TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D1: BUSINESS INFORMATION MANAGEMENT

WEDNESDAY 10 DECEMBER 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.

Attempt all FOUR (4) questions.

QUESTION ONE

(a) A virtual company, also known as a virtual organization or remote company, is a business that operates primarily through digital tools, technologies, and virtual communication channels rather than relying on physical office spaces. This business model leverages the Internet and various online platforms to conduct daily operations, manage employees, serve customers, and facilitate communication, often across global locations.

The rise of virtual companies has transformed how businesses operate globally, but it has also introduced new challenges related to taxation.

Required:

(i) State three (3) features of a virtual company. (3 marks)

(ii) Analyse four (4) challenges of a virtual company in relation to taxation. (8 marks)

(b) A decision support system is an interactive computer-based information system that helps managers and other decision makers analyse data, identify patterns and make informed decisions.

Required:

Outline three (3) software elements contained in decision support computer systems and their use. (6 marks)

(c) Recommend four (4) security measures that an organisation can implement to enhance data protection. (8 marks)

[Total: 25 Marks]

QUESTION TWO

(a) Information Systems (IS) Security refers to the practices, policies, and technologies designed to protect an organization's information systems and data from unauthorized access, use, disclosure, disruption, modification, or destruction. As businesses and organizations increasingly rely on digital technologies, the protection of sensitive data, applications, networks, and infrastructure has become a critical concern.

Required:

Explain the CIA triad as it relates to Information System security. (9 marks)

(b) Explain the significance of project initiation and planning in the successful implementation of the new system. (6 marks)

(c) Software may not accurately reflect its total value, so focus is on overall worth rather than first cost. Expensive software with numerous features is not always the right choice, as many features may not be relevant to your business.

Required:

Evaluate three (3) factors to consider when selecting a software package for the organisation. (6 marks)

(d) A system changeover is the process of transition from one system to another. This can be a major or minor change and can involve changes to personnel, process or technology.

Outline four (4) systems changeover methods. (4 marks)

[Total: 25 Marks]

QUESTION THREE

(a) Knowledge Management is essential to achieving a competitive advantage in today's fast-paced information-driven world. When paired with robust Information Systems, Knowledge Management practices can transform an organization into a more agile, innovative and informed entity. By effectively leveraging IS to manage knowledge, organizations can unlock the full potential of their workforce, improve internal communication and make more informed decisions. This integrated approach creates a foundation for continuous improvement and long-term success.

Required:

Explain four (4) ways Information System can support Knowledge Management.

(12 marks)

(b) IT staff can be in source or out source.

Required:

(i) List three (3) advantages of outsourcing. (3 marks)

(ii) Explain two (2) benefits of insourcing. (4 marks)

(c) Big tree is a large manufacturing company that has experienced rapid growth over the past few years. The finance department, responsible for managing budgets, processing invoices, handling payroll, preparing financial reports, and ensuring compliance with regulations, has struggled to keep up with the increasing volume of work. Due to heavy reliance on manual processes, the department has faced issues such as delayed reporting, frequent errors in data entry, and inefficiencies in handling routine tasks like invoice processing and payroll.

Required:

To address these challenges and improve the efficiency of financial operations, the company decides to implement Office Automation tools within the Finance Department. Analyse three (3) benefits Big tree will gain by implementing Office Automation tools.

(6 marks)

[Total: 25 Marks]

QUESTION FOUR

Build Con Ltd. a mid-sized manufacturing company. is experiencing challenges in aligning its Information Systems with its business strategy.

Required:

(a) Outline five (5) benefits of aligning information systems with business strategy.

(5 marks)

(b) Project management is the practices of planning, organising and overseeing tasks, and resources to achieve specific goals within a defined timeframe and budget. It involves guiding a project from its inception to completion, ensuring it meets all requirements and objectives.

Required:

Explain each of the following phases of a project:

(i) Initiation. (2 marks)

(ii) Planning. (2 marks)

(iii) Closure. (2 marks)

(c) Discuss three (3) importance of documenting user requirements in system design.

(6 marks)

(d) Structural issues in delivering information systems can arise from a lack of integration, poor data quality, ineffective information dissemination and a lack of a clear strategy.

These issues can lead to problems with system development, implementation and user acceptance.

Required:

Explain the following structural issues in delivering Information System:

(i) Organisation structure. (2 marks)

(ii) Interoperability. (2 marks)

(iii) Backward compatibility. (2 marks)

(iv) Legacy systems. (2 marks)

[Total: 25 Marks]

END OF PAPER

D1 BUSINESS INFORMATION MANAGEMENT

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) (i) Three (3) features of a virtual company.

(1) Online Presence and E-commerce
(2) Remote Work Structure
(3) Use of Digital Tools and Technology
(4) Global Workforce

(ii) Analyse four (4) challenges of a virtual company in relation to taxation.

(1) **Complexity in Tax Jurisdictions**:

Virtual companies often operate across multiple countries, making it difficult to determine which jurisdiction has the right to tax the business's income.

(2) **VAT and Sales Tax Compliance**:

Virtual companies that provide digital goods or services (such as software, consulting, or e-books) must ensure compliance with VAT and sales tax regulations in different jurisdictions.

(3) **Employee Taxation and Social Security Contributions**:

Virtual companies often face the challenge of managing payroll taxes for employees in different countries. Since tax laws differ significantly across jurisdictions, determining the correct tax rates, withholding requirements, and social security contributions for remote workers can be complicated.

(4) **Double Taxation**:

Virtual companies may be subject to double taxation, where both the country where the company is incorporated and the country where it operates (through remote employees or contractors) claim tax rights on the same income.

(5) **Lack of physical contact with help desk**

Walk in clients prefer physical contact or direct contact to get feedback or information with help desk personnel.

(b) Three (3) software elements contained in decision support computer systems and their use.

(1) **Language subsystem**: used by manager to communicate interactively with the decision support system

(2) **Problem processing sub-system** provides analytical techniques and presentation capabilities

(3) **Knowledge subsystem**: holds internal data and can access any needed external data.

(c) Four (4) security measures that an organisation can implement to enhance data protection.

Security Measures for Data Protection

(1) Implement Multi-Factor Authentication (MFA)

(2) Use Encryption for Sensitive Data

(3) Conduct Regular Security Audits

(4) Train Employees on Cybersecurity Best Practices

SOLUTION TWO

(a) The CIA triad as it relates to Information System security.

The acronym stands for **Confidentiality**, **Integrity**, and **Availability**, which are the core principles that must be maintained in any secure information system.

Confidentiality - refers to the protection of information from unauthorized access. It ensures that sensitive data is only accessible to those individuals or systems that have the appropriate permissions.

Integrity - Integrity involves ensuring that information remains accurate, complete, and unaltered, except by authorized individuals. It ensures that data is not modified or tampered with either intentionally or accidentally.

Availability - Availability ensures that information and resources are accessible and usable when needed by authorized users. This aspect emphasizes preventing downtime and ensuring that systems, data, and services are consistently operational.

(b) Importance of project initiation and planning

(i) Defines project scope and objectives.
(ii) Ensures resource allocation and budgeting.
(iii) Identifies potential risks and mitigation strategies.
(iv) Enhances stakeholder communication and alignment.
(v) Establishes clear milestones and deliverables.
(vi) Improves the likelihood of project success

(c) Factors to consider when selecting a software package for the CRM system.

(i) Compatibility with existing systems.
(ii) Cost and budget constraints.
(iii) Scalability for future growth.
(iv) Security and compliance features.
(v) Vendor reputation and support services.
(vi) User-friendliness and training requirements.

(d) Four (4) systems changeover methods.

(1) Direct Changeover: where the old system is completely replaced with the new system in one go. The changeover occurs on a specific date and time, and users begin using the new system immediately.

(2) Parallel changeover: Both the old and new systems run simultaneously for a period of time. Users continue working with the old system while testing and familiarizing themselves with the new system.

(3) Phased Changeover: The new system is implemented gradually in stages.

(4) Pilot Running: is where a small subset of users or a particular department adopts the new system first.

SOLUTION THREE

(a) Four (4) ways Information System can support Knowledge Management.

There are several ways IS support KM and the following are some of them:

(1) **Centralized Knowledge Repositories:**

IS enable the creation of centralized databases or repositories where organizational knowledge such as documents, reports, and best practices can be stored and easily accessed.

(2) **Collaboration Platforms:**

IS provide tools like intranets, wikis, and discussion forums that facilitate collaboration among employees.

These platforms allow for real-time communication, idea sharing, and collective problem-solving, fostering a culture of collaboration and continuous learning.

(3) **Document Management Systems:**
IS offer document management solutions that organize, store, and track documents throughout their lifecycle.

These systems ensure that documents are up-to-date, version-controlled, and accessible, enhancing efficiency and reducing the risk of errors.

(4) **Knowledge Sharing and Social Networks:**
IS integrate social networking features that promote informal knowledge sharing among employees.

Platforms like internal social networks or knowledge-sharing forums enable employees to share insights, experiences, and solutions, enriching the organization's collective knowledge base.

(5) **Search and Retrieval Capabilities:**
Advanced search functionalities within IS allow employees to quickly locate specific information or expertise.

(6) **Analytics and Reporting:**
IS can analyse data to identify knowledge gaps, track knowledge usage, and assess the effectiveness of knowledge management initiatives.

(b) (i) **Three advantages of outsourcing**

(1) Cost reduction
(2) Increased efficiency
(3) Access to specialized expertise
(4) Enhance flexibility
(5) Improve productivity

(ii) **Two benefits of insourcing**

(1) Better control over decisions
(2) Easier communication
(3) Effective management over quality
(4) Stronger ties between employees

(c) Four (4) benefits Big tree will gain by implementing Office Automation tools.

Implementing Office Automation tools can offer Big tree several significant benefits:

(a) **Enhanced Productivity:**
Automating routine tasks such as data entry, scheduling, and document management allows employees to focus on more strategic activities. This will lead to increased efficiency and faster completion of tasks.

(b) **Cost Reduction:**
By minimizing manual processes, office automation reduces the need for extensive labour and physical resources.

(c) **Improved Accuracy:**
Automated systems are less prone to human errors compared to manual data handling.

(d) **Enhanced Data Security:**
Automated systems can implement robust security measures, including encryption and access controls.

(e) **Scalability:**
As Big tree grows, automated systems can easily scale to accommodate increased workloads without a proportional increase in manual labour.

SOLUTION FOUR

(a) Importance/Benefits of aligning information systems with business strategy

(1) Ensures that IT investments support business goals.
(2) Enhances operational efficiency and productivity.
(3) Facilitates better decision-making through accurate data.
(4) Improves customer service and competitive positioning.
(5) Reduces costs by eliminating redundant systems.
(6) Supports innovation and business growth.

(b) Importance of project initiation and planning

(1) Defines project scope and objectives. (Initiation)
(2) Ensures resource allocation and budgeting. (Planning)
(3) Identifies potential risks and mitigation strategies. (Planning)
(4) Enhances stakeholder communication and alignment. (Initiation)
(5) Establishes clear milestones and deliverables. (Planning)
(6) Improves the likelihood of project success. (Planning)
(7) Project closure is the final phase of a project where all work is completed, deliverables are finalized and handed over and the project is formally closed.

(c) Importance of documenting and modeling user requirements

(1) Ensures clear communication between stakeholders.
(2) Reduces misunderstandings and rework.
(3) Provides a basis for system design and development.
(4) Enhances project transparency and accountability.
(5) Facilitates effective testing and validation.
(6) Improves overall project success rate.

(d) The structural issues in delivering Information System:

(i) **Organisation structure**.
The structure of the organisation influences the way Information Systems are delivered or implemented

(ii) **Interoperability.**
New Information Systems are expected to easily integrate with existing system regardless of the technology used.

(iii) **Backward compatibility**.
New computer hardware is expected to work with old Information System.

(iv) **Legacy systems.**
Outdated system that still being used and cannot be done away with for various reasons

END OF SUGGESTED SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D2: FINANCIAL MANAGEMENT

FRIDAY 12 DECEMBER 2025

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

INSTRUCTIONS TO CANDIDATES

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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.

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Attempt all the FOUR (4) questions.

QUESTION ONE

A country in the Southern Part of Africa experienced load shedding in the years 2023 and 2024 which was as a result of lack of adequate rainfall. The electricity is generated from one large hydro-power station in the country. The country has not developed any significant power alternatives over the years. The load shedding has negatively affected the businesses and the citizens. A group of young entrepreneurs developed an innovative product of solar powered pressing iron. The initial idea was that the solar powered pressing irons would help laundry companies and also to be used by households in managing the various laundry activities. The young entrepreneurs registered a company known as Seven Seas Ltd. Considering that this was a new product on the market, an aggressive marketing strategy was undertaken which resulted into an increased demand of the product. Many orders were received from neighboring countries. Due to the increased demand, the company is considering investing in new equipment from China.

The machine costs K4 million with an estimated scrap value of K500, 000. This machine is to be depreciated on a straight line basis in line with Seven Seas Ltd policy on depreciation of fixed assets.

As a Finance Manager of Seven Seas Limited, you were tasked to estimate annual production and sales volume of the solar pressing irons over a four (4)-year life.

The information you produced and submitted was as follows:

Year	Units (No.)
1	20,000
2	18,000
3	25,000
4	25,000

The unit contribution in current price terms is as follows:

	K
Selling Price per unit	200
Less variable costs	100
Contribution per unit	100

Selling price inflation is estimated at 15% per annum while variable cost inflation is estimated at 10% per annum. Due to this expected international demand, Seven Seas will be required to make an additional investment in terms of working capital. The working capital will increase by 15% of the sales revenue at the beginning of each year and recoverable at the end of the project.

The company pays tax on profits at the rate of 35% one (1) year in arrears. However, the tax liability is reduced by capital allowances which are claimed at the rate of 20% on cost per annum.

Seven Seas Ltd pre-tax nominal cost of capital is at 15%.

Required:

(a) Evaluate the proposed investment in the Solar Power Pressing Iron Product using the Net Present Value (NPV). (16 marks)

(b) Explain the advantages and disadvantages of using the Net Present Value (NPV) method of project appraisal. (9 marks)

[Total: 25 Marks]

QUESTION TWO

JMAX Ltd has a current cum-div share price of K2.30 and an impending dividend per share of 30 ngwee. The proportion of annual earnings distributed is 60% and the average return on reinvested funds is 25%. JMAX Ltd has a 10% bond issued at a par value of K1,000 and redeemable in four (4) years' time at par. The bond is trading at par. The company capital structure comprises of 30% debt and 70% equity. The recent company audit revealed that the company has poor working capital management practises and management is concerned that this information would affect the stock price once the report is released to the public.

JMAX Ltd pays annual corporate tax at the rate of 30%.

Required

(a) Calculate the current weighted average cost of capital for JMAX Ltd. (12 marks)

(b) Explain the efficient market hypotheses and the implication on stock prices.

(7 marks)

(c) Discuss the objectives of working capital management. (6 marks)

[Total: 25 Marks]

QUESTION THREE

The following forecasted cash flow data relates to Mpulungu Inc. for the period from January 2025 to August 2025. Mpulungu Inc. owned ten (10) fishing boats. In the years before 2025, the company made profits from the sale of Kapenta. It was able to fulfill orders, for both local & international buyers.

At the end of December, 2024, the company developed new financial policies, which included credit policies based on the expected business performance in 2025. From the sales reports, it was observed that some buyers of Kapenta, had forward sale contracts with companies in China. Mpulungu Inc. had excellent relations with both internal and external stakeholders.

In 2025, the company intends to purchase new fishing nets, and other items necessary for the fishing boats. The Chief Finance Officer prepared financial information for the purposes of preparation of the 2025 Cash flow. The following was the information prepared:

1. It is expected that 70% of the sales will be on cash basis, while 30% on credit.
2. The Credit sales are paid three (3) months after the month of sale. Mpulungu Inc. pays for purchases in the month that they are made.
3. Salaries and wages are paid in the month that they are incurred. It is against the company's policy to delay paying these staff wages and salaries.
4. Further, 90% of earned gratuity was to be paid the same month to those entitled. Gratuities are calculated at 50% of salaries and wages earned each month.
5. Overheads are paid the following month after they are incurred.
6. Dividends are paid three months after they are declared. In April 2025, Mpulungu Inc. will declare dividends of K200,000
7. The company board approved an additional purchase of two (2) vehicles for its senior managers in February totaling K600,000. It is expected that capital expenditure will be paid for, two (2) months after it is incurred. The opening cash balance is (K500,000).

Management of Mpulungu Inc. commented that it is pleased with the figures below as they show that sales will have increased by more than 100% in the period under review. The company has in place an overdraft facility with its bank of about K500,000. Interest on this facility is 10% monthly.

Month	**Jan**	**Feb**	**March**	**April**	**May**	**June**	**July**	**Aug.**
	K'000	**K'000**	**K'000**	**K'000**	**K'000**	**K'000**	**K'000**	**K'000**
Sales	900	1,000	1,060	1,100	1,300	1,400	1,600	1,800
Purchases	300	240	210	185	500	550	2100	200
Wages& Salaries	200	120	160	200	240	280	320	360
Staff Gratuities	100	60	80	100	120	140	160	180
Interest	50	50	50	50	50	50	50	50
Overheads	100	20	35	35	35	30	30	30
Dividend declared	Nil	Nil	Nil	200	Nil	Nil	Nil	Nil
Capital Expenditure	Ni	400	Nil	Nil	Nil	Nil	Nil	Nil

Required:

(a) Discuss the advantages and disadvantages to Mpulungu Inc. of using overdraft finance to fund any cash shortages (8 marks)

(b) Prepare a cash flow forecast for the eight (8)-month period January to August, 2025. (13 marks)

(c) Comment on your results in the light of the Management's comments and offer advice. (4 marks)

[Total: 25 Marks]

QUESTION FOUR

Mwali Enterprises is a small medium enterprise (SME) specialised in making office furniture. The company faces an interest rate of 0.5% per day and its brokers charge K75 for each transaction in short term securities. The Managing Director has stated that the minimum cash balance that is acceptable is K2,000 and that the variance of cash flows on a daily basis is K16,000. The Managing Director has been critical of working capital management and the sources of finance of the company. Recently management awarded employees a bonus of 3% of their basic salary because the company achieved the set return on capital employed (ROCE) target of 30%.

Required

(a) Calculate:

(i) The Maximum level of cash that Mwali Enterprises should hold. (6 marks)

(ii) The target cash balance that Mwali Enterprises should aim to achieve. (4 marks)

(b) Discuss the sources of finance available to a small medium enterprise such as Mwali enterprises. (10 marks)

(c) Explain the reasons accounting profit might not be the best measure of a company's performance or achievements. (5 marks)

[Total: 25 Marks]

END OF PAPER

Formula Sheet

Economic order quantity

$$= \sqrt{\frac{2C_0D}{C_H}}$$

Miller – Orr Model

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

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

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

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

Gordon's growth approximation

$$g=br_e$$

The weighted average cost of capital

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

The Fisher formula

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

Purchasing power parity and interest rate parity

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

Present Value Table

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

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

Discount rate (r)

Periods (n)	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	
1	0·990	0·980	0·971	0·962	0·952	0·943	0·935	0·926	0·917	0·909	1
2	0·980	0·961	0·943	0·925	0·907	0·890	0·873	0·857	0·842	0·826	2
3	0·971	0·942	0·915	0·889	0·864	0·840	0·816	0·794	0·772	0·751	3
4	0·961	0·924	0·888	0·855	0·823	0·792	0·763	0·735	0·708	0·683	4
5	0·951	0·906	0·863	0·822	0·784	0·747	0·713	0·681	0·650	0·621	5
6	0·942	0·888	0·837	0·790	0·746	0·705	0·666	0·630	0·596	0·564	6
7	0·933	0·871	0·813	0·760	0·711	0·665	0·623	0·583	0·547	0·513	7
8	0·923	0·853	0·789	0·731	0·677	0·627	0·582	0·540	0·502	0·467	8
9	0·914	0·837	0·766	0·703	0·645	0·592	0·544	0·500	0·460	0·424	9
10	0·905	0·820	0·744	0·676	0·614	0·558	0·508	0·463	0·422	0·386	10
11	0·896	0·804	0·722	0·650	0·585	0·527	0·475	0·429	0·388	0·350	11
12	0·887	0·788	0·701	0·625	0·557	0·497	0·444	0·397	0·356	0·319	12
13	0·879	0·773	0·681	0·601	0·530	0·469	0·415	0·368	0·326	0·290	13
14	0·870	0·758	0·661	0·577	0·505	0·442	0·388	0·340	0·299	0·263	14
15	0·861	0·743	0·642	0·555	0·481	0·417	0·362	0·315	0·275	0·239	15

(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

D2 FINANCIAL MANAGEMENT

SUGGESTED SOLUTIONS

<u>SOLUTION ONE</u>

(a) Calculations of Net Present Value (NPV)

Note: all of the cash flows are in K' 000

	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5
Sales(W1 x Units)	4,600	4,761	7,604	8,745	
Variable Costs(W2xUnits)	(2,200)	(2,178)	(3,327)	(3,660)	
Pre-tax cash flow	2,400	2,583	4,277	5,085	
Tax (35%)		(84)	(904.05)	(1,496.95)	(1,779.75)
Tax saved(W3)		280	280	280	385
Working Capital	(24.15)	(426.45)	(171.15)	1311.75	
Scrap Value				500	
Net Cash flow	2,375.85	2,352.55	3,481.8	5,679.8	(1394.75)
DCF at 15%	0.870	0.756	0.653	0.572	0.497
Present Value	2,066.99	1,778.55	2,273.62	3,248.85	(693.19)

Sum of Present Values		K8,674.79
Initial Outlay:	K4,000	
Working Capital (W4)	690	(K4,690)
Net Present Value		K3,984.79

Workings

(1) Forecast selling prices per unit

Year 1=K200x1.15=K230.00

Year 2=K230x1.15=K264.50

Year 3=K264.5x1.15=K304.18

Year 4=K304.18x1.15=K349.80

(2) Forecast Variable costs per unit

Year 1=K100x1.10=K110.0

Year 2=K110.0x1.10=K121.0

Year 3=K121.0x1.10=K133.1

Year 4=K133.1x1.10=K146.4

(3) Capital Allowances and tax saved

Year 1-Year 3 = 20%XK4, 000,000

=K800,000

Tax saved per year=35%x K800,000

=K280,000

Year 4

Income Tax Value=K4,000,000-(K800,000X3)

=K4,000,000-K2,400,000

=K1,600,000

Tax saved on balancing allowance on disposal of the machine:

Tax saved = 35%x(K800,000-K500,000)

= 35%xK300,000

= K105,000+280,000=K385000

(4) Movements in working capital Investment

Working Capital

YEAR	0	1	2	3	4
Sales		4600	4761	7604	8745
15%	690	714.15	1140.6	1311.75	
Incremental	(690)	(24.15)	(426.45)	(171.15)	1311.75

Recommendation

The project using the net present value (NPV) calculation shows that the project is financially viable. However, the reliability of the forecast sales volumes may not be very dependable largely due to the fact that the percentage increase were merely estimates. Also it has been assumed that inflation for both sales price and variable costs will remain constant year after year. In reality, inflation varies year after year.

Further, the product, though popular was launched on the market recently. The innovation was highly appreciated by the consumers and it is expected that this will be sustained even when the load shedding has improved. There will be need to ensure that this product continues to be attractive.

(b) **The Net Present Value (NPV), its advantages and disadvantages as method of project appraisal.**

Advantages:

(1) One of the main objectives of the shareholders is to maximize profit so that the company records profits and therefore they earn an adequate return on investments so that they have dividends payout. Therefore, a positive NPV increases the wealth of the company. The selection of projects on an NPV basis is in line with this objective.
(2) The method takes into account the time value of money and hence the opportunity cost.
(3) The method places more focus on Cash Flows and not profits.
(4) It accounts for events throughout the life of the project.
(5) The rate of discount can be adjusted to take into account the various types of risk profile that can be found in the different projects.
(6) It allows for the comparison of different investment opportunities

Disadvantages:

(1) It is not easy to identify which is the appropriate discount rate to use.
(2) Estimating Future Cash Flows can sometimes be challenging due to significant levels of uncertainty.
(3) Assumes constant discount rate.

SOLUTION TWO

(a) Current Weighted Average Cost of Capital

$g = 40\% \times 25\% = 10\%$

$Ke = \frac{30(1.1)}{230-30} + 0.1 = 16.6\%$

Year		CFs	Dis@10%	PV	Dis@4%	
0	Market value	-1000	1	-1,000.00	1	-1000
1 to 4	Interest (1-t)	70	3.17	221.90	3.630	254.1
4	Redemption	1000	0.683	683.00	0.855	855
	NPV			**-95.10**		**109.1**

IRR= 4% + 109.1/109.1+95.10 (10%-4%)

Cost of Debt =7.2%

WACC = (16.6% x 0.7) + (7.2% x 0.3)
= 13.78%

(b) The Efficient Market Hypothesis (EMH) is a financial theory that suggests that financial markets are "efficient" in reflecting all available information at any given time. According to EMH, it's impossible to consistently achieve higher returns than the overall market through stock picking or market timing, because asset prices already incorporate and reflect all relevant information.

There are three forms of EMH:

(1) Weak Form: This form asserts that all past trading information is already reflected in stock prices. Therefore, technical analysis, which relies on past price and volume data, cannot consistently produce excess returns.
(2) Semi-Strong Form: This form claims that all publicly available information, including financial statements, news, and economic data, is already reflected in stock prices. As a result, neither technical analysis nor fundamental analysis can consistently achieve higher returns.
(3) Strong Form: This form claims that all information, both public and private (insider information), is fully reflected in stock prices. Therefore, even insider information cannot give an investor an advantage in the market.

The EMH has significant implications for investors and financial markets, suggesting that passive investment strategies, such as index funds, may be more effective than active management. However, the hypothesis is not without its critics, who argue that markets can be influenced by irrational behavior, leading to anomalies and opportunities for excess returns.

(c) Objective of Working Capital Management

The primary objective of working capital management is to ensure that a company has sufficient liquidity to meet its short-term obligations and operate efficiently. Here are some specific goals:

(1) Maintain Liquidity: Ensuring that the company can meet its short-term liabilities and operational expenses.
(2) Optimize Cash Flow: Managing the timing of cash inflows and outflows to avoid cash shortages.
(3) Minimize Costs: Reducing the costs associated with holding and managing working capital, such as interest on short-term loans.
(4) Maximize Profitability: Efficiently managing inventory, receivables, and payables to enhance profitability.
(5) Ensure Operational Efficiency: Supporting smooth business operations by maintaining an optimal level of working capital.

Effective working capital management helps a company stay financially healthy and competitive.

SOLUTION THREE

(a) Discuss the advantages and disadvantages to Mpulungu Inc. of using overdraft finance to fund any cash shortages.

Advantages:

(1) Funds can easily be obtained using overdraft facility
(2) Accommodates flexibility, as Mpulungu Inc. can be allowed to borrow and repay funds as needed.
(3) Convenient, they are usually linked to an existing checking account and once funds are approved, these can easily be credited to the company's account and hence easily available.
(4) Can solve short term liquidity challenges.

Disadvantages:

(1) In most cases, overdrafts attract high interest.
(2) A lot of fees and charges before accessing the overdraft facility in forms of arrangement fees and charges.
(3) There is also a high risk of debt burden.
(4) If an overdraft is continuously being used, it can have a negative impact on the credit score of the business.

(b) **cash flow forecast for the eight-month period January to August, 2025**

Period	Jan	Feb	Mar	Apr	May	Jun	July	Aug.
	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000
INFLOWS:								
SALES	900	1,000	1,060	1,100	1,300	1,400	1,600	1,800 (1mark)
Receipts: Cash Receipts (70%)	630	700	742	770	910	980	1,120	1,260 (1mark)
Credit sales Received (30%)			270	300	318	330	390	420 (1mark)
TOTAL RECEIPTS (W1)	**630**	**700**	**1,012**	**1,070**	**1,228**	**1,310**	**1,510**	**1,680 (1mark)**
OUTFLOWS								
Payments::								
Purchases	300	240	210	185	500	550	2,100	300 (1mark)
Wages and Salaries	200	120	160	200	240	280	320	360 (1mark)
Gratuity Payments W2	90	54	72	90	108	126	144	162 (1mark)
Overheads		100	20	35	35	35	30	30 (1mark)
Dividends							200	(1mark)
Capital expenditure				1,000				(1mark)
Interest	50	50	50	50	50	50	50	50 (1mark)
Total expenditure	**640**		**512**	**1,560**	**933**	**1,041**		

Surplus/(Deficit)	**(10)**	**564** **136**	**500**	**(490)**	**295**	**269**	**2,844** **(1,334)**	**852** **828 (1mark)**
Balance b/f	**(500)**	**(510)**	**(374)**	**126**	**(364)**	**(69)**	**200**	**(1134) (1mark)**
Balance c/d	**(510)**	**(374)**	**126**	**(364)**	**(69)**	**200**	**(1134)**	**(306) (2marks)**

WORKINGS

w1		Jan	Feb	March	April	May	June	July	Aug.
	SALES	900	1,000	1,060	1,100	1,300	1,400	1,600	1,800
	Cash (70%)	630	700	742	770	910	980	1,120	1,260
	Cash (30%-After 3 months)			270	300	318	330	390	420
	Total Cash Received	**630**	**700**	**1,012**	**1,070**	**1,228**	**1,310**	**1,510**	**1,680**
w2	Gratuity (90% monthly payments)	90	54	72	90	108	126	144	162

(c) **Comments and Advice**

Mpulungu Plc has projected overdrafts in the months of January, February, April, May, July and August. The company expects positive cash surpluses in the months of March and June.

The following are possible courses of action:

(1) The company can invest in short-term deposits where it has accumulated cash surplus so that it generates more income.
(2) In the months where it is expected to have overdraft, it can ensure that it takes action by increasing collections so that it avoids ensuring additional interest charges on the overdraft.
(3) Management should negotiate better credit terms with customers in order to reduce the overdraft and additional interest charges.
(4) Additional markets can be identified in order to increase further its sales turnover. The company can invest further in advertising its products.

SOLUTION FOUR

(a) Determine the spread as follows:

$$\text{Spread} = 3 \times \sqrt[3]{\frac{(0.75 \times \text{Variance of cash flow} \times \text{Transaction cost})}{\text{Interest rate}}}$$

$$\text{Spread} = 3 \times \sqrt[3]{\frac{(0.75 \times 16{,}000 \times 75)}{0.005}}$$

= K1,694.

(i) The **maximum level of cash** (the upper limit) – this is the sum of the lower limit and the spread:

Upper limit– K2,000 + K1,694 = K3,694.

(ii) Securities should be sold when the return point **(target cash balance)** is reached. The return point is the sum of the lower limit and a third of the spread:

The target cash balance (Return point) = K2,000 + 1/3 (1,694) = K2,565.

Conclusion

Thus the firm is aiming for a cash holding of K2,565 (the return point). Therefore, if the balance of cash reaches K3,694 Mwali Enterprises should buy K3,694– K2,565 = K1,129 of marketable securities; if it falls to K2,000, then K565 of securities should be sold.

(b) Small and medium enterprises (SMEs) have several sources of finance available to them. Here are some common options:

(1) **Own Capital/Savings**: Entrepreneurs can use their personal savings or assets to fund their business.
(2) **Family and Friends**: Loans or investments from family and friends can be a flexible and accessible source of finance.
(3) **Banks**: Traditional bank loans, such as working capital loans, term loans, and loans against property, are common sources of finance for SMEs.
(4) **Trade Credit**: Suppliers may offer trade credit, allowing businesses to buy goods and pay for them later.
(5) **Private Equity Firms**: These firms invest in businesses in exchange for equity ownership.
(6) **Venture Capital Firms**: Venture capitalists provide funding to high-potential startups in exchange for equity.
(7) **Crowdfunding**: Allow businesses to raise small amounts of money from a large number of people.
(8) **Microloans**: Small loans, often provided by non-profit organizations, can be a good option for very small businesses.
(9) **Factoring**: using factoring or invoice discounting to obtain cash against receivables.

These sources can help SMEs overcome financial constraints and support their growth and development.

(c) Manipulation of Accounting Profits

(1) Accounting profits are not the same as 'economic' profits. Accounting profits can be manipulated to some extent by choices of accounting policies.
(2) Profit does not take account of risk. Shareholders will be very interested in the level of risk, and maximizing profits may be achieved by increasing risk to unacceptable levels.
(3) Profits on their own take no account of the volume of investment that it has taken to earn the profit. Profits must be related to the volume of investment to have any real meaning. Hence measures of financial achievement include:

    (i) Accounting return on capital employed
    (ii) Earnings per share
    (iii) Yields on investment, eg dividend yield as a percentage of stock market value

(4) Profits are reported every year (with half-year interim results for quoted companies). They are measures of short-term performance, whereas a company's performance should ideally be judged over a longer term.

END OF SUGGESTED SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D3: BUSINESS TAXATION

WEDNESDAY 10 DECEMBER 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 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

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

	Aged 2 to 5 years		Aged over 5 years	
Motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars	**Customs duty**	**Excise duty**	**Customs duty**	**Excise duty**
	K	K	K	K
Sedans				
Cylinder capacity not exceeding 1000 cc	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**	
Motor vehicles for the transport of goods	**Customs duty**	**Excise duty**	**Customs duty**	**Excise duty**
	K	K	K	K
Single cab				
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	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:

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

   Customs Duty:

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

   Excise Duty:

Percentage of Value for Duty Purposes for Excise Duty Purposes	
Cylinder capacity of 1500 cc and less	20%
Cylinder Capacity of more than 1500 cc	30%

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

   Customs Duty

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

   Excise Duty:

	Percentage of Value for Duty Purposes for Excise Duty Purposes	10%
3.	**Buses/coaches for the transport of more than ten persons**	
	Customs Duty:	
	Percentage of Value for Duty Purposes	15%
	Minimum Specific Customs Duty	K6,000
	Excise Duty:	
	Percentage of Value for Duty Purposes for Excise Duty Purposes	
	Seating Capacity of 16 persons and less	25%
	Seating Capacity of 16 persons and more	0%
4.	**Trucks/lorries with gross weight exceeding 20 tonnes**	
	Customs Duty:	
	Percentage of Value for Duty Purposes	15%
	Excise Duty:	
	Percentage of Value for Duty Purposes for Excise Duty Purposes	0%

Attempt ALL FOUR (4) questions.

<u>QUESTION ONE</u>

(a) Tiko Limited is a Zambian resident company which has just been registered for Value Added Tax after attaining the registration threshold of K800,000. The company will prepare its first VAT return for the month of May 2025 and has provided the following information in respect of the month ended 31 May 2025:

(1) Sales invoices totaling K645,000 were issued to customers. These invoices were made up of zero rated supplies amounting to K96,750, exempt sales amounting to K129,000 and the remainder of the sales was standard rated. Included in standard rated sales, were sales amounting to K78,200 which were sold to customers that are not registered for VAT purposes.

(2) On 20 May 2025, the company sold some old office equipment for K54,520 (VAT inclusive) which were not in use for the past few months.

(3) Standard rated purchases amounted to K360,000. Included in the figure of purchases were purchases amounting to K65,000 that were bought from suppliers who are not registered for VAT purposes.

(4) Standard rated expenses for the month were made up of the following:

	K
Entertaining customers	21,000
Petrol	67,800
Diesel	45,700
Bad debts written off	36,000

(5) The bad debts were written off on 31 May 2025 and they arose in respect of two sales invoices of K18,000 each whose payment were due on 31 January 2024 and on 31 August 2023 respectively.

(6) The company bought a Toyota Vanguard on 10 May 2025 for K162,400 (VAT inclusive) with a cylinder capacity of 2000cc as a personal to holder car for the Sales Manager.

(7) On 10 May 2025, Tiko Ltd. bought new office equipment for use in the company at a cost of K69,600 (VAT inclusive).

(8) All capital assets are used to make both taxable and exempt supplies in proportion to sales.

(9) **All of the above figures are VAT exclusive unless stated otherwise.**

Required:

(a) (i) Explain four (4) conditions which should be met for bad debt relief to be claimed. (4 marks)

(ii) Calculate the VAT payable by Tiko Limited for month of May 2025. You should indicate by using a zero (0) any items on which VAT is not chargeable or claimable. (10 marks)

(iii) Explain the basic tax point for goods or services and when it can be amended. (3 marks)

(b) The Value for Duty Purposes (VDP) is based on the cost, insurance and freight (CIF) and there are six (6) methods that can be used to determine the VDP. The transaction value method is always used unless certain conditions are not met.

Required:

(i) Explain any four (4) conditions which must be met for the transaction value method to be used. (4 marks)

(ii) Explain four (4) other methods besides the transaction value method that may be used to determine the VDP. (4 marks)

[Total: 25 Marks]

QUESTION TWO

Rock Mining Corporation (RML) Ltd is a company involved in the extraction of copper and cobalt on the Copper-belt province of Zambia. RML Ltd is a wholly owned subsidiary of Consolidated Time Mines (CTM) Plc. a multinational company.

The following is an extract of statement of profit or loss of RML Ltd for the year ended 31 December 2025.

	Note	**K**
Revenue	(1)	1,349,120,000
Cost of sales	(2)	(1,050,550,000)
Gross profit		298,570,000
Operating expenses	(3)	(217,346,800)
Profit from operations		81,223,200
Investment income	(4)	2,425,000
Profit before tax		83,648,200
Income tax expense	(5)	(20,792,099)
Profit for the year		62,856,101

The following additional information is available:

Note 1: Revenue

The sales revenue shown in the statement of profit or loss above comprises the following sales of copper and cobalt:

Mineral	**Tonnage**	**Norm price per tonne**	**Exchange rate**	**Revenue**
			ZMW per US$1	K
Sales of copper	3,800	US$8,000	K27.20	826,880,000
Sales of cobalt	1,600	US$12,000	K27.20	522,240,000
Total revenue				1,349,120,000

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

Note 2: Cost of sales

Included in the cost of sales is depreciation of non-current assets amounting to K12,174,000 and amortization expenses of K6,150,000, construction of road within the mine site amounting to K16,500,000, extension to the community school in the mine township costing K1,800,000 and a donation to an approved charity amounting to K1,500,000. The balance is made up of allowable expenses.

Note 3: Operating expenses

Included in operating expenses are annual salaries for the Chief Executive Officer and Director of Finance of K1,920,000 and K960,000 respectively, donations to an approved charity of

K3,500,000, donations to a Political Party of K6,000,000 and entertaining suppliers of K540,000. The balance consists of revenue expenses which are all allowable.

Note 4: Investment income

This includes royalties of K725,000 (net), profit on disposal of plant of K1,250,000 and dividends of K450,000.

Note 5: Income Tax expense

The amount represents provisional income tax paid by the company for the tax year 2025.

The following additional information is available:

During the Tax year of 2025, RML Ltd entered into the following capital transactions: All acquisitions of capital assets were from local Zambian suppliers and were paid for in Zambian Kwacha.

	Cost /(Proceeds)
	K
Bought new plant and equipment	15,000,000
Bought Office equipment	650,000
Bought Toyota Land Cruiser Double cab Van 3500cc	3,750,000
Toyota Hilux Double Cab Van 2000cc	1,620,000
Sold plant	(750,000)

The old plant was acquired six (6) years ago at a cost of K1,400,000. The Toyota Land Cruiser Double Cab Van and Toyota Hilux Double Cab Van are used by the Mines Manager and Finance Director respectively on a personal-to-holder basis. It has been agreed with the Commissioner General that each director/manager has 45% private use in their respective vehicles.

Required:

(a) Calculate the capital allowances claimable by RML ltd. (8 marks)

(b) Calculate the amount of mineral royalty tax paid by RML Ltd for the year ended 31 December 2025. (5 marks)

(c) Calculate the tax adjusted mining profit for RML Ltd for year ended 31 December 2025. (9 marks)

(d) Calculate the income tax payable by RML Ltd for tax year ended 31 December 2025. (3 marks)

[Total: 25 Marks]

QUESTION THREE

Dan and Ben are partners engaged in the construction and real estate business for many years, sharing profits and losses in the ratio of 3:2 respectively, after allowing for salaries of K281,143 for Dan and K216,000 for Ben.

On 1 August 2025, Joe, a qualified Quantity Surveyor joined the partnership and the partnership agreement was amended as follows:

- Profit or Loss sharing rations was adjusted to 5:3:2 for Dan, Ben and Joe respectively.
- The annual salaries were agreed at K228,000, K204,000 and K192,000 for Dan, Ben and Joe respectively.

The summarized of profit or loss for the year ended 31 December 2025 was as follows:

		K	K
Gross profit			4,184,500
Less expenses:			
Entertainment expenses	(Note 1)	190,600	
Professional fees	(Note 2)	133,500	
Salaries and wages	(Note 3)	1,824,000	
Motor vehicle running costs	(Note 4)	246,000	
General expenses	(Note 5)	697,200	
			(3,091,300)
Net profit			1,093,200

The following additional information is available:

Note 1: Entertainment

This expenditure includes:

	K
Entertainment of suppliers	55,000
Cocktail party for partners	65.600
Christmas party and vouchers for workers	70,000
	190,600

Note 2: Professional fees

This expenditure includes:

	K
Legal fees incurred for transfer of title to newly acquired land	35,000

Partners' subscription to golf club (K4,500 for each partner)	13,500
Legal fees incurred on collection of trade debts	54,900
Unsuccessful appeal against previous year's income tax assessments	19,400
Legal fees incurred in connection with defending title to land	10,700
	133,500

Note 3: Salaries and wages

This expenditure includes:

	K
Partners' salaries	624,000
Loans to former employees written off	126,000
Salaries & wages for workers	1,074,000
	1,824,000

Note 4: Motor vehicle running costs

These include motor car expenses of K46,000, incurred on motor vehicles used by employees wholly and exclusively for business purposes, the balance relates to motor vehicles used by partners for both business and private purposes.

Partner	Motor car running expenses	Business Mileage
	K	%
Dan	80,000	70
Ben	69,000	50
Joe	51,000	40
	200,000	

The original costs and dates on which each vehicle was brought in-house by each partner are shown below:

Date brought into use	Partner	Purchase cost
		K
1 April 2024	Dan	350,000
1 May 2024	Ben	265,000
1 September 2024	Joe	180,000

Note 5: General Expenses

These included:

	K
Partners' traffic fines	14,200
Employees' Traffic fines	27,800
Transportation costs for building materials	364,000

Depreciation	86,000
Advertising expenses	32,400
Miscellaneous allowable expense	99,600
	624,000

Note 6: Implements, plant and equipment

On 1 January, 2025, the only partnership's implements, plant and machinery qualifying for capital allowances was a delivery truck having an income tax value of K120,000, which was acquired at a cost of K450,000.

The following expenditure was incurred during the tax year 2025:

	K
Bought Benz Tipper truck	850,000
Bought Concrete mixer machinery	450,000
Bought Standby Generator	179,800
Bought Office furniture	85,000

Required:

(a) Calculate the capital allowances on the partnership assets for the tax year 2025. (5 marks)

(b) Calculate the amount of the tax adjusted business profits for the partnership for the tax year 2025. (9 marks)

(c) Compute the allocation of the partnership adjusted profit to each partner for the tax year 2025. (11 marks)

[Total:25 Marks]

QUESTION FOUR

(a) SavePro General Insurance Plc is a Zambian resident company engaged in the provision of general insurance services. The company listed its shares on the Lusaka Securities Exchange in 2023 and issued 27% of its shares to indigenous Zambians. The following information was extracted from the books of SavePro General Insurance Plc for the year ended 31 December 2025:

	K
Gross premiums received	336,900,000
Claims received under reinsurance from re-insurers	52,300,000
Claims paid to customers	120,900,800
Insurance premiums paid to re-insurers	61,700,000
Allowance for unearned premiums at 1 January 2025	114,600
Allowance for unearned premiums at 31 December 2025	121,800
Outstanding claims from customers at 1 January 2025	112,600

Outstanding claims from customers at 31 December 2025		61,200
Other income	(Note 1)	1,600,000
Commissions received		2,600,000
Commissions paid		1,940,000
Net gain on foreign exchange transactions	(Note 2)	109,400
Operating expenses	(Note 3)	103,600,000

The following additional information is available:

(1) Other income is made up dividends K102,000 (net), royalties K663,000 (net) and profit on disposal of an old office building K835,000. Withholding tax had been deducted at source where applicable.

(2) Net gain on foreign exchange transactions

This comprised of the following:

	K
Unrealized foreign exchange gains	76,400
Realized foreign exchange gains	240,000
Realized foreign exchange losses	(103,100)
Unrealized foreign exchange losses	(103,900)
	109,400

(3) Operating expenses

Operating expenses are made up of the following:

	K
Salaries and wages	51,600,400
Depreciation	611,090
Impairment of assets	2,010,400
Penalties for non-compliance with tax regulations	171,120
Donation to approved public benefit organisations	2,316,800
Staff loans written off	3,441,500
Employee pension benefits	3,600,000
Other revenue allowable expenses	39,848,690
	103,600,000

The Salaries and wages include gross emoluments for the Managing Director and Finance Director amounting to K2,400,000 and K2,100,000 respectively. these Directors are accommodated in company owned houses.

(4) Provisional income tax

The company paid provisional income tax amounting to K22,819,088 during the year ended 31 December 2025.

(5) Non-current Assets

The company had the following non-current assets qualifying for capital allowances as at 1 January 2025:

Asset	Original cost	Income tax value
	K	K
Office building	3,100,000	2,480,000
Office equipment	820,000	205,000
Pool cars	2,000,000	800,000

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

	Cost/(proceeds)
	K
Bought new office building	8,800,000
Sold old office building	(4,000,000)
Bought office furniture	1,629,000

Required:

(i) Calculate capital allowances for tax year 2025. (5 marks)

(ii) Calculate the taxable business profit of SavePro General Insurance Company for the year ended 31 December 2025. (10 marks)

(iii) Calculate the amount of income tax payable for the tax year 2025. (5 marks)

(b) The Directors of SavePro General Insurance intend to install an online client registration system that will be used to sign up new clients. The system is estimated to cost K3,700,000 (VAT exclusive) including installation fees. The Directors are considering engaging AppPro Ltd, a company resident in a foreign country. AppPro has not appointed any tax agent in Zambia.

Required:

Explain with appropriate supporting computation, the tax implications of engaging a foreign company to install the new system in Zambia. (5 marks)

[Total: 25 Marks]

END OF PAPER

D3 BUSINESS TAXATION

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) (i) The following conditions should be met for bad debt to be claimed as input tax:

(1) A supply of goods and services has been made for consideration in money or by barter.

(2) Output VAT has been accounted for and paid by the supplier.

(3) The whole or part of the debt has been written off as bad in the records of the supplier.

(4) At least eighteen (18) months have been elapsed since the time when the payment was due.

(iii) TIKO LIMITED

COMPUTATION OF VAT PAYABLE FOR THE MONTH OF MAY 2025

	K	K
OUTPUT TAX		
Standard rated sales (K419,250 16%)		67,080
Zero rated sales (K96,750 X 0%)		0
Exempt sales		0
Sale of old office equipment (K54,520 X 16/116)		7,520
		74,600
INPUT TAX		
Purchases (K360,000 –K65,000) X 16%	47,200	
Entertaining customers	0	
Petrol (irrecoverable)	8,678	
Diesel (K45,700 X 16% 90%) x 80%	5,265	
Bad debts written off (18,000 X 16%)	2,880	
Toyota Vanguard	0	
Equipment (K69,600 X 16/116 X 80%)	7,680	
		(71,703)
VAT payable		2,897

Working:

Recoverable input VAT =Taxable Supplies/Total supplies X 100

= K516,000/645,000 X 100

= 80%

(b) (i) The following conditions should be met for the transaction value method to be used:

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

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

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

(4) No relationship exists to influence the value.

(ii) The other methods used to calculate the VDP other than the transaction value are:

(1) **Transaction value of identical goods**

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

(2) **Transaction value of similar goods**

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

(3) **Deductive value method**

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

(4) **Computed value method**

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

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

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

SOLUTION TWO:

(a) CAPITAL ALLOWANCES CLAIMABLE FOR TAX YEAR 2025

ITEM	ITV/COST	CAPITAL ALL
	K	K
Construction of road		
Wear & tear (K16,500,000x 20%)		3,300,000
Extension of Community school		
Wear & tear (K1,800,000 x 20%)		360,000
Plant & equipment	15,000,000	
Wear & tear (K15,000,000 x 20%)	3,000,000	3,000,000
Itv/cfwd	12,000,000	
Office equipment	650,000	
Wear & tear (K650,000 x 25%)	162,500	162,500
Itv/cfwd	487,500	
Toyota land cruiser van	3,000,000	
Wear & tear (K3,750,000 x 20%)	750,000	750,000
Itv/cfwd	2,250,000	
Toyota Hilux	1,620,000	
Wear & tear (K1,620,000 x 20%)	324,000	324,000
Itv c/fwd	1,296,000	
Old plant	0	
Disposal proceeds	(750,000)	(750,000)
Total		7,146,500

(b) CALCULATION OF THE MINERAL ROYALTY PAID BY RML Ltd FOR TAX YEAR 2025

Mineral royalty tax

	K
Copper	
First ($3,999 x 3,800 x 27.20 x 4%)	16,533,466
Next ($1,000 x 3,800 x 27.20 x 6.5%)	6,718,400
Next ($2,000 x 3,800 x 27.20 x 8.5%)	17,571,200
Balance ($1,001 x 3,800 x 27.20 x 10%)	10,346,336
	51,169,402
Cobalt (K522,240,000 x 8%)	41,779,200
Total mineral royalty tax	92,948,602

(c) COMPUTATION OF ADJUSTED MINING PROFIT FOR THE TAX YEAR 2025

	K	K
Profit before tax		83,648,200
Add:		
Depreciation	12,174,000	
Amortization	6,150,000	
Donation to Political parties	6,000,000	
Entertaining suppliers	540,000	
Construction of road	16,500,000	
Extension of community school	1,800,000	
Personal –to-holder motor vehicles:		
Mines manager	57,600	
Finance Director	43,200	
		43,264,800
		126,913,000
Less:		
Royalties (net)	725,000	
Dividends (gross)	450,000	
Profit on disposal	1,250,000	
Capital allowances	7,146,500	
Mineral royalty	92,948,602	
		102,520,102
Adjusted mining profit		24,392,898
Add:		
Royalties (K725,000 x 100/85)		852,941
Taxable Company Income		25,245,839

(d) RML LTD

COMPANY IMCOME TAX COMPUTATION FORE THE TAX YEAR 2025

Company income tax:	
Mining (K25,245,839 x 30%	7,573,752
Less provisional income tax paid	(20,792,099)
WHT-Royalties (K852,941 x 15%)	(127,941)
Income tax refundable	(13,346,288)

SOLUTION THREE

(a) CALCULATION OF PARTNERSHIP CAPITAL ALLOWANCES FOR TAX YEAR 2025

ITEM	ITV/COST	CAPITAL ALLOWANCES
	K	K
Delivery truck	337,500	
Wear & tear (K450,000 x 25%)	(112,500)	112,500
Itv/cfwd	337,500	
Benz Tipper truck	850,000	
Wear & tear (K850,000 x 25%)	(212,500)	212,500
Itv/cfw	637,500	
Concrete Mixer	450,000	
Wear & tear (K450,000 x 25%)	(112,500)	112,500
Itv/cfw	337,500	
Stand by Generator	179,800	
Wear and tear (K179,800 x 25%)	(44,950)	44,950
Itv/cfwd	134,850	
Office furniture	85,000	
Wear & tear (K85,000 x 25%)	(21,250)	21,250
Itv/cfw	63,750	
Total		503,700

(b) PARTNERSHIP

BUSINESS ADJUSTED PROFIT FOR TAX YEAR 2025

	K	K
Net profit		1,093,200
Add:		
Entertainment for suppliers ½	55,000	
Cocktail for partners ½	65,600	
Legal fees for land title ½	35,000	
Partner's golf subscription ½	13,500	
Unsuccessful appeal on tax assessment ½	19,400	
Partners' salaries	624,000	
Loans to employees written off	126,000	
Motor car expenses:		
- Dan's car (K80,000x 30%) 1	24,000	
- Ben's car (K60,000 x 50%) 1	34,500	
- Joe's car (K51,000 x 60%) 1	30,600	
Partner's traffic fines	14,200	
Depreciation	86,000	
		1,127,800
		2,221,000
Less:		
Capital allowances		503,700
Adjusted taxable profits		1,717,300

(c) ALLOCATION OF ADJUSTED PROFIT TO EACH PARTNER

First 7 months

01.01.2025-31.07.2025

	Total	Dan	Ben	Joe
	K	K	K	K
Salaries	290,000	164,000	126,000	
Balance(3:2)	711758	427,055	284,703	
	1,001,758	591,055	410,703	
Last 5 months				
01.08.2025-31.12.2025				
Salaries	260,000	95,000	85,000	80,000
Balance (5:3:2)	455,542	227,771	136,663	91,108
Total	715,542	322,771	221,663	171,108
Total	1,717,300	913,826	632,366	171,108
Less capital allowances				
Dan (K350,000x 20% x 70%)		(49,000)		
Ben (K265,000 x 20% x 50%)			(26,500)	
Joe (K180,000 x 20% x 40%)				(14,400)
Taxable income		864,826	605,866	156,708

SOLUTION FOUR

(a) (i) COMPUTATION OF CAPITAL ALLOWANCES

	K
Old office building	
Bal charge (2,480,000 – 3,100,000)	(620,000)
Office equipment	
Wear & tear (K820,000 x 25%)	205,000
Pool cars	
Wear & tear (K2,000,000 x 20%)	400,000
New office building	
W & T (K8,800,000 – K1,200,000) x 2%	152,000
Office furniture	
Wear & tear (K1,629,000 x 25%)	407,250
Total capital allowances	544,250

(ii) SAVEPRO GENERAL INSURANCE PLC
COMPUTATION TAXABLE BUSINESS PROFITS FOR THE TAX 2025

	K	K
Gross premiums		336,900,000
Allowance for unearned premiums at 1 Jan 2025	114,600	
Allowance for unearned premiums at 31 Dec 2025	(121,800)	
		(7,200)

Outstanding claims payable from customers at 1 Jan 2025	112,600	
Outstanding claims payable to customers at 31 December 2025	(61,200)	
		51,400
		336,944,200
Amounts received under reinsurance		52,300,000
Claims paid to customers		(120,900,800)
Insurance premiums paid to reinsurers		(61,700,000)
		206,643,400
Commissions received		
(K2,600,000 – K1,940,000)		660,000
Net realised exchange gain (240,000 – 103,100)		136,900
		207,440,300
Less:		
Salaries and wages	51,600,400	
Donations to approved organization	2,316,800	
Employee benefits paid	3,600,000	
Other allowable expenses	39,848,690	
Capital allowances	544,250	
Dividends	102,000	
Royalties	663,000	
Profit on disposal	835,000	
		(99,510,140)
		107,930,160

Free accommodation benefit:		
Managing Director (K2,400,000 x 37%)	888,000	
Finance Director (K2,100,000 x 37%)	777,000	
		1,665,000
Taxable business profits		106,265.160

(iii) SAVEPRO GENERAL INSURANCE PLC
COMPANY INCOME TAX COMPUTATION FOR THE TAX YEAR 2025

	K
Adjusted business profits	106,265.160
Add:	
Royalties (K663,000 x 100/85)	780,000
Taxable income	107,045,160
Company income tax (107,045,160 x 30%)	33,113,548
Less:	
WHT – Royalties (K780,000 x 15%)	(117,000)
Provisional income tax paid	(22,819,088)
Income tax payable	9,177,460

(b) Where a Zambian resident company engages a non-resident supplier to provide the services, that company will be deemed to have imported services into the republic of Zambia; hence, liable to pay reverse VAT.

Reverse VAT is the transfer of liability to account for and pay VAT on imported services from the person making the supply to the person receiving the supply. A service is considered imported if it is performed or undertaken in Zambia; and if it is utilized in Zambia regardless of where it is performed.

In this case, SavePro General Insurance Plc will be deemed to have imported services into Zambia if it engages AppPro to install an online client registration system. Reverse VAT is payable where the non-resident supplier has not appointed a tax paying agent in Zambia to account for and pay VAT.

AppPro has not appointed a tax paying agent in Zambia, therefore SavePro General Insurance will be required to account for VAT on the fees paid to the foreign based company. The amount of VAT payable will be: K3,700,000 x 16% = K592,000.

The amount paid as reverse VAT is not recoverable as input tax when computing the VAT payable. Therefore, SavePro General Insurance will not be able to claim Reverse VAT paid as input VAT. This could have been avoided if AppPro appointed a tax paying agent in Zambia.

TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D4: PERSONAL TAXATION

TUESDAY 9 DECEMBER 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

	Aged 2 to 5 years		Aged over 5 years	
Motor vehicles for the transport of ten or more persons, including the driver	**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**	
Motor vehicles for the transport of goods	**Customs duty**	**Excise duty**	**Customs duty**	**Excise duty**
	K	K	K	K
Single cab				
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	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:

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 FOUR (4) questions in this paper

QUESTION ONE

Micheal Michelo commenced employment with a Zambian resident company on 1 March 2025 as the Marketing Manager at an annual salary of K660,000.

His contract of employment further provides him with an annual housing allowance of 25% of his annual basic salary and an annual lunch allowance of 5% of his annual basic salary.

The following additional information relates to the tax year 2025:

(1) In March 2025, the company paid his annual professional subscription fees to the Institute of Marketing amounting to K6,000 and college fees for his children amounting to K30,000.

(2) Upon completion of his probation, on 1 June 2025, he was awarded a salary increment of 10% of his annual basic salary, which was effected on that date.

(3) Throughout the period of his employment in the tax year 2025, he used his own Toyota Hilux Double Cab Van (2890cc) which he bought at a cost of K900,000 in March 2025 partly for employment purposes. It has been agreed with the Commissioner that his employment use of the vehicle is 60%. He incurred motor car running expenses of K5,000 per month. He received a commuted fuel allowance of K5,400 per month.

(4) He received the following income from Zambian sources during the year:

	K
Management fees (net)	61,200
Gross fixed deposit interest	18,000
Gross dividends from LuSE listed companies	40,000
Treasury bill discount (net)	55,250
Gross income from letting of property	840,000

(5) During 2025, Michelo made investments in shares and bonds of companies resident in a foreign country known as Krostovia. In December 2025, the following income was credited to his Zambian bank account in respect of these investments:

	K
Dividends	67,500
Bond interest	63,000

The dividends and bond interest were net of withholding tax deducted at the rate of 25% in Krostovia, whilst the bond interest was net of withholding tax at the rate of 10% deducted in Krostovia.

(6) Under the Double Taxation Agreement which Zambia has with Krostovia, dividends from Krostovia are subjected to Zambian income tax at the rate of 10% of the gross amount

of the income arising, whilst interest income from Krostovia is subjected to Zambian tax at 15% of the gross amount arising.

(7) The following payments and deductions were made from his gross earnings during the tax year 2025:

- Monthly DSTV subscriptions K1,300
- PAYE deducted from his earnings for the year amounted to K196,101.
- Employee's NHIMA contributions of K492 per month.
- Employee's NAPSA contributions of K1,491 per month.
- Monthly tithes to Hope Bible Church an approved public benefit organisation of K6,000.

Required:

(a) Explain the tax treatment of the following income received by Michelo during the tax year 2025 and compute the amount of any tax arising each case:
- (i) Fixed deposit interest (1 mark)
- (ii) Dividends from the LuSE listed company (1 mark)
- (iii) Treasury Bill Discount (2 marks)
- (iv) Income from letting of property (3 marks)

(b) Calculate the income tax payable by Michelo for the tax year 2025. You should indicate using a zero any income received by Michelo from employment which is exempt from tax. (18 marks)

[Total: 25 Marks]

<u>QUESTION TWO</u>

(a) In relation to basis rules used to determine the basis of assessment for business profits:

(i) Explain the meaning of the Current Year Basis of Assessment and Preceding Year Basis of Assessment and clearly describe the circumstances in which each rule is applied. (3 marks)

(ii) Explain the commencement rules, which are applied to determine the basis of assessment for profits made in the year a trade commences and describe the circumstances in which each rule applies. (3 marks)

(iii) Discuss the cessation rules, which are applied to determine the basis of assessment for profits made in the year a trade ceases and describe the circumstances in which each rule applies. (4 marks)

(b) Explain the possible causes of and the differences between tax avoidance and tax evasion and discuss the ethical and practical consequences of engaging in each practice. (8 marks)

(c) Elias Tembo is employed at DLX Ltd, a Zambian resident company. The management of the company recently announced that the company is planning to set up a share option scheme in order to motivate and retain the services of its highly skilled employees. Elias would like to know what the benefits of participating in such a scheme will be for employees.

Elias further wishes to invest in Treasury Bills and shares of a company that is listed on the Lusaka Securities Exchange (LuSE) and wishes to know the taxation implications of making such investments.

Required:

(i) Explain the tax benefits for an employee of participating in a share option scheme which is approved for tax purposes (3 marks)

(ii) Explain the taxation implications for Elias of investing in Treasury Bills and in Shares of a company listed on the LuSE. (4 marks)

[Total: 25 Marks]

QUESTION THREE

For the purposes of this question, you should assume that today's date is 5 December 2024 and that the earnings ceiling for the purposes of NAPSA contributions is K409,968.

Alex Chola has been in business on his own account for many years generating annual turnover of above K5,000,000. He is now considering involving his wife Annette in running the business beginning from 1 January 2025. He is uncertain whether to engage her as a partner by forming a partnership business or as a shareholder by incorporating a limited company.

In the year ending 31 December 2025 he expects to make a net profit figure as per accounts of K1,500,000 regardless of whether he runs the business as a partnership or as a limited company. This profit figure is before any expenses relating to each individual and NAPSA contributions where applicable in each case.

Regardless of whether he forms a partnership or incorporates a limited company, Alex and Annette will each use their own personal private Toyota Fortuner cars which each individual will acquire at a cost of K120,000 each on 1 January 2025 using their savings. The cylinder capacity of each car will be 3000 cc and the motor cars will be used by Alex and Annette for both business and private purposes. It is estimated that the business use by each individual of each car will be 80%. The business will acquire office furniture at a cost of K50,000, two (2) HP computers at a cost of K20,000 each and a van at a cost of K200,000 on 1 January 2025

If Annette is involved in running the buisness as a partner, there will be annual partnership salaries amounting to K300,000 for Alex and K250,000 for Annette respectively. Profits and losses will be shared between Alex and Annette in the ratio 4:1 respectively. National Pension Scheme Authority (NAPSA) Contributions will not be payable under this option.

If the business is run as a limited company, it will trade under the name 'Perfect Business Limited'. Alex and Annette will be the only shareholders of the company and full-time working Directors of the company. Alex and Annette will draw annual directors' emoluments amounting to K300,000 and K250,000 respectively. NAPSA contributions will be payable by both Directors and Perfect Business Limited at the rate of 5% of the gross employment earnings of each director.

Required:

(a) Calculate the amount of income tax payable by Alex and Annette for the tax year 2025 if the business is run as a partnership. (9 marks)

(b) Assuming that the business is run as a limited company:

(i) Calculate the amount of income tax and NAPSA contributions payable by Alex and Annette for the tax year 2025. (5 marks)

(i) Calculate the amount of income tax and NAPSA contributions payable by Perfect Business Limited for the tax year 2025. (6 marks)

(c) Advise Alex whether he should run the business as a partnership or incorporate the business and run it as a limited company. Your answer should include a computation of the net income under each option after deducting all statutory deductions and other relevant expenses. (5 marks)

[Total: 25 Marks]

<u>QUESTION FOUR</u>

You are employed in a firm of Chartered Accountants and you have been assigned to deal with the tax affairs of the following clients of your firm:

Thomas Mulele

Mulele is a Zambian resident who recently graduated with a Diploma in Entrepreneurship from a local college. He commenced in business in March 2025, running a transportation business for the carriage of persons. Using financing from a youth empowerment program, he bought the following motor vehicles in March 2025:

(1) A Rosa bus with a seating capacity of 28 passengers at a cost of K350,000.

(2) A Toyota Hiace mini bus with a seating capacity of eighteen (18) passengers at a cost of K250,000.

The Rosa bus started operating from 1 April 2025 to 31 December, 2025 for seven (7) days a week except on the month-end when the vehicle was being serviced. The Toyota Hiace mini bus started operating from 1 August 2025 to 31 December 2025 for seven (7) days a week except on month-end when it was being serviced. Mulele had employed two (2) drivers, one to drive the Rosa bus and the other one to drive the Toyota Hiace Mini bus. The drivers were fully qualified with public service vehicle (PSV) driver's licenses.

The average monthly turnover from the Rosa bus was K35,000, while the Toyota Hiace mini bus' average turnover per month was K57,000. Operating expenses for each vehicle are 40% of turnover.

Mervis Mulele

Mervis, the wife of Thomas Mulele, commenced business on 1 January 2025 running a chain of retail shops as a sole trader. Her sales averaged K52,000 per month while purchases amounted to K22,100 per month during the year ended 31 December 2025. Other operating expenses incurred during the year ended 31 December 2025 amounted to K12,800 per month. She acquired shop fittings at a cost of K40,000 on 2 January 2025 and office equipment at a cost of K60,000 on 1 June 2025.

Vaison Banda

Banda runs a real estate business as a sole trader. During the year 2025, he let out the following properties on commercial basis:

Type of Property	***Date let out***	***Monthly rentals***	***Monthly running expenses***
10 residential flats	1 January 2025	K4,200 per month each	K800 per month each
6 office suites	1 April 2025	K10,400 per month each	K2,100 per month each
8 shops	1 May 2025	K7,900 per month each	K1,800 per month each

Required:

(a) Advise Thomas Mulele of the type of tax he will be required to pay for the tax year 2025. Your answer should include a computation of the amount of tax payable for the tax year 2025. (4 marks)

(b) Explain any three (3) benefits of presumptive tax over the regular assessed system of taxation. (6 marks)

(c) Advise Mervis Mulele of the type of tax she will be required to pay for the tax year 2025. Your answer should include a computation of the amount of tax payable for the tax year 2025. (5 marks)

(d) Advise Vaison Banda of the type of tax he will be required to pay for the tax year 2025. Your answer should include a computation of the amount of tax payable for the tax year 2025. (10 marks)

[Total: 25 Marks]

END OF PAPER

D4 – PERSONAL TAXATION

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) (i) Fixed deposit interest from the LuSE listed company

Fixed deposit interest was subjected to withholding tax at 0% which is a final tax. Michelo will therefore not be subjected to any further income tax on the dividends.

(ii) Dividends from the LuSE listed company

The dividends from the LuSE listed company was subjected to withholding tax at 0% which is a final tax. Michelo will therefore not be subjected to any further income tax on the dividends.

(iii) Treasury Bill discount

Treasury bill discount interest will be subjected withholding tax at 15% deducted at source which is a final tax. Micheal Michelo will therefore not be subjected to any further income tax on the interest.

The amount of the WHT will be; K55,250 x 15/85 = K9,750

(iv) Income from letting of property

Rental income will be subjected to rental income tax and not to normal income tax. The rental tax is payable by the 14th day following the end of each month.

The amount of rental income tax arising in the tax year 2025 will be computed as follows:

	K	
Annual rental income	840,000	
Rental Income Tax		
On first K12,000 x 0%	0	0.5
On next (K800,000 - 12,000) = K788,000 x 4%	31,520	0.5
On excess (K840,000 - K800,000) x 16%	6,400	0.5
	37,920	0.5

(b) MICHELO'S

PERSONAL INCOME TAX COMPUTATION FOR THE TAX YEAR 2025

Income from Zambian Employment		
Salary		
(K660,000 x3/12) + (K660,000 x 110%) x 7/12		588,500
College fees		30,000
Housing allowance (K588,500 x 25%)		147,125
Lunch allowance (K588,500 x 5%)		29,425
Commuted fuel allowance (K5,400 x 10)		54,000
Professional subscriptions		0
		849,050
Investment income from Zambian Sources		
Management fees (K61,200 x 100/85)		72,000
		921,050
Less allowable deductions:		
Donation to PBO - Tithes (K6,000 x 12)	72,000	
Motor running expenses (K5,000 x 10 x 60%)	30,000	
Capital allowances (K900,000 x 20% x 60%)	108,000	
		210,000
		711,050
Income Tax		
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 (K711,050 - K110,400) x 37%		222,241
		234,601
Income tax on income from foreign sources		
Dividends (K67,500 x100/75) x 10%)	9,000	
Bond interest (K63,000 x100/90) x 15%	10,500	
		19,500
Total Tax liability		254,101
Less Tax already paid:		
PAYE		(196,101)
WHT on consultancy fees (K72,000 x 15%)		(10,800)
Income tax payable		47,200

SOLUTION TWO

(a) (i) THE CURRENT YEAR BASIS OF ASSESSMENT (CYB)

The CYB means that the tax year in which the accounting period ends is the year in which any resulting profits are to be assessed.

This applies if accounts are prepared to a date between [t] April and 31 December (inclusive).

THE PRECEEDING YEAR BASIS OF ASSESSMENT (PYB)

The PYB means that the profits of the accounting period ending at any time between the dates stated are to be assessed using tax rates for the previous year.

This applies if accounts prepared to a date falling between 1 January and 31 March of the same year (inclusive).

(ii) The commencement rules s are as follows:

(1) If the first accounting period is made up of exactly 12 months or less, the normal rules (that is, the CYB or the PYB) apply depending on when the period ends.

(2) If the first accounting period is made up of more than 12 months, then that period should be split into 2 notional accounting periods for tax purposes as follows:

- The first period should consist of less than 12 months.

- While the second period should consist of exactly 12 months ending on the first accounting date.

(3) The profits for the whole period should be allocated to the two notional accounting periods on a time basis and thereafter, the normal rules should be applied to determine the tax year in which the profits of the second accounting period should be assessed.

(iii) The cessation rules are which are applied are as follows:

(1) If the last accounting period is exactly 12 months long, then the normal rules will apply i.e. the CYB or PYB as applicable.

(2) If the last accounting period is less than 12 months, then the profits of that accounting period are assessed in the tax year following the one in which the profits of the second last accounting period were assessed.

(3) If the last accounting period is made up of more than 12 months, then that period should be split into two as follows:

- A 12-month period ending on the normal accounting date and
- A short accounting period ending on the date of cessation.

(4) The profits of the long accounting period should be allocated to the two resulting periods on a time basis:

- The tax year in which the profits of the 12-month period are to be assessed is determined by using the normal rules.
- The profits of the last accounting period (the one with less than 12 months) are to be assessed in the following tax year

(b) Tax evasion refers to the use of illegal means to avoid tax. Such means include failing to disclose the relevant amounts of income and other forms of fraud which the tax payers may engage in. The aim of the tax payer practicing tax evasion is to defraud the government of the revenue.

Tax evasion arises when taxes are perceived to be too high or unfair on the tax payers.

Another cause of tax evasion may be intentional where the tax payer intentionally hides some income.

Tax evasion is an offence and may be punishable by fines and/or imprisonment.

Tax avoidance On the other hand, is concerned with identifying any loop holes in the taxes legislation, and using them to minimize or defer tax liabilities. Tax avoidance is, however difficult to define more thoroughly.

Tax avoidance is caused by tax payers planning their tax affairs so as to minimise 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.

Paying taxes is a moral obligation for all taxable persons. Actions taken to reduce taxes payable because the taxable person intentionally wants to pay less or because the taxes legislation is inadequate could be considered as unethical practices.

(c) (i) Tax benefits for employees

The benefit for the individual employee is that any benefit/gain which arises to that individual on allotment or acquisition of shares under an approved share option scheme is exempt from income tax.

Specifically,

(1) There is no Income Tax charge when the share options are granted at an exercise price that is less than the market value at the time of grant.

(2) There is no income tax charge when the share options are exercised.

(3) No PTT will arise on any subsequent sale of the shares

(ii) Tax implications of Treasury Bills (T-Bills)

(1) For an individual, the treasury bill discount income (i.e. interest receivable) from the T-Bills is subject to withholding tax at the rate of 15% which is a final tax.

(2) There is no property transfer tax on the transfer of government bond as they do not fall under for the scope property transfer tax.

(1 mark for each valid point up to a maximum of 2 marks)

(ii) Tax implications of Shares listed on LUSE

(1) For an individual, any dividends received from these investments are subject to withholding tax at the rate of 0% which is a final tax.

(2) There is no property transfer tax on the transfer of shares in a company listed on LUSE as they do not fall under for the scope property transfer tax.

SOLUTION THREE

(a) COMPUTATION OF FINAL TAX ADJUSTED PARTNERSHIP PROFIT FOR THE TAX YEAR 2025

	K	K
Business profits		1,500,000
Less:		
Capital allowances:		
Office furniture		
(K50,000 x 25%)	12,500	
HP computers		
(K20,000 x2x 25%)	10,000	
VAN		
(K200,000 x 25%)	50,000	
		(72,500)
Adjusted business profit		1,427,500

ALLOCATION OF PROFITS

	Alex	Annette	Total
	K	K	K
Salaries	250,000	300,000	550,000
Balance 4:1	702,000	175,500	877,500
Total	952,000	475,500	1,427,500
Less: capital allowances:			
Toyota fortuner:			
120,000 x 20% x 80%	(19,200)	(19,200)	(38,400)
Taxable profits	932,800	456,300	1,389,100
Income Tax			
First K61,200 @0%	0	0	
Next K24,000 @20%	4,800	4,800	
Next K25,200 @30%	7,560	7,560	
Excess			
(K822,400/K345,900 x 37%	304,288	127,983	
Income tax payable	316,648	140,343	

(b) Limited company

(i) ALEX AND ANNETTE
PERSONAL INCOME TAX COMPUTATIONS FOR THE TAX YEAR 2025

	Alex	Annette
	K	K
Salary	250,000	300,000
Income Tax		
First K61,200 @0%	0	0
Next K24,000 @20%	4,800	4,800
Next K25,200 @30%	7,560	7,560
Excess		
(K139,600/189,600 @37%	51,652	70,152
Income tax payable	64,012	82,512
Employee's NAPSA		
(K250,000/K300,000 x 5%)	12,500	15,000

(ii) PERFECT BUSINESS LIMITED
COMPUTATION OF INCOME TAX PAYABLE FOR THE TAX YEAR 2025

	K
Business profit	1,500,000
Less:	
Directors' emoluments (250,000 + 300,000)	(550,000)
Employees NAPSA (k12500+15000)	(27,500)
Employer's NAPSA (K12500 +15000)	(27,500)
Capital allowances:	
Office Furniture (K50,000 x 25%)	(12,500)
Computers (K20,000 x 2 x25%)	(10,000)
VAN (K200,000 x 25%)	(50,000)
Adjusted business profit	822,500
Company tax @ 30%	246,750

(c) COMPUTATION OF NET INCOME

	Partnership	Limited company
	K	K
Business profit	1,500,000	1,500,000
Less:		
Income tax payable:		
Alex	(316,648)	(64,012)
Annette	(140,343)	(82,512)
Perfect business Ltd	-	(246,750)
Employees' NAPSA	-	(27,500)
Employer's NAPSA	-	(27,500)
	1,043,009	1,051,726

It will be beneficial for Alex to engage Annette in the business as a Shareholder and run the business as a limited company. This is so because the net income under Limited company option is higher by K8,717 (K1,051726 – K1,043,009).

SOLUTION FOUR

(a) The amount of presumptive tax payable for tax year 2025
Mulele is engaged in public transportation business for the carriage of persons. Therefore, he will be required to pay presumptive tax for transporters. This tax is payable quarterly depending on the seatting capacity of the motor vehicle.

	K
Toyota Mini Bus	
(K1,296 x 2 quarters)	2,592
Rosa Bus	
(K1,944 x 3 quarters)	5,832
Total tax payable	8,424

(b) The following are the benefits of presumptive tax:

(1) Simplified process

The process of dealing with presumptive taxes has been simplified since there is no need to file tax returns or keep proper accounting records.

(2) Cash flow friendly

Presumptive taxes for transporters are cash flow friendly because the tax is paid quarterly as opposed to paying the whole amount of tax at once.
(3) No need for professional consultancy services

Presumptive taxes are straightforward as the amount of tax payable is predictable. As a result there is no need engage professional consultants to determine the amount of tax payable.

(4) Equity

There are no free riders under presumptive taxes as all the operators are required to pay their tax depending on the seatting capacity of the motor vehicle.

(c) Mervis Mulele

Mervis is a sole trader whose annual turnover for the year ended 31 December 2025 amounted to K624,000 (K52,000 x 12).

The annual sales of K624,000 is less than K5,000,000 threshold. Therefore, she will be required to pay turnover tax for the tax year 2025.

The amount of monthly turnover tax payable for the tax year 2025 is:

	K
First K1,000 @0%	0
Excess (K52,000 – K1,000) @5%	2,550
Monthly turnover tax	2,550

The total tax payable for the tax year 2025 is: (K2,550 x 12) = K30,600

(d) Vaison Banda

Vaison will be required to pay rental income tax as his income constitutes income from letting of property.

The amount of rental income tax payable for the tax year 2025 will be:

	K
Residential flats (K4,200 x 10 x 12)	504,000
Office suites (K10,400 x 6 x 9)	561,600
Shops (K7,900 x 8 x 8)	505,600
Gross rental income	1,571,200

Rental Income Tax	
First K12,000 x 0%	0
Next (K800,000 – K12,000) x 4%	31,520
Excess (K1,571,200 – K800,000) x 16%	123,392
Total tax payable	154,642

The rental income tax is payable monthly not later than 14^{th} day of the following month.

The monthly rental income tax paid is: (K154,642/12) =	K12,887

END OF SUGGESTED SOLUTIONS

Zambia Institute of Chartered Accountants

TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D5: INTERNATIONAL TAXATION

THRUSDAY 11 DECEMBER 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.

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

	Aged 2 to 5 years		Aged over 5 years	
Motor vehicles for the transport of ten or more persons, including the driver	**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**	
Motor vehicles for the transport of goods	**Customs duty**	**Excise duty**	**Customs duty**	**Excise duty**
	K	K	K	K
Single cab				
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	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:

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

   Customs Duty:

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

   Excise Duty:

   Percentage of Value for Duty Purposes for Excise Duty Purposes

Cylinder capacity of 1500 cc and less	20%
Cylinder Capacity of more than 1500 cc	30%

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

   Customs Duty

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

	Excise Duty:	
	Percentage of Value for Duty Purposes for Excise Duty Purposes	10%
3.	**Buses/coaches for the transport of more than ten persons**	
	Customs Duty:	
	Percentage of Value for Duty Purposes	15%
	Minimum Specific Customs Duty	K6,000
	Excise Duty:	
	Percentage of Value for Duty Purposes for Excise Duty Purposes	
	Seating Capacity of 16 persons and less	25%
	Seating Capacity of 16 persons and more	0%
4.	**Trucks/lorries with gross weight exceeding 20 tonnes**	
	Customs Duty:	
	Percentage of Value for Duty Purposes	15%
	Excise Duty:	
	Percentage of Value for Duty Purposes for Excise Duty Purposes	0%

Attempt all FOUR (4) questions.

QUESTION ONE

You are employed in a firm of Chartered Accountants as a Tax Consultant. You are dealing with the tax affairs of the following clients:

Mr Joseph Phiri

Mr. Joseph Phiri was recently appointed by the Government of the Republic of Zambia as a business consultant at the Zambian Embassy in the country known as the United States of PlainLand (USP). He is seeking an explanation of the tax treatment of foreign missions.

Mrs Angelina Phiri

Mrs Angelina Phiri, (Joseph Phiri's wife) is employed by Muchinga Copper Mines (MCM) Limited as a Managing Director at an annual basic salary of K516,000. She is also paid an annual general purpose allowance of 15% of her basic salary. She is accommodated in a company owned house for which she pays no rent. The market rate rentals of the house averaged K28,000 per month during the year ended 31 December 2025. During the year ended 31 December 2025, the company paid utility expenses and security fees amounting to K2,900 per month and K3,100 per month respectively in connection with the house. The amount of income tax deducted from her emoluments under the pay as you earn system amounted to K146,700 during the year ended 31 December 2025.

She holds investments in shares and bonds of companies resident in the foreign country. During the year ended 31 December 2025, she received dividends amounting to K122,850 from foreign companies and interest on bonds amounting to K164,800 from investments in foreign bonds. The dividends are net of withholding tax deducted in a foreign country at a rate of 35% while interest is net of withholding tax deducted in the foreign country at rate of 20%.

In addition to the dividends and interest on bonds, she also received rental income of K348,500 from a property situated in a foreign country. The rental income is net of withholding tax deducted in a foreign country at a rate of 15%.

There is no double taxation convention between Zambia and the country from which Angelina received the income. Any double taxation is given unilaterally in Zambia under unilateral credit relief.

Required:

(a) Explain the tax treatment of foreign missions. (3 marks)

(b) Explain any five (5) key benefits of double taxation agreements (DTAs). (5 marks)

(c) Explain any two (2) methods of giving double taxation relief in Zambia. (4 marks)

(d) Calculate the income tax payable by Angelina for the tax year 2025. (13 marks)

[Total: 25 Marks]

QUESTION TWO

(a) A regional economic grouping is a group of individual countries in a sub region that come together for the purposes of achieving greater economic integration. Many advocates of free trade are against economic groupings as they believe that these groupings only encourage regional as opposed to global trade.

Required:

(i) Explain any four (4) disadvantages of regional economic groupings. (8 marks)

(ii) Explain any four (4) risks of globalization on the individual countries' economies. (8 marks)

(b) Foreign Direct Investment (FDI) is the investment made by a multinational enterprise in a foreign country. This can either be inward foreign direct investment where a foreign multinational company invests in Zambia or outward foreign direct investment where a Zambian multinational company invests in a foreign country.

Required:

(i) Explain any five (5) reasons for making foreign direct investment by a multinational enterprise. (5 marks)

(ii) State any four (4) methods of foreign direct investment that can be used by a multinational enterprise. (4 marks)

[Total: 25 Marks]

QUESTION THREE

International tax avoidance can be perpetrated by various means which may include money laundering activities, presence of tax havens and transfer pricing loopholes. This being the case, measures are taken at a global level to identify tax havens, to legislate against money laundering activities and to ensure that there is co-operation between revenue authorities in various tax jurisdictions.

Required:

(a) Explain any four (4) factors or practices which can be used to identify tax havens according to the OECD. (8 marks)

(b) Explain the difference between tax evasion and tax avoidance. (3 marks)

(c) Explain any three (3) main co-operation models that can be adopted by tax authorities. (6 marks)

(d) Explain any four (4) recommendations national governments can implement to combat money laundering according to the Financial Action Task Force (FATF). (8 marks)

[Total: 25 Marks]

QUESTION FOUR

(a) The Organisation for Economic Co-operation and Development (OECD) is a body established to assist businesses and governments in avoiding double taxation and to prevent tax evasion. The OECD Model of international taxation is applied to companies that are classified as Permanent Establishments, and it emphasizes that Border Tax Adjustments (BTAs) put into effect the destination principle in whole or in part. The Model Double Taxation Convention also highlights the treatment of estates and inheritances.

Required:

(i) Explain the meaning of a Permanent Establishment, describing what constitutes a Permanent Establishment. (4 marks)

(ii) Explain the difference between origin principle and destination principle as they apply in international indirect taxes. (4 marks)

(iii) Describe the nature of taxes on estates, inheritances or gifts. (4 marks)

(b) A cross border merger gives rise to tax concerns including the issue of whether the cross border merger gives rise to a charge on capital gains, property transfer tax and company income tax.

Required:

(i) Explain the three (3) main ways in which a cross border merger can be effected. (6 marks)

(ii) Explain two (2) benefits of a cross border merger. (2 marks)

(c) Zambian income tax is charged on the income of persons resident in Zambia regardless of where the source of income is. Determining the residence status of the recipient of income is important in international taxation.

Required:

(i) Explain the income tax treatment of domestic investment income received by non-residents. (3 marks)

(ii) Explain the income tax treatment of foreign investment income received by Zambian residents. (2 marks)

[Total: 25 Marks]

END OF PAPER

D5 INTERNATIONAL TAXATION

SUGGESTED SOLUTIONS

SOLUTTION ONE

(a) Tax treatment of foreign missions

Foreign Office responsibilities include the Diplomatic Tax Exemption Program, which provides sales and use, occupancy, food, airline, gas and utility tax exemptions to eligible foreign officials on assignment in a foreign country.

Tax exemption privileges for foreign diplomats, consular officers, and staff members are generally based on two treaties; the Vienna Convention on Diplomatic Relations and the Vienna Convention on Consular Relations.

Not all foreign missions and their personnel are entitled to tax exemption, because the privilege is based on reciprocity and not all foreign countries grant such tax exemption to foreign embassies and their personnel.

(b) The following are the benefits of doble taxation agreements:

(1) Protect against the risk of double taxation where the same income is taxed in two states. This could present a "huge" burden on the taxpayers and effectively work against the promotion of globalisation and its resulting benefits.

(2) Provide certainty of treatment for cross –border trade and investment. Certainty is one of the good qualities of a good tax system. Taxes should be certain. If tax rules are are complex, they can be subverted and evaded.
Prevent excessive foreign taxation and other forms of discrimination against business interests abroad. This could have an adverse impact on economic performance of the respective countries.

(3) Protect the government's taxing rights and protect against attempts to avoid or evade tax. Aggressive tax avoidance and/or tax evasion could result in significant reduction in tax revenues. This could result in reduced service delivery, in key sectors of the economy, by the government.

(4) They also contain provisions for the exchange of information between national taxation authorities. This could boost tax revenue and impact positively on the respective economies.

(5) They seek to encourage and maintain international consensus on cross-border economic activity and promote international trade and investment.

(c) The methods used to give double taxatio0n relief in Zambia are:

(1) Treaty relief

This is the relief given when there is an agreement between two or more states on how income earned in one state will be treated for tax purposes when remitted in the other state and vice veca. Double taxation relief to be given is in accordance with the provisions of the treaty.

(2) Unilateral credit relief is the relief that is given unilaterally in Zambia when there is no treaty relief. The relief is inform of tax credit against the Zambian income tax on foreign income. The relief to be given is the lower of the foreign tax paid and the equivalent Zambian tax on foreign income.

(3) Unilateral expense relief is the relief given when there is no treaty relief nor unilateral credit relief. The doble taxation relief is given by treating the foreign tax paid as an allowable deduction when computing the Zambian income tax on foreign income.

(d) ANGELINA'S

PERSONAL INCOME TAX INCOME TAX COMPUTATION FOR THE TAX YEAR 2025

Zambian income	K	K
Basic salary		516,000
General purpose allowance		
(K516,000 x 15%)		77,400
Utility expenses (K2,900 x 12)		34,800
Security fees (K3,100 x 12)		37,200
		665,400
Foreign income		
Dividends (K122,850 x 100/65)	189,000	
Interest (K164,800 x 100/80)	206,000	
		395,000
Taxable income		1,060,400

Computation	
First K61,200 x 0%	0
Next K24,000 x 20%	4,800
Next K25,200 x 30%	7,560
Excess (K1,060,400 – K110,400) x 37%	351,500
Income tax liability	363,860

Less:		
Pay as you earn	146,700	
Double taxation relief:		
Dividends (W1)	64,852	
Interest (W2)	41,200	
		(252,752)
Income tax payable		111,108

Workings

(1) Double taxation on dividends

Foreign tax paid: K189,000 x 35% = K66,150

Equivalent Zambian tax

$\frac{\text{Gross foreign income}}{\text{Total assessable income}}$ x Zambian tax charge

$\frac{K189,000}{K1,060,400}$ x K363,860

= K64,852

The double taxation relief is therefore K64,852 which is the lower.

(2) Double taxation relief on interest

Foreign tax paid: K206,000 x 20% = K41,200

Equivalent Zambian tax charge

$\frac{K206,000}{K1,060,400}$ x K363,860

= K70,686

The double taxation relief is therefore K41,200 which is the lower.

SOLUTION TWO

(a) Economic regional grouping and globalization

(i) The following are the disadvantages of economic regional grouping:

(1) Regionalism vs. Multinationalism: Economic groupings bear an inherent bias in favour of their participating countries. Regional economies, through establishment of tariffs and quotas, protect intra-regional trade from outside forces rather than pursuing a global trading regime within the regional economic group which includes the majority of the world countries, regional economic bloc countries contribute to regionalism rather global integration.

(2) Loss of Sovereignty: An economic grouping, particularly when it is coupled by a political union, is likely to lead to at least partial loss of sovereignty for its participants. For example, the European Union, started as a trading bloc in 1957 by the Treaty of Rome, has transformed itself into a far reaching political organization that deals not only with trade matters, but also with human rights, consumer protection, greenhouse gas emissions and other issues only marginally related to trade.

(3) Concessions: No country wants to let foreign firms gain domestic market share at the expense of local companies without getting something in return. Any country that wants to join a regional economic grouping must be prepared to make concessions. For example, in economic groupings that involve developed and developing countries, such as bilateral agreements between EU and African countries, the latter may have to allow multinational corporations to enter their home markets, making some local firms uncompetitive.

(4) Interdependence: Because economic groupings increase trade among participating countries, the countries become increasingly dependent on each other. A disruption of trade within an economic grouping as a result of a natural disaster, conflict or revolution may have severe consequences for the economies of all participating countries.

(ii) The following are the risks of globalization:

(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. 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.

(b) Foreign direct investment

(i) The following are the reasons of making a Foreign Direct Investment:

(1) Firms will engage in Foreign Direct Investment either to meet local demand or as a way of exporting to markets other than the home market.
(2) Raw material seeking which means that firms will extract materials in the places where they can be found, whether for export or for further processing and sale in the host country.
(3) Production efficiency seeking which involves locating production where one or more factors of production are cheap relative to their productivity.
(4) Knowledge seeking; firms choose to set up operations in countries in which they can gain access to technology or management expertise.
(5) Political safety seeking; firms which are seeking political safety will require or set up operations in those countries which are thought to be unlikely to expropriate or interfere with private enterprise.

(ii) The following are the methods of foreign direct investment:

(1) Incorporating a wholly owned subsidiary or company anywhere; or
(2) Acquiring shares in an associated enterprise; or
(3) Through a merger or acquisition of an unrelated enterprise; or
(4) Participating in an equity joint venture with another investor or enterprise.

SOLUTION THREE

(a) The following are the factors used to identify a tax haven:

(1) No or only nominal tax – this is the first necessary condition to identify a tax haven but it is not sufficient because a country may be competing fairly or adopting a preferential regime. This means that there is not tax or there is nominal tax on the relevant income generated in that country.

(2) Lack of effective exchange of information – tax havens usually have strict secrecy laws and other protections against scrutiny by tax authorities thereby preventing the effective exchange of information on taxpayers benefiting from low tax jurisdictions.

(3) Lack of transparency – tax havens has inadequate regulatory supervision and requirement for financial disclosure. For example the details of the regime and/or its application are not apparent.

(4) No substantial activities – tax havens have jurisdictions that facilitate the establishment of foreign owned entities without the need for local substantive presence. This is what makes it doubtful how small islands can host billions of dollars in foreign direct investment if they apparently do not have the necessary resources to yield production.

(b) Tax evasion refers to the use of illegal means to avoid paying tax by either understating income, non-disclosure of some income or overstating expenses to reduce the tax payable or other forms of fraud.

Tax avoidance on the other hand is identifying any tax loopholes in the taxes legislation in order to reduce the tax burden or defer tax liabilities. However anti-avoidance legislation aims at sealing the loopholes in the taxes legislation.

(c) The following are the co-operation models:

(1) Joint investigation teams - These enable agencies with a common interest to work together in an investigation. In addition to sharing information, this enables an investigation team to draw on a wider range of skills and experience from investigators with different backgrounds and training. Joint investigations may avoid duplication arising from parallel investigations, and increase efficiency by enabling officials from each agency to focus on different aspects of an investigation depending upon their experience and legal powers.

(2) Inter-agency intelligence centers - These are typically established to centralize processes for information gathering and analysis for a number of agencies they focus on specific geographical area or type of criminal activity or have a wider role in information sharing.

(3) Secondments and co-location of Personnel - These are an effective way of enabling skills to be transferred while allowing personnel to build contacts with their counterparts in another agency.

(4) The use of shared data bases - Dissemination of strategic intelligence products such as newsletters and intelligence briefs, joint committees to coordinate policy in areas of shared responsibility and inter agency meetings and training sessions to share information on trends in financial crime, guidance on investigative techniques and best practice in managing cases.

(d) The following are the recommendations to combat money laundering:

(1) Demand full transparency from financial institutions- To provide all information concerning their activities in offshore supervisory authorities. In this regard financial institutions must be discouraged or, if necessary prohibited from operating in territories that feature on the black list of FATF, OECD and the World Bank's SAR (Stolen money asset recovery initiative).

(2) Establish an interconnected and well integrated system of legal shareholder registries - Encompassing economic blocks and their member states, which will feature all necessary information concerning the shareholders of corporations operating within economic blocks. This registry may be complemented with a risk based index that will factor in some of the most suspicious aspects of a corporation's operations. This information on this registry should be available to authorities on demand and all corporations should be expected to provide information concerning their beneficial owner.

(3) Create a regularly updated beneficial registry - Information of this kind should either be exchanged or coordinated across member states without any obstacle, so that instances of fiscal dumping would be avoided and variances in national legislation would not offer a window of opportunity to criminals and to those who make use of legal loopholes in a manner that is sophisticated, structured and systematic, suggesting that their intention is clearly malevolent, to abuse the system rather than conduct normal operations.

(4) Strengthen the requirements on the function of corporate directors - Directors should be held accountable for failing to take reasonable steps to prevent money-laundering, this should apply regardless of whether they are nominees or not. Information of this sort should, for issues of transparency and democratic legitimacy be made publicly available to the citizens, Journalists and NGOs among others.

(5) Reconsider and reinforce the rules regarding the due diligence - Corporate registries and financial institutions should perform always on an accurate risk based approach in an attempt to verify that all information pertaining to the beneficial ownership is correct and that no margin for fraudulent or corrupt activity is allowed.

(6) Introduce requirements for enhanced due diligence - In cases where politically exposed people are identified with the option of rendering void or otherwise limiting the transaction in question.

(7) Formations of a financial intelligence unit (FIU) - Whose role shall be to monitor, assess and analyse suspicious transaction reports and contracts. This entity should operate within the context of the single supervisory mechanism that would be incorporated within the range of responsibilities of the Central Bank

SOLUTION FOUR

(a) The OECD Model of International Taxation

(i) A permanent establishment is a fixed place of business through which the business or operations of an enterprise are wholly or partly carried on.

A permanent establishment constitutes a fixed place of business such as an office, branch, a factory, a workshop, a warehouse, in relation to the person providing storage facilities for others.
It also include a mine, an oil or gas well, a quarry or any other place of extraction of natural resources and an installation or structure used for the exploration of natural resources.

(ii) The origin principle for indirect taxes states that internationally traded commodities are taxed at tax rates prevailing in the country where goods are produced, and this is the country receiving the tax revenue. This means that under this principle exports are taxed while imports are exempted from tax.

On the other hand, destination principle states 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. This means that exports are exempted from tax while imports are taxed.

(iii) Taxes on estates, inheritances or gifts are taxes imposed on transfers of property by reason of death, on the one hand, and taxes on transfers for no, or less than full, consideration.

The most straightforward common feature of taxes on estates, inheritances and gifts is that they are levied upon the transfer of property to heirs, donees, legatees or other beneficiaries.

(b) Cross border merger

(i) The following are the ways in which a cross border merger can be effected:

(1) Merger by absorption – this is when an existing company acquires all the assets and liabilities of its wholly owned subsidiary without going into liquidation. The subsidiary transfers all its assets and liabilities to the parent company.

(2) Merger by acquisition – this is when a company acquires all the assets and liabilities of another company in exchange for the issue shares. The acquiring company issues shares and/or other securities to the shareholders of the transferor company, with or without any cash payment.

(3) Merger by formation of a new company – this is when two or more companies transfer all their assets and liabilities to a new company that they form in exchange for the issue of shares, representing the capital of the new company, to the shareholders of the transferor companies.

(ii) The following are the benefits of the cross border merger:

(1) Liquidation is avoided as the transferor company will be dissolved automatically once the merger is effected, thereby providing significant cost savings.
(2) The assets and liabilities of the transferor companies transfer automatically by operation of law, thereby eliminating the need for any additional documentation.

(c) Tax treatment of domestic investment income and foreign investment income

(i) Domestic investment income received by non-residents

In the case of investment income (For example dividends, interest and royalties) paid to non-residents, domestic law usually provides for flat-rate final withholding tax on the gross amount if they are sourced in the country and not attributable to a permanent establishment. The tax rate on investment income is typically set at 20 - 30 percent in developing and transition countries and then is often reduced to 10- 20 percent in tax treaties.

In Zambia, investment income earned by non-residents is subjected to withholding tax of 20% which is the final tax.

(ii) Foreign investment income received by Zambian residents

Zambian residents with investments situated in a foreign country normally receives investment income inform of rental income, interest, royalties and dividends. The residency principle of taxation requires worldwide income received by residents to be subjected to Zambian income tax.

Therefore, foreign investment income received by Zambian residents is subjected to Zambian income tax, unless specifically exempted, subject to any double taxation relief.

END OF SUGGESTED SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D6: TAX AUDIT AND INVESTIGATIONS

MONDAY 8 DECEMBER 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 (20) 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**	**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

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

	Aged 2 to 5 years		**Aged over 5 years**	
Motor vehicles for the transport of ten or more persons, including the driver	**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**	
Motor vehicles for the transport of goods	**Customs duty**	**Excise duty**	**Customs duty**	**Excise duty**
	K	K	K	K
Single cab				
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	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:

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%

All FOUR (4) questions are compulsory and MUST be attempted.

QUESTION ONE

(a) The YZ Group comprises Entity Y and its 100% owned subsidiary, Entity Z. Entity Y is a Zambian resident company which manufactures and sells tyres, some of which are sold to its subsidiary, Entity Z, which is resident in a foreign country known as Southenia. Enity Z assembles and sells bicycles.

In December 2025 Entity Y sold tyres to Entity Z at a price of K300,000. The same tyres had a market value of K800,000 at the time.

The company income tax rate on profits in Southenia is 25%.

Required:

(i) Explain the meaning of a transfer price and give the reasons why this may differ from the market price of goods transferred. (4 marks)

(ii) Discuss the tax consequences of the sale of goods by Entity Y to Entity Z for each individual company in the group and for the YZ Group as a whole. (8 marks)

(iii) Explain five (5) important matters the auditor should evaluate when developing the audit strategy and an audit plan for a tax audit of a company's financial. statements. (5 marks)

(b) Briefly explain the nature each one of the following finance options for capital assets and the tax treatment of each option:

(i) Operating lease. (2 marks)

(ii) Finance lease. (2 marks)

(c) Explain the main objectives which a quality tax Audit should achieve. (4 marks)

[Total: 25 Marks]

QUESTION TWO

(a) Zulu is an agent of More Units Company Limited. He has 50 More Units booths across the country where he both sells airtime as well as mobile transactions. Zulu has been considered to be one of the most reliable agents by More Units Company and as a result, the agent is given 15% discount on airtime bought once a month each time he purchases airtime in that month.

Required:

(i) Explain the reasons for giving discounts and briefly discuss the tax effects of discount given to Zulu by More Units Company. (6 marks)

(ii) Discuss the need by the Revenue Authority's auditor to examine the accounts of the taxpayer and the responsibility of the taxpayer concerning accounts maintenance. (6 marks)

(iii) Briefly explain why a tax auditor would use the risk-based approach when choosing the investigation Approach. (4 marks)

(iv) Discuss the key elements of the legal framework that may be useful to the Zambia Revenue Authority as it relates to the audit function. (5 marks)

(b) The Zambia Revenue Authority has an audit function unit which supports the objectives of the overall mission of the Zambia Revenue Authority.

Required:

Explain the role of the tax audit function unit in the operations of the Zambia Revenue Authority. (4 marks)

[Total: 25 Marks]

QUESTION THREE

The Zambia Revenue Authority (ZRA) was established by an Act of Parliament and is empowered to collect and administer taxes on behalf of the Government of the Republic of Zambia. The main types of taxes administered by the ZRA are direct and indirect taxes.

Periodically ZRA officers are sent to inspect business entities after a detailed audit strategy and audit plan has been drawn up. After a tax audit has been conducted, an evaluation of whether certain important matters in the company's financial statements and internal controls over the entity have been assessed.

The auditors design a tax payers audit programme and the tax audit team abides by the best practice when conducting a tax audit as recommended by the Organisation for Economic Cooperation and Development (OECD). The OECD has developed models that have been adopted by member countries through their respective revenue authorities so that the tax audit meets the highest level of expectation of both ZRA and the tax payers. One way of ensuring a proper management of the tax audit, is to put in place an audit team comprising audit supervisor and team leaders that are tasked to perform specific roles during the audit.

Required:

(a) (i) State five (5) different types of audit activities and explain circumstances applicable for each type of audit activity. (5 marks)

(ii) Explain how loans to effective shareholders are treated for the purposes of taxation. (3 marks)

(b) Explain five (5) indirect methods that enable the tax auditor to verify income in the financial statement of a tax payer. (8 marks)

(c) Explain four (4) roles of team leaders during a tax audit investigation. (4 marks)

(d) State five (5) factors that can attract sanctions from the OECD guidelines for non-compliance. (5 marks)

[Total: 25 Marks]

QUESTION FOUR

Zent Copper Mines Plc., is a company listed on the London stock Exchange. In order to increase its mining activities in Zambia, it acquired three (3) more mines, one in Chambishi and two (2) others in Kitwe. The company maintains its financial statements in the United States Dollar (USD).

The following information has been extracted from the company's financial statements for the year ended 31 December 2025:

(1) Tax adjusted mining profit for the year ended 31 December 2025 before capital allowances was K120,000,000.
(2) Mining equipment imported last year and paid for in US dollars translated into Zambian Kwacha costing K48,000,000.
(3) Unrelieved Mining losses brought forward at 1 January 2025 were K6,420,000.

Zent Copper mines has been declaring tax losses for a number of years. During the year, the company received copper concentrates for use in the smelter from its subsidiary based in Country B at a price considered below its market value.

There is a dispute between the ZRA and Zent Copper Mines Plc regarding a tax assessment made by the ZRA on the company in the previous tax year which has not yet been resolved.

The newly employed accountant of Zent Copper Mines Plc has never worked in the mines and consequently failed to classify mining expenditure appropriately into capital and revenue expenditure for tax purposes.

During an Annual General Meeting (AGM), one of the board members had proposed that the company should issue preference shares in order to increase its share capital. However, he was not sure of specific advantages that preference shares have over ordinary shares.

The Tax audit and Investigations department of the Zambia Revenue Authority (ZRA) had written Zent Copper Mines Plc. that it was considering a visit to the company in order to conduct a tax audit and investigation into its financial activities. The Tax Auditors will also consider financial information regarding business dealings with third parties of the tax payer.

Other information:

(1) The indexation formula is given below:

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

(2) The average BOZ mid exchange rates for 2024 and 2025 were as follows:

2024: K18.45/US$1

2025: K21.20/USD$1

Required:

(a) Explain five (5) reasons why Zent Copper Mines Plc. was being considered for a tax audit and investigation by ZRA. (5 marks)

(b) Calculate the final taxable mining profit and the company tax payable by Zent Copper Mines Plc for the tax year 2025. (6 marks)

(c) Explain to the Board Member, any five (5) advantages of issuing preference shares other than ordinary shares. (5 marks)

(d) Explain the risk assessment procedure and explain the three (3) components. (6 marks)

(e) Explain three (3) types of information that the Tax Auditor would request from third parties that conduct business with the tax payer. (3 marks)

[Total: 25 Marks]

END OF PAPER

D6 TAX AUDIT & INVESTIGATIONS

SUGGESED SOLUTIONS

SOLUTION ONE

(a) (i) The differentiate Transfer pricing and Market Price

(1) A transfer price arises for accounting purposes when related parties, such as divisions within a company or a company and its subsidiary, report their own profits.
(2) When these related parties are required to transact with each other, a transfer price is used to determine costs.
(3) Market price on the other hand, is the price of a commodity or service prevailing on the market.
(4) Transfer prices generally do not differ much from the market price. If the price does differ, then one of the entities is at a disadvantage and would ultimately start buying from the market to get a better price.
(5) Regulations on transfer pricing ensure the fairness and accuracy of transfer pricing among related entities.
(6) Regulations enforce an arm's length transaction rule that states that companies must establish pricing based on similar transactions done between unrelated parties. It is closely monitored within a company's financial reporting.
(7) Transfer pricing requires strict documentation that is included in the footnotes to the financial statements for review by auditors, regulators, and investors.
(8) This documentation is closely scrutinized. If inappropriately documented, it can burden the company with added taxation or restatement fees.
(9) These prices are closely checked for accuracy to ensure that profits are booked appropriately within arm's length pricing methods and associated taxes are paid accordingly.

(ii) Tax consequences of the transactions

If a business transaction between an enterprise and a related party does not comply with the arm's length principle, thus reducing the taxable income or revenue of the enterprise or related party,the tax authorities shall be empowered to make adjustments using reasonable methods.

Tax implications for Entity Y

If entity Y offers entity Z a rate lower than market value(sold for K300,000), This will mean that entity A's sales value will be lower than would have been if the goods were sold at market value. This will consequently, reduce profit for entity Y and that will mean the company will pay less tax in Zambia.

Tax implications for Entity Z

Entity Z will have a lower cost of goods sold and as a result will have higher profit. This means entity B will shift more profit in Southenia as the rate of tax in Southenia lower than in Zambia to minimize tax obligations.

Tax implications for the YZ Group as a whole
Entity Y is in a high tax country, while entity Z is in a low tax country. It would benefit the YZ group as a whole for more of the Company Y's profits to appear in entity Z's division, where the company will pay lower taxes. Companies will attempt to shift a major part of such economic activity to low-cost destinations to save on taxes.

(iii) Five (5) important matters the auditor should evaluate when developing the audit strategy and audit plan to Company's financial statements.

(1) Knowledge of the company's internal control over financial reporting obtained during other engagements performed by auditors
(2) Matters affecting the industry in which the company operates, such as financial reporting practice relating to the company s, economic conditions, laws and regulations, and technology changes.
(3) Matters relating to the company's business, including its organization, operating characteristics, and capital structure.
(4) The extent of recent changes, if any, in the company ,its operations, or its internal control over financial reporting.
(5) The auditor's preliminary judgements about materiality, risk, and, in integrated audits, other factors relating to the determination of material weaknesses.
(6) Control deficiencies previously communicated to the audit committee or management
(7) Legal or regulatory matters that the company is aware of.

(b) The following are the explanations and their tax treatments:

(i) Operating Lease;

An operating lease is an agreement similar to a typical rental agreement on a real property where the lessee has the right to use the asset in return for lease rentals over the lease term. However, the legal ownership of the leased asset remains with the lessor, and therefore, the lessor is entitled to claim capital allowances on the same leased asset. The lessor is also responsible for maintenance and insurance of the asset and those expenses are generally tax allowable/deductible. Lease rentals are fully tax deductible and VAT is claimable for the lessee.

(ii) Finance Lease.

Finance lease is an arrangement where all the risks and rewards of ownership are substantially transferred to the lessee. The lessee is responsible for maintenance and insurance of the leased asset. The costs incurred by the lessee on the leased asset are all allowable for tax purposes. In addition the lessee claims capital allowances. The lessee claims the input VAT on the cost of the leased asset. The interest income is taxable on the lessor.

(c) A quality Tax Audit should achieve the following objective:

(1) The taxpayers accounts and records have been reviewed in sufficient depth to reach a supportable conclusion regarding all items of a material tax consequence.
(2) The appropriate income tests have been performed where necessary to ensure the proper and complete reporting of income regardless of the source.
(3) That the responsibility of the taxpayer regarding the filling of all tax returns have been ascertained.
(4) That the conclusions expressed are documented in sufficient details to enable the reader to comprehend the process thereby such a conclusion was reached.

SOLUTION TWO

(a) (i) Discuss the tax consequences of discount given to Zulu by the More Units Company

(1) A discount is an allowance given for either prompt payment or buying in bulk or indeed fulfilling any other terms of an agreement between trading parties.
(2) Therefore, the discount will be a reduction in the amount of sales that the airtime manufacturer would record in his books over a given financial period.
(3) When More Units company prepares the income statement the discount given to Mr Zulu is deducted as discount allowed which reduces the profit thus,it is a deductible expense.

(ii) The need by ZRA to examine the accounts of the taxpayer and the responsibility of the taxpayer concerning accounts maintenance.

(1) The primary focus of a tax auditor in examining the accounts of the taxpayer is to accumulate evidence in order to reach conclusions about whether or not the taxpayer has declared the correct tax liability to the revenue body after which they would issue an appropriate audit report.

(2) If the auditor believes that the financial statements are not fairly presented or is unable to reach a conclusion because of insufficient evidence, the tax auditor has the responsibility of notifying the taxpayer through the audit report and indicate that adjustments should be done to the affected tax return and possible sanctions that will arise therefrom.

(3) The Responsibility for accurate books and records and making fair representations in the financial statements rests with the taxpayer rather than the return preparer. This is because the they are involved in daily operations of the business. The auditors' knowledge of maintaining book of accounts for the taxpayer is limited.

(iii) Reasons for the using the risk based approach

(1) Risk based auditing refers to the development of auditing techniques which are responsive to risk factors in a taxpayer's business environment.
(2) The auditor applies judgement to determine what level of risk pertains to different areas of a client's system and devises appropriate audit tests.
(3) The tax auditor would choose the approach as it ensures that the greatest audit effort is directed at the riskiest areas.
(4) This improves chances of detecting errors and time is not spent on unnecessary testing of safe areas.

(iv) The Key elements of a legal framework as it relates to the audit function are:

(1) Taxpayer's record keeping obligation
(2) Giving tax officials access to taxpayer's books and records
(3) Giving tax officials access to third party information sources
(4) Obtaining information from other countries revenue bodies
(5) Powers of revenue bodies to amend returns, and
(6) Sanctions for non-compliance.

(b) The audit function plays an essential and integral role because:

(1) Audits are the primary treatment for those taxpayers that resist administrative efforts aimed at taxpayer's voluntarily reporting of all their tax liability.

(2) Audits and associated sanctions serve to remind taxpayers of the risks associated with the deliberate non-reporting of liabilities, and in so doing may increase confidence across the broader population that deliberate non-compliance is being appropriately dealt with.

(3) Data gathered from the audit activities is an important contributor to increasing awareness and assessment of compliance risks, which is essencial to devising of appropriate treatment actions by revenue bodies.

(4) To instil the highest degree of public confidence in the tax system's integrity, fairness, and efficiency.

SOLUTION THREE

(a) (i) Types of audit activities and explain circumstances when the Revenue Authority would go for each audit stated.

(1) **A full audit**- This is a type of an audit, which encompass all audit issues. It is a comprehensive examination of all information relevant to the calculation of a taxpayer's tax liability for a given period. It is suitable in situations when the auditor wants to determine the correct tax liability for a tax return as a whole.

(2) **Limited scope audit** or(**issue based audit**)- These are confined to specific issue key potential issues on tax return and/or a particular tax scheme arrangement employed by the tax payer. This audit is suitable in situations where the auditor would want to examine key potential risk areas of non-compliance .They consume relatively few resources than full audits and allow for an increased coverage of the taxpayer's population.

(3) **Single-issue audit**- These are confined to one potential non-compliance that may have arisen from an examination of the taxpayer's return. Given there narrow scope, single issue audits are suitable in circumstances where the auditor does not have much adequate time to perform and review large numbers such cases.

(4) **Deregistration audits**- These audits are conducted and suitable in circumstances when a business is pending deregistration from being a VAT registered supplier. The aim is to establish the final tax liability/refund position.

(5) **Education audits** – These are audits that are normally done in situations when there is a major change in the tax law that is complex.

(ii) For the purposes of taxation, explain how Loans to effective shareholders are treated.

(1) If the company makes a loan to a shareholder, the company must make a payment to the tax authority if the loan is not repaid within nine months of the end of the accounting period.
(2) The amount of corporation tax depends on what the obtaining rate in each jurisdiction .
(3) For instance, the Zambian Income Tax Act provides for taxation of loans to effective shareholder as the difference between the grossed up equivalent of the and the actual loan.

(b) The five (5) indirect methods of verifying Income.

(i) **Mark –up method**-it produces a reconstruction of income based on the use of percentages or ratios that are considered typical of the business in order to make the actual determination of the tax liability. It consist of an analysis of sales and /or cost of sales and an application of appropriate percentage of mark up to arrive at the tax payer's gross receipts. It is a method that overcomes the weaknesses of the bank deposit and cash expenditure method, source and application of funds methods method, and Net worth Method.

(ii) **Unit and volume method** - in many instances gross receipts may be determined or verified by applying the sales price to the volume of business done by the tax payer. The number of units or volume of the business done by the tax payer might be determined from the tax payer's books as the records under examination maybe adequate as to cost of goods sold or expenses or may come from third parties.

(iii) **The Net Worth Method**-this is based on the theory that an increase in the tax payer's net worth during a tax year , adjusted from on-deductible expenditure and non-taxable income , must be as result of taxable income. This will involve the reconstruction of the tax payer's financial history as the Government demands to account for all assets, liabilities, non-deductible expenditure and non-taxable sources of funds during the relevant period. This is in consistent with the theory that the taxpayer's income is applied or expended on items which are either deductible or non –deductible, including increases to the tax payer's net worth through the purchase of assets and /or reduction of liabilities.

(iv) **Source and Application of Funds Method**- (also known as the T-account method) – this involves reconstruction of income to determine the actual tax liability and is an analysis of the tax payer's cash flows and comparison of all expenditure with all receipts for the period. The net increases in assets and liabilities are taken into account along with non-deductible expenditures and non-taxable receipts. The excess of expenditure over the sum of reported and non-taxable income is unreported income.

(v) **Bank deposit and cash expenditure method**-This computes income by showing what happened to the tax payer's funds. It is based on the theory that if the tax-payer receives money only two things can happen, it can either be deposited or spent. It is a method based on the assumption that:

-proof of deposit into bank account, after certain adjustments have been made for non-taxable receipts, constitutes evidence of taxable receipts.

-Outlays on the deposit return, were actually made. These outlays could only have been paid by credit card, check or cash. If outlay were paid by cash, then the source of that cash must be from a taxable source unless otherwise accounted for. It is the burden of the tax payer to demonstrate a non-taxable source for this cash.

(c) The roles of team leaders

(i) To ensure that the consistent application of delegated authority, audit standards, policy, procedures and their interpretation of the tax laws

(ii) Act as change champions and immediate leaders for organisational change and the training/development of auditors

(iii) To take a mediator's role in disputes between the tax payer and the auditor; and

(iv) Take key role in ensuring that audits are correctly carried out and evaluating the performance of the auditor.

(d) Factors that can attract sanctions under the OECDs

(i) Understatements of liability resulting from unintended errors, ignorance or misinterpretation of facts and for law,

(ii) Understatements of liability resulting from careless or reckless acts

(iii) Understatements of liability resulting from deliberate and fraudulent acts.

(iv) The failure to keep adequate records and books of accounts.

(v) The failure to supply requested information relevant to the conduct of audit inquiries and

(vi) In all countries the evasion offences can be subjected to prosecution under criminal laws and in most cases can lead to terms of imprisonment and for fines.

SOLUTION FOUR

(a) The following are the reasons why Zent Copper Plc. could be a subject of a tax audit.

(i) Enterprise making consecutive losses- consecutive losses need to be investigated in order to find if such losses are real or fictitious and consistent with the industry. In addition there is a need for a tax investigation as the company maybe engaged in a tax avoidance scheme.

(ii) Enterprise with third party relationships-the company has significant relationships with other subsidiaries both in Zambia and Malawi. It is therefore possible that most of the transactions are not done at arm's length.

(iii) Transfer of concentrates –Zent Copper Plc. had received some of its concentrates from a subsidiary in Malawi into Zambia. The price of its concentrates from another subsidiary might have been made at lower price than the market one. Therefore there is a need to audit and investigate if indeed the price was based on an open market value and at arm's length.

(iv) No proper classification of expenditure-Zent Copper Plc. has not classified its expenditure into capital and revenue expenditure. This could result into overstating the expenditure and understating the profits of the business. This could also be the reason why the company had been making consecutive losses.

(v) There was an outstanding dispute between Zent Copper Mines Plc. which has been resolved .This dispute needs to be investigated so that both parties would be clear as the exact tax liability position.

(b) (i) COPUTATION OF FINAL TAXABLE PROFITS

Taxable profit before capital allowances	20,788,618
Less capital allowances (W1)	13,788,618
	7,000,000
Loss relief (W2)	(3,500,000)
Final taxable profit	3,500,000
Company income tax	
(K3.5m x 30%)	1,050,000

WORKINGS

(1) Calculating indexed capital allowances.

Capital allowances x (R2-R1)/R1 +1

Capital allowances = 20% x K60,000,000=K12, 000,000

12,000,000 X (21.20-K18.45)/18.45 +1=K13,788,617.89

(2) Calculating indexed losses (2018)

K7, 000,000 X (21.20-18.45 /18.45)+1	K8,043,360.43
Less loss relief restricted to	
(50% x K7m	3,500,000
Unrelieved loss c/f	4,543,360

(c) Advantages of issuing preference shares:

(i) Profits on ordinary preference shares do not have to be paid in a year in which the company has made losses which may not be the case if it had contracted loans. The payments on long term debt loans or debenture will have to be paid whether the company has made a profit or a loss.

(ii) Unless they are redeemable, issuing preference shares will lower the company's gearing. Redeemable preference shares are normally treated as debt when computing gearing.

(iii) The issue of preference shares does not restrict the company's borrowing power, at least in the sense that preference shares capital is not secured against assets in the business.

(iv) The non-payment of dividend does not give the preference shareholders the right to appoint a receiver, a right which is normally given to debenture holders.

(v) Preference shares do not have voting rights and therefore may not influence major decision making at the Annual General Meeting (AGM)

(d) Risk Assessment is a stage in the audit planning process where the auditor determines the likelihood or possibility of recording an inappropriate opinion on an audit as result of a misstatement in the financial documents examined. It is also part of the series of controls which are used to manage the integrity of an audit, and to determine when and how the audits should be conducted, and by who

The three components of Risk assessments are as follows:

(i) The likelihood that a material misstatement will be made in the financial documents.

(ii) The second is the risk that the misstatement will not be caught by internal controls. This is known a Control risks because the internal controls in the client system are not effective.

(iii) The third is that the misstatement will not be caught by the auditor. This is referred as a Detection risk as the auditors risk assessment procedures or the audit procedures fail to detect any material misstatements.

(e) The following three (3) type of information that tax auditors will request from third parties of the tax payer:

(i) The tax payer to provide a statement of affairs setting out all their assets and liabilities on as specific date.

(ii) Third parties such as suppliers and customers, to deliver or make available for inspection any books and records for inspections and explanations in relation to the tax payer that maybe relevant to the tax payer’s liability to tax.

(iii) Financial institutions to make available details of accounts and financial transactions, which maybe material in determine the tax payer’s liability,

END OF SUGGESTED SOLUTIONS