TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C4: DIRECT TAXES

THURSDAY 18TH JUNE 2015

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

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 FIVE (5) questions of twenty (20) marks each. You MUST attempt all the FIVE (5) 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. 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.

6. All workings must be done in the answer booklet.

7. Present legible and tidy work.
8. Graph paper (if required) is provided at the end of the answer booklet.

9. A taxation table is provided on pages 2, 3 and 4 of this paper.

TAXATION TABLE

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(Qualifying)

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%

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	Tax per annum	Tax per day
	K	K
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:

1. **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%

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

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

Answer all FIVE (5) Questions

QUESTION ONE

Jordan commenced in business on 1st February 2014 and prepared his first set of accounts to 31st May 2015 and annually thereafter. Jordan intends to maintain the period ending 31st May for three consecutive periods and later changing the period ending for the accounts preparation to 31st December annually. Jordan has provided you with his first three periods of trading below.

Period ending	Tax adjusted trading income before capital allowance (K)
31st May 2015	160, 000
31st May 2016	120, 000
31st May 2017	240, 000

Jordan will be registered for VAT from the start of the business and will acquire the following implements, plant and machinery.

Description	**Date asset acquired**	**Purchase (K)**
Toyota Camry motor car	1st March 2015	45,000
Nissan Navara Van	20th June 2015	190,000
Desk top computer	31st December 2015	5,000
Furniture*	2nd March 2016	25, 000
Machinery**	13th April 2016	230,000
Toyota Hilux Van	3rd October 2017	175,000

- The motor car had 30% private use by the owner of the business.
- * The furniture was purchased to be used by Jordan and the family and was never used in the business.
- ** The Machinery was acquired to be used directly for Manufacturing in Jordan's Business. To acquire this machinery Jordan only paid half of the K230,000 as the other half was given as a grant by a foreign country embassy in Zambia who is supporting the Manufacturing sector in the Republic of Zambia.

Jordan also had the following capital disposals

Description	**Date asset disposed of**	**Resale value (K)**
Nissan Navara Van	30th August 2016	50, 000
Furniture*	31st December 2018	10, 000

After the first three trading periods Jordan intends to change his accounting period to 31st December annually. To effect this change Jordan will have to prepare accounts for seven

months to period ending 31st December 2017, then annually thereafter, as can be seen in the table below.

Period ending	Tax adjusted trading income before capital allowance (K)
31st December 2017	70, 000
31st December 2018	140, 000

Other information

The business registered for VAT under the voluntary provision as provided by the Zambia Revenue Authority in Zambia.

Required:

(a) State one reason indicated in the scenario which bars Jordan from calculating tax under the turnover tax provision. (1 mark)

(b) Calculate the capital allowances to be claimed for the Tax Years 2015. (8 marks)

(c) Calculate the final tax adjusted trading in for the Tax Years 2015. (8 marks)

(d) Jordan wants to register his business under the Zambia Development Agency (ZDA) small and micro enterprises.

State any (3) three criteria of a micro enterprise as provided by the Zambia Development Agency (ZDA). (3 marks)

[Total: 20 Marks]

QUESTION TWO

Maria Tembo's three year renewable contract came to an end on 31st October 2015. She had worked as a marketing Lecturer at the JJK University in the capital City of Lusaka. However, she was offered another contract only for one year and six months starting on 1st November 2015.

Maria's new basic pay per month was increased by 10% in the new contract offered. The basic pay per annum in the just ended contract was at K127,200 for end of the three years. The gratuity percentage was 36% in the just ended contract and has been increased to 40% in the new contract for the duration of one year and six months.

The following incomes apply to both contracts:

- School going children allowance per child per month of 10% of the monthly basic pay. Maria Tembo has four children, of which the first and second born are at primary school doing grade three and two respectively, the third born started baby class on 1st July 2015. The fourth born is three months and will only start school in 2016. JJK University only allocates this allowance when the child is in school.

- Fuel allowance of 50 litres of petrol per month. Petrol per litre was trading at K11 for the first six months of 2015, and then reduced to K10.50/ litre in the 7th and 8th months of 2015, a further reduction was given which saw the price to trade at K9.30/ litres for the rest of the year.
- Housing allowance of K1, 850 per month.
- Uniform allowance which is paid every year at 1st March of K2, 000.

Maria Tembo had the following expenses for the tax year 2015:

- Professional subscription to the Zambia Institute of Marketing of K750.
- Donation of K2,500 to the Victory Political Party.
- House rentals of K2,500 per month.
- Life Assurance premium of K1,250 per annum.
- Uniform purchased as at 10th March 2015 for K1,500.
- School children school fee of K4, 500 for every child in school for the whole year of 2015 and K1,000 per month for the maid who takes care of the three months child.
- Fuel cost per month of K2,000.
- Bought a projector for K7,500 to be used wholly and exclusively as a lecturing tool. It was decided by the Zambia Revenue Authority that the tool was necessary for her to carry out her employment duties and that the tool never had any private use.
- Pension contribution to National Pension Scheme Authority of K530 per month for the old contract and K583 per month for the new contract given.
- Tax paid under the Pay As You Earn System was K39,996 for the Tax Year 2015.

Other information provided

Maria Tembo has two vehicles, a 4 passenger seater taxis and a 16 seater mini bus that she has provided for Public transportation within the City of Lusaka. All the three vehicles have been provided for transportation for the entire tax year of 2015.

Required

(i) Calculate the Taxes Maria Tembo will pay in respect of her two vehicles that are used for Public transportation for the tax year 2015. (2 marks)

(ii) Discuss the differences in the taxation treatment of the gratuity in the old and new contracts. Your answer should not include any calculations. (4 marks)

(iii) Calculate the income tax payable or repayable by Maria Tembo for the Tax Year 2015. (12 marks)

(iv) List any four (4) reasons why the Government of Zambia had to introduce the Presumptive Taxes. (2 marks)

[Total: 20 Marks]

QUESTION THREE

Prosper PLC is a company that has been carrying out the farming business. The company has three directors who received emoluments in 2015. Each of the three directors is paid an annual basic pay of K250,000 in the tax year 2015. The following information is relevant to the three directors.

Donald Mutale

Donald is permanent and pensionable with Prosper PLC. In addition to his salary he received a bonus of K20,000 on 1st February 2015, which he was entitled to on 5th December 2014. This bonus paid relates to the Prosper PLC's 2014 financial year. Donald's basic pay has been constant for the past three years. Donald received a gratuity of K80, 000 gross, it is company policy for Prosper PLC to award all employees a gratuity after a three year employment service in respective of the type of contract that there have. All of Mr. Donald's assessable allowances have been totalled at K15,000 per month. Donald paid his own subscription to the Institute of Directors of K10,000 per annum, he also paid subscription to a executive gym and spa of K5,000 per year. He paid his annum premium towards his Life assurance of K12,000, since Donald has been contributing towards this policy for the past five years, he has been granted a benefit of K60,000 in the 2015.

Joseph Phiri

Unlike Donald, Joseph was employed on a fixed term contract two and a half years. His contract ends this 31st December 2015. The company had offered him a gratuity percentage of 55%. The basic salaries for the previous years are as follows per annum;

2013 K180,000

2014 K215,000

Joseph turned 55 years on 30th August 2015, because of this, he was paid a lumpsum amount of K215,000 from NAPSA as his age benefit upon reaching the required age. Joseph is not thinking about putting his boots down, he is still hoping for another contract after 31st December 2015.

Kelvin Kekelwa

Kelvin was employed as a permanent and pensionable staff, however he turned 55 years on 31st October 2015. His employment contract provided that the contract will come to an end in the month when the employee attains his/her 55 year birthday.

Kelvin was entitled to the following incomes following his retirement;

- Pension K300,000
- Repatriation pay K38,000

His per annum assessable allowances amount to K35,000.

Required:

(a) Compute the income tax payable / (repayable) by Donald, Joseph and Kelvin for the income tax year of 2015. Ignoring any pension contribution and any PAYE paid (15 marks)

(b) Describe the types of taxable persons who are required to pay provisional income tax. (3 marks)

(c) Explain how provisional income tax for the tax year 2015 would be calculated for an individual who is in farming. (2 marks)

[Total: 20 Marks]

QUESTION FOUR

Pikiniki Ltd, a Zambian resident company, commenced trading on 1st October 2014 as a breeder of Exotic birds. The company Pikiniki Ltd has since expanded its business to also started smoked broiler chicken that they transported to Europe, Pikiniki Ltd has since set up a large factory for this purpose. The company prepared its first accounts for 15 months to 31st December 2015. The company has never had a turnover of under K1,000,000 and its activities are considered to be farming by ZRA.

The following information is available:

Trading profits

The tax adjusted trading profit based on the draft accounts for the 15 months period ended 31st December 2015 is K776,768. This figure is before making any adjustments required for:

(1) Capital allowances

(2) Director's gross emoluments of K223,000 paid to the sales director of Pikiniki Ltd, together with the related NAPSA contribution of K19, 104 and the related PAYE of K62,159. The company accommodates this director in a company owned house, similar accommodation's rent is K5,000 per month on average and the director was given a personal to holder Toyota pickup with a cylinder capacity 2500 cc. No adjustment was made for the house and the vehicle. For the vehicle kindly see below on other information under implements, plant and machinery.

(3) Pikiniki Ltd employed two differently abled persons during the year 2015. The first person was employed on 1st January 2015 and the second one was employed as at 1st July 2015. The two employees were employed on a full time basis by Pikiniki Ltd.

Implements, Plant and Machinery.

Pikiniki Ltd purchased the following assets in respect of the 15 months period ended 31st December 2015:

		K
20th October 2014	Office equipment	10,000
5th December 2014	Building alterations necessary for the installation of Machinery	15,000
18th January 2015	Machinery for manufacturing	205,000
1st July 2015	Toyota pickup (note 2 above)	350,000

The vehicle was used for 75% for private use and the other for business purposes.

Factory

Pikiniki Ltd had a new factory constructed

Pikiniki Ltd had a new factory constructed at a cost of K200, 000 that the company brought into use on 1st December 2014. The cost was attributed as follows:

	K
Land	60,000
Site preparation	8,000
Canteen for employees	22,000
General offices	42,000
Factory	68,000
	200,000

Other information

Loan interest received

Loan interest of K17,000 was received on 31st March 2015. The amount represents the actual amount received. This amount was dealt with properly when computing the taxable trading income given above.

Required:

(a) Calculate capital allowances for the tax year 2015. (6 marks)

(b) Compute the income tax payable (repayable) by Pikiniki Ltd for the tax years 2014 and 2015, provided that the tax rates for 2015 are the same as those for 2014. (8 marks)

(c) In relation to property transfer tax, transfer to immediate family members are taxed at 10% of the price the immediate family pays for the qualifying property.

Required:

State the exempt transaction under property transfer tax. (6 marks)

[Total: 20 Marks]

QUESTION FIVE

On 1st January 2015 Samuel Nyirenda purchased a derelict freehold house for K150,000. Legal fees of K2, 000 were paid in respect of the purchase.

Mr. Nyirenda then renovated the house at a cost of K55,000, with the renovation being completed on 5th January 2015. He immediately put the house up for sale, and it was sold on 24th January 2015 for K350,000. Legal fees of K3,500 were paid in respect of the sale.

Mr. Nyirenda financed the purchase of the house by a bank loan of K200,000 to be paid back at an interest of 10%.

Using the proceeds of the sale of the house, Mr. Nyirenda started up a sole trading business on 1st June 2015. However, because of lack of much business experience, part of this investment was wasted. To avoid wasting all of his investment Mr. Nyirenda decided to sale the business to a very close friend of his for K250,000 at what seemed to be the market value of the business, this was made up as follows:

	Market Value at point of sale
	K
Land	100,000
Shop	75,000
Stock	50,000
Receivables	10,000
Prepayments for stock	15,000
	200, 000

At the time of the sale the business had a trade payable of K2,500 which Mr. Nyirenda is to transfer to the new business owners.

However, Mr. Nyirenda never wanted to keep the money collected idol in the bank, he decided to acquire shares in two companies as at 1st October 2015.

KPL PLC

Mr. Nyirenda acquired 100,000 K1 ordinary shares in KPL PLC for K150,000. Mr. Nyirenda sold half of these shares on 2nd November 2015 at their market price of K4.5 per share. These shares are quoted on the Lusaka Stock Exchange. These shares were sold to Mr. Nyirenda's cousin, who only paid K75, 000.

VGA Limited

Mr. Nyirenda acquired 10,000 K1 preference shares in VGA Limited a private limited company for K50,000. All these shares were later on sold to Mrs. Nyirenda the wife on 25th November 2015. A market share of similar public limited company is K6 per share, this was considered to be a reasonable value of a share in VGA Limited by the Commissioner General. The wife only paid K75,000 for the total number of shares transferred.

Required:

(a) Compute the property transfer tax to be paid by Mr. Nyirenda for the tax year 2015.

(12 marks)

(b) After the disposal of the shares in the two companies above, Mr. Nyirenda intends to venture into the public passenger transport business. Mr. Nyirenda is to acquire two vehicles, a four passenger seater taxis and a sixteen seater mini bus. All the two vehicles will be provided for transportation starting on 1st December 2015.

(i) Calculate the presumptive taxes to be paid in respect of the two vehicles to be provided for public transportation for the month of December 2015, provided that the vehicles were used for 31 days. (3 marks)

(ii) List any four (4) reasons why the Government of Zambia had to introduce the Presumptive Taxes. (3 marks)

(c) Zambian Company Income Tax is only charged on a company's profit if that company is residence in Zambia.

State the two tests that the Zambia Revenue Authority will use to determine whether a company is resident in Zambia. (3 marks)

[Total: 20 Marks]

END OF PAPER

C4 DIRECT TAXES SOLUTIONS

Solution One

(a) Traders that register for VALUE ADDED TAX under the Voluntary provisions are not allowed to calculate tax under the Turnover Tax provisions, such traders are to apply normal income tax calculations using that income tax band for a respective tax year.

(b) Computation of capital allowances

Details	**Income tax Value**	**Allowance**
	K	**K**
For tax year 2015		
Toyota Camry car		
Cost	45, 000	
Less wear & tear 20%	(9, 000) ×70%	6, 300
ITV B/F	36, 000	
Nissan Navara Van		
Cost	190, 000	
Less wear & tear 25%	(47, 500)	47, 500
ITV B/F	142, 500	
Desk top computer		
Cost	5, 000	
Less wear & tear 25%	(1, 250)	1, 250
ITV B/F	3, 750	
	Total capital allowances	55, 050

Note 1
Deemed disposal proceeds is the lower of:
1. Original cost K190, 000, or
2. Actual disposal proceeds K150, 000.
   Therefore the actual deemed disposal proceeds is K150, 000

Note 2

Furniture was not acquired to be used in the business, therefore NO capital allowances are given.

(c) Tax adjusted trading incomes for the respective tax year

period	Unadjusted trading income	Capital allowances	Adjusted trading income	Tax year
01.06.14-31.05.14	(12/16×K160, 000)= K120, 000	(K55, 050)	K64, 950	**2015**

(d) Under the Zambia development Agency(ZDA) ACT, a micro enterprise is defined as any business enterprise:

(i) Whose amount of total investment, excluding investment in land and buildings, does not exceed K80, 000.
(ii) Whose annual turnover does not exceed K150, 000.
(iii) That employee is up to 10 persons.
(iv) That is registered with the registrar of companies.

SOLUTION TWO

(a) Presumptive taxes on vehicles used for public transportation

Vehicle	Tax per annum **(K)**
• 4 setter taxi	600
• 16 setter mini bus	1,200

(b) Tax treatment of gratuity received under the old contract and to be received in the new contract.

- Old Contract
  The gratuity received is both qualifying and non-qualifying. Maria has satisfied the conditions of a qualifying gratuity on part of the gratuity and the other part does not qualify.

  For the part qualifying, it should be taxed separately at the rate of 25% after allowing for a tax free income of K36, 000. The part that does not qualify will be assessed together with the other emoluments from employment that will be taxed using normal income tax bands.

- New contract
  The gratuity to be received is non-qualifying therefore it will be assessed together with other emoluments from employment and taxed using the normal income tax bands.

(c) Calculation of income tax payable/ (repayment).
Maria Tembo's
Personal income tax computation for the tax year 2015.

	K
Emoluments from employment (W1)	227, 498
Less tax free income	(36,000)
Chargeable income	191, 498

Income tax payable/ repayable

	K	K
Income tax		
9,600 × 25%	2,400	
25,200 × 30%	7,560	
156, 698 × 35%	54, 844	
		64, 804
Tax on qualifying gratuity		
Qualifying gratuity	95,400	
Less tax free income	(36,000)	
	59,400	
Therefore tax: 59,400 × 25%		14,850
Total income tax liability		79, 654
Less tax already paid		
PAYE		(39,996)
Income tax payable		39, 658

Working 1 Emoluments

	K
Basic pay (K127,200 × 10/12) + (127,200×2/12×1.10)	129,320
School going children allowance	
(K129, 320 × 2×10/12×0.1)+(129, 320 ×2×2/12×0.1×1.1)+	
(K129, 320×4/12×0.1)+(129, 320×2/12×0.1×1.1)	32, 977
Fuel allowance (50×K11×6)+(50×10.50×2)+(50×9.30×4)	6,210
Housing allowance (1,850×12)	22,200
Uniform allowance	2,000
Non-qualifying gratuity (W2)	41,976
Total emoluments	234, 683
Less Allowable deductions	

Professional subscription	(750)
Donations to political party (non-deductible)	-
House rentals (non – deductible)	-
Life assurance premium (non – deductible)	-
Uniform purchased	(1,500)
School fees (non – deductible)	-
Capital allowances on projector (7,500 × 25%)	(1,875)
Pension contribution (restricted)	(3,060)
Emoluments	227, 498

Working 2 Gratuity

Total gratuity	
K127, 200 × 3yrs × 36%	K 137,376
Qualifying Gratuity	
K127, 200 × 3yrs × 25%	K 95,400
Non – qualifying Gratuity	
K137, 376 – K95, 400	K41, 976

(d) Reasons for presumptive taxes introduction

- Removal of complicated tax procedures
- Low levels of tax literacy
- High cost of engaging professional accountants to prepare accounts and handle tax matters
- Liquidity problems
- Constant break downs

SOLUTION THREE

(a) Runaway's

Personal income tax computation for 2015

	K
Emoluments from employment	
- Salary	250,000
- Bonus	-
- Allowances (15,000 x 12 months)	180,000
	430,000
Less subscription	(1,000)
	442,000
Less tax free income	(36,000)
Chargeable income	384,000
Income tax	
9,600 x 25%	2,400
25,200 x 30%	7,560
349,200 x 35%	122,220
Tax on gratuity	
(K 80,000 – 35,000) x 10%	4,500
	136,680

Comewell's

Personal income tax computation for the tax year 2015

	K
Emoluments	
- Salary	250,000
- Non – qualifying gratuity (w1)	166,500
	416,500
Less tax free income	(36,000)
Chargeable income	380,500
Income tax	
9,600 x 25%	2,400
25200 x 30%	7,560
345,700 x 35%	120,995
Tax on gratuity	
(138,750 (w1) – 36,000) x 25%	25,688
	156,643

Working 1

Qualifying gratuity K(90,000 + 215,000 + 250,000) x 25%
= K138,750

Non- qualifying gratuity
(90,000 + 215,000 + 250, 000) x 30%
= 166,500

Million's

Personal income tax computation for the tax year 2015-

	K
Emoluments	
- Salary (250,000 x10/12)	208,333
- Allowances (35,000 x 10/12	29,167
	237, 500
Less tax fee income	(36,000)
Chargeable income	201,500

Income tax

9,600 x 25%	2,400
25,200 x 30%	7,560
166, 700 x 35%	58,345

Tax on terminal benefits

Pensions	-	
Repatriation	38,000	
	38,000	
Less tax free income	35,000	
	3,000	
Therefore 3,000 x 10%		300
		68,605

(b) Persons who are liable to pay provisional income tax are;
Individuals whose taxable income is above K 36,000, where such income does not consist of only emoluments taxable under paye As You Earn system and also not covered by turnover tax.

Limited companies and other taxable bodies of person which are expected to make profits where turnover tax is not applicable.

SOLUTION FOUR

(a) Capital allowances calculations

On implements, plant and machinery

Details	income tax value K	allowances K
For the tax year 2014		
Office equipment		
Cost	10, 000	
Less: W&T(25%)	(2, 500)	2, 500
	7, 500	
Building alterations		
Cost	15, 000	
Less: W&T(25%)	(3, 750)	3, 750
	11, 250	6, 250
For the tax year 2015		
Office equipment		
ITV b/f	7, 500	
Less: W&T(25%)	(2, 500)	2, 500
	5, 000	
Building alteration		
ITV b/f	11, 250	
Less: W&T(25%)	(3, 750)	3, 750
	7, 500	
Machinery		
Cost	205, 000	
Less: W&T(50%)	(102, 500)	102, 500
	102, 500	
Toyota pick-up		
Cost	350, 000	
Less: W&T (25%)	(87, 500)	87, 500
	262, 500	196, 250

Capital allowances on Buildings

Construction cost (200, 000 – 60, 000) = K140, 000

10% test

10% of K140, 000 = K14, 000

Therefore General offices have exceeded the 10%, the qualifying cost will therefore be K140, 000 – K42, 000 = K98, 000

Capital allowances for 2014	
Industrial building	K
Initial allowance (10%)	9, 800
Investment allowance (10%)	9, 800
Wear & Tear (5%)	4, 900
General offices	
Wear & Tear (2%)	840
	25, 340
Capital allowances for 2015	
Industrial building	
Wear & Tear (5%)	4, 900
General offices	
Wear & Tear (2%)	840
	5, 740

(b) Parrot LTD's income tax computation for

	2014 01.10.14-31.12.14 K	2015 01.01.15-31.12.15 K
Trading income(w1)	126, 934	507, 734
Less: Capital allowances		
Implement, plant & Machinery	(6,250)	(196, 250)
Buildings	(25, 340)	(5, 750)
Tax adjusted trading income	95, 344	305, 744
Loan interest	nil	17, 000
Chargeable income	95, 344	322, 744
Income tax		
10% X 95, 344	9, 534	
10% X 305, 744		30, 574
35% X 17, 000	nil	5, 950
	9, 534	36, 524
Less: tax already paid		
- Tax credit on interest Received(15%of 17, 000)	nil	(2, 550)
	9, 534	33, 974

Working 1	K
Unadjusted trading income	776, 768
Directors gross emoluments	(223, 000)
Charge for living accommodation (30% of K223, 000)	66, 900

Charge for personal to holder vehicle	15, 000
Expense for hiring a differently abled person	(1, 000)
	634, 668

3 months

3/15 X K634, 668 = 126, 934

12 months

12/15 X K634, 668 = 507, 734

(c)

(i) The transaction as a result of the sale or other disposal of any stock or share listed on the Lusaka Stock Exchange

(ii) Contribution towards the equity for a company. The commissioner General may treat a transfer of property by a shareholder of a company incorporated under the companies Act, if such transfer is his contribution towards the equity of that company as qualifying for exemption.

(iii) A transfer is not liable to PTT if it is occasioned by death of the transferor to a member of the immediate family.

SOLUTION FIVE

(a) Property transfer Tax	K
Sale of derelict freehold house	
350, 000 X 10%= K35, 000	35, 000
Sale of business	
Land 100, 000 X 10%= 10, 000	
Shop 75, 000 X 10% = 7, 500	
Stock (N/A) = nil	
Receivables (N/A) = nil	
Prepayments (N/A) = nil	
	17, 500
Sale of shares	
Shares in Kopala (exempt) nil	
Shares in Future limited	
(K75, 000 X 10%) 7, 500	
	7, 500
	60, 000

(b) (i) Presumptive taxes	K
Four seater (3.20 X 31days)	99.2
Sixteen seater (6.60 X 31days)	204.6

303.8 Or 304

(ii) Reasons for presumptive taxes introduction

- Removal of complicated tax procedures
- Low levels of tax literacy
- High cost of engaging professional accountants to prepare accounts and handle tax matters
- Liquidity problems
- Constant break downs

(c) Residence tests for a company

- The company is incorporated or formed in Zambia, or
- The central management and control of that company is exercised in Zambia.

END OF SOLUTIONS