



TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D4: PERSONAL TAXATION

TUESDAY 16TH 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 **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. 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.

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%
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%
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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%
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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 annum	per K	Tax per day 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:

- 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%
- Pick-ups and trucks/lorries with gross weight not exceeding 20 tonnes:**
 - Customs Duty 15%
 - Excise Duty 10%
- 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%
- 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

Attempt all FOUR (4) Questions

QUESTION ONE

You should assume that today's date is 20 December 2014 and the earnings ceiling for the purposes of NAPSA contributions should be taken to be K191,088 per annum.

Lwenji Ltd is a small manufacturing company engaged in the manufacture of processed foods. The company makes up its accounts to 31 December each year. The company does not have a marketing department but wishes to introduce a new product on the market. It wishes to hire the services of Mwangelwa, a free-lance marketing consultant on a one year, one off contract, to supervise the marketing and launch of the product, either on a self-employed basis or as an employee of Lwenji Ltd. The engagement will begin on 1 January 2015 and end on 31 December 2015 in either case.

If Mwangelwa is self-employed then the following will apply:

- (1) He will charge a fixed all-inclusive price to Lwenji Ltd of K115,000 per month for the services performed.
- (2) He will use his own Isuzu motor van for travelling, which he will purchase on 1 January 2015, at a cost of K150,000. His total mileage in the year to 31 December 2015 is expected to be 20,000 kilometres which will include 2,000 kilometres on travelling to the premises of Lwenji Ltd, 14,000 kilometres on travelling on promotional tours and campaigns and 4,000 kilometres on personal trips.
- (3) The total motor van running expenses are expected to be K8,500 per month. Mwangelwa will purchase printing equipment to be used in the production of advertising and promotional materials costing K60,000 which he will use 100% for the assignment.
- (4) He will employ three marketing assistants and pay them total monthly salaries of K30,000. He will use their services on the assignment for a period of one year.
- (5) Other expenses he will incur wholly and exclusively on the assignment are expected to be K35,000 per month.
- (6) Mwangelwa will organise his work schedule as he pleases.

If Mwangelwa is employed, the following will apply:

- (1) His salary will be K40,000 per month.
- (2) He will drive his own isuzu motor van which he acquired at a cost K150,000. Lwenji Ltd will pay him a fuel allowance of K4,500 per month. His total mileage in the tax year 2015 is expected to be 20,000 kilometres comprising 2,000 kilometres on travelling to Lwenji Ltd's premise, 14,000 kilometres on travelling promotional campaigns, and 4,000 kilometres on personal trips
- (3) The company will pay him K3,000 per month for other motor van running expenses.
- (4) The company will purchase printing equipment costing K60,000 to be used in the production of advertising and promotional materials.

- (5) He will be required to make NAPSA contributions of 5% of his basic salary and the company will also be required to make NAPSA contributions of 5% of his basic salary.
- (6) All other expenses associated with the assignment will be borne by Lwenji Limited.

Mwangelwa has no other income or outgoings in the tax year 2015 and is ready to take up the assignment regardless of whether the company engages him on a self-employed basis or as an employee.

Required:

- (a) Compute the income tax payable by Mwangelwa in the tax year 2015 if he is engaged by Lwenji Ltd as an employee. (6 marks)
- (b) Explain how Mwangelwa will be assessed to income tax if he is engaged by Lwenji Ltd as a self-employed contractor and compute his income tax payable for the tax year 2015, under this option. (10 marks)
- (c) Advise Mwangelwa on whether it will be more beneficial from a taxation point of view, to be engaged as an employee or as a self-employed contractor by Lwenji Ltd. Your advice should be supported by computations of net income after deducting income tax, any NAPSA contributions and other relevant expenses under each option. (4 marks)
- (d) Assuming that Mwangelwa was engaged as a self-employed contractor by Lwenji Limited under the conditions outlined above, discuss the factors that will be considered by the Commissioner General in confirming his self-employed status with the company. (5 marks)

[Total: 25 Marks]

QUESTION TWO

- (a) Explain the criteria used in determining whether an individual is liable to Zambian income tax: (4 marks)
- (b) Describe the circumstances under which an individual who is domiciled in a foreign country may be liable to Zambian Income Tax. (2 marks)
- (c) **For the purpose of this part of the question, you should assume that today's date is 31 December 2015.**

Solomon Apiah who was born in a country known as Euphoria in 1975, lived in Euphoria until 1 March 2015, when he came to Zambia and took up employment at a local public hospital, as an expatriate doctor at an annual salary of K540,000.

Apiah was paid a relocation allowance of K35,000 and on his arrival in Zambia his employer accommodated him at a local hotel for three months and paid his accommodation bills which totalled K36,000 for this period. He was also provided with shopping vouchers with a value of K17,000. He was required to arrange for his own accommodation after three months, on agreement that the employer will pay for any rentals on his behalf in relation to such accommodation.

On 1 June 2015, he accordingly moved into a rented house and the hospital paid monthly rentals of K9,000 in connection with the house and his monthly utility bills in relation to the house of K7,500 in the tax year 2015.

On 1 June 2015, the company provided him with a personal to holder car with a cylinder capacity of 3000cc and paid for all motor car running expenses which amounted to K5,500 per month. His private use in the motor car for the tax year 2015 is estimated to be 40%.

Solomon has investments in form of shares and debentures he holds in companies which are resident in Euphoria. The currency of Euphoria is known as the Euphorian dollar (E\$). In the tax year 2015, dividends of E\$18,750 and debenture interest of E\$15,000 were credited to his Zambian bank account in respect of these investments. The amount of the dividends was net of withholding tax at the rate of 38% deducted in Euphoria and the amount of the debenture interest was net of withholding tax at the rate of 20% deducted in Euphoria. There is no double taxation agreement between Zambia and Euphoria. When computing Zambian Income Tax payable, credit is available for any foreign tax paid in Euphoria. An exchange rate of K7.00 per E\$ should be used where relevant.

Required:

- (i) Discuss whether Apiah will be liable to Zambian income tax in the tax year 2015 and calculate his income tax payable, if any, in the tax year 2015. (13 marks)
- (ii) Explain what a double taxation Convention is and describe the consequences of its nonexistence in overseas aspects of taxation. (6 marks)

[Total: 25 Marks]

QUESTION THREE

For the purpose of this question, you should assume that today's date is 15 December 2014 and the ceiling for the purposes of NAPSA contributions should be taken to be K191,088 per annum.

Thandiwe and Tendai intend to commence in business on 1 January 2015 running a chain of boutiques. They will run the business as a limited company under the name of Taten Ltd. Thandiwe and Tendai will each own 50% of the share capital of the company. Their business will involve importation of ladies fashion clothing from Dubai, which they will resale through their retail outlets in Zambia.

On 1 January 2015, the company will buy two motor vans each with a cylinder capacity of 3,000cc at a cost of K180,000 each. Thandiwe and Tendai each expect to have private use in each motor van of 40%. They will additionally purchase shop buildings at a cost of K250,000 and shop fittings at a cost of K50,000.

The tax adjusted business profit before capital allowances and any withdrawal of profits by Thandiwe and Tendai for the year ended 31 December 2015, is estimated to be K1,300,000. Thandiwe and Tendai wish to draw K300,000 of the profits each, either as emoluments paid to themselves by the company or as gross dividends. Any NAPSA contributions payable will be computed as 5% of the relevant income.

Required:

- (a) Calculate the income tax and NAPSA contributions payable by Thandiwe and Tendai in the tax year 2015 if:
- (i) They draw K300,000 of the profits each, as gross directors emoluments.
 - (ii) They draw K300,000 of the profits each as gross dividends. (6 marks)
- (b) Calculate the company income tax, withholding tax and NAPSA contributions payable by the company for the tax year 2015 if:
- (i) They draw K300,000 of the profits each, as gross directors emoluments.
 - (ii) They draw K300,000 of the profits each, as gross dividends. (10 marks)
- (c) Advise Thandiwe and Tendai on whether to draw the profits as director's emoluments or as gross dividends. Your advice should be supported by computations of net income after deducting the tax payable and any NAPSA contributions under each option. (5 marks)
- (d) Explain what Advance Income Tax is and describe the types of business that are required to pay Advanced Income Tax. (4 marks)

[Total: 25 Marks]

QUESTION FOUR

On 30 May 2015, Jackson who was employed by a Zambian resident company for over fifteen years as a pensionable permanent employee, retired from employment having reached the normal retirement age. His conditions of service in the final year of service and terminal dues were as follows:

His annual salary was K360,000 and the company made monthly medical scheme contributions of K1,500 on his behalf.

He received repatriation pay of K90,000, Severance pay of K70,000, compensation for loss of office of 50,000 and cash in lieu of leave amounting to K20,000. He was additionally paid gratuity totalling K350,000 which was calculated at the rate of 10% of his cumulative basic salary earned over the period he was employed with the company. He also received a pension of K450,000.

He was accommodated in company house with a market value of K300,000. If it had been let on a commercial basis, the company would have charged monthly rentals of K8,000. The company paid his electricity bills of K1,100 per month and water bills of K550 per month up to the date of retirement.

Other payments made by the company before his retirement in the tax year 2015, include college tuition fees for his children amounting to K25,000 and Insurance premiums for his motor vehicles amounting to K10,000.

Jackson made the following payments from his emoluments before retiring:

	K
Membership fees to political party	5,000
Donation to GHP orphanage (an approved charity)	16,000
Membership fees to Local Golf club	3,000

Pay As You Earn amounting to K48,414 was deducted from his employment income.

On 1 June 2015, Jackson commenced in business running a retail business. He expects to prepare his first accounts for the nineteen month period ending 31 December 2016 and then annually thereafter. The tax adjusted business profits before capital allowances for this period of account are expected to be K950,000.

He will have the following transactions in capital assets:

Purchases

<i>Date</i>	<i>Asset</i>	<i>Cost (K)</i>
1 June 2015	Cash registers	15,000
1 June 2015	Office equipment	60,000
5 June 2015	Nissan motor car	70,000
15 March 2016	Delivery van	150,000
7 July 2016	Computers	25,000

His private use in the Nissan motor car will be 30%. He will sell the Nissan motor car on 5 July 2016, realising disposal proceeds of K80,000. The cash registers will be sold on 6 August 2016 for K10,000.

Other income

Jackson acquired some flats on 1 June 2015, which he immediately let out furnished at gross monthly rentals of K20,000. He additionally received gross building society interest of K4,000.

Required:

- (i) In relation to Jackson's retail business, calculate the final taxable business profits for the tax years 2015 and 2016, explaining the basis of assessment for each year. (You should assume that the tax rates for the tax year 2015 will apply to both tax years.) (12 marks)
- (ii) Compute the income tax payable by Jackson in the tax year 2015. Your answer should include an explanation of the tax treatment of the rental income and building society interest received by Jackson in tax year 2015. (13 marks)

[Total: 25 Marks]

END OF PAPER

D4 PERSONAL TAXATION SOLUTIONS

SOLUTION ONE

- (a) COMPUTATION OF THE INCOME TAX PAYABLE IF MWANGELWA IS ENGAGED AS AN EMPLOYEE

	K	K
Salary (K40,000 x 12)		480,000
Fuel allowance (K4,500 x 12)		54,000
Motor Van expenses (K3,000 x12)		<u>36,000</u>
		570,000
Less allowable deductions:		
Capital allowances on Motor Van		
(K150,000 x 25%) x 14,000/20,000	26,250	
NAPSA contribution (restricted to maximum)	<u>3,060</u>	
		<u>(29,310)</u>
		540,690
Less tax free income		<u>(36,000)</u>
		<u>504,690</u>
Income Tax		
K9,600 x25%		2,400
K25,200 x 30%		7,560
K469,890 x 35%		<u>164,462</u>
		<u>174,422</u>

- (b) COMPUTATION OF INCOME PAYABLE IF MWANGELWA IS ENGAGED ON A SELF EMPLOYED BASIS

Mwangelwa' annual income if he is engaged on a self-employed basis will be K,1380,000 (K115,000 x 12) and he will therefore be assessed to normal income tax under provisional tax as opposed to turnover tax as his annual turnover will exceed K800,000.

	K	K
Income from Lwenji Limited (K115,000 x 12)		1,380,000
Less allowable expenses:		
Motor van expenses		
(K8,500 x 12) x 16,000/20,000	81,600	
Employee's salaries		
(K30,000 x 12)	360,000	
Other expenses (K35,000 x12)	420,000	
Capital allowances:		
- On motor van		
(K150,000 x 25%) x 16,000/20,000	30,000	
- On printing equipment (K60,000 x 25%)	<u>15,000</u>	
		<u>(906,600)</u>

Taxable income	473,400
Less tax free income	(36,000)
	<u>437,400</u>
Income Tax	
K9,600 x 25%	2,400
K25,200 x 30%	7,560
K402,600 X 35%	140,910
	<u>150,870</u>

(c) COMPUTATION OF NET INCOME IF MWANGELWA IS:

	SELF-EMPLOYED	AN EMPLOYEE
	K	K
Total income	570,000	1,380,000
Less:		
Income tax payable	(174,422)	(150,870)
Employee's NAPSA contributions	(9,554)	-
Motor car expenses	-	(102,000)
Employee's salaries	-	(360,000)
Other expenses	-	(420,000)
Net income	<u>386,024</u>	<u>359,730</u>

Based on the above calculations, it will be beneficial for Mwangelwa to be engaged as an employee because this option gives a higher net income by K38,894 (K386,024).

- (d) The distinction between employment and self-employment depends on whether Mwangelwa will have a contract of service (employee) or a contract for services (self-employed). The main factors that will be considered in determining which applies are, but not limited to:
- (1) The degree of 'day to day' control exercised over Mwangelwa's work. Note this does not have to be actual control, merely the right to exercise this level of control.
 - (2) Whether Mwangelwa must work exclusively for Lwenji Limited.
 - (3) Whether Lwenji Limited must provide further work and Mwangelwa accept further work.
 - (4) Whether the work performed by Mwangelwa is an integral part of the business and not merely an accessory to it.
 - (5) Whether Mwangelwa takes financial risk and has the ability to profit from sound management.
 - (6) Whether Mwangelwa has the right to employ his own resources (e.g. hire staff, use her own equipment).

In the context of Mwangelwa's proposed engagement on a self-employed basis with Lwenji it would appear that whilst the work may form an integral part of the company's business the other factors appear favourable to the conclusion that he can be treated as self-employed rather than employed.

Mwangelwa can choose to work when he pleases. As well as satisfying point (6) above this also suggests that Lwenji Ltd does not have the right to exercise 'day to day' control over Mwangelwa.

There is no requirement for Mwangelwa to work exclusively for Lwenji Ltd.

In addition he has the right to delegate the work to his own staff and will use his own equipment (printing equipment and vehicle) over the course of the assignment.

He also has the ability to profit from sound management as he is working to a fixed price and can therefore benefit financially from early successful completion of the project. Equally a fixed price implies financial risk in that should the project take longer than anticipated, he will need to spend further financial resources to complete the project.

On balance it would appear that in this case the evidence points towards self-employment although Lwenji would be well advised to seek agreement to this treatment from the Commissioner General at the outset.

SOLUTION TWO

(a) (i) Residence for individuals

An individual is liable to Zambian Income Tax if that individual is resident or ordinarily resident in Zambia. An individual is resident in Zambia if he or she is physically present in Zambia for a period of not less than 183 days in a charge year.

Ordinary residence implies residence with some degree of continuity and permanence, ignoring temporary absences. It refers to an individual who normally lives in Zambia, ignoring temporary absences. Such an individual is treated as being resident and ordinarily resident in Zambia. An individual who lives in Zambia or comes to Zambia with the intention of remaining for a period, which will exceed 12 months, is regarded as resident and ordinarily resident from the date of arrival and is liable to Zambian Income tax.

(ii) Residence of persons other than individuals

A person other than an individual (i.e. a legal person such as a company) is liable to Zambian income tax where that person is resident in Zambia. A legal person is resident in Zambia for tax purposes if:

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

A person other than an individual is centrally managed and controlled in Zambia if the Board of directors or other central management for that person meets in Zambia for the purposes of decision making affecting that person.

- (b) A non-Zambian resident company will be liable to Zambian Income Tax where such a company sets up a permanent establishment in Zambia. Any profits arising from such a permanent establishment will be liable to Zambian company income tax.
- (c) Zambia operates a source based taxation system. This means that any income earned from Zambian sources is liable to Zambian income tax. Therefore, an individual who is domiciled in another country will still be liable to Zambian income tax on any income that individual earns from Zambian sources.
- (d) Apiah will be regarded as being resident and ordinarily resident in Zambia because he was physically present in Zambia for a period exceeding more than 183 days (i.e. the period from 1 March 2015 to 31 December 2015). The income earned from his employment with the public hospital in Zambia will obviously be earned from Zambian sources and he will therefore be liable to Zambian income tax on this income in the charge year 2015 as well as on all the investment income which will be credited to his Zambian bank account.

APIAH'S

PERSONAL INCOME TAX COMPUTATION FOR THE TAX YEAR 2015

	K	K
<u>Income from Zambian Sources</u>		
Salary ($K540,000 \times 10/12$)		450,000
Relocation allowance		35,000
Shopping vouchers		17,000
Rentals ($K9,000 \times 10$)		90,000
Utility bills ($K7,500 \times 10$)		<u>75,000</u>
Total emoluments		667,000
<u>Income from foreign Sources</u>		
Dividends		
($E\$15,500 \times 100/62$) $\times$ K7.00)	175,000	
Debenture interest		
($E\$15,000 \times 100/80$) $\times$ K7.00)	<u>131,250</u>	
		<u>306,250</u>
		973,250
Less Tax free income		<u>(36,000)</u>
		<u>937,250</u>
<u>Income Tax</u>		
K9,600 $\times$ 25%		2,400
K25,200 $\times$ 30%		7,560
K902,450 $\times$ 35%		<u>315,878</u>
Tax liability		325,838
Less Double taxation relief:		
On foreign Dividends (W1)	(58,589)	
On foreign debenture interest (W2)	<u>(26,250)</u>	

$$\frac{(84,839)}{240,999}$$

Workings:

1. Double taxation on the foreign dividend income will be the lower of:

- Actual amount of foreign tax on the dividends which will amount to:

$$K175,000 \times 38\% = K66,500$$

- And the Zambian tax charge computed as:

$$\frac{\text{Gross amount of foreign income}}{\text{Total assessable income}} \times \text{Zambian Tax charge}$$

$$\frac{K175,000}{(K973,250)} \times K325,838$$

$$= K58,589$$

Double taxation relief will therefore be K58,589 as this is lower.

2. Double taxation on the foreign interest income will be the lower of:

- Actual amount of foreign tax on the interest income, which will amount to:

$$K131,250 \times 20\% = K26,250$$

- And the Zambian tax charge computed as:

$$\frac{K131,250}{(K973,250)} \times K325,838$$

$$= K43,942$$

Double taxation relief will therefore be K26,250 as this is lower.

(b) **Double Taxation Convention**

This is a treaty or agreement between Zambia and foreign country outlining how income received by a resident person from a foreign country should be taxed, where such income was subject to income tax in that foreign country. A double taxation agreement may provide for full recovery of any foreign tax covered by the agreement, by means of a tax credit to a Zambian resident individual, against the Zambian income tax, as long as the relief does not exceed the equivalent Zambian tax charge. In some cases the treaty may provide that income is only charged to income tax in one of the two countries, or income is charged to tax in one country, with the tax being apportioned between the two countries.

Where a double taxation convention treaty does not exist, double taxation relief can either be given by unilateral credit relief or unilateral expense relief.

Unilateral relief involves double taxation relief being given unilaterally in the republic of Zambia. This is achieved by crediting the amount of foreign tax suffered against the Zambian income tax on the foreign income, provided that the amount of foreign tax being credited against the Zambian tax does not exceed the Zambian tax on that foreign income. This means that the amount of foreign tax available for credit is taken as the lower of the actual amount of foreign tax paid to foreign tax authorities, and the Zambian tax chargeable on the foreign income'

Unilateral expense relief applies when neither treaty relief nor unilateral relief is available. Relief is given by deducting the foreign tax from the foreign income before including it in the Zambian tax computation.

SOLUTION THREE

(a) (i) INCOME TAX COMPUTATIONS IF DIRECTORS EMOLUMENTS ARE DRAWN

	Thandiwe K	Tendai K
Emoluments	300,000	300,000
Less NAPSA contribution	<u>(3,060)</u>	<u>(3,060)</u>
	296,940	296,940
Income Tax		
K36,000 x 0%	-	-
K9,600 x 25%	2,400	2,400
K25,200 x 30%	7,560	7,560
K226,140 x 35%	<u>74,149</u>	<u>74,149</u>
Income tax payable	<u>89,109</u>	<u>89,109</u>

COMPUTATION OF NAPSA CONTRIBUTIONS PAYABLE IF EMOLUMENTS ARE DRAWN

Thandiwe's NAPSA Contribution: $5\% \times K191,088 = KK9,554$

Tendai's NAPSA contribution $5\% \times K191,088 = K9,554$

- (ii) If gross directors dividends of K300,000 each are drawn, no income tax will be paid by Thandiwe and Tendai as the withholding tax of K90,000 ($15\% \times K600,000$) deducted at source by the company will be the final tax and therefore no further tax will be paid by Thandiwe and Tendai.

(b) (i) COMPUTATION OF COMPANY INCOME TAX PAYABLE IF DIRECTORS EMOLUMENTS ARE DRAWN

	K
Taxable profits	1,300,000
Director's emoluments (K300,000 + K300,000)	(600,000)
Employer's NAPSA contributions	
- Thandiwe ($5\% \times K191,088$)	(9,554)

- Tendai (5% x K191,088)	(9,554)
Capital allowances	
- On shop fittings (K50,000 x 25%)	(12,500)
- On motor vans (K180,000 x 25%) x 2	(90,000)
- On shop buildings (K250,000 x 2%)	(5,000)
	<u>573,392</u>
Company income tax (K618,392 x 35%)	200,687
	<u> </u>

(ii) COMPUTATION OF COMPANY INCOME TAX PAYABLE IF DIVIDENDS ARE DRAWN

	K
Taxable profits before capital allowances	1,300,000
Capital allowances	
On shop fittings (K50,000 x 25%)	(12,500)
On motor vans (K180,000 x 25%) x 2	(90,000)
On shop buildings (K250,000 x 2%)	(5,000)
	<u>1,192,500</u>
Company income tax (K1,080,000 x 35%)	417,375

The total withholding tax to be deducted from the dividends will be K90,000
(K600,000 x 15%)

NAPSA contributions will not be paid by the company as dividends are not earnings for the purposes of NAPSA contributions.

(c) COMPUTATION OF NET INCOME

	Emoluments drawn K	Dividends drawn K
Total income	1,300,000	1,300,000
Less:		
Income tax payable		
- Thandiwe	(89,109)	
- Tenadai	(89,109)	
Employee's NAPSA contributions (K9,554 x 2)	(19,108)	
Employer's NAPSA contributions	(19,108)	
Withholding tax		(90,000)
Company income tax	<u>(200,687)</u>	<u>(417,375)</u>
Net income	<u>882,879</u>	<u>792,625</u>

Based on the above calculations, it will be beneficial for Thandiwe and Tendai to draw profits as director's emoluments as this gives the highest net income.

- (d) Advance income Tax (AIT) is a tax withheld in respect of imported goods for commercial purposes.

This tax is computed at the point of entry at the rate of 6% of the Value for Duty Purposes (VDP) of the imported goods and it is not the final tax.

Goods for commercial purposes include; goods for resale, for provision of services or for use in businesses such as importation of clothing by boutique owners for resale, hair clippers imported to be used barbershop business, computers imported by a manufacturer to be used in his accounting department etc.

Goods imported for personal use do not attract Advance Income Tax. These are goods bought for private use or domestic use, and not intended for business.

SOLUTION FOUR

- (a) Since the first accounting period is made up of more than twelve months, the period will be split into two notional accounting periods for tax purposes. The first period should consist of less than twelve months which is the period of seven months from 1 June 2015 to 31 December 2015, while the second period will consist of exactly twelve months which will be the year ended 31 December 2016. The profit for the whole period should be allocated to the two notional accounting periods on a time basis. Thereafter, the normal rules should be applied to determine the tax year in which the profits of the first accounting period should be assessed. The current year basis of assessment will apply as the accounting date will fall between 1 April and 31 December inclusive. The profits for the seven months from 1 June 2015 to 31 December 2015 will therefore be assessed in the tax year 2015 and the profits for the year to 31 December 2016 will be assessed in the tax year 2016.

COMPUTATION OF TAXABLE PROFITS FOR THE TAX YEAR 2015

	K	K
Taxable profits before capital allowances (K950,000 x 7/19)		350,000
<i>Less capital allowances</i>		
- Cash registers (K15,000 x 25%)	3,750	
- Office equipment (K60,000 x 25%)	15,000	
- Nissan car (K70,000 x 20%) x 70%	<u>9,800</u>	
		<u>(28,550)</u>
		<u>321,450</u>

COMPUTATION OF TAXABLE PROFITS FOR THE TAX YEAR 2016

	K	K
Taxable profits before capital allowances (K950,000 x 12/19)		600,000
<i>Less capital allowances</i>		
Cash registers		
Balancing allowance [(K15,000 – K3750) – K10,000)]	1,250	
Office equipment (K60,000 x 25%)	15,000	
Nissan car		
Balancing charge [(K70,000 – K14,000) – K70,000) x 70%]	9,800	
Delivery Van K150,000 x 25%	37,500	
Toyota car K120,000 x 20%		
		<u>(28,550)</u>
		<u>321,450</u>

(b) JACKSON'S
INCOME TAX COPUTATION FOR THE TAX YEAR 2015

	K	K
Business profits		321,450
<u>Employment income</u>		
Salary (K360,000 x 5/12)	150,000	
Cash in lieu of leave	20,000	
Medical scheme contributions (K1,500 x 12)	18,000	
Electricity bills (K1,100 x 5)	5,500	
Water bills (K550 x 5)	2,750	
College tuition fees	25,000	
Motor vehicle insurance	<u>10,000</u>	
	231,250	
<i>Less allowable deductions:</i>		
Donation to approved charity	<u>(16,000)</u>	
Taxable emoluments		<u>215,250</u>
Total income		536,700
Less tax free income		<u>(36,000)</u>
		500,700
<u>Income Tax</u>		
K9,600 x 25%		2,400
K25,200 x30%		7,560
K465,900 x 35%		<u>163,065</u>
		173,025
Less PAYE		<u>(48,414)</u>
		124,611

Income Tax on Terminal dues

Repatriation pay	90,000	
Severance pay	70,000	
Compensation for loss of office	<u>50,000</u>	
	210,000	
Less exempt amount	<u>(35,000)</u>	
	<u>175,000</u>	
Income tax ($K175,000 \times 10\%$)		17,500
Income tax on gratuity ($K350,000 \times 10\%$)		<u>35,000</u>
Tax payable		<u>177,111</u>

The rental income will be received by Jackson net of withholding tax at the rate of 10% which is final and therefore he will not be subjected to further tax in relation to this income.

Building society interest received by individual is exempt from withholding tax and as such does not come into the income tax computation.

END OF SOLUTIONS