



REFORMED CHURCH UNIVERSITY

FACULTY OF COMMERCE

**BACHELOR OF COMMERCE HONOURS DEGREE IN
ACCOUNTING**

TAXATION

HACC 220

PART 2 SEMESTER 2 EXAMINATION

TOTAL MARKS [100]

DATE: OCTOBER 2024

Time: 3 Hours

INSTRUCTIONS

1. This paper has *six (6)* questions
2. Answer question *one (1)* and *any* other *three (3)*
3. Each question carries *25 marks*
4. Start each question on a new page

Question 1

Compare and Contrast between allowable deductions and disallowable deductions in tax and law practice. [25 Marks]

Question 2

Discuss any **five** fringe benefits applied in the taxation of employment income. [25 Ma

Question 3

Cool Down is employed as a nursing supervisor at a retirement home in Kadoma. The following Luto (Pvt) Ltd is a Zimbabwean registered company which operates a gold mine in the Great Dyke town of Chinhoyi in Zimbabwe. 60% of its issued share capital is owned by KINGLU LTD a company registered in China.

During the tax year ended 31 December 2018, Luto (Pvt) Ltd borrowed \$50 million dollars from a Chinese bank in order to finance an expansion programme for the mine and thereby increase production by 50%. The loan was guaranteed by the Chinese shareholders.

The income statement for the year ended 31 December 2018 reflected a net profit figure of \$900 000, after taking into account the following adjustments: -

	\$
Income	
Profit on sale of generator	2 000
Insurance proceeds	20 000
Profit on sale of mining claims	300 000
Expenses	
Administration expenses	120 000
Annuity purchased	20 000
Depreciation	165 000
Development expenditure	230 000
Donations	372 000
Interest payable	186 000
Mining and milling expenditure	400 000
Mining claims acquired	90 000
Preliminary surveys and boreholes	130 000
Prospecting expenditure	150 000
Royalties paid	700 000
Shaft sinking	65 000

Other information

1. Administration expenses

Administration expenses include a payment of \$20 000 which was to terminate the service contract of a former mine manager as part of a reorganisation programme and \$5 000 for the cost of materials donated by the company to the mine sports club towards the construction of a swimming pool.

2. Annuity purchased

The annuity for \$15 000 was purchased to discharge the company's contractual obligation to pay a pension to a former manager who was ineligible to join the company's pension scheme.

3. Interest payable

The interest was payable to the Chinese bank.

The average debt to equity ratio of Luto (Pvt) Ltd during the year ended 31 December 2018 was 4:1.

4. Donations

	\$
Donation to the Chinhoyi Mayor's Cheer Fund	12 000
Donation to the National Scholarship Fund	150 000
Donation to the Chinhoyi Town Council bursary Fund	20 000
Donation to Kutama Mission School for construction of school building	110 000
Donation of laboratory equipment to Heritage Trust School	<u>80 000</u>
	<u>372</u>
	<u>000</u>

5. Additions to buildings

	\$
Residence for managing director	250 000
Extension to mine hospital	60 000
Staff Canteen	34 000
Sports club renovations	<u>25 000</u>
	<u>369 000</u>

6. Profit on sale of generator

The generator had been acquired in 2017 for \$7 000 and had a book value of \$6 300. It was sold for \$8 300.

7. Insurance payment

A Mazda 6 sedan which had been purchased for \$25 000 in May 2017 was written off in an accident. Insurance proceeds of \$20 000 were received in June 2018.

8. Profit on sale of mining claim

The mining claim had been acquired for \$25 000 in January 2017; it was abandoned and sold for \$325 000 in May 2018.

REQUIRED:

Calculate the company's minimum taxable income or maximum tax loss for the year ended 31st December 2018 assuming that the company claims capital expenditure using "new mine basis". (25 Marks)

Question 4

Leeroy was employed by Company LX as a marketing manager and retired on the 31st of August 2019. Leeroy turned 65 in July 2019.

Notes	\$	
Salary		16 000
1st and 2nd quarter performance bonuses		1 000
Dividends from a local private company		1 500
Dividends from CBZ Building society		535
Rental Income	1	4 050
Lumpsum receipt from pension fund	2	54 000
Lumpsum receipt from a Retirement Annuity Fund (RAF)	3	98 000
Gratuity		2 500
Cash in Lieu of Leave		6 000
Medical Expenses paid for by former employer for disabled son's wheelchair		700
Motoring Benefit	4	
Housing Benefit	5	

Loan Benefit	6	
Medical Aid employer contributions		480
Medical Aid self-contributions		960
Pension fund self-contributions		2 800
Pension fund employer contributions		1 200
RAF self-contributions		1 000
NSSA		196
Pension annuity		2 000
Subscription to the Chartered Marketers' Association		536
Paid up medical expenses for Leeroy not covered by medical aid		452
Interest received in savings account from a local bank		1 650
Electricity Charges		360
City Council Rates		150

1. Rentals Received

Being rentals from a Kuwadzana house that she inherited from her late father on the 1st of January 2019.

2. Lumpsum receipt from registered Pension Fund. Leeroy's total pension entitlement is \$150 000.

3. Lumpsum receipt from RAF. His pension entitlement is \$270 000. Assume that all her contributions to the RAF were allowed as a deduction.

4. Leeroy had the use of a VW Amarok, Twin cab 2.4-litre petrol vehicle from the beginning of the year to the retirement date. On retirement, Company LX sold the vehicle to her for \$4 300. Its market value then was \$22 000.

5. Leeroy stayed in a Company LX house and moved out on the 1st of October 2019. The house cost Company LX \$165 000 to construct. Furniture also cost Company LX \$23 000. Rentals in the same area for a similar house were \$600 per month during the 2019 year.

6. Leeroy had taken out an interest free loan of \$5 000 on the 1st of February. On the 31st of August, the principal amount was netted off from part of her retirement proceeds. LIBOR rate during the period was 1%.

7. Company LX contributed 50% to Leeroy's pension. Over the years Leeroy's contribution exceeded the limit by \$5 000. She receives an annuity of \$500 per month starting September 2019. Her life expectancy is 10 years from retirement date.

REQUIRED:

Calculate income tax payable by Leeroy on Employment Income for the year ended 31 December 2019. Insert brief explanatory notes for each transaction. (25 Marks)

Question 5

'Governments demand tax for the sake of it'. Discuss. (25 Marks)

Question 6

Explain the sources of Zimbabwean taxation law.(25 MARKS)

END OF PAPER