



TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

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D3: BUSINESS TAXATION

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WEDNESDAY 16 DECEMBER 2015

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TOTAL MARKS – 100; TIME ALLOWED: THREE (3) HOURS

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**INSTRUCTIONS TO CANDIDATES**

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question. You will be told when to start writing.
2. This question paper consists of **FOUR (4)** questions of Twenty Five (25) marks each. You must attempt all the **FOUR (4)** questions.
3. Enter your Student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.
10. A Taxation table is provided on pages 2, 3 and 4.

## Taxation Table

### Income Tax

#### Standard personal income tax rates

| Income band        | Taxable amount | Rate |
|--------------------|----------------|------|
| K1 to K36,000      | first K36,000  | 0%   |
| K36,001 to 45,600  | next K9,600    | 25%  |
| K45,601 to K70,800 | next K25,200   | 30%  |
| Over K70,800       |                | 35%  |

#### Income from farming for individuals

|               |               |     |
|---------------|---------------|-----|
| K1 to K36,000 | first K36,000 | 0%  |
| Over K36,000  |               | 10% |

#### Gratuity

|               |               |     |
|---------------|---------------|-----|
| K1 to K36,000 | first K36,000 | 0%  |
| Over K36,000  |               | 25% |

#### Terminal benefits

|               |               |     |
|---------------|---------------|-----|
| K1 to K35,000 | first K35,000 | 0%  |
| Over K35,000  |               | 10% |

#### Company Income Tax rates

|                                                                                                     |     |
|-----------------------------------------------------------------------------------------------------|-----|
| On income from manufacturing and other                                                              | 35% |
| On income from farming                                                                              | 10% |
| Non-traditional exports                                                                             | 15% |
| On income of Banks and other Financial Institutions                                                 | 35% |
| On income from processing of purchased mineral ores, concentrates and other semi-processed minerals | 30% |
| On income from Tolling                                                                              | 30% |
| On income from mining operations of industrial minerals                                             | 30% |

(Variable profit tax rate – industrial metals)  $y = 30\% + [a - (ab/c)]$

Where:  $y$  = the tax rate to be applied per annum

$a = 15\%$

$b = 8\%$

$c = \frac{\text{Assessable Income}}{\text{Gross sales}} \times 100\%$

#### Mineral Royalty

|                               |     |
|-------------------------------|-----|
| Underground Mining operations | 8%  |
| Opencast Mining operations    | 20% |
| Mining of industrial minerals | 6%  |

### Capital Allowances

#### Implements, plant and machinery and commercial vehicles:

|                                               |     |
|-----------------------------------------------|-----|
| Wear and Tear Allowance – Plant used normally | 25% |
| Used in Manufacturing, Farming, Leasing       | 50% |

#### Non- commercial vehicles

|                         |     |
|-------------------------|-----|
| Wear and Tear Allowance | 20% |
|-------------------------|-----|

**Industrial Buildings:**

|                         |     |
|-------------------------|-----|
| Wear and Tear Allowance | 5%  |
| Initial Allowance       | 10% |
| Investment Allowance    | 10% |

**Low Cost Housing (Cost up to K20,000)**

|                         |     |
|-------------------------|-----|
| Wear and Tear Allowance | 10% |
| Initial Allowance       | 10% |

**Commercial Buildings**

|                         |    |
|-------------------------|----|
| Wear and Tear Allowance | 2% |
|-------------------------|----|

**Farming Allowances**

|                            |      |
|----------------------------|------|
| Development Allowance      | 10%  |
| Farm Works Allowance       | 100% |
| Farm Improvement Allowance | 100% |

**Presumptive Taxes**

|                                  |    |
|----------------------------------|----|
| Turnover Tax                     | 3% |
| Presumptive tax for transporters |    |

**Seating capacity**

|                                   | <b>Tax per annum</b> | <b>Tax per day</b> |
|-----------------------------------|----------------------|--------------------|
|                                   | <b>K</b>             | <b>K</b>           |
| Less than 12 passengers and taxis | 1,200                | 3.20               |
| From 12 to 17 passengers          | 2,400                | 6.60               |
| From 18 to 21 passengers          | 4,800                | 13.20              |
| From 22 to 35 passengers          | 7,200                | 20.00              |
| From 36 to 49 passengers          | 9,600                | 26.00              |
| From 50 to 63 passengers          | 12,000               | 32.80              |
| From 64 passengers and over       | 14,400               | 39.40              |

**Property Transfer Tax**

|                                                                       |     |
|-----------------------------------------------------------------------|-----|
| Rate of Tax on Realised Value of property other than mining rights    | 10% |
| Rate of Tax on Realised Value on a transfer or sale of a mining right | 10% |

**Value Added Tax**

|                                                           |          |
|-----------------------------------------------------------|----------|
| Registration threshold                                    | K800,000 |
| Standard Value Added Tax Rate (on VAT exclusive turnover) | 16%      |

**Customs and Excise****Duty rates on:**

- Motor cars and other motor vehicles (including station wagons) principally designed for the transport of less than ten persons, including the driver:**

**Customs Duty:** 25%

**Excise Duty:**

Cylinder capacity of 1500 cc and less 20%

|           |                                                                              |     |
|-----------|------------------------------------------------------------------------------|-----|
|           | Cylinder Capacity of more than 1500 cc                                       | 30% |
| <b>2.</b> | <b>Pick-ups and trucks/lorries with gross weight not exceeding 20 tones:</b> |     |
|           | Customs Duty                                                                 | 15% |
|           | Excise Duty                                                                  | 10% |
| <b>3.</b> | <b>Buses/coaches for the transport of more than ten persons</b>              |     |
|           | <b>Customs Duty:</b>                                                         | 15% |
|           | <b>Excise Duty:</b>                                                          |     |
|           | Seating Capacity of 16 persons and less                                      | 25% |
|           | Seating Capacity of 16 persons and more                                      | 0%  |
| <b>4.</b> | <b>Trucks/lorries with gross weight exceeding 20 tonnes</b>                  |     |
|           | <b>Customs Duty:</b>                                                         | 15% |
|           | <b>Excise Duty:</b>                                                          | 0%  |

**The minimum amount of Customs Duty on Motor Vehicles in categories from 1 up to 3 above is K2,000.**

## Attempt all FOUR (4) Questions

### QUESTION ONE

Mukomansala Plc is a company engaged in farming on the North-western province of Zambia. The company listed its shares on the Lusaka Stock Exchange in 2014 and 70% of the shares are owned by indigenous Zambians, while the remaining 30% are owned by South African investors. The company's statement of profit or losses (income statement) for the year ended 31 December 2015 is presented below:

Income statement for the year ended 31 December 2015

|                                        | K             | K                |
|----------------------------------------|---------------|------------------|
| Gross profit                           |               | 600,250          |
| <i>Other income:</i>                   |               |                  |
| Bank interest received (Note 1)        |               | 59,925           |
| Rent received (Note 1)                 |               | 91,800           |
| Royalties received (Note 1)            |               | 38,250           |
| Dividends received (Note 1)            |               | 21,250           |
| Profit on disposal of land (Note 2)    |               | <u>49,200</u>    |
|                                        |               | 860,675          |
| <u>Less: Expenses</u>                  |               |                  |
| Wages and salaries (Note 3)            | 250,000       |                  |
| Bad debts (Note 4)                     | 40,000        |                  |
| Depreciation                           | 86,400        |                  |
| Motor expenses (Note 5)                | 32,350        |                  |
| Professional fees (Note 6)             | 10,700        |                  |
| Loss on disposal of motor car (Note 9) | 8,500         |                  |
| General expenses (Note 7)              | 136,400       |                  |
| Provision for taxation (Note 8)        | <u>70,920</u> |                  |
|                                        |               | <u>(635,270)</u> |
| Net profit                             |               | <u>225,405</u>   |

The following additional information is available:

1. These amounts shown of investment income in the income statement above, represent the actual amounts received by the company. Withholding tax has already been deducted at source.
2. The company sold a piece of land for K60,000 during the charge year 2015. This land was acquired at a cost of K10,800 ten years ago. The company paid appropriate taxes on the disposal of this land.

3. The wages and salaries include K140,000 paid to the company's directors as directors' emoluments. The company has accommodated these directors in company owned houses. The balance of wages and salaries relate to other employees.

4. Bad debts comprises the following:

|                                                  | K              |
|--------------------------------------------------|----------------|
| Trade debts written off                          | 16,500         |
| Loans to former employee written off             | 28,000         |
| Increase in General provision                    | 2,300          |
| Decrease in Specific provision                   | (2,200)        |
| Trade debts previously written off now recovered | <u>(4,600)</u> |
| Profit/(Loss)                                    | <u>40,000</u>  |

5. Motor car expenses include K20,000 which was incurred in respect of two motor cars; a Toyota Caldina and a Toyota Vista used by the Chief Finance Officer and the Managing Director respectively. These cars both have cylinder capacities of 2900cc. Each Director had 60% private use in each car in the tax year 2015. (refer to note 9 below)

6. Professional fees comprises the following:

|                                                     | K             |
|-----------------------------------------------------|---------------|
| Accountancy fees                                    | 4,000         |
| Penalty for late payment of income tax              | 5,600         |
| Legal fees in connection with breach of labour laws | <u>1,100</u>  |
|                                                     | <u>10,700</u> |

7. General expenses comprise the following:

|                          | K              |
|--------------------------|----------------|
| Entertaining customers   | 26,900         |
| Entertaining suppliers   | 17,200         |
| Staff canteen            | 11,000         |
| Other allowable expenses | <u>81,300</u>  |
|                          | <u>136,400</u> |

The canteen is situated within business premises.

8. The provisional income tax in the income statement is an estimate of the tax payable. The provisional tax paid for the charge year 2015 was K25,900.

## 9. Capital expenditure

The following were the implements, plant and machinery at 1 January 2015:

| Asset            | Income Tax Value<br>(K) | Original cost<br>(K) |
|------------------|-------------------------|----------------------|
| Tractor          | 60,000                  | 120,000              |
| Toyota Hilux van | 30,000                  | 60,000               |
| Toyota corolla   | 21,000                  | 3 5,000              |

The following transactions took place in implements, plant and machinery during the year:

| Asset             | Purchase cost/(disposal proceeds)<br>K |
|-------------------|----------------------------------------|
| Farm implements   | 30,000                                 |
| Ploughs           | 25,000                                 |
| Mistubishi canter | 90,000                                 |
| Toyota caldina    | 45,000                                 |
| Toyota vista      | 40,000                                 |
| Toyota corolla    | (40,000)                               |

The Toyota caldina and Toyota vista are used by directors on personal-to-holder basis (refer to note 5 above).

In addition to the above capital expenditure, the company also incurred the following expenditure:

|                                                     | K      |
|-----------------------------------------------------|--------|
| Dwelling houses (5 units at a cost of K16,000 each) | 80,000 |
| Fencing                                             | 19,000 |
| Boreholes                                           | 15,000 |
| Clearing and stumping                               | 17,000 |

### Required:

- Calculate the capital allowances claimable by the company for the charge year 2015. You are not required to show the Income Tax Values (10 marks)
- Calculate the tax adjusted farming profit for the charge year 2015. (10 marks)
- Calculate the income tax payable by Mukomansala Plc for the charge year 2015. (5 marks)

**[Total: 25 Marks]**

## **QUESTION TWO**

- (a) A dividend is any amount distributed or credited by a company to its shareholders. The dividend can be distributed when the company is a going concern or when the company is undergoing liquidation.

### **Required:**

Explain Four (4) circumstances, (i.e. alternative modes) of what a dividend may constitute. (4 marks)

- (b) G & J limited is under voluntary liquidation. The liquidator has made the first distribution of K600,000 on 1<sup>st</sup> March, 2015. The statement of financial position (balance sheet) as at that date appeared as follows:

Statement of financial position as at 1<sup>st</sup> March, 2015

| Liabilities           | Note | K                |
|-----------------------|------|------------------|
| Paid up share capital |      | 600,000          |
| Share premium account |      | 300,000          |
| Reserves              | (1)  | <u>300,000</u>   |
|                       |      | <u>1,200,000</u> |
| Assets                |      |                  |
| Real property         | (2)  | 400,000          |
| Cash in hand          |      | <u>800,000</u>   |
|                       |      | <u>1,200,000</u> |

### **Note 1**

This is made up of an appropriation account of which K40,000 represents capital profits.

### **Note 2**

This is land and building which is not yet realised.

### **Required:**

- (i) Compute the portion that will be regarded as a dividend for tax purposes. (3 marks)
- (ii) Calculate the amount of withholding tax on the dividend. (2 marks)
- (iii) State when the withholding tax should have been paid assuming that the decision to pay the dividend was made on 25 March 2015 but was actually paid on 8 April 2015. (2 marks)

- (c) Mr. and Mrs. Vyakulolafye wishes to incorporate two limited companies. One will be based in Zambia and the other company will be based in Botswana.

The Zambian based company will be called Pazed Limited and the Botswana based company will be called Bots Limited. Each of the companies will have a General Manager and supporting staff. However, board meetings will be held in Zambia for both companies.

**Required:**

- (i) Explain how the residence of a Limited company is determined for income tax purposes. (3 marks)
  - (ii) Explain whether Pazed Limited and Bots Limited will be regarded as being resident in Zambia. (2 marks)
- (d) Pazed Limited intends to commence trading on 1 July 2015. The first accounts will be prepared for the fifteen months period to 30 September 2016, producing a tax adjusted profit figure of K75,000. Thereafter, the company will prepare accounts to 30 September 2017 and 30 September 2018, producing tax adjusted profit figures of K150,000 and K170,000 respectively.

**Required:**

- (i) Advise Mr. and Mrs. Vyakylolafye of the amounts that will be chargeable to company income tax in respect of the trade for the tax years 2015, 2016, 2017 and 2018. (Assume Pazed Limited is a Zambian resident company and that the tax rules for the tax year 2015 will apply to all of the above years). (7 marks)
- (ii) Explain other future tax considerations which may affect your solution in (d) (i) above. (2 marks)

**[Total: 25 Marks]**

### **QUESTION THREE**

- (a) Push Limited owns 85% of the ordinary share capital of both Pick Limited and Shovel Limited. Their sales are all standard rated, Zero rated and exempt respectively.

All the three companies are resident in Zambia. The company's sales and purchases for the year ended 31 May 2015 were as follows:

|            | Sales<br>K | Purchases<br>K |
|------------|------------|----------------|
| Push Ltd   | 2,106,000  | 864,000        |
| Pick Ltd   | 972,000    | 486,000        |
| Shovel Ltd | 702,000    | 270,000        |

The purchases for all three companies are standard rated. In addition Push Ltd incurred standard rated overhead expenditure of K540,000 that cannot be directly attributed to any of the three companies sales. Push Ltd charges both its subsidiary companies a standard rated management charge of K72,000 per annum each in respect of the services of its finance administration department. Both the standard rated expenditure of K540,000 and the management charge of K72,000 have not been included in any of the sales and purchases figures shown above.

All of the above figures are VAT exclusive where applicable. Push Ltd and its two subsidiaries are not registered as a group for VAT purposes.

#### **Required:**

- (i) Explain the circumstances where two or more companies are treated as members of a group for VAT purposes. (5 marks)
  - (ii) Explain the consequences of being VAT registered. (4 marks)
  - (iii) Calculate the VAT position of Push Limited, Pick Limited and Shovel Limited for the year ended 31 May 2015. (10 marks)
- (b) During the tax year 2015, Pick Ltd acquired 30% shares in Rake Ltd, a Zambian resident company. The following sale of assets were made by the companies:
- (1) Pick Ltd sold land to Rake Ltd for K200,000. The original cost was K60,000 and the market value was K240,000 at the time of the sale.
  - (2) Push Ltd also sold two trucks to Shovel Ltd for K310,000. The original costs and income tax value of the trucks was K120,000 and K60,000 respectively. The market value of the trucks was K150,000.
  - (3) Push Ltd sold a commercial building to Rake Ltd for K380,000. The original cost and income tax value of the building was K160,000 and K344,000 respectively.

The market value of the commercial building at the time of the sale was K510,000.

**Required:**

Calculate the property transfer tax position of the group. (6 marks)

**[Total: 25 marks]**

**QUESTION FOUR**

- (a) Ntumbachushi mining corporation is a mining company operating an underground mine in Kawambwa. The company is engaged in the extraction of copper. The following are the sales of Copper during the charge year 2015:

|                |                       |
|----------------|-----------------------|
| January 2015:  | 400 tonnes of Copper  |
| April 2015:    | 1000 tonnes of Copper |
| July 2015:     | 800 tonnes of Copper  |
| October 2015:  | 750 tonnes of Copper  |
| December 2015: | 1100 tonnes of Copper |

Assume that the Zambian kwacha per US\$1 exchange rate approved by the Commissioner General from January 2015 to December 2015 was K7.10/ US\$1.

The average London Metal Exchange (LME) prices were as follows per metric tonne:

|                |           |
|----------------|-----------|
| January 2015:  | US\$3,200 |
| April 2015:    | US\$4,600 |
| July 2015:     | US\$4,700 |
| October 2015:  | US\$6,800 |
| December 2015: | US\$3,150 |

**Required:**

- (i) Calculate the mineral royalty tax paid by the company, for each export, stating the due date for each payment. (10 marks)
- (ii) Explain the consequences of submitting the tax return and paying mineral royalty tax late. (5 marks)
- (b) Kapongo has been in business for some years now, preparing financial statements to 31 March each year. After preparing accounts for the year ended 31 March 2015, Kapongo changed the accounting date and prepared the next accounts for nine months period

ended 31 December 2015. The tax adjusted business profit before capital allowances for nine months period to 31 December 2015 was K600,000. The adjusted business profit before capital allowances for the year ended 31 March 2015 was K700,000.

Business assets qualifying for capital allowances were acquired as follows:

|                     | Cost (K) | Date of purchase |
|---------------------|----------|------------------|
| Plant and machinery | 250,000  | 15 June 2014     |
| Mistubishi canter   | 180,000  | 3 January 2015   |
| Motor car           | 90,000   | 8 July 2015      |

**Required:**

- (i) Explain the current year basis and the preceding year basis of assessment for profits from businesses of self-employed individuals. (2 marks)
- (ii) Calculate the taxable profit for the charge years 2014 and 2015 assuming that the tax rates for the tax year 2015 apply to both years. (8 marks)

**[Total: 25 Marks]**

**END OF PAPER**

**D3: BUSINESS TAXATION**  
**SUGESTED SOLUTIONS AND MARKING KEY**  
**DECEMBER 2015 EXAMINATIONS**

**SOLUTION ONE**

**a. Mukomansala plc**

**Capital allowances for the charge year 2015**

|                                        | K              |
|----------------------------------------|----------------|
| <b>Implements, plant and machinery</b> |                |
| Tractor: K120,000 X 50%                | 60,000         |
| Toyota hilux van: K60,000 X 25%        | 15,000         |
| Toyota corolla: K21,000 – K35,000      | (14,000)       |
| Farm implements: K30,000 X 50%         | 15,000         |
| Ploughs: K25,000 X 50%                 | 12,500         |
| Mistubishi canter: K90,000 X 25%       | 22,500         |
| Toyota Caldina: K45,000 X 20%          | 9,000          |
| Toyota Vista: K40,000 X 20%            | 8,000          |
| <br><b>Farm Improvements</b>           |                |
| Dwelling houses: K80,000 X 100%        | 80,000         |
| Fencing: K19,000 X 100%                | 19,000         |
| <br><b>Farm works</b>                  |                |
| Boreholes: K15,000 X 100%              | 15,000         |
| Clearing and stumping: K17,000 X 100%  | <u>17,000</u>  |
| Total capital allowances               | <u>259,000</u> |

**b. Mukomansala plc**

**Adjusted Farming profit for the Charge year 2015**

|                                     | K      | K       |
|-------------------------------------|--------|---------|
| Net profit as per accounts          |        | 225,405 |
| <b>Add:</b>                         |        |         |
| Free accommodation: K140,000 X 30%  | 42,000 |         |
| Loan to former employee written off | 28,000 |         |
| Increase in general provision       | 2,300  |         |
| Depreciation                        | 86,400 |         |

|                                                     |                |                  |
|-----------------------------------------------------|----------------|------------------|
| Personal-to-holder cars: Toyota Caldina             | 20,000         |                  |
| Toyota Vista                                        | 20,000         |                  |
| Penalty for late payment of income tax              | 5,600          |                  |
| Legal fees in connection with breach of labour laws | 1,100          |                  |
| Loss on disposal of motor car                       | 8,500          |                  |
| Entertaining customers                              | 26,900         |                  |
| Entertaining suppliers                              | 17,200         |                  |
| Staff canteen                                       | 11,000         |                  |
| Provision for taxation                              | <u>70,920</u>  |                  |
|                                                     |                | <u>339,920</u>   |
|                                                     |                | 565,325          |
| <b>Less:</b>                                        |                |                  |
| Profit on Disposal of Land                          | 49,200         |                  |
| Bank interest                                       | 59,925         |                  |
| Rent received                                       | 91,800         |                  |
| Royalties received                                  | 38,250         |                  |
| Dividends received                                  | 21,250         |                  |
| Capital Allowances (a)                              | <u>259,000</u> |                  |
|                                                     |                | <u>(519,425)</u> |
| Adjusted Farming profit                             |                | <u>45,900</u>    |

**c. Mukomansala plc**

**Tax payable for the charge year 2015**

|                                                |               |                |
|------------------------------------------------|---------------|----------------|
|                                                | K             | K              |
| Adjusted farming profit                        |               | 45,900         |
| Bank interest: $K59,925 \times \frac{100}{85}$ | 70,500        |                |
| Royalties: $K38,250 \times \frac{100}{85}$     | <u>45,000</u> |                |
| Non-farming income                             |               | <u>115,500</u> |
| Total taxable income                           |               | <u>161,400</u> |

**Computation**

|                                            |               |
|--------------------------------------------|---------------|
| Farming profit: $K45,900 \times 10\%$      | 4,590         |
| Non-farming income: $K115,500 \times 35\%$ | <u>40,425</u> |
| Tax liability                              | 45,015        |

|                                   |                |
|-----------------------------------|----------------|
| Less:                             |                |
| Provisional tax paid              | (25,900)       |
| WHT: Bank interest: K70,500 X 15% | (10,575)       |
| Royalties: K45,000 X 15%          | <u>(6,750)</u> |
| Tax payable                       | <u>1,790</u>   |

## SOLUTION TWO

(a) Four circumstances of what constitutes a dividend as per the current Investment Act include:

- Any profits distributed whether in cash or otherwise, except capital profits earned before or during the winding up or liquidation proceedings in the case of a company being liquidated.
- Profits, redeemable shares capable of redemption by conversion debentures or security, awarded to shareholders in the case of a company which is not being wound up or liquidated.
- A reduction of capital which is returned to shareholders more than the original amount of the shares whether the excess was given in cash or otherwise.
- In the event of a reconstruction of a company any cash or value of any asset which is given to the shareholders in excess of the nominal value of the shares held by shareholder(s) before reconstruction.

(b) (i) G and J Limited taxable dividend:

$$= \frac{\text{undistributed revenue profit} \times \text{liquidation dividend}}{\text{Share capital} + \text{share premium account} + \text{total undistributed profit}}$$

$$= \frac{(K300,000 - K40,000) \times K600,000}{K1,200,000} = \underline{K130,000}$$

(ii) W.H.T = 15% x K130,000 = K19,500

(iii) The WHT for a company under liquidation is due on the 14<sup>th</sup> day of the subsequent month when the dividend was actually paid. In this case the dividend was due on 14<sup>th</sup> April 2015. This is in contrast to dividend paid by companies on a going concern basis where the W.H.T is due on the 14<sup>th</sup> of the subsequent month when the dividend is declared by a board resolution.

(c) (i) A company is held to be resident in Zambia for company income tax purposes if:

- That company is incorporated or formed in Zambia.
- The management and control of the company's business affairs are exercised

in Zambia. A Company is certainly managed and controlled in Zambia if the boards of directors for that company meet in Zambia for the purposes of decision making affecting the company.

- (ii) Pazed Limited is based and presumably must be incorporated or registered in Zambia and therefore is a Zambian resident company. Bots Limited though not based in Zambia and presumably is not registered in Zambia. However, its control is exercised in Zambia by having board meetings in Zambia. Therefore Bots Limited is also a Zambian resident company.
- (d) (i) On commencement of a trade and the accounts are prepared for more than twelve (12) months, the first period is split of less than 12 months and the balance is exactly 12 months.

Therefore the assessment for the first accounts prepared to fifteen months are:

- $\frac{3}{15} \times K75,000 = (1.7.2015 \text{ to } 30.9.2015) = K15,000$  assessed current year basis – T/Y 2015
- $\frac{12}{15} \times K75,000 (1.10.2015 \text{ to } 30.9.2016) = K60,000$  assessed current year basis – T/Y 2016

Subsequent assessments will be as follows:-

- 1.10.2016 to 30.9.2017 – 12 months period = K150,000 assessed current year basis – T/Y 2017
- 1.10.2017 to 30.9.2018 – 12 months period = K170,000 assessed current year basis - T/Y 2018

- (ii) Other tax consideration to be taken into account regarding the assessment include:-
  - Change in the tax years policy like what happened in the tax year 2012/13
  - Change in the basis period rules.

### SOLUTION THREE

- (a) (i) Two or more companies are eligible to be treated as members of a group provided that each of them is either established in Zambia or has a fixed establishment in Zambia, and
1. One of the companies controls all the others
  2. One person controls all of the companies
  3. Two or more persons carrying on a business in partnership control all the companies
  4. One company has effective control of more than 50% of the share capital of the other companies.
- (ii) The consequence of being registered as a group for VAT purposes are that:
1. Each VAT group must appoint a representative member which accounts for the group's output tax and input tax.
  2. All members of the VAT group are jointly and severally liable for any tax due from the representative member.
  3. Any supply of goods or services by a member of the group is treated as a supply by or to the representative member.
  4. Any supply of goods or services by a member of the group to another member of the group is disregarded for VAT purposes.

- (iii) Calculation of the group VAT position for the year ended 31 May 2015

|                   | Push<br>K        | Pick<br>K      | Shovel<br>K    |
|-------------------|------------------|----------------|----------------|
| Sales             | 2,106,000        | 972,000        | 702,000        |
| Management charge | <u>144,000</u>   | <u>-</u>       | <u>-</u>       |
| Total             | <u>2,250,000</u> | <u>972,000</u> | <u>702,000</u> |

|                          |                  |                 |                |
|--------------------------|------------------|-----------------|----------------|
| Output tax at 16% and 0% | 360,000          | 0               | -              |
| Purchases                | 864,000          | 486,000         | 270,000        |
| Overheads                | 540,000          | 0               | 0              |
| Management charge        | <u>-</u>         | <u>72,000</u>   | <u>72,000</u>  |
| Total expenses           | <u>1,404,000</u> | <u>558,000</u>  | <u>342,000</u> |
| Input tax at 16%         | <u>224,640</u>   | <u>89,280</u>   | <u>-</u>       |
| VAT payable/ (repayable) | <u>135,360</u>   | <u>(89,280)</u> | <u>-</u>       |

Net VAT Payable =  $K135,360 - 89,280 = K46,080$

(b) Calculation of PTT position for the group

- (i) Rake Ltd does not qualify to be a member of the group for PTT purposes and therefore any sale of property will attract PTT based on the market value of the group as follows:

$$K240,000 \times 10\% = K24,000$$

- (ii) Push Ltd and Shovel Ltd are members of a group and trucks do not qualify as property. The PTT position is nil in respect of the transaction.

- (iii) The PTT will be based on the market value of the commercial building:  
 $= K510,000 \times 10\% = K51,000$

| Summary of PTT |                             | K             |
|----------------|-----------------------------|---------------|
| (i)            | Sale of land to Hoe Ltd     | 24,000        |
| (ii)           | Sale of trucks              | -             |
| (iii)          | Sale of commercial building | <u>51,000</u> |
|                |                             | <u>75,000</u> |

## SOLUTION FOUR

(a) (i) **Mineral royalty tax**

**January 2015**

$$400 \text{ tonnes} \times \$3,200 \times K7.10 \times 8\%$$

$$\underline{K727,040}$$

The due date for this tax is 14 February 2015

**April 2015**

$$1000 \text{ tonnes} \times \$4,600 \times K7.10 \times 8\%$$

$$\underline{K2,612,800}$$

The due date for this tax is 14 May 2015

**July 2015**

$$800 \text{ tonnes} \times \$4,700 \times K7.10 \times 8\%$$

$$\underline{K2,135,680}$$

The due date for this tax is 14 August 2015

**October 2015**

750 tonnes X \$6,800 X K7.10 X 8%

K2,896,800

The due date for this tax is 14 November 2015.

**December 2015**

1,100 tonnes X \$3,150 X K7.10 X 8%

K1,968,120

The due date for this tax is 14 January 2016

**(ii) Submission of returns and payment of tax**

Mineral royalty returns should be submitted and tax paid not later than 14 days after the end of the month to which the return relates.

If the mineral royalty tax return is submitted late or failure to submit the return the return the following penalties apply:

1. In the case of an individual one thousand penalty units (or K180.00) per month or part thereof.
2. In the case of a company two thousand penalty units (or K360.00) per month or part thereof.

Failure or late payment of mineral royalty tax attracts penalties and interest in accordance with the provisions of the section 78 and 78A of the income tax act as follows:

1. Penalty of 5% of the mineral royalty tax payable per month or part thereof, plus
2. Interest on overdue tax at a rate of 2% above the Bank of Zambia discount rate.

- (b) The current year basis is used to make income tax assessments for business profits where accounts are prepared to a date falling between 1 April and 31 December inclusive. Under this basis of assessment, the basis period for a given tax year is the accounting period the ends in that tax year.

Preceding year basis is used to make income tax assessments for business profits where accounts are prepared to a date falling between 1 January and 31

March inclusive. Under this basis of assessment, the basis period for a given tax year is the accounting period that ends in the preceding tax year.

## II. **Kapongo**

Taxable profits for the charge year 2015

|                                   | 2014            | 2015             |
|-----------------------------------|-----------------|------------------|
|                                   | K               | K                |
| Profits before capital allowances | 700,000         | 800,000          |
| Capital allowances                | <u>(62,500)</u> | <u>(125,500)</u> |
| Taxable profit                    | <u>637,500</u>  | <u>674,500</u>   |

### **Workings**

#### **i. Taxable profit for the charge year 2015**

Kapongo changed the accounting period during the year, therefore, Kapongo's profits for the charge year 2015 will be expanded into a notional 12 months period. The tax payable for the charge year 2015 will be based on the expanded profit. i.e.  $K600,000 \times \frac{12}{9} = \underline{K800,000}$

#### **ii. Capital allowances**

|                                             | 2014          | 2015           |
|---------------------------------------------|---------------|----------------|
|                                             | K             | K              |
| Plant and machinery: $K250,000 \times 25\%$ | 62,500        | 62,500         |
| Mistubishi canter: $K180,000 \times 25\%$   | -             | 45,000         |
| Motor car: $K90,000 \times 20\%$            | <u>-</u>      | <u>18,000</u>  |
| Total capital allowances                    | <u>62,500</u> | <u>125,500</u> |

**END OF SOLUTIONS**