

NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

MAIN EXAMINATION

MASTER OF SCIENCE DEGREE PART 1 SEMESTER 2

COURSE

LOCAL AND INTERNATIONAL TAXATION

CODE

CAC 5203

DATE:

MAY/JUNE 2014

DURATION:

3 Hours

INSTRUCTIONS TO CANDIDATES

1. ANSWER ALL QUESTIONS
2. YOU MAY BRING INTO THE EXAMINATION UNMARKED COPIES OF:

INCOME TAX ACT (CHAPTER 23:06);

VALUE ADDED TAX ACT (CHAPTER 23:12);

CAPITAL GAINS TAX ACT (CHAPTER 23:01);

FINANCE ACT (CHAPTER 23:04).

Question 1

A taxpayer acquired a property in January 2006 at cost of US\$180 000.00 excluding transfer fees of US\$1 500.00 the property was destroyed by fire in December 2008 and the taxpayer received a compensation from an insurance company in the sum of US\$90 000.00. The taxpayer used the proceeds from the insurance company to reconstruct a property of a like nature in December 2008. In August 2012 the taxpayer effected repairs on ceiling of the house incurring US\$2 100.00 in the process. A swimming pool was constructed in November 2012 costing US\$20 500.00. The taxpayer decided to dispose the property in August 2013. Upon disposal, the taxpayer had a taxable income under the Income Tax Act (CAP 23.06) by way of recoupment in the sum of US\$9 200.00. The taxpayer paid the Estate agent a commission of \$18 500.00. His receipt for the property amounted to US\$350 000.00.

Required

- a) What is the capital gains tax payable by the tax payer in the year of disposal of the property? **(18 marks)**
- b) If the property was sold under the following terms, what will be the capital gains tax for the years the instalments are paid? Payments were made in the following order:
 - i) Year 1 - US\$215 000.00
 - ii) Year 2 - US\$100 000.00
 - iii) Year 3 - US\$35 000.00**(6 marks)**

Question 2

- a) Tax planning at times appear to be just a worst of time in that the effort may not necessarily be commensurate to the benefits accrued. Discuss fully any Five (5) limitations of tax planning. **(5 marks)**
- b) Mr GG aged 59 is the managing director of a local engineering company based in Bulawayo. You are presented with his following income and expenditure account for the year ended 31 December 2013:

Income

Salary	99 000
Performance bonus	9 000
Interest from Malawian Bank	1 200 (NRTI \$45)
Interest from SA Bank	1 500 (NRTI \$35)
Entertainment allowance	1 000
Income from guest lectureship at NUST	15 000
Income from trade and investments	60 000
Loan from employer	11 000

Expenditure

PAYE	43 500
Medical aid shortfalls	5 000

Purchase of special spectacles for aged mother	200
Pension contribution	6 000

Notes

1. Mr GG managed to satisfy the Commissioner that \$600 the entertainment allowance was spent entertaining the employer’s clients.
2. The loan obtained from the employer on 1 February 2013 was used to acquire an Ex-Japan Toyota Camry sedan and he paid back the loan at an interest of 3% per annum.
3. With effect from 1 September 2013, he was allocated the company’s Mercedes Benz which he also used for his private trips. The engine capacity is 2800cc.
4. Included in the medical aid shortfall is an amount of \$420.00 which remains outstanding and not yet paid by year end by him to the medical aid society.
5. Assume a LIBOR of 4% per annum.

Required

Calculate his tax liability or refundable for the tax period under review. **(17 marks)**

Question 3

The balance of unredeemed capital expenditure in the books of accounts of Vuyelwa Copper Mining Limited is US\$254 500 at 31 December 2012. Copper ore sales during the current year of assessment ended 31 December 2013 amounted to US\$560 800.00 and the following expenditure was incurred during the year:

	US\$
Mine buildings	185 000
Shaft sinking	55 000
Plant and machinery	87 000
Wages and rations	12 000
Interest (allowable)	5 000
Salaries and bonuses	150 000
Repairs	25 740
Mine clinic	65 000
Nurse’s house	55 000
Passenger Motor vehicle	14 000
Staff housing	125 000

Ore to the value of \$160 000.00 has been extracted but not yet sold by 31 December 2013. A mining plant equipment was disposed during the current year and realized US\$50 000.00.

Required

- a) Calculate the capital redemption allowance based on:
- i) Life of mine basis, assuming that the life of the mine at the beginning of the year is 6 years.
 - ii) Mixed basis
 - iii) Current basis **(10 marks)**
- b) Calculate the tax payable/assessed losses for Vuyelwa Copper Mining Limited for the year ended 31 December 2013 when using each of the above three methods. **(6 marks)**

Question 4

- a) In your study of international taxation, it was made clear that corporate tax rate is not the sole factor on which to decide location of foreign direct investment (FDI). State in point form any SEVEN other factors that may influence FDI's destination. **(7 marks)**
- b) In point form outline any EIGHT reasons that makes it impossible for different nations to attain *Tax neutrality*. **(8 marks)**
- c) i) Define the term Transfer pricing. **(1 mark)**
ii) Give any one internal motivation for transfer pricing. **(2 marks)**

Question 5

- a) The Herald of 3 February 2014 had a headline entitled: "**Megabucks CEOs evading taxes: ZIMRA**". Discuss the difference between tax avoidance and tax evasion, citing at least two decided cases that clearly outline the fact that tax avoidance is legal. **(10 marks)**
- b) Mr Jackie purchased a plant at a consideration of \$40 000.00 on 1 February 2013 and immediately applied it to production. As at 31 January 2013, the anticipated portion attributable to taxable use was 80%. By 31 October 2013 it was clear that the plant was applied to taxable use to the extent of 60%.
- i) Determine consideration arising from the change of use of the plant **(5 marks)**
 - ii) Determine VAT that is arising from such consideration **(1 marks)**
- c) Zimbabwe tax legislation favours the elderly. Discuss this statement giving any four examples of current provisions and the figures involved. **(4 marks)**

APPENDICE TO LOCAL AND INTERNATIONAL TAXATION PAPER

1. Individual Tax Table

From	To	Amount in Bracket	Tax Rate (%)	Tax (\$)	Cumulative Tax (\$)
0	to 3 000	3 000	0%	0	0
3 001	to 12 000	9 000	20%	1 800	1 800
12 001	to 24 000	12 000	25%	3 000	4 800
24 001	to 60 000	36 000	30%	10 800	15 600
60 001	to 90 000	30 000	35%	10 500	26 100
90 001	to 120 000	30 000	40%	12 000	38 100
120 001	and above	-	45%	-	-

2. Corporate Tax **25%**

3. AIDS Levy **3%**

4. Motoring benefit:

Engine capacity	Monthly benefit
Up to 1 500cc	US\$150.00
1 5001cc to 2 000cc	US\$200.00
2 001cc to 3 000cc	US\$300.00
3 001cc and above	US\$400.00

NB: These RATES are for Examination purpose only.

END OF EXAMINATION PAPER