



POST GRADUATE DIPLOMA IN TAXATION EXAMINATIONS

PGDT1: FINANCIAL ACCOUNTING AND REPORTING

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. You will be told when to start writing.
2. This paper is divided into TWO (2) sections:

Section A: ONE (1) **Compulsory** scenario question.
Section B: FOUR (4) Optional questions. Attempt any THREE (3) questions.
3. Enter your student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

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

SECTION A

This question is compulsory and MUST be attempted.

QUESTION ONE – (COMPULSORY)

Skyline is an international firm specialized in the manufacture and distribution of household goods globally. The company is preparing for the Annual General Meeting (AGM) and you have been presented with the following trial balance for the preparation of the year-end financial statements:

Skyline's trial balance as at 30th September 2025

	K'000	K'000
Land and buildings- at valuation 1 October 2024	325,000	
Plant (owned) - at cost	320,000	
Accumulated depreciation of plant at 1 October 2024		80,000
Financial assets at fair value through profit or loss	66,250	
Investment income		5,500
Cost of sales	223,000	
Distribution costs	27,500	
Administration expenses	31,250	
Interest paid on 2% loan note	4,000	
Inventories at 30 September 2025	94,750	
Current tax		1,000
Trade receivables	87,750	
Revenue		451,000
Equity shares of 50 ngwee each fully paid		187,500
Retained earnings at 1 October 2024		101,250
Equity interim dividends paid	37,500	
Revaluation surplus (arising from land and buildings)		35,000
2% Loan note (2027)		200,000
Trade payables		107,550
Deferred tax		28,000
Share premium		22,500
Brand name at cost	20,000	
Accumulated amortization		6,000

Lease payment	1,800	
Bank	4,700	
Suspense account	<u> -</u>	<u> 18,200</u>
	<u>1,243,500</u>	<u>1,243,500</u>

The following notes are relevant:

- (1) Skyline has a policy of revaluing its land and buildings at each year end. The valuation in the trial balance includes a land element of K75 million. The estimated remaining life of the buildings at that date (1 October 2024) was 20 years. On 30 September 2025, an independent expert valued the buildings at K280 million and land at K95 million. Depreciation on buildings is charged to administrative expenses. Ignore the effects of differed tax in relation to the revaluation exercise above.

All owned plant is depreciated at 12½% per annum using the reducing balance method and depreciation is charged to cost of sales. No non-current assets were sold during the year.

- (2) The financial assets are investments in equity instruments held at fair value through profit or loss. Their fair value at 30 September 2025 was K67.75 million.
- (3) The balance of current tax in the trial balance represents the under/over provision of the previous year's estimate. The estimated current tax charge for the year ended 30 September 2025 is K46.75 million. At 30 September 2025, there was K100 million of taxable temporary differences arising from items charged to profit or loss. The income tax rate for Skyline is 30%.
- (4) The 2% loan note was issued on 1 April 2025 under terms that provide for a large premium on redemption in 2027. The finance department has calculated that the effective interest expense for the period should be K6 million.
- (5) Included in Skyline's revenue is K9.75 million of credit sales made on a consignment arrangement. Skyline had applied a markup on cost of 30% on these sales and treated them as normal credit sale. Skyline retains control of the goods until they are sold to the final consumer. At 30 September 2025, no goods were sold to the final consumer.
- (6) Shortly after the reporting date, Skyline received communication from its Lawyers regarding new developments in the case in which a foreign client was seeking compensation from Skyline for the losses they suffered because of Skyline's negligence in the distribution of household goods. The client seeks compensation of \$250. The lawyers confirmed that it was probable Skyline would compensate the client the damages being claimed. The exchange rate on 30 September 2025 was K24: \$1
- (7) On 1 October 2024, Skyline acquired an item of machinery under a four-year lease contract. Under the terms of the lease, Skyline will pay an annual rental of K1.8 million

commencing on 30 September 2025. The interest rate implicit in the lease is 10% and the present value of the future lease payments at the commencement of the lease is K5.7 million. The only aspect of the lease transaction recorded is the lease rental paid on 30 September 2025. The useful life of the leased asset is 5 years from commencement. The depreciation of the leased asset is to be charged to cost of sales.

- (8) The brand name is being amortized over its 10 years' useful life. An impairment review conducted 30 September 2025 revealed that the brand name had a value in use of K9 million and a net fair value of K8 million. At 30 September 2025, the remaining useful economic life of the brand name was adjusted to 4 years. Amortization of brand is to be charged to cost of sales.
- (9) Included in inventory at 30 September 2025 is a line of inventory that has a cost of K8 million but can only be sold for K6.5 million after modification at a cost of K0.5 million.
- (10) The suspense account represents the corresponding credit entry for cash received for a fully subscribed 14 million rights issue of equity shares made on 1 August 2025 at a price of K1.30.
- (11) Prior to the reporting date, the directors of Skyline declared a final dividend of K0.04 per share for all shares in issue at 30 September 2025. The interim dividends were paid during the year.

Required:

Prepare for Skyline:

- (a) The statement of profit or loss and other comprehensive income for the year ended 30 September 2025. (14 marks)
- (b) The statement of changes in equity for the year ended 30 September 2025. (5 marks)
- (c) The statement of financial position as at 30 September 2025. (16 marks)
- (d) Advise the directors of Skyline, what aspects of its business activities in the year to 30 September 2025 would be reported under financing activities in the statement of cash flows. (5 marks)

[Total: 40 Marks]

SECTION B

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

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

QUESTION TWO

- (a) Pimpa Plc (Pimpa) acquired 60% of the 100,000 equity shares of Lombe Ltd (Lombe) on 1 July 2025. At acquisition date, the fair value of Lombe's net assets were equal to their carrying amounts. The statements of profit or loss for the two (2) companies for the year ended 31 December 2025 are set out below:

	Pimpa Plc	Lombe Ltd
	K	K
Revenue (<i>note 1</i>)	1,020,000	480,000
Cost of sales (<i>note 1</i>)	<u>(390,000)</u>	<u>(216,000)</u>
Gross profit	630,000	264,000
Other income (<i>note 2</i>)	30,600	-
Distribution costs	(120,000)	(42,000)
Administration expenses	(138,000)	(30,000)
Finance cost	<u>(30,000)</u>	<u>(24,000)</u>
Profit before taxation	372,600	168,000
Income tax expense	<u>(78,000)</u>	<u>(48,000)</u>
Profit for the year	<u>294,600</u>	<u>120,000</u>

Additional information:

- (1) Lombe sold goods to Pimpa amounting to K30,000 in the post-acquisition period. Lombe charged a 20% mark-up on these goods and on 31 December 2025, 50% of these goods remained in the inventory of Pimpa.
- (2) Lombe paid equity dividends amounting to K36,000 on 1 December 2025. Pimpa has received and accounted for its share of the dividends as other income in its separate entity financial statements.
- (3) It is group policy to measure non-controlling interest at fair value at the date of acquisition. Goodwill arising on acquisition of Lombe suffered an impairment loss of K11,000 as revealed by an impairment exercise conducted on 31 December 2025. Impairment loss is charged to administration expenses.
- (4) Unless stated otherwise, all items of income and expenses are deemed to accrue evenly throughout the year.

Required:

Prepare Pimpa Plc's consolidated statement of profit or loss for the year ended 31 December 2025. (14 marks)

- (b) The IASB Conceptual Framework for financial reporting outlines six (6) qualitative characteristics of accounting information which underscore the qualitative value of accounting information to help address the increasing informational needs of users of general purpose accounting reports.

Required:

State the six (6) qualitative characteristics of accounting information according to the IASB's Conceptual framework. (6 marks)

[Total: 20 Marks]

QUESTION THREE

STU Ltd manufactures a wide range of building tiles that are supplied to both individual and business customers. The reporting date for STU Ltd is 31 March each year.

- (a) On 1 April 2023, STU Ltd purchased an item of machinery from its long-time supplier, DEF Ltd, for use in the manufacture of building tiles at a cost of K600,000. On the date of purchase, the machine was estimated to have a useful life span of 20 years and residual value of K10,000. STU Ltd's policy is to use the straight line method of depreciation for its non-current assets. Other costs incurred on purchase of this machinery were delivery charges of K20,000, installation of K35,000 and one (1) year maintenance costs of K15,000. As STU Ltd had been a customer of DEF Ltd for many years, a discount of 5% on the purchase price was received. On 31 March 2024, the machinery was revalued to K582,250. On this date, there was no change to the machine's total useful life. (8 marks)
- (b) The individual customers of STU Ltd mainly buy the building tiles on credit. On 1 April 2024, STU Ltd had trade receivables of K300,000. During the year to 31 March 2025, STU sales were K175,000 of which 2% were cash sales. Goods valued at K18,000 were returned by customers of which 2% related to customers who bought on cash. At 31 March 2025, STU Ltd wrote K28,000 off the receivables. (5 marks)
- (c) At 1 April 2024, STU Ltd owed Malaiti Corp K150,000 for the previous year's electricity bill and paid K620,000 for the 18 months to 30 September 2025.
- On 1 April 2024, STU Ltd further paid K90,000 for machinery insurance for the nine (9) months to 31 December 2024. The rate of insurance expense is fixed per quarter and is not expected to change in the year to 31 March 2025. (4 marks)
- (d) At 31 March 2025, STU Ltd had an outstanding legal claim in which an employee was claiming for compensation of K2 million from STU Ltd for a broken leg suffered during an inter-company sporting activity in the year. STU Ltd directors believed that it was more likely than not that the amount being claimed would have to be paid. (3 marks)

Required:

Discuss, with reference to relevant accounting concepts, treatment of the above transactions in the accounting records of STU Ltd for the year ended 31 March 2025.

[Total: 20 Marks]

QUESTION FOUR

- (a) The summarised financial statements of Parklands Plc for the year ended 31 December 2025 were as follows:

- (i) Statement of profit or loss account for the year ended 31 December 2025.

	K'000
Profit before tax	1,314
Income tax expense	<u>(372)</u>
Profit after tax	<u>942</u>

- (ii) Statements of financial position as at 31 December 2025 and 2024:

	2025 K'000	2024 K'000
Non-current assets:		
PPE at cost	3,450	3,180
Less: depreciation	<u>(1,026)</u>	<u>(672)</u>
	<u>2,424</u>	<u>2,508</u>
Current assets:		
Inventory	72	60
Receivables and prepayments	228	174
Bank	<u>1,290</u>	<u>168</u>
	<u>1,590</u>	<u>402</u>
Total assets	<u>4,014</u>	<u>2,910</u>
Equity and Liabilities		
Equity		
Share capital	1,188	1,092
Retained profit	<u>2,484</u>	<u>1,542</u>
	<u>3,672</u>	<u>2,634</u>
Current Liabilities		
Payables and accruals	36	18
Tax payable	<u>306</u>	<u>258</u>
	<u>342</u>	<u>276</u>
Total Equity and liabilities	<u>4,014</u>	<u>2,910</u>

Additional information provided:

- (1) There were no disposals of non-current assets during the year.
- (2) Parklands Plc issued additional equity shares during the year ended 31 December 2025.

Required:

Prepare Parklands Plc's statement of cash flows for the year ended 31 December 2025, using the indirect method, in accordance with IAS 7 - Statement of cash flows.

(10 marks)

- (b) Parklands Plc's details regarding prepayments and accruals for expenses and income for the year were as follows:
- (1) The company paid K3,000 per quarter as commission to sales persons during the year ended 31 December 2025. At the start and end of the year, K600 and K400 was outstanding respectively. (2½ marks)
 - (2) The company had paid for rent in advance amounting to K24,000 at 31 December 2024 and K30,000 at 31 December 2025. During the current year, rent amounting to K5,000 was paid on a monthly basis. (2½ marks)
 - (3) The company hired out one of its machines and received K9,000 during the year. Of this amount, a client had paid K1,500 per month in advance for two (2) months in respect of hire of machines in 2026. At the start of the year, K1,000 had also been received in advance from a client. (2½ marks)
 - (4) The company received its half yearly Royalties of K5,000 and K7,000 during the year 2025. At 31 December 2024, K3,000 was outstanding, while K6,000 was outstanding as at 31 December 2025. (2½ marks)

Required:

Using the information provided in part (b), above; calculate the amounts to be included in the statement of profit or loss for commission payable, rent payable, rent receivable, and royalties receivable for the year ended 31 December 2025. (10 marks)

[Total: 20 Marks]

QUESTION FIVE

- (a) The International Accounting Standards Board (IASB) is an independent organization responsible for developing and promoting high-quality, understandable, and enforceable international financial reporting standards, known as International Financial Reporting Standards (IFRSs).

Required:

Describe 'The Due Process' of the IASB's international financial reporting standard formulation. (5 marks)

- (b) Partnership is a long term commitment to do business together. Partners do not have to be based or work in the same place. However, they maintain one set of accounting records and agree to share profits and losses arising from their business operations.

Required:

Discuss any four (4) provisions of the Partnership Agreement. (4 marks)

- (c) Blue and Green are in partnership sharing profits and losses in the ratio 3:2. Their capital and current account balances on 1 January 2025 were as follows:

	Capital accounts K	Current accounts K
Blue	36,000	5,000 credit
Green	24,000	(2,000) debit

Other information as provided for in the Partnership Agreement is as follows:

- (1) The partners earn 10% on their capital account balances as interest on this investment.
- (2) Green advanced some money to the partnership in form of a loan, amounting to K50,000 on 1 April 2025. The loan is repayable by the partnership in 2027, and Green would receive interest on this loan at the rate of 10% per annum.
- (3) The partnership profit before charging the loan interest for the year ended 31 December 2025 was K110,000.
- (4) Partners made drawings during the year as follows:
Blue K25,000
Green K28,000
- (5) Interest on drawings is charged at 5% per annum on the drawings balances at year end.
- (6) Blue was to receive a salary of K8,000 per annum commencing 1 October 2025.

Required:

Prepare, for Blue and Green partnership:

- (i) The appropriation account for the year ended 31 December 2025, (6 marks)
- (ii) The partners' current accounts as at 31 December 2025. (5 marks)

[Total: 20 Marks]

END OF PAPER

PGDT 1 – FINANCIAL ACCOUNTING AND REPORTING

SUGGESTED SOLUTIONS

SOLUTION ONE

- (a) Skyline's statement of profit or loss and other comprehensive income for the year ended 30 September 2025

	K'000
Revenue (451,000 – 9,750(W11))	441,250
Cost of sales (W4)	<u>(253,925)</u>
Gross profit	187,325
Investment income (5,500+1,500 financial asset (W10))	7,000
Administrative expenses (W4)	(49,750)
Distribution costs (W4)	<u>(27,500)</u>
Operating profit	117 075
Finance costs (570 (W2) + 6,000 (W7))	<u>(6,570)</u>
Profit before tax	110,505
Income tax (W5)	<u>(47,750)</u>
Profit for the year	62,755
Other comprehensive income:	
Revaluation surplus (20,000 + 42,500 (W1))	<u>62,500</u>
Total comprehensive income	<u>125,255</u>

- (b) Skyline's statement of changes in equity for the year ended 30 September 2025

	Share Capital K'000	Share Premium K'000	Revaluation Reserve K'000	Retained Earnings K'000	Total Equity K'000
Balances b/f	187,500	22,500	35,000	101,250	346,250
New share issue (W8)	7,000	11,200			18,200
Total comprehensive income			62,500	62,755	125,255
Dividends paid (W9)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(53,060)</u>	<u>(53,060)</u>
Balances c/f	<u>194,500</u>	<u>33,700</u>	<u>97,500</u>	<u>110,945</u>	<u>436,645</u>

- (c) Skyline's statement of financial position as at 30 September 2025

	K'000
Assets	
Non-current assets:	
Property, plant and equipment (W1)	589,275
Financial asset (W10)	67,750
Intangible assets (W3)	<u>9,000</u>
Total non-current assets	<u>666,025</u>
Current assets:	
Inventory (94,750 – 2,000 (W6) + 7,500 (W11))	100,250
Receivables (87,750-9,750 (W11))	78,000
Bank	<u>4,700</u>
Total current assets	<u>182,950</u>
Total assets	<u>848,975</u>
Equity and liabilities:	
Equity shares of K0.50 each (W8)	194,500
Share premium	33,700

Revaluation surplus (W1)	97,500
Retained earnings	<u>110,945</u>
Total equity	<u>436,645</u>
Non-current liabilities:	
2% Loan note (W7)	202,000
Deferred tax (K100,000 x 30%)	30,000
Lease liability (W2)	<u>3,117</u>
Total non-current liabilities	<u>235,117</u>
Current liabilities:	
Trade payables	107,550
Provision for damages (W12)	6,000
Dividends payable (W9)	15,560
Current tax payable (W5)	46,750
Lease liability	<u>1,353</u>
Total current liabilities	<u>177,213</u>
Total equity and liabilities	<u>848,975</u>

- (d) Items to be reported under financing activities include:
- (1) Proceeds from the issue of convertible loan notes amounting to K20 million
 - (2) Dividends paid amounting to K37.5 million
 - (3) Proceeds from the issue of rights shares amounting to K18.2 million
 - (4) Lease rental paid K1.8 million
 - (5) Interest paid totaling K3,200 (K1,200+K2,000)

WORKINGS FOR SOLUTION ONE

(1) Property, plant and equipment

	Land K'000	Buildings K'000	Plant K'000	ROUA K'000	Total PPE K'000
Cost/valuation	75,000	250,000	320,000	5,700	650,700
Accumulated depreciation b/f	<u>-</u>	<u>-</u>	<u>(80,000)</u>	<u>-</u>	<u>(80,000)</u>
Carrying amount b/f	75,000	250,000	240,000	5,700	570,700
Depreciation expense:					
(250,000 ÷ 20yrs)		(12,500)			(12,500)
(12½% x 240,000)			(30,000)		(30,000)
(5,700 ÷ 4yrs)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,425)</u>	<u>(1,425)</u>
Carrying amounts c/f	75,000	237,500	210,000	4,275	526,775
Revaluation surplus	<u>20,000</u>	<u>42,500</u>	<u>-</u>	<u>-</u>	<u>62,500</u>
Carrying amount/valuation c/f	<u>95,000</u>	<u>280,000</u>	<u>210,000</u>	<u>4,275</u>	<u>589,275</u>

(2) Lease obligations

	Balance b/f K'000	Interest @ 10% K'000	Lease rental K'000	Balance c/f K'000
Year ended 30/09/2025	5,700	570	(1,800)	4,470
Year ended 30/09/2025	4,470	447	(1,800)	3,117

Non-current liability	3,117
Current liability	<u>1,353</u> (4,470 – 3,117)
	<u>4,470</u>

(3) Brand name

	K'000
Cost b/f at 1 October 2024	20,000
Less accumulated amortization	(6,000)
Amortization charge for the year (K20,000/10 years)	<u>(2,000)</u>
Carrying value at 30 September 2025	12,000
Impairment loss (balancing fig)	<u>(3,000)</u>
Recoverable amount	<u>9,000</u>

Recoverable amount is calculated as the higher of fair value less cost to sell of K8 million and value in use of K9 million. The recoverable amount is therefore K9 million.

(4) Operating expenses:

	Cost of sales K'000	Administrative K'000	Distribution K'000
Per trial balance	223,000	31,250	27,500
Brand amortization (W3)	2,000		
Brand impairment loss (W3)	3,000		
Depreciation of leased machinery (W1)	1,425		
Depreciation of buildings		12,500	
Depreciation of plant	30,000		
Provision for damages (W12)		6,000	
Cost of goods sold on consignment (W11)	(7,500)		
Closing inventory adjustment (W6)	<u>2,000</u>	<u>-</u>	<u>-</u>
	<u>253,925</u>	<u>49,750</u>	<u>27,500</u>

(5) Income tax expense/payable:

	K'000
Provision for the year	46,750
Over provision for previous year	(1,000)
Movement in deferred tax [(K100,000 x 30%) – 28,000]	<u>2,000</u>
Income tax expense	<u>47,750</u>

(6) Opening inventory and closing inventory adjustments

closing inventory adjustment:	
per trial balance	94,750
less write down (8,000 - [6,500-500])	(2,000)
add consignment inventory	<u>7,500</u>
adjusted total	<u>100,250</u>

(7) 2% Loan notes

	Balance b/f	Effective Interest @	Nominal interest @2% per annum (4,000)	Balance c/f K'000
Year ended 30/09/2025	200,000	6,000		202,000

(8) Rights issue of shares

Existing shares before new issue	375,000
New issue of shares	<u>14,000</u>
Total shares at year end	<u>389,000</u>

New issue to share capital = 7,000 (14,000x0.50)

New issue to share premium = 11,200 (14,000x 0.80)

(9) Dividends paid/payable

	K'000
Total final dividends (389,000 x K0.04)	15,560
Plus, interim paid	<u>37,500</u>
Total dividends in the period	<u>53,060</u>

(10) Financial asset equity instruments:

	K'000
Fair value b/f at 1 October 2024	66,250
Fair value gain	<u>1,500</u>
Fair value c/f	<u>67,750</u>

(11) Sales under consignment arrangement:

Revenue and cost of sales need not be recognized, since they were recognized, the following are the reversing entries:

	K'000	K'000
Dr Revenue	9,750	
Cr Receivables		9,750
With the sales value		
Dr Inventory (9,750÷1.3)	7,500	
Cr cost of sales (9,750÷1.3)		7,500
With the cost		

(12) Provision for damages

The provision needs to be recognized as it was probable compensation would take place.

	K'000	K'000
Dr administrative expenses	6,000	
Cr provision		6,000

SOLUTION TWO

(a) Pimpa Plc Consolidated statement of profit or loss for the year ended 31st December 2025

	K
Revenue $[1,020,000 + \frac{1}{2} \times (480,000)] - 30,000$	1,230,000
Cost of sales $[390,000 - 30,000 + \frac{1}{2} \times (216,000)] + 2,500$ (URP)	<u>(470,500)</u>
Gross profit	759,500
Other income $(30,600 - 21,600)$	9,000
Distribution costs $[120,000 + \frac{1}{2} \times (42,000)]$	(141,000)
Administrative expenses $[138,000 + \frac{1}{2} \times (30,000) + 11,000]$	(164,000)
Finance cost $[30,000 + \frac{1}{2} \times (24,000)]$	<u>(42,000)</u>
Profit before tax	421,500
Income tax expense $[78,000 + \frac{1}{2} \times (48,000)]$	<u>(102,000)</u>
Profit for the year	319,500

Profits attributable to:

Owners of the parent (bal. fig)	300,900
Non-controlling interest $[(\frac{1}{2} \times 120\,000) - 11,000 - 2,500] \times 40\%$	<u>18,600</u>
	<u>319,500</u>

- (b) Any six (6) qualitative characteristics
- Relevance: Information is capable of making a difference
 - Faithful representation: Information represents what it purports to represent
 - Comparability: information is capable of being subjected to analytical procedures
 - Understandability: Users understand the significant of provided information
 - Timeliness: Information is provided in time so as to affect decisions
 - Verifiability: Information is capable of being subjected to audit procedures

SOLUTION THREE

- (a) At 31 March 2024, STU's machinery has a carrying amount of K594,250. This arises from the initial total cost, when purchased of K625,000, that is purchase price less trade discount K570,000 ($K600,000 \times 95\%$) plus delivery cost, K20,000; plus, installation cost, K35,000. The initial cost is then subjected to depreciation of K30,750 per annum ($K625,000 - 10,000/20$ years) thereby giving rise to the carrying amount of K594,250 ($625,000 - K30,750$).

On 31 March 2024, the machinery was revalued to K582,250, an amount lower than its carrying amount on the date. This means asset must be stated at the lower revaluation amount in compliance with the prudence concept that requires assets to be recorded at amounts expected to be recovered in times of uncertainty. The difference of K12,000, being an impairment loss for the year charged to profit or loss. Further, the revalued

amount would be depreciated over the remaining 19 years to give annual depreciation expense of K30,118 $((K582,250 - 10000) \div 19)$ charged as an expense for the year ended 31 March 2025. This gives a carrying amount for the statement of financial position at 31 March 2025 of K552,132.

The charging of systematic amount as depreciation is in line with accruals concept in which an amount presumed to be used up is matched with economic benefits generated by the asset. The use of depreciated cost as carrying amount further reflects the assumption of going concern made when financial statements of the entity are prepared.

- (b) STU's receivables at 1 April 2024 of K300,000 will increase by credit sales of K171,500 $((98\% \times 175,000))$, reduce by returns inwards of K17,640 $(98\% \times K18,000)$ as well as irrecoverable debts of K28,000. These effects are in compliance with double entry, prudence and accruals concepts. Accruals concept in that credit sales are recognized as income before cash is received, prudence in that the receivables balance is written off when not expected to be received and reduction of receivables balance by transactions with an opposite effect. All these interactions will give STU a receivable balance of K425,860 $(K171,500 - K17,640 - K28,000)$ at 31 March 2025.
- (c) STU to recognise an electricity expense of K263,333 $(K620,000 \text{ less accrual brought forward } K150,000, \text{ less prepaid for year to 31 March 2026})$. This is all in adherence to accruals concept as well as double entry book-keeping. The accrual concept requires the effect of economic resources and claims to be recognized in the period when incurred and not when cash is received or paid. This is why the K150,000 paid in the current year but incurred in the previous year is excluded from the current year charge. Similarly, K206,667 $(6/18 \times K620,000)$ paid in the current year but for the year to 31 March 2026 is excluded from the K620,000 paid in the current year, to arrive at the charge to profit or loss.

The accruals concept equally applies to the insurance expense in which three months of the bill had not been paid K30,000 $(K90,000/3 \text{ quarters})$, but because the expense had been incurred, the amount is included in the year's charge to the profit or loss giving total charge of K120,000 $(K90,000 + K30,000)$. In addition, to be compliant with double entry rules, the K30,000 is to be credited to a liability or 'accrual' account to be recognized as such in the statement of financial position under current liabilities.

- (d) At 31 March 2025, STU should recognize a liability – in form of a provision amounting to K2 million for the probable compensation in future, to the employee. Prudence concept and faithful representation require that a liability be recognized as soon as anticipated. From the dual effect of a transaction, an expense of K2 million would be recognized in the profit or loss statement for the year ended 31 March 2025.

SOLUTION FOUR

(a) **Parklands Plc Statement of Cash flows for the year ended 31 December 2025**

	K'000	K'000
<i>Cash flows from operating activities</i>		
Profit before tax	1 314	
Less: adjustments:		
Depreciation (1 026 – 672)	354	
Changes in working capital		
Increase in inventory (72– 60)	(12)	
Increase in receivables & prepayments (228 – 174)	(54)	
increase in payables & accruals (36 – 18)	<u>18</u>	
Cash from operations	1 620	
Income tax paid (258 + 372 – 306)	<u>(324)</u>	
Net cash flow from operating activities		1 296
<i>Cash flow from Investing activities</i>		
Cash payment to acquire PPE (3 450 – 3 180)		(270)
<i>Cash flow from financing activities</i>		
Cash proceeds from issue of share capital (1 188 – 1 092)		<u>96</u>
Increase in cash and cash equivalents		1 122
Cash and cash equivalents at 1 January 2025		<u>168</u>
Cash and cash equivalents at 31 December 2025		<u>1 290</u>

(b) Calculation of the amounts that was included in the Statement of profit or loss for Commission Payable, Rent Payable, Rent Receivable, and Royalties Receivable.

(1) Commission Payable	K
Commission paid (K3 000 x 4)	12 000
Add: outstanding at end of year	400
Less: outstanding at start of year	<u>(600)</u>
Statement of Profit or loss amount	<u>11 800</u>
(2) Rent Payable	
Rent paid (K5 000 x 12)	60 000
Add: prepaid at start of year	24 000
Less: prepaid at end of year	<u>(30 000)</u>
Statement of Profit or loss amount	<u>54 000</u>
(3) Rent Receivable	
Rent received	9 000
Add: received in advance at start of year	1 000
Less: received in advance at end of year (K1 500 x 2)	<u>(3 000)</u>
Statement of Profit or loss amount	<u>7 000</u>
(4) Royalties Receivable	
Royalties received (K5 000 + K7 000)	12 000
Add: outstanding at end of year	6 000

Less: outstanding at start of year	<u>(3 000)</u>
Statement of Profit or loss amount	<u>15 000</u>

SOLUTION FIVE

(a) Standard setting process:

(1) Project initiation and scoping

- Objective: Identify a need for new or revised IFRS, or a project to improve existing standards.
- Terms of reference / agenda project: The project starts with a decision to add it to the IASB's agenda, outlining scope, objectives, and expected impacts.

(2) Preliminary research and discussion papers

- Background work: The staff conducts research, reviews existing literature, and assesses potential approaches.
- Discussion paper / Exposure draft (ED) if urgent: The Board may publish a discussion paper or an exposure draft to solicit early feedback from stakeholders.

(3) Public consultation and outreach

- Extensive consultation: The IASB engages with a broad range of stakeholders (standard-setters, preparers, auditors, users, regulators, and national standard-setters).
- Comment letters: Feedback is gathered through comment letters on discussion papers, EDs, and other publications.
- Public meetings and fieldwork: The Board conducts public meetings, roundtables, and field tests to understand practical implications.

(4) Technical deliberation and due process steps

- Agenda papers: The staff prepare detailed papers with problem statements, possible approaches, and analysis.
- Board education and voting: The IASB discusses and votes on preferred approaches. For significant standards, a due-process ED is issued.
- Exposure Draft (ED): If the Board approves a draft standard for public comment, an ED is issued with proposed changes and a comment deadline (often 120 days, but can vary).

(5) Public exposure and comment period

- Comment period: Stakeholders submit responses, often focusing on interpretive issues, measurement, disclosure requirements, and practical implications.
- Constructive feedback: The staff analyzes comments and may revise proposals accordingly.

(6) Re-deliberation and final standard

- Re-deliberations: The Board reviews feedback and may revise the proposals.
- IFRS Standard: The Board votes on the final standard (IFRS). An IFRS may include amendments to existing standards or new requirements.

(7) Post-implementation and care

- Implementation support: The IASB monitors how the standard is applied, issues educational material, and provides implementation guidance.
- Post-implementation reviews (PIR): After a standard has been in use for a while, the PIR assesses its effectiveness and considers improvements if needed.

(b) The provisions of the partnership agreement are that it documents some governance issues of the partnership business including the following:

- (i) Capital to be contributed by each partner.
- (ii) The ratio in which the profits/losses are to be shared.
- (iii) The rate of interest, if any, to be paid on capital before the profits are shared
- (iv) Salaries to be paid to partners
- (v) The rate of interest, if any, to be charged on partners' drawings
- (vi) Arrangements for the admission of new partners
- (vii) Procedures to be carried out when a partner retires or dies.

(c) (i) Blue and Green partnership appropriation account for the year ended 31 December 2025.

	K
Net profit before interest on loan	110,000
Less loan interest ($10\% \times 50,000 \times 9/12$)	<u>(3,750)</u>
Profit after loan interest charge	106,250
Add interest on drawings:	
Blue ($5\% \times 25,000$)	1,250
Green ($5\% \times 28,000$)	<u>1,400</u>
	108,900
Less salary ($3/12 \times 8000$)	(2,000)
Less interest on capital:	
Blue ($10\% \times 36,000$)	(3,600)
Green ($10\% \times 24,000$)	<u>(2,400)</u>
Residual profit	100,900
Share of residual profit:	
Blue ($3/5 \times 96,400$)	(60,540)
Green ($2/5 \times 96,400$)	<u>(40,360)</u>

(ii) Partners' current accounts for the year ended 31 December 2025

	Blue	Green		Blue	Green
	K	K		K	K
Balances b/f		2,000	Balance b/f	5,000	
Drawings	25,000	28,000	Interest on capital	3,600	2,400
Interest on drawings	1,250	1,400	Salary	2,000	
			Interest on loan		3,750
			Share of residual profit	60,540	40,360
Balances c/d	<u>44,890</u>	<u>15,110</u>			
	<u>71,140</u>	<u>46,510</u>		<u>71,140</u>	<u>46,510</u>
			Balances b/d	44,890	15,110

END OF SUGGESTED SOLUTIONS



POST GRADUATE DIPLOMA IN TAXATION EXAMINATIONS

PGDT2: LAW OF TAXATION

FRIDAY 12 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 paper is divided into TWO (2) sections:

Section A: ONE (1) **Compulsory** scenario question.
Section B: FOUR (4) Optional questions. Attempt any THREE (3) questions.
3. Enter your student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

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

SECTION A

This question is compulsory and must be attempted.

QUESTION ONE – (COMPULSORY)

- (a) Mr Jones is a British businessman who recently came to Zambia to set up a company. His line of business includes mining, agriculture as well as manufacturing of gumboots. He is interested in establishing some of his businesses in the outskirts of Lusaka. To fulfil his ambition, he visited areas such as Chiengi, Isoka and Nakonde wherein he discovered that they have some natural resources he needs to carry out his business. Furthermore, he discovered some extracts of what appears to be a mineral ore in one of the areas he visited. He has engaged you to advise him on the type of taxes that he will be subjected to here in Zambia as he sets up his mining business.

(15 marks)

- (b) Explain to him the role of Zambia Revenue Authority (ZRA) in Zambia. (10 marks)

- (c) Explain to Mr. Jones the following:

- (i) The mischief and golden rules of statutory interpretation. (6 marks)

- (ii) Double taxation Relief. (9 marks)

[Total: 40 Marks]

SECTION B

There are FOUR (4) Optional Questions in this section.

Attempt any THREE (3) questions.

QUESTION TWO

You run a tax consultancy firm in Lusaka with a variety of clients coming from across various business ventures. A gemstone and timber dealer is in your office and would like you to discuss with him the following:

- (a) How the constitution and common law are sources of Taxation Law in Zambia. (10 marks)
- (b) The five (5) advantages of forming a company instead of a partnership. (10 marks)

[Total 20 Marks]

QUESTION THREE

Value Added Tax (VAT) is a tax collected on a product at every stage of the supply chain where value is added, from production to point of sale. It is typically a percentage of the sale price and is paid by consumers. VAT is assessed on the gross profit of each step in the supply chain, and every business along the value chain receives a tax credit for the VAT already paid. Moono is a young businessman who recently opened up a shop in Kalomo, Southern Province of Zambia and deals in different products. He has approached you and wants to know the following:

Required:

- (a) The relevance of Value Added Tax to a country like Zambia. (5 marks)
- (b) The entities which can register for Value Added Tax. (5 marks)
- (c) The obligations which Moono will have as a taxpayer. (10 marks)

[Total: 20 Marks]

QUESTION FOUR

Samfya Insurance Brokers Ltd is a flourishing business in Samfya district. The company offers first class insurance services and has been making good profit for the past two (2) years, enabling it to declare dividends.

Required:

In line with the provisions of The Income Tax Act, Chapter 323 of the laws of Zambia, discuss the Act's provisions in relation to what amounts to dividends. (20 marks)

[Total 20 Marks]

QUESTION FIVE

- (a) Mr Lubinda and Mr. Mundia own a big business known as L & M General Dealers with branches in over ten (10) townships in Lusaka. The business has been doing very fine. It was registered as a partnership and later converted to a Private Limited Company by shares. The company has not filed its tax returns from the time it was incorporated. The company received a letter of demand from the Zambia Revenue Authority giving them an ultimatum to settle their outstanding taxes or face legal consequences. The two (2) men are now afraid and do not wish to face those consequences. They have come to you for help as someone conversant with tax issues.

Required:

Advise them on the offences and penalties for non-compliance with tax requirements under the Zambian tax law regime. (10 marks)

- (b) Rigos Mining Company Limited begun its operations in the year 2000, in Chongwe town. The area is rich in quartz mineral deposits. Three (3) years ago, the owners of the small mine left the mining area to attend to issues back in their home country. Upon their return, they discovered that some people took over the mine and continued mining on their land. Rigos Mining is now claiming mineral royalties from the people who were mining in their absence as provided for by the Law.

Required:

Advise Rigos Mining Company Limited what mineral royalties are, and whether such royalties would be applicable to them in this case. (10 marks)

[Total: 20 Marks]

END OF PAPER

PDGT2 LAW OF TAXATION

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) Zambia has several types of taxes. The following are the types of taxes that Mr Jones must be aware of:

1. Corporate Income Tax (CIT)

Corporate Income Tax applies to profits earned by incorporated businesses. In Zambia, the standard CIT rate is **30%**. Certain sectors follow different tax rates, as shown below:

Turnover Tax

Turnover Tax is a simplified regime for small businesses. In the 2025 budget, the threshold rose from ZMW 800,000 to **ZMW 5 million**. The rate increased from 4% to **5%**. It applies to gross sales, making it straightforward to calculate because it doesn't require detailed expense tracking. Turnover Tax is often ideal for small enterprises with limited accounting resources or those with high margins that benefit from a tax on gross revenue rather than net income.

Income Tax (Standard)

Income Tax (the standard system) applies to net profits, requiring more detailed bookkeeping but allowing for deductions of operating costs. It generally favors larger businesses with significant expenses or those exceeding the ZMW 5 million turnover threshold.

- **Turnover Tax:** Suited for businesses under ZMW 5 million annual turnover, especially if profit margins are high and administrative resources are limited.
- **Income Tax:** Favors larger enterprises or those with high expenses that need deductions.

Pay As You Earn (PAYE)

PAYE is a method of collecting personal income tax directly from employee salaries. Employers deduct the appropriate tax and remit it to the ZRA monthly. The 2025 PAYE bands are:

Value Added Tax (VAT) and Excise Duties

Value Added Tax (VAT)

VAT is a consumption tax charged at each stage of a product's supply chain. In Zambia, the standard VAT rate is **16%**. Key features include:

- **Registration Threshold:** Businesses with annual taxable turnover above ZMW 800,000 must register.
- **Zero-Rating and Exemptions:** Some goods and services may be zero-rated or exempt.
- **Filing:** Typically done monthly, with returns due by the 18th of the following month.

Excise Duties

Excise duties apply to specific goods, whether domestically produced or imported. Examples include:

- Petroleum products: 7%–36%
- Alcoholic beverages: Various rates up to 125%
- Tobacco products
- Carbon Emission Surtax for motor vehicles

Sector-Specific Taxes

Mining Sector

Zambia's mining sector has specialized taxes:

- **Mineral Royalty Tax:** 4%–10% for copper, depending on price levels.
- **Export Duty on Copper/Cobalt Concentrates:** 10%.
- **Property Transfer Tax on Mining Rights:** 10%.

Telecommunications Sector

As of January 2023, the telecommunications sector moved to a single tax rate of **35%**, instead of the previous dual-tiered system.

Agricultural Sector

Tax incentives aim to boost farming activities:

- **Reduced CIT Rate:** 10% for farming and agro-processing.
- **Zero-Rated VAT:** On many agricultural inputs and equipment.
- **Tax Exemptions:** Income from cotton seed production or ginning is exempt (2024–2028).

Other Taxes

Property Transfer Tax (PTT)

Property Transfer Tax applies to land, shares, intellectual property, and mining rights. From 2025, rates are:

- **Land:** 8%
- **Shares:** 8%
- **Mining Rights:** 10%
- **Intellectual Property:** 8%

(b) The Zambia Revenue Authority (ZRA) was formed on April 1, 1994, under the Zambia Revenue Authority Act, Chapter 321 of the Laws of Zambia. Its establishment unified the former Departments of Income Tax and Customs and Excise into one agency. The ZRA's core functions include:

- Assessing and collecting taxes and duties
- Enforcing relevant legal provisions
- Facilitating international trade
- Providing tax policy advisory services

The Commissioner General, appointed by the President, leads the ZRA under the oversight of a Governing Board. Key representatives on the Board include the Secretary to the Treasury and the Governor of the Bank of Zambia.

(c)

(i) The following rules apply to the interpretation of tax laws in Zambia.

The Rules of Statutory Interpretation

1. The Mischief Rule

The mischief rule is contained in *Heydon's Case* (1584) 3 Co Rep 7, where it was stated that for the true interpretation of all statutes four things are to be considered:

- 1st. What was the common law before the making of the Act.
- 2nd. What was the mischief and defect for which the common law did not provide.
- 3rd. What remedy Parliament resolved and appointed to cure the disease.
- 4th. The true reason of the remedy; and then the function of the judge is to make such construction as shall suppress the mischief and advance the remedy.

2. The Golden Rule

Some judges have suggested that a court may depart from the ordinary meaning where that would lead to absurdity. In *Grey v Pearson* (1857) 6 HL Cas 61, Lord Wensleydale said:

"... the grammatical and ordinary sense of the words is to be adhered to, unless that would lead to some absurdity, or some repugnance or inconsistency with the rest of the instrument, in which case the grammatical and ordinary sense of the words may be modified, so as to avoid that absurdity and inconsistency, but no farther."

(ii). Double taxation refers to the situation where **income tax is paid twice on the same source of income**. This can occur in two main scenarios: when income is taxed at both the corporate and personal levels, such as with stock dividends, or when the same income is taxed by two different countries. It is significant in contexts like international trade and corporate taxation. To mitigate double taxation, various strategies, such as tax treaties and credits, can be employed

Foreign tax suffered on income of an individual may be eligible for foreign tax relief either under a double tax treaty (DTT) with Zambia or as unilateral relief available under domestic law. The credit is restricted to the lower of the amount of foreign tax actually suffered and the Zambian income tax that would have applied on the foreign income as a percentage of total income.

SOLUTION TWO

(a) (i) *The Constitution is a source of Taxation Law in Zambia* because the Constitution is the most important law in the land and binds all persons in Zambia, as well as all organs of the state. It is the law that is said to come directly from the people and sets out the relationship between the people and the state. All laws must be in conformity with the Constitution as a supreme law of law in Zambia as per Article 1 of the Constitution of Zambia, Chapter 1 of the laws of Zambia. It also provides for the organs of the State – Executive, Legislature and Judiciary. Since the Constitution is the authority under which the National Assembly creates various laws, including taxation laws, the Constitution qualifies as a source of Tax law in Zambia.

(ii) *Common Law* is a source of law because Common law is the legal tradition which evolved in England from the 11th century onwards. It is defined as that 'part of the law of England formulated, developed and administered by the common law courts, based originally on the common customs of the country and unwritten'. Common law led to the development of equity, a body of rules which seek to advance what is 'just' and 'fair' in the circumstances of each case. For this reason, equity is said to denote 'natural justice'. Equity developed as a result of defects in the common law. The importance of the doctrine of equity is that whenever there is a conflict between law and equity, the latter prevails. In Taxation Law, the principles of common law are used by granting the offender an opportunity to be heard, using judicial precedent to decide cases and applying certain legal principles used in the Common Law of England and the Commonwealth. The extent to which common law, equity and English statutes are a source of law in Zambia is spelt out in the English law (Extent of Application) Act.

(b) The advantages of forming a company against a partnership are that, a company has continuity of existence, whilst a partnership doesn't. A company has separate legal identity from its owners whilst the partnership isn't. A company has limited liability whilst a partnership doesn't. A company especially a public limited company (PLC) can sell its shares on the stock exchange thus can raise more capital, whilst a partnership cannot. A company like a PLC publishes its audited accounts to the public hence increasing credibility, whilst a partnership does not, etc.

SOLUTION THREE

(a) Value-Added Tax (VAT) is an indirect tax that is charged on the value added to a product or service. It is usually a tax that is transferred to the end consumer, meaning that the person who pays this tax is the end consumer, who is often not registered for VAT. It is important in that it contributes to the country's revenue which in turn allows the country to pay for goods and services.

(b) Entities that can register for Value-Added Tax include individuals or sole traders, groups of persons such as associations or clubs, companies limited or partnerships, as well as other entities as long as they meet the requirements for registration for Value-Added Tax. All businesses that qualify to register for VAT must complete an application form.

(c) As a VAT-registered taxpayer, there are certain obligations required of you by the Zambia Revenue Authority. Some of these obligations include:

- Displaying your tax registration certificate in a prominent place, such as on a wall, where people can see it.
- You will also be required to charge VAT on your taxable supplies and issue tax invoices that comply with the rules laid out by the Zambia Revenue Authority.
- Additionally, you need to submit returns and pay the VAT due to the revenue authority by the 18th of the subsequent month.
- You can also submit a manual return that is due on the 5th of the subsequent month.

SOLUTION FOUR

The Income Tax Act Chapter 324 of the laws of Zambia under section 3 defines Dividends differently. It provides that: "dividend" means any amount distributed or credited (as construed in subsection (2) For the purposes of this Act, a beneficiary who was employed outside the Republic by the Government, or the Government of the former Federation, or a local authority or statutory corporation, during any period in which ordinary contributions were made, is, if he was resident outside the Republic only for the purpose of that employment, deemed to have been employed within the Republic during that period. (3) The reference in the definition of "dividend" to "amount distributed or credited"

shall be read and construed-

(a) so as to include-

(i) in relation to a company that is being wound up or liquidated, any profits distributed, whether in cash or otherwise, other than those of a capital nature, earned before or during the winding up or liquidation;

(ii) in relation to a company that is not being wound up or liquidated, any profits distributed, whether in cash or otherwise, other than those of a capital nature, including the value of that element of any shares awarded to its shareholders which is redeemable or capable of redemption by conversion and any debentures or securities awarded to its shareholders by a company;

(iii) in the event of the partial reduction of the capital of a company, any cash or the value of any asset which is given to the shareholder in excess of the cash equivalent of the nominal value by which the shares of that shareholder are reduced; and

(iv) in the event of the reconstruction of a company, any cash or the value of any asset which is given to the shareholder in excess of the nominal value of the shares held by him before reconstruction;

(b) so as not to include any cash or the value of any asset given to a shareholder, to the extent to which the cash or the value of the said asset represents a reduction of the share premium account of the company.

In the case of Samfya Insurance Brokers, seeing it is not being wound up and no reduction in capital is being done, the dividend that is mentioned therein is the one in 3(iii) above, one which comes because the company has made some profit

SOLUTION FIVE

(a)

Fines and Penalties applicable under the Zambian tax regime are:

1. **Monetary Fines:** The most immediate impact of non-compliance is the imposition of fines. These are not static figures but are often calculated as a percentage of the owed amount, which can exponentially increase the financial burden. For instance, failing to report foreign bank accounts can result in a penalty of up to \$10,000 for each non-willful violation, and higher for willful violations.

2. **Interest Charges:** Alongside fines, interest charges accrue on the unpaid tax amount. This can significantly inflate the original debt over time, as seen in the case of a small business owner who neglected payroll taxes, resulting in an accumulated debt that surpassed the original amount due by 40%.

3. **Criminal Charges:** In severe cases, such as tax fraud or evasion, individuals may face criminal prosecution. This not only entails additional fines but also the possibility of imprisonment. A notable example is the conviction of a prominent businessperson, which led to a five-year sentence and a fine that doubled the evaded tax amount.

4. **Reputational Damage:** Entities found guilty of non-compliance may suffer reputational harm, impacting customer trust and investor confidence. A multinational corporation faced a boycott after news of its tax avoidance schemes surfaced, leading to a 10% drop in sales.

5. **Operational Disruptions:** Enforcement actions can disrupt business operations. Seizure of assets or freezing of bank accounts to recover unpaid taxes can cripple a company's ability to function, sometimes irreversibly.

6. **Revocation of Licenses and Permits:** Non-compliance can lead to the revocation of essential licenses and permits. A restaurant chain lost its liquor license due to unpaid taxes, directly affecting its profitability and leading to the closure of several locations.

The stakes of non-compliance are high, with consequences that can jeopardize the very existence of a business and the financial well-being of an individual. It is a stark

reminder that the cost of ignoring tax laws far outweighs the diligence required to abide by them. Compliance is not merely a legal obligation but a cornerstone of ethical business practice and civic duty.

(b)

Zambia's mineral royalty structure includes varying rates based on mineral type, with recent legislative changes aimed at enhancing the investment climate in the mining sector.

In Zambia, mineral royalties are a key component of the mining taxation framework. The rates are structured as follows:

5% on most base metals, energy, and industrial minerals.

6% on gemstones and precious metals.

Copper royalties are on a sliding scale ranging from 4% to 10%, depending on the market price of copper.

Every holder of a mining license is required to submit a monthly mineral royalty return within 14 days after the end of the month in which the sale of minerals occurs. Even if no

minerals are sold, a nil return must be submitted to avoid penalties. The mineral royalty is due and payable within the same

timeframe. Zambia's mineral royalty framework is designed to balance the need for government revenue with the goal of attracting investment in the mining sector. The recent legislative changes reflect an ongoing effort to create a stable and competitive environment for mining operations, which is crucial given the country's significant mineral wealth, particularly in copper and cobalt production.

From the information above, mineral royalties are payable by holders of a mining licence. If Rigos Mining Limited is the holder of the licence then royalties will be applicable. If the other company obtained a mining licence in their absence, then they will be liable to pay mineral royalties.

END OF SUGGESTED SOLUTIONS



POST GRADUATE DIPLOMA IN TAXATION EXAMINATIONS

PGDT3: DIRECT TAXES

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. You will be told when to start writing.
2. This paper is divided into TWO (2) sections:
Section A: ONE (1) **Compulsory** scenario question.
Section B: FOUR (4) Optional questions. Attempt any THREE (3) questions.
3. Enter your student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.
10. A Taxation table is provided from page 2 to page 7 of the question paper.

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

TAXATION TABLE

Income Tax

Standard personal income tax rates

Income band	Taxable amount	Rate
K1 to K61,200	first K61,200	0%
K61,201 to K85,200	next K24,000	20%
K85,201 to K110,400	next K25,200	30%
Over K110,400		37%

Income from farming for individuals

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

Company Income Tax rates

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

Mineral Royalty

Mineral Royalty on Copper

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

Mineral Royalty on other minerals

Type of mineral	Mineral Royalty Rate
Cobalt and vanadium	8% on norm value

Base metals (other than copper, cobalt and vanadium)	5% on norm value
Energy and industrial minerals	5% on gross value
Gemstones	6% on gross value
Precious metals	6% on norm value

Capital allowances

Implements, plant and machinery and commercial vehicles:

Wear and tear allowance –	Standard wear and tear allowance	25%
	Wear and tear allowance if used in manufacturing and leasing	50%
	Wear and tear allowance if used in farming and agro-processing	100%
	Wear and tear allowance if used in Mining and Mineral processing	20%

Non-commercial vehicles

Wear and tear allowance	20%
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Industrial buildings:

Wear and tear allowance	5%
Initial allowance	10%
Investment allowance	10%

Low cost housing (Cost up to K100,000)

Wear and tear allowance	10%
Initial allowance	10%

Commercial buildings:

Wear and tear allowance	2%
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Farming allowances

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

Presumptive Taxes**Turnover Tax****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

Motor vehicles for the transport of ten or more persons, including the driver	Aged 2 to 5 years		Aged over 5 years	
	Customs duty	Excise duty	Customs duty	Excise duty
	K	K	K	K
Sitting capacity of 10 but not exceeding 14 persons including the driver	20,090	25,112	10,045	12,556
Sitting capacity exceeding 14 but not exceeding 32 persons	43,984	0	15,639	0
Sitting capacity of 33 but not exceeding 44 persons	97,742	0	21,992	0
Sitting capacity exceeding 44 persons	122,177	0	48,871	0

Motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars	Aged 2 to 5 years		Aged over 5 years	
	Customs duty	Excise duty	Customs duty	Excise duty

K K K K

Sedans

Cylinder capacity not exceeding 1000 cc	14,113	12,231	8,065	6,989
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	18,145	15,726	9,678	8,387

Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	18,695	24,304	9,518	12,373
---	--------	--------	-------	--------

Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	20,395	26,514	11,897	15,466
---	--------	--------	--------	--------

Cylinder capacity exceeding 3000 cc	25,494	33,142	13,597	17,676
-------------------------------------	--------	--------	--------	--------

Hatchbacks

Cylinder capacity not exceeding 1000 cc	12,097	10,484	8,065	6,989
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Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	16,129	13,979	9,678	8,387
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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
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Cylinder capacity exceeding 3000 cc	22,095	28,723	13,597	17,676
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Station wagons

Cylinder capacity not exceeding 1000 cc	14,113	12,231	8,065	6,989
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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
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SUVs

Cylinder capacity not exceeding 1000 cc	17,598	15,252	10,559	9,151
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Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	20,463	17,735	12,278	10,641
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Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	23,794	30,933	14,277	18,560
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Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	27,193	35,351	17,540	22,802
Cylinder capacity exceeding 3000 cc	32,292	41,980	20,395	26,514
	Aged 2 to 5 years		Aged over 5 years	
	Customs duty	Excise duty	Customs duty	Excise duty
Motor vehicles for the transport of goods				
	K	K	K	K
Single cab				
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	24,777	10,737	9,911	4,295
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	29,732	12,884	17,344	7,516
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	34,687	15,031	19,821	8,589
Double cabs				
GVW not exceeding 3 tonnes	34,687	15,031	27,254	11,810
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	38,156	16,534	29,980	12,991
Panel vans				
GVW not exceeding 1.0 tonne	15,089	6,539	8,622	3,736
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	17,344	7,516	9,911	4,295
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	19,821	8,589	17,344	7,516
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	24,777	10,737	19,821	8,589

Trucks

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

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

Surtax

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

Customs and Excise on New Motor vehicles

Duty rates on:

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

Customs Duty:

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

Excise Duty:

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

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%
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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%
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Excise Duty:

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

This question is compulsory and must be attempted.

QUESTION ONE – (COMPULSORY)

Mop Ltd is a company incorporated in Zambia and manufactures and sells toys for children. The company generates annual turnover of above K5,000,000.

For the charge year 2025, the company estimated that its taxable profit would be K1,400,000. On the basis of this estimated taxable profit for the year, the company made provisional income tax payments on the respective due dates. Mop Ltd makes all its tax return submissions electronically.

The company's summarised statement of profit or loss for the actual results for the year ended 31 December 2025 is as follows:

	K	K
Gross profit		5,266,000
<i>Other Income:</i>		
Dividends (net)	54,000	
Rental income (Note 1)	120,000	
Loan interest income (net)	34,000	
Profit on disposal of manufacturing equipment (Note 2)	<u>20,000</u>	
		<u>228,000</u>
		5,494,000
Expenses:		
Motor running expenses	127,200	
Depreciation	172,800	
Salaries and wages (Note 3)	1,960,000	
Advertising (Note 4)	464,000	
Gifts and entertainment (Note 5)	68,000	
Professional fees (Note 6)	280,000	
Bad debts (Note 7)	18,000	
General expenses	<u>200,000</u>	
		<u>(3,290,000)</u>
Profit before taxation		<u>2,204,000</u>

The following additional information is provided:

Note 1: Rental income

The rental income was received from two (2) houses which are owned by the company and were let out at K5,000 per month per house, throughout the year.

Note 2: Profit on disposal of manufacturing equipment

The company acquired the manufacturing equipment in April 2022 at a total cost of K40,000. On 1 January 2025, the company sold the manufacturing equipment for K30,000, resulting in the loss shown above.

Note 3: Salaries and wages

Salaries and wages includes a penalty of K10,000 for late remittance of NAPSA contributions.

Note 4: Advertising

Advertising costs includes K182,500 incurred on paying for a permanent advertising slot on the front page of the Zambia Daily Mail newspaper for the company toy products.

Note 5: Gifts and entertainment

The figure for gifts and entertainment is made up of:

	K
Entertainment of business suppliers	26,000
Christmas party for employees	24,000
150 gifts of calendars bearing the company advert (K120 each)	<u>18,000</u>
	<u>68,000</u>

Note 6: Professional fees comprise:

	K
Legal fees for collection of trade debts	10,000
Audit fees	200,000
Legal fees for acquisition of land	40,000
Legal fees in connection with unsuccessful tax appeal	<u>30,000</u>
	<u>280,000</u>

Note 7: Bad debt account is as follows:

	K		K
Loan to employee written off	10,000	Provisions b/f:	
Trade debts written off	9,500	- General	4,000
Provisions c/f:		- Specific	2,000
- General	3,000	Employee loan recovered	2,500
- Specific	<u>4,000</u>	Statement of Profit or loss	<u>18,000</u>
	<u>26,500</u>		<u>26,500</u>

Note 8: Unrelieved Tax loss brought forward

The company has a carry forward tax loss of K240,000 arising from the losses incurred in 2022 when it experienced serious competition on the market.

Note 9: Buildings, Implements, Plant and Machinery

On 1 January 2025, the company owned the following assets:

Date of purchase	Type of asset	Cost
1 August 2020	Factory building	K300,000
1 September 2020	Retail Shop	K200,000
10 March 2021	Office building	K150,000
1 April 2021	Toyota Corolla car	K240,000
1 September 2024	Factory Machinery	K120,000
20 May 2025	Delivery truck	K400,000

The Chief Executive Officer of Mop Ltd uses the Toyota Corolla car on a personal-to-holder basis. The car has a cylinder capacity of 2 000 cc.

Note 10: The Production Manager

The company's Production Manager, Mr. Okowo, is employed on a three-year fixed term contract at a monthly salary of K25,000. His current contract commenced on 1 January 2025.

In addition to the salary, Mr. Okowo is entitled to a transport allowance of K1,500 per month, education allowance of K8,000 per four months and an accommodation allowance of K12,000 per three months.

These emoluments for Mr. Okowo are all included in the salaries and wages figure of the company.

The only other income received by Mr. Okowo's for the charge year 2025, was his 20% NAPSA pension partial withdrawal of K80,000.

In the tax year 2025, Mr. Okowo paid K3,000 to the Engineering Institution of Zambia as his annual membership subscription fee. PAYE amounting to K64,000 had been deducted from the emoluments of Mr. Okowo in the charge year 2025.

Note 11: Mop Ltd's Future plans

Effective from 1 January 2026, next year, the Directors of Mop Ltd have decided to start having their quarterly Board meetings for purposes of decision making involving the operations of the company in Harare, Zimbabwe.

Required:

- (a) Calculate the quarterly amounts of provisional income tax paid by Mop Ltd during the charge year 2025. (**You are NOT required to state the due dates when the tax should have been paid**). (2 marks)
- (b) Determine the amount of tax paid by Mop Ltd on the rental income for the 2025 charge year. (3 marks)
- (c) On the basis of the financial results for Mop Ltd:
 - (i) Prepare a computation of the capital allowances claimable by Mop Ltd on buildings, implements, plant and machinery for the charge year 2025. (8 marks)
 - (ii) Determine the final taxable profit for Mop Ltd and the amount of company income tax payable for the charge year 2025, stating the due date when the amount should be paid. (16 marks)
- (d) Calculate the Income Tax payable by the Production Manager, Mr. Okowo, for the tax year 2025, based on information provided in note (10) above. (9 marks)
- (e) Advise the directors of Mop Ltd of whether the company, will continue being liable to Zambian income tax next year following their decision to be holding their quarterly Board meetings in Harare, Zimbabwe. (2 marks)

[Total: 40 Marks]

SECTION B

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

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

QUESTION TWO

Maluba and Banji are in a partnership business manufacturing desks for schools in Lusaka province and preparing the partnership accounts annually to 31 December. They share profits and losses equally after allowing for partnership salaries and interest on capital as follows:

	Maluba	Banji
Annual partnership salaries	K120,000	K96,000
Annual interest on Capital	K24,000	K36,000

With effect from 1 September 2025, the terms of the partnership agreement were revised as follows:

	Maluba	Banji
Annual partnership salaries	K72,000	K72,000
Annual interest on Capital	no change	no change
Share of balance of profits and losses	3	2

The partnership's tax adjusted business profit for the year before capital allowances was K552,500.

The partnership acquired the following assets during the year 2025:

- (1) On 1 March 2025, a second hand building which is used as factory in Chongwe at a total cost of K300,000, including the cost of land of K100,000.
- (2) A delivery truck at a cost of K250,000 on 1 June 2025.
- (3) A 100 by 50 meters plot of land in Chilanga where the company intends to build a third factory next year at a cost of K120,000. This was acquired on 1 December 2025

The partners use their own private motor cars in the partnership's business. The table below provides information about the partners' motor cars:

<i>Motor car</i>	<i>Purchase cost</i>	<i>Date brought into use</i>	<i>Business mileage</i>
	K		
Maluba's car	220,000	1 January 2023	70%
Banji's car	200,000	1 June 2024	60%

Required:

- (a) Determine the taxable business profits for each partner for the year ended 31 December 2025. (15 marks)
- (b) Assess the amount of income tax chargeable on each partner for the tax year 2025. (5 marks)

[Total: 20 Marks]

QUESTION THREE

Mrs. Pule has been in permanent and pensionable employment with JPF Limited since 1 January 2020. The employer runs a private defined contribution pension scheme for its employees.

The employer provides Mrs. Pule with the following benefits:

- (1) Transport allowance of K4,000 per month.
- (2) The use of a personal to holder motor car with a cylinder capacity of 1800 cc.
- (3) Free residential accommodation in a company owned house.

On 30 June 2025, Mrs. Pule was dismissed by her employers for gross misconduct. Upon her dismissal, she was paid her final basic salary of K20,000 for the month of June 2025 and leave pay of K10,000. The private defined contribution pension scheme also paid Mrs. Pule a refund of her pension contributions amounting to K1,340,000. Half of this amount were refunds of employees' contributions and the remaining balance were refunds of employer's pension contributions.

Mrs. Pule has since received her pay but she feels that the employer did not deduct the correct amount of tax from her benefits and has approached you for advice.

Additional information

Using her terminal benefits Mrs. Pule is planning to enter into two types of businesses:

- (1) Acquire the following three vehicles and commence running a public passenger transport business on 1 August 2025:
 - **Mitsubishi Rosa bus**
The Rosa bus has a seating capacity of thirty (30) passengers. Gross monthly takings will be K90,000. Motor vehicle servicing costs will be K25,000 per month.
 - **Toyota minibus**
The Toyota minibus has a seating capacity of eighteen (18) passengers. Gross monthly takings from the mini bus will be K38,000. Motor vehicle servicing costs for the bus will be K18,000 per month.

- **Toyota corolla car**

The Toyota minibus has a seating capacity of four (4) passengers. Gross monthly takings from the mini bus will be K20,000. Motor vehicle servicing costs for the car will be K6,000 per month.

All of the above vehicles will be operational every day from 1 August 2025 to 31 December 2025.

- (2) Acquire an unfinished house, which she will complete and turn into a boarding house for female students to rent the rooms. Also acquire a bare piece of land which she will turn into a car park. She anticipates that the Boarding house will realise rental income of K2,500 per each of the 10 rooms per month and the car park will realise an income of K6,000 per month. She expects to pay monthly salaries for the boarding house matron and car park guards of K4,000 and K3,000 per month respectively.

The boarding house and car park will be operational from 1 September 2025

Required:

- (a) Compute the amount of each of the following for Mrs Pule:
- (i) Income tax arising under the Pay As You Earn System for the month of June 2025. (3½ marks)
 - (ii) Statutory employee's contributions to NAPSA, and NHIMA for the month of June 2025. (2 marks)
 - (iii) Net pay for the month of June 2025 excluding the pension refunds. (1½ marks)
- (b) Advise Mrs. Pule on how she will be assessed to tax on the transportation and, rental of the boarding house and car park businesses that she intends to commence. (4 marks)
- (c) Determine the amount of tax that will arise for the charge year 2025 on:
- (i) Mrs. Pule's transportation business. (4 marks)
 - (ii) Mrs. Pule's Rental of Boarding house and Car Park business. (5 marks)

[Total: 20 Marks]

QUESTION FOUR

Mukuba Mining Company (MMC) Limited is a Zambian resident company involved in the mining of Cobalt and Copper. The company is a 100% owned subsidiary of a foreign based multinational mining company and prepares accounts in US dollars.

The summarized statement of profit or loss for the company is provided below:

	K'000
Gross profit	171,000
Operating expenses	<u>(81,500)</u>
Operating profit	89,500
Dividends received (net)	<u>65</u>
Profit before tax	89,565
Company tax	<u>(27,165)</u>
Profit after tax	<u><u>62,400</u></u>

The following additional information is available:

Note 1: Operating expenses

Operating expenses comprise the following items:

	K'000
Depreciation	3,700
Repairs of mining equipment	2,600
Road Construction in a council township outside the mining township	1,800
Wages and salaries	22,116
Upgrading of local clinic to a level one hospital in the Mine township	40,500
Fines for not complying with safety legislations	48
Accountancy and Audit fees	346
Miscellaneous allowable business expenses	<u>10,390</u>
	<u><u>81,500</u></u>

Note 2: Mineral Royalty

The mineral royalty paid by the company during the year has not been accounted for in the statement of profit or loss shown above. The gross sales of copper and cobalt during the year were as follows:

Mineral	Metric tonnes	Average LME cash price per tonne
Copper	430	US\$8,600
Cobalt	223	US\$9,200

The average Zambian Kwacha per US dollar rate for the charge year 2025 was K28.80.

Note 3: Unrelieved Tax loss from mining

On 1 January 2025, there was an unrelieved loss from mining of K164,500,000 which was the balance of the loss which was the company suffered three (3) years ago.

Note 4: Implements plant and machinery

On 1 January 2025, the company held the following implements plant and machinery qualifying for capital allowances which were acquired from foreign suppliers two (2) years ago and paid for in US dollars. The original costs of the assets at the date of acquisition translated into Zambian Kwacha were as shown below:

	K'000
Mine excavation equipment	85,500
Drilling Machines	18,500
Commercial motor vehicles	26,000

Note 5: The indexation formula

The indexation formula for capital allowances and mining losses where applicable is provided below:

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

Where

R1 is the 2024 Average Bank of Zambia Kwacha per US dollar mid exchange rates and

R2 is the 2025 Average Bank of Zambia Kwacha per US dollar mid exchange rates

Note 6: Average Bank of Zambia per US dollar mid exchange rates

The following Average Bank of Zambia per US dollar rates should be used where applicable:

Charge year	ZMW/ US\$1 mid exchange rates
2024	K24.00
2025	K28.80

Required:

- (a) Determine the amount of Mineral Royalty Tax paid by the company during the charge year 2025. (6 marks)
- (b) Compute the final taxable mining profits for MMC for the tax year 2025 and the amount of company income tax payable. Your solution should show the amount of the mining tax loss remaining unrelieved at 31 December 2025.

(14 marks)

[Total: 20 Marks]

QUESTION FIVE

Chitenge Changa resigned from formal employment on 31 December 2024. In March 2025, he started his own business, which he financed partly from his terminal employment benefits. During the month of April 2025, he entered into the following capital transactions:

- (1) He bought a 100 hectares piece of land in Chongwe from Monde Mpanisi, for K79,600. The Government valuations department valued this piece of land at K125,600.
- (2) He sold off his Chilenje South property at K480,000 although the open market value was only K420,000.
- (3) He offered half of the 20 hectares of land he owns in Chipata rural to his son and the other half of the land was offered to his niece, who is not an adopted child. He charged each individual nominal amounts of K38,000 for each property. The open market value of the whole land was K120,000. The original cost was K29,000 when he bought it eight (8) years ago.

Using the 100 hectares piece of land in Chongwe, Changa incorporated a farming business under the name CC Farms Ltd. The business started operations in August 2025 and generated farming net profit of K540,000 by 31 December 2025. In arriving at the net profit for the year, gross Royalties income of K60,000 was added as other income. Appropriate withholding tax was deducted before remitting the Royalties to CC Farms Ltd. The farming business deducted the following expenditure in arriving at the net profit above:

- Farm workers' salaries of K100,000
- Farm fencing K50,000
- Farm equipment K120,000
- Farm inputs (seeds, fertilizer etc.) K40,000
- General allowable operational expenses K24,000
- Depreciation on the non-current assets K78,000.

Changa has heard from a colleague that certain transfers of property attract Property Transfer Tax and that farming business is taxed differently from other business types, but he is not sure how the farming business and property transfer tax is assessed and the specific types of transfers which attract the tax.

Changa also heard that the behaviour of tax practitioners contribute to the improved tax administration of the Zambian tax system.

He has approached you for advice on the above matters.

Required:

- Advise Changa of the property transfer tax implications of each of the above transactions; computing the amount of any property transfer tax arising. (6 marks)
- Compute the Income tax payable by CC Farms Ltd for the Tax year 2025. (10 marks)
- Evaluate two (2) ways in which ethical behavior by tax practitioners contributes to improved tax administration in the Zambian taxation system. (4 marks)

[Total: 20 Marks]

END OF PAPER

PGDT3 DIRECT TAXES

SUGGESTED SOLUTIONS

SOLUTION ONE

- (a) QUARTERLY PROVISIONAL INCOME TAX PAID BY MOP LTD DURING THE CHARGE YEAR 2025.

	K
Annual Provisional Income tax	
30% x K1,400,000	<u>420,000</u>
Provisional Income tax per quarter	
K420,000/4	<u>105,000</u>

- (b) COMPUTATION OF THE RENTAL INCOME TAX PAYABLE FOR CHARGE YEAR 2025

Since the total income for the year is less than K800,000, then the tax payable will be calculated as follows:

	K
Taxable annual rental income	<u>120 000</u>
Tax payable:	
On First K12 000 @ 0%	0
On Balance (120 000 – 12,000) =K108,000 @ 4%	<u>4,320</u>
Tax payable	<u>4,320</u>

- (c) (i) COMPUTATION OF CAPITAL ALLOWANCES ON BUILDINGS IMPLEMENTS, PLANT & MACHINERY

	K
<u>Factory building (Industrial Buildings)</u>	
Wear & Tear allowance (5% x K300 000)	15 000
 <u>Retail shop- Commercial buildings</u>	
Wear & Tear allowance	
(2% x K200 000)	4 000

Office Building

Wear & Tear allowance

(2% x K150 000) 3 000

Toyota Corolla Car- Non-Commercial Vehicle

Wear & Tear allowance

(20% x K240 000) 48 000

Delivery Truck - Commercial Vehicles

Wear and Tear (25% x 400 000) 100 000

Disposed Manufacturing Equipment

ITV b/f 0

Sales proceeds (30 000)

Balancing charge (30 000) (30,000)

Factory Machinery

Wear and Tear (50% x 120 000) 60 000

Total capital allowances 200 000

(ii) COMPUTATION OF FINAL TAXABLE PROFIT & COMPANY INCOME TAX PAYABLE FOR THE TAX YEAR 2025:

	K	K
Profit before tax as per the accounts		2 204 000
Add:		
Depreciation	172,800	
Penalty for late remittance of NAPSA contributions	10,000	
Entertainment of business suppliers	26,000	
Excess cost on gifts of calendars (K20 x 150)	3,000	
Legal fees on acquisition of land	40 000	
Legal fees unsuccessful tax appeal	30 000	
Loan to employee written off	10 000	
Personal-to-holder car benefit charge	43,200	
		<u>335 000</u>
		2 539 000

Less:

Dividends	54,000	
Rental Income	120,000	
Loan interest	34,000	
Profit on disposal of Machinery	20,000	
Employee loan recovered	2,500	
Decrease in general bad debt provision (4000 – 3000)	1,000	
Capital allowances (w1)	<u>200,000</u>	
		<u>(431,500)</u>
Tax Adjusted business profits		2 107 500
Add		
Loan interest (gross) (34 000 x 100/85)		<u>40,000</u>
Taxable income		2,147,500
Less: carry forward loss		
(Whole amount falls within 50% restriction)		<u>240 000</u>
Taxable income		<u>1 907 500</u>
Company income tax = 30% x K1 907 500		572 250
Less tax already paid		
Provisional Income tax		(420 000)
WHT on Loan interest (40 000 – 34 000)		<u>(6 000)</u>
Final Income tax payable		<u>146 250</u>

Due date

The Company should pay the final income tax of K146,250 and this should be paid by 21 June 2026 since the company transmits payments electronically.

(d) MR. OKOWO'S

PERSONAL INCOME TAX COMPUTATION FOR THE TAX YEAR 2025

Income:	K
Salary (K25 000 x 12)	300 000
Transport allowance (K1,500 x 12)	18 000
Education allowance (K8 000/4 x 12)	24 000
Accommodation allowance (K12 000/3 x 12)	<u>48 000</u>
Total income	390 000
Less: deductions:	
Contribution to EIZ	<u>(3 000)</u>
Chargeable income	<u>387 000</u>

Income Tax Tax chargeable:

First K61 200 @ 0%	0
Next K24 000 @ 20%	4 800
Next K25 200 @ 30%	7 560
Balance K276 600 @ 37%	<u>102 342</u>
Tax due	114 702
Less:	
PAYE already paid	<u>(64 000)</u>
Income Tax payable	<u>50 702</u>

(e) Despite the company changing its place of effective management (POEM) from Zambia to Zimbabwe by holding the Board of director's meetings in Harare, MOP Ltd will still be liable to Zambian income tax. This is because, a company that is resident in the Republic of Zambia is liable to company income tax in Zambia regardless of the its POEM.

The residence of the company for tax purposes is determined with reference to the country of incorporation. MOP Ltd is incorporated in Zambia and therefore regardless of the place where the key management and commercial decisions that are necessary for the conduct of the company's business are in substance made from, the Company will be liable to company income tax in Zambia

SOLUTION TWO

(a) MALUBA AND BANJI PARTNERSHIP

COMPUTATION OF TAXABLE BUSINESS PROFITS FOR THE PARTNERSHIP

	K
Adjusted business profits before capital allowances	552 500
Less Capital allowances:	
Factory building (5% x (K300 000 –K100,000))	(10 000)
Delivery truck (25% x K250 000)	<u>(62 500)</u>
Adjusted Business Profits	<u>480 000</u>

ALLOCATION OF PROFITS TO EACH PARTNER

	Total K	Maluba K	Banji K
Period: 1 Jan to 31 August 2025			
Salaries ($\frac{8}{12}$ of annual)	144 000	80 000	64 000
Interest on Capital ($\frac{8}{12}$ of annual)	40 000	16 000	24 000
Share of balance (1:1)	<u>136 000</u>	<u>68 000</u>	<u>68 000</u>
Allocation (480 000 x $\frac{8}{12}$)	<u>320 000</u>	<u>164 000</u>	<u>156 000</u>
Period: 1 Sept to 31 Dec 2025			
Salaries ($\frac{4}{12}$ of annual)	48 000	24 000	24 000
Interest on Capital ($\frac{4}{12}$ of annual)	20 000	8 000	12 000
Share of balance (3:2)	<u>92 000</u>	<u>55 200</u>	<u>36 800</u>
Allocation (480 000 x $\frac{4}{12}$)	<u>160 000</u>	<u>87 200</u>	<u>72 800</u>
Total allocated profits	480 000	251 200	228 800
Less: capital allowances:			
Maluba's car (20% x 220 000) x 70%	(30 800)	(30 800)	
Banji's car (20% x 200 000) x 60%	(24 000)	-	(24 000)
Taxable business profits	<u>425 200</u>	<u>220 400</u>	<u>204 800</u>

(b) **COMPUTATION OF THE AMOUNT OF TAX ASSESSED ON**

	Maluiba	Banji
	K	K
Taxable profit	<u>220,400</u>	<u>204,800</u>
Income Tax		
On first K61,200 x 0%	0	0
On next K24,000 x 20%	4,800	4,800
On next K25,200 x 30%	7,560	7,560
K110,000/K94,400 x 37%	<u>40,700</u>	<u>34,928</u>
	<u>53,060</u>	<u>47,288</u>

SOLUTION THREE

(a)

(i) MRS PULE'S

COMPUTATION OF INCOME TAX PAYABLE FOR THE MONTH OF JUNE

	K
Basic Salary	20 000
Transport allowance	4 000
Leave pay	<u>10 000</u>
Total taxable income	<u>34 000</u>
Income Tax Under PAYE	
On first K5,100 x 0%	0
On next K2,000 x 20%	400
On next K2,100 x 30%	630
On excess (K34,000 – K9,200) x 37%	<u>9,176</u>
Total PAYE	<u>10,206</u>

(ii) COMPUTATION OF STATUTORY CONTRIBUTIONS

	K
Statutory Contributions	
NAPSA Contribution = 5% x K34,000	1 700
NHIMA contribution = 1% x K20.000	<u>200</u>
Total Statutory contributions for June 2025	<u>1 900</u>

(iii) COMPUTATION OF NET PAY

Total taxable income	34,000
PAYE for June	(10,206)
Total Statutory contributions for June 2025	<u>(1,900)</u>
NET pay	<u>21,894</u>

(b) Tax Assessment of Mrs. Pule's passenger transport and Car Park businesses

- (i) Mrs. Pule's passenger transport business is eligible for the Presumptive tax for transporters as Mrs. Pule is an individual and this tax is only available to individuals and partnerships carrying on business of public passenger transport.
- (ii) Mrs. Pule's rental of boarding house and Car park business is eligible for the Turnover tax on rental income as the boarding house and car park income qualifies as rental income as it is received in compensation for the utilisation or occupancy of real property (the boarding house and car park)

(C) Mrs. Pule's tax liability on the two types of Businesses

(i) Presumptive tax payable by Mrs. Pule on passenger transport for the charge year 2025

	K
• 30 seater Mitsubishi Rosa bus x K1,944 x 2 quarters	3,888
• 18 seater Toyota minibus x K1,296 x 2 quarters	2,592
• 4 seater Toyota corolla car x K324 x 2 quarters	<u>648</u>
Total presumptive tax payable for CY 2025	<u>5 940</u>

(ii) Turnover tax on Rental income payable by Mrs. Pule for the Charge year 2025

<u>Rental Income</u>	K
Boarding house (10 rooms x K2,500 x 4 months)	100,000
Car park (K6 000 x 4 months)	<u>24,000</u>
Total rental income	<u>124,000</u>

<u>Rental Income Tax</u>	
First K12,000 x 0%	0
Balance (K124,000 – 12,000) x 4%	<u>4,480</u>
Total tax	<u>4,480</u>

SOLUTION FOUR

(a)	COMPUTATION OF MINERAL ROYALTY					
	Copper:	\$	MT	K/US\$	Tax rate	MRT
	Price/MT	8,600				
	First	<u>(3,999)</u>	430	28.80	4%	1,980,945
		4,601				
	Next	<u>(1,000)</u>	430	28.80	6.50%	804,960
		3,601				
	Next	<u>(2,000)</u>	430	28.80	8.50%	2,105,280
	Balance	1,601	430	28.80	10%	1,982,678
	Cobalt					
	Price /MT	9,200	223	28.80	8%	<u>4,726,886</u>
	Total					<u>11,600,749</u>

(b) MMC
COMPUTATION OF TAXABLE MINING PROFIT AND COMPANY INCOME TAX PAYABLE

	K'000	K'000
Profit before tax		89,565
Add		
Depreciation	3,700	
Road construction	1,800	
Upgrading of local clinic	40,500	
Non- compliance Fines	<u>48</u>	
		<u>46,048</u>
		135,613
Less		
Dividends	65	
Capital allowances	39,300	
Mineral royalty tax	<u>11,601</u>	
		<u>(50,966)</u>

Taxable mining profit before loss relief	84,647
Loss relief	<u>(42,324)</u>
Final taxable mining profit	<u>42,324</u>
Company Income tax @30%	<u>12,697</u>

WORKINGS

(1) COMPUTATION OF CAPITAL ALLOWANCES

	K'000
Mining Excavation equipment	
$K85,500 \times 20\% \times [1 + (28.80 - 24.00)/24.00]$	20,520
Drilling Machines	
$K18,500 \times 20\% \times [1 + (28.80 - 24.00)/24.00]$	4,440
Commercial motor vehicles	
$K26,000 \times 20\% \times [1 + (28.80 - 24.00)/24.00]$	6,240
Upgrading of local clinic	
$(K40,500 \times 20\%)$	<u>8,100</u>
	<u>39,300</u>

(2) Loss relief	
Indexed loss b/f	K'000
$[1 + (28.80 - 24.00)/24.00] \times K164,500$	197,400
Less loss relief	
Restricted to 50% x 84,647,000	<u>42,324</u>
Unrelieved loss c/f at 31 December 2025	<u>155,077</u>

SOLUTION FIVE

(a) The property transfer tax arising on the transactions listed are as follows:

- (1) No property transfer tax arising on the purchase of 100 hectares of land as it only arises on the transfer of property.
- (2) The sale of the residential property in Chilenje South will result in property transfer tax based on the higher between actual price sold and market value as follows:

Property transfer tax: $K480,000 \times 8\% = K38,400$

- (3) No PTT will arise on transfer to the immediate family and immediate family where no consideration is nor received for the transfer. However, where the immediate family pays a consideration to the transfer, PTT arising will be based on the consideration paid. Immediate family members include only spouse, blood children, step children or adopted children. The niece is therefore not part of the immediate family.

The PTT arising will therefore be as follows: -

	K
Disposal to son – $K38,000 \times 8\%$	3,040
Disposal to niece - $K60,000$ (i.e. $K120,000/2$) $\times 8\%$	<u>4,800</u>
	<u>7,840</u>

(b) Income tax payable by CC Farms for the Charge year 2025

Taxable business profits	K	K
Net profit for the year		540,000
Add disallowable expenses		
Farm fencing	50,000	
Farm equipment	120,000	
Depreciation	<u>78,000</u>	
		<u>248,000</u>
Taxable business profits before deductions		788,000
Less:		
Royalties income		(60 000)
Capital allowances:		
Farm fencing ($K50,000 \times 100\%$)	50,000	
Farm equipment ($K120,000 \times 100\%$)	<u>120,000</u>	
		<u>(170,000)</u>
Taxable business Profits		<u>558,000</u>
Income tax payable		
Non-farming income (Royalties)		60,000
Farming Income (Business profits)		<u>558,000</u>
Total taxable income		<u>618,000</u>

Company income tax on non-farming income (30% x K60 000)	18,000
Company income tax on farming income (10% x K558,000)	<u>55,800</u>
Total income tax payable	73,800
Less: WHT on Royalties (15% x 60,000)	<u>9,000</u>
Income tax payable	<u>64,800</u>

(c) Ethical behaviour by tax practitioners contributes to improved tax administration in the Zambian taxation system in the following ways:

(1) Promotes Trust, Compliance, and Credibility in the Tax System

Ethical behaviour by tax practitioners promotes public confidence and trust in the fairness and integrity of the tax system. When accountants and tax advisers act honestly, transparently, and in accordance with the law, taxpayers are more willing to comply voluntarily with their obligations.

In the Zambian context, where public confidence in institutions is essential for revenue mobilisation, ethical practice by tax professionals helps reduce disputes, corruption, and tax evasion. It also reassures the Zambia Revenue Authority (ZRA) that tax returns and computations are reliable, fostering a more collaborative and less adversarial compliance environment.

(2) Protects Professional Reputation and Reduces Legal and Disciplinary Risk

Maintaining ethical conduct safeguards the professional standing of accountants and tax advisers by ensuring compliance with the IFAC Code of Ethics, the Income Tax Act (Cap 323), and the Anti-Corruption Act.

Practitioners who uphold the principles of integrity, objectivity, and professional behaviour are less likely to face disciplinary sanctions, legal penalties, or loss of practising licence.

In the long term, ethical conduct enhances career credibility and creates sustainable professional relationships with clients, ZRA, and other regulators. By contrast, unethical behaviour such as falsifying returns, offering bribes, or concealing income damages both individual and institutional reputations, leading to loss of trust and potential prosecution.

(3) Ethical conduct also contributes to the integrity of financial reporting and good corporate governance. It encourages fair competition and strengthens the credibility of tax advisory services in the wider economy. By reinforcing a culture of honesty and accountability, ethical practitioners become partners in national development, supporting sustainable tax administration and resource mobilisation.

END OF SUGGESTED SOLUTIONS



POST GRADUATE DIPLOMA IN TAXATION EXAMINATIONS

PGDT4: INDIRECT AND TRADE TAXES

THURSDAY 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. You will be told when to start writing.
2. This paper is divided into TWO (2) sections:

Section A: ONE (1) **Compulsory** scenario question.
Section B: FOUR (4) Optional questions. Attempt any THREE (3) questions.
3. Enter your student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.
10. A Taxation table is provided from page 2 to page 7 of the question paper.

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

TAXATION TABLE

Income Tax

Standard personal income tax rates

Income band	Taxable amount	Rate
K1 to K61,200	first K61,200	0%
K61,201 to K85,200	next K24,000	20%
K85,201 to K110,400	next K25,200	30%
Over K110,400		37%

Income from farming for individuals

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

Company Income Tax rates

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

Mineral Royalty

Mineral Royalty on Copper

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

Mineral Royalty on other minerals

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

Capital allowances

Implements, plant and machinery and commercial vehicles:

Wear and tear allowance –	Standard wear and tear allowance	25%
	Wear and tear allowance if used in manufacturing and leasing	50%
	Wear and tear allowance if used in farming and agro-processing	100%
	Wear and tear allowance if used in Mining and Mineral processing	20%

Non-commercial vehicles

Wear and tear allowance	20%
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Industrial buildings:

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

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

Wear and tear allowance	2%
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Farming allowances

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

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

K1 to K12,000	First K12,000	0%
---------------	---------------	----

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

	K	K
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Less than 12 passengers and taxis	1,296	324
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From 12 to 17 passengers	2,592	648
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From 18 to 21 passengers	5,184	1,296
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From 22 to 35 passengers	7,776	1,944
--------------------------	-------	-------

From 36 to 49 passengers	10,368	2,592
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From 50 to 63 passengers	12,960	3,240
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From 64 passengers and over	15,552	3,888
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Property Transfer Tax

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

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

Customs and Excise duties on used motor vehicles

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

Station wagons

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

SUVs

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

	Aged 2 to 5 years	Aged over 5 years		
	Customs duty	Excise duty	Customs duty	Excise duty

Motor vehicles for the transport of goods

K K K K

Single cab

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

Double cabs

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

Panel vans

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

Trucks

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

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

Surtax

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

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

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

Customs Duty:

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

Excise Duty:

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

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

Customs Duty

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

Excise Duty:

Percentage of Value for Duty Purposes for Excise Duty Purposes	10%
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- Buses/coaches for the transport of more than ten persons**

Customs Duty:

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

Excise Duty:

Percentage of Value for Duty Purposes for Excise Duty Purposes	
Seating Capacity of 16 persons and less	25%
Seating Capacity of 16 persons and more	0%

4. **Trucks/lorries with gross weight exceeding 20 tonnes**

Customs Duty:

Percentage of Value for Duty Purposes	15%
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Excise Duty:

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

This question is Compulsory and must be attempted.

QUESTION ONE - (COMPULSORY)

You work for TCX Chartered Accountants in the Tax advisory unit. You are dealing with the tax affairs of one of your firm's clients, Kuku Ltd, which is a VAT registered Zambian resident manufacturing company.

You have been provided with the following financial results for Kuku Ltd for the month of June 2025. Unless specifically stated otherwise, all of the transactions given below are stated exclusive of VAT:

	K
Sales (note 1)	5,900,000
Purchases (Note 2)	<u>(2,200,000)</u>
Gross profit	3,700,000
Other Income (Note 3)	<u>20,000</u>
Total Operating income	3,720,000
Operating Expenses (Note 4)	<u>(3,100,000)</u>
Profit before taxation	<u>620,000</u>

The following additional information is provided:

- (1) The total sales for the month is made up of the following:

	K
Standard rated sales to VAT registered customers	2,900,000
Standard rated sales to customers not registered for VAT	1,410,000
Exempt sales to VAT registered customers	590,000
Zero rated sales to VAT registered customers	<u>1,000,000</u>
	<u>5,900,000</u>

- (2) The Purchases for the month are made up of:

	K
Purchases from VAT registered suppliers	1,480,000
Purchases from suppliers not registered for VAT	<u>720,000</u>
	<u>2,200,000</u>

- (3) The other income relates to the profit made on the sale of standard rated office equipment for K100,000.

The operating expenses were made up of:

	K
Motor running expenses (see also Note 4)	260,000
Depreciation	180,000
Salaries and wages	1,900,000
Sales advertising	360,000
Entertainment Expenses	80,000
Bad debts (Note 5)	20,000
General expenses	<u>300,000</u>
	<u>3,100,000</u>

All operating expenses are incurred in making both taxable and exempt supplies in proportion to sales and are standard rated where applicable.

- (4) The motor running expenses were incurred on motor vehicles which are wholly used for business purposes and are made up of:

	K
Diesel for delivery vehicles	120,000
Petrol for company's pool cars	80,000
Servicing and repairs of vehicles	<u>60,000</u>
	<u>260,000</u>

- (5) The bad debts which were written off on 30 June 2025 due to bankruptcy of the customers consists of two invoices to standard rated customers of K12,000 and K8,000 in respect of which payment was due on 30 November 2023 and 31 May 2024 respectively.

- (6) The company acquired the following non-current assets during the month of June 2025:

- (i) A machine to be used to manufacture goods at a cost of K139,200 VAT inclusive.
- (ii) A new 18 seater Toyota Hiace minibus from CFAO Zambia to be used to transport employees at a cost of K575,000 before duties and taxes. The minibus was warehoused in bonded warehouse until the time it was bought by Kuku Ltd.

The Directors of Kuku Ltd who are planning to diversify operations of the company into the import and export market, became intrigued about the fact that the vehicle was kept in a bonded warehouse and have requested you for information about the use of bonded warehouses in international trade.

- (iii) A second hand truck with a gross weight of ten (10) tonnes from Japan costing US\$1,800 for the transportation of goods. Insurance and freight up to the point of entry was US\$2,000. The transport charge from the point of entry at Nakonde Border post, to Lusaka was K2,250. The truck was manufactured in June 2018.

The Commissioner General advised that the exchange rate ruling at the time of importation was K23.00 per \$1. It was established that the value for import Value Added Tax purposes for such type of motor vehicle is K96,000. Motor vehicle fee, asycuda processing fee and carbon emission surtax should be ignored.

Required:

- (a) Advise the Directors of Kuku Ltd on the nature and purposes of a bonded warehouse. (5 marks)
- (b) In relation to the purchase of motor vehicles in note (7) above:
 - (i) Determine the total taxes paid on the acquisition of the new 18 seater Toyota Hiace minibus. (4 marks)
 - (ii) Compute the VDP and total import taxes paid on the importation of the second hand ten (10) tonne truck. (7 marks)
- (c) Advise the Directors of Kuku Ltd of any five (5) conditions or restrictions that must be met for any input VAT incurred by the company to be recoverable. (5 marks)
- (d) Advise on any three (3) conditions that must be met for Kuku Ltd to be able claim Bad Debt Relief. (3 marks)
- (e) In relation to the above transactions which occurred in the month of June 2025:
 - (i) Determine the percentage of the recoverable non-attributable input VAT using the proportion of the total taxable supplies for the period to the total supplies for the period. (2 marks)
 - (ii) Compute the amount of VAT payable by the company for the month of June 2025 (14 marks)

[Total: 40 Marks]

SECTION B:

There are FOUR questions in this section.

Attempt any THREE (3) questions.

QUESTION TWO

Mable Ltd is one of your clients for the firm of Chartered Accountants that you work for. The company commenced operations in 2023 making standard rated sales. The company imports some of the goods it sells on the market. For the past two (2) years, the company's annual turnover has been less than K800,000.

For the charge year 2025, the company made the following VAT exclusive sales turnover per month in each of the four quarters of the year:

In quarter 1 K65,000 per month
In quarter 2 K80,000 per month
In quarter 3 K90,000 per month
In quarter 4 K95,000 per month

Early in January 2025, the Zambia Revenue Authority Officer advised the Accountant that the company should register for Value Added Tax (VAT) under the compulsory registration scheme once the turnover has exceeded the mandatory registration threshold.

The Directors of Mable Ltd have requested your firm of Chartered Accountants for advice on matters relating to VAT registration and deregistration, and the role of the Zambia Revenue Authority in relation to administration of indirect taxes.

Required:

- (a) Advise Mable Ltd on the types of persons who are eligible to register for Value Added Tax (VAT) in Zambia. (4 marks)
- (b) Based on the information provided above, assess whether Mable Ltd will be required to register for VAT. (6 marks)
- (c) Advise Mable Ltd of any four (4) circumstances in which a trader who is registered for VAT can be deregistered. (4 marks)
- (d) Discuss the role of the Zambia Revenue Authority in relation to the administration of:
 - (i) Domestic VAT. (2 marks)
 - (ii) Import VAT. (2 marks)
 - (iii) Customs Duty. (2 marks)

[Total: 20 Marks]

QUESTION THREE

The agriculture sector is one of the priority sectors identified by the Government for the purpose of development in the Country. The sector is critical as a number of the agricultural output become input in the manufacturing sector another priority sector in the Zambia. The sector therefore enjoys a number of tax concessions such as the reduced income rate of 10% as well as other concessions available under the Value Added Tax Act.

A group of investors has approached your firm of Chartered Accountants for advice on the treatment of Agricultural products, such as vegetables, fruits, milk, meat, poultry, and fish for VAT purposes. Further, they need advice on products manufactured that attract Excise duty. The investors were considering to produce Maheu or Chibwantu from the Maize that they would produce from their farm, should they decide to invest in the agriculture sector.

Required:

- (a) Contrast the VAT treatment of the following agricultural products:
 - (i) Vegetables when supplied by a farmer and when supplied by a restaurant. (2 marks)
 - (ii) Bread compared to scones, both supplied by a Restaurant. (2 marks)
 - (iii) Milk when supplied by a dairy farmer and milk in tins supplied by a Cafeteria. (2 marks)
 - (iv) Uncooked fresh fish supplied by farmer and when supplied by a Canteen. (2 marks)
 - (v) Flour produced from wheat compared to cakes. (2 marks)
- (b) Advise the investors on:
 - (i) Whether Excise duty is chargeable on the production of Maheu or Chibwantu. (2 marks)
 - (ii) The three (3) main types of excise duty structures applicable in Zambia. (6 marks)
 - (iii) The points at which Excise Duty on goods and services liable to Excise Duty is imposed. (2 marks)

[Total: 20 Marks]

QUESTION FOUR

You are employed as a Tax Accountant at Bella Cosmetics Ltd, an importer of cosmetics, which are sold through its retail outlets in Zambia.

In April 2025, Bella Cosmetics Ltd imported a consignment of cosmetics into Zambia from South Africa at the following prices:

- 100 litres of Perfumes and Toilet Waters (HS 3303.00.00) at US\$22 per litre
- 200 kg of Lip Make-up Preparations (HS 3304.10.00) at US\$15 per kg
- 150 kg of Eye Make-up Preparations (HS 3304.20.00) valued at US\$18 per kg

Transportation costs and insurance charges for the consignment from South Africa to the Chirundu border post amounted to US\$2,500 and US\$1,200 respectively. Additional transportation and insurance costs from the Chirundu border post to Lusaka were K15,000 and K10,000 respectively. The Commissioner General's approved exchange rate should be taken to be K25.00 per US\$1, where applicable.

The company's customs broker has advised you that in future, your company should classify imports of products such as Lip Make-up Preparations, Perfumes and Toilet Waters as Dentifrices (HS 3306.10.00) or dental floss (HS 3306.20.00) as this is a good tax planning strategy to enable Bella Cosmetics Ltd avoid paying some import duties on the importation of such products. The broker has promised to assist you handle the ZRA officers informally, as it provides similar services to other clients.

The following duty table extracted from the Customs Organisation Harmonized Commodity Description and Coding System (*The ZRA's National Tariff Book, 2025, Chapter 33*) should be used for the purposes of this question where applicable

HS Code	Description of goods	Stat. Unit of Quantity	Customs Duty rate	Excise Duty	VAT rate
3303.00.00	Perfumes and toilet waters.	litre	25%	20%	S
33.04	Beauty or make-up preparations				
3304.10.00	- Lip make-up preparations	kg	25%	20%	S
3304.20.00	- Eye make-up preparations	kg	25%	20%	S
3304.30.00	Manicure pedicure preparations	kg	25%	20%	S
	Other				
3304.91.00	Powders, whether or not compressed	kg	25%	20%	S
	-- Other				
3304.99.10	---Petroleum Jelly	kg	25%	-	S
33.06	Preparations for oral or dental hygiene, in individual retail packages				
3306.10.00	- Dentifrices	Kg	free	-	S
3306.20.00	- Yarn used to clean between the teeth (dental floss)	Kg	Free	-	S

Required:

- (a) Determine the Value for Duty Purposes (VDP) for the consignment and the total import taxes paid by Bella Cosmetics Ltd on the importation the above products. (10 marks)
- (b) Evaluate the ethical implications of the customs broker's suggestion to classify imports of some cosmetic products under a different HS Codes to avoid paying import taxes, explaining how you should respond to the matter. (6 marks)
- (c) In relation to local Excise Duty, advise on any four (4) types of records that a Zambian Resident company manufacturing goods from imported and local materials ought to maintain under the provisions of the Customs and Excise Act. (4 marks)

[Total: 20 Marks]

QUESTION FIVE

Afro Ltd manufacture various household products from imported raw materials. Following the International Trade Fair held in July 2025, the company found market for its products in Namibia and in August 2025, it commenced exports of its products to Namibia.

Afro Ltd is expanding its operations and wishes to add new product ranges to its already existing ones. It therefore wishes to open a new manufacturing plant in Ndola to accommodate the manufacture of the new products. Although Afro Ltd is already registered for Excise duty with the Zambia Revenue Authority, it wishes to register the new range of products and plant for Excise duty as per the regulations.

Following the newly found market in Namibia, and the new manufacturing plant in Ndola, the new Directors of the Afro Ltd have approached your firm of Tax Consultants for some information regarding export concessions available to exporters by local manufacturers and also registration requirements for excisable goods.

Required:

- (a) Explain the nature and purpose of export concessions given to exporters of goods. (4 marks)
- (b) Advise the Directors of Afro Ltd of the specific types of export concessions which are available to Afro Ltd on its exports, explaining their purpose in each case. (6 marks)
- (c) Advise the Directors of Afro Ltd on any three (3) types of information and documents needed to be submitted to ZRA:
 - (i) For the registration of the new range of products for Excise Duty. (3 marks)
 - (ii) For the registration of the new plant in Ndola for Excise Duty. (3 marks)
- (c) Advise the Directors of Afro Ltd of the conditions the company must meet in order to claim Input Excise Tax on the input materials that have been used in the manufacture of other excisable products. (4 marks)

[Total: 20 Marks]

END OF PAPER

PDGT 4 INDIRECT AND TRADE TAXES

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) **Bonded Warehouse**

Nature of bonded warehouse

A bonded warehouse is a building, an installation or an area licensed in terms of section 55 of the Customs and Excise Act by the Zambia Revenue Authority (ZRA) where imported goods can be stored without immediate payment of customs duties and taxes. This facility allows importers to defer duty payments until the goods are released for consumption or further processing.

Purpose of Bonded Warehouse

- (1) Enables goods are stored without payment of duty, giving the importer enough time to source funds, as goods can sell slowly due to fluctuating demand; hence duty can be paid according to demand.
- (2) They enable constant supply of raw materials in manufacturing industry by importing in bulk and payments being made according to production demands.
- (3) Bonded warehouses offer flexibility in managing inventory and cash flow by allowing importers to pay duties only when goods are ready for sale or use.
- (4) Bonded warehouses can store various goods, including machinery, equipment, raw materials, and even new motor vehicles.

(b) **Determination of the total taxes payable**

(i) *On acquisition of the new 16 seater Toyota Hiance minibus*

	Values K	Taxes K
Value for Duty Purposes	575 000	
Customs Duty (K575 000 x 15%)	<u>86 250</u>	86 250
	661 250	
Excise duty (K661 250 x 0%)	<u>0</u>	0
	661 250	
Value Added Tax (K661 250 x 16%)	105 800	<u>105 800</u>
Total Taxes		<u>192 050</u>

(ii) *On importation of the second hand 10 tones truck*

Since the truck is more than 5 years old from the date of manufacture (June 2018) and has a gross weight of 10 tonnes, the total amount of import taxes payable will be determined as follows:

	Values K	Taxes K
Value for Duty Purposes (w1)	87 100	
Customs Duty (specific duty)	<u>10 477</u>	10 477
	97 577	
Excise duty (specific duty)	<u>8 032</u>	8 032
	105 609	
Value Added Tax (K96 000 x 16%)	<u>15 360</u>	15 360
Total value	120 969	
Surtax (minibus is over 5 years old)	2 000	<u>2 000</u>
Total Taxes		<u>35 869</u>

Working

1. Value for Duty Purposes	\$
Cost	1 800
Insurance and freight to point of entry	<u>2 000</u>
CIF	<u>3 800</u>
VDP - \$3 800 x K23/\$	<u>K 87 100</u>

(c) **Advise on conditions and restrictions that must be met for input VAT to be recoverable**

Input VAT is recoverable if the following conditions are met:

- (1) At the time the supply was made, the trader was a registered trader for VAT purposes.
- (2) The supply must have been made to the taxable person making the claim.
- (3) The supply must be supported by evidence in the form of the tax invoice. A supplier shall not deduct, credit, or claim input tax, unless the supplier at the time of lodging the return in which the deduction, credit or claim is made, is in possession of tax invoice.
- (4) The person making the claim must use the goods or services for business. Personal expenses do not qualify for relief.
- (5) The amount available for recovery is that which is accurately calculated. The tax must be the amount that accurately relates to the supply.
- (6) The VAT should not be that which is irrecoverable.
- (7) Input tax shall not be deducted or credited after a period of ninety days from the date of the relevant tax invoice or other relevant evidence to the date of submitting the return, except in such circumstances as the Commissioner General may by rule, specify. This means that there is a ninety-day time Limit for claiming Input VAT.
- (8) Input VAT incurred by intending traders provided the following conditions are satisfied:
 - Intending trader for electricity generation, farming, mining or tourism, where the intending trader is engaged in the development of a tourism facility or tourism infrastructure, and is registered and licensed by the Zambia Tourism Agency: Input VAT should have been incurred within a period of four years after registration as an intending trader;
 - Intending trader for mining, petroleum or gas exploration: Input VAT should have been incurred within a period of ten years after registration as an intending trader;
 - Intending trader for hydroelectricity generation: Input VAT should have been incurred within seven years from the date of registration as an intending trader; and

- Any other intending trader: Input VAT should have been incurred within a period of two years after registration as an intending trader.

(d) **Advise on conditions for claiming Bad Debt Relief**

For a business to successfully claim bad debt relief under VAT law, the following key conditions must generally be met:

- (1) *The Debt Must Be Written Off*: The business must have written off the unpaid amount in its accounting records as a bad debt. The customer must have been declared bankrupt, if the customer is an individual or declared insolvent if the customer is a company.
- (2) *Time Period*: The amount written off must have been overdue for at least eighteen months from when payment was due. The customer must also have been declared bankrupt or insolvent as pointed out above.
- (3) *Evidence of Efforts to Recover the Debt*: The business must demonstrate that reasonable attempts were made to recover the outstanding amount. This could include evidence of reminders sent to the customer, legal action taken, or other measures undertaken to secure payment.
- (4) *Output VAT Paid to the Revenue Authority*: The VAT on the unpaid invoice must have been accounted for and paid to the Zambia Revenue Authority (ZRA). If the VAT has not been remitted, the business cannot claim relief. Therefore, traders who use the cash accounting system cannot claim bad debt relief since no output VAT will have been paid.
- (5) *Relationship Between Parties*: The bad debt should not arise from a transaction between related parties. Transactions between connected persons may not qualify for bad debt relief, as these could be seen as artificially structured to gain tax advantages.

(e) (i) Determination of the percentage of the recoverable non-attributable input VAT

$$\begin{aligned}
 \text{Recoverable non-attributable input VAT} &= \frac{\text{Total taxable supplies}}{\text{Total supplies}} \times 100\% \\
 &= \frac{(2\,900\,000 + 1\,410\,000 + 1\,000\,000)}{5\,900\,000} \times 100\% \\
 &= \frac{5\,310\,000}{5\,900\,000} \times 100\% \\
 &= \underline{\underline{90\%}}
 \end{aligned}$$

(ii) **Determination of VAT payable for the month of June 2025**

<i>Output VAT</i>	K	K
Standard rated sales to VAT registered customers (2 900 000 x 16%)		464,000
Standard rated sales to customers not registered for VAT (1 410 000 x 16%)		225,600
Zero rated sales to VAT registered customers (1 000 000 x 0%)		0
Sale of Office equipment (K100 000 x 16%)		<u>16,000</u>
Total Output VAT		705,600
Input VAT		
Purchases from VAT registered suppliers (1 480 000 x 16%)	236,800	
Diesel for delivery Vehicles (120 000 x 16% x 90%) x 90%	15,532	
Servicing and repairs (60 000 x 16% x 90%)	8,640	
Sales advertising (360 000 x 16% x 90%)	51,840	
Bad debts (12 000 x 16%)	1,920	
General expenses (300 000 x 16% x 90%)	43,200	
Machine (139 200 x 4/29)	19,200	
Toyota Hiace Minibus [a(i)]	105,800	
Truck [a(ii)]	<u>15,360</u>	
Total recoverable input VAT	<u>498,292</u>	
VAT payable for the month of June 2025		<u>207,308</u>

SOLUTION TWO

(a) Persons eligible to register for Value Added Tax (VAT) in Zambia

There are two types of persons who are eligible to register for VAT in Zambia:

- (i) All persons who carry on businesses of making taxable supplies in Zambia where the VAT exclusive taxable turnover exceeds K200,000 for any consecutive period of 3 months or K800,000 for any period of 12 months are required to register for VAT under the Compulsory scheme.
- (ii) All persons who carry on businesses of making taxable supplies in Zambia but their VAT exclusive turnover does not exceed the mandatory threshold of K200,000 for any consecutive period of 3 months or K800,000 for any period of 12 months are eligible to register for VAT under the Voluntary scheme.

(b) Assessment as whether to Mable Ltd on whether they were required to register for VAT by when the company should have registered for VAT

Since Mable Ltd makes taxable supplies in Zambia and exceeded the K800 000 turnover threshold in the year 2025, and the company was required to register for VAT as advised by ZRA.

In order to establish when Mable Ltd was required to register for VAT, we ought to calculate the total VAT exclusive taxable turnover on the 3 months rolling basis as follows:

Period	Turnover K
1 January to 31 March 2025 (K65 000 x 3)	195,000
1 February to 30 April 2025 (K65,000 + K65,000 + K80,000)	210,000

Mable Ltd's VAT exclusive taxable turnover exceeded the K200,000 threshold for the consecutive 3 months period from February to April 2025 and hence would be required to register for VAT within one month from 30 April 2025 or from the date the application was received by ZRA or if the application was not made within one month of first becoming liable to register, on the day following the first period during which the limits were exceeded i.e. 1st May 2025.

(c) **Conditions for deregistration of a VAT registered trader**

A trader who is registered for VAT can be de-registered if any of the following occur:

- (i) If the business is sold or ceases to trade permanently.
- (ii) If ZRA is satisfied that the trader is no longer making taxable supplies nor intending to make taxable supplies, then he would be de-registered.
- (iii) If there is a change in the legal status of the trader. For example, where a sole trader incorporates his business.
- (iv) If a trader had applied for registration before commencing to trade and that trader fails to commence to trade on the expected date.
- (v) If a trader submits nil returns for twelve consecutive standard periods.
- (vi) When a trader's VAT exclusive taxable turnover falls prominently below the registration threshold.

(d) **The role of the Zambia Revenue Authority in relation to the administration of Domestic VAT, Import VAT and Customs Duty**

The Zambia Revenue Authority (ZRA) is responsible for the administration of taxes in Zambia through its Domestic Taxes and Customs Services Divisions

- (i) **Domestic VAT** – ZRA through its Domestic Taxes Division is responsible for VAT registration and compliance for businesses that meet the prescribed turnover threshold, and compliance through the collection of VAT from the registered VAT traders and charging of penalties and interest for noncompliance to the VAT regulations.
- (ii) **Import VAT** - ZRA through its Customs Services Division responsible for charging and collection of import VAT on imported goods into the country. Further, ZRA imposes penalties for noncompliance with customs regulations on the declaration of the imported goods and payment of import VAT such as impounding the imported goods and disposing them in order to realise the tax due
- (iii) **Customs duty** - ZRA through its Customs Services Division responsible for charging and collection of customs duty on imported goods into the country. ZRA imposes penalties for noncompliance with customs regulations on the declaration of the imported goods and payment of customs duty such as impounding the imported goods and disposing them in order to realise the duty due.

SOLUTION THREE

- (a) Advice on treatment of the following agricultural products for VAT purposes:

The treatment of the agricultural products for VAT purposes is as follows:

- (i) Vegetables supplied by a farmer are exempt from VAT whereas when supplied by a Restaurant they are standard rated.
- (ii) Bread supplied by a restaurant is zero rated for VAT purposes whereas scones supplied by the same restaurant are standard rated.
- (iii) Milk when supplied by a dairy farmer is exempt from VAT whereas when supplied by a Cafeteria in tins is standard rated.
- (iv) Uncooked fresh fish supplied by farmer is exempt from VAT whereas when supplied by a Canteen, it is standard rated.
- (v) Flour produced from wheat is zero rated for VAT purposes whereas cakes are standard rated.

- (b) Advice to the investors

- (i) There are various categories of goods that are chargeable to excise duty in Zambia. Maheu or Chibwantu falls under the category of Non-Alcoholic Beverage goods on which Excise duty is chargeable.
- (ii) There are three main types of excise duty structures applicable in Zambia and these are:
 - Specific Duty – under this structure type, a fixed amount is charged per unit of the excisable product. For example, an excise duty of K0.40 per litre of chibuku or K0.50 per pack of cigarettes.
 - Ad Valorem Duty – under this structure type, a percentage of the value of the goods or services is charged. For example, a 35% excise duty on the ex-factory price of motor vehicles or a 10% duty on airtime.
 - Hybrid Duty – under this structure type, a combination of both specific and ad valorem duties is applied. For example, excise duty on cigarettes may include a fixed amount per pack plus a percentage of the retail price.
- (iii) Excise Duty on goods and services liable to Excise Duty is imposed at various times as follows:
 - Importation for imported goods in the country
 - Production by the manufacturer for good manufactured locally
 - Sale or disposal by the manufacturer for the goods sold by a manufacturer
 - Use or consumption by the manufacturer or consumer

SOLUTION FOUR

(a) COMPUTATION OF VDP FOR CUSTOMS PURPOSES

100 litres of Perfumes and Toilet Waters @US\$22	\$2,200
200 kg of Lip Make-up Preparations @ US\$15 x 200	\$3,000
Eye Make-up Preparations (US\$18 x 150)	<u>\$2,700</u>
	\$7,900
Transportation costs	\$2,500
insurance charges	<u>\$1,200</u>
	11,600
	<u>x K25</u>
VDP for customs duty purpose	<u>290,000</u>

COMPUTATION OF IMPORT TAXES

	K	K
VDP for customs duty purpose	290,000	
Customs Duty (K230,000 x 25%)	<u>72,500</u>	72,500
	362,500	
Excise K287,500 x 20%)	<u>72,500</u>	72,500
	435,000	
Import VAT (K435,000 x 16%)	<u>69,600</u>	69,600
	<u>504,600</u>	<u>214,600</u>

(b) Ethical implications

Deliberate Misclassification of cosmetic products such as Lip Make-up Preparations, Perfumes and Toilet Waters as classified as Dentifrices or dental floss (i.e Yarn used to clean between the teeth) which do not attract customs and excise duty, to reduce tax constitutes tax evasion, which is illegal under the Customs and Excise Act.

The broker's offer to "handle" ZRA officers informally implies bribery or facilitation payments, prohibited under the Anti-Corruption Act No. 3 of 2012.

Following such advice would breach the fundamental principle of Integrity, requiring accountants to be honest and truthful in all professional dealings. Misrepresenting customs information constitutes dishonesty resulting in a breach of the fundamental principle of professional behavior as following such advice may bring the institute into disrepute and is not in line with legal requirements. Engaging in unlawful or misleading conduct discredits the profession. Tax practitioners must ensure compliance with all tax and customs laws.

Furthermore, the broker's influence may create familiarity and self-interest threats, impairing the Tax Accountant's objectivity or ability to make unbiased decisions. Allowing external influence to override professional judgment

Following the broker's suggestion would expose Bella Cosmetics Ltd to serious risks of legal penalties and prosecution for customs fraud and loss of reputation., with you as a Tax Accountant being liable to personal disciplinary action by ZICA for professional misconduct. The practitioner's ethical duty extends beyond company loyalty — it includes acting in the public interest and upholding the credibility of the accounting profession

Recommended Professional Response

The Tax Accountant should:

1. Reject the broker's suggestion and refuse to participate in any illegal or unethical act.
2. Advise management in writing about the legal and ethical implications of misclassification and bribery.
3. Ensure correct HS classification of imported goods in accordance with the Customs Tariff Schedule and ZRA guidelines.
4. Disassociate from any transaction if management insists on unethical action.
5. Report the broker's conduct to ZRA's Integrity Committee or the Anti-Corruption Commission (ACC) if bribery is suspected.
6. Document all communications to protect professional accountability.

(c) Excise Duty

The records to be kept by a manufacturer in relation to Excise duty:

- All goods received into the licensed premises;
- All goods manufactured or produced on the licensed premises;
- All goods removed from the licensed premises;
- All goods consumed, lost, or otherwise disposed of during any process of manufacture or production;
- All inventories on hand including input inventories and products whether fully or partially manufactured or produced;
- All Excise Duty or Surtax paid or payable. ZRA charges a penalty on the unpaid provisional income tax at 5% per month or part thereof.
- ZRA charges interest on overdue tax at the Bank of Zambia discount rate plus 2% per annum.

SOLUTION FIVE

(a) Export concessions

Export concessions are incentives and benefits, such as of tax reliefs, financial aid, and access to credit and financing, given by Government to exporters of goods. Export concessions are given to exporters in order to make the country's exports cheaper and competitive on the international market and boost the country's exports.

(b) Types of concessions available to Afro Ltd

- *Zero rating of exports*

This concession allows exporters to sell their output free of VAT and excise taxes and hence make the exports cheaper and competitive in foreign markets. It also allows exporters to recover any input VAT if the exporter s registered for VAT.

- *Relief from export taxes under the Draw Back Duty (DDB) system*

This is an export support program by the government that enables local manufacturers to get back any taxes incurred either directly or indirectly on any goods produced for export. The purpose of the duty drawback is to avoid double taxation.

- *Free duty for raw materials that are kept in the warehouses*

This concession allows local manufacturers of goods for export like Afro Ltd, not to pay duty on raw materials and hence make the exports more competitive on the international market.

(c) Registration for Excise Duty information and documents

Manufacturers who wish to register for excisable goods should do so through the ZRA's website and provide the following information and documents:

(i) Product details (in PDF format)

- Manufacturing flow charts showing how production is going on
- Process flow
- Production formulation
- Cost structure

(ii) Plant details:

- Plan process
- List of machinery equipment
- A full description of manufacture
- Bank statement
- Tax clearance Certificate (this is for existing businesses)
- Articles of association contain internal organisational rules and procedures
- Certificate of Incorporation
- Physical location of the tax payer/business premises

(d) Input duty on goods may be claimed where:

- In any return it is declared that goods, on which Excise Duty has been paid, have been used as inputs in the manufacture of goods that are themselves subject to Excise Duty and the Commissioner-General is satisfied that the claim is correctly made and supported by auditable management processes and records.
- Excisable goods are manufactured in licensed premises and are before sale or disposal used as input in making other goods which are subject to Excise Duty.

END OF SUGGESTED SOLUTIONS



POST GRADUATE DIPLOMA IN TAXATION EXAMINATIONS

PGDT5: INTERNATIONAL TAXATION

THURSDAY 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. You will be told when to start writing.
2. This paper is divided into TWO (2) sections:
Section A: ONE (1) **Compulsory** scenario question.
Section B: FOUR (4) Optional questions. Attempt any THREE (3) questions.
3. Enter your student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.
10. A Taxation table is provided from page 2 to page 7 of the question paper.

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

TAXATION TABLE

Income Tax

Standard personal income tax rates

Income band	Taxable amount	Rate
K1 to K61,200	first K61,200	0%
K61,201 to K85,200	next K24,000	20%
K85,201 to K110,400	next K25,200	30%
Over K110,400		37%

Income from farming for individuals

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

Company Income Tax rates

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

Mineral Royalty

Mineral Royalty on Copper

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

Mineral Royalty on other minerals

Type of mineral	Mineral Royalty Rate
Cobalt and vanadium	8% on norm value

Base metals (other than copper, cobalt and vanadium)	5% on norm value
Energy and industrial minerals	5% on gross value
Gemstones	6% on gross value
Precious metals	6% on norm value

Capital allowances

Implements, plant and machinery and commercial vehicles:

Wear and tear allowance –	Standard wear and tear allowance	25%
	Wear and tear allowance if used in manufacturing and leasing	50%
	Wear and tear allowance if used in farming and agro-processing	100%
	Wear and tear allowance if used in Mining and Mineral processing	20%

Non-commercial vehicles

Wear and tear allowance	20%
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Industrial buildings:

Wear and tear allowance	5%
Initial allowance	10%
Investment allowance	10%

Low cost housing (Cost up to K100,000)

Wear and tear allowance	10%
Initial allowance	10%

Commercial buildings:

Wear and tear allowance	2%
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Farming allowances

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

Presumptive Taxes**Turnover Tax****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%
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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	
	Customs duty	Excise duty	Customs duty	Excise duty
Motor vehicles for the transport of ten or more persons, including the driver	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
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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
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Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	16,129	13,979	9,678	8,387
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Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	16,996	22,095	9,518	12,373
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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
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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
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Cylinder capacity exceeding 3000 cc	25,494	33,142	13,597	17,676
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SUVs

Cylinder capacity not exceeding 1000 cc	17,598	15,252	10,559	9,151
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Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	20,463	17,735	12,278	10,641
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Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	23,794	30,933	14,277	18,560
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Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	27,193	35,351	17,540	22,802
Cylinder capacity exceeding 3000 cc	32,292	41,980	20,395	26,514
	Aged 2 to 5 years		Aged over 5 years	
	Customs duty	Excise duty	Customs duty	Excise duty
Motor vehicles for the transport of goods				
	K	K	K	K
Single cab				
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	24,777	10,737	9,911	4,295
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	29,732	12,884	17,344	7,516
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	34,687	15,031	19,821	8,589
Double cabs				
GVW not exceeding 3 tonnes	34,687	15,031	27,254	11,810
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	38,156	16,534	29,980	12,991
Panel vans				
GVW not exceeding 1.0 tonne	15,089	6,539	8,622	3,736
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	17,344	7,516	9,911	4,295
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	19,821	8,589	17,344	7,516
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	24,777	10,737	19,821	8,589

Trucks

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

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

Surtax

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

Customs and Excise on New Motor vehicles

Duty rates on:

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

Customs Duty:

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

Excise Duty:

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

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%
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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%
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Excise Duty:

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

This question is compulsory and MUST be attempted.

QUESTION ONE – (COMPULSORY)

You are a Senior Tax Advisor at CMV Chartered Accountants and your supervisor has asked you to deal with the tax affairs of your client, NorthMac Zambia Ltd (NorthMac).

NorthMac, a Zambian resident company, is a subsidiary of SiMac Inc a company which was incorporated in a country known as SwissLand and has branches in many countries within Africa and Europe. NorthMac is an Information Technology company that provides IT services to its clients within Zambia. The company receives technical support services and software licenses from its parent company. The operations of NorthMac are mostly financed by the loans that are obtained from its parent company.

During the year ended 31 December 2025, NorthMac made the following payments to its parent company in SwissLand:

	US\$
Royalties (for software license)	100,000
Technical support (management fees) services	53,000
Interest on intercompany loans	10,000

NorthMac has made investments in both Zambian resident companies and companies resident in SwissLand as part of its expansion strategies. During the year ended 31 December 2025, the company received the following income from both Zambian and foreign investments:

<u>Zambian income</u>	K
Dividends from companies listed on LuSE	47,600
Bank interest	104,550

<u>Foreign income</u>	K	Rate of WHT
Dividends	159,250	35%
Bank deposit interest	234,000	22%

The above amounts of Zambian and foreign investment income represent the actual cash received. Withholding tax had been deducted at source where appropriate.

NorthMac made a taxable business profit amounting to K24,240,000 during the year ended 31 December 2025. This profit is after all necessary tax adjustments but before capital allowances. The only assets held by NorthMac included an administrative building (cost of land – K800,000) costing K5,800,000 and fixture & fittings costing K6,000,000. The administrative

building was acquired in 2018 while the fixtures & fittings were installed in 2023. Provisional income tax paid by NorthMac during the year ended 31 December 2025 amounted to K4,420,000.

Recently the Zambia Revenue Authority (ZRA) highlighted the cross-border payments made by NorthMac to its parent company (SiMac Inc) for potential non-compliance with the Zambian income tax law and double taxation guidelines. One of the strategies the Zambia Revenue Authority could use to deal with the cross-border non-compliance to tax laws is through cooperation models with other tax authorities.

The directors of SiMac Inc have indicated to you that currently the company is faced with juridical double taxation and economical double taxation.

Therefore, the directors of SiMac Inc are seeking advice on the Zambian income tax treatment of the amounts it charges its subsidiary. The directors further wish to know if there are any ways of giving double taxation relief in Zambia.

There is no double taxation convention between Zambia and SwissLand. Any double taxation relief in Zambia is given by way of unilateral credit relief.

Required:

- (a) Advise on the difference between juridical and economical double taxation, giving an example for each. (4 marks)
- (b) Explain the following benefits of the cooperation models between revenue or tax authorities:
 - (i) Exchange of information. (2 marks)
 - (ii) Joint investigations of Taxpayers. (2 marks)
- (c) Advise on the differences between the concept of source and the concept of residency as they apply in international taxation. (4 marks)
- (d) Advise the Directors of SiMac Inc of the three (3) methods of giving double taxation relief to individuals and corporations resident in Zambia with sources of income outside Zambia. (6 marks)
- (e) Advise the directors of SiMac Inc on whether SiMac Inc is liable to Zambian income tax for the year ended 31 December 2025, on:
 - (i) SiMac Inc's business profits for the year (2 marks)
 - (iii) SiMac Inc's investment income received from NorthMac Ltd (2 marks)
- (f) Advise the Directors of NorthMac Zambia Ltd of the income tax treatment of the income received by the company from its Zambian and foreign investments. Your answer should include a computation of the amount of income tax payable by the company for the tax year 2025. (18 marks)

[Total: 40 Marks]

SECTION B

There are FOUR (4) questions in this section.

Attempt any THREE (3) questions

QUESTION TWO

- (a) You are employed in a firm of Chartered Accountants as Senior International Tax Consultant. The following information relates to Kernel Zambia Ltd (Kernel) and the Civil Society Organisations (CSOs):

Kernel is a Zambian resident company that deals in the extraction of Palm Oil from the palm oil fruits. The directors are in the process of incorporating a new company to be resident in the Republic of PalmLand, a developed country in Sub-Saharan Africa.

The Directors of Kernel will be importing palm oil fruits from its subsidiary in PalmLand but are not sure whether taxes will be paid in PalmLand or in Zambia.

Zambia recently entered into a bilateral investment treaty with the Republic of PalmLand. As part of the agreement, multinational corporations resident in PalmLand that are operating in Zambia are granted extensive tax exemptions, including zero corporate income tax for fifteen (15) years and full repatriation of profits without withholding taxes. The Zambian Civil Society Organizations (CSOs) have argued that the tax exemptions will take away the much needed tax revenue for the Zambian Government which is used to finance education, health and improving the standards of living for the Zambian people. Therefore, they want to file a petition as these tax exemptions may violate the Zambian human rights, as there is an interaction between human rights law and tax law.

CSOs are alleging that the Government's tax policy constitutes a breach of its international human rights obligations. However, the Government defends its position by claiming that the tax incentives are necessary to attract foreign direct investment and stimulate economic growth.

Required:

- (i) Explain two (2) main areas of interaction between human rights law and tax law. (2 marks)
- (ii) Explain to the CSOs the relationship between human rights and tax abuse. Your answer should include an explanation of how the realization of economic and social rights is affected by tax evasion. (4 marks)
- (iii) Demonstrate to the directors of Kernel on the differences between origin-based taxation and destination-based taxation as they apply in international indirect taxes, and their implications on Kernel Zambia Ltd. (6 marks)

- (b) Mr. Zedi resides in a country called Tabico. Tabico uses the principle of General Jurisdiction to charge tax on income and property of its residents. During the tax year 2025, Mr. Zedi earned income from both domestic and foreign sources.

Required:

Advise Mr. Zedi on whether his home country (Tabico) would impose tax on both his domestic and foreign income using the principle of General Jurisdiction. (2 marks)

- (c) The Common Market for Eastern and Southern Africa (COMESA) and the Southern Africa Development Community (SADC) are regional economic communities in Africa that promote economic integration and cooperation among member states. Both COMESA and SADC play an important role in facilitating cross-border trade and cooperation in tax matters.

Required:

Discuss the roles of COMESA and SADC in facilitating cross-border and cooperation in tax matters among member countries.

(6 marks)

[Total: 20 Marks]

QUESTION THREE

You are employed at GTex as a Tax Accountant. GTex is a multinational corporation dealing in manufacturing. Currently the company has two (2) subsidiaries resident in foreign countries with different tax jurisdictions. The directors of GTex are considering expanding its operations through a cross-border merger with its international competitor company, which will result in the transfer of non-current assets.

The directors are aware that the cross-border merger must comply with the General Agreement on Tariffs and Trade (GATT) which imposes some limitations on Border Tax Adjustments (BTAs). They have indicated to you that they recognize the importance of tax jurisdiction although is subject to limitations imposed by public international law and challenges related to cross-border enforcement.

The directors now seek advice on the benefits and challenges that they might face when dealing with cross-border merger.

Required:

- (a) Explain the benefits and challenges that GTex may face when dealing with cross-border merger under the General Agreement on Tariffs and Trade (GATT) rules. (8 marks)
- (b) Discuss any two (2) elements of the General Agreement on Tariffs and Trade (GATT) Charter. (4 marks)
- (c) Advise on the four (4) limitations of the International Public Law as it applies to taxation of cross-border transactions. (8 marks)

[Total: 20 Marks]

QUESTION FOUR

ProMinerals Inc is a multinational company incorporated and resident in a country known as CentroLand. The company is engaged in mining and operates a large copper mining company in Zambia through its subsidiary, Kasuba Copper Mines (KCM) Ltd. KCM currently sells its copper on the London Metal Exchange (LME).

ProMinerals Inc also owns another subsidiary, Jewelries International Ltd a company resident in a country known as the Republic of PlainLands (RPL) which manufactures electrical cables and jewelries from copper. Jewelries International currently imports its raw materials (copper) from a neighboring country. PlainLands is a developing country whose tax legislation grants exorbitant tax incentives to foreign investors as part of its economic growth strategies. These tax incentives are granted to every foreign company registered in PlainLands without a requirement of substantial activities. Currently income tax in PlainLands is charged at a rate of 9% of taxable profits with capital allowances claimed at a rate of 100%. PlainLands promotes the confidentiality of the information of investors, and as a result the country does not disclose investors' information with any other country.

On 1 January 2025, ProMinerals advanced a loan amounting to K300 million to its subsidiary, Kasuba Copper Mines (KCM) at an interest rate of 28% per annum. The loan was necessary to finance the expansion of the mine's operations to maximise output of copper. As at 1 January 2025, Zambian banks were charging an interest rate of 18% on similar loans. KCM has paid all the interest on this loan for the year ended 31 December 2025. The directors of KCM were directed to pay this interest into the bank account of the other subsidiary in PlainLands.

The Board of Directors of ProMinerals Inc made a decision to export the copper extracted by its subsidiary, Kasuba Copper Mines (KCM) from Zambia to Jewelries International Ltd in PlainLands at a reduced price. This is an attempt to reduce the operating costs of Jewelries International and maximise the overall group profit after tax. Therefore, KCM has been instructed to export all its copper to Jewelries International in PlainLands effective 1 January 2026. However, the Zambia Revenue Authority (ZRA) have raised concerns on the directives made by ProMinerals Inc to Kasuba Copper Mines (KCM).

During the year ended 31 December 2025, KCM made a tax adjusted business profit, before adjusting for the interest on intra-group loan, amounting to K150,000,000.

Required:

- (a) Advise on the concept of Base Erosion and Profit Shifting (BEPS) and whether the actions of ProMinerals Inc constitute BEPS. (5 marks)
- (b) Advise on the five (5) factors that are taken into account in identifying a tax haven, and whether PlainLands can be classified as a tax haven. (10 marks)
- (c) Advise the Directors of KCM on the transfer pricing adjustment of the interest on intra-group loan. Your answer should include a computation of the adjusted business profit for KCM for the tax year 2025 before the tax EBITDA adjustment. (5 marks)

[Total: 20 Marks]

QUESTION FIVE

PolyTech Solutions Ltd is a Zambian resident company engaged in software development. On 1 April 2025, PolyTech Solutions Ltd, was awarded a contract by the Government of the Republic of Zambia to develop an online consultation service platform for all government hospitals.

PolyTech Solutions (PTS) Ltd subcontracted Verdict Systems Developers (VSD) Inc, a company resident in the Republic of RiverDew, to provide software development services specifically for the GRZ project. Verdict Systems Developers (VSD) sent a team of four (4) software engineers to Zambia for a period of six (6) months to work on site at the premises of PolyTech Solutions Ltd. These engineers operate under the supervision of PolyTech Solutions Ltd.'s Project Manager but they report direct to the head office of VSD in RiverDew. These engineers are accommodated at PolyTech's premises and they use PolyTech's internet infrastructure and other equipment in performing their duties.

On 30 September 2025, Verdict Systems Developers entered into a contract with Burma Hotels, a Zambian resident hotel, to install a hotel client management system. The installation will be performed remotely in RiverDew, without any physical presence in Zambia.

The Zambia Revenue Authority (ZRA) have initiated a review to determine whether Verdict Systems Developers Inc has a permanent establishment in Zambia.

The Chief Executive Officer of PolyTech Solutions Ltd is Nova Phiri. He is entitled to an annual salary of K610,000 and housing allowance of K8,000 per month. Income tax deducted under pay as you earn amounted to K177,991 during the year ended 31 December 2025.

Mr. Phiri also holds investments in shares and bonds of companies resident in foreign countries. During the year ended 31 December 2025, he received dividends amounting to K75,480 net of withholding tax deducted in a foreign country at a rate of 32% and interest on bonds amounting to K65,250 net of withholding tax deducted in a foreign country at a rate of 25%.

There is no double taxation convention between Zambia and the foreign country from which Mr. Phiri received the income. Any double taxation relief in Zambia is given by way of unilateral credit relief.

Required:

- (a) Explain the concept of Permanent Establishment (PE) and any three (3) implications of PE in international taxation. (5 marks)
- (b) Explain the Permanent Establishment (PE) indicators of fixed place of business, and duration in accordance with the OECD Model Taxation Convention. Your answer should indicate whether Verdict Systems Developers (VSD)'s presence in Zambia has created a Permanent Establishment (PE). (6 marks)
- (c) Calculate the amount of income tax payable by Nova Phiri for the tax year 2025. (9 marks)

[Total: 20 Marks]

END OF PAPER

PGDT 5 – INTERNATIONAL TAXATION

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) Juridical and economical double taxation

Juridical double taxation is double taxation that occurs where the same income or transaction is taxed by two (2) or more tax jurisdictions based on their respective tax laws and without regard to the economic reality of the transaction.

This double taxation arises as income is taxed twice on the same company, in the country in which the income arises from and in the country where the recipient of income resides. This is a common double taxation for a company like SiMac as it is a multinational company.

On the other hand, *economical double taxation* is double taxation that occurs when the same income or value is taxed multiple times at different stages of production, distribution, or consumption, which results in a cumulative tax burden that exceeds the economic value of the transaction.

An example of this type of double taxation is where corporate taxes are levied on taxable business profits on the company, and withholding tax imposed on the amount of after-tax company profits distributed to shareholders as dividends.

(1 mark per valid point and example x 4 = 4 marks)

(b) Benefits of cooperation models between tax authorities

(i) Exchange of information

This involves the sharing of taxpayer related data and financial information between tax authorities of different jurisdictions. The exchange enables authorities to identify instances of tax evasion, cross-border tax avoidance schemes, and undisclosed offshore assets. Key sources of information include bank records, financial statements, tax returns, and other relevant documents. The exchange of information can occur through various channels, including bilateral agreements, multilateral frameworks, and spontaneous exchange arrangements.

(ii) Joint investigations on tax payers

These involve collaborations between revenue authorities of different jurisdictions to investigate taxpayers suspected of engaging in tax evasion and other illicit activities. The investigations leverage the expertise and resources of multiple jurisdictions to gather evidence, conduct audits, and pursue enforcement actions against non-compliant taxpayers. Joint investigations involve coordinated audits, simultaneous searches and seizures, and information sharing between participating jurisdictions. Close cooperation, coordination, and mutual trust is needed between revenue authorities to ensure effective outcomes and respect for legal and procedural safeguards.

(c) Concept of source and concept of residency

The *concept of source* in international taxation is where the jurisdiction imposes income tax based on the relationship the state shares with the income. This means that the Zambian government will impose tax on all the income deemed to have been generated from the sources that are within the Republic of Zambia.

The income is deemed to be from a source within Zambia is that income arises under any agreement made in the Republic for sale of goods, irrespective of whether those goods have been or are to be delivered in the Republic, or a remuneration from employment exercised in Zambia, or arises from interest, royalties, management consultancy fees or dividends from shares held in Zambian companies.

On the other hand, the *concept of residency* is where the state claims to tax the income is based on the relationship it shares with the person in receipt of income regardless of where the source of that income is.

This means that the Zambian government would impose tax on income received by individuals and companies' resident in Zambia regardless of where that income is coming from, subjected to any double taxation reliefs.

(d) Methods of giving double taxation relief

The following are the methods of giving double taxation relief to individuals and corporations resident in Zambia with sources of income outside Zambia:

(1) Treaty relief

This relief applies where there is an agreement between Zambia and the other state in question, for example Switzerland where SiMac resides. This double taxation agreement may provide for full recovery of the foreign tax by means of tax credit to a Zambian resident individual/company against the Zambian income tax.

Where there is a treaty, the double taxation relief is given according to the provisions of that treaty; for example, in some cases the treaty may provide that income should only be taxed in the source country.

(2) Unilateral credit relief

This double taxation relief applies where there is no double taxation convention (treaty) between Zambia and the other country in question. Double taxation is given unilaterally, for foreign tax, in Zambia which may be granted in form of a tax credit against the Zambian income tax on foreign income.

The relief to be given is calculated as the lower of:

- (i) The actual amount of foreign tax paid to foreign tax authorities, and
- (ii) Equivalent Zambian tax chargeable on foreign income calculated as follows:
$$\frac{\text{Gross foreign income} \times \text{Zambian tax charge}}{\text{Total assessable income}}$$

(3) Unilateral expense relief

This double taxation relief is only available where neither the double taxation convention (DTC) nor the unilateral credit relief is available. The relief is given by deducting the foreign tax paid as an allowable deduction before including the foreign income in the Zambian income tax computation.

This ensures that the foreign income received by Zambian residents is not subjected to income tax twice.

(e) Whether SiMac Inc is liable to Zambian income tax for the year ended 31 December 2025, on:

(i) SiMac Inc's business profits for the year

SiMac Inc is neither incorporated in Zambia nor its place of effective management and control is in Zambia, and hence not a Zambian resident company. On the basis of these facts, SiMac Inc is **not liable** to Zambian Income tax on its business profits for the year ended 31 December 2025.

(ii) SiMac Inc's investment income received from NorthMac Ltd

Despite SiMac Inc not being incorporated in Zambia and not having a place of effective management and control in Zambia, hence not a Zambian resident company, the company is liable to income tax on the investment income it received from NorthMac, a Zambian resident company, as the income has a source from within Zambia.

The investment income will be charged a withholding tax at 20% and this will be the final tax.

(f) Treatment of Zambian and foreign investment income received by NorthMac

The income tax treatment of the income received from Zambian investments:

- *Dividends* – dividends received from shares held in Zambian companies listed on the Lusaka Securities Exchange (LuSE) is subjected to withholding tax at a rate of 0% which is the final tax. This means that there will be no further assessment on the dividends received by NorthMac.
- *Bank interest* – these are subjected to withholding tax at a rate of 15% of the gross income and this is not the final tax. This means that the bank interest will be subjected to further income tax. The bank interest will be grossed up and added to the other taxable income of NorthMac and compute tax at a rate of 30%.

Tax treatment of investment income received from foreign investments:

- *Dividends* – dividends received by a company from shares held in foreign companies is subjected to Zambian income tax at a normal company income tax rate of 30%. The taxable amount in Zambia is the gross dividends received. This means that NorthMac will be required to gross up the dividends and then include the gross amount in the Zambian income tax computation.

However, Northmac will claim double taxation relief on this income under the unilaterally tax credit against the Zambian income tax on foreign income as there is no double taxation convention between Zambia and Switzerland.

- *Bank deposit interest* – interest received by a company from savings with foreign banks is subjected to Zambian income tax at a normal company income tax rate of 30%. The taxable amount is the gross amount of interest received. This means that NorthMac will be required to gross up the bank interest and then include the gross amount in the Zambian income tax computation.
However, Northmac will claim double taxation relief on this income under the unilaterally tax credit against the Zambian income tax on foreign income as there is no double taxation convention between Zambia and Switzerland.

NorthMac

Income tax computation for the tax year 2025

Zambian income	K	K
Business profits		24,240,000
Less:		
Capital allowances:		
Administrative building		
(K5,800,000 – 800,000) x 2%	(100,000)	
Fixtures & fittings (K6,000,000 x 25%)	<u>(1,500,000)</u>	
		<u>(1,600,000)</u>
Taxable business profits after capital allowances		22,640,000
<i>Zambian Investment income</i>		
Bank interest (K104,550 x 100/85)		<u>123,000</u>
		22,763,000
<i>Foreign income</i>		
Dividends (K159,250 x 100/65)	245,000	
Bank deposit interest (K234,000 x 100/78)	<u>300,000</u>	
		<u>545,000</u>
Total taxable income		<u>23,308,000</u>
Company income tax (K23,308,000 x 30%)		6,992,400
Less:		
WHT – Bank interest (K123,000 x 15%)	18,450	
Provisional income tax paid	4,420,000	
Double taxation relief:		
Dividends	73,500	
Bank deposit interest	<u>66,000</u>	
		<u>(4,577,950)</u>
Income tax payable		<u>2,414,450</u>

Double taxation relief

(1) Dividends

Foreign tax paid: $K245,000 \times 35\% =$ 85,750

Zambian equivalent tax: $K245,000 \times 30\% =$ 73,500

The double taxation relief is K73,500

(2) Bank deposit interest

Foreign tax paid: $K300,000 \times 22\% =$ 66,000

Zambian equivalent tax: $K300,000 \times 30\% =$ 90,000

The double taxation relief is K66,000

SOLUTION TWO

(a) Kernel Zambia Ltd and Civil Society Organisations

(i) **Human rights and Tax law**

Tax and human rights have two main areas of interaction: -

- (1) Taxation may be a tool to enforce the general social and legal values (including human rights) of a nation beyond its borders
- (2) Taxation may interfere with international human rights standards i.e. pursuing taxpayer offenders in their resident or home country.

(ii) **Human rights and tax abuse**

There is a relationship between human rights and tax abuse as fair taxation supports the fulfillment of these human rights while tax abuse undermines them.

Human rights are the basic freedoms and protections that belongs to every person because they are human. The Government has an obligation to ensure all humans have these basic freedoms and protections.

Tax abuse is all illegal or unethical practices of running away from or avoiding paying tax; for example, tax evasion and illicit financial flows. It has significant implications because it undermines the ability of governments to fulfill their obligations to respect, protect, and fulfill the rights of the citizens.

Tax abuse, such as tax evasion, deprives the government much needed tax revenue that could be used to finance the provision of essential public services, including among others education, healthcare, and social welfare programs.

This in turn, may result in individuals being denied access to the basic necessities and essential services which will impact the enjoyment of their economic and social rights.

(iii) **Origin-based taxation and Destination-based taxation**

Origin-based (source-based) taxation is a system of taxation where indirect taxes, such as value added tax or excise duty, are levied at the point of production or in the country where the goods originate from. Under this system, the amount of tax liability is determined and collected in the country where the goods are produced regardless of whether the goods are consumed locally or exported.

The key characteristic of the origin-based taxation is that it may lead to VAT being imposed on the same product at multiple stages of production which increases the tax burden. This distorts competitiveness in international trade.

This means that Kernel will have an increased cost of production under this approach due to foreign taxes levied and paid in PalmLand.

On the other hand, *Destination-based Taxation* is a system of taxation under which indirect taxes, such as VAT or excise duty, are imposed at the point of consumption or in the country in which the final destination of the goods is. The amount of tax liability

is determined and collected in the country where final consumption takes place. In other words, under this system, tax is levied on imported goods and exports are zero-rated.

The key feature of this approach is that it promotes neutrality and avoids tax cascading (imposing tax on the same product at different stages) by taxing goods and services once only at the final point of consumption.

This means that Kernel Zambia Ltd will pay VAT in Zambia upon import which will reduce the cost of production as the tax paid on imported goods is recoverable as input VAT if Kernel is VAT-registered.

(b) Principle of General Jurisdiction – Mr. Zedi

The General Jurisdiction principle grants a country's tax authorities broad authority to tax its residents on their worldwide income and property, regardless of where the income is earned or the property is located.

Given that Country Tabico uses the principle of General Jurisdiction to tax its residents on income and property and that Mr. Zedi is resident of Tabico, his home country would therefore impose tax on both his earned domestic and foreign income regardless of where the income is earned or the property is located.

(c) The roles of COMESA and SADC in facilitating cross-border and cooperation in tax matters among member countries

COMESA and SADC play important roles in facilitating cross-border and cooperation in tax matters among member countries by:

- (1) *Harmonization of Tax policies* – COMESA and SADC encourages the harmonization of member countries' tax policies and regulations in order to promote a seamless business environment with the region. This is done through such efforts as to align tax law, customs procedures, and administrative practices to facilitate cross-border trade and investment.
- (2) *Establishment of Customs Unions and Common external tariff* – COMESA and SADC have established Customs Unions and Common external tariff regimes to facilitate trade among member states. The aim of these regimes is to simplify customs procedures, eliminate trade barriers, and promote economic integration by adopting common customs rules and tariffs.
- (3) *Facilitating Mutual Assistance and Information Exchange* - COMESA and SADC facilitates mutual assistance and information exchange between tax administrators to combat tax evasion, smuggling, and illicit trade activities. This is done through sharing intelligence, coordinating enforcement actions, and conducting joint operations to enhance collection and compliance with tax laws.

SOLUTION THREE

(a) Benefits and challenges GTex may face when dealing with cross border merger under the GATT rules

The following are the benefits and challenges GTex may face when dealing with cross border merger under the GATT rules:

Benefits

- *Access to market* – GATT promotes trade liberalisation through reduction of trade barriers and quotas, facilitating easier access to international markets. GTex will therefore have access to international market with lower or no tariffs and trade barriers.
- *Access to tax treaties* – a cross-border merger may allow GTex to benefit from reduced withholding tax on royalties, interest and dividends which may arise due to double taxation agreements Zambia has signed with other countries.
- *Regulatory predictability* – GATT rules offer a structured legal framework for international trade which reduces uncertainty and allow more accurate and planning and forecasting after the merger.
- *Access to technology* – GTex may have access to advanced technologies, skilled labour, and capital as a result of a cross-border merger. This can improve productivity.

Challenges

- *Customs and border inefficiencies* – despite GATT's trade facilitation goals, GTex may face long customs clearance times, bureaucracy, and inconsistencies in rule application at the border post. These delays may result in GTex incurring additional costs.
- *Limitation on Border Tax Adjustment* – GATT restricts the use of border tax adjustments, which are taxes on imports and exports designed to level the playing field between domestic and foreign manufacturers. GTex must navigate these restrictions to ensure that BTAs applied do not violate these rules.
- *Dispute resolution risks* – non-compliance with GATT rules can lead to disputes and this can be costly and time consuming, with outcomes that may require changes in tax practices or penalties being charged.
- *Legal and cultural integration* – harmonizing legal systems, corporate cultures, and operational standards across borders is complex. GTex should ensure that all these are aligned with the foreign because any misalignment may result in inefficiencies.

(b) Elements of the General Agreement on Tariffs and Trade (GATT) Charter

The following are the elements of the GATT Charter:

- *Non-discrimination – the Most Favored Nation (MFN)* principle mandates that any trade advantage a GATT member grants to one country must be extended to all other GATT members. This is to ensure that there are equal trading conditions and prevent discrimination.
- *National Treatment* – this principle requires member countries to treat imported goods no less favorably than domestically manufactured goods regarding internal taxation and regulation. This is to ensure that countries are prevented from using internal measures to discriminate against imports.

- *Reciprocity* – the GATT promotes reciprocal trade agreements, where member countries mutually agree to lower trade barriers. This principle ensures that benefits from trade liberalisation are shared.
- *Liberalization through negotiation* – GATT's approach to reducing tariffs and trade barriers is through multilateral negotiations, such as the Uruguay Round, which ultimately led to the creation of the World Trade Organisation (WTO). The principle ensures that the negotiations make the tariffs more transparent and binding, preventing unilateral increases.

(c) Limitations of International Public Law

The following are the limitations of the International Public law:

- (1) *Sovereignty* – this is a fundamental principle of public international law which grants states the exclusive authority to govern within their territorial boundaries. States retain exclusive rights to tax income within their borders, leading to overlapping claims on cross-border income. Disputes often arise between source countries (where income is generated) and residence countries (where the taxpayer resides), especially when taxing digital services or intangible assets.
- (2) *Tax Treaties* – Bilateral and multilateral tax treaties play a crucial role in delineating the scope of tax jurisdiction between countries. These treaties establish rules for allocating taxing rights over cross-border income and provide mechanisms for resolving disputes, thereby limiting unilateral assertions of tax jurisdiction. In addition, this results in reliance on bilateral tax treaties, which vary widely and create loopholes for base erosion and profit shifting (BEPS).
- (3) *Principle of Non-Discrimination* – international public law prohibits discriminatory taxation based on nationality, residence, or other arbitrary factors. Tax measures that discriminate against foreign taxpayers or entities may violate principles of fairness and equality under international law.
- (4) *International Human Rights* – taxation rules should comply with international human rights standards, including the right to property, privacy and due process. Therefore, all tax measures that infringe on these rights may be subject to legal challenges under international human rights law.

SOLUTION FOUR

(a) Concept of Base Erosion and Profit Shifting (BEPS)

Base Erosion and Profit Shifting (BEPS) refer to tax avoidance strategies used by multinational companies to exploit loopholes and mismatches in international tax rules. These strategies include:

- (1) Increasing deductible interest expense, royalties or management fees in high-tax jurisdictions. These normally arise on intra-group transactions such as loans, management consultancy and/or use of parent's trade mark.
- (2) Shifting profits from jurisdictions with high-tax rates to countries with low tax rates or no tax at all (usually tax havens with little or no economic activity).

ProMinerals has advanced a loan to its Zambian subsidiary, KCM and charged an excessive interest and instructed the directors of KCM to pay this interest to Jewelries International Ltd in PlainLands. This interest is an allowable deduction in Zambia for as long as it is less than 30% of tax EBITDA, which means that the taxable profits in Zambia will be less and hence, tax payable on business profits.

ProMinerals has also directed the Zambian subsidiary, Kasuba Copper Mines (KCM) to export its copper to Jewelries International Ltd at the price lower than the quoted price of copper on the London Metal Exchange (LME). This decision also reduces the taxable business profits to be reported by Kasuba Copper Mines (KCM).

These actions by ProMinerals will shift profits from Zambia, which is a high tax jurisdiction, to PlainLands a low tax jurisdiction with the aim of minimizing the overall tax position of the group. Therefore, these actions constitute Base Erosion and Profit Shifting (BEPS).

(b) Identification of Tax Havens

The factors that are taken into account in identifying a tax haven include:

- (1) *No or nominal tax* - Tax havens often impose very little or no tax on personal and corporate income which is an attractive feature enticing multinational enterprises and individuals seeking to minimize their tax obligations. Multinational enterprises tend to benefit from this as they shift profits from high tax jurisdictions to these tax jurisdictions with low or no tax. PlainLands imposes a very low income tax on business profits which is at 9% and grants capital allowances on capital expenditure at a rate of 100%, confirming that it's a tax haven as only very low tax is charged.
- (2) *Lack of transparency* - Tax havens lack transparency in financial regulations through enacting stringent bank confidentiality laws which prevent the disclosure of financial information of companies and individuals to foreign tax authorities. This makes it very difficult for foreign tax authorities to track and tax the income generated in these tax jurisdictions. PlainLands is a tax haven as the country protects the confidentiality of investors' information, meaning that it cannot share financial information of its investors to foreign tax authorities.
- (3) *Absence of a requirement for substantial activities* - Tax havens do not mandate substantial economic activity for companies and individuals to benefit from tax

benefits/advantages, which mean that a company can still benefit from tax advantages under those tax jurisdictions without engaging in significant economic activities. This, as a result, gives rise to shell companies being incorporated solely for avoiding tax without contributing to the economic growth of the host country. PlainLands has no requirement for substantial economic activities, and for as long as a company is registered in that country, the tax incentives are granted. Therefore, PlainLands can be classified as a tax haven.

(4) *Harmful preferential tax regimes* - Tax havens usually grant harmful preferential tax rates to non-residents or foreign entities, which ensures that local companies and individuals do not enjoy similar tax advantages. These preferential tax regimes distort competition by providing unfair advantage to companies operating internationally compared to those within domestic markets. PlainLands is, therefore, a tax haven as it grants exorbitant tax incentives to foreign investors only. These tax incentives are considered harmful as they are only granted to foreign investors.

(5) *Lack of effective exchange of information* - Tax havens have no agreements or regulatory frameworks for information exchange with foreign tax authorities, making it difficult to trace and tax the income earned by residents of other countries. PlainLands promotes the confidentiality of the information of investors and do not disclose investors' information with foreign tax authorities. This confirms that PlainLands is a tax haven.

(c) Transfer pricing adjustment of the interest on intra-group loan – KCM

When a Zambian resident subsidiary obtains a loan from a foreign member of the group, the interest charged should be an arm's length interest rate (the interest rate charged by unrelated lending institutions).

Where the interest rate charged is higher than the open market interest rate, the excess interest charged to profit or loss should be disallowed when computing the taxable business profits of the Zambian resident subsidiary.

Kasuba Copper Mines (KCM) obtained a loan from its foreign parent company at an interest rate of 28% per annum which was higher than the market interest rate of 18% per annum. Therefore, the excess interest of 10% (28% - 18%) should be disallowed when computing taxable business profits of KCM. The amount interest to be disallowed for the year ended 31 December 2025 will be: K300 million x 10% = K30 million.

The adjusted business profit before tax EBITDA KCM for the tax year 2025 will be:

	K
Adjusted business profits	150,000,000
Add:	
Transfer pricing adjustment on interest (w)	<u>30,000,000</u>
Taxable business profits	<u>180,000,000</u>

Working

K300 million x 10% = K30 million

SOLUTION FIVE

- (a) Permanent Establishment is defined by the OECD Model Tax Convention as a fixed place of business through which the business of an enterprise is wholly or partly carried on.

Permanent Establishment specifically includes a place of management, a branch, an office, a factory, a workshop, and a mine, an oil gas well, a quarry or any other place of extraction of natural resources.

Permanent Establishment is a legal and tax concept that is used to determine whether a foreign company has sufficient presence in the country to justify imposition of income tax on its business profits in that tax jurisdiction.

Implications of the Permanent Establishment (PE) in International Taxation are:

- (1) *Tax Liability* – once a foreign entity is deemed to have a PE in a jurisdiction, it becomes subject to taxation in that jurisdiction on income attributable to the PE.
 - (2) *Attribution of Profits* – the profits attributable to a permanent establishment are determined based on the arm's length principle, allocating a portion of the enterprise's global profits to the activities carried out through the permanent establishment.
 - (3) *Tax treaty Protection* – Tax treaties often provide rules for the attribution of profits to a PE and mechanisms for resolving disputes related to the determination of PEs, ensuring consistency and fairness in international tax treatment
 - (4) *Compliance Obligations* – entities with permanent establishment in foreign jurisdictions are required to comply with local tax laws, including filing tax returns, maintaining accounting records, and fulfilling reporting requirements.
- (b) Fixed place of business is defined by the OECD MTC as a physical location, which includes an office, a branch, or factory, used regularly for business. This means that the place should have a degree of permanence in the host country which is used by foreign enterprise to conduct its business activities.

Verdict Systems Developers have no fixed place of business in Zambia through which it conducts its business activities as the team sent to Zambia is accommodated at the premises of PolyTech Solutions Ltd.

Therefore, VSD's presence in Zambia has not created a permanent establishment in Zambia, and as a result no Zambian income tax will be imposed on the business profits of VSD.

Duration in Article 5(3) where it states that a building site or construction or installation project constitute a permanent establishment only if it lasts more than twelve (12) months.

VSD's presence in Zambia is to develop a software and this will take six (6) months which is less than twelve (12) months stipulated in Article 5(3) of the OECD MTC.

Therefore, VSD's presence in Zambia has not created a permanent establishment as a team of engineers will only be in Zambia for six (6) months.

(c) **Nova Phiri**

Income tax payable for the tax year 2025

Zambian income	K	K
Basic salary		610,000
Housing allowance (K8,000 x 12)		<u>96,000</u>
		706,000
Foreign income		
Dividends (K75,480 x 100/68)	111,000	
Interest on bonds (K65,250 x 100/75)	<u>87,000</u>	
		<u>198,000</u>
Taxable income		<u>904,000</u>
Computation		
First K110,400		12,360
Excess (K904,000 – K110,400) x 37%		<u>293,632</u>
Income tax liability		305,992
Less:		
Pay as you earn	177,991	
Double taxation relief:		
Dividends	35,520	
Interest	<u>21,750</u>	
		<u>(235,261)</u>
Income tax payable		<u>70,731</u>

Workings

(1) Dividends

Foreign tax paid: (K111,000 x 32%) 35,520

Zambian equivalent ax
Gross foreign income x Zambian tax charge
Total assessable income

$$\frac{K111,000}{K904,000} \times K305,992 = \underline{K37,572}$$

The double taxation relief is therefore K35,520.

Interest
Foreign tax paid: (K87,000 x 25%) 21,750

Zambian equivalent tax charge
K87,000 x K305,992 = K29,448
K904,000

The double taxation relief is K21,750

END OF SUGGESTED SOLUTIONS



POST GRADUATE DIPLOMA IN TAXATION EXAMINATIONS

PGDT6: TRANSFER PRICING

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 paper is divided into TWO (2) sections:

Section A: ONE (1) **Compulsory** scenario question.
Section B: FOUR (4) Optional questions. Attempt any THREE (3) questions.
3. Enter your student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.
10. A Taxation table is provided from page 2 to page 7 of the question paper.

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

TAXATION TABLE

Income Tax

Standard personal income tax rates

Income band	Taxable amount	Rate
K1 to K61,200	first K61,200	0%
K61,201 to K85,200	next K24,000	20%
K85,201 to K110,400	next K25,200	30%
Over K110,400		37%

Income from farming for individuals

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

Company Income Tax rates

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

Mineral Royalty

Mineral Royalty on Copper

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

Mineral Royalty on other minerals

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

Capital allowances

Implements, plant and machinery and commercial vehicles:

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

Wear and tear allowance if used in Mining and Mineral processing	20%
Non-commercial vehicles	
Wear and tear allowance	20%
Industrial buildings:	
Wear and tear allowance	5%
Initial allowance	10%
Investment allowance	10%
Low cost housing	(Cost up to K100,000)
Wear and tear allowance	10%
Initial allowance	10%
Commercial buildings:	
Wear and tear allowance	2%
Farming allowances	
Development allowance	10%
Farm works allowance	100%
Farm improvement allowance	100%

Presumptive Taxes

Turnover Tax

Annual turnover

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

Tax on rental income

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

Presumptive Tax for transporters

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

Property Transfer Tax

On the realised value of land (including buildings, structures or improvements thereon)	8%
On the realised value of shares	8%
On the realised value of intellectual property	8%

On the realised value of a mining right for an exploration license	8%
On the realised value of a mining right for a mining licence	10%
On the realised value tax on realised value of a mineral processing licence	10%
Value Added Tax	
Registration threshold	K800,000
Standard Value Added Tax Rate (on VAT exclusive turnover)	16%

Customs and Excise duties on used motor vehicles

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

Station wagons

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

SUVs

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

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

K K K K

Single cab

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

Double cabs

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

Panel vans

GVW not exceeding 1.0 tonne	15,089	6,539	8,622	3,736
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
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Trucks

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

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

Surtax

On all motor vehicles aged more than five years from year of manufacture	K2,000
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Customs and Excise on New Motor vehicles

Duty rates on:

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

Customs Duty:

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

Excise Duty:

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

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

Customs Duty

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

Excise Duty:

Percentage of Value for Duty Purposes for Excise Duty Purposes	10%
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- Buses/coaches for the transport of more than ten persons**

Customs Duty:

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

Excise Duty:		
	Percentage of Value for Duty Purposes for Excise Duty Purposes	
	Seating Capacity of 16 persons and less	25%
	Seating Capacity of 16 persons and more	0%
4.	Trucks/lorries with gross weight exceeding 20 tonnes	
	Customs Duty:	
	Percentage of Value for Duty Purposes	15%
	Excise Duty:	
	Percentage of Value for Duty Purposes for Excise Duty Purposes	0%

SECTION A

This question is compulsory and must be attempted.

QUESTION ONE – (COMPULSORY)

The Agritech Corporation is a Multinational Enterprise with its headquarters in China. Its annual global revenue has always exceeded €750 million (K4.795 billion). In January 2025, Agritech Corporation established the following two 100% owned subsidiaries in Africa:

- (1) Agro Zambia Ltd, incorporated in Zambia, which is engaged in the distribution of farming equipment, agricultural products and assorted farming inputs which are sourced both from the foreign based Chinese parent as well as locally in Zambia.
- (2) Agrinite Ltd, incorporated in Malawi, which acts as a regional distributor and processor of products sourced from Zambia and other African countries.

For the year ended 31 December 2025, Agro Zambia Ltd recorded a profit before tax of K135,500,000. This profit figure was after all necessary tax adjustments, but before making any tax adjustments relating to the following transactions which took place between the three (3) companies:

(3) **Intra-group sales**

Agro Zambia Ltd exported agricultural products to Agrinite Ltd in Malawi, at a sales value of K31,500,000 representing a gross profit mark up of 5%. The sales were included at this amount in revenue, in the statement of profit or loss for Agro Zambia Ltd, when computing the profit before tax figure shown above. The average gross profit mark up of similar agricultural products on the Zambian market for the year was 30%.

(4) **Intra-group Purchases**

Agro Zambia Ltd imported packaged fertilizer products from its Chinese parent at a transfer price of K68 million. The fertilizer was then resold without modification to unrelated third-party distributors in Zambia for K80 million, representing a gross profit margin of 15%. Independent Zambian importers distributing similar imported fertilizer products on the Zambian market typically earn a gross margin of 35% on comparable importation and resale transactions.

The sales proceeds of K80 million and purchase costs of K68 million were accordingly recorded within revenue and costs of sales respectively in Agro Zambia's statement of profit or loss when computing the profit before tax figure for Agro Zambia Ltd given above.

(5) **Technical support services:**

During the year ended 31 December 2025, the Chinese parent provided technical marketing and advisory support services to Agro Zambia Ltd, charging a management fee of K18 million, representing a mark up of 20% of the cost the parent incurred in providing the services, with invoices supported by time and cost logs. The whole amount of K18 million was charged to operating expenses in the statement of profit

or loss for Agro Zambia Ltd. Independent providers of comparable services typically apply a 10% markup over cost, with invoices supported by time and cost logs.

(6) **Joint Arrangement with Agritech Corporation**

In February 2025, Agro Zambia Ltd and its Chinese parent invested in a joint research and development (R&D) arrangement for the development of organic pest-resistant seed technology, with shared research activities and funding. Intellectual property (IP) rights from the project were commercialised globally. No formal cost or profit allocation agreement exists. Both entities contributed skilled researchers, local field testing, and laboratories. Agro Zambia Ltd contributed 40% of development effort (based on functions, assets, and risks) while Agritech Corporation contributed the remaining 60%.

Agritech Corporation generated global commercialisation profit of K60 million from the seed IP rights in the tax year 2025. No income was allocated to Agro Zambia Ltd from this venture.

(7) **Transfer Pricing Documentation:**

The Group Management is aware that Zambian Transfer Pricing Rules apply to controlled transactions between associated persons, but lack clarity on the regulations.

Required:

(a) Advise Group Management of the purpose and content of the following transfer pricing documentation, Agro Zambia Ltd will be required to prepare under Zambian Transfer Pricing regulations:

- | | | |
|-------|-----------------------------------|-----------|
| (i) | Master file. | (4 marks) |
| (ii) | Local File. | (4 marks) |
| (iii) | Country by Country Report (CbCR). | (4 marks) |

(b) Justify an appropriate transfer pricing method for each of the following intragroup transactions and advise on the tax treatment of each transaction when computing the taxable profit for Agro Zambia Ltd, for the tax year 2025:

- | | | |
|-------|---|-----------|
| (i) | The sale of agricultural products to Agrinite Ltd Malawi. | (4 marks) |
| (ii) | The purchase of fertilizer products from Agritech Corporation. | (6 marks) |
| (iii) | The management service charges on technical support services. | (5 marks) |
| (iv) | The Joint Arrangement with Agritech Corporation. | (7 marks) |
| (v) | Compute the final taxable profit for Agro Zambia Ltd and the tax payable for the tax year 2025. | (6 marks) |

[Total: 40 Marks]

SECTION B

There are FOUR (4) questions in this section.

Attempt any THREE (3) questions.

QUESTION TWO

Tech-Innovate Plc is a company based in Germany specialising in manufacturing and selling high-end industrial machinery. Tech-Innovate Plc does not have a registered branch, or subsidiary in Zambia. However, for the past two (2) years, it has been engaging in business activities through two distinct arrangements:

(1) Local Agent:

Tech-Innovate Plc has contracted with a local Zambian company called Zambia Agents Ltd to act as its sole agent. Zambia Agents Ltd has a team of sales personnel who work from a small office and have been granted the authority to negotiate and sign sales contracts in the name of Tech-Innovate Plc. The Zambian company receives a commission on all sales and operates under detailed instructions and supervision from its German counterpart.

(2) Warehouse Operations:

Tech-Innovate Plc leases a warehouse in Lusaka, Zambia which is used exclusively for the storage and delivery of its machinery parts and components. The warehouse is managed by a separate, unrelated logistics company, and its only function is to hold inventory for delivery to clients.

The Zambia Revenue Authority has launched an investigation into these arrangements, suspecting that Tech-Innovate Plc is operating in Zambia through a Permanent Establishment without being subjected to Zambian income tax.

Required:

- (a) Using the criteria applied to distinguish between dependent and independent agents, assess whether Tech-Innovate Plc can be considered to have a permanent establishment in Zambia, as a result of the above two (2) business activities. (6 marks)
- (b) Assuming that the ZRA concludes that a permanent establishment exists, advise on the two-step approach it would take to attribute profits to this permanent establishment as outlined in the OECD Guidelines. (6 marks)
- (c) Discuss any four (4) reasons why OECD member countries have adopted the Arm's Length Principle (ALP) as a basis for setting transfer prices on controlled transactions between associated persons. (8 marks)

[Total: 20 Marks]

QUESTION THREE

Courtney Pharmaceuticals Global is a multinational enterprise (MNE) headquartered in the Netherlands with subsidiaries in Zambia, Kenya, and South Africa. Courtney Pharmaceuticals Zambia Ltd is engaged in Pharmaceuticals and procures technology and management support services from its Dutch parent and South African affiliates.

During a recent ZRA audit, the company was queried for relying solely on OECD Transfer Pricing Guidelines when preparing their transfer pricing documentation. The ZRA inspectors argued that Local Zambian Transfer Pricing Regulations and the United Nations (UN) guidance were equally relevant, especially given Zambia's developing country status.

Courtney Pharmaceuticals Zambia Ltd's Chief Financial Officer has approached you, as a Transfer Pricing Consultant, to advise on the following matters:

- (1) The validity of relying on OECD guidelines in Zambia.
- (2) Whether UN guidance and Zambian laws are binding or persuasive.
- (3) Intra-group chargeable and non-chargeable services.

Required:

- (a) Critically evaluate the role and authority of each of the following sources of guidance in Zambian transfer pricing practice:
 - (i) OECD Transfer Pricing Guidelines. (4 marks)
 - (ii) UN Practical Manual on Transfer Pricing for Developing Countries. (4 marks)
 - (iii) Zambian Income Tax Act and Transfer Pricing Regulations. (4 marks)
- (b) Describe the nature of intra-group chargeable and non-chargeable services, and discuss their transfer pricing treatment, when provided between associated entities, in line with the OECD Transfer Pricing guidelines. (8 marks)

[Total: 20 Marks]

QUESTION FOUR

You work for the Zambia Revenue Authority (ZRA) as a Transfer Pricing Dispute Resolution Officer. The ZRA is updating its Mutual Agreement Procedure (MAP) Practice Note. As such, your Manager has sent you an email with the following note:

"Multinational enterprises (MNEs) may engage in disputes with tax authorities as a result of their inability to agree on an arm's length price in respect of a controlled transaction. Some disputes may arise even though the guidance in the OECD Guidelines or the UN Transfer Pricing manual is followed in a conscientious effort to apply the arm's length principle.

There are several administrative approaches to resolving disputes caused by transfer pricing adjustments and avoiding double taxation. Some common approaches include the use of the Mutual Agreement Procedure (MAP) and Advance Pricing Agreements (APA). Though Tax authorities play an important role in the resolution of transfer pricing disputes, tax payers also have a role to play in the resolution of such disputes".

Your Manager has asked you to advise him on the key issues to be included in his Memo to the Director regarding the MAP approach, and the roles of both the tax authorities and tax payers.

Required:

- (a) Explain the objective of the Mutual Agreement Procedure (MAP), under the OECD Model Convention describing three (3) areas where MAP is generally used in Transfer Pricing. (4 marks)
- (b) Advise on the key steps in initiating and applying the Mutual Agreement Procedure (MAP) when resolving disputes arising from implementation of double taxation conventions in accordance with OECD Model Convention. (4 marks)
- (c) Advise on the purposes of Advanced Pricing Agreements, describing the types of APAs available under international Transfer Pricing Frameworks. (7 marks)
- (d) Advise on any other three (3) actions which tax authorities may undertake to resolve transfer pricing disputes. (3 marks)
- (e) Explain any two (2) roles tax payers, including MNEs, can play in the resolution of transfer pricing disputes. (2 marks)

[Total: 20 Marks]

QUESTION FIVE

Tidex Minerals Global (TMG) is a multinational entity based in a foreign country known as Country X. The corporation tax rate in Country X is 18%. TMG operates two subsidiaries in Zambia, Copper Zed Ltd and SteelTech Zambia.

CopperZed Ltd

CopperZed Ltd exports copper concentrate to its foreign based parent in Country X. The ZRA recently challenged the prices used by CopperZed to export copper concentrates to the foreign parent. The ZRA adjusted profits upward using the Comparable Uncontrolled Price (CUP) method. However, the tax authority in the country in which the parent entity is based rejected a corresponding adjustment, arguing that the resale price method was more appropriate resulting in the company suffering double taxation. CopperZed Ltd has decided to appeal against the ZRA's decision and has brought the matter before Tax Appeals Tribunal.

SteelTech Zambia

SteelTech Zambia Ltd is engaged in Steel production in Zambia. To finance its operations, SteelTech Ltd received the following intercompany loans from its parent company on 1 January 2025:

- (1) A five (5) year loan of K30 million at an annual interest rate of 35%.
- (2) A ten (10) year Loan of K50 million at an annual interest rate of 40%.

SteelTech Ltd accordingly accounted for interest paid on the loans at the above rates and included it within finance cost in its financial statements for the year ended 31 December 2025. The commercial rate of interest for each of the above loans in Zambia is 25% per annum.

You have been provided with the following summarised statement of profit or loss for SteelTech Zambia Ltd for the tax year 2025:

	K'M
Gross Profit	86
Operating expenses	<u>(35)</u>
Profit before interest and tax	51
Finance cost	<u>(40)</u>
Profit before tax	<u><u>11</u></u>

Additional information:

- (1) Included in operating expenses are depreciation and amortisation charges of K8 million and K4 million respectively. The remaining balance represents operating expenses which are all allowable for tax purposes.
- (2) Included in finance cost is bank overdraft interest of K9.5 million paid to commercial banks at the normal commercial rate of interest. The balance represents interest paid on the two loans obtained by Lusaka Steel Ltd from the parent entity during the year.
- (3) Capital allowances on implements, plant and machinery and other qualifying expenditure for the tax year 2025 have been determined to be K15 million.

Required:

- (a) Discuss the role of the OECD Model Tax Convention in providing relief from double taxation in disputes arising from international transfer pricing issues such as the one faced by Copper Zed Ltd. (6 marks)
- (b) Analyse how thin capitalisation rules can create risks of double taxation in cross-border financing. (5 marks)
- (c) Advise on the transfer pricing adjustments which SteelTech Zambia will be required to make under Zambian transfer pricing regulations when computing taxable profits for the tax year 2025. (4 marks)
- (d) Compute the final amount of company income tax payable by the SteelTech Zambia for the tax year 2025. (5 marks)

[Total: 20 Marks]

END OF PAPER

PGDT6: TRANSFER PRICING

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) Purpose and Content of Zambian Transfer Pricing Documentation

(i) Master File purpose and content

- (1) The master file provides a global overview of the enterprise's transfer pricing. It includes high level information about the company's global operations and transfer pricing policy. This should provide an overview of the Multinational entities' (MNEs) global business operations.

The master file represents an opportunity to explain transfer pricing policy to ZRA. The file is important in avoiding audit risk. Discrepancies or contradictions between information in the master and local files increase audit risk, so it's critical to make sure the descriptions that are provided in the files are consistent.

- (2) The master file should include the following content:

- Organisational structure
- Geographic locations of operations
- Main value/profit drivers
- Descriptions of business activities of business units (products and services)
- Intangible assets
- Intercompany financing
- Enterprise financials and tax positions

(½ a mark for each item stated up to a maximum of 2 marks)

(ii) Local File

- (1) The local file preparation refers specifically to the material transactions of the local (Zambian) taxpayer.
- (2) The local file should provide more detailed information relating to specific inter-company transactions.
- (3) This file helps meet the objective of assuring that the taxpayer has complied with the arm's length principle. The required information includes:

- Management structure of the local entity
- Intracompany transactions executed during the tax year
- Related intercompany agreements
- Transfer pricing methodology and application
- Local entity financials

- (4) The information in the local file is consistent with information in the master file is crucial. Disparities can create audit risks.

(iii) Country by Country Report (CbCR)

- (1) The CbCR is a high-level report providing aggregated data on the global allocation of income, taxes paid, and indicators of economic activity among all tax jurisdictions in which the MNE operates. This report does not include detailed transactional or business operational data.
- (2) Under the Zambian CbCR Regulations, CbCR only applies to MNEs, with business entities in two or more states, with an annual consolidated revenue of exceeding €750 million during the immediately preceding accounting year.
- (3) The Country-by-Country Report (CbCR) in Zambia requires the following specific information, aligned with the OECD template and prescribed by Zambian regulations including aggregate financial information per tax jurisdiction where the multinational enterprise (MNE) group operates such as:
- Revenue from related parties and unrelated parties
 - Profit or loss before income tax
 - Income tax paid and accrued
 - Stated capital (e.g., nominal share capital plus share premium accounts)
 - Accumulated earnings
 - Number of employees
 - Tangible assets other than cash or cash equivalents
 -
- (4) The CbCR is submitted annually, typically within 12 months after the end of the MNE group's reporting accounting year. The report is used by the Zambia Revenue Authority (ZRA) for high-level assessment of transfer pricing risks, potential non-compliance, and base erosion and profit shifting risks.

(b) Appropriate transfer pricing methods

(i) Sale of Agricultural Products to Agrinitte Ltd (Malawi)

- (1) The Comparable Uncontrolled Price (CUP) Method will be the most appropriate method.
- (2) The CUP method compares the price of the intra-group export with the price charged by independent uncontrolled entities in comparable circumstances. The CUP is preferable when identical or similar products are traded on an open market and adjustments can be reasonably made for differences, as is the case in this instance
- (3) In the sale of agricultural products to Agrinite Ltd (Malawi), products of a similar type is sold in the open Zambian market, and therefore reliable third-party price data is available.

Tax treatment

- (1) ZRA is going to recharacterize the intra-group sale price, increasing the taxable income by adjusting the mark up from 5% to the arm's length of 30%.
 - (2) A mark up of 5% represents an original purchase price of the produce of K30 million ($100/105 \times K31.5m$). A comparable uncontrolled arms length market price is therefore K39 million ($130/100 \times K30m$).
 - (3) The difference between the actual transfer price of K31,500,000 and the open market value of K39,000,000 will be treated as a disallowed amount. The amount of the transfer pricing adjustment will be K7.5 million ($K39m - K31.5m$)
- (ii) The purchase of fertilizer Products from the Agritech Corporation
- (1) The Resale Price Method (RPM) will be most reliable method for testing whether the transfer price of K80 million for the fertilizer products is at arm's length.
 - (2) This method is appropriate where a distributor purchases goods from a related party and resells them unchanged to third parties, there is a comparable gross margin for similar independent distributors and there is limited value which is added by the reseller, that is, there is no major transformation or customisation.
 - (3) In this case, Agro Zambia Ltd acts as a limited-risk distributor rather than an end-user or processor of the imported fertiliser products. The Chinese parent sells finished goods and Agro Zambia Ltd does not alter or add value to the fertilizer products before resale. Benchmark data on gross margins of independent distributors is available therefore satisfying the conditions for applying Resale Price Method (RPM).

Tax treatment

- (1) The difference between the actual transfer price and the arm's length transfer price determined using the RPM will be treated as disallowed amount when computing taxable profit.
 - (2) The arm's length transfer price for the imported fertilizer products will be determined by getting the resale price to independent parties of K80 million and deducting the arm's length gross margin of 35% which amounts K28 million. The arm's length transfer price of the fertilizers should therefore have been K52 million ($K80m - K28m$).
 - (3) The required transfer pricing adjustment will be K16 million ($K68m - K52m$).
- (iii) Management Service Charges from Chinese Head Office
- (1) The most appropriate transfer pricing method used for intra-group services is the cost-plus method especially where services are not sold to third parties, the service provider is not contributing valuable intangibles, and the services are routine or support in nature such as technical support,

admin, finance, HR, marketing. Such services are typically priced by adding a markup to the actual costs incurred. There must be a transparent and well-supported cost structure.

- (2) The Chinese parent tracked and documented actual costs through time logs, and cost logs, making it feasible to determine a reliable cost base and there are independent service providers who charge similar services with a 10% markup. The existence of reliable benchmark data strengthens the case for using CPM, as the markup percentage is a key variable in this method. This satisfies the key requirement for applying the cost plus method.
- (3) The Comparable Uncontrolled Price (CUP) Method will be inappropriate because a direct comparable price for the exact service with identical functions, risks, and terms is not available. CUP is more suitable where identical services are offered to third parties under similar terms.

Tax Treatment

- (1) The appropriate costs incurred in providing the services is K15 million (K18m x 100/120). The appropriate transfer price for the services should therefore have been K16.5m (cost of K15m plus industry mark up of 10% amounting to K1.5m).
 - (2) The difference between the arms length transfer of K16.5m and the actual transfer price used of K18m amounting to K1.5m will be treated as a disallowed amount and added to profit when computing Agro Zambia Ltd's taxable income.
- (iv) The Joint Arrangement with Agritech Corporation
- (1) The Profit Split Method (PSM) is most appropriate when both related parties contribute significant value, such as unique intangibles or key business functions, and share substantial risks in a highly integrated transaction.
 - (2) It is particularly useful in joint ventures or co-development arrangements where no reliable market comparables exist, and traditional methods like CUP or TNMM cannot be reliably applied. By allocating combined profits based on each party's actual contribution, the method ensures alignment with the arm's length principle and reflects the true economic substance of the transaction.
 - (3) The PSM is the most appropriate method because both companies contributed significantly to the joint R&D project. Each party provided unique and valuable contributions which were functionally and economically integrated, and both assumed development and commercialisation risks. These characteristics make it impossible to apply traditional one-sided methods like the Cost Plus Method or TNMM, which rely on the assumption that one party performs routine functions.
 - (4) Additionally, the resulting intellectual property (IP) was commercialised globally, generating K60 million in profits, yet Agro Zambia Ltd received no income allocation despite contributing 40% of the development effort.

- (5) Given the absence of reliable market comparables for this type of co-developed, unique IP and the lack of a formal cost or profit-sharing agreement, the PSM is the only method that can fairly allocate profit based on each party's actual economic contribution. It ensures that the taxable income of Agro Zambia Ltd reflects the value it helped create, in accordance with Zambia's transfer pricing regulations and the OECD Transfer Pricing Guidelines. (1 mark)

Tax treatment

- (1) When a Zambian entity contributes economically to a profit-generating activity, it must be compensated at arm's length. This rule also applies to joint intangible development scenarios.
- (2) Since Agro Zambia contributed 40% of the effort but received no income, the company's taxable profit must be increased to reflect its 40% economic contribution to the jointly developed and commercialised intellectual property, in accordance with Zambia's Transfer Pricing Regulations and the OECD guidelines. The amount which will be added when computing taxable profits will therefore be by K24 million (40% x 60m).

(v) AGRO ZAMBIA LTD

COMPUTAION OF TAXABLE PROFITS AND TAX PAYABLE FOR 2025

	K'000
Taxable profit before transfer pricing adjustment	135,500
Transfer Pricing Adjustments on:	
- Intra-group sales to Agrinite Ltd Malawi (K39m - K31.5m)	7,500
- Intra-group purchases of fertilizer products (K80m - K52m)	28,000
- Technical support services (K18m - K16.5m)	1,500
- Joint Arrangement with Agritech Corporation (K60m x 40%)	<u>24,000</u>
Final taxable profit	<u>196,500</u>
Company income tax payable @30%	<u>58,950</u>

SOLUTION TWO

- (a) Assessment of whether Tech-Innovate Plc has a Permanent Establishment in Zambia as a result of its operations through

(1) Zambia Agents Ltd.

Based on the scenario, it is highly likely that Tech-Innovate Plc has created an agency permanent establishment in Zambia through its arrangement with Zambia Agents Ltd. The scenario makes a clear distinction between dependent and independent agents. The key factors that point to Zambia Agents Ltd being a dependent agent are:

Authority to conclude contracts:

The scenario explicitly states that the agents have been granted the authority to negotiate and sign sales contracts in the name of Tech-Innovate Plc. This is a primary trigger for an agency permanent establishment.

Lack of independence:

Zambia agents Ltd is described as the sole agent for Tech-Innovate Plc and operates under detailed instructions and supervision. This indicates a lack of legal and economic independence, as the agent is acting almost exclusively on behalf of the German company.

Not acting in the ordinary course of business:

The fact that the agent's core function is to act as a sales arm for Tech-Innovate Plc, under its direct control, suggests that their activities are not in the ordinary course of his business as an independent broker would be.

(2) Warehouse operations

The warehouse operations are unlikely to create a permanent establishment. "Article 5, Paragraph 4 of the OECD Model Convention states that "Preparatory or Auxiliary Activities activities such as "the use of facilities solely for the purpose of storage, display or delivery of goods" do not, by themselves, constitute a permanent establishment".

The scenario explicitly states that the warehouse is used exclusively for the storage and delivery of its machinery parts and components, which falls under this exception.

(b) The two-step approach for profit attribution by ZRA

Assuming the ZRA concludes that a PE exists through the agency activities, it would follow the two-step approach outlined in the OECD Guidelines to attribute profits to it:

Step 1: Functional and Factual Analysis:

The ZRA would treat the PE as a separate and independent enterprise from the German head office. A functional analysis would be conducted to determine the functions performed, assets used, and risks assumed by the PE. In this scenario, the PE's functions would include sales, marketing, contract negotiation, and managing client relationships in Zambia. The risks would include credit risk and market risk for the Zambian operations. The ZRA would then attribute capital and notional assets (such as customer relationships) to the PE to support these functions and risks.

Step 2: Allocating Profits:

Once the functions, assets, and risks are identified, the ZRA would apply transfer pricing methods to determine the arm's length remuneration for the PE. For example, if the PE is deemed to be a distributor that performs key sales functions, the ZRA could apply the Resale Price Method or the Transactional Net Margin Method to determine the appropriate profit margin the PE should earn. The total profits of Tech-Innovate Plc would then be notionally divided between the German head office and the Zambian PE based on their respective contributions, ensuring that the profit taxed in Zambia is commensurate with the economic activities conducted there.

(c) Reasons adopting the Arm's Length Principle (ALP) by the OECD member countries and other countries:

- (1) Parity between MNEs and independent enterprises – the Arm's Length Principle provides broad parity of tax treatment for MNEs and independent enterprises. The ALP puts associated and independent enterprises on a more equal footing for tax purposes and hence it avoids the creation of tax advantages and disadvantages that would otherwise distort the relative competitive positions of these entities. ALP promotes growth of international trade and investment by removing these tax considerations from economic decisions.
- (2) Determines real taxable profits – the transfer price paid by a multinational enterprise for the goods, services or intangible property between the members of an MNE group has a direct bearing on the proportion profit it derives in each country in which it operates. The arm's length principle requires that an arm's length price (i.e. price two independent firms operating at arm's length would agree on) be used to determine the taxable profits earned in each country that the MNE operates in. Hence, the ALP permits tax authorities to adjust the accounts of the enterprise so as to reflect the correct income that the establishment would have earned if it were an independent enterprise.

- (3) Reduction of artificial price distortion – without following the ALP, an MNE would sell goods or provide services to a controlled entity in a high tax regime at a high price and to an entity in a low-tax regime or tax haven at a low price and hence result in the extreme price distortion of goods and services in the international market.
- (4) Minimization of double taxation - the ALP represents an international norm. The potential of double taxation is minimised since in international transfer pricing, adjustment to the transfer price in one tax jurisdiction requires a corresponding adjustment in the other tax jurisdiction.
- (5) Accurate measurement of economic contribution – the ALP provides accurate measurement of the fair market value of the economic contribution units of an MNE. The ALP ensure that the proper amount of income is attributed to where it is earned.

SOLUTION THREE

(a) Role and authority of sources of Transfer Pricing (TP) Guidance

(i) OECD Transfer Pricing Guidelines

Role:

The OECD Transfer Pricing Guidelines serve as the primary international benchmark for arm's length pricing of transactions between related enterprises. They set out methods, comparability standards, and documentation requirements used by tax authorities worldwide.

Authority in Zambia:

While Zambia is not an OECD member, its transfer pricing regulations (Section 97A of the Income Tax Act and subsequent regulations) explicitly state that local TP rules should be construed in a manner consistent with the OECD Guidelines.

This gives the OECD Guidelines persuasive authority, meaning Zambian practitioners and the Zambia Revenue Authority (ZRA) frequently reference these guidelines. However, they are not law and cannot override local legislation. If Zambian law specifically diverges from OECD guidance, the local rules prevail.

Critical Note

The practical relevance is strong as Zambian Transfer Pricing regulations strongly align with these guidelines. However, in cases of conflict, domestic law is supreme, and the OECD guidance serves as an interpretative tool rather than binding law.

(ii) UN Practical Manual on Transfer Pricing for Developing Countries

Role:

The UN Manual addresses special circumstances and challenges faced by developing countries in transfer pricing, providing more flexibility and practical solutions than the OECD Guidelines—for example, guidance on thin capitalization, capacity building, and simplified methods.

Authority in Zambia

It is a supplementary, non-binding source. Zambian practitioners may consult the UN Manual for contextually relevant solutions, especially for local issues not directly addressed by the OECD Guidelines or Zambian law. While cited as a resource in some Zambian guidance, it holds no legal force and does not form the basis of administrative or judicial decisions.

Critical Note

Its practical influence in Zambia lies in filling gaps and addressing developing country realities such as access to comparables and local economic conditions, but it has even less formal authority than OECD Guidelines.

(iii) Zambian Income Tax Act and Transfer Pricing Regulations

Role:

The Income Tax Act (specifically Section 97A) and its Transfer Pricing Regulations constitute the legal foundation of transfer pricing practice in Zambia. They establish binding rules on the arm's length principle, required documentation, required methods, the applicability of penalties, and avenues for dispute resolution.

Authority

This is the highest and only binding authority in Zambia. All transfer pricing audits; documentation requirements, penalties, and dispute resolution procedures are governed by these laws. Interpretations from OECD or UN sources are only used where the local law is silent or ambiguous and only to the extent that such interpretation does not conflict with local law.

Critical Note

Practically, domestic legislation and regulations always prevail. All other sources are only persuasive or supplementary. Strict adherence to Zambian law is required for compliance; referencing international guidance is primarily for interpretation or best-practice benchmarking, not for substituting legislative mandates.

(b) Nature of Intra-group chargeable and non-chargeable services

Multinational enterprise (MNE) groups frequently provide centralized services from one group entity (e.g., a headquarters, regional hub, or shared services center) to other entities within the group. These are referred to as intra-group services.

Intra-group services under OECD transfer pricing guidelines are categorized into chargeable and non-chargeable services based on whether they satisfy the "benefit test" and the "charge test." The Benefits Test seeks to establish whether the service provides the recipient with a clear, identifiable advantage that improves or maintains its commercial position.

Chargeable Services

These are services provided between associated enterprises when one or more associated enterprises have received or are expected to receive an economic benefit from the activity or service. An economic benefit exists if an independent entity in the same or similar circumstances would be willing to pay for the services or perform the activity itself (*the benefit test*).

The benefit test used in chargeable services has two requirements, both of which must be fulfilled:

- (1) The associated enterprise receiving the service must gain an economic benefit or anticipate gaining an economic benefit from the same, and
- (2) The associated enterprise must demonstrate that an independent entity in the same or similar circumstances would have been prepared to pay for the services or perform the services itself.

Examples of intra-group chargeable services include the following Services provided specifically to one member of the MNE group, Centralized services and On-call Services - an on-call service

Tax Treatment of chargeable services under OECD Guidelines:

- (1) These services must be priced according to the arm's length principle, consistent with what independent enterprises would agree upon under similar circumstances. The service fees should be recognized as taxable transactions and priced at arm's length to prevent base erosion and profit shifting (BEPS).
- (2) Detailed documentation must justify the charge, demonstrating economic value and the arm's length nature of the fee.
- (3) Common methods for pricing chargeable services include the cost-plus method, Comparable Uncontrolled Price (CUP) method, and possibly the transactional net margin method (TNMM).
- (4) Low-value-adding services may be subject to simplified transfer pricing methods under BEPS Action 10 to reduce compliance burdens, such as applying a fixed cost-plus margin. Examples include specialized management services, technical, marketing, or administrative services rendered that relate directly to the group's business operations and provide measurable benefits to recipients.

Non-chargeable Services

Non-chargeable intra-group services are services that do not meet the benefit test for one or more associated enterprises, and so would not warrant charges.

Non-chargeable (no charge) services fail the benefit test because they do not directly benefit the recipient or the benefit is incidental or remote.

Examples include shareholder activities (services solely due to ownership interest), duplicated activities performed by multiple group members with no added benefit, passive association or implicit support without clear service provision, incidental benefits, and "on-call" services with a remote likelihood of use.

Costs related to non-chargeable services should generally be borne by the service provider's entity and not allocated to other group members.

Tax Treatment of non-chargeable services under OECD Guideline

- (1) Non-chargeable services are not recognized as taxable services for transfer pricing purposes, so no intra-group charge or transfer pricing adjustment arises.
- (2) The OECD emphasizes transparency and rigor to avoid manipulation of intra-group service

SOLUTION FOUR

(a) Objective of MAP

The Mutual Agreement Procedure (MAP) operates as a formal dispute resolution mechanism to address issues arising from taxation not being in accordance with treaty provisions, mainly to prevent double taxation.

Areas where the Mutual Agreement Procedure (MAP) are generally used

Article 25 of the OECD Model Convention sets out three different areas where MAPs are generally used as follows:

- (1) Instances of taxation not in accordance with the provisions of the Convention. MAP in this area is initiated by the taxpayer.
- (2) Instances involving of questions interpretation or application of the convention
- (3) Instances involving the elimination of double taxation in cases not otherwise provided for in the convention.

(b) Steps in applying the Mutual Agreement Procedure (MAP)

Article 25 of the OECD Model Convention lays out the following steps in initiating and applying MAP:

- (1) The tax payer approaches the tax authority in the home country of residence to lodge the dispute over the transfer pricing adjustment
- (2) The tax authority assesses as to whether the dispute can be resolved within the country of residence of the tax payer
- (3) If the dispute is capable of being resolved within the country of residence of the tax payer, the dispute should be resolved by the tax authority within the country of residence
- (4) If the dispute is not capable of being resolved within the country of residence of the tax payer, the dispute should be resolved by the tax authority by consultation with other tax authorities concerned with the dispute.

(c) Purposes Advance Pricing Agreements (APAs)

An Advance Pricing Agreement (APA) is a proactive, formal agreement between a taxpayer and one or more tax authorities which serves the following purposes:

- (1) It determines an appropriate set of criteria (e.g. the transfer pricing methodology, the arm's length price range) for a specified period for future inter-company transactions.

- (2) It provides certainty for taxpayers and prevents disputes from arising in the first place, thus avoiding the risk of double taxation and the costly, time-consuming MAP process.
- (3) Prevents prolonged audits and litigation by resolving transfer pricing issues upfront.
- (4) Facilitate cooperative compliance and mutual understanding between taxpayers and tax authorities.
- (5) Aligns transfer pricing outcomes with the arm's length principle in a transparent

The three main types of APAs are:

(1) Unilateral APA:

An agreement between a taxpayer and a single tax authority, which only binds the parties in that one jurisdiction.

(2) Bilateral APA:

An agreement between a taxpayer and two tax authorities (the taxpayer's home country and the country of its associated enterprise). It is reached through a consultation between the two countries' competent authorities and provides protection from double taxation.

(3) Multilateral APA:

An agreement that involves a taxpayer and the tax authorities of three or more countries. It provides a consistent transfer pricing approach and protection from double taxation across multiple jurisdictions.

- (d) Actions which tax authorities may undertake to resolve transfer pricing disputes. Tax authorities play a critical role in the resolution of transfer pricing disputes by undertaking the following actions:

(1) Conduct audits

Tax authorities carry out transfer pricing audits to evaluate the accuracy and fairness of transactions conducted between related parties

(2) Implement adjustments

Upon identifying discrepancies, tax authorities have the power to make adjustments to the taxable income of the involved entities.

(3) Engage in negotiations

In certain instances, tax authorities may resolve the disputes thorough negotiations with the MNE. This process may involve reaching agreements on revised transfer pricing arrangements or other related terms

(e) Roles tax payers, including MNEs, can play in the resolution of transfer pricing disputes

Taxpayers also play a role in the resolution of transfer pricing disputes by:

- (1) Maintaining comprehensive and up to date transfer pricing documentation as required by law
- (2) Demonstrating transparency and openness in communication with tax authorities
- (3) Challenging transfer pricing adjustments issued by tax authorities through appeals procedures or dispute resolution mechanisms outlined in the domestic legislation and tax treaties.

SOLUTION FIVE

(a) Role of OECD Model Tax Convention in providing relief from Double taxation in disputes

The OECD Model Tax Convention provides the legal foundation for resolving double taxation in transfer pricing disputes through Article 9 corresponding adjustments and Article 25 MAP. However, relief depends on consensus between the countries involved on the appropriate methodology. Without agreement, double taxation may persist, illustrating the limits of the OECD framework when countries interpret the arm's length principle differently.

The key guidelines in OECD MTC on providing relief from double taxation arising transfer pricing adjustments include the following provisions:

- (1) Article 9 (Associated Enterprises) provides that when transactions between related parties are not at arm's length, profits may be adjusted by one jurisdiction. Paragraph 2 obliges the other contracting state to make a corresponding adjustment if it agrees the first adjustment is consistent with the arm's length principle. The objective is to avoid double taxation of the same income across two countries.
- (2) The Model Convention includes Articles 23A (exemption method) and 23B (credit method), which require the resident state of a taxpayer to provide relief for taxes paid on the same income in another state. When transfer pricing adjustments result in additional taxes in one state, these articles ensure the taxpayer is protected from being taxed twice on the same income.
- (3) When two countries apply different transfer pricing methodologies leading to different taxable amounts, the Model Convention mandates the residence state to provide relief for additional taxes paid in the source state, ensuring no double taxation arises.
- (4) Article 25, Mutual Agreement Procedure, allows taxpayers to request relief if they believe taxation is contrary to the DTA. Competent authorities of both countries must "endeavour to resolve" disputes. It Provides a structured negotiation framework for the countries involved to discuss the appropriate transfer pricing methodology (for example CUP vs resale price in the case of Copper Zed).
- (5) The OECD Model includes an optional Arbitration clause under Article 25(5)) which can be invoked if included in a treaty. Under these guidelines disputes unresolved within 2 years can be referred to binding arbitration.

The Limitations of OECD Model Tax Convention in practice are that it does not provide automatic relief. The other country is not legally compelled to accept the TP adjustment made by the counterparty unless it agrees it reflects the arm's length principle. Countries can use different methodologies to arrive at the ALP resulting in disputes like CUP vs resale price show how countries interpret ALP differently. Furthermore, a country's treaty network Zambia's may not always include the latest OECD provisions (e.g. arbitration under Article 25(5)), limiting effectiveness.

(b) How Thin capitalisation rules can create risks

Thin capitalisation occurs when a company is financed primarily through excessive inter company debt rather than equity, resulting in high interest deductions that reduce taxable profits. Thin capitalization rules aim to limit excessive debt financing through related parties in cross-border financing.

Thin capitalisation rules but they can create risks of double taxation in several ways:

(1) Disallowance of Interest Deductions:

Thin capitalization rules typically restrict the amount of interest expense a borrower can deduct for tax purposes if debt exceeds a certain threshold relative to equity. If a country disallows or limits interest deductions, the borrower may face higher taxable income in that jurisdiction. Meanwhile, the lender's country may still tax the interest income, resulting in taxation on the same income in two countries. Thin capitalization rules create the risk of double taxation when interest deductions are denied or limited in one country while the corresponding interest income remains taxable in another, especially where there is a lack of alignment in rules, inadequate treaty relief, or restrictions on foreign tax credits.

(2) Mismatch in Rules Between Jurisdictions:

Different countries have varying thresholds and criteria for applying thin capitalization rules. For example, one country may disallow interest expenses beyond a 3:1 debt-to-equity ratio while another uses a different ratio or methodology, such as 30% of Tax EBITDA allowable interest restriction rules. This mismatch can lead to a situation where interest is not deductible in the borrower's country but taxable in the lender's country, causing double taxation.

(3) Non-Recognition of Equity Capital:

When a jurisdiction does not recognize certain financial instruments as equity for thin capitalization purposes, it may treat them as debt. This can result in denied deductions and increased taxation on interest payments, while the other side considers the payments either dividends or capital returns, potentially leading to double tax charges.

(4) Conflict with Transfer Pricing or Treaty Rules:

Thin capitalization rules may be applied independently from transfer pricing or tax treaty provisions. This can result in disallowed interest deductions in the borrower's country while the lender's country taxes the interest income without granting relief or credit, enhancing the risk of double taxation.

(5) Limitations on Tax Credits:

If a country disallows interest deductions due to thin capitalization but the lender faces withholding tax in the borrower's country, and if the lender's country does not provide adequate foreign tax credit relief for the withholding and disallowed deduction, the same amount of income can be taxed twice.

(6) Interaction with Double Tax Conventions (DTCs)

Although Article 9 of OECD Model Convention permits corresponding adjustments if both jurisdictions agree the intercompany financing terms are not arm's length and Article 11 (Interest) allows recharacterisation of interest that exceeds arm's length as a dividend, potentially changing how it's taxed, corresponding adjustments depend on cooperation if the two jurisdictions involved do not agree on recharacterisation, double taxation will still remain.

(c) Transfer Pricing adjustments which Steeltech Zambia will be required to make

Zambia's Transfer Pricing Regulations under the Income Tax Act follow the OECD Transfer Pricing Guidelines, including the 2020 OECD Guidance on Financial Transactions. In line with the OECD guidelines Zambia's guidelines prefers the comparable uncontrolled transactions for intra-group financing. This approach compares the interest rate on an intra-group loan with the interest rate charged in comparable uncontrolled transactions such as independent bank loans with similar terms (such as interest rate, maturity, collateral, currency

- (1) When a Zambian resident company obtains a loan from a member of the same group resident in a foreign country, the interest rate charged on that loan should be the market interest rate (arm's length interest rate). Where the actual interest rate on the loan is higher than the arm's length interest rate, the finance costs in the statement of profit or loss will be more than it should be if the loan was obtained from any other lending institution resulting in the profit is understated.

This means that the difference between the actual interest expense charged in the statement of profit or loss and the interest calculated at an arm's length interest rate should be added back to the taxable business profit as a transfer pricing adjustment.

- (2) The amount of interest expense to be disallowed as a transfer pricing adjustment for the year ended 31 December 2025 will be computed as follows:

- (1) 5-year loan
 $(35\% - 25\%) \times \text{K}30 \text{ million} = \text{K}3 \text{ million}$

- (2) 10-year Loan
 $(40\% - 25\%) \times \text{K}50 \text{ million} = \text{K}7.5 \text{ million}$

- (3) Additionally, the interest on the loans will be subject to the 30% Tax Earnings before Interest Taxation Depreciation and Amortisation (EBITDA), limitations of allowable interest expense rules to determine the amount of interest to be allowed when computing taxable profits will.

(d) STEELTECH ZAMBIA FINAL INCOME TAX PAYABLE FOR THE TAX YEAR 2025

	K'M	K'M
Profit before interest and tax		51
Add		
Depreciation	8	
Amortisation	<u>4</u>	
		<u>12</u>
		63
Less capital allowances		<u>(15)</u>
Profit before allowable interest adjustment		48
Less allowable interest restricted to		
(30% x K60m (W1))		<u>(18)</u>
Final taxable profits		<u>30</u>
Company income tax payable		
(K30m x30%)		<u>9</u>

ALTERNATIVE COMPUTATION OF TAXABLE PROFIT AND TAX EBITDA

	K'M	K'M
Profit before tax		11
Add		
Depreciation	8	
Amortisation	4	
Transfer Pricing adjustment on:		
- 5-year loan	3	
- 10-year loan	<u>7.5</u>	
		<u>22.5</u>
		33.5
Less Capital allowances		<u>(15)</u>
Taxable profits before interest adjustment		18.5
Add disallowed interest (W3)		<u>11.5</u>
Final taxable profits		<u>30</u>

WORKINGS**(1) COMPUTATION OF TAX EBITDA**

Computation of Tax EBITDA	K'M
Taxable profit	48
Depreciation	8
Amortisation	<u>4</u>
Tax EBITDA	<u>60</u>

(2) COMPUTATION OF TAX EBITDA

	K'M	K'M
Taxable profit before interest adjustment		18.5
Add revised finance cost		
Interest as per accounts	40	
Less TP adjustment on intra-group loan (K3m + K7.5)	<u>10.5</u>	
		29.5
Add		
Depreciation		8
Amortisation		<u>4</u>
Tax EBITDA		<u><u>60</u></u>

(3) COMPUTATION OF DISALLOWED INTEREST

	K'M
Revised interest expense	29.5
Allowable interest is restricted to (30% x 60)	<u>18</u>
Disallowed interest expense	<u><u>11.5</u></u>

END OF SUGGESTED SOLUTIONS



POST GRADUATE DIPLOMA IN TAXATION EXAMINATIONS

PGDT7: 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. You will be told when to start writing.
2. This paper is divided into TWO (2) sections:
Section A: ONE (1) **Compulsory** scenario question.
Section B: FOUR (4) Optional questions. Attempt any THREE (3) questions.
3. Enter your student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.
10. A Taxation table is provided from page 2 to page 7 of the question paper.

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

TAXATION TABLE

Income Tax

Standard personal income tax rates

Income band	Taxable amount	Rate
K1 to K61,200	first K61,200	0%
K61,201 to K85,200	next K24,000	20%
K85,201 to K110,400	next K25,200	30%
Over K110,400		37%

Income from farming for individuals

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

Company Income Tax rates

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

Mineral Royalty

Mineral Royalty on Copper

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

Mineral Royalty on other minerals

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

Capital allowances

Implements, plant and machinery and commercial vehicles:

Wear and tear allowance –	Standard wear and tear allowance	25%
	Wear and tear allowance if used in manufacturing and leasing	50%
	Wear and tear allowance if used in farming and agro-processing	100%
	Wear and tear allowance if used in Mining and Mineral processing	20%

Non-commercial vehicles

Wear and tear allowance	20%
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Industrial buildings:

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

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

Wear and tear allowance	2%
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Farming allowances

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

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

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

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

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

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

Customs and Excise duties on used motor vehicles

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

Station wagons

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

SUVs

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

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

K K K K

Single cab

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

Double cabs

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

Panel vans

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

Trucks

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

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

Surtax

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

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

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

Customs Duty:

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

Excise Duty:

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

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

Customs Duty

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

Excise Duty:

Percentage of Value for Duty Purposes for Excise Duty Purposes	10%
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- Buses/coaches for the transport of more than ten persons**

Customs Duty:

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

Excise Duty:

Percentage of Value for Duty Purposes for Excise Duty Purposes	
Seating Capacity of 16 persons and less	25%
Seating Capacity of 16 persons and more	0%

4. **Trucks/lorries with gross weight exceeding 20 tonnes**

Customs Duty:

Percentage of Value for Duty Purposes 15%

Excise Duty:

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

SECTION A

This question is compulsory and MUST be attempted.

QUESTION ONE – (COMPULSORY)

You are a Senior Tax Inspector at the Zambia Revenue Authority (ZRA). You have been assigned to the tax audit of Zambezi Agro Ltd, a large Agro-processing and farming company, which operates crop farms in Central Province and has a processing plant in Lusaka where it has its head office. Zambezi Agro Ltd is registered for Value Added Tax. The company files tax returns under the self-assessment system and is classified as a large taxpayer.

Zambezi Agro Ltd exports 40% of its processed products, which are zero-rated for VAT purposes, to South Africa and the Democratic Republic of Congo. The ZRA has selected Zambezi Agro Ltd for a comprehensive tax audit based on a recent internal risk assessment and profiling report relating to the company. The tax audit will incorporate both a desk audit and a detailed field audit at the client's head office in Lusaka covering the tax years 2023 and 2024.

The following information has come to your attention while performing a preliminary risk assessment for the company:

(1) Turnover and profitability

The annual turnover and profit before tax declared by Zambezi Agro Ltd, limited over the last two (2) years under audit, together with net profit margins for the industry are as follows:

	2023 K'000	2024 K'000
Turnover	500,000	650,000
Profit before tax	20,000	35,750
Zambezi Agro Ltd's Profit before tax margin	4%	5.5%
Profit before tax margin for Industry	15%	20%

(2) Employee costs

An examination of employee costs which were charged to the statement of profit or loss for the past two (2) years in arriving at the profit before tax figures shown above, together with the relevant ratios are as follows:

	2023 K'000	2024 K'000
Reported Employee Costs	125,000	195,000
Employee Cost as % of Turnover Ratio	25%	30%
Industry Average employee cost as % of Turnover ratio	15%	15.5%

PAYE, NAPSA and NHIMA contributions were declared and remitted appropriately during each of the years ending 31 December 2023 and 2024. However, these

payments were not reconciled with payroll records for each year. Zambezi Agro Ltd employs 300 employees including farm labourers, factory workers, supervisors, and administration staff.

(3) **Consultancy Fees**

During the year ended 31 December 2024, Zambezi Agro Ltd paid an amount of K60,000,000 in consultancy fees for services described as "strategic export advisory services on export market penetration and supply chain optimisation" to AgriTech Consulting Ltd, a foreign entity based in a low tax Jurisdiction in which Zambezi Agro Ltd has a shareholding of 25%. The amount of K60,000,000 was charged as an expense to the statement of profit or loss in arriving at the declared profit before tax for the year 2024, shown above. There is minimal documentation, relating to the transaction and it is not clear whether a Withholding tax deduction on the amount was made.

(4) **VAT Refund Claims**

The company regularly claims VAT input tax refunds due to zero-rated exports. A recent claim of K40 million was submitted in late 2024 with incomplete supporting invoices.

(5) **Record-Keeping**

Some invoices for major inputs are missing. Electronic records lack proper backup; explanations from staff were inconsistent. Export customs records partially provided.

(6) **Tax Compliance History**

Zambezi Agro Ltd has had no prior major audit issues but has been flagged for high refund claims and related-party transactions.

(7) **Other information**

The Chief Financial Officer of Zambezi Agro Ltd, Mr. Franklin Sakala has offered to pay you a commission of K300,000 to resolve the audit quickly and quietly informing you that he is an influential person with high political connections. Mr Sakala has told you that he is aware that the ZRA performs internal risk assessments and profiling of taxpayers for purpose of selecting tax audit cases and has requested you to avail to him a copy of the ZRA's internal risk assessment and profiling report relating to Zambezi Agro Ltd to understand why the company was selected for the audit.

Required:

- (a) Describe any four (4) audit procedures you will perform as part of the desk audit of Zambezi Agro Ltd, in preparation for the field audit which will be performed later at the company's head office. (4 marks)
- (b) Evaluate four (4) non-compliance risks faced by Zambezi Agro Ltd and the related potential tax impact of each risk. (12 marks)
- (c) Recommend suitable audit procedures you should perform to verify the following areas during the field audit at Zambezi Agro Ltd:
 - (i) Declared turnover. (4 marks)
 - (ii) Employee costs. (4 marks)
 - (iii) Consultancy fees paid to the foreign entity. (3 marks)
 - (iv) The VAT refund claim. (4 marks)
- (d) Evaluate three (3) ethical and professional issues you will face during the audit and design appropriate safeguards to manage each issue. (9 marks)

[Total: 40 Marks]

SECTION B

There are FOUR (4) questions in this section.

Attempt any THREE (3) questions.

QUESTION TWO

You are employed as a Senior Tax Inspector (Auditor) under the Domestic Taxes Division of the Zambia Revenue Authority (ZRA). Your supervisor has asked you to review the tax returns submitted by PI Business Solutions Limited, a small Zambian enterprise for the tax year 2024.

During the review you observed the following:

- (1) Inconsistencies in submitting pay as you earn returns.
- (2) Inconsistencies in reported taxable income both for the employees and the taxable profit for the company.
- (3) Inadequate financial records to establish the true level of income generated by the company.

You have just notified the Directors of PI, through a written notice, of the upcoming tax audit at the premises of the company. The directors of this company have expressed ignorance on the subject of tax audit and are wondering whether it is the same as tax investigation. The directors have therefore requested for more information relating to the nature and purpose of tax audits and tax investigations to enable them prepare adequately for the audit.

Required:

- (a) Explain the role of the Tax Audit and Investigations function in optimizing the tax revenue collection for the Government of the Republic of Zambia. (8 marks)
- (b) Advise the Directors of PI Business Solutions Limited of any four (4) key differences between tax audit and tax investigation. (8 marks)
- (c) Discuss with reasons, whether a tax investigation would be appropriate based on the issues discovered during your review of the tax return for the tax year 2024. (4 marks)

[Total: 20 Marks]

QUESTION THREE

For the purposes of this question, you should assume that today's date is 20 October 2025.

You are employed in a firm of Chartered Accountants, and you have been assigned to deal with the tax affairs of Chongwe Limited, a Zambian resident manufacturing company which is registered for Value Added Tax (VAT).

The Directors of Chongwe Ltd have informed you that they received notice from Zambia Revenue Authority (ZRA) of a tax audit to be conducted in respect of the previous tax year, the charge year 2024. The tax audit will be conducted from Chongwe Ltd's premises starting on 10 November 2025.

The following information has come to your attention from a review of the Income Tax and Value Added Tax returns submitted by the company during the tax year 2024:

- (1) Standard rated expenses on entertaining customers amounting to K92,800 (VAT inclusive) incurred in the month of December 2024, were treated as allowable expenditure when computing the taxable business profit for the year ended 31 December 2024. Furthermore, the VAT on the expenditure was treated as recoverable input VAT on the VAT return for the month of December 2024.
- (2) During the tax year 2024, the company accommodated the Chief Financial Officer (CFO) whose gross annual emoluments are K2,500,000 in a company owned house for which he paid no rent. No adjustment was made on the income tax return in respect of the free residential accommodation.
- (3) The company additionally provided a Toyota Landcruiser Prado (2920cc) to the Chief Financial Officer (CFO), which was acquired at a cost of K2,320,000 in December 2024 on a personal to holder basis. The company paid for expenditure of K12,992 (VAT inclusive) on petrol for the vehicle during the month. The expenditure on petrol was treated as allowable on the income tax return for that year 2024 and capital allowances on the vehicle were correctly claimed and deducted when computing the taxable profit for the year. However, no personal to holder motor car benefit was included in the income tax return when computing the taxable profit for the company for the year. The input VAT on both the purchase cost of the vehicle and expenditure on petrol were included as part of the recoverable input VAT on the VAT return for the Month of December 2024.
- (4) The Income Tax return for the year ended 31 December 2024 was filed on the correct due date and the VAT return for December 2024 was filed in on the correct due date.

You should assume that the Bank of Zambia Discount rate is 14% where applicable.

Required:

- (a) Assuming the tax rates for the tax year 2025 apply throughout, advise the Directors of Chongwe Ltd of the income tax and VAT implications of each of above errors made. Your answer should include a computation of the amount of tax underpaid. (12 marks)
- (b) Assuming that the amount of taxes underpaid you have computed in part (a) above were paid on 30 October 2025, and amended returns submitted on this date, advise the directors of the company's exposure to penalties and interest on the underpaid taxes. (8 marks)

[Total: 20 Marks]**QUESTION FOUR**

You are employed as a Tax Consultant at Garnet Consultancy, a firm of Chartered Accountants. You are dealing with the tax affairs of Kalulushi Mining Corporation (KMC) plc, a Zambian resident subsidiary of a foreign based mining company. The company is engaged in mining operations of copper and other minerals in Zambia. The group financial statements are prepared in United States Dollars.

Your firm has been engaged to perform a health tax audit to assess the level of tax compliance of KMC in readiness for a tax audit which will be performed by the Zambia Revenue Authority on the affairs of the mining company in a few months' time.

You have obtained the following computation of taxable income schedule for KMC plc prepared by the company's part qualified tax accountant for the charge year 2025:

	Notes	K	K
Profit before tax as per accounts	(1)		125,562,400
Add: Non deductible expenditure			
Depreciation		49,375,000	
Fines for emission of mineral effluents		18,000,000	
Gifts of KMC plc Branded T shirts		700,000	
Personal to holder Motor Car Benefit			
On Toyota Fortuner provided to the CEO	(2)	<u>57,600</u>	
			<u>68,132,600</u>
			193,695,000
Less: capital allowances	(2)		<u>(36,984,000)</u>
Taxable profit before mining loss relief			156,711,000
Less mining loss relief	(3)		<u>(101,600,000)</u>
Final taxable mining profit			<u><u>55,111,000</u></u>
Company Income Tax @30%			<u><u>16,533,300</u></u>

You have extracted the following additional information:

Note 1: Profit before tax as per accounts

The operating expenses which were charged to the statement of profit or loss for the year ended 31 December 2025 in arriving at the figure for profit before tax as per accounts shown in schedule above were as follows:

	K'000
Depreciation	49,375
Mineral exploration expenses	170,000
Fines for Emissions of poisonous mineral effluents in local river	18,000
Compensation for families affected by pollution of local river	22,000
Environmental restoration for damage caused by emission in local river	16,000
Mineral Royalty tax paid during the year	778,000
Gifts of KMC Plc Branded T shirts valued at K350 each	700
Adverting & marketing costs	88,000
Mineral transportation costs	356,000
Revenue expenses on compliance with health and safety regulations	88,000
Wages and salaries	860,000
General allowable revenue business expenses	<u>940,300</u>
	<u>3,386,375</u>

Note 2: Capital Allowances Schedule

Details of Expenditure/ Asset	Original Cost	Wear & Tear Allowance			Allowance Claimable
		Rate	Unindexed	Indexed	
	K	%	K	K	K
Toyota Fortuner Car (2,900cc)	2,400,000	20%	480,000	576,000	576,000
Office Equipment	560,000	25%	140,000	168,000	168,000
Mine Locomotives	25,000,000	50%	12,500,000	15,000,000	15,000,000
Mine Excavation Equipment	36,000,000	20%	7,200,000	8,640,000	8,640,000
KMC Trust Hospital	12,600,000	100%	12,600,000	Not Applicable	<u>12,600,000</u>
Total allowances claimable					<u>36,984,000</u>

- (1) The Toyota Fortuner Car and office equipment were acquired from local Zambian suppliers a year ago and paid for in Zambian Kwacha. The Toyota Fortuner has been provided to the company's Chief Executive Officer on a personal to holder basis. It has been established that he had private use of the Fortuner of 25% in the tax year 2025.
- (2) The Mine Locomotives and Mine Excavation Equipment were imported last year from foreign based suppliers and paid for in US dollars.
- (3) KMC Trust Hospital is owned and operated by Kalulushi Mining Corporation plc and was constructed in the mine township at a cost of K12,600,000 during the tax year 2025, to provide medical services to the local mining community. The expenditure has been capitalised in the financial statements for financial reporting purposes.

Note 3: Mining loss relief

The loss of K101,600,000, shown in the schedule above represents the unrelieved tax loss as at 1 January 2025. The whole amount was suffered in two (2) years ago.

Note 4: Indexation Formula

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

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

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

Accounting Period	Average BOZ Mid-Exchange rate
	ZMW/ US\$
Y/e 31 December 2024	K24.00
Y/e 31 December 2025	K28.80

Required:

- (a) Advise the errors made by the Tax Accountant in the computation of taxable profit for the company and the correct tax treatment required in each case. (8 marks)
- (b) Prepare a revised computation of the correct taxable income of the company and compute the tax payable for the tax year 2025. (12 marks)

[Total: 20 Marks]

QUESTION FIVE

You are a team leader of a tax audit team that will be performing a tax audit at the premises of Arthur Asaf for the tax year 2025.

Arthur Asaf is a Zambian national running a wholesale shop as a sole trader. The return submitted to the Zambia Revenue Authority (ZRA) is Turnover Tax (TOT) Return indicating an annual turnover of K2,600,000 and turnover tax payable of K129,400 for the year ended 31 December 2025.

Asaf has not employed a qualified accountant to prepare his financial statements. He has informed you that all his transactions are on cash basis.

The following is the only information he has available for the transactions relating to the year ended 31 December 2025:

Summary of transactions from the bank

	K
Balance (debit) at 1 January 2025	280,000
Cash Receipts	
Cash deposits	400,000
Bank transfers from customers	2,200,000
Bank interest	60,000
Interest on GRZ Bonds	<u>110,000</u>
	3,050,000
Cash Payments	
Purchase of Delivery Motor Vehicles	500,000
Purchase of Cash Registers	200,000
Asaf's salary	600,000
Purchase of Toyota Hilux Double Cab Van	<u>1,400,000</u>
	<u>2,700,000</u>
Balance (debit) at 31 December 2025	<u>350,000</u>

Upon investigation, you have discovered that Asaf uses the proceeds from sales made in cash to pay for most expenses and the balance is deposited into his bank account. The cash deposits of K400,000 shown above represents the balance of the cash sales made during the year ended 31 December 2025 after deducting the following expenditure:

	K
Purchase of goods for resale	1,900,000
Salaries for employees	620,000
Shop rentals	300,000
Donations to political parties	180,000

The Toyota Hilux Double Cab Van is used by Asaf for both business and private purposes. It is estimated that his private use of the car is 20%.

Required:

- (a) Describe any three (3) audit procedures you should perform to assess the true level of income of Asaf given that he does not maintain a complete set of financial records. (6 marks)
- (b) Determine the correct amount of sales revenue made by Asaf for the year ended 31 December 2025, using the Bank Deposits and Cash Expenditure Method. Your answer should include an advice on the type of tax he is liable to pay. (5 marks)
- (c) Calculate the correct amount of taxable income and amount of income tax payable by Asaf for the tax year 2025. (9 marks)

[Total: 20 Marks]

END OF PAPER

PGDT7: TAX AUDIT & INVESTIGATIONS

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) Procedures during Desk Audit

The following procedures will be performed during the desk audit:

- (1) Initial review of tax returns and supporting documents already filed by Zambezi Agro to the ZRA. Zambezi Agro Ltd has a history of VAT refund claims and low profitability despite high turnover, triggering risk indicators. This Initial review can confirm if discrepancies exist in submitted returns versus supporting schedules.
- (2) A comparison of sales, purchases, operating expenses and other relevant items as per filed income tax returns with filed VAT returns for the year consistency and reasonableness.
- (3) Reconciliation of turnover declared with on the income tax return with total VAT output tax for the year.
- (4) Ratio analysis of ratios such as the gross and net profit margins compared to industry benchmarks, to assess reasonableness of declared revenue and profits on income tax returns submitted by Zambezi Agro Ltd.
- (5) Use of the ZRA's risk-based selection criteria and data analytics to flag anomalies before deciding on a field audit.

(b) Non- compliance risks

(1) Risk of Understated Revenue and Misreporting of Turnover

The company reported K650 million turnover in 2024 with a profit margin of 5.5%, while the figures were K500 million and 4% respectively in 2023. The figures were significantly below industry benchmarks of 20% for 2024 and 15% for 2023. A high turnover but persistent low margins may indicate inflated expenses or suppressed sales.

Tax Impact:

Underpayment of Company Income Tax (CIT), arising from understated sales leading to revenue loss for the ZRA.

(2) Risk of non-compliance with transfer pricing regulations

The K60 million paid to AgriTech Consulting Ltd a foreign entity in a low-tax jurisdiction) without clear proof of services rendered gives rise to the following risks:

- (i) Risk of non-compliance with Zambian transfer pricing regulations as it not clear whether the fee of K60 million is an arm's length price for the type of services Zambezi Agro Ltd received, further resulting in risk of base erosion. The risk of base erosion is compounded by the fact that AgriTech Consulting Ltd, the foreign based related entity is based in a low tax Jurisdiction.
- (ii) Additionally, there is risk that the company may not have filed in appropriate transfer pricing documentation in line with the Income Tax regulations which require such transactions between related parties to be reported to the ZRA.

Tax Impact:

Base erosion, and profit shifting to low tax jurisdiction resulting in underpayment of Zambian Company Income Tax (CIT).

There is further potential of understatement of taxable income if the fees are deemed non-business related and therefore deemed disallowed as they were treated as allowable in computing taxable profit.

(3) Risk of non-compliance risk with WHT payment on consultancy fees

There is risk of non-deduction of 20% WHT deduction from the payment made to AgriTech Consulting Ltd, a non-resident entity for services rendered to Zambezi Agro Ltd given that there is minimal documentation relating to the transaction.

Tax Impact:

Loss of tax revenue for the ZRA through non-deduction of WHT.

Exposure to potential penalties for Zambezi Agro Ltd due to non-submission of WHT returns and non-payment of the WHT.

(4) Risk of inflated employee costs to understate taxable profit and company income tax.

Employee costs appear higher than industry norms, raising suspicion of overstated salaries through ghost or fictitious employees.

Zambezi Agro shows employee's costs of K125 million in 2023 and K195 million in 2024 representing a percentage increase in these costs of 56% ($K195m - K125m / K125m$)

despite turnover increasing by 30% (K650m – K500m/K500m). This is suspiciously high especially given that the employee cost as a percentage of Turnover Ratio is much higher than industry norms being 25% for 2023 against industry norms of 15%, and 30% against 16.5% for 2024.

Tax Impact:

Under declaration of taxable profits from inflated employee costs

- (5) Risk of non-compliance with statutory obligations in relation to PAYE, NAPSA & NHIMA contributions.

There is risk of unpaid or underpaid PAYE, NAPSA and NHIMA contributions, given that there were no reconciliations between payroll, PAYE returns, and NAPSA submissions provided,

Tax Impact:

Under paid PAYE, NAPSA and NHIMA contributions and potential penalties for non-compliance.

- (6) Risk of Fraudulent VAT Refund Claims

The latest VAT refund claim of ZMW 40 million submitted with incomplete supporting invoices and partially missing customs documentation for zero-rated exports.

Tax Impact:

There is Potential loss to revenue through fraudulent or overstated refund claims.

(2 marks for each risk evaluated and 1 mark for each linked tax impact up to a maximum of 3 risks/9 marks)

- (c) Audit Procedures

- (i) Turnover Verification

- (1) Compare turnover trend and profit margins with industry norms.
 - (2) Match the sale revenue figure in the financial statements with income tax and VAT returns.
 - (3) Verify authenticity of a sample of high-value sales invoices.
 - (4) Trace a sample of bank deposits to sales ledger.
 - (5) Third-Party Confirmation: Confirm major sales with customers.
 - (6) Cut-off Tests & Stock Check: Validate year-end sales and inventory.
- (1 mark per valid point up 4 marks)

(ii) Employee Costs & PAYE/NAPSA Contributions

- (1) Request for employee master list with TPIN, NRC, and bank details, cross-check with HR records and physical headcount where feasible.
- (2) Review employment contracts to verify job roles and remuneration.
- (3) Match payroll schedule to general ledger and check inclusion of all employees.
- (4) Obtain monthly PAYE remittance schedules, NAPSA and NHIMA contribution returns. Match total salaries per payroll to amounts declared and paid for PAYE, NAPSA and NHIMA and investigate any shortfalls or late payments of the statutory obligations.
- (5) Recalculate PAYE using ZRA tax tables; verify NAPSA at 5% up to the NAPSA ceiling and trace amounts actually paid to bank statements
- (6) Trace salary payments to bank statements to confirm completeness.

(iii) Consultancy Fees

- (1) Review Consultancy Agreement and Invoices to verify the existence and terms of the consultancy arrangement and ensure invoices are genuine. Obtain the signed consultancy agreement and review the scope of services, deliverables, timelines, payment terms and contractual obligation for WHT. Review consultancy invoices invoice date, reference number, and amount, currency of payment and applicable VAT/WHT disclosure
- (2) Evaluate the Economic Substance of the Services to confirm that services were rendered and not fictitious or inflated to shift profits. Request and examine deliverables and other documentation relating to the transaction such as reports, strategy papers, meeting minutes, or advisory memos.

Interview Zambezi Agro's management to confirm How services were used in decision-making and whether they align with the company's operational objectives

- (3) Perform an Arm's Length or Transfer Pricing Review to determine whether the ZMW 6 million fee is reasonable compared to market rates for similar services. Use Comparable Uncontrolled Price (CUP) method. Obtain quotations or contracts for similar consultancy services in Zambia or regionally. If possible, compare fees with those charged by other advisory firms for export strategy.
- (4) Verify Withholding Tax (WHT) compliance to confirm compliance with Income Tax Act requirements for payments to non-residents. Recalculate the amount of the WHT at 15% of ZMW 60 million which should amount K9,000,000. Confirm whether WHT was deducted at source, by reviewing relevant documentation for evidence of WHT remittance to ZRA by bank transfer or receipt by examining bank statements and reconcile WHT returns with the payment record.

- (5) Trace the payment for the consultancy fees from the company's bank statements to the offshore account to confirm that the payment was made to the correct beneficiary and aligns with contractual terms.

Verify that the date of transfer matches invoice date, foreign exchange conversion accuracy and compliance with Bank of Zambia (BoZ) regulations.

- (6) Confirm Legitimacy of Offshore Entity to confirm that the Mauritius-based consultant is a genuine operating business, not a shell company. Search AgriTech Consulting Ltd in Mauritius company registry or use ZRA intelligence channels verifying the Registered office address, Business activity and directors.
- (7) Review Compliance with Transfer Pricing (TP) Documentation to confirm the taxpayer met statutory TP documentation requirements for cross-border related-party transactions. Request Zambezi Agro's Local File and Master File (as per OECD TP guidelines and Zambian TP Regulations) to confirm whether Intercompany agreements exist.

(iv) VAT Refund Claim

- (1) Reconcile input VAT claims with purchase invoices and accounting records. This will be done by obtaining the VAT refund application schedule listing all purchase invoices used to support the claim. Compare the claimed input VAT with purchase invoices in the accounting records, the purchase ledger and general ledger control account to ensure the amounts match and there are no duplicate invoices or inflated values.
- (2) Confirm VAT compliance and supplier TPIN validity to ensure invoices used for claiming input VAT meet the legal requirements under the VAT Act. This will be done by inspecting each invoice for Supplier TPIN and VAT registration number.
- (3) Cross-Check Input VAT with ZRA TPIN Database to verify that suppliers are VAT-registered and active, ensuring claims are not based on fictitious suppliers. This can be done by using ZRA's TPIN verification system to confirm the Supplier's VAT registration status and Supplier's active compliance status. Investigate suppliers not found in the ZRA database or those deregistered during the claim period.
Validate Export Documentation to confirm that the VAT refund relates to zero-rated exports, which entitle the taxpayer to a refund. This will be done by review customs export declarations and bill of lading or shipping documents. Match export sales invoices to customs records and ensure the goods physically left Zambia.
- (4) Conduct Supplier and Third-Party Verification to confirm that suppliers issued the invoices and goods/services were supplied. This will be done by selecting high-value invoices from the refund claim sending confirmation

letters to suppliers requesting acknowledgment of goods supplied, VAT charged and Invoice authenticity.

- (5) Conduct a Physical Verification of Goods to confirm that purchases claimed for input VAT were used for taxable activities and not fictitious. This will be done by conduct a site visit to verify the inventory purchased during the refund period is consistent with production records.

(d) Ethical issues

(1) Bribery Attempt by CFO

The CFO offers of K300,000 in exchange for overlooking consultancy irregularities, creates a Self-interest threat and amounts to a bribe.

It also creates an intimidation threat as the inspector may feel pressured to influence findings clearly breaching the fundamental principles of Integrity, Objectivity, Professional Behaviour.

Safeguards:

- (i) Immediately decline the offer and record the attempt in audit working papers.
- (ii) Report incident to ZRA's Ethics and Integrity Committee and line management in writing.
- (iii) Maintain strict adherence to ZRA's anti-bribery policy and IFAC Code of ethics.
- (iv) If pressure persists, escalate matter to senior ZRA management for enforcement action.

(2) Intimidation and Pressure to Complete Audit Quickly and quietly

The CFO wishes you to finish the audit quickly and quietly stating that he has high political connection. This gives rise to intimidation as you may feel pressured to complete the assignment quickly without performing all the required procedures as well being pressured not report any cases of noncompliance which may be revealed. This threat will affect your ability to perform the assignment with the requisite objectivity and professional competence and due care and objectivity.

Safeguards:

- (i) Document the pressure and report to ZRA management.
- (ii) Continue to apply full scope audit procedures as per ZRA standards.
- (iii) Escalate to ZRA Legal & Enforcement if interference persists.

(3) Request for Confidential ZRA Risk Assessment Report

The taxpayer requests the ZRA risk assessment report, which is an internal document. Providing the report will be in breach of the fundamental principles of confidentiality and professional behaviour as well as the ZRA's internal policy.

Safeguards:

- (i) Politely decline the request, citing legal and professional standards.
- (ii) Keep all ZRA documents secure and limit access to authorised officers only.

SOLUTION TWO

(a) The role of the Tax Audit and Investigation function includes:

(1) Enhancing tax compliance

The tax audit and investigation function enhances tax compliance by conducting regular tax audits to ensure taxpayers comply with tax legislation which discourages tax evasion. Compliance is also enhanced through educating taxpayers about their tax obligations and the consequences (penalties) for non-compliance which improves voluntary tax compliance, and hence optimizing revenue generation for the government.

(2) Detection and combating tax evasion

The tax audit and investigation function detects and address tax evasion using investigative tools. As a result underreporting of income and overstating tax deductions (allowable expenses) are detected and combated; eventually increasing the revenue for the government.

(3) Broadening the tax base

This is achieved through identification of non-compliant entities/sectors during tax audits and ensuring that they become tax compliant. For example they may be sectors that fall outside the tax net, the tax authority can collaborate with financial institutions, PACRA, and other government agencies to track the economic activities of those entities and identify new taxpayers.

(4) Promoting transparency and accountability

The tax audit and investigation findings are published (observing the legal boundaries) to create public awareness and build trust in the tax system. This will promote transparency and accountability among taxpayers, thereby leading to increased compliance in fear of bad publicity.

(2 marks per valid role identifies and explained up to 8 marks)

(b) The differences between tax audit and tax investigation are:

(1) Definition

A tax audit is routine examination of a tax return and supporting financial records submitted by the taxpayer to ascertain the level of compliance with tax legislation and to verify if the taxpayer has declared the correct amount tax liability. On the other hand tax investigation is a detailed and thorough enquiry conducted when there is a suspicion of tax fraud, evasion, or other serious irregularities in the taxpayer's financial transactions.

(2) Purpose

Tax audit is conducted to verify the accuracy of the tax returns submitted by the taxpayer and the level of compliance with tax regulations. The main purpose is to prevent non-compliance among taxpayers and maintain general compliance with tax legislation. On the other hand tax investigation's purpose is to uncover the deliberate non-compliance, fraud, or tax evasion.

(3) Trigger

A tax audit is a routine check on tax compliance and is conducted based on random selection, and the criteria is set by the Zambia Revenue Authority. On the other hand tax investigation is triggered by red flags such as inconsistencies in tax returns filing, whistleblowers' reports, consistently reporting tax losses, or suspicion activities identified through data analysis.

(4) Scope

Tax audit is normally limited in scope and focuses on specific periods, returns, or tax types whereas tax investigation is comprehensive and covers multiple tax periods, financial records, and even non-financial activities.

(5) Approach

Tax audits usually follow the standard procedures and guidelines which may not have disruption to the taxpayer. On the other hand tax investigation involves an in-depth scrutiny, interviews, visitations at the business premises of the taxpayer, and forensic analysis of financial records.

(6) Legal implications

Tax audit findings may result in additional tax assessments, penalties, interest for late payment of taxes, and may less likely lead to criminal prosecution. On the other hand tax investigation usually lead to severe legal consequences, such as fines, penalties, criminal prosecution if fraud or tax evasion is proven.

(c) A tax investigation is mainly conducted when there is suspicion of tax fraud or tax evasion and when there is tip of by the whistleblowers. Therefore, a tax investigation would be appropriate for PI Business Solutions Ltd because of the following reasons:

- (1) The company is inconsistent in submitting pay as you earn returns, which may indicate that company has not been remitting the correct amount pay as you earn deducted from employees' salaries.
- (2) There are inconsistencies in reported taxable income for the employees and taxable business profits indicating that there is a possibility of under declaring the PAYE and the income tax on business profits.

- (3) The company has inadequate financial records to establish the true level of income of the company. This is an indication that some income may not be reported by the company.

SOLUTION THREE

(a) The taxation implications arising from the errors made are as follows:

Income tax implications

(1) Expenditure incurred on entertaining customers

Expenditure incurred on entertaining customers is not an allowable expense when computing the taxable business profit for the company. This means that the company's taxable profit was understated as a result.

The amount of income tax underpaid is: $K92,800 \times 30\% = K27,840$. (1 mark)

(2) Provision of free accommodation to the CFO

Provision of free residential accommodation to an employee in a company owned house, results in an accommodation benefit which is determined as 37% of the taxable emoluments payable to that employee being assessed on the company. This amount is treated as taxable income for the company and is disallowed when computing the tax adjusted profit of the company. Therefore 37% of the CFO's gross earnings should have been added to the taxable business profits and as such the company's taxable income was understated resulting in underpayment of income tax for the tax year 2024.

The amount which should have been disallowed in the computation is

$$K2,500,000 \times 37\% = K925,000$$

The amount of income tax underpaid in relation to this adjustment is

$$K925,000 \times 30\% = K277,500$$

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

(3) Provision of personal to holder motor car

Provision of personal to holder motor car results in a personal to holder motor car benefit on the company which is disallowed when computing taxable profits.

The amount which should have been added back when computing taxable profits for vehicle with a cylinder capacity (2920cc) is K57,600.

The amount of income tax underpaid in relation to this adjustment is

$$K57,600 \times 30\% = K17,280$$

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

(4) The total amount of company income tax underpaid is therefore.

	K
Income underpaid on entertaining customers	27,840
Income tax underpaid on free residential accommodation	277,500
Income tax under paid on personal to holder motor car	<u>17,280</u>
Total amount of Company Income Tax Underpaid	<u>322,620</u>

Value Added Tax implications

The VAT implications are as follows:

(1) Entertainment expenditure

According to the VAT Act, input VAT on expenses incurred on entertainment is irrecoverable when computing the VAT payable. This means that the directors should not have included VAT on the entertainment expenses as recoverable input VAT on the VAT return.

The amount of VAT underpaid is; $K92,800 \times 4/29 = \underline{K12,800}$

(2) Personal to holder motor car

Input VAT incurred on motor car is irrecoverable when computing the VAT payable. Including input VAT on the motor car as recoverable understates the amount of VAT to be paid.

This means that VAT payable for the year 2024 was understated by;
 $K2,320,000 \times 4/29 = K320,000$.

(3) Expenditure on petrol

Input VAT on petrol is irrecoverable when computing the VAT payable. This means that the directors should not have included VAT on petrol as recoverable input VAT on the VAT return.

The amount of VAT underpaid is; $K12,992 \times 4/29 = \underline{K1,792}$

(4) The total amount of VAT underpaid is therefore:

	K
Entertaining customers	12,800
Personal to holder motor car	320,000
Petrol	<u>1,792</u>
Total VAT under paid	<u>334,592</u>

(b) Penalties and interest arising from

Under payment of income tax

(1) The under paid income tax of K322,620 should have been paid on 21 June 2025 but was paid on 30 October 2025, it will therefore be paid late by 4 months and 9 days (i.e. 131 days)

(2) A penalty of 5% of the tax due per month or part thereof will arise. The amount of penalty payable will be:

$$5\% \times K322,620 \times 5 = K80,655$$

(3) Additionally, interest on the overdue tax will arise. The amount of interest will be 2% above the BOZ discount rate per annum. The Interest on overdue tax runs from the due date of payment of tax to the date when payment is actually made.

The amount of interest payable will be:

$$(14\% + 2\%) = 16\% \times K322,620 \times 131/365 = K18,526$$

(4) The self-assessment return submitted was incorrect. Penalties will be imposed for filing the incorrect return and these will amount to 17.5% of the amount if it is established that it was due to negligence, 35% of the amount if it was as a result of willful default and 52.5% of the amount if was due to fraud. (1 mark)

(5) Furthermore, a fine of 300,000 penalty units (K120,000) may be imposed on conviction by the courts of law if it is established that there was an attempt to willfully evade tax, or assist another person to evade tax. In addition to this fine, a jail sentence of three (3) years may be imposed by the courts of law for tax evasion offences.

Underpayment of VAT

Penalties and interest arising on late payment of the VAT due.

(1) The under paid VAT of K344,592 should have been paid on 18 January 2025 but will be paid on 30 October 2025, it will therefore be paid late by 9 months and 13 days (i.e. 285 days).

(2) The daily penalty for late payment of VAT is:

(i) 0.5% of the amount of VAT payable

$$\begin{aligned} &0.5\% \times \text{K}334,592 \times 285 \text{ days} \\ &= \underline{\text{K}476,794} \end{aligned}$$

(ii) Additionally, interest will be chargeable on overdue tax at the Bank of Zambia discount rate plus 2% for each month or part of a month that a payment is overdue. The amount of the interest arising will therefore be:

$$\begin{aligned} &14\% + 2\% = 16\% \times \text{K}334,592 \times 285/365 \\ &= \underline{\text{K}41,801} \end{aligned}$$

SOLUTION FOUR

(a) Errors in the computation and correct tax treatment

- (1) Expenditure relating to the compensation for families affected by pollution of local river of K22 million is not allowable and should have been added back when computing taxable profits.
- (2) Environmental restoration costs for damage caused by emission in local river of K16 million is not allowable and should have been added back when computing the taxable mining profit.
- (3) Expenditure on gifts of branded T-shirts of K700,000 was added back in full. Only gifts costing less than K100 are allowable. The excess expenditure above K100 per recipient is not allowable and should have been added back in the computation of taxable mining profits.
- (4) Capital allowances on the Toyota Fortuner and office equipment which were acquired from local suppliers and paid for in Zambian Kwacha were indexed. The capital allowances should not have been indexed. Indexation of capital allowances only applies on items imported into the country.
- (5) The wrong rate of wear and tear allowances was used on the mine locomotives. The correct rate is 20% and not 50%.
- (6) The wrong rate was used to write down the expenditure incurred on construction of the trust hospital in the mine township. The expenditure must be written off at the rate of 20% over period of 5 years and not all in full at the rate of 100% in the tax year 2025.
- (7) The mining loss was not indexed. The loss should have been indexed before relieving it against taxable profits for the year.
- (8) The loss relief was not restricted to 50% of taxable profits for the year. Mining losses can only be offset against 50% of taxable mining profit.

(b) KALULUSHI MINING CORPORATION

COMPUTATION OF TAXABLE PROFITS AND COMPANY INCOME TAX PAYABLE

	K	K
Profit before tax as per accounts		125,562,400
Add: Non-deductible expenditure		
Depreciation	49,375,000	
Gifts branded T shirts (K700,000/350 x K250)	500,000	
Personal to holder Motor Car Benefit	57,600	
Fines for Emissions of poisonous effluents	18,000,000	
Compensation payments to families	22,000,000	
Environmental restoration costs	<u>16,000,000</u>	
		<u>105,932,600</u>
		231,495,000
Less capital allowances (W1)		<u>(17,780,000)</u>
Taxable profit before mining loss relief		213,715,000
Less mining loss relief (W2)		<u>(106,857,500)</u>
Final taxable mining profit		<u>106,857,500</u>

Company Income Tax @30%	<u>32,057,250</u>
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WORKINGS

(1) COMPUTATION OF CAPITAL ALLOWANCES

	K
<u>Toyota Fortuner</u>	
Wear & tear allowance (K2,400,000 x20%)	480,000
<u>Office Equipment</u>	
Wear & tear allowance (K560,000 x25%)	140,000
<u>Mine Locomotives</u>	
Wear & tear allowance (K25,000,000 x 20%) x [1+(28.80-K24.00/24.00)]	6,000,000
<u>Mine Excavation Equipment</u>	
Wear & tear allowance (K36,000,000 x 20%) x [1+(28.80-K24.00/24.00)]	8,640,000
<u>KMC Trust Hospital</u>	
(K12,600,000 x20%)	<u>2,520,000</u>
Total allowances claimable	<u>17,780,000</u>

(2) Loss Relief

	K
Loss Relief for 2024 [(1+(28.80 – 24.00)/24.00) x K101,600,000]	121,920,000
Loss Relief for 2024 Restricted (50% x K213,715,000)	<u>(106,857,500)</u>
Unrelieved loss c/f	<u>15,062,500</u>

SOLUTION FIVE

(a) The following are the tax audit procedures to be performed to confirm the true level of income:

- (1) Review all the bank statements to compare the reported income with total cash deposits to identify discrepancies. This will help identify unreported income and estimate the taxable business profits as Asaf has insufficient accounting records.
- (2) Reconstruct the income using the mark-up ratio that is considered typical for the business like Asaf's to determine the actual tax liability. This will involve the analysis of cost of sales and application of the mark-up to arrive at Asaf's gross sales for the period.
- (3) Analyse the net worth of Asaf at the beginning of the period compared with the net worth at the end of the tax year. The net worth is the difference between net assets at the beginning and net assets at the end adjusted for disallowable expenses and non-taxable income.
- (4) Analyse the personal expenses and business expenses during the tax year to compare with the reported income. Where the expenses exceed the reported income, then the difference is the hidden income.
- (5) Contact major customers and suppliers to verify sales volume and purchases. Cross-check these confirmations with declared revenue and bank transactions.
(2 marks per valid point up to 6 marks)

(b) Sales revenue made by Asaf using the Bank Deposits and Expenditure Method

The Bank Deposit and Cash Expenditure Method computes income by analyzing what happened to the taxpayer's finances during the tax year under review. It is assumed that if the tax payer receives money, it can either be spent or be deposited into the bank account.

This may lead to determination of the unreported revenue, after making adjustments. The correct figure of turnover for the year ended 31 December 2025 will be calculated as follows:

Calculation of cash sales	K
Cash deposited into the bank	400,000
Add the cash expenses:	
Purchase of goods for resale	1,900,000
Salaries for employees	620,000
Shop rentals	300,000
Donations to political parties	<u>180,000</u>
	3,400,000
Bank transfers from customers	<u>2,200,000</u>
Turnover for the year 2025	<u>5,600,000</u>

Asaf's actual sales revenue (turnover) is K5,600,000 which is more than K5,000,000. Therefore, he is liable to pay income tax and not turnover tax which he paid.

(c) Taxable business income and income tax payable for the tax year 2025

	K	K
Gross sales revenue		5,600,000
Less allowable deductions:		
Purchases	1,900,000	
Salaries for employees	620,000	
Shop rentals	<u>300,000</u>	
		<u>(2,820,000)</u>
Adjusted business profits before capital allowances		2,780,000
Less capital allowances:		
Toyota Hilux: (K1,400,000 x 20% x 80%)	224,000	
Cash Registers: (K200,000 x 25%)	50,000	
Delivery Motor Vehicles (K500,000 x 25%)	<u>125,000</u>	
		<u>(399,000)</u>
Final taxable business profits		<u>2,381,000</u>
Computation		
First K61,200 @0%		0
Next K24,000 @20%		4,800
Next K25,200 @30%		7,560
Excess (K2,381,000 – K110,400) x 37%		<u>840,122</u>
Income tax liability		<u>852,482</u>

The correct amount of tax Asaf should have paid is K852,482 and not turnover tax of K129,400. Therefore, he is required to pay an additional K723,082 (K852,482 – K129,400) plus penalties and interest.

END OF SUGGESTED SOLUTIONS



POST GRADUATE DIPLOMA IN TAXATION EXAMINATIONS

PGDT8: TAX MANAGEMENT AND PLANNING

FRIDAY 12 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 paper is divided into TWO (2) sections:

Section A: ONE (1) **Compulsory** scenario question.
Section B: FOUR (4) Optional questions. Attempt any THREE (3) questions.
3. Enter your student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.
10. A Taxation table is provided from page 2 to page 7 of the question paper.

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

Income Tax

Standard personal income tax rates

Income band	Taxable amount	Rate
K1 to K61,200	first K61,200	0%
K61,201 to K85,200	next K24,000	20%
K85,201 to K110,400	next K25,200	30%
Over K110,400		37%

Income from farming for individuals

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

Company Income Tax rates

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

Mineral Royalty

Mineral Royalty on Copper

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

Mineral Royalty on other minerals

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

Capital allowances

Implements, plant and machinery and commercial vehicles:

Wear and tear allowance –	Standard wear and tear allowance	25%
	Wear and tear allowance if used in manufacturing and leasing	50%
	Wear and tear allowance if used in farming and agro-processing	100%
	Wear and tear allowance if used in Mining and Mineral processing	20%

Non-commercial vehicles

Wear and tear allowance	20%
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Industrial buildings:

Wear and tear allowance	5%
Initial allowance	10%
Investment allowance	10%

Low cost housing (Cost up to K100,000)

Wear and tear allowance	10%
Initial allowance	10%

Commercial buildings:

Wear and tear allowance	2%
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Farming allowances

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

Presumptive Taxes

Turnover Tax

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

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

Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	18,144	15,725	9,678	8,387
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	18,695	24,304	10,198	13,256
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	20,395	26,514	11,897	15,466
Cylinder capacity exceeding 3000 cc	25,494	33,142	13,597	17,676
SUVs				
Cylinder capacity not exceeding 1000 cc	17,598	15,252	10,559	9,151
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	20,463	17,735	12,278	10,641
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	23,794	30,933	14,277	18,560
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	27,193	35,351	17,540	22,802
Cylinder capacity exceeding 3000 cc	32,292	41,980	20,395	26,514
Motor vehicles for the transport of goods	Aged 2 to 5 years	Excise	Aged over 5 years	Excise
	Customs duty	duty	Customs duty	duty
	K	K	K	K
Single cab				
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	24,777	10,737	9,911	4,295
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	29,732	12,884	17,344	7,516
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	34,687	15,031	19,821	8,589
Double cabs				
GVW not exceeding 3 tonnes	34,687	15,031	27,254	11,810
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	38,156	16,534	29,980	12,991
Panel vans				
GVW not exceeding 1.0 tonne	15,089	6,539	8,622	3,736
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	17,344	7,516	9,911	4,295
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	19,821	8,589	17,344	7,516
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	24,777	10,737	19,821	8,589
Trucks				
GVW up to 2 tonnes	7,246	5,556	10,963	4,751
GVW exceeding 2.0 tonnes but not exceeding 5.0 tonnes	8,731	6,694	13,156	5,701
GVW exceeding 5.0 tonnes but not exceeding 10.0 tonnes	10,477	8,032	10,817	8,293

GVW exceeding 10.0 tonnes but not exceeding 20.0 tonnes	13,271	10,174	11,744	9,004
GVW exceeding 20 tonnes	21,992	0	19,461	0

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

Surtax

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

Customs and Excise on New Motor vehicles

Duty rates on:

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

Customs Duty:

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

Excise Duty:

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

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

Customs Duty

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

Excise Duty:

Percentage of Value for Duty Purposes for Excise Duty Purposes	10%
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- Buses/coaches for the transport of more than ten persons**

Customs Duty:

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

Excise Duty:

Percentage of Value for Duty Purposes for Excise Duty Purposes	
Seating Capacity of 16 persons and less	25%
Seating Capacity of 16 persons and more	0%

- Trucks/lorries with gross weight exceeding 20 tonnes**

Customs Duty:

Percentage of Value for Duty Purposes	15%
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Excise Duty:

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

This question is compulsory and MUST be attempted

QUESTION ONE – COMPULSORY

For the purposes of this question, you should assume that today's date is 22 December 2024, and that the earnings ceiling for the purposes of NAPSA is K409,968 for the tax year 2025.

Background

You are employed in a firm of Chartered Accountants, a small newly established Tax Practice. You are dealing with the tax affairs of your new clients, Kapembwa and Milimo, a married couple.

Kapembwa wishes to commence in business on 1 January 2025, running a chain of supermarkets. He wishes to involve his wife Milimo in running the business but he is not sure whether the business should be run as a sole proprietorship or as a partnership. He is therefore, seeking advice on which alternative will be beneficial from the taxation point of view.

Regardless of how the business will be run, the business will acquire Shop Buildings at a cost of K2,000,000 (including the cost of land of K300,000), Mitsubishi Delivery Trucks at a cost of K800,000 and Shop Fittings at a cost of K420,000 on 1 January 2025. The business will additionally acquire Refrigeration Equipment at a cost of K1,000,000 on 31 March 2025. Kapembwa and Milimo will use their privately owned motor vehicles partially for business use. Kapembwa's motor vehicle is a Toyota Allion Car (2000cc) which he acquired in March 2024, at a cost of K180,000, whereas Milimo's motor vehicle is a Mercedes Benz C200 (2200cc) which she acquired in October 2024, at a cost of K200,000. It is estimated that Kapembwa will use his motor vehicle 60% for business purposes, while Milimo will use her motor vehicle 40% for business purposes.

Whether the business is run as a sole proprietorship or as a partnership, the business's annual turnover is expected to be K7,400,000 and will produce a net profit from this turnover, amounting to K1,750,000, for the year ended 31 December 2025. The net profit of K1,750,000 is after all necessary tax adjustments, but before deducting capital allowances, payments relating to Kapembwa and Milimo, any National Pension Scheme Authority (NAPSA) contributions, National Health Insurance Management Authority (NHIMA) Contributions and skills development levy arising where applicable.

Sole proprietorship

Under this option, Kapembwa will run a sole proprietorship and engage his wife Milimo as an employee. He will pay Milimo an annual basic salary amounting to K380,000 and fuel allowance amounting to K3,500 per month. Kapembwa will draw an annual salary amounting to K405,000 and fuel allowance amounting to K4,200 per month.

Milimo will be required to contribute 5% of her gross earnings as employees' NAPSA contributions where applicable and 1% of the basic salary as employees' NHIMA contributions.

Kapembwa will also be required to contribute 5% of Milimo's gross earnings as employer's NAPSA contributions and 1% of the basic salary as employer's NHIMA contributions on her

behalf. Kapembwa will additionally be required to contribute a skills development levy at the rate of 0.5% of Milimo's gross earnings.

Partnership

Under this option Kapembwa will engage his wife Milimo as a partner. The partnership agreement will allow Kapembwa and Milimo to draw annual partnership salaries amounting to K405,000 and K380,000 respectively. Kapembwa and Milimo will additionally draw fuel allowances of K4,200 per month and K3,500 per month respectively. Under this option NAPSA contributions, NHIMA contributions and skills development levy will not be payable.

Any balance of the profits or losses will be shared in the ratio 3:2 between Kapembwa and Milimo respectively.

Required:

- (a) Calculate the amount of income tax, NAPSA contributions and NHIMA contributions payable by Kapembwa and Milimo for the tax year 2025, assuming that the business is run as a sole proprietorship. (17½ marks)
- (b) Calculate the amount of income tax payable by Kapembwa and Milimo for the tax year 2025 assuming that the business is run as a partnership. (12 marks)
- (c) Advise Kapembwa on whether he should run his business as a sole proprietorship or as a partnership. Your answer should be supported by a computation of income net after tax and other relevant deductions for the year ended 31 December 2025. (6½ marks)
- (d) Recommend any four (4) strategies that your newly established entrepreneurial tax practice can implement to ensure the sustainability and scalability of the firm over the next five (5) years. (4 marks)

[Total: 40 Marks]

SECTION B

There are FOUR (4) questions in this section.

Attempt any THREE (3) questions.

QUESTION TWO

For the purpose of this question, you should assume that today's date is 16 December 2024.

You are employed in a firm of Chartered Accountants and you are dealing with the tax affairs of your client, PreTex Ltd.

PreTex Ltd is a newly established Zambian resident company owned and run by two (2) Zambian entrepreneurs, Sakutemba and Limbani. Sakutemba holds 60% of the issued equity share capital whereas Limbani holds 40% of the issued equity share capital. They both run and manage their business as full-time working Directors. The company is engaged in manufacturing and is registered for Value Added Tax (VAT).

The company is in the process of acquiring manufacturing equipment to boost its production to meet increased demand for the company's product, which is expected to substantially increase in the year 2025. The equipment's cost is K1,751,600 (VAT inclusive). The directors are considering three (3) options of financing the acquisition of the equipment as follows:

Option one

The company will borrow K2,000,000 on 1 January 2025 at an interest rate of 24% per annum. This figure is inclusive of an amount of K248,400 which will be incurred on loan processing fees and other costs to be incurred in obtaining the loan from the bank. The remainder of the loan will then be used to finance the purchase of the manufacturing equipment. The loan will be repayable within twelve (12) months. The monthly loan repayments will be K206,667.

Option two

The company will enter into an agreement with the supplier to acquire the manufacturing equipment under a hire purchase agreement. Under this option the company will be required to pay an initial deposit of K400,000 on 1 January 2025, followed by twelve (12) monthly installments of K143,333 payable at the end of every month commencing on 31 January 2025. The last installment will be paid on 31 December 2025. Ownership documents will be transferred to PreTex Ltd on 31 December 2025. The legal cost of arranging and signing the hire purchase agreement will amount to K31,000.

Option three

The company will enter into an operating lease for a period of twelve (12) months. Annual lease rentals will be K166,266 (VAT inclusive) payable at the beginning of each month. The asset will be returned to the lessor on 31 December 2025.

Other information

Sakutemba has made substantial savings over the years. He now wishes to invest an amount of K500,000 from his savings into shares, GRZ bonds, Treasury bills or Certificates of Deposits, but he is not sure of what the tax implications of making each of these investments will be.

Required:

- (a) Evaluate the taxation implications of each of the financing option for PreTex Ltd, including the impact on allowable deductions and capital allowances:
- (i) Option one (5 marks)
 - (ii) Option two (4 marks)
 - (iii) Option three (3 marks)
- (b) Advise Sakutemba of the taxation implications arising from investing his savings in each of the following investments:
- (i) Shares of Zambian companies listed on the Lusaka Securities Exchange. (2 marks)
 - (ii) Shares of Zambian companies not listed on the Lusaka Securities Exchange. (2 marks)
 - (iii) Government Treasury Bills (2 marks)
 - (iv) Certificates of Deposits (2 marks)

[Total: 20 Marks]

QUESTION THREE

You are employed in a tax practice and you are dealing with the tax affairs of Grape Ltd (Grape), a Zambian resident manufacturing company which is registered for Value Added Tax (VAT).

Group Structure

Grape Ltd is a member of the David Group, a foreign based multinational entity, which has interests in other subsidiaries which are resident outside Zambia. The David group holds 80% of the issued ordinary shares of Grape Ltd.

Grape Ltd holds 85% of the equity shares of Strawberry Ltd (Strawberry) and 75% of the equity shares of Apple Ltd (Apple). Both Strawberry and Apple are VAT registered Zambian resident companies engaged in manufacturing.

All of the companies in the David Group including Grape Ltd and its two Zambian resident subsidiaries prepare financial statements annually to 31 December.

Discontinuation of operations of Apple Ltd

The Directors of Grape are considering discontinuing the operations of Apple due to its poor financial performance in the recent past. The Directors intend to cease the company's operations on 31 December 2025. All of the assets of Apple will be sold to individuals and companies.

The loss before taxation as per accounts of Apple is expected to be K1,400,000 for the year ended 31 December 2025. This loss is before capital allowances but after all the necessary tax adjustments. On cessation of operations of Apple on 31 December 2025, all of the assets will be sold to individual buyers at their market values and all of the liabilities settled.

The following information relates to the assets and liabilities of Apple:

	Income tax value at 1 January 2025	Original cost/Value	Market value at 31 December 2025
	K	K	K
Factory building	700,000	2,000,000	3,000,000
Administration offices	624,000	800,000	1,800,000
Manufacturing equipment	Nil	1,100,000	380,000
Inventories	Not applicable	100,000	140,000
Payables	Not applicable	250,000	250,000
6% Loan notes	Not applicable	1,000,000	1,000,000

The above amounts are exclusive of Value Added Tax where applicable.

The Directors of Grape are not sure of the taxation implications arising from the intended plan to discontinue the operations of Apple.

Strategic Group Portfolio Reorganization Plan

Management of the David Group is planning to sell some shares the group holds in some of its subsidiaries, as part of its strategic portfolio reorganization plan for the group. They have heard that under the provisions of the Zambian Property Transfer Tax Act, indirect transfers of shares may attract property transfer tax. They are however not sure what constitutes an indirect transfer of shares under these provisions and the related tax implications of such transfers. They have approached your firm for advice.

Required:

- (a) In relation to the discontinuation of the operations of Apple on 31 December 2025, advise the directors of each of the following, supporting your answer with appropriate computations of any taxes arising in each case:
 - (i) Property Transfer Tax implications (4 marks)
 - (ii) Value Added Tax implications (5 marks)
 - (iii) Income Tax implications (7 marks)
- (b) Advise management of the David Group of what constitutes an indirect transfer of shares under the provisions of the Zambian Property Transfer Tax Act and the Property Transfer Tax implications of such a transfer. (4 marks)

[Total: 20 Marks]

QUESTION FOUR

You are employed in a firm of Chartered Accountants and your supervisor has asked you to deal with the tax affairs of your client, AgriTech.

Zambia through the Zambia Development Agency (ZDA) held the Invest Zambia International Conference (IZIC) in July 2025, which was aimed at attracting Foreign Direct Investment (FDI) into Zambia. The Conference focused on key sectors of the Zambian economy including energy, mining, agriculture, tourism, ICT, manufacturing and infrastructure. Following the successful hosting of the conference, an international investor, known as AgriTech, has expressed interest in investing in Zambia.

AgriTech is a multinational company resident in country known as the Republic of GrassLand. The company has several subsidiaries in most African countries and Asia. The company intends to open a new business in Zambia through Foreign Direct Investment (FDI) by incorporating a new company in Zambia engaged in farming. The company is also interested in undertaking major projects in agriculture in partnership with the Zambian Government under the Public Private Partnership (PPP) model. The directors of AgriTech wish to know what incentives will be available on these investments.

Required:

- (a) Explain the importance of Foreign Direct Investment (FDI) to the Zambian economy.
(4 marks)
- (b) Advise the directors of AgriTech of any four (4) taxation incentives available to companies in the agriculture sector.
(4 marks)
- (c) Advise the directors of any four (4) fiscal incentives that will be available for any Public-Private Partnership Projects, it will undertake with the Zambian Government.
(4 marks)
- (d) Discuss the differences between tax planning and tax evasion, evaluating the ethical implications of engaging in each practice.
(8 marks)

[Total: 20 Marks]

QUESTION FIVE

You are employed in a firm of Chartered Accountants. Your supervisor has asked you to make a presentation at a forth coming Continuous Professional Development (CPD) workshop, to be held by the firm, to update staff in the department on changes made by the Income Tax (Amendment) Act of 2024 and the Value Added Tax (Amendment) Act No. 23 of 2024.

Your supervisor has specifically requested for your presentation to cover the following areas:

- (1) Taxation of income from export of Non-Traditional Products
- (2) Treatment of tax losses carried forward for business enterprises other than those engaged in mining operations
- (3) VAT Reforms relating to compliance with Smart Invoice Regulations and documentation requirements for valid Input Tax claims.

You have further been assigned to deal with the tax affairs of Mansa Ltd, one of your firm's clients long standing client, which is one of your firm's major and valued clients. Your firm has provided audit and assurance, financial reporting, and management consultancy services for this client for many years. For the year ended 31 December 2025, Mansa Ltd wishes your firm to also provide taxation services in addition to the above services your firm currently provide.

Mansa Ltd was recently subjected to a tax audit and the Zambia Revenue Authority (ZRA) tax auditors raised an additional tax assessment relating to undeclared taxable income for the tax previous tax year (the charge year 2024). The additional tax payable amounted to K78,200 which the company has disputed. After making several unsuccessful attempts to appeal against this assessment to the Commissioner General, the company has now decided to take the case to Tax Appeals Tribunal (TAT) and has asked your firm to represent the company in this tax dispute case.

While reviewing the company's tax returns for the current year, (the charge year 2025), you discovered that the company deliberately omitted a sales invoice from the income tax return, understating the sales revenue declared. The Managing Director of Mansa Ltd has informed you that disclosure of the omitted invoice is not necessary since the ZRA recently performed a tax audit of the affairs of the company for the previous year and therefore, there is no possibility of them conducting another tax audit for the tax year 2025. He has urged your firm to let the matter go, for the sake of the good relations the two businesses have enjoyed over the years.

Required:

- (a) Evaluate the changes introduced by the Income Tax (Amendment) Act of 2024 in the following areas, explaining Government's policy rationale for each change:
 - (i) Taxation of income from export of Non-Traditional Products. (3 marks)
 - (ii) Treatment of carried-forward tax losses for business enterprises other than those engaged in mining operations. (3 marks)
- (b) Describe two (2) key measures introduced by the Value Added Tax (Amendment) Act No. 23 of 2024, relating to compliance with Smart Invoice Regulations and documentation requirements for valid Input Tax claims, explaining the policy rationale for each measure. (4 marks)
- (c) Evaluate the ethical and professional matters your firm will face in providing tax services to Mansa Ltd, recommending appropriate course(s) of action to be taken to address each matter. (10 marks)

[Total: 20 Marks]

END OF PAPER

PGDT 8 – TAX MANAGEMENT AND PLANNING

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) COMPUTATION OF INCOME TAX PAYABLE IF MILIMO IS ENGAGED AS AN EMPLOYEE

KAPEMBWA'S PERSONAL INCOME

TAX COMPUTATION FOR THE TAX YEAR 2025

	K	K
Business profits		1,750,000
Less:		
Milimo's salary	380,000	
Milimo's fuel allowance (K3,500 x 12)	42,000	
Employer's NAPSA contributions:		
(Restricted to: K409,968 x 5%)	20,498	
Employer's NHIMA (K380,000 x 1%)	3,800	
Skills development levy		
(K380,000 + K42,000) x 0.5%	2,110	
Capital allowances:		
Shop buildings (K2,000,000 – K300,000) x 2%	34,000	
Mitsubishi Delivery Truck (K800,000 x 25%)	200,000	
Shop fittings (K420,000 x 25%)	105,000	
Refrigeration equipment (K1,000,000 x 25%)	250,000	
Kapembwa's privately owned motor car		
(K180,000 x 20% x 60%)	21,600	
		<u>(1,059,008)</u>
Taxable business profits		<u>690,992</u>
<u>Income Tax</u>		
First K110,400		12,360
Excess (K690,992 – K110,400) x 37%		<u>214,819</u>
Income tax payable		<u>227,179</u>

MILIMO'S PERSONAL INCOME

TAX COMPUTATION FOR THE TAX YEAR 2025

	K	K
Basic salary		380,000
Fuel allowance (K3,500 x 12)		<u>42,000</u>
		422,000
Less:		
Capital allowances (K200,000 x 20% x 40%)		<u>(16,000)</u>
Taxable income		<u>406,000</u>
<u>Income Tax</u>		
First K110,400		12,360
Excess (K406,000 – K110,400) x 37%		<u>109,372</u>
Income tax payable		<u>121,732</u>

Employee's NAPSA

(Restricted to: K409,968 x 5%)	20,498
Employee's NHIMA (K380,000 x 1%)	3,800

(b) COMPUTATION OF INCOME TAX PAYABLE IF MILIMO IS ENGAGED AS A PARTNER

	K	K	
Business profits		1,750,000	
Less:			
Capital allowances:			
Shop buildings			
(K2,000,000 – K300,000) x 2%	34,000		
Mitsubishi Delivery Truck			
(K800,000 x 25%)	200,000		
Shop fittings (K420,000 x 25%)	105,000		
Refrigeration equipment			
(K1,000,000 x 25%)	<u>250,000</u>		
		<u>(589,000)</u>	
Adjusted business profit		<u>1,161,000</u>	
Allocation of business profits	Kapembwa	Milimo	Total
	K	K	K
Partners' salaries	405,000	380,000	785,000
Fuel allowance			
(K4,200 x 12) (K3,500 x 12)	50,400	42,000	92,400
Balance of profits 3:2	<u>170,160</u>	<u>113,440</u>	<u>283,600</u>
	<u>625,560</u>	<u>535,440</u>	<u>1,161,000</u>
Less:			
CAs on privately owned motor vehicles			
Kapembwa (K180,000 x 20% x 60%)	(21,600)		(21,600)
Milimo (K200,000 x 20% x 40%)	<u>-</u>	<u>(16,000)</u>	<u>(16,000)</u>
Taxable business profits	<u>603,960</u>	<u>519,440</u>	<u>1,123,400</u>
Income Tax			
First K110,400	12,360	12,360	
Excess:			
(K603,960 – K110,400) x 37%	182,617		
(K519,440 – K110,400) x 37%	<u>-</u>	<u>151,345</u>	
	<u>194,977</u>	<u>163,705</u>	

(c) COMPUTATION OF NET INCOME AFTER TAX AND OTHER DEDUCTIONS IF MILIMO IS ENGAGED AS:

	An Employee K	A Partner K
Business profits	1,750,000	1,750,000
Less:		
Income tax payable by:		
Kapembwa	(227,179)	(194,977)
Milimo	(121,732)	(163,705)
Employer's NAPSA contributions	(20,498)	-
Employer's NHIMA contributions	(3,800)	-
Skills development levy	(2,110)	-
Employee's NAPSA contributions	(20,498)	-
Employee's NHIMA contributions	(3,800)	-
Net income	<u>1,350,383</u>	<u>1,391,318</u>

It is more beneficial from a taxation point of view to engage Milimo as a partner rather than as an employee. This is so because the net income is K40,935 (K1,391,318 – K1,350,383) higher when Milimo is engaged as a partner compared to when she is engaged as an employee.

(d) Key strategies for sustainability and scalability

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

(1) Build a Team:

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

(2) Diversify Revenue Streams:

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

(3) Strong Networking and Industry Collaboration

Partner with law firms, accounting firms, and business associations to gain client referrals.

Engage with ZICA, ZRA, and tax industry events to build professional credibility.

(4) Invest in Technology:

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

(5) Focus on Client Retention:

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

(6) Strong Branding and Online Presence:

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

(7) Monitoring and Evaluation:

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

SOLUTION TWO

(a) The following are the taxation implications of the financing options:

(i) Option one

- (1) The interest cost to be incurred on the loan is an allowable expense when computing the taxable business profits of PreTex Ltd for as long as the interest expense is not more than 30% of the tax earnings before interest, tax depreciation and amortization (EBITDA).

The amount of the allowable interest, subject to the Tax EBITDA restrictions will be:

$$K2,000,000 \times 24\% = K480,000$$

- (2) The loan processing and other costs to be incurred amounting to K248,400 meets the definition of interest expense and therefore will be treated as an allowable expense for as long as it is not more than 30% of the tax earnings before interest, tax, depreciation and amortization (EBITDA). (1 mark)

- (3) The company will be able to claim input VAT on the purchase cost of the manufacturing equipment. The amount of input VAT to be claimed is:

$$K1,751,600 \times 4/29 = K241,600.$$

- (4) PreTex Ltd will be able to claim capital allowances on the manufacturing equipment at a rate of 50% per annum on the VAT exclusive cost. These capital allowances are deductible when computing the taxable business profits and will amount to:

$$K1,751,600 \times 25/29 \times 50\% = K755,000.$$

(ii) Option two

- (1) PreTex Ltd will be able to claim input VAT to be incurred on the purchase of the manufacturing equipment.

The amount of input VAT claimable is: $K1,751,600 \times 4/29 = K241,600$

- (2) The company will be able to claim capital allowances on the VAT exclusive cash price of the manufacturing equipment at a rate of 50% per annum.

The amount of capital allowances claimable will be: $K1,751,600 \times 25/29 \times 50\% = K755,000$.

(3) The interest on hire purchase agreement will be an allowable deduction when computing the taxable business profits of PreTex Ltd for as long as it will not be more than 30% of the tax earnings before interest, tax depreciation and amortization (EBITDA). The capital portion of the instalment payment is not an allowable deduction when computing business profits.

(4) The interest is the difference between the total payments made and the cash price of the asset. In this case, the interest will be calculated as:

$$[K400,000 + (K143,333 \times 12)] - K1,751,600 = K368,396.$$

(iii) Option three

(1) The company will not be able to claim capital allowances on the equipment as they will be claimed by the legal owner of the asset (the lessor).

(2) PreTex Ltd will be able to claim input VAT to be incurred on the operating lease rentals. The amount of VAT claimable is: $K166,266 \times 4/29 = K22,933$.

(3) The operating lease rentals (exclusive of VAT) will be treated as allowable deduction when computing the taxable business profits of PreTex Ltd. The amount to be allowed will be: $K166,266 \times 25/29 = K143,333$.

(b) The taxation implications of the investments are:

(i) Shares of Zambian companies listed on LuSE

(1) The dividends receivable is subjected to withholding tax at a rate of 0% which is the final tax. This means that dividends received from a company listed on the Lusaka Securities Exchange are exempt from tax.

(2) There is no property transfer tax charged on the transfer of shares listed on the Lusaka Securities Exchange as this is an exempt transaction under the PTT Act.

(ii) Shares of Zambian companies not listed on LuSE

(1) Dividends received from companies that are not listed on the LuSE are subjected to withholding tax at a rate of 15% final tax. This means that if Sakutemba invests in these shares, he will be receiving dividends net of 15% WHT.

- (2) Property transfer tax is chargeable on the transfer of these shares as they qualify as property under the PTT Act. The rate at which PTT is charged is 8% on the realized value.

(iii) Treasury Bills

- (1) Treasury bill discount (interest) to be received by Sakutemba will be subjected to withholding tax at a rate of 15% which is the final tax for individuals. This means that he will receive interest net of 15% withholding tax.
- (2) There is no property transfer tax to be charged on treasury bills as they fall outside the scope of property transfer tax under the PTT Act.

(iv) Certificates of deposits

- (1) Certificates of deposits interest to be received by Sakutemba will be subjected to withholding tax at a rate of 15% which is the final tax for individuals. This means that he will receive interest net of 15% withholding tax.
- (2) There is no property transfer tax to be charged on Certificates of deposits as they fall outside the scope of property transfer tax under the PTT Act.

SOLUTION THREE

(a) Taxation implications of the cessation of operations of Apple

(i) Property Transfer Tax Implications

Where a business is sold not as a going-concern, the property transfer tax is chargeable on immovable assets sold individually. This is the case for Apple as its assets will be sold individually; therefore, PTT will be chargeable on factory building and administrative offices. No property transfer tax will be charged on the transfer of other assets as they don't qualify as property in accordance with the PTT Act.

	K
Factory building (K3,000,000 x 8%)	240,000
Administration offices (K1,800,000 x 8%)	<u>144,000</u>
Total PTT payable	<u>384,000</u>

(ii) Value Added Tax Implications

Where a company is sold as a going concern there is no value added tax charged on the transfer of the company. However, VAT becomes chargeable where the individual assets are sold (when a business is sold not as a going-concern). In this case, VAT will be charged as Apple will cease to trade and individual assets sold.

	K
Factory building (K3,000,000 x 16%)	480,000
Administrative offices (K1,800,000 x 16%)	288,000
Manufacturing equipment (K380,000 x 16%)	60,800
Inventories (K140,000 x 16%)	<u>22,400</u>
Total VAT payable	<u>915,200</u>

(iii) Income Tax Implications

Cessation rules will be used to make assessments for profits made in the year of cessation. Since the final year of trading is exactly twelve months long given that Apple prepares accounts to 31 December, each year, the normal rules will be used and in this case the current year basis of assessment will be used. The profits generated in the year ending 31 December 2025, will be assessed in the charge year 2025.

Normal wear and tear allowances will not be computed on any assets qualifying for capital allowances but rather balancing charges or allowances will arise as the assets are being disposed of piecemeal as opposed to selling the business as a whole.

	K	K	K
Loss before accounts			(1,400,000)
<u>Factory building</u>	700,000		
Proceeds restricted to cost	<u>(2,000,000)</u>		
Balancing charge	<u>(1,300,000)</u>	(1,300,000)	
<u>Administration offices</u>			
ITV b/f	624,000		
Disposal restricted to cost	<u>(800,000)</u>		
	(176,000)	(176,000)	
<u>Manufacturing equipment</u>			
ITV b/f	0		
Disposal	380,000		
	<u>(380,000)</u>	(380,000)	
			<u>1,856,000</u>
			<u>456,000</u>
Company Income Tax			
K456,000 x 30%			<u>136,800</u>

(b) Indirect transfer of shares under the PTT Act

Under the provisions of The Property Transfer Tax (PTT) Act of Zambia an indirect transfer of shares in relation to groups is deemed to occur, when shares of a company incorporated outside Zambia are transferred, but that foreign company directly or indirectly holds a shareholding of at least 10% in a company incorporated in Zambia.

The indirect transfer only applies when the non-resident company holds 10% or more of the equity shares of a Zambian resident company and therefore, transfers representing less than 10% of the shares in the Zambian company over three consecutive years are exempted from PTT to avoid taxing minority transactions.

The PTT implication of such a transfer is that that even if it is not the shares of the Zambian resident company which have been directly sold, but rather the shares of its foreign holding company which have been transferred, the Zambian resident entity is still considered as having made an indirect transfer of shares and is subject to Zambian PTT.

The tax payable must be computed on the proportion of the consideration for the transferred shares that relates to the value of the Zambian company, or the nominal value of those shares, whichever is higher.

The Zambian resident company is responsible for filing the PTT return in case of indirect share transfers

SOLUTION FOUR

(a) The following is the importance of Foreign Direct Investment (FDI) to the Zambian economy:

(1) Improved economic growth

Increase in FDI may bring improved economic growth due to influx of capital and increased tax revenues for Zambia. The Zambian government will channel the FDI into new sectors and infrastructure to boost development.

(2) Greater competition

Greater competition from new companies leads to productivity gains and greater efficiency in the host country. Application of foreign entity's policies to a domestic company may improve corporate governance standards.

(3) Transfer of skills

FDI can result in transfer of soft skills through training and job creation, availability of more advanced technology for the domestic market and access to research and development resources.

(4) Employment opportunities

FDI may result in employment opportunities for the Zambian people as a result of new businesses opening up.

(b) The following are the taxation incentives:

- (i) Reduced company income tax rate at only 10% of the taxable farming profits as opposed to the normal income tax rate of 30%.
- (ii) A farm improvement allowance at a rate of 100% on qualifying farm improvements expenditure.
- (iii) A farm works allowance at a rate of 100% on expenditure qualifying as farm works.
- (iv) Accelerated wear and tear allowance at the rate of 100% of the expenditure on implements, plant and machinery used directly in farming.
- (v) A development allowance at a rate of 10% on the expenditure incurred to develop or extend a plantation.
- (vi) Farming businesses are allowed to make an irrevocable election to average the farming profits of two consecutive tax years and pay tax on the averaged profit.
- (vii) Guaranteed input VAT claim for four (4) years prior to commencement of production for taxable agricultural businesses.
- (viii) Zero-rating of exported agricultural products and supplies.
- (ix) Dividends paid out of farming profits for the first five (5) years of distributing company commences farming are exempt from tax.

- (x) Reduced customs duty at 5% on pre-mixes, being vitamin additives for animal feed.

(c) Tax Incentives Public Private Partnership Project

The incentives available for Special purpose vehicles under a Public Private Partnership Project include:

- (1) Accelerated rate of wear and tear allowance on a straight-line basis, not exceeding 100%, in respect of any implement, plant and machinery acquired and used under a Public Private Partnership project. This wear and tear allowance is granted in the year that the equipment is brought to use and can only be claimed upon application.

The entity can apply to claim the whole allowance in full at 100% in one year, at the rate of 50% over a period of 2 years or at the normal rate of 25% over a period of 4 years.

- (2) 15% Income Tax rate for the first 5 years that a special purpose vehicle makes a profit from a project
- (3) SPVs can claim input VAT for up to four years during the set-up phase of a PPP project.
- (4) Customs duty is waived on imported equipment and machinery used for a PPP project

(d) Tax Planning and Tax Evasion

Tax Planning

Tax planning refers to the legitimate arrangement of one's financial affairs to minimize tax liability within the framework of the law. It involves taking advantage of allowable tax incentives, rebates, reliefs, exemptions, and structuring transactions in ways that reduce the tax burden.

Examples include selecting a tax-efficient business form, such as a company versus a sole proprietorship, timing the recognition of income and expenses to benefit from lower rates, claiming capital allowances on qualifying machinery and equipment and so on.

Governments intentionally design tax systems with such incentives to influence economic behavior. For instance, tax holidays stimulate investment, while deductions on loans encourage homeownership.

Ethical Implications

When done transparently and in line with legislative intent, tax planning is ethically sound. It is viewed as ethical because it operates transparently and complies with the tax rules.

However, ethical issues arise when tax planning becomes *aggressive tax avoidance*, meaning the taxpayer exploits loopholes not intended by lawmakers. Artificial transactions are created purely to avoid tax with no real economic substance.

Although such practices may be technically legal, they raise moral concerns because they undermine equitable tax distribution, especially when practiced by wealthy individuals or multinational corporations.

This can reduce government revenue available for public services, Increase income inequality and place heavier tax burdens on lower-income earners and small businesses who lack access to sophisticated tax advisory services.

So, while legal, aggressive tax avoidance may be viewed as ethically questionable, as it violates the spirit of the law.

Tax Evasion

Tax evasion refers to intentional, illegal actions taken to reduce one's tax liability. It involves fraud, concealment, and deceit.

Common methods include Underreporting business income, Inflating expenses, Keeping dual accounting records, Hiding money in offshore, undeclared accounts or Using unregistered or informal business operations to avoid detection and so on

Tax evasion is a criminal offense. Penalties differ by jurisdiction but may include, Heavy fines and interest charges, Seizure of assets Suspension or revocation of business licenses or Imprisonment resulting in reputational damage affecting business sustainability.

Ethical Implications

Tax evasion is widely condemned as highly unethical. It damages society because: Governments lose revenue needed for healthcare, education, infrastructure, and social welfare. Honest taxpayers end up subsidizing the system. It distorts fair competition (e.g., businesses that pay taxes struggle to compete with those that illegally avoid them) and It weakens trust in public institutions and the taxation system.

In essence, tax evasion prioritizes personal gain over the collective good.

SOLUTION FIVE

(a) Changes made by the Income Tax (Amendment) Act of 2024:

(i) Taxation of Income from Export of Non-Traditional Products

The income tax rate on exports of non-traditional products (e.g., agro-processed foods, textiles, steel products, and engineering goods) was increased from 15% to 20%.

Evaluation of Policy Rationale

The previous incentive of a reduced tax rate of 15% had achieved its purpose of stimulating export diversification. Government now expects mature exporters to contribute more revenue. The measure is also intended to prevent misclassification of local sales as exports to access lower tax rates.

The impact of the measure is that export-oriented manufacturers and agro-processors experience higher effective tax liabilities. However, the reform improves equity between export and domestic producers. It may encourage exporters to invest in efficiency and value addition to remain internationally competitive.

(ii) Treatment of Tax losses Carried Forward

Tax losses carried-forward tax can now only be claimed up to a maximum of 50% of taxable profits in a charge year. Previously, businesses could offset losses 100% against profit until fully absorbed as the restriction of loss relief to only 50% of taxable only applied to business carrying on mining operations .

Evaluation of Policy Rationale:

The policy rationale is to prevent perpetual loss declarations, especially in capital-intensive sectors that continue operating but pay no tax. The measure is intended to ensure every profitable business contributes some revenue annually, thereby strengthening tax fairness across industries.

The impact of this measure is that firms with large historical losses (e.g., manufacturing, construction, transportation) will experience higher annual tax outflows. However it will improve predictability of government revenue without increasing tax rates.

(b) Key measures introduced by the Value Added Tax (Amendment) Act No. 23 of 2024

(1) Document requirements for businesses to make valid Input Tax claims

Taxpayers may now only claim input tax using Smart Invoice system-generated invoices, or Invoices issued by a supplier formally exempted from Smart Invoice usage. Manual invoices and invoices from non-approved systems no longer qualify.

Manual invoices will only be accepted if the trader has been specifically granted exemption by the ZRA from using the Smart Invoice System.

Rationale for the measure

Manual invoices were easy to forge, duplicate or backdate, enabling fraudulent input tax claims. Government aimed to create a single, verifiable audit trail for VAT transactions, thereby strengthening input tax credibility.

(2) Mandatory Upload of Manually Recorded Transactions Within 72 Hours

If Smart Invoice is offline, a business may temporarily issue manual invoices, but must upload the transactions within 72 hours of system restoration.

Rationale for the measure

This Prevents taxpayers from using "system downtime" as a loophole to hide sales and ensures the transaction history remains complete and traceable. The measure further aimed at ensuring timely system reconciliation, enables the ZRA to monitor delayed reporting patterns.

(c) Ethical and professional matters:

(1) Familiarity threat

Mansa Ltd is a long standing client of the firm which has created familiarity threat. The firm may be too sympathetic to the interest of Mansa or too accepting of the work which may be too unprofessional.

Recommendation

It is advisable that the firm should rotate the senior personnel and, if possible consider termination of the engagement.

(2) Self-interest threat

The firm makes substantial amounts of revenue from Mansa Ltd due to the volume of services offered to this client. This has definitely created a self-interest threat as the firm would not want to lose a client as Mansa. In order to please the client, the firm may engage in unethical conduct in to maintain Mansa as their client.

Recommendation

The firm should consider terminating some services offered to Mansa Ltd to reduce the amounts received from the company to acceptable levels.

(3) Advocacy threat

This threat arises when a firm is requested to represent the client in court case or tax dispute. In this case, Mansa has requested that the firm represents it in tax dispute hearing before the TAT. This has the potential to impair the firm's objectivity.

Recommendation

The firm must decline to represent Mansa in a tax dispute.

(4) Intimidation threat

This threat arises when the member is deterred from acting objectively by perceived or actual threats including attempts to exercise undue influence over the member. Mansa or else the contract will be terminated. This threat may deter the firm from acting objectively as a result the work may be compromised.

Recommendation

The firm must discontinue providing services to Mansa Ltd.

(5) Omitted invoices

The principle of integrity requires a member to be straightforward and committed not to mislead or deceive. This means that a member providing taxation services should not knowingly associate himself/herself with reports, tax returns, communications and other communications or calculations that a member believes to be false or misleading.

The omitted invoices discovered confirms that the information submitted with ZRA is false and misleading as the amount of revenue is understated; therefore, non-disclosure of the anomaly means a member will be knowingly be associated with this wrong information.

The directors deliberately omitted the invoices and this constitutes a deliberate action by the directors to understate the tax payable which amounts to tax evasion.

A member should immediately inform the supervisor about this matter for guidance, and if possible, report the issue to the relevant authorities.

(1 mark per valid point up to 2 marks)

END OF SUGGESTED SOLUTIONS