



TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C4: DIRECT TAXES

THURSDAY 17 DECEMBER 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. **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 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(Qulifying)

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%
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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%
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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:**

- 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 Five (5) Questions

QUESTION ONE

Mabvuto and Manyando have been in partnership for many years now making up accounts to 31st December annually. Their farming business has seen growth in years through persistence. Their business has an average annual turnover of K375,000. The partners share profits in the ratio of 3 to 4 respectively after allowing per annum salaries of K45,000 for Mabvuto and K55,000 for Manyando. The partners also get interest of 12.50% per annum.

The partnership business admitted another partner on 1st October 2015. Mapenzii was the new partner admitted, because of this new partner's admission the partnership had the following changes.

- The partner's salary should be fixed at K50, 000 for each partner per annum.
- Interest on Capital should be reduced by 2.50%.
- Profits and losses are to be shared equally.

The partnership had made a tax adjusted trading income from their farming activities before capital allowances of K275,000 for the tax year 2015.

The partnership had the following assets in use as at 1st January 2015.

Description	Purchase cost (K)	Period Asset owned as at 01.01.14
Nissan Sunny motor car	35, 000	38 months
Toyota Vits motor car	25, 000	62 months
Mitsubishi Van	55, 000	50 months
Isuzu van	90, 000	24 months

All the above vehicles were used by the employees of the partnership for their employment duties.

The partner's each purchased motor vehicles to be used for running their partnership business in the tax year 2015 on 5th December 2015 using their saving from the partnership and other sources. They each bought a Toyota corolla at a cost of K45,000. The private uses of the vehicles by the partners are given as follows;

	Private use
Mabvuto	25%
Manyando	45%
Mapenzii	55%

Other information

Prior to Mapenzii joining the partnership, he had worked as an Accountant at UK2ZED limited. He was at a per annum all-inclusive basic pay of K127,200, he was required to make National Pension Scheme contribution (NAPSA) of 5% of his basic pay, he also had a monthly deduction of a loan repayment to one of the banks of K1, 250, he also paid his annual subscription in the month of March 2015 of K825 to his relevant professional body. The month of September 2015, was the last month of repaying his salary advance deduction of K500 per month.

Partners' capital balances

	K
Mabvuto	150,000
Manyando	120,000
Mapenzii	80,000

Required:

- (a) Penalties are charged under PAYE when all the procedures concerning payments of tax and submission of the returns are not complied with. State the penalties an employer is liable to when they is a loss of tax due to;
 - (i) Fraud,
 - (ii) Wilful Default, and
 - (iii) Negligence. (1½ marks)
- (b) Calculate the PAYE and the final Net pay that will be allocate to Mapenzii for the month of September 2015 after taking into account all deductions to be considered. (4 marks)
- (c) Calculate the capital allowances for the tax year 2015 on implements, plant and machinery on assets owned by the business. Your calculation should not include assets acquired by the individual partners. (4 marks)
- (d) Calculate the taxable business profits to be assessed on each partner for the tax year 2015. (8½ marks)
- (e) Calculate the chargeable income for Mapenzi after deducting the tax free amount for tax year 2015. (2 marks)

[Total: 20 Marks]

QUESTION TWO

- (a) New Mind Limited, a Zambian resident company that just listed on the Lusaka Stock Exchange prepares accounts annually to 31st December. The company listed its shares on the Lusaka Stock Exchange in the tax year 2015 despite having been trading successfully for many years now. The company issued a total of 10,000,000 K1 ordinary shares of which 7,550,000 K1 ordinary shares were taken up by indigenous Zambian. For the year ending 31st December 2015, the company estimated its total taxable profits to be K458,250 and paid provisional income tax based on this amount on the appropriate due dates.

The actual results for the year ended 31st December 2015 showed a total taxable profit of K542,000.

New Mind Limited's business involves supplying second hand items from the United States of America and most parts of Europe to many businesses in Zambia that sell second hand items to the general public.

Required:

- (i) State the rate applicable for income tax for the tax year 2015. (1½ marks)
 - (ii) Calculate the provisional Income Tax already paid by the company, showing clearly the due dates when the tax was paid. (3 marks)
 - (iii) Calculate the final amount of Income Tax payable by the company based on the actual results available for the tax year 2015. (2 marks)
- (b) Mrs. Nyambe sold two properties to her Nephew Abel on 4th January 2015. The 1st property was a piece of land with a market value of K150,000. However Abel managed to negotiate the value to K85,000. Mrs. Nyambe acquired this land more than 5 years ago at K25,000 and incurred legal fees of K250 when purchasing the land. To facilitate the transfer of the property to the nephew, Mrs. Nyambe incurred legal fees of K1,000.

The other property was a Vehicle that had a market value at the time of transfer of K20,000, but Abel only paid K12,000 as the contract price. Abel paid a fee of K1,000 to the Road and Transport Safety Authority(RTSA) for the change of ownership of the vehicle.

Required:

- (i) Calculate the property transfer tax that Mrs. Nyambe is to pay to the Zambia Revenue Authority (ZRA) and you are to state the penalty that would be charged should Mrs. Nyambe delay the payment of the required tax. (4 marks)

- (ii) You are to state the required documentation for the transfer of share that qualify as property under property transfer tax. (3 marks)
- (iii) Describe three exempt transactions from Property transfer Tax. (4½ marks)
- (iv) Explain the general rule used to determine the realized value when you are trying to calculate property transfer tax. (2 marks)

[Total: 20 marks]

QUESTION THREE

Mr. Francis Bwalya makes and sells Toy drinks and has the following results for the year ending 31st December 2015. He has been trading since 2005, when he got his retirement benefits from Nixion limited. **Note** that the total cost of sales is K975,000. Mr. Francis Bwalya is registered for Value Added Tax.

Francis Bwalya

Statement of comprehensive income for the year ending 2015

	K	K
Gross profit		1, 133, 000
Net Rental income		34, 000
Net royalties received		<u>10, 000</u>
		1, 177, 000

Less operating expenses:

Staff salaries and wages	200,000
Office expenses	20, 000
Transport costs on new equipment	8, 000
Commission paid for the agents	30, 000
Depreciation on fixed assets	40, 000
Bad debts expenses account	4, 000
Provision for taxation for the year	9, 000
Preliminary business expenses	18, 000
Rent, rates, light and heat	45, 000
Motor vehicle expenses	30, 000

Entertainment and welfare expenses	23, 000	
General expenses	15, 000	
Professional charges	<u>60, 000</u>	
		<u>547, 000</u>
Net profit for the year		<u>630, 000</u>

Additional information:

- 1) Mr. Bwalya withdrew some goods from the business, which included the bottles of Vodka given to his friends and relatives as a Christmas gift, the goods have a cost of K50,000. The goods could have been sold for an amount of K70,000. The cost of the drawn goods was reimbursed.

- 2) Office expenses include:

	K
Mr. Bwalya's Personal expenses	2, 000
Stationary for the business	<u>18, 000</u>
Total expenses	<u>20, 000</u>

- 3) Bad debts expenses account includes:

	K
An increase in specific provisions for bad debts	2,000
Loans written off	500
Trade debts written off	700
An increase in general provisions for bad debts	1, 000
Loans recovered	<u>(200)</u>
P/L account	<u>4, 000</u>

- 4) Entertainment and welfare expenses include:

	K
Staff Christmas party	10,000
Staff loans written off	22,000
Entertaining Business associates	<u>13,000</u>
Total expenses	<u>45,000</u>

- 5) General expenses are as follows:

	K
Employees subscription to professional bodies such as ZICA	10,000
General Manager's subscription to Golf club (professional Golf)	<u>5,000</u>
Total expenses	<u>15,000</u>

6) Legal and professional charges include:

	K
Debt collection	18, 000
Legal fees in connection with acquiring new office buildings	22, 500
Audit fees	12, 000
Tax appeal (not successful)	<u>7, 500</u>
Total expenses	<u>60, 000</u>

7) Industrial buildings

Mr. Bwalya completed construction of the factory where he produces the toy drinks by 10th May 2011. The total construction cost was K630,000, VAT exclusive. These total construction cost includes cost of land of K120,000 and general offices whose cost amounted to K63,000. The rest of the costs were for the all qualifying expenditures for Industrial Building Allowance (IBA).

8) Implements, plant and machinery

Mr. Bwalya owns the following implements, plant and machinery:

Toyota Chaser motor car	4 years	45,000
Toyota Sprinter motor car	6 years	33,000
Equipment (old)	7 years	28,200
Delivery vans -Toyota Hilux	3 years	23,500
-Nassan Hard Body	2 years	17,600

The ownership in years was as at the start of the tax year 2014, however the number of years have since increased by one year. The tax year in question is now 2015. The original purchase costs are shown above.

Purchases of plant in the tax year 2015 were:

	K
Equipment (new)	67,280 (inclusive of the K8, 000 for transport above)
Isuzu KB 300 Van	143,840

The figures for purchases of plant are all exclusive of Value Added Tax, which Mr. Bwalya paid at 16%.

K

Disposals of plant were:

Toyota Chaser motor car	33,100
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The amounts of disposal proceeds are exclusive of Value Added Tax. Unless stated all the amounts shown on are exclusive of Value Added Tax.

Required:

- (a) You are required to explain what is meant by:
- (i) Domicile of Origin,
 - (ii) Domicile of dependency and
 - (iii) Domicile of choice (3 marks)
- (b) Explain the general rule that is used to determine whether expenditure incurred is deductible from profits for taxation purposes. (2 marks)
- (c) Calculate Mr. Bwalya's capital allowances on:
- (i) Implements, plant and machinery, (6 marks)
 - (ii) Buildings for the tax year 2015 (4 marks)
- (d) Compute Mr. Bwalya's taxable trading income for the tax year 2015, your adjustment should start from his Gross profit figure of K1,133,000. (5 marks)

[Total 20 Marks]

QUESTION FOUR

- (a) Bernard Hamadede was employed on a three-year renewable contract. The contract of employment provides the following details:

Date of appointment 1st June, 2012.

His gross pay was as follows,

1/06/2012-31/05/2013 K225,000

1/06/2013-31/05/2014 K250,000

1/06/2014-31/05/2015 K265,000

Gratuity 38%

At the expiry of the contract he had accumulated 30 days which were commuted at K230 per day. He was also paid a repatriation pay of K8,000. NAPSA of 5% is deducted from his salary per annum. His employer Chico limited pays an equal amount towards his pension. Mr. Hamadede has since being offered a new contract with Chico limited upon the expiry of the old contract as at 1st June 2015 at an annual salary of K270,000. However, the new contract will only run for one year and six months.

Required:

- (i) Calculate the income Tax payable by Mr. Bernard Hamadede for the tax year 2015, assuming income Tax already paid under Pay As You Earn is K 43,525 for the tax year 2015. (6 marks)
 - (ii) Recalculate the amounts income tax assuming Mr. Bernard received a gratuity at a percentage of 20% and explain any difference with the treatment of the gratuity in (a) and (b). You are also required to consider the PAYE given in requirement in part (a). (6 marks)
 - (iii) Explain the conditions for the eligibility of a qualifying gratuity. (2 marks)
- (b) Mr. Solomon sold two assets to his Nephew Mulilo on 10th January 2015. The 1st property was a piece of land with a market value of K50,000. Mulilo only paid K5,000 for the asset. To facilitate the transfer of the property to the nephew, Mr. Solomon incurred legal fees of K1,000.
- The other asset were shares in a company quoted on the Lusaka Stock Exchange that had a market value at the time of transfer of K25,000, but Mulilo only paid K12,000 as the contract price.

Required:

- (i) Calculate the property transfer tax that Mr. Solomon is to pay to the Zambia Revenue Authority (ZRA) and state the penalty that would be charged should Mr. Solomon delay the payment of the required tax. (3 marks)
- (ii) State the required documentation for the transfer of shares that qualify as property under property transfer tax. (3 marks)

[Total: 20 Marks]

QUESTION FIVE

Mr. Juice Dokowe is aged 55 years old. Mr. Dokowe is employed by Sky Rocket Limited at a monthly salary of K24, 000. In addition DOKOWE Limited also provided the following incomes to Mr. Dokowe:

Housing allowance per annum payable monthly	K18,000
School children's allowance per child per annum	K1,500

Mr. Dokowe has two school going children in respect of whom he receives the allowances stated above. The allowance is payable on a monthly basis on the last day of each month.

Mr. Dokowe received the following cash amounts, this was in recognition of Mr. Dokowe's hard work during the Labour Day and on 1st July when Mr. Dokowe was recognised as the longest serving employee:

Labour Day award paid on 1 st May 2015	K3,500
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Long service award paid on 1 st July 2015	K8,500
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The following expenditures were incurred by Mr. Dokowe in the Tax Year 2015,

Payment to a local approved charitable organisation K2,250

Subscription to professional body relevant to employment	K1,680
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NAPSA contributions	K9,554
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Income tax paid under PAYE	K34,125
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Gym subscriptions	K2,400
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Life assurance premium	K1,000
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On 30th November 2015, Mr. Dokowe retired from his employment, this is because he attained the required Government age for retirement. Upon retirement Mr Dokowe received the following:

	K
Repatriation pay	41,000
Monthly Pension (NAPSA) salary starting a month following his	
Birthday to be paid upto his death	2,500
Severance pay	12,000

Required:

- (a) Calculate the final amounts of income tax payable for 2015 by Mr. Dokowe and advise when this final income tax payable will be paid. (12 marks)
- (b) Explain any Six (6) test that are used by Zambia Revenue Authority (ZRA) to distinguish between an employee and a self-employed person for taxation purposes.

(6 marks)

[Total: 20 Marks]

END OF PAPER

C4 DIRECT TAXES
SUGGESTED SOLUTIONS
DECEMBER 2015 EXAMINATIONS

SOLUTION ONE

(a) Penalties under PAYE

(i) Fraud	52.5%
(ii) Wilful default	35%
(iii) Negligence	17.5%

(b) Calculation of PAYE and take home net pay

<u>Chargeable income</u>	K
Basic pay	10,600
<u>Less pension contribution (restricted)</u>	<u>(255)</u>
	10,345
<u>Less tax free income</u>	<u>(3000)</u>
	<u>7,345</u>
 <u>PAYE</u>	
800 × 25%	200
2,100 × 30%	630
4,445 × 35%	<u>1,556</u>
	<u>2,386</u>
 <u>Take home net pay</u>	
Gross pay	10,600
<u>Less – PAYE</u>	<u>(2,386)</u>
Actual pension	(530)
Loan repayment	(1,250)
Salary advance repayment	<u>(500)</u>
Net pay	<u>5,934</u>

(c) Computation of capital allowances for the tax year 2015 on implements, plant and machinery owned by the partnership.

Details		ITV K	Allowance K
Nissan Sunny motor car			
ITV b/f		14,000	
<u>Less</u> wear & tear	20%	<u>7,000</u>	7,000
ITV c/f		<u>7,000</u>	
<u>Toyota vits motor car</u>			
ITV b/f		Nil	
<u>Less</u> wear & tear	20%	<u>Nil</u>	Nil
ITV c/f		<u>Nil</u>	
Mitsubishi Van			
ITV b/f		Nil	
<u>Less</u> wear & tear	25%	<u>Nil</u>	Nil
ITV c/f		<u>Nil</u>	
Isuzu Van			
ITV b/f		45,000	
<u>Less</u> wear & tear	25%	<u>(22,500)</u>	22,500
ITV c/f		<u>22,500</u>	
Total capital allowances			<u>29,500</u>

(d) Assessable business profits on persons

	<u>Mabvuto</u> K	Manyando K	Mapenzie K	Total K
<u>To 30th Sept 2015</u>				
Salaries	33,750	41,250	nil	75,000
Interest on capital	14,063	11250	nil	25,313
Residue profit/(loss)				
3:4	<u>35,919</u>	<u>47,893</u>	<u>nil</u>	<u>83,812</u>
	<u>83,732 *</u>	<u>100,393*</u>	<u>Nil</u>	<u>184,125*</u>

To 31st Dec 2015

Salaries	12,500	12,500	12,500	37,500
Interest on capital	3,750	3,000	2,000	8,750
Residue profit/(loss) 1:1:1	<u>5,042</u>	<u>5,042</u>	<u>5,042</u>	<u>15,125</u>
	<u>21,292*</u>	<u>20,542*</u>	<u>19,542 *</u>	<u>61,375</u>

Trading income for 12 month
to 31 Dec 2015 105,024 120,935 19,542

Less capital allowances

Mabvuto (K45, 000×20%×75%) (6,750)

Manyando (K45, 000×20%×55%) (4,950)

Mapenzii (K45, 000×20%×45%) (4,050)

	<u>98,274</u>	<u>115,985</u>	<u>15,492</u>
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Working 1 Adjusted business profits

K

Unadjusted trading profits 275,000

Less capital allowances (part c) (29,500)

Adjusted trading income 245,500

For first 9 months to 30th Sept 2015

K245, 500 × 9/12 K 184,125

For the second 3 months to 31th Dec 2015

K245, 500 × 3/12 K 61,375

(e) Calculation of income tax payable/(repayable) by Mapenzii

Mapenzii's personal Income Tax computation for the Tax Year 2015

	Non-farming income	Farming income
	K	K
Emoluments from employment	91, 515	
Business income from farming		<u>15, 492</u>
	91, 515	15, 492
Less tax free income	<u>(36, 000)</u>	<u>nil</u>
Chargeable income	<u>55, 515</u>	<u>15,492</u>

SOLUTION TWO

(a)

(i) Company income tax rate

	%
Normal rate	35
<u>Less</u> discount for;	
Registration on LUSE	(2)
Share offering reduction	<u>(5)</u>
	<u>28</u>

(ii) Calculation of the provisional income tax for the tax year 2015

Estimated chargeable income × applicable rate

= K 458,000 × 28%

= K 128,240

Therefore each instalment payment will be K32, 060

Due dates

1 st	instalment	31 st march 2015
2 rd	instalments	30 th June 2015
3 rd	instalment	30 th September 2015
4 th	instalments	31 st December 2015

(iii) Calculation of final income tax payable for the tax year 2015

Chargeable income × applicable Rate

= 542, 000 × 28%

= 151, 760

Therefore; actual income tax payable

Company income tax liability

Less tax already paid

Less income tax payable

K
151,760
<u>(128,240)</u>
<u>3,520</u>

(b)

(i) Property transfer tax

Land

Realised value % $\times$ 10%
= 150,000 % $\times$ 10% = K15,000

- Realised value is the higher of
 - A) Market value 150,000
 - Or B) Contract price K85, 000.

Vehicles

Vehicles do not qualify as chargeable property under the Property Transfer Tax Act. Therefore no Property Transfer Tax is to be charged on the disposal.

Penalties delayed payment of Property Transfer Tax

- Penalty will be charged at 5% of the tax per month or part thereof.
- Interest will also be charged at the Bank of Zambia discount rate plus 2%.

(ii) Required documentation for the transfer of shares

- share transfer form 27
- latest Financial statements of the company in which the shares are held.
- Shareholders resolution.

(iii) Exempt transactions

1. Any transaction involving the sale or other disposal of any stock or share listed on Lusaka Stock Exchange.
2. Any transaction involving the transfer of property to a company in order to satisfy the transferor's contribution towards that company's equity if that company is incorporated under the Companies Act. It is the Commissioner General to determine that the transfer is exempt.
3. Any transfer of property that is occasioned by death of the transferor to a member of the immediate family.

(iv) The General rule

The General rule used to determine the realised value of any property transferred is that the realised value is the greater of;

1. The open market value of the property transferred; &
2. The actual price paid, if any.

SOLUTION THREE

(a)

(i) Domicile of origin

Domicile of Origin is the domicile acquired at birth. This means that individuals are domiciled in the country in which they are born

(ii) Domicile of dependency

This is domicile that is acquired by persons less than 16 years when the person that they depend on acquires a different domicile.

(iii) Domicile of choice

Domicile of Choice is the domicile that is acquired by choice. Individuals can be able to make a choice as to what country should be their permanent home once they attain the age of 16 years

(b) To be deductible an expense should be revenue in nature and not capital and should be wholly and exclusively for the purposes of trading.

(c)

(i) Capital allowances on implements, plants and machinery for the tax year 2015.

Details	income tax value (K)	allowances (K)
<u>Toyota chaser motor car</u>		
ITV b/f	nil	
Less disposal $(33,100 \times 29/25)$	<u>(38,396)</u>	(38,396)
Balancing charge	<u>(38,396)</u>	
 <u>Toyota sprinter motor car</u>		
ITV b/f	nil	
Less wear & tear	<u>nil</u>	nil
	<u>Nil</u>	
 <u>Equipment old</u>		
ITV b/f	nil	
Less wear & tear	<u>nil</u>	nil
	<u>Nil</u>	
 <u>Toyota Hilux</u>		
ITV b/f	nil	
Less wear & tear	<u>nil</u>	nil
	<u>Nil</u>	
 <u>Nissan hard body</u>		
ITV b/f	4,400	
Less wear & tear	<u>(4,400)</u>	4,400
	<u>-</u>	

Equipment (new)

Cost	67,280	
Less wear & tear (67,280 x 25%)	<u>(16,820)</u>	16,820
ITV C/F	<u>50,460</u>	

Isuzu KB 300 van

Cost	143,840	
Less wear & tear (143,840 x 25%)	<u>(35,960)</u>	<u>35,960</u>
ITV C/F	<u>107,880</u>	
Total capital allowance		<u>18,784</u>

(ii) Calculation of capital allowances on buildings

Industrial building

<u>Adjusted construction cost</u>	K
Total costs	630,000
<u>Less cost of land</u>	<u>(120,000)</u>
	<u>510,000</u>

Qualifying cost as industrial building

10% test

$$= \frac{\text{excluded items}}{\text{Construction costs}} \times 100$$

$$= 63,000/510,000 \times 100 = 12.35$$

Therefore qualifying cost for industrial building

$$K 510,000 - K 63,000 = \underline{\underline{K 447,000}}$$

Therefore qualifying cost for commercial building the excluded item cost of K 63,000

Details	ITV	Allowances
Industrial building		
Qualifying expenditure	447,000	
Less initial allowance (10% x 447,000)	(44,700)	44,700
Investment allowance (10% x 447,000)	-	44,700
Wear and tear allowances (5% x 447,000)	<u>(22,350)</u>	22,350
ITV c/d	<u>379,950</u>	

Commercial building

Qualifying cost	63,000	
Less wear & tear (2% x 63,000)	<u>(1,260)</u>	<u>1,260</u>
	<u>61,740</u>	
total capital allowance calculated		<u>113,010</u>

(d) Calculation of the tax adjusted trading profits for the tax year 2015

	<u>K</u>
Gross profit	1,133,000
Goods taken for private use	20,000
Staff salaries and wages	(200,000)
Office expenses – stationery	(18,000)
Commission paid for the agents	(30,000)
Bad debts (2,000 + 700)	(2,700)
Preliminary business expense	(18,000)
Rent , rates, light and heat	(45,000)
Motor vehicle expenses	(30,000)
Entertainment and welfare expenses Christmas party	(10,000)
General expenses	-
Professional charges	
Debt collection	(18,000)
Audit fee	<u>(12,000)</u>
Adjusted business profits before capital allowances	769,300
Less capital allowances	
Implements, plant & machinery	(18,784)
Building	<u>(113,010)</u>
	<u>637, 506</u> -

SOLUTION FOUR

(a) Mr Zahid Munshi's

Personal income tax computation for the tax year 2015

	K
Emoluments from employment	
Basic pay $(5/12 \times 165,000) + (7/12 \times 170,000)$	167,917
Non-qualifying gratuity (w1)	96,200
Repartition pay	8,000
Leave days pay $(K230 \times 30 \text{ days})$	<u>6,900</u>
	279,017
Less NAPSA contribution (restricted)	<u>3,060</u>
	275,957
Less tax free income	<u>(36,000)</u>
Chargeable income	<u>239,957</u>
Income tax	
9,600 x 25%	2,400
25,200 x 30%	7,560
205,157 x 35%	<u>71,805</u>
	81,765
Qualifying gratuity	
$(185,000 - 36,000) \times 25\%$	<u>37,250</u>
	119,015
Less tax already paid	
Less PAYE	<u>(43,525)</u>
	<u>75,490</u>

Working
Qualifying gratuity
Total basic pay
 $K 225,000 + 250,000 + 265,000 = 740,000$
Therefore qualifying gratuity
 $K740,000 \times 25\% = 185,000$
Therefore non-qualifying gratuity
 $K 740,000 \times 13\% = 96,200$

(b) Zahid's

Personal income tax computation for the tax year 2015

	K
Chargeable income as above	239,957
Less non-qualifying gratuity	<u>(96,200)</u>
	<u>143,757</u>

<u>Income tax</u>	
9,600 x 25%	2,400
25,200 x 30%	7,560
108,957 x 35%	<u>38,135</u>
	48,095
Add Qualifying gratuity	
((74,000 x 20%) – 36,000) x 25%	<u>28,000</u>
	76,095
Less tax already paid	
PAYE	<u>(43,525)</u>
	<u>32,570</u>

(c) Conditions for a qualifying gratuity

1. The employee should serve at least two years in the contract, and
2. The gratuity percentage should not exceed 25%.

(d)

(i) Property transfer on Mr. Kings

1st property (Land)

Realised value x 10%

K 50,000 x 10% = K 5,000

2nd property (shares)

- These shares are held in a company that is quoted on the Lusaka Stock exchange therefore this transfer of property is exempt from property transfer tax.
- Penalties to be charged is 5% of the tax due or part thereof.

(ii) Required documentation for the transfer of shares

- Share transfer form 27
- Latest financial statements of the company
- Shareholders resolution

SOLUTION FIVE

(a)

Mr. Sikombe's Personal income tax computation for the year 2015

K

Emoluments from employment

- Salary (K24, 000 X 11 months)	264, 000
- Housing allowance (K18, 000 X 11/12)	16, 500
- School children's allowance (1, 500 X 11/12 X 2)	2, 750
- Labour day	nil
- Long service award	<u>8, 500</u>
	291, 750
Less: charitable donation	(2, 250)
Less: subscription	(1, 680)
Less: NAPSA (restricted)	<u>(3, 060)</u>
	284, 760
Less: Tax free income	<u>(36, 000)</u>
	<u>248, 760</u>
<u>Income tax</u>	
K9, 600 X 25%	2, 400
K25, 200 X 30%	7, 560
K215, 960 X 35%	74, 886
<u>Tax on terminal benefits</u>	
- Repatriation pay	41, 000
- Monthly pension(exempt)	nil
- Severance pay	<u>12, 000</u>
	53, 000
Less: tax free income	<u>(36, 000)</u>
	<u>18, 000</u>
Therefore 10% X K18, 000	<u>1, 800</u>
Income tax payable	<u>86, 646</u>

(b)

The distinction between employment and self-employment is fundamental.

- It has been held that employment is a contract of service, whereas self-employed is a contract for services.
- When the individual does not have to hire helpers, this is a sign of employment. One who is self-employed is at liberty to employ his or her

own helpers. If you are employed, you alone are to carry out the task given to you by the employer. **(Work performance)**

- The manner and method of the work being controlled by the 'employer', this is a sign of employment. One who is self-employed doesn't need his or her working methods to be controlled during the engagement. **(control)**
- Employees are paid on agreed salary on a weekly or monthly basis and incur no form of financial risk. One who is employed will always receive the agreed emoluments even when the employer hasn't made enough profit or sometimes even when the employer has made a loss. The economic reality of self-employment is missing. **(financial risk)**
- The employers will usually determine where an employee has to carry out his or her duties. Employees will normally carry out their duties at the employers place of business or by the premises of the client. **(place of work)**
- One of the responsibilities of the employer is to provide an employee with all the tools and equipment to be used in the performance of that employee's duties. **(tools and equipment)**
- Any rectification expenses incurred and worked by employees and will be paid for during normal working hours or during overtime hours were the employees will still be paid, self-employed individual will rectify jobs at no further pay in the engagement. **(Correction of work)**
- An employer can take on and dismiss employees at any time. A contract with a self- employed person usually starts at a specified date and comes to an end at the time all works required are complete. **(Engagement and dismissal)**
- Employers will normally provide insurance cover for the actions of their employees, because they are liable for the offences committed by their employees. **(Insurance)**
- Employees normally work for only one employer. Employers will prevent their employees to be engaged with other employer who may be the employers competitive. **(Exclusivity)**
- An employee usually holds an integral position within the organization. The individual is appointed the union chairperson of an organization

END OF SOLUTIONS