



TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D4 – PERSONAL TAXATION

TUESDAY 14 JUNE 2016

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

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading. 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 and 3

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%

Rate of Tax on Realised Value of property other than mining rights	5%
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Rate of Tax on Realised Value on a transfer or sale of a mining right	10%
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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

Attempt all FOUR (4) Questions

QUESTION ONE

Clive Musyani had been employed as an Information Technology Manager at SG Limited, a company that is involved in the development of computer software, on a three year fixed term contract that commenced on 1 January 2015. On 31 May 2016, he was retrenched following the financial challenges faced by the company. His contract of employment had provided for an annual salary of K192,000. He was also entitled to a housing allowance of 15% of his basic salary and a transport allowance of 5% of his basic salary. He was paid monthly on the last day of each month and Pay As You Earn amounting to K24,380 was deducted from his employment income up to the date of his retrenchment, in the tax year 2016.

On his retrenchment on 31 May 2016, he received repatriation pay of K48,000, compensation for loss of office amounting to K64,000 and accrued leave pay of K16,000. He also received pension refunds of K27,200, half of which were refunds of employees' pension contributions and the remaining amount being refunds of employer's pension contributions. Clive was additionally paid gratuity of 30% of his cumulative basic salary up to the date of retrenchment according to the terms of his employment contract. He had always contributed 5% of his basic salary as NAPSA contribution until he was retrenched.

On 1 June 2016, he started working as a self-employed contractor providing IT consultancy services. He expects to prepare his first account for the period ending 31 December 2016, and then, annually thereafter. He purchased computers and peripheral equipment costing K40,000 on 1 June 2016, and a motor van at a cost of K70,000, which he will use in the business. He expects his private use in the motor van to be 30%. Motor van running expenses are expected to average K5,000 per month. He will hire two employees to assist him run the business. He will pay each employee monthly salaries of K10,000 and monthly employer's NAPSA contributions of 5% of each employee's basic salary. Other expenses he will incur wholly and exclusively for the purposes of this business will be K65,550 per month. He expects the gross income for the seven month period to 31 December 2016 from this business to be K840,000.

On 1 August 2016, two months after being retrenched, SG Limited his former employers, were awarded a one off computer development project and the company decided to hire the services of Clive with effect from that date, as a self-employed contractor, for a period of five months to December 2016. Clive was to invoice SG Limited an agreed contract price of K210,000 for the services he was to render during this period, which was to be paid to him, in five equal monthly installments in arrears. He is expected to spend a substantial amount of his time every day from Monday to Friday working on this project and as a result, will spend little time attending to his other clients from his new business during this period. SG Limited will provide him with all the tools and equipment he will need to perform his duties on the project.

SG Limited was recently subjected to the Zambia Revenue Authority Pay As You Earn compliance audit and his self-employed status in respect of the contract he signed with the company on 1 August 2016, was queried.

Required:

- (a) Discuss the criteria that will be used in determining whether Clive will be classified as employee or a self-employed contractor in respect of the contract he signed with SG Limited on 1 August 2016, describing:
 - (i) The factors that led the Zambia Revenue Authority to query his self-employed status. (5 marks)
 - (ii) The factors that SG Limited and Clive can put forward to justify his self-employed status. (3 marks)
- (b) Assuming that Clive is held to be self-employed in relation to the contract he entered into with SG Limited on 1 August 2016,
 - (i) Compute his final taxable business profit from his business in the tax year 2016. (6 marks)
 - (ii) Calculate his total final income tax payable for the tax year 2016. (11 marks)

[Total: 25 Marks]

QUESTION TWO

For the purpose of this part of the question assume that today's date is 15 December 2015 and that the earnings ceiling for NAPSA contributions purposes is K202,553 per annum.

Dailess wishes to commence in business on 1 January 2016, running a trading business. She will prepare accounts to 31 December each year. She expects the annual turnover from the business to exceed K800,000. Dailess would like to involve her daughter Mailess in running this business, but is not sure whether from a taxation point of view, it will be beneficial to involve Mailess in the business by taking her on as an employee and run the business as a sole trader or as a partner and run the business as a partnership.

If Dailess involves Mailess in the business as an employee, the taxable business profit for the year ending 31 December 2016, is expected to be K660,000. This profit figure is before deducting capital allowances and expenses relating to the two individuals. The expenses relating to the two individuals will include annual salaries of K240,000 for Dailess and K120,000 for Mailess. Dailess will also pay annual accommodation rentals of K36,000 and annual travel expenses of K12,000 out of the business profits on behalf of Mailess. Dailess has established

that employees in other business performing similar duties to the tasks Mailess will be performing in her business are on average, generally entitled to same level of remuneration. Dailess will further be required to pay employer's NAPSA contributions of 5% of Mailess' salary. Mailess will also be required to pay 5% of her salary to NAPSA as employee's contribution. A delivery van will be acquired on 1 January 2016, at a cost of K120,000 to be used wholly and exclusively for business purposes. Dailess owns her own personal motor car which she acquired a year ago at a cost of K65,000, which she will use partly for business purposes. The business use of the motor car is estimated to be 40%.

If Dailess involves Mailess in the business as a partner, the taxable business profit for the year ending 31 December 2016 is expected to be K660,000. This profit figure is before deducting capital allowances and payment of expenses relating to the two individuals. The expenses relating to the two individuals will include annual partnership salaries of K240,000 for Dailess and K120,000 for Mailess. Annual accommodation rentals of K36,000 and annual travel expenses of K12,000 will be paid out of the business profits on behalf of Mailess. No NAPSA contributions will be paid out of the profits under this option. A delivery van will be acquired on 1 January 2016, at a cost of K120,000 to be used wholly and exclusively for business purposes. Dailess will again use her own personal motor car which she acquired a year ago at a cost of K65,000, partly for business purposes. The business use of the motor car is estimated to be 40%. Any balance of profits or losses will then be shared in the ratio 2:1 between Dailess and Mailess respectively.

Required:

Calculate the income tax payable by Dailess and Mailess for the tax year 2016 on the basis that:

- (a) Mailess is brought into the business as an employee. (10 marks)
- (b) Mailess is brought into the business as a partner. (10 marks)
- (c) Advise Dailess as to which of the two options is beneficial from a tax point of view. (5 marks)

[Total: 25 Marks]

QUESTION THREE

- (a) Explain the circumstances under which Advance Income Tax is chargeable. (2 marks)
- (b) Explain the requirements which must be met for a taxable person to claim a refund for Advance Income Tax suffered. (4 marks)

(c) **Assume that today is 20 December 2015.**

Joe Soko plans to commence in business running a chain of boutiques on 1 January 2016. The turnover from the business is estimated to average K61,000 per month. He expects his business expenses to include, rent for business premises of K8,000 per month, monthly salaries for employees of K25,000, employer's NAPSA contributions of K1,250 per month, depreciation charges for the year of K29,000 and other miscellaneous business expenses to be K12,500 per month.

On 1 January 2016, he will purchase office equipment at a cost K20,000 fixtures and fixtures at K18,000 and a motor van to be used wholly and exclusively for business purposes at a cost of K88,000.

Required:

Explain how Soko will be assessed to income tax in the tax year 2016. Your answer should include appropriate calculations of the amount of income tax payable in the tax year 2016, together with a discussion of the taxation implications arising from the acquisition of capital assets and tax treatment of the expenses he will incur in running the business. (7 marks)

(d) Sheila was born in country known as Bestonia in 1972. She has always lived in Bestonia and has been employed by Aromatic International, a company resident in Bestonia, for over ten years. On 1 January 2016, Aromatic International acquired a 90% stake in Aroma (Z) Ltd, a company incorporated and resident Zambia. Sheila was immediately appointed the Chief Operating Officer for Aroma Zambia Limited, on an eighteen month contract commencing on that date, to oversee the smooth transition and integration of the company into the group, after which she is expected to relocate back to Bestonia.

Sheila arrived in Zambia to take the position on 1 January 2016. Her annual salary was K480,000 and she was paid a relocation allowance of K20,000. The company leased a house on her behalf and paid monthly lease rental of K7,500 on her behalf. The company also paid all incidental costs in relation to the living accommodation which amounted to K3,500 per month. She was provided with a personal to holder, Toyota Fortuner car, with a cylinder capacity of 3000cc, which the company will acquired at a cost of K200,000, on 1 January 2016. The company also paid for all the motor car running expenses which amounted to K3,500 per month throughout the tax year 2016. Sheila was entitled to four trips to Bestonia per month to visit her family and the company paid her K30,000 per month to cover the cost of these trips.

Sheila has investments in shares she holds in companies which are resident in Bestonia. The currency of Bestonia is known as the Bestonian dollar (BT\$). In the tax year 2016, dividends of BT\$3,600 were credited to her Zambian bank account in respect of these investments. She also holds a fixed deposit account with a commercial Bank that is resident in Bestonia. Interest amounting to \$BT1,200 was credited to this account in the

year ending 31 December 2016. The amount of the dividends was net of withholding tax at the rate of 40% deducted in Bestonia and the amount of the Fixed deposit interest was net of withholding tax at the rate of 20% deducted in Bestonia. There is no double taxation agreement between Zambia and Bestonia. When computing Zambian income tax payable, credit is available for any foreign tax paid in Bestonia. An exchange rate of K6.00 per BT\$ should be used where relevant.

Required:

- (i) Explain the reasons why Sheila will be liable to Zambian income tax in the tax year 2016. (2 marks)
- (ii) Calculate the income tax payable by Sheila in the tax year 2016. (10 marks)

[Total: 25 Marks]

QUESTION FOUR

Ms. Ina Zanda has worked for Redund Limited as a Human Resource Manager for the past 12 years. Her basic salary per month, payable on the last day of each month was K15,200.

Whilst in employment, Ina Zanda was entitled to Cell Phone allowance of K400 per month, utility allowance K500 per month, a personal to holder Toyota Car (2000 CC) costing K60,000, Golf Club subscription allowance of K1,800 payable on 1 January every year, education allowance of K1,200 payable on 1 January every year and Zambia Institute of Human Resource Management (ZIHRM) subscription of K1,200.

She was declared redundant effective 31 May 2016. Upon redundancy, the company made the following payments to her:

Salary in Lieu of notice	K30,400
Accrued Service Bonus	K91,200
Compensation for loss of Office	K18,000
Accrued leave Pay	K24,800

Her payments in the tax year 2016 were as follows:

- Golf Club subscription of K1,500
- NAPSA contribution K5% of basic salary
- Donation to an approved public benefit organisation K300

Required:

- (a) Calculate the income tax payable by Ms. Ina Zanda for the tax year 2016, assuming she never got another job after the redundancy in the tax year 2016. (13 Marks)

(b) The basis of assessment for emoluments from employment is the actual receipt basis; Explain the receipt basis as it applies to the taxation of emoluments on:

- (i) Ordinary employees
- (ii) Directors Fee and Bonus (6 marks)

(c) Individuals can plan their tax affairs so as to reduce their tax liabilities. This can be achieved either through tax avoidance or tax evasion.

Explain what tax avoidance is and describe the circumstances in which a tax avoidance scheme can be taken to amount to tax evasion. (6 marks)

[Total: 25 Marks]

END OF PAPER

JUNE 2016: PERSONAL TAXATION (D4)

SOLUTIONS

SOLUTION ONE

- (a) When considering Clive's contract with Limited, the essential point to consider is whether the contract by and large constitutes a contract of service in which case he will be deemed to be an employee of SG Limited, or a contract for services in which case he will be deemed to be self-employed. This notwithstanding, no single test will be conclusive. Hence a multiple test approach must be used to make this determination.
- (i) In the particular circumstances of the contract between Clive and SG Limited the following factors may have led the ZRA to query his self-employed status:
- (1) The ZRA have queried Clive's self-employed status because of his previous employment with SG Limited. The fact that Clive was recently employed by SG limited could suggest that an agreement had been reached to let Clive to continue working for the company whilst also running his own business.
 - (2) The fact that he will be spending substantial amount of his time at the project which may suggest that his involvement may constitute an integral part of SG Limited's business.
 - (3) Clive will use the equipment of the company and will be additionally assisted by the company's staff. This indicates employment, as employees are normally provided with tools and equipment by their employer.
 - (4) It further appears that Clive has to perform the duties at the project personally and cannot hire other people or use his own employees to help him perform those duties.
 - (5) Clive will be paid on a monthly basis, although the contract price is fixed. Employees are paid fixed salaries per month, week etc.
- (ii) Factors SG Limited and Clive may use to justify his self- employed status.
- (1) Clive does not exclusively work for SG limited even though he spends a substantial amount of time on the project, he still spends part of his time attending to other clients in his new business.
 - (2) Clive has been engaged on a contract with a specified limited duration which runs from 1 August 2016 to 31 December 2016. There appears to be no

indication that the contract will be renewed once it expires on 31 December 2016. Self-employed individuals work under such conditions.

Employees on the other hand enter into a contract which gives the employer the right to terminate the contract after giving the employees an appropriate period of notice. Clearly this is not the case in the circumstances of the contract has with SG Limited.

- (3) Clive is paid an agreed contract price even though it is paid in monthly installments and can suffer loss from the transaction in his own personal capacity. Additionally, he is not entitled to any other benefits associated with employment such as leave pay, sick leave, pension rights or gratuity on expiry of the contract etc.

(b) (i) COMPUTATION OF FINAL TAXABLE BUSINESS PROFITS FOR THE TAX YEAR 2016

	K	K
Gross Income from new business		840,000
Income from SFG Limited		<u>210,000</u>
		1,050,000
<i>Less allowable deductions</i>		
Capital allowances on:		
- Computer equipment (K40,000 x 25%)	10,000	
- Motor van (K70,000 x 25%) x 70%	12,250	
Motor van running expenses (K5,000 x 7) x 70%	24,500	
Employee's salaries (K10,000 x 2) x 7	140,000	
Employer's NAPSA contributions (5% x K140,000)	7,000	
Other expenses (K65,550 x 7)	<u>458,850</u>	
		<u>(652,600)</u>
Taxable business profit		<u>397,400</u>

(ii) CLIVE
INCOME TAX COMPUTATION OF INCOME TAX PAYABLE FOR THE TAX YEAR 2016

	K	K
Business profits		397,400
<i>Employment income</i>		
Salary (K192,000 x 5/12)	80,000	
Accrued leave pay	16,000	
Housing allowance (15% x K192,000) x 5/12	12,000	
Transport allowance (K192,000 x 5%) x 5/12	4,000	

Non-qualifying gratuity		
(K190,000 + K80,000) x 30%	81,600	
Employer's pension refund (K27,200 x 50%)	<u>13,600</u>	
	207,200	
Less allowable deductions:		
NAPSA contribution (restricted to maximum)	<u>(3,060)</u>	
Taxable emoluments		<u>204,140</u>
Total taxable income		<u>601,540</u>
Income Tax		
On first K70,800		9,960
On excess K530,740 x 35%		<u>185,759</u>
		195,719
Less PAYE		<u>(24,380)</u>
		171,339
<i>Income Tax on Terminal dues:</i>		
Repatriation pay	48,000	
Compensation for loss of office	<u>64,000</u>	
	112,000	
Less exempt amount	<u>(35,000)</u>	
	77,000	
Income tax (K77,000 x10%)		7,700
Income tax on refunded employee pension contributions (K27,200 x 50%) x 10%)		<u>1,360</u>
Tax payable		<u>180,399</u>

SOLUTION TWO

(a) DAILESS'

PERSONAL INCOME TAX COMPUTATION FOR 2016 IF MAILESS IS EMPLOYED

	K	K
Original adjusted profit		660,000
Less:		
Capital allowances on Delivery van (K120,000 x 25%)	30,000	
Capital allowances on Dailess' motor car (K65,000 x 20%) x 40%	5,200	
Mailess' salary	120,000	
Mailess' Accommodation rentals	36,000	
Mailess' Travel expenses	12,000	
Employer's NAPSA (5 x K120,000)	<u>6,000</u>	
		<u>(209,200)</u>
		450,800
Less tax free income		<u>(36,000)</u>
		<u>414,800</u>
Income tax		
K9,600 x 25%		2,400
K25,200 x 30%		7,560
K380,000 x 35%		<u>133,000</u>
Income tax payable		<u>142,960</u>

MAILESS'S PERSONAL INCOME TAX COMPUTATION FOR THE TAX YEAR 2016

	K
Salary from employment	120,000
Accommodation rentals	36,000
Travel expenses	<u>12,000</u>
	168,000
Less NAPSA contribution (restricted)	<u>(3,060)</u>
	164,940
Less tax free	<u>(36,000)</u>
	<u>128,940</u>
<i>Income Tax</i>	
K9,600 x 25%	2,400
K25,200 x 30%	7,560
K94,140 x 35%	<u>32,949</u>
	<u>42,909</u>

(b) COMPUTATION OF INCOME TAX PAYABLE IF THE BUSINESS IS RUN AS A PARTNERSHIP

	K		
Net profit			660,000
<i>Less Capital allowances on motor van</i> <i>(K120,000 x 25%)</i>			<u>(30,000)</u>
			<u>630,000</u>
	<i>Total</i>	<i>Dailess</i>	<i>Mailless</i>
	K	K	K
Salary	360,000	240,000	120,000
Rentals	36,000	—	36,000
Travel expenses	<u>12,000</u>	<u>—</u>	<u>12,000</u>
Total appropriations	408,000	240,000	168,000
Balance 2:1	<u>222,000</u>	<u>148,000</u>	<u>74,000</u>
Taxable income	630,000	388,000	242,000
<i>Less Capital allowances:</i>			
- On Dailess's car (K65,000 x 20%) x 40%	<u>(5,200)</u>	<u>(5,200)</u>	<u>—</u>
	<u>624,800</u>	<u>382,800</u>	<u>242,000</u>
<i>Income tax</i>			
On first K36,000 x 0%		0	0
Next K9,600 x 25%		2,400	2,400
Next K25,200 x 30%		7,560	7,560
Excess K312,000/K171,200 x 35%		<u>109,200</u>	<u>59,920</u>
		<u>119,160</u>	<u>69,880</u>

(c) COMPUTATION OF NET INCOME UNDER EACH OPTION

	<i>Mailless engaged as an employee</i>	<i>Mailless engaged as partner</i>
	K	K
Total income	660,000	660,000
Income tax for		
– Dailess	(142,960)	(119,160)
– Mailless	(42,909)	(69,880)
Mailless NAPSA contribution	(6,000)	Nil
Employer's NAPSA	<u>(6,000)</u>	<u>Nil</u>
	<u>462,131</u>	<u>470,960</u>

Based on the above analysis, it is more beneficial for Dailess to engage Mailess as a partner rather than as an employee as the net income under this option will be higher by:

$$K470,960 - K462,131 = K8,829$$

SOLUTION THREE

- (a) Advance income Tax (AIT) is chargeable and withheld when goods are imported for commercial purposes.

This tax is targeted at capturing unregistered business importers who make commercial imports thereby broadening the tax base and to enhance tax compliance for registered taxpayers.

- (b) A refund may be due to the importer who has paid Advance Income Tax and fulfills the following conditions;

- (1) The importer must be registered for Income Tax or Turnover Tax;
- (2) The importer must submit an Income Tax Return or a Turnover Tax Remittance Card at the end of the respective charge year;
- (3) The importer must provide proof of payment such as receipts and any other relevant documents;
- (4) The importer must make a claim that will be subjected to the refund processes as outlined in the Income Tax Act.

- (c) Taxation implications of Soko's proposed retail business

- (i) The annual turnover of this business will be K732,000 ($K61,000 \times 12$) which is below K800,000. Soko will therefore be assessed under the turnover tax system as opposed to normal income tax under self-assessment and provisional income tax.
- (ii) He will not be required to register for VAT as the annual business turnover will be below the annual statutory VAT registration limit of K800,000.
- (iii) The monthly turnover tax payable will be K1,830 ($3\% \times K61,000$). The turnover tax will be payable by the 14th day following the end of each month and will amount to K21,960 for the whole tax year.
- (iv) Employee salaries and including employer's NAPSA contributions, will not be allowable from turnover for the purposes of computing turnover tax.
- (v) Rentals expenses for the business premises and miscellaneous expenses incurred wholly and exclusively for business purposes will also not be allowable from turnover for the purposes of assessing the turnover tax.

(vi) Similarly, no adjustment will be required in relation to depreciation charges for the year, in computing the turnover tax payable.

(vii) Capital allowances on the assets bought to be used wholly and exclusively for the purposes of the stationery business will not be claimable against turnover. However, all the assets held by the business at the end of the tax year will notionally be written down for the purposes of calculating their income tax values to carry forward to the following year.

The amount of notional allowances and the income tax values of the assets at the end of the tax year 2016 will be as follows:

	<i>Value</i>	<i>Notional allowance</i>
	K	K
<i>Office equipment</i>		
Cost	20,000	
Wear & tear allowance (25% × K20,000)	(5,000)	5,000
1ITV c/f	15,000	
<i>Fixtures & fittings</i>		
Cost	18,000	
Wear & tear allowance (25% × K18,000)	(4,500)	4,500
ITV c/f	13,500	
<i>Motor van</i>		
Cost	88,000	
Wear & tear allowance (25% × K88,000)	(22,000)	22,000
ITV c/f	66,000	
Total notional allowances		<u>75,500</u>

(d)(i) An individual is liable to Zambian income tax when that individual earns income from Zambian sources and/or is resident in Zambia in a particular tax year.

An individual is generally regarded to be 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. However, individuals who live in Zambia or come to Zambia with the intention of remaining in the country for a period, which will exceed 12 months, are regarded as resident and ordinarily resident from the date of arrival.

It is clear that Sheila has intention of staying in Zambia more than twelve months for the purposes of her employment which will last for a period of eighteen months. She will,

therefore, be regarded as a Zambian resident upon her arrival on 1 January 2016 and will be assessable to Zambian income taxes as she will additionally earn income from Zambian sources.

(ii) SHEILA

PERSONAL INCOME TAX COMPUTATION FOR THE TAX YEAR 2015

	K	K
<u>Income from Zambian Sources</u>		
Salary		480,000
Relocation allowance		20,000
Incidental accommodation expenses (K3,500 x 12)		42,000
Trips (K30,000 x 12)		<u>360,000</u>
Total emoluments		902,000
<u>Income from foreign Sources</u>		
Dividends (E\$3,600 x 100/60) x K6.00)	36,000	
Debenture interest (E\$1,200 x 100/80) x K6.00)	<u>9,000</u>	
		<u>45,000</u>
		947,000
Less Tax free income		<u>(36,000)</u>
		<u>911,000</u>
<u>Income Tax</u>		
K9,600 x 25%		2,400
K25,200 x 30%		7,560
K876,200 x 35%		<u>306,670</u>
Tax liability		316,630
Less Double taxation relief:		
On foreign Dividends (W1)	(12,037)	
On foreign debenture interest (W2)	<u>(1,800)</u>	
		<u>(13,837)</u>
Income tax payable		<u>302,793</u>

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:
K36,000 x 40% = K14,400
 - And the Zambian tax charge computed as:

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

$$\frac{K36,000}{(K947,000)} \times K316,630$$

$$= K12,037$$

Double taxation relief will therefore be K12,037 as this is the lower amount.

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:
K9,000 x 20% = K1,800
- And the Zambian tax charge computed as:

$$\frac{K9,000}{(K947,000)} \times K316,630$$

$$= K3,009$$

Double taxation relief will therefore be K1,800 as this is lower.

SOLUTION FOUR

(a) Ms. Ina Zanda Tax payable for the Tax year 2016

	K	K
Basic salary (K15, 200 x 5)		76, 000
Cell phone allowance (K400 x 5)		2, 000
Domestic utility allowance (K500 x 5)		2, 500
Golf club subscription allowance		1, 800
Education allowance		1, 200
Salary in lien of notice		30, 400
Accrued leave pay		<u>24, 800</u>
		138, 700
Less: Allowable deductions		
NAPSA (5% x K76, 000) restricted to	3,060	
Donation	<u>300</u>	
		<u>(3,360)</u>
		135, 340
Les: Exempt		<u>(36, 000)</u>
Taxable income		<u>99, 340</u>

Tax computation – PAYE	
1 st K9, 600 @ 25%	2, 400
Next K 25, 200 @ 30 %	7, 560
Balance K64, 540 @ 35%	<u>22, 589</u>
Tax payable on normal PAYE	<u>32, 549</u>
Tax computation on Terminal benefits	
Accrued service bonus	91, 200
Compensation for loss of office	<u>18, 000</u>
	109, 200
Les exempt	<u>35, 000</u>
	<u>74, 200</u>
Tax payable K74, 200 x 10%	<u>7, 420</u>
Summary – Total tax payable T/Y 2016	
Tax on normal PAYE	32, 549
Tax on Terminal benefits	<u>7, 420</u>
	<u>39, 969</u>

(b) The receipt basis under which emoluments from employment are subjected to income tax assessments, means that the emoluments are taxable in the tax year when they are actually received.

- (i) However, there may be some timing difference between the time when the emoluments are actually paid and when the entitlements to them arise. In this case, the emoluments are deemed to be received on the earlier of:

The time when entitlement to pay arise, and

The time when payment is actually made

- (ii) Payments which are linked to the performance of the company for a period just ended, such as directors' fees are deemed to have been received on the earliest of:

- (1) The earlier of the two dates above,
- (2) The end of the company's accounting period or,
- (3) The time when the amount payable is credited in the company's accounting records.

(c) Tax avoidance is identifying any tax loopholes in the taxes legislation in order to reduce the tax burden or defer tax liabilities.

Tax avoidance is legal. Tax evasion is the use of illegal means to avoid paying tax.

However, a series of transactions solely designed to reduce the tax liability with no commercial gain to the tax payer, may be taken as illegal and therefore amount to tax evasion.

Anti – avoidance legislation aims at sealing the loopholes in the taxes legislation.

END OF SOLUTIONS