



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



**FACULTY OF COMMERCE
DEPARTMENT OF FINANCE
MASTER OF SCIENCE IN FISCAL STUDIES
PART III 2nd SEMESTER FINAL EXAMINATION– JUNE 2012
COMPARATIVE TAX POLICY & REFORM (CFS 5313)
TIME ALLOWED: 3 HOURS**

INSTRUCTIONS TO CANDIDATES

1. Answer **QUESTION 1** and **any other question** from **SECTION A**, plus any **TWO** questions from **SECTION B**.
2. For all attempted questions in this paper and where necessary, you have to make relevant references and marks are awarded for such relevant references.
3. Write neatly and legibly.

INFORMATION TO CANDIDATES

1. This paper contains **SEVEN** (7) Questions.
2. Each full question carries **25** marks
3. This paper contains **THREE** (3) printed pages.
4. Candidates may write on the question paper but shall not write in the answer booklet during reading time.

SECTION A [Answer question 1 plus any other question from this section]

Question 1 (Compulsory)

Make a detailed analysis of Zimbabwe's tax system. First, compare this tax system with that of South Africa (which has a higher population and better economy) and then secondly, compare this tax system with that of Swaziland (which has a lower population and a smaller economy). In your comparison, highlight and explain the differences and/or similarities. [25 marks]

Question 2

If you were asked to design a tax system in these present economic circumstances, with the aim of effecting a more equitable distribution of income (the redistribution objective of taxes), what would your advice be? Consider tax reform as well as potential changes on the expenditure side. [25 marks]

Question 3

Globalization has and continues to present some significant challenges for the efficiency, equity and revenue generation of sovereign tax systems. Consider the major taxes: income tax (corporate and individual), value added taxes, excise duties, and customs.

- (a) Which of these major taxes is expected to be most affected by the pressures of globalization and why? [10 marks]
- (b) Based on your response to (a), how would you advise a country to adjust its tax structure and why? [10 marks]
- (c) Do your responses to (a) and (b) differ based on your assumptions about the openness of a particular country (in terms of imports, exports, and labour mobility)? [5 marks]

[Total 25 marks]

SECTION B (Answer any two questions)

Question 4

Zimbabwe struggles with the problem of the taxation of small businesses and agriculture. What are the reasons and justification for treating the "hard to tax" differently from a "regular" income tax player? How have countries dealt with the problem of the "hard to tax"? What do you see as the optimal tax treatment of the "hard to tax" sector? [25 marks]

Question 5

- (a) Give a critical appraisal of the arguments for and against tax incentives. [15 marks]
- (b) Your Finance Minister asks your opinion on whether to replace the progressive income tax system in your country with either a flat tax or a dual income tax. What will you advise the Minister and why? [10marks]

[Total 25 marks]

Question 6

You have won a contract to reform the tax system of Libya which is characterised by the following:

- (i) The whole economy is divided into two, namely, public sector which includes state-owned businesses, joint venture owned by the state and foreign investors. In this sector, record-keeping practices related to individual income are fairly good; the other sector is the private sector which includes the self-employed, characterised by poor record keeping.
- (ii) In this economy, cash transactions are dominant, especially for self-employed to do business.
- (iii) Although the law requires that a receipt be issued for every transaction, it is very often ignored.
- (iv) Some tax collecting technology is very costly and thus the tax collecting system relies a lot on man power
- (v) There exist many opportunities for personal contact between taxpayers and tax collectors.
- (vi) Only 2 trained auditors for 247 Large Tax Payers and 1,500 small and medium taxpayers recorded.
- (vii) The tax laws were last reviewed in 1970; the current inflation rate is 25%
- (viii) The revenue GDP ratio is 10% and Customs revenue accounts for 70% of domestic revenue generated.
- (ix) The Economy is rich in minerals and fisheries, however these account for only 2% of domestic revenue.
- (x) Tax arrears account for 2% of GDP and 60% are owed by parastatals.

Prepare an inception report for Libya's Minister of Finance on how you intend carrying out your assignment. Note: The Minister is interested in both short and medium term solutions that are feasible.

[Total 25 marks]

Question 7

- (a) Compare the advantages and disadvantages of the following tax methods in respect of the corporation:
 - (i) taxing corporations as separate entities; [7 marks]
 - (ii) taxing corporations as a conduit for shareholders' income. [8 marks]
- (b) Does it make sense to levy corporate tax at local or sub-national level? Substantiate your answer with reference to tax assignment considerations, tax efficiency criteria and country experience. Would you recommend a sub-national corporate tax to the government of Zimbabwe? Why (not)? [10 marks]

[Total 25 marks]

END OF EXAMINATION PAPER