



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



**FACULTY OF COMMERCE
DEPARTMENT OF FINANCE
BACHELOR OF COMMERCE HONOURS DEGREE IN FINANCE & FISCAL
STUDIES**

PART II 1ST SEMESTER FINAL EXAMINATION 2015

TAX LAW AND PRACTICE [CFS 2101]

TIME ALLOWED: 3 HOURS

INSTRUCTIONS TO CANDIDATES

1. Answer **ALL** questions in Section A and any **TWO (2)** questions from Section B.
2. Write neatly and legibly.
3. Unless told otherwise or there are indications to the contrary in a particular question, assume that each taxpayer in these examination questions will always elect to minimise tax liability in the current year of assessment.

INFORMATION FOR CANDIDATES

1. This paper contains **FIVE (5)** Questions.
2. Section A carries 50 marks and Section B carries 50 marks.
3. Each full question carries a total of **25 marks**.
4. This paper contains **TEN (10)** printed pages, including the cover page.
5. The use of a handheld, silent, non-programmable calculator is permitted.

ADDITIONAL MATERIAL

1. Zimbabwe Income Tax Act [chapter 23:06]
2. Tax Tables are provided on the last page of the examination paper.

SECTION A – COMPULSORY QUESTIONS

Question 1

[25 marks]

Great Zimbabwe Motor (GZM) Corporation has three assembly plants for motor vehicles in Zimbabwe. One based at the Head Office plant in Harare, and the others in Bulawayo and Mutare. However, because of reduced sales volumes induced by the economic challenges, the GZM has decided to consolidate all its motor vehicle plants and relocate to the head office plant, after it incurred an assessed tax loss of \$58 000 for the year ended 31 December 2014.

The fixed assets which were relocated to the Head Office Plant in Harare as a result of this decision were as follows:

Asset	Purchase Date	Cost	Income Tax Value on 1 January 2015
Furniture and fittings	May 2013	100 000	50 000
Offices equipment	May 2013	60 000	30 000
Computer equipment	May 2013	80 000	40 000
Plant and equipment	Oct 2011	110 000	Nil
Plant and equipment	Feb 2013	180 000	90 000
Commercial vehicles	March 2013	250 000	125 000

Passenger Motor Vehicles	Purchase Date	Cost	Income Tax Value on 1 January 2015
Toyota Land Cruiser	March 2013	80 000	40 000
Mazda BT50	March 2013	50 000	25 000
Nissan NP 300	March 2013	40 000	20 000
Nissan NP 200	March 2014	25 000	18 750

Assets which have always been based at head office plant in Harare were as follows:

Asset	Purchase Date	Cost	Income Tax Value on 1 January 2015
Industrial building	March 2013	500 000	255 000
Warehouse	March 2013	300 000	323 750
Office block	March 2013	350 000	Nil
Office equipment	March 2014	180 000	Nil
Furniture and fittings	March 2013	200 000	Nil
Computer equipment	March 2013	280 000	Nil
Plant and equipment	March 2013	400 000	Nil
Commercial motor vehicles	March 2014	200 000	Nil

Passenger Motor Vehicles	Purchase Date	Cost	Income Tax Value on 1 January 2015
Toyota Prado	January 2011	80 000	Nil
Nissan NP 300	January 2011	50 000	Nil
Nissan NP 200	January 2011	25 000	Nil

Assets disposed of during the year 2015:

All motor vehicles which were transferred to Harare were sold during the year as follows:

Passenger Motor Vehicles	Selling Price
Toyota Land Cruiser	40 000
Mazda BT50	15 000
Nissan NP 300	30 000
Nissan NP 200	25 000

The company owned the Bulawayo Plant, but the Mutare plant was leased. As a result, it sold the Bulawayo plant on 1 October 2015 for \$450 000 and terminated the lease on the Mutare plant on 1 December 2015. The following information pertains to the sold plant:

Asset	Purchase Date	Cost	Income Tax Value on 1 January 2015
Office block	October 2011	130 000	Nil
Industrial building	October 2011	170 000	Nil

As a result of the increased staffing levels at the Head Office plant, the company had to purchase the following assets:

Asset	Purchase Date	Cost
Office equipment	September 2015	25 000
4 X Nissan NP 200	October 2015	100 000

An extract of information from the statement of comprehensive income for GZM Corporation for the year ended 31 December 2015 was as follows:

Operating profit **\$223 000**

Credits

Item	Amount (\$)
Motor vehicles assembled sales	1 845 000
Rental of Mutare property	100 000
Profit on sale of motor vehicles	210 000
Interest from commercial bank	43 000
Dividends received from local listed companies (gross)	29 000
Dividends received from other local companies (gross)	22 000

Debits

Item	Note	Amount (\$)
Distribution costs	1	248 500
Administration cost	2	345 000
Depreciation		97 000
Value added tax payment default penalty		7 000
Internet and communication expenses		31 000

Additional Information

Note 1: The distribution costs consist of the following amounts:

Traffic fines:	\$3 500
Parking disks	\$6 000
Repairs and maintenance	\$94 000
Fuel	\$145 000

Note 2: Administration costs included the following in respect of the company's 97 employees:

Salaries and wages	\$275 000
Staff pension contributions	\$42 000
Staff medical aid contributions	\$28 000

Required

- (a) Calculate the capital gains tax effect of the sale of the Bulawayo property. [3]
- (b) Calculate the minimum tax taxable payable by GZM Corporation for the year ended 31 December 2015. [22]

Question 2

[25 marks]

- (a) Bigboy Nyathi, who is 46 years of age, sold his principal private residence which was located in an upmarket Bulawayo suburb on 1 October 2015 for \$100 000. He intended to use the proceeds to buy another house which was bigger. He eventually found and bought the bigger house in Bulawayo which was located in a cheaper neighbourhood, but with a larger plot of land around it, in November 2015. The new house cost him \$80 000. Bigboy elected for rollover relief.

Additional Information

The following amounts are associated with the house that Bigboy Nyathi sold:

1. The house was built on a plot of land which he had purchased in March 2011 for \$1 500.
2. The total cost of building the house, excluding the land was \$30 000.
3. In February 2012, he erected a durawall around the property and an electric sliding gate for \$2 700.
4. He then constructed a double lockup carport at a cost of \$5 000.
5. He sold his house through an estate agent and was charged a 5% commission on the selling price.

Required

Calculate Bigboy's capital gains tax payable or assessed capital loss for the year ended 31 December 2015. [15]

- (b) Foodies Market (Pvt) Ltd is in the business of running fruits and vegetables outlets. The company plans to aggressively expand its business activities all over the country in the next few years. As part of those plans, the company has identified a warehouse in the city of Bulawayo, which is owned by Mr Patel, that was is rather being underutilised. Foodies Market agreed to lease the warehouse and intended to improve

it such that it would comprise both a warehouse and an outlet for fruits and vegetables. The following were the terms of the agreement reached with Mr Patel:

1. Foodies Market was to effect improvements on the property suitable for its business worth \$40 000, within 3 months of the signing of the lease agreement.
2. A lease premium of \$10 000 was payable on signing the lease agreement.
3. Rent was to be payable in advance at \$2 000 per month.
4. The lease is valid for 5 years with effect from 1 February 2015.

Foodies Market effected the improvements as per the agreement with Mr Patel and started using the improvements on 1 May 2015.

Required

- i. Calculate amounts which constitute gross income in the hands of Mr Patel for the year ended 31 December 2015. [5]
- ii. Calculate the amounts which are allowable in the hands of Foodies Market in regard to the lease agreement, for the year ended 31 December 2015. [5]

SECTION B – ANSWER ANY TWO QUESTIONS FROM THIS SECTION

Question 3

[25 marks]

- a) Joan Kademo turned 56 on the 7th of February 2015, and she is employed by Desktop Sales (Pvt) Ltd. She joined the company on 2 July 2015 as a Sales Manager. Her basic monthly salary is \$2 300. She is entitled to receive a bonus of \$450 every three months, and a sales commission every month. Up to the end of the year she earned sales commission of \$3 100, which is dependent on the total sales made by her sales team in the previous month. She has not been issued with a company vehicle, but her employer has agreed to pay her \$0.70 for every km that she travels for business purpose. As a condition for taking up her new employment, Joan was paid \$1 200, to cover the cost of relocating from Harare to Bulawayo. On 31 July 2015, she was given a loan of \$12 000 to purchase her own motor vehicle at simple interest rate of 5.5 percent per year, for twenty four months, from the day she received the loan. Her current employer gave her a laptop to use at work, which the employer took from stock which was being sold by the company, and which she is free to take home and use for non-business purposes. The company has agreed to pay school fees for Joan's two children. Before she joined her current employer, she was working for Electronic Business Machines (EBM) in Harare.

Additional Information

1. Joan maintains a logbook, and she travelled 6 100km during the year for business purposes and 4 400 km for private purposes.
2. The AA all inclusive rate for a motor vehicle of her size is \$0.50/km.
3. The Libor rate was 3 percent on the day that Joan received the loan.
4. From her previous employer Electronic Business Machines, Joan had earned an income of \$11 400, during this current year of assessment, of which, \$9 500 was pensionable income.

5. The employer bought the laptop that was given to Joan at a cost of \$650 and was selling it for \$850, at the time it was given to Joan.
6. Joan's children are aged 15 and 17 and Desktop Sales paid a total of \$950 for their school fees.

Required

- i. Compute Joan's taxable income for the 2015 year ended 31 December 2015. [10]
 - ii. Compute Joan's tax payable for the 2015 year ended 31 December 2015. [10]
- b) Spike Spilloon is a Private detective who undertakes a variety of investigations. During the year of assessment, his offices were burgled and confidential files were stolen. Shortly thereafter he was confronted by a blackmailer demanding the payment of large sums of money. He paid the amounts to prevent the loss of certain valuable clients and the potential forfeiture of fee income. He may even have faced the claims of large sums of money in damages from his clients. The husband of one of the clients sued Spike all the same. Spike voluntarily offered \$10 000 in damages, but the client's husband refused to accept the amount and pursued the matter in court where a settlement of \$15 000 was finally reached.

Required

Using relevant case law, briefly advise Spike on which of the above amounts (if any) he can deduct from his income for tax purposes. [5]

Question 4

[25 marks]

- a) Nigel Benson is 45 years old and is a resident of Zimbabwe. He is married and has three children. During the 2015 year of assessment he received the following income and incurred the following expenses:

	Note	\$
Interest received on fixed deposit in a local bank		2 100
Royalties received on copyrights for books sold through a South African publisher	1	37 500
Rent received on holiday house on the shores of Lake Kariba		4 200
Rent received on beach house in Cape Town, South Africa		7 500
Dividends received	2	7 000
Income received from a patent hired from a Kenyan inventor	3	8 000

Additional Information

Note 1

Nigel Benson wrote two books:-

The first one whilst on vacation in Botswana:

• Gross royalties in respect of South African sales	11 000
• Gross royalties in respect of sales in Botswana	7 500
• Gross royalties in respect of sale in Zimbabwe	9 000

The second one whilst he was on holiday in Kariba

• Gross royalties in respect of South African sales	6 000
• Gross royalties in respect of sale in Zimbabwe	4 000

Note 2

Dividend received from listed Zimbabwean companies	3 500
Dividend received from unlisted Zimbabwean companies	2 000
Dividend received from foreign listed companies	1 500

Note 3

Nigel Benson acquired rights covering the whole of the SADC region for a patent from a Kenyan inventor and initially intended to use it in a business process in Zimbabwe, but finally decided to set up the business in South Africa, where he thought it was more profitable to deploy the intangible asset.

Required

Calculate the taxable income for Nigel Benson for the year ended 31 December 2015. [15]

(b) Using relevant case law, explain if the following amounts are of a capital or income nature

- i. James is a professional diving instructor. During one of his dives he discovered an ancient ship under the water carrying a lot of treasure. [3]
- ii. Bud lives in Victoria Falls and works there as a professional hunter/guide. He inherited a house in Harare from his grandfather valued at \$60 000. Since he was in urgent need of cash to finance his business, and since he already owned another house in Victoria Falls where he stayed, he immediately advertised and sold the house within two weeks for \$65 000. [3]
- iii. William is a land developer. He was looking for house to buy, so that he could build a house to stay in with his family. He stumbled upon a piece of land which was being sold at a bargain price of \$20 000, and he could not resist buying it. However he soon realised that it was too large to build a single house on, as the city council rates would be too heavy for him. He decided to subdivide it and sell the other half. He managed to sell the half for \$20 000, the same amount he had bought the whole property for. [4]

Question 5

[25 marks]

Boyd Masuku is a widower with two children, and he turned 56 years in February this year. He is employed as a Coordinator in the Ministry of Sports and Culture. In October 2015, he was involved in an accident while travelling to a seminar in South Africa on business. The

accident caused him to be wheelchair bound. He has approached you to help him calculate his taxable income for the year ended 31 December 2015.

The following are his earnings from the current year of assessment:

	\$
Compensation from NSSA for permanent injuries	12 000
Salary (PAYE \$8780)	28 400
Representation allowance	5 000
Housing allowance	5 600
Encashment of leave days	8 000
Bonus	7 000
Pension contributions	3 800
Retirement annuity fund contributions	5 000
Arrear pension fund contribution	2 100
Medical aid contributions	2 400
Travel allowance	9 000
Subscriptions to the spinal injuries association	800
Widower's pension received	9 600
Medical shortfall	986

Boyd has free use of a government vehicle, a Ford Ranger with an engine capacity of 2 200cc during the course of the year.

Other income received:

Rental income in respect of a house being managed by a real estate agent:

Gross rent received	8 800
Estate agent's management fees	1 200
Repairs and maintenance	850
Rates and security	190
Construction of a lockup carport and driveway	5 400
Mortgage bond repayment	6 500
Interest paid on mortgage bond	2 200
Insurance premium for the property	700

Other investment income:

Interest received from Bankers' Acceptances with a local bank	4 500
Interest received from a building society	6 000
Dividends from a Zimbabwean listed company (gross)	3 500

Required

- Identify those items of income in respect of which Boyd Masuku's tax liability will be satisfied by final withholding tax and state the rate of withholding tax applicable. [4]
- Compute Boyd Masuku's taxable income from employment for the tax year ended 31 December 2015. [12]
- State and quantify the tax credits that Body Masuku can claim against the tax payable by him on this income. [3]

- d) Compute Boyd Masuku's taxable business income in respect of the year ended 31 December 2015. [6]

END OF EXAMINATION PAPER

Schedules to the Tax Law & Practice Examination Paper [CFS2101] (December 2015)

Schedule 1

Engine Capacity Deemed Taxable Benefit per annum (2015)	
Up to 1 500cc	US\$ 3 600
1 501cc to 2 000cc	US\$ 4 800
2 001cc to 3 000cc	US\$ 7 200
Over 3 000cc	US\$ 9 600

Schedule 2

Annual Tax Tables for Individuals for 2015			
FROM	TO	MULTIPLY BY	DEDUCT
0	3,600.00	0%	-
3,601	18,000.00	20%	720
18,001	36,000.00	25%	1,620
36,001	60,000.00	30%	3,420 \$
60,001	120,000.00	35%	6,420 \$
120,001	180,000.00	40%	12,420
180,001	240,000.00	45%	21,420
240,001	and above	50%	33,420