



POST GRADUATE DIPLOMA IN TAXATION

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PAPER PGDT 3: DIRECT TAXATION

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SERIES: PILOT PAPER 2025

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

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INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading and planning time. Use it to study the examination paper carefully so that you understand what to do in each question. **DO NOT** write in your answer booklet during this TIME. You will be told when to start writing.
2. This paper is divided into TWO sections: Section A: ONE Compulsory Question. Section B: FOUR (4) Optional Questions. Attempt any THREE (3) questions from section B.
3. The marks shown against the requirement (s) for each question should be taken as an indication of the expected length and the required depth of the answer.
4. Do NOT write in pencil (except for graphs and diagrams).
5. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
6. All workings must be done in the answer booklet.
7. Present legible and tidy work.
8. Graph paper (if required) is provided at the end of the answer booklet.
9. A Taxation Table is provided on pages 2, 3 and 4 of this question paper.
10. **DO NOT OPEN THIS QUESTION PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR.**

## **Taxation table (March, June, September and December 2025 Examinations)**

### **Income Tax**

#### **Standard personal income tax rates**

<b>Income band</b>	<b>Taxable amount</b>	<b>Rate</b>
K1 to K61,200	first K61,200	0%
K61,201 to K85,200	next K24,000	20%
K85,201 to K110,400	next K25,200	30%
Over K110,400	balance	37.0%

#### **Income from farming for individuals**

K1 to K61,200	first K61,200	0%
Over K61,200	balance	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%

### **Mineral Royalty**

#### **Mineral Royalty on Copper**

<b>Range of Norm Price</b>	<b>Mineral Royalty Rate</b>
First US\$3,999g	4% of norm value
Next US\$1,000	6.5% of norm value
Next US\$2,000	8.5% of norm value
Any balance	10% of norm value

#### **Mineral Royalty on other minerals**

<b>Type of mineral</b>	<b>Mineral Royalty Rate</b>
Gemstones	6% on norm value
Precious Metals	6% on norm value
Cobalt	8% on norm value

## **Capital Allowances**

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

Wear and Tear Allowance –	Standard wear and tear allowance	25%
	Wear and tear allowance if used in manufacturing and leasing	50%
	Wear and tear allowance if used in farming and agro-processing	100%

### **Non- commercial vehicles**

Wear and Tear Allowance	20%
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### **Industrial Buildings:**

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

### **Low Cost Housing**

**(Cost up to K100,000)**

Wear and Tear Allowance	10%
Initial Allowance	10%

### **Commercial Buildings**

Wear and Tear Allowance	2%
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### **Farming Allowances**

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

## **Presumptive taxes**

### **Turnover tax**

On first K12,000	0%
On turnover exceeding K12,000 and up K5,000,000	5%

### **Rental Income Tax**

On first K12,000	0%
From K12,001 to K800,000	4%
On income above K800,000	16%

**Presumptive Tax for Transporters**

<b>Seating capacity</b>	<b>Tax per annum K</b>	<b>Tax per quarter K</b>
From 64 passengers and over	15,552	3,888
From 50 to 63 passengers	12,960	3,240
From 36 to 49 passengers	10,368	2,592
From 22 to 35 passengers	7,776	1,944
From 18 to 21 passengers	5,184	1,296
From 12 to 17 passengers	2,592	648
Less than 12 passengers	1,296	324

**Property Transfer Tax**

Rate of Tax on Realised Value of Land, Buildings shares and Intellectual property	8%
Rate of Tax on Realised Value in respect of a Mining Right for an Exploration Licence	8%
Rate of Tax on Realised Value in respect of a Mining Right and Mineral Processing Licence	10%

## SECTION A: Compulsory Question

### QUESTION ONE

- (a) Mwamona Enterprises Ltd, a Zambian company involved in clothing retail business, had the following trading results for the year ended 31 December, 2025:

	Notes	K	K
Gross profit			860,000
Debenture interest	1	20,400	
Zambian dividends		<u>12,000</u>	
			<u>32,400</u>
			892,400
Expenses:			
Depreciation		46,200	
Salaries	2	286,000	
Legal and professional expenses	3	24,000	
Gifts and entertainment	4	31,600	
Fines	5	7,000	
Motoring expenses	6	35,600	
Donations	7	<u>20,000</u>	
			<u>(450,400)</u>
Net profit			<u>442,000</u>

### Notes

- 1 The debenture interest is net amount after deducting withholding tax at source.
- 2 The salaries include those paid to two (2) differently abled persons who have been employed by the company since 1 January 2024 on a permanent basis and are registered by the Zambia Agency for Persons with Disabilities.
- 3 The legal expenses comprise: K

Costs of preparation the income tax return	8,000
Costs in relation to advise on taxation liability	12,000
Legal fees in connection with recovery of loan from former staff	<u>4,000</u>
	<u>24,000</u>

- 4 Gifts and entertainment costs were:

	K
Entertainment of customers	23,500
Entertainment of staff	3,600
Gifts of Trade samples	4,500

- 5 These are the fines that were paid for breach of the law and these were: motor vehicle traffic offenses, K2,350, and penalties for late submission of tax returns K4,650.

- 6 Motoring expenses include:

	K
Lease payments for the car used by the Finance Manager	8,000
Director's car expenses of which 50% is in respect of private journeys	3,600

- 7 The donations were: K16,000 to UNIP a political party and K4,000 to an approved public benefit organisation.

#### Additional information

- The capital allowances for the year were K98,300.
- The company owns two cars, each with a cylinder capacity of 2,500 cc, which were bought for the directors two years ago. The cost of each car was K560,000.
- The company had carry forward trading losses of K300,000 incurred two years ago.

#### Required

- Calculate Mwamona Enterprises Ltd's adjusted business profit figure for the tax computation for the year 2025. **[16 marks]**
- Calculate the company Income Tax payable by Mwamona Enterprises Ltd for the year ended 31 December 2025. **[9 marks]**

- (b) Mr. Mwamfuli Mwange, a trader had a net profit of K130,800 for the year ended 31 December 2025. The net profit was arrived at after charging and crediting the following items:

**Expenditure**

- (i) Depreciation of fixed assets of K18,000. The fixed assets consist of plant that is used wholly for the purposes of the business.
- (ii) Bad debts which had been arrived at as follows:

	K
Bad debts written off	1,750
Increase in General bad debt provision	650
Decrease in specific bad debt provision	(700)
Charge to statement of profit or loss	<u>1,700</u>

- (iii) A fine for a speeding offence of K300. Mr. Mwamfuli was arrested for exceeding the prescribed speed limit while travelling to see a supplier
- (iv) K7, 500 was incurred on making good the office building. The office building was damaged by a flood in January 2025.
- (v) A charge of K21,500 was made in respect of staff wages.
- (vi) A penalty for late payment of income tax of K850 was charged in the statement of profit or loss.
- (vii) Expenditure of K25,000 incurred on a staff Christmas party was charged to the statement of profit or loss for the year. This expenditure was not budgeted for.
- (viii) Bank overdraft interest paid of K3,550.

**Income**

- (ix) K7, 300 of discounts received was credited to the statement of profit or loss.
- (x) A profit on the disposal of fixed assets of K8, 860 was credited to the statement of profit or loss.

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**Further information**

The balances on the assets qualifying for capital allowances as at 1<sup>st</sup> January 2025 were as follows:

	K
Toyota Corona car (25% private use by Mr. Mwamfuli)	6,000
Printing machine	8,000

The Toyota corona car was bought on 1 December 2023 for K13,500 while the printing machine was bought for K14,000, on 1<sup>st</sup> April 2024.

On 31<sup>st</sup> May 2025, Mr..Mwamfuli Mwange acquired another Toyota Premio car for K28,000. The car was to be used wholly and exclusively in the business.

**Required**

Calculate Mr. Mwamfuli Mwange's taxable business profits for the year ended 31<sup>st</sup> December 2025.

**[15 marks]**

**[Total = 40 marks]**

**SECTION B: Attempt any THREE (3) questions**



## QUESTION TWO

- (a) Mwaimwena Holdings Ltd. is acquiring a commercial property in Ndola for ZMW1,200,000. If the property's value is above ZMW1,000,000, a stamp duty of 2% is applicable. Calculate the total property transfer tax and stamp duty due upon the acquisition of the property.

**[6 Marks]**

- (b) Discuss the ethical considerations surrounding tax avoidance in Zambia. How can tax avoidance impact public perception of corporations?

**[7 Marks]**

- (c) Discuss the responsibilities that tax professionals have toward their clients and society in promoting ethical practices in direct taxation in Zambia.

**[7 Marks]**

**[Total 20 marks]**

## QUESTION THREE

Mr. Mwangala Ililonda who is married to Inonge Ililonda is employed by Sefula Limited at an annual basic salary of K157,500. In addition, he is also entitled to the following allowances:

	K
Uniform allowance per annum	1,500
Housing allowance per annum	8,790
School Children's allowance per child per annum	750

Mr. Mwangala Ililonda has three School going children in respect of whom he receives the allowances stated above.

In the tax year 2025, Mr. Mwangala Ililonda received the following cash amounts, in addition to his entitlements mentioned above:

	K
Labour Day award paid on 1 May 2025	4,500
Long service award paid on 30 June 2025	5,000

The expenses that Mr. Mwangala Ililonda incurred in the tax year 2025, in respect of which he wishes to make a claim for deduction against the emoluments are as follows:

	K
Purchase of his uniforms used when performing duties	1,250

Subscription to professional body relevant to employment	1,680
Golf club subscriptions	2,400
Donation to local approved Public Benefit Organisation (PBO)	1,000
NAPSA contribution	7,875
Contribution into employer's approved pension scheme	1,050
Income Tax paid under PAYE	35,424

Mr. Mwangala Ililonda bought a house in January 2025 and let it on a five-year lease at an annual gross rent of K24,000 payable monthly in advance. The first tenant took residence in the house on 1 November 2025.

Expenditure incurred on the house during November and December 2025 was as follows:

	K
Decorations and painting	900
Water	110
Electricity	200

Mrs. Inonge Ililonda is in business running a motor vehicle servicing business. The turnover for the year ended 31 December 2025 was K958,000 and the net profit as per accounts was K259,500.

The net profit figure was arrived at after charging the following expenses:

	K
Depreciation of fixed assets	1,250
Nominal salary for Mrs. Inonge Ililonda	5,000
General provision for bad debts	2,300
Repairs and renewals	8,850
Motor car running expenses	6,580

Repairs and renewals include the cost of partitioning the accounts office of K4,650 while the motor car running expenses were incurred on Mrs. Inonge Ililonda's motor car. It has been agreed with the Commissioner General that Mrs. Inonge Ililonda covered 25,000 kilometres in the car during the year ended 31 December 2025. Of the total mileage figure, 18,000 kilometres were covered while on business and the balance on private journeys.

Capital allowances on qualifying assets have been agreed at K11, 500 for the year ended 31 December 2025.

**Required**

Calculate the final amount of income tax payable by Mr. and Mrs. Ililonda for the tax year 2025. Your answer should include an explanation of the tax treatment of the income from letting of a house received by Mr. Mwangala in the tax year 2025

**[Total: 20 Marks]**

**QUESTION FOUR**

- (a) Zambian Company Income Tax is only charged on a company's profit if that company is resident in Zambia.

You are required to explain the two tests that the Zambia Revenue Authority will use to determine whether a company is resident in Zambia.

**[5 Marks]**

- (b) You are required to explain, with appropriate reasons, whether each of the following companies is resident in Zambia for taxation purposes.

- (i) Zambiri Tea Estates is a company that is engaged in the growing of tea. The company is incorporated in a country called Usindi but it has a branch in Zambia. The Board of Directors hold its weekly meetings in Zambia while they hold a meeting at least once in a year in Usindi.

**[3 Marks]**

- (ii) Vyalema Limited is a company that is incorporated in Zambia. The Board of Directors meets every week in a country called Mazombo where the company has several branches. In Zambia, the company has only the head office.

**[3 Marks]**

- (iii) Moussa Limited is a company that is incorporated in a country called Democratic Republic of Yundu. The company's Board of Directors holds its weekly meetings in a

country called Tundi. The company has the highest number of branches in Zambia than in Tundi and in the Democratic Republic of Yundu.

**[3 Marks]**

- (c) Mr Mubanga works for Lusaka youth project, as part of his conditions of services, he is entitled to a monthly basic salary of K10,000 and a 20% housing allowance.

Calculate the statutory payments payable by Mr. Mubanga monthly.

**[6 Marks]**

**[Total: 20 Marks]**

## **QUESTION FIVE**

- (a) Jane who has been in business for many years has always prepared her accounts for years ending on 31 March. After preparing accounts for the year ended 31 March 2025, she intends to change her accounting date to 31 August and by preparing accounts for the period of seventeen months ending 31 August 2026.

The recent tax adjusted profits have been as follows:

	Profit
	K
y/e 31.03.2025	88,800
p/e 31.08.2026 (Forecast)	170,000
y/e 31.08.2027 (Forecast)	89,000

### **Required**

Show the profits for income tax assessment for the tax years 2024, 2025, 2026 and 2027.

**[10 Marks]**

- (b) Aongola and Bayete are in partnership as property consultants preparing accounts to 31 December each year. On 1 September 2025 Selenga joined Aongola and Bayete as a new partner and the partnership agreement was changed.

The partnership agreement has been as follows:

	Aongola	Bayete
Period up to 31 August 2025:		
Annual salaries (K)	12,000	6,500
Share of balance	3	: 2

From 1 September 2025, the partnership agreement will be as follows:

	Aongola	Bayete	Selenga
Annual salaries (K)	8,000	9,000	10,000
Share of balance	5	: 3	: 2

The partnership's taxable profit for the year ended 31 December 2025 was K90,000.

### Required

Show how the partnerships profit for the year ended 31 December 2025 will be shared by the three partners and calculate the income tax payable by each partner.

**[10 Marks]**

**[Total: 20 Marks]**

## ANSWERS PILOT EXAM

### SECTION A

### SOLUTION ONE

(a)

**(i) Mwamona Enterprises Ltd's adjusted business profit figure for the tax computation for the year 2025**

	K
Net profit	442,000
Add:	
Depreciation	46,200
Legal costs on recovery on loan from former staff	4,000
Entertainment of customers	23,500
Motor vehicle traffic offenses	2,350
Penalties for late submission of tax returns	4,650
Donations to UNIP, a Political Party	16,000
Personal-to-holder car benefit (2 x K36 000)	<u>72,000</u>
	610,700
Less:	
Debenture interest received	(20,400)
Zambian dividend income	(12,000)
Relief for employing differently abled person (2 x K2,000)	(4,000)
Capital allowances	<u>(98,300)</u>
Adjusted business profits	<u>476,000</u>

**(ii) Mwamona Enterprises Ltd Income Tax Payable for tax year 2025**

	K
Adjusted Business profits	476,000
Less: Trading Losses c/f (restricted to 50% of K476,000)	<u>(238 000)</u>
Taxable business profits	238 000
Debenture interest received (K20,400 x 100/85)	<u>24,000</u>
Taxable income	<u>262,000</u>
Income Tax on chargeable income (30% x K262,000)	78,600
Less Income Tax already paid (WHT on debenture interest)	<u>(3,600)</u>
Income Tax payable	<u>75,000</u>

**(b) Mr. Mwamfuli Mwange**

**Computation of taxable business profits for the year ended 31 December 2025**

	K	K
Net profit as per accounts		130,800

Add		
Depreciation	18,000	
Increase in general bad debt provision	650	
Fine for speeding offence	300	
Income tax penalty	<u>850</u>	
		<u>19,800</u>
		150,600
Less		
Profit on disposal of fixed assets	8,860	
Capital allowances for the charge year (w1)	<u>11,125</u>	
		<u>(19,985)</u>
Taxable business profit		<u>130,615</u>

## Workings

### I. Capital allowances

	Value K		Capital allowance K
<b>- Toyota Corona Car</b>			
ITV b/f	6 000		
Wear & Tear allowance = 20% x K13 500	<u>2 700</u>	x 75%	2 025
ITV c/f	<u>3 300</u>		
<b>Printing Machine</b>			
ITV b/f	8 000		
Wear & Tear allowance = 25% x K14 000	<u>3 500</u>		3 500
ITV c/f	<u>4 500</u>		
<b>Toyota Premio Car</b>			
Cost	28 000		
Wear & Tear allowance = 20% x K28 000	<u>5 600</u>		5 600
ITV c/f	<u>22 400</u>		
<b>Total capital allowance claimed</b>			<u>11 125</u>

## SECTION B:

### SOLUTION TWO

(a) Total Property Transfer tax and Stamp duty

I. Determine the Property Transfer Tax:

- Property Transfer Tax Rate = 8%
- Purchase Price of the Property = ZMW 1,200,000
- Property Transfer Tax = Purchase Price × Property Transfer Tax Rate
- Property Transfer Tax = ZMW 1,200,000 × 8% = ZMW 1,200,000 × 0.08 = ZMW 96,000

2. Determine the Stamp Duty (if applicable):

- Since the property value exceeds ZMW 1,000,000, stamp duty is applicable.
- Stamp Duty Rate = 2%
- Stamp Duty = Purchase Price × Stamp Duty Rate
- Stamp Duty = ZMW 1,200,000 × 2% = ZMW 1,200,000 × 0.02 = ZMW 24,000

3. Calculate the Total Amount Due:

- Total Property Transfer Tax and Stamp Duty = Property Transfer Tax + Stamp Duty
- Total = ZMW 96,000 + ZMW 24,000 = ZMW 120,000

The total property transfer tax and stamp duty due upon the acquisition of the property by Mwaimwena Holdings Ltd. is ZMW 120,000.

(b) Tax avoidance refers to legally exploiting the tax system to minimize tax liabilities. Ethical considerations include:

- (i) **Legitimacy vs. Morality:** While tax avoidance is legal, it can be perceived as morally questionable if it exploits loopholes or undermines the intent of tax laws. Companies that aggressively avoid taxes may face criticism for prioritizing profits over social responsibility.
- (ii) **Impact on Public Services:** Tax avoidance reduces government revenue, potentially leading to underfunded public services such as healthcare and education. This can damage the social fabric and trust in the corporate sector.
- (iii) **Public Perception:** Companies seen as tax avoiders may face backlash from consumers and communities, impacting brand reputation. Consumers may choose to support businesses that contribute fairly to the economy.

Ethical tax practices should balance legal compliance with a commitment to social responsibility, fostering a positive public perception.



(c) Tax professionals play a critical role in shaping ethical behavior in direct taxation. Their responsibilities include:

1. **Providing Ethical Guidance:** Tax advisors should educate clients on the distinction between tax avoidance and evasion, emphasizing compliance with tax laws and ethical norms.
2. **Transparency:** They must encourage clients to disclose complete and accurate information to tax authorities, fostering trust and accountability.
3. **Avoiding Aggressive Strategies:** Tax professionals should refrain from promoting overly aggressive tax strategies that exploit loopholes, as these can harm the public interest and lead to reputational damage.
4. **Continued Education:** They must stay informed about changes in tax legislation and ethical standards to provide sound advice that reflects current best practices.

Tax professionals have a duty to uphold ethical standards, ensuring that their clients' tax practices contribute positively to society while maintaining compliance with the law.

### **SOLUTION THREE**

**Mr. Mwangala Ililonda**

**Personal Income Tax computation for the tax year 2025**

K

K

Employment Income:

Basic Salary		157,500
Housing allowance		8,790
School children's allowance (3 x K750)		2,250
Long service award		5,000
Uniform Allowance	1,500	
Purchase of uniforms	<u>(1,250)</u>	
Amount not spent on uniform purchase		<u>250</u>
		173,790
Less Allowable deductions:		
Professional subscription	1,680	
Donation to approved (PBO)	<u>1,000</u>	
		<u>(2,680)</u>
Total regular emoluments		171,110
Less exempt Income		<u>(61,200)</u>
Final Taxable Income		109,910
Personal Income tax		
20% X K24,000		4,800
30% X K25,200		7,560
37% x K60,710		<u>22,463</u>
		34,823
Less Income Tax already paid:		
Pay As You Earn		<u>(35,424)</u>
Income Tax refundable		<u>(601)</u>
.		

### **Inonge Ililonda**

#### **Personal Income Tax computation for the tax year 2025**

	K	K
Net profit as per accounts		259,500
Add:		
Depreciation	1,250	
Mrs. Ililonda's nominal salary	5,000	
General provision for bad debts	2,300	
Partitioning office	4,650	
Motor car expenses:		
(7,000/25,000 X K6,580)	<u>1,842</u>	
		<u>15,042</u>
		274,542
Less capital allowances		<u>(11,500)</u>
Business profits		263,042
Less exempt income		<u>(61,200)</u>
Taxable Income		<u>201,842</u>
Income tax payable:		
20% X K24,000		4,800
30% X K25,200		7,560
37% x K152,642		<u>56,478</u>

Income Tax payable

68,838

The tax treatment of income from letting of the house purchased during the year would be as follows:

The rental income would not be included in the personal income tax calculation as Turnover tax (TOT) would have been paid on the rental income. Mr. Illilonda's income from the letting of house for 2025 will be subject to Turnover tax at 4% after deducting the exempt amount of K12,000 since the annual rental income is not more than K800,000.

#### **SOLUTION FOUR**

- (a) The two tests that the Zambia revenue Authority would use to determine whether a company is resident in Zambia for income tax purposes are:

- (i) A company is resident in Zambia if it is formed or incorporated in Zambia,
- (ii) If not incorporated in Zambia, a company is still Zambian resident if the place of effective management of the company's business or affairs is in the Republic for that year.

The place of effective management (POEM) is the place where key management and commercial decisions that are necessary for the conduct of a company's business as a whole are made or where they are predominately made

In summary, a company's residence status for taxation purposes is determined using the incorporation test. If a company is not incorporated in Zambia, its residence is then determined with reference to the place of effective management of the company's business or affairs takes place.

- (b) The residences of the various companies, determined using the criteria explained in part (a) above are as follows:
  - (i) Zambiri tea Estates is resident in the country of Usindi as that is where it is incorporated. This is despite the fact that the board of directors holds its meeting in Zambia, in most cases.
  - (ii) Vyalema Limited is resident in Zambia as that is the country where it is incorporated. This is despite the fact that its business operations are carried out in a country called Mazombo.
  - (iii) Moussa Limited is resident in the Democratic Republic of Yundu as that is where it is incorporated. This is despite the fact that the company's Directors hold weekly meetings in Tundi and that the company's major business operations are in Zambia.

**(c) Statutory Payments made by Mr. Mubanga Monthly**

	K
<u>Statutory Payments</u>	
NAPSA [5% x K12,000 (w1)]	600

NHIMA [1% x K10,000 (w1)]	100
PAYE Tax (w2)	<u>2,066</u>
<b>Total Statutory Payments per month</b>	<b><u>2,766</u></b>

## Workings

### 1. Monthly earnings

	<b>K</b>
Basic Pay	10,000
Add: 20% housing allowance	<u>2,000</u>
Gross taxable pay	<u>12,000</u>

### 2. PAYE computation

Tax Bands	Chargeable Income	Tax Rate	Tax Due
First K5,100.00 @	5100.00	0%	0
Next K5,100.01 but not exceeding K7,100.00	2000.00	20%	400
Next K7,100.01 but not exceeding K9,200.00	2100.00	30%	630
K9,200.01 and above	2800.00	37%	1,036
Total Tax Deductions			<u>2,066</u>

## SOLUTION FIVE

- (a) Jane has always prepared her accounts to a date falling between 1 January and 31 March. So the preceding year basis has always applied. Following the change of accounting date to 31 August, the basis of assessment changes to current year basis.

For the tax year 2024, the basis period is the year ended 31 March 2025. For the tax year 2025, the basis period is a period of twelve months ending on the new accounting date. This will be the twelve months period ending on 31 August 2025. As such a period does not exist, the seventeen months' profit will be expanded to twenty-four months and shared between the tax years 2025 and 2026 as follows:

$$\begin{aligned}
 \text{Expanded taxable profits} &= \text{K}170,000 \times 24/17 \\
 &= \underline{\text{K}240,000} \\
 \text{Profit chargeable for 2025} &= \text{K}240,000 \times 12/24 \\
 &= \underline{\text{K}120,000} \\
 \text{Profit chargeable for 2026} &= \text{K}240,000 \times 12/24 \\
 &= \underline{\text{K}120,000} \\
 \text{or} &= \text{K}240,000 - \text{K}120,000 \text{ (assessed in 2025)} \\
 &= \underline{\text{K}120,000}.
 \end{aligned}$$

There are overlap profits arising as profits for the period from 1 April 2025 to 31 August 2026 have been expanded to twenty-four months when they were only for seventeen months. The amount of overlap profit is:

$$\begin{aligned}
 \text{Overlap profit for period} &= \text{K}240,000 - \text{K}170,000 \\
 &= \underline{\text{K}70,000}
 \end{aligned}$$

The final assessments for all the relevant tax years are as follows:

Tax Year	Basis Period	Profit K
2024	y/e March 2025	88,800
2025	y/e 31 August 2025 (See note above)	120,000
2026	y/e 31 August 2026 (See note above)	120,000
2027	y/e 31 August 2027	89,000

- (b) Since there were changes in the partnership agreement, the year ended 31 December 2025 should be split into two notional periods for the purposes of dividing the profits among the partners. However, the amount of assessable profit for each partner is the sum of the allocation for the period before the change and the allocation for the period after the change of partnership agreement.

The incomes of all the partners are below K61,200. As a result, they will not pay any income tax in the year 2025.

**Aongola, Bayete and Selenga**

**Division of partnership profit for the year ended 31 December 2025**

	<u>Total</u> K	<u>Aongola</u> K	<u>Bayete</u> K	<u>Selenga</u> K
01.01.2025 – 31.08.2025				
Salaries (8 months)	12,333	8,000	4,333	Nil
Balance (3:2)	<u>47,667</u>	<u>28,600</u>	<u>19,067</u>	<u>Nil</u>
	<u>60,000</u>	<u>36,600</u>	<u>23,400</u>	<u>Nil</u>
01.09.2025 – 31.12.2025				
Salaries (4 months)	9,000	2,667	3,000	3,333
Balance (5:3:2)	<u>21,000</u>	<u>10,500</u>	<u>6,300</u>	<u>4,200</u>
	<u>30,000</u>	<u>13,167</u>	<u>9,300</u>	<u>7,533</u>
Total profit	<u>90,000</u>	49,767	32,700	7,533
Less tax free income		(49,767)	(32,700)	(7,533)
Taxable income		Nil	Nil	Nil