



TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C1: BUSINESS MANAGEMENT

MONDAY 9 JUNE 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.
2. This question paper consists of FIVE (5) questions of twenty (20) marks each. You **MUST** attempt all the FIVE (5) questions.
3. Enter your student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

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

Attempt all FIVE (5) questions.

QUESTION ONE

Leadership and recruitment have one major thing in common - they both ultimately contribute to an organization's success. Leadership is the cornerstone of any strong business, setting the tone for all of its operations while recruiting is key to having the right team on board for achieving that success. However, no matter how good either may be – from leadership strategies to recruitment processes – neither will result in meaningful progress if there isn't alignment between them.

Required:

- (a) State any ten (10) main reasons why organizations conduct in-house recruitment. (10 marks)
- (b) Distinguish between Transformational and Laissez-Faire types of leadership. (5 marks)
- (c) Outline five (5) leadership styles other than the ones mentioned above, in 'b' (5 marks)

[Total: 20 Marks]

QUESTION TWO

- (a) The common complaint among employees is that they feel segregated and unfairly treated by their supervisors while only a few chosen ones enjoy the favors from their superiors.

Suggest to superiors any five (5) common methods for reducing perceived inequality in such situations. (10 marks)

- (b) Managers are mostly blamed for poor performance because of not taking time to ensure that qualified employees are selected to meet the objectives.

Required:

Briefly explain how the following can assist managers to improve their selection procedures in order to improve the organization.

- (i) Human resource planning. (2 marks)
- (ii) Job analysis. (2 marks)
- (iii) Advertisement of a job vacancy. (2 marks)
- (iv) Selecting the right candidate for the job (2 marks)

- (d) Positive reinforcement should be central in the manager's motivational approach and two (2) Laws are important to understand in this regard. Define the two (2) Laws. (2 marks)

[Total: 20 Marks]

QUESTION THREE

- (a) Define the following terms:
- (i) Organization structure (1 mark)
 - (ii) Organization chart (1 mark)
 - (iii) Formal structure (1 mark)
 - (iv) Informal structure (1 mark)
- (b) State six (6) potential benefits of the informal structure? (12 marks)
- (c) Explain four (4) categories of grand strategies that can be pursued to gain a specific sense of overall direction at the corporate and business levels. (4 marks)

[Total: 20 Marks]

QUESTION FOUR

Communication plays a vital role to every business today. It is the art of passing information from one person to another or from one department to the other the structure of an organisation not only show the span of control but also highlights the communication channel.

Required:

- (a) Describe any four (4) benefits of effective communication to any business. (8 marks)
- (b) Explain six (6) factors describing the importance of the span of control. (12 marks)

[Total: 20 Marks]

QUESTION FIVE

- (a) Explain three (3) factors that influence the macro environment under the following headings:
- (i) Changing demand for products and services. (3 marks)
 - (ii) The way that firm in an industry produce and distribute their output. (3 marks)
 - (iii) The price availability of key inputs (3 marks)
 - (iv) The way in which organizations are able to compete with one another. (3 marks)
- (b) There are three (3) important things identified in the outcomes of environmental and industry analysis theories that organizations need to know about in their environment. Explain three (3) factors and how they can help the organization in a competitive environment. (6 marks)
- (c) Define Emotional Intelligence (EI) and explain why it is important in leadership. (2 marks)

[Total: 20 Marks]

END OF PAPER

C1: BUSINESS MANAGEMENT- SUGGESTED SOLUTIONS

SOLUTION ONE

(a) reasons why organizations conduct in-house recruitment

- (1) Reduces the danger of bad recruitment
- (2) Boosts employee morale
- (3) Promotes career development opportunities to talented employees.
- (4) Give growth opportunities to your employees
- (5) Reduces on the time of induction and settling in on the new job because the employee already understands the organization and its culture.
- (6) Provide job security to your employees
- (7) Reduced time to hiring
- (8) Talented ex-employees can serve you again
- (9) Training will be easier in in-house recruiting
- (10) Reduced cost of hiring
- (11) Greater cultural compatibility

(b) Transactional leadership is more short-term and can best be described as a “give and take” kind of transaction. Team members agree to follow their leader on job acceptance; therefore, it’s a transaction involving payment for services rendered. Employees are rewarded for exactly the work they would’ve performed. If you meet a certain target, you receive the bonus that you’ve been promised. It is especially so in sales and marketing jobs.

Transactional leadership establishes roles and responsibilities for each team member and encourages the work to be completed as scheduled. There are instances where incentive programs can be employed over and above regular pay. In addition to incentives, there are penalties imposed to regulate how work should be done.

Transactional leadership is a more direct way of leadership that eliminates confusion between leader and subordinate, and tasks are clearly spelled out by the leader. However, due to its rigid environment and direct expectations, it may curb creativity and innovation. It can also lead to lower job satisfaction and high employee turnover.

AND

Laissez-faire leadership is accurately defined as a hands-off or passive approach to leadership. Instead, leaders provide their team members with the necessary tools, information, and resources to carry out their work tasks. The "let them be" style of leadership entails that a leader steps back and lets team members work without supervision and free to plan, organize, make decisions, tackle problems, and complete the assigned projects. The laissez-faire leadership approach is empowering to employees who are creative, skilled, and self-motivated. The level of trust and independence given to the team can prove to be uplifting and productive and can lead to job satisfaction.

(c) leadership styles

- (1) Transactional
- (2) Democratic
- (3) Autocratic
- (4) Charismatic
- (5) Bureaucratic
- (6) Servant

SOLUTION TWO

(a) The following are suggestions to reduce the perceived inequalities in such a situation:

- (i) Change inputs-increase or decrease pay employees what they deserve.
- (ii) Change outcomes (rewards)
- (iii) Rationalize the inequity by artificially increasing the status attached to their jobs or distort other's perceived rewards to bring equity into balance
- (iv) Use different comparisons to others.
- (v) Leave the situation -quit.

(b) The following are ways that will assist managers to improve the selection of employees who will meet the organizational objectives:

- (i) Human resource planning- anticipating and providing for the new employees, those already there and out of the organization
- (ii) Job analysis-process of gathering information about a job major task, activities behaviors, or duties must be identified in order to match this with the right candidate.
- (iii) Advertisement of a job vacancy-must be done using the right channels of communication in order to attract the right candidates by being specific and truthful to avoid attracting wrong candidates.
- (iv) Selecting the right candidate for the job-selection of candidates who will meet the needs of the organization in terms of skills and competences.

(c) The following are the descriptions of the two (2) laws:

- (i) Law of contingent reinforcement - in order for the reward to have maximum reinforcing value, it must be delivered only if desirable behavior is exhibited.
- (ii) Law of immediate reinforcement – the theory holds that the more immediate the delivery of a reward after the occurrence of a desirable behavior the greater the reinforcing value of the reward.

SOLUTION THREE

(a) The following are the definitions of the terms:

- (i) An organization structure is the system of communication and authority that links people and groups together to accomplish tasks that serve the organizational purpose
- (ii) Organizational chart is a diagram that describing the basic arrangement of work in positions within an organization.
- (iii) A formal structure is the official state of an organization and the way it intends to function.
- (iv) An informal structure is the shadow organization of the unofficial, but often critical relationships working relationships.

(b) The following are the potential benefits of the informal structure:

- (i) Help people accomplish their work in a relaxed atmosphere
- (ii) Help people overcome the limits of formal structure by allowing employees to bypass bureaucratic constraints;
- (iii) Allowing people to better communication with one another in an informal friendly environment
- (iv) Allowing people to support and protect one another, since the informal setting is similar to a family gathering;
- (v) Satisfying people's needs for social interactions. People have social needs that are that are best satisfied in an informal work setting.
- (vi) Providing people with a sense of group identification.

(c) The following are the categories of grand strategies that can be pursued to gain a specific sense of overall direction at the corporate and business levels:

- (i) Growth-pursuit of expansion
- (ii) Retrenchment- through reduction in the size of the organization, through turnaround to reduce personnel; divestiture; liquidation
- (iii) Stability-maintaining the present course of action without commitment to any major operating changes.
- (iv) Combination-simultaneously employs more than one of the other strategies.

SOLUTION FOUR

(a) Benefits of effective communication

(i) Team building

Teamwork is the result of effective communication and collaboration with each other. Businesses should implement effective communication strategies to boost communication among employees.

(ii) Increases innovation

Businesses should ensure that employees have a conducive environment where they can openly communicate ideas without fear. Moreover, an organization that encourages communication is motivated and innovative.

(iii) Builds people's attitude

Communication helps employees maintain a positive attitude as they become well informed and perform their duties in the right manner.

(iv) Helps in management

With effective communication, the management can understand the issue affecting employees, similarly, employees are also able to understand the policies of the organization.

(v) It increases loyalty

When there is a good line of communication across the management of an organization, employees tend to be comfortable discussing any issues. As a result, they become more loyal to the organization.

(vi) It enhances skills

Effective communication helps managers to identify hidden talents in the organization and tap into their skills.

(b) Factors describing the importance of span of control

(1) Faster communication and coordination. Information from the lowest level gets to the top-level (or vice versa) faster because fewer layers are involved. It allows for quick coordination and decision-making.

(2) Higher motivation. Managers delegate less essential decision-making to employees. It can lead to high job satisfaction and motivation as employees are more involved in making decisions about their work.

- (3) Work flexibility. Managers reduce oversight of their subordinates through delegation. And they place high trust in subordinates and are expected to act according to their expectations.
- (4) Lower costs. Managers supervise more people. So, companies need fewer managers and layers in the organizational structure.
- (5) More delegates. The span of control is wider, and the manager is responsible for more subordinates. Indeed, it makes their work heavier. But, on the other hand, it should encourage managers to delegate more because it is impossible to do all the important work on their own.
- (6) Job satisfaction. With more delegation, employees can make more decisions on their own. It can be more effective because they understand the problems in their job better than the manager. Combined with more autonomy, they have the freedom to manage their working life, leading to higher job satisfaction

SOLUTION FIVE

(a) The following are the factors that influence the macro environment under the given headings:

(i) Changing demand for products and services:

- (i) change in tastes and purchasing power of customers and the supply chain
- (ii) new technology
- (iii) economic and political developments

(ii) The way that firm in an industry produce and distribute their output:

- (i) Changes in the technology used within the product and service, making it cheaper or better quality.
- (ii) New production or distribution methods and technologies
- (iii) The way in which goods and services are sold i.e. growth of direct selling via the internet.

(iii) The price availability of key inputs:

- (i) Factors affecting the supply of raw materials, such as political unrest in the countries that produce them, or new technologies that make production cheaper or better quality.
- (ii) Factors affecting the availability of people and skills, such as improving educational standards in developing countries and rises or fall in the number of young people entering the labor markets.
- (iii) Factors affecting the availability and cost of energy which is a key factor of production. For example in Zambia most business have been negatively impacted due to power outages and the cost of alternative energy which is expensive.

(iv) The way in which organizations are able to compete with one another:

- (i) new regulations liberalizing international trade and tariff regimes
- (ii) change of government
- (iii) new laws governing pollution standards or minimum wages

(b) The following are three (3) things identified in the environmental and industry analysis organizations need to know about:

- (i) Its munificence/generosity – the extent to which the resources are freely available to support firms in an industry an enable them to grow;
- (ii) Its dynamism – the extent to which it is stable and turbulent;
- (iii) Its complexity – the extent to which it embraces a range of activities that are significantly different from one another.

(c) Emotional Intelligence (EI)I the capacity of a leader to understand the emotional make up of other people in order to relate to them effectively which is important in leadership.it leads them to be more empathetic and understanding toward others.

END OF SUGGESTED SOLUTIONS



TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C2: ECONOMICS & FINANCIAL MATHEMATICS

WEDNESDAY 11 JUNE 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 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.
10. A mathematical standard formulae book must be provided to you. **Request for one if not given by the Invigilator.**

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

Attempt all five (5) questions.

QUESTION ONE

- (a) With the use of equations, explain the consumption and savings functions. (6 marks)
- (b) Describe demand-pull causes of inflation. (6 marks)
- (c) Outline any four (4) canons of taxation. (4 marks)
- (d) Distinguish between privatization and commercialization. (4 marks)

[Total: 20 Marks]

QUESTION TWO

- (a) State the law of absolute advantage. (2 marks)
- (b) Define the Balance of Payments. (2 marks)
- (c) List any two (2) functions of the foreign exchange market. (2 marks)
- (d) Outline any three (3) determinants of investment (6 marks)
- (e) Outline any four (4) functions of the Bank of Zambia as stipulated by the Bank of Zambia Act of 1996.

(8 marks)

[Total: 20 Marks]

QUESTION THREE

- (a) At a particular supermarket, 85 percent of customers have the supermarket club card. Determine the probability that in a random sample of 5 customers
 - (i) Exactly four (4) customers have the supermarket club card (2 marks)
 - (ii) At least two (2) customers have the supermarket club card (3 marks)
 - (iii) Find the mean of this distribution (2 marks)
 - (iv) Find the standard deviation of this distribution (2 marks)

(b) A bond has a coupon of 6.5% and it pays interest semi-annually. With a face value of K1,000, it will mature after ten (10) years. If you require a return of 12% from this bond, how much should you pay for it?

(5 marks)

- (c) The demand for a period of XYZ industries varies greatly from month to month. The probability distribution in the following table, based on the past two (2) years of data shows the company's monthly demand.

Unit Demand	300	400	500	600	700	800
Probability	0.1	0.1	0.15	0.25	0.3	0.1

- (i) What is the expected demand? (2 marks)

- (ii) What is the variance in the demand for the product? (4 marks)

[Total: 20 Marks]

QUESTION FOUR

- (a) A purchasing manager of a Lusaka-based company believes that the time in transit of goods sent by road depends upon the distance between the supplier and the company. In an attempt to measure this dependence, twelve packages, sent from different parts of the country, have their transit times (y days) accurately recorded, together with the distance (x miles) of the supplier from the company. The results are summarised as follows:

$$\sum_{i=1}^{12} y_i = 36.0, \quad \sum_{i=1}^{12} x_i = 1800, \quad \sum_{i=1}^{12} x_i^2 = 336296,$$

$$\sum_{i=1}^{25} y_i^2 = 126.34, \quad \sum_{i=1}^{25} x_i y_i = 6438.6$$

Consider the simple linear regression model $y_i = a + bx_i + \varepsilon_i$. Where $\varepsilon_i \sim N(0, \sigma^2)$.

- (i) Estimate a and b from the data. (5 marks)
- (ii) Predict the transit time of a package sent from the supplier 200 mile away from the company. (2 marks)
- (iii) Calculate the coefficient of determination r^2 . What does this value tell you about the effectiveness of the linear regression analysis? (6 marks)

- (b) Two (2) Copperbelt based banks had the following quotes as nominal interest rates: the interest on a savings account paid by bank X was at 10.50% compounded monthly and that paid by bank Y was at 10.55% compounded semi-annually. Which bank pays its savers the most interest? Justify your answer. (7 marks)

[Total: 20 Marks]

QUESTION FIVE

- (a) The management at Zambia National Bank (ZNB) does not want its customers to wait in line for service for too long. The Manager of a branch of this bank estimated that the customers currently have to wait an average of eight (8) minutes for service. Assume that the waiting times for all customers at this branch have a normal distribution with a mean of eight (8) minutes and a standard deviation of two (2) minutes.

- (i) Find the probability that a randomly selected customer will have to wait for less than three (3) minutes. (3 marks)

- (ii) What percentage of the customers have to wait for 10 to 13 minutes? (4 marks)

- (iv) What percentage of the customers have to wait for 6 to 12 minutes? (4 marks)

- (v) Is it possible that a customer may have to wait longer than 16 minutes for service? Explain.

(4 marks)

- (c) Mr. Muzyamba invested a sum of K50,500 with a newly formed Smart Savers Cooperative at 5% annual interest compounded monthly. Calculate the equivalent annual percentage yield (APY).

(5 marks)

[Total: 20 Marks]

END OF PAPER

C2: ECONOMICS & FINANCIAL MATHEMATICS – SUGGESTED SOLUTIONS

SOLUTION ONE

(a) The general form of the consumption function is: $C = a + bY_d$.

- (i) Consumption, (C): refers to the total expenditure by households on goods and services within a specific period.
- (ii) Autonomous consumption (a): is the consumption expenditure that occurs when income levels are zero.
- (iii) Marginal propensity to consume (b): this is the change in consumption due to change in income.
- (iv) Income (Y_d): this income after tax deductions.

The general form of the savings function is: $S = -a + (1-b)Y_d$

- (i) Savings, (S): represents that part of disposable income which is not spent.
- (ii) Autonomous saving (-a): is saving by the household sector that is unrelated to and unaffected by the level of income.
- (iii) Marginal Propensity to Save (1-b): this is the change in savings due to change in income
- (iv) Income (Y_d): this is income after tax deductions

(b) Demand-pull inflation

- (i) Demand-pull inflation arises when the total demand for goods and services (i.e. 'aggregate demand') increases to exceed the supply of goods and services (i.e. 'aggregate supply') that can be sustainably produced.
- (ii) In response to increase in aggregate demand, firms will seek to employ more workers. More workers will increase household incomes and lead to a rise in consumer spending. This further increases aggregate demand and the scope for firms to increase the prices of their goods and services.
- (iii) The excess demand puts upward pressure on prices across a broad range of goods and services and ultimately leads to an increase in inflation – that is, it 'pulls' inflation higher.

(c) Principles or canons of Tax

- (i) Equity, which means that taxes should be fair and therefore should depend on - an individual's ability to pay. Taxes must be proportional to one's income.
- (ii) Certainty, with regard to the amount to be paid, how, where and when it should be paid.
- (iii) Convenience of payment and collection by the taxpayer.
- (iv) Economy, that is, the cost of collection should not be excessive especially in relation to yield.

(d) Commercialization is the process of transforming a transaction into a commercial activity in which goods or services acquire a monetary value.

Privatization means a private company taking over some or all operational responsibilities, compensated either through user fees or a fee-for-service paid by the government.

SOLUTION TWO

- (a) The law of absolute advantage is the ability of a country to produce the same quantity of a good or service using less quantities of inputs than its trading partner.
- (b) The Balance of Payments is a record of all economic transactions in goods, services and assets of a country with the rest of world.
- (c) Functions of foreign exchange market
 - (i) Transfer of purchasing power
 - (ii) Provision of credit
 - (iii) Minimization of foreign exchange risk
 - (iv) For speculation
- (d) Determinants of investment include the following:
 - (i) Revenues: An investment should bring the firm additional revenue
 - (ii) Costs: Interest rates influence the costs of investment
 - (iii) Consumer demand: The bigger the increase in consumer demand, the more investment will be needed
 - (iv) Expectations: Investment is affected by business expectations about the future state of the economy
- (e) The following are the function of the Bank of Zambia as stipulated by the Bank of Zambia Act of 1996:
 - (i) License, supervise and regulate the activities of banks and financial institutions so as to promote the safe, sound and efficient operations and development of the financial system
 - (ii) Promote efficient payment system
 - (iii) Issue notes and coins to be legal tender in the republic and regulate all matters relating to the currency of the Republic
 - (iv) Act as banker and fiscal agent to the republic
 - (v) Support the efficient operation of the exchange system
 - (vi) Act as advisor to the government on matters relating to economic and monetary management

SOLUTION THREE

(a)

(i) $n = 5, p = 0.85, q = 1 - p = 0.15$

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

$$P(X = 4) \binom{5}{4} (0.85)^4 (0.15)^{5-4} \\ = 0.3915$$

(ii)

$$P(X \geq 2) = 1 - P(X < 2) \\ = 1 - [P(X = 0) + P(X = 1)] \\ = 1 - \left[\binom{5}{0} (0.85)^0 (0.15)^5 + \binom{5}{1} (0.85)^1 (0.15)^4 \right] \\ = 1 - [0.000076 + 0.0022] \\ = 1 - 0.002276 \\ = 0.9977$$

(iii)

$$E(X) = np = 5 \times 0.85 = 4.25$$

(iv)

$$Var(X) = npq = 5 \times 0.85 \times 0.15 = 0.6375$$

$$\text{Standard deviation} = \sqrt{Var(X)} = \sqrt{0.6375} = 0.7984$$

$$(b) \text{ Price} = \frac{\text{Coupon Payment}}{\text{Periodic Yield}} + \left(\text{Par} - \frac{\text{Coupon Payment}}{\text{Periodic Yield}} \right) \div (1 + \text{Periodic Yield})$$

Since coupon payment = $6.5\% \times 1000 \times 0.5 = 32.5$, Periodic yield = $12\% \times 0.5 = 0.06$ and number of periods = $10 \times 2 = 20$, we have

$$\text{Price} = \frac{32.5}{0.06} + \left(1000 - \frac{32.5}{0.06} \right) \div (1 + 0.06)^{20}$$

$$\text{Price} = 541.666 + (1000 - 541.666) \div 3.207 \\ = 541.666 + 142.911 \\ = \text{K}684.58$$

(c)

$$\begin{aligned} \text{(i)} \quad E(X) &= \sum_x xP(X=x) \\ &= \sum_{x=300}^{800} xP(X=x) \\ &= 300(0.1) + 400(0.1) + 500(0.15) + 600(0.25) + 700(0.3) + 800(0.1) \\ &= 30 + 40 + 75 + 150 + 210 + 80 \\ &= 585 \end{aligned}$$

$$\text{(ii)} \quad \text{Var}(X) = E(X^2) - [E(X)]^2$$

$$\begin{aligned} E(X^2) &= \sum_x x^2 P(X=x) \\ &= \sum_{x=300}^{800} x^2 P(X=x) \\ &= 300^2(0.1) + 400^2(0.1) + 500^2(0.15) + 600^2(0.25) + 700^2(0.3) + 800^2(0.1) \\ &= 9000 + 16000 + 37500 + 90000 + 147000 + 64000 \\ &= 363,500 \end{aligned}$$

$$\begin{aligned} \therefore \text{Var}(X) &= E(X^2) - [E(X)]^2 \\ &= 363,500 - 585^2 \\ &= 21,275 \end{aligned}$$

SOLUTION FOUR

(a)

(i)

$$\sum_{i=1}^{12} y_i = 36.0, \quad \sum_{i=1}^{12} x_i = 1800, \quad \sum_{i=1}^{12} x_i^2 = 336296,$$

$$\sum_{i=1}^{12} y_i^2 = 126.34, \quad \sum_{i=1}^{12} x_i y_i = 6438.6$$

$$\begin{aligned} b &= \frac{\sum XY - n\bar{X}\bar{Y}}{\sum X^2 - n\bar{X}^2} \\ &= \frac{6438.6 - (12)(150)(3)}{336296 - (12)(150)^2} \\ &= 0.0157 \end{aligned}$$

$$a = \bar{Y} - b\bar{X} = 3 - (0.0157)(150) = 0.645$$

(ii) The equation is: $\hat{Y} = 0.645 + 0.0157X$

$$\hat{Y} = 0.645 + 0.0157 \times 200 = 3.785 \text{ Days}$$

$$(iii) r = \frac{n \sum xy - \sum x \sum y}{\sqrt{[n \sum x^2 - (\sum x)^2][n \sum y^2 - (\sum y)^2]}}$$

$$r = \frac{12(6438.6) - 1800(36)}{\sqrt{[12(336296) - (1800)^2][12(126.34) - (36)^2]}}$$

$$r = \frac{12463.2}{175085084.2}$$

$$\underline{\underline{r = 0.000071}}$$

$$\underline{\underline{r^2 = 5.07 \times 10^{-9}}}$$

Linear regression analysis is not an effective method to use in analysing the data.

(b)

Bank X:

$$r = 10.5\% \text{ and } m = 12$$

$$r_e = \left(1 + \frac{r}{m}\right)^m - 1$$

$$= \left(1 + \frac{0.105}{12}\right)^{12} - 1$$
$$11.02\%$$

Bank Y:

$$r = 10.55\% \text{ and } m = 2$$

$$r_e = \left(1 + \frac{r}{m}\right)^m - 1$$

$$= \left(1 + \frac{0.1055}{2}\right)^2 - 1$$
$$= 10.03\%$$

Bank X pays its savers more interest than Bank Y. The effective interest rate for bank X is bigger than that of bank Y.

SOLUTION FIVE

(a)

$$(i) \quad Z = \frac{X-8}{8}$$

$$P(X < 3)$$

$$\begin{aligned} P\left[\frac{X-8}{2} < \frac{3-8}{2}\right] \\ &= P[Z < -1] \\ &= 1 - 0.8413 \\ &= 0.1587 \end{aligned}$$

(ii)

$$P\left[\frac{10-8}{2} < \frac{X-8}{2} < \frac{13-8}{2}\right]$$

$$\begin{aligned} &P[1 < Z < 2.5] \\ &P[Z < 2.5] - P[Z < 1] \\ &0.9878 - 0.8413 \\ &= 0.1465 \end{aligned}$$

Therefore the percentage is:

$$0.1465 \times 100 = 14.65\%$$

(iii)

$$P\left[\frac{6-8}{2} < \frac{X-8}{2} < \frac{12-8}{2}\right]$$

$$\begin{aligned} &P[-1 < Z < 2] \\ &P[Z < 2] - P[Z < -1] \\ &0.9772 - 0.1587 \\ &= 0.8185 \end{aligned}$$

Therefore the percentage is:

$$0.8185 \times 100 = 81.85\%$$

(iv) $P(X > 16)$

$$\begin{aligned} P\left[\frac{X-8}{2} > \frac{16-8}{2}\right] \\ &= P[Z > 4] \\ &= 1 - 1 \\ &= 0 \end{aligned}$$

It's not possible that a customer may have to wait longer than 16 minutes for service because the probability of that happening is zero.

(b)

Money invested by Mr Muzyamba is $P_0 = K50500$

Interest rate is $r = 5\% = 0.05$

Number of times compounded in a year $m = 12$

Let S be the equivalent APY.

The value of the investment at the end of one year with this percentage rate is

$$A = 50500 (1 + S)$$

$$\text{Amount accumulated after 1 year} = 50500 \left(1 + \frac{0.05}{12}\right)^{(12)(1)}.$$

[As the interest is compounded continuously.]

$$= 50500 (1.00345)^{12}$$

$$50500 (1 + S) = 50500 (1.00417)^{12}$$

(a) [From the definition of APY.]

$$1 + S = (1.00417)^{12}$$

$$1 + S = 1.05116$$

$$S = 0.0512 = 5.12\%$$

END OF SUGGESTED SOLUTIONS



TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C3: ACCOUNTANCY FOR TAX PRACTITIONERS

MONDAY 9 JUNE 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.
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.
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8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

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

Attempt all FIVE (5) questions.

QUESTION ONE

Nile and Bati are trading as partners sharing profits or losses equally. The following trial balance was extracted from the books of the partnership at 31 December 2023:

	K	K
Capital accounts – Nile		40,000
– Bati		40,000
Current accounts – Nile	30,100	
– Bati	20,700	
Inventory at 1 January 2023	19,000	
Administration expenses	70,400	
Bank	26,450	
Allowance for irrecoverable debts at 1 January 2023		500
Purchases	158,500	
Trade payables		25,000
Trade receivables	30,700	
Sales		359,000
Rent	11,000	
Selling expenses	55,650	
Vehicles - cost	56,000	
Accumulated depreciation on vehicles	<u> </u>	<u>14,000</u>
	<u><u>478,500</u></u>	<u><u>478,500</u></u>

Additional Information:

1. Closing Inventory, K24,000

2. Provide Depreciation on motor vehicles at 20 percent on cost, after taking into account the following: A vehicle has been disposed of during the year.
 - The original cost of the vehicle was K12,000
 - The accumulated depreciation on the vehicle was K5,250
 - The vehicle was sold for K5,000. This amount was credited to sales and debited to the Bank account.
3. Administration expenses of K1,500 need to be accrued.
4. Interest is to be allowed on capital at a rate of 5 percent per annum.
5. At 31 December, the allowance for irrecoverable debts is K500.

Required:

- (a) Prepare the partners' statement of profit or loss for the year ended 31 December 2023. (11½ marks)
 - (b) Prepare the Partners' statement of financial position as at 31 December 2023. (8½ marks)
- [Total: 20 Marks]**

QUESTION TWO

The summarized accounts of Hepende Limited for the years 2022 and 2023 are given below:

Statement of Profit or Loss for the year ended 31 December

	2022		2023	
	K'000	K'000	K'000	K'000
Revenue		90,000		126,000
Less: cost and sales		<u>(67,500)</u>		<u>(94,500)</u>
Gross profit		22,500		31,500
Less:				
Administration expenses		17,100		20,700

Loan note interest	<u>-</u>	<u>(17,100)</u>	<u>1,800</u>	<u>22,500</u>
Net profit		<u>5,400</u>		<u>9,000</u>

Statement of Financial Position as at 31 December

	2022		2023	
	K'000	K'000	K'000	K'000
Non-current asset at NBV		49,500		63,000
Current asset:				
Inventory	9,000		13,500	
Trade receivables	11,250		12,600	
Bank	<u>-</u>		<u>2,250</u>	
		<u>20,250</u>		<u>28,350</u>
		<u>69,750</u>		<u>91,350</u>
Equity and liabilities:				
Ordinary share capital	45,000		45,000	
Retained profits	<u>13,500</u>		<u>18,450</u>	
		58,500		63,450
Non-current liabilities:				
8% loan notes		NIL		22,500
Current liabilities:				
Trade payables	6,750		5,400	
Bank	<u>4,500</u>		<u>-</u>	

<u>11,250</u>	<u>5,400</u>
<u>69,750</u>	<u>91,350</u>

Inventory at 1 January 2022 was K22,500,000.

Required:

(a) Calculate the following ratios for 2022 and 2023:

- | | | |
|-------|--|-----------|
| (i) | Gross profit margin | (2 marks) |
| (ii) | Inventory turnover ratio (based on average inventory). | (2 marks) |
| (iii) | Net profit margin | (2 marks) |
| (iv) | Quick ratio. | (2 marks) |
| (v) | Working capital ratio(current ratio) | (2 marks) |
| (vi) | Net profit to capital employed | (2 marks) |
| (vii) | Receivables days. | (2 marks) |

(b) Briefly explain the three (3) main bases of comparison of ratios that can be made.
(6 marks)

[Total: 20 Marks]

QUESTION THREE

The trial balance of Munga Munga Enterprise for the year ended 30 September 2023 is as follows:

	K	K
Purchases	41,600	
Revenue		98,904
Trade receivables	9,440	
Trade payables		4,400
Distribution costs	7,360	
Administration costs	16,560	
Inventory 1 October 2022	12,960	
Bank interest on overdraft	40	
Bank overdraft		1,760
Provision for irrecoverable debts		416
Bad debts written off	40	
Property at cost	24,800	
Plant and equipment at cost	17,600	
Vehicles at cost	7,200	
Property Accumulated Depreciation		6,000
Plant and equipment Accumulated Depreciation		4,160
Vehicles Accumulated Depreciation		1,840
Retained earnings		3,320
Ordinary share capital K1 shares		5,600
Other reserves		2,000
Long term loan 6% redeemable 2028		12,000
Bank	<u>2,800</u>	
	<u>140,400</u>	<u>140,400</u>

The following information is relevant as at 30 September 2023.

- (1) Inventory was valued at K12,560.
- (2) Rent owing relating to administration was K720 and insurance K3,000 was paid in advance.
- (3) The interest on the long-term loan needs accruing for the year.
- (4) Tax is to be provided at 20% of profit after charging all expenses and interest.
- (5) Depreciation is to be provided for the year as follows:
 - Property 2% on cost, chargeable to administration.
 - Plant and equipment 10% on cost, chargeable to administration.
 - Vehicles 20% reducing balance, all chargeable to distribution.
- (6) Allowance for irrecoverable debts is to be set at 5% of trade receivables.

Required:

- (a) Prepare the statement of profit or loss for the year ended 30 September 2023 for Munga Munga.
(10 marks)
- (b) Prepare the statement of financial position as at 30 September 2023 for Munga Munga.
(10 marks)

[Total: 20 Marks]

QUESTION FOUR

- (a) Muba Enterprises is a VAT registered business specialized in selling milk bread to the local community. In the month of July 2023, the business extracted the following total balances from the books of prime entry before posting to the general ledger.

S/n		ZMW
1	Cash Purchases	300,000
2	Cash Sales (VAT inclusive)	464,000
3	Purchases returns from credit purchases	80,000
4	Sales returns (VAT Inclusive) from credit sales	58,000
5	Credit Sales	55,100
6	Credit Purchases	23,500

On 30 June 2023, the business closed with a VAT payable amount of K1,988.

Unless where it is stated, assume all amounts are VAT exclusive. The VAT rate applicable is 16%.

Required:

- (i) For each transaction above, prepare an appropriate journal entry prior to posting to the general ledger. (9 marks)
- (ii) Using the VAT control account, calculate the tax payable or refundable for the month of July 2023 (7 marks)
- (b) Explain the terms given below in relation to IAS 7 statement of cash flows:
 - (i) Cash equivalent (1 mark)
 - (ii) Operating activity (1 mark)
 - (iii) Investing activity (1 mark)
 - (iv) Financing activity (1 mark)

[Total: 20 Marks]

QUESTION FIVE

You have been asked by Samusa Vendeta to assist in the preparation of the year-end financial statements of his business. He is a sole trader who runs a business which specializes in ornaments decorated with sea shells. His trial balance as at 31 March 2023 is given below:

Samusa Vendeta Trial Balance as at 31 March 2023		
	Dr	Cr
	K'000	K'000
Wages	29,344	
Capital as at 1 April 2022		83,696
Postage and stationery & Telephone	4,831	
Accumulated depreciation - Motor vehicle		14,219
Accumulated depreciation - office equipment		8,310

Purchases	103,742	
Trade payables		17,725
Carriage inwards	923	
Motor vehicles at cost	32,500	
Office equipment at cost	41,545	
Sales revenue		187,325
Returns outwards		1,014
Trade receivables	18,740	
Drawings	14,400	
Depreciation – Motor vehicles	6,094	
- Office equipment	4,155	
Prepayments	320	
Accruals		1,131
Inventory 1 April 2022	27,931	
Returns inwards	1,437	
Cash at bank	9,473	
Bank deposit interest		972
Cash in hand	166	
Carriage outwards	657	
Rents, rates and insurance	7,721	
Irrecoverable receivables	830	
Discount allowed	373	
Bank charges	693	
Motor expenses	<u>8,517</u>	<u> </u>
	<u>314,392</u>	<u>314,392</u>

You are given the following further information:

- (1) The general provision for irrecoverable debts is to be set up at 5% of the year end receivables balance.
- (2) During the year Samusa Vendeta took goods costing K500,000 for his personal use in decorating his flat.
- (3) At the end of the year, one of the motor vehicles which cost K5,500,000 and had accumulated depreciation of K2,400,000 was sold for K3,500,000. Payment for the vehicle sold has not yet been received and no entry to reflect the sale has been made in the trial balance.
- (4) Inventory at hand was valued at K30,229,000 at 31 March 2023.

Required:

- (a) Prepare a statement of profit or loss for the year ended 31 March 2023. (11 marks)
- (b) Prepare the statement of financial position as at 31 March 2023. (9 marks)

[Total: 20 Marks]

END OF PAPER

C3: ACCOUNTANCY FOR TAX PRACTITIONERS - SUGGESTED SOLUTIONS

SOLUTION ONE

- (a) Nile and Bati's
Statement of Profit or Loss and appropriation account for the year ended 31 December 2023

	K	K
Sales (359,000 – 5,000)		354,000
Opening inventory	19,000	
Purchases	<u>158,500</u>	
	177,500	
less Closing inventory	<u>(24,000)</u>	<u>(153,500)</u>
Gross profit		200,500
Less: Loss on vehicle Disposal (12,000 - 5,250 - 5,000)	1,750	
Depreciation on vehicles (20% x (56,000 – 12,000))	8,800	
Administration expenses (70,400 + 1,500)	71,900	
Rent	11,000	
Selling expenses	<u>55,650</u>	<u>(149,100)</u>
Net Profit		51,400
Less: Interest on capitals – Nile (5% x 40,000)	2,000	
– Bati (5% x 40,000)	2,000	<u>(4,000)</u>
		47,400
Share of Profit – Nile (50% x 47,400)	23,700	
– Bati (50% x 47,400)	<u>23,700</u>	<u>(47,400)</u>
		<u><u>-</u></u>

- (b) Nile and Bati's
Statement of Financial Position as at 31 December 2023

	K	K	K
<u>Non-Current Assets:</u>			
Motor vehicles (56,000 – 12,000)	44,000	17,550	26,450
<u>Current Assets:</u>			
Inventory		24,000	
Trade Receivables (30,700 - 500)		30,200	
Bank		<u>26,450</u>	<u>80,650</u>
Total Assets			<u><u>107,100</u></u>
<u>Financed By:</u>			
Capital Accounts – Nile		40,000	
– Bati		<u>40,000</u>	80,000
Current Accounts – Nile (2,000 + 23,700 – 30,100)		(4,400)	
– Bati (2,000 + 23,700 – 20,700)		5,000	600
<u>Current Liabilities</u>			
Trade Payables		25,000	
Accrued Administration expenses		<u>1,500</u>	<u>26,500</u>
			<u><u>107,100</u></u>

Working:

Accumulated Depreciation:

As per trial balance

Year's charge

Disposal

K
14,000
8,800
(5250)
<u>17,550</u>

SOLUTION TWO

		2022	2023
(a)	<u>Gross profit x 100%</u>	= <u>22,500 x 100%</u>	= <u>31,500 x 100%</u>
(i)	Revenue	90,000	126,000
		= <u>25%</u>	= <u>25%</u>
(ii)	<u>Cost of sales</u>	= <u>67,500</u>	= <u>94,500</u>
	Average inventory	(22,500 + 9,000) ÷ 2	9,000 + 13,500 ÷ 2
		= <u>67,500</u>	= <u>94,500</u>
		15,750	11,250
		= <u>4.3 times</u>	= <u>8.4 times</u>
(iii)	<u>Net profit x 100%</u>	= <u>5,400 x 100%</u>	= <u>9,000 x 100%</u>
	Revenue	90,000	126,000
		= <u>6%</u>	= <u>7.14%</u>
(iv)	<u>Current assets- inventory</u>	= <u>20,250 – 9,000</u>	= <u>28,350 – 13,500</u>
	Current liabilities	11,250	5,400
		= <u>11,250</u>	= <u>14,850</u>
		11,250	5,400
		= <u>1</u>	= <u>2.75</u>
(v)	<u>Current assets</u>	= <u>20,250</u>	= <u>28,350</u>
	Current liabilities	11,250	5,400
		= <u>1.8 times</u>	= <u>5.25 times</u>
(vi)	<u>Net profit</u>	= <u>5,400</u>	= <u>9,000</u>
	Total assets - current liabilities x 100%	58,500	85,950
		= <u>9.23%</u>	= <u>10.47%</u>
(vii)	<u>Trade receivables x 365 days</u>	= <u>11,250 x 365</u>	= <u>12,600</u>
	Revenue	90,000	126,000 x 365
		= <u>45.6 days</u>	= <u>36.5 days</u>

(b) (i) Past periods.

A comparison can be made between the most recent periods and previous periods in the same line of business, in order to identify any trends of significantly better or worse results than before which may be useful in planning for the future.

(ii) Other business in the same industry.

A comparison can be made between one business and another to establish which business has performed better and in what ways.

(iii) Planned performance.

Business often formulate their financial plans in terms of financial ratios so that they compare the actual ratios which occurred with that they were planned to be, is a valid and useful activity.

SOULUTION THREE

(a) Statement of profit or loss for Munga Munga for the year ended 30 September 2023.

	K	K
Revenue		98,904
Opening inventory	12,960	
Purchases	<u>41,600</u>	
	54,560	
Less: Closing inventory	<u>(12,560)</u>	
COS		<u>(42,000)</u>
Gross profit		56,904
Distribution costs (w1)	8,432	
Administration costs (w2)	16,536	
Provision for irrecoverable debts (472 - 416)	56	
Bad debts written off	40	
Finance costs – Bank overdraft interest	40	
– Loan interest	<u>720</u>	
		<u>(25,824)</u>
Profit before tax		31,080
Tax		<u>(6,216)</u>
Profit after tax		<u><u>24,864</u></u>

Workings:

- Distribution costs K

Per TB 7,360

Depreciation (w) 1,072

8,432
- Administration costs K

Per TB 16,560

Rent 720

Insurance (3,000)

Depreciation: Plant(w) 1,760

Depreciation: Property (w) 496

16,536

Workings:

Property dep'n 2% x 24,800 = K496 Administration

Plant & Equipment 10% x 17,600 = 1,760 Administration

Vehicles dep'n 20% x K7,200 – 1,840 = K1,072 distribution

Provision for bad debts 5% x K9,440 = K472

(b) Statement of financial position as at 30 September 2023.

	K	K	K
<u>Assets:</u>			
Non-current assets:			
Property	24,800	6,496	18,304
Plant & equipment	17,600	5,920	11,680
Vehicles	<u>7,200</u>	<u>2,912</u>	<u>4,288</u>
	<u>49,600</u>	<u>15,328</u>	34,272
<u>Current Assets:</u>			
Inventories		12,560	
Trade receivables (9,440 -472)		8,968	
Insurance prepaid		3,000	
Bank		<u>2,800</u>	
			<u>27,328</u>
			<u>61,600</u>
<u>Equity & Liabilities</u>			
Equity:			
Share capital			5,600
Other reserves			2,000
Retained earnings (3,320 + 24,864)			<u>28,184</u>
			35,784
<u>Non-current liabilities</u>			
Long term loan 6% redeemable 2028			12,000

<u>Current liabilities:</u>		
Trade payables (4,400 + 720 + 720)	4,400	
Accrued Loan interest	720	
Accrued rent	720	
Tax	6,216	
Bank overdraft	<u>1,760</u>	
		<u>13,816</u>
Total equity		<u>61,600</u>

SOLUTION FOUR

(i)

Journal		K'
1	DR Purchases	300,000
	DR VAT	48,000
	CR Bank	348,000
2	DR Bank	464,000
	CR Sales	400,000
	CR VAT	64,000
3	DR Payables	92,800
	CR Purchases returns	80,000
	CR VAT	12,800
4	DR Sales Returns	50,000
	DR VAT	8,000
	CR Receivables	58,000
5	DR Receivables	63,916
	CR Sales	55,100
	CR VAT	8,816
6	DR Purchases	23,500
	DR VAT	3,760
	CR Payables	27,260

(ii)

VAT Control account			
	K		K
cash Purchases	48,000	Bal b/f	1,988
Credit Purchases	3,760	Cash sales	64,000
Sales returns	8,000	Purchases	
		Returns	12,800
VAT payable	<u>27,844</u>	Credit sales	<u>8,816</u>
	<u>87,604</u>		<u>87,604</u>

(b)

Statement of cash flows terms

(v) Cash equivalent: short term investment with a three months maturity

(vi) Operating activity: principle revenue generating activities of a business

(vii) Investing activity: involve acquisition and disposal of non-current assets

(viii) Financing activity: involve those that change size and composition of long term finance

SOLUTION FIVE

(a) Samusa Vendeta

Statement Profit or Loss for the year ended 31 March 2023		
	K'000	K'000
Revenue		187,325
Less: returns inwards		<u>(1,437)</u>
		185,888
Cost of sales:		
Opening Inventory	27,931	
Purchases (103,742 + 923 – 500 – 1,014)	<u>103,151</u>	
	131,082	
Less: Closing Inventory	<u>(30,229)</u>	
		<u>(100,853)</u>
Gross profit		85,035
Bank deposit interest		972
Profit on sale of vehicles (3,500 – 3,100)		<u>400</u>
		86,407
Less: Expenses		
Depreciation (6,094 + 4,155)	10,249	
Carriage outwards	657	
Rent, rates and insurance	7,721	
Irrecoverable debts (830 + 937)	1,767	
Postage, stationery and telephone	4,831	
Wages	29,344	
Discount allowed	373	
Bank charges	693	
Motor expenses	<u>8,517</u>	
		<u>(64,152)</u>
Net profit		<u>22,255</u>

(b) **Samusa Vedenta Statement of Financial Position as at 31 March 2023**

	Cost K'000	Accum Dep'n K'000	NBV K'000
Non-current asset:			
Motor vehicles (32,500 – 5,500)	27,000	(11,819)	15,181
Office equipment	<u>41,545</u>	<u>(8,310)</u>	<u>33,235</u>
	<u>68,545</u>	<u>(20,129)</u>	48,416
Current assets:			
Inventory		30,229	
Trade receivables (18,740 – 937)		17,803	
Other receivables note (iii)		3,500	
Prepayments		320	
Cash at bank		<u>9,639</u>	
			<u>61,491</u>
			<u>109,907</u>
Capital:			
Opening balance		83,696	
Profit for the year		<u>22,255</u>	
		105,951	
Drawings (14,400 + 500)		<u>(14,900)</u>	
			91,051
Current liabilities:			
Trade payables		17,725	
Accruals		<u>1,131</u>	
			<u>18,856</u>
			<u>109,907</u>

Working

Motor Vehicle Depreciation = $14,219 - 2,400 = \underline{11,819}$

END OF SUGGESTED SOLUTIONS



TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C4: DIRECT TAXES

TUESDAY 10 JUNE 2025

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

INSTRUCTIONS TO CANDIDATES

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8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.
10. A taxation table is provided on pages 2 to 6 of this paper.

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

(C4: Direct Taxes Taxation Table for 205 Examinations)

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%
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%
Farming allowances		
	Development allowance	10%
	Farm works allowance	100%
	Farm improvement allowance	100%

Presumptive Taxes

Turnover Tax

Annual turnover

First K12,000	0%
K12,001 to K5,000,000	5%

Tax on rental income

Annual Rental income band

Taxable amount

K1 to K12,000	First K12,000	0%
K12,001 to K800,000	Next K788,000	4%
Above K800,000		16%

Presumptive Tax for transporters

Seating capacity

Tax per annum

Tax per quarter

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

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%
On the realised value of shares	8%
On the realised value of intellectual property	8%
On the realised value of a mining right for an exploration license	8%
On the realised value of a mining right for a mining licence	10%
On the realised value tax on realised value of a 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

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

	K	K	K	K
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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	15,715	12,048	7,246	5,556
GVW exceeding 2.0 tonnes but not exceeding 5.0 tonnes	17,461	13,387	8,731	6,694
GVW exceeding 5.0 tonnes but not exceeding 10.0 tonnes	27,938	21,419	10,477	8,032
GVW exceeding 10.0 tonnes but not exceeding 20.0 tonnes	34,923	26,774	13,271	10,174
GVW exceeding 20 tonnes	58,645	0	21,992	0
GVW up to 2 tonnes	15,715	12,048	7,246	5,556

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:**

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 the questions

QUESTION ONE

TEK Plc is a Zambian resident company engaged in manufacturing. The company listed its shares on the Lusaka Securities Exchange in May 2025 when it offered two-third (2/3) of its issued share capital to indigenous Zambians. The following is the statement of profit or loss for the year ended 31 December 2025.

	K	K
Gross profit		3,630,000
Other Income:		
Profit on disposal	65,000	
Investment income (Note 1)	<u>75,000</u>	
		<u>140,000</u>
		3,770,000
Expenses:		
Depreciation	77,800	
Bad debts (Note 2)	120,550	
Salaries and Wages (Note 3)	1,350,000	
Entertaining expenses (Note 4)	65,200	
Repairs and renewals (Note 5)	45,000	
General expenses (Note 6)	<u>330,000</u>	
		<u>(1,988,550)</u>
Profit before Taxation		<u>1,781,450</u>

The following additional information is relevant:

Note 1: Investment income

This is made up of royalties K30,000 (net), dividends K20,000 (net) and bank interest K25,000 (net). Withholding tax had been deducted at source.

Note 2: Bad debts:

	K
Trade debts written off	93,100
Loans to former employee written off	16,000
Increase in specific bad debt provision	26,070
Trade debts previously written off now recovered	<u>(14,620)</u>
	<u>120,550</u>

Note 3: Salaries and wages:

Included in the salaries and wages is K312,000 annual salary paid to the Finance Director who is accommodated in company house and pays no rent. The monthly rentals for the house is K10,000. The company has employed one (1) differently abled on full-time basis.

Note 4: Entertainment expenses :

	K
Entertaining suppliers	41,600
End of year staff party	<u>23,600</u>
	<u>65,200</u>

Note 5: Repairs and Renewals:

The figure of K45,000 includes K20,500 for replacing an engine block of the second hand Mitsubishi Canter Truck acquired during the year. The balance represents repairs undertaken for normal wear and tear. The second hand Canter Truck has not yet been brought into use.

Note 6: General expenses

	K
Share issue costs	37,200
Staff canteen expenses	27,200
Donation to an approved charity	35,500
Fines for breach of labour laws	14,500
Gifts of Calendars to customers each costing K65	65,000
Donation to a political party	55,000
Other allowable revenue expenses	<u>95,600</u>
	<u>330,000</u>

Additional information:

(1) The company had the following implements, plant and machinery as at 1 January 2025.

	Income Tax Value	Original Cost
	K	K
Toyota Prado car (3500cc)	328,000	410,000
Office furniture	90,000	120,000
Old Manufacturing plant	90,000	180,000

During the year ended 31 December 2025, the company entered into the following capital transactions:

Cost/(proceeds)
K

Bought a Toyota Hilux (2,200cc)	600,000
Bought a new manufacturing plant	260,000
Sold the old manufacturing plant	(210,000)

The Toyota Prado and Toyota Hilux cars are used by the Finance Director and Marketing Director respectively on a personal-to-holder basis. The private use in each car as agreed with the Commissioner General was 55%.

(2) Provisional income tax paid for tax 2025 was K107,000.

Required:

- (a) Calculate the maximum amount of capital allowances claimable by TEK Plc for the tax year 2025. (5 marks)
- (b) Calculate the amount of taxable business profit for the tax year 2025. (9 marks)
- (c) Calculate the amount of income tax payable by TEK Plc for the tax year 2025.

(6 marks)

[Total: 20 Marks]

QUESTION TWO

Mwewa Chisebu had been employed at SEULU Plc until 31 August 2025 when he was declared redundant. Upon being declared redundant, he was paid his accrued Leave pay of K42,400, repatriation pay of K261,500, Salary in lieu of notice of K64,500 and compensation for loss of office of K78,600. He also received a total sum of K391,500 as pension refund. Half of this amount was a refund of employee's pension contribution and the remaining amount was an employer's pension contribution.

His annual basic salary in the final year of employment was K268,000. In addition to the salary, he was also entitled to housing allowance of 25% of the basic salary, transport allowance of 15% of the basic salary, a utility allowance of 5% of the basic salary and a medical allowance of K31,200 per annum.

SEULU Plc also paid for educational fees for his school going children totaling K72,027 during the year ended 31 December 2025.

The only other income received by Mwewa in the tax year included royalties of K59,500 and interest from his savings bank account of K4,950. These were the actual amounts received in both cases.

He made the following Payments during the tax year 2025:

Details	K
Income tax paid under pay as you earn	102,400
NAPSA	17,890
Mortgage interest	6,400

Golf club subscriptions	7,200
Donations to an approved charity	15,241
Donations to a political party	18,600
Professional subscription	4,200

Required:

- (a) Explain the meaning of the following factors used by the Zambia Revenue Authority to establish whether an individual is employed or self-employed:
- (i) Control (2 marks)
 - (ii) Tools and equipment (2 marks)
- (b) Calculate the total amount of taxable income and income tax payable by Mwewa for the tax year 2025. You should indicate by the use of zero (0) for all emoluments and benefits that are not taxable. (16 marks)

[Total: 20 Marks]

QUESTION THREE

- (a) Property Transfer Tax (PTT) is charged upon and collected from the person transferring the property whenever qualifying property is transferred. Property Transfer Tax is chargeable on the realised value of the property transferred.

Required:

- (i) Explain the general rule used to determine the realised value. (2 marks)
 - (ii) Explain any three (3) transactions that are exempt from property transfer tax. (3 marks)
 - (iii) Explain the meaning of transfer and circumstances which constitute a transfer of property. (3 marks)
- (b) In the tax year 2025, Joyce Kalumba disposed of the following transactions:
- (1) **Shares in WC Plc**
On 1 May 2025, she disposed of 10,000 ordinary shares in WC Plc for K80,000. She had acquired these shares at a total cost of K60,000 on 1 February 2025. The open market value of these shares was K78,000 at the date of sale.
 - (2) **Property in Kafue**

On 15 July 2025 she sold her farm land in Kafue for K110,000 and incidental costs on disposal amounted to K5,000. On that date, the farm land had an open market value of K90,000 as advised by the Government valuation officers.

Joyce Kalumba acquired the land in May 2023 at a cost of K22,500 after deducting incidental costs of acquisition of K1,500.

(3) **Share in ZAMX Limited**

On 5 August, 2025, She sold all her 15,000 ordinary shares of K2.00 normal value each in ZAMX Limited, a Zambian resident company that is not listed on the Lusaka Securities Exchange, for a total consideration of K75,000. This was the agreed upon value as the open market value determined by the Government valuation experts. She bought the 15,000 ordinary shares in September 2023.

(4) **Transfer of plot**

On 1 September 2025, she transferred a residential plot to her dully adopted son at a transfer price of K15,000. The property had an open market value of K65,000 on the date of transfer. She acquired this property in 2015 at a cost of K28,000.

(5) **Sale of motor car**

She sold a motor car for cash proceeds of K190,000. The open market value of the car was K182,000 on the date of sale. She acquired this motor car in 2021 at a cost of K80,000.

(6) **Shares in VX Limited**

On 25 December 2025, she transferred 5,000 ordinary shares of K3.00 in VX Limited each to her son as a gift for being accepted at the University of Zambia. He did not pay any consideration for these shares.

Required:

Explain the property transfer tax implications of the transactions entered into by Joyce. Your answer should include a computation of property transfer tax payable, if any, by Joyce on each of the above transactions.

(12 marks)

[Total: 20 Marks]

QUESTION FOUR

- (a) The mission statement of Zambia Revenue Authority underpins the main responsibilities of the Authority which aims at maximising and sustaining revenue collection through an integrated, efficient, cost effective and transparent systems, professionally managed to meet the expectations of all stakeholders. Taxes are assessed and collected through a tax system which operates under rules and regulations referred to as tax laws.

Required:

- (i) State six (6) responsibilities of Zambia Revenue Authority that are enshrined in the mission statement. (6 marks)
- (ii) Explain four (4) main sources of tax law in Zambia to ensure the efficient operation of the tax system. (8 marks)
- (b) The income tax is chargeable on the income of persons' resident and ordinarily resident in Zambia. The income Tax Act stipulates how to establish the residence status of individuals and persons' other than individuals.

Required:

- (i) Explain the circumstances under which an individual is held to be resident and ordinarily resident in Zambia for income tax purposes. (2 marks)
- (ii) Explain the circumstances under which a company is held to be resident for income tax purposes. (2 marks)
- (c) Provisional Income Tax is a quarterly advance payment of income tax which is based on estimated taxable (provisional) income for the current year. Any person in receipt of income, other than emoluments subject to PAYE and who is also not subjected to presumptive taxation is required to pay provisional income tax.

Required:

Explain two (2) advantages of the provisional income tax system in Zambia. (2 marks)

[Total: 20 Marks]

QUESTION FIVE

- (a) Mwaona Zulu is a sole trader operating in Lusaka. His business premises consist of a shop with living accommodation above, which houses Mwaona and his family. For the year ended 31 December 2025, his profit and loss account showed the following.

	K	K
Gross profit		2,273,853
Less:		
Depreciation	144,153	
Repairs and renewals	(Note 1) 115,880	
Rent and rates	(Note 2) 167,600	
Utility expenses	(Note 3) 134,300	
Legal expenses	(Note 4) 128,400	
Salaries and wages	(Note 5) 139,500	
Entertainment	(Note 6) 159,800	
Bad debts	(Note 7) 188,400	
Miscellaneous	(Note 8) <u>213,600</u>	
		(1,391,633)
Net profit		<u>882,220</u>

The following additional information has been provided:

Note 1: Repairs and renewals

This includes K28,500 initial repairs for the second hand delivery van acquired during the year ended 31 December 2025. The repairs were necessary to put the motor vehicle into a usable state. The remaining balance was incurred in respect of repairs to non-current assets to remedy the normal wear and tear.

Note 2: Rent and Rates

Two thirds (2/3) of this expense relates to the private living quarters occupied by Mwaona and his family.

Note 3: Utility expenses

These include water and electricity bills, of which 25%, were bills relating to Mwaona's private residence.

Note 4: Legal expenses

	K
Legal fees in connection with acquisition of land	75,000
Legal fees in connection with recovery of loans from former employee	<u>53,400</u>
	<u>128,400</u>

Note 5: Salaries and wages

This included K65,000 nominal annual salary for Mwaona, annual salaries of K30,000 and K42,000 for the shop assistant and Mwaona's son respectively. They were both doing the same kind of work. The balance relates to other employees.

Note 6: Entertainment

	K
Entertaining employees	59,000
Gifts of shopping vouchers given to customers (worth K250 each)	37,500
Entertaining suppliers	30,000
Entertaining customers	<u>33,300</u>
	<u>159,800</u>

Note 7: Bad debts

	K
Trade debts written off	81,000
Decrease in specific bad debt	(18,700)
Increase in specific provision for bad debts	91,200
Loan to former employee written off	71,200
Trade debts written off now recovered	(24,300)
Loans to former employee previously written off now recovered	<u>(12,000)</u>
	<u>188,400</u>

Note 8: Miscellaneous

	K
Donation to political parties	15,995
Interest on overdue tax	47,402
Operating lease rentals for assets used in the business	94,119
Other revenue allowable expenses	<u>56,084</u>
	<u>213,600</u>

Note 9: capital allowances

Capital allowances on implements, plant and machinery for the year ended 31 December 2025 have been agreed, with the Commissioner General, at K175,000

Required:

- (i) Calculate Mwaona Zulu's business adjusted profit for the tax year 2025.
(10½ marks)
- (ii) Calculate the final income tax payable by Mwaona Zulu for the tax year 2025.
(3½ marks)

- (b) For citizens and persons to be responsive to the taxation system, it is important that the taxation system is seen to be effective and just.

Required:

Explain three (3) Qualities of a good tax system.

(6 marks)

[Total: 20 Marks]

END OF PAPER

C4: DIRECT TAXES - SUGGESTED SOLUTIONS

SOLUTION ONE

(a) TEK's

Claimable capital allowances for the tax year 2025

	Cost/ITV K	Capital allowances K
Toyota Prado		
Income tax value b/f	328,000	
Wear & tear @ 20% x K410,000	<u>(82,000)</u>	82,000
Income tax value c/fwd	<u>246,000</u>	
Office furniture		
Income tax value b/f	90,000	
Wear & tear @25% x K120,000	<u>30,000</u>	30,000
Income tax value c/fwd	<u>60,000</u>	
Old Manufacturing plant		
Income tax value b/f	90,000	
Disposal (restricted to cost)	<u>180,000</u>	
Balancing charge	<u>90,000</u>	(90,000)
Toyota Hilux		
Income tax value b/f	600,000	
Wear & tear @ 20% x 600,000	<u>120,000</u>	120,000
Income tax value c/fwd	<u>480,000</u>	
Manufacturing equipment		
Cost	260,000	
Wear & tear @ 50% x K260,000	<u>(130,000)</u>	<u>130,000</u>
Income tax value c/f	<u>130,000</u>	
Total		<u>272,000</u>

(b) TEK's Taxable business profit for the tax year 2025

	K	K
Profit before tax		1,781,450
Add:		
Loan to former employee written off	16,000	
Depreciation	77,800	

Accommodation benefit (K312,000 x 37.5%)	117,000	
Entertaining suppliers	41,600	
Replacing engine block	20,500	
Share issue costs	37,200	
Staff canteen expenses	27,200	
Fines for breach of labour laws	14,500	
Donation to political party	55,000	
Car benefit:		
Finance Director (3,500cc)	48,000	
Marketing Director (2,200cc)	<u>36,000</u>	
		<u>490,800</u>
		2,272,250
Less:		
Royalties	30,000	
Dividends	20,000	
Bank interest	25,000	
Differently abled persons benefit	2,000	
Capital allowances	<u>272,000</u>	
		<u>(349,000)</u>
Adjusted business profit		<u>1,923,250</u>

(c) TEK PLC

COMPANY INCOME TAX COMPUTATION FOR THE TAX YEAR 2025

	K	
Taxable business profits	1,923,250	
Bank interest (K25,000 x100/85)	29,412	
Royalties (K30,000 x 100/85)	<u>35,294</u>	
		1,987,956
Company income tax		
[K1,987,956 x 23% (30%-7%)	457,230	
Less WHT:		
Royalties K35,294 x 15%	(5,294)	
Bank interest (K29,412x 15%)	(4,412)	
Provisional income tax paid	<u>(107,000)</u>	
Income tax payable	<u>340,524</u>	

SOLUTION TWO

(a) The following is the meaning of control and tools & equipment:

(i) Control

The work of an employee is controlled by the employer who will normally stipulate working hours, the place at which the duties are to be performed, how the work is to be performed and other conditions whereas a self-employed person will decide when to perform the duties and how to perform them.

(ii) Tools and equipment

An employer will provide the tools and equipment which the employees are to use with some few exceptional cases whereas self-employed individuals will provide their own tools and equipment.

(b) Mwewa's income tax payable for the tax year 2025

	K	K
<u>Emoluments</u>		
Salary ($K268,000 \times 8/12$)		178,667
Housing allowance ($K178,667 \times 25\%$)		44,667
Transport allowance ($K178,667 \times 15\%$)		26,800
Utility allowance ($K178,667 \times 5\%$)		8,933
Educational fees		72,027
Accrued leave pay		42,400
Salary in lieu of notice		0
Compensation for loss of office		0
Repatriation pay		0
Pension refund		0
Medical allowance ($K31,200 \times 8/12$)		<u>20,800</u>
Gross taxable emoluments		394,294
Investment income:		
Royalties ($59,500 \times 100/85$)		<u>70,000</u>
Total income		464,294

Less allowable expenses:

Professional subscription 4,200

Donation to charity 15,241

(19,441)

Taxable income 444,853

Computation

First K61,200 @0% 0

Next K24,000 @20% 4,800

Next K25,200 @30% 7,560

Excess (K444,853 – K110,400) @37% 123,748

Income tax liability 136,108

Less:

Income tax paid under pay as you earn 102,400

WHT – Royalties (K70,000 x 15%) 10,500

(112,900)

Income tax payable 23,208

SOLUTION THREE

(a) Property transfer tax

- (i) As a general rule, the realised value of any property transferred is the higher of:
 - (1) The contract price agreed upon by the transferor and the transferee, and
 - (2) The open market value of the property on the date of transfer.
- (ii) The following transactions are exempt from property transfer tax:
 - (1) The transactions as a result of the sale or other disposal of any stock or share listed on the Lusaka Securities Exchange.
 - (2) Contribution towards the equity for a company. The Commissioner General may treat a transfer of property by a shareholder of a company incorporated under the companies Act, if such transfer is his contribution towards the equity of that company as qualifying for exemption.
 - (3) A transfer is not liable to PTT if it is occasioned by death of the transfer to a member of the immediate family.
- (iii) Transfer is the change in the ownership of an asset. The following are the circumstances which constitute the transfer of property are:
 - (1) A disposal of property
 - (2) A disposal of a part of property (a part disposal as in the case of shares)
 - (3) A gift of the property (in the case of family members generally).

(b) The following are the property transfer tax implications:

- (1) The transfer of shares in a company listed on the Lusaka Securities Exchange (LUSE) is exempt from property transfer tax as it has a realised value of nil. Therefore there is no PTT chargeable.
- (2) The transfer of the farm land is chargeable to PTT. The realised value is the higher of the contract price and the open market value. Therefore, the realised value is K110,000.

$$\text{Property transfer tax} = \text{K}110,000 \times 8\% = \text{K}8,800$$

- (3) The transfer of shares in a company which is not listed on LUSE is chargeable to property transfer tax. The realised value is the higher of the nominal value and the open market value. Therefore, the open market value being higher than the nominal value is the realized value.

$$\text{Property transfer tax} = \text{K}75,000 \times 8\% = \text{K}6,000$$

- (4) The transfer of property to a member of an immediate family has a realised value of nil if there is no consideration paid. However, Joyce's son paid a consideration of K15,000 in appreciation becomes the realised and chargeable to PTT.

$$\text{Property transfer tax} = \text{K}15,000 \times 8\% = \text{K}1,200$$

- (5) The motor car is a movable chattel and as such, no property transfer tax is charged as transfer of movable assets is outside the scope of property transfer tax.
- (6) The transfer of property to a member of an immediate family has a realised value of nil, unless a consideration is paid. Therefore, the transfer of shares to her son has a nil released value as the son did not pay any consideration. No PTT would be charged on the transfer of shares.

SOLUTION FOUR

- (a) Responsibilities of the Zambia Revenue Authority and the main sources of tax law
- (i) The main responsibilities of Zambia Revenue Authority contained in the mission statement are:
 - (1) Properly assess and collect taxes and duties at the right time without causing undue burden to the public.
 - (2) Encourage the public to present themselves forward and pay tax voluntarily.
 - (3) Ensure that all monies collected are properly accounted for and timely banked.
 - (4) Properly enforce all relevant statutory provisions.
 - (5) Give advice to Ministers on aspects of tax policy.
 - (6) Facilitate international trade.
 - (ii) The main sources of tax law include:
 - (1) Statutes
The source of tax law is the statute. Statutes or Acts of parliament will make it legal for taxes to be levied.
 - (2) Statutory instruments
These are a form delegated legislation issued by a Government Minister. Statutory instruments related to tax matters are issued from time to time by the Minister of Finance and National Planning. The statutory instruments empower the Minister to make orders to give effect to legislation.
 - (3) Case law
Decided cases in taxation will assist with the interpretation of a particular statute which relates to the specific circumstances of a case. Tax Acts are a special form of statute demanding a strict or predictable form of interpretation.
 - (4) Practice Notes
They are issued by the Zambia Revenue Authority to indicate the ZRA's interpretation of a statute. The practice notes are normally issued following amendments to taxes acts.
- (b) determining the residence status of individuals and companies
- (i) An individual is resident in Zambia if:
 - (1) He or she is physically present in Zambia for a period of not less than 183 days in a charge year.
 - (2) He or she normally live in Zambia is resident and ordinarily resident in Zambia.

- (3) He or she comes to Zambia with the intention of remaining here for more than 12 months are deemed to be resident and ordinarily resident in Zambia from the date of arrival.
- (ii) A company is held to resident in Zambia for Income Tax purposes if:
 - (1) That company is incorporated or formed in Zambia, or
 - (2) The effective management and control of the company's business affairs is exercised in Zambia. This means that the directors should be making key decisions in Zambia.
- (c) Advantages of the provisional income tax
 - (1) There is inflow of revenue to the government throughout the year.
 - (2) The burden on the part of the tax payer is reduced as the huge amount of tax will not be payable at once at the end of the charge year.

SOLUTION FIVE

(a) Mwaona Zulu

(i) Business adjusted profit for tax year 2025

	K	K
Net profit		882,220
Add:		
Depreciation	144,153	
Initial repairs to delivery van	28,500	
Rent & Rates (2/3 x K167,600)	111,733	
Utility bills (K134,300 x 25%)	33,575	
Legal fees loan recovery	53,400	
Legal fees, acquisition of land	75,000	
Mwaona Zulu's salary	65,000	
Difference in salary (K42,000-K32,000)	12,000	
Gift of vouchers to customers	37,500	
Entertaining suppliers	30,000	
Entertaining customers	33,300	
Loan to former employee written off	71,200	
Interest on overdue tax	47,402	
Donation to political parties	<u>15,995</u>	
		<u>758,758</u>
		1,640,978
Less:		
Capital allowances	175,000	
Loan written off now recovered	<u>12,000</u>	
		<u>(187,000)</u>
Tax adjusted business profit		<u>1,453,978</u>

(ii) Mwaona Zulu

Income Tax computation for charge year 2025

	K
Taxable amount	1,453,978
First K61,200 @ 0%	0
Next K24,000 @20%	4,800
Next K25,200 @ 30%	7,560
Balance (K1,343,578 x 37%)	<u>497,124</u>
Income tax payable	<u>509,484</u>

(b) Qualities of a good tax system

- (1) Taxation should bear as lightly as possible on production
Taxes should not be so high that they make production very expensive. Taxes that bear heavily on production lead to lower production.
- (2) Taxes should be cheap and easy to collect and fall directly on the ultimate payer.
Great resources that are devoted to tax collection are simply wasted if the amounts collected are low.
- (3) Taxes should be certain
If tax rules are complex, they can be subverted and evade. If tax rules can only be understood by specialists, then only those tax payers who can afford to pay the specialists are likely to comply with the rules. The tax rules should therefore be easy to understand.
- (4) Taxes should bear equally so as to give no individual an advantage
This simply means that taxes should be levied on the basis of ability to pay. If taxes are not based on this principle, then persons in low income groups will find the taxes to be more burdensome than those in high income groups.

END OF SUGGESTED SOLUTIONS



TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C5: INDIRECT TAXES

THURSDAY 12 JUNE 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.
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 to 6 of this paper.

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

Taxation Table

Income Tax

Standard personal income tax rates

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%
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%

Farming allowances		
	Development allowance	10%
	Farm works allowance	100%
	Farm improvement allowance	100%

Presumptive Taxes

Turnover Tax

Annual turnover

First K12,000	0%
K12,001 to K5,000,000	5%

Tax on rental income

Annual Rental income band	Taxable amount	
K1 to K12,000	First K12,000	0%
K12,001 to K800,000	Next K788,000	4%
Above K800,000		16%

Presumptive Tax for transporters

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

Property Transfer Tax

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

Motor vehicles for the transport of ten or more persons, including the driver	Aged 2 to 5 years Customs duty	Excise duty	Aged over 5 years 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				
	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
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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	15,715	12,048	7,246	5,556
GVW exceeding 2.0 tonnes but not exceeding 5.0 tonnes	17,461	13,387	8,731	6,694
GVW exceeding 5.0 tonnes but not exceeding 10.0 tonnes	27,938	21,419	10,477	8,032
GVW exceeding 10.0 tonnes but not exceeding 20.0 tonnes	34,923	26,774	13,271	10,174
GVW exceeding 20 tonnes	58,645	0	21,992	0
GVW up to 2 tonnes	15,715	12,048	7,246	5,556

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%
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 FIVE (5) Questions

QUESTION ONE

- (a) Value Added Tax (VAT) is administered by the Domestic Taxes Division of the Zambia Revenue Authority (ZRA). It is a tax on the consumption of goods and services in the Republic. It is levied at every stage in the production and distribution chain collected along the chain of manufacturer, wholesaler, retailer and the final consumer who does not add value. There are arguments in favour and arguments against the introduction of VAT in Zambia. Some traders argue that there are too many obligations VAT registered suppliers need to comply with according to the VAT Act.

Required:

- (i) Explain two (2) arguments against Value Added Tax (VAT) in Zambia. (2 marks)
- (ii) State seven (7) obligations of a VAT registered supplier. (7 marks)
- (b) Value Added Tax is charged on taxable supply of goods and services made by a taxable supplier in the course of business activities. Thus the supply of goods and services must qualify as a taxable supply for VAT to be charged and the business charging VAT must be registered for VAT purposes. Supplies made by persons who are not registered are not taxable supplies.

Required:

- (i) Explain the tax implications of Zero-rated supplies and Exempt supplies. (2 marks)
- (ii) Explain the circumstances when a supplier is required to register for VAT mandatorily. (2 marks)
- (iii) Explain the meaning of "Waiver of Registration" and its consequence in relation to VAT registration. (3 marks)
- (c) Businesses that are registered for VAT may claim input tax on purchases and other expenses. However, there are restrictions on input VAT that can be claimed to protect the revenue from inappropriate claims.

Required:

- State any four (4) items on which input VAT is not claimable. (4 marks)

[Total: 20 Marks]

QUESTION TWO

- (a) ZUKI Limited is a Zambian resident company involved in the selling of motor vehicle spares in Lusaka, along Chiparamba road. Its turnover has been consistently below the VAT registration threshold. All the same, the company was recently registered under voluntary registration. The following information has been provided for the month ended 31 March 2025.

- (1) Sales invoices totaling K374,000 were issued to customers which included Standard rated sales amounting to K224,000, Zero-rated sales amounting to K37,800 and the remainder of the sales were exempt.

Standard rated sales included K33,600 sold to small scale customers who are not registered for VAT. The balance relates to sales made to companies that are registered for VAT.

- (2) Standard rated purchases for the month of March 2025 amounted to K104,000.

- (3) Standard rated expenses for the month of March were made up of the following:

	K
Motor vehicle repairs	18,000
Entertainment of customers	10,440
Telephone expenses	15,000
Diesel	19,720
Petrol	23,200
Bad debts written off	22,000

- (4) The telephone expenses were incurred on a telephone calls for both business and private purpose. The Commissioner General has determined that 80% of the telephone calls in the month of March were business calls.

All the above expenses were VAT inclusive apart from bad debts written off which was VAT exclusive.

- (5) The diesel, petrol and motor vehicle repairs were incurred in making both taxable and exempt supplies in the proportion of sales.
- (6) The bad debts were written off on 31 March, 2025 arose in respect of two sales invoices of K11,000 each which were due for payment on 31 August 2023 and 31 March 2024 respectively.
- (7) During the month of March, the company purchased a Toyota Corolla for K162,400 (VAT inclusive) with an engine capacity of 1900 cc. The private use of the car was 25% as agreed with the Commissioner General.

- (8) The company disposed of an old office furniture in March at an auction sale for K28,000 which was not in use for some time.

Required:

- (i) Explain three (3) advantages and two (2) disadvantages of voluntary registration. (5 marks)
- (ii) Calculate the VAT payable by ZUKI Ltd for the month of March 2025. You should indicate by the use of a zero (0) all items on which VAT is not chargeable or recoverable. (10 marks)

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

- (b) ZUKI Ltd paid the VAT for the month of March 2025 late by fifteen (15) days.

Required:

Calculate the following:

- (i) The penalty payable (2 marks)
- (ii) The interest payable (3 marks)

Assume that the Bank of Zambia Discount rate at the time was 13%.

[Total: 20 Marks]

QUESTION THREE

Dubi enterprises deals in hardware and other general merchandise. Recently it diversified its business portfolio venturing into leasing of assets. Dubi enterprises is not a registered VAT trader despite dealing in taxable supplies and the business turnover is projected to be K800,000 in the tax year of 2025.

Required:

- (a) Explain the effective date of VAT registration for Dubi Enterprises. (4 marks)
- (b) Explain the VAT registration procedure for start up and continuing businesses. (2 marks)
- (c) Define and explain the nature and operation of a finance lease in respect to VAT. (7 marks)
- (d) Explain four (4) benefits of VAT registration (4 marks)
- (e) State three (3) features that must appear on a TAX Invoice. (3 marks)

[Total: 20 Marks]

QUESTION FOUR

- (a) One of the functions of Customs and Excise Division of the Zambia Revenue Authority is to collect duties. However, in the year 2024, Zambia Revenue Authority did not manage to meet its set targets in terms of revenue collection and one of the reasons attributed to this failure was due to tax evasion and smuggling.

Required:

- (i) Explain the import duties collected by Customs Division. (5 marks)
 - (ii) Explain the Powers of a Customs officer in protecting revenue and proper administration of the Customs and Excise Act. (4 marks)
- (b) Chama imported a 2000 cc Sedan Lexus saloon car from Japan which was manufactured in 2019 at free on board (FOB) cost US\$6,500. He incurred shipping costs of US\$260 and insurance charges of US\$390 up to the port of Dar es Salaam. He also incurred incidental costs of US\$240 from the port of Dar es Salaam to the Nakonde Border Post and US\$440 from Nakonde to Lusaka. He insured the car on a comprehensive insurance policy at K5,070 Premium per annum.

The exchange rate as approved by the Commissioner General was K26.02 per US dollar. The exchange rate quoted by commercial banks in Lusaka was K26.40 per US\$1 Dollar.

Required:

- (i) Explain the reasons which prompt customs offices to revalue the imported car. (3 marks)
- (ii) Calculate the total amount of import duties paid by Chama on the importation of the motor vehicle. (8 marks)

[Total:20 Marks]

QUESTION FIVE

- (a) The Government of the Republic of Zambia has prioritised agriculture and tourism in order to diversify the economy. It has, therefore, offered various incentives to these sectors such as zero rating some of the products and services.

Required:

- (i) Explain the items that are zero rated under Agricultural supplies. (6 marks)
 - (ii) Explain the sector which is zero rated in Tourism. (4 marks)
- (b) A Tax Point is considered as the time when taxable supplies are deemed to have been made. This is important so as to establish when a taxable supply is made because that is the time at which the tax becomes payable to Zambia Revenue Authority (ZRA).

Required:

- (i) Explain the sequence of events which will determine the Tax Point in construction industry. (4 marks)
- (ii) Define the term taxable supply. (2 marks)
- (iii) Explain the Tax Point on the supply of goods. (4 marks)

[Total:20 Marks]

END OF PAPER

C5: INDIRECT TAXES - SUGGESTED SOLUTIONS

SOLUTION ONE

- (a) (i) Some of the arguments against VAT include:
- (1) VAT is regressive like other indirect taxes.
 - (2) Small businesses have difficulties to maintain the required VAT records.
- (ii) The following are obligations of a VAT registered supplier:
- (1) Notify ZRA when the business starts or circumstances change.
 - (2) Display the VAT registration certificate.
 - (3) Charge VAT on taxable supplies.
 - (4) Complete and submit returns by the due date which is specified by ZRA and pay VAT promptly.
 - (5) The VAT returns should be completed accurately and honestly provide tax invoices.
 - (6) Maintain sufficient records for at least 5 years.
 - (7) Cooperate with ZRA officers.
 - (8) Provide information to ZRA officers.
- (b) (i) A trader who deals in Zero-rated supplies may claim input tax on expenses, and a trader who deals in exempt supplies cannot claim input tax.
- A trader who deals in Zero-rated supplies can register for VAT, whilst a trader that who deals in exempt supplies cannot register for VAT.
- (ii) (1) A supplier must apply to register if he or she deals in taxable supplies and his or her turnover exceeds the following thresholds:
- The VAT threshold in the course of business is at least K800,000 in any 12 months or likely to exceed K800,000 in the course of the 12 months period, or
- K200,000 in any three consecutive months.

- (iii) A waiver of registration is when a supplier's VAT registration is cancelled if the business deals solely in Zero-rated supplies. When the Commissioner General is satisfied that all the supplies are zero-rated, he may by notice waive the registration of that business.

As a consequence of the waiver of registration, the business must forego the entitlement to claim input tax incurred on those goods and services used in zero-rated supplies.

(c)

- (1) Motor cars
- (2) Business entertainment
- (3) Telephone
- (4) Domestic expenses

SOLUTION TWO

(a) (i) Advantages of voluntary registration

- (1) The impression of a substantial business activity may be created.
- (2) The trader will be able to reclaim input VAT on expenses as long as that input VAT is recoverable
- (3) The business will compete well with other businesses which are registered for VAT in that their costs will not be distorted by being VAT inclusive.

Disadvantages of Voluntary registration

- (1) VAT registration results in increased administration. The trader's administration costs will rise as a result of registering for VAT purposes.
- (2) Non-registered customers who get supplies from the trader will have an increased cost.

(ii) ZUKI Ltd

COMPUTATION OF VAT PAYABLE FOR THE MONTH OF MARCH 2025

	K	K
<u>OUTPUT VAT</u>		
Standard rated sales (K224,000 x 16%)		35,840
Zero-rated sales (K37,800 x 0%)		0
Exempt sales		0
Disposal office furniture (K28,000 x 16%)		<u>4,480</u>
Total output tax		40,320
<u>INPUT VAT</u>		
Standard rated purchases (K104,000 x 4/29)	14,345	
Business entertainment	0	
Telephone expenses	0	
Diesel (K19,720 x 4/29 x 70%x90%)	1,714	

Petrol (K23,200 x 4/29 x 70%)	2,240	
Bad debts written off (K11,000 x 16%)	1,760	
Toyota Corolla	0	
Motor vehicle repairs (K18,000 x 16% x 70%)	<u>2,016</u>	
		<u>(22,075)</u>
VAT payable		<u>18,245</u>

Workings:

$$\begin{aligned}\text{Recoverable input VAT} &= \text{Taxable supplies} / \text{Total supplies} \times 100 \\ &= 261,800 / 374,000 \times 100 = 70\%\end{aligned}$$

- (b) (i) For the late payment of VAT, the penalty would be:
- $$\begin{aligned}&= 0.5\% \times \text{K}18,245 \times 15 \text{ days} \\ &= \text{K}1,368\end{aligned}$$
- (ii) There will also be interest on overdue tax as follows:
- $$\begin{aligned}&= (13\% + 2\%) \times \text{K}18,245 \times 15/365 \\ &= \text{K}112.47\end{aligned}$$

SOLUTION THREE

(a) Effective date for VAT registration:

- (i) The effective date of registration is the date when the business becomes eligible to register for VAT.
- (ii) For a new business, the date of commencement of trading is the effective date of registration if the turnover thresholds are likely to be exceeded.
- (iii) For a continuing business which has exceeded the turnover thresholds, the effective date of registration is within one month of an application being made to ZRA or if the application is not made within one month of first becoming liable to register, on the day following the first period during which the K800,000 thresholds was exceeded

Therefore, for Dubi enterprises, a continuing business, the effective date is within one month of an application

(b) The registration procedure:

- (i) Completing a VAT registration form, VAT 1.
- (ii) On registration, businesses will be allocated a TPIN along with a VAT account number.

(c) A finance lease involves the hiring a non-current asset or a fixed asset at an agreed lease rental. The finance lease has three parties namely, the lessor, the lessee and the seller.

The seller

The seller invoices the lessor but supplies the asset to the lessee because of the lease agreement with the seller.

The lessor-

The lessor pays the seller for the asset delivered to the lessee. The lessor retains the title to the asset, which the lessee uses under the lease and receives the tax invoice evidencing the sale of the asset.

The invoice can be used to claim Input tax the lessor has been charged by the seller. On this part the lessor charges VAT on the lease rentals paid by the lessee.

The lessee-

The lessee pays periodic /monthly lease rentals whilst using the asset.

He pays VAT on the capital element of the lease rental.

The lessee can claim back the VAT incurred provided that he is registered for VAT and the asset under lease is not a motor car.

(d) (i) Benefits of VAT registration:

- (1) It is invoice based and therefore uniform and uncomplicated offering a sound management system with less collection weaknesses.
- (2) VAT is a 'self- policing' nature thereby enhances compliance to indirect tax laws. For those who do not adhere strong penalties and effective control policies. VAT has elements of self-checking mechanism to minimize evasion. One person's

output tax becomes the input tax of another. VAT facilitates cross checking of sales between businesses.

- (3) It gives the potential for a stronger home manufacturing industry and more competitive export prices.
- (4) The input credit mechanism gives registered businesses back much of the tax they pay on purchases and expenses used for making taxable supplies, and as a result, largely avoids the 'tax on tax' character of sales tax.
- (5) A wider tax base has resulted in less distortion of trade and a greater sharing of the costs of collecting it at various stages of the value chain and remitting it to government.
- (6) It is internationally proven in developed and developing economies.
- (7) In view of the broad tax base revenue yield is generally higher and stable and is less susceptible to fluctuations.
- (8) VAT is less complex than sales tax.

(e) Features that must appear on the invoice.

- (i) The words 'Tax invoice'
- (ii) The Name, address and TPIN of the supplier.
- (iii) The (Business)Name and Address of the Purchaser/Recipient of the Good/Services.
- (iv) The serial number of the invoice and date of issue.
- (v) The Quantity/Volume of the Goods/Services supplied.
- (vi) A description of the Goods/Services supplied.
- (vii) The Selling Price, excluding VAT and any Discount.
- (viii) The Total Amount of the VAT charged.
- (ix) The Selling Price including VAT or the total charge on the invoice inclusive of VAT any discount and the rate of VAT.

SOLUTION FOUR

- (a) (i) The types of Import Duties collected by Customs Division
- (1) Customs Duty- tax on goods imported or exported into or out of Zambia, also called import or export duty.
 - (2) Excise Duty- tax on some imported goods as well as goods manufactured in the country of a luxury nature.
 - (3) Import VAT-VAT on imports at the entry point into Zambia based on Value for Duty purposes (VDP).
 - (4) Fuel Levy-tax on fuel eg petrol and diesel
 - (5) Dumping Duty-tax on goods which are imported into Zambia which unfairly disadvantage Zambia goods and as such the tax is meant to protect Zambian industries from unfair completion.

(ii) Powers of a Customs Officer.

- (1) Enter any shop, office, store, structure or enclosed area for making such examination enquiry as is considered necessary.
- (2) Demand for any book, document or thing which is required under the Act.
- (3) Examine and make extracts from copies of such books and documents.
- (4) Take with him on such premises an Assistant who may be a Police Officer.

(b) (i) Reasons for the Revaluation of the Motor Vehicle

- (1) Lack of proper documentation.
- (2) If they suspect that the declared value is lower than the actual market value
- (3) If the value was declared using an outdated exchange rate, customs may revalue using latest rates.
- (4) Suspicions of having contravened the law in terms of valuation of the car.
- (5) Relationship between the importer and the supplier.

(ii) COMPUTATION OF VALUE FOR DUTY PURPOSES (VDP)

	US\$
Purchase price	6,500
Shipping costs	260
Insurance	390
Incidental costs	<u>240</u>
CIF	<u>7,390</u>
VDP (US\$7,390 x K26.02)	192,288

	Value	Taxes
	K	K
VDP	192,288	
Customs duty	<u>9,518</u>	9,518
	201,806	
Excise duty	<u>12,373</u>	12,373
	214,179	
VAT @ 16% x K214,179	<u>34,269</u>	34,269
	248,448	
Surtax (>5 years)		<u>2,000</u>
Total import duties paid		<u>58,160</u>

SOLUTION FIVE

- (a) (i) The items that are zero rated under Agricultural supplies
 - (1) Bulbs, seeds and plants for producing agricultural products.
 - (2) Fertilizers, insecticides, rodenticides, fungicides, herbicides anti-sprouting products and plant growth regulators and similar products for agricultural use.
 - (3) Live cattle, swine, sheep, goats, game farm animals and poultry.
 - (4) Empty jute and polypropylene bags.
 - (5) Flower seed
 - (6) Stock feed for cattle, swine sheep goats, game farm animals and poultry.

- (ii) VAT sector that is zero rated in Tourism.
 - (1) Accommodation in Livingstone District up to 2009.
 - (2) Tour packages throughout Zambia.
 - (3) Other tourist services provided to foreign tourists other than those included in tour packages.
 - (4) Refund of VAT for non-resident tourists and visitors on selected goods.

- (b) (i) Sequence of events when determining the Tax Point in the construction industry
 - (1) Interim certificates are issued and payment made von the amount involved (creating a tax point and a tax liability for the amounts involved.
 - (2) Any part payments including interim or advance payments also create a tax point.
 - (3) Completion of the building of services –the tax point in this case will be the issue of a compliance certificate, which then creates a tax point for any remaining payments due.
 - (4) Issuance of a tax invoice for work/payments also creates tax point.

- (ii) The definition of taxable supply.

A taxable supply is a sale of goods and services made in the course of carrying on a business.

Taxable supplies are liable to VAT either at standard rate of 16% or at zero rate (0%)

- (iii) The tax on the supply of goods
 - (1) Time when they are removed from the supplier's premises or made available.
 - (2) Purchaser to whom the goods are supplied
 - (3) Time when payment is received.
 - (4) Time when tax invoice is issued.

END OF SUGGESTED SOLUTIONS



TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C6: LAW FOR TAX PRACTITIONERS

FRIDAY 13 JUNE 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.
2. This question paper consists of FIVE (5) questions of twenty (20) marks each. You MUST attempt all the FIVE (5) questions.
3. Enter your Student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

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

Attempt all FIVE (5) questions.

QUESTION ONE

- (a) Identify and explain the functions of the organs of the State. (6 marks)
- (b) Explain two (2) ways by which Courts and Parliament '*control delegated legislation*'. (4 marks)
- (c) Other than the date of employment, state four (4) other express terms that must be in a contract of employment. (4 marks)
- (d) Explain the grounds for unfair dismissal which may affect Robby. (6 marks)

[Total 20 Marks]

QUESTION TWO

A company is said to be a person at law, susceptible to being sued and able to sue in its own capacity. However, a company can neither talk nor write. This being said, a company operates through its agents called **DIRECTORS**, who by law are mandated to act in line with the company's articles as well as the law (public policy).

Required:

- (a) In relation to company agents, explain what is meant by **duty to avoid conflict of interest**. (10 marks)
- (b) The case of Chartered Mercantile Bank of India, London and China V. Dickson and Tatham (1871) LR 3 PC 574 Discusses "**Promissory Notes**". relying on the court's decision in the case above discuss and define Promissory Notes. (10 marks)

[Total: 20 Marks]

QUESTION THREE

- (a) Distinguish agency by ratification from agency of necessity. (8 marks)
- (b) State four (4) ways of terminating a partnership (4 marks)
- (c) Zambian Law provides for order of priority for the distribution of company assets in a case of bankruptcy. Outline the preferential payment order of all unsecured debts in an event of bankruptcy. (8 marks)

[Total: 20 Marks]

QUESTION FOUR

An argument has just ensued between two colleagues who were misleading each other on a number of Tax Law terms. Notable among them are the terms below.

Explain the following:

- (a) Contract of Sale of Goods. (5 marks)
- (b) Capacity to contract (5 marks)
- (c) *Res ipsa loquitur*. (5 marks)
- (d) Promissory Notes. (5 marks)

[Total 20 Marks]

QUESTION FIVE

- (a) Distinguish the insurance principle of subrogation from contribution. (10 marks)
- (b) Discuss the rights and obligations of parties in Hire Purchase agreements. (10 marks)

[Total: 20 Marks]

END OF PAPER

C6: LAW FOR TAX PRACTITIONERS – SUGGESTED SOLUTIONS

SOLUTION ONE

(a) The three organs of government are: The Executive, the Legislature and the Judiciary.

(1) The Executive is headed by the Republican President who then appoints a cabinet from amongst members of parliament. The Cabinet is made up of ministers who run ministries and civil service on a day-to-day basis.

(2) The Legislature is also known as Parliament is headed by the Speaker of the National Assembly and made up of Members of Parliament. The purpose of the Legislature is to make laws.

(3) The Judiciary is headed by the Chief Justice and made up of all the courts of the Republic of Zambia. Its main purpose of resolution of disputes either criminal or civil matters.

(b) Two ways by which Parliament and Courts Control over delegated legislation are as follows:

(1) Control By Parliament: Parliament controls delegated legislation by having a Select Committee on Statutory Instruments which reviews all of them and decided whether it should be reviewed by Parliament or not.

(2) Control By Courts: Courts determine the reasonableness of the Statutory Instruments when they are brought before them for judicial review or by petition by any interested party. If it is found that the statutory instruments are unreasonable, the Courts may quash them or make an order as to its correct interpretation.

(c) Other than the date, the other express terms that could have been on his contract of employment include:

(1) Name of employer.

(2) Name of employee.

(3) Nature of business.

(4) Duration of contract.

(5) Salary.

(6) Working hours.

(7) Place of contract and where work is to be done from.

(8) Nature of work, etc.

(d) Unfair dismissal occurs when an employee is dismissed for unfair reasons, i.e. against the laws of the land such as the Labour Law. This is dismissing an employee based on their personal status, without having done any wrong. The aim of this law is to promote fair labour practices in work places. Robby Chibinga may be unfairly dismissed if he is dismissed on account of his sex, race, marital status, religion, political opinion or affiliation, tribal extraction, joining a trade union or going on strike.

SOLUTION TWO

A good answer must refer to section 107 and 108 of the companies act and discuss the following.

(a)

107 (1) A director shall avoid a situation in which that director has, or is likely to have, a direct or indirect interest that conflicts, or is likely to conflict, with the interests of the company.

(2) Subsection (1) shall apply, in particular, to the exploitation of any property, information or opportunity, whether or not the company takes advantage of the property, information or opportunity.

(3) The duty to avoid a conflict of interest shall not be considered to be infringed if the (a) situation cannot reasonably be regarded as likely to give rise to a conflict of interest; or (b) matter has been authorised by the board of directors.

108. (1) Subject to subsection (2), a director has interest in a transaction in which the company is a party if the director— (a) is a party to, or is likely to derive a material financial benefit from, the transaction; (b) has a material financial interest in, or with another party to, the transaction; (c) is the parent, child or spouse of another party to, or person who is likely to derive a material financial benefit from, the transaction; or (d) is otherwise directly or indirectly materially interested in the transaction.

(2) A director, shall not be considered to be interested in a transaction to which the company is a party, if the transaction relates to the company— (a) giving security to a third party on the request of that third party who or which is not connected to the director; and (b) with respect to a debt or obligation of the company for which the director or another person has personally assumed responsibility in full or in part under a guarantee, indemnity or deposit of a security.

(b)

Promissory Notes:

Is an unconditional promise made in writing by one person to another , signed by the maker, engaging to pay on demand or at a fixed or determinable future time a sum certain in money to, or order of a specified or bearer..

This case involved a dispute over a promissory note issued by Dickson and Tatham in favor of the Chartered Mercantile Bank. The note was dishonored upon maturity, and the Bank sued to recover the debt. The key issue in the case was whether the note was properly stamped, a legal requirement at the time.

Relevance to Promissory Notes: Here are some possibilities:

Formal Requirements: The case is relevant to discussions about the formal requirements for a valid promissory note, including proper stamping or other formalities.

Negotiability: The case must be cited in discussions about the negotiability of promissory notes and the rights of bona fide holders.

Interpretation: The case explore principles of interpreting the terms and conditions of a promissory note.

SOLUTION THREE

(a) The distinction between agency by ratification and agency by necessity is as follows:

Agency by ratification arises when an agent acts without authority or exceeds his authority, but purports to contract on behalf of the principal. The contract will not bind the principal unless he ratifies (accepts/confirms/adopts) it. For one to be an agent by ratification, the following conditions must be met: The agent must have acted on behalf of the principal, principal must have the capacity to contract at the time of the agent entering into a contract, and ratification must be for the whole contract.

On the other hand, *Agency by necessity* may arise by operation of law in situations of pressing need or emergency. It becomes necessary in order to preserve the property or interests of the principal. Thus the agent becomes an agent because of the situation he finds himself in. For him/her to be an agent of necessity; there must be an emergency, the agent must have no practical way of communicating with the principal, the agent must act in good interest of the principal, and the action taken must be reasonable and prudent in the circumstances.

(b) The four ways of terminating a partnership include:

- (1) By death
- (2) By bankruptcy
- (3) By Expiry of fixed date
- (4) By Notice
- (5) By Mutual consent

(c) The preferential payments order of all unsecured debts in an event of a bankruptcy is:

(a) Costs and expenses of the winding up including taxes and which shall include the remuneration of the Liquidator and costs of any audit carried out.

(b) All amounts due to the workers in regard to:

- (i) Wages or salary earned by way of commission
- (ii) Accrued leave to employees
- (iii) Accrued paid absence
- (iv) Recruitment expenses reimbursable under a contract of employment
- (v) Three months salary or wages as severance pay to employees.
- (vi) Amounts due in respect of worker's compensation.

(c) Any tax, duty or rate payable in respect of the period prior to the commencement of the winding up, but which have become due after that date and all arrears of government.

(d) All rates due to the local authority that are due within the period of three years prior to the start of the winding up.

In summary, the priority order is: (1) Costs and expenses of winding up, (2) Workers' dues, (3) Taxes and rates to central government and (4) finally any rates due to the local government.

SOLUTION FOUR

(a) *Contract of Sale of Goods*:- A contract of sale of goods is a contract by which the seller transfers or agrees to transfer the property in goods to the buyer for a money consideration called price. Like any other contract, a contract for the sale of goods must fulfill all requirements for a valid contract such as offer, acceptance, consideration and intention to create legal relations. The contract of sale of goods is specifically for goods sold and not free gifts or anything that cannot be classified as goods such as land.

(b) *Capacity to contract*:- Capacity to contract is the ability to enter into a valid contract. Minors and invalids lack the capacity to enter into valid contracts. A minor at common law is a person under the age of 18. A contract between a minor and an adult is void unless it is for necessities. However, the onus lies on the adult to prove that it is a contract for necessities. Necessaries include education, shelter inter alia. As regards invalids, if a person of sound mind enters into a contract with an invalid, such a contract is voidable. However, the onus lies on the invalid to prove that at the time they entered into a contract, they did not appreciate what they were doing because of their state of mind. They also have to prove that the other party was aware of that. If they fail to prove that, they will be held liable under that contract.

(c) *Res ipsa Loquitur*:- This is a maxim which states that, 'things speak for themselves'. It is used when the claimant shifts the burden of proof to the defendant to prove that damage was not caused by his failure to take reasonable care. It simply says, the mere occurrence of some types of accident is sufficient to imply negligence. That is, had it not been for the negligence of the defendant, such a wrong would not have occurred.

(d) *Promissory Notes*: - A promissory note is a promise to pay a sum of money and may be used as a form of security for a loan. It is an unconditional promise made in writing by one person to another, signed by the maker, engaging to pay on demand or at a fixed or determinable future time, a sum certain in money to or to the order of, a specified person or to bearer. In simple terms, it is a promise to pay a named person or that person's order on a given date. The promise must be in writing.

SOLUTION FIVE

(a)

Subrogation:

Definition: The right of a party who pays a debt owed by another to step into the shoes of the creditor and pursue legal action against the original debtor to recover the payment.

Who initiates: The insurance company that compensated the insured for a loss.

Who is targeted: The party who caused the loss (third party).

Basis: The principle of making the victim whole and preventing double recovery.

Recovery amount: The full amount paid out by the insurer.

Contribution:

Definition: The principle that when multiple parties are jointly liable for a loss, each party should contribute their fair share towards compensating the victim.

Who initiates: One of the parties who has paid more than their fair share of the loss.

Who is targeted: The other parties who are also liable for the loss.

Basis: Fairness and ensuring equitable distribution of the burden.

Recovery amount: The proportional share of the loss that the other parties should have borne.

Key Differences:

Target: Subrogation targets the party who caused the loss, while contribution targets other parties who are also liable.

Recovery Amount: Subrogation seeks full recovery of the amount paid, while contribution seeks only the proportional share.

Basis: Subrogation is based on the principle of preventing double recovery, while contribution is based on fairness and equity.

Initiation: Subrogation is initiated by the insurer, while contribution can be initiated by any party who has paid more than their fair share.

(b)

Hire Purchase: Rights and Obligations for Both Sides

Hire purchase (HP) agreements offer a way to acquire goods through an installment plan, but both buyers and sellers have distinct rights and obligations.

Buyer's Rights:

Possession and Use: You have the right to possess and use the goods upon signing the agreement and making the initial payment.

Ownership Transfer: Ownership of the goods remains with the seller until all payments are made in full.

Fair Wear and Tear: You are only responsible for reasonable wear and tear during the agreement period.

Early Settlement: You may have the right to settle the agreement early and own the goods sooner, often requiring a penalty fee.

Information Transparency: The seller must provide clear information about the total cost, interest rates, payment terms, and your rights under the agreement.

Buyer's Obligations:

Make Payments: You are obligated to make timely payments as agreed upon in the contract. Late payments may incur penalties and could lead to repossession of the goods.

Maintain the Goods: You have a responsibility to take reasonable care of the goods and comply with any maintenance requirements specified in the agreement.

Return Goods upon Default: If you breach the agreement, the seller may repossess the goods. You may be liable for any shortfall if the repossessed goods sell for less than the outstanding amount owed.

Seller's Rights:

Receive Payments: The seller has the right to receive timely payments as per the agreement.

Repossess Goods upon Default: If the buyer fails to make payments or breaches the agreement, the seller can repossess the goods.

Sell Repossessed Goods: The seller can sell repossessed goods to recover the outstanding amount owed.

Charge Penalties for Late Payments: The seller can impose penalties for late payments as stipulated in the agreement.

Seller's Obligations:

Deliver Goods: The seller must deliver the goods in good condition as per the agreement description and within the agreed timeframe.

Provide Accurate Information: The seller must provide clear and accurate information about the goods, the agreement terms, and the buyer's rights.

Comply with Consumer Protection Laws: The seller must comply with relevant consumer protection laws regarding advertising, information disclosure, and fair dealing.

END OF SUGGESTED SOLUTIONS



TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D1: BUSINESS INFORMATION MANAGEMENT

WEDNESDAY 11 JUNE 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.
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.

QUESTION ONE

- (a) The Internet and the services that run on it have come as a big advantage to business organisations and managers. As an officer in the tax department of a company. You have been hired and realise that most of your colleagues are not very conversant with the use of technology.

Explain the following terms to your colleagues and advise when each is suitable to use.

- (i) Internet. (4 marks)
 - (ii) Intranet. (4 marks)
 - (iii) Extranet. (4 marks)
- (b) State three (3) ways an organization can achieve competitive advantage over other organisations. (3 marks)
- (c) Mention five (5) ways the Government of Zambia can utilize data warehousing techniques to enhance its decision-making processes. (5 marks)
- (d) Change management seeks to facilitate and achieve the successful implementation of transformation processes, which involves working with and for people in accepting and assimilating change and reducing resistance to it.

State five (5) considerations that you would ensure that desired changes are embedded and realise benefits to an organisation when managing change. (5 marks)

[Total: 25 Marks]

QUESTION TWO

- (a) Software testing is important and if not properly done, critical issues can be faced in the live environment.

Explain the software testing hierarchy. (12 marks)

- (b) The goal of data management is to help people, organisation and connected things optimise the use of data within the bonds of policy and regulations so that they can make decisions and take actions that maximize the benefit to the organisation.

State five (5) objectives Managers typically focus their attention on in data management in an organization. (5 marks)

- (c) Strategic information System (SIS) is a type of information system developed in response to corporate business initiatives. These systems play an integral role in an organisation's strategic planning, allowing it to gain a competitive advantage by effectively aggregating, processing and managing data to inform decision making.

Outline four (4) key characteristics of SIS

(8 marks)

[TOTAL: 25 MARKS]

QUESTION THREE

- (a) Financial information must be shared digitally between buyers, suppliers, financial institutions and regulatory agencies. Security of these operations is becoming an increasing concern in order to prevent fraud and theft. The three (3) types of financial data security that it is necessary to have includes Authentication, Authorization, and Confidentiality.

Required:

Explain each of these terms

- | | | |
|-------|-----------------|-----------|
| (i) | Authentication | (2 marks) |
| (ii) | Authorization | (2 marks) |
| (iii) | Confidentiality | (2 marks) |
- (b) Most organizations are using automated offices and information systems for efficiency, effectiveness and competitive advantage. Explain three (3) features of an automated office. (9 marks)
- (c) Malware is one of the security threats to information systems. There are many types of malware each with its own attack vector. Distinguish a Trojan from a worm. (4 marks)
- (d) Quality management believes that quality is essential if an organization is to prosper. As a result, most organizations have adopted the concept of Total Quality Management (TQM). Outline six (6) principles of (TQM). (6 marks)

[Total: 25 Marks]

QUESTION FOUR

- (a) Client satisfaction, construction time and cost, productivity, defects, profitability. These are numerous Key Performance Indicator types that exist. Explain the term Key Performance Indicators (KPI). (5 marks)
- (b) Fire is a serious hazard to computers systems. Destruction of data can be more costly than the destruction of hardware. A proper fire safety plan is an essential feature of security procedures, in order to prevent fire, detect fire and put out the fire. Explain what the fire safety plan will include. (10 marks)
- (c) You have been hired as a consultant to be part of a project team that is responsible of rolling out and managing a number of ICT projects for government departments. As a consultant, you are tasked to prepare a report detailing the following:
 - (i) Outline three (3) challenges that could be faced by the project team. (6 marks)
 - (ii) State four (4) skills that are expected of the project team. (4 marks)

[Total: 25 Marks]

END OF PAPER

D1: BUSINESS INFORMATION MANAGEMENT – SUGGESTED SOLUTIONS

SOLUTION ONE

(a)

(i) Internet: The Internet is a global network of computer networks, computers and other computing devices. It is a global communications system where any user with a computer and internet connectivity can communicate with any other suitably equipped computer the world. One can use the internet to put information that can be accessed by the general public

(ii) Intranet: is a private network within an organization that uses internet technology such as web browsers, servers. TCP/IP network protocols to provide an internet environment but within the organization in order to share information, communicate, and collaborate etc. the intranet is not open to the public. The intranet is used to communicate within the organization.

(iii) Extranet: these are networks that use the internet technologies to connect the intranet of an organization to selected outsiders such as customers, suppliers and business partners.

The extranet is used when the organization wants to extend its internal network to some authorized outside for business efficiency

(b) How the organization can achieve competitive advantage over other organisations.

Doing things better than your competitor, i.e.

(i) through better pricing,

(ii) new and innovative products and services

(iii) business models, understanding the customer better and using modern technology to do business

(c) Five (5) ways how the Government of Zambia can utilize data warehousing techniques to enhance its decision-making processes and improve road infrastructure project management.

(1)

Historical Data Analysis: By storing historical data related to road infrastructure projects, such as project timelines, costs, and performance metrics, in a data warehouse, the Government of Zambia can analyze past trends and patterns using data mining algorithms. This enables them to identify factors contributing to project delays, cost overruns, and inefficiencies, allowing for proactive mitigation measures in future projects.

(2)

Predictive Analytics: Data mining techniques, applied to historical project data stored in the data warehouse, can help the Government of Zambia develop predictive models to forecast project outcomes, such as estimated completion dates, budget requirements, and potential risks. These predictive analytics capabilities enable more accurate project planning, resource allocation, and risk management strategies.

(3)

Performance Monitoring: By integrating real-time project data, such as construction progress reports, material usage logs, and equipment deployment schedules, into the data warehouse, the Government of Zambia can monitor project performance metrics continuously. Data mining algorithms can analyze this real-time data to identify deviations from planned schedules or budgetary constraints, allowing for timely intervention and corrective actions.

(4)

Resource Optimization: Data mining techniques applied to data warehouse repositories can identify opportunities for optimizing resource utilization across multiple road infrastructure projects. By analyzing factors such as workforce availability, equipment usage patterns, and material procurement lead times, the Government of Zambia can allocate resources more efficiently, minimize idle time, and reduce project costs.

(5)

Trend Analysis: Data mining algorithms can identify emerging trends and patterns in road infrastructure development, such as shifts in traffic patterns, environmental impact assessments, or technological advancements in construction materials. By leveraging these insights, the Government of Zambia can adapt its strategic priorities, investment decisions, and project management approaches to align with evolving market dynamics and stakeholder needs.

- (d) Five (5) considerations that you would ensure that desired changes are embedded and realise benefits to an organisation when managing change.

- (i) Clear, measurable KPIs of the change should be established, measured and reported
- (ii) A product owner role should be established to champion the new solution including system and process
- (iii) Ensure that all staff have been trained, that documentation is available and of a suitable quality, ensure that new staff are trained
- (iv) Ensure that business and technical support are in place
- (v) Establish user forums with your stakeholder groups to discuss adoption, issues, barriers, system enhancements

SOLUTION TWO

(a) The software testing hierarchy.

Unit Testing – is software testing process for testing specific units, components or software elements. The goal for this level of testing is to validate that each unit of code performs how it should and is free of bugs, errors and glitches this is done during development or coding. The codes can be viewed but not altered and should always take place early in the development stage

Integration testing - when different software components and modules are combined and tested as a group to make sure everything is ready for the next level. The goal is to test, to expose potential defects or bugs between the various modules. It focuses on checking the data flow from one module to the next and is performed by tester.

System testing – checks for a system's compliance in accordance with the necessary given requirements. System testing inspects components like performance, load, reliability and security with the goal of evaluating the end-to-end system specification. This step is important because the project is close to being complete and should be tested in an environment similar to what the user will experience once its finished.

Acceptance testing – this is conducted to ensure that the requirements of the users are fulfilled before its delivered and that the software works correctly in the user's environment. This tests if the system satisfactorily solves the problems for which it was commissioned.

(b) Five (5) objectives Managers typically focus their attention in data management in an organization?

- (i) Reflecting on changing customer needs and preferences, regulatory changes, and internal pressures within the organization.
- (ii) evaluating new technologies and tracking competitors' products to stay competitive,
- (iii) monitoring operational and financial performance,
- (iv) improving customer service and product quality levels,
- (v) increasing revenues, reducing costs and increasing profits,

(vi) increasing the skill level of the workforce

(c) Key characteristics of SIS

- (i) Support for Decision making – is specifically designed to support the decision making process in an organisation. It provides useful information to executives and managers who need data to make strategic decisions.
- (ii) Competitive Advantage – SIS can give a company a competitive edge by providing unique and valuable insights. It can help identify opportunities and threats in the market, giving the company a strategic advantage over its competitors.
- (iii) Alignment with strategy – A strategic information system should be closely aligned with an organisation's business strategy. It should help in achieving the long term goals and objectives of the company.
- (iv) Integration of Data – SIS can integrate data from various sources, both internal and external, to provide a holistic view of the organisation's performance and the market.
- (v) High-level Management – SIS is typically used by high-level management as it helps strategic planning and decision-making.

SOLUTION THREE

(a) Explaining the terms

- (i) Authentication – allows only certain people the access to information
- (ii) Authorization – allows only authorized people to make changes to information
- (iii) Confidentiality – keeps information encrypted so that only the owners can decipher their information

(b) An automated office will have the following features

- (i) A computer used for data processing and storage and some application will run on the computer
- (ii) A facsimile This is a device that codes and encodes documents so they can be transmitted over telephone lines used
- (iii) Voice Mail: allows someone to leave a voice message for one or more people. A computer in a voice mail system converts analog voice into digital form which can be stored in a voice mailbox
- (iv) Teleconferencing: allows a telephone or video meeting between participants in two or more locations.
- (v) Email: Allow people to send mails using the internet

(c) A Trojan is a computer program that masquerades as a genuine one but carries destructive actions when it is executed while

A worm is malware that can replicate itself and continue spreading to other computers on a network.

(d) Six (6) principles of total quality management (TQM).

- (i) Prevention – Prevent defective production
- (ii) Right first time – Defective production is worse than no production
- (iii) Zero defects – TQM aims at not defects
- (iv) Eliminate waste – in terms of time, money and materials
- (v) Everybody's concern – Quality is an organization wide concern
- (vi) Internal customers – Each part of the organization is a customer of another part
- (vii) Quality chains – quality are all levels of processes

- (viii) Continuous Improvement – Quality is not a once off but a way of managing

SOLUTION FOUR

(a) The term Key Performance Indicators (KPI)

- (i) Key Performance Indicators are a set of quantifiable measures that a company uses to gauge its performance over time.
- (ii) They are used to determine the company's progress in achieving its strategic and operational goals
- (iii) KPIs are deemed crucial to the success of an organization.
- (iv) KPIs differ from organization to organization based on business priorities.
- (v) Without KPIs it would be difficult for an organization's management to evaluate how the organization is performing and make changes if necessary.

(b) Fire safety plan includes:-

- (i) Site preparation e.g. appropriate building materials, fire doors
- (ii) Detection e.g. smoke detectors
- (iii) Extinguishing e.g. fire extinguisher, ceiling sprinkler
- (iv) Training for staff in observing fire safety procedures, no flammable fluids & no smoking in computer room
- (v) Weather may be a threat, wind, rain and storm can all cause substantial damage to buildings
- (vi) Lightning & electrical storms pose an additional threat with power supply, causing power failures one way of combating this is by the use of Uninterrupted Power Supply (UPS). This will protect equipment from fluctuations in the supply. Power failure can be protected against by the use of a generator

(c) (i) Three (3) challenges that could be faced by the project team.

- (i) Team building: the work to be carried out by a team of people from different work and social backgrounds. The team must gel and communicate efficiently with each other
- (ii) Potential for Conflict: Projects often involve several parties with different interests. This brings about issues
- (iii) Planning: This is important to avoid unforeseen problems to be resolved quickly

- (iv) Delayed benefits: Benefits usually come in after the work is done. This means that significant expenditure is incurred for no immediate benefit – this can be a source of issues.
- (ii) Four (4) skills that are expected of the project team.
 - (i) Leadership
 - (ii) Team building
 - (iii) Communication
 - (iv) Technical
 - (v) Personal
 - (vi) Analytical

END OF SUGGESTED SOLUTIONS



TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D2: FINANCIAL MANAGEMENT

FRIDAY 13 JUNE 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 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.

Attempt All the FOUR (4) Questions

QUESTION ONE

An international company, known as HCG Plc whose head office is in Europe, has been in the car industry for over a decade. The car giants first started with the assembling of manual vehicles, then automatic vehicles. In the recent past, the company has invested over K100 million dollars in the electric vehicle (EV) industry. This involved the manufacturing of Electric Autonomous Vehicle. The recently EV which was released on the market had the ability to self-drive at a maximum of 180 km per hour and included other aspects like that of sensing that the occupant has developed a heart attack and needs health attention through the installed sensors in the vehicle. In this situation, the vehicle has the ability to self -drive to the nearest hospital facility in the area.

ZBL Plc is a company in the Republic of Cambirile in Southern Part of Africa. The country has recently shown great interest in the development of the EV industry due to that fact it has faced high fuel prices due to the deprecation of its local currency.

HCG Plc sent a team to Cambirile to conduct a demonstration of its motor vehicles by setting up a stand at one of the yearly industrial shows that takes place in the capital city of Cambirile. After the Show presentation, the team visited one of the renowned private universities for presentation to the University Senate and later Students in order to show case their business. The visit culminated in the signing of a Memorandum of Association (MOU) in which the University was going to be supported in the actualization of the Electric Vehicle Technician Programme which was to sit in the recently established School of Engineering. A total of K5 million was secured to run this program.

Following the discussions between HGC Plc and ZBL Plc, HGC Plc took control of ZBL Plc by acquiring 85% of the share capital of ZBL Plc. This meant that HGC Plc was now the major shareholder and ZBL Plc a subsidiary company with 15% shares.

The total acquisition amount of the subsidiary company was for K1.6 million. This was affected on 1 September, 2020. A consultant by the name of Golia Ltd was engaged to determine the net assets of ZBL Plc. Upon completion of the valuation, it was established that they were at K1.5 Million with a retained profit of K60,000.

It was further established that ZBL Plc had a total of 500,000 K1 ordinary shares. ZBL Plc had very good stakeholder relation and impeccable corporate social responsibility, its goodwill was believed to have a total value of K500,000 as at 1 September, 2020 and K450,000 as at 31 August, 2021. As at 1 September, 2020, the shares of ZBL Plc were quoted at K5.50 per share.

Ms. Liper Silasas was recently appointed as a Non-Executive Director of HGP Plc. As part of the orientation program, a Management Meeting was held in the Board Room in which all the Directors were invited. The Agenda of the meeting was to discuss the status of the institution and its strategic plan. In the discussion, and question and answer session, Ms. Liper Silasas wanted to find out as to the reasons as to why ZBL Plc was treated as a subsidiary, as opposed to it being considered as an associated venture. She further wanted to find out why the firms did not consider into entering into a joint venture arrangement. She also further wanted to be advised on how the amalgamated trading results of the firms were to be reported.

The Profit and Loss Statements for HCG Plc and ZBL Plc as at 31 August, 2021 are as reflected below:

	HCG Plc	ZBL Plc
	K	K
Revenue	256,300	77,150
Cost of Sales	<u>186,400</u>	<u>53,550</u>
Gross Profit	69,900	23,650
Expenses	<u>33,900</u>	<u>11,550</u>
Profit before Tax	36,000	12,100
Tax	<u>7,150</u>	<u>2,050</u>
Profit after Tax	28,850	10,050
Retained earnings brought forward	158,400	62,850
Retained earnings carried forward	<u>187,250</u>	<u>72,900</u>

Note: The Policy of the Group is to value non-controlling interests at fair value.

Required:

- (a) Explain the differences between a subsidiary company, associated undertaking and a joint venture. (6 marks)
- (b) Determine:
 - (i) Good will arising on the acquisition. (4 marks)
 - (ii) Impairment charge for the goodwill in the years ending 31 August, 2020 and 2021. (4 marks)
 - (iii) Unimpaired good will as at 31 August, 2020. (2 marks)
 - (iv) Value of consolidated reserves as at 1 September, 2020. (3 marks)
- (c) Prepare the consolidated statement of profit or losses of HCQ Plc group for the year ended to 31 August, 2021. In your response, you are expected to include the consolidated reserves brought and carried forward. (6 marks)

[Total: 25 Marks]

QUESTION TWO

- (a) Your company has no system for authorizing and controlling capital expenditure. The Chief Executive Officer has asked you, as a Financial Manager, to review the situation.

Required:

Draft a memorandum to your Board of Directors detailing a scheme for capital expenditure authorizing and control, briefly explaining each stage in your system.

(5 marks)

- (b) The following information relates to two possible capital projects of which you have to select one (1) to invest in. Both projects have an initial capital cost of K200,000 and only one (1) can be undertaken.

PROJECT		Project A-Expected Profits	Project B- Expected Profits
		K	K
Year	1	80,000	30,000
	2	80,000	50,000
	3	40,000	90,000
	4	20,000	120,000
Estimated resale value at the end of year four		40,000	40,000

NOTES:

- (1) Profit is calculated after deducting straight line depreciation.
(2) The cost of capital is 16%.

Required:

For both projects calculate the following:

- (i) The payback period to one decimal point. (5 marks)
(ii) The Accounting rate of return using average investment. (4 marks)
(iii) The Net Present Value (NPV). (5 marks)
- (c) Advise the Board which project in your opinion should be undertaken, giving reasons for your decision. (2 marks)
- (d) The Board have looked at your proposal and you have been requested to clarify the following issues:
- (i) What is meant by the term "cost of capital" and why it is important when making an investment decision. (2 marks)

- (ii) State two (2) ways in which risk can be taken into account when making a capital investment decision. (2 marks)

[Total: 25 Marks]

QUESTION THREE

- (a) Kilket Plc is a multinational company involved in the manufacture and supply of fertilizers. The head office for Kilket Plc is in Europe and it has subsidiary companies in five African Countries, including in Gena in West Africa. Recently, the Finance Minister in Gena proposed to Parliament to adopt a Sales Tax regime rather than the Value-Added Tax which was originally applied. Kilket Plc local Board anticipated an increase in tax payable to Government by the Subsidiary company operating in Gena. Consequently, the board has decided that the company should eliminate the budget line for Corporate Social Responsibility (CSR). Furthermore, there has been destabilization in the supply chain of fertilizer due to war in Europe.

Required:

- (i) Explain the meaning of Corporate Social Responsibility (CRS) giving examples that the subsidiary of Kilket Plc might have been involved in. In your own judgment, do you think it was right for Kilket Plc to eliminate the budget line for Corporate Social Responsibility (CSR), justify your answer? (10 marks)
- (ii) A private company is expected to meet both its financial and non-financial objectives for its survival. Explain both the financial and non-financial objectives of a private entity such as Kilket Plc. (5 marks)
- (b) The Finance Director of Kilket Plc prepared accounting data as at 31 December, 2022 as follows:

Description	K' Million
Cash and marketable securities	100
Fixed Assets	283.5
Sales	1,000
Net Income	50
Quick Ratio	2.1
Current Ratio	3.1
Days sales outstanding (DSO)	40.55
Return on Equity	12%

Note that Kilket Plc had no preferred stock. It only had ordinary shares, current liabilities and long-term debt.

Required:

Calculate the following;

- | | | |
|-------|------------------------|-----------|
| (i) | Accounts Receivable; | (2 marks) |
| (ii) | Current Liabilities; | (2 marks) |
| (iii) | Current Assets; | (2 marks) |
| (iv) | Total Assets; and | (2 marks) |
| (v) | Return on Assets (ROA) | (2 marks) |

[Total: 25 Marks]

QUESTION FOUR

Auto TeK Ltd assembles and sells GPS Vehicle tracking devices. The company is managed by its four founders, who do not possess any formal business training. The company has revenue of K28 million, and all sales are on 30 days' credit. Its major customers are transport and logistics companies who pay their invoices late. Auto TeK Ltd is a rapidly growing company and revenue has doubled in the last four years. The company has focused during this period on product development. Customer service and managing trade receivables has been neglected.

Auto TeK Ltd's average trade receivables are currently K5.37 million, and bad debts are 2% of credit sales revenue. Partly as a result of poor credit control, the company has suffered a shortage of cash and has recently reached its overdraft limit. The four founders have spent large amounts of time chasing customers for payments. In an attempt to improve trade receivables management, Auto TeK Ltd has approached a factoring company.

The factoring company has offered two possible options:

Option 1

Administration by the factor of Auto TeK Ltd's invoicing, sales accounting and receivables collection, on a full recourse basis. The factor would charge a service fee of 0.5% of credit sales revenue per year. Auto TeK Ltd estimates that this would result in savings of K30,000 per year in administration costs. Under this arrangement, the average trade receivables collection period would be 30 days.

Option 2

Administration by the factor of Auto TeK Ltd's invoicing, sales accounting and receivables collection on a non-recourse basis. The factor would charge a service fee of 1.5% of credit sales revenue per year. Administration cost savings and average trade receivables collection period would be as Option 1. Auto TeK Ltd would be required to accept an advance of 80% of credit sales when invoices are raised at an interest rate of 9% per year.

Auto TeK Ltd pays interest on its overdraft at a rate of 7% per year and the company operates for 365 days per year.

Required:

- (a) Calculate the costs and benefits of each of Option 1 and Option 2 and comment on your findings. (8 marks)
- (b) Discuss three (3) reasons, other than costs and benefits already calculated why Auto TeK Ltd may benefit from the services offered by the factoring company. (6 marks)
- (c) Discuss three (3) factors which determine the level of a company's investment in working capital. (6 marks)
- (d) Explain the attractions of operating leasing as a source of finance. (5 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

$$g = b r_e$$

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

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

Modified Internal Rate of Return

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

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

		<i>Discount rate (r)</i>									
<i>Periods</i>		1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
(n)											
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.

SOLUTION ONE

- (a) A subsidiary company is a business entity or corporation either fully owned or partially controlled by another company, known as the parent company. The parent company usually holds a controlling interest in the subsidiary company, from 51 to 99 percent, an associated undertaking is that which is not defined as a subsidiary company but is however one in which another company or group has a participating interest and exercises a significant influence.

A Joint Venture is a combination of two or more parties that seek the development of a single enterprise or project for profit, sharing the risks associated with its development.

(b)		
(i)	Good-will on acquisition:	K
	Cost of Investment	1,600,000
	Non-Controlling Interest	
	85,000*US\$5.50	467,500
	Net Assets at Acquisition	(1,500,000)
	Goodwill	567,500

Goodwill relating to non-controlling interest:

	K
Fair Value 85,000*5.50	467,500
Share of net Assets	
15%*1,500,000	<u>225,000</u>
	242, 500

This goodwill determined relates to both HCG Plc and ZBL Plc

(ii)	Impairment charge:	K
	2020	567,500
		<u>(500,000)</u>
		<u>67,500</u>
	2021	500,000
		<u>(450,000)</u>
		<u>50,000</u>

(iii) **Unimpaired goodwill:**
 As at 31st August, 2021
 $567,500 - 67,500 - 50,000 = \underline{450,000}$

(iv) **Consolidated Reserves as at 1st September, 2021**

	K
Good will on acquisition[b(i)]	567,500
2020 impairment Charge[b(ii)]	(67,500)
2021 impairment Charge[b(ii)]	<u>(50,000)</u>
	<u>450,000</u>

**(c) Consolidated Profit and Loss Statement
 For Year Ended 31st August, 2021**

	K
Revenues (256,300+77,150)	333,450
Cost of Sales (186,400+53,550)	<u>239,950</u>
Gross Profit	93,500
Expenses (33,900+11,550+50,000)	<u>(95,450)</u>
Profit/(Loss) before Taxes	(1,950)
Tax (7,150+2,050)	<u>(9,200)</u>
Loss After Taxes	(11,150)
Non-Controlling Interest (15%*500,000)	<u>(75,000)</u>
	(86,150)
Retained Earnings Brought Fwd[b(iv)]	<u>93,322.5</u>
Retained Earnings C/Fwd	<u>7,170.5</u>

SOLUTION TWO

(a). MEMO - Capital expenditure Authorisation and control procedures vary widely between organisations.

MEMORANDUM

To: The Board of Directors

From: Financial Manager

Date: Friday 13th June 2025

Subject: Capital Expenditure Authorization and Control Procedures

This memo outlines the standard procedures for authorizing and controlling capital expenditure within the organisation. These procedures are critical to ensure that all capital investments are properly evaluated, approved, and monitored.

1. Capital Expenditure Request

A Capital Expenditure Request (CER) should be submitted by the manager responsible. The request must clearly outline:

- The purpose and justification for the expenditure.
- Expected revenues and associated costs.
- Anticipated benefits, both financial and operational.

2. Analysis and Authorization

Each proposal will undergo a detailed analysis, which may include:

- Tax implications.
- Cash flow projections
- Discounted Cash Flow (DCF) calculations.
- Other financial and operational impacts.

Following analysis, authorization must be obtained from the appropriate level of management. Significant capital expenditures will require top-level management approval.

3. Control

Once approved, the actual expenditure will be tracked against the budget. Additionally, the timing and progress of the project will be closely monitored to ensure alignment with planned objectives and timelines.

4. Pre-Audit

A pre-audit is typically conducted after the project has been operational for a period. This involves a comprehensive review of the initial analysis, including:

- Revenue and cost performance.
- Assessment of risks and benefits.
- Comparison with original expectations.

These procedures are essential for ensuring that capital investments contribute effectively to the organization's strategic and financial goals. Please ensure full compliance with these protocols when proposing and managing capital projects.

If you have any questions or require clarification, feel free to contact the Finance Department.

Signed: Financial Manager.

(b). Deprectaion p.a $(200,000-40,000) / 4 = K40,000$ to be added to profits to obtain cash flow:

PAYBACK

	Year	Project A	Project B
Cash flows	1	120,000	70,000
	2	120,000	90,000
	3	80,000	130,000
	4	60,000	160,000

Capital cost K200,000

(i) Payback $A = 1 + 80,000 / 120,000 = 1.67$ years

$$B = 2 + 40,000/130,000 = 2.31 \text{ years}$$

(ii) Accounting Rate of Return (NB Based on Profits not cash flows)

	Project A	Project B
Total profits over the years	K220,000/4	K290,000/4
Average profit p.a	=K55,000	K72,500

Project A

$$\text{Average investment} = (200,000 + 40,000)/2 = K120,000$$

$$\text{Therefore, Accounting Rate of Return } K55,000/120,000 = 45.83\%$$

Project B

$$\text{Average investment} = (200,000 + 40,000)/2 = K120,000$$

$$\text{Therefore, Accounting Rate of Return } K72,500/120,000 = 60.42\%$$

(i) **NPV** using D.C.F(Uses Cash Flows)

$$\text{NPV(A)} = (200,000) + (0.862 * 120,000) + (0.743 * 120,000) + (0.641 * 80,000) + (0.552 * 100,000) = \underline{K99,080}$$

$$\text{NPV(B)} = (200,000) + (0.862 * 70,000) + (0.743 * 90,000) + (0.641 * 130,000) + (0.552 * 200,000) = \underline{K120,940}$$

(c) Normally the Project with the higher NPV should be chosen unless there is some other reason. This means that B should be chosen.

(d) (i) The cost of capital refers to the minimum rate of return a company must earn on its investments to satisfy its investors and maintain its market value. It represents the cost of obtaining funds—whether through debt, equity, or a mix of both—to finance business activities or projects.

(ii) Two ways of considering risk.

- Use of expected values based on multiple output estimates and probabilities.
- Consideration of payback periods.

SOLUTION THREE

(a)

(i) A company's sense of responsibility towards the community and environment (both ecological and social) in which it operates.

Companies can practice CSR in different ways for example:

(1). Environmental efforts: One primary focus of corporate social responsibility is the environment. Businesses regardless of size have a large carbon footprint. Any steps they can take to reduce those footprints are considered both good for the company and society.

(2). Philanthropy: Businesses can also practice social responsibility by donating money, products or services to social causes. Larger companies tend to have a lot of resources that can benefit charities and local community programs.

(3). Ethical labor practices: By treating employees fairly and ethically, companies can also demonstrate their corporate social responsibility. This is especially true of businesses that operate in international locations with labor laws that differ from those in the other country

(4). Volunteering: Attending volunteer events says a lot about a company's sincerity. By doing good deeds without expecting anything in return, companies can express their concern for specific issues and support for certain organizations.

Comment: The candidate in responding this question should state that head office may have made the decision as part of cost saving measures, however, it may not be right to entirely eliminate this budget line. They should just have reduced the allocation.

(ii). Financial objectives include that of shareholder wealth maximization. The financial manager's role in this case, include that of maximizing the value of the company, thus ensure that the company's investments earn a positive return for the benefit of the shareholders.

Non-Financial objectives include:

- (i) Employee welfare
- (ii) Management welfare
- (iii) Growth of the company
- (iv) Staff motivation
- (v) Research and development emphasis
- (vi) Customer satisfaction by providing quality service/product.
- (vii) Diversification
- (viii) Respect for environment
- (ix) Survival

(b)

(i) Accounts Receivable:

$$\text{Days Sales Outstanding (DSO)} = \frac{\text{Accounts Receivable}}{\text{Sales} / 365}$$

$$40.55 = \frac{\text{Accounts Receivable}}{1,000 / 365}$$

$$40.55 = \frac{\text{Accounts Receivable}}{2.73973}$$

$$\begin{aligned}\text{Therefore, Accounts Receivable} &= 40.55 \times 2.73973 \\ &= \underline{\underline{\text{K111.10 Million}}}\end{aligned}$$

(ii) Current Liabilities:

$$\text{Quick Ratio} = \frac{\text{Current Assets} - \text{Inventories}}{\text{Current Liabilities}}$$

$$\text{Current Liabilities}$$

$$2 = \frac{\text{Cash and Marketable Securities} + \text{Accounts Receivable}}{\text{Current Liabilities}}$$

$$2 = \frac{100 + 111.10}{\text{Current Liabilities}}$$

$$\text{Therefore, Current Liabilities} = \frac{100 + 111.10}{2}$$

$$\text{Current Liabilities} = \underline{\underline{\text{K 105.5 Million}}}$$

(iii) Current Assets:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$3 = \frac{\text{Current Assets}}{105.5}$$

$$\text{Therefore, Current Assets} = 105.5 \times 3$$

$$\text{Current Assets} = \underline{\underline{\text{K316.5 Million}}}$$

(iv) Total Assets:

$$\begin{aligned}\text{Total Assets} &= \text{Fixed Assets} + \text{Current Assets} \\ &= 283.5 + 316.5 \\ &= \underline{\underline{\text{K600 Million}}}\end{aligned}$$

(v) Return on Assets(ROA)

$$\begin{aligned}
 \text{ROA} &= \text{Profit Margin} \times \text{Total Assets Turnover} \\
 &= \frac{\text{Net Income}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Total assets}} \\
 &= \frac{50}{1,000} \times \frac{1,000}{600} \\
 &= 0.05 \times 1.667 \\
 &= \underline{0.083333 \text{ i.e. } 8.333\%}
 \end{aligned}$$

SOLUTION FOUR

(a)

Option 1	K	
Current trade receivables	5,370,000	
Revised trade receivables ($28,000,000 \times 30/365$)	2,301,370	
Reduction in receivables	3,068,630	
	K	K
Reduction in financing cost = $3,068,630 \times 0.07$	214,804	
Reduction in admin costs	30,000	
Benefits		244,804
Factor's fee = $28,000,000 \times 0.005$		(140,000)
Net benefit		104,804
Option 2		
	K	K
Reduction in financing cost = $3,068,630 \times 0.07$	214,804	
Reduction in admin costs	30,000	
Bad debts saved = $28,000,000 \times 0.02$	560,000	
Benefits		804,804
Increase in finance cost = $2,301,370 \times 0.80 \times 0.02$	36,822	
Factor's fee = $28,000,000 \times 0.015$	420,000	
Costs		(456,822)
Net benefit		347,982

(b) Auto TeK Ltd may benefit from the services offered by the factoring company for a number of reasons, as follows:

Economies of specialisation

Factors specialise in trade receivables management and therefore can offer 'economies of specialisation'. They are experts at getting customers to pay promptly and may be able to achieve payment periods and bad debt levels which clients could not achieve themselves. The factor may be able to persuade the large multinational companies which Auto TeK Ltd supplies to pay on time.

Scale economies

In addition, because of the scale of their operations, factors are often able to do this more cheaply than clients such as Auto TeK Ltd could do on their own. Factor fees, even after allowing for the factor's profit margin, can be less than the clients' own receivables administration cost.

Free up management time

Factoring can free up management time and allow them to focus on more important tasks. This could be a major benefit for Auto TeK Ltd, where directors are currently spending a large amount of time attempting to persuade customers to pay on time.

Bad debts insurance

The insurance against bad debts shields clients from non-payment by customers; although this comes at a cost, it can be particularly attractive to small companies who may not be able to stand the financial shock of a large bad debt. This could well be the case for Auto TeK Ltd. As a small company which supplies much larger car manufacturing companies, it is particularly exposed to default by customers. On the other hand, it could be argued that large multinational companies are financially secure and default is unlikely, rendering bad debt insurance unnecessary.

Accelerate cash inflow

Factor finance can be useful to companies who have exhausted other sources of finance. This could be useful to Auto TeK Ltd if it cannot negotiate an increase in its overdraft limit.

Finance through growth

Although factor finance is generally more expensive than a bank overdraft, the funding level is linked to the company's volume of sales. This can help to finance expansion and protects the company against overtrading. In a rapid growth company such as Auto TeK Ltd, this could be a major advantage of factor finance.

(c) A company's working capital investment is equal to the sum of its inventories and its accounts receivable, less its accounts payable.

The following factors will determine the level of a company's investment in working capital:

(i) The nature of the industry and the length of the working capital cycle

Some businesses have long production processes which inevitably lead to long working capital cycles and large investments in working capital. Housebuilding, for example, requires the building company to acquire land, gain government permission to build, build houses and when complete, sell them to customers. This process can often take more than a year and require large investment in work-in-progress and therefore in working capital.

Other industries, such as supermarkets, buy goods on long credit terms, have rapid inventory turnover and sell to customers for cash. They often receive payment from customers before they need to pay suppliers and therefore have little (or negative) investment in working capital.

(ii) Working capital investment policy

Some companies take a conservative approach to working capital investment, offering long periods of credit to customers (to promote sales), carrying high levels of inventory (to protect against stock-outs), and paying suppliers promptly (to maintain good relationships). This approach offers many benefits, but it necessitates a large investment in working capital.

Others take a more aggressive approach offering minimal credit, carrying low levels of inventory and delaying payments to suppliers. This will result in a low level of working capital investment.

(iii) Efficiency of management and terms of trade

If management of the components of working capital is neglected, then investment in working capital can increase. For example, a failure to apply credit control procedures such as warning letters or stop lists can result in high levels of accounts receivable. Failure to control inventory by using the EOQ model, or JIT inventory management principles, can lead to high levels of inventory.

(d) Operating leasing is a popular source of finance for companies of all sizes and many reasons have been advanced to explain this popularity. For example, an operating lease is seen as protection against obsolescence, since it can be cancelled at short notice without financial penalty. The lessor will replace the leased asset with a more up-to-date model in exchange for continuing leasing business. This flexibility is seen as valuable in the current era of rapid technological change, and can also extend to contract terms and servicing cover.

Operating leasing is often compared to borrowing as a source of finance and offers several attractive features in this area. There is no need to arrange a loan in order to acquire an asset and so the commitment to interest payments can be avoided, existing assets need not be tied up as security and negative effects on return on capital employed can be avoided. Since legal title does not pass from lessor to lessee, the leased asset can be recovered by the lessor in the event of default on lease rentals. Operating leasing can therefore be attractive to small companies or to companies who may find it difficult to raise debt.

Operating leasing can also be cheaper than borrowing to buy. There are several reasons why the lessor may be able to acquire the leased asset more cheaply than the lessee, for example by taking advantage of bulk buying, or by having access to lower cost finance by virtue of being a much larger company. The lessor may also be able use tax benefits more effectively than the lessee. A portion of these benefits can be made available to the lessee in the form of lower lease rentals, making operating leasing a more attractive proposition than borrowing. Operating leases also have the attraction of being off-balance sheet financing, in that the finance used to acquire use of the leased asset does not appear in the balance sheet.

END OF SUGGESTED SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D3: BUSINESS TAXATION

WEDNESDAY 11 JUNE 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 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 2,3,4,5,6 and 7 of this paper.

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

Taxation Table

Income Tax

Standard personal income tax rates

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%
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%

Farming allowances		
	Development allowance	10%
	Farm works allowance	100%
	Farm improvement allowance	100%

Presumptive Taxes

Turnover Tax

Annual turnover

First K12,000	0%
K12,001 to K5,000,000	5%

Tax on rental income

Annual Rental income band	Taxable amount	
K1 to K12,000	First K12,000	0%
K12,001 to K800,000	Next K788,000	4%
Above K800,000		16%

Presumptive Tax for transporters

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

Property Transfer Tax

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

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
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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	15,715	12,048	7,246	5,556
GVW exceeding 2.0 tonnes but not exceeding 5.0 tonnes	17,461	13,387	8,731	6,694
GVW exceeding 5.0 tonnes but not exceeding 10.0 tonnes	27,938	21,419	10,477	8,032
GVW exceeding 10.0 tonnes but not exceeding 20.0 tonnes	34,923	26,774	13,271	10,174
GVW exceeding 20 tonnes	58,645	0	21,992	0
GVW up to 2 tonnes	15,715	12,048	7,246	5,556

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%
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

The following summarised statement of profit or loss has been obtained from the accounts of EMC Mining Corporation, a company engaged in the extraction and sale of base metals, industrial minerals and gemstones in Zambia. EMC Mining Corporation is a subsidiary of a foreign based multinational mining company. The group prepares financial statements in United States Dollars.

EMC MINING CORPORATION

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2025

	<i>Note</i>	K
Sales revenue	(1)	546,670,400
Cost of sales	(2)	<u>(345,200,000)</u>
Gross profit		201,470,400
Other income	(3)	19,550,000
Operating expenses	(4)	<u>(99,104,000)</u>
Profit for the year		<u>121,916,400</u>

The following additional information is available:

Note 1: Sales revenue

This comprises sales of cobalt for the year amounting to K84,000,000 being the norm value of the mineral for mineral royalty tax purposes, sales of industrial minerals for the year amounting to K50,000,000 being the gross value for mineral royalty tax purposes and sales of gemstones amounting to K28,000,000 being the gross value of the mineral for mineral royalty tax purposes. The remaining balance of the sales represents the norm value of precious metals sold during the year.

Mineral royalty tax paid by the company during the year has not been accounted for in the statement of profit or loss shown above.

Note 2: Cost of sales

Included in cost of sales are depreciation charges of K17,000,000 and amortisation of intangible assets of K7,000,000. The balance comprises mineral extraction and processing costs.

Note 3: Other income

Other income includes Management and Consultancy fees of K10,200,000 (net), Royalty income of K6,800,000 (net) and dividends from non-mining companies not listed on the Lusaka Securities Exchange Commission (LuSE) of K2,550,000 (net).

Note 4: Operating expenses

Operating expenses comprises the following:

	K'000
Staff wages and salaries	18,000
Staff canteen expenses	640
Loans to former employees written off	2,400
Gifts of EMC branded pens to customers valued at K10 per customer	24
Gifts of EMC branded wall clocks costing K200 per customer	160
Road network rehabilitation in the local mining township	16,000
Insurance and freight expenses	6,320
Advertising and marketing expenses	3,560
Unrealised exchange loss of a capital nature	2,800
Provisional income tax paid	10,000
Miscellaneous allowable business expenses	<u>39,200</u>
	<u>99,104</u>

Note 5: Imported Mining Equipment

At 1 January 2025, the company held the following assets which were imported from foreign suppliers and paid for in United States Dollars last year. The original costs of the assets at the time of acquisition translated into Zambian Kwacha were as follows:

Asset	Cost
Metallurgical equipment	K8,000,000
Dump trucks	K4,800,000

Note 6: Locally acquired implements, plant and machinery

During the year, the company additionally acquired the following assets from local Zambian suppliers, paying for them in Zambian Kwacha:

Asset	Original Cost
	K
Office equipment	300,000
Personal to holder motor car	350,000

(3,000cc)

The Personal to holder car is provided to the Managing Director whose private use of the car is 30%.

Note 8: Other information

The indexation formula for capital allowances where applicable, is given below:

$$1 + \frac{(R_2 - R_1)}{R_1}$$

The following Zambian Kwacha per US Dollar (ZMW/US\$) average BOZ mid-exchange rates should be used where applicable:

Accounting Period

Average BOZ Mid-Exchange rate

Y/e 31 December 2024

ZMW/ US\$

K20.00

Y/e 31 December 2025

K21.00

Required:

- (a) Compute the taxable mining profits for the tax year 2025. (19 marks)
- (b) Compute the income tax payable by the company for the tax year 2025. (6 marks)

[Total: 25 Marks]

QUESTION TWO

Kanondo Farms Ltd is a VAT registered Zambian resident company which runs a number of farms in Central province generating an annual turnover of over K5,000,000. Last year, the company experienced a shortage of farming implements for one of its farms in the Chisamba area. Unfortunately, it could not obtain a loan from the bank to purchase a new tractor and a combine harvester due to its already existing loan facility running up to next year. The Managing Director of Kanondo Farms Ltd had suggested to the Board of Directors (BOD) to acquire the two assets under either a hire purchase or a leasing arrangement.

During the tax year 2025, following the BOD's approval, Kanondo Farms Ltd acquired a tractor under a hire purchase arrangement from JB Earth Moving Equipment Ltd. The terms of the agreement were that Kanondo Farms Ltd should pay an initial deposit of K150,000 and then pay six (6) monthly installments of K120,000 each starting on 1 January 2025. The cash price of the tractor was K600,000. JB Earth Moving Equipment Ltd reserves the right to repossess the asset in the event of default under the terms of the agreement.

Kanondo Farms Ltd also acquired a Combine Harvester during the tax year 2025 under an operating lease agreement at annual lease rentals of K55,000. The cash price of the Combine Harvester was K400,000.

Kanondo Farms Ltd's net profit for the year ended 31 December 2025 was K1,578,250. This net profit figure is before taking into account the above hire purchase and operating lease arrangements but after accounting for the following items:

- (1) Depreciation charges of K75,000 for the year ended 31 December 2025.
- (2) Expenditure on stumping of K56,000 and expenditure of K15,000 on digging a well at the farm.
- (3) Subscriptions of K12,000 paid to Farmers Union Association (FUA) to which Kanondo Farms Ltd is a member.
- (4) Salaries and wages for farm staff of K125,000, which include K25,000 for the wages of a gardener working at the house of the Managing Director.
- (5) Non-farming income from other sources which was credited to profit comprising bank interest and royalties amounting to K17,000 (net) and K21,250 (net) respectively.

Required:

- (a) Explain, with appropriate supporting computations, the tax implications arising from the following transactions:
 - (i) Acquisition of the combine harvester under an operating lease arrangement. (3 marks)
 - (ii) Acquisition of the tractor under a hire purchase agreement. (5 marks)
- (c) Calculate the company income tax payable by Kanondo Farms Ltd for the tax year 2025. (17 marks)

[Total: 25 Marks]

QUESTION THREE

- (a) James Likambo retired from Katanga Ltd on 31 October 2023. After receiving his retirement package he immediately started a groceries business on 1 November 2023 selling assorted items he orders from China. His sales from the date of commencement of the trade to 30 September 2024 had been K66,000 per month. On 1 October 2024 he increased the sales price and the monthly sales figure went up to K71,920. All his sales are standard rated supplies for VAT purposes and both of the above figures are VAT exclusive.

James Likambo was advised by the Zambia Revenue Authority (ZRA) officers to register for VAT from 1 January 2025. Since all of his sales will be to final customers, he is unable to increase the prices further as a result of his business now being VAT registered. He has therefore continued generating a turnover of K71,920, but this is now VAT inclusive. His VAT inclusive standard rated expenses are K16,240 per month. James Likambo has also heard that if he incorporated his business, he could be able to reward some of his employees by way of share options.

Required:

- (i) Explain the reasons why James Likambo was required to register for VAT from 1 January 2025 and state the action that he had to take as regards VAT registration. (4 marks)
 - (ii) Calculate the total amount of VAT payable by James Likambo for the year from 1 January 2025 to 31 December 2025. (4 marks)
 - (iii) Calculate the increase or decrease in James Likambo's net profit for the year ending 31 December 2025 as a consequence of the price increase and subsequent VAT registration. (4 marks)
 - (iv) Explain what you understand by share option schemes and advise James Likambo of the reasons why employers set up share option schemes for their employees and why employees actually participate in the schemes. (5 marks)
- (b) Navutika Transport Limited imported a brand new 26 seater bus from Japan in March 2025 at a cost of \$25,000. The vehicle was manufactured in December 2024. The company paid insurance charges of \$1,800 and freight of \$3,200. Other incidental costs incurred by the company from Chirundu border post to Lusaka were \$2,100.

The bus arrived at Chirundu boarder post on 15 May 2025 and all import taxes were paid by the company on that date.

The Commissioner General had advised that for the period from 1 May 2025 to 31 May 2025, the exchange rate to be used was K20.20 per US dollar. However, the Kwacha depreciated around 15 May 2025 and on that date the exchange rate quoted in one of the Bureau De Changes was K20.40 per US dollar.

Required:

- (i) State any three (3) costs that should **not** be included in the calculation of the Value for Duty Purposes (VDP). (3 marks)
- (ii) Calculate the import taxes that were paid by Navutika Transport Limited at Chirundu boarder post. (5 marks)

[Total: 25 Marks]

QUESTION FOUR

- (a) Insurance companies are generally classified into General Insurance and Life Insurance.

Required:

- (i) Distinguish between General insurance and Life insurance. (2 marks)
- (ii) Explain how the profits of a Zambian resident insurance business, providing General insurance are ascertained. (4 marks)
- (b) BCA Bank Limited was recently incorporated in Zambia as a commercial bank. It established its first branch in the tourist capital of Livingstone. The following is a summary of its statement of profit or loss for the year ended 31 December 2025:

	Note	K
Net interest income	(1)	70,490,400
Non-interest income	(2)	<u>11,860,000</u>
Net interest income and other income		82,350,400
Provision for loan losses	(3)	(1,610,000)
Non-interest expenses	(4)	<u>(17,300,000)</u>
Income before tax and extra-ordinary items		63,440,400
Income tax expense		<u>(23,425,000)</u>
Net income for the financial year		<u>40,015,400</u>

The following additional information is relevant:

Note 1: Net interest income

25% of the net income after provision for loan losses comprised interest income which is subjected to withholding tax at the rate of 15% which was deducted at source.

Note 2: Non- interest income

This comprises of dividends received from a Zambian resident bank amounting to K3,250,000 (net) and royalties of K3,400,000 (net). The remaining balance represents net rental income received from houses occupied by tenants who are not employed by the bank.

Note 3: Provision for loan losses

Provision for loan losses amounting to K1,610,000 were charged to the statement of profit or loss and these comprised of the following:

	K'000
Irrecoverable loans written off	750
Entertaining special customers	1,200
Decrease in general provision	<u>(340)</u>
	<u>1,610</u>

Note 4: Non-interest expenses

	K'000
Penalties and Interest for late submission of returns for PAYE	12,500
Depreciation	3,700
Gifts of 2,000 Golf T-Shirts to loyal customers (Costing K120 per customer)	240
Other allowable expenses	<u>860</u>
	<u>17,300</u>

Note 5: Non-current assets

During the year, BCA Bank Limited had the following assets which were used wholly and exclusively for the purpose of business:

	K'000
Personal to holder Motor car (3200cc)	230
Automated teller machine	300
Twin cab motor van	550

The personal to holder car is used by the Managing Director for both business and private purposes and it has been agreed with the Commissioner General that 20% is for private purposes.

Required:

Calculate the company income tax payable by BCA Bank Limited for the tax year 2024.
(15 marks)

- (b) BCA Bank Limited is part of a group of companies with its holding company based within Zambia, but it also has subsidiaries in foreign countries. During the year BCA Bank transferred a piece of land to a member of the group which is resident in Zambia as part of the internal reorganization of the group.

Required:

- (i) Explain the Property Transfer Tax implications of the above transfer of land by BCA Bank Limited. (2 marks)
- (ii) Explain what the Property Transfer Tax implications would have been if BCA Bank Ltd had transferred title to the land to another member of the group which is not resident in Zambia. (2 marks)

[Total: 25 Marks]

END OF PAPER

D3: BUSINESS TAXATION – SUGGESTED SOLUTIONS

SOLUTION ONE

(a) EMC MINING CORPORATION

COMPUTATION OF THE TAXABLE PROFIT FOR THE TAX YEAR 2025

	K'000	K'000
Profit for the year		121,916.4
Add:		
Depreciation	17,000	
Amortisation of intangible asset.	7,000	
Staff canteen expenses	640	
Loan to former employee written off	2,400	
Excess on gifts of wall clocks to customers (K160,000/K200 = 800 Customers x K100)	80	
Road network rehabilitation	16,000	
Unrealised exchange loss of capital nature	2,800	
Provisional income tax	10,000	
Personal holder motor car benefit	<u>57.6</u>	
		<u>55,977.6</u>
		177,694.0
Less:		
Mineral royalty (W1)	30,340	
Management and consultancy fees	10,200	
Royalty income.	6,800	
Dividends.	2,550	
Capital allowances (W3)	<u>6,285</u>	
		<u>(56,175)</u>
Final tax adjusted mining profit		<u>121,719</u>

WORKING:

(1) COMPUTATION OF MINERAL ROYALTY

	K'000
Cobalt (K84m x 8%)	6,720
Industrial minerals (K50m x 5%)	2,500
Gemstones (K28 x 6%)	1,680
Precious metals (K486m- K84m – K50m – K28m) x 6.0%	<u>19,440</u>
Total MRT	<u>30,340</u>

(2) COMPUTATION OF CAPITAL ALLOWANCES

K

<u>Metallurgical equipment</u>	
Indexed Wear & tear allowance	
20% x K8m = K1.6m x $[1 + \frac{(21.00-20.00)}{20.00}]$	1,680
<u>Dump truck</u>	
Wear & tear allowance	
25% x K4.8m = K1.2m x $[1 + \frac{(21.00-20.00)}{20.00}]$	1,260
<u>Road network rehabilitation</u>	
Wear & tear allowance	
K16m x 20%	3,200
<u>Office equipment</u>	
Wear & tear allowance	
K300,000 x 25%	75
<u>Personal to holder motor car</u>	
Wear & tear allowance	
(K350,000 x 20%)	70
Total	<u>6,285</u>

(b) EMC Mining Corporation
COMPANY INCOME TAX COMPUTATION FOR THE TAX YEAR 2025

	K'000	K'000
Taxable mining profit		121,719
Investment income:		
Management Consultancy fees		
(K10,200 x 100/85)	12,000	
Royalty (K6,800 x 100/85)	<u>8,000</u>	
		<u>20,000</u>
Total Taxable income		<u>141,719</u>
Company income tax on mining profit		
(K141,719 x 30%)		42,516
Company income tax on investment income		
(K20,000 x 30%)		<u>6,000.00</u>
Tax liability		48,516
Less: tax already paid		
WHT on Management and consultancy fees		
(K12,000 x 15%)		(1,800)
WHT Royalty income		
(K8000 x 15%)		(1,200)
Provisional tax paid		<u>(10,000)</u>
Company Income Tax Payable		<u>35,516</u>

SOLUTION TWO

(a) Tax implications of acquisition of the tractor and combine harvester

(i) Tax implications of acquisition of the combine harvester under an operating lease.

- (1) The company will not be able to claim capital allowances on the combine harvester as these will be claimed by the lessor.
- (2) The operating lease rentals exclusive of VAT of K55,000 will be allowed when computing the taxable business profits of the company.
- (3) The lessee will also be able to claim input VAT on operating lease rentals which will amount to K8,800 ($16\% \times K550,000$)

(ii) Tax implications of acquisition of the tractor under a hire purchase agreement.

- (1) Input VAT on the cost of the asset will be recoverable.

The amount of the recoverable input VAT will be:
 $K600,000 \times 16\% = K56,000$

- (2) Capital allowances will be claimable on the VAT exclusive cost and these will amount to:

$K600,000 \times 100\% = K600,000$

- (3) Hire purchase interest will be allowable subject to the 30% Tax EBITDA allowable interest expense limitation rules.

The amount of the allowable interest will be

$[K150,000 + (K120,000 \times 6) - K600,000] = 270,000$

(i) Hybrid Instruments

This is an instrument that has both a liability and equity component. These can be exemplified via convertible bond. This is an instrument that allows the lender to convert a loan into equity share capital at a future date.

(ii) Hedging

Hedging is a technique used by companies to manage risks. There are commercial hedging and accounting hedging methods.

(iii) Derivatives

A derivative is a financial instrument that derives its value from the price or rate of some underlying item or instrument.

(c) KANONDO LTD		
COMPANY INCOME TAX COMPUTATION FOR THE TAX YEAR 2025		
	K	K
Net profit per accounts		1,578,250
Add:		
Depreciation	75,000	
Stumping	56,000	
Digging a well	15,000	
Gardener's wages	<u>25,000</u>	
		<u>171,000</u>
		1,749,250
Less:		
Royalties	17,000	
Bank interest	21,250	
Lease rental	55,000	
Capital allowances:		
Combined harvester (400,000 x 100%)	400,000	
Tractor (600,000 x 100%)	600,000	
Stumping (56,000 x 100%)	56,000	
Digging a well (15,000 x 100%)	<u>15,000</u>	
		<u>(1,164,250)</u>
Taxable profit before interest expense adjustment		585,000
Less Allowable Hire purchase interest (W1&W2)		<u>(211,500)</u>
Final tax adjusted farming profit		373,500
Add:		
Royalties (17,000 x 100/85)	20,000	
Bank interest (21,250 x 100/85)	<u>25,000</u>	
		<u>45,000</u>
Total taxable income		<u>418,500</u>
Company income tax on farming income		
10% x K418,500		41,850
Company income tax on non-farming income		
30% x K45,000		<u>13,500</u>
		55,350
Less withholding tax:		
Royalties (20,000 x 15%)		(3,000)
Bank interest (25,000 x 15%)		<u>(3,750)</u>
Final income tax payable		<u>48,600</u>

WORKINGS

(1) COMPUTATION OF TAX EBITDA

	K
Taxable adjusted profit before	
Interest expense adjustment	585,000
Add:	
Royalties ($17,000 \times 100/85$)	20,000
Bank interest ($21,250 \times 100/85$)	<u>25,000</u>
	<u>45,000</u>
Taxable income	630,000
Add Depreciation	<u>75,000</u>
Tax EBITDA	<u>705,000</u>

(2) COMPUTATION OF ALLOWABLE AND DISALLOWED INTEREST

Hire purchase interest	270,000
Allowable interest is limited to:	
($K705,000 \times 30\%$)	<u>211,500</u>
Disallowed interest c/f to 2026	<u>58,500</u>

SOLUTION THREE

- (a) (i) A trader who makes taxable supplies is required to register for VAT when the taxable supplies during any period of twelve (12) months exceeds K800,000 (or K200,000 during any period of three (3) months).

Throughout the period of trading up to 30 September 2023, James Likambo's turnover had been below the registration thresholds. The turnover was as follows:

	K
Period up to 30 September 2023 (K66,000 x 11)	726,000
October 2023	<u>71,920</u>
12 months cumulative	<u>797,920</u>
12 months cumulative up to 30 November 2023	797,920
November 2022	71,920
November 2021	<u>(66,000)</u>
	<u>803,840</u>

James Likambo was required to register for VAT from 1 January 2025 as this is the start of the period following the twelve months' period whose turnover exceeded the registration threshold of K800,000 for twelve (12) months.

The action James is expected to take regards registration for VAT is to make an application for VAT registration within one (1) month following the year ended 31 December 2022.

- (ii) James Likambo
Computation of VAT payable for the year ended 31 December 2025

	K
Output VAT (K71,920 x 12 months) x 4/29	119,040
Less input VAT (K16,240 x 12 months) x 4/29	<u>(26,880)</u>
VAT payable	<u>92,160</u>

- (iii) If James Likambo had not increased the prices, his profit for the year ending 31 December 2025 would have been as follows:

	K
Turnover (K66,000 x 12 months)	792,000
Less expenses (K16,240 x 12 months)	<u>(194,880)</u>
Net profit	<u>597,120</u>

As a result of increasing the prices and registering for VAT, the net profit for the year ending 31 December 2025 is:

	K
Turnover (K71,920 x 12 x 25/29)	744,000
Less expenses (K16,240 x 12 x 25/29)	<u>(168,000)</u>

Net profit	<u>576,000</u>
Decrease in net profit (K576,000 – K597,120)	(21,120)

- (iv) A share option scheme is a scheme under which the employer now grants options to employees to buy shares in that company in the future at a predetermined price . The price agreed now at which the shares would be bought in the future is known as the exercise price or striking price.

On the expiry of the share option, an employee may exercise the option. This means the employee would buy the shares at that agreed share price. The employee may also not exercise the option at all. This means the option would lapse.

The objective of the share option is to encourage employers to set up schemes for employees to own shares in the companies in which they are employed.

Employees join the scheme in the hope of making a profit as they expect the value of shares, when they finally acquire them, to be substantially more than the price they will pay.

Management hopes that employees will increase productivity and thus increase profit.

- (b) (i) Costs that **should not** be included in the VDP include the following:

- (1) Installation or technical and after the goods are imported
- (2) Transportation cost of the goods within Zambia.
- (3) Insurance cost of goods within Zambia
- (4) Taxation payable in Zambia

- (ii) Customs value for the bus:

	\$
Cost	25,000
Insurance	1,800
Freight	<u>3,200</u>
CIF charge	<u>30,000</u>
VDP (\$30,000 x K20.20)	K606,000

Computation of import taxes paid on the importation of the bus

	Values K	Taxes K
VDP	606,000	
Customs duty @ 15%	<u>90,900</u>	90,900
	696,900	
Excise Duty @ 0%	<u>0</u>	0

	696,900	
Import VAT @16%	<u>111,504</u>	111,504
	<u>808,404</u>	
Total import taxes paid		<u>202,204</u>

SOLUTION FOUR

- (a) (i) Life insurance is insurance of human life and takes the form of protection products and savings products.

General insurance on the other hand is insurance against loss or damage to property.

- (ii) The profits of carrying on insurance business, other than Life Insurance business, by a resident company are ascertained by:
- (1) Taking the gross premiums, interest, and other income, less premiums refunded or paid on reinsurance; and
 - (2) Adding a reserve for unexpired risks at such reasonable percentage as is adopted by the company at the beginning of the year's business; and
 - (3) Deducting a reserve for unexpired risks at such reasonable percentage as is adopted by the company at the end of the year's business; and
 - (4) Deducting the actual losses (less the amounts received under reinsurance), and other expenses, including deductions that are allowable as a deduction in calculating any business profits.

(b) BCA BANK LIMITED

COMPUTATION OF INCOME TAX PAYABLE FOR THE TAX YEAR 2025

	K,000	K'000
Income before taxation		63,440.40
1/2		
Add:		
Entertaining special customers	1,200	
Penalties& Interests for late submission of PAYE returns	12,500	
Loans recovered	2,000	
Depreciation	3,700	
Gifts	240	
Personal to holder car	<u>57.6</u>	
		<u>19,697.6</u>
		83,138
Less:		
Dividends	3,250	
Royalties	3,400	
Rental income	3,600	
Capital allowances:		
Motor car (230,000 x 20%)	46	
ATM (300,000 x 25%)	75	
Motor Van (550,000 x 25%)	138	
Decrease in general provision	<u>340</u>	

	<u>(10,849)</u>
Tax adjusted business profit	72,289
Add:	
Royalties (3,400 x 100/85)	<u>4,000</u>
Taxable income	<u>76,289</u>
Income tax @ 30% x 76,289	22,887
Less:	
WHT- Interest (70,500 x 25% x 15%)	(2,644)
WHT – Royalties (4,000 x 15%)	<u>(600)</u>
Company income payable	<u>19,643</u>

- (c) (i) When one 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.

Therefore, the transfer of land by BCA may be deemed to have taken place at nil realized value by the Commissioner General in which case the company will not be required to pay PTT.

- (ii) If property is transferred to a Group company that is not resident in Zambia to a Group company that is not resident in Zambia, there will be a requirement to determine the realized value and property transfer tax would be payable.

END OF SUGGESTED SOLUTIONS



TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D4: PERSONAL TAXATION

TUESDAY 10 JUNE 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.
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 to 6 of this paper.

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

Taxation Table

Income Tax

Standard personal income tax rates

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%
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%

Farming allowances		
	Development allowance	10%
	Farm works allowance	100%
	Farm improvement allowance	100%

Presumptive Taxes

Turnover Tax

Annual turnover

First K12,000	0%
K12,001 to K5,000,000	5%

Tax on rental income

Annual Rental income band	Taxable amount	
K1 to K12,000	First K12,000	0%
K12,001 to K800,000	Next K788,000	4%
Above K800,000		16%

Presumptive Tax for transporters

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

Property Transfer Tax

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

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

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	15,715	12,048	7,246	5,556
GVW exceeding 2.0 tonnes but not exceeding 5.0 tonnes	17,461	13,387	8,731	6,694
GVW exceeding 5.0 tonnes but not exceeding 10.0 tonnes	27,938	21,419	10,477	8,032
GVW exceeding 10.0 tonnes but not exceeding 20.0 tonnes	34,923	26,774	13,271	10,174
GVW exceeding 20 tonnes	58,645	0	21,992	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%
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

You are employed in a firm of Chartered Accountants as a Senior Tax Consultant. Your supervisor has provided you with information relating to a new client of your firm, Davido, who is seeking tax advice on his contract with ZamCorp Ltd.

Davido Muchi was born in a country known as CentralTown and has lived there until 26 October 2025. The currency of CentralTown is the CentralTown Dollar (CT\$). On 26 October 2025, he left CentralTown to take up employment with ZamCorp Ltd, a Zambian resident company, on a three-year non-renewable contract commencing 1 November 2025. He arrived in Zambia on 28 October 2025. He is expected to relocate back to CentralTown upon the expiry of the contract on 31 October 2028.

The contract of employment, with ZamCorp, provided for the following:

Basic salary	K912,000 per annum
Entertainment allowance	K4,900 per month
Airtime allowance	K1,200 per month

Income tax deducted under the pay as you earn system from his employment earnings for the period to 31 December 2025 amounted to K48,174.

Upon his arrival in Zambia, on 28 October 2025, he was accommodated in a hotel until 31 October 2025 at a cost of K5,600 per night all of which the company paid. On 1 November 2025, he moved into a rented house for which the gross monthly rentals were K26,200. It is agreed in the contract that ZamCorp will pay these rentals on his behalf. Additionally, the company paid utility bills amounting to K5,100 per month on his behalf.

Davido holds various investments in CentralTown. During the month of December 2025, he received the following income from his investments in CentralTown:

Rental income (net)	CT\$14,400
Bank deposit interest (net)	CT\$8,080
Interest on bonds (net)	CT\$5,440

The rental income is net of withholding tax deducted in CentralTown at a rate of 40%, while bank deposit interest and interest on bonds are net of withholding tax deducted in CentralTown at a rate of 20%. All the income received from investments in CentralTown was credited to his account with Zambian banks.

He was provided with a 2,900cc Toyota Prado Car on personal-to-holder basis. The car was acquired by ZamCorp Ltd on 31 October 2025 at a cost of K300,000. The motor car is maintained by the company at a cost of K4,000 per month.

There is no double taxation convention between Zambia and CentralTown. Assume that a tax credit is available against Zambian income tax on foreign income. The Zambian Kwacha (ZMW) to CentralTown Dollar (CT\$) exchange rate averaged K23.80 per CT\$1 for the year ended 31 December 2025.

Required:

- (a) Explain whether or not Davido will be regarded to as a Zambian resident for income tax purposes for the tax year 2025. You should state the reasons for your answer.
(3 marks)
- (b) Advise Davido of the Zambian income tax implications arising from the receipt of rental income, bank deposit interest and bond interest from foreign sources from his investments in CentralTown.
(5 marks)
- (c) Calculate the amount of income tax payable by Davido for the tax year 2025. You should indicate by the use of a zero (0) any item of income which is not taxable.

(17 marks)

[Total: 25 Marks]

QUESTION TWO

For the purposes of this question you should assume that today's date is 20 December 2024

Mwiche is a Civil Engineer and has been approached by a Deyton Constructions Ltd, a civil engineering and construction company which would like to use his services on a number of construction projects the company has received from its clients.

The company wishes to engage Mwiche either as an employee or as an independent self-employed contractor on a one (1) year contract which will commence on 1 January 2025 and end on 31 December 2025.

Employment

If Mwiche is taken on as an employee, he will be engaged as the Project Manager and the following conditions of service will apply:

- (1) He will be entitled to a basic monthly salary of K420,000 per month.

- (2) His contract gratuity will be 30% of the cumulative basic salary earned over the contract period, payable on the expiry of the contract on 31 December 2025.
- (3) He will be provided with a Toyota Double Cab van (2,800cc) which the company acquired a year ago at a cost K950,000 which he will use for for both employment and private purposes. His private use of the car will be 40%. The company will pay for motor car running expenses of K5,000 per month, on the car.
- (4) He will be provided with the relevant equipment he needs to perform the duties of his employment which the company acquired a year ago at a cost of K35,000.
- (5) Employee's NHIMA contributions at the rate of 1% of basic salary will be deducted from his basic salary.
- (6) Employee's NAPSA contributions of 5% of his gross earnings will be deducted from his salary.
- (7) The earnings ceiling for NAPSA contributions purposes for the tax year 2025 is K409,968 per annum.

Self-employment

If Mwiche is taken on as an independent self-employed contractor, then the following will apply:

- (1) He will invoice the company a fixed contract price of K5,040,000, which will be paid to him in twelve monthly instalments.
- (2) He will further be paid a commission of 30% of the total contract price for the year on successful completion of the contract on 31 December 2025.
- (3) Mwiche will use his own personal Toyota Hilux Double cab van (2,800cc) which he acquired a year ago at a cost ok K950,000, partly for business purposes on the contract and private purposes. It has been agreed with the Commissioner General that his business use of the vehicle will be 60%.
- (4) He will incur motor car running expenses of K5,000 per month in relation to the vehicle.
- (5) He will be required to use his own equipment to perform duties on the contract which he acquired at a cost of K35,000 a year ago.
- (6) He will not be required to make any NAPSA nor NHIMA contributions under this option.

Required:

- (a) Assuming that Mwiche is taken on as an employee:
- (i) Compute the amount of the gratuity he will receive on the expiry of the contract and explain its income tax treatment. (2 marks)
 - (ii) Calculate his income tax, employee's NHIMA and employee's NAPSA contributions payable in the tax year 2025. (5 marks)
- (b) Assuming that Mwiche is taken on as an independent self-employed contractor:
- (i) Explain how he will be assessed to income tax in the tax year 2025. (2 marks)
 - (ii) Compute his income tax liability for the tax year 2025. (8 marks)
- (c) Advise Mwiche as to whether it will be beneficial to be engaged as an employee or an independent self-employed contractor from a taxation point of view. **Your answer should be supported by appropriate computations of the net income which will arise under each option.** (8 marks)

[Total: 25 Marks]

QUESTION THREE

- (a) **For the purposes of this question, you should assume that today's date is 21 December 2025 and that the earnings ceiling for the purposes of NAPSA is K409,968.**

Lungowe and Ndumba are the shareholders of Ndulu Limited a company that supply stationery materials to mining companies. Lungowe holds 52% of the issued equity shares of Ndulu Ltd while Ndumba holds the remaining 48% of the issued equity shares. Lungowe and Ndumba are full time working directors and are entitled to all-inclusive salaries of K280,000 and K300,000 per annum respectively.

On 10 December 2025, they agreed that Lungowe will draw an additional amount of 30% of her salary as a bonus while Ndumba will draw an additional amount of 30% of his salary as a dividend. They are not sure of the income tax and NAPSA implications of the additional amounts to be paid to each individual.

Required:

- (i) Advise Lungowe of the income tax and NAPSA implications, both for her as an individual and for the company, of the bonus to be paid to her. Your answer should include a computation of any increase or decrease in income tax payable and NAPSA contributions. (7 marks)
 - (ii) Advise Ndumba of the income tax and NAPSA implications, both for him as an individual and for the company, of the dividend to be paid to him. Your answer should include a computation of any increase or decrease in income tax payable and NAPSA contributions. (5 marks)
- (b) Charles Munwa recently won a lottery and now intends to invest the money in various investments within Zambia. The following are some of the investments he is considering:
- (i) Invest in shares of a private limited company. He intends to sale these shares after three (3) years from the date of investment.
 - (ii) Invest in shares of a company listed on the Lusaka securities exchange. He will sale these shares after three (3) years from the date of investment.
 - (iii) Invest in the Government of the Republic of Zambia (GRZ) Bonds. He will equally sale these bonds after two years from the date of investment.
 - (iv) Invest in real property and let out the property for three years receiving rental income. Thereafter, he will sell the property at its open market value at that time.

He is seeking tax advice on the tax implications of each of the above proposed investment.

Required:

Explain to Charles, the tax implications of investing in each of the above investments.

(8 marks)

- (c) Mrs. Nyirenda commenced a public transportation business on 1 April 2025. She has bought three (3) motor vehicles for the business, which she immediately brought into use.

The first motor vehicle is a Mitsubishi Rosa bus with a sitting capacity of twenty-nine (29) passengers. The monthly ticket sales are expected to be K31,600. The operating expenses will average K4,800 per month.

The second motor vehicle is the Higer bus with a sitting capacity of forty-five (45) passengers. The monthly ticket sales are expected to be K63,400. The operating expenses will average K11,700 per month.

The third motor vehicle is a Toyota Axio car with a sitting capacity of four (4) passengers. The monthly ticket sales are expected to be K7,200 while operating expenses will average K800 per month.

Mrs. Nyirenda seeks tax advice on what type and amount of tax she will be required to pay for the year ended 31 December 2025.

Required:

Advise Mrs. Nyirenda of the type and amount of tax payable for the year ended 31 December 2025. (5 marks)

[Total: 25 Marks]

QUESTION FOUR

Joan is employed at JS Limited, a private limited company, as Operations Director. She was paid a salary amounting to K25,000 per month and children's education allowance of K7,200 per term for the year ended 31 December 2025.

Three (3) years ago, she was granted 13,200 employee share options to be exercised on 30 November 2025 at an exercise price of K8.25 per share. The scheme under which the options were offered is not approved by the Commissioner General for tax purposes. The fair value of the shares on the day the options were granted to Joan three years ago was K8.25 and on 30 November 2025 the fair value of each share had increased to K14.90. Joan exercised the options on 30 November 2025. She plans to sell these shares next year during the course of the charge year 2026.

During the charge year 2025, she was additionally provided with the following:

- (1) Free residential accommodation in a company owned house with effect from 1 July 2025. The gross monthly rental would have been K11,100 if the house was to be let out on a commercial basis. The company acquired this house two years ago at a cost of K3,400,000. The utility expenses in connection with the house are all paid by the company. The utility expenses during the year ended 31 December 2025 averaged K2,700 per month.
- (2) She was also provided with a 2400cc Toyota Mark – X Car on a personal-to-holder basis throughout the year ended 31 December 2025. The motor car was acquired at a cost of K160,000 a year ago. All maintenance expenses are paid for by the company. During the year ended 31 December 2025, the maintenance expenses amounted to K4,000 per month.

During the year ended 31 December 2025, she paid K8,600 as a donation to Care Orphanage Center (an approved public benefit organization) and professional subscription of K4,100. The employer deducted K81,200 from her emoluments as pay as you earn during the year ended 31 December 2025.

In addition to the employment income, Joan received rental income from her two houses during the year ended 31 December 2025. Information relating to the houses is as follows:

House 1

This is a three (3) bedroomed house situated within Lusaka. The house was let out on 1 January 2025 at gross monthly rentals of K9,400. The general maintenance expenses are K2,000 per month. On 1 April 2025, she insured the house at a cost of K12,000 per annum.

House 2

This house consists of two (2) flats that are let out at gross monthly rentals of K4,900. The flats were all occupied on 1 January 2025. The general maintenance expenses are K1,200 per month for each flat. On 1 January 2025, she insured these flats at a total cost of K12,200 per annum.

Required:

- (a) Advise Joan of the income tax implications arising from the grant of share options and exercise of the options under the unapproved employee share option scheme.
(5 marks)
- (b) Advise Joan of the income tax implications arising from the provision of free residential accommodation and person-to-holder car in notes (1) and (2) above respectively.
(4 marks)
- (c) Explain the income tax implications arising from letting out of the two houses. Your answer should include a computation of the amount of tax payable on the rental income for the tax year 2025.
(7 marks)
- (d) Compute the final amount of income tax payable by Joan for the tax year 2025. You should indicate using a zero (0) any benefit that is not taxable.
(9 marks)

[Total: 25 Marks]

END OF PAPER

D4: PERSONAL TAXATION-SUGGESTED SOLUTIONS

SOLUTION ONE

- (a) An individual is regarded as a resident in Zambia if he or she is physically present in Zambia for more than one hundred eighty-three (183) days excluding the date of arrival and the date of departure.

An individual is also regarded as a Zambian resident from the date of arrival if that individual comes to Zambia for the purpose that will take more than twelve (12) months or comes to Zambia with the intention of establishing permanent residence in Zambia.

Davido will be regarded as a Zambian resident, for taxation purposes in the tax year 2025, although he spent less than 183 days in Zambia. This is so because he came to Zambia to take up employment for a period of three (3) years.

- (b) The following are the income tax implications of the income received by Davido from foreign sources:

(1) Rental income

Rental income received from letting of property situated in a foreign country is exempted from Zambian income tax. This means that Davido will not be liable to pay tax on the rental income received from CentralTown.

(2) Bank deposit interest

Interest received from bank deposit accounts with banks resident in a foreign country is taxable in Zambia subject to any double taxation relief. This means that Davido will be liable to Zambian income tax on the bank deposit interest received from CentralTown. The taxable amount is the grossed-up amount of the interest income.

(3) Interest on bonds

Interest received from bonds in companies that are resident in a foreign country is taxable in Zambia subject to any double taxation relief. Therefore, Davido will be liable to Zambian income tax on the interest on bonds received from CentralTown.

(c) DAVIDO

PERSONAL INCOME TAX COMPUTATION FOR THE TAX YEAR 2025

Income from Zambian sources	K	K
Basic salary ($K912,000 \times 2/12$)		152,000
Entertainment allowance ($K4,900 \times 2$)		9,800
Airtime allowance ($K1,200 \times 2$)		2,400
Lodging expenses		0
Rentals paid by the company ($K26,200 \times 2$)		52,400
Utility bills ($K5,100 \times 2$)		<u>10,200</u>
		226,800
Foreign income		
Rental income	0	
Bank deposit interest		
($\$8,080 \times 100/80 \times K23.80$)	240,380	
Interest on bonds ($\$5,440 \times 100/80 \times K23.80$)	<u>161,840</u>	
		<u>402,220</u>
Taxable income		<u>629,020</u>

Income Tax

First K61,200 @0%		0
Next K24,000 @20%		4,800
Next K25,200 @30%		7,560
Excess ($K629,020 - K110,400$) @37%		<u>191,889</u>
Income tax liability		204,249
Less:		
Pay as you earn	48,174	
Double taxation relief:		
Bank deposit interest	48,076	
Interest on bonds	<u>32,368</u>	

	<u>(128,618)</u>
Income tax payable	<u>75,631</u>

WORKINGS

Double taxation relief

(1) Bank deposit interest

Foreign tax paid: $K240,380 \times 20\% = \underline{K48,076}$

Zambian tax

Gross foreign income x Zambian tax charge

Total assessable income

K240,380 x K204,249

K629,020

= K78,054

The double taxation relief is K48,076 which is the lower of the Zambian income tax.

(2) Interest on bonds

Foreign tax paid: $K161,840 \times 20\% = \underline{K32,368}$

Equivalent Zambian tax

Gross foreign income x Zambian tax charge

Total assessable income

K161,840 x K204,249

K629,020

= K52,551

The double taxation relief is K32,368 which is the lower of the equivalent Zambian tax.

SOLUTION TWO

(a) (i) Gratuity

(i) The gratuity will be:

$$(K420,000 \times 12) \times 30\% = K1,512,000.$$

(ii) The gratuity will be exempt from income tax being a pension benefit

(ii) MWICHE

PERSONAL INCOME TAX COMPUTATION FOR THE TAX YEAR 2025

	K
Salary (K420,000 x 12)	<u>5,040,000</u>
<u>Income Tax</u>	
On first K61,200 x 0%	0
On next K24,000 x 20%	4,800
On next K25,200 x 30%	7,560
On excess (K5,040,000 - K110,400) x 37%	<u>1,823,952</u>
	<u>1,836,312</u>
Employee's NHIMA Contributions	
(K5,040,000 x 1%)	<u>50,400</u>
Employee's NAPSA Contributions	
(K409,968 x 5%)	<u>20,498</u>

(b) (i) If Mwiche is taken on as a self-employed, independent contractor, the income he will generate will not be classified as emoluments subject to tax under PAYE, but as turnover.

His annual turnover will be K5,040,000 (K420,000 x 12). Since this is above K800,000 he will be assessed to normal income tax under the self-assessment and provisional income tax and not turnover tax.

(ii) MWICHE

COMPUTATION OF TAXABLE PROFIT AND INCOME TAX PAYABLE

	K	K
Contract price		5,040,000
Commission (K840,000 x 30%)		<u>1,512,000</u>
		6,552,000
Less allowable deductions:		
Motor car running expenses		
(K5,000 x 12) x 60%	36,000	
Capital allowances on:		
- Toyota Hilux		

(K950,000 x 20%) x 60%	114,000	
- Equipment (K35,000 x 25%)	<u>8,750</u>	
		<u>(158,750)</u>
		<u>6,393,250</u>
<u>Income Tax</u>		
On first K61,200		0
On next K24,000 x 20%		4,800
On next K25,200 x 30%		7,560
On excess		
(K6,393,250 - K110,400) x 37%		<u>2,324,655</u>
Income Tax payable		<u>2,337,015</u>

(c) COMPUTATION OF NET INCOME IF MWICHE IS ENGAGED AS:

	An Employee K	Self employed K
Gross earnings /Contract price	5,040,000	5,040,000
Gratuity/ Commission @30%	<u>1,512,000</u>	<u>1,512,000</u>
Gross income	6,552,000	6,552,000
Income tax payable	(1,836,312)	(2,337,015)
Employee's NHIMA contributions	(50,400)	0
Employee's NAPSA contributions	(20,498)	0
Motor car expenses (K5,000 x 12)	<u>0</u>	<u>(60,000)</u>
Net income	<u>4,644,790</u>	<u>4,214,985</u>

It will be more beneficial for Mwiche to be taken on as an employee as this option gives a higher net income by K449,805 (K4,644,790– K4,214,985)

SOLUTION THREE

(a) Lungowe and Ndumba

- (i) If Lungowe draws 30% of her salary as a bonus, the following are the implications:

Tax implications for Lungowe her as an individual

- (1) The bonus is a taxable emolument on Lungowe. The bonus will therefore be taxed on Lungowe together with the salary. Since the current salary is above K110,400, the whole bonus will be taxed at a maximum rate of 37%.

- (2) The additional income tax payable will therefore be:

$$\text{Bonus amount; } K280,000 \times 30\% = K84,000$$

$$\text{Additional tax payable: } K84,000 \times 37\% = K31,080.$$

- (3) She will contribute additional employee's NAPSA on the bonus as her current salary is below the earnings ceiling of K409,968.

- (4) The additional NAPSA contributions will amount to:

$$K84,000 \times 5\% = K4,800$$

Tax implications for the company

- (1) The bonus payable to Lungowe is an allowable expense when computing the taxable business profits. The amount to be allowed for tax purposes will be:
 $K280,000 \times 30\% = K84,000$.

- (2) The company will pay an additional employer's NAPSA contributions on the bonus as the current salary for Lungowe is less than the earnings ceiling for NAPSA purposes of K409,968. The additional NAPSA contribution is therefore;

$$K84,000 \times 5\% = K4,800$$

- (3) The additional employer's NAPSA contributions is an allowable expense when computing the company's taxable business profits.

The income tax savings for the company will be:

$$(K84,000 + K4,800) \times 30\% = K26,640.$$

- (ii) If Ndumba draws 30% of his salary as a dividend, the following are the taxation and NAPSA implications:

Tax implications Ndumba as an individual

- (1) Dividends will be subjected to tax under the withholding tax system at a rate of 15%. This will be the final tax for Ndumba. This means that there will be no further assessment on the dividends.
- (2) The total additional tax payable is the withholding tax of; $K300,000 \times 30\% \times 15\% = K13,500$.
- (3) Employee's NAPSA contributions will not be payable by Ndumba because dividends are not earnings for NAPSA purposes.

Tax implications for the company

- (1) Dividends are not allowable when computing taxable business profits. Therefore, the amount of taxable business profits will be higher by the amount of dividends.
- (2) This will give rise to an increase in income tax payable by the company. The additional income tax payable will be: $K300,000 \times 30\% \times 30\% = K27,000$.
- (3) The company will not contribute additional employer's NAPSA as dividends are not earnings for the purposes of NAPSA.

(b) The income tax implications of investing in each of the following are:

(i) Shares of a private limited company

- (1) Dividends receivable by Charles will be subjected to tax under the withholding tax system at a rate of 15% which will be the final tax. Charles will not be subjected to further assessment.
- (2) Property transfer tax will be payable on the transfer of these shares at a rate of 8% of the realised value. This is so as shares meet the definition of property under the property transfer tax Act.

(ii) Shares of listed companies

- (1) Dividends receivable by Charles will be subjected to tax under the withholding tax system at a rate of 0% which is the final tax. This means that Charles will not be able to pay any tax on these dividends.
- (2) Property transfer tax will not be payable on the transfer of these shares as transfer of shares that are listed on the Lusaka Securities Exchange is exempt from property transfer tax.

(iii) GRZ Bonds

- (1) Interest receivable by Charles will be subjected to tax under the withholding tax system at a rate of 15% which is the final tax for individuals. He will not be subjected to further income tax assessment.

- (2) Property transfer tax will not be payable on the transfer of GRZ Bonds as bonds do not meet the definition of property under the property transfer tax Act. This means that transfer of bonds falls outside the scope of PTT.

(iv) Real property

- (1) Charles will receive rental income which will be subjected to tax under rental income tax. The first K12,000 per annum of the rental income will be taxable at 0%, rental income falling between K12,000 and K800,000 per annum will be taxed at 4% and any balance of rental income exceeding K800,000 per annum will be taxed at 16%.
- (2) Property transfer tax will be payable on the transfer of the property at the rate of 8% of the realised value. This is so because real property meets the definition of property under the property transfer tax Act.

- (c) Mrs. Nyirenda will commence a public transportation business; therefore, she will be required to pay presumptive tax for transporters regardless of the level of her earnings from this business.

All operating expenses will not be deductible for the purposes of computing presumptive tax as this tax is calculated at pre-determined fixed rates depending on the sitting capacity of the vehicle. Capital allowances will, as well, not be claimed.

The amount of tax payable for the year ended 31 December 2025 will be:

	K
Mitsubishi Rosa bus (K1,944 x 3 quarters)	5,832
Higer bus (K2,592 x 3 quarters)	7,776
Toyota Axio Car (K324 x 3 quarters)	<u>972</u>
Total presumptive tax	<u>14,580</u>

SOLUTION FOUR

- (a) There are no tax benefits that arise to both the employee and the employer if the employee share option scheme is not approved for income tax purposes. Therefore, any benefit that will arise from the grant and exercise of share options by Joan will be liable to income tax.

On grant of share options, the fair value of the shares was compared with the exercise price to determine the taxable amount. Where the fair value exceeds the exercise price, the difference is taxable income. In this case the fair value of the shares was equal to the exercise price, hence no tax will arise.

On exercise of the share options, any gain arising will be taxable on the employee. A gain is measured as the difference between fair value and exercise price where the fair value exceeds the exercise price.

In this case the taxable amount is: $(K14.90 - K8.25) \times 13,200 = K87,780$. This amount will be added to other emoluments and deduct tax under the pay as you earn system.

On subsequent sale of these shares, property transfer tax will be payable at a rate of 5% of the realised value.

- (b) The following are the income tax implications:

Free accommodation benefit

Where an employee is provided with free accommodation in a company owned house, the benefit arises in the hands of the employer as this is a benefit that cannot be converted into cash or money's worth. This means that the employer is disallowed an amount equivalent to 37.5% of the employee's taxable emoluments.

Therefore, Joan will not be taxed on the free accommodation as this is exempt from tax in the hands of the employee.

However, an employee is taxed on any amount paid by the employer in connection with the maintenance of the house. Since JS Limited paid the utility bills amounting to K2,700 per month, this amount will be added to Joan's emoluments and deduct tax under the pay as you earn system.

Personal-to-holder car

A personal-to-holder car meets the definition of a benefit in kind that cannot be converted into money's worth; therefore, the benefit arises in the hands of the employer. This means that this benefit is exempt from income tax in the hands of Joan.

- (c) Joan will be subjected to rental tax depending on the level of rental income for the year. Where the annual rental income is less than K800,000, she will be subjected to turnover tax while rental income tax will pay if the annual rental income is more than K800,000.

The maintenance and insurance expenses incurred in connection with letting out of properties are not deductible for tax purposes. This is so because rental income tax is calculated on the gross income.

The annual rental income is as follows:

	K
House 1 (K9,400 x 12)	112,800
House 2 (K4,900 x 2 x 12)	<u>117,600</u>
Total rental income	<u>230,400</u>

The amount tax paid on rental income for the year ended 31 December 2025 is as follows:

	K
First K12,000 x 0%	0
Excess (K230,400 – K12,000) x 4%	<u>8,736</u>
Total tax	<u>8,736</u>

The monthly rental tax paid is: $K8,736/12 = K728$.

- (d) Income tax payable by Joan for the tax year 2025

	K	K
Salary (K25,000 x 12)		300,000
Education allowance (K7,200 x 3)		21,600
Gain on exercise of share options [13,200 x (K14.90 – K8.25)]		87,780
Utility expenses (K2,700 x 12)		<u>32,400</u>
		441,780
Less:		
Professional subscription	4,100	
Donation to an approved PBO	<u>8,600</u>	

	<u>(12,700)</u>
Taxable income	429,080
Computation	
First K61,200 x 0%	0
Next K24,000 x 20%	4,800
Next K25,200 x 30%	7,560
Excess (K429,080 – K110,400) x 37%	<u>117,912</u>
Income tax liability	130,272
Less:	
Pay as you earn	<u>(81,200)</u>
Income tax payable	<u>49,072</u>

END OF SUGGESTED SOLUTIONS



TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D5: INTERNATIONAL TAXATION

THURSDAY 12 JUNE 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.
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, 3,4,5,6 and 7.

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%
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%

Farming allowances		
	Development allowance	10%
	Farm works allowance	100%
	Farm improvement allowance	100%

Presumptive Taxes

Turnover Tax

Annual turnover

First K12,000	0%
K12,001 to K5,000,000	5%

Tax on rental income

Annual Rental income band	Taxable amount	
K1 to K12,000	First K12,000	0%
K12,001 to K800,000	Next K788,000	4%
Above K800,000		16%

Presumptive Tax for transporters

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

Property Transfer Tax

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

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
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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	15,715	12,048	7,246	5,556
GVW exceeding 2.0 tonnes but not exceeding 5.0 tonnes	17,461	13,387	8,731	6,694
GVW exceeding 5.0 tonnes but not exceeding 10.0 tonnes	27,938	21,419	10,477	8,032
GVW exceeding 10.0 tonnes but not exceeding 20.0 tonnes	34,923	26,774	13,271	10,174
GVW exceeding 20 tonnes	58,645	0	21,992	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 tonnes:**

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) In a group of companies, it is possible that goods and services can be transferred within the group which would entail a movement of funds around the group without creating any profit for the group as a whole. Such transactions can, however, have tax implications in cases where the tax rates within the group are different

Required:

- (i) Explain the arm's length principle on transfer pricing (2 marks)
- (ii) State any six (6) problems associated with the arm's length principle. (6 marks)
- (iii) State any two (2) solutions for solving transfer pricing problems. (2 marks)
- (b) Discuss the OECD transfer pricing guidelines. (8 marks)
- (c) Mushala Plc is a Zambian resident copper mining company which is a subsidiary company of a multinational company. An extract of its statement of profit or loss for the year-ended 31 December 2025, is given below:

	K` million
Gross profit	772
Operating expenses	<u>(130)</u>
Net profit before taxation	642
Company income taxation	<u>(120)</u>
Net profit after taxation	<u><u>522</u></u>

The following additional information is also available:

- (1) Included in the operating expenses is depreciation of K32,500,000.
- (2) The company income tax shown in the income statement above represents the provisional company income tax paid by the company in respect of the tax year 2025.
- (3) Mushala plc sold copper to its parent company resident in a foreign country for K55,000,000. The open market value of the copper at the date of sale was K89,000,000.

- (4) Mineral royalty paid of K22,000,000 million during the year, has not been accounted for. The mineral royalty was computed properly based on the norm price of the copper sold during the year and paid on the relevant due dates.

Required:

Calculate the company income tax payable for the tax year 2025. (7 marks)

[Total: 25 Marks]

QUESTION TWO

It is common knowledge that international trade can mean more money to the treasury of many countries because such countries can be exposed to production facilities which they would not normally be able to handle coupled with a wider product demand. And to ensure the efficacy of international trade, trade pacts can be arranged which would in turn encourage Foreign Direct Investments (FDI's). Naturally, international trade would culminate into regional economic groupings and a global village.

Required:

- (a) Explain what is meant by globalization. (3 marks)
- (b) Explain any three (3) benefits of globalization on the economy of a developing country such as Zambia. (6 marks)
- (c) Explain any four (4) risks of globalization on the economy of a developing country such as Zambia. (8 marks)
- (d) Explain how each of the following types of income received by non-residents is normally treated for taxation purposes in the domestic country:
- (i) Domestic investment income paid to non-residents. (2 marks)
 - (ii) Foreign income for non-residents. (2 marks)
- (e) Explain the difference between tax avoidance and tax planning. (4 marks)

[Total: 25 Marks]

QUESTION THREE

International tax law is a huge interstate issue which is created by the need of peaceful existence of various tax jurisdictions and as such sovereign states have equal legal right to tax matters. It is in this vein that tax treaties allow for the mutual settlement of technical problems. And these tax treaties are established on the basis of human rights law.

Required:

- (a) Explain the GATT rules and limitation on border tax adjustment. (7 marks)

- (b) Explain the international origin and destination principles as a basis for indirect taxation. (4 marks)
- (c) Explain the three (3) ways in which cross border mergers can be created. (6 marks)
- (d) Discuss four (4) roles of double taxation agreements. (8 marks)

[Total 25 Marks]

QUESTION FOUR

- (a) According to the OECD, international tax competition is lowering tax rates and making governments expenditure more efficient world- wide. On the other hand, the OECD has also reported that some countries had introduced some harmful tax practices that encouraged non-compliance such as tax havens and money laundering.

Required:

- (i) Explain the meaning of a tax haven and describe any three (3) features of a tax haven. (10 marks)
 - (ii) Explain what is meant by Foreign Direct Investment (FDI). (3 marks)
 - (iii) Explain money laundering and give four (4) indicators of money laundering activities. (6 marks)
 - (iv) Explain how criminals disguise profits from money laundering activities. (2 marks)
- (b) A trade agreement has been said to be any contractual arrangement between states concerning their trade relationships and as such international trade can be regulated by unilateral barriers.

Required:

- (i) Explain reciprocity as a necessary feature of any trade agreement. (2 marks)
- (ii) Explain the nature of the theory of comparative advantage in the production of products by countries. (2 marks)

[Total: 25 Marks]

END OF PAPER

D5 INTERNATIONAL TAXATION-SUGGESTED SOLUTIONS

SOLUTION ONE

(a) Transfer pricing

- (i) Under the arm's length principle adjustments are made to the transactions within the group to reflect the terms and nature of transactions that would have been entered into assuming that the transaction had been made with a third party.
- (ii) The application of the arm's length principle in a transfer pricing transaction has the following problems:
 - (1) Lack of comparable prices
 - (2) Lack of information
 - (3) Risk of effective double taxation through disagreement over transfer price (& weakness of mutual agreement procedures)
 - (4) Huge information demands
 - (5) Increased fragmentation within multinational businesses
 - (6) Growing importance of intellectual property & other intangibles
 - (7) Resultant lack of comparable prices
- (iii) Solutions for solving transfer pricing problems
 - (1) Advanced pricing arrangements
 - (2) Unitary taxation/Formulary apportionment

(b) OECD Transfer Pricing Guidelines

In order to achieve the application of the international arm's length principle in practice, the tax administration starts with the accounts of the local branch or subsidiary, makes the usual adjustments to reflect differences between financial accounting and tax rules, and then makes such further adjustments in accordance with the arm's-length principle as necessary.

The increasing integration of the activities of corporate groups, the growing importance of unique intra-group intangibles and services, and the sophistication of their financing operations mean, however, that application of the arm's-length standard is becoming more difficult, both conceptually and practically.

The problems have been addressed in part by the OECD, which has expanded its guidance on this issue. The OECD standards represent the internationally accepted norms giving content to the arm's-length principle.

The problem that transfer pricing currently represents for developing and transition countries is one of administrative capacity. The development of advance pricing arrangements with the encouragement of the OECD may simplify the administrative task of transition and developing countries in the future by supplying readily applicable formulae for various economic sectors.

Transfer pricing adjustments on the arm's-length principle have traditionally been viewed as involving price only and not the reconstruction of transactions in the sense of disregarding the nominal transaction between the related parties and substituting another arrangement for tax purposes.

The transfer pricing guideline, while recognizing that adjusting prices of actual transactions is the norm; do permit tax administrations to re-characterize transactions in two exceptional circumstances:

- (i) Where the economic substance of a transaction differs from the norm
- (ii) Where the "arrangements made in relation to the transaction, viewed in their totality, differ from those which would have been adopted by independent enterprises behaving in a commercially rational manner and the actual structure practically impedes the tax administration from determining an appropriate transfer price".

Countries are enacting general provisions in their tax laws directed against tax avoidance, which give powers to reconstruct transactions. It seems to be increasingly accepted by the OECD that such rules are not in conflict with tax treaty obligations and can be applied to international transactions.

(c) MUSHALA PLC

COMPUTATION OF COMPANY INCOME TAX PAYABLE FOR TAX YEAR 2025

	K'million
Net profit before taxation	642.00
Adjustments:	
Depreciation	32.50
Mineral royalty tax	(22.00)
Transfer price adjustments (K89m – K55m)	34.00
Tax adjusted profit	686.50
Company income tax (30% x K686.50 million)	205.95
Less: Provisional tax paid	(120.00)
Company income tax payable	85.95

SOLUTION TWO

- (a) Globalization is the integration of world markets or monetary systems into one combined economic system.

Most economists agree that globalization provides a net benefit to individual economies around the world by making markets more efficient increasing completion, limiting military conflicts and spreading wealth more equally round the world.

However the general public view tends to assume that the costs associated with globalization outweigh the benefits especially in the short – term which has caused problems espoused by the protectionism theory.

- (b) Benefits of Globalization on the Zambian Economy

- (1) Foreign Direct Investments: tends to increase at much greater rate than the growth in world trade, helping boost technology transfer, industrial restructuring, and the growth of global companies.
- (2) Technological innovation; increased competition from globalization helps stimulate new technological development, particularly with the growth in FDI, which helps improve economic output processes more efficient.
- (3) Economies of scale: Globalization has enabled large companies to realize economies of scale that reduce costs and prices, which in turn support further economic growth although this can hurt many small businesses attempting to compete domestically.

- (c) 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.

(d) Taxation treatment of:

- (i) Domestic investment income e.g. dividends, interest, royalties etc. paid to non-residents usually provides for flat-rate final withholding tax on the gross amount. The W.H.T rate is normally reduced to 10 - 20 percent by treaties as high W.H.T rate wipes out the entire profit.
- (ii) Foreign income of non-residents on a short stay is not normally taxable. For a more extended stay of, say between six months or two years, but where the person's family and permanent home is behind in the home country, the person will generally become a resident but the tax treatment tends to be problematic and will depend on whether the individual's country has a treaty or no treaty.

(e) Tax avoidance and tax planning

Tax avoidance is concerned with identifying any loop holes in the taxes legislation, and using them to minimize or defer tax liabilities. It is, however difficult to define it more thoroughly.

Tax avoidance is caused by tax payers planning their tax affairs so as to minimize or defer taxation liabilities. Tax avoidance is not an offence, though, to discourage its practice, the government may issue anti-avoidance legislation.

Anti-avoidance legislation aims at sealing the loop holes in the taxes legislation so as to prevent taxpayers from taking advantage of them, and thereby reducing their tax liabilities lawfully.

Tax planning on the other hand , involves using tax reliefs for the purpose for which they were intended.

It is not tax avoidance. For example, claiming relief on capital investment, saving in a tax-exempt ISA or saving for retirement by contributing to a pension scheme are all legitimate forms of tax planning.

SOLUTION THREE

- (a) The General Agreement on Tariffs and Trade (GATT) as amended by the Uruguay Round Amendments, which created the World Trade Organisation (WTO), contains rules on Border Tax Adjustment (BTAs).

No single section of this agreement deals exclusively with BTAs; however, rules addressing BTAs can be found throughout, namely in Articles II, III and XVI.

According to the OECD Working Party, BTAs are any fiscal measures that put into effect the destination principle in whole or in part. In other words, BTAs relieve exported products of some or all of the tax the exporting country charged on similar domestic products in the home market and enables the importing country to charge some or all of the tax on imported products that it charges on similar domestic products.

The term "border tax adjustment" is somewhat confusing because it suggests that a fiscal measure is applied at the border, which is not always the case. Although in many cases imports are taxed on entry, certain countries apply a tax to imports after the goods have crossed the border and have been sold to other merchants or consumers.

Moreover, the OECD has noted that certain tax systems do not tax exports at all and make no adjustment at the border. Considering these varying tax systems, the OECD Working Party has recommended the replacement of the term "border tax adjustment" with "tax adjustment applied to goods entering into international trade."

The OECD's careful treatment of BTAs illustrates that they are not a novel concept to international trade. However, BTAs have only recently been considered as an innovative policy option for addressing the challenges of climate change. The concept of climate change BTAs is as follows: carbon – taxing countries would levy import fees on goods that non – carbon taxing countries manufacture.

The motivating factor for these measures is at least, in theory; internalize the real costs of producing goods and services with respect to international climate change regulation, thereby leveling the playing field between producers of like products from different countries.

A BTA would tax imported goods the equivalent of what the producers would have had to pay to produce them in the home market they are entering. Under this system, domestic producers in countries with carbon taxes will not face costly climate change measures that foreign producers do not face in their home countries.

An alternative approach would be to impose taxes on imported goods that are equivalent to the enforcement of emissions allowance trading. Therefore, in order to import products from a nation that does not comply with the carbon taxes applied in

the importing country, an importer of goods would be required to purchase emission rights in his country, compensating for the difference.

- (b) The international origin principle says that internationally traded commodities should be taxed at the rates prevailing in the country where goods are produced which is the country receiving the tax revenue. Under the origin principle, exports are taxed and imports are exempted, so that in equilibrium, the home (foreign) country's consumer must be indifferent between paying for domestically produced goods and for those imported.

Alternatively, the destination principle or basis espouses that internationally traded commodities are taxed at the rates prevailing in the country where final consumption takes place, this being the country which obtains the tax revenue.

- (c) Cross-border mergers can be created in any of the following three ways:

- | | | |
|-----|--------------------------------------|---|
| (1) | Merger by absorption | This is a case where an existing company acquires all assets and liabilities of its wholly owned subsidiary |
| (2) | Merger by acquisition | This is a case where an existing company acquires all assets and liabilities of another company in exchange of shares and other securities |
| (3) | Merger by formation of a new company | This is a case where two or more companies transfer all their assets to another newly formed company for that purpose.
In exchange of shares or securities in the newly formed company |

- (d) The roles of double taxation agreements include:

- (1) Protection against the risk of being taxed twice
- (2) Providing for certainty of treatment of cross border trade and investment
- (3) Prevention of excessive foreign taxation
- (4) Protection of taxing rights of governments
- (5) Providing a platform for exchange of information
- (6) Encouraging international consensus on cross border trade.

SOLUTION FOUR

(a) Tax havens and FDI

(i) Tax Haven

A tax haven refers to a country which imposes a low or no tax, and is used by corporations to avoid tax which otherwise would be payable in a high-tax country.

Features of Tax Havens

According to OECD report, tax havens have the following key characteristics:

(1) No or nominal taxes

No or only nominal taxes on relevant income usually on capital applied in that particular jurisdiction. This is the primary factor used in the identification of a tax haven but is not usually sufficient as a country may be competing fairly or adopting a preferential regime.

(2) Lack of effective of exchange of information

Tax havens typically have in place laws or administrative practices under which business and individuals can benefit from strict secrecy rules and other protections against scrutiny by tax authorities thereby preventing the effective exchange of information on taxpayers benefiting from the low tax jurisdiction.

(3) Lack of transparency

There is lack of transparency in the operation of the legislative, legal or administrative provisions. The details of the regime and/ or its application are not apparent, or there is inadequate regulatory supervision or financial disclosure.

(4) No substantial activities

This identifies a tax haven as a jurisdiction that facilitates the establishment of foreign owned entities without the need for a local substantive presence. However, this factor was recently dropped as it was pointed out that it is very difficult to define whether a country lacks substantial activities and thus only the "no or only nominal taxes" and the information factors remained as important to the identification of tax havens.

(ii) Foreign Direct Investment (FDI) is an investment in a business by an investor from another country in which the foreign investor has control over the company purchased or formed.

Control is defined as owning 10% or more of the business. Businesses that make FDIIs are often called multinational corporations (MNCs) or multinational enterprises (MNEs).

- (iii) Money laundering money laundering is where 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.

Indicators of money laundering activities include:

- (1) Secrecy over transactions
- (2) Excessive use of wire transfers
- (3) Transactions routed through several jurisdictions
- (4) Large currency or bearer instrument transactions

- (iv) When a criminal activity generates substantial profits, the individual or group involved tries to find ways and means of handling the funds without attracting attention to the underlying activity or the persons involved. Criminals can do this by disguising the sources, changing the form, or moving funds to a place where they are less likely to attract attention.

- (b) (i) Reciprocity:

This is an assumption that in any agreement each party would expect to gain from a transaction.

- (ii) Theory of comparative advantage:

This is a case where a country may not be able to produce a product more efficiently compared to other countries but does produce it more efficiently within its own country.

END OF SUGGESTED SOLUTIONS



AXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D6: TAX AUDIT AND INVESTIGATIONS

MONDAY 9 JUNE 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.
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 to 7 of this paper.

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

TAXATION TABLE

Income Tax

Standard personal income tax rates

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%
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%

Farming allowances		
	Development allowance	10%
	Farm works allowance	100%
	Farm improvement allowance	100%

Presumptive Taxes

Turnover Tax

Annual turnover

First K12,000	0%
K12,001 to K5,000,000	5%

Tax on rental income

Annual Rental income band	Taxable amount	
K1 to K12,000	First K12,000	0%
K12,001 to K800,000	Next K788,000	4%
Above K800,000		16%

Presumptive Tax for transporters

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

Property Transfer Tax

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

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
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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	15,715	12,048	7,246	5,556
GVW exceeding 2.0 tonnes but not exceeding 5.0 tonnes	17,461	13,387	8,731	6,694
GVW exceeding 5.0 tonnes but not exceeding 10.0 tonnes	27,938	21,419	10,477	8,032
GVW exceeding 10.0 tonnes but not exceeding 20.0 tonnes	34,923	26,774	13,271	10,174
GVW exceeding 20 tonnes	58,645	0	21,992	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%
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%

All FOUR (4) questions are compulsory and MUST be attempted.

QUESTION ONE

The Zambian Government needs adequate financial resources in order to satisfy both developmental and social needs of its citizenry. It needs to provide quality education, health facilities and a good road network among others. Such needs could only be met when the majority of its citizens are willing to comply with the tax payment rules enshrined in the Income Tax Act. Some of the tax payers are sole traders while others are established business entities. Some business entities are trading at the stock markets as bond traders or as stock brokers. However not all tax revenues are being collected as most individuals and companies are not willing to pay their fair share of taxes. Therefore, in order to ascertain compliance levels of different tax payers, the Zambia Revenue Authority (ZRA) carries out tax audits on a regular basis. If a tax payer is not satisfied with the results of tax assessment, they could appeal to the tax tribunal as long as correct procedures are followed. It is not only a tax audit that ZRA carries out but tax administrations and self-assessment inspections. When the tax payer is not compliant, the Zambia Revenue Authority (ZRA) has the powers under the Income Tax Act to enforce punitive sanctions on offenders.

Required:

- (a) Briefly explain the nature, purpose and scope of a tax audit. (5 marks)
- (b) Explain how a tax audit appeal could be carried out. (5 marks)
- (c) Briefly explain five (5) types of audit that can be undertaken by the tax audit team. (9 marks)
- (d) Explain any four (4) circumstances that can give rise to sanctions if a tax payer fails to comply with tax law. (6 marks)

[Total: 25 Marks]

QUESTION TWO

Haagani Namwinga runs a business as a sole trader, trading as Molly Wholesaler in Kabwe. She has been submitting Nil returns for the past ten (10) months, up to October, 2025 despite her business doing so well. Molly Wholesaler is registered for turnover tax, and she is one of the tax payers to be audited. She has since been asked to submit her sales books and other relevant documents by the Zambia Revenue Authority to establish the compliance level.

In response, the taxpayer provided the bank statement below as she has not kept proper and consistency accounting records. It has been established that the taxpayer has not been compliant for the period of ten (10) months.

Bank statement From 1 January 2025 to 30 October 2025			
	Debits(K)	Credits(K)	Bal(K)
Opening Balance as at 1 January,2025			1,000
January- Cash Sales Receipts deposit		2,000	3000
February- Cash Sales Receipts deposit		1,500	4,500
March - Cash Sales Receipts deposit		3,000	7,500
March- Withdraws – operating expenses	500		7000
April- Cash Sales Receipt deposit		1,000	8,000
May - Cash Sales Receipt deposit		4,000	12,000
May-Withdraws- operating expenses	3,000		9,000
June-Cash Sales Receipts deposit		2,500	11,500
July –Cash Sales Receipts deposit		3,500	15,000
August-Cash Sales Receipts deposit		1,500	16,500
September-Cash Sales Receipts deposit		1,000	17,500
October-Cash Sales Receipts deposit		5,000	22,500
October –Withdrawals- operating expenses	2,500		20,000
Closing balance as at 30 October,2025			20,000

Required:

- (a) Briefly explain the following terms:
- (i) Self-assessment tax system. (3 marks)
 - (ii) Administrative tax assessment system. (3 marks)
- (b) Discuss whether it may be easier to determine fair assessments for sole traders than for companies. (4 marks)
- (c) As an Auditor working on Molly wholesalers' case:

- (i) Calculate the amount of Turnover Tax on the undeclared income. (10 marks)
- (ii) State the consequences of not paying the Turnover Tax on the relevant due dates. (3 marks)
- (iii) State the consequences of not submitting the Turnover tax returns on the relevant due dates. (2 marks)

[Total: 25 Marks]

QUESTION THREE

- (a) The taxation of businesses has been extended to all sectors of the economy, which includes Telecommunications sector. However, consideration is taken by having a standard method in order to analyse whether it is feasible to go ahead with taxing companies in the telecommunication sector.

Required:

Briefly outline three (3) factors that should be considered before a standard method of taxing a business in the telecommunication sector is implemented. (3 marks)

- (b) Altero Ltd, is a VAT registered limited company dealing in electrical products, had prepared its financial statements for the year ended 31 December 2025 as shown below:

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2025.

	K'000	K'000
Sales		106,125
Opening inventory (1 January 2025)	2,315	
Purchases	<u>32,950</u>	
	35,265	
Closing inventory (31 December 2025)	<u>(5,000)</u>	<u>(30,265)</u>
Gross profit		75,860
Royalties received (net)	4,500	
Dividend received from a Zambian firm	<u>2,700</u>	<u>7,200</u>
		83,060
Less expenses and losses:		
Rent and Rates	5,250	
Depreciation	42,345	
Entertainment (Note 1)	8,350	
Repairs and Renewals (Note 2)	7,500	
Subscriptions to Manufacturers association	2,400	
Motor expenses (Note 3)	8,000	
Managing Director's remuneration (Note 4)	<u>8,000</u>	<u>(81,845)</u>
Profit before taxation		<u><u>1,215</u></u>

The following additional information is available:

Note 1: Entertainment

This amount includes:

	K'000
Esteemed customers	2,410
Supplier	1,870
Staff	<u>4,070</u>
	<u>8,350</u>

Note 2: Repairs and Renewals

This amount included K2,500,000 that was paid for acquisition of land and K1,410,000 incurred on fitting security bars around the shop.

Note 3: Motor expenses

This amount consisted of the following:	K'000
Repairs to motor cars	4,100
Purchase of a new engine	<u>3,900</u>
	<u>8,000</u>

Note 4: Managing Director

The Managing Director was accommodated in a new company house. If this house was rented out, it would cost the company K180,000 per annum. The director has been given a Toyota Land Cruiser car s on personal to holder basis with a cylinder capacity of 3020 cc.

Note 5: Additional information

During the year ended 30 June 2025, the company acquired the following implements, plant and machinery:

	Cost
	K'000
Toyota Land Cruiser car	K40,000
Plant and machinery	K50,000
Furniture	K60,000

The above costs of implements, plant and machinery are all inclusive of VAT

Required:

- (i) Calculate the capital allowances for the tax year 2025. (7 marks)
- (ii) Calculate the adjusted business profit for the tax year 2025. (9 marks)
- (iii) Calculate the income tax payable for the tax year 2025. (6 marks)

[Total: 25 Marks]

QUESTION FOUR

- (a) Vimba Mining Enterprises, a Zambian resident company, is a subsidiary of Elite minerals a company based in Canada.

During the previous year ended 31 December 2024, Vimba mining company imported plant and machinery to be used for its underground operations at cost of K150,000

During the current year ended 31 December 2025 the company spent K100,000 as part of its corporate social responsibility by constructing a school within the mining township.

Due to economic slump in the demand for copper in the Far East, Vimba Limited 's revenues had reduced resulting in losses amounting to K145,000 for the previous year ended 31 December 2024.

The company made taxable business profits of K275,000 during the current tax year 2025. This profit figure was before capital allowances and losses.

In order to reduce the cost of operations, Vimba mining company resorted to buying its raw material and various components from its parent and other related companies.

Additional information:

- (1) Assume that the average BOZ mid exchange rate as approved by the Commissioner General was K10.50 and K11.80 to \$1 for the years 2024 and 2025 respectively.
- (2) The indexation formula is provided below:

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

Required:

Calculate for Vimba Mining Enterprises:

- (i) Indexed capital allowances. (6 marks)
- (ii) Indexed mining losses. (2 marks)

(iii) Income tax payable for the tax year 2025.

(4 marks)

(b) Briefly explain five (5) types of Enterprises on which a Transfer Pricing tax investigation can be conducted. (10 marks)

(c) Briefly explain three (3) key attributes that have attracted interest in the financial sector from a taxation point of view. (3 marks)

[Total: 25 Marks]

END OF PAPER

D6: TAX AUDIT AND INVESTIGATIONS – SUGGESTED SOLUTIONS

SOLUTION ONE

(a) Nature and purpose of a tax audit and scope.

A tax audit is an examination of the contents of a tax return that an individual or a business has presented to a tax agent to the Zambia Revenue Authority (ZRA).

The ZRA need to conduct tax audit on a regular basis as these returns where prepared by an individual without the involvement of tax officials.

There is a possibility of errors and misstatements as well as false declaration of income.it is conducted in order to ascertain the correctness of the amount as well as compliance levels.

It can also be carried out when ZRA feels or suspect that the information contained in the financial statement is fraudulently presented. Usually information from financial statements is collected as a sample on random basis.

If an error has been made by the tax payer, he or she would be asked to bring along related documents or information to substantiate the information which is in the tax return. There will not be any punitive measure taken if the errors are minor.

(b) The Income Tax Act has made provisions for the tax payer to launch in an appeal whenever they are not satisfied with the expected amount charged or arrived at by ZRA officers. These disputes normally arise from self-assessment returns.

For tax payer to be successful with the tax appeal, it has to be done within thirty (30) days and need to notify the Commissioner Generals office on time.

The tax payer's objections have to be in writing for them to be entertained. Any delay after the acceptable time has elapsed, the appeal will not be accepted. However, ZRA reserves the rights to hear a case in special cases even when the time has elapsed. Any decision arrived at would be communicated in writing to the complainant (Tax payer).

In cases where the tax payer is not happy with the outcome from the Tax Appeals Tribunal (TAT), then they can apply for a judicial review to the High court on a matter of law and not fact, if the tax payer decides to appeal to the High court.

There is a provision for the tax payer to go further to the Supreme Court on point of law if the tax payer was not satisfied with the outcome from the High court.

(c) The type of an audit depends on the scope and intensity of it:

1. Full audit-this is an all-encompassing and detailed audit, it includes all relevant information that the tax payer was using to compute the tax returns. The objective is to assess the correctness of the tax return or tax liabilities as a whole.
2. Limited or issue based audit-it is a type of an audit which is confined to a specific issue on a tax return or maybe there's is a scheme arrangement which is being used and causes a tax auditor to conduct an in-depth tax audit.

3. Single-issue audits-these are confined to one specific area of non-compliance that comes out of the self-assessment or a tax return. It is usually narrow and can be used on a large number of tax payers that are involved in similar schemes of non-compliant
4. De-registration audit-it is a type of an audit that is conducted in order to ascertain whether the tax payer has genuine reasons for leaving a particular scheme such as Value Added Tax. It is expected that a business could be removed from a VAT scheme when its turnover falls below K800, 000 in a particular financial year.
5. Educational audit-in order to inform a tax payer of a change in tax laws or to demonstrate how to calculate a complex tax issue.

(d) It is expected that a tax payer needs to be honest in the way they complete a tax return. They are also expected to comply with the tax law such as respecting due dates when tax payments are due. The following are circumstances that can give rise to sanctions from ZRA:

1. Where a tax payer underestimates a tax liability of a fact or law which may result in unintended errors, ignorance or a misinterpretation of facts or law.
2. When a tax payer deliberately or fraudulently under estimates a tax liability.
3. When a tax payer does not keep adequate records for tax purposes such a tax invoice.
4. When a tax payer underestimates' tax liabilities recklessly.
5. When a tax payer fails to submit or avail tax payer vital information as requested by a tax auditor.

SOLUTION TWO

(a) Tax assessment systems.

(i) Self-Assessment system

A Self-assessment is a tax system whereby taxpayers are responsible for paying the correct amount of tax on set dates, without waiting for the Revenue Authority to get involved. It applies to every taxpayer who is able to file in the returns.

In Zambia, a tax payer collects a form that has fields that they need to fill in on their own by estimating the amount of income from various sources. Thereafter make an estimation of the amount of tax that needed to be paid.

It reduces administrative work on the part of ZRA and increases compliance levels on the part of the tax payer. In this way the tax payer can avoid severe penalties that could be incurred in case of default.

(ii) Administrative Assessment

This is the system where the tax administration assesses the taxpayer based on data that have been provided in a tax return or every other data available to the tax administration.

This is used to varying degrees in the administration of personal income tax and corporate profits/income tax. It can involve identifying or scrutinising returns that require critical investigations.

It can be manually done although nowadays, electronic scanning can be used to identify returns that are of a critical nature and require critical scrutiny before a formal assessment is sent to the tax payer.

(b) It may be difficult to make income tax assessments for sole traders due to lack of regulations compelling sole traders to maintain proper accounting records and to prepare annual financial statements which shall be audited.

This means that sole traders may not maintain any accounting records at all. In other cases, there would be single entry operated which would make it difficult to determine the profits correctly.

This means that income tax assessments for incorporated businesses may be determined more fairly because companies are required by the Companies legislation to maintain proper accounting records from which annual financial statements must be produced.

These annual financial statements are subjected to an audit, which adds some credibility to them. However, there may still be instances of estimates being made because the accounting records may not be referred to in full when computing taxable profits.

(c) **(i) Computation of taxes and penalties for Molly wholesalers**

Month	Turnover (K)	Less Tax free amount	Taxable amount	TOT @5%
January	2,000	1000	1,000	50
February	1,500	1000	500	25
March	3,000	1000	2,000	100
April	1,000	1000	0	0
May	4,000	1000	3,000	150
June	2,500	1000	1,500	75
July	3,500	1000	2,500	125
August	1,500	1000	500	25
September	1,000	1000	0	0
October	5,000	1000	4,000	200

(ii) Consequences of paying NOT paying TOT

- (1) A penalty of 5% of the tax due is charged per month or part thereof
- (2) Interest at the BOZ discount rate plus 2% will be charged per annum

(iii) A penalty of K100 per month or part thereof will arise.

SOLUTION THREE

(a) The following are the factors:

- (1) The distributional consequences.
- (2) Their cost of collection, which includes the degree of avoidance and evasion to which they are subject or
- (3) Whether it is at least partially assimilated by the purchaser
- (4) The degree to which the tax distorts the pattern of consumption, and for this reason, imposes an additional cost on the economy (sometimes known as the excess burden)

(b) ALTERO LTD COMPUTATION OF CAPITAL ALLOWANCES

(i)	Capital allowances- Assets	Cost/ITV K	Capital allowance K
	Motor vehicles		
	Cost	40,000	
	Wear & Tear @20%	<u>(8,000)</u>	8,000
	Income tax value C/F	<u>24,000</u>	
	Plant and machinery		
	Cost (K50,000 x 25/29)	43,103	
	Wear & Tear @25%	<u>(10,776)</u>	10,776
	Income tax value c/f	<u>32,327</u>	
	Furniture		
	Cost (K60,000 x 25/29)	51,724	
	Wear & Tear@25%	<u>(12,931)</u>	<u>12,931</u>
	Income tax value c/f	<u>38,793</u>	
	Total capital allowances		<u>31,707</u>

(ii)	ALTERO LTD COMPUTATION ADJUSTED BUSINESS PROFIT FOR THE TAX YEAR 2025	K'000	K'000
	Net profit as per accounts		1,215.00
	Add:		
	Depreciation	42,345	
	Security bars	1,410	
	Acquisition of land	2,500	
	Entertainment-customers	2,410	
	-suppliers	1,870	
	Motor expenses: purchase of new engine	3,900	
	Accommodation benefit: 37 x K8,000	2,960	

Car benefit	(3020 cc)	<u>57.6</u>	
			<u>57,452.60</u>
			58,667.40
Less:			
capital allowances		31,707	
Royalties		4,500	
Dividends		<u>2,700</u>	
			<u>(38,907.00)</u>
Adjusted business profits			<u>19,760.40</u>
(iii)	ALTERO'S LTD.		
	INCOME TAX COMPUTATION FOR THE TAX YEAR 2025		
	Adjusted business profit		19,760.40
	Add:		
	Royalties (K4,500 X 100/85)		<u>5,294.00</u>
	Taxable income		<u>25,054.4</u>
	Income tax @ 30%		7,516.32
	Less:		
	WHT on Royalties (5,294 x 15%)		<u>(794.00)</u>
	Final income tax payable		<u>6,722.32</u>

SOLUTION FOUR

(a) Vimba mining Enterprises

(i) Computation for Vimba Mining Enterprises

(i) Indexed capital allowances:

Plant and machinery	K150, 000 x20%=	K30, 000
Community school	K100, 000 20%=	<u>K20, 000</u>
Total capita allowances		<u>K50,000</u>

Indexation capital allowance

$$= [1+(11.80-10.50/10.50)] \times K50, 000$$
$$= \underline{K56,190}$$

(ii) Indexed mining losses

Indexation of losses

$$[1+(11.80-10.50/10.50)] \times K145, 000$$
$$= \underline{K162,952}$$

(iii) Computation of income tax for the tax year 2025

	K
Net profit as per accounts	275,000
Less:	
Indexed capital allowances	<u>(56,190)</u>
	218,810
Indexed losses (50% x 2)	<u>(109,405)</u>
Taxable income	109,405
Income tax @30% (K55,858 X 30%)	<u>32,822</u>

(b) The following are enterprises whose transactions are likely to have included transfer pricing between themselves:

(1) Enterprises which have significant amount of or various types of related party transactions:

Transactions between companies that can take place may involve large amounts of values on which each one of them depends. It could also involve large amounts of transfer of raw material from one subsidiary or related company to another at a low price. Thereafter when these goods are manufactured, they are later sold at higher price in jurisdiction in which taxes are low but higher selling prices. In this case, such companies will not be trading at arm's length or according to market rules. In order to provide a solution to the problem, any costs or value of intangible assets that have been transferred should be allocated between these relate parties using market rules.

(2) Enterprises which have been in long-term consecutive losses, low profitability or fluctuating profit and loss situations:

When an enterprise receives from a related party debt or loans in form of investments, in a ratio that exceeds the prescribed level, the interest shall not be deductible when calculating income of such enterprise. When ZRA discovered that such transactions have taken place, a tax investigator will demand all relevant documents and information from all parties' concerned in order to make a decision.

- (3) Enterprises whose profit levels are lower than those in the same industry:
If an enterprise carries out any other business arrangements without reasonable business purposes resulting in reduction of its taxable revenue or income, the tax authority shall be empowered to make adjustments using reasonable methods.
- (4) Enterprises showing an obvious mismatch between their profit levels and their functional and risk profile:
It may happen that a company's operating performance appear to be lower than those in the same industry. This may raise suspicions and especially that its scale of operations may not match with its revenues and profits. If the business provides insufficient information, tax investigators can demand information from both related parties so they can assess tax payer's taxable income in accordance with the law.
- (5) Enterprises that have business dealings with related parties in tax havens
Tax havens have low tax rates. This is the likely place in which management would like to establish their head office so as to pay less taxes. If the resident fails to include the expected dividends, then such undistributed income will be included in the revenue of the resident enterprise in the current period.

(c) Key attributes that attracted ZRA to the financial sector:

- (i) They transfer a wide range of transactions which makes income and value added complicated.
- (ii) The element of time in the income streams of financial transactions. Unlike other sectors, the financial institutions deal in products and services that are provided over extended periods of time that involves varying degrees of risks and profitability.
- (iii) There is a high vulnerability of the sector to market failure and other externalities, which compels authorities to institute tax or non-tax corrective action.

END OF SUGGESTED SOLUTIONS