NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY

FACULTY OF COMMERCE

DEPARTMENT OF FINANCE

BACHELOR OF COMMERCE HONOURS DEGREE IN FINANCE

PART II – 2nd SEMESTER SUPPLEMENTARY EXAMINATION – SEPTEMBER 2008

TAXATION I [CFI 2204]

TIME ALLOWED: 3 HOURS

INSTRUCTIONS

1. Answer all questions
2. Show all workings
3. Begin an answer to an 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
May	2006	[Assumed]	850
June	2006	[Assumed]	900
January	2007	[Assumed]	968
February	2007	[Assumed]	1 334
March	2007	[Assumed]	2 008
April	2007	[Assumed]	4 032
May	2007	[Assumed]	6 265
June	2007	[Assumed]	11 666
July	2007	[Assumed]	15 358
August	2007	[Assumed]	17 171

Question 1 **[15 marks]**

Makoni Supermarkets [Pvt] Ltd, operates a hypermarket in Harare. During the tax period ending 31 May 2007, the hypermarket`s purchases and sales accounts reflected the following details:

	Dr	Cr
Sales		
Foodstuffs and Vegetables		1 800
Educational materials		4 000
Credit sales of hardware		9 000
Provision for bad debts: hardware	1 000	
Alcoholic beverages and soft drinks		6 600
Perfumes		1 700
Balance c/d	22 100	- -
	23 100	23 100
Purchases		
Foodstuffs and Vegetables	1 200	
Educational materials	4 400	
Hardware	6 000	
Transport costs: hardware	1 800	
Alcoholic beverages and soft drinks	7 000	
Importation of perfumes	2 200	
Customs duty on perfumes at 125%	2 750	
Balance c/d	- - -	25 350
	25 350	25 350

Required

a) Calculate Murombo Supermarkets [Pvt] Ltd`s VAT liability for the tax period ended 31 May 2007. [13 marks]

b) Explain the obligations of a registered operator in relation to the keeping of records and accounts under the Value Added Tax Act. [6 marks]

c) State the conditions under which a company`s VAT registration may be revoked. [6 marks]

Question 2 **[15 marks]**

Pawandiwa [Pvt] Ltd submitted their capital gains tax return for the year of assessment ended 31 December 2007 with the following information.

Details of assets disposed of on 31 July 2007.

ASSETS	YEAR OF CONSTRUCTION	COST $	ALLOCATED SELLING PRICE $
Industrial building	January 2007	600	8 000
Showroom	March 2007	200	4 000
Durawall	April 2007	100	4 000

Selling expenses amounted to $800
Under the agreement of sale, the purchaser agreed to pay for the properties as follows:

Deposit	[Year 2007]	$8 000
Installment	[Year 2008]	$6 000
Installment	[Year 2009]	$2 000

The All Items Consumer Price Indices are as follows:

January	2007;	-	968
March	2007;	-	2 008
April	2007;	-	4 032
July	2007;	-	15 358

Required:

(a) Calculate the capital gains tax payable for the assessment years ended 31 December 2007 and 2008. (20 marks)

(b) State any five (5) receipts or accruals that are exempted from capital gains tax (5 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? [10 marks]

b) List five [5] exempt supplies and five [5] zero rated supplies. [10 marks]

c) A registered operator bought taxable supplies for $100 000 [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]

Question 4 **[15 marks]**

(a) 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 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
Payments to ZIMRA for taxes	1 250 000
Value Added Tax	650 000
Import duty	350 000
Electricity and water	34 000
Salaries paid to employees	28 000
Payments for security services	250 000
Payments to the bank [loans]	500 000
	3 462 000

Required:

Evaluate and explain the claim by Zimra and ascertain the correct potential amount to be negotiated with Zimra for payment. [10 marks]

(b) Distinguish between tax evasion and tax avoidance with the aid of examples.
[15 marks