b. Thin capitalization is one of the many tax avoidance schemes used by foreign investors to lessen the tax burden in high tax regimes. Briefly examine how this system operates in the so-called tax shelters. **[15 Marks**]

Question 5 [**25 marks**]

Candys (Pvt) Ltd's, a leading children's clothing shop in Bulawayo, submits it's estimated profit for the year ended 31/12/2010 as follows:

$	**$**	
Gross profit		152 000
Profit on sale of assets		2 000
Other income		
Rental income	12 000	
Zimbabwean company dividends	5 000	
Treasury bills	18 000	35 000
		189 000
Less		
Depreciation	8 000	
Fines	500	
Salaries	20 000	
Repairs and administration	90 000	118 500
Net profit		70 500

The actual accounts were submitted in May 2011 and showed a gross profit figure of $175 000, all the other items remaining the same. It is accepted that the third quarterly payments were effected 15 days after due date as the company was facing cash flow problems.

Required.

Determine the company's tax payable per each quarter and the final tax liability after submission of the actual accounts. The rate of interest on overdue payment is 10% per annum.

The rate of tax for companies is given as 25 % + 3% Aids levy and the quarterly rates are:

1^{st} QPD	*10%*
2^{nd} QPD	*25%*
3^{rd} QPD	*30%*
4^{th} QPD	*35%*

END OF EXAMINATION PAPER