



TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

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C1: BUSINESS MANAGEMENT

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MONDAY 22 JUNE 2020

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

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**INSTRUCTIONS TO CANDIDATES**

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question. You will be told when to start writing.
2. This question paper consists of 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).
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7. Present legible and tidy work.
8. Graph paper (if required) is provided at the end of the answer booklet.

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**Attempt all five (5) questions.**

**QUESTION ONE**

- (a) "Trade Kings Company donated the first ever urology medical equipment to The University Teaching Hospital for the removal of kidney stones.

**Required:**

Identify and describe the terms used when business organizations donate to the community. (10 marks)

- (b) Define the term marketing research and describe the marketing research process. (10 marks)

**[Total: 20 Marks]**

**QUESTION TWO**

- (a) Using Maslow's hierarchy of needs, explain how a manager can use this motivation theory in order to achieve the organizational goal. (10 marks)

- (b) Committees in any business organization play an important role as they help the organization to achieve its goals.

**Required**

- (i) Define the term Finance Committee. (2 marks)

- (ii) State the roles of a Finance Committee in a business organization.

(8 marks)

**[Total: 20 Marks]**

**QUESTION THREE**

- (a) Leadership influences and directs the behavior of subordinates in order to achieve the set goals.

**Required:**

Explain how a leader can influence workers to achieve goals using:

- (i) Democratic style of leadership (4 marks)

- (ii) Autocratic style of leadership (4 marks)

- (b) Discuss three (3) principles of good corporate governance. (6 marks)

- (c) List three (3) benefits to the organization of training. (6 marks)

**[Total: 20 Marks]**

#### **QUESTION FOUR**

- (a) "Society makes companies and companies make societies". Explain the meaning of this statement and how individuals and groups contribute to this effect. (6 marks)
- (b) One of the studies on culture concluded that employees in organizations with a strong culture were more committed to their organizations than their counterparts in organizations with weak culture. Define a strong culture. (2 marks)
- (c) Explain at least six (6) benefits that a company will gain from employee training and development. (12 marks)

**[Total: 20 Marks]**

#### **QUESTION FIVE**

- (a) Given the equation  $M = E \times I \times V$  make suggestions of how a manager at ZICA can be helped to understand the relationship among his employees. (10 marks)
- (b) Mr. Chibwe does not understand why he has to give back some of his gains in the company to the community. He argues that his aim is to make profit and society must buy from him. Explain to him the major advantages for corporate social responsibility by businesses that may change his mind. (10 marks)

**[Total: 20 Marks]**

**END OF PAPER**

## SUGGESTED SOLUTIONS

### SOLUTION ONE

- (a) The term is **Corporate Social Responsibility**. Corporate Social Responsibility is the voluntary action taken by an organization to assist the society material or financial assistance therefore improving the general welfare of the society. Since corporation employ resources from the community and depend on the same community to buy their goods and services, therefore society expect a relationship to exist through corporate social responsibility. Corporations are usually located in the community where they conduct their economic activities. In the process of producing goods corporate may impose social costs by polluting the environment that affect both human and animal life. In view of this corporation must practice good corporate social responsibility for the benefit of community and environment. This can be done through provision of medical care, education, sports activities and so on. It's for this reason that Trade Kings made a donation of medical equipment to University Teaching Hospital through its corporate social responsibility.
- (b) Marketing research is the systematic design, collection, analysis and reporting of data collected relevant to a specific marketing situation facing an organization.

The marketing process takes the following stages

- i. **Defining the problem and research objectives:** The organization must clearly define the marketing problem it is facing such as declining market share. Then the objectives of the research must be clearly stated. The problem statement and research objectives will guide the entire research process.
- ii. **Developing the research plan for collecting information:** Once the research problem and objectives have been defined, a suitable research plan must be developed which will be used to collect data. The research plan will state the methods of collecting data, sample size, and specific research approaches. The data collected could either be primary or secondary using different instruments such as questionnaires, surveys etc
- iii. **Implementing the research plan, collecting and analyzing data:** This involves putting the marketing research plan into action. It will involve collecting of data, processing and interpretation of information. Implementation of a marketing research plan demands resources such as finances, transport and human resource that could be costly.

- iv. **Interpreting and reporting the findings:** This will involve interpreting the findings, drawing conclusion and generating a report to management. The report made will be used by management to make marking decisions.

## SOLUTION TWO

- (a) Maslow's hierarchy of needs states that an individual is motivated to satisfy five Types of needs that are ranked in a hierarchy starting with physiological needs to the top most self-actualization needs. The following are the needs that the manager could use to motivate workers in order to achieve organizational goals.
- i. **Physiological needs:** These are basic needs that every human being needs for survival such air, water, food, shelter, clothing etc. Therefore, the manager should ensure that workers are paid a salary that will enable them to meet the basic needs to sustain them for the whole month.
  - ii. **Safety/security needs:** Human beings need to be protected from any form of harm by living in an environment that is safe and secured. Therefore, a managers must provide safety of workers by providing protective cloths and ensuring that safety rules are complied with.
  - iii. **Social needs:** A human being is a social being who needs friendship, interaction and love from others. The manager can provide social needs to workers by creating a friendly working environment, promoting team work and outdoor social events.
  - iv. **Esteem needs:** Human beings in groups need recognition, respect and independence. Therefore, the manager can provide self- esteem by giving recognition to employees who are hard working through rewards.
  - v. **Self-Actualisation:** This is where an individual realizes his full potential to through personal growth in the society or at place of work. This can be done by grooming subordinates for higher positions in the hierarch of authority in the organization.
- (c) i. **A Finance Committee** is a group of experts who provide financial advice and guidance on financial matters and financial policy formulation.
- (ii) Roles of Finance committee
- To approve the budget
  - To control the use of finances through budget controls
  - Financial planning

- To ensure that internal controls are complied with
- Financial reporting

## **SOLUTION THREE**

(a) **(i) Democratic leadership**

This is a type of leadership where the leader allows workers to participate in decision making of the organization. Employees are consulted on various issues affecting the organization and are able to give ideas and solutions. The leader also delegates tasks to subordinates. This results into increased motivation among employees and reduces high labor turnover. Therefore, a motivated labor force is committed to work resulting into achievement of organizational goals.

**(ii) Autocratic leadership**

This is a type of leadership where a leader has all the authority to make decisions for the organization without the participation of workers. The leader just gives instructions to workers to perform tasks. Any objections to perform the given orders results into punishment. This type of leadership may demotivate workers resulting into low perform and high labor turnover. This has a negative Effect on productivity.

(b) **Three principles of good corporate governance**

**(i) Disclosure of information**

This means that management should be able to give full information concerning the operations of the business to stakeholders such as government, shareholders, customers etc. This information can be disclosed through financial reports.

**(ii) Accountability**

Management must ensure that business transactions and financial reports are authentic.

**(iii) Compliance with the law**

Management must ensure that the organization complies with the laws that governs the operations of business organizations. For instance it is the requirement of the law that all public limited companies must have their financial accounts audited by independent auditors.

**(iv) Transparency**

Management must ensure that there is an open and clear disclosure of relevant information to shareholders and other stakeholders. It means not to conceal information which may affect decisions.



(c) **Benefits of training to the organization**

- i. There is high productivity
- ii. Employees are highly motivate
- iii. It reduces industrial accidents
- iv. It reduces labour turnover

## **SOLUTION FOUR**

- a) Society is made up of people. When we say a company operates in a society, we mean that this company's stakeholders are within the society in which the company operates. A company is any entity that uses raw materials and processes them into finished products. These products need to be sold within the society. Therefore we can say that the company depends on the Society for its factors of production such as raw materials, labour, capital and entrepreneurship. On the other hand, society depends on the company to supply the much needed products and services. Without the company, the survival of the members of society would be difficult. If companies did not exist, society would not enjoy most of the goods that they enjoy.

Also companies employ people from the society and pay them wages and salaries. Hence most people earn money from companies to spend on the goods and services which they need in their lives.

b) **Culture**

Company culture is the way an organisation carries out its business. Culture is concerned by the visionary leader of a business organisation. This leader has beliefs and values which indicate how he wants things to be done in his entity. A strong culture develops through communication. The leader will ensure that the company's culture is known by all the workers at every level in the organisation. The beliefs and values must be known by all workers and they, in turn, will know how their leader expects them to work. This relates to dress code, work processes, how they perceive the company and many more.

- c) The benefits of employee training and development-
- Increased job satisfaction and morale among employees so that they feel good about themselves, what they do and the organization.
- i. Increased employee motivation that translates into higher job performance
  - ii. Increased efficiencies in processes, resulting in financial gain.
  - iii. Increased capacity to adopt new technologies and methods.
  - iv. Increased innovation in strategies and products.
  - v. Reduced employee turnover,
  - vi. Enhanced company image
  - vii. Enhanced risk management

## **SOLUTION FIVE**

- a) Explanation of equation  $M = E \times I \times V$  (the expectancy theory by Victor Vroom which suggests that motivation depends on individual expectations about their ability to perform tasks and receive desired rewards.

Expectancy- hard work must yield the desired rewards

- i. Instrumentality- a person's belief that successful performance will be followed by rewards and other potential outcomes
  - ii. Valence-the value a person assigns to the possible rewards and other related outcomes.
- b) The following are the major arguments for the assumption of corporate social responsibility:
- i. Public expectations-public opinion in support of the business.
  - ii. Long-run profits-through better community relations and improved business activities and image.
  - iii. Ethical obligation-a firm should have a conscience and be responsible and right for their own sake.
  - iv. Public image- firms seek to enhance their public image to gain some customers, better employees, access to money markets and other benefits through favorable public image.
  - v. Better environment
  - vi. Discouragement of further government regulations which may add economic costs and restrict management decisions.

**END OF SOLUTIONS**



TAXATION PROGRAMME EXAMINATIONS

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CERTIFICATE LEVEL

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C2: ECONOMICS & FINANCIAL MATHEMATICS

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WEDNESDAY 24 JUNE 2020

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

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8. Present legible and tidy work.
9. Formulae are provided in a separate booklet.
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**Attempt all five (5) questions**

**QUESTION ONE**

- (a) The national monthly consumption function of Zambia is given as  $C = a + bY$ ,  $C = K515m$ ,  $a = K30m$  and  $b = 0.5$ . Where  $C$  is the consumption per month,  $a$  is a fixed amount of money per month, and  $Y$  is income per month.

**Required:**

- (i) Determine the Marginal Propensity to Consume(MPC) (1 mark)
- (ii) Calculate the monthly income( $Y$ ) (3 marks)
- (iii) Briefly explain the meaning of MPC? (2 marks)

- (b) The European Union (EU) is one of the several international economic association. Invariably its member states have collectively passed through the following stages of regional integration: Preferential Trade Area(PTA), Free Trade Area(FTA), Custom Union(CU), Common Market(CM) and Economic and Monetary Union(EMU).

**Required:**

Briefly explain the five (5) stages of regional integration. (10 marks)

- (c) State any four (4) benefits of a merger and acquisition as government intervention of public sector enterprise? (4 marks)

**[Total: 20 Marks]**

**QUESTION TWO**

- (a) State and explain any five (5) characteristics that money should have to be generally accepted. (5 marks)

- (b) Outline any five (5) authorised activities of banks as provided for by the Banking and Financial services Act of 1994 (BFSA) (10 marks)

- (c) In line with the Act given in (b) above, distinguish between a 'local bank' and a 'foreign bank' giving two examples of each from the Zambian financial system (5 marks)

**[Total: 20 Marks]**

### **QUESTION THREE**

- (a) The annual labour welfare fund (in thousands of kwacha) and the corresponding annual production (in thousands of kwacha) for the past eight (8) years of a company are presented below:

Year	Annual labour welfare fund (X)	Annual Production(Y)
1	8	18
2	10	28
3	12	35
4	14	45
5	16	50
6	18	70
7	20	85
8	22	95

**Required:**

- (i) Using appropriate equations and formulae, find the correlation coefficient between annual labour welfare funds and annual production. (6 marks)
  - (ii) What percentage of the variation in total annual production can be explained by annual labour welfare fund? (2 marks)
- (b) Based on past experience, the Chief Executive Officer of a consultancy organisation has estimated that the probability of completing each project in time is 0.7. The company is planning to execute 12 such projects in the fourth coming quarter.

**Required:**

Find the probability of completing

- (i) No project in time (2 marks)
- (ii) At most 3 projects in time (3 marks)
- (iii) At least 4 projects in time (3 marks)
- (iv) Find the mean of this distribution (2 marks)
- (v) Find the standard deviation of this distribution (2 marks)

**[Total: 20 Marks]**

#### **QUESTION FOUR**

- (a) A manufacturer finds that 30% of the items produced from one of the assembly lines are defective. During a floor inspection, the manufacturer selects five (5) items from this assembly line.

#### **Required:**

Find the probability that the manufacturer finds

- (i) Two (2) defectives. (3 marks)
- (ii) At most three (3) are defectives (4 marks)
- (iii) At least two (2) defectives. (4 marks)
- (b) The demand and supply functions for the price of water pipes in Chinsali district of Zambia is given by;

$$\text{Demand Function: } P_d = 120 - 4Q_d$$

$$\text{Supply Function: } P_s = 29 + \frac{1}{3}Q_s$$

#### **Required:**

- (i) Calculate the equilibrium price and quantity. (4 marks)
- (ii) Determine the effect on the market equilibrium if the government decides to impose a fixed tax of K13 on each good. (5 marks)

**[Total: 20 Marks]**

#### **QUESTION FIVE**

- (a) Define the following terms as used in financial mathematics:

- (i) Par value (1 mark)
- (ii) Coupon (1 mark)
- (iii) Zero coupon bond (1 mark)

- (b) Suppose a bond that matures six (6) years from now is trading at K55 and suppose the par value is K100. If interest were compounded annually, calculate the yield. (3 marks)

- (c) Mr. Chanda is considering an investment in Nanga Farms to pay K1.48 in one (1) year and K1.80 in two (2) years. He believes Nanga Farms will sell for K26.00 in two (2) years. What is the stock worth if its required return is 12%? (4 marks)

(d) The arrival rate of vehicles arriving at a toll gate follows Poisson distribution with a mean arrival rate of 5 vehicles per hour.

**Require:**

Find the probability that;

- (i) No vehicle will arrive in one hour (2 marks)
- (ii) Exactly 4 vehicles will arrive in one hour (2 marks)
- (iii) At most 2 vehicles will arrive in one hour (4 marks)
- (iv) At least 3 vehicles will arrive in one hour (2 marks)

**[TOTAL: 20 MARKS]**

**END OF PAPER**



## SUGGESTED SOLUTIONS

### SOLUTION ONE

(a) The solution is as follows:

(i)  $C=a+bY$   $MPC=b=0.5$  MPC: marginal propensity to consume.

(ii)  $C=a+bY$  where  $C=515$   $a=30$   $b=0.5$

$$515=30+0.5Y$$

$$0.5Y=515-30$$

$$0.5Y=485$$

$$Y=\frac{485}{0.5} = 970$$

$$Y=970$$

Monthly income= $Y=K970$  m

(iii) MPC is the proportion of the income which is spent on non-autonomous consumption  $MPC=b$  in  $C=a+bY$

(b) Explanation of the five (5) regional integration aspects:

- Preferential Trade Area: In this aspect every effort is made to reduce trade barriers.
- Free Trade Area: No restriction on the movements of goods and services between countries although individual member countries can impose their own restrictions on non-member countries
- Custom Union: There is a free trade area between all member countries of the union, and in addition, there are common external tariffs applying to imports from non-member countries into any part of the union.
- Common market: encompasses the idea of a customs union but has a number of additional features. In addition to free trade among member countries there are also free market in each of the factors of production. Free movement of capital and labor in member countries.
- Economic and monetary union: This time national economic policies are being harmonized in terms of financial regulation and by introducing its own central bank and currency. Common currency is introduced.

(c) Benefits of mergers and acquisitions:

- Efficiency and improved performance through synergy and processes or economies of scale.
- Access to new distribution channels.
- Overcoming the cost of IT by being large enough, through sharing of resources which are becoming ever more expensive if the latest IT platforms are to be used.
- The best way to beat the competition within a market is to buy or merge with it.
- Provides investment opportunities if a company has spare capital.

## SOLUTION TWO

a) The following are the five characteristics of good money:

- **Portability** – Money must be easy to carry about. It should be too heavy. No wonder we no longer use coins in Zambia for everyday transactions.
- **Divisibility** – Money must easily be broken down into small denominations. If one has K50 and wants to buy a pen for K1.50 he must be able to do so without problems of change.
- **Durability** – Good money must last. It should not easily fade away when it comes in contact with water or get twisted in a woman's chitenge for safe keeping.
- **Scarcity** – Good money must be relatively scarce in supply to maintain its value.
- **Uniformity** – A K50 from one person must exactly be the same as a K50 from another person whether one is new and the other is old.
- **Acceptability** – Good money must be generally acceptable in payment for goods and services
- **Stability** – good money must keep its value i.e. keep its purchasing power.

b) The following are the authorised activities:

- Accepting deposits from the general public
- Making loans and extending credit
- Providing money transfer services and facilities
- Acting as financial agent for any person
- Providing safekeeping and custodial services for financial assets and securities
- Providing guarantees, letters of credit, and other assurances of payment
- Factoring with or without recourse

c) A local bank is a bank whose headquarters is domiciled in Zambia while a foreign bank is one whose headquarters is outside Zambia. However, both must be incorporated in Zambia to operate. The distinction is important because of the differences in Capital Adequacy requirements between the two; a local bank has low compared to a foreign bank.

### SOLUTION THREE

(a)

i.

Year	$x$	$y$	$x^2$	$xy$	$y^2$
1	8	18	64	144	324
2	10	28	100	280	784
3	12	35	144	420	1225
4	14	45	196	630	2025
5	16	50	256	800	2500
6	18	70	324	1260	4900
7	20	85	400	1700	7225
8	22	95	484	2090	9025
Sum: $\sum x = 120$ $\sum y = 426$ $\sum x^2 = 1968$ $\sum xy = 7324$ $\sum y^2 = 28,008$					

$$\bar{x} = \frac{\sum x}{n} = \frac{120}{8} = 15; \quad \bar{y} = \frac{\sum y}{n} = \frac{426}{8} = 53.28$$

$$SS_{xx} = \sum x^2 - \frac{(\sum x)^2}{n} = 1968 - \frac{120^2}{8} = 168$$

$$SS_{xy} = \sum xy - \frac{(\sum x)(\sum y)}{n} = 7324 - \frac{(120)(426)}{8} = 934$$

$$SS_{yy} = \sum y^2 - \frac{(\sum y)^2}{n} = 28,008 - \frac{426^2}{8} = 5323.5$$

The correlation coefficient is given by

$$r = \frac{SS_{xy}}{\sqrt{SS_{xx}SS_{yy}}} = \frac{934}{\sqrt{168 \times 5323.5}} = 0.99$$

ii. We asked to find the coefficient of determination given by

$$r^2 = 0.99^2 = 0.9801$$

$$\therefore r^2 = 98.01\%$$

(b) We are given  $n = 12$ ,  $p = 0.7$  and  $q = 0.3$

$$i. \quad P(X = x) = \binom{n}{x} p^x (1-p)^{n-x}$$

$$P(X = 0) = \binom{12}{0} (0.7)^0 (0.3)^{12-0} \\ = 0.000000531$$

$$\begin{aligned}
\text{ii. } P(X \leq 3) &= P(X = 0) + P(X = 1) + P(X = 2) + P(X = 3) \\
&= 0.000000531 + \binom{12}{1}(0.7)^1(0.3)^{12-1} + \binom{12}{2}(0.7)^2(0.3)^{12-2} + \binom{12}{3}(0.7)^3(0.3)^{12-3} \\
&= 0.000000531 + 0.00001488 + 0.0001910 + 0.001485279 \\
&= 0.00169169 \\
&= 0.0017
\end{aligned}$$

$$\begin{aligned}
\text{iii. } P(X \geq 4) &= 1 - P(X < 4) \\
&= 1 - [P(X = 0) + P(X = 1) + P(X = 2) + P(X = 3)] \\
&= 1 - 0.0017 \\
&= 0.9983
\end{aligned}$$

iv. The mean is given by

$$E(X) = np = 12 \times 0.7 = 8.4$$

v. The standard deviation is given by

$$S.D = \sqrt{npq} = \sqrt{12 \times 0.7 \times 0.3} = 1.59$$

## SOLUTION FOUR

Let  $X$  denote the number of defectives the manufacturer finds.

Therefore, we have that;

$$n = 5, \quad P(\text{success}) = p = 0.3 \quad (q = 1 - p = 0.7), \quad \text{So that } X \sim B(5, 0.3).$$

$$\text{And we know that: } P(X = x) = \binom{n}{x} p^x q^{n-x} = \binom{n}{x} p^x (1 - p)^{n-x}, \quad x = 0, 1, 2, \dots, n.$$

$$(i) \quad P(X = 2) = \binom{5}{2} (0.3)^2 (1 - 0.3)^{5-2} = 0.3087$$

$$(ii) \quad P(X \leq 3) = 1 - [P(4) + P(5)] = 1 - \binom{5}{4} (0.3)^4 (1 - 0.3)^{5-4} - \binom{5}{5} (0.3)^5 (1 - 0.3)^{5-5} \\ = 0.96922$$

$$(iii) \quad P(X \geq 2) = 1 - P(X < 2) = 1 - [P(0) + P(1)]$$

$$P(X \geq 2) = 1 - \binom{5}{0} (0.3)^0 (1 - 0.3)^{5-0} - \binom{5}{1} (0.3)^1 (1 - 0.3)^{5-1} = 0.47178$$

(b)

(i) Equilibrium occur when  $Q_d = Q_s$  and  $P_d = P_s$

This implies the functions are written as  $P = f(Q)$  taking  $P$  and  $Q$  as only variables on LHS and RHS respectively.

$$\text{Therefore } 120 - 4Q = 29 + \frac{1}{3}Q$$

$$\frac{1}{3}Q + 4Q = 120 - 29$$

$$Q = 21 \quad \text{the equilibrium quantity}$$

To find the equilibrium price, substitute  $Q$  in any of the equations of  $P$

$$P = 120 - 4(21)$$

$$P = 36$$

(ii) If the government imposes a fixed tax of K13 per good then the money that the firm actually receives from the sale of each good is the amount,  $P$ , that the consumer pays, less the tax, 13: that is,  $P - 13$ . Mathematically, this problem can be solved by replacing  $P$  by  $P - 13$  in the supply equation to get the new supply equation  $P - 13 = \frac{1}{3}Q_s + 29$  that is

$$P = \frac{1}{3}Q_s + 42$$

The remaining calculations proceed as before. In equilibrium,  $Q_d = Q_s$ . Again setting this common value to be  $Q$  gives

$$P = -4Q + 120$$

$$P = \frac{1}{3}Q + 42$$

Hence

$$-4Q + 120 = \frac{1}{3}Q + 42$$

which can be solved as before to give  $Q = 18$ . Substitution into either of the above equations gives  $P = 48$ .

## SOLUTION FIVE

(a)

- i. Par value, also known as face value or principle value, is how much the bond holder will receive at maturity.
- ii. Coupon is the interest rate the bond pays
- iii. A zero coupon bond is a bond that pays on coupons.

(b) The formula for calculating the yield is given by

$$\begin{aligned} R &= M \left[ \left( \frac{V_t}{V_0} \right)^{\frac{1}{n}} - 1 \right] \\ &= 1 \left[ \left( \frac{100}{55} \right)^{\frac{1}{6}} - 1 \right] \\ &= 10.48\% \end{aligned}$$

(c) The present value of Mr. Chanda's investment would be calculated as follows:

$$\begin{aligned} P_0 &= \frac{D_1}{(1+r)^1} + \frac{D_2}{(1+r)^2} + \frac{D_3}{(1+r)^3} \\ &= \frac{1.48}{(1+0.12)^1} + \frac{1.80}{(1+0.12)^2} + \frac{26.00}{(1+0.12)^3} \\ &= \frac{1.48}{(1.12)^1} + \frac{1.80}{(1.12)^2} + \frac{26.00}{(1.12)^3} \\ &= 1.32 + 1.43 + 20.73 \\ &= K23.48 \end{aligned}$$

(d)  $\lambda = 5$

$$\begin{aligned} \text{i. } P(X=x) &= \frac{e^{-\lambda} \lambda^x}{x!} \\ P(X=0) &= \frac{e^{-5} 5^0}{0!} = 0.0067 \end{aligned}$$

$$\begin{aligned}\text{ii. } P(X = x) &= \frac{e^{-\lambda} \lambda^x}{x!} \\ P(X = 4) &= \frac{e^{-5} 5^4}{4!} = 0.1755\end{aligned}$$

$$\begin{aligned}\text{iii. } P(X \leq 2) &= P(X = 0) + P(X = 1) + P(X = 2) \\ &= 0.0067 + \frac{e^{-5} 5^1}{1!} + \frac{e^{-5} 5^2}{2!} \\ &= 0.0067 + 0.0337 + 0.0842 \\ &= 0.1246\end{aligned}$$

$$\begin{aligned}\text{iv. } P(X \geq 3) &= 1 - P(X < 3) \\ &= 1 - [P(X = 0) + P(X = 1) + P(X = 2)] \\ &= 1 - 0.1246 \\ &= 0.8754\end{aligned}$$

**END OF SOLUTIONS**





TAXATION PROGRAMME EXAMINATIONS

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CERTIFICATE LEVEL

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C3: ACCOUNTANCY FOR TAX PRACTITIONERS

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MONDAY 22 JUNE 2020

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

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**INSTRUCTIONS TO CANDIDATES**

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question. You will be told when to start writing.
2. This question paper consists of 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).
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**Attempt all five (5) questions in this paper.**

**QUESTION ONE**

Mr B. Chali has been trading for some years as a wine trader. The following trial balance has been extracted from his accounting records as at 31 December 2019, the end of the most recent financial year.

B. Chali's Trial balance at 31 December 2019

	DR K	CR K
Capital		167,774
Drawings	36,880	
Sales		519,740
Administration expenses	185,540	
Cash at bank	9,948	
Trade payables		39,680
Trade receivables	49,000	
Returns outwards		26,814
Allowance for irrecoverable receivables		1,024
Discount received		3,500
Purchases	271,360	
Returns inwards	11,248	
Carriage inwards	23,660	
Inventory as at 1 January 2019	31,308	
Fixture and fitting at cost	241,480	
Allowance for depreciation as at 31 December, 2019		126,040
Depreciation expenses	24,148	
	884,572	884,572

The following additional information as at 31 December 2019 is available:

- (i) Inventory at the close of business was value at K35,500
- (ii) Administration expenses have been prepaid by K10,390
- (iii) The allowance for irrecoverable is to be adjusted so that it is 5% of trade receivables and this is to be charged to administration expenses

**Required:**

- (a) Prepare Mr. B. Chali's statement of profit or loss for the year ended 31 December, 2019. (8 marks)
- (b) Prepare Mr. B Chali's statement of financial position as at 31 December 2019. (6 marks)
- (c) Define the following accounting concept.
  - (i) Business entity concept (2 marks)
  - (ii) Money measurement concept (2 marks)
  - (iii) The dual aspect concept (2 marks)

**[Total: 20 Marks]**

## **QUESTION TWO**

The following statement of financial position has been prepared by your client Mr. Kaminsa, proprietor of the Kaminsa cars second-hand car dealership. Statement of financial position as at 31 December, 2019.

	DR K	CR K
<b>Non-current assets</b>		
Freehold land, at valuation		100,000
Offices		10,000
Breakdown truck		<u>50,000</u>
		160,000
<b>Current assets</b>		
Inventory	230,000	
Receivables and payments	35,000	
Cash hand	<u>1,000</u>	<u>266,000</u>
<b>Total assets</b>		<u>426,000</u>
Capital and liabilities		
Capital		<u>155,000</u>
Capital introduced		235,000
Less Drawings		<u>(110,000)</u>
		280,000
<b>Current liabilities</b>		
Payables and accruals	82,000	
Bank overdraft	64,000	<u>(146,000)</u>
<b>Total liabilities</b>		<u>426,000</u>

### **Additional information**

- (i) This was the first year of trading for Kaminsa cars. He acquired a field previously used as rubbish pit for K50,000 on 1 January 2019 and erected a portable cabin on the site to be used as an office at a cost of K5,000. He then bought 10 second hand cars from a national dealership for K100,000. He has some knowledge of accounts and has taken a lot of care in producing the statement of financial position but. No profit or loss statement has been prepared.

### **The following points have been discovered:**

- (ii) The office was bought at a 50% trade discount from a friend but Kaminsa has been included at full price. The office will last for 5 years and will be depreciated using the straight line method after which the office will be worthless.
- (iii) Land was offered for K100, 000 but was negotiated down to half the original price, a 50% trade discount being offered.
- (iv) The break down truck is very old and was bought at the start of the year. It has been shown at cost although it is probably only going to last another year and will have no residual value.

- (v) Inventory has all been valued at cost although there is good chance that one car will sell at a loss of K5,000. Another was sold in January 2020 on credit for K30,000. The car remains uncollected at 31 December 2019. The profit was sold at a profit of K15,000 and remained in the books of Kaminsa on 31 December 2019. Kaminsa did not include the receivable in the statement of financial position.
- (vi) A customer who owed K20, 000 has moved away from the address she gave Mr. Kaminsa and he thinks that this debt might not be recovered.
- (vii) Apart from the above items, you establish that the cash, bank overdraft and drawings figures are correct. Further, you also discover that there has been no adjustment made in relation to an electricity bill of K2, 500 and a telephone bill of K1,500. The reason for this is that Kaminsa is owed rentals of K4,000 by his tenants.

**Required:**

- (a) Give a description of each adjustments made and why each of them is necessary using a journal entries. (10 marks)
- (b) Prepare a revised statement of financial position after taking into account all the above items. (10 marks)

**[Total: 20 Marks]**

**QUESTION THREE**

Chonto Co tests the correctness of its trade receivables and payables ledgers by preparing monthly control accounts. At 1 September 2018 the following balances existed in the company's accounting records, and the control accounts agreed.

	DR	CR
	K	K
Trade receivables ledger balances	941,800	10,700
Trade payables ledgers balance	600	447,050

The following are the totals of transactions which took place during September 2018.

	K
Sales returns	45,800
Purchase returns	21,400
Credit sales	506,300
Credit purchases	342,100
Cash paid to suppliers	359,200
Cash received from customers	456,350
Discount allowed	7,150
discount received	4,400
Irrecoverable debts written off	2,300
Refunds to customers	1,500
Contra settlements	2,400

At 30 September 2018 the balances in the trade receivables and trade payables ledgers as follows:

	DR K	CR K
Trade receivables ledger balances		13,400
Trade payables ledger balances	450	

An initial attempt to balance the two ledgers showed that neither of them agreed with their control accounts. The differences were found to be due to the following:

- (i) A credit balance of K3,400 has been omitted when using the trade receivables ledger balances.
- (ii) A contra settlement of K2,500 had not been included in the totals of transactions prepared for the control accounts.
- (iii) A new employee had mistakenly entered five sales invoices into the purchases day book. The total of these sales invoices was K6,800.
- (iv) A K100 cash refund to a customer was made out of petty cash, and has not been included in the transactions above. The K100 was entered to the trade receivables ledger as if it had been a cash receipt from the customer, and this resulted in a K40 credit balance on the account, which was still outstanding at 30 September 2018.

When these errors had been corrected both control account agreed with the ledgers.

**Required:**

- (a) Prepare the trade receivables ledger at 30 September 2018 (12 marks)
- (b) Prepare the trade payables ledger at 30 September 2018 (8 marks)

**[Total: 20 Marks]**

**QUESTION FOUR**

JW Ltd prepares its financial statements to 31 December each year. On 31 December 2019 its trial balance was as follows:

	DR K	CR K
Ordinary shares of K1 each		200,000
Share premium		30,000
Retained earnings balance at 01.01.2019		68,000
Plant and machinery at cost	250,000	
Allowance for depreciation at 01.01.2019		56,000
Office Equipment at cost	87,600	
Allowance for depreciation at 01.01.2019		30,000
Inventory at 01.01.2019	62,000	
Purchases	232,400	
Sales		376,000
Returns outwards		12,000
Returns inwards	16,000	
Selling expenses	36,000	

Administrative expenses	84,000	
Trade receivables	70,000	
Allowance for receivables at 01.01.2019		8,000
Cash at bank	800	
Bank charges	2,000	
Payables		60,800
	<hr/>	<hr/>
	840,800	840,800
	<hr/>	<hr/>

The following additional information at 31 December, 2019 is available:

- (i) Closing inventory of goods for resale amount to K106,000
- (ii) Administrative expenses are prepaid by K6,000
- (iii) Irrecoverable receivable to be written off amount to K6,000
- (iv) Allowance for irrecoverable receivables should be 10% of trade receivables
- (v) Depreciation of non-current assets is to be calculated as follows:
  - Plant and Machinery 10% on cost.
  - Office equipment 33.33% on the reducing balance at the end of the year.
  - An accrual of K2,000 for income tax is required.

**Required:**

(a) Prepare JW Statement of Profit or Loss for the year ended 31 December, 2019.

(9 marks)

(b) Prepare JW Statement of Financial Position at 31 December 2019.

(11 marks)

**[Total: 20 Marks]**



## SUGGESTED SOLUTIONS

### SOLUTION ONE

#### (A) B CHALI'S STATEMENTS OF PROFIT OR LOSS FOR THE ENDED 31 DECEMBER, 2019.

	K	K
Sales (519,740 – 11,248)		508,492
Opening inventory	31,308	
Purchases (271,360 + 23,660 – 26,814)	268,206	
Closing inventory	299,514 (35,500)	(264,014)
Gross Profit		244,478
Other Income - Discount Received		3,500
		247,978
Less: Administration Expenses ( 185,540 + 1426 – 10390)	176,576	
Depreciation Expenses	24,148	200,724
Net profit		47,254

### B. CHALI'S

#### STATEMENT OF FINACIAL POSITION AS 31 DECEMBER, 2019

	K	K
<b>Non-current asset</b>		
Fixture and fittings (241,480 – 126,040)		115,440
<b>Current asset</b>		
Inventory	35,500	
Trade receivables (49,000 –2,450)	46,550	
Cash at bank (1,068 + 8,880)	9,948	
Prepaid administration expenses	10,390	102,388
Total assets		217,828
<b>Financed by</b>		
Capital		
Net profit	47,254	167,774
Less Drawings	(36,880)	
<b>Current liability</b>		10,374
Trade payables		17,848
		39,680
Total capital and liabilities		217,828



(c) (i) Business entity concept

This concept states that a business has a completely separate entity from that of its owner (s). In case of Limited companies this distinction is recognized by law, a limited company is recognized legal personality which, in its own name, can buy and sell goods, have liability and sue and be sued.

(ii) Money measurement concept

Accounting is only concerned with those facts that can be measured in monetary terms with a fair degree of objectivity. The means of recording quantitative information is by translating it into the common language of money.

(iii) **The Dual Aspect Concept**

The Dual aspect concept rule is a recognition that every transaction involves a giving and receiving effects. The double entry method of book keeping reflects this aspect and hence it is a very convenient method of keeping books of account.

## SOLUTION TWO

(a) (i) Office overvalued	: Net profit	5,000.00	
	Office		5000.00
(ii) Office Depreciation	: Net profit	1,000.00	
	Dep'n office		1,000.00
(iii) Land overvalued	: Net profit	50,000.00	
	Land		50,000.00
(i) Depreciation truck	: Net profit	25,000.00	
	Truck		25,000.00
(ii) Car overvalued	: Net profit	5,000.00	
	Inventory		5,000.00
(iii) Irrecoverable debt	: Net profit	20,000.00	
	Receivables		20,000.00
(iv) Accruals	: Net profit	4,000.00	
	Accruals		4,000.00
(v) Prepayments	: Prepayments	4,000.00	
	Net profit		4,000.00
(vi) Car overvalued	: Net profit	15,000.00	
	Inventory		15,000.00

### (b) Kaminsa cars statement financed position as at 31 December, 2018.

	K Cost	K Dep'n	K NBV
<b>Non-current assets</b>			
Land	50,000.00	-	50,000.00
Offices	5,000.00	(1,000.00)	4,000.00
Trucks	50,000.00	(25,000.00)	<u>25,000.00</u>
			79,000.00
<b>Current assets.</b>			
Inventory		210,000.00	
Receivables and prepayments		19,000.00	
Cash		<u>1,000.00</u>	
			<u>230,000.00</u>
			<u>309,000.00</u>
<b>Net assets</b>			
Capital			
Opening capital (w1)		155,000.00	
Add net profit (w2)		114,000.00	
		269,000.00	
Less: Drawing		<u>(110,000.00)</u>	
<b>Current liabilities</b>			
			159,000.00
<b>Current liabilities:</b>			
Payable and accruals		86,000.00	<u>150,000.00</u>
Bank overdraft		<u>64,000.00</u>	<u>309,000.00</u>

Workings  
W1

Opening capital

Land 50,000.00  
Cars 100,000.00

Offices 5,000.00  
155,000.00

(25,000.00)

(20,000.00)

(50,000.00)

W2

Profit

Net profit 235,000.00  
Office (5000.00)

Dep'n office (1000.00)

Dep'n truck

Inventory (5,000.00)

Receivables

Accruals (4,000.00)

Prepayments 4,000.00

Inventory (15,000)

Land

114,000.00

Dr

Cr

**SOLUTION THREE**

**Trade receivables control A/C**

2018	K	2018	K
1 Sep Balance b/f	941,800.00	1 Sep Balance b/f	
30 Sep Sales (w1)	513,100.00	10,700.00	
Cash refunds	1,500.00	30 Sales returns	45,800.00
Petty cash refunds	100.00	Cash received	456,350.00
Balance c/d (w2)	<u>16,600.00</u>	Cash discounts	7,150.00
		Irrecoverable debt written off	2,300.00
		Contras	4,900.00
		Balance c/d	<u>945,900.00</u>
			<u>1,473,100.00</u>
		1 Oct balance b/f	16,600.00
<u>1,473,100.00</u>			
1 Oct Balance b/f			
945,900.00			

**Trade payable control A/C**

2018	K	2018	K
1 Sep balance b/f		1 Sep Balance	447,050.00
600.00		30 Sep purchase (w3)	335,300.00
30 Sep Purchase returns		Balance c/d	450.00
21,400.00			
Cash			
359,200.00			
Cash discount			
4,400.00			
Contras			
4,900.00			
Balance c/d			
<u>392,300.00</u>			
<u>782,800.00</u>			
1 Oct balance b/f		1 Oct b/f	<u>782,800.00</u>
450.00			392,300.00

## SOLUTION FOUR

### D LTD'S

Statement of Profit Loss for the year ended 31 December, 2019

	K	K
Sales (376000 – 16000)		360,000
Costing of sale: Opening inventory	62,000	
Purchases (232,400 – 12,000)	220,400	
	282,400	
Closing inventory	(106,000)	
∴ cost of sale		(176,400)
Gross profit		183,600
Add decrease in allowance for receivable (8,000 – 6,400)		1,600
		185,200
	7,8000	
Less: Administration expenses (84,000 – 6,000)	6,000	
Irrecoverable receivables	36,000	
Selling expenses		
Allowance for Depreciation on:-	25,000	
Plant and machinery	19,200	
Office equipment	2,000	
Finance costs – (bank charges)		166,200
Profit before tax		19,000
Tax		(2,000)
Profit for the year		17,000

### (B) D LTD'S

#### STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER, 2019

<u>Non-current Asset</u>	COST	ACCUM'D DEP	N B V
	K	K	K
Plant and machinery	250,000	81,000	169,000
Office Equipment	87,600	49,200	38,400
			207,400
<u>Current Assets</u>			
Inventory		106,000	
Trade Receivables (70,000 – 6,000 – 6,400)		57,600	
Prepaid Administration Expenses		6000	
Bank		800	
			170400
			377,800

Total assets			
<b><u>Equity and liabilities</u></b>		200,000	
Equity shares of K1 each		30,000	
Shares premium		85,000	315,000
Retained Earnings (68,000 + 17,000)			
<u>Current liability</u>			60,800
Trade payables			2,000
Income tax			
			377,800
Total Capital and liabilities			

## SOLUTION FIVE

### DAKA AND SILILO'S STATEMENT OF PROFIT OR LOSS AND APPROPRIATION SECTION ACCOUNT FOR THE YEAR ENDED 31 DECEMBER, 2019

	K	K
Sales		360,800
Opening inventory	76,820	
	273,360	
	350,180	
Closing inventory	(82,624)	
		(267,556)
		93,244
Less: Salaries	54,800	
Office expenses (4260 + 480)	4,740	
Discount allowed	624	
Depreciation on		
➤ Office equipments		
3680	14,380	74,544
➤ Motor vehicles		
10700		18,700
Net Profit		
Add Back Interest on Drawings	600	
Daka	400	1,000
Sililo		19,700
	5,000	
Less Interest on Capitals: Daka	2,000	(7,000)
Sililo		12,700
	8,890	
Share of profit : Daka 70% x 12700	3,810	(12,700)
Sililo 30% x 12700		-

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#### Current Account

	Daka	Sililo		Daka	Sililo
	K	K		K	K
Drawings	35,000	32,000	Balances b/f	14,764	14,018
Interest on Drawings	600	400	Interest on capital	5,000	2,000
			Share of Residual Profit	8,890	3,810
			Balances c/d	6,946	12,572
	35600	32400		35,600	32,400

**DAKA AND SILILO**  
**STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER, 2019**

	K	K
<b>Non-current Assets</b>		
Motor vehicles (42,800 – 36,300)		6,500
Office Equipment (18400 – 10,880)		7,520
		14,020
<b><u>Current assets:</u></b>		
Inventory	82,624	
Trade receivables	83,880	
Bank	4,870	
Total Asset		17,1374
		185,394
<b><u>Financed by:</u></b>		
Capitals – Daka	100,000	
Sililo	40,000	140,000
Current accounts note : Daka	6,946	
Sililo	12,572	(19,518)
		120,482
<b><u>Current Liabilities</u></b>		
Trade Payable	64,432	
Accrued office express	480	
		64,912
		185,394

**END OF SOLUTIONS**





TAXATION PROGRAMME EXAMINATIONS

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CERTIFICATE LEVEL

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C4: DIRECT TAXES

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TUESDAY 23 JUNE 2020

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

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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.

**DO NOT OPEN THIS QUESTION PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR.**

## Taxation table

### Income Tax

#### Standard personal income tax rates

<b>Income band</b>	<b>Taxable amount</b>	<b>Rate</b>
K1 to K39,600	first K39,600	0%
K39,601 to 49,200	next K9,600	25%
K49,201 to K74,400	next K25,200	30%
Over K74,400		37.5%

#### Income from farming for individuals

K1 to K39,600	first K39,600	0%
Over K39,600		10%

#### Company Income Tax rates

On income from manufacturing and other	35%
On income from farming	10%
On income of Banks and other Financial Institutions	35%
On income from mineral processing	30%
On income from mining operations	30%

### Mineral Royalty

#### Mineral Royalty on Copper

<b>Range of Norm Price</b>	<b>Mineral Royalty Rate</b>
Less than US\$4,500	5.5% of norm value
From US\$4,500 to less than US\$6,000	6.5% of norm value
From US\$6,000 to less than US\$7,500	7.5% of norm value
From US\$7,500 to less than US\$9,000	8.5% of norm value
From US\$9,000 and above	10% of norm value

#### Mineral Royalty on other minerals

<b>Type of mineral</b>	<b>Mineral Royalty Rate</b>
Base Metals (Other than Copper, Cobalt and Vanadium)	5% on norm value
Cobalt and Vanadium	8% of norm value
Energy and Industrial Minerals	5% on gross value
Gemstones	6% on gross value
Precious Metals	6% on norm value

### Capital Allowances

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

Wear and Tear Allowance –	Plant used normally	25%
	Used in Manufacturing and Leasing	50%
	Used in farming and agro-processing	100%

**Non- commercial vehicles**

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

**Industrial Buildings:**

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

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

Wear and Tear Allowance	10%
Initial Allowance	10%

**Commercial Buildings**

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

**Farming Allowances**

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

**Presumptive Taxes**

<b>Turnover Tax</b>	4%
---------------------	----

**Presumptive Tax for Transporters**

<b>Seating capacity</b>	<b>Tax per annum</b>	<b>Tax per day</b>
	K	K
From 64 passengers and over	10,800	29.60
From 50 to 63 passengers	9,000	24.70
From 36 to 49 passengers	7,200	19.70
From 22 to 35 passengers	5,400	14.80
From 18 to 21 passengers	3,600	10
From 12 to 17 passengers	1,800	5.0
Less than 12 passengers and taxis	900	2.50

**Property Transfer Tax**

Rate of Tax on Realised Value of Land, Land and Buildings and shares	5%
Rate of Tax on Realised Value on a transfer or sale of a mining right	10%
Rate of Tax on Realised Value on a transfer of Intellectual Property	5%

**Attempt ALL FIVE (5) questions.**

**QUESTION ONE**

Patel Phiri was engaged as an Economist in ZAMFOOT Consulting, a Zambian resident company. He decided to go on an early retirement on 31 December 2020, due to his ill health. His condition of service was as follows:

Annual salary	K450,000
Transport	15% of basic salary
School children allowance	10% of basic salary

He was accommodated in a company owned house for which he was not paying any rent. If the house was leased to any other person, the company could have been charging monthly rentals of K8,500. The company maintains the house and a total of K21,000 utility expenses was paid in respect of the house occupied by Patel Phiri up to the date of his retirement.

On labour day, Patel Phiri was paid a labour day award in recognition of his excellent performance.

The award comprised the following:

	K
Cash	6,500
Gas stove	<u>4,500</u>
	<u>11,000</u>

In recognition of his long service, the company paid Patel a long service award comprising cash of K25,000 and a laptop worth K8,000.

On retirement he was paid the following:

	K
Leave pay	40,000
Compensation for loss of office	68,500
Severance pay	65,000
Pension	370,000

During the tax year 2020, Patel Phiri received the following income:

Bank interest	65,000
Dividends from AB Plc a Zambian resident company	9,500
Royalties	27,625
Management consulting fees	32,300

Patel Phiri incurred the following expenses during the tax year 2020 as follows:

Mortgage interest	3,500
Subscription to Economic Association of Zambia	5,200
PAYE	121,290
School fees for the children	53,000
Medical insurance premiums	6,700

The management consulting fees relate to a six months' contract offered to Patel Phiri by ZAMFOOT Consulting as an external consultant. The Finance Director has told the Human Resources Director that it is likely that the Zambia Revenue Authority (ZRA) may still regard Patel Phiri as an employee of ZAMFOOT Consulting.

**Required:**

- (a) Explain the tests that are used by Zambia Revenue Authority (ZRA) to distinguish between an employee and self-employed for tax purposes. (5 marks)
- (b) Calculate the income tax payable by Patel Phiri for Tax year 2020. (11 marks)
- (c) Determine the treatment of income of a tax payer who dies in a particular tax year. (4 marks)

**[Total: 20 marks]**

**QUESTION TWO**

Zambia's economy is currently undergoing a recession and the Government of the Republic of Zambia has embarked on a vigorous program to raise revenue. One of the ways of raising Government revenue is through aggressive implementation of taxation laws and regulations.

**Required:**

- (a) Explain sources of revenue for the Central Government apart from taxation. (8 marks)
- (b) Turnover tax is a tax charged on businesses whose annual turnover does not exceed K800,000.

**Required:**

- (i) State any two (2) persons who are not required to pay turnover tax in Zambia. (2 marks)
- (ii) Explain problems associated with turnover tax from tax payers' point of view. (4 marks)
- (c) Tubombe Ltd, a Zambia Company dealing in Supply and General dealership, expects its turnover for the year ending 31 December 2020 to be K450,000. The turnover will be earned evenly throughout the year.

**Required:**

- (i) Calculate the monthly amount of turnover tax payable by Tubombe Ltd. (2 marks)
- (ii) State the Penalty for late payment of turnover tax. (1 mark)
- (d) Explain the circumstances under which an individual is held to be resident and ordinarily resident in Zambia for income tax purposes. (3 marks)

**[Total: 20 Marks]**

**QUESTION THREE**

Kanyama Ranga Limited is a manufacturing company which prepares accounts to 31 December each year. The company's summarised results for the year to 31 December 2020 are presented below:

Gross Profit	K	K
		4, 320,000
Income from investments:		
Dividends (gross)	251,000	
Fixed deposit interest (gross)	<u>89,000</u>	
		<u>340,000</u>
		4,660,000
Expenses:		
Depreciation	20,000	
Legal and accountancy fees	Note 1 710,000	
Entertainment expenses	Note 2 139,000	
General operating expenses	Note 3 <u>1,850,000</u>	
		<u>2,719,000</u>
Profit before taxation		<u>1,941,000</u>

**NOTES: 1.**

**Legal and accountancy fees were in relation to the following:**

	K
Compensation paid for wrongful dismissal of employees	278,500
Fees for audit and taxation services	387,000
Legal fees in connection with acquisition of land	25,000
Fees in connection with recovery of loan from former employees	<u>19,500</u>
	<u>710,000</u>

**Note 2: Entertainment expenses**

These were in relation to the following:

	K
Gifts to customers of food and drinks costing K50 each	31,000
Entertaining suppliers	17,400
Entertainment expenditure for company's employees	<u>90,600</u>
	<u>139,000</u>

**Note 3: General operating expenses**

These were in relation to the following:

	K
Salaries and wages	690,000
Penalty for late payment of provisional income tax	22,000
Trade debts written off	103,000
Loans to former employees written off	85,000
Sundry allowable expenses	<u>950,000</u>
	<u>1,850,000</u>

**Note 4: Buildings, implements plant and equipment**

The company acquired a second hand factory building during the tax year 2020, which was brought into use on 1 June 2020. The cost of the building was made up of the following items:

	K
Land	286,000
Staff welfare building	610,000
Factory	850,000
Administration offices	<u>400,000</u>
Total cost	<u>2,146,000</u>

The income tax value and costs of assets qualifying for capital allowances at 1 January 2020 were as follows:

	Income Tax Value	Original Cost
	K	K
Nissan Navara van	82,500	165,000

Toyota Camry car	24,000	120,000
Manufacturing equipment	325,000	650,000

The Toyota Camry car which has a cylinder capacity of 3000cc was sold during the year for K50,000 and was replaced by a Toyota Prado car which was acquired at a cost of K180,000 and has a cylinder capacity of 3000cc. Both cars were used by the Managing Directors on personal to holder basis. Private use by the Managing Director in each car in the tax year 2020 was agreed at 55%.

#### **Note 5- Provisional income tax**

The provisional company income tax paid by the company during the year was K412,000.

#### **Required:**

- (a) Calculate the maximum amount of capital allowances claimable by Kanyama Ranga Limited in respect of the tax year 2020. (9 marks)
- (b) Calculate the final tax adjusted business profit for Kanyama Ranga Limited. You should start with the profit before taxation figure of K1,941,000. (7 marks)
- (c) Calculate the income tax payable by Kanyama Ranga Limited for the tax year 2020. (4 marks)

**[Total: 20 Marks]**

#### **QUESTION FOUR**

- (a) Property Transfer Tax (PTT) is charged whenever a property is transferred. A number of documents must be submitted to the Zambia Revenue Authority (ZRA) when paying PTT. However, a few exemptions from PTT exist.
  - (i) State three (3) documents required on transfer of shares. (3 marks)
  - (ii) Describe three (3) situations in which exemptions from PTT would apply. (3 marks)
  - (iii) Explain the tax treatment of chattels in property transfer tax. (3 marks)
- (b) Explain the functions of the two (2) operational divisions of the Zambia Revenue Authority (ZRA). (3 marks)

(3 marks)

- (c) In Zambia, taxes can be classified as direct taxes, indirect taxes, capital taxes, revenue taxes, regressive taxes and proportional taxes.

#### **Required:**

Briefly explain each of the following categories of taxes:



- (i) Proportional taxes (1 mark)
  - (ii) Capital taxes (3 marks)
- (d) The basis of assessment is the set of rules for establishing the year in which profits of a particular accounting period are subjected to tax. In Zambia, the tax year runs from 1 January to 31 December. This is a charge year for which income shall be liable to tax. However for business purposes, financial statements may be prepared to any date depending on the convenience to the businessman which gives rise to the need to establish the year in which the profits will be subjected to tax.

Mr. Evans Imasiku is a trader who prepares accounts to 31 March each year and the following are his recent tax adjusted trading profits:

	K
Year ended 31 March 2020	89,300
Year ended 31 March 2021 (Forecast)	64, 200

**Required**

Show the income tax assessments for all the relevant tax years, clearly identifying the basis periods.

(4 marks)

**[Total: 20 Marks]**

**QUESTION FIVE**

- (a) Jacob Shula, a sole trader had tax adjusted business profits of K329,000 before taking into account the following income and expenses in the tax year 2020:

	K
Subscriptions to trade journals	7,500
Rent paid (gross)	52,000
Royalties received (net)	17,000
Debenture interest received (gross)	30,000
Management consultant fees (gross)	6,100
Donations to an approved public benefit organization	9,000
Capital allowances	70,000
Building society interest paid on a mortgage	4,100

**Required:**

Calculate the final income tax payable or refundable by Jacob Shula for the tax year 2020.

(10 marks)

- (b) Your name is Meya Nsunge and you have just acquired two vehicles, a four passenger seater taxi and a sixteen seater mini bus. All the two (2) vehicles will be used for a transportation business starting on 1 January 2020.

**Required:**

- (i) Calculate the presumptive taxes to be paid in respect of the two vehicles to be provided for public transportation for the month of December 2020, provided that the vehicles were used for 24 days and 18 days respectively. (2 marks)
- (ii) Explain any four (4) reasons why the Government of the Republic of Zambia introduced Presumptive Taxes for transporters. (8 marks)

**[Total: 20 Marks]**

**END OF PAPER**

## SUGGESTED SOLUTIONS

### SOLUTION ONE

- (a) In order to determine whether an individual is an employee or a self-employed person, the Zambia Revenue Authority will normally apply the following of tests:

#### **Type of contract**

If there is a contract of service, it will indicate the existence of relationship of master and servant. A contract for services will indicate the existence of self-employment.

#### **Work performance**

Employees must perform the duties assigned to them themselves while the self-employed may hire other people to perform the work for them.

#### **Control**

The work of an employee is controlled by the employer who will normally stipulate working hours, how the work is to be performed and other such conditions.

#### **Payment and financial risk**

Employees are paid an agreed salary on monthly or weekly basis and incur no form of financial risk. In order to earn an extra sum employees will have to work overtime. Self-employed persons are normally paid a proportion of the contract price based on the amount work performed, they will also bear the full financial risk of management of their affairs.

#### **Place of work**

Employees will normally be told where the duties are to be performed from. This is normally at the employer's premises. Self-employed persons will perform duties at a place of their choice.

#### **Tools and equipment**

An employer will provide the tools and equipment which the employees are to use. Self-employed persons will provide their own tools and equipment.

#### **Engagement and dismissal**

The employer will take on and dismiss employees. A self-employed person will normally enter in to a contract with a client specifying the beginning and end.

### (b) Patel Phiri income tax payable for Tax year 2020

	K	K
<b>Earned income:</b>		
Salary		450,000
Transport allowance (K450,000 x 15%)		67,500
School allowance (K450,000 x 10%)		45,000
Long service award		25,000
Leave pay		40,000
<b>Investment income:</b>		
Royalties (K27,625 x 100/85)		32,500

Mgt consulting fees (32,300 x 100/85)	<u>38,000</u>
	698,000

Less allowable expenses:

Subscription to EAZ	<u>(5,200)</u>
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Taxable income	<u>692,800</u>
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Taxable income

First 39,600 x 0%	NIL
Next K9,600 x 25%	2,400
Next K25,200 x 30%	7,560
Balance K618,400 x 37.5%	<u>231,900</u>
	241,860

Less:

PAYE	(121,290)
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WHT on Royalties (K32,500 x 15%)	(4,875)
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WHT on Mgt consulting fees (K38,000 x 15%)	<u>(5,700)</u>
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Income tax payable	<u>109,995</u>
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(c) Treatment of income of a taxpayer who dies in a particular tax year

- The final salary and leave pay are taxable under the normal PAYE system at the time they are paid to employee
- Any gratuity is exempt
- Ex-gratia payments are exempt from income tax
- If in the year of death is the year when deceased employee was eligible for retirement, the payments are taxable as per PAYE

## **SOLUTION TWO**

(a) Sources of government Revenue are:

- Privatization of state owned enterprises

This is the process of transferring state owned enterprises to the private sector. Huge amounts of revenue can be raised where there is state owned enterprises to sell. Once all the state owned enterprises are sold, it would mean there would be no source of revenue for the Government. Privatization cannot be relied upon as the sole source of revenue for the Government.

- Borrowing from the international financial institutions

The government can borrow from the International Monetary Fund, the World Bank and the International Bank for Reconstruction and Development (IBRD) to finance certain projects only. Funds borrowed from these institutions will normally have conditions attached to them and in addition, the monies have to be serviced at high interest rates. The government may not have the monies to repay these amounts borrowed when they fall due. As such it is not possible to rely on borrowing from the international financial institutions for the purpose of meeting recurring public expenditure.

- Through issuance of government securities/domestic

Instead of borrowing from international financial institutions, the Government can borrow from the local market through the issuance of government bonds and treasury bills.

This method is costly as it leads to high interest rates and normally causes inflation. The Government can use this as a means of raising short term finance for a specific purpose.

- Donor funding

Various Donor Agencies have been set up to provide funding to poor countries. However, these Donors provide funds for clearly defined projects and cannot provide the funds for the Government to meet all the recurring expenditure. In addition Donors can only be able to provide the funds if the funds are available.

(b)

i) Persons not required to pay Turnover tax:

- Any person whose annual turnover is more than K800,000.
- Any person whose annual turnover is less than K800,000 but has registered voluntarily for Value Added Tax (VAT).
- Any person carrying on the mining operations in the Republic of Zambia.
- Any partnership irrespective of whether or not the turnover is more than K800,000.

- Any person whose income constitutes income generated from partnership or partnership profits.
- ii) Problems associated with Turnover Tax
- Turnover tax is paid irrespective of whether a profit is made or not.
  - Expenses are not taken into account when calculating the taxable income.
  - No capital allowances are claimed on assets used wholly and exclusively for business purposes.
  - There is no carrying forward of losses by a person under turnover tax.

(c)

i) Monthly turnover

$$K450,000 \times 1/12 = K37,500$$

$$K37,500 \times 4\% = K1,500 \text{ Monthly turnover due (2 marks)}$$

ii) Penalty for late submission

The penalty for late submission is 500 penalty units (K150) per month or part of the month thereof.

(d)

An individual is held to be resident if:

- He or she is physically present in Zambia for a period of not less than one hundred and eighty-three days (183 days) in a tax year.
- Individuals who come to Zambia with intention of remaining here for more than 12 months are deemed to be resident and ordinarily resident in Zambia from the date of arrival.
- Individuals may be resident in Zambia for only one tax year if they do not show any intentions of remaining here for a relatively long period of time.



(b) KANYAMA Ranga Limited

COMPUTATION OF TAX ADJUSTED BUSINESS PROFIT FOR THE TAX YEAR 2020

	K	K
Profit before taxation		1,941,000
Add		
Depreciation	20,000	
Legal Fees in connection with land purchase	25,000	
Legal fees-recovery of former employee loans	19,500	
Gifts to customers	31,000	
Entertaining suppliers	17,400	
Penalty for late payment of provisional tax	22,000	
Loans to employees written off	85,000	
Personal to holder motor car benefit	<u>40,000</u>	
		<u>259,900</u>
		2, 200,900
Less		
Dividends	251,000	
Fixed deposit Interest	89,000	
Capital allowances	457, 250	
	<hr/>	<hr/>
		<u>(797,250)</u>
		<hr/>
		1,403,650

**(1/2 mark for each correct entry to a maximum of 7 marks)**

(c) KANYAMA Ranga Limited

INCOME TAX COMPUTATION FOR THE TAX YEAR 2020

	K
Taxable business profit	1,403, 650
Fixed deposit interest	<u>89,000</u>



Taxable profit	<u>1,492,650</u>
Company income tax (35% x K1,492, 650)	522,427.50
Less:	
Provisional income tax	(412,000)
WHT on fixed deposit interest (K89,000 x 15%)	<u>(13,350)</u>
 Company income tax payable	 <u>97, 077.50</u>

## **SOLUTION FOUR**

### (a) (i) Three documents required on transfer of shares

- Share transfer form 27
- Latest financial statements of the company in which the shares are held;
- Shareholders' resolutions.

### (ii) Exemptions from PTT

- The transactions as a result of the sale or other disposal of any stock or share listed on the **Lusaka Securities Exchange (LuSE)**.
- Contribution towards the equity for a company. The Commissioner General may treat a transfer of property by a shareholder of a company incorporated under the Companies Act, if such transfer is his contribution towards the equity of that company as qualifying for exemption.
- A transfer is not liable to PTT if it is occasioned by death of the transferor to a member of the immediate family.

### (ii) Tax treatment of chattels

For the purposes of PTT, there are specific categories of assets that qualify as property. They are all immovable property, which means that PTT does not apply on the transfer of chattels.

Chattels are tangible movable property. Most implements, plant and machinery are chattels. Whether the chattels are used in a business and capital allowances have been claimed on them does not change the position.

### (b) Functions of two operating divisions

For the purpose of administering taxes, ZRA is divided into two operating divisions with each division handling a specific component of tax. One division manages and administers domestic taxes and is known as the Domestic Taxes division while the other division manages and administers Import duties and is known as the Customs Services.

### (c) (i) Proportional taxes

These are taxes where the percentage of income paid in taxation always stays the same. The average rate of taxation is constant irrespective of the level of income.

### (ii) Capital taxes

These are taxes on capital receipts. A capital receipt is an amount of receipt resulting from a disposal of a capital item. Examples of capital taxes are capital

gains tax and property transfer Tax. There is no capital gains tax in Zambia. The only capital tax in Zambia is therefore property transfer tax.

(d) Evans Imasiku Assessments:

Tax year	Basis period	Taxable profit
		K
2019	Y/e 31.3.2020	89,300
2020	Y/e 31.3.2021	64,200

**SOLUTION FIVE**

(a) JACOB SHULA  
COMPUTATION OF INCOME TAX PAYABLE FOR TAX YEAR 2020

	K	K
Tax adjusted business profits		329, 000
LESS CAPITAL ALLOWANCES		<u>70,000</u>
		259,000
ADD:		
INVESTMENT INCOMES		
GROSS ROYALTIES (17,000 X 100/85)	20,000	
GROSS MGT CONS FEES	<u>6,100</u>	
		<b><u>26,100</u></b>
GROSS INCOME		285,100
LESS:		
ALLOWABLE DEDUCTIONS		
Donations to an approved public benefit organization	9,000	
Subscriptions	<u>7,500</u>	
		<u>(16,500)</u>
TAXABLE INCOME		<b><u>268, 600</u></b>

TAX COMPUTATION:

Taxable Amount	Tax Rate	Tax Amount
268,600		
<u>(39,600)</u>	0%	NIL
229,000		
<u>(9,600)</u>	25%	2,400
219,400		
<u>(25,200)</u>	30%	7,560
194,200	37.5%	<u>72,825</u>
		82,785

LESS:

WHT Royalties	3,000	
WHT Management	<u>915</u>	
Fees		<u>(3,915)</u>
PAYEE		<b><u>78,870</u></b>

(b) (i) Presumptive taxes:

-			
-	4 seater	(24 x 2.50)	60
-	Sixteen seater	(18 X 5.00)	<u>90</u>
-	TOTAL		<u>150</u>

(ii) Reasons why the Government of the Republic of Zambia introduced presumptive taxes:

**Complicated tax procedures:**

Most transporters find it difficult to remember and comply with all their obligations under the Income Tax Act due to factors such as:

**Low levels of tax literacy**

A good number of the operators know very little about tax and some of them say they are not literate enough to understand taxation or prepare business and accounting records.

**High cost of engaging professional accountants to prepare accounts and handle tax matters:**

Whereas professional accounting firms are readily available to handle all financial and tax matters of business entities, most taxi and minibus operators feel they cannot afford the high fees charged by these consultants. They therefore decide to avoid the costs by not engaging the professional accountants to handle their accounting and taxation matters.

**Liquidity problems**

Many taxi and minibus operators have expressed difficulty in settling the assessed tax, or provisional taxes that they are asked to pay, because the amounts appear to be large and they are not able to maintain bank savings as the daily cash takings are quickly disbursed to meet numerous expenses. Many taxi and minibus operators do not naturally look forward to growing their businesses. They use the takings to survive on and not grow the businesses.

**Constant breakdowns**

Another common complaint from operators is that their vehicles are down for a large proportion of the year and therefore, they disagree with the amounts assessed on them, especially where they did not send returns and accounts to ZRA.

**END OF SOLUTIONS**





TAXATION PROGRAMME EXAMINATIONS

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CERTIFICATE LEVEL

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C5: INDIRECT TAXES

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THURSDAY 25 JUNE 2020

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

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**INSTRUCTIONS TO CANDIDATES**

1. You have fifteen (15) minutes reading time. Use this time to carefully study the examination paper so that you understand what to do in each question.
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 in 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 page 2,3 and 4.

**DO NOT OPEN THIS QUESTION PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR.**

## Taxation table for paper C5– Indirect Taxes (June and December 2020 Examinations)

### Value Added Tax

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

### Customs and Excise Customs and Excise duties on used motor vehicles

<b>Motor vehicles for the transport of ten or more persons, including the driver</b>	<b>Aged 2 to 5 years</b>		<b>Aged over 5 years</b>	
	<b>Customs duty K</b>	<b>Excise duty K</b>	<b>Customs duty K</b>	<b>Excise duty K</b>
Sitting capacity of 10 but not exceeding 14 persons including the driver	17,778	22,223	8,889	11,112
Sitting capacity exceeding 14 but not exceeding 32 persons	38,924	0	13,840	0
Sitting capacity of 33 but not exceeding 44 persons	86,497	0	19,462	0
Sitting capacity exceeding 44 persons	108,121	0	43,248	0
<b>Motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars</b>	<b>Aged 2 to 5 years</b>		<b>Aged over 5 years</b>	
	<b>Customs duty K</b>	<b>Excise duty K</b>	<b>Customs duty K</b>	<b>Excise duty K</b>
<b>Sedans</b>				
cylinder capacity not exceeding 1000 cc	12,490	10,824	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	16,058	13,917	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	16,545	21,508	8,423	10,950
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	10,528	13,687
Cylinder capacity exceeding 3000 cc	22,561	29,329	12,032	15,642
<b>Hatchbacks</b>				
cylinder capacity not exceeding 1000 cc	10,705	9,278	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	14,274	12,371	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	15,041	19,553	8,423	10,950
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	16,545	21,508	10,523	13,687
Cylinder capacity exceeding 3000 cc	19,553	25,419	12,032	15,642



**Station wagons**

cylinder capacity not exceeding 2500 cc	16,545	21,508	9,024	11,731
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	13,357	17,598
Cylinder capacity exceeding 3000 cc but not exceeding 2500 cc	22,561	29,329	18,049	23,463

**SUVs**

Cylinder capacity not exceeding 2500 cc	21,057	27,374	9,024	11,732
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	24,065	31,284	13,357	17,598
Cylinder capacity exceeding 3000 cc	28,577	37,150	18,049	23,463

**Aged 2 to 5 years****Aged over 5 years****Motor vehicles for the transport of goods –with compression-ignition internal combustion piston engine (diesel or semi-diesel):**

<b>Customs duty</b>	<b>Excise duty</b>	<b>Customs duty</b>	<b>Excise duty</b>
<b>K</b>	<b>K</b>	<b>K</b>	<b>K</b>

**Single cab**

GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	21,926	9,501	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	26,311	11,402	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	30,697	13,302	17,541	7,601
Double cabs GVW exceeding 3 tonnes but not exceeding 5 tonnes	30,274	0	24,119	10,452
Double cabs GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes, <b>with spark ignition internal combustion piston engine</b>	30,697	13,302	24,119	10,452

**Panel Vans**

GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	15,348	6,651	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	17,541	7,601	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	21,926	9,501	17,541	7,601

**Trucks**

GVW up to 2 tonnes	21,926	9,501	10,963	4,751
GVW exceeding 2.0 tonnes but not exceeding 5.0 tonnes	28,504	12,352	13,156	5,701
GVW exceeding 5.0 tonnes but not exceeding 10.0 tonnes	24,724	18,955	10,817	8,293
GVW exceeding 10.0 tonnes but not exceeding 20.0 tonnes	30,905	23,694	11,744	9,004
GVW exceeding 20 tonnes	51,898	0	19,461	0

GVW exceeding 20 tonnes, <b>with spark ignition internal combustion engine</b>	37,086	28,432	13,907	10,662
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### **Customs and excise duty on new vehicles**

- |   |   |     |
|---|---|-----|
| 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:   | 30% |
|   | 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 tonnes:  |     |
|   | 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 is K6,000.

Import VAT is added to the sum of VDP, customs duty and excise duty. It is determined at the standard rate of 16%

**Attempt all FIVE (5) Questions.**

**QUESTION ONE**

- (a) The tax point is an important aspect in establishing when VAT becomes payable to ZRA. It is the time when taxable supplies are made.

**Required:**

State how the tax point is determined for the supply of goods or services. (3 marks)

- (b) Explain six (6) steps to be followed in claiming the bad debt relief for the debts not collected arising from the insolvency of the customer. (6 marks)
- (c) State four (4) taxable agricultural supplies which are zero rated for VAT, by giving examples. (4 marks)
- (d) Explain the VAT consideration in the banking and financial services and state any three banking services that are standard rated. (4 marks)
- (e) Explain how the taxable value for VAT is determined in the construction industry. (3 marks)

**[Total: 20 Marks]**

**QUESTION TWO**

Penga Ujane Limited is a Zambian company that distributes raw materials to other manufacturing companies. The company is registered for Value Added Tax and for the month of March 2020, the company produced the following management accounts:

	K	K
Sales		85,000
Less cost of sales:		
Opening inventory	3,000	
Purchases	<u>31,000</u>	
	34,000	
Less closing inventory	<u>(1,300)</u>	
		<u>32,700</u>
Gross profit		52,300
Less expenses:		
Depreciation	2,500	
Bad debts written off	4,700	
General expenses	<u>24,600</u>	
		<u>(31,800)</u>
Net profit		<u>20,500</u>

The following additional information is also relevant:

- (1) 10% as a proportion of total sales are zero-rated supplies.
- (2) 20% of the standard rated sales were made to customers who are not registered for Value Added Tax purposes.
- (3) Purchases include exempt supplies whose value is K10,500. The remainder of the purchases is all standard rated for Value Added Tax purposes.
- (4) 50% of the standard rated purchases were from suppliers who were not registered for VAT.
- (5) The bad debts were written off on 31 March 2020 consist of two invoices of K2,350 each in respect of which payment was due on 1 September 2018 and on 31 December 2018.

- (6) The figure for general expenses is inclusive of Value Added Tax (VAT) and is made up of:

Entertaining suppliers who are VAT registered	K16,000
Telephone bills	K5,775
Diesel	K2,825

- (7) On 1 March 2020, the company purchased machinery at a cost of K20,500 and a motor car at a cost of K28,500. Both these figures are inclusive of VAT. The motor car is used for both business and private motoring.

**Unless otherwise stated, all the above figures are VAT exclusive.**

**Required:**

- (a) Calculate the amount of VAT payable by Penga Ujane Limited for the month of March 2020. (10 marks)
- (b) Explain any three (3) responsibilities of the Customs Services Division. (3 marks)
- (c) State seven (7) obligations of a VAT registered supplier. (7 marks)

**[Total: 20 Marks]**

### **QUESTION THREE**

Polepole Transport Limited operates a fleet of buses on almost all the routes in the country. In the recent past the company has experienced a shortage of buses for the Lusaka /Mongu route. And during the recent management meeting it was resolved that new buses should be acquired to meet the growing demand.

The company imported a brand new 65 seater coach from Japan in February 2020 at a cost of \$12,500. The company paid insurance of \$1,500 and freight of \$4,200. Other incidental costs paid by the company were \$1,800.

The coach arrived at Livingstone border post on 14 March 2020 and all import taxes were paid by the company on that date. The Commissioner General provided an exchange rate of K10.40 per US Dollar. There was no other foreign exchange rate available at the time.

#### **Required:**

- (a) Calculate the import taxes that were paid by Polepole Transport Limited on the importation of the coach. (8 marks)
- (b) Explain four (4) methods other than the transaction value used to determine the Value for Duty Purposes (VDP). (8 marks)
- (c) State eight (8) commercial documents prescribed by legislation to validate any transaction with the Customs Services Division. (4 marks)

**[Total: 20 Marks]**

### **QUESTION FOUR**

- (a) Cash accounting scheme is a scheme under which VAT is accounted for on a cash received and cash paid basis.

#### **Required:**

Explain the advantages and disadvantages of the cash accounting scheme.

(5 marks)

- (b) In relation to Value Added Tax, explain what is meant by each of the following
  - (i) Tax Invoice. (2 marks)
  - (ii) Registration. (2 marks)
  - (iii) De-registration. (2 marks)
- (c) The Zambia Revenue Authority has an internal review mechanism. Briefly explain the purpose of such a review. (2 marks)

(d) A tax point is the time when a supply is deemed to have taken place.

**Required:**

(i) Explain the importance of establishing the tax point.

(2marks)

(ii) Explain the circumstances under which the basic tax point can be changed.

(2 marks)

(e) Explain the main differences between making exempt supplies and making zero-rated Supplies.

(3 marks)

**[Total: 20 Marks]**

**QUESTION FIVE**

(a) Zambia is a member of COMESA and SADC and has benefited from some of the Treaties which provide that goods shall be eligible for preferential tariff treatment if they originate in Member states. And goods shall be accepted as originating in a Member State if they are consigned directly from another Member State and comply with one of the origin conferring criteria.

**Required:**

Explain five (5) conferring criteria for goods to be accepted as originating in a member state.

(10 marks)

(b) Zambia is also a member of the Preferential Trade Area (PTA) whose main objective is to promote cooperation and integration covering all areas of economic activity, particularly trade and customs, industry, transport and communications, agriculture and monetary affairs.

**Required:**

Explain five (5) components of an organisational structure of the Preferential Trade Area (PTA).

(10 marks)

**[Total: 20 Marks]**

**END OF PAPER**

## **SUGGESTED SOLUTIONS**

### **SOLUTION ONE**

- (a) The tax point is the time when taxable supplies are made. It is important to establish when a taxable supply is made because that is the point at which the tax becomes payable to ZRA, hence it is called the tax point.

For goods

It is the earlier of:

- i. The time when the are removed from the supplier's premises or made available to the purchaser to whom they are supplier or
- ii. The time when a payment is received or
- iii. The time when a tax invoice is issued

For services

It is the earliest of:

- i. The time when a payment is received or
- ii. The time when a tax invoice is issued or
- iii. The time when services are actually rendered or performed

- (b) Steps to be followed in claiming the Bad Debt Relief are as follows:

- i. The supplier must make a claim from the Administrator/Receiver/Liquidator for VAT inclusive amount that he is owed by the insolvent debtor.
- ii. Obtain a written statement from the Administrator/Receiver/Liquidator to the effect that the debtor is insolvent and that he cannot pay the debt.
- iii. Claim a credit for the amount of VAT remitted in respect of the bad debt by adding the bad debt to the input tax incurred on domestic purchase in the appropriate box of the VAT return.
- iv. ZRA has to be satisfied that claims to Bad Debt Relief are correct, suppliers claiming Bad Debts Relief should retain copy of the tax invoice issued to the debtor in connection with the supply that later became a bad debt.
- v. Evidence that the VAT being claimed as bad debt relief had been remitted to ZRA.
- vi. Copies of correspondences referred to above

- (c) Agricultural products

- i. Fresh edible vegetables, fruits, nuts, soya beans, millet, cassava, sorghum, including flours produced from them; other cereals etc.
- ii. Animal product; Meat and offal of cattle, swine, sheep, goat, game farm animal, and poultry
- iii. Milk- milk, except powdered milk and any milk in cans or tins or when supplied by a restaurant, cafeteria, canteen or like establishment.

- iv. Fish- uncooked, frozen or dried fish, except shellfish, ornamental fish or any fish supplied by a restaurant, cafeteria, and canteen or like establishment.
- v. Agricultural supplies; Seeds and plants for producing agricultural products, fertilizers, insecticides, stock feeds, flower seed etc.
- vi. Infant cereals – when prepared and labeled as such.

(d) ZRA's efforts to broaden the tax base have brought some banking services under the VAT scope. Consequently, fee-based banking services became standard rated with effective from 1 January 2011.

The following are some of the standard rated services in the banking sector:

- i. Commissions on drafts and transfers.
- ii. Commission of foreign drafts and transfers.
- iii. Commission on certified vouchers, managers/bank cheque.
- iv. Standing orders.
- v. Commission on status enquiry.
- vi. Excess withdrawal fees.
- vii. Commission on invoices discounted.
- viii. Stop payments.
- ix. Own acceptances.
- x. Cable charges.
- xi. Commissions on lost connect cards.

(e) In the construction industry certificates of work done on the project are issued according to the frequency stipulated in the contract. The certificates indicate the percentage of completed work. VAT is based on the certified value of the portion of work completed at each stage.



## SOLUTION TWO

### PENGA UJANE

(a) **COMPUTATION OF VAT PAYABLE FOR THE MONTH OF MARCH 2020**

	K	K
<b>OUTPUT VAT</b>		
Standard rated sales (85,000 x 90% x 16%)		12,240
Zero rated sales (85,000 x 10% x 0%)		<u>-</u>
		12,240
<b>INPUT VAT</b>		
Purchases (31,000 – 10,500) x 50% x 16%	1,640	
Bad debts written off (2,350 x 16%)	376	
Diesel (2,825 x 4/29) x 90%	351	
Machinery (20,500 x 4/29)	<u>2,828</u>	
		<u>(5,195)</u>
<b>VAT PAYABLE</b>		<u>7,045</u>

(b)

1. Revenue collection through taxes: They collect revenue for the central government of Zambia as taxes such as customs duty, fuel levy, VAT, excise duty and so on.
2. Prevention of smuggling of goods which presents unfair competition in the market
3. Protection of the environment from harmful products by restricting importation of such goods
4. Provision of trade data and statistics to assist government with planning.

(c)

- The following are obligations of a VAT registered supplier:
- i. Notify ZRA when the business starts or circumstances change
  - ii. Display the VAT registration certificate
  - iii. Charge VAT on taxable supplies
  - iv. Complete and submit returns by the due date which is specified by ZRA and pay VAT promptly by the due date
  - v. The VAT returns should be completed accurately and honestly and provide tax invoices
  - vi. Maintain sufficient records for at least 6 years
  - vii. Cooperate with ZRA officers
  - viii. Provide information to ZRA officers

### SOLUTION THREE

(a) Importation of Coach bus

		\$
Cost		12,500
Insurance		1,500
Shipping costs		4,200
Incidental costs		<u>1,800</u>
CIF		20,000
VDP (20,000 X K10.40)		208,000
	Value	Tax paid
	K	K
VDP	208,000	
Customs duty @ 15%	<u>31,200</u>	31,200
	239,200	
Excise duty @ 0%	<u>-</u>	-
	239,200	
Import VAT @ 16%	<u>38,272</u>	38,272
	<u>277,472</u>	
Total import taxes paid		<u>69,472</u>

(b) The following are the methods used to determine the value for duty purposes other than the transaction value method:

#### **Transaction value of identical goods**

Where the Customs Value cannot be determined using the transaction value, customs value of the goods shall be the transaction value of identical goods imported by another importer into Zambia from the same source, including insurance, freight and other incidental costs.

#### **Transaction value of similar goods**

Where in the opinion of the Commissioner General the customs value of imported goods cannot be determined, the customs value of the goods shall be the transaction value of similar goods imported into Zambia from the same source, including insurance, freight and other incidental goods.

#### **Deductive value**

This is the price at which identical or similar goods are sold in their quantity in Zambia.

### **Computed value**

This is the price based on cost of production, insurance, freight and other costs incurred in the delivery of the goods to Zambia.

### **Residual basis of value (fall-back)**

This is the price arrived at by going through the above five methods flexibly.

(c) The following are the official commercial documents:

- i. Commercial invoices
- ii. Contracts
- iii. Bills of lading
- iv. Airways bills
- v. Manifest or consignment notes
- vi. Correspondence
- vii. Statement of account or of final accounts
- viii. Letters of credit or documentary credit

## **SOLUTION FOUR**

(a) The following are the advantages and disadvantages:

### Advantages of cash accounting scheme

- i. VAT is only payable if the customers have made payments.
- ii. It is easy to prepare the VAT return as the cash book can be used to do so.
- iii. Bad debt relief occurs automatically since no VAT is payable if the customers have not made payments.

### Disadvantages of cash accounting

- i. Input VAT cannot be reclaimed until payment has been made to suppliers. This means that input VAT credit will be delayed if payments are not made early enough to the suppliers.
- ii. The scheme is not open to all kinds of traders and therefore small scale traders in sectors of ABCEC cannot benefit.

(b) The following is the explanation of the terms:

- i. Tax Invoice is an invoice for VAT purposes that shows details that are relevant for VAT purposes. It is needed in order to support the VAT claims.
- ii. Registration for VAT is the process under which a trader is permitted to charge VAT on sales made and recover any recoverable input VAT on purchases and expenses.
- iii. Deregistration is the cancellation of VAT registration. It can occur in a number of situations, including where a trader no longer deals in taxable supplies or the turnover dropped permanently to less than K800,000 per annum.

(c) The ZRA Internal Review is a ZRA internal organ/ mechanism to review decisions or tax assessments made by VAT officers. The matters which cannot be resolved internally can be lodged with the Tax Appeals Tribunal within a 30-day period.

(d) Tax point

- (i) Tax point is important because:
  - i. It helps determine the tax period when output VAT and input VAT should be accounted for.
  - ii. It helps determine the VAT scheme or rate to use when accounting for output VAT or claiming input VAT.

(ii) The tax point can be changed under the following circumstances:

- i. The tax invoice is issued before the basic tax point, then the tax point will be the time when the tax invoice is issued.
- ii. The tax invoice is issued within fourteen days from the date when the goods were made available or services rendered to the customer.

- (e) The following are the differences between exempt and zero-rated supplies:
1. The person making zero-rated is a taxable person for VAT purposes whilst the person making exempt supplies is not a taxable person.
  2. The person making zero-rated supplies may be permitted to register for VAT whilst the person making exempt supplies may not be permitted to register for VAT.
  3. The person making zero-rated supplies can claim input VAT on expenses and purchases as long as the VAT is recoverable whilst the person making exempt supplies cannot claim input VAT.

## **SOLUTION FIVE**

- (a) Goods are accepted to have originated from Member States when they meet the following five (5) origin of conferring criteria:
- i. Goods wholly produced in a Member State (i.e no raw materials from outside the Regions have been used in their manufacture.
  - ii. Goods produced in a Member State and the CIF value of any foreign materials used does not exceed 60% of the total cost of all materials used in the production.
  - iii. Goods produced in Member States whose value added resulting from the process of production accounts for at least 35% of the ex- factory cost of the goods.
  - iv. Goods produced in a Member State designated in a list by the Council to be of particular importance to the economic development of the Member State and containing not less than 25% value added notwithstanding the provision in (iii) above.
  - v. Goods satisfying the charge of tariff heading resulting from their process of manufacture where some raw materials are imported.
- (b) The components of the Organisational Structure of PTA is:

### **The Authority**

The Authority consisting of heads of state and government is the supreme policy organ of the PTA. The decisions and directions of the Authority were by consensus and are based on recommendations of the Council of Ministers.

### **Council of ministers**

the Ministers, preferably of trade and industry and designated by Member states, sit on council. The council is responsible for ensuring that the PTA functions in accordance with the Treaty. It keeps PTA's activities under constant review in order to advise the Authority on matters of policy and gives directions to all the other subordinated institutions of the PTA.

### **Technical committees and subcommittees**

There are technical committees for each economic sector forming the activities of the PTA. The technical committees have authority to appoint subcommittees which report to them.

### **The PTA tribunal**

The Tribunal is the judicial organ of the PTA and it ensures proper interpretation and application of the provision of the Treaty. It adjudicates any disputes that may arise among Member States relating to the interpretation and application of the Treaty.

### **The Committee of Central Bank Governors**

The committee of Central Bank Governors determines the maximum debit and credit limits in relation to the Clearing House and House and the daily interest rate for outstanding debit balance.

### **The Secretariat**

The head of the Secretariat is the Secretary General of the PTA. The Secretariat administers, undertakes research and implements the decisions of the Authority and the Council of Ministers. It assists all institutions of the PTA in carrying out their functions

**END OF SOLUTIONS**



TAXATION PROGRAMME EXAMINATIONS

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CERTIFICATE LEVEL

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C6: LAW FOR TAX PRACTITIONERS

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FRIDAY 26 JUNE 2020

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

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**INSTRUCTIONS TO CANDIDATES**

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question. You will be told when to start writing.
2. This question paper consists of 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.

**DO NOT OPEN THIS QUESTION PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR.**



**Attempt all FIVE (5) questions.**

**QUESTION ONE**

- (a) Distinguish Tort Law from Criminal Law. (4 marks)
- (b) State two (2) objectives of the law of tort. (2 marks)
- (c) Makisu is a chief executive officer of Bwana Farms Ltd. The farm grows and processes tomato and green pepper. The past five years have been disastrous to the farming business due to poor market price of tomatoes among other things. The losses incurred in the past five (5) years have forced shareholders to pass a resolution to sell off the farm and the buyers have just been found. Makisu prepared the financial statements which showed that the company was 'increasingly profitable every year', and based on this statement, Toyi Tomato Ltd bought Bwana Farms Ltd.

After growing and selling the produce for three (3) seasons, Toyi Tomato Ltd have suffered huge losses and have realized Makisu, Chief Executive Officer of Bwana Farms Ltd, then, gave false information when selling the farm.

Toyi Tomato Ltd have come to you, saying 'Makisu owed them a duty of care and he breached that duty'.

**Required:**

Explain to them the three (3) conditions that must be met to prove duty of care in this case. (6 marks)

- (d) An insurance contract is that of Utmost Good Faith '*uberrimae fidei*' and the insured is not allowed to make a profit. In view of the above, explain;
- (i) Utmost good faith (4 marks)
- (ii) 'Your understanding of the concept that the insured must not make a profit out of insurance'. (4 marks)

**[Total: 20 Marks]**

**QUESTION TWO**

- (a) Mr. Michael has been doing business as a shoe dealer for the past five years. He owns stores in Chilenje, Kabwata, Kamwala and City Market. The type of business that he runs is known as a sole trader's business. In the past few months, Mr. Michael has come to the realization that he needs to expand his business, by either registering a company or a partnership.

**Required:**

Advise him on the following issues:

- (i) Describe the steps that Mr. Michael should take to register a company. (5 marks)
- (ii) Distinguish a partnership business from a sole trader's business. (6 marks)
- (b) State any four (4) ways through which a partnership may be dissolved. (4 marks)
- (c) Identify the contents of a Statement of affairs and Deficiency account. (5 marks)

**[Total: 20 Marks]**

**QUESTION THREE**

- (a) Define a hire-purchase agreement? (3 marks)
- (b) Explain who the parties in a hire-purchase agreement are. (3 marks)
- (c) Give the meanings of the following contractual terms:
  - (i) Offer (2 marks)
  - (ii) Acceptance (2 marks)
  - (iii) Consideration (2 marks)
  - (iv) Intention to create legal relations (2 marks)
  - (v) Invitation to treat (2 marks)
- (d) Under banking law define:
  - (i) Negotiation (2 marks)
  - (ii) Endorsement (2 marks)

**[Total: 20 Marks]**

**QUESTION FOUR**

Explain each of the following:

- (i) 'Consideration must move from the promisee' (4 marks)
- (ii) Privity of contract (4 marks)
- (iii) Wrongful dismissal (4 marks)

(iv) Collective agreement (4 marks)

(v) Receivership (4 marks)

**[Total: 20 Marks]**

**QUESTION FIVE**

(a) Describe the legislative process in Zambia. (12 marks)

(b) State two (2) duties of a buyer under a contract of sale (4 marks)

(c) Identify and explain the main types of industrial actions. (4 marks)

**[Total: 20 Marks]**

**END OF PAPER**

## SUGGESTED SOLUTIONS

### SOLUTION ONE

(a) The distinction between Tort Law and Criminal Law is:

Criminal Law is a branch of law that deals with wrongs against the public/State the sanction of which involves punishment. A crime is between the criminal and the State. Whilst Tort Law is a civil wrong, and normally between individuals, whose remedy is compensation.

(b) Objectives of the Law of Tort:

- Appeasement – e.g. appeasement of the injured party
- Justice – e.g. retribution of the wrong doer and compensation of the victim.
- Deterrence – e.g. to stop people from doing wrong by ensuring that wrong doers pay for their wrongs.
- Compensation and loss distribution.

(c) Three conditions that must be met to prove duty of care:

- *The harm to the claimant must have been foreseeable* – In this case, Makisu should have foreseen the consequences of his falsified accounts.
- *There must be a 'proximity of relationship' between the claimant and the defendant* – The false information from Makisu should be the direct cause of the injury which the buyer of the farm suffered.
- *It must be just and reasonable for the court to impose a duty of care* – It could be reasonable for the court to impose the duty of care to Makisu because as a professional a higher duty of care is required of her.

(d) (i) *Utmost Good Faith* – This means it is a contract “uberrimae fidei” or utmost good faith where the parties must disclose all material information relating to a contract before it is made. Failure to disclose the other party will be discharged from the contractual obligations. The parties owe each other a mutual duty of utmost good faith to disclose all material facts affecting the contract.

(ii) *The insured must not make a profit out of insurance* – This means that when the insured enters into an insurance contract, he does so to be compensated back to his original position before the loss occurred. He must not make any

profit out of insurance and in an event that he did, he should account it back to the insurer (pay it back to the insurer).

## **SOLUTION TWO**

(a) There are a number of steps that an individual needs to follow to register a company. The following is the procedure for incorporating a company in Zambia:

- The Companies' Act Cap 388, Section 6 provides that any two or more persons associated for any purpose may form an incorporated company by lodging the application with the Registrar of Companies.
- Such an application has to be submitted together with the articles of association which forms the constitution of the company.

The other requirements necessary for the application for incorporation and to be lodged together with the registrar are:

- A statutory declaration as to the compliance with the Act made by a legal practitioner with a licence or the named first director or secretary of the company.
- A signed consent from each of the first directors or secretary.
- A registration fee is paid, the application is processed and a certificate of incorporation is issued.

(b) There are several differences between a partnership and a sole trader's business, the following are the differences:

- A sole trader's business is owned and run by one person; while a partnership is owned by two or more people.
- In a sole trader's business, the profits are retained by the owner, while in a partnership, the profits are to be shared among the partners.
- In a partnership there is joint and several liability for debts while in a sole trader's business the owner of the business is personally liable for the debts.
- A partnership has co-decision making while a sole trader makes all the decisions by himself.
- A general partnership provides for up to 20 members while this is not the case with a sole trader.

(c) A partnership may be dissolved in the following ways:

- By fulfilment of the objective
- Effluxion of time
- Death of a partner
- Where there is a fundamental breach of the partnership agreement
- Bankruptcy of a partner

- By a court order
- (d) The contents of the statement of affairs and deficiency account are:
- (i) Assets, debts and liabilities
  - (ii) Names and addresses of creditors
  - (iii) Securities held by each of the creditors
  - (iv) Dates on which the securities were given
  - (v) Any other information as requested by the Liquidator

### **SOLUTION THREE**

- (a) A hire-purchase agreement is an agreement formed between the buyer and a finance company, where the buyer obtains the immediate use of the goods but is not the true owner of the goods until all instalments are paid in full to the finance company.
- (b) The parties to a hire purchase agreement are the finance company; the dealer and the hirer or buyer.
- (c) i. An offer is a definite promise to be bound on certain specific terms.  
ii. Acceptance is the expression of willingness to be bound by the terms of an offer.  
iii. Consideration is a right, interest or benefit to one party or a loss or detriment suffered by another.  
iv. Intention to create legal relations is the willingness of the parties to have their agreement backed by legal consequences.  
v. An invitation to treat is an invitation for offers.
- (d)i. Negotiation is the transfer of a cheque or other bill of exchange to the transferee and to make that person the holder of it.  
ii. Endorsement is the legal transfer of title of a document by signature.



## **SOLUTION FOUR**

- (i) *Consideration must move from the promisee* - This means that the promisee (one who was promised) is the only person who can enforce the promise if they themselves, and not a third party provided consideration.
  
- (ii) *Privity of Contract* – This legal principle means that only a party to a contract can sue and be sued upon it. Third parties do not acquire rights or obligations, but acquire such rights in exceptional situations to mitigate the harsh outcomes of a harsh rule.
  
- (iii) *Wrongful Dismissal* – This is a kind of dismissal from employment without following the laid down procedure. This kind of dismissal does not include the reason for dismissal. An action for wrongful dismissal is a common law action for compensation to the ex-employee for losses suffered for wrongful termination of the contract of employment.
  
- (iv) *Collective Agreement* – This is a voluntary agreement negotiated voluntarily between employers or associations of employers and employees or associations of or representing employees in which are laid down the conditions of employment and remuneration for employees. Collective agreements can be incorporated into the employment contracts either expressly or impliedly.
  
- (v) *Receivership* – receivership is a process of realizing the company assets which are a subject of a floating charge and selling them so that its creditors are paid off. The process is arrived where a company fails to pay its debts and a Receiver is appointed to oversee the company until it is able to make profit and pay off its debts.

## SOLUTION FIVE

The following is the legislative process in Zambia:

- (a) **First reading**-the bill is presented to inform the members that the bill exists. The person responsible introduces the bill which at this stage does not require debate.

**Second reading**-the member in charge explains the purpose and there is a debate limited to purpose. The bill needs 2/3 to go to the next stage.

**Committee stage**-the bill is examined in detail. Each clause debated and may be amended. Scrutiny is done the standing committee which is normally selected to consider the suggested amendments to proceed to correct the content.

**Report stage**-the bill is formally reported to the house by the chairman of the committee; this highlights the second reading suggested amendments to ensure that they have been effected for consideration at third reading.

**Third reading**-the bill is reviewed in its final form. Debate is confined to minor amendments only and does not seek to alter the principles of the bill.

**Presidential assent**-after passing all the stages the bill goes for presidential assent. This means it is authorised and signed by the president who has the constitutional power to withhold his assent. Immediately the assent is given, the bill becomes law-a statute.

- (b) Accept the goods and make payments .

- (c) The examples of industrial actions are:

**Strike**-a strike is a complete, but temporary withdrawal of labour from the work place.

**Go-slow** this is an action by the employees whereby they do not completely withdraw from labour. The work force will carry out their duties, but with lapses resulting in delays and disruption to the employer's business and bans on the fulfilment of certain duties.

**Lock out** this is the closing down of a place of employment or the suspension of work, or the refusal by an employer to continue to employ any number of

persons employed by him as a result of a dispute and done with the view of compelling persons or to aid another employer in compelling those persons or to aid him, to accept terms or conditions affecting employment.

**Work-to-Rule**-this is where the work force observes the letter of the employer's rule book or procedure, rather than the spirit thus leading to the disruption of the employer's business.

**END OF SOLUTIONS**



TAXATION PROGRAMME EXAMINATIONS

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DIPLOMA LEVEL

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D1: BUSINESS INFORMATION MANAGEMENT

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WEDNESDAY 24 JUNE 2020

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

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**INSTRUCTIONS TO CANDIDATES**

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question. You will be told when to start writing.
2. This question paper consists of **FOUR (4)** questions of Twenty Five (25) marks each.  
You must attempt all the **FOUR (4)** questions.
3. Enter your Student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. 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.

**DO NOT OPEN THIS QUESTION PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR.**

**Attempt all FOUR (4) questions**

**QUESTION ONE**

Information Technology is a critical ingredient to business success as it drives the day to day business operations.

**Required:**

- (a) Discuss the assumption above using the headings below:
  - (i) Global economies. (5 marks)
  - (ii) Organisational strategies and planning. (5 marks)
  - (iii) Change Management. (5 marks)
  - (iv) Flexibility and structure of workflows. (5 marks)
  
- (b) List any five (5) benefits of e- commerce. (5 marks)

**[Total: 25 Marks]**

**QUESTION TWO**

Computerised Accounting Information Systems are being developed in most organisations, as such, careful evaluation and selection of software and hardware is essential.

**Required:**

- (a) Prepare a check-list containing any six (6) factors for management to consider before selecting software. (12 marks)
- (b) Prepare another check-list containing any four (4) factors for management to consider when selecting suitable hardware. (8 marks)
- (c) Write detailed notes on having a disaster recovery plan. (5 marks)

**[Total: 25 Marks]**

**QUESTION THREE**

- (a) A knowledge base is generally considered as a database.

**Required:**

Briefly describe any four (4) opportunities that a knowledge base provides to an organisation. (8 marks)

- (b) Controls could be classified as *Application* controls, which include both automated and manual procedures and *Administrative* controls, which include physical, personnel and back-up facilities.

**Required:**

- (i) Mention any two (2) Application controls. (2 marks)
- (ii) Discuss in detail physical and personal controls. (10 marks)

- (c) Discuss what is meant by "back-up arrangements." (5 marks)

**[Total: 25 Marks]**

**QUESTION FOUR**

- (a) What is the business value that is driving so many companies to install and extend intranets rapidly throughout their organisations? You need to outline at least five (5) reasons. (10 marks)
- (b) Give any three (3) business benefits and any two (2) management challenges of client server networks. (10 marks)
- (c) List, without explaining, any three (3) benefits of the internet and any two (2) drawbacks of using the internet. (5 marks)

**[Total: 25 Marks]**

**END OF PAPER**

## **SUGGESTED SOLUTIONS**

### **SOLUTION ONE**

Impact of IT on today's business and strategy:

#### **a) Global Economies**

Information Technology has created market pressure where there is strong competition among sellers and buyers. Global economies have been facilitated by advanced telecommunication systems networks, especially the advent of the internet. This is eminent in technologies such as e-commerce. In e-commerce, the buyer can be subjected to several choices among the many goods and services offered. Sellers and manufacturers of products can use the latest technologies to bring innovation to products and differentiate them for the liking of customers. There are also technologies which networks have created which enable manufacturers to sell goods and services on-line such as just-in-time. This technology minimizes inventory levels and maintenance and improves production scheduling to reduce costs and promote efficient workflows.

#### **b) Organizational Strategies and Planning**

Information Technology enables Organizations use strategies for competitive advantage, for example, continuous improvements in the production process such as business process re-engineering, business alliances, customer-focused approach business and mass customization. Total Quality management is another effort businesses to day utilize due to IT influence. Data monitoring, collection, summarization, analysis and reporting are improved, including inspection and testing. IT has also improved the decision-making process in organizations due to the readily availability of information, this includes planning.

#### **c) Management and Change**

Information Technology has created an environment which is rapidly changing therefore there is need for organizations to respond by restructuring and changing operations. There is need for retraining employees regarding the latest technologies and new services they have brought. The vertical structure which was dominant in olden days is no longer working. IT encourages a flat organizational structure where employees are responsible of their own activities in the organization. There is also an aspect of the lifespan on products which has been drastically reduced. A new product introduced today will no longer sell and appeal to customers tomorrow.

d) **Flexibility and Structure of Workflows**

Information Technology has changed today's workforce including workflows. This has become more diversified to include multinationals. There is also the aspect of flexibility; organizational structures are encouraged to fit into business processes. The major goal is to encourage creation of teams where each team is responsible for a complete business process. This is more eminent in a net-worked structure. This reduces the span of authority to promote a flat organizational structure, in these structures group work collaboration is also promoted.

e) Benefits of e-commerce

- It enables an individual/business to reach a global market.
- It caters for both local and international demand.
- Can operate 24 hours a day, 7 days a week.
- Gives an opportunity for customers to select from a wide variety.
- Shopping online is mostly convenient and time saving.
- It reduces the burden of infrastructure to conduct business.



## SOLUTION TWO

- a) Six (6) factors to select software

A check-list may include the following to be considered:

**Functionality:** Are all functionality features been included to meet requirements of the application?

**Cost:** Can the organization meet the cost of acquiring or developing the software. This can be weighed against benefits of using the software.

**Maintenance:** How is the cost of maintenance going to be met? Is the software maintenance-free?

**Supplier profile:** Examine the profile or background of supplier of software. Is the software from a renowned supplier, with notable success stories?

**Integration with other systems:** How flexible is the software to be integrated with other systems?

**Security features:** Are there any security features in the software? Are there any debugging facilities?

- b) Four(4) factors to select suitable hardware

A check-list may include the following:

**Model of hardware:** Is the model popular and who is the manufacturer of the model?

**Processing power including storage capacity:** Processing speed can also be considered including size of Hard Disk and RAM.

**Cost of meeting budget:** Can the cost of hardware be met by the organization?

**Ease of maintenance:** Is maintenance readily available, including upgrading the system?

## **SOLUTION THREE**

- a) A knowledge base is a database containing knowledge about the organization knowhow. The following opportunities can be provided by knowledge base to the organization:

**Knowledge Sharing:** Involves exchange of ideas among customers, employees, business partners regarding best practices in the operations of the business. Sharing of knowledge therefore facilitates organizational learning.

**Promoting innovation:** Knowledge as a change agent can promote innovation practices, promoting continuous change to products. This prolongs the lifespan of a product. Innovation can also bring about creation of new products which can be introduced into the market.

**Updating organizational knowledge:** An organization can be kept u-to-date with new knowledge by bringing new developed technologies, science, social thought and arts. It is important to note that knowledge does not die but it is constantly updated to reflect the changing environment.

**Storing an active knowledge base:** Internal knowledge can save as consultation points for new employees who want to learn, thus preserving expertise that might have been lost, for example if they left the organization.

- b)

- i) Application controls

- Input controls; necessary to ensure accuracy and completeness of data when it is been entered into the computer system
- Processing controls; necessary to ensure that data are complete and accurate during updating
- Output controls; necessary to ensure that the result of computer processing are accurate complete and properly distributed

- ii) Administrative Security controls

### **Personnel controls**

Personnel are not always careful about protecting their passwords and security codes and through social engineering they might fall into the wrong hands and personnel

controls are necessary to ensure employees in the position of trust are not compromised to cause a security breach.

System should be designed so that only a few staff are in a position of trust. Job rotation at random intervals so that an employee cannot be certain that he/she will be able to set up a breach of security before the next job rotation. References should be checked before a member of staff is hired.

### **Physical controls**

Physical controls are concerned with denying physical access to the computer system, preventing the physical destruction of the system, and keeping the system available. To implement physical controls; For example, mainframe computers are often located in controlled-access rooms and personal computers are sometimes cabled to work tables or placed in locked cabinets when they are not in use.

Access to a secure area can be controlled by issuing identification cards, badges, keys, or personal identification numbers (PINs) to authorized personnel, and surveillance cameras are becoming increasingly common.

Modern biometric devices can be used to identify an individual via retinal scan, fingerprint analysis, voiceprint, or signature analysis.

### **C) Back up facilities**

Backup refers to the copying of data for the purpose of having an additional copy of an original source. If the original data is damaged or lost, the data may be copied back from that source, a process which is known as Data recovery or Restore. The data in question may be either data as such, or stored program code, both of which are treated the same by the backup software.

Backups are a way of physically securing computer based information systems;

Backups are kept on hard disks, CD-R, CD-RW, DVD and tapes, and can be kept in a multitude of locations, some of the suggested places would be a fireproof, waterproof, and heat proof safe, or in a separate, off-site location than that in which the original files are contained. Individuals and companies can also keep their backups in safe deposit boxes inside the vaults of banks. There is also a fourth

option, which involves using one of the companies on the Internet that backs up files for both business and individuals.

## **SOLUTION FOUR**

- a) Many companies have sophisticated and widespread intranets, offering detailed data retrieval, collaboration tools, personalised customer profiles and links to the internet. Businesses are installing and extending intranets throughout their organisations to
- i) Improve communications and collaboration among individuals and teams within the enterprise;
  - ii) Publish and share valuable information easily, inexpensively, and effectively via enterprise information portals and intranet web sites and other intranet services;
  - iii) Develop and deploy critical applications to support business operations;
  - iv) Easy access to company-wide resources including databases and peripherals
  - v) Collaboration with business partners;
  - vi) To deploy applications to support decision making;
  - vii) To enforce security on the company's systems against outsiders.

b) Business benefits and management challenges

Business benefits

- i) A continuing trend is the downsizing of larger computer systems by replacing them with client/server networks.
- ii) Having a central repository eases the task of putting security measures and controls.
- iii) Since application processes are shared, there is less duplication of work.
- iv) Client/server networks are seen as more economical and flexible than legacy systems in meeting end-user, workgroup, and business unit needs.
- v) Client/server networks are seen as more adaptable in adjusting to a diverse range of computing workloads.

Challenges:

- i) Balancing people's access requirements with overall security requirements, and then working with them to find ways of creating an effective solution without compromising security.
- ii) There is need for an administrator to ensure that the server is working correctly.
- iii) It may be costly for management if the server fails to work.

### (c) Benefits of Internet

- Sharing Information

You can share information with other people around the world. The scientist or researchers can interact with each other to share knowledge and to get guidance etc. Sharing information through Internet is very easy, cheap and fast.

- Collection of Information

A lot of information of different types is stored on the web servers on the Internet. It means that billions of websites contain different information in the form of text and pictures. You can easily collect information on every topic of the world. For this purpose, special software, called search engines are available on the Internet to search information of every topic of the world. The most popular search engines are altavista.com, search.com, yahoo.com, ask.com etc. The scientists, writers, engineers and many other people use these search engines to collect latest information for different purposes. Usually, the information on the Internet is free of cost. The information on the Internet is available 24 hours a day.

- News

You can get latest news of the world on the Internet. Most of the newspapers of the world are also available on the Internet. They have their websites from where you can get the latest news about the events happening in the world. These websites are periodically updated or they are immediately updated with latest news when any event happens around the world.

- Searching Jobs

You can search different types of jobs all over the world, Most of the organizations/departments around the world, advertise their vacant vacancies on the Internet. The search engines are also used to search the jobs on Internet. You can apply for the required job through Internet.

- Advertisement

Today, most of the commercial organizations advertise their product through Internet. It is very cheap and efficient way for the advertising of products. The products can be presented with attractive and beautiful way to the people round the world.

- Communication

You can communicate with other through Internet around the world. You can talk by watching to one another;

- Entertainment

Internet also provides different type of entertainments to the people. You can play games with other people in any part of the world. Similarly, you can see movies, listen music etc. You can also make new friends on the Internet for enjoyment.

- Online Education

Internet provides the facility to get online education. Many websites of different universities provide lectures and tutorials on different subjects or topics. You can also download these lectures or tutorials into your own computer. You can listen these lectures repeatedly and get a lot of knowledge. It is very cheap and easy way to get education.

- Online Results

Today, most of the universities and education boards provide results on the Internet. The students can watch their results from any part of country or world.

- Online Airlines and Railway Schedules

Many Airline companies and Pakistan Railway provide their schedules of flights and trains respectively on the Internet.

i) Drawbacks of Internet

Although Internet has many advantages but it also has some disadvantages.

The main disadvantages are:

- Viruses

Today, Internet is the most popular source of viruses. Most of the viruses move from one computer to another through e-mail or when information is downloaded on the Internet. These viruses create different problems in your computer. For example, they can affect the performance of your computer and damage valuable data and software stored in your computer.

- Security Problems

The valuable websites can be damaged by hackers and your valuable data may be deleted. Similarly, confidential data may be accessed by unauthorized persons.

- Filtration of Information

When a keyword is given to a search engine to search information of a specific topic, a large number of related links are displayed. In this case, it becomes difficult to filter out the required information.

- Accuracy of Information

A lot of information about a particular topic is stored on the websites. Some information may be incorrect or not authentic. So, it becomes difficult to select the correct information. Sometimes you may be confused.

- Wastage of times

Personnel may waste a lot of time chatting or playing games instead of been engaged in productive work. At home and offices, most of the people use Internet without any positive purpose.



## **SOLUTION SIX**

- a) This is a standard question in most subjects concerning organizational levels and information needs.

### **Strategic Level**

- Focuses on strategic decisions involving the manner in which business should be run in order to compete and survive
- Senior managers concentrate on long-range planning (5 years and above) such as introducing a new product, expanding the business to involve foreign partners, establishing a new factory
- Deals in unstructured decisions requiring an insight and human judgment, for example phasing out a product and introducing a new one, deciding on the sales in the next 5-years

### **Management Level**

- Monitoring of business performance including control, for example, regional or product sales performance
- Monitoring achievement of objectives in the short-term such as quarterly budgets
- Both semi-structured and unstructured decisions are addressed to arrive at rational decisions

### **Knowledge Level**

- Focuses on the creation of new knowledge which can be integrated into business to enable the business to compete and change to better practices
- Knowledge employees such as engineers, financial and marketing consultants, production planners develop new knowledge as a change agent
- Creating new ideas required in the organization for innovation, for example discovering new products, new markets, potential consumers done through research

### **Operation Level**

- Deals in day-to-day operations of the business such as recording receipts, recording number of hours, assigning tasks to employees

- Records transactions for the conduct of the business such as raising purchase orders
- Focuses on routine or structured decisions such as tracking orders, tracking money owed to the organization

b) This is a standard question on tools supporting information systems at each organizational level.

**i) TPS**

- A computer-based tool established to support collection and recording of transactions, storage, processing, and disseminating of information to Line Managers
- TPS provide input data to many applications both at operational level and all the levels above, a good example is the DSS, ESS and MIS
- TPS are the mission critical systems that form a backbone of all processing activities in the organization
- TPS are rigidly followed with strict rules for their accuracy, they are entirely internal systems

**ii) KWS**

- Systems used by business consultants in the organization to create knowledge to be integrated into the organization
- KWS are used by engineers and scientists create new knowledge at a workstation to enable organizations to create a learning base
- KWS are used for research in areas of importance to organization such as market planning, creation of new products
- KWS can be used to create knowledge-based systems used in data warehouses for data mining

## **SOLUTION SEVEN**

a) **Data Quality:**

This is one of the data management attributes. Data quality determines data which can add value to the organization in terms of its accuracy, completeness, timeliness, up-to-date, etc. Data that is well managed must have the characteristics above. Data which has lost its quality may not be useful to decision makers.

**Data Integrity:**

This is an attribute of data security. Data integrity means that data should remain the same at all times in order that it becomes reliable to decision makers, for example, when changes are made in one place of data, the same data must remain the same in another place. When data has lost integrity, it is not accessible, it not available for decision making, it is inconsistent.(4 marks for the points mentioned)

b)

**i) Disaster Recovery Plan**

This is a record, or a list of safeguards that have been put in place to protect or minimize setbacks when a disaster has happened to computers or information systems to enable an organization to restart the system.

For example:

If fire has attacked the computer system building, there must be a backup for the organization to fall back on and restart the system. This must be given as a sequence of events to follow the recovery procedure.

**ii) Back up arrangements**

A back up is an extra copy of either software or a database which can be secured in case of a catastrophe happening to any of these systems. Back copies should be done as frequently as necessary.

For example:

A back up arrangement can be done about software or database to be kept by a company in a different physical place.

c) **Encryption**

This is transforming a message, data, or information into unreadable for (scrambling) before this is transmitted on a networks to another computer or device. This procedure uses a special key or algorithm in order to prevent unauthorized access and stealing of data by unscrupulous users.

**Firewall**

This is use of software and hardware to prevent access by unauthorized access to networks. The firewall will act like a gate keeper asking for credentials before entering the system.

**END OF SOLUTIONS**



TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

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D2: FINANCIAL MANAGEMENT

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FRIDAY 26 JUNE 2020

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

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**INSTRUCTIONS TO CANDIDATES**

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

**DO NOT OPEN THIS QUESTION PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR.**

**Attempt all FOUR (4) questions.**

## **QUESTION ONE**

Mweru Ltd has the following capital structure:

	K'000
Ordinary shares of K10 each	1,000
8% preference shares of K20 each	2,500
14% bonds	800
<b>Total</b>	<b>4,300</b>

The bonds are due to be redeemed at par in four (4) years' time. The company earns an accounting rate of return of 15% and pays out 45% of its returns as dividends. The bonds are trading at K80 per K100 nominal value while the preference shares are trading at K50 each.

The preference dividend is expected to remain constant. The cum-div market price of ordinary shares is K40 each. A total annual ordinary dividend of K200,000 has just been proposed.

Mweru Ltd pays corporation tax at 35% per annum.

### **Required:**

- Estimate the annual growth rate of the ordinary dividends. (2 marks)
- Calculate the weighted average cost of capital. (20 marks)
- State three (3) assumptions of the dividend valuation model. (3 marks)

**[Total: 25 marks]**

## **QUESTION TWO**

BFI Plc wishes to make a takeover bid for the shares of unquoted company, JB Ltd. The earnings of JB Ltd over the past five years have been as follows:

Year	1	2	3	4	5
Earnings before tax (K'm)	40	48	46	50	57

The growth in earnings before tax for JB Ltd is expected to be 5% per year for a period of five years. Thereafter, earnings will grow constantly at the rate of 60% per year. The shareholders of BFI Plc expect a minimum return on their investment of 12%. Similar quoted companies to JB Plc have a P/E ratio of 1:3. The corporate tax is 30% per year.

### **Required:**

- Estimate the price range for JB Ltd's shares using different valuation methods. (11 marks)
- Explain the reason for preparing consolidated financial statements and how this may be useful to the users of financial statements. (6 marks)
- Explain the circumstances where the parent may own only a minority of the voting power in the subsidiary, but still has control over the subsidiary. (8 marks)

**[Total: 25 Marks]**

**QUESTION THREE**

Cosmo Motors Ltd owns a fleet of taxis. The Finance Manager would like to determine the best replacement cycle for each taxi. The average cost of one taxi is K45,000. The resale values on average for each taxi are expected to be as follows:

Year 1	K20,000	Year 2	K15,000
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It is expected that resale values will increase by 5% per annum. Maintenance costs for each taxi are on average K4,500 per annum. The maintenance costs are expected to increase by 18% per annum. Insurance is expected to be K60 per month for each taxi. This figure is not expected to rise in the next five (5) years.

Cosmo Motors Ltd cost of capital in real terms is 7%. The general rate of inflation is currently 12% per annum.

The Finance Manager recently indicated during a management meeting that the company is considering a rights issue to finance the replacement of some of the taxis which have exceeded their useful life.

**Required:**

- (a) Calculate the best replacement policy for the taxis between a one year and a two (2) years cycle. (15 marks)
- (b) Explain the meaning of the term "rights issue" and four (4) draw backs of a rights issue to Cosmo Ltd. (10 marks)

**[Total: 25 Marks]**

**QUESTION FOUR**

- (a) VMT Enterprises has an annual demand for an item of inventory of 400 units. The item costs K250 a unit to purchase, the holding cost for one unit for one (1) year is 10% of the

unit cost and ordering costs are K350 per order. The supplier offers a 4.2% discount for orders of 120 units or more, and a discount of 4.5% for orders of 150 units or more.

**Required:**

- (i) Calculate the economic order quantity (EOQ). (4 marks)
  - (ii) Advise VMT enterprises the cost-minimising order size given the EOQ and other two options of ordering 120 units or 150 units. (7 marks)
  - (iii) Explain the limitations of the Economic Order Quantity model (EOQ). (4 marks)
- (b) Bwembya Ltd has annual credit sales of K15million, and two (2) months are allowed for payment. The company decides to offer a 3% discount for payments made within 15 days of the invoice being sent, and to reduce the maximum time allowed for payment to one (1) month. It is estimated that 60% of customers will take the discount. The company requires a 30% return on investments.

**Required:**

Advise whether Bwembya Ltd should adopt the new policy or not. You may assume that the volume of sales will be unaffected by the discount.(10 marks)

**[Total: 25 Marks]**

**END OF PAPER**



## Formula Sheet

Economic order quantity

$$= \sqrt{\frac{2C_n D}{C_H}}$$

Miller – Orr Model

Return point = Lower limit +  $\left(\frac{1}{3} \times \text{spread}\right)$

$$\text{Spread} = 3 \left[ \frac{\frac{3}{4} \times \text{transaction cost} \times \text{variance of cash flows}}{\text{interest rate}} \right]^{\frac{1}{3}}$$

The Capital Asset Pricing Model

$$E(r_t) = R_f + \beta_i (E(r_m) - R_f)$$

The asset beta formula

$$\beta_a = \left[ \frac{V_e}{(V_e + V_d(1-T))} \beta_e \right] + \left[ \frac{V_d(1-T)}{(V_e + V_d(1-T))} \beta_d \right]$$

The Growth Model

$$P_0 = \frac{D_0(1+g)}{(r_e - g)}$$

Gordon's growth approximation

$$g = b r_e$$

The weighted average cost of capital

$$\text{WACC} = \left[ \frac{V_e}{V_e + V_d} \right] k_e + \left[ \frac{V_d}{V_e + V_d} \right] k_d(1-T)$$

The Fisher formula

$$(1+i) = (1+r)(1+h)$$

Purchasing power parity and interest rate parity

$$s_1 = S_0 \times \frac{(1+h_c)}{(1+h_b)} \qquad f_0 = s_0 \times \frac{(1+i_e)}{(1+i_b)}$$

**Present Value Table**

Present value of 1 i.e.  $(1 + r)^{-n}$

Where  $r$  = discount rate  
 $n$  = number of periods until payment

Periods (n)	Discount rate (r)										
	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909	1
2	0.980	0.961	0.943	0.925	0.907	0.890	0.873	0.857	0.842	0.826	2
3	0.971	0.942	0.915	0.889	0.864	0.840	0.816	0.794	0.772	0.751	3
4	0.961	0.924	0.888	0.855	0.823	0.792	0.763	0.735	0.708	0.683	4
5	0.951	0.906	0.863	0.822	0.784	0.747	0.713	0.681	0.650	0.621	5
6	0.942	0.888	0.837	0.790	0.746	0.705	0.666	0.630	0.596	0.564	6
7	0.933	0.871	0.813	0.760	0.711	0.665	0.623	0.583	0.547	0.513	7
8	0.923	0.853	0.789	0.731	0.677	0.627	0.582	0.540	0.502	0.467	8
9	0.914	0.837	0.766	0.703	0.645	0.592	0.544	0.500	0.460	0.424	9
10	0.905	0.820	0.744	0.676	0.614	0.558	0.508	0.463	0.422	0.386	10
11	0.896	0.804	0.722	0.650	0.585	0.527	0.475	0.429	0.388	0.350	11
12	0.887	0.788	0.701	0.625	0.557	0.497	0.444	0.397	0.356	0.319	12
13	0.879	0.773	0.681	0.601	0.530	0.469	0.415	0.368	0.326	0.290	13
14	0.870	0.758	0.661	0.577	0.505	0.442	0.388	0.340	0.299	0.263	14
15	0.861	0.743	0.642	0.555	0.481	0.417	0.362	0.315	0.275	0.239	15
<hr/>											
(n)	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%	
1	0.901	0.893	0.885	0.877	0.870	0.862	0.855	0.847	0.840	0.833	1
2	0.812	0.797	0.783	0.769	0.756	0.743	0.731	0.718	0.706	0.694	2
3	0.731	0.712	0.693	0.675	0.658	0.641	0.624	0.609	0.593	0.579	3
4	0.659	0.636	0.613	0.592	0.572	0.552	0.534	0.516	0.499	0.482	4
5	0.593	0.567	0.543	0.519	0.497	0.476	0.456	0.437	0.419	0.402	5
6	0.535	0.507	0.480	0.456	0.432	0.410	0.390	0.370	0.352	0.335	6
7	0.482	0.452	0.425	0.400	0.376	0.354	0.333	0.314	0.296	0.279	7
8	0.434	0.404	0.376	0.351	0.327	0.305	0.285	0.266	0.249	0.233	8
9	0.391	0.361	0.333	0.308	0.284	0.263	0.243	0.225	0.209	0.194	9
10	0.352	0.322	0.295	0.270	0.247	0.227	0.208	0.191	0.176	0.162	10
11	0.317	0.287	0.261	0.237	0.215	0.195	0.178	0.162	0.148	0.135	11
12	0.286	0.257	0.231	0.208	0.187	0.168	0.152	0.137	0.124	0.112	12
13	0.258	0.229	0.204	0.182	0.163	0.145	0.130	0.116	0.104	0.093	13
14	0.232	0.205	0.181	0.160	0.141	0.125	0.111	0.099	0.088	0.078	14
15	0.209	0.183	0.160	0.140	0.123	0.108	0.095	0.084	0.074	0.065	15

### Annuity Table

Present value of an annuity of 1 i.e.  $\frac{1 - (1 + r)^{-n}}{r}$

Where  $r$  = discount rate  
 $n$  = number of periods

Periods (n)	Discount rate (r)										
	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909	1
2	1.970	1.942	1.913	1.886	1.859	1.833	1.808	1.783	1.759	1.736	2
3	2.941	2.884	2.829	2.775	2.723	2.673	2.624	2.577	2.531	2.487	3
4	3.902	3.808	3.717	3.630	3.546	3.465	3.387	3.312	3.240	3.170	4
5	4.853	4.713	4.580	4.452	4.329	4.212	4.100	3.993	3.890	3.791	5
6	5.795	5.601	5.417	5.242	5.076	4.917	4.767	4.623	4.486	4.355	6
7	6.728	6.472	6.230	6.002	5.786	5.582	5.389	5.206	5.033	4.868	7
8	7.652	7.325	7.020	6.733	6.463	6.210	5.971	5.747	5.535	5.335	8
9	8.566	8.162	7.786	7.435	7.108	6.802	6.515	6.247	5.995	5.759	9
10	9.471	8.983	8.530	8.111	7.722	7.360	7.024	6.710	6.418	6.145	10
11	10.37	9.787	9.253	8.760	8.306	7.887	7.499	7.139	6.805	6.495	11
12	11.26	10.58	9.954	9.385	8.863	8.384	7.943	7.536	7.161	6.814	12
13	12.13	11.35	10.63	9.986	9.394	8.853	8.358	7.904	7.487	7.103	13
14	13.00	12.11	11.30	10.56	9.899	9.295	8.745	8.244	7.786	7.367	14
15	13.87	12.85	11.94	11.12	10.38	9.712	9.108	8.559	8.061	7.606	15
(n)	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%	
1	0.901	0.893	0.885	0.877	0.870	0.862	0.855	0.847	0.840	0.833	1
2	1.713	1.690	1.668	1.647	1.626	1.605	1.585	1.566	1.547	1.528	2
3	2.444	2.402	2.361	2.322	2.283	2.246	2.210	2.174	2.140	2.106	3
4	3.102	3.037	2.974	2.914	2.855	2.798	2.743	2.690	2.639	2.589	4
5	3.696	3.605	3.517	3.433	3.352	3.274	3.199	3.127	3.058	2.991	5
6	4.231	4.111	3.998	3.889	3.784	3.685	3.589	3.498	3.410	3.326	6
7	4.712	4.564	4.423	4.288	4.160	4.039	3.922	3.812	3.706	3.605	7
8	5.146	4.968	4.799	4.639	4.487	4.344	4.207	4.078	3.954	3.837	8
9	5.537	5.328	5.132	4.946	4.772	4.607	4.451	4.303	4.163	4.031	9
10	5.889	5.650	5.426	5.216	5.019	4.833	4.659	4.494	4.339	4.192	10
11	6.207	5.938	5.687	5.453	5.234	5.029	4.836	4.656	4.486	4.327	11
12	6.492	6.194	5.918	5.660	5.421	5.197	4.988	4.793	4.611	4.439	12
13	6.750	6.424	6.122	5.842	5.583	5.342	5.118	4.910	4.715	4.533	13
14	6.982	6.628	6.302	6.002	5.724	5.468	5.229	5.008	4.802	4.611	14
15	7.191	6.811	6.462	6.142	5.847	5.575	5.324	5.092	4.876	4.675	15

## SUGGESTED SOLUTIONS

### SOLUTION ONE

a) Growth rate (g)

$$g = r \times b$$

$$b = 1 - 0.45$$

$$= 0.55$$

$$r = 0.15$$

$$g = 0.15 \times 0.55$$

$$0.0825 \text{ or } 8.25\%$$

i) Cost of equity

$$\text{Dividend per share} = \text{K}200000 / 100000 \text{ shares} = \text{K}2 / \text{share}$$

$$\text{Ex-div market price} = \text{K}40 - \text{K}2 = \text{K}38 / \text{share}$$

$$K_e = [d_0 (1+g) / p_0] + g$$

$$K_e = [\text{K}2 (1 + 0.0825) / \text{K}38] + 0.0825$$

$$= 13.9\% \text{ or } 14\%$$

ii) Cost of redeemable bonds

YEAR	CASH FLOW	D.F (10%)	PV
0	Market value (K80)	1	(K80)
1-4	interest K14% x k100 K14 x 0.65 K9.1	3.170	28.85
4	Redemption K100	0.683	68.3
	NPV		17.15

YEAR	CASH FLOW	DF (20%)	PV
0	Market value (K80)	1	(k80)
1-4	interest K9.1	2.589	23.56
4	Redemption K100	0.482	48.2
	NPV		(8.24)

$$\text{IRR} = a + [\text{NPV}_a / (\text{NPV}_a - \text{NPV}_b)] \times (b - a) \%$$

$$10\% + [(17.15 / (17.15 + 8.24))] \times (20 - 10) \%$$

$$= 16.75\%$$

Cost of redeemable bonds is therefore 16.75%

iii) Cost of preference shares

$$K_p = [d / p] \times 100$$

$$[(8\% \times \text{K}20) / \text{K}50] \times 100$$

$$(1.6/K50) \times 100$$

$$=3.2\%$$

iv) MARKET VALUES

Market value of ordinary shares

$$K38 \times K100000 = K3800,000$$

Market value of preference shares

$$K250000/K20 = K125000 \text{ shares}$$

$$125000 \text{ shares} \times K50 = K6250000$$

Market value of redeemable bonds

$$K800,000 / K100 = 8000$$

$$8,000 \times K80 = K640,000.$$

**b) WEIGHTED AVERAGE COST OF CAPITAL**

SOURCE	COST	VALUE	COST X VALUE
Ordinary shares	14%	K3,800,000	K532,000
Preference shares	3.2%	K6,250,000	K200,000
Redeemable bonds	16.75%	K640,000	K107,200
Total		K10,690,000	K839,200

$$WACC = (K839,200/K10,690,000) \times 100$$

$$= 7.85\%$$

**c) ASSUMPTIONS OF THE DIVIDEND VALUATION MODEL**

- 1) The future expected income stream from shares is the dividend paid out by the company. The share price is equal to the future expected income stream discounted at the investor's required return.
- 2) Dividends will be paid in perpetuity
- 3) Dividends will be constant or growing at a fixed rate.

## SOLUTION TWO

a)

Estimated value of JB Ltd using the cash flow based valuation:

Year	1	2	3	4	5
	K'm	K'm	K'm	K'm	K'm
Earnings before tax	59.85	62.84	65.98	69.28	72.75
Tax@30%	(17.96)	(18.85)	(19.79)	(20.78)	(21.83)
Net cash flows	41.90	43.99	46.19	48.50	50.93
Discount@12%	0.893	0.797	0.712	0.636	0.567
Present values	37.42	35.06	32.89	30.85	28.88
NPV=K165.1m					

$$\text{Value beyond year 4} = \frac{50.93(1+0.6)}{0.12 - 0.06} = 899.76 \times 0.567 = 510.17\text{m}$$

$$\text{Value of the company} = 165.1\text{m} + 510.17\text{m} = 675.27\text{m}$$

Estimated value of JB Ltd using the P/E ratio:

Since JB Ltd is unquoted company, we will use the P/E ratio of similar quoted company (adjusted to 2/3).

$$\text{P/E ratio} = 13 \times \frac{2}{3} = 8.7$$

$$\text{Earnings after tax} = 50.93\text{m}$$

$$\text{Value of JB Ltd} = 8.7 \times 50.93\text{m} = 443.09\text{m}$$

Based on the above computations the minimum price will range from K443.09m to K675.27m.

### b) *Usefulness of consolidated financial statements*

The main reason for preparing consolidated accounts is that groups operate as a single economic unit, and it is not possible to understand the affairs of the parent company without taking into account the financial position and performance of all the companies that it controls. The directors of the parent company should be held fully accountable for all the money they have invested on their shareholders behalf, whether that has been done directly by the parent or via a subsidiary.

There are also practical reasons why parent company accounts cannot show the full picture. The parent company's own financial statements only show the original cost of the investment and the dividends received from the subsidiary. As explained below, this hides the true value and nature of the investment in the subsidiary, and, without consolidation, could be used to manipulate the reported results of the parent.

- The cost of the investment will include a premium for goodwill, but this is only quantified and reported if consolidated accounts are prepared.
- A controlling interest in a subsidiary can be achieved with a 51% interest. The full value of the assets controlled by the group is only shown through consolidation when the non-controlling interest is taken into account.
- Without consolidation, the assets and liabilities of the subsidiary are disguised.

- A subsidiary could be very highly geared, making its liquidity and profitability volatile.
- A subsidiary's assets might consist of intangible assets, or other assets with highly subjective values.
- The parent company controls the dividend policy of the subsidiary, enabling it to smooth out profit fluctuations with a steady dividend. Consolidation reveals the underlying profits of the group.
- Over time the net assets of the subsidiary should increase, but the cost of the investment will stay fixed and will soon bear no relation to the true value of the subsidiary.

C) Controlling of the subsidiary requires the holding company or parent owning a majority of the ordinary shares in the subsidiary (to which normal voting rights are attached). According to IAS 27 control can usually be assumed to exist when the parent owns more than half (i.e over 50%) of the voting power of an entity unless it can be clearly shown that such ownership does not constitute control (these situations will be very rare). There are circumstances, however, when the parent may own only a minority of the voting power in the subsidiary, but the parent still has control.

IAS 27 lists the following situations where control exists, even when the parent owns only 50% or less of the voting power of an entity.

- I. The parent has power over more than 50% of the voting rights by virtue of agreement with other investors.
- II. The parent has power to govern the financial and operating policies of the entity by statute or under an agreement.
- III. The parent has the power to appoint or remove a majority of members of the board of directors (or equivalent governing body).
- IV. The parent has power to cast a majority of votes at meetings of the board of directors.

IAS 27 also states that a parent loses control when it loses the power to govern the financial and operating policies of an investee. Loss of control can occur without a change in ownership levels. This may happen if a subsidiary becomes subject to the control of a government, court administrator or regulator (for example, in bankruptcy).

### SOLUTION THREE

Money cost of capital

$$(1 + m) = (1 + r) (1 + i)$$

$$(1 + m) = (1 + 0.07) (1 + 0.12)$$

$$1 + m = 1.07 \times 1.12$$

$$1 + m = 1.1984$$

M = 19.84% approx. 20%

Resale values

$$\text{Year 1 } K20000 \times 1.05 = K21000$$

$$\text{Year 2 } K15000 \times 1.05^2 = K16538$$

Maintenance costs

$$\text{Year 1 } K4500 \times 1.18 = K5310$$

$$\text{Year 2 } K5310 \times 1.18 = K6266$$

Insurance costs p.a

$$K60 \times 12 = K720$$

REPLACE EVERY YEAR

YEAR	0	1
Cost	(4,500)	
Maintenance		(5,310)
Insurance		(720)
Resale value		21,000
Net cash flows	(45,000)	14,970
D.F @ 20%	1	0.8333
PV	(45,000)	12,475

$$\text{NPV} = (32,525)$$

$$\text{E A C} = K32,525 / 0.8333$$

$$= (K39032)$$



REPLACE EVERY TWO YEARS

	0	1	2
Cost	(45,000)		
Maintenance		(5,310)	(6266)
Insurance		(720)	(720)
Resale			16538
Net cash flows	(45,000)	(6,030)	9,552
D.F @ 20%	1	0.8333	0.6944
NPV	(45,000)	(5,025)	6,633

NPV (43,392)

E.A.C = (43,392)/1.5277

= (28,403)

It is cheaper to replace the taxis every two years as this gives us a lower equivalent annual cost (EAC) of (K28, 403) compared to (K39, 032) annually.

a) RIGHTS ISSUE

A rights issue involves the raising of new capital by giving existing shareholders the right to subscribe to new shares in proportion to their existing shareholding. These shares are usually issued at a discount to market price. A shareholder not willing to take up the rights issue may sell the rights.

Disadvantages of rights issue;

- a) The amount of finance that can be raised by rights issues of unquoted companies is limited by the funds available to existing shareholders.
- b) Choosing the best issue price may be problematic. If the price is considered too high, the issue may not be fully subscribed; if too low, the company will not have raised all the funds it conceivably could have done.
- c) During the time between the announcement of the rights issue and the date of subscription the market price of the shares may fall, and the issue price of rights will be above the market price, with the result that the rights issue will fail.
- d) Rights issues cannot be issued to widen the base of shareholders.

## SOLUTION FOUR

$$\text{i) } \text{EOQ} = \frac{\sqrt{2 \times 400 \times 250}}{25}$$

$$= 106 \text{ units}$$

$$\text{*Holding cost per unit} = 10\% \times 250 = \text{K}25$$

ii)

$$\text{Purchase (400 x 250)} = 100,000$$

$$\text{Holding costs (106/2) 53 x 25} = 1,325$$

$$\text{Ordering costs} = \underline{1,330}$$

$$\underline{102,655}$$

$$\text{ordering costs} = 400/106 = 3.8 \times 350 = 1330$$

With a discount of 4.2% and order size of 120 units costs will be as follows:

$$\text{Purchases (0.958 x 250 x 400)} = 95,800$$

$$\text{Holding costs (120/2) 60 x 25 x 0.958} = 1,437$$

$$\text{Ordering costs 3.3 x 350} = \underline{1,155}$$

$$\text{Total costs} = \underline{98,392}$$

With a discount of 4.5% for a minimum orders size of 150 units costs will be as follows:

$$\text{Purchases (0.955 x 250 x 400)} = 95,500$$

$$\text{Holding costs (150/2) 75 x 25 x 0.958} = 1,791$$

$$\text{Ordering costs 2.7 x 350} = \underline{945}$$

$$\text{Total costs} = \underline{98,236}$$

The discount of 4.5% and minimum order size of 150 units gives a lower total costs compared with the other options. It would be therefore advisable to accept the discount of 4.5%.

- iii) The limitation of the EOQ model is that it has unrealistic assumptions. For instance;
- It assumes that demand and lead time are constant and known but reality this is not true because demand and lead time can change depending on several factors.
  - It assumes that purchase price is constant but in reality prices change according to the economic situation.

- It assumes that there is no buffer inventory held (not needed) but in reality companies need buffer inventory to avoid stock outs.

b) Current receivables  $(2/12 \times K15m) = K2.5m$

Receivables if new policy is adopted  $= (15/365 \times 60\% \times K15m) + (1/12 \times 40\% \times K15m)$   
 $= K0.87m$

Reduction in receivables  $(K2.5m - K0.87m) = K1.63m$

Value of reduction in receivables  $= (K1.63m \times 30\%) = K0.489m$

Discount allowed  $= (3\% \times K15m \times 60\%) = K0.27m$

Net Savings of the new policy  $(K0.489m - K0.27m) = K0.219m$

The company should adopt the new policy because it will result in a net saving of K0.219m.

**END OF SOLUTIONS**









TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D3: BUSINESS TAXATION

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WEDNESDAY 24 JUNE 2020

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

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**INSTRUCTIONS TO CANDIDATES**

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question.
2. This 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. You must write ALL your answers 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, 4,5 and 6 of this paper.

**DO NOT OPEN THIS QUESTION PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR.**

## Taxation table

### Income Tax

#### Standard personal income tax rates

<b>Income band</b>	<b>Taxable amount</b>	<b>Rate</b>
K1 to K39,600	first K39,600	0%
K39,601 to 49,200	next K9,600	25%
K49,201 to K74,400	next K25,200	30%
Over K74,400		37.5%

#### Income from farming for individuals

K1 to K39,600	first K39,600	0%
Over K39,600		10%

#### Company Income Tax rates

On income from manufacturing and other	35%
On income from farming	10%
On income of Banks and other Financial Institutions	35%
On income from mineral processing	30%
On income from mining operations	30%
On income from manufacture of products made out of copper cathodes	15%

## Mineral Royalty

#### Mineral Royalty on Copper

<b>Range of Norm Price</b>	<b>Mineral Royalty Rate</b>
Less than US\$4,500	5.5% of norm value
From US\$4,500 to less than US\$6,000	6.5% of norm value
From US\$6,000 to less than US\$7,500	7.5% of norm value
From US\$7,500 to less than US\$9,000	8.5% of norm value
From US\$9,000 and above	10% of norm value

#### Mineral Royalty on other minerals

<b>Type of mineral</b>	<b>Mineral Royalty Rate</b>
Base Metals (Other than Copper, Cobalt and Vanadium)	5% of norm value
Cobalt and Vanadium	8% of norm value
Energy and Industrial Minerals	5% of gross value
Gemstones	6% of gross value
Precious Metals	6% of norm value



## Capital Allowances

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

Wear and Tear Allowance –	Plant used normally	25%
	Used in Manufacturing and Leasing	50%
	Used in farming and agro-processing	100%
	Used in mining operations	20%

### 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

<b>Turnover Tax</b>	4%
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### Presumptive Tax for Transporters

Seating capacity	Tax per annum K	Tax per day K
From 64 passengers and over	10,800	29.60
From 50 to 63 passengers	9,000	24.70
From 36 to 49 passengers	7,200	19.70
From 22 to 35 passengers	5,400	14.80
From 18 to 21 passengers	3,600	9.90
From 12 to 17 passengers	1,800	4.90
Less than 12 passengers and taxis	900	2.40

## Property Transfer Tax

Rate of Tax on Realised Value of Land, Land and Buildings and shares	5%
Rate of Tax on Realised Value on a transfer or sale of a mining right	10%
Rate of Tax on Realised Value on a transfer of Intellectual Property	5%

## Value Added Tax

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

### Customs and Excise duties on used motor vehicles

<b>Motor vehicles for the transport of ten or more persons, including the driver</b>	<b>Aged below 5 years</b>		<b>Aged 5 years and over</b>	
	<b>Customs duty</b>	<b>Excise duty</b>	<b>Customs duty</b>	<b>Excise duty</b>
	<b>K</b>	<b>K</b>	<b>K</b>	<b>K</b>
Sitting capacity of 10 but not exceeding 14 persons including the driver	17,778	22,223	8,889	11,112
Sitting capacity exceeding 14 but not exceeding 32 persons	38,924	0	13,840	0
Sitting capacity of 33 but not exceeding 44 persons	86,497	0	19,462	0
Sitting capacity exceeding 44 persons	108,121	0	43,248	0
<b>Motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars</b>	<b>Aged below 5 years</b>		<b>Aged 5 years and over</b>	
	<b>Customs duty</b>	<b>Excise duty</b>	<b>Customs duty</b>	<b>Excise duty</b>
	<b>K</b>	<b>K</b>	<b>K</b>	<b>K</b>
<b>Sedans</b>				
cylinder capacity not exceeding 1000 cc	12,490	10,824	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	16,058	13,917	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	16,545	21,508	8,423	10,950
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	10,528	13,687
Cylinder capacity exceeding 3000 cc	22,561	29,329	12,032	15,642
<b>Hatchbacks</b>				
cylinder capacity not exceeding 1000 cc	10,705	9,278	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	14,274	12,371	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	15,041	19,553	8,423	10,950
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	16,545	21,508	10,523	13,687
Cylinder capacity exceeding 3000 cc	19,553	25,419	12,032	15,642
<b>Station wagons</b>				
cylinder capacity not exceeding 2500 cc	16,545	21,508	9,024	11,731
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	13,357	17,598
Cylinder capacity exceeding 3000 cc but not exceeding 2500 cc	22,561	29,329	18,049	23,463

**SUVs**

Cylinder capacity not exceeding 2500 cc	21,057	27,374	9,024	11,732
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	24,065	31,284	13,357	17,598
Cylinder capacity exceeding 3000 cc	28,577	37,150	18,049	23,463
	<b>Aged below 5 years</b>		<b>Aged 5 years and over</b>	

**Motor vehicles for the transport of goods -with compression-ignition internal combustion piston engine (diesel or semi-diesel):**

	<b>Customs duty</b>	<b>Excise duty</b>	<b>Customs duty</b>	<b>Excise duty</b>
	<b>K</b>	<b>K</b>	<b>K</b>	<b>K</b>
<b>Single cab</b>				
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	21,926	9,501	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	26,311	11,402	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	30,697	13,302	17,541	7,601
Double cabs GVW exceeding 3 tonnes but not exceeding 5 tonnes	30,274	0	24,119	10,452
Double cabs GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes, <b>with spark ignition internal combustion piston engine</b>	30,697	13,302	24,119	10,452

**Panel Vans**

GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	15,348	6,651	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	17,541	7,601	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	21,926	9,501	17,541	7,601

**Trucks**

GVW up to 2 tonnes	21,926	9,501	10,963	4,751
GVW exceeding 2.0 tonnes but not exceeding 5.0 tonnes	28,504	12,352	13,156	5,701
GVW exceeding 5.0 tonnes but not exceeding 10.0 tonnes	24,724	18,955	10,817	8,293
GVW exceeding 10.0 tonnes but not exceeding 20.0 tonnes	30,905	23,694	11,744	9,004
GVW exceeding 20 tonnes	51,898	0	19,461	0
GVW exceeding 20 tonnes, <b>with spark ignition internal combustion piston engine</b>	37,086	28,432	13,907	10,662

**Surtax**

**On all motor vehicles aged more than five (5) years from year of manufacture** K2,000

## Customs and Excise on New Motor vehicles

### 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:**

Percentage of Value for Duty Purposes	30%
Minimum Specific Customs Duty	K6,000

**Excise Duty:**

Percentage of Value for Duty Purposes for Excise Duty Purposes	
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**

Percentage of Value for Duty Purposes	15%
Minimum specific Customs Duty	K6,000

**Excise Duty:**

Percentage of Value for Duty Purposes for Excise Duty Purposes	10%
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- 3. Buses/coaches for the transport of more than ten persons**

**Customs Duty:**

Percentage of Value for Duty Purposes	15%
Minimum Specific Customs Duty	K6,000

**Excise Duty:**

Percentage of Value for Duty Purposes for Excise Duty Purposes	
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:**

Percentage of Value for Duty Purposes	15%
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**Excise Duty:**

Percentage of Value for Duty Purposes for Excise Duty Purposes	0%
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## Attempt All FOUR (4) Questions

### QUESTION ONE

Luangwa Mining Corporation (LMC) Plc is a Zambian resident company engaged in mining. The following is the statement of profit or loss for the year ended 31 December 2020:

		K
Revenue	(Note 1)	41,320,100
Cost of sales	(Note 2)	<u>(16,528,040)</u>
Gross profit		24,792,060
Operating expenses	(Note 3)	(16,471,150)
Other income	(Note 4)	<u>814,360</u>
Profit before tax		9,135,270
Income tax expense	(Note 5)	<u>(3,104,270)</u>
Profit for the year		<u><u>6,031,000</u></u>

**The following information is relevant:**

#### **1. Revenue**

Luangwa Mining Corporation extracts different types of minerals. The following is the composition of the revenue figure given in the statement of profit or loss above:

	K
Revenue from sales of Copper (Norm value)	32,100,000
Revenue from sales of Gemstones (Gross value)	3,220,100
Revenue from sales of Vanadium (Norm value)	<u>6,000,000</u>
	<u><u>41,320,100</u></u>

The price of copper quoted on the London Metal Exchange averaged US\$8,600 per metric tonne throughout the tax year 2020.

#### **2. Cost of sales**

These include the following:

	K
Opening inventory of materials & consumables	2,700,000
Purchases of materials & consumables	11,260,480
Construction of police post in the mine township	800,720
Construction of community school	2,900,000
Loss on disposal of office equipment	130,000
Closing inventory of materials & consumables	<u>(1,263,160)</u>
	<u><u>16,528,040</u></u>

Mineral royalty tax was correctly computed and paid during the tax year 2020. The figure for mineral royalty tax is included in within the figure for purchases of materials & consumables shown above.

### 3. Operating expenses

These include:

	K
Depreciation	680,000
Amortisation	125,000
Salaries & wages	4,062,500
Staff canteen expenses	622,892
Entertaining customers & suppliers	400,700
Penalties for late payment of provisional income tax	62,000
Other allowable expenses	<u>10,518,058</u>
	<u>16,471,150</u>

### 4. Other income

This comprises of dividends from Zambian companies listed on the Lusaka Securities Exchange of K304,360 and bank deposit interest amounting to K510,000. These amounts represent the actual amounts received by Luangwa Mining Corporation.

### 5. Income tax expense

This figure represents the provisional income tax paid by the company during the tax year 2020.

### 6. Implements, Plant and Machinery

As at 1 January 2020, the company had the following assets qualifying for capital allowances:

	<b>Income tax value</b>	<b>Original cost</b>
	K	K
Office equipment	160,000	320,000
Office building	3,360,000	4,200,000

During the year ended 31 December 2020 the company entered into the following capital transactions:

	<b>Cost/ (proceeds)</b>
	K
Sold office equipment for	(190,000)
Purchased mining plant for	3,000,000
Purchased smelter equipment for	2,200,000
Purchased delivery trucks for	1,700,000

**Required:**

(a) Calculate the amount of mineral royalty tax paid by Luangwa Mining Corporation on the sale of minerals for the tax year 2020. (4 marks)

(b) Calculate the amount of company income tax payable by Luangwa Mining Corporation for the tax year 2020. (21 marks)

**[Total: 25 Marks]**

**QUESTION TWO**

Malumbo has been in business as a sole trader for many years running a VAT registered retail trade. He has always prepared accounts to 30 June each year. After preparing accounts for the year ended 30 June 2019, Malumbo decided to sell his business on 31 December 2020 for K4,115,000 to an unconnected party, who is registered for VAT. He prepared his last accounts for the period from 1 July 2019 to 31 December 2020.

The following information is available:

- (1) The tax adjusted business profits before capital allowances for the last period of trading was K720,000.
- (2) The income tax values of implement, plant and machinery qualifying for capital allowances at 1 July 2019 were as follows:

	Income Tax value	Original cost
	K	K
Mitsubishi Canter van	37,500	150,000
Shop fixtures and fittings	40,000	80,000
Toyota Fortuner car	48,000	120,000
Commercial building	490,000	700,000

Malumbo has always had private use of the Toyota Fortuner car of 25%.

- (3) Malumbo had unused overlap profits brought forward of K121,750 as at 1 July 2019 which arose when he changed his accounting date to 31 December year end from his previous year end.
- (4) The sales proceeds figure of K4,115,000 is made up as follows:

	K
Goodwill	900,000
Land and buildings (including K950,000 for the land)	2,450,000
Mitsubishi Canter van	30,000
Shop fixtures and fittings	25,000
Toyota Fortuner car	35,000
Net current assets	<u>675,000</u>
	<u><u>4,115,000</u></u>

The goodwill has been built up since he commenced trading, and has a nil cost. The land and buildings cost K1,200,000 (including K500,000 for the land) when he commenced operations. The buildings have always been used for business purposes and therefore classified as commercial buildings.

**Required:**

- (a) Explain the basis of assessment for the profits generated by Malumbo in the final two tax years of trading. (3 marks)
- (b) Calculate Malumbo's taxable business profit and his income tax payable for the last two tax years. You should assume that the tax rates for tax year 2020 apply to both tax years. (15 marks)
- (c) Explain, from a property transfer tax perspective, the main advantage for Malumbo of disposing off the business as a whole compared to a disposal of individual assets. (3 marks)
- (d) Explain the VAT implications arising from the sale of Malumbo's business. (2 marks)
- (e) Explain what the VAT implications could have been if Malumbo had disposed of the individual assets instead of disposing off the business as a whole. (2 marks)

**[Total: 25 Marks]**



### **QUESTION THREE**

(a) Explain what may constitute a loan to an effective shareholder. (4 marks)

(b) Kabwe Hamoonga is a Zambian resident for income tax purposes. During the year ended 31 December 2020, he had the following income:

	K
Taxable profits from farming	400,000
Taxable profits from retail trade	90,000
Royalties (net)	47,600

The above amounts are the final taxable amounts after all the adjustments have been made. He paid provisional income tax of K50,000 during the tax year 2020.

#### **Required:**

Calculate the amount of income tax payable by Kabwe Hamoonga for the tax year 2020.

(10 marks)

(c) Zambezi Bank Plc is a Zambian resident company offering banking services. The company is a 75% owned subsidiary of the African Bank Group. The following is a statement of profit or loss for the year ended 31 December 2020:

		K
Interest income	(Note 1)	71,740,000
Interest expense	(Note 2)	<u>(21,522,000)</u>
Net interest income		50,218,000
Provision for loan losses	(Note 3)	<u>(5,088,000)</u>
Net income after provision for loan losses		45,130,000
Non-interest income	(Note 4)	1,300,000
Non-interest expenses	(Note 5)	<u>(27,990,000)</u>
Income before income tax		18,440,000
Income tax expense	(Note 6)	<u>(6,454,000)</u>
Income after tax		<u><u>11,986,000</u></u>

#### **The following information is relevant:**

##### **(1) Interest income**

This constitutes interest from loans, overdrafts and various securities.

**(2) Interest expense**

This comprises the following:

	K
Interest on deposits	10,789,000
Interest on subordinate debt	9,800,000
Interest on late payment of provisional income tax	<u>933,000</u>
	<u>21,522,000</u>

**(3) Provision for loan losses**

This constitutes the following:

	K
Loans written off	3,620,800
Increase in general provision for loan losses	1,900,000
Loans previously written off now recovered	(400,000)
Decrease in specific provision for loan losses	<u>(32,800)</u>
	<u>5,088,000</u>

**(4) Non-interest income**

This comprises rental income of K450,000, royalties of K739,500 and dividends from Zambian LuSE listed companies of K110,500. These amounts represent the actual amount of cash received by the company. Withholding tax had been deducted at source at the appropriate rates.

**(5) Non-interest expense**

These expenses are made up of:

	K
Salaries & wages	15,400,000
Depreciation of non-current assets	600,000
Legal fees in connection with purchase of assets	130,000
Donation to political parties	280,000
Donation to approved public benefit organisations	420,000
Entertaining customers	570,000
Entertaining employees	350,000
Gifts to customers of Zambezi Bank Plc's Calendar costing K99 each	990,000
Other allowable expenses	<u>9,250,000</u>
	<u>27,990,000</u>

**(6) Income tax expense**

This represents the provisional income tax paid by Zambezi Bank Plc during the tax year 2020.

**(7) Other information**

The capital allowances claimable by Zambezi Bank Plc on its implements, plant and machinery and buildings have been agreed with the Commissioner General to be K2,760,000 for the tax year 2020.

**Required:**

Calculate the amount of company income tax payable by Zambezi Bank Plc for the tax year 2020.

(11 marks)

**[Total: 25 Marks]**

**QUESTION FOUR**

(a) Zack Plc is a Zambian manufacturing company engaged in the manufacture of energy saver bulbs. The company is considering buying a second hand factory on 1 January, 2020 which has a cost of K1,856,000 (VAT inclusive). The directors of Zack Plc are considering the following options:

(1) Leasing the factory under an operating lease at annual lease rentals of K151,960 (VAT inclusive). Under this option the company will lease the factory building for three years.

(2) Acquire the factory building under a hire purchase agreement. Zack Plc will be required to pay installments of K190,200 per month for twelve (12) months.

**Required:**

Explain the income tax and VAT implications of each option the directors of Zack Plc are considering. Your answer should be supported by calculations where appropriate.

(9 marks)

(b) Diamond Plc owns 100% of the issued equity shares of Gold Limited and 70% of the issued equity shares of Copper Limited. All the three companies are resident in Zambia and carryout manufacturing operations within Zambia. The following are the summarised statements of profit or loss for the three companies the year ended 31 December 2020:

	Diamond Plc K	Gold Limited K	Copper Limited K
Sales	2,670,000	1,300,000	950,000
Cost of sales	<u>(1,320,000)</u>	<u>(520,000)</u>	<u>(522,500)</u>
Gross profit	1,350,000	780,000	427,500
Operating expenses	<u>(620,000)</u>	<u>(460,000)</u>	<u>(255,000)</u>
Profit before tax	730,000	320,000	172,500
Income tax expense	<u>(161,000)</u>	<u>(112,000)</u>	<u>(60,375)</u>
Profit for the year	<u><u>569,000</u></u>	<u><u>208,000</u></u>	<u><u>112,125</u></u>

**The following information is relevant:**

(1) Diamond Plc's sales are all standard-rated while Gold Limited's sales are made up of standard-rated (75%) and zero-rated (25%) sales. Copper Limited's sales are exempt supplies.

(2) Cost of sales are made up of the following:

	Diamond Plc K	Gold Limited K	Copper Limited K
Opening inventory	180,000	60,000	61,700
Purchases	1,000,000	400,000	450,000
Depreciation	250,000	100,000	48,000
Closing inventory	<u>(110,000)</u>	<u>(40,000)</u>	<u>(37,200)</u>
	<u><u>1,320,000</u></u>	<u><u>520,000</u></u>	<u><u>522,500</u></u>

Purchases for all the companies are standard-rated for VAT purposes.

(3) Operating expenses for each of the three companies are all standard-rated for VAT purposes

(4) Diamond Plc supplied standard-rated goods to Gold Limited with a sales value of K120,000. This figure is not included in the statements of profit or loss for both Diamond Plc and Gold Limited.

(5) Unless stated otherwise all the figures above are VAT exclusive.

**Required:**

- (i) Explain the Value Added Tax implications for group of companies. (3 marks)
- (ii) Calculate the VAT payable by each of the company in the group for the year ended 31 December 2020. You should indicate zero (0) on all supplies on which VAT is not chargeable or recoverable. (13 marks)

**[Total: 25 Marks]**

**END OF PAPER**

## SUGGESTED SOLUTIONS

### SOLUTION ONE

(a) Luangwa Mining Corporation

Mineral Royalty tax paid for the tax year 2020

	K
Copper: K32,100,000 x 8.5%	2,728,500
Gemstones: K3,220,100 x 6%	193,206
Vanadium: K6,000,000 x 8%	<u>480,000</u>
	<u>3,401,706</u>

(b) Luangwa Mining Corporation

Income tax payable for the tax year 2020

	K	K
Profit before tax		9,135,270
Add:		
Mineral royalty tax (a)	3,401,706	
Construction of police post	800,720	
Construction of community school	2,900,000	
Loss on disposal of office equipment	130,000	
Depreciation	680,000	
Amortisation	125,000	
Entertaining customers & suppliers	400,700	
Penalties for late payment of provisional tax	62,000	
Staff canteen expenses	<u>622,892</u>	
		<u>9,123,018</u>
		18,258,288
Less:		
Dividends	304,360	
Bank deposit interest	510,000	
Capital allowances (w)	<u>2,259,144</u>	
		<u>(3,073,504)</u>
Adjusted mining profit		15,184,784
Add:		
Bank deposit interest: K510,000 x 100/85		<u>600,000</u>
Total taxable income		<u>15,784,784</u>

#### Computation

Mining income: K15,184,784 x 30%	4,555,435
Non-mining income: K600,000 x 35%	<u>210,000</u>
Income tax liability	4,765,435
Less:	

Provisional income tax	(3,104,270)
WHT- Bank interest: K600,000 x 15%	<u>(90,000)</u>
Income tax payable	<u>1,571,165</u>

### **Workings**

Capital allowances

K

Office equipment

Balancing Charge: (K160,000 – K190,000) (30,000)

Mining plant: K3,000,000 x 20% 600,000

Office building: K4,200,000 x 2% 84,000

Smelter equipment: K2,200,000 x 20% 440,000

Delivery Trucks: K1,700,000 x 25% 425,000

Police post: K800,720 x 20% 160,144

Community school: K2,900,000 x 20% 580,000

Total capital allowances 2,259,144

## SOLUTION TWO

### (a) BASIS OF ASSESSMENT

Since the final period of account is made up of eighteen months from 1 July 2019 to 31 December 2020, the period will be split into two notional accounting periods for tax purposes. This will result in a twelve months period ending on 30 June 2020 and a six months period, starting on 1 July 2020 and ending on 31 December 2020. Profits, as adjusted for taxation purposes but before capital allowances will then be apportioned on a time basis to these two periods on a pro-rata basis.

The normal rules will then be applied to determine when profits for the first period will be assessed and this will be the current year basis since the accounting date for this period falls between 1 April and 31 December inclusive. This means that profits for the 12 months period ended 30 June 2020 will be assessed in the tax year 2020 being the basis period for the same tax year.

The profits for the six-month period to 31 December 2020 will be assessed in the following tax year which is the tax year 2021 and will be the basis period for the same tax year.

### (b) COMPUTATION OF FINAL TAXABLE PROFITS FOR THE TAX YEAR 2020

	K
Tax adjusted profits before capital allowances	
(K720,000 x 12/18)	480,000
Capital allowances (W1)	<u>(89,500)</u>
Final taxable profit	<u>390,500</u>
<u>Income Tax</u>	
On first K39,600 x 0%	0
On next K9,600 x 25%	2,400
On next K25,200 x 30%	7,560
On excess (K390,500 – K74,400) x 37.5%	<u>118,538</u>
	<u>128,498</u>

### COMPUTATION OF FINAL TAXABLE PROFITS FOR THE TAX YEAR 2021

	K
Tax adjusted profits before capital allowances	
(K720,000 x 6/18)	240,000
Balancing charge	<u>262,750</u>
Taxable profits after capital allowances	502,750
Less overlap profits	<u>(121,750)</u>
Final taxable profit	<u>381,000</u>
<u>Income Tax</u>	
On first K39,600	0
On next K9,600 x 25%	2,400



On next K25,200 x 30%	7,560
On Excess (K381,000 – K74,400) x 37.5%	<u>114,975</u>
	<u>124,935</u>

## WORKINGS

### (1) COMPUTATION OF CAPITAL ALLOWANCES FOR THE TAX YEAR 2020

K

<u>Commercial buildings</u>	
Wear and tear allowance (K700,000 x 2%)	14,000
<u>Mitsubishi Canter Van</u>	
Wear and tear allowance (K150,000 x 25%)	37,500
<u>Shop fixtures and fittings</u>	
Wear and tear allowance (80,000 x 25%)	20,000
<u>Toyota Fortuner</u>	
Wear & tear allowance (K120,000 x 20%) x 75%	<u>18,000</u>
	<u>89,500</u>

### (2) COMPUTATION OF CAPITAL ALLOWANCES FOR THE TAX YEAR 2021

K

K

<u>Commercial buildings</u>	
ITV b/f ( K490,000 – K14,000)	476,000
Proceeds (restricted to cost)	<u>700,000</u>
Balancing charge	<u>(224,000)</u> (224,000)
<u>Mitsubishi Canter van</u>	
ITV b/f (K37,500 –K37,500)	nil
Proceeds	<u>(30,000)</u>
	<u>(30,000)</u> (30,000)
<u>Fixtures &amp; fittings</u>	
ITV b/f (K40,000 – K20,000)	20,000
Proceeds	<u>(25,000)</u>
Balancing charge	<u>(5,000)</u> (5,000)
<u>Toyota</u>	
ITV b/f (K48,000 – K18,000)	30,000
Proceeds	<u>(35,000)</u>
Balancing allowance	<u>(5,000)</u> X 75% <u>(3,750)</u>
Net balancing charge	<u>(262,750)</u>

- (c) The main advantage of disposing off the business as a whole is that property transfer tax is not payable on the disposal of a business as a going concern. This is because a business is not property for the purposes of property transfer tax.

If, instead Malumbo disposed of the individual assets, then property transfer tax would be payable on the disposal of the land and buildings.

The property transfer tax would amount to K122,500 (i.e., 5% x K2,450,000). This property transfer tax is avoided when the business is sold as a going concern.

- (d) VAT Implications

The sale of Malumbo's business is a disposal of a going concern for VAT purposes. As a result, the whole transaction is outside the scope of VAT. Therefore, VAT would not be charged for on the disposal of the business.

Due to the sale of the business, Malumbo would be deregistered for VAT purposes. The new owner of the business would need to apply for VAT registration.

- (e) If Malumbo instead sold the individual assets, then output VAT would have been charged on the sales of taxable assets. This is because a sale of individual assets is within the scope of VAT, even if those assets were used in a trader's business.

### SOLUTION THREE

(a) A loan to an effective shareholder may constitute the following:

- (i) The amount of money advanced to the shareholder
- (ii) The extent of credit facilities provided to the shareholder
- (iii) The difference between the cost of providing any benefit or advantage to the shareholder and the amount paid for such benefit when provided.
- (iv) The difference between the open market value, as determined by the Commissioner General, of the asset transferred to the shareholder and the amount paid for that asset at the date of transfer.

(b) Kabwe Hamoonga

Income tax payable for the tax year 2020

	Total	Non-farming	Farming
	Income	Income	Income
	K	K	K
Profit from retail trade	90,000	90,000	-
Royalties: K47,600 x 100/85	56,000	56,000	-
Profit from farming	<u>400,000</u>	<u>-</u>	<u>400,000</u>
Taxable income	<u>546,000</u>	<u>146,000</u>	<u>400,000</u>

Income tax

Non-Farming

First K74,400

Balance K71,600 @37.5%

K

9,960

26,850

36,810

Farming income: K400,000 x 10%

40,000

Income tax liability

76,810

Less:

Provisional income tax

(50,000)

WHT- Royalties: K56,000 x 15%

(8,400)

Income tax payable

18,410

(c) ZAMBEZI BANK PLC

COMPUTATION OF INCOME TAX PAYABLE FOR THE TAX YEAR 2020

	K	K
Income before income tax		18,440,000
Add:		
Interest on late payment of tax	933,000	
Increase in general provision	1,900,000	
Depreciation	600,000	
Legal fees- purchase of assets	130,000	
Donation to political parties	280,000	
Entertaining customers	<u>570,000</u>	
		<u>4,413,000</u>
		22,853,000
Less:		
Rental income	450,000	
Royalties	739,500	
Dividends	110,500	
Capital allowances	<u>2,760,000</u>	
		<u>(4,060,000)</u>
Adjusted income		18,793,000
Add:		
Royalties: $K739,500 \times 100/85$		<u>870,000</u>
Total taxable income		<u>19,663,000</u>
Income tax: $K19,663,000 \times 35\%$		6,882,050
Less:		
Provisional income tax		(6,454,000)
WHT- Royalties: $K870,000 \times 15\%$		<u>(130,500)</u>
Income tax payable		<u>297,550</u>

## SOLUTION FOUR

### (a) Operating Lease

The following are the income tax and VAT implications:

- (1) The company will not be able to claim capital allowances on the factory building because Zack Plc will not own the building under this option.
- (2) Operating lease rentals will be allowable for tax purposes when computing the adjusted business profit of the company. The amount of rentals to be allowed should exclude VAT. i.e.  $K151,960 \times 25/29 = K131,000$
- (3) The company will be able to claim input VAT on the lease rentals. i.e.  $K151,960 \times 4/29 = K20,960$ .

### Hire Purchase

The following are the income tax and VAT implications:

- (1) The company will be able to claim capital allowances on the cash price of the factory building exclusive of VAT. I.e  $K1,856,000 \times 25/29 \times 5\% = K80,000$ .
- (2) The company will be able to recover the input VAT on the cash price of the factory building. I.e  $K1,856,000 \times 4/29 = K256,000$ .
- (3) The company will be allowed a deduction of hire purchase interest payable when computing the adjusted business profit of the company. I.e  $(K190,200 \times 12) - K1,856,000 = K426,400$ .

### (b) (i) Value Added Tax

The following are the VAT implications of the group of companies:

1. Each company has to calculate its own output VAT and input VAT and account for VAT payable individually
2. VAT has to be accounted for on all taxable intra-group transactions. i.e All the transactions between members of the group.
3. Each individual company has to file its own VAT returns on the appropriate due dates
4. Each company is individually liable for any VAT due

### (c) COMPUTATION OF VAT PAYABLE FOR THE YEAR ENDED 31 DECEMBER 2020

	Diamond K	Gold K	Copper K
<u>Output VAT</u>			
Standard- rated supplies (2,670,000) (1,300,000 x75%) x 16%	427,200	156,000	-

Zero-rated supplies (1,300,000 x 25% x 0%)	-	0	-
Exempt supplies	-	-	0
Intra-group sales: K120,000 x 16%	<u>19,200</u>	<u>-</u>	<u>-</u>
Total output VAT	<u>446,400</u>	<u>156,000</u>	<u>0</u>

Input VAT

Standard rated purchases:			
(1,000,000) (400,000) x 16%	160,000	64,000	0
Operating expenses:			
(620,000) (460,000) x 16%	99,200	73,600	0
Intra-group purchases:			
K120,000 x 16%	<u>-</u>	<u>19,200</u>	<u>-</u>
Total input VAT	<u>259,200</u>	<u>156,800</u>	<u>0</u>
VAT payable/(refundable)	<u>187,200</u>	<u>(800)</u>	<u>0</u>

**END OF SOLUTIONS**



TAXATION PROGRAMME EXAMINATIONS

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DIPLOMA LEVEL

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D4: PERSONAL TAXATION

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TUESDAY 23 JUNE 2020

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

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**INSTRUCTIONS TO CANDIDATES**

1. You have fifteen (15) minutes reading. 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

**DO NOT OPEN THIS QUESTION PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR.**

## Taxation table for paper D4– Personal Taxation (June and December 2020 Examinations)

### Income Tax

#### Standard personal income tax rates

<b>Income band</b>	<b>Taxable amount</b>	<b>Rate</b>
K1 to K39,600	first K39,600	0%
K39,601 to 49,200	next K9,600	25%
K49,201 to K74,400	next K25,200	30%
Over K74,400		37.5%

#### Income from farming for individuals

K1 to K39,600	first K39,600	0%
Over K39,600		10%

#### Company Income Tax rates

On income from manufacturing and other	35%
On income from farming	10%
On income of Banks and other Financial Institutions	35%
On income from mineral processing	30%
On income from mining operations	30%

### Mineral Royalty

#### Mineral Royalty on Copper

<b>Range of Norm Price</b>	<b>Mineral Royalty Rate</b>
Less than US\$4,500	5.5% of norm value
From US\$4,500 to less than US\$6,000	6.5% of norm value
From US\$6,000 to less than US\$7,500	7.5% of norm value
From US\$7,500 to less than US\$9,000	8.5% of norm value
From US\$9,000 and above	10% of norm value

#### Mineral Royalty on other minerals

<b>Type of mineral</b>	<b>Mineral Royalty Rate</b>
Base Metals (Other than Copper, Cobalt and Vanadium)	5% on norm value
Cobalt and Vanadium	8% of norm value
Energy and Industrial Minerals	5% on gross value
Gemstones	6% on gross value
Precious Metals	6% on norm value



## Capital Allowances

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

Wear and Tear Allowance –	Plant used normally	25%
	Used in Manufacturing and Leasing	50%
	Used in farming and agro-processing	100%

### 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

4%

### Presumptive Tax for Transporters

Seating capacity	Tax per annum	Tax per day
	K	K
From 64 passengers and over	10,800	29.60
From 50 to 63 passengers	9,000	24.70
From 36 to 49 passengers	7,200	19.70
From 22 to 35 passengers	5,400	14.80
From 18 to 21 passengers	3,600	9.90
From 12 to 17 passengers	1,800	4.90
Less than 12 passengers and taxis	900	2.50

## Property Transfer Tax

Rate of Tax on Realised Value of Land, Land and Buildings and shares	5%
Rate of Tax on Realised Value on a transfer or sale of a mining right	10%
Rate of Tax on Realised Value on a transfer of Intellectual Property	5%

## Value Added Tax

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

## Customs and Excise Customs and Excise duties on used motor vehicles

<b>Motor vehicles for the transport of ten or more persons, including the driver</b>	<b>Aged 2 to 5 years</b>		<b>Aged over 5 years</b>	
	<b>Customs duty K</b>	<b>Excise duty K</b>	<b>Customs duty K</b>	<b>Excise duty K</b>
Sitting capacity of 10 but not exceeding 14 persons including the driver	17,778	22,223	8,889	11,112
Sitting capacity exceeding 14 but not exceeding 32 persons	38,924	0	13,840	0
Sitting capacity of 33 but not exceeding 44 persons	86,497	0	19,462	0
Sitting capacity exceeding 44 persons	108,121	0	43,248	0
<b>Motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars</b>	<b>Aged 2 to 5 years</b>		<b>Aged over 5 years</b>	
	<b>Customs duty K</b>	<b>Excise duty K</b>	<b>Customs duty K</b>	<b>Excise duty K</b>
<b>Sedans</b>				
cylinder capacity not exceeding 1000 cc	12,490	10,824	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	16,058	13,917	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	16,545	21,508	8,423	10,950
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	10,528	13,687
Cylinder capacity exceeding 3000 cc	22,561	29,329	12,032	15,642
<b>Hatchbacks</b>				
cylinder capacity not exceeding 1000 cc	10,705	9,278	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	14,274	12,371	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	15,041	19,553	8,423	10,950
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	16,545	21,508	10,523	13,687
Cylinder capacity exceeding 3000 cc	19,553	25,419	12,032	15,642
<b>Station wagons</b>				
cylinder capacity not exceeding 2500 cc	16,545	21,508	9,024	11,731
Cylinder capacity exceeding 2500 cc but not	18,049	23,463	13,357	17,598

exceeding 3000 cc				
Cylinder capacity exceeding 3000 cc but not exceeding 2500 cc	22,561	29,329	18,049	23,463

### **SUVs**

Cylinder capacity not exceeding 2500 cc	21,057	27,374	9,024	11,732
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	24,065	31,284	13,357	17,598
Cylinder capacity exceeding 3000 cc	28,577	37,150	18,049	23,463
	<b>Aged 2 to 5 years</b>		<b>Aged over 5 years</b>	

### **Motor vehicles for the transport of goods –with compression-ignition internal combustion piston engine (diesel or semi-diesel):**

	<b>Customs duty</b>	<b>Excise duty</b>	<b>Customs duty</b>	<b>Excise duty</b>
	<b>K</b>	<b>K</b>	<b>K</b>	<b>K</b>
<b>Single cab</b>				
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	21,926	9,501	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	26,311	11,402	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	30,697	13,302	17,541	7,601
Double cabs GVW exceeding 3 tonnes but not exceeding 5 tonnes	30,274	0	24,119	10,452
Double cabs GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes, <b>with spark ignition internal combustion piston engine</b>	30,697	13,302	24,119	10,452

### **Panel Vans**

GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	15,348	6,651	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	17,541	7,601	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	21,926	9,501	17,541	7,601

### **Trucks**

GVW up to 2 tonnes	21,926	9,501	10,963	4,751
GVW exceeding 2.0 tonnes but not exceeding 5.0 tonnes	28,504	12,352	13,156	5,701
GVW exceeding 5.0 tonnes but not exceeding 10.0 tonnes	24,724	18,955	10,817	8,293
GVW exceeding 10.0 tonnes but not exceeding 20.0 tonnes	30,905	23,694	11,744	9,004
GVW exceeding 20 tonnes	51,898	0	19,461	0
GVW exceeding 20 tonnes, <b>with spark ignition internal combustion piston engine</b>	37,086	28,432	13,907	10,662

### **Customs and excise duty on new vehicles**

- 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:	30%
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 tonnes:

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 is K6,000.

Import VAT is added to the sum of VDP, customs duty and excise duty. It is determined at the standard rate of 16%

## **Attempt all FOUR (4) Questions**

### **QUESTION ONE**

**You should assume that today's date is 31 December 2020.**

David Chilembi had been employed as a Managing Director at Mansa Plc. as from 1 June 2017 and his conditions of service provided for the following:

Annual salary	K300,000
Medical allowance per month	K3,200
Transport allowance per month	K1,700
Lunch allowance per month	K870

On 1 May 2020, David Chilembi received a labour day award and long-term service award in cash amounting to K15,000 and K21,000 respectively. He had been accommodated in a company owned house for which he paid no rent to the company. The house is maintained by the company and ancillary expenses relating to the house amounted to K8,960 per month which the company paid.

On 31 May 2020 David Chilembi received the following investment income:

	K
Rental income	36,000
Dividends from ZAM Limited	10,000
Royalties	64,600
Bank deposit interest	5,000

The above amounts of investment income represent the actual cash received by David Chilembi.

On 31 July 2020, David Chilembi passed on after a short illness. As at the date of death, David Chilembi left the following assets:

1. Twenty-eight (28) hectares of farm land which he acquired at a cost of K2,000 per hectre in 2017. As at 31 July 2020, the market value of the farm land was K4,600 per hectre
2. A four bed roomed house which he built at a total cost of K600,000 four years ago. The house was valued at K1,240,600 on 31 July 2020.
3. Residential plots with a total market value of K230,000 as at 31 July 2020. These plots were acquired at a total cost of K80,000 six years ago.
4. Bank savings accounts valued at K300,000.
5. Various chattels valued at K170,000 at 31 July 2020.
6. 30,000 shares held in LP Limited. The shares were acquired at a cost of K1.90 each. The shares were valued at K7.60 per shares.

David Chilembi left a will which splits his assets between his two (2) children; Katwishi and Mapalo in the ratio of 3:2 respectively.

Before the date of death, David Chilembi incurred the following expenses during the tax year 2020:

	K
School fees for his children	16,000
Tax deducted under pay as you earn	62,831
Donation to approved public benefit organisation	10,300
Donation to political party	5,200
Relevant Professional subscription	4,800
NAPSA contributions	8,750

**Required:**

- (a) Explain how the income of the deceased’s estate is treated for income tax purposes. (5 marks)
- (b) Calculate the amount of income tax payable by Mr. David Chilembi for the tax year 2020 and explain the person responsible for payment of this tax. (13 marks)
- (c) Calculate the amount of income tax payable on Mr. David Chilembi’s estate and the inheritance due to Katwishi and Mapalo. (7 marks)

**[Total: 25 Marks]**

**QUESTION TWO**

- (a) Chatengwa is a Zambian resident individual who has made investments in intellectual properties within the Republic of Zambia. During the year ended 31 December 2020, Chatengwa received the following royalties:

31 March 2020	K 25,500
30 June 2020	K 39,950
30 September 2020	K 52,955
31 December 2020	K 17,000
Total	K135,405

These amounts represent the actual cash received by Chatengwa. On 31 October 2020, Chatengwa entered into the following transactions:

- (1) Sold his patent for K130,000. He acquired this patent two years ago at a cost of K40,000. The open market value of this patent was determined to be K90,000.
- (2) He gifted a copyright to his firstborn son and the son paid him K10,000 in appreciation. Chatengwa bought this copyright in 2019 at a cost of K5,000. The open market value of this copyright was K72,000.

During the tax year 2020, Chatengwa made a donation to a local approved public benefit organisation amounting to K12,000. The only other income received by Chatengwa during the tax year 2020 was employment income of K41,000 (PAYE deducted at source- K15,375) from his part-time job.

**Required:**

- (i) Advise Chatengwa of the tax treatment of royalties he received during the tax year 2020 and the amount of income tax payable for the tax year 2020. (9 marks)
- (ii) Advise Chatengwa of the tax implications arising from sale of intellectual properties during the tax year 2020. Your answer should include appropriate calculations. (4 marks)
- (b) Chakatazya intends to commence a public passenger transportation business on 1 February 2020 and she will buy the following vehicles:
- Three (3) second hand thirty-two (32) seater Higer busses,
  - Four taxis five (5) seater each and
  - Two (2) sixteen-seater minibuses at a total cost of K290,000, K250,000 and K210,000 respectively.

All the motor vehicles will be acquired from within the Republic of Zambia.

She will employ three (3) Higer bus drivers, four (4) taxi drivers and two (2) minibus drivers at a monthly salary of K5,500, K3,000 and K3,200 for each driver respectively and she will contribute 5% of each employee's salary as employer's NAPSA contributions. Each driver will also be required to contribute 5% of the salary as NAPSA contributions.

Other operating expenses will amount to K10,200 per month. The motor vehicles will be operational six (6) days in a week for four (4) weeks in a month throughout the tax year 2020. The total revenue (turnover) for the tax year 2020 will amount to K1,300,000.

**Required:**

Advise Chakatazya of the type and amount of tax payable for the tax year 2020. Your answer should include an explanation of the treatment of expenses she will incur wholly and exclusively for business purposes. (5 marks)

- (c) Assume that today's date is 30 September 2020  
Jerry Kapimpa, an employee of JB Ltd, was granted 5,000 share options on 30 April 2020. The options will be exercised on 31 December 2020 at a price of K13 per share. As at 30 April 2020, the market value of each JB Limited's shares was K13 per share. Jerry Kapimpa intends to sell these shares on 31 March 2021. On 31 December 2020, the market value of JB Limited's shares is expected to be K15 per share. The share option scheme that JB Limited administers is not approved for tax purposes.

**Required:**

- (i) Advise Jerry Kapimpa of the taxation implications arising from exercise of share options and subsequent sale of the shares. (4 marks)
- (ii) Explain how your answer to (c i) would be different if the share option scheme was approved for tax purposes. (3 marks)

**[Total: 25 Marks]**

**QUESTION THREE**

- (a) Mutale Cheembo is a Zambian resident Information Technology (IT) graduate from the Zambia Institute of Public College (ZIPC) who intends to start a business within Lusaka supplying phone and computer accessories. His expected transactions are as follows:

1. He will rent a shop along Cairo Road paying K10,500 monthly rentals.
2. The turnover of the business is estimated to average K55,000 per month.
3. She will engage five (5) employees to help her manage the business. The total annual labour cost for the five (5) employees consisting of annual salaries and employer's NAPSA contributions will be K88,000.
4. Estimated business expenses to be incurred wholly and exclusively for the purposes of the business will average K8,000 per month.
5. He intends to spend K15,000 on entertaining suppliers of his business.
6. He will purchase the following business assets which will be used wholly and exclusively for the purposes of running the business, on 1 January 2020.

	Cost K
Office equipment	80,000
Computers	30,000
Shop fittings	40,000
Delivery van	90,000

**Required:**

Advise Mutale of tax assessment in respect of her business in the tax year 2020. Your answer should include appropriate calculations of the amount of tax payable in the tax year 2020, together with an explanation of the tax implications arising from the acquisition of capital assets and tax treatment of the expenses she will incur in running the business. (7 marks)

- (b) Fred Mwale has been employed as the Marketing Director at Fillers Ltd. His annual salary is K375,000. He is paid his salary on a monthly basis on the last day of each month. He is provided with a petrol propelled 2,500 cc company car on a personal to holder basis. The motor car had cost K60,000 when bought by the company. Fillers Ltd meets all the motor car expenses including the cost of petrol for private use. He is a member of the Zambia Golf Club (ZGC) and pays an annual subscription of K14,000.

On 1 January 2020, Fillers Ltd notified Fred that he would be retrenched on 30 April 2020. On that day the company will pay him his final month's salary together with a



payment of K72,000 being his accrued leave pay. In addition, the company will pay him as compensation for loss of office amounting to K165,000. Fred would also be paid a severance amount of K68,000.

During the tenure of period of employment, he contributed 5% of his gross pay to NAPSA and a further 5% of his salary was paid to a non-approved public benefit organisation.

Upon leaving Fillers Ltd., Fred was offered a job as Business Development Director by Corn Ltd. as from 1 August 2020 on a permanent and pensionable terms at an annual salary of K300,000 and will be entitlement to a gratuity of six (6) times his final annual salary on retirement.

Corn Ltd will pay rent for Fred's house at the rate of K6,200 (net) per month but will not be responsible for paying electricity and water related to Fred's house. Fred will continue to contribute 5% of his gross earnings with the new employer and will also contribute 1% of basic pay per annum towards the National Health Insurance.

Fred has multiple investments from which he received the following net investment income in the tax year 2020:

	K
Dividends from Zambian companies listed on the LuSE	4,800
Bank deposit interest	5,900
Treasury bills (TB) interest	6,900
Management consultancy	15,700
Royalties	30,500

His PAYE deductions from the two companies amounted to K130,100.

**Required:**

- (i) Calculate the amount of income tax payable by Fred for the tax year 2020. (7 marks)
- (ii) Explain how rental income is taxed in the hands of an individual. (4 marks)
- (c) Explain the tax appeals process a tax payer should follow for the income tax payable assessed by the ZRA. (7 marks)

**[Total: 25 Marks]**

**QUESTION FOUR**

- (a) Lawrence, a Zambian resident individual recently retired from employment on 31 December 2019. He was working for a Zambia resident company where he was employed as the Chief Executive Officer, having reached the normal retirement age. Having received terminal benefits from his employers amounting to K1 million, Lawrence would like to invest some of these funds in various investments either locally or in foreign countries in the tax year 2020. Lawrence is particularly considering investing the following amounts in the following sets of investment options:

- (1) Opening a fixed deposit account in Zambia which will generate interest income of K10,000 (gross) per year. Alternatively, he can open a fixed deposit account

with a bank that is resident and located in a foreign country to earn the same amount of interest.

- (2) Investing in bonds issued by a Zambian resident company to earn interest of K30,000 per year. As an Alternative he can invest in bonds of a company that is resident and located in a foreign country to earn the same amount of interest.
- (3) Purchasing shares in a Zambian resident company listed on the Lusaka Securities Exchange to earn annual dividend income of K25,000. As an alternative, he can purchase shares in a listed company which is incorporated and located in a foreign country which will generate the same amount of dividend income.
- (4) Buying commercial property in Zambia for letting out to business houses in Zambia which will generate gross rental income of K120,000 annually or buying commercial property in a foreign country for letting out to businesses in that country which will generate the same amount of gross rental income per year.

**Required:**

Advise Lawrence of the taxation implications arising from each of the above sets of investment options. (8 marks)

- (b) Emily has run a retail business for many years preparing accounts to 31 May each year. The turnover from the business has always exceeded K800,000. However, due to increased competition in the market place, Emily has decided to cease trading. Therefore, after preparing accounts for the year ended 31 May 2019, Emily ceased trading on 31 December 2020. The tax adjusted profit before capital allowances for the final period of trading from 1 June 2019 to 31 December 2020 was K209,000.

The income tax values of assets qualifying for capital allowances at 31 December and their original costs were as follows:

Assets	Income Tax Value at 1 June 2019	Original Cost
	K	K
Shop buildings	240,000	300,000
Delivery van	70,000	140,000
Toyota Camry car	54,000	90,000

Emily had private use of the Toyota Camry car of 50%.

On 31 December 2020, Emily sold all the business assets realising proceeds of K450,000 for the Shop buildings, K80,000 for the Delivery Van, and K54,000 for the Toyota Camry car. Emily had no other income in the tax year 2020.

**Required:**

- (i) Explain the basis of assessment for the profits generated by Emily in the final two (2) tax years. (3 marks)
- (ii) Compute the income tax payable by Emily for each relevant tax year. You should assume that the tax rates for tax year 2020 applies to both tax years. (14 marks)

**[Total: 25 Marks]**

**END OF PAPER**

## SUGGESTED SOLUTIONS

### SOLUTION ONE

- (a) When an individual dies, the tax year should be split into two periods; period before date of death and period after death.

All the income accruing to the deceased before the date of death, even if it is received after the date of death, is considered income of the deceased. Therefore, that income is taxed on the deceased and the tax is paid by the executor administrator.

All the income accruing after the date of death forms part of the estate left behind by the deceased which is taxed together with assets left behind by the deceased at 35% of the total market value.

- (b) Mr. Chilembi

Income tax payable for the tax year 2020

	K	K
Salary: $K300,000 \times 7/12$		175,000
Medical allowance: $K3,200 \times 7$		22,400
Transport allowance: $K1,700 \times 7$		11,900
Lunch allowance: $K870 \times 7$		6,090
Long-term service award		21,000
Ancillary expenses: $K8,960 \times 7$		<u>62,720</u>
		299,110
Investment income		
Royalties ( $64,600 \times 100/85$ )		<u>76,000</u>
		375,110
Donation to public benefit organisation	10,300	
Professional subscription	<u>4,800</u>	
		<u>(15,100)</u>
Taxable income		<u>360,010</u>
Computation		
First K39,600 @0%		0
Next K9,600 @25%		2,400
Next K25,200 @30%		7,560
Balance K285,610 @37.5%		<u>107,104</u>
Income tax liability		117,064
Less:		
PAYE		(62,831)
WHT: $K76,000 \times 15\%$		<u>(11,400)</u>
Income tax payable		<u>42,833</u>

- (c) Mr. Chilembi's Estate

Tax payable on the Estate

	Market value
	K
Farmland ( $K4,600 \times 28$ )	128,800

House	1,240,600
Plots	230,000
Bank savings accounts	300,000
Various chattels	170,000
Shares in LP Limited (30,000 shares x K7.60)	<u>228,000</u>
Taxable amount	2,297,400
Income tax K2,297,400 @35%	<u>(804,090)</u>
Inheritance due	<u>1,493,310</u>
Inheritance due to:	
Katwishi: K1,493,310 x 3/5	895,986
Mapalo: K1,493,310 x 2/5	<u>597,324</u>
Total	<u>1,493,310</u>

## SOLUTION TWO

### (a) Chatengwa

- (i) Royalties are subjected to withholding tax at a rate of 15% of the gross amount and the withholding tax is not the final tax.

Therefore, the royalties received by Chatengwa will be grossed up and further assessed on him under the normal income tax.

The income tax payable by Chatengwa will be as follows:

Chatengwa

Income tax payable for the tax year 2020

	K	K
Marks		
Income from employment		41,000
Investment income		
Royalties: K135,405 x 100/85		<u>159,300</u>
		200,300
Less:		
Donation to public benefit organisation		<u>(12,000)</u>
Taxable income		<u>188,300</u>

Computation

First K39,600 @0%	0
Next K9,600 @25%	2,400
Next K25,200 @30%	7,560
Balance k113,900 @37.5%	<u>42,713</u>
Income tax liability	52,673
Less:	
PAYE	(15,375)
WHT- Royalties: K159,300 x 15%	<u>(23,895)</u>
Income tax payable	<u>13,403</u>

- (ii) The following are the tax implications from the sale of intellectual property:
- Intellectual property qualifies as property for the purposes of property transfer tax. Therefore, transfer of intellectual property attracts property transfer tax at a rate of 5% of the realised value.
- Sale of patents meets the definition of transfer of property. Therefore, Chatengwa will be required to pay property transfer tax at a rate of 5% of the realised value. i.e K130,000.  
The property transfer tax payable is therefore,  $K130,000 \times 5\% = K6,500$ .
  - Gifting of shares to his son meets the definition of transfer to members of the immediate family. In this case the realised value is the actual consideration received by Chatengwa from his son i.e K10,000.  
Property transfer tax payable is therefore;  $K10,000 \times 5\% = K500$ .

(b) Chakatazya will be running a business of public transportation for the carriage of persons. Chakatazya will, therefore, be liable to pay presumptive tax for a transporter which is levied on a daily basis depending on the seating capacity of the vehicle.

Expenses that Chakatazya will incur will not be deducted in computing the presumptive tax because presumptive tax is not calculated on the taxable profit but it is a daily fixed charge.

Capital allowances on the motor vehicles that will be used wholly and exclusively for the purpose of the business will also not be claimed.

The amount of tax payable by Chakatazya for the tax year 2020 will be:

	K
Higer busses: $K14.80 \times 6 \times 4 \times 11 \times 3$ )	11,722
Taxis: $K2.50 \times 6 \times 4 \times 11 \times 4$ )	2,640
Mini busses: $K4.90 \times 6 \times 4 \times 11 \times 2$ )	<u>2,587</u>
Total tax payable	<u>16,949</u>

(c) Jerry Kapimpa

(i) On the exercise of the share options, Jerry Kapimpa will be taxed on any benefit that will arise as a result of exercising the option. The benefit for an employee arises if the exercise price is less than the fair value of the shares at the date when the share options are being exercised.

In this case, Jerry will exercise the options at K13 when the market value will be K15 per share. Therefore, he will be taxed on the difference. The taxable income will, therefore, be;  $5,000 \text{ shares} \times (K15 - K13) = K10,000$ .

On subsequent sale of the shares, Jerry Kapimpa will be liable to pay property transfer tax at a rate of 5% of the realised value.

(ii) If the scheme was approved for tax purposes, then:

1. Jerry would not pay any tax on the benefit arising from exercise of share options because any benefit arising from the share options under an approved share option scheme is exempt from tax.

2. No property transfer tax is charged on the subsequent sale of the shares under an approved share option scheme.

### SOLUTION THREE

- (a) The annual turnover of this business will be K660,000 (K55,000 x12) which does not exceed K800,000 and therefore Mutale will not be required to pay the normal income tax. He will thus be assessed to turnover tax as opposed to income tax under the self-assessment system.

The monthly turnover tax payable will be K2,200 [55,000 x 4%].

The turnover tax will be payable by the 14th day following the end of each month and will amount to K26,400 for the whole tax year. (2,200 x12)

Rentals for the shop and other expenses incurred wholly and exclusively for business purposes will not be allowable for the purposes of assessing the turnover tax.

Salaries for the five employees including employer's NAPSA contributions will not be allowable for the purposes of computing turnover tax.

The expenditure of K15,000 on entertaining suppliers of his business will not be an allowable deduction.

Capital allowances on the assets bought to be used wholly and exclusively for the purposes of the 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 tax following year.

The amount of notional allowances and the income tax values of the assets at the end of the tax year 2020 will be as follows:

	Value K	Notional allowance K
Office equipment		
Cost	80,000	
W & T @25% of 80,000	<u>(20,000)</u>	20,000
ITV c/f	<u>60,000</u>	
Computers		
Cost	30,000	
Wear & tear allowance (25% × K30,000)	<u>(7,500)</u>	7,500
ITV c/f	<u>22,500</u>	
Shop fittings		
Cost	40,000	
Wear & tear allowance (25% × K40,000)	<u>(10,000)</u>	10,000
ITV c/f	<u>30,000</u>	
Delivery van		
Cost	90,000	
Wear & tear allowance (25% × K90,000)	<u>(22,500)</u>	22,500

ITV c/f	<u>67,500</u>	
Total notional capital allowances		<u>60,000</u>

(b) Fred Mwale

(i) Personal Income Tax computation for the tax year 2020

	K	K
Employment with Fillers Ltd		
Salary (375,00 x 4/12)		125,000
Accrued leave pay		<u>72,000</u>
		197,000
Employment with Corn Ltd		
Salary (K300,000 x 5/12)		125,000
Rent paid by Corn Ltd (K6,200 x 100/90 x 5)		<u>34,444</u>
Total emoluments		356,444
Add investment income		
Gross Mgt. consultancy (K15,700 x 100/85)		18,471
Gross royalties (K30, 500 x 100/85)		<u>35,882</u>
Taxable income		410,797
Income tax		
On the first K74,400 of income		9,960
On the balance: 37.5% x (K410,797 – K74,400)		<u>126,149</u>
Total tax payable by Fred		136,109
Less PAYEE		<u>(130,109)</u>
		<u>9,960</u>

(ii) Rental income

Rent is received net of 10% withholding tax deducted at source. The amount of the withholding tax is the final tax on rental income.

Therefore, income from letting of property shall not be included in the computation of income tax payable by an individual.

(c) Tax Appeals Process

The tax payer may make an objection to the notice of assessment stating the reasons for making the objection.

He or she should make the objection in writing and it should be addressed to the Commissioner General.

The Commissioner General may entertain the objection and the matter may be settled immediately, with the tax payer agreeing to pay the final tax determined.

In the event that the Commissioner General does not entertain tax payer's objection, the tax payer may make an appeal to the Tax Appeals Tribunal on a point of fact, law or mixed fact and law.

The Tax Appeals Tribunal would make a decision either in tax payer's favour or in the Commissioner General's favour.

Either party that is not satisfied with the decision of the Tax Appeals Tribunal may make an appeal to the High Court on a point of law or mixed law and fact.

A final appeal may be made by either party to the Supreme Court on a point of law only.



## **SOLUTION FOUR**

(a) Tax implications of investment options:

(1) **Fixed Deposit interest**

Fixed deposit interest of K10,000 earned from a Zambian resident bank by an individual will be exempt. Therefore, if Lawrence opens a fixed deposit account with a Zambian bank, no withholding tax will be deducted from any interest income that will be credited to his account.

**Fixed deposit interest from Foreign Bank**

Interest income received from foreign sources is taxable on a Zambian resident individual subject to any double taxation relief which may be available. If Lawrence opens a fixed deposit account with a bank resident in a foreign country, the gross amount interest income of K10,000 per year will be liable to Zambian income tax using the tax rates for individuals' subject to any double taxation relief which may be available.

(2) **Investment in bonds issued by Zambian resident companies**

Interest income earned from bonds issued by Zambian resident companies is subjected to withholding tax at the rate of 15% for an individual which is a final tax.

Therefore, if Lawrence invests in bonds of Zambian companies, the interest income of K30,000 he will earn per year will be subjected to withholding tax at the rate of 15% which is final and he will not be subjected to further income tax on the interest.

**Investment in bonds issued by companies resident in a foreign country**

Interest income received from foreign sources is taxable on the gross amount using the personal income tax rates for individuals subject to any double taxation relief which may be available.

Therefore, if Lawrence invests in bonds issued by a foreign company the interest income of K30,000 he will receive from those bonds will be liable to Zambian income tax subject to any double taxation relief which may be available.

(3) **Shares in a Zambian listed company**

The rate of withholding tax charged on dividend income by Zambian resident companies listed on the LuSE is zero. Therefore, if Lawrence invests in shares of listed company the gross dividend income of K25,000 earned will not suffer any withholding tax.

**Shares in a foreign company**

Dividends received from foreign sources are chargeable to Zambian income tax.

The chargeable amount is the gross amount which is subjected to Zambian income tax using the personal income tax rates for individuals.

Therefore, if Lawrence buys shares in a foreign company the dividend income he will receive from those shares will be liable to Zambian income tax, subject to any double taxation relief which may be available.

(3) **Commercial property for letting in Zambia**

Rental income earned from letting property in Zambia is subjected to withholding tax at the rate of 10% for an individual, which is a final tax.

If Lawrence lets out property on a commercial basis, the gross rental income he will earn of K120,000 per year will be subjected to withholding tax at the rate of 10%, which is final and he will therefore not be subjected to further income tax on that income.

**Commercial property for letting in a foreign country**

Rent received from letting of property that is situated outside Zambia is exempt from Zambian income tax. Therefore the rental income of K120,000 that Lawrence will earn from letting property on a commercial basis in a foreign country will only be taxable in the foreign country but will be exempt from Zambian income tax.

(b) (i) Basis of assessment

Since the final period of account is made up of nineteen months from 1 June 2019 to 30 December 2020, the period will be split into two notional accounting periods for tax purposes. This will result in a twelve months period ending on 31 May 2020 and a seven months period, starting on 1 June 2020 and ending on 31 December 2020.

Profits, as adjusted for taxation purposes but before capital allowances will then be apportioned on a time basis to these two periods on a pro-rata basis.

The normal rules will then be applied to determine when the profits the first period will be assessed and this will be the current year basis since the

accounting date for this period falls between 1 April and 31 December. This means that profits for the 12 months period ended 31 May 2020 will be assessed in the tax year 2020 being the basis period for the same tax year.

The profits for the seven month period to 31 December 2020 will be assessed in the following tax year which is the tax year 2021 and will be the basis period for the same tax year.

(ii) COMPUTATION OF FINAL TAXABLE PROFITS FOR THE TAX YEAR 2020

	K
Tax adjusted profits before capital allowances (K209,000 x 12/19)	132,000
Capital allowances (W1)	<u>(50,000)</u> (W1)
Final taxable profit	<u>82,000</u>
Income Tax	
On first K39,600 x 0%	0
On next K9,600 x 25%	2,400
On next K25,200 x 30%	7,560
On excess K7,600 x 37.5%	<u>2,850</u>
	<u>12,810</u>

COMPUTATION OF FINAL TAXABLE PROFITS FOR THE TAX YEAR 2021

	K
Tax adjusted profits before capital allowances (K209,000 x 7/19)	77,000
Balancing charge	<u>120,000</u> (W2)
Final Taxable profits	<u>197,000</u>
On first K39,600	0
On next K9,600 x 25%	2,400
On next K25,200 x 30%	7,960
On Excess K122,600 x 37.5%	<u>45,975</u>
	<u>56,335</u>

WORKINGS

(1) COMPUTATION OF CAPITAL ALLOWANCES FOR THE TAX YEAR 2020

	K
<u>Shop buildings</u>	
Wear and tear allowance (K300,000 x 2%)	6,000
<u>Delivery Van</u>	
Wear and tear allowance (K140,000 x 25%)	35,000
<u>Toyota Camry car</u>	
Wear and tear allowance (90,000 x 20%) x 50%	<u>9,000</u>
	<u>50,000</u>

(2) COMPUTATION OF CAPITAL ALLOWANCES FOR THE TAX YEAR 2021

	K		K
<u>Shop buildings</u>			
ITV b/f ( K240,000 – K6,000)	234,000		
Proceeds (restricted to cost)	<u>300,000</u>		
Balancing charge	<u>(66,000)</u>		(66,000)
<u>Delivery van</u>			
ITV b/f (K70,000 –K35,000)	35,000		
Proceeds	<u>(80,000)</u>		
	<u>(45,000)</u>		(45,000)
<u>Toyota Camry car</u>			
ITV b/f (K54,000 – K9,000)	45,000		
Proceeds	<u>(54,000)</u>		
Balancing allowance	<u>(18,000)</u>	X 50%	<u>(9,000)</u>
Net balancing charge			<u>(120,000)</u>

**END OF SOLUTIONS**



TAXATION PROGRAMME EXAMINATIONS

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DIPLOMA LEVEL

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D5: INTERNATIONAL TAXATION

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THURSDAY 25 JUNE 2020

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

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### **INSTRUCTIONS TO CANDIDATES**

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

**DO NOT OPEN THIS QUESTION PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR.**

**Taxation table for paper D5– International Taxation 2020 Examinations**  
**Income Tax**

**Standard personal income tax rates**

<b>Income band</b>	<b>Taxable amount</b>	<b>Rate</b>
K1 to K39,600	first K39,600	0%
K39,601 to 49,200	next K9,600	25%
K49,201 to K74,400	next K25,200	30%
Over K74,400		37.5%

**Income from farming for individuals**

K1 to K39,600	first K39,600	0%
Over K39,600		10%

**Company Income Tax rates**

On income from manufacturing and other	35%
On income from farming	10%
On income of Banks and other Financial Institutions	35%
On income from mineral processing	30%
On income from mining operations	30%

**Mineral Royalty**

**Mineral Royalty on Copper**

<b>Range of Norm Price</b>	<b>Mineral Royalty Rate</b>
Less than US\$4,500	5.5% of norm value
From US\$4,500 to less than US\$6,000	6.5% of norm value
From US\$6,000 to less than US\$7,500	7.5% of norm value
From US\$7,500 to less than US\$9,000	8.5% of norm value
From US\$9,000 and above	10% of norm value

**Mineral Royalty on other minerals**

<b>Type of mineral</b>	<b>Mineral Royalty Rate</b>
Base Metals (Other than Copper, Cobalt and Vanadium)	5% on norm value
Cobalt and Vanadium	8% of norm value
Energy and Industrial Minerals	5% on gross value
Gemstones	6% on gross value
Precious Metals	6% on norm value

## Capital Allowances

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

Wear and Tear Allowance –	Plant used normally	25%
	Used in Manufacturing and Leasing	50%
	Used in farming and agro-processing	100%

### 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

<b>Turnover Tax</b>	<b>4%</b>
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### Presumptive Tax for Transporters

Seating capacity	Tax per annum K	Tax per day K
From 64 passengers and over	10,800	29.60
From 50 to 63 passengers	9,000	24.70
From 36 to 49 passengers	7,200	19.70
From 22 to 35 passengers	5,400	14.80
From 18 to 21 passengers	3,600	9.90
From 12 to 17 passengers	1,800	4.90
Less than 12 passengers and taxis	900	2.50

## Property Transfer Tax

Rate of Tax on Realised Value of Land, Land and Buildings and shares	5%
Rate of Tax on Realised Value on a transfer or sale of a mining right	10%
Rate of Tax on Realised Value on a transfer of Intellectual Property	5%

## Value Added Tax

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

## Customs and Excise Customs and Excise duties on used motor vehicles

<b>Motor vehicles for the transport of ten or more persons, including the driver</b>	<b>Aged 2 to 5 years</b>		<b>Aged over 5 years</b>	
	<b>Customs duty</b>	<b>Excise duty</b>	<b>Customs duty</b>	<b>Excise duty</b>
	<b>K</b>	<b>K</b>	<b>K</b>	<b>K</b>
Sitting capacity of 10 but not exceeding 14 persons including the driver	17,778	22,223	8,889	11,112
Sitting capacity exceeding 14 but not exceeding 32 persons	38,924	0	13,840	0
Sitting capacity of 33 but not exceeding 44 persons	86,497	0	19,462	0
Sitting capacity exceeding 44 persons	108,121	0	43,248	0

<b>Motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars</b>	<b>Aged 2 to 5 years</b>		<b>Aged over 5 years</b>	
	<b>Customs duty</b>	<b>Excise duty</b>	<b>Customs duty</b>	<b>Excise duty</b>
	<b>K</b>	<b>K</b>	<b>K</b>	<b>K</b>
<b>Sedans</b>				
cylinder capacity not exceeding 1000 cc	12,490	10,824	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	16,058	13,917	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	16,545	21,508	8,423	10,950
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	10,528	13,687
Cylinder capacity exceeding 3000 cc	22,561	29,329	12,032	15,642
<b>Hatchbacks</b>				
cylinder capacity not exceeding 1000 cc	10,705	9,278	7,136	6,185



Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	14,274	12,371	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	15,041	19,553	8,423	10,950
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	16,545	21,508	10,523	13,687
Cylinder capacity exceeding 3000 cc	19,553	25,419	12,032	15,642

### **Station wagons**

cylinder capacity not exceeding 2500 cc	16,545	21,508	9,024	11,731
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	13,357	17,598
Cylinder capacity exceeding 3000 cc but not exceeding 2500 cc	22,561	29,329	18,049	23,463

### **SUVs**

Cylinder capacity not exceeding 2500 cc	21,057	27,374	9,024	11,732
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	24,065	31,284	13,357	17,598
Cylinder capacity exceeding 3000 cc	28,577	37,150	18,049	23,463

**Aged 2 to 5 years**

**Aged over 5 years**

### **Motor vehicles for the transport of goods –with compression-ignition internal combustion piston engine (diesel or semi-diesel):**

**Customs duty**

**Excise duty**

**Customs duty**

**Excise duty**

**K**

**K**

**K**

**K**

#### **Single cab**

GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	21,926	9,501	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	26,311	11,402	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	30,697	13,302	17,541	7,601
Double cabs GVW exceeding 3 tonnes but not exceeding 5 tonnes	30,274	0	24,119	10,452
Double cabs GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes, <b>with spark ignition internal combustion piston engine</b>	30,697	13,302	24,119	10,452

#### **Panel Vans**

GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	15,348	6,651	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	17,541	7,601	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	21,926	9,501	17,541	7,601

## Trucks

GVW up to 2 tonnes	21,926	9,501	10,963	4,751
GVW exceeding 2.0 tonnes but not exceeding 5.0 tonnes	28,504	12,352	13,156	5,701
GVW exceeding 5.0 tonnes but not exceeding 10.0 tonnes	24,724	18,955	10,817	8,293
GVW exceeding 10.0 tonnes but not exceeding 20.0 tonnes	30,905	23,694	11,744	9,004
GVW exceeding 20 tonnes	51,898	0	19,461	0
GVW exceeding 20 tonnes, <b>with spark ignition internal combustion piston engine</b>	37,086	28,432	13,907	10,662

## Customs and excise duty on new vehicles

- Motor cars and other motor vehicles (including station wagons) principally designed for the transport of less than ten persons, including the driver:
  - Customs duty: 30%
  - 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 is K6,000.

Import VAT is added to the sum of VDP, customs duty and excise duty. It is determined at the standard rate of 16%

## **ATTEMPT ALL THE FOUR (4) QUESTIONS**

### **QUESTION ONE**

Geoffrey Chitewu, a Zambian resident, has been in business for many years trading as a sole trader. He has always prepared his financial statements to 31 December each year and he is registered for Value Added Tax. For the year ended 31 December 2020, he made a profit of K510,000. This profit figure is after all tax adjustments but before capital allowances and cost of service importation.

During the year ended 31 December 2020, Geoffrey Chitewu engaged David Akusu, a consultant resident in a country known as Zambia to come and conduct training on how to use an inventory management system. Geoffrey Chitewu was charged a management consultancy fee of K130,000 (gross). David Akusu took this opportunity to invest the fees in a bank savings deposit account with a Zambian bank. The amount of bank interest earned by David Akusu from Zambian bank amounted to K70,000 (gross) during the year ended 31 December 2020.

The only assets owned by Geoffrey Chitewu as at 1 January 2020 were as follows:

	Income tax value	Original cost
Toyota Camry car	K42,000	K105,000
Computers	K20,000	K40,000

All the assets are used wholly and exclusively for the purpose of the business.

Geoffrey Chitewu has made investments in Zambia. The currency of Zambia is the Zambian dollar (Z\$). During the year ended 31 December 2020, Geoffrey Chitewu received investment income from Zambia which included rental income Z\$15,200, Dividends Z\$9,000 and Management consultancy fees of Z\$3,600. The amounts of investment income represent the actual cash received. Withholding tax has been deducted in Zambia at a rate of 20%, 25% and 10% on rental income, dividends and management consultancy fees respectively.

The only other income received by Geoffrey from Zambian sources during the tax year 2020 includes:

(i)	Salary from part-time employment (PAYE deducted at source- K15,000)	K40,000
(ii)	Royalties	K51,850 (Net)
(iii)	Bank interest	K3,700 (gross)
(iv)	Dividends from X Limited	K13,600 (Net)

There is no double taxation convention between Zambia and Zambia. Credit is available against foreign income tax paid when computing Zambian income tax. The Bank of Zambia exchange rate averaged K14.40 per Z\$1.

**Required:**

- (a) Explain the meaning of reverse VAT and calculate the amount of VAT, if any, chargeable on the importation of services from Zambia. Your answer should include the treatment of this VAT. (6 marks)
- (b) Explain the tax treatment of income earned by David Akusu from Zambian sources for the tax year 2020. Your answer should include the computation of income tax payable by David Akusu for the tax year 2020. (4 marks)
- (c) Advise Geoffrey Chitewu of the amount of income tax payable for the tax year 2020. (15 marks)
- [Total: 25 Marks]**

**QUESTION TWO**

- (a) Globalization is a process of interaction and integration among the people, companies and governments of different nations which is driven by international trade and investment and aided by information technology. This process has effects on the environment, culture, political systems, economic development and prosperity, and human physical wellbeing in societies around the world. This has led to an increase in the number of Foreign Direct Investments in Zambia by foreign Multinational Enterprises and also Zambian Multinational Enterprises investing in foreign countries.

**Required:**

- (i) Explain three (3) benefits and three (3) risks of globalization on the Zambian economy. (6 marks)
- (ii) Explain the reasons why multinational enterprises make Foreign Direct Investments (FDI). (5 marks)
- (iii) Explain any four (4) methods of Foreign Direct Investment (FDI). (4 marks)
- (b) Explain the difference between the concept of source and concept of residence as they are applied in international taxation. (4 marks)
- (c) Explain the main areas of interaction between human rights law and tax law in international taxation (4 marks)
- (d) Explain what is meant by regional economic grouping. (2 marks)
- [Total: 25 Marks]**

### **QUESTION THREE**

(a) Mupco Plc is a Zambian resident company which has experienced a rapid growth through the establishment of subsidiaries in different Countries. Recently it acquired a 100% investment in a company based in the United States of Amoa which provides raw materials for the product manufactured by Mupco Plc. This undertaking has excited the Chief Executive Officer (CEO) because in the past the company had faced a lot of challenges in sourcing these materials. The shareholders are also considering merging with another multinational company so that the product can be supplied to the Amoa market. The financial statements of Mupco Plc for the year ended 31 December 2020 showed the following results:

	K
Net profit for the period	5,830,000
Dividends received from foreign subsidiary	340,000
Royalties received (net) from a Zambian company	170,000

The net profit for the year ended 31 December 2020 was arrived at after deducting the following expenses:

	K
Depreciation	400,000
Entertaining suppliers of raw materials	125,000
Legal fees for recovery of loan from former employee	26,000
Wages and salaries	76,000

**Note:**

The dividends were received net of withholding tax at the rate of 20%.

**Required:**

- (i) Explain three (3) different ways by which a company can merge with another company through cross- border mergers. (6 marks)
  - (ii) Explain any two (2) benefits of cross-border merging. (4 marks)
  - (iii) Calculate the income tax payable by Mupco Plc for the tax year 2020. (11 marks)
- (b) Some International organisations have engaged in transfer pricing tactics, by transferring goods and services to members of their group. As part of tax planning, the prices charged within the group for the goods or services provided and the financing methods used between the members of the group simply serve as a means of moving funds around the group and do not in a commercial sense create profits for the group.

**Required:**

- (i) Briefly explain how an organisation can benefit from transfer pricing in terms of allocation of income to some members of the group. (2 marks)
- (ii) Explain the main problem of the arm's length principle and how it has been dealt by the OECD. (2 marks)

**[Total 25 marks]**

**QUESTION FOUR**

- (a) The Government of the Republic of Zambia has been under intense pressure from various stakeholders to impose and collect equitable and reasonable taxes from the mining sector. To this effect the Minister of Finance has introduced new Mining Taxes so that the country may benefit from the mineral wealth.

Profits are easily manipulated by a few Multinational Corporations through mining losses, thin capitalization, transfer pricing, and the use of foreign entities or individuals to supply services such as consultancy, research, advertising and so on. In Zambia, most Mining companies are part of groups of companies which are resident abroad.

**Required:**

Explain what is meant by Thin Capitalization and how the rules are applied in Zambia to Multinational Corporations. (6 marks)

- (b) Explain any five (5) roles of double taxation treaties. (5 marks)
- (c) Money laundering is the generic term used to describe the process by which criminals disguise the original ownership and control of the proceeds of criminal conduct by making such proceeds appear to have been derived from a legitimate source.

**Required:**

Explain the application of money laundering legislation to foreign tax offences. (6 marks)

- (d) Some countries have developed models for enhanced co-operation between revenue authorities in order to work to their mutual benefit.

**Required:**

Explain the four (4) main co-operation models between revenue authorities. (8 marks)

**[Total: 25 Marks]**

**END OF PAPER**

## SUGGESTED SOLUTIONS

### SOLUTION ONE

- (a) Reverse VAT is the transfer of liability to account for and pay VAT from the person making the supply to the person receiving the supply. Reverse VAT is levied on all imported services provided by a non-resident supplier where a tax agent has not been appointed.

A service is considered imported if it is:

1. Performed or undertaken in Zambia
2. Utilised (or if the benefit of its supply is for a recipient) in Zambia regardless of where it was performed.

Geoffrey Chitewu imported the services which were performed in Zambia by David Akusu a non-resident supplier. Therefore, Geoffrey Chitewu should have raised an invoice based on the value of the services received from a non-resident supplier.

He will add the VAT at 16% of the value of the services and include it as output VAT on the VAT return.

The output VAT payable by Geoffrey Chitewu was therefore;  $K130,000 \times 16\% = K20,800$ .

The VAT payable by Geoffrey Chitewu on imported services cannot be recovered as input VAT since there is no tax agent appointed to represent David Akusu in Zambia.

- (b) An individual who is not a Zambian resident is not liable to pay income tax in Zambia. However, any income received by a non-resident individual from sources that are within the Republic of Zambia is taxable.

In the case of David Akusu, the management consultancy fees and bank interest were generated from within Zambia and, therefore, taxable in Zambia at a rate of 20% of the gross income which is the final tax.

Income tax payable by David Akusu for the tax year 2020

	K
Management Consultancy ( $K130,000 \times 20\%$ )	26,000
Bank interest ( $K70,000 \times 20\%$ )	<u>14,000</u>
	<u>40,000</u>

(c) Geoffrey Chitewu

Income tax payable for the tax year 2020

	K	K
Business profit		510,000
Less:		
Consultancy services	130,000	
Reverse VAT	20,800	
Capital allowances:		
Toyota Camry car: K105,000 x 20%	21,000	
Computers: K40,000 x 25%	<u>10,000</u>	
		<u>(181,800)</u>
Taxable business profit		328,200
Salary from part-time employment		40,000
Royalties: K51,850 x 100/85		<u>61,000</u>
		429,200
Foreign income		
Dividends: Z\$9,000 x 100/75 x K14.40	172,800	
Management fees: Z\$3,600 x 100/90 x K14.40	<u>57,600</u>	
		<u>230,400</u>
Taxable income		<u>659,600</u>
Computation		
First K39,600 @0%		0
Next K9,600 @25%		2,400
Next K25,200 @30%		7,560
Balance K585,200 @37.5%		<u>219,450</u>
Income tax liability		229,410
Less:		
PAYE	15,000	
WHT-Royalties (K61,000 x 15%)	9,150	
Double taxation relief:		
Dividends (w1)	43,200	
Management fees (w2)	<u>5,760</u>	
		<u>(73,110)</u>
Income tax payable		<u>156,300</u>



## Workings

### Double taxation relief

#### 1. Dividends

$$\text{Foreign tax paid: } K172,800 \times 25\% = K43,200$$

Zambian tax

Gross foreign income x Zambian tax charge

Total assessable income

$$\begin{array}{r} \underline{K172,800} \times K231,810 \\ K659,600 \end{array} = K60,729$$

The double taxation relief is K43,200

#### 2. Management fees

$$\text{Foreign tax paid: } K57,600 \times 10\% = K5,760$$

Zambian tax

$$\begin{array}{r} \underline{K57,600} \times K231,810 \\ K659,600 \end{array} = K20,243$$

The double taxation relief is K5,760

Total Zambian tax charge:  $(K229,410 + (K16,000 \times 15\%)) = K231,810$

Total assessable income:  $(K659,600 + K16,000) = K675,600$

## **SOLUTION TWO**

### **(a) Globalization**

#### **(i) Benefits of globalization are as follows:**

1. Foreign Direct Investment tends to increase at a greater rate than the growth in world trade, helping boost technology transfer, industrial restructuring and the growth of global companies
2. Increased competition from globalization helps stimulate new technological development, particularly with the growth in foreign direct investment
3. Globalization enables large companies to realize economies of scale that reduce costs and prices which in turn support further economic growth.

#### **Risks of Globalization**

1. Globalization leads to interdependence between nations which could cause regional or global instabilities if local economy fluctuations end up impacting a large number of countries relying on them.
2. Rise of nation states, multinational or global firms and other international organisations may be seen as a threat to sovereignty which may lead to some leaders becoming nationalistic or xenophobic.
3. The benefits of globalization can be unfairly skewed towards rich nations or individuals creating greater inequalities and leading to potential conflicts both nationally and internationally.

#### **(ii) The following are the reasons of making a Foreign Direct Investment:**

1. Firms will engage in Foreign Direct Investment either to meet local demand or as a way of exporting to markets other than the home market.
2. Raw material seeking which means that firms will extract materials in the places where they can be found, whether for export or for further processing and sale in the host country.
3. Production efficiency seeking which involves locating production where one or more factors of production are cheap relative to their productivity.
4. Knowledge seeking; firms choose to set up operations in countries in which they can gain access to technology or management expertise.
5. Political safety seeking; firms which are seeking political safety will require or set up operations in those countries which are thought to be unlikely to expropriate or interfere with private enterprise.

#### **(iii) The following are the methods of foreign direct investment**

1. By incorporating a wholly owned subsidiary or company anywhere; or
2. By acquiring shares in an associated enterprise; or
3. Through a merger or acquisition of an unrelated enterprise; or
4. Participating in an equity joint venture with another investor or enterprise.

(b) Concept of source

Under this concept income tax is imposed on income in the state in which the sources of that income are based. The concept of source considers the relationship between the income and the taxing state.

Concept of residence

Under this concept income tax is imposed on the residents of the republic on all their income irrespective of the source. The concept of residence considers the relationship between the taxpayer and the taxing state.

(c) The tax law and human rights law may interact in the following areas:

1. Taxation may interfere with international human rights standards in the process of enforcing the tax laws. E.g pursuing tax offenders in their place of residence or home country.
2. Taxation may be used as a tool to enforce the general social and legal values of the nation beyond its borders. These values include human rights.

(d) A regional economic grouping is a group of individual countries in a sub-region that come together for the purpose of achieving greater economic integration. This might be in the form of intergovernmental organisation where the regional barriers to trade are eliminated or reduced among the participating countries.

### SOLUTION THREE

(a) Mupco Plc

- (i) A company can merge with another company through cross border merging in the following ways:
1. Merger by absorption, whereby an existing company acquires all the assets and liabilities of its wholly owned subsidiary. On being dissolved and without going into liquidation, the subsidiary transfers all of its assets and liabilities to its parent.
  2. Merger by acquisition, whereby a company acquires all of its assets and liabilities of another company in exchange for the issue to the members of the transferor company of securities or shares in the acquiring company, either with or without any cash payment. The transferor company is then dissolved without going into liquidation.
  3. Merger by formation of a new company, whereby two or more companies on being dissolved without going into liquidation) transfer all of their assets and liabilities to a successor company that they form in exchange for the issue to their members of securities or shares representing the capital of that new company, with or without any cash payment.
- (ii) The benefits of cross-border mergers are as follows:
1. Liquidation is avoided as the transferor company will be dissolved automatically once the merger is affected, thereby providing significant cost savings.
  2. The assets and liabilities of the transferor companies transfer automatically by operation of law thereby eliminating the need for any additional documentation.

(iii) MUPCO PLC

COMPUTATION OF TAX ADJUSTED BUSINESS PROFIT FOR THE TAX YEAR 2020

	K	K
Net profit per accounts		5,830,000
Add:		
Depreciation	400,000	
Entertaining suppliers	125,000	
Legal fees – recovery of loan	<u>26,000</u>	
		<u>551,000</u>
Adjusted business profit		6,381,000
Investment income:		
Foreign dividends (340,000 x 100/80)		425,000
Royalties (170,000 x 100/85)		<u>200,000</u>
Taxable income		<u>7,006,000</u>
Company income tax (7,006,000 x 35%)		2,452,100

Less:	
Double Taxation Relief (DTR) (W)	(85,000)
WHT- Royalties (200,000 x 15%)	<u>(30,000)</u>
Final company tax payable	<u>2,337,100</u>

**Workings:**

Double taxation relief:

Lower of:

Foreign tax paid on dividends = K425,000 X 20% = K85,000

Zambian tax charge on foreign income =

$\frac{\text{Gross foreign dividends}}{\text{Total assessable income}} \times \text{Zambian tax charge}$

$\frac{425,000}{7,006,000} \times 2,452,100 = \text{K}148,750$

(b) Transfer pricing

- (i) Some countries apply their transfer pricing rules in purely domestic cases: where there are different tax rates for different kinds of income or business with lower tax rates. Multinational companies can benefit from transfer pricing by allocating some of their income to group companies which operate in countries where the marginal rates of tax are lower.
- (ii) The main problem of the arm's length principle is the increasing integration of the activities of corporate groups, the growing importance of unique intragroup intangibles and services, and the sophistication of their financing operations mean, however, that the application of the arm's- length standard is becoming more difficult, both conceptually and practically.

The problem has been addressed in part by the OECD, which has expanded its guidance on this issue. The OECD standards represent the internationally accepted norms giving content to the arm's-length principle.

## **SOLUTION FOUR**

### (a) Thin capitalization

- (i) Thin capitalization is the process of excessively financing a subsidiary with interest-bearing loans from related parties rather than with equity capital in relation to its arm's length borrowing capacity.

The fact that interest expense is usually deductible when computing taxable business profits of the borrower and interest income taxed at lower rate of WHT on the non-resident lender makes the practice attractive than equity finance.

Dividends payable on equity capital is not an allowable deduction when computing taxable business profits. The multinational companies, therefore, finds the practice of financing foreign subsidiaries with debt finance to be very attractive and uses it to avoid tax.

In Zambia, a company will be said to be thinly capitalized if its debt: equity ratio is more than 3:1.

The government has issued an anti- avoidance tax measure that disallows excess interest incurred on the debt finance in excess of 3:1 when computing the taxable business profits of the Zambian subsidiary.

### (b) The following are roles of double taxation treaties:

1. Protect against the risk of double taxation where the same income is taxed in two states
2. Provide certainty of treatment for cross-border trade and investment
3. Prevent excessive foreign taxation and other forms of discrimination against business interests abroad.
4. Protect the Government's taxing rights and protect against attempts to avoid or evade tax
5. They contain provisions for the exchange of information between national taxation authorities
6. Seek to encourage and maintain an international consensus on cross-border economic activity and to promote international trade and investment.

### (c) When criminal activity generates substantial profits, individuals or group involved must find a way to control the funds without attracting attention to the underlying activity or the persons involved. This effectively results in massive tax evasion.

Regional economic blocs should take effective measures against tax offences. This could include all deliberate illegal attempts, and should also be interpreted in a broad light to encompass those sophisticated, structured and/or systematic uses of legal means for tax avoidance, those methods of fiscal engineering that foster aggressive tax planning.

In addition, it should be made a practice that a corporation originating in one-member state should comply with the rules and regulations that apply in its country of origin even when it holds operations at other member states, even though the ideal would be to introduce harmonized or common rules across economic bloc member states.

The rationale is to discourage malevolent use of existing asymmetries in tax regimes and supervisory practices, which distorts competition among private entities within the single market and which engenders unfair fiscal competition between member states.

(d) The following are the co-operation models

1. Joint investigation teams

This enables agencies with a common interest to work together in an investigation which enables an investigation team to draw on a wider range of skills and experience from investigators with different backgrounds and training.

2. Inter-agency intelligence centers

These are established to centralize processes for information gathering and analysis for a number of agencies. They can focus on a specific geographical area or type of criminal activity, or have a wider role in information sharing.

3. Secondments and co-location of personnel

This is an effective way of enabling skills to be transferred while allowing personnel to build contacts with their counterparts in another agency

4. Use of shared data base, dissemination of strategic intelligence products such as newsletters and intelligence briefs, joint committees to coordinate policy in areas of shared responsibility, and inter-agency meetings and training sessions.

**END OF SOLUTIONS**



TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

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D6: TAX AUDIT AND INVESTIGATIONS

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MONDAY 22 JUNE 2020

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

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**INSTRUCTIONS TO CANDIDATES**

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

**DO NOT OPEN THIS QUESTION PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR.**



**Taxation table for paper D6– Tax Audit and Investigations (June and December 2020 Examinations)**

**Income Tax**

**Standard personal income tax rates**

<b>Income band</b>	<b>Taxable amount</b>	<b>Rate</b>
K1 to K39,600	first K39,600	0%
K39,601 to 49,200	next K9,600	25%
K49,201 to K74,400	next K25,200	30%
Over K74,400		37.5%

**Income from farming for individuals**

K1 to K39,600	first K39,600	0%
Over K39,600		10%

**Company Income Tax rates**

On income from manufacturing and other	35%
On income from farming	10%
On income of Banks and other Financial Institutions	35%
On income from mineral processing	30%
On income from mining operations	30%

**Mineral Royalty**

**Mineral Royalty on Copper**

<b>Range of Norm Price</b>	<b>Mineral Royalty Rate</b>
Less than US\$4,500	5.5% of norm value
From US\$4,500 to less than US\$6,000	6.5% of norm value
From US\$6,000 to less than US\$7,500	7.5% of norm value
From US\$7,500 to less than US\$9,000	8.5% of norm value
From US\$9,000 and above	10% of norm value

**Mineral Royalty on other minerals**

<b>Type of mineral</b>	<b>Mineral Royalty Rate</b>
Base Metals (Other than Copper, Cobalt and Vanadium)	5% on norm value
Cobalt and Vanadium	8% of norm value
Energy and Industrial Minerals	5% on gross value
Gemstones	6% on gross value
Precious Metals	6% on norm value

**Capital Allowances**

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

Wear and Tear Allowance – Plant used normally	25%
Used in Manufacturing and Leasing	50%
Used in farming and agro-processing	100%

**Non- commercial vehicles**

Wear and Tear Allowance	20%
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**Industrial Buildings:**

Wear and Tear Allowance	5%
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Initial Allowance	10%
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Investment Allowance	10%
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**Low Cost Housing (Cost up to K20,000)**

Wear and Tear Allowance	10%
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Initial Allowance	10%
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**Commercial Buildings**

Wear and Tear Allowance	2%
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**Farming Allowances**

Development Allowance	10%
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Farm Works Allowance	100%
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Farm Improvement Allowance	100%
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**Presumptive Taxes**

<b>Turnover Tax</b>	4%
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**Presumptive Tax for Transporters**

Seating capacity	Tax per annum	Tax per day
	K	K
From 64 passengers and over	10,800	29.60
From 50 to 63 passengers	9,000	24.70
From 36 to 49 passengers	7,200	19.70
From 22 to 35 passengers	5,400	14.80
From 18 to 21 passengers	3,600	10
From 12 to 17 passengers	1,800	5.0
Less than 12 passengers and taxis	900	2.50

**Property Transfer Tax**

Rate of Tax on Realised Value of Land, Land and Buildings and shares	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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Rate of Tax on Realised Value on a transfer of Intellectual Property	5%
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**Value Added Tax**

Registration threshold	K800,000
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Standard Value Added Tax Rate (on VAT exclusive turnover)	16%
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**Customs and Excise**  
**Customs and Excise duties on used motor vehicles**

<b>Motor vehicles for the transport of ten or more persons, including the driver</b>	<b>Aged 2 to 5 years</b>		<b>Aged over 5 years</b>	
	<b>Customs duty K</b>	<b>Excise duty K</b>	<b>Customs duty K</b>	<b>Excise duty K</b>
Sitting capacity of 10 but not exceeding 14 persons including the driver	17,778	22,223	8,889	11,112
Sitting capacity exceeding 14 but not exceeding 32 persons	38,924	0	13,840	0
Sitting capacity of 33 but not exceeding 44 persons	86,497	0	19,462	0
Sitting capacity exceeding 44 persons	108,121	0	43,248	0
<b>Motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars</b>	<b>Aged 2 to 5 years</b>		<b>Aged over 5 years</b>	
	<b>Customs duty K</b>	<b>Excise duty K</b>	<b>Customs duty K</b>	<b>Excise duty K</b>
<b>Sedans</b>				
cylinder capacity not exceeding 1000 cc	12,490	10,824	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	16,058	13,917	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	16,545	21,508	8,423	10,950
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	10,528	13,687
Cylinder capacity exceeding 3000 cc	22,561	29,329	12,032	15,642
<b>Hatchbacks</b>				
cylinder capacity not exceeding 1000 cc	10,705	9,278	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	14,274	12,371	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	15,041	19,553	8,423	10,950
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	16,545	21,508	10,523	13,687
Cylinder capacity exceeding 3000 cc	19,553	25,419	12,032	15,642
<b>Station wagons</b>				
cylinder capacity not exceeding 2500 cc	16,545	21,508	9,024	11,731
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	13,357	17,598
Cylinder capacity exceeding 3000 cc but not exceeding 2500 cc	22,561	29,329	18,049	23,463

**SUVs**

Cylinder capacity not exceeding 2500 cc	21,057	27,374	9,024	11,732
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	24,065	31,284	13,357	17,598
Cylinder capacity exceeding 3000 cc	28,577	37,150	18,049	23,463

**Aged 2 to 5 years****Aged over 5 years****Motor vehicles for the transport of goods –with compression-ignition internal combustion piston engine (diesel or semi-diesel):**

<b>Customs duty</b>	<b>Excise duty</b>	<b>Customs duty</b>	<b>Excise duty</b>
<b>K</b>	<b>K</b>	<b>K</b>	<b>K</b>

**Single cab**

GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	21,926	9,501	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	26,311	11,402	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	30,697	13,302	17,541	7,601
Double cabs GVW exceeding 3 tonnes but not exceeding 5 tonnes	30,274	0	24,119	10,452
Double cabs GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes, <b>with spark ignition internal combustion piston engine</b>	30,697	13,302	24,119	10,452

**Panel Vans**

GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	15,348	6,651	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	17,541	7,601	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	21,926	9,501	17,541	7,601

**Trucks**

GVW up to 2 tonnes	21,926	9,501	10,963	4,751
GVW exceeding 2.0 tonnes but not exceeding 5.0 tonnes	28,504	12,352	13,156	5,701
GVW exceeding 5.0 tonnes but not exceeding 10.0 tonnes	24,724	18,955	10,817	8,293
GVW exceeding 10.0 tonnes but not exceeding 20.0 tonnes	30,905	23,694	11,744	9,004
GVW exceeding 20 tonnes	51,898	0	19,461	0
GVW exceeding 20 tonnes, <b>with spark ignition internal combustion piston engine</b>	37,086	28,432	13,907	10,662

### **Customs and excise duty on new vehicles**

- 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:	30%
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 tonnes:

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 is K6,000.

Import VAT is added to the sum of VDP, customs duty and excise duty. It is determined at the standard rate of 16%

**All FOUR (4) questions are compulsory and MUST be attempted.**

**QUESTION ONE**

The Zambian Government needs adequate financial resources in order to satisfy both developmental and social needs of its citizenry. It needs to provide quality education, health facilities and a good road network among others. Such needs could only be met when the majority of its citizens are willing to comply with the tax payment rules enshrined in the Income Tax Act. Some of the tax payers are sole traders while others are established business entities. Some business entities are trading at the stock markets as bond traders or as stock brokers. However not all tax revenues are being collected as most individuals and companies are not willing to pay their fair share of taxes. Therefore in order to ascertain compliance levels of different tax payers, the Zambia Revenue Authority (ZRA) carries out tax audit on a regular basis. If a tax payer is not satisfied with the results of tax assessment, they could appeal to the tax tribunal as long as correct procedures are followed. It is not only a tax audit that ZRA carries out but tax administrations and self-assessment inspections. When the tax payer is not compliant, the Zambia Revenue Authority (ZRA) has the powers under the Income Tax Act to enforce punitive sanctions on offenders.

**Required:**

- (a) Briefly explain the nature, purpose and scope of a tax audit. (5 marks)
- (b) Explain how a tax audit appeal could be carried out. (5 marks)
- (c) Briefly explain any five (5) types of audit that can be undertaken by the tax audit team. (9 marks)
- (d) Explain any four (4) circumstances that can give rise to sanctions if a tax payer fails to comply with the tax law. (6 marks)

**[Total: 25 Marks]**

**QUESTION TWO**

Haagani Namwinga runs a business as a sole trader, trading as Molly Wholesaler in Kabwe. She has been submitting Nil returns for the past 10 months, up to October, 2020 despite her business doing so well. Molly Wholesaler is registered for turnover tax, and she is one (1) of the tax payers to be audited. She has since been asked to submit her sales books and other relevant documents by the Zambia Revenue Authority to establish the compliance level. In response, the taxpayer provided the bank statement below as she has not kept proper and consistency accounting records. It has been established that the taxpayer has not been compliant for the period of 10 months and has been charged with negligence.

Bank statement From 1 January 2020 to 30 October 2020			
	Debits(K)	Credits(K)	Bal(K)
Opening Balance as 31 December,2019			1,000
January- Deposit		2,000	3000
February- Deposit		1,500	4,500
March - Deposit		3,000	7,500
March- Withdrawing	500		7000
April- Deposit		1,000	8,000

May - Deposit		4,000	12,000
May-Withdrawing	3,000		9,000
June-Deposit		2,500	11,500
July –Deposit		3,500	15,000
August-Deposit		1,500	16,500
September-Deposit		1,000	17,500
October-Deposit		5,000	22,500
October –Withdrawing	2,500		20,000
Closing balance as at 30 October,2020			<b>20,000</b>

NOTE: **1.5%** penalty is charged on undeclared income.

**Required:**

- (a) Briefly explain the following terms:
  - (i) Self-assessment tax system. (3 marks)
  - (ii) Administrative tax assessment system. (3 marks)
- (b) Discuss whether it may be easier to determine fair assessments for sole traders than for companies. (4 marks)
- (c) As an Auditor working on Molly wholesalers' case, calculate:
  - (i) Turnover Tax on the undeclared income (5 marks)
  - (ii) The penalty Molly Wholesaler should be charged for negligence. (5 marks)
  - (iii) The total tax payable by Molly Wholesaler (5 marks)

You should assume that the various tax rates for the tax year 2020 apply throughout.

**[Total: 25 Marks]**

**QUESTION THREE**

- (a) The taxation of businesses has been extended to all sectors of the economy, which includes Telecommunications sector. However consideration is taken by having a standard method in order to analyse whether it is feasible to go ahead with taxing companies in the telecommunication sector.

**Required:**

- Briefly outline three (3) factors that should be considered before a standard method of taxing business in the telecommunication sector is implemented. (3 marks)
- (b) Altero Ltd, is a VAT registered limited company dealing in electrical products, had prepared its financial statements for the year ended 31 December 2020 as shown below:

Statement of profit or loss for the year ended 31 December 2020.

	K	K
Sales	80,670	
Sales returns	<u>1,450</u>	79,220
Opening stock (1 January 2020)	2,315	
Purchases	<u>32,950</u>	
	<u>35,265</u>	
Closing stock (31 December 2020)	<u>(5,000)</u>	<u>(30,265)</u>
Gross profit		48,955
Royalties received (net)	4,500	
Dividend received from a Zambian firm	<u>2,700</u>	<u>7200</u>
		56,155
Less expenses and losses:		
Rent and Rates	5,250	
Depreciation	2,000	
Entertainment (Note 1)	8,350	
Repairs and Renewals (Note 2)	7,500	
Subscriptions to Manufacturers association	2,400	
Motor expenses (Note 3)	8,000	
Managing Director's remuneration (Note 4)	<u>8,000</u>	<u>(41,500)</u>
Profit before interest and taxation		14,655
Loan interest		<u>(4,200)</u>
Profit before tax		<u>10,455</u>
Taxation		<u>(9,240)</u>
Profit for the year		<u>1,215</u>

**Notes:**

**Note 1: Entertainment**

This amount includes:	K
Esteemed customers	2,410
Supplier	1,870
Staff	<u>4,070</u>
	<u>8,350</u>

**Note 2: Repairs and Renewals**

This amount included K2,500 that was paid for acquisition of land and K1,410 incurred on fitting security bars around the shop.

**Note 3: motor expenses**

This amount consisted of the following:	K
Repairs to motor cars	4,100
Purchase of a new engine	<u>3,900</u>
	<u>8,000</u>

**Note 4: Managing Director**

The Managing Director was accommodated in a new company house. If this house was rented out, it would cost the company K18,000 per annum. The Director has been given a Toyota Land Cruiser car s on personal to holder basis with a cylinder capacity of 3020 cc.



**Note 5: Additional information**

During the year ended 30 June 2020, the company acquired the following implements, plant and machinery:

	Cost K
Toyota Land Cruiser car	K40,000
Plant and machinery	K50,000
Furniture	K60,000

The above costs of implements, plant and machinery are all inclusive of VAT

**Required:**

- (i) Calculate the capital allowances for the tax year 2020. (7 marks)
- (ii) Calculate the adjusted business profit for the tax year 2020. (9 marks)
- (iii) Calculate the income tax payable for the tax year 2020. (6 marks)

**[Total: 25 Marks]**

**QUESTION FOUR**

- (a) Vimba Mining Enterprises, a Zambian resident company, is a subsidiary of Elite minerals a company based in Canada. During the year ended 31 December 2020, Vimba mining company bought plant and machinery to be used for its underground operations at cost of K120,000 and spend a further K80,000 as part of its corporate social responsibility by constructing a school within the mining township. Due to economic slump in the demand for copper in the Far East, Vimba Limited's revenues had reduced resulting in losses amounting to K145,000 for the year ended 31 December 2019. The company made taxable business profits of K275,000 during the tax year 2020. This profit figure was before capital allowances and losses. In order to reduce the cost of operations, Vimba mining company resorted to buying its raw material and various components from its parent and other related companies. Assume that the average exchange rate as approved by the Commissioner General was K10.50 and K11.80 to \$1 for the years 2019 and 2020 respectively.

**Required:**

- (i) Briefly explain any FIVE (5) type of Enterprises on which tax investigation can be conducted regarding Transfer Pricing. (10 marks)
- (ii) Calculate for Vimba Mining Enterprises:
  - i. Indexed capital allowances. (6 marks)
  - ii. Indexed mining losses. (2 marks)
  - iii. Income tax payable for the tax year 2020. (4 marks)

**Indexation formula=  $[1+(R2-R1)/R1]$**

- (b) Briefly explain three (3) key attributes that have attracted interest in the financial sector from a taxation point of view. (3 marks)

**[Total: 25 Marks]**

**END OF PAPER**

## **SUGGESTED SOLUTIONS**

### **SOLUTION ONE**

(a) Nature and purpose of a tax audit and scope.

A tax audit is an examination of the contents of a tax return that an individual or a business has presented to a tax agent to the Zambia Revenue Authority (ZRA).

The ZRA need to conduct tax audits on a regular basis as these returns would be prepared by individuals without the involvement of tax officials.

And as such, there is a possibility of errors and misstatements as well as false declaration of income.

Therefore the tax audit is conducted in order to ascertain the correctness of the amount as well as compliance levels.

It can also be carried out when ZRA feels or suspect that the information contained in the financial statement is fraudulently presented. Usually information from financial statements is collected as a sample on random basis.

If an error has been made by the tax payer, he or she would be asked to bring along related documents or information to substantiate the information which is in the tax return. There would be no punitive measure taken if the errors are minor.

(b) The Income Tax Act has made provisions for the tax payer to launch in an appeal whenever they are not satisfied with the expected amount charged or arrived at by ZRA officers. These disputes normally arise from self-assessment returns.

For tax payer to be successful with the tax appeal, it has to be done within thirty (30) days and need to notify the Commissioner Generals office on time.

The tax payer's objections have to be in writing for them to be entertained. Any delay after the acceptable time has elapsed, the appeal will not be accepted. However, ZRA reserves the rights to hear a case in special cases even when the time has elapsed. Any decision arrived at would be communicated in writing to the complainant (Tax payer).

In cases where the tax payer is not happy with the outcome from the Tax Appeals Tribunal (TAT), then they can apply for a judicial review to the High court on a matter of law and not fact, if the tax payer decides to appeal to the High court.

There is a provision for the tax payer to go further to the Supreme Court on point of law if the tax payer was not satisfied with the outcome from the High court.

(c) The type of an audit depends on the scope and intensity of it:

- i. Full audit-this is an all-encompassing and detailed audit, it includes all relevant information that the tax payer was using to compute the tax returns. The objective is to assess the correctness of the tax return or tax liabilities as a whole.
- ii. Limited or issue based audit-it is a type of an audit which is confined to a specific issue on a tax return or maybe there's is a scheme arrangement which is being used and causes a tax auditor to conduct an in-depth tax audit.
- iii. Single-issue audits-these are confined to one specific area of non-compliance that comes out of the self-assessment or a tax return. It is usually narrow and

can be used on a large number of tax payers that are involved in similar schemes of non-compliant

- iv. De-registration audit-it is a type of an audit that is conducted in order to ascertain whether the tax payer has genuine reasons for leaving a particular scheme such as Value Added Tax. It is expected that a business could be removed from a VAT scheme when its turnover falls below K800, 000 in a particular financial year.
- v. Educational audit-in order to inform a tax payer of a change in tax laws or to demonstrate how to calculate a complex tax issue.

(d) It is expected that a tax payer needs to be honest in the way they complete a tax return. They are also expected to comply with the tax law such as respecting due dates when tax payments are due. The following are circumstances that can give rise to sanctions from ZRA:

- i. Where a tax payer underestimates a tax liability of a fact or law which may result in unintended errors, ignorance or a misinterpretation of facts or law.
- ii. When a tax payer deliberately or fraudulently under estimates a tax liability.
- iii. When a tax payer does not keep adequate records for tax purposes such a tax invoice.
- iv. When a tax payer underestimates' tax liabilities recklessly.
- v. When a tax payer fails to submit or avail tax payer vital information as requested by a tax auditor.

## **SOLUTION TWO**

### **(a) Tax assessment systems.**

#### **(i) Self-Assessment system**

A Self-assessment is a tax system whereby taxpayers are responsible for paying the correct amount of tax on set dates, without waiting for the Revenue Authority to get involved. It applies to every taxpayer who is able to file in the returns.

In Zambia, a tax payer collects a form that has fields that they need to fill in on their own by estimating the amount of income from various sources. Thereafter make an estimation of the amount of tax that needed to be paid.

It reduces administrative work on the part of ZRA and increases compliance levels on the part of the tax payer. In this way the tax payer can avoid severe penalties that could be incurred in case of default.

#### **(ii) Administrative Assessment**

This is the system where the tax administration assesses the taxpayer based on data that have been provided in a tax return or every other data available to the tax administration.

This is used to varying degrees in the administration of personal income tax and corporate profits/income tax. It can involve identifying or scrutinising returns that require critical investigations.

It can be manually done although nowadays, electronic scanning can be used to identify returns that are of a critical nature and require critical scrutiny before a formal assessment is sent to the tax payer.

### **(b) It may be difficult to make income tax assessments for sole traders due to lack of regulations compelling sole traders to maintain proper accounting records and to prepare annual financial statements which shall be audited.**

This means that sole traders may not maintain any accounting records at all. In other cases, there would be operated on a single entry basis which would make it difficult to determine the profits correctly.

This means that income tax assessments for incorporated businesses may be determined more fairly because companies are required by the company legislation to maintain proper accounting records from which annual financial statements must be produced.

These annual financial statements are subjected to an audit, which adds some credibility to them. However, there may still be instances of estimates being made because the accounting records may not be referred to in full when computing taxable profits.

(c) **Computation of taxes and penalties for Molly wholesalers**

		(i)TOT		(ii) PENALTY	(iii) TOTAL TAX
		TOT @4%	income	Penalty@1.5%	Total tax payable
Jan-2020	2,000	80	2,000	30	110
Feb-2020	1,500	60	1,500	22.50	82.5
Mar-2020	3,000	120	3,000	45	165
Apr-2020	1,000	40	1,000	15	55
May-2020	4,000	160	4,000	60	220
Jun-2020	2,500	100	2,500	37.50	137.5
Jul-2020	3,500	140	3,500	52.5	192.5
Aug-2020	1,500	60	1,500	22.50	82.5
Sept-2020	1,000	40	1,000	15	55
Oct-2020	5,000	200	5,000	75	275
	<b>25,000</b>	<b>1,000</b>		<b>375</b>	<b>1,375</b>

(i) Turnover Tax = undeclared income X 4%  
 $K25,000 \times 4\%$   
 = **K1,000** for 10 months

(ii) Penalty = undeclared income X 1.5%  
 $K25,000 \times 1.5\%$   
 = **K375** for 10 months

(iii) Total tax payable = K1,000 + K375 for 10 months  
 = **K1,375**

### SOLUTION THREE

(a) The following are the factors:

- i. The distributional consequences.
- ii. Their cost of collection, which includes the degree of avoidance and evasion to which they are subject or
- iii. Whether it is at least partially assimilated by the purchaser
- iv. The degree to which the tax distorts the pattern of consumption, and for this reason, imposes an additional cost on the economy (sometimes known as the excess burden)

(b) Altero Ltd

(i) Capital allowances- Assets	Cost/ITV K	Capital allowance K
Motor vehicles		
Cost	40,000	
Wear & Tear @20%	<u>(8,000)</u>	8,000
Income tax value C/F	<u>24,000</u>	
Plant and machinery		
Cost (K50,000 x 25/29)	43,103	
Wear & Tear @25%	<u>(10,776)</u>	10,776
Income tax value c/f	<u>32,327</u>	
Furniture		
Cost (K60,000 x 25/29)	51,724	
Wear & Tear@25%	<u>(12,931)</u>	<u>12,931</u>
Income tax value c/f	<u>38,793</u>	
Total capital allowances		<u>31,707</u>

(ii) Altero Ltd.

Adjusted business profit for the tax year 2020

	K	K
Net profit before tax		10,455
Add:		
Depreciation	2,000	
Security bars	1,410	
Acquisition of land	2,500	
Entertainment-customers	2,410	
-suppliers	1,870	
Motor expenses: purchase of new engine	3,900	
Accommodation benefit: 30% x 8000	2,400	
Car benefit (3020 cc)	<u>40,000</u>	
		<u>56,490</u>
		66,945
Less:		
capital allowances	31,707	

	Royalties	4,500	
	Dividends	<u>2,700</u>	
			<u>(38,907)</u>
	Adjusted business profits		<u>28,038</u>
(iii)	Altero's Ltd.		
	Income tax computation for the tax year 2020		
	Adjusted business profit		28,038
	Add:		
	Royalties (K4,500 X 100/85)		<u>5,294</u>
	Taxable income		<u>33,332</u>
	Income tax @ 35%		11,666
	Less:		
	WHT on Royalties (5,294 x 15%)		<u>(794)</u>
	Final income tax payable		<u>10,872</u>

## **SOLUTION FOUR**

### (a) Vimba mining Enterprises

(i) The following are enterprises whose transactions are likely to have included transfer pricing between themselves:

1. **Enterprises which have significant amount of or various types of related party transactions:**

Transactions between companies that can take place may involve large amounts of values on which each one of them depends. It could also involve large amounts of transfer of raw material from one subsidiary or related company to another at a low price. Thereafter when these goods are manufactured, they are later sold at higher price in jurisdiction in which taxes are low but higher selling prices. In this case, such companies will not be trading at arm's length or according to market rules. In order to provide a solution to the problem, any costs or value of intangible assets that have been transferred should be allocated between these relate parties using market rules.

2. **Enterprises which have been in long-term consecutive losses, low profitability or fluctuating profit and loss situations:**

When an enterprise receives from a related party debt or loans in form of investments, in a ratio that exceeds the prescribed level, the interest shall not be deductible when calculating income of such enterprise. When ZRA discovered that such transactions have taken place, a tax investigator will demand all relevant documents and information from all parties' concerned in order to make a decision.

3. **Enterprises whose profit levels are lower than those in the same industry:**

If an enterprise carries out any other business arrangements without reasonable business purposes resulting in reduction of its taxable revenue or income, the tax authority shall be empowered to make adjustments using reasonable methods.

4. **Enterprises showing an obvious mismatch between their profit levels and their functional and risk profile:**

It may happen that a company's operating performance appear to be lower than those in the same industry. This may raise suspicions and especially that its scale of operations may not match with its revenues and profits. If the business provides insufficient information, tax investigators can demand information from both related parties so they can assess tax payer's taxable income in accordance with the law.

5. **Enterprises that have business dealings with related parties in tax havens**

Tax havens have low tax rates. This is the likely place in which management would like to establish their head office so as to pay less taxes. If the resident fails to include the expected dividends, then such undistributed income will be included in the revenue of the resident enterprise in the current period.



(ii) computation for Vimba Mining Enterprises

i.	Indexed capital allowances:		
	Plant and machinery	$K120,000 \times 25\% =$	<u>K30,000</u>
	Community school	$K80,000 \times 25\% =$	<u>K20,000</u>
	Total capita allowances		<u>K50,000</u>

Indexation capital allowance  
=  $[1 + (11.80 - 10.50 / 10.50)] \times K50,000$   
= K56,190

ii.	Indexed mining losses		
	Indexation of losses		
	$[1 + (11.80 - 10.50 / 10.50)] \times K145,000$		
			<u>=K162,952</u>

iii. Computation of income tax for the tax year 2019

		K
	Net profit as per accounts	275,000
	Less:	
	Indexed capital allowances	(56,190)
	Indexed losses	<u>(162,952)</u>
	Taxable income	<u>55,858</u>
	Income tax @30% (K55,858 X 30%)	<u>16,757</u>

**(b) Key attributes that attracted ZRA to the financial sector:**

- (i) They transfer a wide range of transactions which makes income and value added complicated.
- (ii) The element of time in the income streams of financial transactions. Unlike other sectors, the financial institutions deal in products and services that are provided over extended periods of time that involves varying degrees of risks and profitability.
- (iii) There is a high vulnerability of the sector to market failure and other externalities, which compels authorities to institute tax or non-tax corrective action.

**END OF SOLUTIONS**