



MANICALAND STATE UNIVERSITY OF APPLIED SCIENCES

FACULTY OF AGRIBUSINESS MANAGEMENT AND APPLIED SOCIAL SCIENCES

DEPARTMENT: APPLIED ACCOUNTING SCIENCES

MODULE: TAX LAW AND PRACTICE 1

CODE: ACCT 212

SESSIONAL EXAMINATIONS

April 2024

DURATION: 3 HOURS

EXAMINER: MR T.H.T MACHAKA

INSTRUCTIONS

1. *This paper contains **five** questions*
2. *Answer **all** questions.*
3. *Start a new question on a fresh page*
4. *Each question carries 20 marks*
5. *Total marks 100*

*Additional material(s): Calculator; Unmarked copies of tax
Acts*

Question 1 [20 Marks]

- a) Describe the main purpose of taxation in a modern economy and outline three basic principles that a good tax system should be guided by. (5 marks)
- b) Explain the difference between direct and indirect taxation, giving one example of each (5 marks)
- c) Using case law where possible explain the meaning of the following:
- i. Source
 - ii. Accrued to
 - iii. Total amount
 - iv. Received by
 - v. Person (10 marks)

Question 2 [20 Marks]

Stephen Margolis is ordinarily resident in Zimbabwe and is 60 years old. When he returned home from Bangladesh, he was employed by Price Waterhouse Coopers, which is based in Harare, as an information systems audit manager. The following details relate to his employment in the tax year ended 31 December 2018.

\$

Salary	24 000
Bonus	5 200
Cost of living allowance	1 600
Refund from medical aid society	600
Cell phone allowance	800
Cash in lieu of leave	4000
Expenses	
Doctor's consultation fees	1800
Contribution to Old Mutual RAF	3 000

Contribution to CIMAS	3 600
Contribution to First Mutual Pension Fund	3 900

Additional information provided by the employer

1. The employer provided him with a well-furnished company house in September, however, according to Harare Rent Board the Market rentals of the property was \$600 per month, according to the employer the cost of the upkeep of the house was \$200 per month. Stephen paid \$250 per month to his employer.
2. In March the employer provided him with a free use of a car with engine capacity 3200 cc. however, the motor vehicle was used 80% for private use during the tax year.
3. The employer provided him with a loan of \$10 000 at 4% interest charge to complete the construction of his Marlborough house during the tax year. Libor 1.5%
4. According to the employer, the cell phone was used 40% for the employer's business during the year.
5. On 31 December 2018, the employer sold him the car which he had been using during the year for \$ 3 000, the market value of the car was \$ 7 000.

Required

Calculate Stephen Margolis' tax liability from employment for the year ended 31 December 2018. (20 marks)

Question 3 [20 Marks]

Jacob and Gumisai are in partnership sharing profits equally. Partnership profits per accounts for the year ended 31 December 2018 is \$164 000 after charging the following expenses:

Depreciation	12 000
Legal fees	5 200
Rates	6 000
Rent	5 000
Entertainment	3 000

Architect's fees	1 200
Purchase of a motor vehicle	15 000
Accounting fees	1 800
Electricity	800
Jacob's salary	6.500
Motor vehicle expenses	15 500
Interest on capital accounts: Gumisai	2 500
Jacob	3 100
Life insurance : Gumisai is beneficiary	600
Joint life policy	2 400

Further information:

The partnership has a P.O.S.B account on which interest of \$1 400 has been credited to the Profit and Loss account. Special Initial Allowance has been claimed. The legal fees were paid to a lawyer who was handling Gumisai's nasty divorce case which was in the court. Gumisai received a commission of \$5 000 for making the largest volume of sales and a dividend from Econet Zimbabwe in the sum of \$5,500. Jacob who is 60 years old, received an interest from SA bank account of \$2 100 (NRTI \$525). The following assets were bought two years ago and their income tax values are:

Furniture and fittings	\$50 000 (original cost \$100 000)
Machinery	\$ 6 000 (original cost \$12 000)

S.I.A was claimed the previous year. Gumisai uses the partnership car 25% for private purposes. During the year Jacob received lobola in the sum of \$6 500 for his daughter who was married by his partner, Gumisai.

Required

Calculate each partner's tax payable.

(20 marks)

Question 4 [20 Marks]

Mr Dawson inherited a farm from his uncle in Marondera area on 1 January 2018. The following were assets and livestock inherited by him at the valuation for estate duty purposes:

1. Livestock

Herd	\$
10 Heifers	4 000
20 Bulls	16 000
40 Calves	10 000
100 Cows	60 000
200 Oxen	120 000
<u>370</u>	<u>210 000</u>
Assets	
Land	\$200 000
Dams	\$180 000
Farm improvement	\$120 000
Farm shed	\$ 25 000
Irrigation equipment	\$ 30 000
Fencing	\$10 000

2. The following stock movements occurred on the farm during the year ended 31 December 2018.

2 Tollies and 3 bulls were stolen by cattle rustlers 16 calves were born.

40 oxen were sold to Marondera abattoirs for \$40 000 8 Heifers became cows.

15 calves became Tollies.

3 The following information relates to his farming operations:

Income		
	Notes	\$
Livestock sales	1	40 000

Sale of soya beans		400 000
Sale of tobacco		60 000
Profit from sale of irrigation equipment	2	4 000
Subsidy on building a dam		4 500
Expenditure		
Cost of building a dam		50 000
Interest on loan acquired to build a dam		1 200
Salaries and wages		38 500
Dipping chemicals		4 000
Livestock feed		8 000
Construction of permanent road		20 000
Combine harvester		15 000
Sinking of boreholes		5 000
Other tax deductible farm expenses		4 200

Notes

1. During the year the Ministry of Mines and Mining Development listed part of the farm for mining activities. Mr Dawson had to sale part his livestock so as to cope with a reduced carrying capacity of the land.
2. The irrigation equipment had a book value of 14 000 and an ITV of 10 500.
3. The Commissioner General approved the following values for different classes of livestock:

Livestock	Bulls	Oxen	Cows	Heifers	Tollies	Calves
FSV (\$)	500	450	350	300	250	80

Required

- a) Prepare a livestock reconciliation to determine the value of livestock at 31 December 2018. (6 marks)

- b) Calculate Mr Dawson's minimum tax liability for the year ended 31 December 2018. (14 marks)

Question 5 [20 Marks]

- a) Explain the two types of trusts. (4 marks)
- b) What does it mean to have a vested right? (2 marks)
- c) Define an ascertained beneficiary (2 marks)
- d) Mr Mangoro was a Chief Operating Officer of a manufacturing company Sunlight Investments (Pvt) Ltd. Mr Mangoro died on 30 June 2018 and the residue of his estate was left upon a Trust. The residue was ascertained on 31 October 2018. The trust assets comprise of property and investments and the accounts showed the following income net after deducting allowable expenses.

Income	\$
Zimbabwe company dividends	10 000
Foreign rentals	30 000
Zimbabwe interest	20 000
Foreign interest	15 000

Additional information: -

- 1) Mr Mangoro was ordinarily resident in Zimbabwe and his will was executed in Zimbabwe.
- 2) The will provided that:
 - a) Mr Ngundu be paid \$6 000 per annum out of the trust income.
 - b) The testators' son, Zhou, a Zimbabwean resident be paid 40% of the trust income remaining after the payment of the annuity.
 - c) After the death of Ngundu and Zhou the sum of, the trust capital and accumulated income be paid to Mr Mbudzi.

Required

- Advise with calculations, who is assessable on the trust income? (12 marks)

**APPENDIX A
ANNUAL TAX TABLES**

\$	%	Taxable Income \$	Tax \$	Cumulative tax \$
0 to 840	0	840	0	0
841 to 3 600	20	3 600 - 840	552	552
3 601 to 12 000	25	12 000 – 3 600	2 100	2 652
12 001 to 24 000	30	24 000 – 12 000	3 600	6 252
24 001 to 36 000	35	36 000 – 24 000	4 200	10 452
36 001 and above	40			

MOTOR VEHICLE BENEFIT

Engine Capacity	Deemed monthly Cost
Up to 1500cc	\$240.00
Over 1,500cc to 2,000cc	\$286.66
Over 2,000cc to 3,000cc	\$480.00
Over 3,000cc	\$636.66

TAX CREDITS

Elderly person	\$900.00 per annum
Mentally or physically disabled	\$900.00 per annum
Blind person	\$900.00 per annum
Medical expenses	50% of medical expenses paid

PENSION AND RETIREMENT ANNUITY FUND CONTRIBUTIONS RESTRICTIONS

- Contributions to one Pension fund (plus NSSA) –\$5 400.00 per annum.
- Contributions to one Retirement annuity fund –\$5 400.00 per annum.
- Contributions to two or more Pension funds –\$540.00 per annum.
- Contributions to two or more Retirement annuity funds –\$2,700.00 Per annum.
- Contributions to Pension fund(s) and Retirement annuity fund(s) –\$5400.00 Per annum..

Bonus exempt portion \$25 000.00 per annum

Corporate income tax rate

24.5%

Aids levy

3%

END OF EXAMINATION PAPER