WOMEN'S UNIVERSITY IN AFRICA

Addressing gender disparity and fostering equity in University Education

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FACULTY OF MANAGEMENT AND ENTREPRENEURIAL SCIENCES

BSc HONOURS DEGREE IN MANAGEMENT AND ENTREPRENEURIAL DEVELOPMENT STUDIES SPECIALISING IN BANKING AND FINANCE

BACHELOR OF ACCOUNTING SCIENCE HONOURS DEGREE

MAIN PAPER

FB 324: TAXATION

INTAKE: THIRD YEAR SECOND SEMESTER

INTAKE 8: FOURTH YEAR SECOND SEMESTER

TIME: 2 HOURS

INSTRUCTIONS TO CANDIDATES

1. Answer **Question 1** and any other two.
2. All workings should be shown. Where calculations are required using formulae, calculators may be used but steps in the workings must be shown. Calculations with no evidence of this (for example, using the scientific functions of calculators) will receive no credit. Programmable calculators are not permitted in the examinations room.
3. Candidates are allowed to bring into the Examination Room unmarked copies of the Income Tax Act (Chapter 23:06), the Capital Gains Tax Act (Chapter 23:01), The Finance Act (Chapter 23:04) and the Value Added Tax Act (Chapter 23:12)
4. In this paper all reference to the "Act" is to the Income Tax Act

Question 1

Mask is employed as a nursing supervisor at a retirement home in Kadoma. The following information relates to Leon's employment earnings and deductions for the year ended 31 December 2019:

(1) Mask received a gross annual salary of US$21 000. He also received a bonus equal to 10% of his gross annual salary on 30 November 2019.

(2) Mask lived for free in a house provided by his employer throughout the year ended 31 December 2019. Mask considers the fair rental value of the property to be US$150 per month, although the market rent for similar properties in the area is US$350 per month.

(3) Mask has made use of a motor vehicle provided by his employer for the past five years. The motor vehicle has an engine capacity of 2 500cc. On 1 June 2019, Mask was permitted to purchase the motor vehicle for 50% of the market value, as stipulated in his employment contract. As at 1 June 2019, the market value of the motor vehicle was US$12 000. In line with employer policy, a total of US$1 500 was paid by Don's employer in respect of motor vehicle maintenance for the vehicle purchased by Mask for the period 1 June 2019 to 31 December 2019.

(4) On 1 June 2019, Mask's employer provided him with a new motor vehicle with an engine capacity of 3 200cc.

(5) Once every year, on his annual leave, Mask is entitled to stay free of charge at a holiday chalet owned by his employer. The daily rate for similar holiday chalets is US$50. For the year ended 31 December 2019, Mask stayed in the chalet for 10 days during his annual leave.

(6) Mask received donations from the traditional donors of the retirement home valued at US$1 800 for the year ended 31 December 2019 as follows:

	US$
Safety clothing	600
Food hampers	500
Second hand clothing	700
	1 800

(7) The following amounts were deducted from Mask's earnings for the year ended 31 December 2019:

	US$
Employees tax (PAYE)	3 000
Pension fund contributions	4 800
Retirement annuity fund contributions	1 200
Medical aid society contributions	7 000
Subscriptions to the Zimbabwe Nurses Association (ZNA)	1 000
Satellite television subscriptions	1 100
Funeral insurance policy	1 300
Loan repayment (see note below)	1 500
All risk insurance policy	2 000

NB. The loan repayment was in respect of a loan advanced by Mask's employer to enable Mask to purchase the old motor vehicle in (3). The loan of US$6 000 was advanced on 1 June 2019 at an interest rate of 2% per annum. The LIBOR for the year ended 31 December 2019 was constant at 1%.

Required:

a) Outline, the basis of valuation of employee fringe benefits for income tax purposes. [15]

b) Calculate Mask's taxable income and income tax payable for the year ended 31 December 2019. [25]

NB: You should indicate by the use of zero (0) any amounts which are not required to be included or which are not deductible in calculating taxable income.

Question 2.

While conducting the preliminary tax audit of Limited (L) for the year ended 31 December 2017, you noticed the following:

(i) Employment benefits totalling US$60 000 in respect of L's three senior managers for the month of October 2017 have deliberately been excluded from the payroll system. As a result, the employees' tax remitted to the Zimbabwe Revenue Authority (ZIMRA) for October 2017 did not include the tax on the employment benefits. The three senior managers received the employment benefits in full. The employees' tax which should have been deducted and remitted to ZIMRA is US$30 900.

(ii) The self-assessment return for the year ended 31 December 2016 was submitted on 30 September 2017. The return for the third quarterly payment date (QPD) for the provisional tax for the year ended 31 December 2017 was also submitted on 30 September 2017.

(iii) The output tax on the benefits in respect of three passenger motor vehicles owned by SL was deliberately excluded in the value added tax (VAT) returns for the year ended 31 December 2017. Two of these motor vehicles (with engine capacities of 1500cc and 2500cc) are allocated to two of L's senior managers while the remaining motor vehicle (with an engine capacity of 1300cc) is used as a pool car.

(iv) A motor vehicle purchased on 10 November 2017 for US$42 000 (VAT inclusive) was knowingly recorded as a commercial vehicle, when it is actually a passenger vehicle. The input tax was claimed in the VAT return submitted on 20 December 2017.

Required:

For each of the items (i) to (iv):

a) Give an analysis whether your findings constitute tax avoidance, tax evasion or neither on the part of Limited. [8]
b) Calculate the maximum amount of penalty and/or interest chargeable by the Zimbabwe Revenue Authority (ZIMRA), as at 31 December 2017. Note: Your interest calculations should be made to the nearest day. [12]

Question 3

Lockdown was born on 10 January 1961 and is married to Curfew, born on 5 November 1964. On 15 July 2019, Lockdown and Curfew disposed of their matrimonial residence, situated in Harare. The property was constructed in 2012 following the acquisition of a residential piece of land. Lockdown and Curfew had lived on the property since its construction and it was their sole residential home. The following information refers to Lockdown and Curfew's residential property:

	Date acquire/constructed	Cost ($)
Undeveloped land	2012	30 000
Main residence	2012	180 000
Boundary wall	2013	35 000
Outbuilding	2014	70 000

The property was sold via an estate agent at its market value of US$500 000. Lockdown and Curfew paid the estate agent commission of 5% of the sale proceeds in connection with the disposal of their property.

Additional information.

The outbuilding was constructed specifically as a hairdressing salon managed by Curfew from inception. Lockdown and Curfew made no other capital disposals during the year ended 31 December 2019.

Required:

a) Explain whether Lockdown and Curfew's residential property qualifies as a principal private residence. [4]

b) Calculate the capital gains tax (CGT) payable by Lockdown and Curfew for the year ended 31 December 2019. [12]

c) Explain how Lockdown and Curfew could have reduced the amount of CGT payable on the disposal of their property. [4]

Question 4

DL is a category A value added tax (VAT) operator. An extract of DL's trading activities and transactions for the six-month period ended 30 November 2018 is shown below:

	June	July	August	September	October	November
	$	$	$	$	$	$
VAT inclusive amounts						
Supply of goods	20 000	25 000	30 000	28 000	22 000	18000
Supply of services	10 000	12 000	0	0	15 000	13 000
Debit notes	(3 000)	(2 000)	0	0	0	0
Purchases	(14 000)	(11 000)	(8 000)	(10 000)	(16 000)	(10 000)
Credit notes	0	1 000	0	0	4 000	0
VAT exclusives amounts						
Other payment/accruals						
Stationery	(7 500)	(8 100)	(7 900)	(4 800)	(4 500)	(3 900)
Office rent	(1 200)	(1 200)	(1 200)	(1 200)	(1 200)	(1 200)
Fuel	(1 500)	(1 100)	(1 800)	(1 300)	(2 100)	(1 900)
General repairs	(2 300)	0	0	(2 800)	(2 400)	0
Bank charges	(500)	(500)	(500)	(500)	(500)	(500)

Required:

a) State the value added tax (VAT) periods and VAT return submission dates for Donald Limited for the six-month period ended 30 November 2018. [4]

b) Calculate the VAT payable by or refundable to Donald Limited for each VAT period in the six-month period ended 30 November 2018. [16]

NB: You should list all of the items referred to in the question and indicate by the use of a zero (0) any item which has no VAT effect.

Question 5

a) Ray owns a successful catering business in Harare. In order to manage his cleaning expenses, Ray has entered into a two-year agreement with Lia for the provision of cleaning services. Ray paid a total of US$30 000 to Lia for cleaning services during the year ended 31 December 2018.

Required:

i. State Ray's tax obligations when effecting the cleaning services payments, assuming that Lia is fully tax compliant. [2]

ii. State Ray's tax obligations when effecting the cleaning services payments, assuming that Lia is NOT tax compliant. [4]

b) Rumbie has been operating her business as a sole proprietor since 10 April 2011. On 1 July 2018, she incorporated her business and on the same date revalued her property, plant and equipment.

As at 1 January 2017, Rumbie had total accumulated assessed losses of US$135 000, incurred as follows:

	US$
Assessed loss incurred in 2008	80 000
Assessed loss incurred in 2012	40 000
Assessed loss incurred in 2014	15 000
Total	135 000

Required:

(i) Explain the tax consequences of the revaluation of the property, plant and equipment on 1 July 2017. [4]

(ii) State, with reasons, the tax treatment of trading losses following the incorporation of a sole proprietor business. [4]

(iii) Advise Rumbie on the action(s) she can take in order to maximise the relief available for her accumulated assessed losses on the incorporation of her business. [6]

Question 6

Baison is a self-employed freelance fitness trainer, who has contracts with schools and sporting clubs. He is registered for corporation tax.

On 5 January 2019, Baison expanded his operations by opening a centrally located gym in Harare. On the same date, he recruited four assistant fitness trainers to assist him with his gym business. The assistant trainers are paid an average salary of US$400 per month.

Baison's gym building was constructed at a total cost of US$150 000 using savings from income earned from his contracts with schools and sporting clubs. Baison also acquired new gym equipment at a cost of US$80 000. Baison's projected revenue and expenditure from the gym is detailed below:

	US$
Projected revenue	175 000
Projected expenses (see below)	(63 000)
Estimated net profit	**112 000**

The projected expenses include the assistant trainers' salaries and depreciation of US$15 000.

Required:

(a) State, giving reasons, the classification of Baison's gym building for capital allowance purposes. [3]

(b) Calculate the additional provisional tax payable by Baison for the year ended 31 December 2018 as a result of the commencement of the gym business, making use of all available tax reliefs to his advantage. Clearly indicate the dates by when the tax should have been remitted to the Zimbabwe Revenue Authority (ZIMRA). [10]

(c) Explain Baison's additional tax obligations as a result of the recruitment of the assistant trainers. [7]

END