TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C1: BUSINESS MANAGEMENT

MONDAY 12 DECEMBER 2022

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

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question.

2. This question paper consists of FIVE (5) questions of twenty (20) marks each. You MUST attempt all the FIVE (5) questions.

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Attempt all FIVE (5) Questions.

QUESTION ONE

(a) Describe the five (5) steps in the planning process. (10 marks)

(b) A policy communicates broad guidelines for making decisions and taking actions in organizations. Sexual harassment is one of the policies under the civil rights.

What would qualify this policy as good? (6 marks)

(c) What are the advantages of participative planning? (4 marks)

[Total: 20 Marks]

QUESTION TWO

The business environmental factors have great influence on the operations of the organization.

Required:

(a) Explain how the legal factor of the business environment may influence decision making in an organization. (8 marks)

(b) Describe the recruitment process an organization is expected to undertake when it intends to fill a job vacancy. (12 marks)

[Total: 20 Marks]

QUESTION THREE

(a) Define Marketing Research. (3 marks)

(b) State the five (5) steps of the Market Research Process. (5 marks)

(c) Distinguish between Qualitative research and Quantitative research.

(8 marks)

(d) What is sampling, and why is it important in research? (4 marks)

[Total: 20 Marks]

QUESTION FOUR

Information is crucial in planning and decision making process of any business organisation.

Required:

(a) Explain six (6) characteristics of good information required for planning and decision making in an organization. (12 marks)

(b) Outline four (4) methods on how a newly employed individual can learn the culture of the organization. (8 marks)

[Total: 20 Marks]

QUESTION FIVE

(a) Define the aim of business management. (4 marks)

(b) What important characteristics constitute any organization and makes it possible to accomplish its goals. (8 marks)

(c) Describe the four (4) major elements of strategic plans. (8 marks)

[Total: 20 Marks]

END OF PAPER

C1 BUSINESS MANAGEMENT SUGGESTED SOLUTIONS

SOLUTION ONE

a) The following is the description of the steps in the planning process:
   i. Define the problem-specify where you want and where you want to go
   ii. Determine your objectives
   iii. Determine your premises regarding future conditions that will allow alternatives in a changing environment.
   iv. Identify and choose among the alternative conditions to create plans for accomplishing objectives
   v. Implement the action plan and evaluate the results.

b) The following would qualify Sexual harassment as a good policy:
   i. It must be communicated to all concerned
   ii. It must be clear and well understood by all concerned
   iii. It must be stable but flexible.

c) The following are advantages of participative planning: It includes as many people who will be affected by the resulting plans and will be asked to implement them. It also increases creativity, information availability and commitment and support by all who feel part of the plans.

SOLUTION TWO

(a) Business decisions made by management in any organisation must be done within the confines of the law. Therefore the legal environment has an influence on business decisions made in organizations. Failure to comply with the various laws that affect the operations of the business may results into law suits. These laws enacted by government are meant to protect stakeholders of the company such as suppliers, customers, employees, shareholders etc. The following are the laws that must be considered in when making decisions:

- **Labour laws**: Minimum wage, leave days, holidays, Napsa, employ safety etc.
- **Company law:** Duties of Directors, articles of association, share capital, liquidation procedures etc**.**

- **Taxation law**: it guides business organisations on the computation of tax obligation and the due dates.
- **Environmental laws**: guides business organizations on how to manage the environment as provided by the law.

(b) The following is the recruitment process the organisation is expected to undertake.

(i) **Job analysis**: This is the process of collecting and analyzing information about the tasks, responsibilities and the context of the job. The information from the job analysis helps to prepare the job description and specification. A job specification is a list of a jobs human requirements of knowledge, skills and abilities required to perform the job in a satisfactory manner. A job description is a written statement of the overall purpose and scope of the job such as duties, reporting relationship and working conditions.

(ii) **Job advertisement**: The vacant positions are advertised using either the print or electronic media in order to attract suitable potential candidates. The vacant job can advertised either internally or externally. Internal job adverts are done within the organisation targeting those who have attained the specified requirements. External job adverts target the external labour market.

(iii) **Selection of successful candidate:** Application forms are received from job applicants and assessed for short listing based on the job requirements. The shortlisted candidates are invited for interviews and those successful are offered the job. Before a job is offered reference checking is conducted by calling referees for recommendations. When the successful candidate is satisfied with the terms and condition of the job an employment contract is entered into.

SOLUTION THREE

(e) Define Marketing Research.

Marketing Research is an investigation into aspects of the market-the size, trends, competition, legislation, barriers to entry etc. it assists in auditing the stages in marketing planning. It gives a general view of the market and is a basis for decision-making. It is concerned with the comparative analysis of markets and market sectors..

It is an investigation on how to reach and serve customers in the best way. It is concerned with the Marketing Mix elements- Product, Price, Place Promotion etc.

(f) State the five (5) steps of the Market Research Process.

i. Defining the problem
ii. Developing the Research Objectives
iii. Developing the Research plan for data collection
iv. Data collection and Analysis
v. Interpreting and reporting the findings.

(g) Distinguish between Qualitative research and Quantitative research.

i. "Quantitative "come from quantity – meaning numbers. Results can be in the form of numbers or percentages. This type of research is used to assess trends, potential and actual growth or decline etc.

ii. Qualitative research is all about ideas and opinions, or likes and dislikes. Because opinions are involved it requires greater skills on the part of the interviewer and the analyst. The results from qualitative research are often extremely difficult to analyze in a systematic way.it is common therefore to construct questions which can be answered using some form of scale – such as the like scale or a semantic differential scale . This allows qualitative responses to be quantified.

(h) What is sampling, and why is it important in research?

Sampling involves selecting part of an entire population of interest. The sample has to be representative of the whole population. It is easier to gather information from a small group than from an entire population. It is less time consuming and is less costly to gather from a sample than from a population.

SOLUTION FOUR

(a) Characteristics of good information

- **(i)** **Availability:** The information should be readily available and accessible to those who need for different purposes such as decision making by managers. The source of this information could business records, internet, chambers of commerce, research papers etc
- **(ii)** **Accuracy:** The information obtained must be correct for the intended use. The accuracy of information is dependent with the credibility of the source.
- **(iii)** **Reliability:** The information is reliable if the degree of truth is high, which also depend on the source.
- **(iv)** **Relevance:** The information is relevant if it is suitable for the purpose and time needed for use.
- **(v)** **Timing:** The information must be needed on time for that purpose. Certain information may become irrelevant with the passage of time.
- **(vi)** **Completeness:** The information required must have the relevant details that will serve for the intended purpose.

(b) How new employees learn culture of an organisation

- **(i)** **Language:** The use of common terms when communicating within the organisation means acceptance of the culture.
- **(ii)** **Material Symbols**: symbols will include layout of the offices and facilities, dress code, vehicles used by management, etc. will enable the new employee to learn the expected culture of the organisation.
- **(iii)** **Routine Behaviours**: The way in which employees of the organization behave towards each other and external stakeholders.
- **(iv)** **Rituals**:These are particular activities or special events through which the organisation emphasises what is particularly important. For example, events to award most creative and performing employees.

SOLUTION FIVE

a) The aim of business management is to produce the greatest quantity and quality of a given product or service at the lowest possible cost.

b) The three (3) characteristics that constitute any organization are:

   i. Distinct purpose- these are the goals an organization wants to achieve
   ii. People- people will be needed to perform the tasks that will lead to the accomplishment of the organizational goals
   iii. Deliberate structure- the network, rules roles regulations that will make coordination easy for the work to be done.

   Structure of an organization is best illustrated in form of a chart.

c) The following are the four (4) major elements of strategic formulation:

   i. Analysis of organization's mission and purpose
   ii. Analysis of the organization's values and corporate culture which should help to build competitive advantage
   iii. Analysis of weaknesses and strengths in order to compete favorably in industry
   iv. Analysis of opportunities and threats in the environment and find solutions.

END OF SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C2: ECONOMICS & FINANCIAL MATHEMATICS

WEDNESDAY 14 DECEMBER 2022

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

INSTRUCTIONS TO CANDIDATES

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Attempt all five (5) questions.

QUESTION ONE

(a) Distinguish between Marginal Propensity to Consume and Marginal Propensity to save. (4 marks)

(b) Explain the term 'disposable income'. (2 marks)

(c) Distinguish between tax avoidance and tax evasion (6 marks)

(d) Explain the measures the Government can put in place to reduce the tax burden of PAYE. (8 marks)

[Total: 20 Marks]

QUESTION TWO

(a) In connection with international trade theory, explain the following concepts:

(i) Absolute advantage theory (6 marks)

(ii) Comparative advantage theory (6 marks)

(b) Outline any four (4) characteristics and functions of money. (8 marks)

Total: 20 Marks]

QUESTION THREE

(a) A financial cooperative invested K7,000 for three (3) years at 7% per annum compounded semi-annually.

Required:

(i) Calculate the total value of the investment. (4 marks)

(ii) Compare the return on the investment when interest is compounded annually to that when compounded semi-annually. (4 marks)

(b) Calculate the total value of the investment when

(i) Monthly (4 marks)

(ii) Daily. Assume all months consist of 365/12 days. (3 marks)

(c) Mr Mukuka acquired a mortgage of K450,000 to be repaid over a period of fifteen (15) years at a fixed interest rate of 8%. Calculate how much Mr Mukuka will be paying per month.

(5 marks)

[Total: 20 Marks]

QUESTION FOUR

(a) A new drug is being tested for a severe strain that affects the lungs. Medical experts have been called to investigate the effectiveness of this drug on a sample of patients. The dosage (grams) and recovery time (hours) are recorded as shown in the table below;

Dosage level (X)	1.2	1.0	1.5	1.3	1.4	1.6	1.8
Recovery Time (Y)	18	20	15	14	16	10	8

(i) Determine the least square regression line for the data above. (8 marks)

(ii) Calculate the coefficient of correlation (4 marks)

(b) A businessman investigates the variations in the pricing of goods he sells due to a new government policy on tax. The supply and demand functions of a good are given by:

$$P_d = 240 - Q_d$$
$$P_s = 60 + 2Q_s$$

Required:

(i) Calculate the equilibrium price and quantity. (4 marks)

(ii) Assume that the government imposes tax of K10 per unit, write down the new supply equation and calculate the new equilibrium price and quantity.

(4 marks)

[Total: 20 Marks]

QUESTION FIVE

(a) The masses of packages from a particular machine are normally distributed with a mean of 200g and a standard deviation of 2g. Find the probability that a randomly selected package from the machine weighs.

Required:

(i) Less than 197g (3 marks)

(ii) More than 200.5g. (3 marks)

(iii) Between 198.5g and 199.5g. (5 marks)

(b) An investment project requires an initial outlay of $8,000 and will produce a return of $17,000 at the end of five (5) years. Use the methods below to decide whether this is worthwhile if the capital could be invested elsewhere at 15% compounded annually.

Required:

(i) Net present value (4 marks)

(ii) Internal rate of return (5 marks)

[Total: 20 Marks]

END OF PAPER

C2 ECONOMICS & FINANCIAL MATHEMATICS

SUGGESTED SOLUTIONS

SOLUTION ONE

(a)
MPC is the measure of how consumption changes with a change in income. MPC = change in consumption / change in income.

MPS is the measure of how savings change with change in income. MPC = change in savings/ change in income.

(b) **Disposable income**: this is the income that the individual remains with after deduction of all taxes levied against their income and their property by government.

(c)
Tax Avoidance: this refers to a situation where one changes their behavior so as to reduce their tax liability. There is nothing illegal about tax avoidance. For example, donating to charity

Tax Evasion: tax evasion is a situation where one fails to pay tax. This is illegal. For example, concealing income

(d) **Reduce Tax Burden**

- Government must explore and create conducive policies to to tap on alternative sources of revenue.
- Consider wealth taxation, which can further increase tax base and promote equity.
- Consider reducing tax rates and the number of taxes
- The tax system must develop an effective system of tax payer services and education.
- Support the operations of ZRA by providing it with adequate funding

SOLUTION TWO

(a) Theories of international trade:

i) Absolute advantage: This is the ability of a country to produce a good using fewer resources than its trading partner. The country would then specialise in the good of its absolute advantage and export the excess to another country for beneficial trade

ii) Comparative advantage : This is the ability of a country to produce a good at a lower opportunity cost than its trading partner. The country would then specialise the good of comparable advantage and export the excess in beneficial

(b) The following are the characteristics of money:

Characteristics:

- Divisible: It must be capable of reflecting a range of values
- Portable: It must be easily carried around
- Durable: It must not die quickly through rot or rust
- Controllable: It must easily be controlled by an acceptable authority
- Uniformity: It must have the same value regardless of its condition
- Acceptable: It must be generally accepted by people to complete business transactions

Functions of Money

- Medium of exchange
- Store of value
- Means of deferred payment
- Unit of account

SOLUTION THREE

(a) $P_0 = K7000 \quad r = \frac{7}{100} = 0.07 \quad t = 3 \quad \text{semi annually implies } m = 2$

$P_t = P_0(1 + \frac{r}{m})^{mt}$

$P_3 = 7000\left(1 + \frac{0.07}{2}\right)^{(2)(3)} = 7000(1 + 0.035)^6 = K\,8604.7$

(b)

annually; $P_t = P_0(1 + r)^t = 7000(1 + 0.07)^3 = K\,8575.3$

The gain is $8604.7 - 8575.3 = 29.4$ over when compounded annually.

i). Monthly $P_t = 7000\left(1 + \frac{0.07}{12}\right)^{(12)(3)} = K6351$

ii). Daily $P_t = 5000\left(1 + \frac{0.08}{365}\right)^{(365)(3)} = K8630.5$

(c) Here we are given that $L = 450000, \frac{i}{12} = \frac{0.08}{12}$=0.00667 per month, t=$15 \times 12$= 180 payments. Then solve for the monthly repayment.

$$A_0 = L\frac{\frac{i}{12}}{\left(1 - 1 + \frac{i}{12}\right)^{-15\times12}}$$

$$=450000 \times \frac{0.00667}{1-(1.00667)^{-180}}$$

$$=450000 \times 0.0095588$$

$$=4301.47$$

Repayments per month is 4301.47

SOLUTION FOUR

(a) i. Regression

	Dosage level (X)	Recovery time (Y)	XY	X^2	Y^2
	1.2	18	21.6	1.44	324
	1	20	20	1	400
	1.5	15	22.5	2.25	225
	1.3	14	18.2	1.69	196
	1.4	16	22.4	1.96	256
	1.6	10	16	2.56	100
	1.8	8	14.4	3.24	64
Totals	**9.8**	**101**	**135.1**	**14.14**	**1565**

$\sum X = 9.8,\qquad \sum Y = 101 \qquad \sum XY = 135.1 \qquad \sum X^2 = 14.14 \qquad \sum Y^2 = 1565$

$\bar{X} = 1.4 \qquad \bar{Y} = 14.43$

$$b = \frac{\sum XY - n\bar{X}\bar{Y}}{\sum X^2 - n\bar{X}^2}$$

$$= \frac{135.1-(7)(1.4)(14.43)}{14.14-(7)(1.4)^2}$$

$$= \frac{-6.314}{0.42}$$

$$= -15.03$$

$$a = \bar{Y} - b\bar{X} = 14.43 - (-15.03)(1.4)$$

$$= 35.4$$

$\hat{Y} = 35.4 - 15.03X$

ii. $r = \dfrac{n\sum XY - \sum X \sum y}{\sqrt{[n\sum X^2 - (\sum X)^2][n\sum Y^2 - (\sum Y)^2]}}$

$= \dfrac{(7)(135.1)-(9.8)(101)}{\sqrt{[(7)(14.14)-(9.8)^2][(7)(1565)-(101)^2]}}$

$= \frac{-44.1}{\sqrt{(2.94)(754)}}$

$= \frac{-44.1}{47.08}$

$= -0.9367$

(b) i. $P_d = 240 - Q_d$
$P_s = 60 + 2Q_s$

At equilibrium $Q_d = Q_s = Q$ and the price $P_d = P_s = P$
Solving the equation simultaneously
$P = 240 - Q$
$P = 60 - 2Q$
Subtracting the two equations, we get
$0 = -3Q + 180$
$Q = 60$
And so $P = 60 + 2(60) = 180$

Therefore $Q = 60 \; and \; P = 180$

ii. Due to Tax of K10, the price received by the producer is $(P_s - 10)$

$P_s - 10 = 60 + 2Q_s$

$P_s = 70 + 2Q_s$
The new equilibrium price will be;
$P = 240 - Q$
$P = 70 + 2Q$

$240 - Q = 70 + 2Q$
$3Q = 170$
$Q = 56.66 \approx 57$

$P = 240 - 57 = 183$

SOLUTION FIVE

(i) $Z = \frac{X-200}{2}$

$$P\left[\frac{X-200}{2} < \frac{197-200}{2}\right]$$
$$= P[Z < -1.5]$$
$$1 - P[Z < 1.5]$$
$$= 1 - 0.9332 = 0.0668$$

(ii)

$$P\left[\frac{X-200}{2} > \frac{200.5-200}{2}\right]$$
$$= P[Z > 0.25]$$
$$= 1 - P[Z < 0.25]$$

$$= 1 - 0.5987 = 0.4013$$

(iii)

$$P\left[\frac{198.5-200}{2} < \frac{X-500}{2} < \frac{199.5-200}{2}\right]$$

$$P[-0.75 < Z < -0.25]$$
$$P[Z < -0.25] - P[Z < -0.75]$$
$$1 - P[Z < 0.25] - [1 - P[Z < 0.75]]$$
$$1 - 0.5987 - 1 + 0.7734$$
$$= 0.1747$$

The present value of $17 000 in three years' time, based on a discount rate of 15%, is found by setting S = 17 000, $t = 5$ and $r = 15$ in the formula

$$P = S\left(1 + \frac{r}{100}\right)^{-t}$$

This gives

$$P = 17000\left(1 + \frac{15}{100}\right)^{-t}$$

$$P = 17\ 000(1.15)^{-5} = 8452.0045$$

The NPV is therefore

$$\$8452.0045 - \$8\ 000 = \$452.0045$$

The project is to be recommended because this value is positive

(ii) To calculate the IRR we use the formula

$$S = P\left(1 + \frac{r}{100}\right)^t$$

We are given $S = 17\ 000$, $P = 8\ 000$ and $t = 5$, so we need to solve

$$17000 = 8000\left(1 + \frac{r}{100}\right)^5$$

for r. An obvious first step is to divide both sides of this equation by 8 000 to get

$$\frac{17}{8} = \left(1 + \frac{r}{100}\right)^5$$

$$\left(\frac{17}{8}\right)^{\frac{1}{5}} = 1 + \frac{r}{100}$$

$$\frac{r}{100} = 1.16 - 1 = 0.16$$

and so the IRR is 16%. The project is therefore to be recommended because this value exceeds the market rate of 15%.

END OF SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C3: ACCOUNTANCY FOR TAX PRACTITIONERS

MONDAY 12 DECEMBER 2022

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Attempt all five (5) questions .

QUESTION ONE

(a) The following is an extract from the cash book of X Co for the month of January 2022.

Cash Book (Bank Account only)

	K		K
Balance b/f	183,340	Trade Payables	27,840
Trade Receivables	80,460	Rent Payables	52,260
Cash sales	43,880	Interest Payables	19,620
Trade Receivables	144,980	Cheques cashed	65,800
		Balance c/d	287,140
	452,660		452,660

X Co's Bank statement for the same period was as follows:

	Debit	Credit	Balance
	K	K	K
Opening Balance			152,900
Lodgment 000212		49,820	202,720
Cheque 000148	19,380		183,340
Insurance D/D	48,260		135,080
Lodgment 000213		80,460	215,540
Cheque 000149	27,840		187,700
Cheque 000150	52,260		135,440
Cheque 000152	65,800		69,640
Lodgment 000214		43,880	113,520
Bank Charges	11,260		102,260

Required:

Reconcile the balances in the cash book to those in the bank statement at the end of the month. (5 marks)

(b) F. Kashu and T. Zulu are in partnership and the following details were taken from their accounts on the 31 December 2021.

		K
Capital Accounts:	F. Kashu	60,000
	T. Zulu	80,000
Current Accounts	F. Kashu (Cr)	1,120
	T. Zulu (Dr)	1,200
Drawings during 2021	F. Kashu	5,640

T. Zulu	5,080
Gross Profit	40,000
Other Balances were:	
Stationery	2,500
Wages	7,720
Rent and Rates, January to March 2022	3,000
Insurance	6,000
Discount Received	3,040
Discount allowed	960

Note:

1. Each partner is to receive 3% per annum Interest on his capital.
2. Kashu and Zulu share Profits and Losses in the ratio 5 : 4

Required:

(i) Statement of Profit or Loss and appropriation Account for Kashu and Zulu for the year ended 31 December 2021 (8 marks)

(ii) Each Partner's current account for the year under review. (7 marks)

[Total: 20 Marks]

QUESTION TWO

Clegg, a sole trader, extracted a trial balance as at 31 May 2021 which failed to balance.
A suspense account was opened.

Trial Balance as at 31 May 2021

	DR	CR
Administration costs	72,000	
Bank		8,300
Capital		50,000
Loan notes		100,000
Drawings	48,000	
Motor vehicles: cost	120,300	
Motor Vehicles: Accumulated Depreciation at 1 June 2020		37,000
Interest received		200
Wages and salaries	170,000	
Purchases	104,000	
Inventory 1 June 2020	24,200	
Trade payables		42,200
Revenue		482,000
Trade receivable	157,000	
VAT		5,000
Interest paid	12,000	
Suspense	17,200	

	724,700	**724, 700**

Additional Information:

(i) The depreciation charge of K15,000 for the year was only included in the accumulated depreciation account.

(ii) An examination of costs shows that there is a prepayment for insurance of K320.00 and an accrual for electricity of K480.00. Both of these costs are Administrative expenses.

(iii) One page of the sales returns day book was left out of the total posted to the receivables ledger control account although it was included in the other totals posted. The total value of credit notes was K6,100.

(iv) A cash receipt of K10,000 was recorded in the cash book but it was not identified and it has not yet been posted. It has now been clarified that this represents additional capital from proprietor.

(v) The payment by Bankers' Automated Clearing System (BACS) of wages in May of K14,300 has not been posted to the wages account, nor has the purchase in May of Motor vehicles for K4,000 been posted. This asset should be depreciated at a rate of 25% straight line, with a full year's depreciation being charged in the year of purchase.

(vi) Interest due of K650 on the loan needs to be accrued.

(vii) At 31 May 2021 inventory was K32,000.

Required:

(a) Prepare the suspense account to show any errors corrected through it. (5 marks)

(b) Prepare the statement of profit or loss for Clegg for the year ended 31 May 2021. (7½ marks)

(c) Prepare the statement of financial position for Clegg as at 31 May 2021. (7½ marks)

[Total: 20 Marks]

QUESTION THREE

The following statement of Financial Position show the position of Alick Sambo, a sole trader's business at the end of 31 December 2020 and 2021.

Statements of Financial Position as at 31 December.

	2020		2021	
	K	K	K	K
NON-CURRENT ASSETS				
Land and Buildings		90,000		120,000
Machinery at cost	50,000		70,000	
less Depreciation to date	(14,000)	36,000	(26,000)	44,000
		126,000		164,000
CURRENT ASSETS				
Inventory	22,000		28,000	
Trade receivables	26,000		36,000	
Bank	19,000	67,000	-	64,000
Total assets		193,000		228,000
Financed by:		100,000		105,000
Capital	20,000		30,000	
Net Profit	(15,000)		(12,000)	
Drawings		5,000		18,000
NON-CURRENT LIABILITIES		60,000		50,000
Loan notes				
CURRENT LIABILITIES	28,000		30,000	
Trade payables	-	28,000	25,000	55,000
Bank overdraft		193,000		228,000

Note: Loan and overdraft interest paid in 2021 was K6,500.

Required:

(a) Prepare a statement of cash flows for Alick Sambo for the year ended 31 December 2021, using indirect method. (15 marks)

(b) Alick Sambo says to you: I cannot understand why I am overdrawn at the bank on 31 December 2021 when I made more profit than the previous year and took less drawings from the bank. He asks for your assistance in seeking an explanation.

(5 marks)

[Total: 20 Marks]

QUESTION FOUR

The following Trial balance has been extracted from the ledgers of D K Plc at 31 December 2021:

	Dr K	Cr K
Ordinary shares of K1 each		100,000
Retained earnings at 1 January 2021		153.194
Purchases (All credit)	643,748	
Sales (All credit)		1,294,800
Inventory at 1 January 2021	30,800	
Trade Payables		83,872
Trade Receivables	165,702	
Carriage Inwards	26,512	
Carriage Outwards	64,920	
Electricity	13,988	
Council Rates	17,880	
Wages and Salaries	276,584	
Sundry expenses	13,968	
Rent	29,200	
VAT		42,236
Motor vehicles at cost	98,800	
Accumulated Depreciation at 1 January		42,480
Bank Deposit Account	180,000	
Bank Current Account	154,480	
	1,716,582	1,716,582

Additional Information:

(i) Inventories at 31 December 2021 K38,946

(ii) Prepaid rent amounted to K5,600

(iii) Accruals are estimated as follows:

- Electricity K1,892
- Wages and salaries K4,928
- Interest on Bank deposit account K14,400
- Income tax K60,000

(iv) Depreciation on Motor vehicles is to be calculated at 25% per annum using the reducing balance method.

Required:

(a) Calculate the receivables and Payables days. (3 marks)

(b) Prepare the statement of Profit or Loss for D.K Plc the year ended 31 December 2021. (9 marks)

(c) Prepare the statement of Financial Position for D.K Plc as at 31 December 2021. (8 marks)

[Total: 20 Marks]

QUESTION FIVE

(a) Below is the trading account for Mwebo and Sons:

	K	K
Sales		100,000
Opening inventory	10,000	
Add purchases	85,000	
	95,000	
Less: closing inventory	(20,000)	
Cost of sales		(75,000)
Gross profit		25,000

Required:

From the above information calculate:

(i) Gross profit percentage. (2 marks)

(ii) Inventory turnover for the year. (2 marks)

(iii) Number of days inventory held on average. (2 marks)

(iv) If receivables are K12,500, the credit that is being taken. (2 marks)

(v) If payables are K21,250 the credit that is being received. (2 marks)

(vi) If net profit is K15,000 the net profit percentage (2 marks)

(c) The following receivables ledger control account has been prepared by Silumbe an inexperienced member of staff from the accounting records of EMN Company as at 30 September 2021:

Receivables Ledger Control

	K		K
Balance b/f	46,290.11	Returns outwards	5,688.09
Sales	159,370.95	Receivables receipts	149,939.21
Discount allowed	6,351.09	Discount received	5,209.86
Decrease in allowance for receivables	5,214.80	Irrecoverable debt written off	2,659.11
Trade payables ledger controls	24,758.13	Balance c/f	80,193.85
Returns inwards	1 705.06		
	243,690.14		243,690.14

The total of the individual balances in the trade receivable ledger (net of credit balances) has been calculated as K48,242.22 on 30 September 2021.

An investigation revealed the following:

(i) A credit balance of K2,190.61 on an individual account within the trade receivables ledger was included in the calculation of the total of the individual balance as though it were a debit balance.

(ii) One page of the sales day book had been incorrectly added. The total calculated was K1,145.59 more than the correct sum of the individual entries.

(iii) A credit note issued to a customer for K371.19 had been entered in the returns day book as K731.19

(iv) An irrecoverable debt of K210.66 that was written off in 2019 was recovered in September 2021, the correct entries have been made in the individual customer account. No entries have been made in the control account.

Required:

Commencing with the closing balance given, make necessary entries in the trade receivables ledger control account to find the amended control account balance, taking into account items (i) to (iv) above.

(8 marks)

[Total: 20 Marks]

END OF PAPER

C3 ACCOUNTANCY FOR TAX PRACTITIONERS

SUGGESTED SOLUTIONS

SOLUTION ONE

Working 1

Adjusted Cash Book

	K		K
Balance b/f	287,140	Insurance D/D	48,260
		Bank charges	11,260
		Adjusted Balance c/d	227,620

1. a. **Bank Reconciliation Statement**

Adjusted cash book Balance (w1)	227,620
Add Unpresented cheques	19,620
	247,240
less: Outstanding lodgment	(144,980)
	102,260

(i) F. Kashu and T. Zulu's

1. b(1). Statement of Profit or Loss and appropriation Account for the year ended 31 December 2021

	K	K
Gross Profit		40,000
Add Discount Received		3,040
less Stationery	2,500	
Wages	7,720	
Rent and Rates (3,000 x $\frac{12}{15}$)	2,400	
Insurance	6,000	
Discount allowed	960	(19,580)
		23,460
Interest on Capital:		
F. Kashu 3% x 60,000	1,800	
T. Zulu 3% x 80,000	2,400	(4,200)
		19,260
Share of Profit: F. Kashu	10,700	
T. Zulu	8,560	(19,260)

Current Accounts

		F. Kashu	T. Zulu			F. Kashu	T. Zulu
Balance	b/f	-	1,200	Balances	b/f	1,120	-
Drawings		5,640	5,080	Interest on Caps		1,800	2,400
Balances	c/d	7,980	4,680	Share of Profits		10,700	8,560
		13,620	10,960			13,620	10,960

SOLUTION TWO

(a) Suspense Account

	K		K
Balance b/f	17 200	Depreciation	15 000.00
Sales returns	6 100	Wages	14 300
Capital	10 000	Motor vehicles	4 000
	33 300		33 300

(b)

	K	K
Revenue		482 000
Opening inventory	24 200	
Add: purchases	104 000	
	128 200	
Less: closing inventory	(32 000)	
		(96 200)
		385 800
Interest receivable		200
General profit		386 000
Less: expenses		
Administration Expenses (72 000 + 480 – 320)	72 160	
Depreciation change (15 000 + 1 000)	16 000	
Interest payable (12 000 + 650)	12 650	
Labour Expenses (170 000 + 14 300)	184 300	
		285 110
Net profit		100 890

(c) Statement of Financial Position as at 31 May 2021

	K	K	K
Non-current assets:	**Cost**	**Dep'n**	**NBV**
Motor vehicles(120 000+4 000)	124 300	(38 000)	86 000
Current assets:			
Closing inventory		32 000	
Prepayments-Administration		320.00	
Receivables(157 000-61 000)		150 900	183 320
Total Assets			269 520
Capital and liabilities:			
Capital (50 000 + 10 000)			60 000
Profit for the year			100 890
Less: Drawings			(48 000)
			112 890
Current liabilities:			

Payables	42 200	
Bank overdraft	8 300	
VAT	5 000	
Accruals(480+650)	1 130	
		56 630
		169 520
Long-term liabilities:		
Loan		100 000
		269 520

SOLUTION THREE

(a) Alick Sambo's

Statement of Cash flows for the year ended 31 December 2021.

	K	K
Cash flows from operating Activities	K	K
Net Profit before Interest (30,000 + 6,500)		36,500
Adjust: Depreciation (26,000 – 14,000)	12,000	
Increase in Inventory (28,000 – 22,000)	(6,000)	
Increase in Receivables (36,000 – 26,000)	(10,000)	
Increase in Payables (30,000 – 28,000)	2,000	(2,000)
Net Cash Inflow from operating activities		34,500
Other transactions:		
Interest Paid	(6,500)	
Drawings	(12,000)	(18,500)
Cash flows from Investing Activities		
Payments to acquire Property	(30,000)	
Payments to acquire Plant	(20,000)	
Net Cash outflow from Inventory Activities		(50,000)
Cash flows from Financing Activities		
Repayment of Loan	(10,000)	
Net Cash outflow from financing Activities		(10,000)
Net Decrease in cash and cash equivalents		(44,000)
Opening Bank Balance		19,000
Closing Bank Balance		(25,000)

(b) Explanation to Alick Sambo

During 2021, the operating activities or trading activities, the business has generated cash and cash equivalent of K34,500. However, there has been a major outflow of K50,000 (K30,000 on Property and K20,000 on machinery). At the same time, during the year, K10,000 of the Loan has been repaid. The Interest paid and drawings made (K18,500) worsened the cash position. These cash flows have changed the bank balance from K19,000 favourable balance to an overdraft of K25,000, a swing of minus K44,000.

SOLUTION FOUR

(a) (i) Receivable days = $\frac{\text{closing receivables}}{\text{Credit sales}} \times 365$ days

$= \frac{165\ 702}{1\ 294\ 800} \times 365$ days

$=$ 46.71 days say 47 days

(ii) Payables days = $\frac{\text{closing Payables}}{\text{Credit Purchases}} \times \frac{365 \text{ days}}{1}$

$= \frac{83\ 872}{643\ 748} \times \frac{365}{1}$

= 47.55 days say 48 days.

(b) D.K. Plc's

Statement of Profit and Loss for the year end 31 December 2020

	K	K
Sales		1 294 800
Opening inventory	30 800	
Purchases (643 748+ 26 512)	670 260	
	701 060	
Less closing inventory	(38 946)	(662 114)
Gross Profit		632 686
Other income – Bank Deposit interest		14 400
		647 086
Less: Depreciation on Motor vehicles (wk1)	14 080	
Carriage outwards	64 920	
Electricity (13 988 + 1 892)	15 880	
Council rates	17 880	
Wages and salaries (276 584 + 4 928)	281 512	
Sundry expenses	13 968	
Rent (29 200 – 5 600)	23 600	
Income tax	60 000	
		(491 840)
Net Profit for the year		155 246

(c) **D.K's Plc's**

Statement of Financial Position as at 31 December 2021

			K	K
<u>Non-Current Assets</u>				
Motor vehicles (98 800 – 56 560)				42 240
<u>Current Assets</u>				
Inventories			38 946	
Trade Receivables			165 702	
Prepaid rent			5 600	
Bank Deposit Account (180 000 + 14 400)			194 400	
Bank Current account			<u>154 480</u>	<u>559 128</u>
				<u>601 368</u>
<u>Equity and Liabilities</u>				
Ordinary shares of K1 each			100 000	
Retains of earnings (153 194 + 155 246)			<u>308 440</u>	408 440
<u>Current Liabilities</u>				
Trade payables			83 873	
Accruals: - Electricity		1 892		
- Wages and salaries	4 928		6 820	
VAT			42 236	
Income tax			60 000	<u>192 928</u>
				<u>601 368</u>

<u>Working one</u>

Depreciation charge = 25% x (98 800 – 42 480)
= K14 080

SOLUTION FIVE

(a) (i) Gross profit percentage = $\frac{\text{Gross profit}}{\text{Sales}}$

$= \frac{25\ 000 \times 100}{100\ 000}$

$= \underline{\underline{25\%}}$

(ii) Inventory turnover = $\frac{\text{Cost of sales}}{\text{Average inventory}}$

$= \frac{75\ 000}{15\ 000}$

$= \underline{\underline{5 \text{ times}}}$

(iii) Inventory holding period = $\frac{\text{Average inventory} \times 365 \text{ days}}{\text{Cost of sales}}$

$= \frac{15\ 000 \times 365 \text{ days}}{75\ 000}$

$= \underline{\underline{73 \text{ days}}}$

(iv) Receivables collection period = $\frac{\text{Receivables} \times 365 \text{ days}}{\text{Sales}}$

$= \frac{12\ 500 \times 365 \text{ days}}{100\ 000}$

$= \underline{\underline{45.62 \text{ days}}}$

(v) Payables collection period = $\frac{\text{Payables} \times 365 \text{ days}}{\text{Purchases}}$

$= \frac{21\ 250 \text{ X } 365 \text{ days}}{85\ 000}$

$= \underline{\underline{91.25 \text{ days}}}$

(vi) Net profit margin = $\frac{\text{Net profit}}{\text{Sales}}$

$= \frac{15\ 000 \times 100\%}{100\ 100}$

$= \underline{\underline{15\%}}$

(b) Trade Receivables Ledger Control Account

	K		K
Balance b/f	80 193.85	Discount allowed	12 702.18
Discounts received	5 209.88	Returns inwards	3 410.12
Returns outwards	5 688.09	Payables ledger controls	24 758.13
Error of transposition	360.00	Decrease in allowance for receivables	5 214.80
		Sales day book miscast	1 145.59
		Balance c/f	44 220.98
	91 451.80		91 451.80
Amended balance			**18 967.86**

END OF SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C4 : DIRECT TAXES

TUESDAY 13 DECEMBER 2022

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

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question.

2. This question paper consists of FIVE (5) questions of twenty (20) marks each. You MUST attempt all the FIVE (5) questions.

3. Enter your Student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.

4. Do **NOT** write in pencil (except for graphs and diagrams).

5. Cell Phones are **NOT** allowed in the Examination Room.

6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.

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

8. Present legible and tidy work.

9. Graph paper (if required) is provided at the end of the answer booklet.

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

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

(C4: Direct Taxes Taxation Table for 2022 Examinations)

Income Tax

Income band	Taxable amount	Rate
K1 to K54,000	first K54,000	0%
K54,001 to K57,600	next K3,600	25%
K57,601 to K82,800	next K25,200	30%
Over K82,800		37.5%

Income from farming for individuals

K1 to K54,000	first K54,000	0%
Over K54,000		10%

Company income tax rates

On income from manufacturing and other	30%
On income from farming	10%
On income from mineral processing	30%
On income from mining operations	30%

Income from farming for individuals

K1 to K54,000	first K54,000	0%
Over K54,000		10%

Company Income Tax rates

On income from manufacturing and other	30%
On income from farming	10%
On income of Banks and other Financial Institutions	30%
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

Range of Norm Price	Mineral Royalty Rate
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

Type of mineral	Mineral Royalty Rate
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 –	Standard wear and tear allowance	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%

Industrial Buildings:

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

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

Wear and Tear Allowance	10%
Initial Allowance	10%

Commercial Buildings

Wear and Tear Allowance	2%

Farming Allowances

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

Presumptive Taxes

Turnover Tax 4%

Rental Income Tax

Annual Rental Income	
K800,000 or below	4%
Above K800,000	12.5%

Presumptive tax for transporters

Seating capacity	**Tax per annum**	**Tax per quarter**
	K	K
Less than 12 passengers and taxis	1,080	270
From 12 to 17 passengers	2,160	540
From 18 to 21 passengers	4,320	1,080
From 22 to 35 passengers	6,480	1,620
From 36 to 49 passengers	8,640	2,160
From 50 to 63 passengers	10,800	2,700
From 64 passengers and over	12,960	3,240

Property transfer tax

Rate of tax on realised value of land, land and buildings and shares	5%
Rate on realised value of intellectual property	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 mineral processing licence or an interest in the mineral processing licence.	10%

Attempt ALL FIVE (5) questions.

QUESTION ONE

Tusole Tech Ltd is a Zambian resident company that manufactures plastic containers. The company's summarised statement of profit or loss for the year ended 31 December 2022 is as follows:

		K	K
Gross profit			1,200,450
Less Expenses:			
Depreciation		46,000	
Bad debts	(Note 1)	9,400	
Gifts and donations	(Note 2)	4,200	
Electricity	(Note 3)	14,800	
Professional fees	(Note 4)	20,000	
Premium paid	(Note 5)	60,000	
Other expenses	(Note 6)	74,300	
			(228,700)
Operating profit			971,750
Bank interest received (gross)	(Note 7)		16,600
Royalties received (net)	(Note 8)		17,000
Profit on disposal of plant	(Note 9)		4,500
Net profit			1,009,850

The following additional information is available:

Note 1: Bad debts	K
Loans written off now recovered	(1,350)
Increase in general provision for doubtful debts	10,750
	9,400

Note 2: Gifts and donations

	K
Gifts to customers (Diaries costing K120 each displaying Company name)	1,200
Gifts to customers (food hampers costing K100 each)	1,100
Donation to Cheshire Home, an approved public benefit organization	1,900
	4,200

Note 3: Electricity bills

Electricity bills of K11,200 were paid on 31 October 2022, and K3,600 was accrued at 31 December 2022. There was no accrual at 31 December 2021. The figures for electricity bills are all trade related.

Note 4: Professional fees

Professional fees are as follows:	K
Accountancy and audit fees	8,000
Legal fees in connection with issue of share capital	10,600
The cost of re-registering the company's trademark	1,400
	20,000

Note 5: Premium

The company obtained the right for the use of a patent on 1 March 2022. Tusole Tech Ltd paid a premium of K60,000 as consideration for the use of the right. The right will be exploited by the company over a 30 year period.

Note 6: Other expenses

Other expenses include K6,740 for entertaining customers, K4,780 for entertaining employees, and the cost for seconding an employee to a public benefit organisation of K3,600. The remaining employees are all allowable.

Note 7: Bank interest received

The bank interest was received on 31 December 2022. The bank deposits are held for non-trading purposes.

Note 8: Royalties received

The royalties were received on 30 June 2022 and the withholding tax was deducted at source.

Note 9: Profit on disposal of plant

The plant with a carrying value of K7,300 was sold on 15 October 2022 for K11,800.This plant had originally cost K18,000 when it was purchased on 1 January 2021.

Note 10: Industrial building

On 1 April 2022 Tusole Tech Ltd purchased a second-hand factory for K440,000 (including K130,000 for land and K95,000 for general offices). The factory was originally constructed at a cost of K486,500 (including K145,000 for land and K105,000 for general offices), and was brought into use on 1 October 2018. The factory has always been used for industrial purposes.

Note 11: Implements, plant & machinery

The following are other transactions which took place during the year ended 31 December 2022:

		K
5 March	Purchased Manufacturing machinery	42,000
22 June	Purchased a computer	9,800
11 September	Purchased a motor car	10,200

Required:

(a) Calculate the capital allowances claimable by Tusole Tech Ltd for the tax year ended 31 December 2022. (8 marks)

(b) Calculate the tax adjusted business profit for the year ended 31 December 2022. (8 marks)

(c) Calculate the company income tax payable for the tax year 2022. (4 marks)

[Total: 20 Marks]

QUESTION TWO

Mr Manyando is self-employed as an electrician and also repairer of various domestic electrical appliances. In the financial year ended 31 December 2022, he made a net profit of K132,000. The profit figure was arrived at after charging the following expenses:

(1) Repairs and renewals of K12,500 for fitting burglar bars for his workshop to protect his tools against theft because last year thieves broke into the workshop and stole a number of tools.

(2) A loan written off of K15,000 obtained by Mr Lubasi, one of his customers who was declared bankrupt by the court after being sued by a supplier.

(3) He was charged a speeding offence of K4,500 which he paid at the fast track court.

(4) He paid for electricity bill amounting to K3,000 for his office.

(5) He made a gift of 20 Calendars for a total cost of K4,000 to twenty (20) of his prominent customers.

(6) Cost of a course in electrical, costing K2,500 to improve his electrical skills.

(7) He was charged a penalty of K17,000 for paying the income tax later than the due date. However, the matter could not be resolved by the ZRA internal review and was taken to the Tax Appeals Tribunal (TAT) where Mr Manyando lost the case.

(8) He purchased his work suit for K650 from one of the hardware shops in Lusaka.

(9) Mr Manyando uses his personal motor car in the business. The car was bought in 2021 and had an income tax value of K47,200 on 1 January 2022. The agreed private use is 25%.

(10) He purchased the following assets which were used wholly for business purposes:

		K
25 February 2021	Delivery van	45,000
12 April 2021	Computer	6,000
30 June 2022	Office furniture	13,000

(11) The computer which was bought on 12 April 2021 was sold for K5,500 on 28 October 2022.

Required:

(a) Calculate the income tax payable by Manyando for the tax year ended 31 December 2022. (10 marks)

(b) The Government of the Republic of Zambia introduced presumptive taxes in order to broaden the tax base. Turnover tax and presumptive tax for transporters were the main taxes introduced.

(i) Define turnover tax (2 marks)

(ii) Explain four (4) benefits of the presumptive tax for transporters over the regular assessed system. (8 marks)

[Total: 20 Marks]

QUESTION THREE

(a) Property Transfer Tax (PTT) is chargeable on any person who transfers property to another person. The person transferring the property is known as the transferor and the person to whom property is transferred is known as transferee.

Required:

(i) Explain the general rule used to determine the realized value. (2 marks)

(ii) Explain the meaning of an immediate family and how the realized value is determined in respect of transfers made to members of the immediate family. (3 marks)

(iii) State six (6) documents required for all property transactions. (3 marks)

(b) John Kafupi made disposals of assets as follows:

(i) Shares in Kanondo Plc

He sold the entire holding of 12,500 ordinary shares of K50 each in KanondoPlc for K600,000 on 31 May 2022. Kanondo Plc is a Zambian company listed on the Lusaka Securities Exchange (LUSE). He had acquired these shares through an initial public offer (IPO).

(ii) Shares in Jumbo Limited

He sold 2,500 shares of K2 each in Jumbo Limited for K 7,500 on 30 June 2022. He had originally purchased 5,000 shares at a nominal value per share of K2 in Jumbo Limited for K10,000 when the company made a floatation of shares to the public.

(iii) Two (2) Acre Plot in Chalimbana

On 31 July 2022, he sold a two (2) acre plot in Chalimbana for K150,000 which was part of his ten 10 acre farm bought 3 years ago for K600,000. However, the Government valuers estimated the market value of the plot to be K175,000.

(iv) Transfer of shares to the Daughter

On 1 July 2022 John Kafupi decided to transfer the remaining shares in Jumbo Limited to his daughter, Mutinta as a present after her successful completion of a Seven (7) year university degree in Medicine at the University of Zambia (UNZA).

The nominal value of the 2,500 shares in Jumbo Ltd was still at K2 each.

Required:

Calculate the amount of Property Transfer tax (PTT) payable by John Kafupi on each of the above transactions. (12 marks)

[Total: 20 Marks]

QUESTION FOUR

Jonasi and Jacob have been in partnership for many years now making up accounts to 31 December every year. Their trading business has grown over the years. The partners share profits in the ratio of 3:4 respectively after allowing for annual salaries of K51,000 for Jonasi and K53,000 for Jacob. The partners also get interest on capital of 10% per annum.

The partnership business admitted another partner, Josephat, on 1 October 2022. Following the admission of Josephat, the following changes to the partnership agreement were made:

The partner's salary was changed to K65,000 for each partner per annum.
Interest on capital was increased to 15% per annum.
Profits and losses were to be shared 2:2:1.

In the tax year 2022, the partnership made a tax adjusted trading profit from their trading activities before capital allowances of K728,100.

The partnership had the following assets in use as at 1 January 2022.

Description	Purchase cost (K)	ITV as at 1 January 2022 (K)
Nissan Pulsar motor car	40,000	16,000
Honda Fit motor car	30,000	6,000
Nissan Van	60,000	45,000
Ford van	95,000	71,250

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

On 5 December 2022, each partner bought a Toyota Mark II car at a cost of K52,000. The partners used their personal savings from other sources to finance the purchase of the cars. The private use of the vehicles by each partner was agreed as follows:

Jonasi	30%
Jacob	25%
Josephat	40%

Annual partners' capital contributions were as follows:

	K
Jonasi	185,000
Jacob	140,000
Josephat	78,000

Other information

Prior to joining the partnership, Josephat had worked as an Accountant at Kulima Tower Limited up to 31 July 2022. And his all-inclusive pay was K93,600 per annum out of which he was required to make National Pension Scheme contribution (NAPSA) of 5% of his pay, he also had a monthly deduction of a loan repayment to one of the banks of K1,850, and he also paid his annual subscription in the month of March 2022 of K900 to ZiCA. The last month of repaying his salary advance deduction of K600 per month was September 2022. PAYE deducted was K15,100.

Kulima Tower Limited was charged penalties and interests for remitting PAYE deductions late.

Required:

(a) Explain the difference between a penalty and an interest charge in relation to tax commitments**.** (2 marks)

(b) Calculate the capital allowances for the tax year 2022 on implements, plant and machinery on assets owned by the business. Your calculation <u>should not</u> include assets acquired by the individual partners. (4 marks)

(c) (i) Calculate the taxable business profits (2 marks)

(ii) Calculate the amounts to be appropriated to each of the partners in charge year 2022. (9 marks)

(d) Calculate the taxable income for Josephat for tax year 2022. (3 marks)

[Total: 20 Marks]

QUESTION FIVE

Mr. Zingalume Mwana is employed by Chola Limited at a monthly salary of K19,600. In addition, the company provided the following to him:

	K
Housing allowance per annum payable monthly	20,400
School children's allowance per child per annum	1,800

Mr. Zingalume Mwana has two (2) school going children in respect of whom he receives the allowance stated above. The allowance is payable on a monthly basis on the last day of each month.

In recognition of Mr. Zingalume Mwana's hard work and long service, Chola Limited paid him following cash amounts:

	K
Labour Day award paid on 1 May 2022	4,100
Long service award paid on 1 July 2022	7,600

Deductions made included the following:	K
NAPSA contributions	10,000
Income tax paid under PAYE	62,800

The following expenditures were incurred by Mr. Zingalume Mwana in the Tax Year 2022:

	K
Payment to a local approved public benefit organisation	1,800
Subscription to a professional body relevant to his employment	1,900
Gym subscriptions	1,800
Life assurance premium	900

On 30 November 2022, Mr. Zingalume Mwana retired from his employment having attained the required Government age for retirement. Upon retirement, Mr Zingalume Mwana received the following:

	K
Repatriation pay	58,200
Monthly Pension (NAPSA) salary starting a month following his Retirement benefits to be paid up to his demise	3,100
Severance pay	16,200

Required:

(a) Calculate the final amounts of income tax payable for charge year 2022 by Mr. Zingalume Mwana and advise when this final income tax payable will be paid. (13 marks)

(b) Explain any seven (7) tests that are used by Zambia Revenue Authority (ZRA) to distinguish between an employee and a self-employed person for taxation purposes. (7 marks)

[Total: 20 Marks]

END OF PAPER

C4- DIRECT TAXES

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) TUSOLE TECH LTD

COMPUTATION OF CAPITAL ALLOWANCES FOR THE TAX YEAR 2022

	Value	Capital allowance
	K	K
Industrial building		
Qualifying cost (w)	215,000	
Wear and tear @ 5%	(10,750)	10,750
ITV c/f	204,250	
General offices		
Purchase cost	95,000	
Wear and tear @2%	(1,900)	1,900
ITV c/f	93,100	
Machinery		
Purchase cost	42,000	
Wear and tear @ 50%	(21,000)	21,000
ITV c/f	21,000	
Computer		
Purchase cost	9,800	
Wear and tear @ 25%	(2,450)	2,450
ITV c/f	7,350	
Motor car		
Purchase cost	10,200	
Wear and tear @ 20%	(2,040)	2,040
ITV c/f	8,160	
Plant		
ITV c/f	9,000	
Disposal proceeds	(11,800)	
Balancing charge	(2,800)	(2,800)
Total capital allowances		35,340

Working:

	K
Industrial building	
Total cost	440,000
Less cost of land	(130,000)
Construction cost	310,000
Less general offices	(95,000)
Qualifying cost	215,000

10% x K310,000 = K31,000

The cost of general offices exceeds 10% of the total construction cost. Therefore the general offices will not qualify as an industrial building. Since Tusole Tech Ltd is not the first user, then there will be no initial and investment allowance.

(b) TUSOLE TECH LTD
COMPUTATION OF TAX ADJUSTED BUSINESS PROFIT FOR THE TAX YEAR 2022

	K	K
Net profit per accounts		1,009, 850
Add:		
Depreciation	46,000	
Increase in general provision	10,750	
Gifts to customers	1,200	
Gifts of food to customers	1,100	
Legal fees – Issue of share capital	10,600	
Premium	60,000	
Entertaining customers	6,740	
		136,390
		1,146,240
Less:		
Bank interest	16,600	
Royalties received	17,000	
Loan recovered	1,350	
Premium allowance (60,000/30)	2,000	
Profit on disposal of plant	4,500	
Capital allowances	35,340	
		(76,790)
Tax adjusted business profit		1,069,450

(c) TUSOLE TECH LTD
COMPUTATION OF COMPANY INCOME TAX FOR THE TAX YEAR 2022

	K
Tax adjusted business profit	1,069,450
Bank interest	16,600
Royalties (17,000 x 100/85)	20,000
Taxable income	1,106,050
Company income tax (1,106,050 x 30%)	331,815
Less withholding tax already paid:	
Bank interest (16,600 x 15%)	(2,490)
Royalties (20,000 x 15%)	(3,000)
Company income tax payable	326,325

SOLUTION TWO

(a) MANYANDO

COMPUTATION OF TAX ADJUSTED BUSINESS PROFIT FOR THE TAX YEAR 2022

	K	K
Net profit per accounts		132,000
Add:		
Repairs- Fitting burglar bars	12,500	
Loan written off	15,000	
Speeding offence	4,500	
Gifts to customers	4,000	
Cost of course	2,500	
Penalty	17,000	
		55,500
		187,500
Less:		
Capital allowances:		
Delivery van (45,000 x 25%)	11,250	
Computer (4,500 – 5,500)	(1,000)	
Office furniture (13,000 x 25%)	3,250	
Motor car (47,200 x 100/80 x 20% x 75%)	8,850	
		(22,350)
		165,150
Less exempt income		(54,000)
Taxable income		111,150

Income tax:	
25% x 3,600	900
30% x 25,200	7,560
37.5% x 82,350	30,881
Income tax payable	39,341

(b) (i) Turnover tax is a direct tax on turnover in respect of companies and other enterprises whose annual turnover is K800,000 and less.

(ii) Benefits of presumptive tax for transporters over the regular assessed system

- **Simplified process**

  The process of dealing with taxes has been simplified. There is no requirement to file returns, no requirement to keep proper business and accounting records and the taxes payable are predictable and therefore resulting in easing cash flow planning process.

- **Cash flow friendly**

  Since operators find it fairly easy to pay a whole range of fees on a daily basis, such as loading fees, because the amounts look small and do not seriously disrupt their daily cash flow position, the same principle of small regular payments of tax has been adopted in the presumptive tax. The levies can be broken down into smaller amounts to be paid more regularly, e.g. on a daily basis, monthly basis or even quarterly basis.

- **No need for professional consultancy services**

  Paying the levies is straight forward as paying loading fees or other fees currently in place. Hence, very little intellectual or professional effort is required. The driver/conductor can make arrangements for presumptive tax to be paid without involving the proprietor.

- **Equity**

  As a system is made simpler, all transporters are expected to pay their part, hence no free riders as the case was before the introduction of presumptive tax. As presumptive tax is a levy, there will no longer be need to keep records for tax purposes and as such no audits will be conducted on a transporter's business.

- **Allowance for breakdown**

  The levies are only charged for vehicles that are on the road during the tax accounting period.

SOLUTION THREE

(a) (i) As a general rule, the realized value of any property is the higher of:

- The contract price agreed upon by the transferor and the transferee, and
- The open market value.

For shares, the realized value is the higher of:

- The open market value of those shares, and
- The nominal value of the shares

(ii) An immediate family comprise spouse, own blood child, duly adopted child or step-child. Where a person transfers property to a member of the immediate family, realized value of such property is the actual price received by the transferor, if any. This means such transfers will be treated as having a realized value of nil if no price has been charged. As a result, when a person makes a gift to a member of the immediate family, PTT would be not be payable.

(iii) For all Property Transactions, the following documents would be required:

- NRC/certificate of incorporation of both the buyer & seller;
- State/council consent;
- Seller's TPIN;
- Contract of sale/deed of gift or transfer;
- Lawyer's stamp (where dealing as an advocate of either party);
- Order of appointment of administrator/court order (for all deceased cases);
- Valuation report for transactions involving amounts exceeding K500 million.

(b) (i) **Shares in Kanondo plc**

Shares held in a company that is listed on the Lusaka Securities Exchange (LUSE) do not have a realized value on transfer as they are specifically exempt. Therefore, no PTT is chargeable on the transfer of shares in Kanondo Plc.

(ii) **Shares in Jumbo Limited**

Shares in companies that are not listed on LUSE are chargeable property and have a realized value. The realized value is the higher of their nominal value

and their open market value.

Property transfer tax payable is therefore = K7,500 x 5% = K375

(iii) Land is one of the properties chargeable to PTT. In respect of the sale of a plot in Chalimbana, the realized value is the higher of the open market value and the actual sales value. As the open market value of K175,000 is more than the actual sales value of K150,000, then, the realized value is K175,000.

Property transfer tax payable is therefore = K175,000 x 5% = K8,750

(iv) **Transfer of shares to the daughter**

In respect of transfers to members of the immediate family, the realized value is the actual price paid. Otherwise, it is nil. As the daughter did not pay any consideration for the transfer of those shares, therefore, the realized value is nil. No Property transfer tax is chargeable.

SOLUTION FOUR

(a) Penalty

Penalties are chargeable for late or underpayments of tax as well as for late submission of returns.

Interest Charge

Interest is charged on overdue tax.

(b) Computation of capital allowances for the tax year 2022 on implements, plant and machinery owned by the partnership.

Assets	Nissan Pulsar	Honda Fit	Nisssan Van	Ford Van	Total Allowances Claimed
CA Rate	20%	20%	25%	25%	
Cost	40, 000	30, 000	60, 000	95, 000	
ITV b/f	16, 000	6, 000	45, 000	71, 250	
Capital allowances	8, 000	6, 000	15, 000	23, 750	**52, 750**
ITV c/f	8, 000	NIL	30, 000	47, 500	

(c) (i) Taxable Business Profits:

-	Profit before capital allowances	K728, 100
-	Less capital allowances	(K52,750)
-	TAXABLE BUSINESS PROFIT	K675, 350

(ii) Appropriation of business profit:

Details	Jonasi	Jacob	Josephat	TOTALS
To 30 September, 2022 (9/12 X 675, 350 = K506,512):				
-Salaries	38, 250	39, 750	-	78,000
-Interest on capital	13,875	10,500	-	24,375
-Residue profit(3:4)	173, 202	230, 935	-	404,137
Sub totals	225, 327	281, 185	-	506,512

To 31 December 2022

(3/12 X 675, 350= 168, 838):	16, 250	16, 250	16, 250	48,750
- Salaries	6,938	5,250	2,925	15,113
-Interest on capital			20,995	104,975
-Residue profit	41,990	41,990	40,170	168,838
(2:2:1)	65,178	63,490		
Sub totals			40,170	675,350
	290,505	344,675		

TOTAL Appropriations

(d) CALCULATION OF JOSEPHAT'S TAXABLE INCOME:

Emoluments from employment (7/12 x 93, 600)			54, 600
Share of partnership profit			40,170
Sub total			94,770
Less allowable deductions:			
Capital allowances(.2 X .6 x K52,000	6,240	½	
ZICA subscription	900	½	(7,140
Taxable income			87, 630

SOLUTION FIVE

(a) Mr. Zingalume Mwana Personal income tax computation for the year 2022

– Salary (19,600 x 11 months		215, 600
– Child allowance (K1,800 x 2 x 11/12)		3,300
– Housing allowance (20,400 x 11/12)		18,700
– Long service award		7,600
Total income		245,200
Less:		
o Approved donation	1,800	
o Subsrciption	1,900	(3,700)
TAXABLE AMOUNT		**241,500**

TAX COMPUTATION:

Taxable amount	Tax rate	Amount of tax
241,500		
(54,000)	0%	NIL
193,500		
(3,600)	25%	900
183,900		
(25,200)	30%	7,560
158,700	37.5%	59,513
		67,973
PAYE		(62,800)
		5,173

(b) Tests used to distinguish between employment and self-employment

Contract

- It has been held that employment is a contract of service, whereas self-employed is a contract for services.

Work performance

- When the individual does not have to hire helpers, this is a sign of employment. One who is self-employed is at liberty to employ his or her own helpers. If you are employed, you alone are to carry out the task given to you by the employer.

Control

- The manner and method of the work being controlled by the 'employer', this is a sign of employment. One who is self-employed doesn't need his or her working methods to be controlled during the engagement.

Financial risk

- Employees are paid an agreed salary on a weekly or monthly basis and incur no form of financial risk. One who is employed will always receive the agreed emoluments even when the employer hasn't made enough profit or sometimes even when the employer has made a loss. The economic reality of self-employment is missing.

Place of work

- The employers will usually determine where an employee has to carry out his or her duties. Employees will normally carry out their duties at the employers place of business or by the premises of the client.

Tools and equipment)

- One of the responsibilities of the employer is to provide an employee with all the tools and equipment to be used in the performance of that employee's duties.

Correction of work

- Any rectification work by employees will be paid for during normal working hours or during overtime hours. Self-employed individuals will rectify jobs at no further pay in the engagement.

Engagement and dismissal

- An employer can take on and dismiss employees at any time. A contract with a self- employed person usually starts at a specified date and comes to an end at the time all works required are complete.

Insurance

- Employers will normally provide insurance cover for the actions of their employees, because they are liable for the offences committed by their employees.

Exclusivity

- Employees normally work for only one employer. Employers will prevent their employees from being engaged by other employers who may be the employers competitive.

END OF SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C5 : INDIRECT TAXES

THURSDAY 15 DECEMBER 2022

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

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 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

	Aged 2 to 5 years		Aged over 5 years	
Motor vehicles for the transport of ten or more persons, including the driver	**Customs duty K**	**Excise duty K**	**Customs duty K**	**Excise duty K**
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

	Aged 2 to 5 years		Aged over 5 years	
Motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars	**Customs duty**	**Excise duty**	**Customs duty**	**Excise duty**
	K	**K**	**K**	**K**
Sedans				
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
Hatchbacks				
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-ignitioninternal 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 tonnesbut not exceeding 3.0 tonnes	26,311	11,402	15,348	6,651
GVW exceeding 3.0 tonnesbut 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, **with spark ignition internal combustion piston engine**	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 tonnesbut not exceeding 3.0 tonnes	17,541	7,601	15,348	6,651
GVW exceeding 3.0 tonnesbut 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 tonnesbut not exceeding 10.0 tonnes	24,724	18,955	10,817	8,293
GVW exceeding 10.0 tonnesbut 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, **with spark ignition internal combustion piston engine**	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 FIVE (5) Questions.

QUESTION ONE

Kays Ltd was registered for Value Added Tax (VAT) three (3) years ago. The business specializes in selling auto spares and general trading. You have recently been engaged as a Tax Consultant by Kays Ltd. and have been supplied with the following information for the month of May 2022:

1. Sales amounting to K750,000 were made up of, 20 % zero rated, 10% exempt rated and the balance standard rated.
2. The company made purchases amounting to K350,000 of which 10% were zero rated and the balance were all standard rated supplies.
3. The company incurred telephone and general overheads of K15,000 and K20,000 respectively. During the same period, the company bought diesel for K6,000 and Petrol for K7,000.
4. The bad debts of K10,000 were written off in May 2022. The payment for the original sales was due by 3 September 2019.
5. The company bought a motor van in May, 2022 for K232,000 (VAT inclusive).
6. The company entertained customers for K10,000 at one of the hotels in Lusaka.

Unless otherwise stated, all the figures above are exclusive of VAT. Indicate a zero (0) for exempt and zero rated items.

Required:

(a) Calculate the amount of VAT payable/refundable for the month of May 2022. (11 marks)

(b) Explain the circumstances that may lead to Kays Ltd to be deregistered for VAT purposes. (6 marks)

(c) Explain the changes to a business which does not lead to cancellation of Value Added Tax (VAT) registration. (3 marks)

[Total: 20 Marks]

QUESTION TWO

In accordance with the Value Added Tax (VAT) regulations, taxable supplies are goods or services sold by a taxable supplier.

Required:

(a) Define the term 'taxable value'. (2 marks)

(b) State the six (6) examples of Taxable supplies (6 marks)

(c) Explain six (6) obligations of a VAT (Value Added Tax) registered supplier. (6 marks)

(d) Explain how the tax point for the following transactions is determined:

(i) Reverse charge (3 marks)

(ii) Lease rentals (3 marks)

[Total: 20 Marks]

QUESTION THREE

(a) Mukuseka recently got married and bought a second hand 3,000 cc Mercedes Benz compressor (Sedan) from Germany for his wife. The vehicle was manufactured in 2019.

The cost price was US$10,500 and he paid US$1,900, US$800 and US$250 for freight charges up to the port of Dar es salaam, insurance up to the port of of Dar es salaam and inspection fees in German respectively.

When the motor vehicle arrived at the port in Dar es salaam he further paid US$700 and US$300 for transportation and insurance respectively to the point of entry at Nakonde.

The cost of fuel from Nakonde to Lusaka amounted to K3,510.

The ruling Bank of Zambia exchange rate was K17.00 to US$1 and the Commissioner General's approved exchange rate was K16.80 per US$ 1

Required:

(i) Calculate the import duty and other related taxes paid by Mukuseka. (8 marks)

(ii) Explain the documents a customs officer will request Mukuseka to submit on the importation of the motor vehicle. (5 marks)

(b) VAT registered suppliers other than those under the cash accounting system, are required to remit any VAT charged to their customers irrespective of the actual receipt of the proceeds. And this procedure could mean paying VAT to ZRA for a customer who may subsequently be declared insolvent.

Required:

(i) Explain the conditions under which Value Added Tax (VAT) paid to Zambia Revenue Authority (ZRA) but not received from an insolvent client may be claimed back as a Bad debt relief. (3 marks)

(ii) State four (4) financial and banking services that are Standard rated. (4 marks)

[Total: 20 Marks]

QUESTION FOUR

(a) The Customs and Excise Currency Declaration Act Section 41A prescribes that a Commercial Bank, Bureau de Change or any other financial institution licensed under any law relating to the registration of banks and financial institution shall not be required to make a currency declaration under the provisions of section 41A of the Act.

Required:

Explain the meaning of Currency declaration and the consequences of any person who refuses or makes a false and or incorrect declaration. (2 marks)

(b) Zambia is a member of various International trade agreements such as COMESA and SADC whose treaties provide that goods shall be accepted as eligible for preferential tariff treatment if they originate in the Member States.

Required:

(i) Explain five (5) origin conferring criteria for goods to be accepted as originating in a member state. (10 marks)

(ii) State five (5) issues on which the COMESA Customs Union is focused. (5 marks)

(c) MAC Limited is a manufacturing company which produces a product on which excise duty is charged at the rate of 25%. The product is also liable to VAT at a standard rate. The selling price of this product is K2,650.

Required:

Calculate the Excise duty and VAT payable on the product. (3 marks)

[Total: 20 Marks]

QUESTION FIVE

(a) The construction industry comprises building contractors, road contractors and sub-contractors. It is incumbent on the government in Zambia to ensure that works performed for the Government is at the best value for money.

Required:

(i) Explain how the taxable value for VAT is determined in the construction sector. (2 marks)

(ii) Define the tax point (2 marks)

(iii) Explain how the tax point on services is determined. (2 marks)

(b) For the purposes of determining the Value for duty purposes for customs duty on imported and exported goods, the transaction value method is the main method of valuation stipulated in the Customs and Excise Act.

Required:

(i) Explain four (4) conditions that should be met in order for the transaction value method to be used. (4 marks)

(ii) Describe two (2) other methods that may be used to value imported goods

(2 marks)

(iii) Explain two (2) conditions required for each of methods in (ii) above are used. (4 marks)

(iv) State four (4) documents showing proof of exportation of goods. (4 marks)

[Total: 20 Marks]

END OF PAPER

C5 INDIRECT TAXES

SUGGESTED SOLUTIONS

SOLUTION ONE

Kays Ltd

Computation of VAT payable/refundable for the month of May 2022.

		K	K
OUTPUT VAT			
Sales:			
Zero rated; (20% x K750,000=K150,000x 0%)			0
Exempt (K750,000 x 10%=K75,000)			0
Standard rated (K750,000x 70%=K525,000x 16%)			84,000
			84,000
IN PUT VAT			
Purchases:			
Zero rated (K350,000x10% x 0%)		0	
Standard rated (K350,000 x 90%x 16%)		50,400	
Telephone		0	
General overheads (20,000 x 4/29) x 90%		2,483	
Petrol		0	
Diesel		0	
Bad debt (K10,000 x 16%)		1,600	
Motor van (K232,000 x 4/29)	32,000		
Entertaining expenses	0		
			(86,483)
VAT refundable			(2,483)

(b) Circumstances that may lead to a company such as Kays Ltd to be dereistered for VAT purposes are if:

- There is a change in the legal status of an entity

- The business ceases to trade permanently
- The business is sold permanently
- The intention to make supplies by an intended trader ceases
- The business ceases to deal in taxable supplies
- The business has been granted registration in an anticipation of commencing a business on a certain date but does no carry out any business on or before due date
- The value of taxable supplies falls consistently below the VAT registration threshold
- The initial registration was made erroneously

(c) Changes to business which may not lead to cancellation VAT registration.

- A change in the trading name of the business the name of the business or an address of any partner of the business
- A change in the principal business address or place at which the business is carried on
- Transfer as a going concern.

SOLUTION TWO

Definition of taxable value

(a) The taxable value is the amount that is charged for goods and services onto which VAT is added at 16%.

(b) Examples of taxable supplies
- The sale of new or second hand goods
- Business samples or gifts for promotional or publicity purposes
- The transfer of ownership or possession of goods or the provision of services to persons involved with a business
- The sale of business assets for example by companies in liquidation and receivership
- The hiring, leasing or loan of goods within Zambia, including hiring, leasing or loan of goods out of Zambia.
- Delivery, packaging and postage charges
- Treatment applied to any goods
- The purchase of power from ZESCO
- The granting of a right charges, club membership fees and subscription
- Imported services were VAT was not charged in the country of export (Reverse charge).

(c) Obligations of a VAT registered supplier.
- Notify ZRA when the business starts or circumstances change
- Display the VAT registration certificate
- Charge VAT on taxable supplies
- Complete and submit returns by the due date which is specified by ZRA and pay VAT promptly by the due date.
- The VAT returns should be completed accurately
- Issue tax invoices
- Maintain sufficient records for at least five (5) years.
- Co-operate with ZRA officers by providing information to them.

(d) Determination of the tax point on the following transactions:

(i) Reverse Charge
- Time when a payment is made
- Time when an invoice is received from the supplier
- Time when the services are actually rendered or performed

(1 mark for each valid point to a maximum of

(ii) Lease rentals
- The time when the lease rental payment is received from the lessee.
- The time the lessor issues a tax invoice
- The time the leasing services are rendered, which is the expiry of the lease.

SOLUTION THREE

(a) Mikaela 's Tax duties paid

	Us$
Cost Price	10,500
Freight Charges	1,900
Insurance	800
Transportation	700
Insurance	300
Inspection	250
Total	14,450

VDP (Us$14,450 x K16.80) 242,760

	Value	Tax Paid
	K	K
VDP	242,760	
Customs duty	18,049	18,049
	260,809	
Excise duty	23,463	23,463
	284,272	
Import VAT @16%	45,484	45,484
Total import taxes paid	329,756	86,996

(b) Documents required by customs officers for the importation of motor vehicles.

- Invoice showing the purchase price
- Bill of lading/manifest/packing list
- Insurance certificate
- Freight statement
- Contract of Sale

(c) Conditions under which VAT paid to ZRA but not received from an insolvent customer can be claimed back as bad debt relief.

- The claim is made on or after 27 January 1996
- The debt has been outstanding for 18 months or more.
- The debtor has been declared insolvent by a court of law.

(d) The financial and various banking services that are Standard rated.

- Commissions on Drafts and Transfers
- Commission on Foreign Drafts and Transfers
- Commission on certified vouchers, managers/bank cheque.
- Standing orders
- Commission on Status Enquiry
- Excess Withdrawal fee
- Administrative charges imposed on customers exceeding Overdraft limit.
- Commission on Invoices Discounted.
- Stop Payments
- Commission on Online and TT transactions.
- Own Acceptance
- Cable charges
- Commission on Lost Connect Cards
- Commission on Postage
- Commission on Guarantees Negotiated.

SOLUTION FOUR

(a) Any person importing into or exporting from Zambia currency notes, in any currency, exceeding in value of Five Thousand United States Dollars ($5,000) shall make a declaration in the Customs and Excise Currency Declaration Form (CE 10) as provided for under section 41A of the Customs and Excise Act.

Where a person refuses to make a declaration or makes an incorrect or false declaration, and is found with currency notes in excess of the specified amount, the currency notes in excess of that amount shall be seized and forfeited to the state.

(b) (i) The following are the five (5) origin conferring criteria for goods having originated in a Member State:

(1) Goods wholly produced in a Member State (i.e. no raw materials from outside the regions have been used in their manufacture), or

(2) Goods produced in a Member State and the CIF value of any foreign (i.e. non COMESA or SADC) materials used does not exceed 60% of the total cost of all materials used in the production; or

(3) 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; or

(4) 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 (c) above.

(5) Goods satisfying the change of tariff heading resulting from their process of manufacture where some raw materials are imported.

(ii) The COMESA Customs Union is focused on five major issues:

(1) The internal free trade area

(2) Relations with third countries including the application of the Commercial External Tariff (CET) .

(3) Trade remedies

(4) Export promotion, and

(5) Dispute settlement

(c)

	K
Selling price	2,650
Add Excise duty @ 25%	663

	3,313
VAT @ 16%	530
Consideration	3,843

SOLUTION FIVE

(a) (i) 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 and its value is based on the certified value of the portion of work completed at each stage.

(ii) The tax point is the time when goods or services are considered to be supplied for VAT purposes.

(iii) The tax point of services is the earliest of the following:

- The tax point for services is the earliest of the following:
- The time when the payment for the supply is received;
- The time when a tax invoice is issued or
- The time when services are actually rendered.

(b) (i) In order for the transaction value to be used for customs duty purposes, the following conditions should be met.

(1) There should be no restrictions to the use of the goods.

(2) There should be no conditions to deter determination of the VDP.

(3) No part of the proceeds on resale would accrue to the seller, unless included in the value.

(4) No relationship exists to influence the value.

(ii) The other two methods used to value imported goods include:

(1) Transaction value of identical goods

This is the price of identical goods imported by another importer into Zambia from the same source, including insurance, freight and other incidental cost

The goods valued must have been sold under the following conditions:

- To a buyer at the same or substantially the same trade level as the buyer of the goods being valued; and

- In the same or substantially the same quantities as the goods being valued.

(2) Transaction value of similar goods

This is the price of similar goods imported by another importer into Zambia from the same source, including insurance, freight and other incidental costs.

- To a buyer at the same or substantially the same trade level as the buyer of the goods being valued; and

- The same or substantially the same quantities as the goods being valued.

(iii) The following documents are a proof of exportation of goods:

(1) Commercial invoices

(2) Certified copies of the documents presented to Zambian Customs at exportation.

(3) Certified copies of customs import at the country of destination.

(4) Proof of payment if applicable.

END OF SOLUTIONS

Zambia Institute of Chartered Accountants

TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C6 : LAW FOR TAX PRACTITIONERS

FRIDAY 16 DECEMBER 2022

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

INSTRUCTIONS TO CANDIDATES

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

2. This question paper consists of FIVE (5) questions of twenty (20) marks each. You MUST attempt all the FIVE (5) questions.

3. Enter your Student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.

4. Do **NOT** write in pencil (except for graphs and diagrams).

5. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.

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

7. Present legible and tidy work.

8. Graph paper (if required) is provided at the end of the answer booklet.

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

ANSWER ALL FIVE (5) QUESTIONS

QUESTION ONE

BSB Pharmaceuticals Company have manufactured a drug which they are calling 'COVID FREE' meant for the prevention of COVID 19. The company advertised the product both on TV and in newspapers. According to the advert, anyone who steams with 'COVID FREE' twice daily for fourteen (14) days, will not catch COVID 19 and whoever catches it after following the instructions shall be paid a K 10,000.00. The company has further deposited K100,000.00 in its ZANACO Bank account to that effect.

Required:

With reference to the prerequisites of a valid contract, explain the consequences of BSB Pharmaceuticals Company's action. (20 marks)

[Total 20 Marks]

QUESTION TWO

(a) Compare and contrast the following.
- (i) The constitution and Act of Parliament (2 marks)
- (ii) Acts of Parliament and delegated legislation (2 marks)
- (iii) Case law and Customary law (2 marks)

(b) In countries where the constitution is codified/written it is often believed that no other law can equate to it. This assertion however may simply be an assertion until the courts of law have given effect to such an assertion through their decisions. Making reference to decided cases and the Zambian constitution discuss this assertion. (10 marks)

(c) Premised on liability, distinguish criminal law from civil. (4 marks)

[Total: 20 Marks]

QUESTION THREE

(a) State disadvantages of sole proprietorship. (5 marks)

(b) Explain the Ultra-Vires doctrine in company law. (5 marks)

(c) Explain the conditions precedent for agency by ratification to stand at law. (5 marks)

(d) Describe three (3) duties of a liquidator. (3 marks)

(e) Explain the capacity of one to enter into a contract of employment? (2 marks)

[Total: 20 Marks]

QUESTION FOUR

At a drinking spree to celebrate their end of examinations, four (4) students entered into an argument as to which of the modes of forming a business, between a limited company and a partnership was better. One of them to the amazement of everyone said, 'a company is a person just like us, it can do nearly anything that a human being can do'.

Required:

(a) Explain to the amazed three (3) what their colleague meant by that statement. (8 marks)

(b) A neighbour at the next table who was listening to them said he was a sole trader and happy with that than forming a company. Explain the features of a sole trading business? (6 marks)

(c) One (1) of the students after noticing that their money had run out went to the counter to buy beer on hire-purchase. Explain whether or not he would buy beer on hire-purchase. (6 marks)

[Total: 20 Marks]

QUESTION FIVE

(a) (i) Define a negotiable instrument and explain the requirements of its negotiability. (6 marks)

(ii) Explain the meaning of stoppage in transit. (2 marks)

(b) Define what an insurance contract is and state the elements of the said contract.

(5 marks)

(c) Identify any three (3) advantages of joint venture partnerships. (3 marks)

(d) Define negligence. (4 marks)

[Total: 20 Marks]

END OF PAPER

C6 LAW FOR TAX PRACTITIONERS

SUGGESTED SOLUTIONS

SOLUTION ONE

A contract is a binding agreement between two or more parties. For a contract to be valid, the following must exist;

1. Offer

The first element in a valid contract would be offer. An offer or a promise or an agreement needs to be in contract because if there is no offer than there will be no contract. In the Contracts Act, 1950, the first elements in a contract would be offer. It is one of the elements to make sure that the contract is legally valid or acceptable. In a contract, it is very important that a party would make an offer. There is a difference of offer between an advertisement and an option. To make an offer, there should be at least two parties or even more so that it would be legally capable of entering into a contract. If the offer is accepted than it would constitutes to a legally valid contract. When an offer is being made, the other party or person would know what is being offer and what the person or party who made the offer expect to have in return. It is the same when anybody goes on a holiday, stays at a hotel and so on. For example, a family has made an arrangement with a tour agency to have a holiday at Hong Kong for a few days. The tour agency would make a contract by making forms to the family which would have to be filling up. The family member who fills up the form would have to be clear with the rules and regulations given by the tour agency company. Once it is fills up, the contract has been made between the family and the tour agency.

2. Acceptance

After having an offer in the contract, there should be acceptance. For a contract to be made there should be acceptance from the other party or person. When the other party is clear with the offer, there would make an acceptance once they are clear with the rules and regulations being offer in the contract. There will be no contract if the parties are still negotiating or discussing and have not made accept the offer. The person or party can accept the offer being made in writing or orally which is made verbally or being spoken out. For example, a tourist writes to hotel K requesting information about the cost and availability of accommodation for the week commencing on the 15th April 2011. The staff at hotel K answers the inquiry states that the accommodation available for that week would cost RM 600 and if the tourist responds with the deposit of RM 100 within a week, then the room will be allocated to him. If the tourist accepts the offer, then the contract has been made for the tourist and hotel K.

3. Consideration

Consideration is also a very important element in the contract. Consideration in a contract would mean the other person would be giving back something in return. It would be consider as an exchange which would be made between the promisee and promissor. There should be consideration in a contract so that it would be legally valid. For example, a customer in a fast food restaurant like McDonalds orders a set lunch which costs RM7.95. By ordering the set lunch, the customer is agreeing to pay RM7.95 as consideration. However, consideration does not give any threats to on ‵ line holiday contracts. Holiday services which are being provided by the on ‵ line holiday providers and also the consideration by giving something back in return which would be the payment money or even the payment made by the holiday makers would eventually follow the requirements for consideration of a contract.

4. Intention to Create Legal Relations

It is essential to have this element in a contract. It is a necessity of the intention to create legal relations although the Contracts Act 1950 is silent on the intention to create legal relations as one of the requirements of a valid contract. This element would have an agreement which is not a contract in the strict sense unless it is the common intention of the parties that it should be legally enforceable. If there is no intention to create legal relations in a contract, the contract could be subject to a lawsuit. For example, when there is a contract or an agreement made between the parent and the children. If the parent passes away, the children would have whatever property or possession which is left by the parent.

5. Certainty

Another main element in a contract would be certainty. The terms and regulations being made in a contract should be stated clearly and understood by the parties of the contract. If the agreement is not certain, it would be no longer valid. For example, if the guest wants to stay in a hotel, , the guest needs to inform how many days he or she is staying at the hotel, the type of room, and also the date when he or she are going stay and the number of days he or she is staying.

6. Capacity

Capacity in a contract is the parties to the contract must have the legal capacity to do so. 18 years old is stated as the age of a major. Minors who are people below the age of eighteen have no capacity to enter into contracts. Therefore, insane people or people with unsound minds also cannot enter into any valid contracts. For example, a person who is at the age of sixteen years old could not stay at a hotel. The hotel staff would not allow having the person who is sixteen years old to stay at the hotel since that person is not eighteen years old or above. For the person to stay at the hotel, he or she must have a guardian who is above eighteen years old or a parent to accompany him or her to stay in the hotel**.**

Therefore BSB Pharmaceuticals Company made a universal offer henceforth, once someone buys ‘COVID FREE’ that will constitute acceptance. Further, if that person will use the product according to the instructions that will constitute consideration on their part and a valid contract will be constituted. Moreover, if the person catches covid after using the product as instructed, they will be entitled to the K10, 000.00.

SOLUTION TWO

(a) (i) The constitution in Zambia is the supreme law of the land. It derives its sources from the people and therefore revered as the grand norm. All other laws in country are bound to constitutional interpretation. Article 1(1) provides that any law inconsistent to the law of the constitution, that other law shall be void to extent of inconsistency. Conversely, Acts of Parliament in Zambia are laws made by the country's parliament. The constitution has conferred powers on the country's legislature to make laws. When laws are made by parliament, they are required to conform to the provisions of the constitution otherwise they are declared null and void should they not. Acts of Parliament are usually known as administrative laws as they are mainly used the administrative functions of running public functions.

(ii)As indicated in (i) above, Acts of Parliament are laws passed by Parliament. The extent of application of an Act of Parliament extends throughout the country. Acts of Parliament further a made to implement the public policy of the government. Conversely, delegated legislation is law made pursuant to Acts of Parliament. When parliament has passed legislation, it further gives power to other institutions pursuant to article 67 of the constitution, to make laws. Delegated legislation is made by local authorities (by-laws) and ministers (statutory instruments) and the law they make is supposed to conform to the laws in the enabling Act.

(iii) Case law is equally another source of law in Zambia. Case law also known as precedents is judge made law. This guides society especially in the practice of law on what the law basically is. Case law operates as a source of law in Zambia in that, decisions of judges in fact interpret laws of Acts of Parliament of delegated legislation thereby giving them effect. Case law is therefore as important as source of law in Zambia as the others considered above. Whereas customary law has existed from the time man existed. These are customs that guide the manner in which a society is required to live. For example, in Zambia we practice customary and civil law. All customary matters are dealt with in the local courts.

(b) Indeed the assertion may be a mere assertion until the courts have given effect to that assertion. Much as the constitution would make a provision of its supremacy against other laws, such declaration would need to be given effect by the courts of law interpreting the constitution against other laws that may come into conflict with it so as to give it its asserted supremacy. In Zambia for instance, ***Christine Mulundika and 7 others v the Attorney General*** gives effect to the declaration of the constitution and illustrates the supremacy of the constitution against other laws. The case concerned the applicant and seven others who were arrested and charged under section 7 of the Public Order Act for breaching section 5(4) of the same Act. Section 5(4) of the Act required persons wishing to hold a public rally to obtain a permit from the police. Failure to obtain such permit constituted a criminal offence under section 7 of the Act. A permit was denied to *Christine Mulundika and Seven Others* but decided to hold the rally anyway. They were arrested and charged under the Act and brought before a magistrate. They however challenged the constitutionality of section 5(4) and 7 of the Act contending they were in violation of articles 20 and 21 of the constitution. The matter was referred to the High Court pursuant to article 28 of the constitution.

The High Court ruled in favour of the applicants holding that sections 5(4) and 7 of the Act indeed violated the constitution which guaranteed fundamental rights of freedoms of expression, association and assembly. The principle of law established by the case is that the constitution in Zambia is the supreme law of the land and should any other law be inconsistent with it, that other law is to the extent of the inconsistency to be declared void. Further, the case established that in Zambia freedoms in the constitution are to be protected and given effect where there is evidence of their violation.

(c) In civil cases, especially law of contracts and tort, liability arises mainly through the parties themselves agreeing in cases of contract to enter into a contract with terms and conditions agreed upon by themselves where, a breach entitles the aggrieved party to sue in the courts of law for damages. In tort, liability arises by general imposition of the law. The law imposes a duty of care on every individual to act in a manner that would not cause injury to others. A breach if that duty resulting in damage entitles the aggrieved party to sue in the courts of law.

Criminal liability however arises by operation of the law. In Zambia the Penal Code is the main source of criminal law. The Penal Code has described certain acts and omissions to be criminal and has also prescribed the penalty for them. Liability in criminal law is to the state and the state on behalf of society prosecutes all criminal acts or omissions.

SOLUTION THREE

(a) **Below are the advantages of sole proprietorship;**

- Sole proprietorships are easy to establish. ...
- You can protect the name of your sole proprietorship. ...
- There's no limit to the number of people you can hire. ...
- You have complete control as the owner. ...
- Sole proprietorships are often a stepping stone to incorporation. ...
- Personal liability.

(b) The doctrine of ultra vires refers to those **acts or decisions that a company may undertake which are beyond the scope of powers granted by the company's objects clause** in its memorandum of association

(c) **An agency relationship that arises when a principal acknowledges the acts of a party as being the acts of his or her agent**, even if there was no agency relationship when the agent acted. The conditions are; **The agent must purport to act on behalf of the principal; The principal must be in existence at the time of the contract**; and. The principal must have capacity to enter into the contract

(d) The duties are;

- Investigate your company's financial affairs.
- Establish what caused it to fail.
- Investigate possible offences by your company or directors of your company, and.
- Identify and sell the unsecured assets of your company to repay your debts

(e) Must be sane and of legal age/ legal capacity to contract

SOLUTION FOUR

(a) What their colleague meant was that a company has separate legal identity from the owners. *Separate Legal Personality* means that a company is regarded as a legal entity or artificial person distinct from its shareholders or members.

Members are only liable up to the amount of money invested in the business, the rest the company is liable on its own. It is a person at law, capable of being sued and suing in its own name like a person – *Salomon v Salomon & Co.(1897)*. In this case, the court held that a company was a person o its own and the shareholder could not be held liable for the debts of the company. Further *in Lee v Lee's Air Farming (1961)* it was held that a company and shareholders were different persons with each capable of suing and being sued on its own.

(b) *A Sole Trader/Business* is a one – person business. The owner provides all the capital and takes all the liabilities and profits on himself. He has unlimited liability, that is he is personally liable for all the business debts.

There is no separation between the business and the owner. The business is flexible and owner makes any business decisions as he wishes. This is unlike a company or partnership where capital is contributed by a number of people and decision making is consultative.

(c) The question is on Hire Purchase. ***Hire purchase*** is an agreement where the hirer obtains immediate use of the goods on hire upon payment of a deposit and rest in installments over a given period of time. He does not become the legal owner of the goods even if he is free to use them, until the final installment is paid. Additionally, the hirer is not free to sell the goods as they are not his legally, they still belong to the seller. Thus property in goods remains with the seller until the final installment is paid. Under hire purchase, in case of default, the seller gets the goods from the hirer and the hirer loses the already paid installments.

Looking at the above definition, hire purchase cannot be used to buy beer as there would be nothing to 'hire' as beer is a one off consumption product, nothing can be got back in case of default. Hire purchase is used for machinery or durable products which is not a feature of beer. Therefore, they cannot buy beer on hire purchase.

SOLUTION FIVE

(a) A negotiable instrument is a written instrument written and signed by the maker or drawer of the instrument, that contains an unconditional promise or order to pay an exact sum of money on demand or at an exact future time to a specific person, or to order, or to its bearer. A holder of a negotiable instrument can transfer a good title by delivery where the transferee takes in good faith.

(i) For a negotiable instrument to be valid it requires the following:
it should be signed by the drawer
it must be issued unconditionally
there must be a fixed amount indicated on it
it must be paid on demand or at a future definite time.

(i) Stoppage in transit happens where there is a sale of specific goods in which the property has passed to the buyer but the goods have not yet been delivered, that is the goods are in transit to the buyer. Hence the seller can detain the goods before dispatch, and if already dispatched has a right of recovering them form the carrier.

(b) An insurance contract is one where one party insures against the risk of an uncertain event which is not within the insured's control, happening at the future time, in which event the other party has an interest and under which contract the insurer is bound to pay money or provide its equivalent if the uncertain event occurs.
Elements of a contract of insurance are:

(i) Existence of legal contract of insurance
(ii) There should be uncertainty of the event happening
(iii) Insured must have insurable interest in the subject of the insurance
(iv) The insurer should undertake to pay money to the insured in event of the risk insured against happening.

(c) The advantages of joint venture partners are:
-the pooling of resources together
-greater capacity of the business
-increased technical expertise
-easy access to well established markets and distribution channels
-increased innovation
-increased productivity
-sharing of risks and costs
-obtain growth with having to borrow funds

(d) Negligence is not taking care in particular circumstances as required by law.

END OF SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D1 : BUSINESS INFORMATION MANAGEMENT

WEDNESDAY 14 DECEMBER 2022

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

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question.

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.

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

Answer all FOUR (4) questions.

QUESTION ONE

(a) In the past, the collaboration and communication systems were not considered an essential part of the information systems field or even an IT management concern. Today this has changed, an over view of information systems is extended to include these vital tools such as wikis, social media, cell and mobile phones, Internet-based collaboration environment, emails and instant messaging.

Required

Explain how these five (5) systems above help managers and employees by making essential information available for each management tool? (10 marks)

(b) Outline any five (5) principles of the Data Protection Act. (5 marks)

(c) In an Organization such as the National Pensions Schemes Authority (NAPSA) different types of Information Systems are used to support the organization.

(i) List five (5) types of information systems that are used in an organization of similar stature and size as NAPSA. (5 marks)

(ii) For each of the types you have listed in part (a), mention the level of management that the system supports in an organization. (5 marks)

[Total: 25 Marks]

QUESTION TWO

(a) A System's Analyst must consider how best to elicit or obtain requirements from the stakeholders when before and/or during the development of a system.

Required:

(i) List any four (4) fact finding techniques that could be employed during the requirements analysis stage of a system development process. (4 marks)

(ii) Briefly describe each of the techniques that you have listed in (i). (8 marks)

(b) A Project Manager has been appointed to investigate the project requirements, with the brief to start a systems analysis and prepare detailed plans. An initial budget has been allocated to the project, although there are no deadlines for a feasibility report or appropriate budget monitoring systems in place.

Required:

Explain any three (3) main factors that affect the overall risk of failure of Information Technology (IT) projects within organisations. (9 marks)

(c) It is widely believed that Information Technology (IT) can become a source of competitive advantage. Justify the sentence by giving two (2) points. (4 marks)

[Total: 25 Marks]

QUESTION THREE

One of the projects engineers in your company has embarked on a project to construct a mini hydro power plant (e.g. a hydroelectricity wheel in a waterfall). The table below shows the work activities necessary to achieve this objective.

Activity ID	Description	Duration (days)	Precedence
A	Design plant	12	-
B	Select site	2	A
C	Select vendor	2	A
D	Select personnel	3	A
E	Prepare site	5	B
F	Assemble generator	10	C
G	Prepare operations manual	4	C
H	Install generator	3	E,F
I	Train operators	5	D,G
J	Obtain license	3	H,I

(a) Draw an appropriate network diagram, using the Activity On Node (AON) approach, by clearly showing the early start time, early finish time, late start time, late finish time, activity ID and duration.
(15 marks)

(b) Identify all the possible paths and stating the critical path in the network diagram.

(5 marks)

(c) List any five (5) types of tests that can be used to test a system that is being developed for an external client. (5 marks)

[Total: 25 Marks]

QUESTION FOUR

(a) Identify any six (6) threats to Information Systems. (6 marks)

(b) Entity Relationship Modelling is one of the techniques used in the design of the information systems. Outline the types of relationships used in entity relationship modelling. (6 marks)

(c) Briefly describe any three (3) broad classification outsourcing. (6 marks)

(d) List three (3) search engines you may use to search for information on the web.
(3 marks)

(e) Distinguish intranet from extranet. (4 Marks)

[Total: 25 Marks]

END OF PAPER

D1 BUSINESS INFORMATION MANAGEMENT

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) i) Internet-based collaboration environment

Employees work together from many different locations around the world need tools to support workgroup collaboration. These tools provide storage space for team documents, a space separate from corporate e-mail for team communication, group calendars and an audio-visual environment where members can "meet" face to face in a live video conference.

ii) E-mail and instant messaging (IM)

Electronic mail and instant messaging have been embraced by corporations as a major communication and collaboration tool supporting interaction jobs in business networks

iii) Cell phones and smartphones

The mobile platform has emerged coordinating and running the business in motion for e-mail, text messaging, instant messaging and wireless internet connections, which supports professionals and other employees whose primary job is talk with one another, with customers and vendors or managers.

iv) Social networking

Social networks such as LinkedIn.com provide networking services to business professionals. Users are able to set up profiles, blog, and tag documents of interest and use online forums to communicate with other co-workers about their interests and projects. They are quickly becoming a corporate tool for sharing ideas and collaborating among interaction-based jobs in the firm

v) Wikis

Wikis are a type of website that makes it easy for users to contribute and edit text content and graphics without any knowledge of web page development or programming techniques. They are ideal tools for storing and sharing company knowledge and insights.

(b) Principles of Data Protection Act

- Personal data shall be processed fairly and lawfully
- Personal data shall be obtained only for one or more specified and lawful purposes
- Personal data shall be adequate, relevant and not excessive in relation to the purpose or purposes
- Personal data shall be accurate and where necessary kept up to date
- Personal data processed for any purpose or purposes shall not be kept for longer than necessary
- Personal data shall be processed in accordance with the rights of data objects
- Personal data shall not be transferred to any country or territory unless the country ensures adequate level of protection for the rights and freedoms of data objects.

(c) Information Systems and levels of management

i. types
   - TPS
   - MIS
   - DSS
   - ESS
   - KWS
   - AOS

ii. Levels of management supported
   - TPS – lower-level managers
   - MIS, DSS – Middle manager
   - ESS – top Managers
   - KWS – Knowledge work
   - AOS – Data workers

SOLUTION TWO

(a)

i. Techniques

- Interviews
- Questionnaires
- Document /Record reviews
- Observation
- User workshop

ii. Fact finding techniques descriptions

- **Interviews**: Discussions with system users to better understand step by step how they carry out their work
- **Questionnaires**: a technique utilized when the number of system users is extremely large
- **Document /Record reviews**: a technique that is used where the analyst investigates the documents that are used in the system for input and output
- **Observation:** a technique where the analyst takes time to experience the methods, procedures and work done or adopted in the organization
- **User workshop:** a practical session which comprises practical activities or exercises that are meant to help the user express themselves about the work they should be able to do and how they should be able to carry out their work with the system

(b) Factors that affect the overall risk of failure of IT projects within organisations
Systems differ considerably on key factors such as size, project structure and technology being used. These factors will combine to provide a risk assessment on how likely it is for a project to fail.

- Project size – monetary expenditure, project duration, number of staff involved, number of business units affected. Smaller projects are literally more controllable because the entire project can easily be monitored by fewer people.

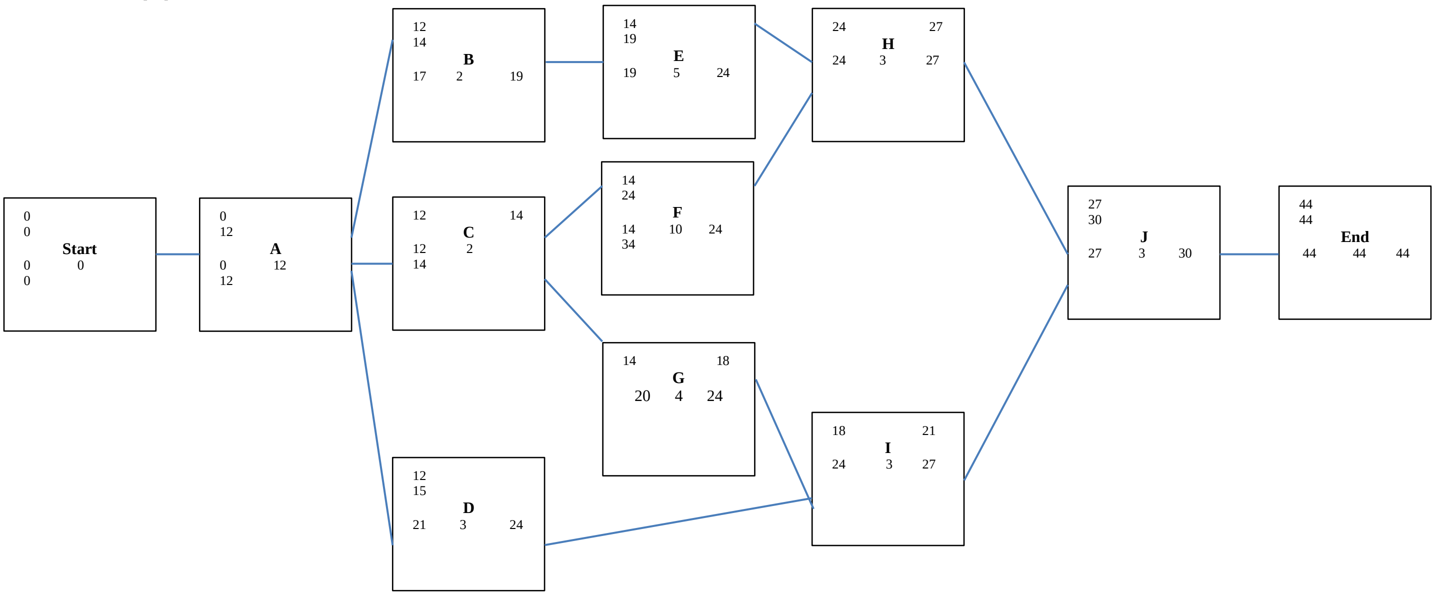
- Project structure – users know exactly what they want and the system can be planned with outputs and processes clearly defined. A very clear project plan is therefore available and can be followed easily as the project progresses and so the likelihood of reaching the end of the project with a successful system implementation is high.
- Experience with technology – IT keeps changing, which leads to the need for continued training and development of IT staff. Where training is lacking, or technology being used is new and unfamiliar, then there is a higher risk of project failure. In these situations, there is a higher risk of technical problems that can't be solved, which will result in the failure of the project.

(c)

- IT can be deployed at various parts of the business to make perform better than its competitors
- IT can influence an organisation's position in relation to the competitive forces in the business environment
- Proper use of IT can make an organisation stand out among its competitors.

SOLUTION THREE

(a)



(b) Possible paths in the network diagram

i) A-B-E-H-J = 30 days

ii) A-C-F-H-J = 30 days **(CRITICAL PATH)**

iii) A-C-G-I-J = 24 days

iv) A-D-I-J = 31 days

(c) Five (5) types of tests

- Unit testing
- Integrated testing
- User acceptance testing
- System testing
- Performance testing
- Usability testing
- Program testing system logic testing

SOLUTION FOUR

(a) Security threats for IS

- Viruses
- Hackers
- Eavesdroppers
- Hoaxes
- Denial of Services
- Threats of Confidentially (Legal control)
- Threat of Integrity (errors of input)
- Threat of availability

(b) Types of relationships in ERM

- One-to-One (1:1)
- One-to-Many (1: N) or Many -to-One (M: 1)
- Many-to-Many (M: N)

(c)

- Ad-hoc sourcing: when the organisation has a short term requirement eg employing a specialist on short term contract to sort out a problem.
- Project management outsourcing: outsourcing the management of a particular project
- Partial outsourcing: some services are outsourced
- Total outsourcing: using an external supplier to provide the services required

a) d) Search Engines include: -

- Google
- Bing
- Ask.com
- Yahoo
- AOL
- DuckDuckgo

Intranet is an internal network that uses the internet technology to offer the services found on the internet within the organisation while extranet is an intranet that has been extended to authorised outsiders.

END OF SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D2 : FINANCIAL MANAGEMENT

FRIDAY 16 DECEMBER 2022

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

INSTRUCTIONS TO CANDIDATES

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

Answer all FOUR (4) questions.

QUESTION ONE

AirCrew Corporation has undertaken a market study at a cost of K200,000 in order to estimate the future cash flows of an investment project with an expected life of four (4) years, as follows:

Year	2022	2023	2024	2025
Receipts (K'000)	1,250	2,570	6,890	4,530
Payments (K'000)	500	1,000	2,500	1,750

These forecast cash flows are before taking into account a general inflation rate of 4.7% per year. The capital outlay of the investment project of K2 million will be payable at the beginning of the year 2022. The investment project will have zero scrap value at the end of the fourth (4) year. The level of working capital investment at the start of each year is expected to be 10% of the receipts in that year.

Capital allowances would be available on the capital cost of the investment project on a 25% reducing balance basis. AirCrew Corporation pays tax on profits at an annual rate of 30% per year, with tax being paid one (1) year in arrears. The company has a nominal (money terms) after-tax cost of capital of 12% per year.

Required:

(a) Determine the net present value of the investment project in nominal terms and advise whether it is financially acceptable. (15 marks)

(b) Discuss how Managerial Incentive Schemes and Regulatory Requirements, such as Corporate Governance Codes, can be used to motivate the Directors of the company to Maximize Shareholder Wealth. (10 marks)

[Total: 25 Marks]

QUESTION TWO

Hevos Plc is a Lusaka Stock Exchange listed company that is concerned by its current level of debt finance. It plans to make a rights issue and to use the funds raised to pay off some of its debt. The rights issue will be at a 20% discount to its current ex-dividend share price of K7.50 per share. Hevos Plc plans to raise K90 million. The company believes that paying off some of its debt will not affect its price/earnings ratio, which is expected to remain constant.

Income statement information	
	Km
Turnover	472
Cost of sales	423
Profit before interest and tax	49
Interest	10
Profit before tax	39
Tax	12
Profit after tax	27
Statement of financial position information	
	Km
Equity	
Ordinary shares (K1 nominal)	60
Reserves	80
	140
Long-term liabilities	
8% bonds (K100 nominal)	125
	265

The 8% bonds are currently trading at K112.5 per K100 bond and bondholders have agreed that they will allow Hevos Plc to buy back the bonds at this market value. Hevos Plc pays tax at a rate of 30% per year.

Required:

(a) Calculate the theoretical ex rights price per share following the rights issue.

(3 marks)

(b) Evaluate whether using the cash raised by the rights issue to buy back bonds is likely to be financially acceptable to the shareholders, and advise whether the current price/earnings ratio will remain constant. (7 marks)

(c) Calculate and discuss the effect of using the cash raised by the rights issue to buy back bonds on the financial risk of Hevos Plc, as measured by its interest coverage ratio and its book value debt to equity ratio. (4 marks)

(d) Compare and contrast the financial objectives of a stock exchange listed company such as Hevos Plc and the financial objectives of a not-for-profit organization.

(11 marks)

[Total: 25 Marks]

<u>QUESTION THREE</u>

(a) HKT Plc. just paid a dividend of 40 Ngwee per share. The company expects the dividends to grow at an annual rate of 6%. HKT Plc. has also in issue K400,000 8% debentures redeemable in five (5) years' time at a premium of 10%. The debentures were issued at a nominal value of K100. Investors require a return of 12% per year.

Calculate the market value per share and market value of the debt for HKT Plc.

(8 marks)

(b) On 1 January 2021 HKT Plc. made the following investments:

(i) Bought 3.2 million equity shares of BJ Ltd at a cost of K14.8 million. BJ Ltd has 4 million shares.

(ii) Bought 50% of BJ Ltd.'s 12% loan notes at par. BJ Ltd has K2 million loan notes on its books.

(iii) Bought 2 million equity shares in VG Ltd at a cost of K6.25 each. VG Ltd has 5 million shares.

Discuss how the investments purchased by HKT Plc. on 1 January 2021 should be treated in its consolidated financial statements. (9 marks)

(c) Explain the four (4) key areas of decision making that the Financial Manager is concerned with in an organisation. (8 marks)

[Total: 25 Marks]

QUESTION FOUR

JAVA Plc. is an Information Technology company with a debt to equity ratio of 40:60. The shares in JAVA Plc. have an equity beta (β) of 1.49. The company is considering investing in a new operation in a service industry, and have found a suitable quoted service company called Hotpot Plc. The gearing level for Hotpot Plc. is 20%, and the shares have an equity beta (β) of 1.81. The debt to equity ratio will remain the same following the new investment. The debt for JAVA Plc. comprises of 10% irredeemable bond issue at a nominal value of K1,000 currently trading at K1,050.

The Managing Director of JAVA Plc. observed that JAVA's P/E ratio was lower compared to SET Plc. despite JAVA performing much better than SET Plc. particularly the same year. The Director believes that SET's P/E should surely be lower than JAVA's. However, the Director thinks that one of the factors which may explain SET's high P/E is the high financial gearing.

The market return is 18% and the risk free rate is 8%. Corporation tax is payable at the rate of 30% per year.

Required:

(a) Calculate the new project specific cost of equity and current weighted average cost of capital for JAVA Plc. (10 marks)

(b) Discuss the dangers to a company of a high level of gearing with emphasis on business risk and financial risk. (7 marks)

(c) Discuss the validity of the observations made by the Managing Director of JAVA Plc.

(8 marks)

[Total: 25 Marks]

END OF PAPER

Formulae

Modigliani and Miller Proposition 2 (with tax)

$$k_e = k_e^i + (1 - T)(k_e^i - k_d)\frac{V_d}{V_e}$$

Two asset portfolio

$$s_p = \sqrt{w_a^2 s_a^2 + w_b^2 s_b^2 + 2w_a w_b r_{ab} s_a s_b}$$

The Capital Asset Pricing Model

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

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

$$P_o = \frac{D_o(1 + g)}{(r_e - g)}$$

Gordon's growth approximation

$$g = br_e$$

The weighted average cost of capital

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

The Fisher formula

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

Purchasing power parity and interest rate parity

$$S_1 = S_0 x \frac{(1 + h_c)}{(1 + h_b)} \qquad F_0 = S_0 x \frac{(1 + i_c)}{(1 + i_b)}$$

Modified Internal Rate of Return

$$MIRR = \left[\frac{PV_R}{PV_I}\right]^{\frac{1}{n}}\left(1 + r_e\right) - 1$$

The Black-Scholes option pricing model

$$c = P_a N(d_1) - P_e N(d_2) e^{-rt}$$

Where:

$$d_1 = \frac{\ln(P_a / P_e) + (r + 0.5s^2)t}{s\sqrt{t}}$$

$$d_2 = d_1 - s\sqrt{t}$$

The Put Call Parity relationship

$$p = c - P_a + P_e e^{-rt}$$

Present Value Table

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

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

Discount rate (r)

Periods (n)	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	0·941	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	0·305	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

(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

Discount rate (r)

Periods (n)	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

Standard normal distribution table

	0·00	0·01	0·02	0·03	0·04	0·05	0·06	0·07	0·08	0·09
0·0	0·0000	0·0040	0·0080	0·0120	0·0160	0·0199	0·0239	0·0279	0·0319	0·0359
0·1	0·0398	0·0438	0·0478	0·0517	0·0557	0·0596	0·0636	0·0675	0·0714	0·0753
0·2	0·0793	0·0832	0·0871	0·0910	0·0948	0·0987	0·1026	0·1064	0·1103	0·1141
0·3	0·1179	0·1217	0·1255	0·1293	0·1331	0·1368	0·1406	0·1443	0·1480	0·1517
0·4	0·1554	0·1591	0·1628	0·1664	0·1700	0·1736	0·1772	0·1808	0·1844	0·1879
0·5	0·1915	0·1950	0·1985	0·2019	0·2054	0·2088	0·2123	0·2157	0·2190	0·2224
0·6	0·2257	0·2291	0·2324	0·2357	0·2389	0·2422	0·2454	0·2486	0·2517	0·2549
0·7	0·2580	0·2611	0·2642	0·2673	0·2704	0·2734	0·2764	0·2794	0·2823	0·2852
0·8	0·2881	0·2910	0·2939	0·2967	0·2995	0·3023	0·3051	0·3078	0·3106	0·3133
0·9	0·3159	0·3186	0·3212	0·3238	0·3264	0·3289	0·3315	0·3340	0·3365	0·3389
1·0	0·3413	0·3438	0·3461	0·3485	0·3508	0·3531	0·3554	0·3577	0·3599	0·3621
1·1	0·3643	0·3665	0·3686	0·3708	0·3729	0·3749	0·3770	0·3790	0·3810	0·3830
1·2	0·3849	0·3869	0·3888	0·3907	0·3925	0·3944	0·3962	0·3980	0·3997	0·4015
1·3	0·4032	0·4049	0·4066	0·4082	0·4099	0·4115	0·4131	0·4147	0·4162	0·4177
1·4	0·4192	0·4207	0·4222	0·4236	0·4251	0·4265	0·4279	0·4292	0·4306	0·4319
1·5	0·4332	0·4345	0·4357	0·4370	0·4382	0·4394	0·4406	0·4418	0·4429	0·4441
1·6	0·4452	0·4463	0·4474	0·4484	0·4495	0·4505	0·4515	0·4525	0·4535	0·4545
1·7	0·4554	0·4564	0·4573	0·4582	0·4591	0·4599	0·4608	0·4616	0·4625	0·4633
1·8	0·4641	0·4649	0·4656	0·4664	0·4671	0·4678	0·4686	0·4693	0·4699	0·4706
1·9	0·4713	0·4719	0·4726	0·4732	0·4738	0·4744	0·4750	0·4756	0·4761	0·4767
2·0	0·4772	0·4778	0·4783	0·4788	0·4793	0·4798	0·4803	0·4808	0·4812	0·4817
2·1	0·4821	0·4826	0·4830	0·4834	0·4838	0·4842	0·4846	0·4850	0·4854	0·4857
2·2	0·4861	0·4864	0·4868	0·4871	0·4875	0·4878	0·4881	0·4884	0·4887	0·4890
2·3	0·4893	0·4896	0·4898	0·4901	0·4904	0·4906	0·4909	0·4911	0·4913	0·4916
2·4	0·4918	0·4920	0·4922	0·4925	0·4927	0·4929	0·4931	0·4932	0·4934	0·4936
2·5	0·4938	0·4940	0·4941	0·4943	0·4945	0·4946	0·4948	0·4949	0·4951	0·4952
2·6	0·4953	0·4955	0·4956	0·4957	0·4959	0·4960	0·4961	0·4962	0·4963	0·4964
2·7	0·4965	0·4966	0·4967	0·4968	0·4969	0·4970	0·4971	0·4972	0·4973	0·4974
2·8	0·4974	0·4975	0·4976	0·4977	0·4977	0·4978	0·4979	0·4979	0·4980	0·4981
2·9	0·4981	0·4982	0·4982	0·4983	0·4984	0·4984	0·4985	0·4985	0·4986	0·4986
3·0	0·4987	0·4987	0·4987	0·4988	0·4988	0·4989	0·4989	0·4989	0·4990	0·4990

This table can be used to calculate $N(d)$, the cumulative normal distribution functions needed for the Black-Scholes model of option pricing. If $d_i > 0$, add 0·5 to the relevant number above. If $d_i < 0$, subtract the relevant number above from 0·5.

D2 FINANCIAL MANAGEMENT

SUGESTED SOLUTIONS

SOLUTION ONE

(a) Calculating the net present value of the investment project using a nominal terms approach requires the discounting of nominal (money terms) cash flows using a nominal discount rate, which is given as 12%.

Year	**2022**	**2023**	**2024**	**2025**	**2026**	**Total**
K'000	K'000	K'000	K'000	K'000		
Sales revenue	1,308.75	2,817.26	7,907.87	5,443.58		
Costs	(523.50)	(1,096.21)	(2,869.33)	(2,102.93)		
Net revenue	785.25	1,721.05	5,038.54	3,340.65		
Tax payable		(235.58)	(516.32)	(1,511.56)	(1002.20)	
CA tax benefits		150.00	112.50	84.38	253.13	
After-tax cash flow	785.25	1,635.47	4,634.72	1,913.47	(749.07)	
Working capital	(150.86)	(509.06)	246.43	544.36		
Project cash flow	**634.39**	**1126.41**	**4881.15**	**2457.83**	**(749.07)**	
Discount at 12%	0.893	0.797	0.712	0.636	0.567	
Present values	**566.51**	**897.75**	**3,475.38**	**1,563.18**	**(424.72)**	**6,078.10**

PV of future cash flows	6,078.10
Initial investment	(2,000.00)
Working capital	(130.88)
NPV	**3,947.22**

The investment project is financially acceptable, given its positive NPV of **K3, 947, 220.**

Workings

Year	**2022**	**2023**	**2024**	**2025**
Receipts (K000)	1,250	2,570	6,890	4,530
General Inflation	1.047^1	1.096 $[1.047^2]$	1.148 $[1.047^3]$	1.202 $[1.047^4]$
Inflated s Receipts (K000)	1,308.75	2,817.26	7,907.87	5,443.58
Year	**2022**	**2023**	**2024**	**2025**
Costs (K000)	500	1,000	2,500	1,750
General Inflation	1.047	1.096	1.148	1.202
Inflated costs (K000)	523.5	1096.21	2869.33	2102.93
Year	**2022**	**2023**	**2024**	**2025**
Receipts (K000)	1,308·75	2,817·26	7,907·87	5,443·58
Working capital (K000)	130·88	281·73	790·79	544·36

Incremental (K000)	(130·88)	(150·86)	(509·06)	246·43
Year	**2022**	**2023**	**2024**	**2025**
Capital allowance (K000)	500.00	375.00	281.25	843.75
Tax benefit (K000)	150.00	112.50	84.38	253.13

Capital Allowances Schedule				
Opening Balance	2,000,000	1,500,000	1,125,000	843,750
CA (25%)	500,000	375,000	281,250	843,750
Closing Balance	1,500,000	1,125,000	843,750	-
Tax benefit [30% * CA]	150,000	112,500	84,375	253,125

(b) The directors of AirCrew Corporation can be encouraged to achieve the objective of maximizing shareholder wealth through managerial incentive schemes and through regulatory requirements.

Performance Management schemes

As agents of the company's shareholders, the directors of AirCrew may not always act in ways which increase the wealth of shareholders, a phenomenon called the agency problem. They can be encouraged to increase or maximise shareholder wealth by managerial incentive schemes such as performance-related pay and share option schemes. Through these methods, the goals of shareholders and directors may become more congruent.

Performance-related pay links part of the remuneration of directors to some aspect of corporate performance, such as levels of profit or earnings per share. The challenge is that the directors may influence corporate affairs for their own benefit rather than the benefit of shareholders, by for example focusing on short-term performance, instead of longer term.

Share option schemes bring the goals of shareholders and directors closer together to the extent that directors become shareholders themselves. Share options allow directors to purchase shares at a specified price on a specified future date, encouraging them to make decisions which are congruent with the objectives of shareholders, and thus leading to increased share prices. Unfortunately, a general increase in share prices can lead to directors being rewarded for poor performance, while a general decrease in share prices can lead to managers not being rewarded for good performance. However, share option schemes can enhance performance improvement and therefore benefit stakeholders.

Regulatory requirements

Regulatory requirements are normally imposed through corporate governance codes of best practice and stock market listing regulations.

Corporate governance codes of best practice tend to reduce corporate risk and increase corporate accountability. Responsibility is placed on directors to identify, assess and manage risk within an organisation. An independent perspective is brought to board decisions by appointing non-executive directors to create a balanced board of directors, and by appointing non-executive directors to remuneration committees and audit committees.

Stock exchange listing regulations can place obligations on directors to manage companies in ways which support the achievement of objectives such as the maximisation of shareholder wealth. Listing regulations require companies to publish financial reports regularly, to provide detailed information on incentive schemes and to publish detailed reports on corporate governance and corporate social responsibility.

SOLUTION TWO

(a) **Theoretical ex rights price**

Rights issue price = 7.50 x 0.8 = K6.00 per share

Number of shares issued = K90m/6.00 = 15 million shares

Number of shares currently in issue = 60 million shares

The rights issue is on a 1 for 4 basis

Theoretical ex rights price = ((4 x 7.50) + (1 x 6.00))/5 = K7.20 per share

Alternatively, theoretical ex rights price = ((60m x 7.50) + (15m x 6.00))/75m = K7.20 per share, where 75 million is the number of shares after the rights issue.

(b) Financial acceptability to shareholders of buying back bonds

The financial acceptability to shareholders of the proposal to buy back bonds can be assessed by calculating whether shareholder wealth is increased or decreased as a result.

Nominal value of bonds redeemed = 90m x (100/112.50) = K80 million

Interest saved by redeeming bonds = 80m x 0.08 = K6.4 million per year

Earnings per share will be affected by the redemption of the bonds and the issue of new shares.

Revised profit before tax = 49m – (10m – 6.4m) = K45.4 million

Revised profit after tax (earnings) = 45.4m x 0.7 = K31.78 million

Rev Revised earnings per share = 100 x (31.78m/75m) = 42.37 Ngwee per share

Current earnings per share = 100 x (27m/60m) = 45 Ngwee per share

Current price/earnings ratio = 750/45 = 16.7 times

The revised earnings per share can be used to compute a revised share price, when the price/earnings ratio is assumed to be constant.

Revised share price = 16.7 x 42.37 = 708 Ngwee or K7.08 per share

Conclusion

The *revised share price* is less than the *theoretical ex rights price* per share (K7.20) and so the effect of using the rights issue funds to redeem the bonds is to decrease shareholder wealth. This use of the funds cannot therefore be recommended from a shareholder perspective.

The conclusion is based on the assumption that the price/earnings ratio remains constant, as this ratio is used to calculate the revised share price from the revised earning per share. In reality, the share price after the redemption of bonds will be set by the capital market and it is this market-determined share price that will determine the price/earnings ratio, rather than the price/earnings ratio determining the share price.

Since the financial risk of Hevos Plc has decreased following the redemption of bonds, the cost of equity is likely to fall and the share price is likely to rise, leading to a higher price/earnings ratio. If the share price increases to above the theoretical ex rights price per share, corresponding to an increase in the price/earnings ratio to more than 17 times (720/42.37), shareholders will experience a capital gain and so using the cash raised by the rights issue to buy back bonds will become financially acceptable from their perspective.

(c) Current interest coverage ratio = 49m/10m = <u>4.9 times</u>

Revised interest coverage ratio = 49m/(10m – 6.4m) = 49m/3.6m = <u>13.6 times</u>

Current debt/equity ratio = 100 x (125m/140m) = <u>89%</u>

Revised book value of bonds = 125m – 80m = <u>K45 million</u>

Revised book value of equity = 140m + 90m – 10m = <u>K220 million</u>

A loss of K10 million is deducted here because K90 million has been spent to redeem bonds with a total nominal value (book value) of K80 million.

Revised debt/equity ratio = 100 x (45m/220m) = <u>20.5%</u>

Redeeming bonds with a book value of <u>K80m</u> has reduced the financial risk of Hevos Plc, as shown by the significant reduction in gearing from <u>89% to 20.5%,</u> and by the significant increase in the interest coverage ratio from <u>4.9 times to 13.6 times.</u>

Note: full credit would be given to a revised gearing calculation (19.6%) that omits the loss due to buying back bonds at a premium to nominal value.

(d) A key financial objective for a stock exchange listed company is to maximize the wealth of shareholders. This objective is usually replaced by the objective of maximizing the company's share price, since maximizing the market value of the company represents the maximum capital gain over a given period. The need for dividends can be met by recognizing that share prices can be seen as the sum of the present values of future dividends.

Maximizing the company's share price is the same as maximizing the equity market value of the company, since equity market value (market capitalization) is equal to number of issued shares multiplied by share price. Maximizing equity market value can be achieved by maximizing net corporate cash income and the expected growth in that income, while minimizing the corporate cost of capital. Listed companies therefore have maximizing net cash income as a key financial objective.

Not-for-profit (NFP) organizations seek to provide services to the public and this requires cash income. Maximizing net cash income is therefore a key financial objective for NFP organizations as well as listed companies. A large charity seeks to raise as much funds as possible in order to achieve its charitable objectives, which are non-financial in nature.

Both listed companies and NFP organizations need to control the use of cash within a given financial period, and both types of organizations therefore use budgets. Another key financial objective for both organizations is therefore to keep spending within budget.

The objective of value for money (VFM) is often identified in connection with NFP organizations. This objective refers to a focus on economy, efficiency and effectiveness. These three terms can be linked to input (economy refers to securing resources as economically as possible), process (resources need to be employed efficiently within the organization) and output (the effective use of resources in achieving the organization's objectives).

Described in these terms, it is clear that a listed company also seeks to achieve value for money in its business operations.

There is a difference in emphasis, however, which merits careful consideration. A listed company has a profit motive, and so VFM for a listed company can be related to performance measures linked to output, e.g. maximizing the equity market value of the company. An NFP organization has service-related outputs that are difficult to measure in quantitative terms and so it focuses on performance measures linked to input, e.g. minimizing the input cost for a given level of output.

Both listed companies and NFP organizations can use a variety of accounting ratios in the context of financial objectives. For example, both types of organization may use a target return on capital employed, or a target level of income per employee, or a target current ratio.

Comparing and contrasting the financial objectives of a stock exchange listed company and a not-for-profit organization, therefore, shows that while significant differences can be found, there is a considerable amount of common ground in terms of financial objectives.

SOLUTION THREE

(a) MV ex div = $P_0 = \frac{40(1.06)}{0.12 - 0.06}$ = 706.67ngwee or K7.07 per share

Market Value of debenture for K100 nominal:

Period	CF	df @ 12%	PV
1 – 5	8 p.a.	3.605	28.84
5	110	0.567	62.37
			91.21

Market value of debenture ex.int. Is K91.21.

(b)

i. The acquisition of an 80% holding in BJ Ltd can be assumed to give HKT Plc. control. BJ Ltd should therefore be treated as a subsidiary from the date of acquisition and its results consolidated from that date.

ii. As BJ Ltd is being treated as a subsidiary, the investment in loan notes is effectively an intra-group loan. This should be cancelled on consolidation, leaving the remaining K1million of BJ's loan notes as a noncurrent liability in the consolidated statement of financial position.

iii. The shares in VG Ltd represent a 40% holding, which can be presumed to give HKT Plc 'significant influence', but not control. VG Ltd should therefore be treated as an associate and its results brought into the consolidated financial statements using the equity method.

(c)

i) The raising of long-term finance:
The company needs finance for investment and in order to expand. Finance can be raised from shareholders or from debt – it is the job of the Financial Manager to be aware of the different sources of finance and to decide which source to use.

ii) The investment decision:
Decisions have to be made as to where capital is to be invested. For example, is it worth launching a new product? Is it worth expanding the factory? Is it worth acquiring another company?
It is the Financial Manager's role to decide on which criteria to employ in making this kind of investment decision.

iii) The management of working capital:
In order for the company to operate, it will have to accept a certain level of debtors and it will have to carry a certain level of stock.
Although these are needed to operate the business successfully, they require long-term investment of capital that is not directly earning profits.
Debtors and stock are just two components of working capital (working capital = current assets less current liabilities) and it is a job of the Financial Manager to ensure that the working capital is managed properly i.e. that it is high enough to enable to company to operate efficiently, but that it does not get out of control and end up wasting money for the company.

iv) The management of risk:
One of the roles of the Financial Manager is to manage the risk due to changing exchange rates if the business trades abroad, and to manage the risk due to changes in interest rates if the business borrows or deposits money.

SOLUTION FOUR

(a) Project specific cost of equity
Ba=1.81 x 0.8/0.8+0.2 (1-0.3) = 1.54

1.54= Be x 0.6/0.6+0.4 (1-0.3)

Be = 2.26

Cost of equity = 8% + 2.26(18%-8%) = 30.6%

Cost of debt = 100(1-0.3)/1050 x 100% = 6.67%

WACC = (30.6% X 0.6) + (6.67% X 0.4) = 21.01%

(b)
Business risk, the inherent risk of doing business for a company, refers to the risk of making only low profits, or even losses, due to the nature of the business that the company is involved in. One way of measuring business risk is by calculating a company's operating gearing or 'operational gearing'.

$$\text{Operating gearing} = \frac{\text{Contribution}}{\text{Profit before interest and tax (PBIT)}}$$

The significance of operating gearing is as follows.

(1) If contribution is high but PBIT is low, fixed costs will be high, and only just covered by contribution. Business risk, as measured by operating gearing, will be high.

(2) If contribution is not much bigger than PBIT, fixed costs will be low, and fairly easily covered.

Business risk, as measured by operating gearing, will be low.

A high level of debt creates financial risk. This is the risk of a company not being able to meet other obligations as a result of the need to make interest payments. The proportion of debt finance carried by a company is therefore as significant as the level business risk. . Financial risk can be seen from different points of view.

(1) The company as a whole. If a company builds up debts that it cannot pay when they fall due, it will be forced into liquidation.

(2) Payables. If a company cannot pay its debts, the company will go into liquidation owing payables money that they are unlikely to recover in full.

(3) Ordinary shareholders. A company will not make any distributable profits unless it is able to earn enough profit before interest and tax to pay all its interest charges, and then tax. The lower the profits or the higher the interest-bearing debts, the less there will be, if there is anything at all, for shareholders.

(c)

(i) P/E ratio

The P/E ratio measures the relationship between the market price of a share and the earnings per share. Its calculation involves the use of the share price, which is a reflection of the market's expectations of the future earnings performance, and the historic level of earnings.

If JAVA has just suffered an abnormally bad year's profit performance which is not expected to be repeated, the market will price the share on the basis of its expected future earnings. The earnings figure used to calculate the ratio will be the historic figure which is lower than that forecast for the future, and thus the ratio will appear high.

(ii) Financial gearing

The financial gearing of the firm expresses the relationship between debt and equity in the capital structure. A high level of gearing means that there is a high ratio of debt to equity. This means that the company carries a high fixed interest charge, and thus the amount of earnings available to equity will be more variable from year to year than in a company with a lower gearing level. Thus the shareholders will carry a higher level of risk than in a company with lower gearing. All other things being equal, it is therefore likely that the share price in a highly geared company will be lower than that in a low geared firm.

The historic P/E ratio is dependent upon the current share price and the historic level of earnings. A high P/E ratio is therefore more likely to be found in a company with low gearing than in one with high gearing. In the case of JAVA, the high P/E ratio is more probably attributable to the depressed level of earnings than to the financial structure of the company.

END OF SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D3: BUSINESS TAXATION

WEDNESDAY 14 DECEMBER 2022

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

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question.

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, 6 and 7 of this paper.

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

Taxation table for paper D3– Business Taxation (2022 Examinations)

Income Tax

Income band	Taxable amount	Rate
K1 to K54,000	first K54,000	0%
K54,001 to K57,600	next K3,600	25%
K57,601 to K82,800	next K25,200	30%
Over K82,800		37.5%

Income from farming for individuals

K1 to K54,000	first K54,000	0%
Over K54,000		10%

Company income tax rates

On income from manufacturing and other	30%
On income from farming	10%
On income from mineral processing	30%
On income from mining operations	30%

Income from farming for individuals

K1 to K54,000	first K54,000	0%
Over K54,000		10%

Company Income Tax rates

On income from manufacturing and other	30%
On income from farming	10%
On income of Banks and other Financial Institutions	30%
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

Range of Norm Price	Mineral Royalty Rate
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

Type of mineral	Mineral Royalty Rate
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 –	Standard wear and tear allowance	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%

Industrial Buildings:

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

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

Wear and Tear Allowance	10%
Initial Allowance	10%

Commercial Buildings

Wear and Tear Allowance	2%

Farming Allowances

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

Presumptive Taxes

Turnover Tax	4%

Rental Income Tax

Annual Rental Income

K800,000 or below	4%
Above K800,000	12.5%

Presumptive tax for transporters

Seating capacity	Tax per annum	Tax per quarter
	K	K
Less than 12 passengers and taxis	1,080	270
From 12 to 17 passengers	2,160	540
From 18 to 21 passengers	4,320	1,080
From 22 to 35 passengers	6,480	1,620

From 36 to 49 passengers	8,640	2,160
From 50 to 63 passengers	10,800	2,700
From 64 passengers and over	12,960	3,240

Property transfer tax

Rate of tax on realised value of land, land and buildings and shares	5%
Rate on realised value of intellectual property	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 mineral processing licence or an interest in the mineral processing licence;	10%

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

	2 years old but less than 5 years		Aged 5 years and over	
Motor vehicles for the transport of ten or more persons, including the driver	**Customs duty K**	**Excise duty K**	**Customs duty K**	**Excise duty K**
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
Motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars	**Customs duty**	**Excise duty**	**Customs duty**	**Excise duty**
	K	**K**	**K**	**K**
Sedans				
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
Hatchbacks				
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

	2 years old but less than 5 years		**Aged 5 years and over**	
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	30,697	13,302	24,119	10,452
Double cabs GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes, with spark ignition internal combustion piston engine	33,766	14,632	26,531	11,497
Panel Vans				
GVW not exceeding 1.0 tonne	13,353	5,786	7,630	3,061
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	13,907	10,662	6,413	4,916
GVW exceeding 2.0 tonnes but not exceeding 5.0 tonnes	15,453	11,847	7,726	5,923
GVW exceeding 5.0 tonnes but not exceeding 10.0 tonnes	24,724	18,955	9,272	7,108

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	19,462	0
GVW exceeding 20 tonnes, **with spark ignition internal combustion piston engine**	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%

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%

Excise Duty:

Percentage of Value for Duty Purposes for Excise Duty Purposes	0%

Attempt ALL FOUR (4) questions in this paper.

QUESTION ONE

Liz, Naz and Mak are in partnership trading in hardware. They share profits and losses in the ratio 5:3:2 respectively after allowing for annual partnership salaries of K96,000, K84,000 and K72,000 for Liz, Naz and Mak respectively.

On 1 May 2022, Mak decided to leave the partnership. The partnership agreement was immediately revised with the profit and loss sharing ratios adjusted to 3:2 for Liz and Naz respectively. The annual salaries remained unchanged.

The partnership's statement of profit or loss for the year ended 31 December 2022, was as follows:

		K	K
Gross profit			1,550,000
Less expenses:			
Depreciation		20,500	
Wages and Salaries	(Note 1)	520,000	
Repairs and Renewals	(Note 2)	52,700	
Rent and Rates	(Note 3)	340,000	
Electricity	(Note 4)	14,400	
Legal expenses	(Note 5)	20,500	
Water bills	(Note 6)	3,600	
Motor car running expenses	(Note 7)	18,500	
Other expenses	(Note 8)	25,600	(1,015,800)
Net Profit			534,200

The following additional information is available:

Note 1: Wages and Salaries

Included in wages and salaries are partners' annual salaries of K96,000 for Liz, K84,000 for Naz and K72,000 for Mak. The balance reprsents wages and salaries for employees engaged by the business.

Note 2: Repairs and Renewals

This includes costs of initial repairs of K5,200 incurred on repairing second hand fire safety equipment purchased during the year which was not in a usable state.

Note 3: Rent and Rates

One third (1/3) of the expenditure on rent and rates relates to rent and rates paid for the partners' private residences.

Note 4: Electricity

25% of the expenditure on electricity relates to the partners' houses and the balance is for partnership's administrative offices.

Note 5: Legal expenses

These included the following:

	K
Legal fees in connection with drafting employee's service contracts	2,670
Recovery of trade debts	2,900
Legal fees in connection with the dismissal of an employee	5,830
Unsuccessful appeal against previous year's income tax assessment	4,800
Legal fees in connection with defending title to land	4,300
	20,500

Note 6: Water bills

One third (1/3) of the expenditure on water bills relates to the partners' private residences and the balance is for business purposes.

Note 7: Motor car running expenses:

The partners use their own personal private motor cars in the partnership's business. The following information has been provided:

Partner	Private mileage %	Motor car expenses
		K
Liz	20	6,700
Naz	25	8,300
Mak	30	3,500
		18,500

Note 8: Other Expenses

These included the following:

	K
Donation to a political party	12,600
Postage and stationery	6,500
Donation to an approved charity	6,500

25,600

Note 9: Partner's motor vehicles

Partners use their own personal private motor cars partly for business purposes as explained in note (7) above. The original costs and the dates on which each vehicle was brought into use are given below:

Date brought into use	*Partner*	*Purchase cost*
		K
1 October 2021	Liz's car	150,000
1 November 2021	Naz's car	140,000
1 April 2021	Mak's car	148,000

Note 10: Implements, plant and machinery

Capital allowances on other partnership assets were determined to be K72,000 for the year ended 31 December 2022.

Required:

(a) Calculate the partnership's tax adjusted business profit for the tax year 2022, before division among the partners. (9 marks)

(b) Calculate the amount of the business profits on which each partner will be assessed, for the tax year 2022. (11 marks)

(c) Explain the Liquidation process of a company. (5 marks)

[Total: 25 Marks]

QUESTION TWO

Mulola Limited is a Zambian resident company which manufactures a special type of washing detergent known as 'SAMBA'. The company sells the detergent to most wholesalers and retailers across the country. Mulola Limited is not listed on the Lusaka Securities Exchange and prepares its accounts annually to 31 December. In the year ended 31 December 2022, the company's profit before tax shown in the statement of profit or loss was K1,024,000 after dealing with the following items of income and expenditure:

(1) Dividends received from another Zambian company not involved in mining operations of 68,000 (net).

(2) Patent royalties of K119,000 (net) received from another Zambian company which was recently granted the trade mark by Mulola Limited to manufacture and market the same washing detergent on condition that the quality is not compromised.

(3) Profit on disposal of office equipment of K45,000. This profit figure of K45,000 was arrived at as the difference between the disposal proceeds of K74,000 and the book value of K29,000. The original cost of the equipment was K60,000 and the income tax value at 1 January 2022, was K30,000.

(4) Debenture interest received of K51,000 (net). The debenture interest was received from another Zambian company during the year.

(5) Depreciation charge for the year of K93,000.

(6) General expenses of K67,000. This figure included K25,000 for a speeding offence committed by a member of staff who travelled to Ndola for a business trip and K32,000 incurred on entertaining prominent customers, while the remainder consists of allowable expenses.

(7) Wages and salaries amounting to K810,000. This figure included the salary of the Finance Director amounting to K180,000 per annum who is accommodated in a company owned house, while the remainder comprised of emoluments of all employees.

The company has employed two (2) persons living with disabilities who have been working as telephone operators since last year. Their annual salaries of K96,000 each are included in the wages and salaries figure of K810,000 above.

(8) Bad debts charged to the statement of profit or loss which were arrived at as shown in the bad debts account below:

	K		K
Trade debts written off	37,000	Balance b/f:	
Loans to employee written off	25,500	- Specific provision	7,500
Balance c/f:		- General provision	27,750
-Specific provision	9,000	Profit or loss	53,650
- General provision	17,400		
	88,900		88,900

(9) Legal fees paid during the year which were K56,500. Included in this figure were share issue costs of K15,800, costs of drafting employees' service contracts of K29,500 and incidental costs incurred on the disposal of the office equipment referred to in note (3) above of K11,200.

(10) Sundry expenses incurred during the year amounted to K54,720. This figure included the cost of gifts of calendars to customers valued at K120 per customer totaling K14,400, christmas gifts to employees of K12,160 and a donations to a public benefit organisation of K12,000. The organisation is not yet approved by the Minister of Finance and National Planning. The remainder of sundry expenses were all allowable expenses.

Additional information

The following additional information is also available:

Implements, plant and machinery

The company held the following implements, plant and machinery at 1 January 2022:

Asset	Income tax value	Original cost
	K	K
Computers	33,600	44,800
Manufacturing machinery	140,000	280,000
Nissan Pool car	108,000	180,000
Toyota Fortuner motor car	188,000	235,000

The Toyota Fortuner car has been provided to the Finance Director on a personal to holder car basis. It has a cylinder capacity of 2,800cc. The Finance Director has private use of the car of 20%.

Unrelieved Tax loss

At 1 January 2022, the company had an unrelieved tax loss of K125,000, from the previous tax year caused by a drastic slow-down in business activities because of the Corona Virus Pandemic.

Required:

(a) Calculate the maximum capital allowances claimable by Mulola Limited for the tax year 2022. (5 marks)

(b) Calculate the taxable business profit for the company for the tax year 2022. (13 marks)

(c) Calculate the company income tax payable by Mulola Limited for the tax year 2022. (7 marks)

[Total: 25 Marks]

QUESTION THREE

(a) Peter Kalima is a farmer in Kalumbila District of North- Western Province of Zambia. He prepares his accounts to 31 December of each year. His tax adjusted business profit for the tax year 2022, before capital allowances was K505,000.

During the year, he incurred the following capital expenditure:

	K
Digging a well	32,000
Constructed a two (2) Farm dwellings at K140,000 each	280,000
Bought a Combine harvester for	92,500
Fencing the farmer at a cost of	26,300
Bought a Nissan Hard body (single cab) van for	215,000
Bought office furniture for	36,200

Peter Kalima conducts Part-time lectures in Food and Nutrition at Chalimbana University in his free time and earns an annual salary of K144,000 (gross).

Required:

(i) Explain what is meant by Farm improvements and Farm works and give an example of each type of expenditure. (3 marks)

(ii) Calculate the taxable farming profit for the tax year 2022. (8 marks)

(b) PKM Mining Corporation is a Zambian resident subsidiary of a foreign multinational company engaged in the mining of base metals and industrial metals.

The profit before tax for PKM Mining for the year ended 31 December 2022 was K351,850. This profit figure was arrived at after taking into account the following items:

(1) Depreciation charged on mining non-current assets for the year was K67,400
(2) Construction of a road on the local council Township at a cost of K24,000.
(3) Repairs to mining equipment of K22,300
(4) Replacement of concrete railway sleepers in the mining plant and works at a cost of K56,000.
(5) The Exchange loss from two Us$ accounts held with Zambian banks as follows:

	K
Exchange loss on re-translation of a US Dollar account at the previous year end of 31 December 2021 and at the current year end of On 31 December 2022	70,000
Exchange loss on settlement of a foreign payable	30,000
	100,000

(6) Entertaining foreign customers for K21,500, entertaining staff for K9,000 entertaining local customers for K32,000 and donation of K6,000 to an approved public benefit charity.

(7) The following income was credited to the statement of profit or loss:

	K
Bank interest (net)	21,250
Dividends from a Zambian company (gross)	10,000

Additional information:

The following additional information is available:

(1) The capital allowances on business assets for the tax year 2022 were K158,000.

(2) The company sold a piece of land, originally costing K90,000 to another Zambian company within the group for K130,000 for the internal reorganization of the group.

(3) At 1 January 2022, the company had an unrelieved tax loss from mining of K195,600 which was incurred in the previous tax year.

(4) The indexation formula for losses is provided below:

$$1 + \frac{(R2 - R1)}{R1}$$

(5) The average Bank of Zambia (BOZ) Kwacha/US Dollar mid-rate for the year ended 31 December 2021 was K16.25 and the average BOZ Kwacha/US Dollar mid-rate for the year ended 31 December 2022 was K18.75**.**

Required:

(i) Explain the Property Transfer Tax (PTT) implications of the transfer of property within a group of companies. (3 marks)

(ii) Calculate the taxable Mining profit and income tax payable by PK Mining Ltd for the tax year 2022. (11 marks)

[Total: 25 marks]

QUESTION FOUR

Diamond Bank Plc is a Zambian resident company engaged in the provision of banking services. The company prepared the following statement of profit or loss for the year ended 31 December 2022.

Statement of profit or loss for the year ended 31 December 2022

		K
Interest income	(Note 1)	67,200,000
Interest expenses	(Note 2)	(28,600,000)
Net interest income		38,600,000
Provision for loan losses	(Note 3)	(2,130,000)
Other income	(Note 4)	460,000
Non-interest expenses	(Note 5)	(22,400,000)
Income before tax		14,530,000
Income tax expense	(Note 6)	(2,217,000)
Income after tax		12,313,000

The following information is available:

Note 1: Interest income

The amount of interest income is the gross amount. Withholding tax deducted at source amounted to K3,505,000 during the year ended 31 December 2022.

Note 2: Interest expenses

The interest expenses comprise the following:

	K
Interest paid to other financial institutions	14,340,000
Interest on deposits paid to customers	12,200,000
Interest on late payment of taxes	2,060,000
	28,600,000

Note 3: Provision for loan losses

This includes loan losses written off amounting to K2,500,000, increase in specific provision amounting to K400,000 and decrease in general provision amounting to K770,000.

Note 4: Other income

This constitutes dividends from Zambian companies K200,000 (gross), royalties K212,500 (net) and profit on disposal of old office equipment of K47,500.

Note 5: Non-interest expenses

The figure for non-interest expenses was made of the following:

	K
Directors' emoluments	2,400,000
Employees' salaries	6,900,000
Depreciation expenses	1,900,000
Entertaining customers	800,000
Donation to an amateur football club	1,200,000
Donation to political parties	400,000
Penalty for non-compliance with financial services regulations	560,000
Gifts to customers of Diamond Bank's calendars costing K90 each	270,000
Gifts customers of Diamond Bank's T-shirts costing K250 each	375,000
Other revenue allowable expenses	7,595,000
	22,400,000

All the directors are accommodated in company owned houses for which they pay no rent.

Note 6: Income tax expense

This amount represents the amount of provisional income tax paid by the bank during the year ended 31 December 2022.

Note 7: Buildings and implements, plant & machinery

As at 1 January 2022, the company had the following non-current assets:

	ITV b/f	Original Cost
	K	K
Head office building	9,000,000	10,000,000
Old Office equipment	75,000	150,000
Pool cars	1,200,000	2,000,000

During the year ended 31 December 2022, the company sold old office equipment for K100,000 reporting a profit on disposal in note (4) above. The company bought new office equipment at a cost of K400,000 and Toyota Land cruiser car with a cylinder capacity of 3,000 cc at a cost of K800,000. The Toyota Land cruiser car is used by the Managing Director on personal to holder basis. It has been agreed with the Commissioner General that the car is used 70% for business use.

The company completed the construction of a building a new branchat a cost of K9,000,000 (including the cost of land K1,000,000) on 31 August 2022. The building was brought into use on 15 September 2022.

Required:

(a) Calculate the adjusted business profit of Diamond Bank Plc for the year ended 31 December 2022. (16 marks)

(b) Calculate the amount of income tax payable by Diamond Bank Plc for the tax year 2022.

(6 marks)

(c) Explain the consequences of the late payment of the tax calculated in part (b) and submitting the self-assessment income tax return for the tax year 2022 late. (3 marks)

[Total: 25 Marks]

END OF PAPER

D3: BUSINESS TAXATION

SUGGESTED SOLUTIONS

SOLUTION ONE

(a)
LIZ, NAZ MAK
COMPUTATION OF TAX ADJUSTED BUSINESS PROFIT FOR THE TAX YEAR 2022

	K	K
Net profits as per accounts		534,200
Add:		
Depreciation	20,500	
Partner's salaries (K96,000+K84,000+K72,000)	252,000	
Initial repairs of Capital equipment	5,200	
Rent and rates (K340,000 x 1/3)	113,333	
Electricity (K14,400 x 25%)	3,600	
Appeal for income tax assessment	4,800	
Water expense for Partner's residence (K3,600 x 1/3)	1,200	
Motor car running expenses:		
Liz (K6,700 x 20%)	1,340	
Naz (K8,300x 25%)	2,075	
Mak (K3,500 x 30%)	1,050	
Donation to a Political party	12,600	
		417,698
		951,898
Less:		
Capital allowances		(72,000)
Adjusted business profits		879,898

(b) The amount of profits on which each partner will be assessed for the year ended 31 December 2022.

First 4 months

	Total	Liz	Naz	Mak
01.01.2022-30.04.2022	K	K	K	K
Salaries (4/12)	84,000	32,000	28,000	24,000
Balance (5:3:2)	209,299	104,649	62,790	41,860
(Profit, K879,898x4/12)	293,299	136,649	90,790	65,860
Last 8 Months				
01.05.2022-31.12.2022				
Salaries 8/12	120,000	64,000	56,000	-
1Balance (3:2)	466,599	279.959	186,640	
(K879,898 x 8/12)	586,599	343,959	242,640	
Total	879,898	480,608	333,430	65,860
Less Capital Allowances:				
Liz (K150,000 x 20% x 80%)		(24,000)		
Naz (K140,000 x 20% x 75%			(21,000)	

Mak (K148,000 x 20% x 70%)	______	______	(20,720)
Taxable Profits	456,608	312,430	45,140

(c) The liquidation process of a company

- The liquidator should be appointed, and the trade ceases.
- The assets of the company are sold, receivables collected and liabilities paid.
- The corporation tax due on any profits and gains made on disposal of assets must be paid.
- The liquidator pays out the balance of the funds to the shareholders, and the shares are cancelled.
- The shareholders pay any tax due on the amounts received.

SOLUTION TWO

(a) MULOLA LIMITED

COMPUTATION OF CAPITAL ALLOWANCES FOR THE TAX YEAR 2022

		Cost/ITV	Capital allowance
<u>Office equipment</u>		K	K
ITV b/f		30,000	
Disposal proceeds (restricted to cost)		(60,000)	
Balancing charge		(30,000)	(30,000)
<u>Computers</u>			
ITV b/f	33,600		
Wear & tear @25% x 44,800	(11,200)		11,200
ITV c/f	22,400		
<u>Machinery</u>			
ITVb/f		140,000	
Wear & tear @ 50% x 280,000		(140,000)	140,000
ITV c/f	Nil		
<u>Nissan car</u>			
ITV b/f	108,000		
Wear & tear @ 20% x K180,00		(36,000)	36,000
ITV c/f	72,000		
<u>Finance Director's car</u>			
Cost		235,000	
Wear & tear @ 20% x 235,000		(47,000)	47,000
ITV b/f	188,000		
Total capital allowances			204,200

(b) MULOLA LTD

COMPUTATION OF TAXABLE BUSINESS PROFIT FOR THE YEAR ENDED 31 DECEMBER 2022

	K	K
Profit before tax		1,024,000
<u>ADD:</u>		
Depreciation	93,000	
Entertaining prominent customers	32,000	
Accommodation benefit (180,000 x 30%)	54,000	
Personal holder car benefit	40,000	
Cost of share issue	15,800	
Cost of disposal of office equipment	11,200	
Gift of calendars	14,400	
Donations to public benefit organisation	12,000	
Loan to employee written off	25,500	
		297,900
		1,321,900

LESS:		
Dividends	68,000	
Royalties	119,000	
Profit on disposal office equipment	45,000	
Debenture interest	51,000	
Decrease in general provision (27,750 – 17,400)	10,350	
Differently abled persons' allowance (2,000 x 2)	4,000	
Capital allowances (w (a)	204,200	
		(501,550
Tax adjusted business profit		820,350
Less tax loss brought forward		(125,000)
Final taxable business profit		695,350

(c) **MULOLA LTD**
COMPUTATION OF COMPANY INCOME YAX PAYABLE FOR THE TAX YEAR 2022

	K
Taxable business profit	695,350
Royalties (119,000 x 100/85)	140,000
Debenture interest (51,000 x 100/85)	60,000
Total taxable business profit	895,350
Company income tax @ 30%	268,605
Less WHT – Royalties (140,000 x 15%)	(21,000)
WHT – Debenture interest (60,000 x 15%)	(9,000)
Final company income tax payable	238,605

SOLUTION THREE

(a) (i) A Farm improvement is any permanent work including a farm dwelling and

fencing appropriate to farming and any building for and used for the welfare of employees in relation to farming land owned or occupied by the famer claiming the allowance for ascertaining his profit.

Farm works are all the works which are carried out on the farm. They do not include Farm improvements or industrial Buildings or commercial Buildings.

Examples include; well, boreholes stumping and clearing, water conservation etc.

(ii) PETER KALIMA

COMPUTATION OF TAXABLE FARMING PROFIT FOR THE TAX YEAR 2022

	K	K
Tax adjusted farming profit before capital allowances		505,000
Less: Capital allowances:		
Implements, plant and machinery:		
Nissan hard body van (215,000 x 25%)	53,750	
Office furniture (36,200 x 25%)	9,050	
Combined harvester (92,500 x 100%)	92,500	
Farm improvement allowances:		
Farm dwelling (20,000 x 100% x 2)	40,000	
Fencing (26,300 x 100%)	26,300	
Farm works:		
Digging well (32,000 x 100%)	32,000	
Total capital allowances		(253,600)
Final taxable farming profit		251,400

(b) (i) When one Group company makes a transfer of Property to another Group company as part of the internal reorganization of the Group, the Commissioner General using his powers under the PTT Act may determine that the realized value of that property is nil and therefore no PTT is due on the transaction.

This rule only applies where the transferor and transferee companies are Zambian resident companies.

If property is transferred by a Group company that is resident to a Group company that is not resident in Zambia, there will be a requirement determine the realized value and property transfer tax would be payable.

(ii) PK MINING COMPANY
COMPUTATATION OF TAXABLE MINING PROFIT FOR THE TAX YEAR 2022

	K	K
Net profit before tax		351,850
ADD:		
Depreciation	67,400	
Construction of road in Council Township	24,000	
Replacement of rail Sleepers	56,000	
Exchange loss	70,000	
Entertaining foreign customers	21,500	
Entertaining local customers	32,000	
		270,900
		622,750
LESS:		
Bank interest	21,250	
Dividends	10,000	
Capital allowances	158,000	
		(189,250)
Tax adjusted mining profit		433,500
Less mining loss relief (W)		(216,750)
Taxable mining profit		216,750
ADD: Bank interest (21,250 x 100/85)		25,000
Taxable income		241,750
Company income tax @ 30%		72,525
Less WHT- Bank interest (25,000 x 15%		(3,750)
Final company income tax payable		68,775

Workings:

Indexed mining loss = 1+ 18.75 – 16.25/16.26 x 195,600 =K225,692

The mining loss carried forward:

	K
Indexed mining loss brought forward	225,692
Less loss relief in tax year 2022 (433,500 x 50%)	(216,750
Mining loss carried forward at 31.12. 2022	8,942

SOLUTION FOUR

DIAMOND BANK PLC

(a) Adjusted business profit for the year ended 31 December 2022

	K	K
Income (profit) before tax		14,530,000
Add:		
Interest on late payment of taxes	2,060,000	
Free accommodation benefit:		
(K2,400,000 x 30%)	720,000	
Depreciation expenses	1,900,000	
Entertaining customers	800,000	
Donation to political parties	400,000	
Penalty for non-compliance	560,000	
Gifts to customers – T-shirts	375,000	
Personal-to-holder car benefit (3,000 cc)	40,000	
		6,855,000
		21,385,000
Less:		
Dividends	200,000	
Royalties	212,500	
Profit on disposal of office equipment	47,500	
Decrease in general provisions	770,000	
Capital allowances (W)	995,000	
		(2,225,000)
Adjusted business profit		19,160,000

Workings:

Capital allowances

	K
Old Office Equipment	
Balancing charge (K75,000 – K100,000)	(25,000)
Head office building	
Wear & Tear (K10,000,000 x 2%)	200,000
Pool cars	
Wear & Tear (K2,000,000 x 20%)	400,000
New office equipment	
Wear & Tear (K400,000 x 25%)	100,000
Toyota Landcruiser car	
Wear & Tear (K800,000 x 20%)	160,000
New Branch's building	
Wear & Tear (K9,000,000 – K1,000,000) x 2%	160,000
Total capital allowances	995,000

(b) Income tax payable for the tax year 2022

	K
Adjusted business profits	19,160,000
Add:	
Royalties (K212,500 x 100/85)	250,000
Taxable income	19,410,000
Income tax @30% x K19,410,000	5,823,000
Less:	
Provisional income tax paid	(2,217,000)
WHT on interest income	(3,505,000)
WHT on royalties (K250,000 x 15%)	(37,500)
Income tax payable	63,500

(c) The consequences are as follows:

(i) For late payment of tax, the penalty is charged at a rate of 5% of the outstanding tax liability per month or part thereof.

(ii) Interest on overdue tax will be charged at the Bank of Zambia discount rate plus 2%.

(iii) For late submission of income tax return, the company will be charged a penalty of 2,000 penalty units or K600 per month or part thereof

END OF SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D4 : PERSONAL TAXATION

TUESDAY 13 DECEMBER 2022

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

INSTRUCTIONS TO CANDIDATES

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

2. This question paper consists of **FOUR (4)** questions of twenty Five (25) marks each. You MUST attempt all the **FOUR (4)** questions.

3. Enter your Student number and your National Registration Card number on the front of the answer booklet. Your name must NOT appear anywhere on your answer booklet.

4. Do **NOT** write in pencil (except for graphs and diagrams).

5. **Cell phones** are **NOT** allowed in the Examination Room.

6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.
10. A Taxation table is provided on pages 2 and 3

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

TAXATION TABLE

Income Tax

Standard personal income tax rates

Income band	Taxable amount	Rate
K1 to K54,000	first K54,000	0%
K54,001 to K57,600	next K3,600	25%
K57,601 to K82,800	next K25,200	30%
Over K82,800		37.5%

Income from farming for individuals

K1 to K54,000	first K54,000	0%
Over K54,000		10%

Company income tax rates

On income from manufacturing and other	30%
On income from farming	10%
On income from mineral processing	30%
On income from mining operations	30%

Income from farming for individuals

K1 to K54,000	first K54,000	0%
Over K54,000		10%

Company Income Tax rates

On income from manufacturing and other	30%
On income from farming	10%
On income of Banks and other Financial Institutions	30%
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

Range of Norm Price	Mineral Royalty Rate
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

Type of mineral	Mineral Royalty Rate

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 –	Standard wear and tear allowance	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%

Industrial Buildings:

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

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

Wear and Tear Allowance	10%
Initial Allowance	10%

Commercial Buildings

Wear and Tear Allowance	2%

Farming Allowances

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

Presumptive Taxes

Turnover Tax 4%

Rental Income Tax

Annual Rental Income	
K800,000 or below	4%
Above K800,000	12.5%

Presumptive tax for transporters

Seating capacity	**Tax per annum**	**Tax per quarter**
	K	K
Less than 12 passengers and taxis	1,080	270
From 12 to 17 passengers	2,160	540

From 18 to 21 passengers	4,320	1,080
From 22 to 35 passengers	6,480	1,620
From 36 to 49 passengers	8,640	2,160
From 50 to 63 passengers	10,800	2,700
From 64 passengers and over	12,960	3,240

Property transfer tax

Rate of tax on realised value of land, land and buildings and shares	5%
Rate on realised value of intellectual property	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 mineral processing licence or an interest in the mineral processing licence;	10%

Attempt all FOUR (4) Questions in this paper.

QUESTION ONE

(a) Peter Kapatu recently re-located back to Zambia in April 2022 from the United Kingdom where he was working and living for some time. On 1 May 2022, he was engaged as the Director of Operations by UNI plc, a Zambian resident company.

His conditions of service provided for the following:

	K
Annual salary	720,000
Medical allowance per month	15,200
Lunch allowance per month	1,400
Entertainment allowance per month	4,000
Transport allowance	8% of monthly salary
School fees allowance	10,000

Peter is accommodated in a company owned house for which he pays no rent. The house is maintained by the company and in the tax year 2022, the company paid ancillary expenses relating to the house amounting to K12,900 per month, as from 1 May 2022.

Peter Kapatu paid professional subscription fees of K6,800 to a professional body relevant to the duties of his employment. During the course of the tax year 2022, he additionally made a contribution to an approved Public Benefit Organisation of K15,500 and a donation to a political party of K10,000.

During the tax year 2022, Peter Kapatu received the following investment income from Zambian:

	K
Rental income	72,000
Dividends from KIM Ltd	20,000
Royalties	129,200
Bank deposit interest	10,000

The above amounts of investment income represent the actual cash received by Peter Kapatu.

Required:

Calculate the income tax payable by Peter Kapatu for tax year 2022. (13 marks)

(b) UNI Plc is exploring ways to motivate its employees and is considering setting up an Employee Share Option Scheme. The Directors of UNI Plc have heard that there are tax benefits for both the company and its employees if a share option scheme being operated by a company is approved for tax purposes.

Required:

(i) Explain any six (6) conditions that must be met by UNI Plc for the Commissioner General to approve a share option scheme. (6 marks)

(ii) Describe the procedure UNI plc must follow to have a share option scheme approved for tax purposes. (3 marks)

(iii) Explain three (3) tax benefits that will arise for UNI Plc if the share option scheme is approved for tax purposes (3 marks)

[Total: 25 Marks]

QUESTION TWO

For the purposes of this question, you should assume that today's date is 20 December 2021.

You are employed in a Tax Practice and your Tax Manager has presented you with the following information relating to activities which three (3) clients of your firm intend to undertake in the tax year 2022.

Tatenda Tavera

Tatenda will commence running a fashion boutique on 1 January 2022 and it is estimated that the annual turnover from this business will average K540,000 per year and this will be generated evenly throughout year. In the tax year 2022, she expects the business to generate a profit as per accounts of K147,960. The net profit figure is after deducting Tatenda's annual salary which is expected to be K90,720, employees' salaries of K54,000, rent for business premises of K19,440, advertising expenses of K7,344, entertainment of customers of K11,016, donations to an approved public benefit organisation of K5,400, donations of K3,120 to a political party and other expenses incurred wholly and exclusively for business purposes of K200,880.

Michael Kabanana

Michael owns the following properties which he intends to let out furnished throughout the tax year 2022 commencing on 1 January 2022.

Type of property	Number of units	Gross monthly rentals per unit	Maintenance costs per unit per month
3 bedroomed houses	2	K15,000	K2,000
2 bedroomed flats	6	K9,500	K1,500
Retail shops	8	K4,000	K500

Jacob Chalwe

Jacob will buy three (3) motor vehicles in the tax year 2022, to be used for the transportation of public passengers. The details relating to each vehicle are as follows:

Date vehicle will be brought into use	**Type of Vehicle**	**Gross Income**	**Total Operating costs**
		K	**K**
19 Feb 2022	54-Seater Tata Bus	628,000	368,000
13 April 2022	16-Seater Toyota Hiace bus	210,000	95,000
23 Aug 2022	28-Seater Rosa Bus	396,000	191,000

Each vehicle will be operational every day from Sunday to Saturday, commencing on the dates shown above.

Required:

(a) Provide explanations of how each of the above clients, Tatenda, Michael and Jacob will be assessed to tax in the charge year 2022. (6 marks)

(b) Prepare computations of the amount of income tax paid in the tax year 2022, by each of the following tax payers, stating the relevant dues dates for the payment of the taxes arising in each case:

(i) Tatenda Tavera (5 marks)
(ii) Micheal Kabanana (8 marks)
(ii) Jacob Chalwe (6 marks)

[Total: 25 Marks]

<u>QUESTION THREE</u>

Frank Kapimpa is a Civil Engineer and had been employed at Chembe Constructions Limited, a Zambian resident company, until 31 December 2021, when he resigned from employment to set up his own construction business.

He commenced in business on 1 April 2022 as a sole trader. He prepared the first set of financial statements to 31 December 2022. The monthly turnover from the business has been K180,000.

On 1 May 2022, he was engaged by Chembe Construction Limited, the former employer, to provide technical assistance to the company as a self-employed contractor. He signed a two (2) year contract commencing on 1 May 2022. The agreed total contract price was K720,000 which is paid to him in monthly installments of K30,000.

Frank is required to work for four (4) hours per day on Tuesday, Thursday and Saturday. He reports for work at 09:00 hours and leaves the premises of Chembe Constructions Limited at 13:00 hours. However, he has the right to change this programme at his own convenient time. He spends the rest of his time at his own firm serving a wide range of clients. He is required to use his equipment in the execution of his duties at Chembe Construction Limited, but he is assisted by the employees of the company, when performing his work at the company. Chembe Constructions Ltd has not employed anyone to replace Frank and therefore, his previous office has been kept for him and he uses it whenever he is performing the duties at the company.

Frank made a tax adjusted business profit amounting to K871,200, excluding any income from Chembe Constructions, for the period ended 31 December 2022. This profit figure is before deducting capital allowances but after all tax allowable adjustments have been made. During the year ended 31 December 2022 the following non-current assets were acquired:

Date	**Asset**	**Cost (K)**
20 April 2022	Bought Toyota Camry Car (2,000 cc)	160,000
15 May 2022	Bought Office Equipment	100,000
25 June 2022	Bought Office Buildings	400,0000
22 October 2022	Bought Fixtures & Fittings	60,000
31 October 2022	Bought Light Truck	180,000

The Toyota Camry car is used 25% for private purposes. All other assets are used wholly and exclusively for the purpose of the business.

Frank received the following other income from his investments in Zambia:

	K
Dividends from LUSE listed company	11,000
Commission	12,750
Bank deposit interest	9,000
Copyright royalties	42,500

The above amounts of investment income represent the actual amounts received by Frank. Withholding tax was deducted at source.

Chembe Constructions Limited was recently visited by the Zambia Revenue Authority (ZRA) tax auditors who queried Frank's self-employed status, in relation with the two year contract he signed with the company on 1 May 2022.

Required:

(a) Explain the reasons why the ZRA tax auditors have queried Frank's self- employed status. (5 marks)

(b) Explain the factors Chembe Constructions and Frank would use to defend his self-employed status of Frank. (5 marks)

(c) Assuming that Frank is held to be self-employed in relation to the contract he signed with Chembe Constructions Ltd on 1 May 2022:

(i) Calculate the amount of the tax the adjusted business profit for the period ended 31 December 2022. (6 marks)

(ii) Calculate the amount of income tax payable by Frank for the tax year 2022. (9 marks)

[Total: 25 Marks]

QUESTION FOUR

For the purposes of this question, you should assume that today's date is 30 December 2022 and that the ceiling for the purposes of NAPSA contributions is K293,232.

George Yusuf is employed at GHB International Plc, a company resident in a country known as CentralLand. The currency of CentralLand is the CentralLand Dollar (CL$). On 1 July 2022, GHB International Plc acquired 80% of the issued equity shares of DHT Plc, a Zambian resident company engaged in mining. Yusuf was appointed as the Chief Finance Officer of DHT Plc and signed a three-year renewable contract commencing on 1 August 2022. He arrived in Zambia on 25 July 2022, to take up the appointment.

George is entitled to a monthly basic salary of K70,000 and transport allowance of 15% of the basic salary. He is accommodated in a company owned house for which he pays no rent. If this property was let out, the company could have charged gross rentals of K16,000 per month. The house was acquired in July 2022 at a cost of K2,100,000. The company pays for all house maintenance expenses. During the year ended 31 December 2022, the company incurred utility expenses amounting to K2,800 per month and paid the wages of his house maid amounting to K3,000 per month, from 1 August 2022.

The company pays life assurance premiums amounting to K800 per month on his behalf. George uses his privately owned Toyota Landcruiser Car in the performance of his duties of employment. He bought the car upon his arrival in Zambia at a cost of K400,000. It has been agreed with the Commissioner General that his employment use of the car amounts to 60% of the total mileage, with the remainder being private mileage.

George made the following payments from the time of arrival up to 31 December 2022:

	K
Motor car running expenses	31,200
Professional subscription	8,900
Donation to political party	17,000

DHT Plc deducted Pay as You Earn from his salary of K121,838, employee's NAPSA contributions at the rate of 5% of his gross employment earnings and employee's National Health Insurance Management Authority (NHIMA) Contributions at the rate of 1% of his basic salary.

Additionally, DHT Plc will pay employer's NAPSA contributions at 5% of his gross employment earnings and employer's NHIMA contributions at a rate of 1% of his basic salary.

George had made some investments whilst in CentralLand. In December 2022, he received the following investments income from these investments:

	CL$
Rental income	12,800
Dividends	6,020
Fixed deposit interest	2,800

The amounts of investment income were all credited to his bank account with his Zambian bank. The rental income is net of withholding tax deducted in CentralLand at the rate of 20% while dividends and fixed deposit interest are net of withholding tax deducted in CentralLand at the rate of 30%.

The average exchange rate for the year ended 31 December 2022 was K17.00 to CL$1 and should be used where applicable. There is no double taxation convention between Zambia and CentralLand. Credit is available when computing Zambian income tax for any foreign tax paid in CentralLand.

Required:

(a) Advise George as to whether he will be regarded as resident in Zambia for income tax purposes for the tax year 2022. Your answer should include an explanation of the factors used to establish the resident status of individuals. (3 marks)

(b) Explain the meaning of domicile and how it affects the tax position of an individual. (3 marks)

(c) Compute the amount of income tax and NAPSA contributions payable by George for the tax year 2022. (19 marks)

[Total: 25 Marks]

END OF PAPER

D4 PESRSONAL TAXATION

SUGGESTED SOLUTIONS

SOLUTION ONE

Peter Kapatu
Income tax payable for tax year 2022

	K	K
Salary (K720,000 x 8/12)		480,000
Medical allowance (K5,200 x 8)		41,600
Lunch allowance (K1,400 x 8)		11,200
Entertainment allowance (K4,000 x 8)		32,000
Ancillary expenses (K12,900 x 8)		103,200
Transport allowance (K480,000 x 8%)		38,400
School fees allowance		10,000
Investment Income		
Royalties (K129,200 x 100/85)		152,000
		868,400
Less:		
Donations to approved Charity	15,500	
Professional subscription	6,800	
		(22,300)
Taxable income		846,100
½		
Income tax computation		
First K54,000 @ 0%		0
Next K3,600@ 25%		900
Next K25,200@ 30%		7,560
Balance of K763,300 @ 37.5%		286,238
		294,698
Less:		
WHT- Royalties (K152,000 x 15%)		(22,800)
Income tax payable		271,898

(b) (i) Conditions that must be met before share option scheme is approved by the Commissioner General.

- The scheme must be established in Zambia and the employer must be carrying on business wholly or partly in Zambia.
- The scheme should provide for the participation of all eligible employees (including directors).
- An employee participating in the scheme should not acquire more than one filth (20%) of the shares to be issued under the scheme.
- Only ordinary shares of the company may participate in the scheme.
- The scheme entitles an employee to acquire a set number of shares at a fixed price.
- The employee must be restricted to a set period of time to use an option to buy shares.
- The employees must be citizen or permanent residents of Zambia regardless of where they perform their duties.

(ii) The procedure for approval of share option scheme

- The procedure for the approval of a share option scheme starts with the company preparing the constitution and scheme rules, whilst referring to the conditions for approval.
- Once these have been prepared, the company must make an application for approval to the Commissioner General. The application must be in writing and must be accompanied by copies of the constitution and scheme rules.
- Upon receiving the application, the Commissioner General reviews the constitution and scheme rules to determine whether all the conditions for approval have been satisfied.
- The Commissioner General would then grant the approval and communicate in writing that the scheme has been approved, stating the tax year from which the approval applies for the first time. Where the Commissioner General does not grant the approval, he will communicate to the applicant in writing and the company may later re-apply.

(iii) Tax benefits for Uni plc:

- The cost of incurred by the company in setting up and administering the scheme will be allowable.

- Any income the company will generate from scheme will be allowable when computing the taxable profit of the company.

- No PTT will arise on the transfer of shares from the scheme.

SOLUTION TWO

(a) **Michael**

Michael will be required to pay rental income tax (turnover tax on rental income), as he will generate income from letting out of real property throughout the tax year 2022. Income generated from letting out of real property is chargeable to rental income tax.

Tatenda

Tatenda will be required to pay turnover tax. This is because she will be carrying on a business whose annual turnover will be less than K800,000.

Turnover tax applies to any person carrying on a business with an annual turnover of K800,000 or less and any person whose income consists of amounts, which are subjected to withholding tax, where withholding tax is not the final tax.

Tatenda will therefore required to pay turnover tax at the rate of 4% of the monthly turnover within14 days after the end of each month throughout the tax year 2022.

Jacob Chalwe

Jacob will be individual carrying on businesses for the transportation of public passengers for reward and therefore will be required to pay presumptive taxes for transporters. He will not be required pay income tax on the profits he will generate in the tax year 2022 from the business.

The amount of presumptive taxes payable will be fixed estimated amounts based on the seating capacity of the motor vehicles he will use in the transportation business.

(b) COMPUATION OF TAX PAID BY

(i) Michael

Rental income received by both individuals, is chargeable to Turnover Tax at the rate of 4% if the rental income is K800,000 per annum or less. Where the rental income for an individual or a company exceeds K800,000 per annum, then it is subjected to tax at the rate pf 12.5%. annum.

(ii) COMPUTATION OF ANNUAL RENTAL INCOME

Property	Total
	K
<u>3 bedroomed houses</u>	
(K15,000 x 2 x 12)	360000
<u>2 bedroomed flats</u>	

(K9,500 x 6 x 12)	684000
Retail shops	
(K4,000 x 8 x 12)	384,000
	1,428,000

Since the annual rental income will be above K800,000, Michael will be required to pay rental income tax at the rate of 12.5% of the gross monthly rental income.

The amount of the monthly rental income tax will be:

K1,428,000/12 x 12.5% =K14,875

This amount should be paid by the 14th day following the end of each month

The total amount of rental income he will be required to pay for the tax year 2022 will therefore be:

K14,875 x 12 months

= K178,500

(ii) Tatenda

Tatenda will pay turnover tax at the rate of 4% of the gross monthly turnover from the business without deducting any business expenses.

Since the turnover will be generated evenly throughout the year, the amount of monthly turnover will be:

1/12 × K540,000 = K45,000.

The monthly turnover tax will be computed as follows:
K45,000 × 4% = K1,800.

This amount will be paid by the 14th day following the end of each month every throughout the tax year 2022

The total amount of turnover tax that will be paid in the tax year 2022 is:

K1,800 x 12 = K21,600

(ii) Jacob Chalwe

A tax payer can opt to pay presumptive taxes quarterly or annually. Most tax payer's general opt to pay the taxes quarterly. Presumptive taxes are not time apportioned where a vehicle is operational for only part of a quarter. The total amount of presumptive tax relating to that quarter will still be paid in full.

The amount of presumptive taxes Jacob will be required to pay will be computed
as follows:

Tata Bus

The bus will be brought into use on 19 February 2022 and therefore it will be operational in all of the four quarters of the year. The amount of presumptive tax arising will be:

K2,700 x 4 = K10,800

Hiace

The Hiace bus will be brought into use on 13 April 2022 and therefore will be operational in three quarters in the tax year. The amount of presumptive to be
paid will be:

K540 x 3 = K1,620

Rosa bus

The Rosa bus will brought into use on 23 August 2022 and therefore will be operational in two quarters of the year

The amount of presumptive paid is:

K1,620 x 2 = K3,240

The total amount of presumptive tax payable by Jacob in the tax year 2922 will
therefore: K10,800 + K1,620 + K3,240 = K15,660.

SOLUTION THREE

(a) The following are the reasons why the Zambia Revenue Authority have queried Frank's self-employed status:

(1) There are stipulated times he is required to report at Chembe Construction. This shows that Frank is controlled by Chembe, therefore he is an employee.
(2) Frank is assisted by the other staff employed by Chembe Construction Limited. This shows that he has no right to subcontract.
(3) Chembe Construction Limited has not employed anyone to replace Frank. This shows that he is still an employee of the company.
(4) He uses the office that he previously occupied and uses it whenever he is performing the duties at Chembe Construction Limited. This simply means that he is told where the duties are to be performed from.
(5) Frank is paid on a monthly basis just like other employees are paid. This shows that he is entitled to a salary.

(b) The following are the reasons Chembe Construction and Frank would use to defend his self-employed status:

(1) Although Chembe construction Limited has stipulated the times Frank is required to report, he has the right to change the timings to his convenience. This shows that he is not controlled by Chembe Construction Limited.
(2) Frank has signed a two-year contract with Chembe Construction Limited specifying the beginning and end of the contract.
(3) He is paid an agreed fixed contract price, even though it is paid on a monthly basis. This shows that he is not entitled to a salary like employees.
(4) He uses his own tools and equipment when performing the duties at Chembe Construction Limited which shows that he is self-employed.
(5) Frank does not exclusively work for Chembe Construction Limited. He has a wide range of clients.

(c) If Frank is held to self-employed

(i) COMPUTATION OF TAX ADJUSTED BUSINESS PROFIT FOR THE YEAR ENDED 31 DECEMBER 2022

	K	K
Business profit		871,200
Less:		
Capital allowances:		
Toyota Camry car		
(K160,000 x 20% x 75%)	24,000	
Office equipment		
(K100,000 x 25%)	25,000	
Office building		
(K400,000 x 2%)	8,000	
Fixtures & Fittings		
(K60,000 x 25%)	15,000	
Light truck		
(K180,000 x 25%)	45,000	

	(117,000)
Adjusted business profit	754,200

(ii) FRANK'S

PERSONAL INCOME TAX PAYABLE FOR THE TAX YEAR 2022

	K
Adjusted business profit	754,200
Add:	
Income from Chembe Construction	
(K30,000 x 8)	240,000
Commission (K12,750 x 100/85)	15,000
Royalties (K42,500 x 100/85)	50,000
Taxable income	1,059,200
Income Tax	
First K54,000 @0%	0
Next K3,600 x 25%	900
Next K25,200 @30%	7,560
Excess K976,400 @ 37.5%	366,150
Income tax liability	374,610
Less:	
WHT- Commission (K15,000 x 15%)	(2,250)
WHT- Royalties (K50,000 x 15%)	(7,500)
Income tax payable	364,860

SOLUTION FOUR

(a) An individual is regarded as a Zambian resident if that individual is physically present in Zambia for more than 183 days excluding the date of arrival and departure.

An individual is also regarded as a resident on the date of arrival if he/she is expected to be in Zambia for the purpose that will take more than twelve (12) months or comes to Zambia with intentions of establishing permanent residence in Zambia.

Georgef will be regarded as a resident in Zambia in the tax year 2022, even though he was in Zambia for less than 183 days. This is so because George came in Zambia to take up employment for a three (3) year contract.

(b) Domicile means a place an individual refers to as his/her permanent home. An individual is generally domiciled to a place of birth. This means that individuals are domiciled in a country where they were born.

However, an individual can denounce his/her domicile of origin in order to acquire the domicile of his/her choice.

The domicile status of an individual may only affect the tax position of that individual if he/she has sources of income situated in foreign countries.

(c) GEAORGE YUSUF

PERSONAL INCOME TAX COMPUTATION FOR THE TAX YEAR 2022

	K
Zambian income	
Basic salary: K70,000 x 5	350,000
Transport allowance: K350,000 x 15%	52,500
Utility expenses: K2,800 x 5	14,000
House maid wages: K3,000 x 5	15,000
Life assurance premiums: K800 x 5	4,000
	435,500
Foreign income	
Dividends: CL$6,020 x 100/70 x K17.00	146,200
Fixed deposit interest: CL$2,800 x 100/70 x K17.00	68,000
	649,700
Less:	
Professional subscription	(8,900)
Capital allowances: K400,000 x 20% x 60%	(48,000)
Motor car running expenses: K31,200 x 60%	(18,720)
Taxable income	574,080
Income Tax	
First K54,000 @0%	0
Next K3,600 @25%	900
Next K25,200 @30%	7,560
Excess K491,280 @37.5%	184,230
	192,690

Less:	
Pay as you earn	(121,838)
Double taxation relief	
Dividends (W1)	(43,860)
Fixed deposit interest (W2)	(20,400)
Income tax payable	6,592
Employee's NAPSA contributions	
K293,232 x 5/12 x 5%	6,109

Workings

Double taxation relief

(1) Dividends

Foreign tax paid: K146,200 x 30% = K43,860

Equivalent Zambian tax

$\frac{\text{Gross foreign income}}{\text{Total assessable income}} \times \text{Zambian tax charge}$

$\frac{K146,200}{K574,080} \times K192,690$

= K49,072

The double taxation relief is, therefore, K43,860 because it the lower.

(2) Interest

Foreign tax paid: K68,000 x 30% = K20,400

Equivalent Zambian tax

$\frac{K68,000}{K574,080} \times K192,690$

= K22,824

The double taxation relief is, therefore, K20,400 which is the lower.

END OF SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D5 : INTERNATIONAL TAXATION

THURSDAY 15 DECEMBER 2022

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

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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 2022 Examinations

Income Tax

Standard personal income tax rates

Income band	Taxable amount	Rate
K1 to K54,000	first K54,000	0%
K54,001 to K57,600	next K3,600	25%
K57,601 to K82,800	next K25,200	30%
Over K82,800		37.5%

Income from farming for individuals

K1 to K54,000	first K54,000	0%
Over K54,000		10%

Company Income Tax rates

On income from manufacturing and other	30%
On income from farming	10%
On income of Banks and other Financial Institutions	30%
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

Range of Norm Price	Mineral Royalty Rate
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

Type of mineral	Mineral Royalty Rate
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%

Industrial Buildings:

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

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

Wear and Tear Allowance	10%
Initial Allowance	10%

Commercial Buildings
Wear and Tear Allowance 2%

Farming Allowances

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

Presumptive Taxes

Turnover Tax 4%

Presumptive Tax for Transporters

Seating capacity	Tax per annum	Tax per day
	K	K
From 64 passengers and over	12,960	35.50
From 50 to 63 passengers	10,800	29.60
From 36 to 49 passengers	8,640	23.70
From 22 to 35 passengers	6,480	17.80
From 18 to 21 passengers	4,320	11.80
From 12 to 17 passengers	2,160	5.90
Less than 12 passengers and taxis	1,080	3.00

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

	Aged 2 years but below 5 years		Aged 5 years and over	
Motor vehicles for the transport of ten or more persons, including the driver	**Customs duty K**	**Excise duty K**	**Customs duty K**	**Excise duty K**
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

	Aged 2 years but below 5 years		Aged 5 years and over	
Motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars	**Customs duty**	**Excise duty**	**Customs duty**	**Excise duty**
	K	**K**	**K**	**K**
Sedans				
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
Hatchbacks				
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 years but below 5 years		**Aged 5 years and over**	
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, **with spark ignition internal combustion piston engine**	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, **with spark ignition internal combustion piston engine**	37,086	28,432	13,907	10,662

K2,000

Surtax
On all motor vehicles aged more than five (5) years from year of manufacture

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%

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%
Excise Duty:	
Percentage of Value for Duty Purposes for Excise Duty Purposes	0%

Attempt all FOUR (4) questions.

QUESTION ONE

(a) Explain two (2) reasons for taxing residents on their worldwide income in a country such as the Republic of Zambia. (4 marks)

(b) Explain what is meant by Globalisation and its four (4) associated risks on the Zambian economy. (6 marks)

(c) Frank has been appointed as a High Commissioner to Zimbabwe. However, he is concerned about the tax implications of the appointment and has sought advice from you, regarding the tax treatment of Foreign Missions.

Required:

Explain the tax treatment of Foreign Missions. (5 marks)

(d) Joana was born in a foreign country and came to Zambia to take up employment with a Zambian resident company as a Receivables Accountant on a three (3) year contract that commenced on 1 January 2022. During the year ended 31 December 2022, she was entitled to an all-inclusive salary amounting to K240,000 per annum.

She was entitled to a bonus of 5% of the receivables collected. During the year ended 31 December 2022, she collected receivables amounting to K800,000.

Joana holds shares in companies resident in a foreign country. During the year ended 31 December 2022, she received dividends amounting to K36,000 net of withholding tax deducted and paid to tax authorities in a foreign country. Withholding tax on dividends in a foreign country is charged at 10%.

During the year ended 31 December 2022, pay as you earn deducted from her emoluments amounted to K58,000.

There is no double taxation convention between Zambia and the foreign country from which the dividend was received.

Required:

Calculate the amount of income tax payable by Joana for the tax year 2022.

(10 marks)

[Total 25 Marks]

QUESTION TWO

(a) Most economies are members of the regional trade blocs known as Regional Economic Groupings. Advocates of world free trade oppose these groupings because they believe that they only encourage regional as opposed to global free trade.

Required:
Explain what is meant by Regional Economic Groupings and state four (4) disadvantages of Regional Economic Groupings. (10 marks)

(b) Tax crimes, money laundering and other financial crimes threaten the strategic, political and economic interests of both developed and developing countries. They also undermine citizens' confidence in their governments' ability to get taxpayers to pay their taxes and may deprive governments of revenues needed for sustainable development. Most companies involved in tax evasions and money laundering are cross border mergers. A self-assessment diagnostic tool, Tax Crime Investigation Maturity Model (Maturity Model) was developed by the OECD and published in November 2020. The Maturity Model aims to help jurisdictions understand where they stand in the implementation of the OECD's Fighting Tax Crime: The Ten Global Principles, based on a set of empirically observed indicators. By setting out indicators for each increasing level of maturity, the model also charts out an evolutionary path for future progress towards the most cutting-edge practices in tax crime investigation across four levels of maturity: Emerging, Progressing, Established and Aspirational. Thus, the model has relevance for jurisdictions at all stages of development. It also serves as an important tool for measuring the impact of tax crime capacity building interventions, including those promoted by the Addis Tax Initiative and G7 Bari Declaration.

Required:

(i) Explain what is meant by money laundering and give any four (4) examples of its activities and one (1) impact it has on tax revenue. (5 marks)

(ii) Explain any three (3) recommendations made by the Financial Action Task Force (FATF) which the government of Zambia should implement to effectively deal with international tax avoidance and evasion involving money laundering. (6 marks)

(iii) Explain any two (2) advantages of Regional Economic Grouping. (4 marks)

[Total: 25 Marks]

QUESTION THREE

Foreign direct investment, as a form of international capital mobility, represents an important contributor to more efficient activities in the economy. Multinational companies invest in foreign countries through FDI. Usually, employees under these multinational companies are transferred from one country to another and make various investments in different countries. However, how their investment income is treated in each country depends on their status of residence.

Required:

(a) Explain the importance of Foreign Direct Investment (FDI) on the Zambian economy. (6 marks)

(b) List any four (4) main incentives the Zambian Government can give to encourage Foreign Direct Investment (FDI). (4 marks)

(c) State any seven (7) general principles contained in the Organisation for Economic cooperation and Development's (OECD's) model double taxation convention which gives guidance on how countries may avoid double taxation of income. (7 marks)

(d) Explain the tax treatment of the following types of income:

(i) Domestic investment income of non-residents (4 marks)

(ii) Domestic employment income of non-residents (4 marks)

[Total: 25 marks]

QUESTION FOUR

(a) An MNE may be in the form of a direct investment into production or business in a country by an individual or company of another country, either by buying a company in the target country or expanding operations of an existing business in that country.

Required:

List any eight (8) general types of incentives that multinational enterprises may benefit from. (8 marks)

(b) Explain what is meant by a tax haven. (3 marks)

(c) Distinguish between territorial taxation and residence taxation as systems of international taxation and explain briefly the inadequacies of each system. (4 marks)

(d) Granton Plc is a Zambian resident manufacturing company which is listed on the Lusaka Securities Exchange and owns 30% of the ordinary share capital of Maliland Plc, a company that is incorporated in Canada. Key management and commercial decisions that are necessary for the conduct of Maliland Plc's business are made in Canada in which the company operates. The following information is available in respect of the tax year 2022:

Transactions between Granton Plc and Maliland Plc

Granton Plc's tax adjusted trading profit from Zambian operations for the year ended 31 December 2022 was K3,260,000. This profit figure is after making the relevant adjustments for tax purposes but before making any adjustments for tax purposes in relation to the following transactions which took place between Granton Plc and Maliland Plc during the year:

1. On 1 January 2022, Granton plc made a loan of K5,200,000 to MalilandPplc, at an interest rate of 10% per annum. The loan is repayable in five (5) years. The commercial rate of interest on loans of this type in Zambia is 27% per annum.

2. Granton Plc regularly exports goods to Maliland plc which are used by Maliland plc as inputs in one of its production processes. All intra- company transfers of goods are made at a transfer price equal to the full cost of production of the supplying company. During the year ended 31 December 2022, Granton plc exported goods to Maliland Plc at a transfer price of K2,400,000 being the full production cost of the goods to Granton Plc. The goods were included at this amount in sales revenue in the financial statements of Granton plc.Granton plc sells these goods on the Zambian market at full production cost plus a mark-up of 30%.

3. Granton Plc received gross dividends of K450,000 from Maliland Plc on 31 December 2022. The dividends have not yet been accounted for by Granton Plc in its financial statements.

Explain the taxation implications for Granton Plc of:

(i) The loan made to Maliland Plc. (5 marks)

(ii) Export of goods to Maliland Plc at a transfer price equal to the company's full cost of production. (5 marks)

[Total: 25 Marks]

END OF PAPER

D5 INTERNATIONAL TAXATION

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) The reasons are as follows:

(1) Fairness – Zambia operates a progressive income tax rate scale for individuals because it is considered fair for higher-income individuals to pay proportionally more of their income as tax.

(2) Neutrality – If the progressive tax rates are the same in each country and each country taxes only on a source basis, an individual receiving income from each country may pay less tax in total to both countries than an individual who receives that same total amount of income from only one of the countries. Taxpayers are discouraged from splitting their incomes between countries in order to pay less tax in total to both countries than an individual who receives the same total amount of income only from one of the countries.

(b) Globalisation and its associated risks

Globalisation in simple terms is a situation where the world is considered as one big village in terms of economic practices.

Most economists agree that globalization provides a net benefit to individual economies around the world by making markets more efficient, increasing competition, limiting military conflicts and spreading wealth more equally round the world.

Risks of Globalization on the Zambian Economy

(1) **Interdependence:** Globalization leads to interdependence between nations, which could cause regional or global instabilities, if local economic fluctuations end up impacting a large number of countries relying on them.

(2) **National sovereignty:** some see the rise of nation states, multinational or global firms and other international organizations as a threat to sovereignty. Ultimately, this could cause some leaders to become nationalistic or xenophobic.

(3) **Equity Distribution:** The benefits of globalization can be unfairly skewed towards rich nations or individuals, creating greater inequalities and leading to potential conflict both nationally and internationally as a result.

(4) **Tariffs and other forms of protectionism:** The 2008 economic crisis led many politicians to question the merits of globalization. Since then, global capital flow fell from $11 trillion in 2007 to a third of that figure in 2012. While some of that may be, cyclical in nature, many countries implemented tariffs and other forms of protectionism designed to contain risk in their financial systems and make crises less damaging, although this was at a cost of forgoing the benefits we have so far seen.

(c) **Tax Treatment of Foreign Missions**

The purpose of the foreign office in any contracting state is to serve the diplomatic and Consular communities stationed in the local country, and to control their activities. All services are based on the principal of reciprocity.

In other words, no privileges are granted to foreign officials by the local country unless its diplomatic mission personnel receive the equivalent privileges in that country.

Foreign Office responsibilities include the Diplomatic Tax exemption Program, which provides sales and use, occupancy, food, airline, gas and utility tax exemptions to eligible foreign officials on assignment in a foreign country.

Tax exemption privileges for foreign diplomats, consular officers, and staff members are generally based on two treaties: the Vienna Convention on Diplomatic Relations and the Vienna Convention on Consular relations.

Not all foreign missions and their personnel are entitled to tax exemption, because this privilege is based on reciprocity and not all foreign countries grant such tax exemption to foreign embassies and their personnel.

(d) Joana

Income tax payable for the tax year 2022

	K
Salary	240,000
Bonus (K800,000 x 5%)	40,000
	280,000
Foreign income	
Dividends (K36,000 x 100/90)	40,000
Taxable income	320,000
computation	
First K54,000 @0%	0
Next K3,600 @25%	900
Next K25,200 @30%	7,560
Excess K237,200 @37.5%	88,950
Income tax liability	97,410
Less:	
PAYE	(58,000)
Double taxation relief (W)	(4,000)
Income tax payable	35,410

Workings

Double taxation relief on dividends

Foreign tax paid: K40,000 x 10% = K4,000

Zambian tax

Gross foreign income x Zambian tax charge
Total assessable income
K40,000 x K97,410
K320,000
= K12,176
The double taxation relief is therefore K4,000.

SOLUTION TWO

(a) **Meaning and Disadvantages of Regional Economic Groupings**

Regional Economic Grouping is a group of individual countries in a sub-region that come together for the purpose of achieving greater economic integration. It is often a regional intergovernmental organization where regional barriers to trade, (tariffs and non-tariff barriers) are reduced or eliminated among the participating countries.

The disadvantages include:

(1) Regionalism vs. Multinationalism: Economic groupings: Economic groupings bear an inherent bias in favour of their participating countries. For example, free trade agreement between Zambia and South Africa, has contributed to an increased flow of trade among these two countries. However, regional economies by establishing tariffs and quotas protect intra-regional trade from outside forces rather than pursuing a global trading regime within the regional economic group which includes the majority of the world countries, regional economic bloc countries contribute to regionalism rather global integration.

(2) Loss of Sovereignty: An economic grouping, particularly when it is coupled by a political union, is likely to lead to at least partial loss of sovereignty for its participants. For example, the European Union, started as a trading bloc in 1957 by the Treaty of Rome, has transformed itself into a far reaching political organization that deals not only with trade matters, but also with human rights, consumer protection, greenhouse gas emissions and other issues only marginally related to trade.

(3) Concessions: No country wants to let foreign firms gain domestic market share at the expense of local companies without getting something in return. Any country that wants to join a regional economic grouping must be prepared to make concessions. For example, in economic groupings that involve developed and developing countries, such as bilateral agreements between EU and African countries, the latter may have to allow multinational corporations to enter their home markets, making some local firms uncompetitive.

(4) Interdependence: Because economic groupings increase trade among participating countries, the countries become increasingly dependent on each other. A disruption of trade within an economic grouping as a result of a natural disaster, conflict or revolution may have severe consequences for the economies of all participating countries.

(b) (i) Money laundering and examples of its activities and the impact it has on tax revenue:

Money laundering 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.

Examples of money laundering activities

(1) Illegal arms sales, smuggling, and the activities of organized crime; including drug trafficking generates huge amounts of proceeds.

(2) Embezzlement, insider trading, bribery and computer fraud schemes can also produce large profits and create the incentive -gotten gains through money laundering.

Impact of money laundering on tax revenue

Money laundering makes it difficult for tax authorities to make accurate tax assessment and collect the correct taxes because taxable profits are not disclosed.

(b) (ii) The following are the recommendations made by the Financial Action Task Force:

(1) Demanding full transparency from financial institutions to provide all information concerning their activities in offshore supervisory authorities. In this respect financial institutions must be discouraged or, if necessary, prohibited from operating in territories that feature on the black lists of the FATF,OECD and World Bank's STAR(Stolen Assets Recovery Initiative).

(2) Establishing an interconnected and well integrated system of legal shareholder registries encompassing economic blocs and their member states, which will feature all necessary information concerning the shareholders of corporations operating within the economic blocs. This information on this registry should be available to authorities on demand and all corporations should be expected to provide information concerning their beneficial owner, at the moment they are asked or within a prescribed time frame.

(3) Creating a regularly-updated beneficial owner registry. Information of this kind should be either exchanged or coordinated across member states without any obstacle, so that instances of fiscal dumping would be avoided and variances in national legislation would not offer a window of opportunity to criminals and to those who make use of legal loopholes in a manner that is sophisticated, structured and systematic, suggesting that their intention is clearly malevolent, to abuse the system rather than conduct normal operations.

(4) Strengthening the requirements on the function of corporate directors. Directors should be held accountable for failing to take reasonable steps to prevent money-laundering, this should apply regardless of whether they are nominees or not.

(5) Reconsidering and reinforcing the rules regarding the due diligence that corporate registries and financial institutions should perform, always on an accurate risk-based approach, in an attempt to verify that all information pertaining to the beneficial ownership is correct and that no margin for fraudulent or corrupt activity is allowed.

(6) Introducing requirements for enhanced due diligence in cases where politically exposed people are identified, with the option of rendering void or otherwise limiting the transaction in question.

(7) Forming a Financial Intelligence Unit (FIU) whose role shall be to monitor, assess and analyse suspicious transaction reports and contracts. This entity could operate within the context of the Single Supervisory Mechanism that would be incorporated within the range of responsibilities of the Central Bank.

(b) (iii) Two advantages of Regional Economic Grouping.

1	Interdependence	The countries involved will end up depending on each other so much so that an upheaval in one of them could end up affecting most of them
2	National sovereignty	This is threatened by the rise in global firms and other international organisations
3	Equity distribution	The benefits of globalization can benefit rich countries more
4	Tariffs	These may impact more on other countries

SOLUTION THREE

(a) Importance of Foreign Direct Investment (FDI) on the Zambian economy.

(1) Improved economic growth due to the influx of capital and increased tax revenue.

(2) Improved structures that can bring about economic development.

(3) Improved corporate governance standards in the economy

(4) Brings about greater competition from new companies that lead to high productivity gains and efficiency.

(5) Brings about transfer of soft skills through training.

(6) FDI improves job creation in the economy

(7) Brings about advanced technology

(b) Incentives available to encourage FDI

(1) Low corporate tax and individual income tax rates.

(2) Giving tax holidays

(3) Other tax concessions

(4) Preferential tariffs

(5) Special economic zones

(6) Export processing zones(EPZ)

(7) Free land and land subsidies

(8) Relocation and expatriation

(9) Infrastructure subsidies

(10) Research and development support

(c) Principles in the OECD model double taxation convention

(1) Total exemption from tax is given in the country where income arises in the hands of certain persons such as visiting diplomats and teachers on exchange programmes.

(2) Preferential rates of withholding tax are applied to payments of investment income whereby the usual rate would be replaced by the rate of 15% or less.

(3) Double taxation relief is given to taxpayers in their country of residence by way of a credit for tax suffered in the country where income arises. This may be in the form of relief for withholding tax only or for underlying tax on profits out of which a dividend is paid as well.

(4) There is exchange of information so that tax evaders can be pursued internationally.

(5) There are rules to determine a person's residence and to prevent dual residency.

(6) There are rules which render certain profits taxable in only one country of the two contracting countries.

(7) There is a non-discrimination clause so that a country does not tax foreigners more heavily than its own nationals.

(d) Tax treatment of income

(i) Domestic investment income received by non-residents

In the case of investment income (e.g. dividends, interest and royalties) paid to non-residents, domestic law usually provides for flat-rate final withholding tax on the gross amount if they are sourced in the country and not attributable to a permanent establishment.

The tax rate is typically set at 20 -30 percent in developing and transition countries and then is often reduced to 10- 20 percent in tax treaties.
The rates are set at this level in domestic law to leave room for negotiating in the tax treaty process but usually to be below normal company tax rate in recognition of the fact that the tax is gross and does not take into account of expenses.
In tax treaty negotiations, developing and transition countries will come under considerable pressure from industrial countries to reduce withholding tax rates on interest and royalties to zero.
The argument used by industrial countries is that the gross tax often wipes out the entire profit with the result that the price charged to the resident or permanent establishment in the country is increased.

(ii) Domestic employment income received by non-residents

Employment income Employment income of non-residents is usually subject to the normal wage withholding tax and not to any special final withholding tax, despite the policy arguments that flat-rate withholding tax is the appropriate method for non-residents.
There are special collection problems where the employer is a non-resident, but tax treaties usually will protect the employee from taxation by the country where the work is performed in this event through the 183-day rule unless a permanent establishment bears the wages.
If the employee is present for 183 days or more, residence will usually arise and the more permanent connection with the country will facilitate withholding tax, although it is easy for temporarily present employees to slip through the net unless attention is given this issue by the tax administration.

Powers in the domestic law for the tax administration to prevent a person from leaving a country unless taxes are paid can provide some assistance to tax collection depending on how easy o difficulty it is to exit the country

SOLUTION FOUR

(a) The following are the incentives available to Multinational Enterprises:

(1) Low corporate tax rates

(2) Low individual tax rates

(3) Tax holiday

(4) Preferential tariffs on imports and exports

(5) Special economic zones

(6) Export processing zone (EPZ)

(7) Free land or land subsidies

(½ mark for each valid point up to 4 marks)

(b) A tax haven is a country with lenient tax rules or relatively low tax rate which is often designed to attract foreign investments. Tax havens are sometimes done in earnest for the benefit of the local residents.

However some countries have introduced harmful tax practices that encourage non-compliance with tax laws of other countries.

These may include, no or only nominal tax on the relevant income or usually capital, lack of effective exchange of information by strict secrecy rule and other protections against scrutiny by tax authorities thereby preventing the effective exchange of information on taxpayers benefiting from low tax jurisdiction, lack of transparency etc.

(c) Distinction between territorial taxation system and residence taxation system:

Territorial taxation is a system of taxation whereby only income that arises from sources that are within the country or deemed to be from within the country is taxable on all types of taxable persons.

The key problem argued for of territorial system of taxation is the ability to avoid taxation on portable income by moving it offshore. This results in loss of tax revenue by governments.

On the other hand, residency taxation is a system of taxation whereby all the income of persons who are resident in the country is taxable, irrespective of whether that income arise from within or from outside the country where the taxable persons are resident.

In this way, residents are taxable on their worldwide income while non-residents are taxable on certain income that arises from within the country.

(d) Taxation implications for Granton plc of:

(i) **The 10% loan made to Maliland plc.**

Charging interest at the rate of 10% on the loan of K5,200,000 made to Maliland plc will reduce Zambian taxable profits and hence Zambian company income tax of Granton plc.
A true commercial market rate of interest will therefore have to be substituted for the actual interest rate used. The commercial rate will be an arm's length one that would be charged if the parties to the transaction were independent of each other. This interest rate will be the commercial rate of interest on loans of this type in Zambia of 27% per annum.

Granton plc will be required to make the adjustment in its self-assessment income tax return. The adjustment would involve adding back to the profit the difference between the commercial rate of interest on the loan and the actual rate of interet used. The amount of profit to be added back will be;
(27% - 10%) x K5,200,000 = K884,000.

(ii) **Exporting goods to Maliland plc.**

Exporting the goods to Maliland plc at full production cost will reduce Zambian trading profits and hence Zambian company income tax.

A true market price will therefore have to be substituted for the actual transfer price used. The market price will be an arm's length one that would be charged if the parties to the transaction were independent of each other.
This price will be the market price at which Mfuwe normally sells the goods on the open market. Granton plc will be required to make the adjustment in its self-assessment income tax return.
The adjustment would involve adding back to the trading profit the difference between the market price and the actual transfer price used. The amount of profit to be added back will be K720,000 (i.e. 30% x K2,400,000)

END OF SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D6 : TAX AUDIT AND INVESTIGATIONS

MONDAY 12 DECEMBER 2022

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

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question.

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 2022 Examinations

Income Tax

Standard personal income tax rates

Income band	Taxable amount	Rate
K1 to K54,000	first K54,000	0%
K54,001 to K57,600	next K3,600	25%
K57,601 to K82,800	next K25,200	30%
Over K82,800		37.5%

Income from farming for individuals

K1 to K54,000	first K54,000	0%
Over K54,000		10%

Company Income Tax rates

On income from manufacturing and other	30%
On income from farming	10%
On income of Banks and other Financial Institutions	30%
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

Range of Norm Price	Mineral Royalty Rate
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

Type of mineral	Mineral Royalty Rate
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%

Industrial Buildings:

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

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

Wear and Tear Allowance	10%
Initial Allowance	10%

Commercial Buildings

Wear and Tear Allowance	2%

Farming Allowances

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

Presumptive Taxes

Turnover Tax 4%

Presumptive Tax for Transporters

Seating capacity	Tax per annum	Tax per day
	K	K
From 64 passengers and over	12,960	35.50
From 50 to 63 passengers	10,800	29.60
From 36 to 49 passengers	8,640	23.70
From 22 to 35 passengers	6,480	17.80
From 18 to 21 passengers	4,320	11.80
From 12 to 17 passengers	2,160	5.90
Less than 12 passengers and taxis	1,080	3.00

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

	Aged 2 years but below 5 years		Aged 5 years and over	
Motor vehicles for the transport of ten or more persons, including the driver	**Customs duty K**	**Excise duty K**	**Customs duty K**	**Excise duty K**
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

	Aged 2 years but below 5 years		Aged 5 years and over	
Motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars	**Customs duty**	**Excise duty**	**Customs duty**	**Excise duty**
	K	**K**	**K**	**K**
Sedans				
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
Hatchbacks				
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 years but below 5 years		**Aged 5 years and over**	
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, **with spark ignition internal combustion piston engine**	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, **with spark ignition internal combustion piston engine**	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%

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%
Excise Duty:	
Percentage of Value for Duty Purposes for Excise Duty Purposes	0%

Attempt All FOUR (4) Questions .

QUESTION ONE

Chikondi is a fresh graduate from the university, he has recently been engaged by Zambia Revenue Authority (ZRA).One of his first tasks is to accompany a group of officers to carry out a Tax investigation of a client. Chikondi, has approached you as senior member of the Tax investigations team seeking some clarity on a number of issues as regards a Tax investigation.

Required:

(a) Explain the following tax audit terms:

(i) Single issue audits (2 marks)
(ii) Policeman theory (2 marks)

(b) Explain the reasons for a Tax investigation (6 marks)

(c) Explain the difference between a tax audit and a tax investigation. (6 marks)

(d) Explain the matters that an auditor should consider and their importance to the company's financial statements and internal controls. (9 marks)

[Total: 25 Marks]

QUESTION TWO

The ambit of tax audits includes, among other activities, the examination of financial statements and tax investigations related to but not restricted to family businesses. The financial statements would normally include Statements of Profit or Loss as well as the Statement of Financial Position for individuals and companies. A tax investigation is called upon so as to recover tax which could have not been charged or indeed undercharged in previous years of assessments and is normally carried on when tax evasion is suspected or by sampling. Family businesses can be in the form of one-man businesses or companies whose books and records may require to be examined to uncover any possible tax avoidance and evasion.

Required:

(a) State and briefly describe the nature of the sources of information an investigator may search for regarding hidden income by a taxpayer when dealing with transfers to connected persons, such as groups, related parties and family members.

(6 marks)

(b) Explain any two (2) differences between a system based and risk based approaches to a forensic investigation. (4 marks)

(c) Mwale Banda has run a small business for many years now but has not kept a full set of accounting records. He now needed to obtain a bank loan for the expansion of the business and as such had to prepare a forecast Statement of Profit or loss for the year ended 31 December 2022 using the following information:

Mwale Banda's business assets and liabilities were as follows:

As at	**1 Jan 2022**	**31 December 2022**
	K	K
Inventory	7,100	55,300
Account receivable	4,100	5,600
Accounts payable for purchases	8,100	9,200
Rent prepaid	450	550
Electricity accrued due	340	180
Balance at bank	3,100	2,800
Cash in hand	450	420
Van	10,000	7,500

The Original cost of the Van is K10,000.

(1) All takings have been banked after deducting the following payments

	K
Estimated Cash Drawings	8,100
Casual Labour	2,850
Purchase of goods for resale	2,600

(2) Bank payments during the year ended 31 December 2022 have been summarized as follows:

	K
Purchases	125,000
Rent	6,100
Electricity	1,800
Delivery Costs (Customers)	4,100
Casual Labour	7,200

(3) It has been established that a gross profit of 33½% on cost has been obtained on all goods sold.

(4) Depreciation on the van is charged at the rate 25% per annum on straight line basis.

Required:

(i) Prepare a computation of total purchases for the year ending 31 December 2022;

(2 marks)

(ii) Prepare a statement of profit or loss for the year ending 31 December 2022 in as much detail as possible; (10 marks)

(iii) Advise Mwale Banda, based on the answer to part (ii), on the amount of Income Tax payable for the Tax year 2022, giving reasons for your answer.
(3 marks)

[Total: 25 Marks]

QUESTION THREE

Natwimbe Mining Plc has in the recent past been the target by the Zambia Revenue Authority for suspected fraud activities in the company. The Managing Director of Natwimbe Mining Plc is aware that any suspicious activities in an Organization acts as a whistle blower and in most instances prompt the revenue authority to examine the company's records. He is therefore, aware that as a tax payer they are not only expected to pay the relevant taxes, but also perform other responsibilities required by law as well to minimise regular visits by the Zambia Revenue Authority. The revenue authority however, is planning to carry out a number of tax audits and investigations in the current year with the view to improve the tax collection and enhance compliance. For the charge year 2021,the Authority collected net revenue of K57.6 billion which was K1. 4 billion or 2.3 percent below the Parliament target of K59.0 billion. For the charge year 2022, the revenue authority managed to meet the parliament target way before its deadline. No doubt, to maintain this trajectory, there is need to broadening the scope of tax coverage, continued compliance drive by taxpayers, more aggressive and timely tax audits and investigations, and lots of emphasis on entities not currently contributing to the government treasury. In the interest of managing resources efficiently and also to ensure taxpayers are not inconvenienced by regular audit programes it is adviseable that audits are limited to the periods that have not recently been audited.

Required:

(a) Discuss five(5) deliberate actions that the Managing Director of Natwimbe Mining Plc should put in place to avoid regular tax audits and investigations by ZRA.

(5 marks)

(b) Explain any five (5) roles of the tax payer's audit programme. (10 marks)

(c) Explain why the auditor may be required to carry out tax Investigation in the period that has recently been audited. (3 marks)

(d) Explain the reasons for the introduction of separate reporting for capital expenditure for each mining company. (5 marks)

(e) Briefly justify losses indexation under Mines and Development Act No 7 of 2015 of the law of Zambia. (2 marks)

[Total: 25 Marks]

<u>QUESTION FOUR</u>

(a) A comprehensive and responsive Audit plan is key to the success and completion of an audit on time and provides a path to follow to ensure that the audit is performed effectively and efficiently.

Required:

(i) Explain the characteristics of an effective audit plan. (3 marks)

(ii) Explain Seven (7) Key Principles of Audit Techniques. (7 marks)

(b) The objective of Compliance Risk Management is to enable a Tax Administrator to accomplish the strategic objectives by facilitating management to make better decisions.

Required:

(i) Explain five (5) benefits of Compliance Risk Management. (5 marks)
(ii) Explain the legal benefits of Incorporation of a business entity. (5 marks)

(c) Explain the advantages of Preference shares to the Company. (5 marks)

[Total: 25 Marks]

END OF PAPER

D6 TAX AUDIT AND INVESTIGATIONS

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) Explanation of:

(i) Single issue audits –single issue audits are confined to one item of potential non-compliance that may be apparent from examination of a tax payer's return.

Given their narrow scope single issue audits typically takes less time to perform and can be used to review larger numbers of tax payers involved in similar schemes to conceal non- compliance.

(ii) Policeman theory-

This theory claims that the auditor is responsible for searching, discovering and preventing fraud.

However, more recently the main focus of auditors has been to provide reasonable assurance and verify the truth and fairness of financial statements.

(b) Reasons for a tax investigation:

- This might be because the tax agency has reason to believe that some aspect of the taxpayer's return or business accounts is wrong.
- For lack of submission of a tax return by a taxpayer who are in receipt of taxable income as this is also tax invasion.
- ZRA may have received a tip off.
- Some figures in the tax return may not tally with the ZRA information they have.
- The returns may have been sent late
- The tax investigation may be because of a dispute. This means that either the taxpayer or the ZRA does not agree with the amount of taxes paid or due.

(c) Differences between a tax audit and a tax investigation:

Tax audit:

- A tax audit is an examination of tax returns and its supporting books of accounts and any other related information.
- It is also an examination of whether a taxpayer has correctly assessed and reported their tax liability and fulfilled their obligations.
- Tax audits are more detailed and extensive

Tax investigation:

- Tax investigation is an in-depth examination process by ZRA in order to recover tax undercharged in previous years of assessment.
- It is carried out when a taxpayer is suspected of tax evasion or just by random sampling
- It will include a check that all documents that have been submitted to ZRA are correct and complete

(d) Matters of importance to the financial statements and internal control that an auditor should evaluate.

- Knowledge of the company's internal control over financial reporting obtained during other engagements performed by the auditor.
- Matters affecting the industry in which the company operates such as financial reporting practices, economic conditions, laws and regulations and technological changes.
- Matters relating to the company's business including its organisation, operating characteristics and capital structure.
- The effect of recent changes, if any, in the company its operations, or its internal control over financial reporting.
- The auditor's preliminary judgements about materiality, risk, and in integrated audits, other factors relating to the determination of material weaknesses.
- Control deficiencies previously communicated to the audit committee or management.
- Legal or regulatory matters that the company is aware of
- The type and extent of available evidence related to the effectiveness of the company's internal control over financial reporting
- Preliminary judgements about the effectiveness of the internal control over financial reporting.
- Public information about the company relevant to the evaluation of the likelihood of material financial statements misstatements and the effectiveness of the company's internal control over financial reporting.
- Knowledge about risks related r=to the evaluated as part of the auditor's client acceptance and retention evaluation.
- The relative complexity of the company's operations.

SOLUTION TWO

(a) Nature of the sources of information an investigator may search for regarding hidden income:

- Tax Returns (IT, VAT, PTT);
- Bank Accounts & Money Market Funds, Cancelled Cheques, ATM transactions;
- Lifestyle Analysis, Offshore Accounts;
- Cash flow procedures in a business;
- Credit cards receipts for purchases;
- Loan applications & personal net worth statements at banks/CRB.

(b) TWO (2) differences between a system based and risk based approaches to a forensic investigation.

- A risk based audit refers to the application of audit techniques which are responsive to risk factors in a tax payer's environment, while a systems based approach uses audit techniques based on the assumption that the companies have internal control systems which will constitute or form a reliable base for the records and books for the tax payer.
- In a risk based approach, the auditor applies judgement to determine what level of risk pertains to different areas of a client's system and then comes up with appropriate audit tests.
- Risk based approaches can be cost effective as only selected areas that are based on risk analysis are undertaken, while system based , cover different systems internal controls such as IT system, financial accounting system or payroll systems.
- Risk based approaches can be used in forensic audits so as to come up with recommendations that can prevent future occurrence of detected risks. The objective of a systems based approach is to assess the effectiveness of internal controls in tax payer's accounting system

(c) Computations:

(i) Total purchases for the year ending 31 December 2022:

	K
Opening creditors	(8100
Payments cash	2,600
Payments bank	125,000
Closing creditors	9,200
Total purchases	**128,700**

(ii) Statement of profit or loss for the year ending 31 December 2022 in as much detail as possible:

	K	K
Sales (K80,500 plus 33.5% Mark Up)		107,468
Less: Cost of sales		
Opening Stock	7,100	
Purchases	128,700	
Less: Closing Stock	(55,300)	
Cost of sales		(80,500)
Gross Profit		26,968
Expenditure:		
Rent (450+6,100-550)	6,000	
Casual Labour (2,850 +7,200)	10,050	
Electricity (180+1,800-340)	1,640	
Delivery Charges	4,100	
Depreciation (25% of K10,000)	2,500	
Total expenses		(24,290)
NET PROFIT		**2,678**

(iii) Advise to Mwale Banda

Mwale Banda was required to pay turnover tax for the year 2022 because her annual turnover was not more than K800,000.

Turnover tax = K107,468 X 4%=K4,299. This should have been paid on a monthly basis. For electronic returns, payment should have been made not later than 14th day of the month following the month to which the tax relates (not later than 5th for the manual returns).

SOLUTION THREE

(a) Five(5) deliberate actions that the Managing Director should put in place to help Natwimbe Mining Plc avoid regular tax audits and investigations by ZRA:

Although you can never truly eliminate your chances of being targeted for a tax audit and investigations, there are several precautions that you can take to help you stay low on the taxman's radar:

1. Hire an accountant

The easiest way to attract ZRA's attention is by submitting tax returns either late or with errors. Any mistakes are likely to raise a tax inspector's suspicions that you're making further miscalculations.Having an accountant take care of your taxes eliminates this risk and significantly reduces your chances of being investigated.

2. Review your tax returns

Hiring an accountant is vitally important, but it doesn't give you automatic immunity from tax investigations. Ultimately, you are held responsible for the returns that your accountant files on your behalf, so you should make sure that you review them before your accountant submits them.

3. Explain anything out of the ordinary in your tax return

ZRA uses various methods to help identify targets for investigation, and significant fluctuations in terms of profits and/or expenses are likely to trigger datamining software and so arouse suspicions. Providing a note explaining any anomalies alongside a tax return will likely close down an investigation before it's started.

4. File accurate returns submissions

Making sure you file returns accurately and promptly is an effective way to reduce your risk of an investigation. Similarly - though not obligatory - honestly answering the personal service company question on your tax return proves to the taxman that you have nothing to hide.

5. Keep business costs and expenses sensible

ZRA has devised profiles of the average financial performance ratios of different types of businesses based on data collated from tax returns. If your profits, business costs or expenses deviate significantly from the norm for your sector, you may be asked to explain why.

7. Closing a company and open another

Contractors who frequently start up limited companies before closing them and starting another are often regarded as running away from various issues including tax obligations, making a tax investigation more likely.

8. Tip-offs

Some taxpayers find their tax affairs under review as a result of a tip-off from former spouses, partners or business associates. Be very careful when talking about your tax affairs and be sure not to give too much information away to anybody who you're not certain is entirely trustworthy.

(b) Five (5) roles of the tax payer's audit programme are as follows:

(1) **Promotion of voluntary compliance**-by reminding the tax payer of the risks of non-compliance and inculcating confidence in the tax payer, serious abuses can be minimized through dissemination of such tax information.

(2) **Detection of non-compliance** by tax payer-significant omissions and understatements can be detected through a tax audit programme.

(3) **Collection of tax information on behalf of the tax payer**: as details are gathered by the use of the audit programme, certain pattern of risk that emerges can be documented and analysed by the tax auditor .In the final end appropriate audit procedures as such as risk based procedures can be designed to deal with tax evasion /avoidance schemes that can prevent such abuses from happening in future.

(4) **Gather intelligent information**-the information on tax evasion and avoidance can be used to come up with counter measures such as strict inspections and anti- tax squads can be set up.

(5) **Educating tax payers**-audits can assist to clarify the application of the law for individual tax payers and to identify improvements required for record keeping and thus may contribute to improved compliance by the tax payers in the future.

(6) **identify areas of the law** that requires clarification-audits may bring to light areas of the tax law that are causing confusion and problems to large numbers of taxpayers and thus required further efforts by ZRA to clarify and educate the tax payer.

(c) Why the auditor may be required to carry out tax Investigation in the period that has recently been audited:

- When fraud is suspected even if the period in question has been audited an investigation should be carried out.
- When the taxpayer has been involved in tax evasion it does not matter whether the taxpayer has just been audited an investigation should still be carried out.

- When losses are continuously recorded ZRA would still want to carry out an investigation even if the audit was done in the period in question.

(d) Reasons for the introduction of separate reporting for capital expenditure for each mining company:

- In computing taxable income from mining activities, capital expenditure is tax deductible at a rate of 25% of the original expenditure incurred on a mine that is in regular operations.
- However, the expenditure is restricted (ring-fenced) to respective mines were separate and distinct mining operations are carried out by a mining company in mines which are not contiguous.
- There is an exception were even if the mining operations are separate and distinct and the mining operations are not contiguous, then a mining qualifies to be an existing as defined by Act. An existing mine is defined as:
- Any mine that has a production commencement date before 1 April 2008
- Any mine that is not in regular production but whose development commenced before 1 April 2008, or
- A combination of (a) and (b)
- Therefore capital expenditure relating to non-existing mines has to be reported in separate financial statement.
- This is meant to 'ring fence' costs of loss making mining from diluting profits from profit making mines of a company.

(e) Justification of losses indexation under Mines and Development Act No 7 of 2007 of the law of Zambia:

- The Income Tax Act provides for indexation of losses because mining companies are allowed to keep books of accounts in the United States Dollars where at least 75% of their gross sales is in form of foreign earnings earned from outside Zambia.
- Hence, in order to avoid exchange losses since their tax return is submitted in kwacha, indexation for capital allowances and losses is provided for.

SOLUTION FOUR

(a) (i) Characteristics of an effective audit plan.

- Flexibility to allow for unusual audit issues, adequacy of internal controls and adequacy of books and records.
- Alignment with any quality assurance framework
- A clear focus, with potential areas of concern noted during the preliminary review and audit procedures selected that will address the concerns identified.

(a) (ii) Key principles of Audit Techniques

- Accurate- they identify non-compliance, entail a correct interpretation of the law, and lead to correct assessment of liability.
- Efficiency- they minimize the compliance burden on the taxpayer and minimize the use of the revenue body's resources in terms of the outcome delivered.
- Objective- all decisions made are based on facts.
- Transparent- as issues are developed and fully documented in the work papers, these developments are generally discussed with the taxpayer during the course of the audit.
- Fair- technically accurate and procedurally correct in accordance with domestic laws and policies.
- Complete- the audit has a defined start and end point and the taxpayer knows when the audit process is complete.
- Defensible- the decisions made in the audit and the actual audit process can stand up to external scrutiny.
- Consistent –the same taxpayer circumstances should produce the same result regardless of which auditor undertakes the audit.

(b)(i) benefits of Compliance Risk Management.

- Achieves equal treatment of taxpayers.
- Focus the burden of audit to non-compliance taxpayers.
- Makes best use of the available human, financial and technical resources
- Increase the level of voluntary compliance of taxpayers.
- Adjust available resources to the level os risks
- Weigh the possibilities that a compliant taxpayer could become non-compliant

(b)(ii) legal benefits of Incorporation

- Protection of personal assets-
  One of the most important legal benefits is the safeguarding of personal assets against the claims of creditors and lawsuits. Sole proprietors and general partners in a partnership are personally and Jointly responsible for all liabilities of a business such as loans, accounts payable and legal judgements. In a corporation, however, stockholders, directors and officers typically are not liable for the company's debts and obligations. They are limited in liability to the amount they have invested in the corporation.
  Transferable ownership

Ownership in a corporation is easily transferrable to others, either in whole or in part.
Taxation-
Corporations are taxed at a lower rate than individuals are. Also they can own shares in other corporations and receive corporate dividends 85% tax free.

(c) Advantages of Preference shares to a Company.

- Dividends do not have to be paid in a year in which profits are poor, while this not the case with interest payments on long term debt (loans or debentures).
- Since Preference do not carry voting rights, they avoid diluting the control of existing shareholders while an issue of equity shares would not.
- Unless they are redeemable issuing preference shares will lower the company's gearing. Redeemable preference shares are normally treated as debt when gearing is calculated.
- The issue of preference shares does not restrict the company's borrowing power, at least in the sense that preference share capital is not secured against assets in the business.
- The non-payment of dividends does not give the preference share- holders the right to appoint a receiver, a right which is normally given to Debenture holders.

END OF SOLUTIONS