



**National University of
Science and Technology**
Think in Other Terms



FACULTY OF COMMERCE

DEPARTMENT OF FINANCE

BACHELOR OF COMMERCE HONOURS DEGREE IN FISCAL STUDIES

FINAL EXAMINATION – DECEMBER 2014

TAX LAW AND PRACTICE [CFS 2101]

TIME ALLOWED: THREE (3) HOURS

INSTRUCTIONS TO CANDIDATES

1. Answer all questions
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

ADDITIONAL INFORMATION FOR CANDIDATES

- 1) The paper contains FOUR (4) questions.
- 2) This paper consists of 6 printed pages
- 3) Marks for each question are shown in parentheses brackets () and square brackets [] at the end of each part of the question and full question respectively.
- 4) All questions carry **equal marks** [25 marks].
- 5) Total marks [100]

QUESTION 1

Until 31 December 2012 Chido was employed by Paidamoyo Plc as a management consultant. The following information relates to the period of employment from 6 April to 31 December 2012.

- (i) Chido was paid a gross salary of \$3,250 per month.
- (ii) She contributed 6% of her gross salary into Paidamoyo Plc's approved occupational pension scheme. The company contributed a further 6%.
- (iii) Put-it-Right Plc provided Lai with a petrol powered company car with a list price of £26,400. The official emission rate for the motor car was 260 grams per kilometre. The motorcar was first registered on 1 January 2010. Lai paid Put-it-Right Plc £130 per month for the use of the motorcar. Put-it-Right Plc paid for the petrol in respect of all the mileage done by Lai during 2011-12. She paid the company \$30 per month towards the cost of her private petrol. The motorcar was returned to Put-it-Right Plc on 31 December 2012.
- (iv) Paidamoyo Plc provided Chido with an interest free loan of \$30,000 on 1 January 2009. She repaid \$20,000 of the loan on 30 June 2012, with the balance of \$10,000 being repaid on 31 December 2012. The loan was not used for a qualifying purpose.

On 1 January 2012, Chido commenced self-employment running a music-recording studio. The following information relates to the period of self-employment from 1 January to 5 April 2012.

- (i) The trading profits for the period 1 January to 5 April 2012 are \$32,050. This figure is before taking account of capital allowances. (ii) Chido purchased the following assets:

01/01/2012 Recording equipment	\$ 9,300
15/01/2012 Motor car with CO2 emissions of 185g/km	\$ 14,800
20/02/2012 Motor car with CO2 emissions of 140g/km	\$ 10,400
04/03/2012 Recording equipment	\$2,600

The motorcar purchased on 15 January 2012 for \$14,800 is used by Lai, of which 40% of the mileage is for private purposes. The motorcar purchased on 20 February 2012 for \$10,400 is used by an employee, of which 10% of the mileage is for private purposes. The recording equipment purchased on 4 March 2012 for \$2,600 is to be treated as a short-life asset.

- (ii) Since becoming self-employed Chido has contributed \$500 per month (amount paid) into a personal pension scheme.

Required:

- (a) Calculate Chido's gross income, taxable income and income tax liability for 2012.
(20 marks)
- (b) Briefly explain how Chido's income tax liability for 2012 will be paid to ZIMRA
(5 marks)

QUESTION 2

Shumbadya has been a self-employed hairdresser since 1 January 2010. His sales from the date of commencement of the business to 31 October 2010 were \$6,000 per month.

On 1 November 2010 Shumbadya increased the prices that he charged customers, and from that date his sales have been \$6,670 per month. Shumbadya's sales are all standard rated.

As a result of the price increase, Shumbadya was required to register for value added tax (VAT) from 1 February 2012. However, as Shumbadya didn't want to become uncompetitive, he didn't increase his prices, even though he'd become VAT registered, and decided to absorb the VAT cost.

Shumbadya's standard rated expenses are \$460 per month.

Where applicable, the above figures are inclusive of VAT.

Required:

- (a) Explain why Shumbadya was required to compulsorily register for VAT from 1 February 2012, and state what action he then had to take as regards notifying Zimbabwe Revenue Authority of the registration).
(10 marks)
- (b) Calculate the total amount of VAT payable by Victor during the year ended 31 December 2012. You should ignore pre-registration input VAT. **(10 marks)**
- (c) Advise Shumbadya why it would have been beneficial to have joined the VAT flat rate scheme from 1 January 2011. Your answer should include a calculation of the amount of VAT that Victor would have saved for the year ended 31 December 2012 by joining the scheme. The flat rate scheme percentage for hairdressing is 10.5%.
(5 marks)

QUESTION 3

- (a) Section 46 of Chapter 46:06 provide additional tax to be imposed by Commissioner, list 5 instances where Commissioner can exercise those powers in term of the said section.
(4 marks)
- (b) State briefly the provisions of section 47 (Additional assessments) indicating specific restrictions placed on the Commissioner in his application of this section
(5 marks)
- (c) What recourse does a taxpayer who is aggrieved by a decision by the Commissioner have? Outline the manner in which the aggrieved taxpayer

communicates with Commissioner when aggrieved. Detail the accepted objection format in terms of Section 62 the Income Tax Act. **(6 marks)**

- (d) Arnold Onyango's house which he acquired in 2009 for \$8 000 was gutted by fire on 2nd June 2012. It had an Initial Tax Value (ITV) of \$7 200. Arnold Onyango received \$76 000 compensation from its insurer on 1st October 2012 and spent \$60 000 in replacing the factory building.

Required:

Compute Arnold Onyango capital gain / loss on this transaction.

(10 marks)

QUESTION 4

Mr George died on 1 July 2011 at the age of 62, shortly after he and his wife had emigrated to the Australia from Zimbabwe on 25 June 2011. The following information is furnished in respect of the year ended 31 December 2011

ACCRUALS	MR George 1-1-2011 to 1-7-2011	MRS George 1-1-2011 to 1-7-2011	MRS George 02-7-2011 to 31-12-2011
	\$	\$	\$
Railways Pension	16 000 (PAYE \$3 420)	\$ 000	12800 (PAYE 1 990)
Old age pension (ex Dept. Of Health & Social Sc.)	12 000		
Annuity	15 750		
Death Benefit (lump sum From Railways Worker's Trade Union)			\$ 5 250
Salary part – time job (April)		1 280 (PAYE \$ 650)	\$ 3 000
ZIMBABWEAN INVESTMENT INCOME From			
Building society shares payable twice yearly (1/1/2008 and 11/11/2008)		5 000	5 000
From Building Society Fixed Deposits payable Twice yearly on 1/3/2008 and 1/9/2008	(\$ 1250 x 2)		2 500
From local registered Municipal stock payable Quarterly commencing 11/1/2008		900	300
Annual interest payable yearly on loan			

Deposit with a Merchant Bank payable 1/11/2011	15000 (NRTI \$ 1 500)
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FOREIGN INVESTMENT INCOME

National Bank of Australia fixed deposit interest

Payable	600
1/11/2011	(NRTI \$ 350)

Additional Notes

- (i) Mr George was previously employed by the railways for 30 years and was in receipt of a pension from this source up to date of his death. Mrs George is now in receipt of a widow's pension from this fund as from the date of death of her husband. Records show that his services rendered in different territories were as follows:

Botswana – 2 years 3 months

Zambia – 8 years 4 months, Zimbabwe - balance

- (ii) Old Age Pension (Dept. of Health and Source Security):

This is a U.K pension payable to Mr. George. Mr George has been previously been allowed deduction for his contributions to this scheme in terms of Section 15 (2), h, of the Income Tax Act.

- (iii) The Annuity was purchased in Zimbabwe during the year ended 31 March 1998 for \$ 15 000 by Mr George, for which no deduction was granted. (He used half his cash commutation from the railways pension fund). The annuity payments are guaranteed for 10 years and were payable on the 1st of each month, with effect from 1 April 1998 at the amount of \$ 1 750 per month. On Mr George's death, payment will continue to be made to Mrs Ncube in terms of the rules of the fund, for the balance of the 10 year period.

- (iv) The building society investments, as well as the investment at the Merchant Bank, were made in August 1987 when Mrs George inherited capital from a deceased relative.

- (v) Mrs George contributes \$ 8 000 (due and payable annually on 1st December) to an approved retirement annuity fund of which she has been a member for 6 years.

(vi) Mr and Mrs George have a son aged 29 who is physically disabled and who is a permanent resident at an institution in Zimbabwe caring for such persons. The fees payable by Mr George were \$ 800 per month in advance on the 1st of the month. Mrs George continues to make these payments after her husband's death. Other expenses incurred in respect of his son by Mr George up to his date of death were:

Drugs and medicines on prescription	\$ 1 500
Doctor's consultation fees	\$ 1 750
Cost of air fares to Johannesburg to see specialist	
For annual check up	\$ 3 700
Cost of new electric wheelchair	\$ 5 000
Personal accident policy premiums	\$ 1 200

REQUIRED

Calculate taxable income and credits in respect of:

- (a) The late Mr George for the period to date of death **(15 Marks)**
- (b) Mrs George for the full tax year **(10 Marks)**

END OF THE EXAMINATION PAPER