

**NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**FACULTY OF COMMERCE**  
**DEPARTMENT OF FINANCE**  
**BACHELOR OF COMMERCE HONOURS DEGREE IN FINANCE**  
**PART II – 2<sup>nd</sup> SEMESTER FINAL EXAMINATION – MAY 2008**  
**TAXATION I [CFI 2204]**  
**TIME ALLOWED: 3 HOURS**

**INSTRUCTIONS**

1. Answer all questions
2. Show all workings
3. Begin an answer to a new question on a fresh page.
4. Silent non-programmable calculators may be used.
5. Credit will be given for neat and orderly presentations.

**The following tax rates and allowances are to be used in answering the questions.**

- |    |                                       |                     |       |
|----|---------------------------------------|---------------------|-------|
| 1. | Corporation tax:                      | 30% + 3% Aids levy. |       |
| 2. | Value Added Tax [VAT]:                | Standard rate       | 15%   |
|    |                                       | Zero rated          | 0%    |
|    |                                       | Special rate        | 22,5% |
| 3. | Non-Residents` Tax on Interest [NRTI] |                     | 10%   |
|    | All other withholding taxes           |                     | 20%   |
| 4. | Capital Gains Tax                     |                     | 20%   |

5. **The All items Consumer Price Indices are as follows:**

January	2005	[Assumed]	800 000
May	2006	[Assumed]	850 000
June	2006	[Assumed]	900 000
January	2007	[Actual]	968 338,90
February	2007	[Actual]	1 334 521,70
March	2007	[Actual]	2 008 932,10
April	2007	[Actual]	4 032 633,70
May	2007	[Actual]	6 265 734,30
June	2007	[Actual]	11 666 826,70
July	2007	[Actual]	15 358 172,20
August	2007	[Actual]	17 171 312,80

**Question 1** [15 marks]

The following queries have been referred to the head of the Tax Division of a firm of Chartered Accountants for review.

On the first day of an interim audit of a large manufacturing company in April 2008, the Zimbabwe Revenue Authority [ZIMRA] had delivered a schedule of demand for the payment of \$346 200 000 from the company [under audit], being 10% withholding tax on contracts not deducted on payment of creditors who did not have tax clearances in terms of Section 80 of the Income Tax Act [Chapter 23:06].

On examination of the schedule you determine that the ZIMRA Audit team had merely asked for a listing of payments to creditors in the preceding three months and calculated 10% of the total payments, in view of the fact that the company was unable to provide the requisite tax clearance certificates.

After sorting out and consolidating, the list of payments comprises the following:

	\$
Payments for manufacturing materials	400 000 000
Payments to ZIMRA for taxes	1 250 000 000
Value Added Tax	650 000 000
Import duty	350 000 000
Electricity and water	34 000 000
Salaries paid to employees	28 000 000
Payments for security services	250 000 000
Payments to the bank [loans]	<u>500 000 000</u>
	<u>3 462 000 000</u>

**Required:**

- a) Briefly state and explain the requirements of the statutory provisions regarding the 10% withholding tax on contracts for the company's benefit. [6 marks]
- b) Evaluate and explain the claim by Zimra and ascertain the correct potential amount to be negotiated with Zimra for payment. [9 marks]

**Question 2** [30marks]

- a) Outline the circumstances in which a taxpayer is deemed to have disposed of a specified asset for capital gains tax purposes. Specify how each of these deemed disposals are valued of inclusion in the taxpayer's gross capital amount. [5 marks]
- b) State any five [5] receipts or accruals that are exempted from capital gains tax. [5 marks]

- c) Z. Hove purchased a house, his principal private residence [PPR] in January 2007 for \$500 million. The costs of conveyance amounted to \$50 million at the time of purchase.

Hove made the following improvements on the property:

		\$
Driveway	[March 2007]	10 000 000
Durawall	[May 2007]	15 000 000
Trees planted	[June 2007]	5 000 000

The house was sold in August 2007 for \$100 billion. Hove satisfied the Commissioner that before the end of the following year of assessment, he will spend \$60 billion on the construction of a replacement principal private residence.

**Required:**

Compute the Capital gains tax payable for the 2007-year of assessment. [10 marks]

- d) Khumalo Ltd submitted their capital gains tax return for the year of assessment ended 31 December 2007 with the following information:

The assets sold were:

	Cost \$	ITV \$
Land [Purchased in January 2005]	500 000	N/A
Industrial Building Constructed [June 2006]	1 000 000	500 000
Commercial Building Constructed [May 2006]	1 000 000	975 000

The assets were sold on 31 August 2007 for a total amount of \$80 million. The selling price was allocated as follows:

	\$
Land	16 000 000
Industrial Building	40 000 000
Commercial Building	<u>24 000 000</u>
	<u>80 000 000</u>

Selling costs amounted to \$2 million.

The agreement of sale provided that the purchaser pays as follows;

		\$
Year 2007;	Deposit	20 000 000
Year 2008;	Instalment	40 000 000
Year 2009;	Instalment	20 000 000

**Required:**

Compute the Capital gains tax payable for the years of assessment ended 31 December 2007, 2008 and 2009. [10 marks]

**Question 3** [25 marks]

- a) What is the significance of differentiating between exempt supplies and zero-rated supplies for Value Added Tax [VAT] purposes? [5 marks]
- b) List five [5] exempt supplies and five [5] zero rated supplies. [5 marks]
- c) A registered operator bought taxable supplies for \$100 000 000 [exclusive of VAT]. The mark-up on his products is 25% and the standard rate of VAT is 15%.

**Required:**

- i) Compute the operator's selling price. [2 ½ marks]
- ii) Compute the VAT payable or refundable. [2 ½ marks]
- iii) Demonstrate that the VAT payable is essentially a tax on the "Value Added" by the operator. [2 marks]
- d) Murombo Supermarkets [Pvt] Ltd, operates a hypermarket in Bulawayo and is registered under category A. During the tax period ended 31 January 2008, the purchases and sales accounts showed the following details:

\$

**Sales:**

Foodstuffs and vegetables	18 000 000
Educational Materials	40 000 000
Hardware	90 000 000
Alcoholic beverages and soft drinks	66 000 000
Perfumes	15 000 000

**Purchases:**

Foodstuffs and Vegetables	12 000 000
Educational materials	44 000 000
Hardware	60 000 000
Transport costs: hardware	18 000 000
Importation of perfumes	22 000 000

**Additional Information:**

- i) Bad debts written off \$2 000 000 and bad debts recovered \$ 1 500 000. These related to standard rated supplies.
- ii) Standard rated goods repossessed by suppliers \$3 000 000.
- iii) Credit notes issued for standard rated supplies \$1 000 000 and debit notes issued for standard rated supplies \$900 000.
- iv) The company paid a cell phone bill amounting to \$5 000 000.
- v) The company paid rent for the shop amounting to \$2 000 000.

**Required:**

Calculate the VAT payable or refundable for the tax period ended 31 January 2008.

[8 marks]

**Question 4** [15 marks]

The following transactions relate to Lambado [Pvt] Ltd, a Zimbabwean incorporated company for the year of assessment ended 31 December 2007:

- a) The company is owned to the extent of 60% by a South African company, Alco Ltd. The other shares are held to the extent of 10% by Zimbo Ltd, a Zimbabwean company and 30% by individual shareholders in Zimbabwe. During the 2007 year of assessment, Lambado [Pvt] Ltd paid a total dividend of \$25 billion.
- b) The company received interest amounting to \$10 billion from its deposits with various financial institutions in Zimbabwe.
- c) The company hired a technical consultant from Zambia and paid \$20 billion.
- d) The company borrowed \$50 billion from a South African financial institution at an interest rate of 30% per annum.
- e) The South African holding company incurred \$10 billion as allocable expenditure on behalf of Lambado [Pvt] Ltd, which it paid to the South African holding company.
- f) The company uses a secret formula belonging to a Zambian company in the manufacture of one of its products. It is required to pay \$2 million per unit produced. During the year Lambado [Pvt] Ltd produced 4 000 units of the product.

**Required:**

Compute the total amount of tax that Lambado [Pvt] Ltd has to pay in respect of the above transactions.

[15 marks]

**Question 5** [15 marks]

Distinguish between tax evasion and tax avoidance with the aid of examples. [15 marks]