



NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY
FACULTY OF SCIENCE AND TECHNOLOGY EDUCATION
DEPARTMENT OF SCIENCE, MATHEMATICS AND TECHNOLOGY EDUCATION

Advanced Taxation

PST 6362

Main Examination Paper

First Semester November 2024

This examination paper consists of 12 pages

Time Allowed: 3 hours

Total Marks: 100

Special Requirements: None

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External Examiner: Dr B Dlamini

INSTRUCTIONS

1. Answer all questions

TAX RATES AND ALLOWANCES

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

Tax rates ZWL — Individuals employment income

Year ended 31 December 2023			
Taxable income band	Rate of tax	Amount within band	Cumulative income tax liability
Up to 120,000	0	120,000	
120001 to 360000	20	240,000	48,000
360001 to 720000	25	360,000	138,000
720001 to 1440000	30	720,000	354,000
1440001 to 3,000,000	35	1,560,000	900,000
3,000,001 and over	40		

NB. The AIDS levy of 3% is chargeable on income tax payable, after deducting credits.

Allowable deductions for the year ended 31 December 2023

Pension fund contribution ceilings

(a) In relation to employers: in respect of each member	240,000
(b) In relation to employees: by each member of a pension fund	240,000
(c) In relation to each contributor to a retirement annuity fund/funds	240,000
(d) National Social Security contributions (on a maximum monthly gross salary of Z\$5,000)	45% of gross salary

Aggregate maximum deductible contributions to all the above per employee/contributor per year Z\$240,000

Tax credits for the year ended 31 December 2023

	Z\$
Disabled/blind person	72,000*
Elderly person (55 years and over)	72,000*
Medical aid society contributions	50%
Medical expenses	50%

*The amount is reduced proportionately if the period of assessment is less than a full tax year.

Deemed benefits for the year ended 31 December 2023

Motor vehicles

Engine capacity:	
Up to 1500cc	54,000
1501 to 2000cc	72,000
2001 to 3000cc	108,000
3001cc and above	144,000

The amounts are reduced proportionately where the period of assessment is less than a full tax year.

Loans

The deemed benefit per annum is calculated at a rate of LIBOR + 5% of the loan amount advanced.

Value added tax (VAT)

Standard rate	14-5%
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Capital allowances

Special initial allowance (SIA)	25
Accelerated wear and tear	25
Wear and tear:	
Industrial buildings	5
Farm buildings	5
Commercial buildings	2-5
Motor vehicles	20
Movable assets in general	10

Tax rates — Other than employment
income Year ended 31
December 2023

Companies	
Income tax: Basic rate	24

	AIDS levy	3
Individuals		
Income tax:	Income from trade or investment	24
	AIDS levy	3
	Capital gains tax	
	Immovable property and unlisted marketable securities acquired after 22 February 2019 20% of gain	
	Immovable property and unlisted marketable securities acquired prior to 22 February 2019 5% of gross proceeds	
	Disposal of listed marketable securities 1% of gross proceeds	
	On principal private residence where the seller is over 55 years	00/0
	Inflation allowance	2-50/0
	Capital gains withholding tax on sale proceeds	
	Immovable property	15
	Marketable securities (listed)	1
	Marketable securities (unlisted)	5
	Note: Other than the withholding tax on listed marketable securities, the withholding tax is not final on the seller. Actual liability is assessed in terms of the Capital Gains Tax Act.	
	Withholding taxes	
	On dividends distributed by a Zimbabwean resident company to resident shareholders other than companies and to non—resident shareholders:	
	By a company listed on the Zimbabwe Stock Exchange	10
	By any other company	15
	Informal traders	10
	Foreign dividends	20
	Non-executive director's fees	20
	Contracts (in the absence of ITF 263)	10
	Non-residents' tax	
	On interest	nil
	On certain fees and remittances	15
	On royalties	15
	Residents' tax on interest	
	From building societies	15

From other financial institutions (including discounted securities)	15
Elderly taxpayers (55 years and over)	
Exemptions from income tax/capital gains tax for the year ended 31 December 2023	
Rental income	120,000
Interest on deposits with a financial institution	240,000
Interest on discounted instruments	240,000
Gain from the sale or disposal of marketable securities	140,000
Pension	No limit
Gain from the sale or disposal of a principal private residence is exempt.	
Benefit derived from the acquisition of a passenger motor vehicle from an employer is exempt.	

Question 1

AAC (Pvt) Ltd (AAC) operates a leading business school in Zimbabwe (The Academy) and a training and advisory services consultancy (TAS). AAC trains professional courses and the flagship course is the Chartered Accountancy one. TAS specialises in International Financial Reporting Standards (IFRS) and International Public-Sector Accounting Standards (IPSAS). TAS also advises on tax and audit matters. AAC is a category C VAT registered operator. You are a trainee at AAC and are responsible for the accounting function wherein you prepare the financial reports for both the academy and TAS since they share the Finance and Admin function. Your job also involves preparation of tax returns. AAC has just hired a university intern in their 3rd year of an undergraduate degree program with a local university. You are responsible for the intern's induction. Part of the induction is a technical phase where you are to walk the student through technical aspects of their job using live information i.e. a hands-on approach. You are currently handling tax matters in preparation for VAT returns for the month of February, the first QPD return for the year and possible CGT on asset disposals done to date.

1. AAC receives tuition fees before the semester starts on the 10th of March 2023. In the month of February 2023, AAC received a total of \$1,570,000 for tuition.
2. During the year AAC received registration fees of \$10,500 up to the 31st of January 2023 when registration closed.
3. Interest income
 - 3.1. AAC accrued interest of \$450 being 10% per annum interest (accruing monthly non-compounding) on staff debtors.
 - 3.2. AAC also charges interest on outstanding student account balances.
4. TAS delivered IFRS 9 trainings to financial institutions and to ZIMRA worth \$82,500.00 in the month of March 2023.
5. TAS developed audit manuals for a leading audit firm. The manuals included the revised methodology and charged \$16,250. TAS has not been paid for this work.

6. TAS has been writing specific papers such as concept papers for entities who want advice on specific matters, comment letters for regulatory bodies, publication and a range of technical work for which it accrued \$14,500. In March, AAC enlisted the services of a University of Johannesburg lecturer Peter Van Vuuren to provide the following services:

6.1. AAC dismissed two trainees for breach of ethics and the two decided to take legal action. The one was working for the Academy and the other for TAS division. Peter assisted the legal team to interpret the code of ethics which linked to the staff labour rules. Peter charged R13,000 for each of the cases. The exchange rate was USD1: R13.

6.2. Peter then went on to do two other jobs. One was to take an audit lecture for the academy focusing on ethics for R6,500 and also attended a TAS training for a client on the same topic. Since he was presenting on behalf of TAS, Peter charged TAS R3,900.

7. During March 2023, TAS disposed of the following assets:

7.1. A Nissan Sunny saloon 1.5 ltr was sold for \$5,600 and had a book value of \$4,200. The vehicle cost \$15,000 in 2013.

7.2. AAC disposed of a property in Sunningdale. The property was used as a warehouse. The contract was concluded on the 19th of March. The total cash price of the sale was \$150,000. The terms of the sale were that AAC would receive the amount in 3 equal instalments of \$51,500 each commencing 31 March 2023. The client was only able to pay the first instalment on the 15th of April and the last two instalments on the 30th of April and the 31st of May respectively. The property was acquired in May 2013 for \$108,000 from a non-registered operator.

8. AAC is recruiting a key staff member for TAS, a chartered accountant and is discussing with the candidate a suitable remuneration package.

8.1. Motoring benefit –

- AAC could import a passenger motor vehicle and assign it to the candidate. The candidate will then assume ownership of the vehicle at the end of 3 years for free. The vehicle shall have a cost of \$20,000 and engine capacity of 3000cc.

- AAC could assist the candidate with finances to import the passenger motor vehicle for \$20,000 with an engine capacity of 3000cc. The candidate shall then have to repay the loan by serving 3 years for AAC. If the candidate decides to terminate employment, they shall pay for the outstanding balance allocated based on the time served.

8.2. AAC shall provide a housing allowance of \$300.

8.3. AAC shall pay for the relocation expenses of up to \$1,200 for the candidate to move from Mutare where the candidate currently resides.

8.4. The candidate shall receive cash allowances of \$300 per month for use as the candidate pleases.

8.5. AAC shall pay for the candidate's ICAZ subscriptions since they are a chartered accountant for \$600 per annum. AAC shall also pay for the candidate's Leo's club, toastmasters' club and golf club subscriptions for a total of \$850 per annum.

9. Other Operating Expenses:

9.1. AAC is renting the current premise for \$5,500. TAS has a staff contingent of 5 people whereas the Academy has 25. TAS turnover is projected to be \$540,000 and the Academy at \$3,450,000. TAS uses half a floor out of the four floors.

9.2. Water is acquired in bulk and stored away. At the beginning of the year, 3 months' worth of supply was hoarded for \$350. It was expected the TAS would use 70% of the water for trainings and conferences. However, the inventory stock cards show that TAS actually used 85% of the water up to the 31st of March 2023. The open market value of the water over the three months is \$350.

9.3. Electricity

AAC was billed \$160 for electricity for the month of March. AAC only paid this amount in June 2023.

10. Bad Debts

10.1. AAC wrote off debts for the following:

- a. A former student who lost their parent to death and initially thought they could raise the balance on their school fees of \$320 for the 2015 academic year.
- b. A loan of \$650 was advanced to a former attachee for fees in their final year of an undergraduate degree program, on condition that they repay it or return to AAC to serve AAC. The attachee migrated to the United Kingdom upon completion of their degree and has since been avoiding communication for 2 years.
- 10.2. A student tuition 2013 debt of \$540 which had been written off in December of 2023, was subsequently recovered. The Commissioner had granted an allowable deduction in that year.

Required

Discuss the income tax implications for the year ended 31 December 2023 of the transactions in the above notes. All Amounts are in US\$ **(25 marks)**

Question 2

Vellah Inc (VI), is a manufacturer of industrial and domestic tiles. VI's income statement for the year ended 31 December 2023 reflected a net profit of Z\$15,500,000 after crediting and debiting items which included the following:

	Note	Zwl \$
Credits		
Export sales		320,000,000
Domestic sales		458,000,000
Profit on sale of cars	1	4,000,000
Net bank interest		550,000
Other income	2	14,700,000
Debits		
Depreciation		5,000,000
Distribution costs	3	126,000,000

Administrative expenses	4	280,000,000
Other expenses	5	10,760,000

Notes

(1) Profit on sale of cars

A delivery car was sold during the year for Z\$6,000,000. The delivery car was acquired on 5 February 2018 at a cost of Z\$2,000,000. A new replacement delivery car was acquired at a cost of Z\$12,000,000 on 15 May 2023. On 1 August 2023, VI also acquired a new passenger car for the managing Director, at a cost of Z\$15,000,000, in line with the policy to replace company allocated cars every five years.

(2) Other income

	Zw/\$
Irrecoverable debts recovered – the amount was allowed as a deduction for the year ended 31 December 2022	3,200,000
Interest on trade receivables	5,100,000
Net foreign exchange gain	<u>6,400,000</u>
	<u>14,700,000</u>

(3) Distribution costs

	Z\$
Car expense	92,000,000
Acquisition of car trailers	25,000,000
Traffic fines	600,000
Cross border insurance and permits	<u>8,400,000</u>
	<u>126,000,000</u>

(4) Administrative expenses

The following amounts were included in administrative expenses of Z\$280,000,000:

	Z\$
Donation to a public hospital	7,300,000
Retirement annuity fund contributions for the benefit of the managing Director	445,000
Production manager's exit payment:	
Terminal benefits	18,000,000
Restraint of trade	20,000,000

(5) Other expenses

	Z\$
Overdue trade receivables collection costs	3,360,000
Allowances for receivables	<u>7,400,000</u>
	<u>10,760,000</u>

Additional information

VI's non-current assets reflected a nil income tax value as at 1 January 2023. VI's policy on capital allowances is to always claim the maximum capital allowances available each year.

(a) Calculate the taxable income and tax payable of Vellah Inc for the year ended 31 December 2023. **(25 marks)**

Note: Your computation should start with the net profit of Z\$15,500,000 and should list all items referred to in the question, indicating by the use of zero (0) any item which does not require adjustment.

Question 3

- i Discuss the criteria for VAT registration for business. What are the implications of being VAT registered? **[5 marks]**
- ii Compare and contrast VAT exemptions and zero rating. Providing examples of goods or services that fall in each category. **[5 marks]**
- iii Outline the process of filling a Vat Return. What information is typically required and what deadlines must be adhered to? **[5 marks]**
- iv Explain the concept of vat input and vat output. How does business calculate their tax liability? **[5 marks]**
- v Discuss how VAT is Applied in cross border transactions? **[5 marks]**

Question 4

Bosso Unlimited is a company in the business of timber operating from Marondera town. On 2 February 2023, the Minister of transport wrote to the company directors that the ministry was constructing a railway line which will pass through the company premises; hence some of its properties will inevitably be affected and will face demolition.

The following is a schedule of the affected assets.

ASSET	COST	DATE OF ACQUISITION/ CONSTRUCTION	I.T.V	MARKET VALUE
¾ of land	240 000	1/1/2020	-	300 000
Administration building	60 000	1/6/2020	20 000	80 000
Ware house	75 000	1/1/2023	37 500	45 000
Timber treatment stalls	40 000	02/02/2022	30 000	45 000

Government made an offer to pay a compensation for the affected assets that is equivalent to their market values.

Additional information

1. The directors of Bosso Unlimited believed that the business, as a going concern had been materially affected so they decided to sale remaining assets as follows:

	Selling price \$
¼ of land (remaining) (original cost \$80 000)	90 000
1000 shares of \$1.00 each in Timbers P/L (acquired 1/1/2015)	3 000

2. The company donated the showroom to a local Football club, Mabhuza FC, the show room had a market value of \$30 000. The showroom which was acquired in 2020, had a cost and ITV of 24 000 and 16 000 respectively.

3. Last year Bosso Unlimited sold one of its properties in Rusape, capital loss in respect of that sale was assessed to be \$12 000.

4. On 31 October the Government credited Bosso Ltd with the total agreed consideration less \$60 000.

Required

- (a) Calculate capital gains tax liability for Bosso Unlimited for the year ended 31 December 2023. **[15 marks]**
- (b) Explain the main differences between tax evasion and tax avoidance giving examples **(5 marks)**
- (c) Discuss the principles of a good tax system. **(5 marks)**