



POST GRADUATE DIPLOMA IN TAXATION PROGRAMME EXAMINATIONS

POST GRADUATE DIPLOMA

PGDT8: TAX MANAGEMENT AND PLANNING

SERIES: PILOT PAPER 2025

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 paper is divided into TWO (2) sections:

Section A: ONE (1) **Compulsory** scenario question.
Section B: FOUR (4) Optional questions. Attempt any THREE (3) 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 from page 2 to page 6 of the question paper.

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 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		37%

Income from farming for individuals

K1 to K61,200	first K61,200	0%
Over K61,200		10%

Company Income Tax rates

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

Mineral Royalty

Mineral Royalty on Copper

Price range per tonne	Taxable amount	Rate
Less than US\$4,000 per tonne	First US\$3,999	4.0%
US\$4,000 or more but less than US\$5,000 per tonne	Next US\$1,000	6.5%
US\$5,000 or more but less than US\$7,000 per tonne	Next US\$2,000	8.5%
US\$7,000 or more per tonne	Balance	10.0%

Mineral Royalty on other minerals

Type of mineral	Mineral Royalty Rate
Cobalt and vanadium	8% on norm value
Base metals (other than copper, cobalt and vanadium)	5% on norm value
Energy and industrial minerals	5% on gross value
Gemstones	6% on gross value
Precious metals	6% on norm value

Capital allowances

Implements, plant and machinery and commercial vehicles:

Wear and tear allowance –	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%
	Wear and tear allowance if used in Mining and Mineral processing	20%

Non-commercial vehicles

Wear and tear allowance	20%
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Industrial buildings:

Wear and tear allowance	5%
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Initial allowance	10%
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Investment allowance	10%
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Low cost housing (Cost up to K100,000)

Wear and tear allowance	10%
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Initial allowance	10%
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Commercial buildings:

Wear and tear allowance	2%
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Farming allowances

Development allowance	10%
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Farm works allowance	100%
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Farm improvement allowance	100%
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Presumptive Taxes**Turnover Tax****Annual turnover**

First K12,000	0%
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K12,001 to K5,000,000	5%
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Tax on rental income**Annual Rental income band****Taxable amount**

K1 to K12,000	First K12,000	0%
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K12,001 to K800,000	Next K788,000	4%
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Above K800,000		16%
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Presumptive Tax for transporters**Seating capacity****Tax per annum****Tax per quarter**

	K	K
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Less than 12 passengers and taxis	1,296	324
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From 12 to 17 passengers	2,592	648
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From 18 to 21 passengers	5,184	1,296
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From 22 to 35 passengers	7,776	1,944
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From 36 to 49 passengers	10,368	2,592
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From 50 to 63 passengers	12,960	3,240
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From 64 passengers and over	15,552	3,888
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Property Transfer Tax

On the realised value of land (including buildings, structures or improvements thereon)	8%
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On the realised value of shares	8%
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On the realised value of intellectual property	8%
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On the realised value of a mining right for an exploration license	8%
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On the realised value of a mining right for a mining licence	10%
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On the realised value tax on realised value of a mineral processing licence	10%
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Value Added Tax

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

Customs and Excise duties on used motor vehicles

Motor vehicles for the transport of ten or more persons, including the driver	Aged 2 to 5 years		Aged over 5 years	
	Customs duty	Excise duty	Customs duty	Excise duty
	K	K	K	K
Sitting capacity of 10 but not exceeding 14 persons including the driver	20,090	25,112	10,045	12,556
Sitting capacity exceeding 14 but not exceeding 32 persons	43,984	0	15,639	0
Sitting capacity of 33 but not exceeding 44 persons	97,742	0	21,992	0
Sitting capacity exceeding 44 persons	122,177	0	48,871	0
Motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars	Aged 2 to 5 years		Aged over 5 years	
	Customs duty	Excise duty	Customs duty	Excise duty
	K	K	K	K
Sedans				
Cylinder capacity not exceeding 1000 cc	14,113	12,231	8,065	6,989
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	18,145	15,726	9,678	8,387
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	18,695	24,304	9,518	12,373
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	20,395	26,514	11,897	15,466
Cylinder capacity exceeding 3000 cc	25,494	33,142	13,597	17,676
Hatchbacks				
Cylinder capacity not exceeding 1000 cc	12,097	10,484	8,065	6,989
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	16,129	13,979	9,678	8,387
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	16,996	22,095	9,518	12,373
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,695	24,304	11,897	15,466
Cylinder capacity exceeding 3000 cc	22,095	28,723	13,597	17,676

Station wagons

Cylinder capacity not exceeding 1000 cc	14,113	12,231	8,065	6,989
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	18,144	15,725	9,678	8,387
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	18,695	24,304	10,198	13,256
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	20,395	26,514	11,897	15,466
Cylinder capacity exceeding 3000 cc	25,494	33,142	13,597	17,676

SUVs

Cylinder capacity not exceeding 1000 cc	17,598	15,252	10,559	9,151
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	20,463	17,735	12,278	10,641
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	23,794	30,933	14,277	18,560
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	27,193	35,351	17,540	22,802
Cylinder capacity exceeding 3000 cc	32,292	41,980	20,395	26,514

	Aged 2 to 5 years Customs duty	Aged 2 to 5 years Excise duty	Aged over 5 years Customs duty	Aged over 5 years Excise duty
Motor vehicles for the transport of goods	K	K	K	K

Single cab

GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	24,777	10,737	9,911	4,295
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	29,732	12,884	17,344	7,516
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	34,687	15,031	19,821	8,589

Double cabs

GVW not exceeding 3 tonnes	34,687	15,031	27,254	11,810
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	38,156	16,534	29,980	12,991

Panel vans

GVW not exceeding 1.0 tonne	15,089	6,539	8,622	3,736
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	17,344	7,516	9,911	4,295
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	19,821	8,589	17,344	7,516
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	24,777	10,737	19,821	8,589

Trucks

GVW up to 2 tonnes	7,246	5,556	10,963	4,751
GVW exceeding 2.0 tonnes but not exceeding 5.0 tonnes	8,731	6,694	13,156	5,701
GVW exceeding 5.0 tonnes but not exceeding 10.0 tonnes	10,477	8,032	10,817	8,293
GVW exceeding 10.0 tonnes but not exceeding 20.0 tonnes	13,271	10,174	11,744	9,004
GVW exceeding 20 tonnes	21,992	0	19,461	0

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

Surtax

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

Customs and Excise on New Motor vehicles**Duty rates on:**

- Motor cars and other motor vehicles (including station wagons) principally designed for the transport of less than ten persons, including the driver:**

Customs Duty:

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%

- Pick-ups and trucks/lorries with gross weight not exceeding 20 tones:**

Customs Duty

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

Excise Duty:

Percentage of Value for Duty Purposes for Excise Duty Purposes	10%
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- 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%

SECTION A:

This question is compulsory and must be attempted

QUESTION ONE– (COMPULSORY)

You should assume that today is 15 December 2024 and that the taxation rules applicable to the tax year 2024 apply throughout.

Chishimba wishes to commence in business on 1 January 2025 running a retail trade. He wishes to involve his son Kashimba in running the business. Chishimba is not sure whether from a taxation point of view it will be beneficial to take on Kashimba as a partner and run the business as a partnership or form a limited company and run the company together with Kashimba as full-time working Directors.

The two entrepreneurs have approached you seeking taxation advice to enable them decide whether to run the business as a partnership or as a company and how they should extract the profits from the business in the event that the business is ran as limited company. Once they have obtained this advice, they will register the appropriate business and commence to trade on 1 January 2025.

Their business is expected to produce an annual turnover of K5,600,000 whether it is run as a partnership or as a company. The net profit as per accounts is expected to be K2,500,000, before deducting any payments to Chishimba and Kashimba and any NAPSA contributions arising whether the business is run as a partnership or as a company. All the other expenses that will be incurred and deducted in arriving at the net profit figure of K2,500,000 are allowable expenses for taxation purposes.

Whether the business is run as a partnership or as a company, Chishimba and Kashimba will use their own private personal motor cars which each individual will buy in January 2025, partly for business purposes. Business mileage will be 60% of the total mileage done in each motor car and the remainder will be for private purposes. The motor cars will be a Toyota Hilux Double cab van costing K560,000 and having a cylinder capacity of 3,000 cc and a Ford Ranger Double cab van costing K500,000 and having a cylinder capacity of 2,960 cc. Chishimba will drive the Toyota Hilux Double cab van while Kashimba will drive the Ford Ranger Double cab van. The following additional information relating to each option is available:

Partnership

Under this option Chishimba will involve Kashimba in running the business as a partner. Chishimba will draw an annual partner's salary of K280,000 and Kashimba's annual partnership salary will be K230,000. The partnership agreement will additionally provide for an annual allowance of K40,000 per year for each individual to meet the motor car running expenses of K40,000, which will be incurred by each individual on each vehicle. National Pension Scheme Authority (NAPSA) contributions will not be payable. The balance of any profits or losses will be shared equally between Chishimba and Kashimba.

Company

If the business is run as a company, the company will be called Shimba Ltd. Chishimba and Kashimba will be the only shareholders and full-time working directors in the company. Chishimba and Kashimba will each draw an annual allowance of K40,000 as a motoring allowance to meet the cost of motor car running expenses of K40,000 per year which will be incurred by each individual on each motor vehicle. Chishimba wishes to further draw an additional amount of K280,000 per year either as a gross

director's salary or as a gross dividend, whilst Kashimba wish to draw a further additional amount of K230,000 per annum either as a gross director's salary or as a gross dividend. NAPSA contributions will be payable where applicable by both the directors and Shimba Ltd at the rate of 5% of the relevant gross earnings.

NAPSA Earnings threshold

The NAPSA earnings threshold for the year ending 31 December 2025 is K409,968 per annum.

Required:

- (a) Calculate the amounts of income tax payable by Chishimba and Kashimba for the tax year 2025, assuming that the business is run as a partnership. **(9 marks)**
- (b) Assuming the business is run as a limited company and Chishimba and Kashimba each draw the additional amounts of K280,000 and K230,000 respectively as gross annual salaries compute:
 - (i) The income tax and NAPSA contributions payable by Chishimba and Kashimba for the tax year 2025. **(9 marks)**
 - (ii) The income tax payable by Shimba Ltd for the tax year 2025 **(6 marks)**
- (c) Assuming the business is run as a limited company and that Chishimba and Kashimba each draw the additional amounts of K280,000 and K230,000 respectively as gross annual dividends, compute:
 - (i) The NAPSA contributions, withholding tax and income tax payable by Chishimba and Kashimba for the tax year 2025. **(5 marks)**
 - (ii) The income tax payable by Shimba Ltd for the tax year 2025. **(4 marks)**
- (d) Advise Chishimba and Kashimba as to whether they should run their proposed business as a:
 - (i) Partnership
 - (ii) Limited company with Chishimba and Kashimba drawing the additional annual amounts K280,000 and K230,000 respectively as gross director's salaries
 - (iii) Limited company with Chishimba and Kashimba each drawing the additional amounts of K280,000 and K230,000 respectively as gross dividends.

Your answer should be supported by appropriate computations of net income arising under each of the above three (3) options after deduction of all the relevant statutory payments arising under each option. **(7 marks)**

[Total: 40 Marks]

SECTION B

There are **FOUR (4)** questions in this section.

Attempt any three **(3)** questions.

QUESTION TWO

ZedFlora Ltd is a Zambian resident company, engaged in non-traditional exports of exotic flowers, which operates a profitable subsidiary, Flowerine Ltd, in a foreign country known as Escovia. The corporate income tax rate in Escovia is 20%. Flowerine Ltd generated a profit before tax of K75 million in Escovia in the tax year 2025 and is planning to repatriate any available profits after tax to ZedFlora Limited in Zambia.

Profit Repatriation Strategies

ZedFlora Limited is considering the following profit repatriation strategies for the profits generated by Flowerine Ltd in the year ended 31 December 2025:

- (1) ZedFlora Ltd can charge Flowerine Ltd technical fees of K75 million for services rendered. Technical fees are tax deductible when computing taxable profits in Escovia.
- (2) Dividend distribution which will involve repatriating all of the after-tax profits generated by Flowerine Ltd as dividends paid to ZedFlora in Zambia.
- (3) Extending a loan to Flowerine Ltd which will pay interest of K75 million back to ZedFlora Limited. Interest payments are tax deductible in Escovia.
- (4) Retaining all of the after-tax profits within Flowerine Ltd for reinvestment in Escovia.

You should assume that any intercompany transactions and associated fees or charges will be at arm's length where applicable.

Double Taxation Relief Arrangements

The rate of withholding tax on technical fees, licensing fees and similar fees paid by Escovian companies to non-residents is 15%. However, there is a Double Taxation Agreement (DTA) between Zambia and Escovia which reduces the WHT on such payments made by Escovian companies to Zambia residents to 0%. with the fees received in Zambia being subjected to Zambian tax at 10%.

The provisions of the treaty however do not apply or extend to dividends and interest payments made by Escovian residents to Zambian residents which suffer WHT at 10% in Escovia. A credit is available for any tax suffered on any dividends and interest income received from Escovia when computing the Zambian tax liability on the foreign income.

Required:

- (a) Evaluate, using appropriate supporting computations, the tax implications of each profit repatriation strategy for ZedFlora Limited. (12 marks)
- (b) Advise the directors of ZedFlora Limited of the most tax-efficient strategy, considering the need for cash flow in Zambia. (4 marks)
- (c) Recommend any four (4) additional steps ZedFlora Limited should take to optimise its global tax position while minimizing reputational and compliance risks. (4 marks)

[Total: 20 marks]

QUESTION THREE

You are employed in a tax practice, and you are dealing with the tax affairs of PHM Ltd a Zambian resident company engaged in manufacturing. The Managing Director of PHM Ltd is Daniel Kalenga. Daniel has no forms of insurance and believes he should make sure that his wealth and family are protected. He is keen to find out what options he should be considering and a colleague suggested to him the use of financial planning protection products offered by life insurance companies.

PHM Ltd is planning to acquire the following assets in the tax year 2025:

- (1) New manufacturing equipment at a total cost of K4,800,000 (VAT inclusive) from a Zambian resident supplier. The equipment will be acquired under a finance lease agreement under which PHM will be required to make annual lease payments of K1,400,000 payable in advance. The lease term is five (5) years at the end of which title to the equipment will be transferred to PHM. The company has established that the interest on the lease obligations will amount to K367,164 at the company's incremental rate of borrowing of 14% per annum.
- (2) A second-hand building from a non-VAT registered vendor at a cost of K4,756,000. The total cost will comprise land with a cost of K376,000, a factory with a cost of K3,200,000, a staff canteen with a cost of K480,000, a wholesale shop with a cost of K210,000 and general offices with a cost of K490,000. The purchase of the building will be financed by a bank loan of K5,000,000 carrying an interest rate of 24.26% per annum. Loan processing fees of K244,000 will be charged by the bank. In addition to the loan processing fees, interest on the bank loan will amount to K606,500.

The directors of PHM are interested in knowing what the taxation implications of acquiring the above assets will be.

Required:

- (a) Describe the features of each the following financial planning protection products and advise Daniel of the personal income tax implications of taking out each product.
 - (i) Whole of life assurance
 - (ii) Family income benefit
 - (iii) Permanent health insurance (6 marks)
- (b) Advise the directors of PHM Ltd using appropriate supporting computations of the VAT and income tax implications that will arise from:
 - (i) The purchase of manufacturing equipment under a finance lease. (5 marks)
 - (ii) The purchase of the building using a bank loan. (9 marks)

[Total: 20 marks]

QUESTION FOUR

OCEAN Ltd holds 100% of the share capital of each of RIVER Ltd, STREAM Ltd and SEA Ltd. OCEAN Ltd, RIVER Ltd and STREAM Ltd are all resident in Zambia while SEA Ltd is resident in Southland.

For the year ended 31 December 2025, the companies' sales revenue and purchases and expenses were as follows:

	OCEAN Ltd	RIVER Ltd	STREAM Ltd	SEA Ltd
	K'000	K'000	K'000	K'000
Sales Revenue	456,000	420,000	230,000	323,000
Purchases and expenses	245,000	178,000	122,000	109,300

All of the above amounts are exclusive of VAT where applicable. All of the companies are registered for Zambian VAT where applicable.

The following information is also available:

- (1) 75% of OCEAN Ltd's supplies are standard rated while the remainder are exempt supplies. All of the supplies made by RIVER Ltd are zero rated while all of the supplies made by STREAM Ltd are exempt supplies. SEA Ltd makes only standard rated supplies of communications services, 30% of which are made to OCEAN Ltd, RIVER Ltd and STREAM Ltd in equal proportions. SEA Ltd does not have a tax paying agent in Zambia. The purchases and expenses for all the companies are standard rated.
- (2) OCEAN Ltd charges management fees of K40,000,000 to RIVER Ltd and K35,000,000 to STREAM Ltd to cover the costs of the central treasury function. The amounts of management fees are not included in the sales revenue of OCEAN Ltd and in the purchases and expenses of both RIVER Ltd and STREAM Ltd. Standard rated overheads of K90,000,000 which are incurred by OCEAN Ltd are not included in the purchases and expenses of OCEAN Ltd above.
- (3) During the year, RIVER Ltd transferred a commercial plot of land to OCEAN Ltd as part of the internal reorganization of the group. At the time of transfer, the plot of land was valued at K1,500,000.

Required:

- (a) Based on the information available, calculate the Zambian VAT position of each company for the year ended 31 December 2025 and show the net VAT position for the group. **(8 marks)**
- (b) Advise on the VAT implications of the supplies of services made by SEA Ltd to OCEAN Ltd, RIVER Ltd and STREAM Ltd, supported by appropriate calculations. **(5 marks)**
- (c) Advise OCEAN Ltd of the property transfer tax implications of the transfer of the commercial plot of land to RIVER Ltd. **(3 marks)**
- (d) Explain how the realised value is determined on the sale of shares issued by a company incorporated outside Zambia where that company directly or indirectly owns at least ten percent of the shares in a company incorporated in Zambia. **(4 marks)**

[Total: 20 marks]

QUESTION FIVE

You are a tax consultant at a small newly established tax practice in Zambia. You have been assigned to conduct a tax update training workshop for employees in the firm on the recent changes introduced by the Income Tax Amendment Act No.22 of 2024.

You have further been assigned to deal with the tax affairs of Zydan Ltd, a new client of your firm. The directors of Zydan Ltd have requested that the fee for taxation services your firm will provide should be set as a reasonable percentage of the income tax savings the company will make from the tax planning advice your firm shall provide on this assignment.

During a review of the financial records of Zydan Ltd you discover the following matters:

- (1) Several instances of underreported income on tax returns which appear to be deliberate.
- (2) Evidence suggesting bribery payments made to a tax officer to manipulate import documents in order to reduce duties arising on goods imported by the company during the year.

Your firm has a strong commitment to ethical practices and compliance with Zambian tax laws.

Required:

- (a) Discuss the changes introduced by the Income Tax Amendment Act No.22 of 2024 relating to the following matters and assess the potential impact on businesses in each case:
 - (i) Loss relief provisions for businesses (3 marks)
 - (ii) Advance Income Tax on Cross-Border Transactions (4 marks)
- (b) Evaluate the ethical and professional issues you will face on this assignment and discuss the actions you should take to manage each issue to ensure compliance with the fundamental ethical principles and relevant legal provisions. (9 marks)
- (c) Recommend any four strategies (4) strategies your newly established entrepreneurial tax practice can implement to ensure the sustainability and scalability of the firm over the next five years. (4 marks)

[Total: 20 marks]

END OF PAPER

SUGGESTED SOLUTIONS FOR PILOT PAPER

SOLUTION ONE

(a) ALLOCATION OF PROFITS AND COMPUTATION OF INCOME TAX PAYABLE BY PARTNERS

	Total K	Chishimba K	Kashimba K
Salaries	550,000	320,000	230,000
Motor car allowances	<u>80,000</u>	<u>40,000</u>	<u>40,000</u>
otal appropriations	630,000	360,000	270,000
Balance (50:50)	<u>1,870,000</u>	<u>935,000</u>	<u>935,000</u>
	2,500,000	1,295,000	1,205,000
Motoring expenses incurred by:			
- Chishimba (K40,000 x 60%)		(24,000)	
- Kashimba (K40,000 x 60%)			(24,000)
Capital allowances on:			
Chishimba's Vehicle			
(K560,000 x 20%) x 60%	(67,200)	(67,200)	
Kashimba's vehicle			
(K500,000 x 20%) x 60%	<u>(60,000)</u>		<u>(60,000)</u>
Taxable profit	<u>2,324,800</u>	<u>1,203,800</u>	<u>1,121,000</u>
Income Tax			
On the first K110,400		12,360	12,360
On the excess			
K1,093,400/K1,010,600 x 37%		<u>404,558</u>	<u>373,922</u>
		<u>416,918</u>	<u>386,282</u>

(b) (i) PERSONAL INCOME TAX COMPUTATIONS FOR:

	Chishimba K	Kashimba K
Salaries	320,000	230,000
Motor car allowances	<u>40,000</u>	<u>40,000</u>
Gross earnings	360,000	270,000
Less allowable deductions		
Motor car running expenses		
(K40,000 x 60%)	(24,000)	(24,000)
Capital allowances on:		
-Chishimba's vehicle		
(K560,000 x 20%) x 60%	(67,200)	
-Kashimba's vehicle		
(K500,000 x 20%) x 60%		<u>(60,000)</u>
	<u>268,800</u>	<u>186,000</u>
Income Tax		
On the first K110,400	12,360	12,360

On the excess		
Balances x 37%	<u>58,608</u>	<u>27,972</u>
Income Tax payable	<u>70,968</u>	<u>40,332</u>

Employee's NAPSA Contributions		
K360,000/K270,000 x 5%	<u>18,000</u>	<u>13,500</u>

(ii) SHMIBA LTD
COMPUTATION OF COMPANY INCOME TAX PAYABLE FOR THE TAX YEAR 2022

Net profit		2,500,000
Less Allowable deductions:		
Directors emoluments		
Chishimba	320,000	
Kashimba	<u>230,000</u>	
		(550,000)
Motoring allowances for:		
Chishimba	40,000	
Kashimba	<u>40,000</u>	
		(80,000)
Employers' Napsa for:		
Chishimba(K360,000 x 5%)	18,000	
Kashimban(k270,000 x 5%)	<u>13,500</u>	
		<u>(31,500)</u>
Tax adjusted business profit		<u>1,838,500</u>
Company income Tax		
(K1,838,500 x 30%)		<u>551,550</u>

- (c) (i) (1) If Chishimba and Kashimba drew the additional amounts as annual dividends, those amounts will be subjected to Withholding tax at a rate of 15% and it will be the final tax. The amounts of the WHT will be

$$15\% \times (K300,000 + K230,000) = K79,500$$

- (2) No NAPSA will arise on amounts drawn as dividends of K300,000 and K230,000 as dividends are not earnings for NAPSA purposes.
- (3) Income tax on the directors will be charged on the K40,000 drawn by each individual as motoring car running allowances as these constitute emoluments. However, these amounts will fall within the tax free threshold of K61,200, so no tax will arise on each individual.
- (4) Employee's NAPSA contributions will arise on the K40,000 drawn as these constitute earnings for NAPSA purposes. The amount of the contributions will be:

Chishimba (40,000 x 5%)	K2,000
Kashimba (40,000 x 5%)	K2,000

(ii) SHMIBA LIMITED COMPUTATION OF INCOME TAX PAYABLE FOR THE CHARGE YEAR 2022

	K	K
Net Profit		2,500,000
Less Allowable deductions:		
Motoring allowances		
Chishimba	40,000	
Kashimba	<u>40,000</u>	
		(80,000)
Employer's NAPSA contributions		
Chishimba	2,000	
Kashimba	<u>2,000</u>	
		<u>(4,000)</u>
		<u>2,416,000</u>
Tax (K2,416,000 x 30%)		<u>724,800</u>

(d) COMPUTATION OF NET INCOME IF BUSINESS IS RUN AS A:

	Partnership	Limited Company	
		Emoluments Drawn	Dividends drawn
	K	K	K
Profits before deductions	2,500,000	2,500,000	2,500,000
Income Tax Payable			
- Chishimba	(4110,198)	(70,968)	-
- Kashimba	(386,282)	(40,332)	-
WHT		0	(79,500)
Company income tax	0	(551,550)	(724,800)
Employer's NAPSA contributions	0	(31,500)	(4,000)
Employee's NAPSA contributions	<u>0</u>	<u>(31,500)</u>	<u>(4,000)</u>
Net income	<u>1,697,520</u>	<u>1,774,150</u>	<u>1,660,700</u>

It will be beneficial to run the business as a limited company with the additional amounts drawn as emoluments as this option gives the highest net income of K1,774,150.

SOLUTION TWO

- (a) Evaluate the tax implications of each profit repatriation strategy

STRATEGY 1: TECHNICAL FEES

- (1) Tax implications for Flowerine Ltd in Escovia:

Technical fees paid by Flowerine Ltd. to ZedFlora Limited are tax-deductible, reducing the subsidiary's taxable income in Escovia.

Assuming Flowerine pays whole amount K75 million as Technical fees, then taxable income in Escovia will be nil and no corporate tax will be assessed on Flowerine Ltd in Escovia:

	K'000
Flowerine Ltd.'s before tax profit	75,000
Technical fees to ZedFlora	<u>(75,000)</u>
Taxable income	<u>0</u>
Company Income Tax	<u>0</u>

WHT applies to Technical fees at 0% in Escovia under the provisions of the DTA covering Technical fees. Therefore, the whole amount of K75,000,000 will be repatriated to ZedFlora Limited in Zambia.

- (2) Tax implications for ZedFlora Limited in Zambia:

Under the DTA Income tax on the technical fees in Zambia will be subjected to tax at the rate of 10% and will amount to:

(K75 million x 10%)	<u>K7,500,000</u>
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- (3) Total income tax on the tax on the Technical fees will therefore be:

	K'000
WHT on the Technical fees in Escovia	0
Net Zambian income Tax on the Technical fees	<u>(7,500)</u>
Total tax	<u>7,500</u>

STRATEGY 2 - DIVIDEND DISTRIBUTION

- (1) Tax implications for Flowerine Ltd in Escovia:

A 10% WHT applies in Escovia to dividends paid to non-residents. Therefore, profits available for repatriation as dividends to Zambia will be computed as follows:

K'000

Profit before tax	75,000
Corporate Income Tax in Escovia (K75,000 x 20%)	<u>(15,000)</u>
Profit after-tax available for distribution as dividends	60,000
Less WHT (10% x 60,000)	<u>(6,000)</u>
Dividends to be repatriated to Zambia	<u>54,000</u>

(2) Tax implications for ZedFlora Limited in Zambia

Dividends from foreign subsidiaries are taxable in Zambia at the normal company income tax rate of 30%. Therefore, the gross dividends of K60 million will be subject to company income tax in Zambia at 30%, subject to unilateral relief, given that the DTA between Zambia and Escovia does not cover dividends.

The Zambian income tax liability on the dividends will be determined as follows:

	K'000
Company income tax on dividends from Escovia (K60,000,000 x 30%)	18,000
Less DTR on dividends from Escovia (W)	<u>(6,000)</u>
Net Zambian Income tax payable on the dividends	<u>12,000</u>

WORKING

DTR on the dividends from Flowerine Ltd is the lower of:

- WHT paid in Country Escovia on the dividends

$$(10\% \times 60,000,000) = K6,000,000$$

- Zambian tax on the same income

$$K60,000,000 \times 30\% = K18,000,000.$$

Double taxation relief will therefore be K6,000,000 being the lower amount.

Total income tax on the tax on the dividend income will therefore be:

	K'000	K[000
Corporate income tax payable on the profits in Escovia		15,000
WHT on the dividends in Escovia	6,000	
Net Zambian income Tax on the dividend income	<u>12,000</u>	<u>18,000</u>
Total tax		<u>33,000</u>

STRATEGY 3: INTERCOMPANY LOAN

(1) Tax implications for Flowerine Ltd in Escovia:

Interest payments by Flowerine Ltd. to ZedFlora Limited are tax-deductible, reducing taxable income in Escovia. Assuming Flowerine deducts the whole amount of K75 million as an interest payment, then taxable income in Escovia will be nil and no corporate tax will be assessed on Flowerine Ltd in Escovia:

	K[000
Flowerine Ltd.'s before tax profit	75,000
Interest expense payment	<u>(75,000)</u>
Taxable income	<u>0</u>
Company Income Tax	<u>0</u>

WHT applies to interest payments in Escovia at 10% and will amount to:

$$K75,000,000 \times 10\% = K7,500,000$$

(2) Tax implications for ZedFlora Limited in Zambia:

Interest from foreign sources is taxable in Zambia at the normal company income tax rate of 30%. Therefore, the gross interest of K75 million will be chargeable to company income tax in Zambia at 30%, subject to unilateral relief, given that the DTA between Zambia and Escovia does not cover interest payments.

The Zambian income tax liability on the interest will be determined as follows:

	K'000
Company income tax on the interest from Escovia (K75,000,000 x 30%)	22,500
Less DTR on interest income from Escovia (W)	<u>(7,500)</u>
Net Zambian Income tax payable on the dividends	<u>15,000</u>

WORKING

DTR on the dividends from Flowerine Ltd is the lower of:

- WHT paid in Country Escovia on the dividends

$$(10\% \times 75,000,000) = K7,500,000$$

- Zambian tax on the same income

$$K75,000,000 \times 30\% = K22,500,000.$$

Double taxation relief will therefore be K7,500,000 being the lower amount.

(3) Total income tax on the tax on interest income will therefore be:

	K[000
WHT on the interest in Escovia	7,500
Net Zambian income Tax on the interest income	<u>15,000</u>
Total tax	<u>22,500</u>

STRATEGY 4: REINVESTMENT IN ESCOVIA

(1) Tax implications for Flowerine Ltd in Escovia:

There will be No WHT is incurred as profits are not repatriated. Flowerine Ltd will benefit from local reinvestment incentives if available.

The retained profits are exposed to foreign exchange risks, which may impact future repatriation.

(2) Tax implications for ZedFlora Limited in Zambia:

There will be no tax liability arising since the profits are not remitted to Zambia. Deferred taxation will arise, as profits will be taxed only upon future repatriation.

The Total tax liability in the short term will therefore be zero.

(b) Determination of the most tax-efficient strategy

Profit repatriations using dividends is the least efficient strategies as the dividends are not tax deductible. The profits generated by Flowerine will first suffer normal corporate tax in Escovia, with the profit after tax further suffering Escovian WHT before the remainder of the profits can be repatriated to Zambia as dividends. The total tax liability on the profits generated by Flowerine Ltd will be K33,000,000.

If profits are repatriated using technical fees fees the total tax liability will be K7,500,000. This tax liability will be lower than the total tax liability of K22,500,000 which will arise if profits are repatriated using interest on intercompany loans. The lower tax liability will be due to the DTA imposing lower tax rates on technical fees both in Escovia and in Zambia.

Reinvestment in Escovia gives the lowest tax liability of zero. However, there are deferred taxation implications and foreign exchange risk to be considered.

For immediate cash flow, the most tax efficient strategy is using technical fees as this strategy has the lowest tax liability of K7,500,000 giving the highest net after tax cashflow of K67,500,000 (K75,000,000 – K7,500,000). However, reinvestment provides long-term benefits if foreign exchange risks are minimal and local reinvestment incentives exist.

(c) Recommendations for optimizing global tax position

ZedFlora Limited can implement the following strategies to reduce its global tax liability while maintaining compliance and mitigating risks:

- (1) The company can negotiate Advance Pricing Agreements (APAs). Securing APAs with tax authorities to reduce transfer pricing disputes and ensure compliance.
- (2) The company can optimise its organisational structure: ZedFlora should consider setting up a holding company in a low-tax jurisdiction (e.g., Mauritius) with favorable DTAs with Zambia.
- (3) The company should perform Periodic Reinvestment Reviews, assessing the financial impact of retaining profits versus repatriation regularly, factoring in currency risks and reinvestment incentives.
- (4) The company must comply with Transfer Pricing Rules: Maintaining robust documentation to ensure intercompany transactions meet the arm's length principle.
- (5) It will be important for ZedFlora to Diversify Repatriation Methods. Combining repatriation strategies such as dividends, loans, and royalties can help the company to optimize tax efficiency while ensuring compliance.
- (6) The should Monitor Regulatory Changes. Keeping track of changes in Zambia's tax policies and Escovia's tax environment to ensure it adapts strategies proactively.

SOLUTION THREE

(a) The features and personal income tax implications of the protection products are as follows:

- (i) Whole of Life Assurance where the policy provides life protection. The sum assured is payable on death at any time and usually some form of investment benefit will accrue in the form of a surrender value.

The personal income tax implications are that the premiums payable to purchase the product are not tax deductible. The benefits receivable are also not taxable on the individual.

- (ii) Family income benefit is a policy that pays out where the life/lives assured die within the policy term, the benefit being paid as instalments of capital over the remaining policy term. Such a policy might be used where there is a need to keep premiums low or where budgeting for lump sum proceeds would present a problem.

The personal income tax implications are that the premiums payable to purchase the product are not tax deductible. The benefits receivable are also not taxable on the individual.

- (iii) Permanent health insurance policies are designed to provide the policyholder with a benefit if he or she is unable to work through sickness or if he or she needs medical expenses or long-term care.

The personal income tax implications are that the premiums payable to purchase the product are not tax deductible. The benefits receivable are also not taxable on the individual.

(b) (i) Purchase of new manufacturing equipment

The following will be taxation implications arising from the purchase of the manufacturing equipment using a finance lease agreement:

- (1) Input VAT incurred on the purchase of manufacturing equipment will be recoverable. The amount of VAT is: $K4,800,000 \times 4/29 = K662,069$.
- (2) The interest component of the lease obligation amounting to K367,164 is an allowable deduction when computing the taxable business profit provided it does not exceed 30% of the tax earnings before interest, tax, depreciation and amortization (EBITDA).
- (3) The capital repayment component of the lease rental ($K1,200,000 - K367,164 = K832,836$) is not allowable when computing the taxable profits.
- (4) Capital allowances are claimable at a rate of 50% on the VAT exclusive amount. Capital allowances claimable will be: $K4,800,000 \times 25/29 \times 50\% = K2,068,966$.

(ii) Purchase of second – hand building

The following will be the taxation implications arising from the purchase of the building using a bank loan:

- (1) There are no value added tax implications on PHM since the building was acquired from a non-VAT registered vendor.
- (2) The loan processing fees of K244,000 will be allowable in computing taxable business profits for as long as it does not exceed 30% of the tax earnings before interest, tax, depreciation and amortization (EBITDA).
- (3) The loan interest incurred amounting to K606,500 will be an allowable expense provided it does not exceed 30% of the tax earnings before interest, tax, depreciation and amortization (EBITDA).
- (4) Capital allowances on the building are claimable at the appropriate rate of wear and tear. Initial and investment allowances will not be available because PHM is not the first user of the building.

The amount of capital allowances claimable on the building for the tax year 2025 will be:

K

Factory

Wear & tear: K3,200,000 x 5%	160,000
<u>Staff canteen</u>	
Wear & tear: K480,000 x 5%	24,000
<u>Wholesale shop</u>	
Wear & tear: K210,000 x 2%	4,200
<u>General offices</u>	
Wear & tear: K490,000 x 2%	<u>9,800</u>
Total capital allowances	<u>198,000</u>

WORKINGS

	K
Cost	4,756,000
Less cost of land	<u>(376,000)</u>
Qualifying expenditure	<u>4,380,000</u>

$$K4,380,000 \times 10\% = K438,000.$$

The total cost of non – industrial building is more than 10% of the qualifying expenditure; i.e.; $K210,000 + K490,000 = K700,000$. Therefore, the non – industrial building should be classified as commercial building.

SOLUTION FOUR

(a) Zambian VAT positions of each company:

(i) <u>OCEAN Ltd</u>	K'000	K'000
Output Tax		
Sales Revenue:		
(K456,000,000 x 75% = K342,000 x16%		54,720
Management fees:		
(K40,000 + K35,000) = K75,000 x16%		<u>12,000</u>
Total output VAT		66,720
Less recoverable input VAT		
Purchases and expenses		
(16% x K245,000,000)	39,200	
Overheads		
(K90,000 x16%) = K14,400 x 75%	10,800	
Commercial Plot of land:		
16% x K1,500,000	<u>240</u>	
Total recoverable input VAT		<u>(50,240)</u>
VAT payable		<u>16,480</u>

(ii) RIVER LTD

	K'000	K'000
Output Tax		
Sales Revenue: 0% x K420,000,000		Nil
Commercial		
Plot of land: 16% x K1,500,000		<u>240</u>
Total Output Tax		240
Less recoverable input VAT		
Purchases and expenses		
16% x K178,000,000	28,480	
Management fees		
16% x K40,000,000	<u>6,400</u>	
Total recoverable input VAT		<u>(34,880)</u>
VAT repayable		<u>(34,640)</u>

(iii) STREAM LTD

This company makes only exempt supplies. It cannot therefore register for VAT and as a result, it cannot charge VAT or recover any input VAT.

(iv) SEA LTD

This company is not resident in Zambia. It cannot therefore register for VAT in Zambia. It has neither VAT payable nor repayable in Zambia.

(v) Net VAT position of the group companies

	K'000
VAT payable by OCEAN Ltd	16,480
VAT repayable to RIVER Ltd	<u>(34,640)</u>
Net VAT repayable	<u>(18,160)</u>

- (b) The supplies of services made by SEA Ltd to OCEAN Ltd, RIVER Ltd and STREAM Ltd will result in each of the three Zambian resident companies being subjected to reverse Value Added Tax (VAT).

Reverse VAT will arise because SEA Ltd does not have a tax paying agent in Zambia. If SEA Ltd had a tax paying agent in Zambia, reverse VAT would not arise on the value of services that the three Zambian companies import from SEA Ltd.

Each of the three companies will have to calculate reverse VAT as output VAT.

The amount of reverse VAT for each company will be as follows in the year ended 31 December 2025:

Reverse VAT = $30\% \times K323,000,000 \times 16\% \times 1/3$

= K5,168,000

The amount of reverse VAT cannot be recovered as input VAT.

- (c) Because OCEAN Ltd and RIVER Ltd are members of a group and both companies are resident in Zambia, the transfer of property by RIVER Ltd to OCEAN Ltd may be determined to have no realised value. This is because the transfer was made as part of the internal re-organisation of the group. Therefore, RIVER Ltd will not be required to pay Property Transfer Tax.
- (d) Determination of realised value

The realised value on the sale of shares issued by a company incorporated outside the Republic that directly or indirectly owns at least ten percent of a company incorporated in Zambia, is determined as the highest of the:

- (i) Effective shareholding multiplied by the value of the transferred shares;
- (ii) Effective shareholding multiplied by the consideration for the transferred shares; and
- (iii) Effective shareholding multiplied by the nominal value of the transferred shares.

SOLUTION FIVE

- (a) The following are the provision introduced by the act .

- (i) Loss relief provisions for businesses

Section 30 of the Income Tax (Amendment) Act No. 22 of 2024 has revised the rules regarding the deductibility of business losses. Previously, the restriction on loss deductions applied only to businesses engaged in mining operations. However, under the new amendment:

The deductibility of losses has been limited to 50% of taxable income for all businesses, not just mining companies. This means that even if a business incurs significant losses in a given charge year, it can only offset up to 50% of its taxable income using those losses in future years.

This change aims to prevent excessive tax deferral strategies while still allowing businesses to recover some of their past losses.

Implications for Businesses:

Companies with large accumulated losses will face a slower recovery of their tax benefits. Effective tax planning will be required to optimize the utilization of losses over multiple years.

(ii) Advanced income tax

Section 81C of the Income Amendment Act introduced an Advance Income Tax for certain transactions where a taxpayer does not hold a valid tax clearance certificate. The key changes include:

- (1) Introduction of Advance Income Tax where a taxpayer does not have a valid tax clearance certificate for export of goods for commercial purposes and remittances outside the Republic for transactions above \$2000.
- (2) Introduction of Advance Income Tax rate of 15% on remittances outside the Republic and exports of goods for commercial purposes.
- (3) Introduction of a mandatory requirement for commercial banks to deduct advance income tax when a person or partnership without a valid tax clearance certificate is transmitting funds, outside the Republic, of a value above \$2,000 or its equivalent.

This measure is intended to enhance tax compliance by ensuring that businesses are up to date with their tax filings before engaging in significant cross-border transactions.

Implications for Businesses:

Companies involved in international trade will need to ensure that they obtain and maintain a valid tax clearance certificate to avoid unnecessary tax deductions. Businesses may experience cash flow constraints due to the upfront tax payment on international transactions. Proper tax planning is needed to manage cross-border financial transactions efficiently.

(b) Professional and ethical issues:

(1) Self-interest Threat from Contingent Tax fees

Basing the tax fees on the assignment as a reasonable percentage of income tax savings Zydan Ltd will make from the tax planning advise your firm shall provide amounts to charging a contingent fee which will create a significant conflict of interest, threat which may result in your firm pursuing aggressive tax avoidance schemes. Contingent fees are fees calculated on a predetermined basis relating to the outcome or result of a transaction or the result of the work performed.

It would be inappropriate to accept a contingent fee from the client in these circumstances, as it will create a significant self-interest threat which will impair the objectivity firm in reporting the true tax position of the entity. Accepting such a fee could damage the reputation and credibility of the firm.

Appropriate Action

Your firm should not accept the proposed fee arrangement but should rather base the fees on the amount of work the firm shall perform and the time that will be spent on the assignment.

(2) Underreported Income on Tax Returns

Deliberately underreporting income constitutes tax evasion, which is illegal and unethical. Signing off on incorrect tax returns would violate your fundamental ethical principles of the code of ethics.

Appropriate Action

You should Inform the directors of Zydan Ltd about the legal and ethical consequences of underreporting income.

Advise the directors to voluntarily disclose the underreported income to the Zambia Revenue Authority (ZRA) to avoid severe penalties.

If the directors insist on not making the necessary amendments and reporting the income, your firm may have a legal duty to disclose the issue to the proper authorities (ZRA), which will override the fundamental principle of confidentiality you owe to the client.

It will be important for you to inform your supervisor and your firm may have to seek legal advice before making the final decision.

(3) Bribery Payments to a Tax Officer

Bribery is a serious offense under Zambian anti-corruption laws. Offering bribes to influence tax outcomes is illegal under the Zambian Anti-Corruption Act.

Appropriate action

You should advise Zydan Ltd to report the matter to the Anti-Corruption Commission (ACC). You should Refuse to be complicit in any tax filings related to the fraudulent transaction as this will be in breach of your fundamental ethical principles and relevant legal provisions.

If Zydan Ltd refuses to comply, you should terminate the engagement and report the case to the relevant authorities after seeking appropriate legal advice

(c) Strategies for Long-Term Success:

For the newly established tax practice, long-term success depends on strategic planning. Below are some key strategies for sustainability and scalability:

(1) Build a Team:

Hire and train a team of tax professionals to handle an increasing client base. Stay updated on new tax laws, regulations, and industry best practices. Conduct regular training for employees to ensure expertise in complex tax matters.

(2) Diversify Revenue Streams:

The firm can expand offerings to include business advisory, financial planning, and forensic tax investigations. It should focus on high-demand areas such as SME tax advisory, transfer pricing or international tax compliance. It can develop subscription-based tax advisory services for SMEs to ensure stable revenue.

(3) Strong Networking and Industry Collaboration

Partner with law firms, accounting firms, and business associations to gain client referrals. Engage with ZICA, ZRA, and tax industry events to build professional credibility.

(4) Invest in Technology:

Use artificial intelligence (AI) for personalized client recommendations and tax planning. Implement cloud-based tax software to automate tax return filings, compliance tracking, and client management. Offer virtual tax consultations for remote clients.

(5) Focus on Client Retention:

- Build long-term relationships through excellent customer service and regular follow-ups.
- Offer loyalty programs or discounts for repeat clients.

(6) Strong Branding and Online Presence:

- Maintain an active and professional presence on social media and business platforms.
- Regularly share tax tips, updates, and success stories to build credibility.

7, Monitoring and Evaluation:

- Use key performance indicators (KPIs) to measure progress, such as client acquisition rates, retention rates, and revenue growth.
- Periodically review her business model to adapt to changes in the market and regulatory environment.

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