POST GRADUATE DIPLOMA IN TAXATION PROGRAMME EXAMINATIONS

PGDT 1: FINANCIAL ACCOUNTING AND REPORTING

MONDAY 8 JUNE 2026

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

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading. 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 Compulsory 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 requirements for each questions 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)

You are provided with the following trial balance of Dolomite Plc at 31 December 2025:

	Dr	Cr
	K	K
Sales		1,020,000
Purchases	390,000	
Carriage inwards	30,000	
Inventory at 1 January 2025	90,000	
Land and buildings at 1 January 2025 (note 1):		
Valuation/cost (Land: K840,000)	1,840,000	
Accumulated depreciation		800,000
Plant and Machinery (note 2):		
Cost	1,000,000	
Accumulated depn as at 1 January 2025		400,000
Motor Vehicles (note 2):		
Cost	800,000	
Accumulated as at 1 January 2025		600,000
Intangible non-current asset (note 3)	100,000	
Deferred tax at 1 January 2025 (Note 5)		96,000
Trade Receivables	80,000	
Trade Payables		60,000
Cash at bank	35,000	
Current income tax (Note 5)	5,000	
Distribution costs	20,000	
15% Bank Loan 2029		400,000
Bank loan interest paid	50,000	
Administration expenses	36,000	
Salaries for sales staff	44,000	
Equity share capital (K10 shares) (Note 6)		720,000
Revaluation Surplus		30,000
Share premium		160,000
Retained earnings at 1 January 2025	-	234,000
	4,520,000	4,520,000

The following notes are provided:

(1) The value of land on 1 January 2025 was K840,000 and the balance of K1,000,000 being the cost of the buildings. Dolomite Plc has adopted the revaluation model of IAS 16 to measure the value of land and buildings. As at 31 December 2025, there was no change in the value of buildings but land was assessed to have a fair value of K820,000.

(2) Depreciation is charged as follows:

- Buildings over the remaining useful life of 50 years. The buildings are used for both production and administrative purposes. Therefore, depreciation on buildings is allocated to cost of sales and administration expenses on a ratio of 2:3 respectively.

- Plant and Machinery at 20% on cost per annum and is fully chargeable to cost of sales.

- Motor Vehicles – 25% on cost per annum. Half (½) of the cost for motor vehicles relate to administrative vehicles while the other half (½) is for sales delivery trucks.

(3) The intangible non-current asset of K100,000 relates to the development cost of a new product that had been capitalized in line with the requirements of IAS 38 – Intangible Assets. Commercial production and sales of the product commenced on 1 July 2025 and demand was expected to remain high for ten (10) years after which production would then cease. The company amortizes development expenditure pro rata to the expected period of the product's life, starting when sales revenue is first generated. All amortization is charged to cost of sales.

(4) Inventory at 31 December 2025, was valued at K120,000.

(5) The directors have estimated the corporation income tax for the year ended 31 December 2025 to be K60,000. The current income tax in the trial balance represents the under/over provision of income tax for the year ended 31 December 2024. As at 31 December 2025, the taxable temporary differences amounted to K150,000. Company income tax is at 30%.

(6) On 1 December 2025, the company issued additional 8,000 equity shares of K10 each at an issue price of K15 per share. All the shares had been fully subscribed and allocated as at 31 December 2025 but the shareholders were to pay for the shares by 31 January 2026. This transaction was omitted from the books of the company.

(7) Directors have declared an equity dividend of K0.50 per share for the shares fully paid for by 31 December 2025.

(8) The Directors of Dolomite Plc are considering changing the measurement basis for its other assets from historical cost to current cost although they do not see any difference between the two basis of measurement.

Required:

Prepare the following, in accordance with IAS 1: Presentation of financial statements;

(a) Dolomite Plc's statement of profit or loss and other comprehensive income for the year ended 31 December 2025. (14 marks)

(b) Dolomite Plc's statement of changes in equity for the year ended 31 December 2025. (6 marks)

(c) Dolomite Plc's statement of financial position as at 31 December 2025. (16 marks)

(d) Explain the difference between historical cost accounting and current cost accounting as a basis of measurement in the financial statements. (4 marks)

[Total: 40 Marks]

SECTION B

There are FOUR (4) questions in this section.

Attempt any THREE (3) questions.

QUESTION TWO

(a) Kachele Plc is a High-Tech software supplier and has a growth strategy through acquisitions of other entities. On 1 April 2024, Kachele acquired 75% of Mkuyu Plc's equity shares, when Mkuyu's retained earnings were K246 million.

Kachele Plc paid K360 million cash and promised to pay K24 million on 31 March 2027. The cash consideration has been recorded, but no entries have been made in respect of the deferred consideration. Kachele Plc has a cost of capital of 7%.

On 1 January 2025, Kachele Plc also acquired 25% of the 84 million equity shares of Sikama Plc paying K4 in cash per acquired share. This consideration has been recorded by Kachele Plc. Sikama Plc made a loss of K48 million for the year ended 31 March 2025.

The statements of financial position for both companies at 31 March 2025 are below:

Statement of financial position as at 31 March 2025:

	Kachele Plc K'000	**Mkuyu Plc K'000**
Non-current assets:		
Property, plant and equipment	1,035,000	423,000
Investments	519,000	-
Total assets	1,554,000	423,000
Current assets:		
Inventories	129,000	51,960
Trade receivables	97,200	114,000
Bank	55,800	30,000
Total current assets	282,000	195,960
Total assets	1,836,000	618,960
Equity and liabilities:		
Equity:		
Equity shares of K1 each	510,000	45,000
Retained earnings	1,012,950	318,000
Total equity	1,522,950	363,000
Current liabilities	313,050	255,960
Total equity and liabilities	1,836,000	618,960

The following information is relevant:

(1) On the date of acquisition, fair values of the net assets of Mkuyu Plc were equal to their carrying amounts except for a building, which had a carrying value of K16 million and a fair value of K19 million. At that date, the building was deemed to have a remaining useful life of 40 years.

(2) The remaining investments in Kachele Plc are investments which Kachele Plc had elected to hold as fair value through profit or loss. These investments were valued at K84 million at the year end.

(3) During the year, Kachele Plc traded with both Mkuyu Plc and Sikama Plc, and had payables of K18 million and K12 million respectively. Mkuyu Plc's balance receivable from Kachele Plc differed from this due to a K6 million payment from Kachele Plc. not being received until 5 April 2025. Sikama Plc's receivable balance agreed with the K12 million payable recorded by Kachele Plc.

(4) Kachele Plc measured the non-controlling interest at fair value at the date of acquisition. At acquisition, the non-controlling interest had a fair value of K16,875 million.

(5) Following an impairment review, the consolidated goodwill was to be written down by K12 million at 31 March 2025.

(6) On 1 April, 2024 Kachele sold an item of plant to Mkuyu Plc at its agreed fair value of K5 million. The carrying amount prior to the sale was K4 million. The estimated remaining life of the plant at the date of sale was five (5) years. Apply straight line depreciation on this asset?

Required:

Prepare Kachele Group, consolidated statement of financial position for the year ended 1 March 2025. (15 marks)

(b) The IASB conceptual framework is a statement of generally accepted accounting principles which among other things seeks to promote the rigorous application of International Financial Reporting Standards (IFRSs) within international and local environments. It is believed that the adoption and usage of principle based IFRSs can greatly enhance consistency in the treatment of accounting and financial reporting transactions.

Required:

(i) Explain the objective of general purpose financial reports in accordance with the IASB's Conceptual Framework. (2 marks)

(ii) Describe the general requirements for the recognition of the elements of the financial statements in accordance with the IASB's Conceptual Framework (3 marks)

[Total: 20 Marks]

QUESTION THREE

(a) Musika Plc (Musika) is a manufacturer and distributor of auto parts. The Directors of Musika held a meeting in October 2024 to discuss the company's future strategy, following the disappointing performance in the year ended 30 September 2024. In order to improve revenue, profitability and market share in the year ending 30 September 2025, the following strategy would be implemented during the year ending

(i) Aggressive marketing activities to commence in April 2025.
(ii) A low pricing strategy with which to penetrate new markets in order to undercut other suppliers in the industry.
(iii) The credit period for receivable to be extended to three months from one month, commencing October 2024.
(iv) A launch of new brands for auto parts of greater quality than the traditional brands to be implemented in 2025.

Below are financial statements of Musika Plc, for 2025 and 2024:

Statements of profit or loss for the year ended 30 September:

	2025 K'000	2024 K'000
Revenue	450,000	180,000
Cost of sales	(405,000)	(135,000)
Gross profit	45,000	45,000
Operating expenses	(43,000)	(15,000)
Finance costs	(15,000)	(3,000)
(loss)/profit before tax	(13,000)	27,000
Income tax	3,000	(10,000)
(loss)/profit for the year	(10,000)	17,000
Other comprehensive income:		
Revaluation surplus	3,000	-
Total comprehensive (loss)/income	(7,000)	17,000

Musika's statements of financial position as at 30 September:

	2025 K'000	**2024 K'000**
Non-current assets:		
Property, plant and equipment	95,000	63,000
Current assets:		
Inventories	27,000	18,000
Trade receivables	149,000	36,000
Bank	nil	12,000
Tax refund	3,000	Nil
Total current assets	179,000	66,000
Total assets	274,000	129,000

Equity and liabilities:		
Equity:		
Equity shares of K1 each	38,000	38,000
Revaluation surplus	15,000	12,000
Retained earnings	(18,000)	10,000
Total equity	35,000	60,000
Non-current liabilities:		
8% loan notes	48,000	27,000
Current liabilities:		
Trade payables	138,000	38,000
Bank overdraft	53,000	nil
Tax payable	nil	4,000
Total current liabilities	191,000	42,000
Total equity and liabilities	274,000	129,000

Other relevant information:

The company's maximum overdraft facility had been passed at the end of September 2025.

(1) During the year to 30 September 2025, Musika Plc revalued some assets for the first time.

(2) Musika Plc relies on three (3) very large retail auto stores for its customers, who, in recent past have been demanding for long term credit periods.

(3) The following ratios have been calculated for Musika Plc for the years ended 30 September:

	2025	**2024**
Gross profit margin	10%	25%
Operating profit margin	0.4%	16.67%
Return on capital employed	2.4%	34.5%
Current ratio	0.94:1	1.57:1
Inventory holding period	24 days	49 days
Receivables collection period	121 days	73 days
Payables payment period	124 days	103 days
Gearing ratio (debt/debt + equity)	58%	31%
Interest cover	0.13 times	10 times

Required:

Prepare a report for Musika Plc, Management, analysing the performance and position of the company, focusing on the effects of the implementation of the strategic actions referred to in (i) to (iv) on current and expected future performance. (13 marks)

(b) Alex is a sole trader running a manufacturing business. The majority of his sales are made on credit. On 30 September 2025, his receivable balance amounted to K50,000. On the same date, he received information that a customer who owed him K8,000 had gone bankrupt during the year and accordingly, he wrote off this debt from his books. Consequently, Alex decided to make a general provision of allowance for receivables at 4% on outstanding receivables. The value of Alex's receivables on 1 October 2024, amounted to K60,000 and the general allowance for receivables was provided at 1%.

Required:

Prepare Alex's:

(i) Journal entries to record the above irrecoverable debt. (1 mark)

(ii) Irrecoverable debts account, and (1 mark)

(iii) The allowance for receivables account. (with 2 marks reserved for appropriate workings on the movements in the allowance for receivables).

(5 marks)

[Total: 20 Marks]

QUESTION FOUR

The following list of balances was extracted from the ledger of Mwiinga Milimo, a sole trader, as at 31 December 2025:

	K
Sales	980,000
Purchases	450,000
Opening inventory	70,000
Property Plant and Equipment:	
Cost	600,000
Accumulated dep for PPE as at 31 December 2024	160,000
Trade Receivables	100,000
Trade Payables	80,000
Cash at bank	94,000
Selling expenses	106,000
Administrative expenses	120,000
Drawings	80,000
Capital	400,000

Additional information:

(1) One of the customers who owed Mwiinga K20,000 had been declared bankrupt. Mwiinga decided to write off the debt. As a result of this, Mwiinga created an allowance for irrecoverable debts of 10% of the remaining receivables. All provisions are passed through the irrecoverable debts account.

(2) A machine which cost K80,000 was disposed of on 31 August 2025. The machine was sold on credit to Max Ltd for K36,000. Accumulated depreciation on the machine as at 1 January 2025 was K48,000. Depreciation is charged in full in the year of acquisition and none in the year of disposal.

Required:

(a) Prepare the relevant ledger accounts to taking into account the adjustments in notes (1) and (2) above. (12 marks)

(b) Prepare the Trial balance for Mwiinga Milimo as at 31 December 2025 after accounting for the adjustments in (1) and (2) above. (8 marks)

[Total: 20 Marks]

QUESTION FIVE

Banji Mweemba is a sole trader supplying vegetables and other assorted products to supermarkets within Lusaka central business district. All her sales are on credit and customers pay directly into her bank account. Banji Mweemba has not been keeping her books on a double entry system. Her summarised bank account for the year ended 31 December 2025 is as follows:

Bank account

	K'000		K'000
Balance b/d	7,260	Payables	43,200
Receivables	60,000	Insurance	1,500
		Salaries and wages	2,100
		General expenses	1,080
		Motor expenses	1,260
		Drawings	3,120
		Balance c/d	15,000
	67,260		67,260

Additional information provided:

(1) On 1 January 2025, Banji Mweemba had two Non-current assets valued as follows:

	Cost	Accumulated Depreciation
Asset	**K'000**	**K'000**
Office Building	10,800	3,240
Motor vehicles	9,000	2,250

(2) Her other assets and liabilities were as follows:

	31.12.2024	**31.12.2025**
	K'000	**K'000**
Inventory	9,540	10,200
Receivables	6,600	13,920
Payables	2,400	3,900
Insurance outstanding	150	300

(3) Depreciation for the year is to be provided on the non-current assets using the reducing balance method as follows:

Office Building at 20%
Motor vehicles at 25%

Required:

(a) Calculate Banji Mweemba's capital as at 1 January 2025. (4 marks)

(b) Prepare Banji Mweemba's statement of profit or loss for the year ended 31 December 2025. (10 marks)

(c) Prepare Banji Mweemba's statement of financial position as at 31 December 2025.

(6 marks)

[Total: 20 Marks]

END OF PAPER

PGDT 1 FINANCIAL REPORTING AND ACCOUNTING

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) Dolomite Plc's statement of profit or loss and other comprehensive income for the year ended 31 December 2025

	K
Revenue	1,020,000
Cost of sales (W1)	(603,000)
Gross profit	417,000
Distribution costs (W1)	(164,000)
Administrative expenses (W1)	(148,000)
Profit from operations	105,000
Finance costs (K400,000 x 15%)	(60,000)
Profit before tax	45,000
Income tax expense (W3)	(14,000)
Profit for the year	31,000
Other comprehensive income	
Loss on revaluation of land (W4)	(20,000)
Total comprehensive income	11,000

(b) Statement of changes in equity for the year ended 31 December 2025

	Equity shares	Share premium	Revaluation surplus	Retained earnings	Total equity
	K	K	K	K	K
Balance at 1 January	720,000	160,000	30,000	234,000	1,144,000
Issue of shares	80,000	40,000			120,000
Revaluation loss			(20,000)		(20,000)
Profit for the year	-	-	-	31,000	31,000
Dividends (W8)	-	-	-	(36,000)	(36,000)
Balance at 31 December	800,000	200,000	10,000	229,000	1,239,000

(c) Statement of financial position as at 31 December 2025

Assets	K	K
Non-current Assets		
Property, plant and equipment (W2)		1,400,000
Intangible assets (W5)		95,000
		1,495,000
Current Assets		
Inventories	120,000	
Trade and other receivables (W6)	200,000	
Cash & cash equivalents	35,000	
		355,000
Total Assets		1,850,000

Equity and Liabilities

Equity

Equity shares		800,000
Share premium		200,000
Revaluation surplus		10,000
Retained earnings		229,000
		1,239,000
Non-current Liabilities		
15% Bank Loan 2029	400,000	
Deferred tax (K150,000 x 30%)	45,000	
		445,000
Current Liabilities		
Trade & other payables	60,000	
Interest accrued (K60,000 – K50,000)	10,000	
Dividends payable	36,000	
Current tax payable	60,000	
		166,000
Total equity & Liabilities		1,850,000

(d) **Valuations methods of elements of financial statements**

Under historical cost accounting, assets are recorded at the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire them at the time of their acquisition, whereas liabilities are recorded at the amount of proceeds received in exchange for the obligation, or in some circumstances (for example, income taxes), at the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.

Under the current value accounting, assets are carried at the amount of cash or cash equivalents that would have to be paid if the same or an equivalent asset was acquired currently, whereas liabilities are carried at the undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently

WORKINGS

(1) Expenses schedule

	Cost of sales	Distribution costs	Administration expenses
	K	K	K
Opening inventories	90,000	-	-
Purchases	390,000	-	-
Carriage in wards	30,000	-	-
Distribution costs	-	20,000	-
Administration expenses	-		36,000
Salaries for sales staff	-	44,000	-
Depreciation:	-	-	-
Buildings (K1,840,000 – K840,000)/50	8,000	-	12,000

Plant: (K1,000,000 x 20%)	200,000	-	-
Motor vehicles (K800,000 x 25%)	-	100,000	100,000
Amortization: (K100,000/10 years x 6/12)	5,000	-	-
Closing inventories	(120,000)	-	-
	603,000	164,000	148,000

(2) Property, plant and equipment

	Land	Buildings	Plant & machinery	Motor vehicles	Total PPE
	K	K	K	K	K
Cost/valuation	840,000	1,000,000	1,000,000	800,000	3,640,000
Accumulated dep	-	(800,000)	(400,000)	(600,000)	(1,800,000)
	840,000	200,000	600,000	200,000	1,840,000
Depreciation for the year	-	(20,000)	(200,000)	(200,000)	(408,000)
	840,000	180,000	400,000	-	1,420,000
Revaluation loss (bal fig)	(20,000)	-	-	-	(20,000)
Revalued amount	820,000	180,000	400,000	-	1,400,000

(3) Income tax expense

	K
Provision for the year	60,000
Under provision for previous year	5,000
Movement in deferred tax liability [(150,000 x 30%) – 96,000)	(51,000)
Income tax expense	14,000

(4) Revaluation Surplus or Loss on land

	K'000
Valuation at 1 Jan 2025	840
Valuation at 31 Dec 2025	(820)
Impairment loss	20

Since there was a revaluation surplus of K30 000 at start of the year. The whole K20,000 revaluation loss will be deducted from the surplus and nothing will be charged to the profit or loss account in the current year.

(5) Intangible: Development Cost

	K'000
Cost	100
Less: amortisation (W1)	(5)
Carrying amount at 31 Dec 2025	95

(6) Trade and other Receivables

	K'000
Balance as per TB	80
Add: Receivables for shares issued	120
	200

(7) Issuance of additional shares

	Dr	Cr
	K'000	K'000
Receivables (8 000 x K15 each)	120	
Ordinary share capital (8 000 x K10 each)		80
Share premium (8 000 x K5 each)		40

(8) Declared dividends

K720,000/K10 x K0.50 = K36,000

As the dividend policy is to declare dividends only to fully paid up shareholders, equity shares issued during the year will be ineligible for dividends as these were yet to be paid for.

SOLUTION TWO

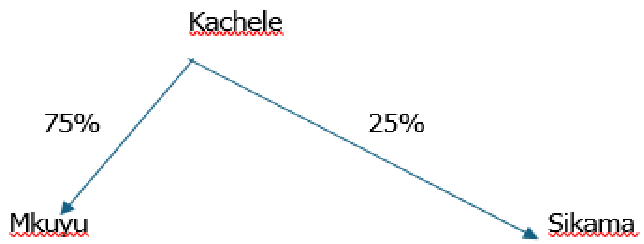
(a) Kachele Group consolidated statement of financial position as at 31 March 2025

	K'000
Non-current assets:	
Property, plant and equipment (1,035,000+423,000-1,000+200+2925 W3)	1,460,125
Financial asset (W6)	84,000
Goodwill (W2)	90,466
Carrying amount of investment in Sikama (W4)	81,000
Total non-current assets	1,715,591
Current assets:	
Inventories (129,000+51,960)	180,960
Trade receivables (97,200+114,000-6,000-18,000 W7)	187,200
Bank (55,800+30,000+6,000 W7)	91,800
Total current assets	459,960
Total assets	**2,175,551**
Equity and liabilities:	
Equity shares of K1 each	510,000
Retained earnings (W5)	1,061,673
Equity attributable to parent company	1,571,673
Non-controlling interest (W9)	31,906
Total equity	1,603,579
Current liabilities (313,050+255,960-18,000+20,962 W10)	571,972
Total equity and liabilities	**2,175,551**

WORKINGS

All workings are shown in K'000 unless in selected cases.

(1) Group structure



(2) Goodwill on acquisition of Mkuyu	K'000	K'000
Consideration: cash	360,000	
Referred cash K24,000 x 1/1.07^3	19,591	
NCI @ acquisition	16,875	396,466
Less fair value of net assets acquired:		
Share capital	45,000	
Pre-acquisition retained earnings	246,000	
Fair value adjustment: Buildings	3,000	
Total net assets at acquisition		(294,000)
Gross goodwill		102,466
Less impairment loss		(12,000)
Net goodwill		90,466

(3) Fair value adjustments:

	At acquisition	Movement	At reporting
	K'000	K'000	K'000
Buildings	3,000	(75)	2,925

(4) Carrying amount of investment in Sikama:
K'000

Cost of investment(25% x 84 million x K4)	84,000
Add Kachele's share of post-acquisition loss (25% x (K48m) x 3÷12)	(3,000)
	81,000

Note: Loss for the year is K48 million, therefore the loss for the 3 months in the post-acquisition period is K12 million (3/12 x K48 million)

(5) Group retained earnings

	Kachele	Mkuyu	Sikama
	K'000	K'000	K'000
Per question	1,012,950	318,000	(48,000)
Less pre-aquisition profit/add pre-aquisition loss		(246,000)	36,000
PUP on sale of plant	(1,000)		
Excess dep'n on plant sold		200	
Fair value adjustment depreciation		(75)	
		72,125	(12,000)
Unwinding of the discount (W10)	(1,371)		
Fair value gain of financial asset (W6)	9,000		
Share of Mkuyu's PARE (75% x 72,125)	54,094		
Share of Sikama's PARE (W4)	(3,000)		
Share of impairment loss of goodwill (75% x 12,000 (W2))	(9,000)		
	1,061,673		

(6) Financial asset:

	K'000
Total investment	519,000
Less investment in Mkuyu	(360,000)
Less investment in Sikama	(84,000)
Financial asset at fair value	75,000
Fair value gain (Bal. figure)	9,000
FV of financial asset at reporting date	84,000

(7) Intra group balance cancellation
As K6 million cash was in transit from Kachele to Mkuyu, this will be recorded as follows:
Dr Group cash, K6 million

Cr Group receivables, K6 million

Upon this recording, the intra group receivable/payable will now be at par with an amount of K18 million of which the following double entry will be carried out to cancel the debt:

Dr Group payables,	K18 million	
Cr Group receivables,		K18 million

(8) PUP on sale of plant:

	K'000
Carrying amount of plant	(4,000)
Proceed	5,000
Profit on disposal	1,000

The profit on disposal will be accounted for as follows:

Dr Group retained earnings	K1 million	
Cr Group PPE		K1 million

Additional depreciation due to sale at a profit:
Dep'n = 1000/5 years =200

Dr Group PPE	200	
Cr Group retained earnings (75% x 200)		150
Cr NCI (25%*200)		50

(9) NCI at the reporting date:

	K'000
NCI at acquisition (W2)	16,875
NCI share of PARE of Mkuyu (25% x 72,125(W5))	18,031
Less NCI share of impairment loss of goodwill on acquisition of Mkuyu (25%*12,000)	(3,000)
	31,906

(10) Deferred consideration at the reporting date:

	K'000
Deferred consideration at acquisition (W2)	19,591
Unwinding of the discount (7% x 19,591)	1,371
Deferred consideration at reporting date	20,962

(b) Conceptual Framework

(i) The main objective of financial statements is to provide information about the reporting entity that is useful to primary users i.e.; existing and potential investors, lenders, and other creditors in making decisions about providing resources to the entity. The following are the key aspects relevant to the primary users:

(1) Financial performance reflected by the accrual accounting

(2) Financial performance reflected by past cash flows, and

(3) Changes in economic resources and claims not resulting from financial performance.

(ii) General recognition criteria of elements

- Probable flow of economic benefits to or from the entity
- Reliable measurement of the economic benefits arising
- The element should meet the definition of an asset, liability, expense, income or equity according to the IASB framework.

SOLUTION THREE

(a) Report on Musika Plc Plc's performance in 2024 and 2025

To : Musika Plc Plc Management

From : Accountant

Subject : Analysis of company performance following implementation of strategic actions in the year ended 30 September 2025.

Introduction

This report assesses the financial performance of Musika Plc Plc for the year ended 30 September 2025 in light of the strategic actions implemented at the start of the year in the quest to improve the performance, following disappointing performance in the year ended 30 September 2024. The strategies targeted to increase revenue, profitability and market share.

Revenue and profitability

Revenue between the year ended September 2024 and 2025 increased by 250% from K180 million to K450 million. This may have been due to the low price strategy and marketing campaign embarked on in 2025. The extension of credit period for customers and introduction of online selling may have contributed to increase in revenue, too.

However, the profitability has deteriorated even more than the previous year. The reasons are numerous of which some include: the reduction in the prices at which products were sold in 2025 may have shrunk the profit margins despite increasing revenue. This is confirmed by the decrease in both gross and operating profit margins from 25% to 10% and 16.67% to 0.4% respectively. The primary profitability ratio, the return on capital employed declined from 34.5% to a disappointing 2.4% in 2025. This may have been due to the low price with which the company penetrated new markets to increase their market share.

The declining profitability in 2025, exacerbated by a 287% increase in operating expenses from K15 million to K43 million, may have been due to other turnaround strategic decisions such as increased marketing costs due to marketing campaigns as well as other one off costs arising from the introduction of online selling. The introduction of new brand of auto spares may have also come with additional penetration costs hence the poor operating profit margins in 2025.

As one of management strategies was to increase market share, more new customers may have come on board of which negotiations may have been costly as seen from the increase in the credit period from one month to three months.

It is worth noting that the fall in ROCE is more likely to be due to poor profitability than inefficient use of resources as the asset turnover was higher in 2025 at 5.2 times than in 2024 at 2 times. Further, the revaluation of non-current assets in 2025 may have contributed to the deterioration of ROCE. The ROCE in 2025 dropped below the cost of borrowing signifying very poor performance as borrowing costs are not covered by the returns the company makes.

Prospects for the future regarding profitability are that increased sales and volume of business are likely to be achieved when a full year of marketing campaigns is attained as the current campaigns only commenced six (6) months before the reporting period, that is, in April 2025.

The huge costs associated with the new brand launch and introduction of online selling may be more than compensated for in the medium and long term future periods hence improving the profitability and revenue.

It was however a poor combination of decisions to lower prices at a time so much cost driving activities were being implemented.

Liquidity

The inventory days in 2025 is better at 24 days than in 2024 at 49 days. This may have been due to aggressive marketing campaigns, online selling and reduced selling price that together shortened the holding time of both materials and finished goods. Viewed differently, the reduced inventory days maybe indicative of efficiency with which inventory is managed, though there is a possibility of suppliers becoming unwilling to supply more goods due to time Musika Plc is taking to repay them.

Receivables days on the other hand increased from 73 days in 2024 to 121 days in 2025, almost doubling. This may be attributable to the increase in credit period and more new customers given flexible terms. The increase does not appear to be due to inefficiency of the credit control department.

The lack of cash and the increased receivables days as well as declining current ratio all point to the challenges Musika Plc may have to discharge its obligations with suppliers as seen from the payables days that have remained high from 2024 at 103 to 124 days in 2025. It is not clear what credit terms Musika Plc has with its suppliers, but it needs to ensure it is adhering to the terms agreed to avoid damaging trade relationships. As the new brand of auto spares is of superior quality, Musika Plc may have acquired it at a higher price and so negotiated for a flexible payment period.

The current ratio decreased in 2025 to 0.95 from a comfortable 1.57 leading to poor liquidity. It is worrisome to see such a sharp decrease in current ratio though it may be distorted by movements during the year. This drop must have been due to the depletion of cash and contraction of overdraft in the year. It may have equally been due to increase in payables as the demand for sales may have risen in such a way that more stocking up was needed, thereby leading to more goods being acquired on credit to meet demand as cash was lacking. Further, the increased credit period for customers may have put pressure on the need to meet supplier obligations.

Musika Plc may need to raise more finance through the issue of shares to accomplish the strategic plans as they appear to have put pressure on resources. This is evidenced by Musika Plc having reached its overdraft limit in 2025.

Long term solvency

Gearing ratio is a concern in 2025. An increase from 31% to 58%, indicates significant levels of gearing risk. The total gearing could even be higher if overdraft were to be included as long term debt. It is more worrying to note that interest cover has deteriorated from a comfortable 10 times in 2024 to below 1 in 2025. This limits Musika Plc's ability to make any more borrowing to fully accomplish the strategic plans in the near future. This limitation could deter some of the planned strategic actions that could be undertaken to improve profitability and market share. Musika Plc may resort to issuing more shares as it did not do so in the current year.

Finally, an analysis of retained earnings shows that Musika Plc paid a dividend of K15 million (K10 million – 7 million – K18 million) during the year to 30 September 2025. This appears to have been imprudent given the cash situation. It would have served shareholders better to pay a smaller and reasonable amount as dividend rather than the massive K15 million, apparently financed by acquisition of more debt in loan notes and bank overdraft.

Conclusion

Musika Plc's performance in 2025 has deteriorated beyond that of 2024. This is unusual especially after management put in place all possible strategies to improve on the 2024 poor performance. It should be noted however that the strategies were just implemented in the current year and timing may be too short to yield the desired favourable results.

It should be expected that there will be performance turnaround soon, but currently, no improvement is yet noticeable. Musika Plc should seriously consider injecting more capital for the turnaround as the current levels do not appear sufficient at all. The lowering of prices has worsened the situation and is a short term strategy that cannot be sustained for a long time.

(b) Irrecoverable debts

(i) Irrecoverable debt Journal

The K8,000 which was owed by a customer who has gone bankrupt is to be written off as follows:

DR Irrecoverable debts K8 000
CR Receivables K8 000
Movement in allowance for receivables

Closing allowance (50,000-8 000) *4%	K1,680
Opening allowance (60,000*1%)	K600
Increase in allowance	K1,080

(ii) **Irrecoverable Debt account**

	K		K
Receivables	8,000	SPL	8,000
	8,000		8,000

(iii) **Allowance for Receivables account**

	K		K
		Balance b/d	600
Balance c/d	1,680	SPL - Irrecoverable debt	1,080
	1,680		1,680

SOLUTION FOUR

(a) Accounting for the year-end adjustments

Note (1)

Trade Receivables Account

	K'000		K'000
Balance b/d	100	Bad Debt written off	20
		Balance c/d	80
	100		100

Irrecoverable debts Account

	K'000		K'000
Trade Receivables	20	SPL	28
Provision for doubtful debts (100-20)*10%	8		
	28		28

Provision for doubtful debts Account

	K'000		K'000
Balance c/d	8	SPL	8
	8		8

NB: Provision for doubtful debts amount = (100,000 – 20,000) x 10% = K8,000

Note (2)

Property Plant and Equipment *Account*

	K'000		K'000
Balance b/d	600	Disposal	80
		Balance c/d	520
	600		600

Accumulated dep for PPE *Account*

	K'000		K'000
Disposal	48	Balance b/d	160
Balance c/d	112		
	160		160

Disposal Account

	K'000		K'000
Property Plant & Equipment	80	Accumulated dep	48
Profit on disposal (bal fig)	4	Max Ltd	36
	84		84

Max Ltd *Account*

	K'000		K'000
Other Receivables	36	Balance c/d	36
	36		36

Profit on Disposal of PPE *Account*

	K'000		K'000
Balance c/d	4	Disposal	4
	4		4

(b) Trial balance for Mwiinga Milimo as at 31st December 2025

	K	K
Sales		980,000
Purchases	450,000	
Opening Inventory	70,000	
Property Plant and Equipment:		
Cost	520,000	
Accumulated dep for PPE		112,000
Trade Receivables	80,000	
Other Receivables (Max Ltd)	36,000	
Trade Payables		80,000
Irrecoverable debts	28,000	
Provision for doubtful debts		8,000
Profit on disposal of PPE		4,000
Cash at bank	94,000	
Selling expenses	106,000	
Administrative expenses	120,000	
Drawings	80,000	
Capital		400,000
	1,584,000	1,584,000

SOLUTION FIVE

(a) Banji Mweemba's Capital as at 1st January 2025

Assets:	**K'000**	**K'000**
Office Buildings (10,800 – 3,240)		7,560
Motor vehicles (9,000 – 2,250)		6,750
Inventory		9,540
Receivables		6,600
Bank		7,260
		37 710
Less: liabilities:		
Payables	2,400	
Insurance outstanding	150	
		2,550
Capital		35,160

(b) Banji Mweemba
Statement of profit or loss for the year ended 31st December 2025

		K'000	K'000
Sales (w1)			67,320
Opening inventory		9,540	
Purchases (w2)		44,700	
		54,240	
Less: closing inventory		(10,200)	
Cost of sales			(44,040)
Gross profit			23,280
Less: expenses:			
Insurance (w3)		1,650	
Salaries and wages		2,100	
General expenses		1,080	
Motor expenses		1,260	
Depreciation:			
Office Buildings	20% x (10,800 – 3,240)	1,512	
Motor vehicles	25% x (9,000 – 2,250)	1,688	
			(9,290)
Net profit			13,990

(c) Banji Mweemba
Statement of Financial Position as at 31st December 2025

Non-Current assets:	K'000	K'000
Office Buildings (10,800 – 3,240 – 1,512)		6,048
Motor vehicles (9,000 – 2,250 – 1,688)		5,062
		11,110
Current assets:		
Inventory	10,200	
Receivables	13,920	
Bank	15,000	
		39,120
Total assets		50,230
Capital and Liabilities:		
Capital (a)	35,160	
Add: net profit	13,990	
	49,150	
Less: drawings	(3,120)	
		46,030
Less: current liabilities:		
Payables	3,900	
Insurance outstanding	300	
		4,200
Total Capital and liabilities		50,230

Workings:

(1) Receivables control account

	K'000		K'000
Balance b/d	6 600	Bank	60 000
Sales (bal. fig.)	67 320	Balance c/d	13 920
	73 920		73 920

(2) Payables control account

	K'000		K'000
Bank	43 200	Balance b/d	2 400
Balance c/d	3 900	Purchases (bal. fig.)	44 700
	47 100		47 100

(3) Insurance account

	K'000		K'000
Bank	1 500	Balance b/d	150
Balance c/d	300	SPL (bal. fig.)	1 650
	1 800		1 800

END OF SUGGESTED SOLUTIONS

POST GRADUATE DIPLOMA IN TAXATION PROGRAMME EXAMINATIONS

PGDT 2: LAW OF TAXATION

FRIDAY 12 JUNE 2026

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

INSTRUCTIONS TO CANDIDATES

10. 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.

11. This question paper is divided into TWO (2) sections.

    Section A: One **Compulsory** Question.
    Section B: FOUR (4) Optional Questions. Attempt any THREE (3) questions.

12. 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.

13. Do **NOT** write in pencil. (except for graphs and diagrams)

14. Cell Phones are **NOT** allowed in the Examination Room.

15. 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.

16. Present legible and tidy work.

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) Tusole Mining Ltd is a multinational company that has operations in more than five (5) countries in Africa. The company has been registered in Zambia and intends to open its mine in Kalulushi, Copperbelt Province. The company's Managing Director Mr. Mukelebai has approached you for help in identifying the purpose of the following Acts in Zambia.

(i) The Income Tax Act. (5 marks)

(ii) The Value Added Tax Act. (5 marks)

(iii) The Property Transfer Tax Act. (5 marks)

(iv) The Customs and Excise Act. (5 marks)

(b) Further, thirty days ago, Mr. Mukelebai imported some office furniture for the mine and some extra ones for sale. The said goods have not been entered for customs purposes. With the aid of statute and or case law, explain the implications of the non – entry of the said goods for customs purposes. (20 marks)

[Total 40 Marks]

SECTION B

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

Attempt any THREE (3) questions.

QUESTION TWO

(a) Discuss the qualities of a good tax system. (5 marks)

(b) Bwalanda is a young entrepreneur who has been doing business for the past ten (10) years. She trades in both local and international goods. Bwalanda has been selling products from Trade Kings Zambia Limited and also orders shoes and hand bags from Botswana. About three (3) weeks ago, she was visited by officers from the Zambia Revenue Authority, Smart Invoice Department, who wanted to install the Smart Invoice software on her cash sale machines at check points. While orienting her on the new system, the officers informed her that she has been robbing the Zambian Government of taxes as she was not remitting taxes. She was further warned that if she does not comply with her tax obligations, she risks facing penalties.

Confused with all this new information, Bwalanda is now contemplating on becoming tax compliant so that she avoids any adverse effects against her business. She has now approached you for some advice.

Required:

Advise her on the following:

(i) The two (2) main classes of taxes being referred to in the scenario above and directly affects her business. (5 marks)

(ii) The difference between income tax and exercise duty. (10 marks)

[Total: 20 Marks]

QUESTION THREE

Chanda Hakoola is an Officer under the Zambia Revenue Authority tasked with enforcing customs, excise and other duties incidental thereto. With the aid of statute and or case law, explain Chanda's powers as enshrined in the law.

[Total 20 Marks]

QUESTION FOUR

(a) Mrs. Lwindi holds shares in Organic Company Limited (OCL). She recently acquired more shares in the company, making her a major shareholder. She has two (2) daughters, Mable and Hellen, who reside in Nigeria, Free State. As part of making her testamentary document, she has decided to transfer some of the shares to both her daughters in equal shares. However, before she does so, she seeks your clarity on the following issues:

Required:

(i) The applicable law; and (3 marks)

(ii) Whether or not she has to pay any taxes in effecting her wishes. (7 marks)

(b) Further, explain to her, the main differences between a company and a partnership. (10 marks)

[Total: 20 Marks]

QUESTION FIVE

(a) The tax regime in Zambia provides for various punishments and penalties for diverse offences. Discuss the penalties for failure to comply with notices under the Income Tax Act Chapter 323 of the Laws of Zambia. (10 marks)

(b) Mbuzi Trading has defaulted in payment of its VAT and interest. What legal action can the ZRA Commissioner General take to recover the said tax and interest. (5 marks)

(c) Mr. Suzyo is interested in opening up a mining business in Chisamba. He has been coming across different terminologies with regards to the regulations of mining business in Zambia; one of them being mineral royalties.

Required:

Explain to him the meaning of mineral royalties. (5 marks)

[Total: 20 Marks]

END OF PAPER

PGDT2 LAW OF TAXATION

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) (i) **Income Tax Act -** This piece of legislation was enacted to provide for the taxation of incomes and matters connected therewith. The Act explains under Section 17 that income, for the purposes of this Act includes, for any charge year- (a) gains or profits from any business for whatever period of time carried on; (b) emoluments; (c) annuities; (d) dividends; (e) interest, charges and discounts; (f) royalties, premiums or any like consideration for the use or occupation of any property; (g) income from the letting of property; and (h) the income as further classified in the First Schedule." (Section 17)

(ii) **The Value Added Tax Act -** This Act provides for the charging and collection of the Value Added Tax which may be defined as a consumption-based tax that is levied in the supply chain at each point where value is added to a good or service.

(iii) **The Property Transfer Tax Act -** This is an Act which provides for the charging and collection of a tax based on the value realized from a transfer of certain property in the Republic; and to provide for matters connected with or incidental to the foregoing.

(iv) **The Customs and Excise Act -** This law provides for: i) the imposition, collection and management of customs, excise and other duties, ii) the licensing and control of warehouses and premises for the manufacture of certain goods, iii) the regulating, controlling and prohibiting of imports and exports, i v) forfeitures, and vi) other matters connected therewith or incidental thereto.

(b) The implications of the non – entry of goods for duty purposes within 15 days in the case of Mr. Mukelebai who has had them for 30 days are that: The Customs and Excise Act in section 32 require that a person intending to import goods to make a declaration, in the prescribed manner and form, the goods intended to be imported, for duty assessment purposes, at least seven days before the goods arrive at a port of entry where customs formalities are to be conducted.

(1) All goods not entered **within fifteen days** after the time of their importation pursuant to section thirty-one shall be liable to seizure.

(2) Where such goods are not entered for customs purposes pursuant to the requirements of subsection (1) the goods shall be forfeited and may be sold or disposed of by the Commissioner-General in accordance with the provisions of sections two hundred and three to two hundred and five.

(3) Notwithstanding the provisions of sub section (2), where any goods not entered in accordance with subsection (1) are, in the opinion of the Commissioner-General unsuitable for storage or of a dangerous or perishable nature, the Commissioner-

General may direct that they be forthwith sold or disposed of in accordance with the provisions of sections two hundred and three to two hundred and five.

(4) Any sale or disposal undertaken pursuant to subsection (2) or (3) shall be undertaken without compensation to any person or party who may, either before or after such sale or disposal, claim a financial or other interest in such goods.

(S32) requires a person intending to import goods through a customs aerodrome, to make a declaration, in the prescribed manner and form, within twenty- four hours before the goods. Therefore, Mr. Mukelebai may suffer the above consequences for failure to have the goods entered for customs duty purposes within 15 days.

SOLUTION TWO

(a) A good tax system is characterized by fairness, efficiency, simplicity, and the ability to generate sufficient revenue while promoting economic growth and social equity.

Key Qualities of a Good Tax System are discussed below:

Equity: A good tax system should be fair, meaning that individuals are taxed based on their ability to pay. This includes progressive taxation, where higher income earners pay a larger percentage of their income in taxes, ensuring that the tax burden is distributed equitably among different income groups.

Productivity: The tax system must generate adequate revenue for the government to fund public services and infrastructure. It should be designed to ensure that it can meet the increasing financial needs of the government without stifling economic growth.

Elasticity: A good tax system should be flexible enough to adapt to changing economic conditions. This means that as the economy grows, tax revenues should also increase, allowing the government to respond effectively to economic fluctuations. Simplicity: The tax system should be easy to understand and comply with. Complicated tax laws can lead to confusion and increased compliance costs for taxpayers. A straightforward system encourages voluntary compliance and reduces administrative burdens.

Efficiency: The tax system should minimize economic distortions and not discourage productive activities. High tax rates can create disincentives for work and investment, so a good tax system balances revenue generation with maintaining economic incentives.

Transparency: Tax laws and regulations should be clear and accessible to the public. Transparency helps build trust in the tax system and ensures that taxpayers understand their obligations and rights.

Diversity: A good tax system should include a mix of different types of taxes (e.g., income, sales, property) to spread the tax burden and reduce reliance on any single source of revenue. This diversity can help stabilize revenue streams during economic downturns.

(b) (i) Excise duty

Customs duty

(b) (ii) The differences between income tax and excise duty are as follows:

Income tax is a direct tax levied on the earnings of individuals and businesses. Excise duty is an indirect tax charged on the production, manufacture, or sale of specific goods—such as fuel, alcohol, and tobacco—where the cost is hidden inside the final retail price paid by the consumer.

Type of Tax:

- Income tax is a direct tax. You pay it straight to the government based on what you earn.
- Excise duty is an indirect tax. The maker or seller pays it first, then passes the cost to the buyer
- Income tax applies to wages, salaries, business profits, and investments.
- Excise duty applies to specific items like petrol, beer, wine, and cigarettes.

Who **Bears the Burden**:

- Income tax cannot be shifted to someone else; the earner carries the full weight.
- Excise duty burden moves from the factory or merchant to the final shopper through higher prices.

Effect on Prices:

- Income tax does not change the price of items in a shop.

Excise duty makes specific goods more expensive to buy

SOLUTION THREE

Chanda Hakoola's powers are those of an officer enshrined in Customs and Excise Act Chapter 322 of the Law of Zambia which provides that: "officer" means a person appointed by the Commissioner-General for the purposes of this Act, or any other person who is declared by the Commissioner-General to be an officer for the purposes of this Act whether at the time of appointment or otherwise. The officer has power to Powers of an Officer Collecting tax, controlling manufacturers, confiscating goods liable to seizure and forfeiture are examples of customs functions that are not easy to carry out. Alive to the many potential challenges, the Act has bestowed a lot of powers to officers of customs to enable him perform his functions. Section 5, for instance, provides for Commissioner General to station an officer on any ship or train while such ship or train is within Zambia and the master of any such ship or the person in charge or control of any such train shall provide free of charge such accommodation and board as the Commissioner-General may reasonably require.

Section 6 provides for an officer, when travelling on any duty connected with the administration of the Act, to be entitled to travel free of charge as a passenger of such class as the Commissioner-General may direct.

Even when not travelling on the ship or vessel, an officer may board any ship and perform his duties. In that respect, Section 7 provides thus:

(1) An officer may board any ship arriving at or being about to depart from any port

in Zambia, or being within Zambian waters, and

(a) may freely stay on board for so long as the officer considers necessary for the proper performance of duties or until all goods laden therein have been delivered from such ship;

(b) shall have free access and the right to search every part of the ship and to examine all goods on board;

(c) shall have power to fasten down hatchways, doors and other openings;

(d) shall have power to lock up, seal, mark, or otherwise secure any goods on board that ship; and

(e) shall have the right to, lock up, seal, or otherwise secure the ship's wireless apparatus.

(2) An officer may enter any aircraft or vehicle arriving in or being about to depart from Zambia, or any aircraft or vehicle within Zambia which is suspected of containing uncustomed goods, and may, mutatis mutandis, exercise the powers provided for in subsection (1).

(3) If any place or any package within or upon any ship, aircraft, or vehicle is locked or otherwise secured and the keys thereto or other means of opening it are not produced on demand, the officer may open such place or package in any manner in his power.

(4) An officer may, in the pursuance of that officer’s duties, stop and detain within the borders of Zambia any ship, aircraft, or vehicle entering or about to depart from Zambia.

SOLUTION FOUR

(a) (i) The law applicable is the Property Transfer Tax Act Cap 340 of the Laws of Zambia.

(ii) She will not pay anything because she is transferring shares to her daughter and there is an exemption when such a transfer is being made. Where a person transfers property to a member of the immediate family, the realized value of such property is the actual price, if any received by the transferor. The term "Immediate Family" with respect to the person transferring the property, refer to "a spouse, a child, a duly adopted child or step – child".

Section 6(3), Property Transfer Tax Act provides;

"Where property is settled in trust for the benefit of a member of the immediate family of the settler, the transfer of such property to the trustees or the transfer by the trustees to such beneficiary shall not be liable to tax."

(b) The **differences between a company and a partnership** include:

Legal Status: A partnership is an agreement between individuals to share profits and responsibilities, while a company is a separate legal entity.

Liability: In a partnership, partners have unlimited liability, meaning they are personally responsible for business debts. In contrast, companies provide limited liability protection to their shareholders.

Governance: Partnerships are typically governed by a partnership agreement, while companies have a structured management system with a board of directors.

Ownership: Partnerships are owned by two or more individuals, whereas companies can have many shareholders who own shares of the company.

Taxation: Partnerships are usually taxed as pass-through entities, meaning profits are taxed at the individual partners' tax rates, while companies may be subject to corporate tax rates.

SOLUTION FIVE

(a) The penalties for failure to comply with notice under the Income Tax Act include are provided for in sections 98 and 99. Section 99 provides that, 'Every person who-

(i) without just cause shown by him fails to furnish a full and true return in accordance with the requirements of any notice served upon him under this Act or of section forty-six or forty-six A or fails to give notice to the Commissioner-General as required by section forty-five;

(ii) without just cause shown by him fails to furnish within the required time to the Commissioner-General or to any other person any document which under this Act or under any notice served on him under this Act he is required so to furnish; or

(iii) fails to keep any records, books, accounts or documents that he is required to keep under this Act; or

(iv) fails to produce any document for the examination or inspection of the Commissioner-General or other person in accordance with requirements of this Act; or

(v) without just cause shown by him fails to attend at a time and place in accordance with the requirements of any notice served on him under this Act; or

(vi) without just cause shown by him fails to answer any question lawfully put to him or to supply or furnish any information lawfully required from him under this Act; or

(vii) otherwise contravenes or fails to comply with any of the provisions of this Act or of any regulations made there under, or fails to comply with any requirements of the Commissioner-General lawfully made under this Act or under any of the Schedules thereto; or

(viii) obstructs or hinders any officer acting in the discharge or his duty under this Act;

shall be guilty of an offence against this Act.

Section 98 provides a general penalty and says, 'Any person guilty of an offence against this Act shall, unless any other penalty is specifically provided therefore, be liable on conviction therefore to a fine not exceeding ten thousand penalty units or to imprisonment for a term not exceeding twelve months, or to both'.

The punishment for failure to comply with notice therefore is fine or imprisonment, or both.

(b) The legal action that the Commissioner General can take against Mbuzi Trading is provided for under section Recovery of tax and Interest (1) Tax and any interest due under this Act is a debt due to the Republic and shall be recoverable at the suit of the Commissioner-General, or any officer authorised by him, in any court of competent jurisdiction.

(2) Any amount shown on an invoice as tax chargeable on a supply of goods or services shall be recoverable as tax due from the person issuing the invoice, regardless of whether: - (a) the invoice is made out in a form prescribed under this Act; (b) tax is chargeable in respect of the supply to which the invoice relates; or (c) the person issuing the invoice is a registered supplier.

(3) For the purposes any provision of this Act or the regulations under this Act relating to the collection or recovery of tax or interest, a reference in any such provision to a registered or taxable supplier shall include a reference to any person from whom tax or any interest is recoverable by virtue of this section.

Further, the Commissioner General can attach the defaulter's property where any tax or interest due from a taxable supplier remains unpaid, the Commissioner-General may, by notice in writing, require any other person: - (a) from whom any money is due, or is accruing or may become due, to the supplier; (b) who holds, or may subsequently hold, money on account of some person for or on account of, or for payment to, the supplier; or (c) having authority from any person to pay money to the supplier; to pay that money, or so much as is sufficient to discharge the tax or interest due from the taxable supplier, in the manner directed by the Commissioner-General as and when it would, but for the notice, be or become payable to the supplier.

In summary, the Commissioner General can sue the defaulter and can also apply that his or her property be attached to the matter for the purposes of recovering the unpaid tax or interest at the Value Added Tax Act.

(c) Mineral royalties are a share of the revenue from minerals or resources that are paid to the owner of the mineral rights or to the government. According to the Income Tax Act, a holder of a mining license shall pay a mineral royalty.

POST GRADUATE DIPLOMA IN TAXATION PROGRAMME EXAMINATIONS

PGDT3: DIRECT TAXES

TUESDAY 9 JUNE 2026

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 scenario 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 4 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%
On income from Telecommunications	35%
On income from Tourism	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%
	if used in manufacturing, leasing and tourism	50%
	if used in farming and agro-processing	100%
	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 K30,000	0%
K30,001 to K5,000,000	5%

Tax on rental income

Annual Rental income band	Taxable amount	
K1 to K30,000	First K30,000	0%
K30,001 to K800,000	Next K770,000	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

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%

SECTION A

This question is compulsory and must be attempted.

<u>QUESTION ONE</u> – (COMPULSORY)

John Banda commenced employment on 1 April 2026. He is employed as an Agronomist. His starting annual salary was K117,600.

He was additionally entitled to the following benefits in the tax year 2026:

- Annual housing allowance — 20% of his annual basic salary
- Annual transport allowance — 15% of his annual basic salary
- Education allowance — K78,000 per year

On completion of his three (3) months' probation, he was confirmed on a permanent and pensionable basis, effective 1 July 2026. His basic salary was accordingly adjusted to a yearly salary of K146,400 from that date.

On 1 September 2026, he was rewarded with a special cash bonus amounting to K150,000 in recognition of his diligence and exceptional work culture.

During the year ended 31 December 2026, deductions made from John's gross emoluments included donations to a Public Benefit Organisation of K9,750, donations to a political party of K40,000, professional subscriptions of K4,500, PAYE of K72,950, employee's NAPSA contributions of K3,780 and employee's NHIMA contributions of K756.

John Banda's achievements as an Agronomist have become common knowledge to the local populace and in no time, three (3) of his school colleagues, Tembo, Mutale and Kayombo who have been running a partnership business engaged in poultry farming since 2023, invited him to join them as a partner.

He joined the partnership on 1 October 2026. Prior to John Banda joining the partnership, the three partners were entitled to the following under the terms of the partnership agreement:

	Tembo	**Mutale**	**Kayombo**
	K	K	K
Annual Salary	240,000	180,000	150,000
Profit sharing ratio	3:	2:	1

The partnership agreement was changed on 1 October 2026 after John joined the partnership and provided for the following:

	Tembo	**Mutale**	**Kayombo**	**John**
Annual Salary	K276,000	K216,000	K186,000	K252,000
Profit sharing ratio	30%	20%	20%	30%

The partnership net profit as per accounts for the year ended 31 December 2026, was K2,321,000. The profit figure was arrived at after taking into account the following items:

(1) Expenditure on poultry feed of K265,000, feed additives for K188,700, poultry vaccines and medicines costing K115,200 and veterinary consultation and treatment fees of K96,800.

(2) Entertainment expenses which included entertaining employees of K85,000, entertainment expenditure for partners of K81,200 and expenditure on entertaining customers of K34,000.

(3) Legal and professional fees which included legal fees in connection with partner's personal tax advice of K50,000, fees in connection with defending title to existing business land of K76,400 and legal fees on trade debt collection of K86,500.

(4) Wages and salaries, which included farm workers' wages of K565,000, partners' salaries of K660,000 and the annual salary of one of the partner's son amounting to K90,000. Other employees employed in the business performing similar work are paid K60,000 per year.

(5) Drawings of poultry products with a market value of K48,000 by the partners. The products drawn were included within sales revenue at their original cost of K36,000 in computing the net profit figure given above.

(6) General operating expenses which included depreciation charges of K731,400, electricity lighting and heating for incubators of K466,300, water purification expenses of K121,600, fuel expenses of K235,500, repairs and maintenance of poultry houses of K188,100, waste management costs of K88,500 and miscellaneous allowable business expenses of K665,700.

Additional information

(1) As at 1 January 2026, the partnership had the following capital assets qualifying for capital allowances:

Asset	Original cost	ITV
	K	K
Delivery trucks	2,950,000	1475,000
Commercial buildings (administration buildings)	7,605,000	6,844,500

(2) The following capital expenditure was incurred during the tax year 2026:

	K
Purchase of chicken Incubators	640,000
Constriction of Poultry houses (shed)	750,000
Office equipment	1,520,000

(4) The partnership is considering engaging a Poultry expert – Mr. Chimwemwe from Malawi for a period of 4 months from September 2026 to December 2026. However, the partners wish to know whether Mr. Chimwemwe, as an individual, will be liable to income tax on the emoluments he will earn while in Zambia.

Required:

(a) Describe the category of an individual whose income is chargeable to Income tax in Zambia.
(2 marks)

(b) In relation to the donation made by John Banda to a Public Benefit Organisation, explain what a Public Benefit Organisation is as provided for under the Income Tax Act.
(2 marks)

(c) Calculate the taxable employment income for the year ended 31 December 2026 for John Banda.
(7 marks)

(d) Calculate the taxable profit for the partnership for the year ended 31 December 2026 after capital allowances. (10 marks)

(e) Prepare a computation showing the allocation of profits to each partner for the tax year 2026. (9½ marks)

(f) Compute the total amount of income tax payable for the tax year 2026 by each of the individuals Tembo, Mutale, Kayombo and John Banda. (9½ marks)

[Total: 40 Marks]

SECTION B

There are FOUR (4) questions in this section.

Attempt any THREE (3) questions.

QUESTION TWO

WBD Plc is a manufacturing company which prepares accounts to 31 December each year. The company listed its shares on the LuSE last year (2025) with 25% of the shares being offered and taken up by indigenous Zambians. In February 2026 (current year) an additional 15% of the shares were offered to indigenous Zambians who now hold 40% of WBD Plc issued ordinary shares.

The company's Statement of Profit or loss for year ended 31 December 2026 is as follows:

		K	K
Gross Profit			8,610,400
Income from investments:			
Dividends (net)		556,135	
Treasury bill discount income (net)		459,765	
			1,015,900
			9,626,300
Expenses:			
Depreciation		439,100	
Legal and accountancy fees	Note 1	733,300	
Entertainment expenses	Note 2	145,200	
General operating expenses	Note 3	1,950,000	
Income tax expense	Note 4	730,000	
			(3,997,600)
Profit before tax			5,628,700

The following additional information is available

Note 1: Legal and accountancy fees

	K
Audit and taxation fees	396,300
Legal fees in connection with issuance of shares	260,600
Fees in connection with recovery of trade debts	76,400
	733,300

Note 2: Entertainment expenses

	K
Gifts to major customers of company calendars costing K150 each	30,000
Entertaining suppliers	34,000
Entertainment expenditure for company's executive directors	81,200
	145,200

Note 3: General operating expenses

	K
Salaries and wages	972,000
Penalty for late payment of provisional income tax	24,400
Trade debts written off	81,600
Loans to former employees written off	76,200
Sundry allowable expenses	795,800
	1,950,000

Note 4: Income tax expense

This amount represents the provisional company income tax paid by the company during the year.

Note 5: Buildings, implements plant and equipment

The company acquired a second hand factory building during the tax year 2025, and was brought into use on 1 January 2026. The cost of the building was made up of the following items:

	K
Land	280,000
Staff welfare building	620,000
Factory	1,340,000
Administration offices	580,000
Total cost	2,820,000

The income tax values of assets qualifying for capital allowances at 1 January 2026 were as follows:

	Income Tax Value	Original Cost
	K	K
Fuso Truck	130,000	260,000
Toyota Prado (SUV)	319,000	797,500
Manufacturing Equipment	475,000	950,000

The Fuso truck was sold during the year for K275,000. The Toyota Prado car has a cylinder capacity of 2,700cc and was used by the Managing Director on a personal to holder basis. Private use by the Managing Director in the tax year 2026 was determined to be 70%.

Required:

(a) Calculate the maximum amount of capital allowances claimable by WBD Plc for the tax year 2026, in respect of its:

(i) Buildings. (5 marks)

(ii) Implements, plant and machinery. (3 marks)

(b) Calculate the final tax adjusted business profit for WBD Plc for tax year 2026. You should start with the profit before taxation. (7½ marks)

(c) Compute the amount of company income tax payable by WBD Plc in the tax year 2026. (4½ marks)

[Total: 20 Marks]

QUESTION THREE

Lifestyle Hotels Ltd is a company incorporated in the republic of Zambia. The company's principal business is the provision of hospitality services (hotel accommodation, food and beverages, entertainment and recreation, and meetings and venues) to the general public.

The hotel's financial results for the year ended 31 December 2026 were as follows:

	K
Revenue	10,500,000
Cost of sales	(6,500,000)
Gross profit	4,000,000
Other Operating income (Note 1)	240,000
Operating expenses (Note 2)	(3,870,000)
Operating profit	370,000
Finance Income (Note 3)	120,000
Finance expenses (note 4)	(290,000)
Profit before tax	200,000

The following additional information is provided:

(1) Other operating income comprise rental income from letting of old hotel buildings for K219,000 and profit on disposal of capital assets of K21,000.

(2) Operating expenses include expenditure on a permanent bill board of K60,000, depreciation expenses of K540,000, expenditure on a Christmas party for staff amounting to K76,000 and expenditure on entertaining customers of K10,000. The remaining balance represents operating expenses which are all deductible for tax purposes.

(3) Finance income represents the gross bank fixed deposit interest income. However, withholding tax was deducted at source at the time of crediting the interest to the Bank account.

(4) The finance expense is made up of bank overdraft interest expense amounting to K110,000 and loan interest expense of K180,000.

(5) Provisional income tax already paid for the year was K12,000.

(6) The capital allowances on assets held by Lifestyle Hotels Ltd qualifying for wear and tear allowances for the charge year 2026 have been agreed with the Zambia Revenue Authority to be K436,000.

(7) Lifestyle Hotels Ltd had a carry forward loss of K110,400 as at 1 January 2026.

(8) During the tax year 2026, the Hotel engaged in the following capital transactions.

(i) Sale of old hotel buildings for K35 million on 1 March 2026. The buildings were acquired 15 years ago by the hotel at a cost of K5 million. The ZRA assessment on 1 March 2026, valued the buildings at K38 million.

(ii) Purchased land in Chongwe area at a cost of K15 million (being the open market value on that date) on which the company is planning to construct new utltra modern hotel buildings in the near future.

(iii) Sold its 15% holding representing 5 million, K1 ordinary shares it held in Elegant Plc, a company listed on the LuSE for K8.50, per share, being the price at which the shares were trading on that day. The company bought the holding five (5) years ago at the price of K4.85 per share.

(iv) Sold 200,000, K2 ordinary shares it held in Extravagant Ltd, a private limited company for K650,000. The ZRA assessed the entire holding of 200,000 as having a value of K675,000. Lifestyle Hotels Ltd bought the entire holding at a cost of K600,000.

Required:

(a) Determine the amount of company income tax payable by Lifestyle Hotels Ltd for the charge year 2026. (14 marks)

(b) Advise the Directors of the company of the Property Transfer Tax implications of each of the transactions in note (8) above and determine the amount of any Property Transfer Tax arising in each case. (6 marks)

[Total: 20 Marks]

QUESTION FOUR

You are employed in a Tax Practice. You are dealing with the tax affairs of Ruby Commercial Bank Ltd, a new client of your firm.

In an initial meeting to discuss the scope of the assignment, the directors of the bank informed you that in addition to helping the bank with tax return preparations and submissions, they wish your firm to design efficient tax planning strategies which will enable the company in minimizing its tax liability. They proposed that the fees for tax services your firm will perform should be calculated as a reasonable percentage of the amount of tax savings which will arise as a result of the tax planning strategies your firm will assist in implementing.

While reviewing the financial statements of the bank for the previous year, you noticed that expenditure on customer entertainment amounting to K800,000 was misclassified as advertising expenses and a donation of K300,000 to a political party was misclassified as a donation to an approved public benefit organization on the tax return submitted by the bank to the ZRA for that year. You have advised the directors of the bank to make the necessary corrections and submit an amended return, but they have informed you that this is not necessary since the company has not received any query from the ZRA in respect of the return. They have requested you to keep this information strictly confidential and not disclose it to anyone in line with your fundamental ethical duty of confidentiality which your firm owes to the bank as your client.

You have been provided with the following statement of profit or loss for the bank for the current year, the year ended 31 December 2026:

	K'000	K'000
Interest Income from;		
- loans and overdrafts	105,000	
- Banks and other financial institutions	57,500	
Total interest income		162,500
Interest expense :		
- On deposits	37,500	
- On subordinate debt	22,500	
Paid to other banks and financial institutions	25,000	
Total interest expenses		(85,000)
Net Interest Income		77,500
Loan loss provision (note 1)		(24,750)
Net-interest income after provision for loan losses		52,750
Non -interest Income		
Fee income (Note 2)	5,700	
Net commissions (Note 3)	1,200	
Other non-interest income (note 4)	22,350	
Total Non-interest Income		29,250
Net Interest and other Income		82,000
Non-interest expenses (note 5)		(20,925)
Net Income Before Taxation		61,075
Taxation (note 6)		(9,450)
Net Income for the financial year		51,625

Note 1: Loan loss provision
Loan loss provisions comprise credit impaired loans losses written off K27,000,000, increase in general provisions for loan losses of K12,000,000, decrease in specific provision for loan losses of K9,750,000 and loan previously written off now recovered of K4,500,000.

Note 2: Fee income
Fee income includes fee income from Automated Teller Machine service charges of K800,000, income from overdraft fees and charges of K2,250,000 and income from account maintenance fees of K2,850,000.

Note 3: Net commissions
This includes commissions received on telegraphic transfers of K4,050,000 and commissions paid on telegraphic transfers of K2,850,000.

Note 4: other non-interest income
This comprises the following:

	K'000
Management & Consultancy fees (net)	1,700
Dividend income (net)	6,800
Profit on disposal of investments	6,400
Unrealised trading gains	450
Realised trading gains	7,300
Unrealised foreign exchange losses	(300)
	22,350

Note 5: Non- interest expenses
These included fines for non-compliance with Bank of Zambia regulations of K33,000, accounting and audit fees of K750,000, security fees of K505,000, telephone and internet connectivity charges of K620,000, depreciation charges of K1,950,000, customer hospitality expenses of K350,000, employer's pension contributions of K750,000 and employee's emoluments of K15,967,000,

The employee's emoluments include the annual salary of the Finance Manager amounting to K900,000, who is accommodated in a company owned house for which he does not pay any rent and annual salaries of three persons living with disabilities amounting to K120,000 per person. The three (3) individuals are employed on a full time basis by the bank and are registered with the Zambia Centre for Persons Living with Disabilities.

Note 6: Taxation
This represents the provisional income tax paid by the company for the tax year 2026.

Note 7: Withholding tax
Withholding tax deducted at source from total interest income in the tax year 2026 amounted to K24,375,000.

Note 8: Buildings, Implements, plant and machinery
All buildings, implements, plant and machinery qualifying for wear and tear allowances were completely written down to zero as at 1 January 2026.

In the year to 31 December 2026 the following capital expenditure was incurred:

	K'000
Construction expenditure on new central administration buildings	13,050
Construction expenditure on buildings for new branches	10,200
Furniture and fittings for new branches	1,600

Required:

(a) Evaluate two (2) ethical or professional issues you will face during this assignment and design appropriate responses or safeguards to manage each issue. (4 marks)

(b) Determine Ruby Commercial Bank Ltd's taxable income from banking operations for the tax year 2026. (11 marks)

(c) Compute the final amount of Ruby Commercial Bank Ltd's company income tax payable/ refundable for the tax year 2026. (5 marks)

[Total: 20 Marks]

QUESTION FIVE

You have been presented with the information relating to the following tax payers:

(1) Kalenga participated in a sales promotion run by BuyRite Supermarkets Ltd for its customers in the charge year 2026. In the sales promotion a customer buying goods valued at K2,000, or more qualified to be entered into a raffle draw to stand a chance of winning a brand new Isuzu Single Cab van valued at K3,825,000. Kalenga participated in the competition and ultimately won the motor vehicle.

(2) Mulenga a punter, made a stake of K5,000 on a premier league match with Bet Your Luck Ltd, a betting establishment during the charge year 2026. His total pay-out was K9,000 before deducting withholding tax. The figure of K9,000 includes his initial stake or deposit of K5,000 plus his winnings of K4,000.

(3) Ephraim Mainza will commence in business selling construction material on 1 January 2026, generating annual turnover of K972,000 per year which will be generated evenly throughout each year. For the charge year 2026, the expected profit as per accounts from the business will be K265,000. The net profit figure will be arrived at after deducting Mainza's annual salary of K163,000, employees' salaries of K95,000, business property maintenance expenses of K19,000, advertising expenses of K18,000, expenditure on staff refreshments of K18,400 and other expenses to be incurred wholly and exclusively for business purposes of K168,000.

(4) Edward Likando wishes to let out some properties he recently finished constructing. The properties comprise five (05) units of retail shops and four (4) units, of residential houses (two bedroomed and self-contained). All of the properties will be let out throughout the tax year 2026, commencing from 1 January 2026.

Gross monthly rentals for each retail shop will be K15,000. Property maintenance costs for each shop will amount to K1,600 per month. Each of the residential houses will generate gross monthly rentals of K8,000. Property maintenance expenses for the residential houses will be K800 per month, per house.

(5) Ituba Gold Mining Ltd a mining company which was recently incorporated in Zambia will commence small scale mining operations of gold on the Central province on 1 January 2026. The company will generate annual turnover which is below K5,000,000. The company expects to generate a net profit as per accounts of K1,256,000 for the year ended 31 December, 2026, from sales revenue of K4,648,000, which will be generated evenly during the year. The sales revenue figure represents the norm value of the gold to be sold during the year for mineral royalty tax purposes.

The profit for the year will be arrived at after charging the following expenses:

	K
Depreciation of non-current assets	60,000
Entertainment expenses for customers	18,000
Employee's salaries	1,070,000
Other operating business expenses	2,244,000

The company will acquire the following capital equipment on 1 January 2026:

	K
Drilling equipment	50,000
Gold processing equipment	55,000
Other Mining equipment	180,000
Commercial motor vehicles	150,000

Required:

(a) Determine the amount of withholding tax which should be deducted at source by:

(i) BuyRite Supermarket in respect of the motor vehicle won by Kalenga. (2 marks)

(ii) Bet Your Luck from Mulenga's winnings and the amount of his net winning. (3 marks)

(b) Advise each of the following tax payers of how they will be assessed to tax in respect of their business activities and compute the amount of tax which will arise in the charge year 2026 in each case:

(i) Ephraim Mainza (5 marks)
(ii) Edward Likando (4 marks)

(c) Advise on how Ituba Gold Mining Ltd will be assessed to tax in the charge year 2026, (3 marks)

(d) Compute the amount of tax paid by Ituba Gold Mining Ltd for the tax year 2026. (3 marks)

[Total: 20 Marks]

END OF PAPER

PGDT3 DIRECT TAXES

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) **Taxable individual**

In accordance with the Income Tax Act, the income of an individual who is resident and ordinary resident in Zambia is chargeable to Income tax. An individual is resident and ordinary resident in Zambia if the individual normally lives in Zambia or the individual comes to Zambia with the intention of remaining in the country for more than 12 months. Further, where an individual comes to Zambia and is physically present in Zambia for a period of not less than 183 days in a charge year, the individual is treated as a resident in Zambia.

(b) **Public benefit Organisation (PBO)**

A Public Benefit Organisation (PBO) is an entity established to provide a public benefit activity (i.e. an activity of a charitable nature that considers the requirements, concerns, and welfare of the general public) and could be either a company limited by guarantee under the Companies Act, a trust under the Land (Perpetual succession) Act, an association under the Societies Act, an educational institution under the Educational Act, a health institution under the Medical and Allied Professions Act, or an amateur sporting association under the Sports Council of Zambia Act, or any association or organisation registered under Zambian laws.

(c) **JOHN BANDA'S COMPUTATION OF TAXABLE EMPLOYMENT INCOME FOR THE TAX YEAR 2026**

	K	K
Salary:		
April to June (K117,600 x 3/12)	29,400	
July to December (K146,400 x 6/12)	73,200	
		102,600
Housing allowance (20% x K102,600)		20,520
Transport allowance (15% x K102,600)		15,390
Education allowance (9/12 x K78,000)		58,500
Special cash bonus		150,000
		347,010
Allowable deductions:		
Professional Subscription	4,500	
Donation to PBO	9,750	
		(14,250)
Taxable employment income		332,760

(d) **COMPUTATION TAXABLE PROFIT FOR THE PARTNERSHIP FOR THE TAX YEAR 2026**

	K	K
Net profit as per accounts		2,321,000
Entertaining partners	81,200	
Entertaining customers	34,000	
legal fees – partner's personal tax advice	50,000	
Partners salaries	660,000	
Excess salary for Partner's son (90 000 – 60,000)	30,000	
Profit on Partner's drawings (K48,000 - K36,000)	12,000	
Depreciation	731,400	
		1,598,600
		3,919,600
Less capital allowances (W1)		2,659,600
Tax adjusted partnership's profits		1,260,000

Working

COMPUTATION OF CAPITAL ALLOWANCES

	K
Delivery trucks	
Wear & tear allowance	
(K2,950,000 x 25%)	737,500
Commercial buildings	
Wear & tear allowance	
(K7,605,000 x 2%)	152,100
Purchase of chicken Incubators	
Wear & tear allowance	
(K640,000 x 100%)	640,000
Constriction of Poultry houses (shed)	
Wear & tear allowance	
(K750,000 x 100%)	750,000
Office equipment	
Wear & tear allowance	
(K1,520,000 x 25%)	380,000
	2,659,600

(e) **ALLOCATION OF PROFITS TO PARTNERS**

	Total	Tembo	Mutale	Kayombo	John
1.01.2026 - 30.09.2026	K	K	K	K	K
Salaries (9 months)	427,500	180,000	135,000	112,500	-
Balance	517,500	258,750	172,500	86,250	-
Profit for 9 months	945,000	438,750	307,500	198,750	-
1.10.2026 - 31. 12.2026					
Salaries (3 months)	232,500	69,000	54,000	46,500	63,000
Balance	82,500	24,750	16,500	16,500	24,750
Profit for 3 months	315,000	93,750	70,500	63,000	87,750
Total allocations	1,260,000	532,500	378,000	261,750	87,750

(f) **COMPUTATION OF INCOME TAX PAYABLE BY**

	Tembo	Mutale	Kayombo
	K	K	K
Taxable income	532,500	378,000	261,750
Income Tax			
On first K61,200 x 0%	0	0	0
On excess			
K471,300/K316,800/K200,550 x 10%	47,130	316,800	20,055
	47,130	31,680	20,055

JOHN'S

COMPUTATION OF INCOME TAX PAYABLE FOR THE TAX YEAR 2025

	K
Employment income	332,760
Taxable farming profit	87,750
Taxable income	420,510
Income Tax on non-faming income	
On first K61,200 x 0%	0
On next K24,000 x 20%	4,800
On next K25,200 x 30%	7,560
On excess (K332,760 - K110,400) x37%	82,273
	94,633
Income Tax on farming income	
K87,750 X 10%	8,775
	103,408
Less PAYE	(72,950)
Income tax payable	30,458

SOLUTION TWO

(a) (i) **COMPUTATION OF CAPITAL ALLOWANCES ON BUILDINGS**

	K
Total cost	2,820,000
Less :	
Cost of land	(280,000)
	2,540,000

The cost of the administration offices (K580,000) exceeds K254,000 (i.e. 10% x K2,540,000) therefore it is taken as a commercial building

(1 mark)

	K
Staff welfare buildings	
Wear and tear allowance (K620,000 x 5%)	31,000
Factory	
Wear and tear allowance (K1,340,000 x 5%)	67,000
Administration offices	
Wear and tear allowances (K580,000 x 2%)	11,600
	109,600

(ii) **COMPUTATION OF CAPITAL ALLOWANCES ON IPM**

	K	K
Fuso Truck		
ITV b/f	130,000	
Proceeds (restricted to cost)	(260,000)	
Capital recovery (balancing charge)	(130,000)	(130,000)
Toyota Prado		
Wear and tear allowance (K797,500 x 20%)		159,500
Manufacturing Equipment		
Wear and tear allowances (K950,000 x 50%)		475,000
		504,500

(b) **COMPUTATION OF WBD PLC TAXABLE PROFIT FOR THE TAX YEAR 2026**

	K	K
Profit for the year		5,628,700
Add		
Depreciation	439,100	
Legal Fees in connection with issuance of shares	260,600	
Excess on gifts to customers (K30,000/150 x K50)	10,000	
Entertaining suppliers	34,000	
Penalty for late payment of tax	24,400	
Loans to employees written off	76,200	
Income tax expense	730,000	
Personal to holder motor car benefit (2,700 cc)	43,200	
		1,617,500
		7,246,200
Less:		
Dividends	556,135	
Treasury bill discount income	459,765	
Capital allowances (K109,600+ K504,500)	614,100	
		1,630,000
Taxable profits		5,616,200

(c) **WBD PLC**
COMPANY INCOME TAX COMPUTATION FOR THE TAX YEAR 2026

Taxable profits	5,616,200
Treasury bill discount income (K459,765 x100/80)	574,706
	6,190,906
Company income tax	
30-5% = 25% K6,190,906 (note)	1,547,727
Less tax already paid	
WHT - Treasury bill discount income	
(K574,706 x 20%)	(114,941)
Provisional income tax	(730,000)
Company income tax payable	702,786

Note: The Company offered 40% of its ordinary shares to indigenous Zambians, hence the 5% reduction in corporate tax rate

SOLUTION THREE

(a) **LIFESTYLE HOTEL LTD**
COMPUTATION OF INCOME TAX PAYABLE BY FOR THE CHARGE YEAR 2026

	K	K
Profit before tax		200 000
Add:		
Permanent Bill board	60 000	
Depreciation	540 000	
Entertaining customers	10 000	
		610 000
		810 000
Less:		
Rental income	219 000	
Profit on disposal of capital assets	21 000	
Bank fixed deposit interest	120 000	
Capital allowances	436 000	
		796 000
Adjusted business profits (taxable income)		14 000
Add: Disallowable interest (w 4)		800
Final taxable income		14 800
Add Bank interest income		120,000
Taxable business income before carry forward loss		134,800
Less Carry forward Loss (restricted to 50% x K134,800)		67,400
Final Taxable business income		67,400
Company income tax		
K67,400 x 30%		20,220
Less Tax already paid		
Withholding tax on Bank interest		
K120 000 x 15%		(18 000)
Provisional income tax		(12 000)
Final company income tax payable/(refundable)		(9,780)

WORKING

1. COMPUTATION OF Tax EBITDA

Income from tourism operations	14 000
Bank interest income	120,000
Taxable income	134,000
Add:	
Interest expense (K110,000 +K180.000)	290 000
Depreciation	540 000

Tax EBITDA	964 000

2. Allowable and disallowable Interest Expense

Interest expense as per the question	290 000
Allowable interest (30% x Tax EBITDA) = 30% x K964,000	289 200
Disallowable interest	800

(b) **PTT implications of capital transactions**

(i) Sale of old hotel buildings for K35 million is a chargeable transfer which will give rise to PTT on the Realised value (RV). The Realised value will be taken to the open market value of the property as assessed by the ZRA being higher.

PTT arising will be; K38 million x 8% = K3,040,000.

(ii) Purchased land in Chongwe area is not chargeable on Lifestyle Hotels Ltd, being the purchase. PTT is chargeable on the transferor and not the transferee.

(iii) The sale of its 15% holding in Elegant Plc, a company listed on the LuSE will not be chargeable to PTT as transfers of shares in a company listed on the LuSE is an exempt transfer for PTT purposes.

(iv) Sale of shares held in Extravagant Ltd, is a chargeable transfer which will give rise to PTT on the Realised value (RV). The Realised value will be taken to be K675,000 being the highest of the open market value, nominal value and ZRA valuation.

PTT arising will be; K675,000 x 8% = K54,000.

SOLUTION FOUR

(a) **Ethical Issues and safeguards:**

(1) Provision of tax services

Provision of general tax services such as return preparations and submission does not generally give rise to significant threats to the Tax practitioner's objectivity in relation to tax matters. However, it is important that the practitioner does not assume management responsibilities or make management decisions on behalf of the client in the course of providing such services.

The risk of the Tax Practitioner assuming management responsibility is especially high when providing tax planning and advisory services such as the ones requested by Ruby bank. There is therefore a risk that your firm may assume management responsibility on behalf of Ruby bank in the course of designing efficient tax planning strategies for the company.

Appropriate response Safeguards

- Ensure that the firm does not assume any management responsibility in providing any tax services to Ruby bank.
- Ensure that management of the bank acknowledges responsibility for any work performed. In offering tax planning advice or designing tax planning strategies, ensure that your firm does not decide which recommendation should be implemented by the bank.
- Ensure that any tax planning advice is within the confines of tax law. Your firm should resist the temptation or pressure to engage in any illegal tax practices to help the client to minimise tax liabilities.

(2) Self-interest Threat from Contingent Tax fees

Basing the tax fees on the assignment as a reasonable percentage of income tax savings Ruby Bank will make from the tax planning strategies your firm shall provide amounts to charging a contingent fee. Contingent fees are fees calculated on a predetermined basis relating to the outcome or result of a transaction or the result of the work performed.

Safeguards

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

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

(3) Misclassified expenses

Deliberately misclassifying disallowed expenses such as customer entertainment and political party donations, which are not allowable, as advertising expenses and approved PBO donations which are allowable, amounts to tax fraud, which is tax evasion and is illegal. The misclassification has the impact of reducing the bank's taxable profits and ultimately its company tax liability.

The return previously submitted to the ZRA was clearly incorrect and misleading in this regard. A Tax Practitioner should avoid collusion or the facilitation of unethical practices even if pressured by the client, to uphold the fundamental ethical principle of integrity. The principle of integrity imposes on the practitioner a duty of honesty and straightforwardness in all business and professional relationships.

Appropriate response

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

This because in as much as the principle of confidentiality requires a tax practitioner not to disclose any information acquired during the course of an assignment to third parties without proper authority, there are recognised exceptions to this rule, in situations where the practitioner has a legal or professional duty to do so.

If the directors of Ruby bank insist on not making the relevant amendments, your firm must politely but firmly decline to participate or provide services. It will be important to document the conversation to protect the firm from potential liability. It will be important for you to inform your supervisors and your firm may have to seek legal advice before making the final decision.

(b) **RUBY COMMERCIAL BANK LDT**
COMPUTATION OF TAXABLE INCOME FROM BANKING OPERATIONS

	K'000	K'000
Income before taxes		61,075
Add		
Increase in general provisions	12,000	
Unrealised foreign exchange losses	300	
BOZ fines	33	
Depreciation	1,950	
Customer hospitality expenses	350	
Accommodation benefit (K900,000 x 37%)	333	
		14,966
		76,041
Allowance for persons living with disabilities (K2,500 x 3)	7,500	

Management & consultancy fees	1,700	
Unrealised trading gains	450	
Dividend Income	6,800	
Profit on disposal of investments	6,400	
Capital allowances (W)	865	
		(23,715)
Taxable income		52,326

COMPUTATION OF CAPITAL ALLOWANCES

	K'000
Admin offices	
W& T (K13,050 x 2%)	261
New Branches	
W& T (K10,200 x 2%)	204
Furniture	
W& T (K1,600x 25%)	400
	865

(c) **RUBY COMMERCIAL BANK LTD**

COMPANY INCOME TAX COMPUTATION FOR THE TAX YEAR 2026

	K'000
Adjusted banking profit	52,326
Add:	
Management & consultancy fees	
(K1,700x 100/85)	2,000
Taxable income	54,326
Company income tax @ K54,326x 30%	16,298
Less:	
WHT Management & consultancy fees	
(K2,000 x15%)	(300)
WHT on total interest income	(24,375)
Provisional income tax	(9,450)
Income tax refundable	(17,827)

SOLUTION FIVE

(a) (i) COMPUTATION OF WITHHOLDING TAX (WHT) ON KALENGA'S WINNING

The value of the motor vehicle of K3,825,000 is taken as the net amount after Withholding Tax (WHT) has been deducted.

Therefore, in order to account for the required 15% (WHT rate) on the winning of the motor vehicle. BuyRite Supermarket must gross up the net amount as shown below:

Gross amount = $\frac{\text{Net amount}}{(1 - \text{tax rate})}$ Or Net amount x 100/85

	K
Gross amount (K3,825,000 x 100/85)	4,500,000
Actual value of Winnings (motor vehicle):	(3,825,000)
Withholding Tax rate (15% x K4,500,000)	675,000

Alternatively, the WHT can simply be computed as:

Value of prize x 15/85

Therefore, the WHT the supermarket will be required to remit to ZRA will be

K3,825,000 x 15/85 = K675,000

(ii) WITHHOLDING TAX (WHT) ON MULENGA'S WINNINGS

Mulenga's gross winnings amounts to K4,000 being the difference between the total payout of K9,000, and the initial deposit of K5,000. The amount of K4,000 represents the Taxable Value on which WHT is chargeable

WHT will therefore be: 15% of K4,000 = K600

The NET Payment to be made by Bet Your Luck to Mulenga will be:

K4,000 – K600 = K3,600

(b) (i) Ephraim Mainza

Mainza will be assessed on Turnover Tax (TOT) because the annual turnover from his business is below K5,000,000.

The turnover tax will be chargeable on the gross turnover without deducting any expenses incurred wholly and exclusively for business purposes and will be due on the 14th day following the end of each month throughout the tax year 2026.

COMPUTATION OF TURNOVER TAX PAYABLE IN THE TAX YEAR 2026

	K
Annual turnover	972,000
Turnover Tax	
On first K30,000 x 0%	0
On excess (K972,000 – K30,000) x 5%	47,100
	47,100

(ii) Edward Likando

Edward will generate income from letting out real property and as such will be assessed to rental income tax which is due by the 14th day following the end of each month, throughout the tax year 2026.

The amount of rental income chargeable in the tax year 2026 is computed as follows:

EDWARD LIKANDO
COMPUTATION OF RENTAL INCOME TAX PAYABLE FOR THE TAX YEAR 2026

Gross Rental income	K
Retail shops	
(K15,000 x 5 x 12)	900,000
Residential flats	
(K8,000 x 4 x 12)	384,000
	1,284,000
Rental income Tax	
On first K30,000 x 0%	0
On next (K800,000 – K30,000) x 4%	30,800
On excess (K1,284,000 - K800,000) x 16%	77,440
	108,240

(c) **Advice on assessment of Ituba Gold Ltd for the tax year 2026**

Ituba Gold Ltd will be assessed under presumptive taxes for artisanal and small-scale mining operations as opposed to normal company Income Tax because it is engaged in small scale mining operations.

The presumptive tax is charged at the rate of 4% of the gross turnover generated per month less mineral royalty paid and not on the profit generated by the company. This means that any expenses incurred wholly and exclusively for business purposes including capital allowances on any implements plant and machinery, are not deductible when computing presumptive taxes for artisanal and small-scale mining operations.
The mineral royalty on gold is chargeable at the rate of 6% of the norm value being a precious mineral.

(d) **Computation of the amount of tax paid by Ituba Gold Mining Ltd for the tax year 2026**

The total amount of taxes paid by Ituba Gold Ltd for the tax year 2026 will be determined as follows:

	K
Gross sales for the year	4,648,000
Less total mineral royalty tax for the year	
(K4,648,000 × 6%)	278,880
	4,369,120
Total presumptive tax for the year	
(4,369,120 × 4%)	174,765
Add: Total mineral royalty tax for the year	278,880
Total tax paid for the year	453,645

END OF SUGGESTED SOLUTIONS

POST GRADUATE DIPLOMA IN TAXATION PROGRAMMES EXAMINATIONS

PGDT4: INDIRECT AND TRADE TAXES

THURSDAY 11 JUNE 2026

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 scenario 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 4 of the question paper.

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

TAXATION TABLE

Value Added Tax

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

Customs and Excise duties on used motor vehicles

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

Motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars	**Aged 2 to 5 years**		**Aged over 5 years**	
	Customs duty	**Excise duty**	**Customs duty**	**Excise duty**
	K	K	K	K
Sedans				
Cylinder capacity not exceeding 1000 cc	14,113	12,231	8,065	6,989
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	18,145	15,726	9,678	8,387
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	18,695	24,304	9,518	12,373
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	20,395	26,514	11,897	15,466
Cylinder capacity exceeding 3000 cc	25,494	33,142	13,597	17,676
Hatchbacks				
Cylinder capacity not exceeding 1000 cc	12,097	10,484	8,065	6,989
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	16,129	13,979	9,678	8,387
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	16,996	22,095	9,518	12,373
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,695	24,304	11,897	15,466
Cylinder capacity exceeding 3000 cc	22,095	28,723	13,597	17,676
Station wagons				
Cylinder capacity not exceeding 1000 cc	14,113	12,231	8,065	6,989
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	18,144	15,725	9,678	8,387
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	18,695	24,304	10,198	13,256

Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	20,395	26,514	11,897	15,466
Cylinder capacity exceeding 3000 cc	25,494	33,142	13,597	17,676
SUVs				
Cylinder capacity not exceeding 1000 cc	17,598	15,252	10,559	9,151
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	20,463	17,735	12,278	10,641
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	23,794	30,933	14,277	18,560
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	27,193	35,351	17,540	22,802
Cylinder capacity exceeding 3000 cc	32,292	41,980	20,395	26,514

Motor vehicles for the transport of goods	**Aged 2 to 5 years**		**Aged over 5 years**	
	Customs duty	**Excise duty**	**Customs duty**	**Excise duty**
	K	K	K	K
Single cab				
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	24,777	10,737	9,911	4,295
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	29,732	12,884	17,344	7,516
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	34,687	15,031	19,821	8,589
Double cabs				
GVW not exceeding 3 tonnes	34,687	15,031	27,254	11,810
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	38,156	16,534	29,980	12,991
Panel vans				
GVW not exceeding 1.0 tonne	15,089	6,539	8,622	3,736
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	17,344	7,516	9,911	4,295
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	19,821	8,589	17,344	7,516
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	24,777	10,737	19,821	8,589
Trucks				
GVW up to 2 tonnes	15,715	12,048	7,246	5,556
GVW exceeding 2.0 tonnes but not exceeding 5.0 tonnes	17,461	13,387	8,731	6,694
GVW exceeding 5.0 tonnes but not exceeding 10.0 tonnes	27,938	21,419	10,477	8,032
GVW exceeding 10.0 tonnes but not exceeding 20.0 tonnes	34,923	26,774	13,271	10,174
GVW exceeding 20 tonnes	58,645	0	21,992	0

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

Surtax

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

Customs and Excise on New Motor vehicles

Duty rates on:

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

Customs Duty:

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

Excise Duty:

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

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

Customs Duty

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

Excise Duty:

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

3. Buses/coaches for the transport of more than ten persons

Customs Duty:

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

Excise Duty:

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

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

Customs Duty:

Percentage of Value for Duty Purposes	15%

Excise Duty:

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

SECTION A

This question is Compulsory and must be attempted.

<u>QUESTION ONE –</u> (COMPULSORY)

Posture Ltd intends to commence business in January 2026. The company will be manufacturing bottled mineral water for supply to retail outlets in the country. The factory will be set up in Chongwe area of Lusaka Province. The company has been advised that the supply of bottled mineral water is a taxable supply for VAT purposes.

In anticipation of the commencement of business on 1 January 2026, the company has undertaken a number of activities which include:

- Registration of the company with the Patents and Companies Registration Agency (PACRA).
- Signing of a ten (10) years lease agreement with the owner of the premises where the factory will be located.
- Signing of contracts with three leading retail outlets in Zambia for the supply of the bottled mineral water.
- Placing an order for the importation of Bottling Machinery from China which is expected to arrive in Zambia in the first week of January 2026.
- Importation of raw materials from South Africa, which include Polyethylene Terephthalate (PET) plastic for packaging, minerals for adding into water, and processing acids for disinfection.

Projected VAT exclusive sales

The company's projected VAT exclusive turnover per month is as indicated below:

	K
January 2026	90,000
February 2026	100,000
March 2026	150,000
April 2026	160,000
May 2026	178,000
June 2026	195,000

It is anticipated that turnover growth will continue up to an estimated monthly turnover of K250,000 by December 2026.

The Directors of Posture Ltd applied to the Zambia Revenue Authority for the company to be registered for Value Added Tax (VAT) as an intending trader last year in October 2025. Once it commences operations, the company will also apply for registration for the various direct and indirect tax types, including Excise Duty as bottled mineral water fall into the category of excisable goods. You should assume that Excise Duty will be charged at one sixth ($^1/_6$) of K0.30 per liter of water sold in 2026.

Importation of Bottling Machinery and raw materials

In January 2026, Posture Ltd received the imported Bottling Machinery from China and all the raw materials from South Africa. In accordance with the Customs clearance documents submitted, the purchase cost of the Bottling machinery in China was US$20,000, insurance and freight costs to the port of Dar es salaam were US$500 and US$1,000 respectively. The Kwacha to US$ daily spot exchange rate published by the Bank of Zambia on the date of arrival of the bottling machinery was K20.00 per US$1. You should assume that the Customs Duty rate for Bottling Machinery under the ZRA HS Code, is 0%, and the Excise Duty rate is also 0%.

The raw materials import from South Africa where acquired at a purchase cost of US$6,000. Insurance and transportation costs of the raw materials up to the Kazungula boarder post were US$200 and US$800 respectively. The Kwacha to US$ daily spot exchange rate published by the Bank of Zambia on the date of arrival of the of the raw materials was K20.50 per US$1. You should assume that the Customs Duty rate for the raw materials under the ZRA HS Code, is 5%, while the Excise Duty rate is 0%.

One of the Directors of Posture Ltd is not sure as to why the Government imposes customs duty on certain imported goods, which in his view increases the cost of imports and hence disadvantaging Zambian business. Further, the Director is interested in having an understanding of the ZRA internal review and appeal process in relation to Excise Duty in situations where a tax payer is not satisfied with an assessment made by the of ZRA.

Required:

(a) In relation to VAT registration regulations under the VAT Act:

(i) Describe who an intending trader is, explaining the main reason the intending trader registration provisions for VAT were introduced. (2 marks)

(ii) Based on evidence from the scenario, assess whether Posture Ltd has met the criteria for VAT registration as an intending trader. (10 marks)

(b) Assuming that the ZRA approved the application by Posture Ltd to register as an intending trader on 1 November 2025 last year, advise the Directors of the company on:

(i) Any three (3) obligations the company will have as a registered intending trader during the period from November 2025 to December 2025 before the company commences operations. (3 marks)

(ii) Any five (5) obligations the company will have as a registered VAT Supplier once business operations commence on 1 January 2026. (5 marks)

(c) In relation to Customs and Excise Duty:

(i) Explain any four (4) purposes of customs duty on imported goods. (4 marks)

(ii) Advise the Director of Posture Ltd of the ZRA internal review and appeal process for Excise Duty matters. (4 marks)

(d) Determine the amount of import taxes payable on:

(i) The importation of the Bottling machinery. (4 marks)

(ii) The importation of the Raw materials. (4 marks)

(e) Assuming that actual sales of bottled mineral water in January 2026 was K96,000 (exclusive of all applicable indirect taxes on sales), realized from the sale of 32,000 bottles of 500ml each, at a selling price of K3 per bottle, determine the amount of the following indirect taxes arising on the sale of the mineral water:

(i) Local Excise duty. (2 marks)

(ii) Value Added Tax. (2 marks)

You should assume that Posture Ltd was dully registered for all applicable indirect taxes at the time of the sale of the mineral water.

[Total: 40 Marks]

SECTION B

There are FOUR questions in this section.

Attempt any THREE (3) questions.

QUESTION TWO

Maxi Ltd is a registered manufacture and exporter of excisable goods which is also registered for Value Added Tax. The company operates a bonded warehouse in which all its imported raw materials are held before the payment of import duties. The company has however been facing competition challenges both locally and internationally resulting in the company reporting losses in the last three (3) years of its operations. During the Board of Directors meeting held on 30 January 2026, the Directors resolved to cease company operations on 31 March 2026. The company currently have imported goods valued at K26 million, being held in the bonded warehouse.

The company has further resolved to get professional advice from a firm of tax practitioners on the taxation implications of the decision to cease manufacturing operations. The Directors are now thinking of setting up a new company in the agriculture sector under known as Maxine Farms Ltd, in six (6) months' time after ceasing operations of the manufacturing business. The new company will be suppling farm produce both locally and internationally. The Directors wish to start using the existing bonded warehouse which was being used in manufacturing operations, in the new farming business they are planning to launch. They wish to re-apply to the ZRA for the warehouse to be used as a bonded warehouse for both farm input imports and exports of farm produce for the new farming business.

Required:

(a) In relation to the closure of the registered excise manufacturing plant advise the Directors of Maxi Ltd of:

(i) The procedure for cessation of operations of a registered manufacturing plant under the Customs & Excise Act. (4 marks)

(ii) The maximum period of time the imported materials the company is currently holding can be stored in the bonded warehouse. (2 marks)

(b) Advise on any two (2) business changes that do not require cancellation of the VAT registration status of a business. (2 marks)

(c) Assess whether the cessation of manufacturing operations by Maxi Ltd on 31 March 2026 will result in cancellation of the of the company's VAT registration status. (2 marks)

(d) Assuming that the cessation of the manufacturing operations results in Maxi Ltd's VAT registration status being cancelled advise on:

(i) the effective date of the cancellation and the steps that must be taken by company before cancellation of the VAT registration under VAT regulations. (3 marks)

(ii) The VAT treatment of any assets qualifying as taxable supplies held by the company on the date of deregistration. (2 marks)

(e) Advise the Directors of five (5) factors that the ZRA will consider before approving the application for the company to commence using the existing warehouse as a bonded warehouse for the new farming business. (5 marks)

[Total: 20 Marks]

QUESTION THREE

Nakonde General Dealers Ltd is a VAT registered company based in Nakonde District of Zambia. The company supplies a wide range of products which include the famous processed Nakonde rice. The company now wishes to start supplying Nakonde rice through retail outlets in Lusaka. The company is planning to use well-known business houses in Lusaka to operate as its agents for the supply of the rice in Lusaka.

One of the well-known business houses in Lusaka is Franksay Ltd which is registered for VAT. Franksay Ltd has a good reputation among various retail outlets in Lusaka and operates as an agent for a number of businesses within and outside the country. Nakonde General Dealers Ltd has accordingly engaged Franksay Ltd as its agent where rice sales will be made through Franksay Ltd to the Lusaka Retail outlets. Franksay Ltd will act in its own name in making these sales on behalf of Nakonde General Dealers Ltd under the arrangement.

In February 2026, Nakonde General Dealers Ltd issued an invoice with a taxable value of K12,000 to Franksay Ltd for processed rice it supplied to the company in that month. In the same month, Franksay Ltd sold all the rice to retail outlets in Lusaka, issuing tax invoices accordingly to the customers. Franksay Ltd consequently invoiced Nakonde General Dealers Ltd with commission of K2,400 for the agency services for the month of February 2026.

The CEO of Nakonde General Dealers Ltd has approached your firm, Focus Chartered Accountants, for advise on VAT implications of supplies made by or through selling agents. He further wishes to sign a three-year contract with your firm to provide both financial accounting and taxation services.

Required:

(a) Advise the CEO of Nakonde General Dealers Ltd of the VAT implications of sales made through an agent who records transactions in their own name and of the VAT procedures which must be followed by the agent to account for the VAT on such sales. (11 marks)

(b) Determine the amount of VAT payable by Franksay Ltd in February 2026, assuming that the agency services with Nakonde General Dealers Ltd were the only transactions made by the company for the month. (3 marks)

(c) Advise Focus Chartered Accountants on any three (3) ethical threats arising from the provision of both financial accounting and taxation services to Nakonde General Dealers Ltd. (6 marks)

[Total: 20 Marks]

QUESTION FOUR

You are employed in a Tax Practice, and you are dealing with the tax affairs of Kabwe Beverages Ltd (KBL), a newly established a VAT registered manufacturing company, which is a new client of your firm.

KBL commenced producing alcoholic beverages and bottled water on 1 January 2026 immediately after finishing installing its plant. The machinery for the plant was imported from China and KBL was able to pay all the duties chargeable on the importation of the machinery. However, management has delayed applying for an excise manufacturing license because they believe the license could be obtained after sales had started.

The company started selling the produced alcoholic beverages and bottled water on 1 April 2026. KBL would like to further expand its operations in the next twelve (12) months by acquiring more machinery to double its initial production of alcoholic beverages and bottled water. However, the directors of the company are worried that it may default on customs regulations due to its liquidity challenges which will result from investing in the expansionary programme. They are seeking advise from your firm on the consequences of non-compliance with customs regulations.

During January 2026, the company made the following transactions:

(1) Sold 120,000 bottles of alcoholic beverages to wholesalers in Lusaka.
(2) Supplied 8,000 bottles of alcoholic beverages free of charge to distributors as part of a promotional campaign.
(3) Sold bottled water manufactured in the same plant directly to customers.

The Zambia Revenue Authority (ZRA) has queried the company's valuation basis and licensing position. The Finance Director has approached you for tax advice.

Required:

(a) Advise Kabwe Beverages Limited of the nature and scope of local excise duty in Zambia, assessing whether the company's products will be categorised as excisable goods under the Customs and Excise regulations. (5 marks)

(b) Advise the company of three (3) obligations it will have under the Customs & Excise Act once it registers for Excise Duty. (3 marks)

(c) In relation to Local Excise Duty, advise on how the taxing point and valuation rules should be applied to:

(i) The 120,000 bottles of alcoholic beverages sold to wholesalers in Lusaka. (2 marks)

(ii) The 8,000 bottles supplied to distributors free of charge as a part of a promotional campaign. (2 marks)

(d) Advise the directors of KBL on any three (3) consequences of non-compliance with Customs regulations. (3 marks)

(e) In relation to Value Added Tax, advise Kabwe Beverages Limited of the meaning of the VAT tax point, describing how the VAT tax point for the bottled water will be determined. (5 marks)

[Total: 20 Marks]

QUESTION FIVE

Farmers Ltd is a VAT registered agro trading company that is based in Lusaka. The company buys and sells various agricultural products which it purchases from member states of the Common Market for Eastern and Southern Africa (COMESA), the Southern African Development Community (SADC), as well as other countries outside these two regional trade blocks.

As a result of the company's nature of business, it suffers various indirect taxes such as customs duty, import excise duty, import VAT, Tourism Levy, and Fuel Levy. The Directors of Farmers Ltd are interested in having an understanding of the indirect tax implications of importing goods from member states of the COMESA and SADC, and from countries outside these two regional trade groupings. They are also requesting information on the rules of origin for goods and on how indirect taxes are administered in Zambia.

Required:

(a) Advise the Directors of Farmers Ltd of the primary purpose of the COMESA and SADC regional trade blocks and of the taxation implications of importing goods from member states of these regional trade blocks. (4 marks)

(b) In relation to the COMESA and SADC regional trading blocks, advise the Directors of Farmers Ltd of:

(i) The nature and purpose of rules of origin for goods. (3 marks)

(ii) Any five (5) factors used to determine whether the origin of goods is from COMESA and SADC member states. (5 marks)

(iii) Any two (2) documents that must be presented to Customs Authorities by importers as proof that the goods originated from COMESA or SADC Member States. (2 marks)

(c) Describe how indirect and trade taxes are administered in Zambia, giving examples of two (2) indirect taxes and two (2) trade taxes which are imposed in Zambia. (4 marks)

(d) Advise Farmers Ltd of any two (2) responsibilities the company has under the VAT Act as a VAT registered entity. (2 marks)

[Total: 20 Marks]

END OF PAPER

PGDT4 – INDIRECT AND TRADE TAXES

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) **VAT registration advise**

(i) **Advice on an Intending Trader**

Under the VAT registration regulations, an intending trader is a supplier who is registered for VAT in anticipation of commencing trading activities.

The Zambia Revenue Authority introduced the provision for an intending trader in order to ensure that businesses intending to make taxable supplies can register for VAT before commencing trading activities and recover VAT incurred on their startup costs and initial capital investments, thereby alleviating financial burdens in the early stages of operation.

(ii) **Advice to the Directors of Posture Ltd on whether their company met the criteria for VAT registration as an intending trader**

In order to register for VAT as an intending trader, an individual or entity must meet the following conditions or criteria outlined by the Zambia Revenue Authority:

(1) Intention to supply Taxable Supplies: The applicant must prove a clear intention to commence a business that involves taxable activities. Posture Ltd has demonstrated its intention to commence business and supply bottled mineral water which is a VAT standard rated product. This intention is supported by the documentary evidence in (2) below.

(2) Documentary Evidence - to substantiate the intent to start trading, the entity must provide supporting documentation. The required supporting documentary evidence includes:

- Business registration certificates – Posture Ltd has already registered with the Patents and Companies Registration Agency (PACRA) and so evidence of Certificate of business registration is available.
- Contracts for the supply of goods or services – Evidence of contracts to supply the goods is available from the signed contracts Posture Ltd has with three leading retail outlets - Shoprite, Cheers, and Game stores, to supply them with bottled mineral water
- Lease agreements for premises intended for business use – Posture Ltd's evidence on this condition is the signed 10 years lease agreement with the owner of the premises where the factory will be situated.
- Importation records for equipment or raw materials - Posture Ltd's evidence on this criterion are the orders placed for the importation of Bottling Machinery from China and the raw materials from South Africa

(3) Turnover Projections - Although an intending trader may not yet have generated taxable turnover, it must present credible projections indicating that the taxable supplies will meet or exceed the statutory registration threshold of K200,000 for the following three months or K800,000 for the following twelve months. Posture Ltd's projected VAT exclusive turnover per month will exceed K200,000 within the first 3 months from January to March 2026 (i.e. K90.000 + K100,000 + K150,000 = K340,000).

On the basis of the evidence supporting the company's compliance to the registration conditions, Posture Ltd did meet the required conditions for VAT registration as an intending trader.

(b) **Benefits and Obligations of Posture Ltd**

(i) **Obligations as a Registered Intending Trader**
From the date of registration as an intending trader, Posture Ltd has the following obligations:

(1) Submit VAT returns for November 2025 and December 2025 even when there was no taxable activity during the periods.
(2) Keep proper records of all business transactions undertaken before operations commenced. This includes documents such as tax invoices, credit notes, and proof of importation/exportation.
(3) Claim input VAT on business purchases for two years prior to commencement of production.

(ii) **Obligations as VAT Registered Supplier**
As a VAT registered supplier. Posture Ltd will be required to:

(1) Display the tax registration certificate in a prominent place of the business. Similarly copies of this registration must be displayed at all other places of business that the registration applies to.
(2) Charge VAT on taxable supplies.
(3) Submit returns and pay VAT on or before the due date to ZRA as follows:
(4) A return with less than ten transactions may be lodged manually and shall be submitted within five (5) days after the end of the prescribed accounting period to which it relates.
(5) A return with ten or more transactions shall be lodged electronically within eighteen (18) days after the end of the prescribed accounting period to which it relates.
(6) Provide "tax invoices" containing the details required by law
(7) Maintain required records, and retain them for a minimum period of 6 years to enable ZRA verify the VAT liability.
(8) Advise ZRA of any change in business details e.g. change of contact details such as address, email or telephone number, addition of new partner, including cessation of business, etc.
(9) Allow officers of ZRA to enter the business premises and examine goods and all business records.
(10) Provide information about the business as required by ZRA.

(c) **Customs & Excise duty advise**

(i) **Advise on purposes of Customs duty charged on imported goods**

Customs duty is a tax imposed on imported goods when they are transported across international borders. The purposes of customs duty include:

(1) Revenue Generation - the primary function of customs duty is to provide a significant source of income for the government, which can be used to fund public infrastructure, social services, and other developmental projects.

(2) Trade Protectionism - By imposing customs duties on imported goods, governments protect local industries from foreign competition, and hence ensure that domestic businesses can compete effectively in the market.

(3) Regulation of Imports - Customs duties help regulate the types and quantities of goods entering a country, ensuring that imports align with national economic policies.

(4) National Security and Health Protection: Certain goods, such as arms, hazardous materials, and pharmaceuticals, may be subject to higher duties or restrictions to prevent potential threats to national security or public health.

(5) Environmental Considerations: governments impose customs duties on products that have an environmental impact, such as plastic goods or fossil fuels, to discourage their use and promote sustainable alternatives.

(ii) The ZRA internal review and appeal process for Excise Duty matters.

A taxpayer who is not satisfied with a decision or determination made by ZRA in relation to Excise Duty may request through the established internal review mechanism for a review and appeal to the Commissioner - General before lodging a dispute with the Tax Appeals Tribunal.

The ZRA internal review and appeal processes are as follows:

(1) A taxpayer who is not satisfied with any decision made by the Indirect Taxes & Excise Directorate with respect to Excise Duty assessment, grant or revocation of an excise manufacturing license, advance or security Excise Duty payment, can request the Commissioner - Indirect Taxes & Excise to review any decisions, or tax amounts assessed by officers, before lodging an appeal with the Commissioner – General.

(2) If a taxpayer is not satisfied with any decision made by the Commissioner - Indirect Taxes & Excise with respect to Excise Duty assessment, grant or revocation of an excise manufacturing license, advance or security Excise Duty payment, the

taxpayer has the right to appeal to Commissioner-General's office to review the decision of the Excise Directorate.

(d) **Determination of the amount of import taxes payable:**

(i) *On importation of the Bottling machinery*

	Values	Import Taxes
	K	K
Value for Duty Purposes (W1)	430,000	
Customs Duty (K430,000 x 0%)	0	0
	430,000	
Excise duty (K430,000 x 0%)	0	0
	430,000	
Value Added Tax (K430,000 x 16%)	68,800	68,800
	498,800	

Working

1. Value for Duty Purposes	$
Cost	20,000
Insurance	500
Freight	1,000
CIF	21,500
VDP - $21,500 x K20.0/$	K430,000

(ii) *On importation of the Raw materials*

	Values	Import Taxes
	K	K
Value for Duty Purposes (W1)	143,500	
Customs Duty (K143,500 x 5%)	7,175	7,175
	150,675	
Excise duty (K150,675 x 0%)	0	0
	150,675	
Value Added Tax (K150,675 x 16%)	24,108	24,108
	174,783	

Working

1. Value for Duty Purposes	$
Cost	6,000
Insurance	200
Freight	800
CIF	7,000
VDP - $7,000 x K20.50/$	K143,500

(e) **Determination of the amount of indirect taxes (Excise duty and Value added Tax) payable on the sale of bottled mineral water in January 2026**

(i) **COMPUTATION OF EXCISE DUTY**

Excise Duty Payable = Quantity x Excise duty rate
= (32,000 bottles x 500ml)/1000ml/liter x (1/6 x K0.30/liter)
= 16,000 liters x K0.05/liter
= K800

(ii) **COMPUTATION OF VAT**

	Values	Taxes
	K	K
Selling price exclusive of taxes	96,000	
Excise Duty (W1)	800	800
Value for VAT purposes	96,800	
Value Added Tax (K96,800 x 16%)	15,488	15,488
Selling price inclusive of taxes	112,288	
Total indirect Tax		**16,288**

SOLUTION TWO

(a) **Bonded Warehouse**

(i) **Procedure of cessation for a registered excise manufacturing plant**

If an excise manufacturer intends to cease operations, Section 138 of the Customs and Excise Act provides for a procedure on cessation as follows:

(1) A written notice of the suspension or cessation shall be given not less than a month before the intended date of closure/shut down with reasons/intensions.
(2) Within 20 days from the cessation of manufacturing activity, the excise manufacturer shall render a true and complete return of all manufacturing and business activity and account for all outstanding sales since the last monthly return.
(3) The manufacturer will also submit to the Authority a statement to account for all stock at hand and all stock disposed and account for any Excise Duty that may be payable.
(4) An officer will have to witness/inspect/monitor the suspension or shut down of the machinery.

(ii) Period *for keeping goods in the bonded warehouse*

The maximum period imported goods can be kept in the bonded warehouses is two (2) years for those whose customs, import duty and input VAT exceeds K180 and one (1) year for those that have duty not exceeding K180.

(b) The following business changes do not require cancellation of VAT registration:

(1) A change in the trading name of the business, the name of the business or an address of any partner of the business;
(2) A change in the principal business address or place at which the business is carried on;
(3) Transfer of a going concern;

(c) VAT Deregistration

Ceasing to trade permanently is one of the conditions for the de-registration of a VAT registered Supplier. Hence, since Maxi Ltd will cease to operate permanently on 31st March 2026, the company's VAT registration status will be cancelled.

(d) Effective date of VAT cancellation and VAT treatment of assets

(i) Effective date of cancellation of VAT

The cancellation of the VAT registration will take effect from the last day of the month in which the cancellation application is approved by the ZRA

Steps for cancellation of the VAT registration

The following are the steps:

(1) Maxi Ltd should make a request for de-registration to the Commissioner-General, either in writing or online stating the TPIN, full details of the circumstances giving rise to the request and the contact details.
(2) Maxi Ltd should submit a final VAT return before a deregistration is approved.

(ii) *VAT treatment of taxable assets on hand at deregistration*

VAT registered businesses are required to pay VAT on the value of any stocks and capital assets on hand at the date of de-registration. This is because the registered supplier is in effect making a taxable supply to himself as a newly registered business.

(e) Factors *ZRA will consider before approving the warehouse to continue operating as a bonded warehouse for the new farming business*

ZRA will consider the following factors before approving the warehouse to continue operating as a bonded warehouse for the new farming business:

(1) The warehouse must be conveniently situated, i.e., within 20km from the controlling station;
(2) The warehouse must be secure and separate from retail outlets;
(3) The doors must be strong (grilled doors are recommended) and have provision for a Customs lock;
(4) Access into warehouse should be restricted.
(5) Since the company intends to use the warehouse for exports too, the company will be required to pay security deposit or bond guarantee to ensure that goods declared for export are genuinely exported.

SOLUTION THREE

(a) **Advice on regulations relating to accounting for VAT on supplies made through an agent who records transactions in their own name**

Where an Agent who makes supplies arranged on behalf of the principal and records transactions in their own name, this arrangement is, for VAT purposes, treated as though the supply were a supply by the seller to the agent and by the agent to the buyer provided both the seller and agent are registered for VAT, and the supplies are taxable.

The accounting procedure for VAT is as follows:

1. The seller (principal) must issue a tax invoice to the agent for the taxable supply made to the agent.
2. The seller must account for the output VAT on the supply made to ZRA
3. The Agent may claim the input VAT suffered on the invoice from the seller (principal)

4. The Agent must issue a tax invoice in his own name to the buyer for the taxable supply made on behalf of the Seller at the same price as charged by the Principal.
5. The Agent must account for the output VAT on the supply made to ZRA.
6. The buyer may claim the input VAT suffered on the invoice from the Agent

7. The Agent must also issue a tax invoice for the commission for his own services rendered to the principal.
8. The Agent must account for the output VAT on the commission to ZRA
9. The Seller (principal) can claim the input VAT suffered on the invoice from the Agent on the commission.

(b) **VAT payable to ZRA for February 2026 by Franksay Ltd**

Output VAT	K
Standard rated sales (K12,000 x 16%)	1,920
Commission on agency services (K2,400 x 16%)	384
Total	2,304
Input VAT	
Purchases from Principal (K12,000 x 16%)	(1,920)
VAT payable for the month of February 2026	384

(c) **Ethical threats arising from the provision of both financial accounting and tax services**

Providing both financial accounting and tax services to the same client creates ethical threats, mainly being:

- Self-Review Threat - the firm might not question its own preparation of financial statements when later preparing tax returns, potentially overlooking errors or aggressive positions.
- Self-Interest Threat - dependence on the client's total fees can pressure tax practitioners and accountants to accept client views or avoid challenging aggressive tax treatments to keep the business.
- Advocacy Threat - promoting a client's tax position (e.g., in disputes) can compromise objectivity, especially where the firm also prepared the underlying financials.
- Familiarity Threat - long-standing relationships can lead to an overly sympathetic view of the client's position, reducing professional skepticism.
- Management Threat - performing financial accounting might blur the responsibility lines, making the firm of accountants seem to be making management decisions for the client, not just assisting.

SOLUTION FOUR

(a) **Nature and scope of local excise duty**

(1) Local excise duty is imposed on particular goods or products or on a limited range of goods or products specified under the Customs and Excise Act, whether imported or produced domestically, at any stage of production or distribution, by reference to the weight, strength, or quantity of the goods or products, or by reference to their value and includes a tax on particular services.

Excise duty is governed by the Customs and Excise Act, Cap 322, which outlines its scope, imposition, collection, and management for excisable items produced or rendered domestically. It targets a defined list of goods stated in the Act such as alcoholic beverages, tobacco products, non-alcoholic drinks, cement and plastic items, as well as services such as telephone airtime. The scope excludes most general goods and services, focusing on those deemed harmful or revenue-generating.

(2) Every manufacturer of an excisable product in the Republic is required to be registered and licensed, unless specifically exempted. Manufacturers of and dealers in excisable goods or services account for the excise duty or act as agents for ZRA and remit/pay the collected excise duty to ZRA at any stage within the production or distribution chain at either a specific or ad-valorem rate as provided for under the Customs and Excise Act

Manufacturers and service providers must obtain a local excise license from ZRA, detailing production processes, premises, and cost structures, with approval at the Commissioner General's discretion.

(3) Excise is levied at specific rates per unit/tonne or ad valorem percentages on value, payable at key points like manufacture, removal from licensed premises, or consumption/loss during production. Businesses self-assess and remit to the ZRA, acting as agents in the supply chain.

(4) The ZRA's Indirect Taxes and Excise Division handles registration, licensing, and oversight, requiring records of goods received, produced, or removed.

(5) Both alcoholic ready-to-drink beverage and bottled water are excisable products under the Act and clearly fall within the type of products ordinarily subject to excise duty.

Under the Excise Guide Bottled water or mineral water falls within the category of excisable goods under the category non-alcoholic beverages. However, it is subject to a nil rate of excise duty, meaning it does not generate excise tax payable, but still remains within the excise framework for classification and compliance purposes

(b) **Obligations of Kabwe Manufacturers once registered**

Once registered for Excise duty purposes, a Kabwe manufacturers will be required to fulfil the following obligations:

1. Make return submissions and duty payments
   Returns, detailing manufacturing activity/sales should be submitted by the 15th of the month, following the month to which the return relates. The due dates for payment are the same as the return submission due dates.

2. Record keeping
   The company will be required to maintain, in accordance with Generally Accepted Accounting Principles (GAAP), books of accounts in the English Language.

   Sections 108, 109 and 139D of the Customs and Excise Act specifically require the manufacturer or service provider to keep, on the premises, a record of the following:

   (i) All goods received into the licensed premises;
   (ii) All goods manufactured or produced on the licensed premises;
   (iii) All goods removed from the licensed premises;
   (iv) All goods consumed, lost, or otherwise disposed of during any process of manufacture or production;
   (v) All stock on hand including input stock and products whether fully or partially manufactured or produced;
   (vi) All excise duty or surtax paid or payable.

3. Filing of Notice for approval of alterations to the plant
   The company will be required to notify and seek approval from the Commissioner General before any alteration is made to the plant. A notice with relevant documents like those provided on licensing should be provided to ZRA for approval before commencement of production.

   Alterations may include the introduction of a new product line that is also excisable or; building of supportive facilities such as a clinic, canteen etc, adjustments on the documents that were initially submitted at licensing, such as the flow chart for production.

4. Display a valid license at the manufacturing premises.
   The company will be required to display the issued operating Excise Manufacturing License in the year that the license is valid at the licensed manufacturing premises.

(c) **Taxing Point and Valuation Rules**

Under excise principles, duty is generally triggered when goods are removed from the manufacturing premises for consumption, sale, or any other use

(i) Goods Sold to Wholesale:
The taxing point is removal from licensed premises or sale (whichever first occurs). The excise liability does not wait until the wholesalers pay for the goods, nor does it arise only when the goods are eventually purchased by final consumers.

The appropriate valuation is based on the transaction value (selling price) in an arm's length or open market value (sale price exclusive of excise, surtax, and VAT) as per the Sixth Schedule. Valuation uses actual transaction value to unrelated wholesalers.

(ii) Promotional Goods Given Free
For the 8,000 promotional bottles given away free of charge, excise duty still arises because removal from the factory will be deemed the taxing point, regardless of whether consideration is received. The Taxing point arises on the removal from the factory or on distribution without charge.

Since there is no actual selling price, the goods must be valued using the open market value or the normal selling price of identical or similar goods. This prevents avoidance of excise duty through free distributions.

(d) **Consequences of non-compliance with the customs regulations**
Non-compliance with customs regulations may result in:

(i) Fines and penalties – e.g. under declaration of value attracts penalties of up to 200% of the evaded duty.
(ii) Seizure of goods – undeclared or falsely declared goods may be confiscated.
(iii) Legal prosecution – importers involved in fraud may face criminal charges.
(iv) Blacklisting – repeat offenders may be barred from importing goods
(v) Interest on overdue tax – is charged at the Bank of Zambia discount rate plus 2% per annum.

(e) **Advice on the tax point and how it is determined for bottled water.**

The tax point is the moment when VAT becomes due and payable. The tax point for the bottled water for VAT purposes is determined as the **earliest of the following events**:

(i) when the bottled water physically leaves the Kabwe Beverages Limited's premises or the place where the bottled water is stored or manufactured.
(ii) when the bottled water is made available to the recipient, for example, when a customer collects the bottled water from the supplier.
(iii) when a payment, whether partial or full, is received from the customer before the bottled water is delivered.
(iv) when a tax invoice is issued by the supplier, even if the bottled water is delivered or paid for at a later date.

SOLUTION FIVE

(a) **COMESA and SADC trade blocks**

Advice on who COMESA and SADC are, and tax implications of importing goods from member states of the COMESA and SADC, and also from countries outside COMESA and SADC

The Common Market for Eastern and Southern Africa (COMESA), the Southern African Development Community (SADC), are regional trade blocks. Member states in these trade blocks have agreed to provide preferential tariff treatment of goods originating from these countries such as zero customs duty or reduced tariffs.

Therefore, the tax implications of importing goods from COMESA and SADC member states entails paying less import duties on imports as opposed to importing from countries outside COMESA and SADC whose goods do not attract reduced customs tariffs.

(b) (i) Nature and purpose of rules of origin for goods.

Rules of origin are the rules that determine the 'economic nationality' of goods. That is where the goods are considered to have been produced or manufactured, not where they are shipped from.

The origin of a good is one of the factors, alongside tariff classification and customs value, that determine which customs tariff treatment (preferential origin or non-preferential origin) is applied on the imported goods as well as any trade policy measure.

(ii) Five (5) factors used to determine the origin of goods in COMESA and SADC

Under COMESA and SADC, goods shall be accepted as originating in a Member State if they are consigned directly from another Member State and comply with one of the five (5) origin conferring criteria listed below:

(1) Goods wholly produced in a Member State (that is, no raw materials from outside the Regions have been used in their manufacture); or
(2) Goods produced in a Member State and the Cost Insurance and Freight value of any foreign (that is non-COMESA or SADC) materials used does not exceed 60% of the total cost of all materials used in the production; or
(3) Goods produced in Member States whose value added resulting from the process of production accounts for at least 35% of the ex- factory cost of the goods; or
(4) Goods produced in a Member State designated in a list by the Council to be of particular importance to the economic development of the Member State and containing not less than 25% value added notwithstanding the provision in criteria three above.
(5) Goods satisfying the change of tariff heading resulting from their process of manufacture where some raw materials are imported.

(iii) *Advice on two documents that must be presented to the Customs Authority by an importer of goods for the goods to be admitted into a COMESA or SADC Member State as originating in another Member State*

For the goods to be admitted into a COMESA or SADC Member State as originating in another Member State, an importer of the goods must present to the Customs Authority the following two documents:

(1) the Bill of Entry,
(2) a Certificate of Origin duly completed and signed in the exporting Member State and certified by designated certifying authority of that Member State

(c) **Advise on administration of indirect and trade taxes in Zambia.**

The Zambia Revenue Authority (ZRA) is the primary body responsible for administering indirect and trade taxes in Zambia though its two divisions, the Domestic Taxes Division, and the Customs Services Division. The domestic taxes division of ZRA oversees the administration and collection of internal taxes, which for the indirect taxes is the Value Added Tax and Local Excise duty. The customs services division of ZRA oversees the administration and collection of the trade taxes.

Indirect taxes are taxes imposed on goods and services at various stages of production and distribution. Examples of indirect taxes are Value Added Tax (VAT), Local Excise Duty, Tourism Levey, and Insurance levy. Trade taxes are taxes charged on goods as they cross national borders, either as imports or exports. Examples of trade taxes are Customs duty, import Excise duty, and import VAT.

(d) **Responsibilities Farmers Ltd in the administration of the Indirect Taxes**

Indirect taxes are levied on the consumption of goods and services. They are ultimately paid by the end consumer, but registered business and intermediaries are responsible for collecting and remitting the taxes to the Zambia Revenue Authority. Since Farmers Ltd is registered for VAT, it will play the role of an intermediary in the collection of the VAT by charging VAT on its sales, collecting the VAT, and remitting the collected taxes, less input tax paid, to the Zambia Revenue Authority.

END OF SUGGESTED SOLUTIONS

POST GRADUATE DIPLOMA IN TAXATION PROGRAMME EXAMINATIONS

PGDT 5: INTERNATIONAL TAXATION

THURSDAY 11 JUNE 2026

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 **Compulsory** scenario question.
   Section B: FOUR (4) Optional Questions. Attempt any THREE (3) questions.

3. Enter your student number and National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer sheet.

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 the required depth of the answer.

7. All workings must be done in the answer booklet.

8. Present legible and tidy work.

9. Graph paper (if required) is provided at the end of the answer booklet.

10. A Taxation Table is provided on pages 2 to 6 of this 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 K30,000	0%
K30,001 to K5,000,000	5%

Tax on rental income

Annual Rental income band	Taxable amount	
K1 to K30,000	First K30,000	0%
K30,001 to K800,000	Next K770,000	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

Property Transfer Tax

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

Value Added Tax

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

Customs and Excise duties on used motor vehicles

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

	Aged 2 to 5 years		Aged over 5 years	
Motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars	**Customs duty**	**Excise duty**	**Customs duty**	**Excise duty**
	K	K	K	K
Sedans				
Cylinder capacity not exceeding 1000 cc	14,113	12,231	8,065	6,989
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	18,145	15,726	9,678	8,387
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	18,695	24,304	9,518	12,373
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	20,395	26,514	11,897	15,466
Cylinder capacity exceeding 3000 cc	25,494	33,142	13,597	17,676
Hatchbacks				
Cylinder capacity not exceeding 1000 cc	12,097	10,484	8,065	6,989
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	16,129	13,979	9,678	8,387
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	16,996	22,095	9,518	12,373
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,695	24,304	11,897	15,466
Cylinder capacity exceeding 3000 cc	22,095	28,723	13,597	17,676
Station wagons				
Cylinder capacity not exceeding 1000 cc	14,113	12,231	8,065	6,989
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	18,144	15,725	9,678	8,387
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	18,695	24,304	10,198	13,256
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	20,395	26,514	11,897	15,466

Cylinder capacity exceeding 3000 cc	25,494	33,142	13,597	17,676
SUVs				
Cylinder capacity not exceeding 1000 cc	17,598	15,252	10,559	9,151
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	20,463	17,735	12,278	10,641
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	23,794	30,933	14,277	18,560
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	27,193	35,351	17,540	22,802
Cylinder capacity exceeding 3000 cc	32,292	41,980	20,395	26,514

	Aged 2 to 5 years		**Aged over 5 years**	
Motor vehicles for the transport of goods	**Customs duty**	**Excise duty**	**Customs duty**	**Excise duty**
	K	K	K	K
Single cab				
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	24,777	10,737	9,911	4,295
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	29,732	12,884	17,344	7,516
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	34,687	15,031	19,821	8,589
Double cabs				
GVW not exceeding 3 tonnes	34,687	15,031	27,254	11,810
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	38,156	16,534	29,980	12,991
Panel vans				
GVW not exceeding 1.0 tonne	15,089	6,539	8,622	3,736
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	17,344	7,516	9,911	4,295
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	19,821	8,589	17,344	7,516
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	24,777	10,737	19,821	8,589
Trucks				
GVW up to 2 tonnes	15,715	12,048	7,246	5,556
GVW exceeding 2.0 tonnes but not exceeding 5.0 tonnes	17,461	13,387	8,731	6,694
GVW exceeding 5.0 tonnes but not exceeding 10.0 tonnes	27,938	21,419	10,477	8,032
GVW exceeding 10.0 tonnes but not exceeding 20.0 tonnes	34,923	26,774	13,271	10,174
GVW exceeding 20 tonnes	58,645	0	21,992	0

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

Surtax

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

Customs and Excise on New Motor vehicles

Duty rates on:

1.	**Motor cars and other motor vehicles (including station wagons) principally designed for the transport of less than ten persons, including the driver:**	
	Customs Duty:	
	Percentage of Value for Duty Purposes	30%
	Minimum Specific Customs Duty	K6,000
	Excise Duty:	
	Percentage of Value for Duty Purposes for Excise Duty Purposes	
	Cylinder capacity of 1500 cc and less	20%
	Cylinder Capacity of more than 1500 cc	30%
2.	**Pick-ups and trucks/lorries with gross weight not exceeding 20 tones:**	
	Customs Duty	
	Percentage of Value for Duty Purposes	15%
	Minimum specific Customs Duty	K6,000
	Excise Duty:	
	Percentage of Value for Duty Purposes for Excise Duty Purposes	10%
3.	**Buses/coaches for the transport of more than ten persons**	
	Customs Duty:	
	Percentage of Value for Duty Purposes	15%
	Minimum Specific Customs Duty	K6,000
	Excise Duty:	
	Percentage of Value for Duty Purposes for Excise Duty Purposes	
	Seating Capacity of 16 persons and less	25%
	Seating Capacity of 16 persons and more	0%
4.	**Trucks/lorries with gross weight exceeding 20 tonnes**	
	Customs Duty:	
	Percentage of Value for Duty Purposes	15%
	Excise Duty:	
	Percentage of Value for Duty Purposes for Excise Duty Purposes	0%

SECTION A

This question is compulsory and MUST be attempted.

QUESTION ONE – COMPULSORY

You are employed in a firm of Chartered Accountants as a Senior Tax Consultant. Your supervisor has asked you to deal with the tax affairs of your client Kaluba.

Kangwa Kaluba was born in Zambia in 1995. In 2015, he migrated to the country known as the Republic of IceLand on a student's visa to pursue Architectural Science. The currency of IceLand is the IceLand Dollar (IL$).

In March 2020, Kaluba was employed by a company resident in IceLand at a monthly basic salary of IL$3,500. His other conditions of service included housing allowance at a rate of 10% of the basic salary, transport allowances of 5% of the basic salary, and medical allowance of IL$250 per month. None of the income from employment was remitted to Zambia.

Kaluba resigned from his employment on 3 November 2025 and came back to Zambia to stay because of the ill health of his mother. On 1 March 2026, he was employed by a Zambian Construction Company on a permanent and pensionable basis with effect from 1 April 2026 at a monthly salary of K56,000. The salary was increased to K62,000 with effect from 1 July 2026.

His other conditions of service included:

- Housing allowance at a rate of 12% of the basic pay.
- Education allowance at a rate of 8% of the basic pay.
- Entertainment allowance of K8,000 per annum.
- Medical allowance of K1,500 per month.

During the year ended 31 December 2026, the company paid for his golf club membership fees amounting K150 per month. In addition, the company paid tuition fees for his children amounting to K3,500 during the year ended 31 December 2026.

He is provided with a 2,000cc Toyota Mark X Car on a personal-to-holder basis. The motor vehicle was acquired in 2025 at a cost of K190,000. The company paid for motor car running expenses amounting to K18,000 during the year ended 3 December 2026.

Upon arrival in Zambia, he opened a fixed deposit bank account with a Zambian bank. On 28 December 2026, he received bank interest amounting to K65,000 (gross). In addition, he received management consultancy fees amounting to K59,000 (net) on 30 December 2026.

During the year ended 31 December 2026, he made the following payments:

	K
Income tax deducted under pay as you earn	212,400
NHIMA Contributions	5,400
NAPSA contributions	16,756
Donations to approved Public Benefit Organisations	25,600
Subscription to the Institute of Architectures	9,000

Whilst in IceLand, Kaluba made various investments in that country. During the year ended 31 December 2026, he received the following income from these investments:

- Rental income amounting to IL$7,200. This amount is after deducting withholding tax in IceLand at a rate of 10%.
- Bank interest amounting to IL$5,040. This amount is after deducting withholding tax in IceLand at a rate of 5%.

The amounts of income received from IceLand were deposited into his Zambian bank account. The Zambian Kwacha (ZMW) to IceLand Dollar (IL$) exchange rate averaged K25/IL$.

There is no double taxation convention between Zambia and the Republic of IceLand. Therefore, unilateral credit relief is given in Zambia when computing Zambian income tax on all the income generated from IceLand.

Required:

(a) Advise whether Kaluba will be considered to be resident in Zambia in charge year 2026.

(4 marks)

(b) Explain the three (3) methods of giving Double Taxation Relief. (6 marks)

(c) Explain five (5) benefits of double taxation agreements. (10 marks)

(d) Calculate the income tax payable by Kaluba for the tax year 2026. You should indicate by the use of zero all income which is not taxable.

(20 marks)

[Total: 40 marks]

SECTION B

There are FOUR (4) questions in this section.

Attempt any THREE (3) questions.

QUESTION TWO

(a) Naomi Ltd is a Zambian resident company engaged in manufacturing. The company is a subsidiary company of GTI Inc, a company incorporated and resident in a foreign country. An extract of the statement of profit or loss for Naomi Ltd for the year-ended 31 December 2026, is given below:

		K'million
Gross profit		256
Operating expenses	(Note 1)	(86)
Finance cost	(Note 2)	(65)
Profit before tax		105
Income tax expense	(Note 3)	(36)
Profit after tax		69

The following additional information is relevant:

(1) Included in the operating expenses are depreciation and amortization expenses that account for 25% of the total operating expenses.

(2) Naomi obtained a loan from GTI Inc, its parent company, on 1 January 2026. The loan amounted to K250 million at an interest rate of 20% per annum. On the same date, other lending institutions offering similar loans were charging interest of 15% per annum. The interest on this loan has been paid and is included in the above figure for finance cost. The balance of finance cost relates to loans with unrelated Zambian lending institutions.

(3) The company income tax shown in the statement of profit or loss above represents the provisional income tax paid by the company in respect of the tax year 2026.

Required:

(i) Advise the Directors of Naomi Ltd on the income tax treatment of the interest on loan obtained from its parent company, GTI Inch. Your answer should include appropriate computations. (3 marks)

(ii) Calculate the company income tax payable for the tax year 2026. (7 marks)

(b) Transfer pricing is the general term used to refer to the problem of allocating profits among a corporate group of companies. For a group as a whole, it is the after- tax profit of the group that is important rather than that of its individual members. Some countries apply their transfer pricing rules purely within the country.

Required:

Advise on the circumstances in which the transfer pricing rules can be applied purely within the country. (2 marks)

(c) Mr. Zucas is a citizen of Northland but currently a resident in Eastland. Northland uses citizen as a connecting factor for Taxation. Mr. Zucas has limited connections to his country of Citizenship, Northland.

Required:

Advise on the four (4) issues arising from the use of citizenship as a connecting factor for Taxation in the case of Mr. Zucas. (8 marks)

[Total: 20 Marks]

QUESTION THREE

(a) The OECD Model Double Taxation Convention serves as a template for bilateral tax treaties between counties, providing guidance on the allocation of taxing rights and mechanisms for cooperation between tax administrations.

The OECD Model Convention gives detailed guidance on various taxation aspects. Countries are encouraged to take these guidelines into account when drafting their domestic rules and regulations.

The guidelines on tax havens, thin capitalization and withholding tax (WHT) have been well received by most countries, including Zambia, since they account for over 20% of the tax leakages in most countries. However, it is very difficult to achieve meaningful results without co-operation between revenue authorities globally.

Required:

(i) Discuss the three (3) OECD Model Double Taxation Convention (DTC) provision relating to international cooperation. (6 marks)

(ii) Using the OECD guidelines, advise on any four (4) criteria for identifying tax havens. (8 marks)

(b) The International Covenant on Civil and Political Rights (ICCPR) is a key international human rights treaty adopted by the United General Assembly in 1966. The treaty outlines a comprehensive framework for the protection and promotion of civil rights, setting out obligations for state parties to respect, protect, and fulfill the rights enshrined in the covenant.

Required:

Discuss any three (3) provisions of the International Covenant on Civil and Political Rights (ICCPR) relevant to taxation. (6 marks)

[Total: 20 Marks]

QUESTION FOUR

(a) GlobalTech is a multinational company resident in a country Known as FreeLand. The company has expanded its operations into Zambia through the incorporation of a wholly owned subsidiary company, ZamTech. The Zambia Revenue Authority (ZRA) has requested disclosure of beneficial owners of ZamTech as part of its compliance with International Tax Transparency standards, and anti-money laundering regulations.

Required:

Explain four (4) key objectives of Beneficial Ownership Disclosure (BOD). (8 marks)

(b) You are employed as a Senior Tax Advisor in a multinational enterprise. Your supervisor, an expatriate Director, in the company has raised concerns on the potential double taxation on his income and on the business profits of the company given that Zambia does not have a Double Taxation Convention or treaty with his home country.

His argument is that double taxation occurs when the income or transaction is subject to taxation in more than one jurisdiction leading to potential economic distortions, compliance burdens, and fairness concerns for the tax payers. He intends to engage the Government of Zambia for possible negotiation with his country to sign a Double Taxation Conventions (DTC), which plays a critical role in mitigating the effects of double taxation.

Required:

(i) Explain the two (2) types of Double Taxation Conventions (DTCs). (4 marks)

(ii) Explain the first four (4) stages involved in the negotiation of Double Taxation Conventions up to the Ratification Process or stage. (8 marks)

[Total: 20 Marks]

QUESTION FIVE

(a) International Tax Law is the body of legal principles, rules and agreements that govern the taxation of individuals, businesses, and transactions across national borders. It encompasses a wide range of topics, including the allocation of taxing rights between countries, the prevention of double taxation, the resolution of tax disputes, and the regulation of cross-border transactions.

Required:

Discuss the five (5) objectives of International tax rules. (10 marks)

(b) The General Agreement on Tariffs and Trade (GATT) and the General Agreement on Trade in Services (GATS) are key components of the World Trade Organisation (WHO) framework, governing international trade in goods and services, respectively.

Required:

Discuss any three (3) GATT rules (principles) on border tax adjustment. (6 marks)

(c) Mr. Mulola is a Zambian resident providing consultancy services to clients in various countries within the East and Southern African regions. He does his consultancy remotely and receives income from the customers from the various countries in the East and Southern African regions.

Required:

Explain any two (2) limits to tax jurisdiction arising from public international law that will impact the taxation of income received by Mr. Mulola in Zambia. (4 marks)

[Total: 20 Marks]

END OF PAPER

PGDT5 – INTERNATIONAL TAXATION

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) An individual is resident in Zambia if he or she is physically present in Zambia for a period of not less than 183 days in a tax year excluding the date of arrival and departure.

An individual who comes to Zambia for the purpose that will take twelve (12) months or more, or comes to Zambia with intentions to stay in Zambia permanently are regarded as residents on the day of arrival.

In the case of Kaluba, he came back to Zambia in 2025 to stay. Kaluba was physically present in Zambia for a period of more than 183 days (actually the whole tax year). In addition, Kaluba's intention to stay in Zambia for more than 12 months is confirmed by his taking up a permanent and pensionable employment.

This being the case, Kaluba will be considered to be resident in Zambia for the tax year 2026.

(b) The three (3) methods of giving DTR are:

(1) Treaty relief – this relief is applicable where there is a double taxation convention between two countries. The treaty would provide for how the relief would be granted on inter country income. The methods under which the relief would be available may be by way of exemption, where income subjected to tax in one contracting state would be exempt from tax in the other contracting state or by way of credit, where tax already paid on the same income in one contracting state is given as a credit against tax payable on the same income in the other contracting state and so on.

(2) Unilateral credit relief applies where there is no double taxation convention. In such a case, DTR may be granted unilaterally in the country where the income is received by crediting against the tax charged in that country, the amount of foreign tax paid, if lower than the local tax payable.

(3) Unilateral expense relief is also available where there is no double taxation convention. In this case, DTR is given unilaterally in the country where the income is received by treating the foreign tax paid as an allowable expense.

(c) The benefits of double taxation agreements (DTAs) include:

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

(2) Provide certainty of treatment for cross – border trade and investment. Certainty is one of the good qualities of a good tax system. Taxes should be certain. If tax rules are complex, they can be subverted and evaded.

(3) Prevent excessive foreign taxation and other forms of discrimination against business interests abroad. This could have an adverse impact on economic performance of the respective countries.

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

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

(d) Kangwa Kaluba

Personal Income Tax Computation for the tax year 2026

Zambian income	K	K
Basic salary [(K56,000 x 3) + (K62,000 x 6)]		540,000
Housing allowance (K540,000 x 12%		64,800
Education allowance (K540,000 x 8%)		43,200
Entertainment allowance (K8,000 x 9/12)		6,000
Medical allowance (K1,500 x 9)		13,500
Golf club membership (K150 x 9)		1,350
Personal-to-holder vehicle		0
School fees		3,500
		672,350
Other income		
Bank interest	0	
Consultancy fees (K59,000 x 100/85)	69,412	
		69,412
Total Zambian income		741,762
Less allowable deductions:		
Donations to Public Benefit Organisations	25,600	
Professional subscription	9,000	
		(34,600)
Net Zambian income		707,162
Foreign income		
Rental income	0	
Bank interest ($5,040 x K25 x 100/95)	132,632	
		132,632
Total taxable income		839,794
Computation		
First K110,400		12,360
Excess (K839,794 – K110,400) x 37%		269,876
Income tax liability		282,236
Less:		
Pay as you earn	212,400	
WHT – Consultancy fees (K69,412 x 15%)	10,412	

Double taxation relief (W)	6,632	
		(229,444)
Income tax payable		52,792
Workings		
Bank interest		
Foreign tax paid: K132,632 x 5%		6,632
Equivalent Zambian Tax		
Gross foreign income x Zambian tax charge		
Total assessable income		
K132,632 x K282,236		
K839,794		
= K44,575		
The double taxation relief is K6,632 which is the lower.		

SOLUTION TWO

(a) Naomi Ltd

(i) Advice to the Directors of Naomi Ltd

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.

Naomi Ltd obtained a loan from its parent company, GTI Inc at an interest rate of 20% per annum which was higher than the open market rate of interest of 15% per annum. Therefore, the excess interest of 5% (20% - 15%) should be disallowed when computing taxable business profits of Naomi. The amount of interest to be disallowed for the year ended 31 December 2026 will be: K250 million x 5% = K12.5 million.

(ii) Company income tax payable for the tax year 2026.

	K
Profit before tax	105
Add:	
Non-allowable expenses (K86 million x 25%)	21.5
Transfer pricing adjustment on intra-group loan	
(20% - 15%) x K250 million)	12.5
Adjusted business profit before interest	139
Disallowed interest	Nil
Taxable business profits	139
Company income tax (K139 million x 30%)	41.7
Provisional income tax	(36)
Income tax payable	5.7

Workings

Tax EBITDA and Disallowed interest

	K
Adjusted business profits	139
Add:	
Depreciation and amortization	21.5
Finance costs	65
Tax EBITDA	435.5
Finance cost	65
30% of Tax EBITDA (K435.5 million x 30%)	130.6
Disallowable interest	Nil

(b) The transfer pricing rules can be applied with the country in the following circumstances:
  (1) Where there are different tax rates for different kinds of income or
  (2) Where there are businesses with lower tax rates.

(c) The four (4) issues arising from the use of citizenship as a connecting factor for Taxation in the case of Mr. Zucas are:
  (1) Double taxation – Mr. Zucas may be subject to taxation in Northland, his country of citizenship, and also in Eastland, his country of residence.

  (2) Compliance burden – Mr. Zucas may face compliance burdens as he may face complex reporting requirements and tax obligations from his country of citizenship and country of residence.

  (3) Enforcing tax laws – Northland may have challenges in enforcing tax laws on Mr. Zucas (a non-resident) given that Mr. Zucas has limited ties or connections to his country of Citizenship.

  (4) Preventing tax evasion – Northland may have challenges to prevent tax evasion by Mr. Zucas given that Mr. Zucas resides in Eastland

SOLUTION THREE

(a) OECD Model Double Taxation Convention (DTC)

(i) The three (3) OECD Model Double Taxation Convention (DTC) provision relating to international cooperation are:

(1) Exchange of information – the OECD Model provides for the exchange of information between tax authorities of the contracting states to prevent tax evasion and ensure compliance with the treaty. This exchange of information can be spontaneous, upon request or automatic, depending on the provision of the treaty.

(2) Assistance in tax collection – the model facilitates cooperation between tax administrators in the collection of taxes by allowing one contracting state to assist the other in the collection pf tax debts. This assistance may include measures such as the enforcement of tax claims, the recovery of tax arrears, and the exchange of information relevant to tax collection proceedings.

(3) Mutual Agreement Procedure – the model provides for a Mutual Agreement Procedure (MAP) to resolve disputes between the contracting states regarding the interpretation or application of the treaty. Taxpayers can request MAP assistance if they believe that actions taken by one or both contracting states result in taxation not in accordance with the treaty.

(ii) Advice on criteria for identifying tax havens per OECD:
Tax Havens are jurisdictions that offer low or zero tax rates, lack transparency in their tax systems, and facilitate tax avoidance and evasion. It is advised that the following criteria should be used to identify tax havens:

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

(2) Lack of effective exchange of information – tax havens typically have in place laws or administrative practices under which business and individuals can benefit from strict secrecy rules and other protections against scrutiny by tax authorities thereby preventing the effective exchange of information on taxpayers benefiting from the low tax jurisdiction.

(3) Lack of transparency – for example, the details of the regime and/or its application are not apparent, or there is inadequate regulatory supervision or financial disclosure. Lack of transparency may be attractive for those who want to hide the origins of their income or keep them undeclared in their source countries;

(4) No substantial activities – the jurisdiction facilities the establishment of foreign owned entities without the need for a local substantive presence. This is what makes doubtful how small islands can host billions of dollars

in foreign direct investment if they apparently do not have the necessary resources to yield production.

(5) Harmful preferential tax regimes – Tax Havens offer harmful preferential tax regimes, exclusively to non-residents or foreign entities, by granting them tax benefits, thereby ensuring that local entities and resident do not enjoy similar advantages.

(b) The following are the provisions of the ICCPR:

(1) Right to Life – Article 6 of the ICCPR prohibits arbitrary deprivation of life by state authorities. This article establishes safeguards against extrajudicial executions, capital punishment, and other forms of unlawful killing, emphasizing the fundamental importance of protecting the right to life as a human right. This indirectly influences international taxation by imposing a duty on states to structure tax systems that protects life and dignity, especially through equitable resource allocation.

(2) Right to Liberty and Security of Person – Article 9 of the ICCPR protects the right to liberty and security of person, including safeguards against arbitrary arrest, detention, or imprisonment. This means that tax enforcement must respect due process. Individuals accused of tax crimes such as evasion or fraud must not be detained arbitrarily.

(3) Right to Fair Trial – the ICCPR guarantees the right to a fair and impartial trial, including the presumption of innocence, the right to be informed of charges, the right to legal representation, and the right to a public hearing. This applies to tax disputes; ensuring taxpayers can challenge assessments, penalties, or enforcement actions through judicial or administrative review.

(4) Freedom of Expression – The ICCPR (Article 19) protects the right to freedom of expression, encompassing the freedom to seek, receive, and impart information and ideas of all kinds, regardless of frontiers and through any media. Freedom of expression supports the right to expose tax evasion, corruption, and abuse of tax havens. International tax enforcement often relies on whistleblowers, whose protection is grounded in this principle. Protect journalists, academics, and NGOs who investigate or comment on tax justice issues, and avoid using tax laws to silence dissent or restrict access to financial information.

(5) Freedom of Religion and Belief – the ICCPR (Article 18) protects the freedom of thought, conscience, and religion, encompassing the freedom to manifest one's religion or belief in worship, observance, practice, and teaching. Religious organizations may be subject to tax rules, but these must be neutral and consistent. International tax cooperation (e.g., exchange of information) must not target or stigmatize religious charities without legitimate cause.

(6) Right to Privacy – the ICCPR, in Article 17, safeguards the right to privacy, including protection against arbitrary or unlawful interference with privacy, family, home or correspondence. It establishes limitations on surveillance, searches, and other intrusions into private life. Relevant to tax audits, data

sharing, and exchange of financial information between countries. Tax authorities must ensure that data collection and sharing comply with privacy standards, especially under automatic exchange of information regimes.

(7) Prohibition of Torture – The ICCPR (Article 7) prohibits torture, cruel, inhuman, or degrading treatment or punishment under any circumstances. It obligates state parties to take effective measures to prevent and prohibit torture and to ensure accountability for perpetrators of such acts. Tax authorities must not use coercive or abusive methods during tax audits, interrogations, or investigations. In case of countries that cooperate on tax enforcement, they must ensure that extradited individuals are not exposed to torture or inhuman treatment in the receiving country.

SOLUTION FOUR

(a) The following are the objectives of the Beneficial Owners Disclosures:

(1) To identify the Beneficial Owners – disclosure requirements aim to identify the individuals who ultimately own or control companies, trusts, and other legal entities, as they may be responsible for illicit activities such as tax evasion, and money laundering.

(2) To enhance transparency and accountability – beneficial ownership disclosure helps to prevent the misuse of legal entities for illicit purposes and promotes corporate accountability through increased transparency around corporate ownership structures.

(3) To facilitate law enforcement and tax compliance - access to beneficial ownership information enables law enforcement agencies and tax authorities to investigate suspicious transactions, trace illicit funds, and hold accountable those involved in criminal activities.

(4) To support international cooperation – beneficial ownership disclosure requirements contribute to international efforts to combat financial crimes by providing a standardized framework for sharing ownership information among jurisdictions and fostering cooperation between tax authorities and law enforcement agencies.

(b) Double taxation conventions

(i) The two (2) types of Double Taxation Conventions (DTCs) are:

(1) Bilateral DTCs – these are arrangements between two countries aimed at preventing double taxation of income and facilitating cooperation between their tax authorities.

(2) Multilateral DTCs – these involve multiple countries and aim to address common tax issues and harmonize tax rules across participating jurisdictions.

(ii) Stages of involved in negotiation of Double Taxation Conventions up to the Ratification Process or stage:

(1) Preliminary considerations – this stage involves defining the primary goals, such as avoiding double taxation, preventing tax evasion, fostering economic cooperation and attracting foreign investment.

(2) Analyse the tax laws, policies, and administrative practices of the partner country – at this stage, you assess the economic impact of the proposed treaty on both countries. Engage with businesses, tax professionals, and other relevant stakeholders to gather insights and concerns.

(3) Drafting the initial proposal – then, identify and draft critical areas such as residence. Permanent establishment, business profits, dividends, interest and royalties, capital gains, employment income, elimination of double taxation, and mutual agreement procedure.

(4) Initial Negotiation – conduct initial discussions with representatives from the partner country to outline positions and identify common interests. The discussing teams should comprise tax experts, legal advisor, and diplomats.

(5) Drafting the treaty – next is to negotiate each article of the treaty in detail, focusing on language and terms. Employ compromise, trade–offs, and arbitration mechanisms to resolve disagreements and agree on final draft that reflects mutual understanding and agreement.

(6) Internal approvals – with the final draft treaty in place, secure approval from relevant government bodies, such as Ministry of Finance, and tax authorities. In doing so, present the draft to the stakeholders for final feedback and make the necessary adjustment to the draft.

(7) Formal signing – once all has been agreed upon by both parties to the treaty, arrange for a formal event where representatives from both countries sign the treaty.

(8) Ratification process – Once the treaty has been signed by both countries, submit the treaty to the legislative bodies of both countries for ratification. Once ratified, develop and implement domestic measures necessary to give effect to the treaty.

SOLUTION FIVE

(a) Objectives of international tax rules are:

(1) Preventing double taxation – to avoid the scenario where the same income is taxed by multiple jurisdictions. Double taxation can distort investment decisions, hinder cross-border trade and investment, and create inequalities for tax payers. The problem of double taxation is mitigated by having provisions in the international treaties such as tax credits, exemptions, or deductions.

(2) Promoting fairness and Equity – to promote fairness and equity in the distribution of tax burdens among taxpayers and jurisdictions. This is achieved through principles of horizontal equity (treating similarly situated taxpayers equally) and vertical equity (ensuring ha taxpayers with higher incomes bear a proportionate share of the tax burden). Fairness and equity in international tax systems is also enhance through efforts such as combatting tax evasion, avoidance, and profit shifting.

(3) Facilitating cross-border trade and investment – the rules facilitate cross-border trade and investment by providing certainty, clarity, and predictability for businesses operating in multiple jurisdictions. Though the establishment of the rules for taxation of international transactions, such as determining taxable income, transfer pricing, and the taxation of foreign-source income, these rules help reduce barriers to trade and investment and promote economic growth and development.

(4) Preserving National Sovereignty – while these rules aim to coordinate tax policies and minimize conflicts between jurisdictions, they respect the sovereignty of individual nations to enact and enforce their own tax laws. The international tax agreements respect the right of each country to determine its own tax rates, base, and administration, while seeking to harmonies rules and prevent harmful tax competition that could undermine fiscal stability and fairness.

(5) Supporting development and Sustainability – international tax rules increasing recognize the importance of supporting sustainable development goals, including poverty reduction, infrastructure development, and environmental sustainability. Efforts to combat tax evasion and aggressive tax planning, promote transparency and information exchange, and enhance tax capacity in developing countries contribute to building more inclusive and sustainable tax systems globally.

(b) The GATT rules or principles on border tax adjustment are:

(1) Non-discrimination: Most Favoured–Nation Principle (Article I) – this principle mandates that any trade advantage a GATT member grants to one country must be extended to all other GATT members, e.g., if country reduces tariffs for one trading partner, the same tariff reduction must apply to all GATT members. The principle aims to ensure equal trading conditions and prevent discrimination.

(2) National Treatment (Article II) – the principle requires member countries to treat imported goods no less favourably than domestically produced goods regarding

internal taxation and regulation. The goal is to prevent countries from using internal measures to discriminate against imports.

(3) Reciprocity – this promotes reciprocal trade agreements, where member countries mutually agree to lower trade barriers. The principle ensures that benefits gained from trade liberalization are shared. It is a critical; principle in negotiation rounds where countries exchange concessions on tariffs and other trade restrictions.

(4) 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) Public international law imposes limits on a country's ability to assert tax jurisdiction over individuals or entities, particularly in cases involving cross border activities such as that of freelance like Mr. Mulola. The principles that guide the allocation of taxing rights between countries and help prevent double taxation and tax disputes are:

(1) Sovereignty – this ensures that states have the exclusive right to levy taxes within their territories.
(2) Territoriality – this dictates that taxes should be based on activities or events occurring within a jurisdiction's borders.
(3) Non-discrimination – prohibits unjustified distinctions or preferences in taxation based on nationality or other irrelevant factors, ensuring equal treatment for taxpayers regardless of their citizenship status.

Sovereignty and territoriality will limit the ability of the countries to tax Mr. Mulola's income if he is not physically present or conducting business activities within their territories, while non-discrimination will ensure fair and equal treatment of Mr. Mulola regardless of his citizenship status.

However, the application of these limitations may vary depending on the tax laws and treaties that Zambia has with the other countries in the East and Southern African regions. The available tax treaties between Zambia and the countries on the East and Southern African regions will provide the mechanisms for resolving any potential conflicts and allocate the taxing rights based of residency, source of income or other connecting factors agreed in the treaties and hence mitigate the impact of double taxation and ensure compliance to international tax on the income received by Mr. Mulola.

END OF SUGGESTED SOLUTIONS

Zambia Institute of Chartered Accountants

POST GRADUATE DIPLOMA IN TAXATION PROGRAMME EXAMINATIONS

PGDT6: TRANSFER PRICING

WEDNESDAY 10 JUNE 2026

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 scenario 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 K30,000	0%
K30,001 to K5,000,000	5%

Tax on rental income

Annual Rental income band	**Taxable amount**	
K1 to K30,000	First K30,000	0%
K30,001 to K800,000	Next K770,000	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

Property Transfer Tax

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

Value Added Tax

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

Customs and Excise duties on used motor vehicles

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

Motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars	**Aged 2 to 5 years**		**Aged over 5 years**	
	Customs duty	**Excise duty**	**Customs duty**	**Excise duty**
	K	K	K	K
Sedans				
Cylinder capacity not exceeding 1000 cc	14,113	12,231	8,065	6,989
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	18,145	15,726	9,678	8,387
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	18,695	24,304	9,518	12,373
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	20,395	26,514	11,897	15,466
Cylinder capacity exceeding 3000 cc	25,494	33,142	13,597	17,676
Hatchbacks				
Cylinder capacity not exceeding 1000 cc	12,097	10,484	8,065	6,989
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	16,129	13,979	9,678	8,387
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	16,996	22,095	9,518	12,373
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,695	24,304	11,897	15,466
Cylinder capacity exceeding 3000 cc	22,095	28,723	13,597	17,676

Station wagons				
Cylinder capacity not exceeding 1000 cc	14,113	12,231	8,065	6,989
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	18,144	15,725	9,678	8,387
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	18,695	24,304	10,198	13,256
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	20,395	26,514	11,897	15,466
Cylinder capacity exceeding 3000 cc	25,494	33,142	13,597	17,676
SUVs				
Cylinder capacity not exceeding 1000 cc	17,598	15,252	10,559	9,151
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	20,463	17,735	12,278	10,641
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	23,794	30,933	14,277	18,560
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	27,193	35,351	17,540	22,802
Cylinder capacity exceeding 3000 cc	32,292	41,980	20,395	26,514

	Aged 2 to 5 years		**Aged over 5 years**	
Motor vehicles for the transport of goods	**Customs duty**	**Excise duty**	**Customs duty**	**Excise duty**
	K	K	K	K
Single cab				
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	24,777	10,737	9,911	4,295
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	29,732	12,884	17,344	7,516
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	34,687	15,031	19,821	8,589
Double cabs				
GVW not exceeding 3 tonnes	34,687	15,031	27,254	11,810
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	38,156	16,534	29,980	12,991
Panel vans				
GVW not exceeding 1.0 tonne	15,089	6,539	8,622	3,736
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	17,344	7,516	9,911	4,295
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	19,821	8,589	17,344	7,516
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	24,777	10,737	19,821	8,589

Trucks

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

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

Surtax

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

Customs and Excise on New Motor vehicles

Duty rates on:

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

   Customs Duty:

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

   Excise Duty:

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

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

   Customs Duty

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

   Excise Duty:

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

3. **Buses/coaches for the transport of more than ten persons**

   Customs Duty:

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

   Excise Duty:

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

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

Percentage of Value for Duty Purposes	15%

Excise Duty:

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

SECTION A

This question is compulsory and must be attempted.

<u>QUESTION ONE – (COMPULSORY)</u>

Background

Multi-Tech Corporation is a Multinational Enterprise (MNE) which is a publicly listed company that is headquartered in the United States. Multi Tech Corporation has two (2) wholly owned subsidiaries in Zambia, Mambo Zambia Ltd and Dual-Tech Zambia Ltd.

Multi-Tech Corporation also has three (3) other subsidiaries in Africa, Single Tech South Africa, which is resident in South Africa, Triple-Tech Botswana which is resident in Botswana and Quadriple-Tech Namibia which is resident in Namibia.

Mambo Zambia Ltd

Mambo Zambia Limited (MZL) manufactures and sells electronic components. MZL sources 80% of its raw materials from its parent company, Multi-Tech Corporation and sells 60% of its finished products to another group entity, Single Teach South Africa. The remaining raw materials and finished products are purchased from and sold to unrelated third parties in Zambia.

For the fiscal year ending 31 December 2026, MZL reported a loss of K5,000,000. The Zambia Revenue Authority (ZRA), has initiated a transfer pricing audit of MZL.

The following information relating to transactions between Multi-Tech Corporation, MZL and Single Teach South Africa during the charge year 2026, is available:

(1) MZL sold a total of 50,000 units of electronic components to Single Teach South Africa at a selling price of K150 per unit. MZL's selling price of identical electronic components to unrelated Zambian customers was K200 per unit during the year.

(2) Multi-Tech Corporation provides Low-Value-Added services to all of its five (5) subsidiaries constituting central accounting and human resources support. The total costs incurred for the charge year 2026, by Multi-Tech Corporation for providing these services to the five (5) subsidiaries was K10,000,000. Multi-Tech Corporation allocated these costs to its subsidiaries based on each subsidiary's share of the total revenue of the MNE group. MZL's share of the group's total revenue is 5%.

Dual-Tech Zambia Ltd

At the request of Dual-Tech Zambia Ltd, Multi-Tech Corporation provided Dual-Tech Zambia Ltd with the services of a software designer. The software designer visited the Zambian subsidiary for five (5) working days and provided the needed services to the subsidiary. Multi-Tech Corporation provides software design services to both independent parties and to members of the group and charges a mark-up of 20% on all services provided.

Triple-Tech Botswana and Quadriple-Tech Namibia

The accouting departments of both Triple-Tech Botswana and Quadriple-Tech Namibia are still undergoing development. As such they both make use of the Payroll services of the Parent company Mult-Tech Corporation. Triple-Tech Botswana has fifty (50) employees while Quadriple-Tech Namibia has eighty (80) employees. On a monthly basis, payroll inputs are sent to Multi-Tech Corporation, which prepares the payroll for each subsidiary including producing electronic pay slips. Two (2) temporarily employees are engaged by Multi-Tech Corporation to specifically prepare the payroll at the end of each month. These two (2) employees are paid accordingly to number of hours worked on the payroll preparation. Multi-Tech Corporation provide payroll services to both independent parties and to members of the group on request.

During the year, Mult-Tech Corporation further carried out product promotional campaigns for Triple-Tech Botswana and Quadriple-Tech Namibia at the Global Trade Fair that was held in South Korea. Following the Global Trade Fair, there is a demonstrable increase in the quantity of goods that are being sold by the two (2) subsidiaries to both local and foreign markets.

Required:

(a) In relation to the Mambo Zambia Limited (MZL):

(i) Apply the arm's length principle to justify the most appropriate transfer pricing method for the sale of electronic components to Single-Tech South Africa. (6 marks)

(ii) Evaluate whether the transfer pricing method being used by Multi-Tech Corporation for the Low-Value-Added services provided to MZL is acceptable under Zambian and OECD transfer pricing guidelines (5 marks)

(iii) Advise Mambo Zambia Limited, with appropriate supporting computations, of any transfer pricing adjustments the ZRA is likely to impose on MZL for its sales of electronic components to Single-Tech South Africa Ltd and on the Low Value Added Services from the parent. (8 marks)

(iv) Compute Mambo Zambia Limited's revised taxable profit/tax loss for the charge year 2026. (4 marks)

(b) Advise the Directors of Multi-Tech Corporation of the appropriate transfer pricing approach for the services of a software designer provided to Dual-Tech Zambia Ltd, during the year, under international transfer pricing guidelines. (3 marks)

(c) Applying international pricing guidelines, recommend the appropriate transfer pricing methods Multi-Tech Corporation should use for the following services provided to Triple-Tech Botswana and Quadriple-Tech Namibia:

(i) Payroll services (3 marks)

(ii) Product promotional campaigns (3 marks)

(d) Discuss the role and authority of each of the following sources of international transfer pricing 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)

[Total: 40 Marks]

SECTION B

There are FOUR (4) questions in this section.

Attempt any THREE (3) questions.

QUESTION TWO

Green Energy Group, a multinational enterprise (MNE), with its head office in Germany, has established a new subsidiary, Green Power Zambia Ltd to manage its renewable energy projects in Southern Africa.

Green Power Zambia Ltd sources 100% of its specialized solar panels from another group entity, Green Energy South Africa at a fixed intercompany price. Green Power Zambia Ltd also provides technical support and advisory services to Green Energy Namibia, another group subsidiary for a fee.

In its first year of operation, Green Power Zambia Ltd reported a very low profit margin. This has raised concerns with the Zambia Revenue Authority (ZRA) which suspects that the transfer prices on cross-border transactions may not be at arm's length, prompting a tax audit of the affairs of the company. During the audit, Green Energy Group argued that the low profitability is due to the challenging business environment and high start-up costs. However, the ZRA has initiated a comprehensive transfer pricing documentation to review the intercompany prices.

The group's internal accounting team has provided a consolidated report showing the group's global profits and a brief statement that they use a standardised formula to allocate profits across all subsidiaries, which they believe is fair and equitable. The ZRA's audit team, led by a seasoned Transfer Pricing Officer, is not convinced. They are particularly interested in understanding the specific pricing methods used, the nature of the transactions, and whether the group's standardised formula is compliant with Zambian Transfer Pricing Regulations. The ZRA's primary objective is to ensure that Zambia receives its fair share of tax revenue, consistent with the economic activities performed within its borders.

Required:

(a) Explain five (5) differences between the Arm's length principle and Global formulary apportionment. (5 marks)

(b) Discuss the concept of corresponding adjustments and how they help mitigate economic double taxation in international controlled transactions. (5 marks)

(c) Describe the key steps in comparability analysis which is an important element in the application of the arm's length principle. (5 marks)

(d) Advise on five (5) comparability factors used to establish a reliable comparison during comparability analysis in determining an arm's length transfer price. (5 marks)

[Total: 20 Marks]

QUESTION THREE

TechNova Plc, incorporated in Ireland, operates in Zambia through a branch office which facilitates the sale of enterprise software and provides after-sales support to Zambian customers. The branch negotiates contracts locally, but contracts are formally signed by the Irish head office. Payments from clients are made to a Zambian bank account, but significant intellectual property (IP) related to the software is owned by the Irish parent. The actual supply of services and digital content (software access, cloud hosting, updates) occurs online. Customer data is stored offshore, and subscription fees are processed via a global payment gateway before being partially remitted to Zambia.

During a recent ZRA review, the following issues arose:

(1) The Zambian branch reports only a small commission-based income, claiming it acts as a limited-risk service provider or service agent

(2) The Irish parent retains most revenue from Zambian customers on grounds that the IP resides in Ireland.

(3) The branch incurs major marketing expenses and employs a local sales team, indicating a more substantial role in generating income than reported.

(4) The Irish parent also provides intra-group financing to the Zambian branch, charging interest above prevailing market rates.

The ZRA suspects that a Permanent Establishment (PE) exists, and that the profits attributed to the branch are understated and hence a comparability analysis will be required on the controlled intra-group financing transaction.

Required:

(a) Evaluate whether TechNova Plc can be regarded to have a permanent establishment in Zambia under the OECD guidelines and the implications for transfer pricing. (7 marks)

(b) Advise on the considerations that must be taken into account when determining the attribution of profits to a PE involved in cross-border digital and e-commerce transactions. (5 marks)

(c) Analyse four (4) ways in which thin capitalisation rules can create risks of double taxation in cross-border financing. (8 marks)

[Total: 20 Marks]

QUESTION FOUR

NexusTech Global, a multinational enterprise (MNE) with its headquarters in a low-tax jurisdiction, is a leader in developing cutting-edge financial software. The company established NexusTech Zambia Ltd a wholly-owned subsidiary that serves as the regional hub for software customization, sales, and support for the Southern African market. In its first few years of operation, NexusTech Zambia Ltd consistently reported minimal profits despite generating substantial revenue from its local clients.

An audit initiated by the Zambia Revenue Authority (ZRA) has raised serious concerns. The ZRA's primary focus is on two key intercompany transactions:

Transaction 1 - Software License Fees:
NexusTech Zambia Ltd pays a substantial annual license fee to its parent company for the right to use the proprietary financial software. This fee constitutes over 50% of the Zambian subsidiary's annual expenses, significantly reducing its taxable profit.

Transaction 2 -Brand Royalty Payments:
The Zambian subsidiary also pays a separate, high royalty fee to a different group entity, NexusTech Brands Ltd, based in another low-tax country. This fee is for the use of the "NexusTech" brand name and logo in the region.

The ZRA's audit team suspects that the above two (2) payments are artificially inflated to shift profits out of Zambia. The MNE's Group Tax Director has defended the pricing, arguing that the fees are justified because the parent company is the legal owner of the intellectual property (the software) and the brand. He stated that, "We have followed the legal ownership principle, which is a well-established practice."

The ZRA audit officer, however, has countered this by stating that the ZRA is guided by international standards and principles from the OECD and the United Nations. The ZRA is specifically examining the transactions through the lens of value creation and economic substance, not just legal form. The ZRA's objective is to ensure that profits are allocated to where the actual economic activities, functions, and risks are performed and borne, especially in relation to the creation and exploitation of the software and brand.

The audit also revealed that the company did not prepare appropriate transfer pricing documentation in accordance with both the OECD and Zambian transfer pricing guidelines to provide evidence that the entity's related-party transactions had been conducted in accordance with the arm's-length principle. The company has not maintained Contemporaneous documentation, within the time frame recommended by the OECD guidelines. The directors of NexusTech Global expressed concern that information about the the company's transfer pricing strategies is commercially sensitive information which should not be released to third parties for fear of breach of the confidentiality of the information.

Required:

(a) Discuss the transfer pricing guidelines for intangibles under the OECD's BEPS Action 8 designed to prevent inappropriate shifting. (8 marks)

(b) Advise NexusTech Global of the of the nature of contemporaneous documentation an entity is required to maintain under the OECD Guidelines. (3 marks)

(c) Outline the measures Tax Authorities are required to implement under OECD guidelines to protect the confidentiality of transfer pricing documentation submitted by tax payers. (3 marks)

(d) Recommend any six (6) strategies that a Multinational Entity (MNE) with subsidiaries in different jurisdictions can adopt to ensure Transfer Pricing compliance in such a multi-transfer pricing regulatory framework environment. (6 marks)

[Total: 20 Marks]

QUESTION FIVE

You are employed in a Tax practice, and you are dealing with the tax affairs of the following two clients:

Zen Mining Corporation
Zen Mining Corporation is a Zambian subsidiary of a foreign based mining group. Following a tax audit of the company's tax returns for the previous tax year (the charge year 2025), the ZRA assessed an additional tax on Zen Mining Corporation representing withholding tax on intra-group royalties paid to its parent, which was not included on the returns and paid to the ZRA. The foreign based parent was also taxed on the same royalties in its home country. Zen Mining Corporation claims that this results in double taxation and wants to challenge the ZRA's adjustment.

There is a double taxation treaty between Zambia and the foreign country in which the parent entity is based, which includes provisions for Mutual Agreement Procedures (MAP).

Nextel Technologies Ltd
Nextel Technologies Ltd, a Zambian resident company that imports technical know-how and equipment on a recurring basis from its parent company in Canada. The ZRA has raised questions about overpricing and classification of payments including royalties and management fees, and has indicated they are planning to perform a tax audit on the affairs of the company soon.

The Chief Financial Officer of Nextel Technologies Ltd is seeking to enter into an Advance Pricing Agreement (APA) with the ZRA and the Canadian Revenue Authority to provide certainty on future pricing of related-party transactions.

Required:

(a) Advise Zen Mining Corporation of how the Mutual Agreement Procedure operates under Zambia's tax treaties. (6 marks)

(b) Explain the purpose and types of Advanced Pricing Agreements available under international Transfer Pricing Frameworks. (7 marks)

(c) Advise on the procedural and documentation requirements Nextel Technologies Ltd must prepare to initiate an APA. (7 marks)

[Total: 20 Marks]

END OF PAPER

PGDT6-TRANSFER PRICING

SUGGESTED SOLUTIONS

SOLUTION ONE

(a)

(i) **Application of the Arm's Length Principle**

(1) The arm's length principle is the fundamental international standard for transfer pricing as adopted by Zambia.
(2) It states that transactions between associated enterprises must be conducted as if they were between independent, unrelated parties.
(3) The aim is to ensure that the taxable profits of a multinational enterprise (MNE) are not artificially shifted from one jurisdiction to another.
(4) In the context of Mambo Zambia Limited (MZL), the ZRA will apply this principle to determine if the prices charged for the sale of electronic components to Mambo South Africa (Pty) Ltd are fair and market-based.
(5) Any deviation from an arm's length price would result in a transfer pricing adjustment to MZL's taxable income.
(6) Given the availability of a direct, comparable uncontrolled transaction, the most appropriate transfer pricing method for the sale of electronic components to Mambo South Africa (Pty) Ltd is the Comparable Uncontrolled Price (CUP) method.
(7) The CUP method is considered the most direct and reliable transfer pricing method because it uses the price charged in a comparable transaction between unrelated parties as the benchmark. In this case, the price MZL charges its unrelated Zambian customer (ZMW 200 per unit) serves as the arm's length price for the related-party transaction.

(ii) **Evaluation of the transfer price used for Low-Value-Added Services**

(1) Zambian transfer pricing regulations are consistent with OECD guidelines and have specific rules for low-value-added intra-group services.
(2) These services, such as central accounting and human resources, are typically supportive and do not require the use of unique intangibles, and do not create or contribute to significant value for the MNE group.
(3) For these services, a simplified approach can be used to determine the arm's length charge.
(4) This typically involves allocating the service costs and adding a small-standardized mark-up.
(5) In this case, Mambo Inc allocates the cost based on revenue, which is a common and acceptable allocation key for central services. The arm's length

charge is calculated by applying a modest mark-up (typically 5% as per international standards) to the costs.

(iii) **Transfer pricing adjustments**

SALE OF ELECTRONIC COMPONENETS:

To calculate the transfer pricing adjustment, we use the arm's length price determined by the CUP method.

1. Calculate the revenue under the related-party price:

Revenue = Units sold to Mambo South Africa × MZL's sale price

Revenue = 50,000 units × K150/unit

Revenue = **K7,500,000**

2. Calculate the arm's length revenue:

Arm's Length Revenue

= Units sold to Mambo South Africa × Arm's length price (price to unrelated party)

= 50,000 units × K200/unit

= **K10,000,000**

3. Calculate the transfer pricing adjustment:

Adjustment = Arm's Length Revenue - Revenue under the related-party price

Adjustment = K10,000,000 - K7,500,000
= K2,500,000

TRANFER PRCING ADJUSTMENT ON LOW VALUE ADDED SERVICES

MZL's allocation = Total Service Cost × MZL's share of group revenue

MZL's allocation = K10,000,000 × 5%
= K500,000

Arm's Length Mark-up:
The arm's length mark-up for low-value-added services is generally 5% and should amount to:

Cost allocated to MZL × 5%

K500,000 × 5% = K25,000

The Arm's Length Charge is therefore

K500,000 + K25,000 = 525,000

Potential Transfer Pricing Adjustment:

Assuming MZL was charged the allocated cost of K500,000, the potential adjustment would be the mark-up that should have been added.

K525,000 - K500,000 = K25,000

The ZRA is likely to impose an upward adjustment of ZMW 25,000 to MZL's taxable income to reflect the arm's length mark-up on the low-value-added services.

(iv) **COMPUTATION OF REVISED TAXABLE PROFIT/(TAX LOSS)**

	K
Reported taxable profit (Loss)	(5,000,000)
Add:Transfer pricing Adjustments on	
Intragroup sale of electronics	2,500,000
Low value added services	25,000
Revised tax Loss	**(2,475,000)**

(b) Appropriate approached for charging services to Dual-Tech Zambia

(1) The direct charge is the appropriate approach for the charging for the services of the parent to Dual-tech Zambia.

(2) The approach is appropriate because a specific service of software designing, the beneficiary of the service (Dual-Tech Zambia), the cost incurred (transport and upkeep costs of the Software designer), and the basis of the charge (directly attributable costs for the service plus mark-up) can be clearly identified.

(3) Furthermore, the provision of the software designing is part of the main business activity of the parent company and Multi-Tech Plc does provide the service to both independent parties and members of the group.

(c) (i) Pyaroll services for Triple-Tech Botswana and Quadriple-Tech Namibia

(1) The direct charge is the appropriate approach for the charging for the payroll services by Triple-Tech Botswana and Quadriple-Tech Namibia.

(2) The approach is appropriate because specific payroll services are being provided to the beneficiary of the services (Triple-Tech Botswana and Quadriple-Tech Namibia), the cost incurred (payments to temporally employees), and the basis of the charge (hours taken by the temporally employees plus mark-up) can be clearly identified.

(3) Furthermore, the provision of the payroll service is part of the main business activity of the parent company (Multi-Tech Corporation). Who also does provide the service to both independent parties and members of the group.

(ii) Advertsing promotions for Triple-Tech Botswana and Quadriple-Tech Namibia

(1) The indirect charge is the appropriate approach for the charging for the services of the parent's product promotional campaigns to the Central Africa region subsidiaries.

(2) The indirect charge approach is appropriate because it is not practical to use the direct charge and the arrangement for the service was not readily identifiable toa particular subsidiary as the costs incurred for the service were attributable to a number of subsidiaries.

(3) The costs of the product promotional campaign can only be allocated to subsidiaries by reference to the allocation key which in this instance could be the volume of sales or turnover of each subsidiary.

(d) 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 TP 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.

SOLUTION TWO

(a) The differences between arm's length principle and Global formulary apportionment:

The arm's length principle and global formulary apportionment are two fundamentally different approaches to transfer pricing. Here are the key differences between the two:

Feature	Arm's length principle	Global formulary apportionment
Core concept	The arm’s length principle treats each entity within an MNE group as a separate, independent enterprise. It dictates that the pricing of transactions between these entities must be the same as if they were between unrelated parties.	This approach treats the entire MNE group as a single, unified business. It consolidates the group's global profits and then allocates them among the various jurisdictions based on a predetermined formula.
Profit allocation method	Profit is allocated on a transaction-by-transaction basis. The allocation is based on a comparability analysis, which seeks to find a market-based price or profit for each specific transaction.	Profit is allocated using a formula that typically considers objective factors such as costs, assets, payroll, and sales within each jurisdiction. For example, if 10% of the MNE's global sales are in Zambia, 10% of the consolidated global profit would be allocated to Zambia.
Complexity & data	It is administratively complex and requires detailed documentation and data, often on a per-transaction or per-entity basis, to prove that prices are at arm's length. This is what the ZRA is requesting from Green Energy Group.	It aims for administrative simplicity. Theoretically, only one set of consolidated accounts would be needed. However, reaching an international consensus on a single, universally applicable formula is extremely difficult.
International acceptance	The ALP is the international standard for transfer pricing, supported by the OECD and adopted by most countries, including Zambia. The ZRA's position in the scenario reflects this standard.	This approach is not an international standard and is not generally accepted by OECD member countries. The ZRA officer's rejection of the group's "standardized formula" shows its non-compliance with Zambian regulations.

Separate-entity approach:	Treats each company within a multinational group as an independent entity for tax purposes.	Unitary approach. Treats the multinational group as a single integrated business.
Treatment of transfer prices:	Intercompany prices are important because they directly affect the taxable profits reported by each group entity.	Places reduced importance of transfer prices. Intercompany prices have less influence on the allocation of taxable profit because consolidated group profit is apportioned by formula.

(b) The concept of corresponding adjustment and how it helps mitigate economic double taxation in international controlled transactions:

(1) A corresponding adjustment is a downward adjustment to the taxable profit of a related party in one country to match an upward transfer pricing adjustment made by the tax authority of another country.

(2) This mechanism is crucial for mitigating economic double taxation which occurs when the same item of income is taxed in two different jurisdictions. When a tax authority in one country makes an upward transfer pricing adjustment to a company's taxable income, a corresponding adjustment is a downward adjustment made to the taxable income of the related party in the other country.

(3) Economic double taxation occurs when the same income is taxed in the hands of two different entities within the same MNE group. For example, if the ZRA increases Green power Zambia Ltd's taxable profit on its sales of solar panels, the income related to that price increase would be subject to tax in Zambia.

(4) Without a corresponding adjustment, the same income would also be subject to tax in South Africa at the level of Green Energy South Africa. A corresponding adjustment would allow Green Energy South Africa to reduce its taxable income by the same amount, ensuring the income is only taxed once within the MNE group.

(5) The ZRA officer's willingness to engage in discussions with the South African Revenue Service (SARS) to facilitate a corresponding adjustment shows a commitment to this principle. This cooperation is vital in international transfer pricing to ensure fairness and prevent disputes.

(c) The Process of a Comparability Analysis

A comparability analysis is the cornerstone of applying the arm's length principle. It is the structured process of comparing a controlled transaction between related parties with an uncontrolled transaction between independent parties. The goal is to determine if the transactions are sufficiently similar to provide a reliable basis for establishing an arm's length price or profit.

The process generally involves the following steps:

(i) **Understanding the Controlled Transaction**: First, the economically significant characteristics of the transaction in question (e.g., the sale of solar panels from South Africa to Zambia) are identified.

(ii) **Functional Analysis**: A detailed analysis of the functions performed, assets used, and risks assumed by each party is conducted. This helps in understanding the economic contributions of each entity.

(iii) **Search for Comparables**: A search is conducted for internal comparables (e.g., if Green Power Zambia Ltd sells to any unrelated parties) or external comparables (e.g data from independent companies in the same industry).

(iv) **Comparability Adjustments**: If a comparable transaction is found but has minor differences, adjustments are made to account for those differences and improve the reliability of the comparison.

(v) **Selection of Transfer Pricing Method**: Based on the analysis, the most appropriate transfer pricing method (e.g Comparable Uncontrolled Price, Resale Price Method) is selected to determine the arm's length price.

(d) Five Comparability Factors:

To establish a reliable comparison, a comparability analysis is guided by five key factors:

(1) Contractual Terms:

The terms of the agreement between the parties, such as payment terms, delivery conditions, and warranties.

(2) Functions, Assets, and Risks:

A detailed analysis of the activities each party undertakes, the assets they use (tangible and intangible), and the risks they bear (e.g., market risk, credit risk, inventory risk).

(3) Characteristics of Property or Services:

The specific nature and quality of the goods, services, or intangibles being transferred.

(4) Economic Circumstances:

The broader economic context of the transaction, including geographic location, market size, and competition.

(5) Business Strategies:

The business strategies of the parties, such as a company's approach to market penetration, which could temporarily affect its pricing.

SOLUTION THREE

(a) **Evaluation of whether TechNova Plc has PE in Zambia**

Article 5 of the OECD Model Tax Convention defines a Permanent Establishment (PE) as a fixed place of business through which the business of an enterprise is wholly or partly carried on. It includes offices, branches, factories, and places where substantial business activities take place.

Article 5 also recognises agency PEs when a dependent agent habitually concludes contracts on behalf of the foreign enterprise.

The Income Tax Act (Cap. 323) and the Income Tax (Transfer Pricing) Regulations, 2020 (SI No. 54 of 2020) similarly define a PE to include a place of management, branch, office, or a dependent agent PE, where an agent habitually concludes contracts on behalf of a non-resident person.
In the case of TechNova Plc, the Zambian branch:

(1) Has a fixed place of business comprising a physical office with local staff and maintains a Zambian bank account, indicating a fixed place of business. Under Zambia's Income Tax Act, a PE includes any branch or representative office that facilitates trade.
(2) Negotiates contracts (even though final execution is by the Irish parent) incurs substantial marketing as it customises and markets software including handling after-sales support, and incurs employee costs, showing economic activity and business presence. These are all indicators that substantial business activities take place at the branch as they are key functions in revenue generation. They are not preparatory or auxiliary in nature.
(3) Habitually engages in core revenue-generating activities, indicating the presence of a Dependent Agent PE. This is because even though contracts are signed abroad, the branch habitually negotiates the contracts. Economic substance therefore suggests that contract conclusion authority is effectively exercised in Zambia.

Based on the above the Zambian branch meets the conditions of both a fixed place PE and potentially an agency PE. TechNova Plc will be deemed to be operating in Zambian through a permanent establishment and therefore attribution of minimal commission income is likely to understate the true profits arising in Zambia.

(b) **Profit attribution for Digital PE**

In digital and e-commerce transactions, profit attribution to a PE requires evaluating Where value is created, not just where servers or IP are located and the role of the local branch in customer acquisition, support, localisation, and retention.

Key considerations include:

(1) Digital delivery may bypass traditional “fixed place” concepts—yet local presence (sales, support) may still form a PE under "significant economic presence" standards.

(2) The location of customers and payment origin matters under source-based taxing principles.

(3) The OECD BEPS Action 1 and UN Practical Manual emphasize taxing rights for market jurisdictions, especially where customer data is collected and monetized.

(4) In this case, Zambia contributes to the economic lifecycle of the digital service, even though the infrastructure and IP sit abroad.

(5) A detailed functional analysis must establish the actual activities carried out through the PE. These may include: processing online orders; warehousing and fulfilment; managing local customers; marketing and advertising etc.

    The PE should be attributed only the profits associated with the functions it actually performs. A PE carrying out routine support or fulfilment activities should not automatically receive a share of the enterprise’s residual or entrepreneurial profit.

(6) The economically significant risks associated with the business must be identified and attributed to the part of the enterprise that actually controls them. Relevant risks may include:

Thus, Zambia should be entitled to attribute a portion of the global income from local digital activity.

(c) 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 recharacterization 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 recharacterization, double taxation will still remain.

SOLUTION FOUR

(a) OECD's BEPS Action 8 Guidelines for Preventing profit shifting through intangibles

The inappropriate shifting of profits through intangibles, like the software licenses and brand royalties in the scenario, is a key focus of the OECD's **BEPS Action 8**. This action aims to ensure that profits from intangibles are allocated in accordance with the value creation, not just legal ownership.

The key steps involved in preventing this are:

(1) **Adopting a clear definition of intangibles:**

The first step is to establish a broad and unambiguous definition of what constitutes an intangible for transfer pricing purposes, preventing taxpayers from mischaracterizing them.

(2) **Aligning profits with value creation:**

The guidance ensures that profits are allocated based on where the **value is created**, rather than simply where the intangible is legally owned. This is why the ZRA audit officer is focusing on NexusTech Zambia Ltd.'s functions, assets, and risks, as legal ownership alone is no longer sufficient to justify the returns.

(3) **Developing rules for hard-to-value intangibles:**

Special rules are needed for "hard-to-value" intangibles, which are difficult to price because they are unique and their future returns are uncertain. These rules provide a more robust framework for pricing such assets.

(4) **Updating guidance on cost contribution arrangements (CCAs):**

The guidance also updates rules for CCAs, which are agreements among MNE members to share the costs of developing intangibles. The objective is to ensure that these arrangements are commercially rational and reflect the true contributions of each participant.

(b) The OECD guidelines on *Contemporaneous documentation*

(1) The OECD guidelines require that documentation be contemporaneous (i.e. it must exist at a specified time).
(2) The guidelines also require that taxpayers should not be expected to incur disproportionately high costs and burdens in producing documentation, and
(3) The guidelines further require that tax authorities should balance requests for documentation against the expected cost and administrative burden to the taxpayer of creating it.

(c) Confidentiality

(1) The OECD guidelines require that tax authorities to take all reasonable steps to ensure that threre is no public disclosure of confidential information and other commercially sensitive information contained in the documentation package.
(2) In addition, tax authorities should assure taxpayers that the information presented in transfer pricng documentation will remain confidential.
(3) Further, the guidelines recommend that in cases where disclosure is required in public court proceedings or judicial decisions, every effort shoud be made to ensure that confidentiality is maintained and that information is disclosed only to the extent needed.

(d) Strategies that an MNE can implement to ensure TP compliance:

(1) Development of a centralized TP Framework with Local Adaptations

The company can establish a centralized transfer pricing policy and documentation process led by the group's head office to ensure consistency across the enterprise. This can be complemented with local documentation and compliance processes tailored to each jurisdiction's specific TP regulations and reporting requirements. This "centralized plus local" hybrid approach balances global consistency with local responsiveness to legal differences.

(2) Alignment of Transfer Pricing Policies with Business Strategy and Value Creation

The company can conduct a detailed functional and value chain analysis to identify where value is created and ensure profit allocations reflect real economic activities and business strategy. This helps defend TP positions to tax authorities and avoid disputes related to economic substance.

(3) Implementation of Robust Documentation and Record-Keeping

The company should maintain comprehensive documentation including master files, local files, and country-by-country reports as required by the OECD BEPS framework and local jurisdictions. It should Tailor documentation content to meet the strictest local rules to minimize the risk of penalties and support audit defense.

(4) Continuous Risk Assessment and Monitoring

Courtney Pharmaceuticals Zambia Ltd's should regularly assess transfer pricing risks across jurisdictions considering local legal requirements, audit focus areas, and recent tax authority developments.

Monitor and update TP policies proactively in response to changes in business operations, economic conditions, and regulatory environments.

(5) Draft Intercompany Agreements (ICAs) to Reflect Economic Substance

Ensure ICAs clearly define the terms, pricing, and responsibilities consistent with the actual economic activities performed by each entity. This supports alignment with arm's length principle and strengthens the defense against TP adjustments.

(6) Engage Local and Regional Experts

Utilize local transfer pricing specialists and advisors who understand the nuances of each jurisdiction's laws and practices. This facilitates compliance with local documentation standards and helps interpret local variations in applying OECD guidelines.

(7) Build and Maintain Relationships with Tax Authorities

Proactively engage in discussions, advance pricing agreements (APAs), and mutual agreement procedures (MAPs) where available to reduce uncertainties and resolve disputes early.

(8) Prepare for Dispute Resolution

Develop a clear dispute resolution strategy to handle audits and controversies, including documentation of economic analyses and expert opinions to support positions.

SOLUTION FIVE

(a) **The Mutual Agreement Procedure (MAP) under Zambia's tax treaties**

The Mutual Agreement Procedure (MAP) under Zambia's tax treaties operates as a formal dispute resolution mechanism to address issues arising from taxation not in accordance with treaty provisions, mainly to prevent double taxation.
MAP under Zambia's Tax Treaties operates as follows:

(1) Legal Basis and Purpose

Zambia's bilateral tax treaties typically include a MAP article that allows taxpayers to request assistance from Zambia's Competent Authority being an official within the Zambia Revenue Authority, when they believe that a tax measure by Zambia or the treaty partner does not conform to the treaty provisions. The aim is to resolve disputes related to treaty interpretation, application inconsistencies, or double taxation without resorting to litigation.

(2) Initiation of MAP

A taxpayer can file a MAP request with the Zambian Competent Authority if they feel one or both jurisdictions have taxed them "not in accordance with the treaty." The request must be submitted within the time limit specified in the treaty (usually within three years from the first notification of the disputed tax action.

(3) Request Requirements

The taxpayer must submit a detailed request letter with necessary information about the issue, including relevant facts, documents, and for transfer pricing cases, a position paper covering functional analysis, transfer pricing method, comparables, and adjustments.

(4) Procedure

Upon acceptance of the MAP request, the Zambian Competent Authority engages with the counterpart authority in the treaty partner country to try to resolve the dispute through consultation and negotiation. MAP is intended as a cooperative alternative to litigation, with the taxpayer encouraged to be kept informed but not a formal party to negotiations.

(5) Resolution and Agreement

The Competent Authorities aim to reach a mutual agreement on resolving the dispute, which will specify how each jurisdiction will provide relief (e.g., amended assessments, tax credits, exemptions). The taxpayer is then notified in writing of the decision and agreement within 30 days.

(6) Taxpayer’s Options Post-Agreement

If dissatisfied with the agreement, the taxpayer may reject it in writing within 60 days of notification, but the Competent Authority considers the case closed regardless. The taxpayer can then pursue other domestic legal remedies. Acceptance must be communicated within 30 days, after which the agreement is finalized and confirmed between the authorities.

(7) Confidentiality
All MAP procedures are conducted confidentially between the Competent Authorities.

(b) **Purpose and Types of APAs under International Transfer Pricing Frameworks**

Purpose

Advance Pricing Agreements (APAs) are arrangements between taxpayers and one or more tax authorities to agree in advance on the appropriate transfer pricing methodology for specific related-party transactions over a defined period. The main objectives are that they:

(1) Provide certainty and predictability about transfer pricing treatment and tax liabilities, reducing the risk of disputes and double taxation.

(2) Prevent prolonged audits and litigation by resolving transfer pricing issues upfront.

(3) Facilitate cooperative compliance and mutual understanding between taxpayers and tax authorities.

(4) Align transfer pricing outcomes with the arm’s length principle in a transparent manner.

Types of APAs

1. Unilateral APA
   An agreement between a taxpayer and the tax authority of a single country regarding transfer pricing methods applicable to cross-border related-party transactions involving that jurisdiction only.

2. Bilateral APA
   An agreement involving two tax authorities (e.g., Zambia and Canada) and a taxpayer, commonly linked to a double tax treaty. It ensures both countries agree on transfer pricing methods to prevent double taxation and inconsistent adjustments.

3. Multilateral APA
   Similar to bilateral, but involves more than two tax authorities, mostly in cases where related-party transactions stretch across multiple jurisdictions.

(c) **Procedural and Documentation Requirements for APA**

Procedural Steps:

(1) Nextel Technologies should ideally engage early with ZRA's Competent Authority to discuss the scope and terms of the APA. The company should then submit a formal written APA request to the ZRA's Competent Authority

(2) For a bilateral APA, coordination and cooperation between ZRA and the Canadian tax authority is required.

(3) The ZRA will review the completeness and adequacy of the request based on legal and policy norms. Incomplete submissions may be rejected.

(4) The Zambian and Canadian Competent Authorities will negotiate the APA terms with Nextel Technologies involvement limited to factual clarifications.

Documentation Requirements:

The documentation requirements for an APA include the following:

(1) Detailed description of Nextel Technologies' business, structure, and related-party transactions including those involving the Canadian parent company.

(2) Functional analysis covering roles, assets, risks, and functions of each entity related to know-how and equipment transactions.

(3) Comprehensive factual summary and legal arguments supporting the proposed transfer pricing methodology, including justification of classification of payments int royalties and management fees.

(4) Transfer pricing documentation including comparables, methods, and economic analyses supporting the arm's length nature of the proposed pricing.

(5) Copies of relevant agreements (licensing, service, management) and any prior correspondence with the ZRA or Canadian tax authorities.

(6) A litigation status letter confirming no pending disputes over the same issues.

(7) Statement authorizing representatives to act on Nextel Technologies's behalf.

(8) Any other facts or data supporting the request, including potential resolution bases.

END OF SUGGESTED SOLUTIONS

POST GRADUATE DIPLOMA IN TAXATION PROGRAMME EXAMINATIONS

PGDT7: TAX AUDIT AND INVESTIGATIONS

MONDAY 8 JUNE 2026

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 K30,000	0%
K30,001 to K5,000,000	5%

Tax on rental income

Annual Rental income band	Taxable amount	
K1 to K30,000	First K30,000	0%
K30,001 to K800,000	Next K770,000	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

Property Transfer Tax

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

Value Added Tax

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

Customs and Excise duties on used motor vehicles

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

Motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars	**Aged 2 to 5 years**		**Aged over 5 years**	
	Customs duty	**Excise duty**	**Customs duty**	**Excise duty**
	K	K	K	K
Sedans				
Cylinder capacity not exceeding 1000 cc	14,113	12,231	8,065	6,989
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	18,145	15,726	9,678	8,387
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	18,695	24,304	9,518	12,373
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	20,395	26,514	11,897	15,466
Cylinder capacity exceeding 3000 cc	25,494	33,142	13,597	17,676
Hatchbacks				
Cylinder capacity not exceeding 1000 cc	12,097	10,484	8,065	6,989
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	16,129	13,979	9,678	8,387
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	16,996	22,095	9,518	12,373
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,695	24,304	11,897	15,466
Cylinder capacity exceeding 3000 cc	22,095	28,723	13,597	17,676

Station wagons				
Cylinder capacity not exceeding 1000 cc	14,113	12,231	8,065	6,989
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	18,144	15,725	9,678	8,387
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	18,695	24,304	10,198	13,256
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	20,395	26,514	11,897	15,466
Cylinder capacity exceeding 3000 cc	25,494	33,142	13,597	17,676
SUVs				
Cylinder capacity not exceeding 1000 cc	17,598	15,252	10,559	9,151
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	20,463	17,735	12,278	10,641
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	23,794	30,933	14,277	18,560
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	27,193	35,351	17,540	22,802
Cylinder capacity exceeding 3000 cc	32,292	41,980	20,395	26,514

	Aged 2 to 5 years		**Aged over 5 years**	
Motor vehicles for the transport of goods	**Customs duty**	**Excise duty**	**Customs duty**	**Excise duty**
	K	K	K	K
Single cab				
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	24,777	10,737	9,911	4,295
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	29,732	12,884	17,344	7,516
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	34,687	15,031	19,821	8,589
Double cabs				
GVW not exceeding 3 tonnes	34,687	15,031	27,254	11,810
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	38,156	16,534	29,980	12,991
Panel vans				
GVW not exceeding 1.0 tonne	15,089	6,539	8,622	3,736
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	17,344	7,516	9,911	4,295
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	19,821	8,589	17,344	7,516
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	24,777	10,737	19,821	8,589

Trucks

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

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

Surtax

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

Customs and Excise on New Motor vehicles

Duty rates on:

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

   Customs Duty:

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

   Excise Duty:

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

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

   Customs Duty

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

   Excise Duty:

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

3. **Buses/coaches for the transport of more than ten persons**

   Customs Duty:

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

Excise Duty:

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

SECTION A

This question is compulsory and MUST be attempted.

<u>QUESTION ONE</u> – COMPULSORY

You are employed at the Zambia Revenue Authority (ZRA) as a Senior Tax Inspector. You have been appointed as a team leader of the audit team that will be performing a tax audit at EverGreen Ltd for the year ended 31 December 2026.

EverGreen is a Zambian resident company that was incorporated eight (8) years ago and it is owned by two (2) Zambian entrepreneurs. The company is engaged in manufacturing and prepares its financial statements annually to 31 December. The annual turnover of the company has always exceeded K5,000,000.

During your initial work on the audit, you noticed the following matters:

(1) The business has no formal payroll system and salaries are mostly paid in cash without proper documentation.
(2) Several family members are listed as employees, but there is no clear record of their roles in the company.
(3) Withdrawals are made from the business by the directors and their family members. These expenses are classified as family support and personal expenses.
(4) Inventory records are incomplete, and sales are often recorded manually with no reconciliation to bank deposits.

The above observations suggest that the business may potentially be underreporting income and overstating expenses. You brought the above matters to the attention of the directors of EverGreen Ltd in an initial planning meeting with them. They explained that such informal practices are normal for a family owned business of this nature.

You have extracted the following summarized information from the income tax return submitted by the company to the ZRA in respect of the tax year 2026:

Summary of income tax return (Tax computation)

	K
Tax on taxable business profits	1,870,000
Tax credits:	
Provisional income tax paid	(2,150,000)
Income tax refundable	(280,000)

You now wish to verify whether the company declared the correct amount of taxable business profits and establish whether the income tax refundable to the company as shown on the return above was determined properly.

EverGreen Ltd's financial results and other information

The Directors of Evergreen Limited have provided you with the following Statement of Profit or Loss for the Year Ended 31 December 2026:

		K
Gross profit		172,100,600
Expenses		
Sales, Distribution & Marketing expenses	(Note 1)	(48,300,000)
Administration expenses	(Note 2)	(63,200,000)
Other Operating expenses	(Note 3)	(39,910,000)
Profit from Operations before interest & tax		20,690,600
Finance costs	(Note 4)	(41,200,000)
Loss before tax		(20,509,400)

After critically examining the financial statements of EverGreen Ltd, you have extracted the following additional information:

Note 1 – Sales, Distribution and Marketing expenses

These expenses are made up of the following:

	K
Advertising expenses (print media and television)	5,420,600
Sales promotion campaign	4,100,000
Gifts to customers of food hampers costing K300 each	1,230,000
Installation of Bill boards country wide	14,300,200
Other allowable sales, distribution & marketing expenses	23,249,200
	48,300,000

The installation of bill boards had not been completed as 31 December 2026.

Note 2 – Administration expenses

These expenses are made up of the following:

	K
Directors' gross emoluments	10,200,000
Employees' salaries and wages	22,114,000
Employee's pension benefit expenses	2,780,000
Accounting and Audit fees	4,120,000
Family support & personal expenses	11,656,000
Other revenue allowable administrative expenses	12,330,000
	63,200,000

(i) All of the Directors are accommodated in company owned houses for which they pay no rent.
(ii) Employee pension benefits comprise pensions and gratuities accrued during the year ended 31 December 2026 and have been accounted for in accordance with IAS 19 – Employee Benefits. Pensions and gratuities actually paid during the year ended 31 December 2026 amounted to K1,511,000.

Note 3 – Other Operating expenses

These expenses are made up of the following:

	K
Depreciation of non-current assets	6,320,000
Amortisation of intangible assets	2,100,000
Donations to approved public benefit organisations	3,000,000
Donations to political parties	1,250,000
Repairs and maintenance expenses	4,600,000
Entertaining suppliers	740,000
Staff canteen expenses	2,880,000
Other revenue allowable expenses	19,020,000
	39,910,000

Note 4 – Finance costs

These are made up of interest on loans obtained from banks and other lending institutions that are not related to EverGreen Limited.

Note 5 – Non-current Assets

The following is an extract from the non-current asset register of EverGreen:

Sn	Name of Asset	Year of purchase	Original cost (K)
1	Land	2021	3,000,000
2	Factory building	2021	15,000,000
3	Administration building	2021	5,000,000
4	Staff canteen	2021	2,500,000
5	Manufacturing equipment	2024	6,000,000
6	Commercial motor vehicles	2024	12,000,000
7	Non-commercial motor vehicles	2025	16,000,000

Required:

(a) Describe the key procedures you should perform during the planning stage of tax audit exercise at EverGreen for the tax year 2026. (10 marks)

(b) Recommend appropriate tax audit techniques you should use to examine the financial statements and income tax return of EverGreen for the tax year 2026.

(10 marks)

(d) Based on the above information, prepare a computation of EverGreen Ltd's taxable business profits and company income tax payable/(refundable) for the tax year 2026, to verify the figures shown on the income tax return submitted to the ZRA.

(20 marks)

[Total: 40 Marks]

SECTION B

There are FOUR (4) questions in this section.

Attempt any THREE (3) questions.

QUESTION TWO

The Zambia Revenue Authority (ZRA) inspectors conducted a surprise audit at MediPharm Ltd, a Lusaka-based importer and distributor of pharmaceutical products, seizing electronic devices and physical records without prior notice. This was in response to the ZRA's internal risk assessment and profiling mechanism which flagged the company for the following issues:

(1) Frequent amendments to Value Added Tax returns.
(2) Discrepancies between reported excise duty payments of K12 million and industry benchmarks which averaged K20 million for similar entities over the same period.
(3) Anonymous whistleblower complaint alleging "off-the-books" cash sales.

The Chief Financial Officer (CFO) of MediPharm Ltd has argued that the surprise audit violates the company's rights and demands for the audit to be halted immediately.

Required:

(a) Discuss the objectives and scope of the ZRA's Risk-Based Audit Programme. (6 marks)

(b) Evaluate whether the ZRA's actions in relation to the surprise audit at MediPharm Ltd and seizure of property and records are justified under Zambian legal provisions. (4 marks)

(c) Advise on MediPharm Ltd's rights during the audit and the validity of the CFO's objection to the audit. (6 marks)

(d) Recommend any four (4) measures MediPharm Ltd can implement to improve future tax compliance and avoid disputes with the ZRA. (4 marks)

[Total: 20 Marks]

QUESTION THREE

Emerald Bank Plc is one of Zambia's top five (5) commercial banks, with assets exceeding K15 billion. The ZRA recently received a whistle-blower's email from a former employee of the bank alleging that Emerald Bank plc uses "shadow accounting" to hide taxable income.

A preliminary desk review of the tax returns submitted by Emerald Bank Plc in comparison to its published financial statements and relevant industry benchmarks shows the following information:

(1) The bank reported an average growth of 25% in its loan portfolio over the last four (4) years (2022–2025) which is in line with the average growth for industry as a whole, over the same period. A review of the self-assessment income tax returns filed by the bank to the ZRA shows that the company declared cumulative total losses of K569 million over the same period.

The following summarised results have been extracted from the self-assessment income tax returns submitted by Emerald Bank plc to the ZRA over the last four (4) years.

	2022	**2023**	**2024**	**2025**
	K'M	K'M	K'M	K'M
Net interest income	668	688	709	730
Loan losses	(108)	(110)	(120)	(118)
Allowable operating expenses	(640)	(672)	(706)	(741)
Foreign exchange losses	(30)	(35)	(38)	(46)
Tax losses	(110)	(129)	(155)	(175)

(2) A review of the audited published financial statements for Emerald Bank Plc over the four (4) year period under review shows the following summarised results:

	2022	**2023**	**2024**	**2025**
	K'M	K'M	K'M	K'M
Net interest income	1,184	1,255	1,330	1,480
Credit impaired losses (loan losses)	(108)	(110)	(120)	(118)
Operating expenses	(780)	(796)	(812)	(828)
Foreign exchange losses	(30)	(35)	(38)	(46)
Profit before tax	266	314	360	488

The foreign exchange losses arose from translation of US Dollar denominated loans owed by the bank to foreign based unrelated financial institutions at each year end in the financial statements and are therefore unrealised. The foreign exchange losses are charged to the statements of profit or loss in accordance with IFRSs (*IAS 21- Effects of Changes in Foreign Exchange Rates*).

Other information

The ZRA has since served notice to management of Emerald Bank Plc of a tax investigation which will be undertaken on the affairs of the company in a few weeks' time.

Required:

(a) Describe the procedure Management of Emerald Bank Plc should follow to prepare for the impending tax investigation. (6 marks)

(b) Evaluate four (4) non-compliance risks faced by Emerald Bank Plc based on the information provided above. (8 marks)

(c) Recommend any six (6) suitable audit techniques tax auditors will use to examine Emerald Bank Plc's financial statements, focusing on indirect income verification methods. (6 marks)

[Total: 20 Marks]

QUESTION FOUR

You are employed as a Senior Tax Inspector (Auditor) at the ZRA and you have been assigned to perform a tax audit at the premises of TXL Limited, a tax payer for the year ended 31 December 2025.

TXL is a Zambian resident company engaged in construction generating annual turnover of over K5,000,000. The directors of TXL are Thokiwe and Sipiwe who own equal shares in the company. You have personally known Sipiwe, who is your childhood friend, for many years. Siphiwe has offered to construct a residential house for you at a discounted price upon completion of this assignment. She has further asked you to maintain the highest level of confidentiality when performing the assignment by ignoring and not disclosing to anyone any discrepancies which you may discover during the tax audit. Sipiwe has promised to give you a monetary token of appreciation for respecting the confidentiality of such information.

Thokiwe and Sipiwe have additionally informed you that once you have completed your work on this assignment, they wish to engage you in your personal capacity to be helping them prepare and submit tax returns for their company in future at a fee.

During the review of the financial records of the company you discovered the following matters:

(1) The two (2) Directors have been provided with personal to holder motor cars. Thokiwe's car is a Toyota Land Cruiser Car with a cylinder capacity of 2800cc which was acquired at a cost of K1,000,000 in 2024. Sipiwe's car is a Range Rover Car with a cylinder capacity of 3200cc and was acquired at a cost of K1,400,000 in 2024. These motor vehicles were disclosed as pool cars on the income tax return for the tax year 2025.

(2) The two (2) Directors withdrew interest free loans of K180,000 each during the year ended 31 December 2025. These loans are repayable on 31 December 2029. No disclosure or calculation of tax has been made in relation to this transaction.

(3) The company incurred expenditure of K204,000 on staff canteen expenses during the year ended 31 December 2025. These expenses were treated as allowable deductions when computing the taxable profits of the company.

Required:

(a) Discuss the ethical implications of the request by Sipiwe to keep any discrepancies you discover during the audit confidential and how you should respond to the request. (4 marks)

(b) Evaluate three (3) ethical threats you will face during the tax audit at TXL, recommending an appropriate course of action you should take to respond to each matter. (6 marks)

(c) Advise the Directors of TXL of the correct income tax treatment of each of the issues (1) to (3) above, computing the amount of any additional income tax payable in each case. You should assume income tax rates for 2026 apply throughout. (10 marks)

[Total: 20 Marks]

QUESTION FIVE

You are employed in a firm of Chartered Accountants as a Tax Consultant. A client of your firm, SouthCake a VAT registered Zambian resident company engaged in the retail trade, has asked your firm to review its Value Added Tax (VAT) returns for the months of March 2026 and April 2026. The review is part of a health tax audit, in preparation for a comprehensive tax audit which will be performed by the Zambia Revenue Authority (ZRA) on the affairs of the company in a few weeks' time.

SouthCake uses interns to prepare and submit all its tax returns which are not reviewed by the Finance Director before submitting.

The following is the extract from the value added tax (VAT) returns submitted for the months; March and April 2026:

	March 2026	April 2026
	K	K
Total output tax (VAT)	1,128,000	1,420,000
Total input tax (VAT)	(1,512,600)	(1,010,200)
Net VAT payable/(claimable)	(384,600)	409,800

While performing your work you have discovered the following:

(1) Input VAT incurred on staff refreshments during the month of March 2026 was treated as recoverable input VAT on the tax return submitted for that month. The staff refreshment expenditure amounted to K85,956 (VAT Inclusive).

(2) Invoices of taxable supplies issued to customers during the month of March 2026 were omitted from the VAT return for that month. The total value of these invoices amounted to K110,400.

(3) The VAT return for the month of March 2026 was submitted on 17 April 2026 whereas the VAT return for the month of April 2026 was submitted on 30 June 2026 and the VAT liability for the month of April 2026, was paid on that date.

You have brought the above errors to the attention of the Directors of SouthCake who are now seeking advice on the possible consequences of the errors on the company.

You should assume that the Bank of Zambia discount rate is 11.50% per annum where applicable

Required:

(a) Describe the nature, purpose, and scope of tax audits conducted by ZRA under the self-assessment system. (8 marks)

(b) Advise the Directors of SouthCake of the correct VAT treatment of the issues (1) to (2) above, computing the amount of any additional VAT payable/ (claimable). (4 marks)

(c) Advise the Directors of the exposure to penalties and interest in connection with the return for the month of April 2026, computing the amount of any penalties and interest arising. (8 marks)

[Total: 20 Marks]

END OF PAPER

PGDT 7: TAX AUDIT & INVESTIGATIONS

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) The following are the key procedures to be performed during the planning stage of the tax audit exercise at EverGreen:

(1) Define the scope and objectives of the tax audit – as a tax auditor it is important to define the specific tax year(s) and the areas of concern to be covered by the tax audit. For example, income tax, value added tax, withholding tax, and pay as you earn.

(2) Understand the business – the tax auditor should obtain an understanding of the nature of the business that EverGreen is engaged in, review industry trends, financial records of the company to understand its operations and review prior tax returns filling. Review the business registration documents and ownership structure.

(3) Asses the risk – identify the high-risk areas like unusual tax deductions, income that has not been reported, and any inconsistencies in reported sales revenue (turnover). It is evident that key risk areas at EverGreen include payroll, related-party transactions, personal use of business finances and incomplete inventory records.

(4) Develop an audit plan – prepare a detailed plan including audit team role, timelines of the tax audit, and tax audit procedures.

(5) Engage the taxpayer – prepare and send a formal notification to the taxpayer (EverGreen) outlining the scope of the tax audit (the tax types to be covered under the audit) and request for initial documentation.

(b) The following are the tax audit techniques to use in examining the financial statements and income tax return of EverGreen:

(1) Analytical review

This tax audit technique involves review of financial statements and tax returns already filed by EverGreen with the Zambia Revenue Authority and are completed during the preliminary stage of the tax audit. The key ratios such as gross profit margin, inventory turnover, and asset turnover should be calculated to test the accuracy of the sales revenue reported by EverGreen for the year ended 31 December 2026.

(2) Investigative approach

This tax audit technique uses information obtained from the taxpayer which requires judgement, imagination and using information outside the accounting records to perform the tax audit.

The company has listed several family members as employees without any clear record of their roles in the company. The tax auditors should therefore interview the listed employees to confirm their roles and the salaries paid to them.

(3) Substantive testing of payroll records

The tax auditor should conduct payroll verification by reviewing the documentation of salaries paid, if any, including pay slips, cashbook and bank statements as EverGreen has no formal payroll system. The tax auditor should also examine supporting documents for large cash withdrawals which is labeled as family support and personal expenses and determine whether these expenses have been improperly treated as tax allowable deductions. This technique will be necessary as the Directors of EverGreen and their family members makes withdraws from the business.

(4) Sales and bank Records examination

The records of EverGreen should be examined to detect false accounting practices at the business premises of EverGreen. Bank accounts should also be examined to reconcile manual sales made with the cash deposits into the company's bank deposit account. This is evident as the inventory records of the company are incomplete, and sales are often recorded manually with no reconciliation to bank statements.

(5) Third party information

The tax auditor should use third party information by contacting suppliers and customers to confirm the values and methods of the transactions; use bank statements to trace cash flows and identify any discrepancies. This will help in verifying the true level of EverGreen's income.

(c) **COMPUTATION OF CORRECT TAXABLE BUSINESS PROFITS FOR THE YEAR ENDED 31 DECEMBER 2026**

	K	K
Loss before tax		(20,509,400)
Add:		
Gifts to customers of food hampers	1,230,000	
Installation of bill boards	14,300,200	
Accommodation benefit		
(K10,200,000 x 37%)	3,774,000	
Employee benefits expenses	2,780,000	
Family support and personal expenses	11,656,000	
Depreciation	6,320,000	
Amortisation	2,100,000	
Donations to political parties	1,250,000	
Entertaining suppliers	740,000	
Staff canteen expenses	2,880,000	
		47,030,200
		26,520,800
Less:		

Pension and gratuity paid	1,511,000	
Capital allowances	7,175,000	
		(8,686,000)
Adjusted business profits before interest		17,834,800
Disallowed interest		20,963,560
Taxable business profits		38,798,360

EVERGREEN
COMPANY INCOME TAX COMPUTATION FOR THE TAX YEAR 2026

	K
Taxable business profits	38,798,360
Company income tax: (K38,798,360 x 30%)	11,639,508
Less:	
Provisional income tax paid	(2,150,000)
Final income tax payable	9,489,508

WORKINGS
(1) Capital allowances

	K
Factory building (K15,000,000 x 5%)	750,000
Administrative building (K5,000,000 x 2%)	100,000
Staff canteen (K2,500,000 x 5%)	125,000
Manufacturing equipment	0
Commercial motor vehicles (K12,000,000 x 25%)	3,000,000
Non-commercial motor vehicles (K16,000,000 x 20%)	3,200,000
Total capital allowances	7,175,000

(2) Tax EBITDA and Disallowed Interest

	K
Adjusted business profits	17,834,800
Add:	
Depreciation	6,320,000
Amortisation	2,100,000
Interest expense	41,200,000
Tax EBITDA	67,454,800
Finance (interest) cost	41,200,000
Allowed interest (K67,454,800 x 30%)	(20,236,440)
Disallowed interest	20,963,560

SOLUTION TWO

(a) The key objectives of the ZRA's Risk-Based Audit Programme are to:

(1) Enhance Tax Compliance:

The Risk-Based Audit Programme aims to improve taxpayer compliance by identifying and addressing non-compliance among high-risk entities.

(2) Optimize Resource Allocation:

By focusing on taxpayers with a high likelihood of revenue leakage, the ZRA ensures efficient allocation of limited audit resources.

(3) Mitigate Tax Evasion:

The programme targets deliberate underreporting, evasion, and fraud, especially where significant discrepancies are detected.

(4) Support Revenue Mobilization:

By enhancing compliance, the audits directly facilitate increased and sustained revenue mobilization in line with national fiscal needs.

(5) Promote Fairness and Transparency:

By applying systematic, data-driven selection ensures that audits are conducted fairly and based on objective risk criteria.

The Scope of the ZRA's Risk-Based Audit Programme

The ZRA's Risk-Based Audit Programme covers the following key areas

(1) Sectors Covered:

High-risk industries such as pharmaceuticals, mining, banking. Automated systems are used to flag entities from different sectors based on factors such as unusual variances, inconsistent declarations, industry benchmarks, and whistleblower reports.

(2) Tax Types:

It covers direct taxes such as Income Tax, PAYE, WHT and indirect taxes such as VAT, excise, customs duties, and transaction-specific risks.

(3) Audit types

Different types of audits are performed for the examination of both physical and electronic records, including accounting systems, tax returns, and supporting documentation. The types of audits covered include desk audits, field audits, thematic (or issue-based) audits and comprehensive audits.

(b) The actions of the ZRA are generally governed by the Zambia Revenue Authority Act (Cap 321), Income Tax Act (Cap 323), Value Added Tax Act (Cap 331), Customs and Excise Act (Cap 322). These Acts contain the following provisions

(1) Audit and Investigation Powers:

The ZRA is empowered to conduct audits and investigations under Section 51 of the Income Tax Act and relevant VAT provisions. This includes surprise audits especially where there is risk that evidence may be concealed or destroyed, as in whistleblower situations or when significant discrepancies are found.

The ZRA Act empowers the ZRA to obtain access to premises including inspection of records, and examination of accounting systems. The Commissioner may also obtain information from banks, employers, and other third parties

The flagged risk areas at MediPharm Ltd including duty discrepancies, suspicious VAT amendments, and whistleblower allegations justify a surprise audit.

(2) Notice Requirements:

While prior notice is generally expected, it is not mandatory where the risk of evidence tampering exists or a court warrant has been obtained in certain circumstances.

If the inspectors acted within the legal framework, obtained warrants if necessary, and provided documentation of their authority, the actions are justifiable.

(3) Seizure of Property and Records:

The ZRA Act permits seizure of records or property believed to be connected with tax evasion or under declared tax liabilities, provided such seizure is reasonably necessary for the audit.

Section 55 of the Income Tax Act empowers the Commissioner-General to require any person to produce books, accounts, and documents relating to their income or deductions. Section 56 allows access to premises and inspection of records relevant to tax liability. Section 38 of the VAT Act empowers ZRA to require production of invoices, tax returns, and purchase records to verify declared output and input tax.

Sections 188–192 of the Customs and Excise Act provide powers of entry, search, and examination of goods, documents, and records related to imports and exports

Therefore, seizure of both electronic and physical records aligns with statutory provisions where there is suspicion of serious non-compliance.

(c) Rights of the Taxpayer and Validity of Objections

The taxpayer has the following rights in relation to tax audits

(1) Right to Information - To be informed of the audit's purpose and scope.

(2) Right to Representation – Right to be accompanied by a legal or tax adviser during the process.

(3) Right to Privacy and Dignity -Auditors must respect the business and personal rights of staff.

(4) Right to Appeal – Right to challenge the audit results, seizure actions, or assessment via internal ZRA dispute processes or through tax tribunals.

(5) Right to Copies- the taxpayer is entitled to copies of any records or documents seized.

Validity of objection

(1) The demand to halt the audit on grounds of "rights violation" is valid only if the ZRA acted outside its statutory powers (e.g., no authority, improper procedure, lack of any risk justification).

(2) Under Zambian tax law, surprise audits and seizure are lawful in cases of serious risk or fraud. As such, unless the CFO can prove procedural abuse or lack of authority, their objection is unlikely to succeed.

(3) The company's recourse lies in post-audit legal appeals, not in blocking lawful audits.

(d) Tax Compliance Improvement Plan for MediPharm Ltd

To achieve sustained tax compliance and avoid future disputes with the Zambia Revenue Authority (ZRA), MediPharm Ltd should implement the following key measures:

(1) Strengthening Record-Keeping Systems

The company should adopt an integrated, computerized accounting system to record all transactions in real-time. Perform periodic reconciliations of sales, purchases, inventories, and tax accounts to ensure accuracy.

The company should ensure that both physical and electronic backups of all key records, accessible for inspection when required and adhere to statutory record retention requirements of typically 5–7 years under Zambian law.

The company should maintain comprehensive records of all financial documents, including invoices, receipts, tax returns, and supporting schedules, as mandated by Zambian tax law. The company should ensure that both physical and electronic backups of all key records, accessible for inspection when required and adhere to statutory record retention requirements of typically 5–7 years under Zambian law.

(2) Enhance Internal Controls

The company should implement strict controls over high-risk areas such as cash sales and amendments to VAT returns.

Segregate duties among staff involved in accounting, record-keeping, and tax submission processes to prevent errors and reduce opportunities for fraud. Formalize documented procedures for the preparation and submission of excise duties, VAT returns, and other tax filings and establish routine internal audits focused on compliance with tax regulations and company policies.

(3) Internal Tax Audit/ Health tax audits

The company should conduct routine internal tax and compliance audits.

(4) Invest in Staff Training and Awareness

The company should conduct regular training programs to educate staff on current tax laws, ZRA requirements, filing procedures, and the ethical implications of non-compliance. It should provide specific instruction on the proper handling of amendments to tax returns and documentation for all tax-related transactions. And encourage a culture of compliance and ethical conduct, making it clear that deliberate evasion or misrepresentation will not be tolerated.

(5) Appointing a Dedicated Tax Compliance Officer

The company can designate a responsible officer or establish a compliance team to oversee all tax-related activities. The officer should be assigned with responsibility for monitoring deadlines, maintaining adequate records, and liaising with tax authorities. The officer should ensure proactive compliance by staying updated on regulatory changes and adapting internal procedures as necessary.

(6) Improve Tax Governance and Oversight

The company should integrate tax compliance into overall corporate governance and risk management frameworks by involving senior management in regular reviews of tax risks, compliance metrics, and audit findings. It should set and monitor key performance indicators such as timely filing rates, frequency of amendments, and variance analysis against industry benchmarks.

(7) Foster Open Communication with the ZRA

The company should maintain proactive contact with ZRA officials for clarification on complex matters, changes in legislation, or compliance requirements. It should Seek advance rulings or guidance as needed to reduce uncertainty.

SOLUTION THREE

(a) Procedure Management of Emerald Bank Plc Should Follow to Prepare for the Impending Tax Investigation

(1) Review and Acknowledge ZRA Notice

Upon receipt of the investigation notice, the bank should formally acknowledge the correspondence in writing to the Zambia Revenue Authority (ZRA) and indicate its willingness to cooperate.

Carefully examine the ZRA's investigation notice to understand the tax periods, taxes in scope (e.g., CIT, VAT, WHT), and reasons flagged for review. Engage directly with ZRA officials to clarify any ambiguities.

(2) Establish an Internal Tax Investigation Team

Form a cross-functional team led by a relevant senior official of the bank such as the Chief Financial Officer (CFO), including staff from tax, finance, internal audit, and legal departments. Appoint a tax advisor or consultant to guide on compliance with investigative procedures.

(3) Review and Reconcile Tax Returns and published Financial Statements

Perform a thorough self-review of submitted returns against audited financial statements for 2022–2025. Gather audited financial statements, tax returns, supporting working papers, and computation schedules for the years in question.

Prepare detailed reconciliations between statutory (IFRS) accounts and tax return figures, with supporting schedules for major differences, especially for net interest income and loan-loss provisions. Document any justifications such as timing differences, classification errors, or adjustments due to IFRS vs tax rules.

(4) Gather and Organize Supporting Documentation

Collect source documents and other relevant records such as Trial balances, general ledgers, schedules of loan losses, expense vouchers, and forex loss computations, Bank of Zambia prudential returns, board minutes, and management accounts.

Ensure all documents are chronologically organized and cross-referenced to the returns. Confirm the completeness, accuracy, and retrievability of both hard and electronic documents, including emails, board minutes, and transaction-level detail.

(5) Conduct an Internal Mock Audit

Simulate possible ZRA queries, review trials for high-risk areas (e.g., interest suspense accounts, non-performing loans), and validate compliance with both tax law and internal controls.

(6) Ensure Legal and Ethical Preparedness

Avoid document destruction or falsification such as any attempt to conceal data which would be a criminal offence under Section 97 of the Income Tax Act.
Remind staff of confidentiality obligations and prepare them for potential ZRA interviews.

(7) Internal Control Strengthening

Conduct an internal audit review of tax governance policies to ensure accurate documentation and strengthen controls ahead of the investigation.

(b) Non-compliance risks

The data comparison between Emerald Bank's self-assessment returns and published financial statements reveals several potential non-compliance risks:

(1) Overstatement of allowable loan Losses

The loan losses are declared on the self-assessment returns are same amounts as those in the published audited accounts for each of the four years under review. IFRS 9 allows expected credit loss provisions, but tax law only permits specific, Realized losses.

There is a possibility that general provisions for loan losses or other unrealized loan losses which are recognized in profit or loss as per IFRS but which are not allowable for tax purposes in accordance with the Income Tax Act were included in the self-assessment income tax returns contributing to putting the company in a tax loss position.

(2) Inclusion of Unrealized Foreign Exchange Losses

Unrealized foreign exchange losses were deducted in returns in each of the four years under review. Unrealized Forex losses are not deductible for tax purposes. This misapplication inflates tax forex losses, violating Section 44(2)(b) contributing to the tax loss position of the bank for each of the four years.

(3) Perpetual tax loss position

Over four (4) years, the bank posted loan portfolio average growth of 25%, resulting in cumulative reported profit of K1,430 million as per audited published financial statements representing an impressive 84% growth in profit over the period from K266 million in 2022 to K488 million in 2025.

In contrast the bank declared cumulative losses of K569 million as per its declared income tax returns. This inconsistency indicates a risk of false loss reporting to avoid tax liability.

(4) Understatement of net interest income

The reported net interest income on the self-assessment income tax returns submitted to the ZRA is significantly lower over the four years under review when compared to the reported net interest income as per published financial statements. This inconsistency indicates a risk of false revenue reporting to avoid or reduce tax liabilities over the period.

An analysis of results provided shows that over the four years, the bank posted an average loan portfolio growth of 25%. Net interest income as per published financial statements has increased from K1,184 million in 2022 to K1,480 representing an average increase of 25%[(K1,480m – K1,184m)/K1,184)] over the period in line with the increase in the loan portfolio. The average annual growth in net interest income has been 6% each year from 2022 to 2024 and 11% from 2024 to 2025.

In contrast, net interest income declared on the tax return over the same period has only grown by 9%, (K730m – K668m/K668m). This is inconsistent with both the average growth in net interest income shown in the published financial statements and industry trends.

Further, the annual average annual growth in net interest income reported in the income tax return is 3% every year (i.e. K688m – K668m/K668m from 2022 to 2023, K709m – K688m/K688m from 2023 to 2024, K730m – K709m/K709m from 2024 to 2025) This is also below the annual growth (of 6% per year from 2022 to 2024 and 11% from 2024 to 2025) posted in the published financial statement.

The above analysis suggests potential deliberate suppression of interest income or parallel ("shadow") accounting, possibly through Off-book transactions, delayed interest recognition, manipulated accruals and other similar practices, which constitutes potential willful tax evasion under Section 97(1)(a) of the Income Tax Act.

(5) Possible misclassification of allowable operating expenses

The allowable operating expenses in the income tax returns for each of the four years under review are lower than the operating expense charged to profit or loss in the published financial statements. This is expected as not all operating expenses charged to published accounts are deductible for tax purposes. Operating expenses for published purposes should be higher due to inclusion of non-deductible items such as depreciation, amortization, etc.

Notwithstanding this, there is still possibility of deliberate misclassification or reallocation of non-deductible costs as allowable expenses in order to put the bank in a tax loss position in each of the four years to avoid paying tax.

An examination of the allowable operating expenses declared in the income tax returns shows that they have been increasing by 5% per year from 2022 to 2025 (i.e. K672m – K640m/K640m from 2022 to 2023, K706m – K672m/K672m from 2023 to 2024 and K741m – K706m/K706m) with an average growth of 16% over the whole period (K741m – K641m/K641m in 2025).

In contrast the operating expenses as per published financial statements have only increased by 6% over the same period from K780 million in 2022 to K828 million in 2025, with an average annual increase of only 2% per year.

(c) Indirect Income Verification Methods

(1) Bank Deposit and Cash Analysis:

Analysis of total bank deposits against reported turnover to detect unreported income – especially where "shadow accounting" is alleged.

(2) Reconciliation of Loan Portfolios:

Examining loans advanced, interest rates charged, repayments, and provisioning to independently estimate gross interest income, then comparing results to declared figures.

(3) Net Worth/Asset Analysis:

Assessing growth in the bank's net assets given the claimed losses—if asset base increases, yet losses are declared, further scrutiny is applied.

(4) Third-Party Confirmations:

Comparing declared interest, fees, and FX gains with external confirmations from borrowers, counterparties, and external auditors.

(5) Suspense Account Review:

Scrutinize all suspense and control accounts for evidence of income parking or deferred recognition.

(6) Tracing and Testing High-Risk Transactions:

Following the documentation for loan-loss provisions, non-performing loan reclassifications, FX drawings, and movements between account classifications.

(7) Digital Forensic Analysis:

Since whistleblower allegations of shadow accounting exist, ZRA may deploy IT-aided forensic approaches, reconstructing and analyzing electronic records, emails, and accounting system audit trails.

SOLUTION FOUR

(a) The principle of integrity requires a tax practitioner to be straightforward, and honest in all professional and business dealings. It imposes an obligation on the member to have commitment not to mislead or deceive. Therefore, the tax practitioner should not knowingly be associated with financial reports, communications, tax returns or other information believed to contain materially false or misleading information.

Therefore, non-disclosure of the discrepancies on the income tax return will breach the principle of integrity as the discrepancies on the income tax return confirm that the information submitted to ZRA is false.

Similarly, the principle of objectivity requires the member not to allow bias, conflict of interest or undue influence of others to override professional judgement. Accepting a token of appreciation for not disclosing the discrepancies will automatically impair the objectivity of the tax auditor.

Therefore, the tax auditor should reject the offer of a token of appreciation and report the matter to the supervisor and the relevant authorities.

(b) The following are the threats:

(1) Self-interest threat

This threat arises when a member has a financial or other interest in the client which may inappropriately influence the tax auditors' professional judgement. The offer by Sipiwe to construct a house for the tax auditor at a discounted price is a financial interest and this may influence the tax auditor's judgement.

Recommendation

The tax auditor should decline the offer made by Sipiwe to construct the house at the discounted price.

(2) Familiarity threat

This threat arises when the member has a long or close relationship with the client or the employing organization, which may lead to the member being too sympathetic or accepting of the client's work. The tax auditor and Sipiwe, the director of TXL, are childhood friends, and as a result the auditor may be too sympathetic due to the long and close relationship.

Recommendation

Rotate the team leaders so that a different team leader is assigned to deal with the tax audit at TXL.

(3) Self-review threat

This threat arises when a member is asked to review the previous judgement made by that member, or another member within the same firm. If the tax auditor accepts submitting the tax returns on behalf of TXL, there will be a self-review threat as the tax returns submitted will be reviewed by ZRA and possibly the same tax auditor.

Recommendation

Decline the request made by the directors of TXL to help them submit the tax returns.

(c) The correct income tax treatment is:

(1) Provision of personal to holder cars

The Income Tax Act states that where the employer provides motor cars to employees on personal to holder basis, the employer will be disallowed a personal to holder car benefit when computing the taxable business profits.

The amount of the benefit to be disallowed depends on the cylinder capacity of the motor car. In this case the amount to be disallowed in respect of Thokiwe's Toyota Land Cruiser Car is K57,600 and Sipiwe's car is also K57,600 as the cylinder capacity of these motor cars are 2800cc and 3200cc respectively.

The additional income tax (tax underpaid) payable will be: (K57,600 + K57,600) x 30% = K34,560.

(2) Provision of interest free loans

The directors hold 50% each of the issued share capital of TXL which is more than 5%. This means that both Thokiwe and Sipiwe are effective shareholders of TXL.

Therefore, the interest free loans drawn from the company are deemed to be loans made to effective shareholders amounting to K285,714 (K180,000 x 100/63) each.

The company was required to pay tax equal to the difference between the actual amount of the loan drawn and the grossed-up equivalent amount of the loan, or 37% of the grossed-up equivalent amount of the loan.

The additional amount of tax payable by TXL will be calculated as: K180,000 x 37/63 x 2 = K211,429.

(3) Staff canteen expenses
Staff canteen expenses incurred by the employer are disallowable when computing the taxable business profit of the employer. When computing the taxable business profit of the company for the year ended 31 December 2025, these expenses were treated as an allowable deduction thereby understating the income tax payable.

The additional income tax payable for the tax year 2025 will be: K204,000 x 30% = K61,200.

The overall additional income tax payable: K34,560 + K211,429 + K61,200 = K307,189.

SOLUTION FIVE

(a) nature, purpose, and scope of tax audits

Nature of a Tax Audit
A tax audit is a systematic examination by the Zambia Revenue Authority (ZRA) of a taxpayer's financial records, tax returns, and related documentation to verify whether the declared income, deductions, and taxes are accurate and comply with the provisions of the law. The ZRA's role is not to assess every taxpayer but to review and verify the accuracy of self-assessed declarations through targeted tax audits.

Purpose of Tax Audits

The objectives and purposes of ZRA's audit function are both administrative and educational, ensuring fairness and efficiency in the tax system. Apart from compliance verification, tax audits also plays a role in revenue protection by identifying and recovering underpaid or unpaid taxes for corrective assessment and collection.

They also promote of voluntary compliance as regular audits serve as a deterrent to evasion by increasing the perceived likelihood of detection. Tax audits reinforce fairness, ensuring that all taxpayers contribute equitably.

They further play an important role in taxpayer education and systemic improvement, through post-audit feedback, ZRA helps taxpayers understand compliance gaps and improve record-keeping.

Scope of Tax Audits

ZRA conducts different types of audits depending on risk level, tax type, and taxpayer profile. They include comprehensive audits which cover all tax heads or types (Income Tax, VAT, PAYE, and WHT) and multiple accounting periods.

Specific or Issue-Based Audits which target a particular tax head or issue (e.g., input VAT claims, transfer pricing, and PAYE compliance).

Refund, Verification or credibility audits which confirm the validity of VAT refund claims or loss carry-forwards.

Desk Audits which are conducted at ZRA offices, based on submitted returns and supporting schedules and Field Audits Conducted at taxpayer premises, allowing detailed review of source documents and physical inspection of operations.

(b) The correct VAT treatment is:

(1) Input VAT incurred on staff refreshments is not recoverable when computing the VAT payable. Therefore, the amount of input VAT for the month of March 2026 has been overstated as the input VAT on refreshments was treated as recoverable input VAT. The additional VAT payable will be: K85,956 x 4/29 = K11,856.

(2) The invoices of taxable supplies made by the company amounting to K110,400 were omitted from the VAT return for the month of March 2026. This means that the output VAT for the month was understated leading to a VAT refund reported for that month. The additional VAT payable for the month of March 2026 is: K110,400 x 16% = K17,664.

(c) Exposure to penalties and interest

(1) Late submission of the VAT return

(i) The VAT return for the month April 2026 was due for submission on 18 May 2026, but was instead submitted on 30 June 2026. This means that the VAT return was submitted late by forty three (43) days.

(ii) The penalty for late submission of the VAT returns is whichever is higher between 1000 penalty units (K400) per day; and 0.5% of the VAT payable per day.

(iii) The penalty payable will therefore be K88,107 as calculated below:

- 1000 penalty units (K400) x 43 days = 43,000 penalty units or K17,200.
- 0.5% of the VAT payable: K409,800 x 0.5% x 43 days = K88,107.

(2) Late payment of VAT

(i) The VAT liability for the month April 2026 was due for payment on 18 May 2026, but was instead paid on 30 June 2026. This means that the VAT was paid late by forty three (43) days.

(ii) The penalty for late payment of VAT is 0.5% of the unpaid VAT amount per day the tax is delayed. In addition, interest on overdue tax is charged at a rate of 2% plus the Bank of Zambia discount rate.

(iii) The amount of penalty charged is: K409,800 x 0.5% x 43 days = K88,107. The interest on overdue tax to be charged is: K409,800 x (11.50% + 2%) x 43/365 = K6,518.

END OF SUGGESTED SOLUTIONS

POST GRADUATE DIPLOMA IN TAXATION PROGRAMME EXAMINATIONS

PGDT8: TAX MANAGEMENT AND PLANNING

FRIDAY 12 JUNE 2026

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 scenario 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 K30,000	0%
K30,001 to K5,000,000	5%

Tax on rental income

Annual Rental income band	**Taxable amount**	
K1 to K30,000	First K30,000	0%
K30,001 to K800,000	Next K770,000	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

Property Transfer Tax

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

Value Added Tax

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

Customs and Excise duties on used motor vehicles

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

Motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars	**Aged 2 to 5 years**		**Aged over 5 years**	
	Customs duty	**Excise duty**	**Customs duty**	**Excise duty**
	K	K	K	K
Sedans				
Cylinder capacity not exceeding 1000 cc	14,113	12,231	8,065	6,989
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	18,145	15,726	9,678	8,387
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	18,695	24,304	9,518	12,373
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	20,395	26,514	11,897	15,466
Cylinder capacity exceeding 3000 cc	25,494	33,142	13,597	17,676
Hatchbacks				
Cylinder capacity not exceeding 1000 cc	12,097	10,484	8,065	6,989
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	16,129	13,979	9,678	8,387
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	16,996	22,095	9,518	12,373
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,695	24,304	11,897	15,466
Cylinder capacity exceeding 3000 cc	22,095	28,723	13,597	17,676
Station wagons				
Cylinder capacity not exceeding 1000 cc	14,113	12,231	8,065	6,989

Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	18,144	15,725	9,678	8,387
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	18,695	24,304	10,198	13,256
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	20,395	26,514	11,897	15,466
Cylinder capacity exceeding 3000 cc	25,494	33,142	13,597	17,676
SUVs				
Cylinder capacity not exceeding 1000 cc	17,598	15,252	10,559	9,151
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	20,463	17,735	12,278	10,641
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	23,794	30,933	14,277	18,560
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	27,193	35,351	17,540	22,802
Cylinder capacity exceeding 3000 cc	32,292	41,980	20,395	26,514

	Aged 2 to 5 years		**Aged over 5 years**	
Motor vehicles for the transport of goods	**Customs duty**	**Excise duty**	**Customs duty**	**Excise duty**
	K	K	K	K
Single cab				
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	24,777	10,737	9,911	4,295
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	29,732	12,884	17,344	7,516
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	34,687	15,031	19,821	8,589
Double cabs				
GVW not exceeding 3 tonnes	34,687	15,031	27,254	11,810
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	38,156	16,534	29,980	12,991
Panel vans				
GVW not exceeding 1.0 tonne	15,089	6,539	8,622	3,736
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	17,344	7,516	9,911	4,295
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	19,821	8,589	17,344	7,516
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	24,777	10,737	19,821	8,589
Trucks				
GVW up to 2 tonnes	15,715	12,048	7,246	5,556

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

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

Surtax

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

Customs and Excise on New Motor vehicles

Duty rates on:

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

Customs Duty:

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

Excise Duty:

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

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

Customs Duty

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

Excise Duty:

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

3. Buses/coaches for the transport of more than ten persons

Customs Duty:

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

Excise Duty:

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

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

Customs Duty:

Percentage of Value for Duty Purposes	15%
Excise Duty:	
Percentage of Value for Duty Purposes for Excise Duty Purposes	0%

SECTION A

This question is compulsory and must be attempted.

QUESTION ONE – (COMPULSORY)

For the purposes of this question you should assume that today is 1 December 2025 and that the taxation rules applicable to the tax year 2026 apply throughout.

Chiko and Chipo, both Zambian residents, are looking to launch a business venture in Lusaka, Zambia. They plan to engage in the importation and sale of modern, energy-efficient domestic electrical appliances, including smart refrigerators, induction cooktops, and high-tech microwave ovens. Their target market is a growing segment of middle-to-high-income households seeking quality, imported goods.

They have already secured prime retail space in a prime commercial area. To make an informed decision on their business structure and how to extract profits from their business, they have approached your firm for tax advice. They are seeking advice on the most tax efficient way to run the business between a partnership structure and a private limited company structure. They plan to register the chosen business structure and commence trading on 1 January, 2026.

Regardless of whether the business is run as a partnership or as a limited company, the expected annual turnover from the business will be K8,400,000 with a projected net profit as per accounts of K2,600,000 per year. This net profit figure is before any payments to Chiko and Chipo, and any NAPSA contributions arising. All the other expenses that will be incurred and deducted in arriving at the net profit figure of K2,600,000 are allowable expenses for taxation purposes.

Whether the business is run as a partnership or as a company, two motor vehicles will be acquired on 5 January 2026, for use by Chiko and Chipo. If the business is run as a partnership, then the vehicles will be personal privately owned motor vehicles of each individual, with each individual using each vehicle 60% for business purposes and 40% for private purposes. However, if the business is run as a limited company, then both vehicles will be owned by the company, but will partly be used by each individual for private purposes. Business use in this case will also be 60%, while private use will be 40%, by each individual for each vehicle.

Information relating to each vehicle is as follows:

S/N	Name	Vehicle Type	Cost(K)	Cylinder Capacity
1	Chiko	Toyota Fortuner SUV	300,000	3,000cc
2	Chipo	Nissan Navara Double Cab Van	280,000	2,500cc

Partnership Structure
If they opt for a partnership, the business will be known as CC & Partners. The partnership agreement will provide for the following:

(1) Chiko is to receive an annual partnership salary of K500,000.
(2) Chipo is to receive an annual partnership salary of K650,000.
(3) The remaining profits or losses will be shared in the ratio of 3:2 between Chiko and Chipo respectively.
(4) No National Pension Scheme Authority (NAPSA) contributions will be applicable to the partnership salaries.

Limited Company Structure
If they run the business as a company, it will be registered as CC Ltd. Chiko and Chipo will be the sole shareholders and full-time working directors.

(1) Chiko can choose to draw a gross annual amount of K500,000, either as a Director's salary or a dividend.
(2) Chipo can choose to draw a gross annual amount of K650,000, either as a Director's salary or a dividend.
(3) Employeer's and Employee's NAPSA contributions will arise on each Director's gross employment earnings in accordance with the law.

Additional Information:

The NAPSA earnings threshold for the 2026 tax year should be taken to be K446,832 per annum.

Neither Chiko nor Chipo will have any other sources of income in the tax year 2026.

Required:

(a) Explain the key differences between tax planning and tax evasion. (4 marks)

(b) Calculate the amounts of income tax payable by Chiko and Chipo for the tax year 2026, assuming that the business is run as a partnership. (8 marks)

(c) Assuming the business is run as a limited company and Chiko and Chipo each draw K500,000 and K650,000 respectively as gross annual salaries compute:

   (i) The income tax and NAPSA contributions payable by Chiko and Chipo for the tax year 2026. (6 marks)

   (ii) The income tax payable by CC Ltd for the tax year 2026. (6 marks)

(d) Assuming that the business is run as a limited company and that Chiko and Chipo each draw gross annual dividends of K500,000 and K650,000 respectively, compute:

  (i) The NAPSA contributions, withholding tax and income tax payable by Chiko and Chipo for the tax year 2026. (6 marks)

  (ii) The income tax payable by CC Ltd for the tax year 2026. (5 marks)

(e) Advise Chiko and Chipo as to whether they should run their proposed business as a:

  (i) Partnership

  (ii) Limited company with Chiko and Chipo each drawing K500,000 and K650,000 respectively as gross annual salaries.

  (iii) Limited company with Chiko and Chipo each drawing K500,000 and K650,000 respectively as gross annual dividends.

Your answer should be supported by appropriate computations of net income arising under each of the above three (3) options after deduction of all the relevant statutory payments arising under each option. (5 marks)

[Total: 40 Marks]

SECTION B

There are FOUR (4) questions in this section.

Attempt any three (3) questions.

<u>QUESTION TWO</u>

You are employed in Tax Practice and you are dealing with the tax affairs of Lutanda Solar Plc, a new client of your firm seeking tax advice on various matters:

Lutanda Solar Plc, is resident in Zambian and operates in the energy sector. The company is registered for VAT and is listed on the Lusaka Securities Exchange. The Directors of Lutanda Solar Plc, have heard that the 2026 National Budget extended Advance Income Tax (AIT) to Non-Bank Remittance Platforms and are requesting for more information about this measure from your firm.

The Finance Director of Lutanda Solar Plc is Gabriel, who has worked for the company for many years and is now nearing retirement age. Gabriel would like to invest some of the money from his terminal benefits upon retirement in protection products such as Critical Illness insurance or Permanent Health insurance, but is not sure of what the taxation implications of these investments are.

Lutanda Solar Plc is planning to expand its operations by increasing its supply of solar panels, during the charge year 2026. The expansion project will require additional equipment which has a VAT inclusive cost of K1,740,000.

The company is exploring the following three (3) financing options for this project:

Option 1 - Operating Lease
This will involve the company entering into an operating lease agreement for the equipment. Annual lease rentals of K313,200 (VAT inclusive) will be payable per annum, starting on 1 January 2026. The lease agreement will be renewable annually.

Option 2 - Hire Purchase
This will involve the company entering into a hire purchase agreement with a finance company, requiring an initial deposit of 30% of the purchase cost to be paid on 1 January 2026. This will be followed by 12 monthly installments of K157,500 each, payable at the end of each month, starting on 31 January 2026.

Option 3 - Outright Purchase
This will involve purchasing the equipment outright using a three (3) year bank loan. The bank loan has an annual interest rate of 26%.

Required:

(a) In relation to the extension of Advance Income Tax (AIT) to Non-Bank Remittance Platforms in the 2026 National Budget reforms, advise on the types of transactions the measure applies to, explaining Government's policy rationale for the reform. (3 marks)

(b) Describe the nature of each of the following financial protection products and advise Gabriel of the taxation implications arising in each case:

(i) Critical Illness insurance. (3 marks)

(ii) Permanent Health insurance. (3 marks)

(c) Evaluate the taxation implications of each of the financing option for Lutanda Solar Plc, including the impact on allowable deductions and capital allowances:

(i) Acquiring the equipment under an operating lease. (3 marks)

(ii) Acquiring the equipment through a hire purchase contract. (4 marks)

(iii) Purchasing the equipment outrightly using a bank loan (4 marks)

[Total: 20 Marks]

QUESTION THREE

You are a senior tax practitioner at a reputable accounting firm, Veritas Tax Advisors. Your firm has a long-standing and lucrative relationship with OmniCorp, a major multinational company with significant operations in Zambia. For the past five (5) years, you have been the lead tax advisor for OmniCorp. The CEO of OmniCorp, Mr. Chisala, is also a personal friend of yours, and you both serve on the board of a local charity.

In preparing OmniCorp's corporate tax return for the year ended 31 December 2026, you discover a substantial tax-planning strategy implemented by OmniCorp's in-house finance team. The strategy involves routing a significant portion of its income through a subsidiary located in a low-tax jurisdiction. While the transactions are legally structured, a closer examination of the details reveals that the primary purpose of this arrangement is to artificially reduce OmniCorp's taxable income in Zambia. The arrangement relies on a complex web of intra-group loans and management fees that appear to lack commercial substance.You know that if this strategy is scrutinized by the Zambia Revenue Authority, it could be challenged under the general anti-avoidance provisions of the Income Tax Act.

You have brought this matter to the attention of Mr Chisala explaining the potetntial consequences if the tax planning strategy is scrutinised by the ZRA. Mr. Chisala, has instructed you to proceed with the tax return saying, "OmniCorp has the legal right to minimize its tax burden, and the ZRA is unlikely to question a company of this size and reputation." He has further asked you not to publicise this information and has informed you that he is ready to take all of OmniCorp's business to a competitor, if your firm does not comply with his instructions.

OmniCorp is consdidering expanding its operations in Zambia further and has additionally requested your firm for advice on investment incentives available in Multi-Facility Economic Zones (MFEZ). The company is particularly interested in the tax incentives offered to manufacturing companies under the Zambia Development Agency Act.

Required:

(a) Examine the ethical implications of the tax-planning strategy implemented by OmniCorp's in-house finance team and discuss how you should deal with the matter. (6 marks)

(b) Evaluate three (3) other ethical threats you will face on this assignment, recommending appropriate responses to manage each threat. (9 marks)

(c) Advise the Directors of OmniCorp of any five (5) incentives available under the Zambia Development Agency Act for manufacturing companies operating in a Multi-Facility Economic Zones (MFEZ). (5 marks)

[Total:20 Marks]

QUESTION FOUR

You are employed in a tax practice and you are dealing with the tax affairs of the Veritas Group of companies, a client of your firm. The following information is available:

Group Structure

The Veritas Group is a multinational enterprise with its head office in a foreign country. The group consists of Veritas International (VI) the parent entity, Veritas Zambia Plc (VZP), a 100% owned subsidiary of Veritas International, Veritas Manufacturing Ltd (VML) which is a wholly-owned subsidiary of Veritas Zambia Plc operating in Zambia and Veritas Global Solutions (VGS) Pty, a wholly-owned subsidiary of Veritas Zambia Plc, incorporated and resident in South Africa. Each of the Zambia resident companies in the group are registered for VAT purposes and make taxable supplies.

The following transactions and financial information relates to the group for financial year ended 31 December, 2026:

Intra-group management and administrative services

Veritas Zambia Plc provided management and administrative services to VML throughout the year, with a total value of K1,200,000. VGS provided similar services to Veritas Zambia Plc for K800,000. VGS does not have a tax paying agent in Zambia to act on its behalf. The above figures are both exclusive of VAT.

Internal Restructuring:

As part of a major internal reorganization, Veritas Zambia Plc transferred a commercial building in Lusaka to VML. The property was valued at K10,000,000, in the books of Veritas Zambia Plc, although its open market value at the time of the transfer was K14,500,000. The Commissioner-General has been notified about the restructuring.

Group's Results:

On 1 January 2026, Veritas Zambia Plc had an unrelieved a tax loss of K14,000,000 which was suffered in the previous tax year. For the tax year 2026, Veritas Zambia Plc made a final taxable profit of K9,400,000.

VML reported a taxable profit of K6,500,000 for the charge year 2026 and has no unrelieved losses brought forward.

Disposal of shares by Veritas International

Group management is planning to dispose of a 30% holding of equity shares of Veritas International, to a foreign investor who is resident in the foreign country in which Veritas International is incorporated.

Required:

(a) Advise on the Value Added Tax implications of the following transactions:

(i) Management and Administrations services provided by Veritas Zambia Plc (VZP) to Veritas Manufacturing Limited (VML). (3 marks)

(ii) Management and Administrations services provided Veritas Global Solutions (VGS) to VZP. (5 marks)

(b) Advise on the Property Transfer Tax (PTT) implications of the transfer of the commercial building by VZP to VML as part of the internal restructuring within the group. (2 marks)

(c) Advise on the Zambian Income Tax treatment of the taxable profits and tax losses of the Zambian resident members of the group, computing the amount of any Zambian Income Tax arising in the tax year 2026. (6 marks)

(d) Advise Group Management of the Property Transfer Tax (PTT) implications which will arise on the sale of the 30% holding of equity shares of Veritas International, to a foreign investor who is resident in a foreign country. (4 marks)

[Total: 20 Marks]

QUESTION FIVE

You are employed in a firm of Chartered Accountants and you are dealing with the tax affairs of two clients of your firm, Sarah Mulola and Chibombo Farms Ltd who are seeking for tax advice.

Sarah Mulola

Sarah Mulola is a talented software developer who recently launched CodeCrafters Ltd a tech startup specializing in custom business applications. In its first year of operation, the company grew rapidly, but Sarah felt overwhelmed by the complex financial and tax obligations which diverted her attention from business development. Worried about cash flow and potential penalties from the Zambia Revenue Authority, she decided to hire tax you firm. She has requested for your firm to provide strategic advice on tax planning and manage all her filings. This professional help will enable Sarah to optimize her finances, reinvest the tax savings, and refocus on growing her company, ultimately accelerating business growth and securing a major contract.

Chibombo Farms Ltd

Chibombo Farms Ltd is a Zambian resident farming and agro-processing company. The company operates a livestock farming division that rears cattle and goats for sale to local butcheries, meat processors and major supermarkets. It also operates a hides and skins processing unit that purchases raw hides and skins from small-scale livestock farmers and abattoirs, then processes them into semi-finished leather, treated hides, and export-grade skins for sale to local manufacturers and regional buyers. The company uses a digital livestock payments platform for small livestock traders, abattoirs and transporters which enables suppliers and customers to receive and make payments for livestock and related services. The online digital payment platform is owned by a non-resident trading company that purchases and distributes processed hides and skins in regional markets.

Chibombo Farms is currently undertaking a strategic review following the 2026 National Budget, as the Board is concerned about how the following reforms announced in the budget may impact the company's operations and profitability:

(1) The increase in mobile money transaction levies, including the extension of the levy to self-transfers.

(2) Extension of the 2% Local Content Allowance to income earned from value addition to milk, raw hides and skins.

Required:

(a) Explain how tax practitioners help entrepreneurs such as Sarah Mulola to optimize finances and grow their businesses through tax planning and compliance.

(6 marks)

(b) Analyse government's policy rationale for increasing mobile money transaction levies and extending the levy to self-transfers, evaluating the potential impact on Chibombo Farms with particular emphasis on customer behaviour and revenue sustainability. (5 marks)

(c) Discuss government's policy rationale for the extension of the 2% local content allowance to income earned from value addition to raw hides and skins, assessing the potential impact on Chibombo Farms Ltd's operations. (5 marks)

(d) Advise on any other four (4) Tax Incentives (apart from the 2% local content allowance) available for businesses investing the agriculture sector. (4 marks)

[Total:20 Marks]

END OF PAPER

PGDT 8 TAX MANAGEMENT AND PLANNING

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) **The key differences between tax planning and tax evasion.**

Tax planning and tax evasion are two distinct approaches to managing a business's tax liability, separated by a crucial legal and ethical line. The key differences between tax planning and tax evasion are:

(1) Tax planning is the legitimate, legal process of arranging a taxpayer's financial affairs to minimize their tax burden by taking advantage of the deductions, credits, exemptions, and allowances available in the tax law, *where as* Tax evasion is the illegal act of deliberately concealing or misrepresenting financial information to avoid paying taxes that are legally owed

(2) Tax planning is proactive and operates within the law's explicit provisions, *where as* Tax evasion involves fraudulent and dishonest practices, such as underreporting income or overstating expenses, and is a criminal offense

(b) **COMPUTATION OF AMOUNTS OF INCOME TAX PAYABLE BY CHIKO AND CHIPO FOR THE TAX YEAR 2026, ASSUMING THAT THE BUSINESS IS RUN AS A PARTNERSHIP**.

	Total	Chiko	Chipo
	K	K	K
Partnership salaries	1,150,000	500,000	650,000
Balance 3:2	1,450,000	870,000	580,000
Total	**2,600,000**	**1,370,000**	**1,230,000**
Less:Capital Allowances			
Chiko's Motor Car:			
(K300,000 x 20%) x 60%	(36,000)	(36,000)	
Chipo's Motor Car:			
(280,000 x 20%) x 60%	(33,600)	-	(33,600)
Taxable Profit	2,530,400	1,334,000	1,196,400
Income Tax			
On the first K110,400		12,360	12,360
Balance:			
[(1,334,000-110,400) x 37%		452,732	
(1,196,400-110,400) x37%]			401,820

Income tax payable	**465,092**	**414,180**

(c) **If Chiko and Chipo run the business as a limited company and draw gross emoluments:**

(i) **NAPSA Contribution and Income tax payable by:**

Chiko

NAPSA Contribution payable (restricted to K446,832)
= 5% x K446,832 **K22,342**

Income tax for the tax year 2026

	K
Gross emoluments	500,000
Income Tax payable	
On the first K110,400	12,360
On the balance: 37% x (K500,000 – 110,400)	144,152
Income Tax payable	**156,512**

Chipo

NAPSA Contribution payable (restricted to K446,832) = 5% x K446,832
= **K22,342**

INCOME TAX FOR THE TAX YEAR 2026

	K
Gross emoluments	650,000
Income Tax payable	
On the first K110,400	12,360
On the balance: 37% x (K650,000 – K110,400)	199,652
Income Tax payable	**212,012**

(ii) **CC HOLDINGS LTD**
COMPUTATION OF COMPANY INCOME TAX PAYABLE FOR TAX YEAR 2026

		K	K
Net profit			2,600,000
Add motor car benefits			
Chiko's motor car		57,600	
Chipo's motor car		<u>43,200</u>	
			<u>100,800</u>
			2,700,800
Less Allowable deductions:			
Directors emoluments			
Chiko	500,000		
Chipo	<u>650,000</u>		
			(1,150,000)
Employers' Napsa for:			
Chiko (446,832 x 5%)	22,342		
Chipo (446,832 x 5%)	<u>22,342</u>		
			(44,684)
Less capital allowances:			
Chiko's motor car			
20% x K300,000	60,000		
Chipo's motor car			
20% x K280,000		56,000	
Total capital allowances			<u>(116,000)</u>
Tax adjusted business profit			<u>1,390,116</u>
Company income Tax			
(K1,390,116 x 30%)			**<u>417,035</u>**

(d) **If the business is run as a company and Chiko and Chipo were to draw gross dividends instead of emoluments, then the following computations would be made:**

(i) The NAPSA contributions, withholding tax and income tax payable by Chiko and Chipo for the tax year 2026.

Chiko:

(1) NAPSA contributions will not be payable because dividends are not earnings for the purposes of NAPSA contributions.
(2) Withholding tax will be deducted at source from the gross dividend by CC holdings Ltd and paid to ZRA on behalf of Chiko. The amount deducted at source will be K500,000 x 15% = K75,000
(3) Income tax will not be payable because withholding tax that will be deducted from the dividend at source by CC holdings Ltd will be the final.

Chipo:

(1) NAPSA contributions will not be payable because dividends are not earnings for the purposes of NAPSA contributions.
(2) Withholding tax will be deducted at source from the gross dividend by CC holdings Ltd and paid to ZRA on behalf of Chiko. The amount deducted at source will be K650,000 x 15% = K97,500

(3) Income tax will not be payable because withholding tax that will be deducted at source from the gross dividend by CC holdings Ltd will be the final tax.

(ii) **COMPANY INCOME TAX COMPUTATION FOR THE TAX YEAR 2026**

	K		**K**
Tax adjusted profit			2,600,000
Add motor car benefits			
Chiko's motor car	57,600		
Chipo's motor car	43,200		
100,800			
			2,700,800
Less capital allowances:			
Chiko's motor car			
20% x K300,000		60,000	
Chipo's motor car			
20% x K280,000		56,000	
Total capital allowances			
(116,000)			

Taxable profit
2,584,800
Company income tax payable
30% x K2,584,800 **775,440**

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

	Partnership	**Limited Company Emoluments Drawn**	**Limited Company Dividends Drawn**
	K	K	K
Profits before deductions	2,600,000	2,600,000	2,600,000
Income Tax Payable			
- Chiko	(465,092)	(156,512)	-
- Chipo	(414,180)	(212,012)	-
WHT (75,000+ 97,500)	-	-	(172,500)
Company income tax	-	(417,035)	(775,440)
Employer's NAPSA contributions	-	(22,342)	-
Employee's NAPSA contributions	-	(22,342)	-
Net income	1,720,728	1,769,757	1,652,060

It will be beneficial to ran the business as a limited company with amounts drawn as emoluments as this option gives the highest net income of K1,769,757.

SOLUTION TWO

(a) **Extension of Advance Income Tax (AIT)**

This measure apply to foreign remittances above US$2,000, Such remittances now to all financial institutions and digital remittance platforms will now be subjected to AIT.

Government Policy Rationale

This aims to close compliance loopholes, ensure neutrality between banks and fintech platforms, and protect the income tax base. Previously AIT applied mainly to remittances processed through banks

(b) **Financial Protection Products**

(i) Critical Illness Insurance

This policy pays out a tax-free lump sum if the policyholder is diagnosed with a specific serious illness listed in the policy, such as cancer, heart attack, or stroke.

Tax Implications

(1) Premiums paid by an individual are generally not tax-deductible.
(2) The lump sum payout received upon diagnosis of a critical illness is a capital receipt and is not subject to tax.

(ii) Permanent Health Insurance

This Also known as Income Protection Insurance, this policy pays a regular, tax-free income if the insured is unable to work due to illness or injury.The payments are typically a percentage of the insured's salary and continue until they can return to work or retire.

Tax Implications

(1) Premiums paid by an individual are not tax-deductible.
(2) The income received from a PHI policy is a capital receipt and is not subject to tax.

(c) **Taxation Advice for Lutanda Solar Plc**

(i) **Operating Lease**

(1) The operating lease rentals (exclusive of VAT) should be treated as a deductible expense in the Lutanda Solar Plc 's books and not as an asset.
(2) Lutanda Solar Plc, being a VAT-registered company, can claim the input VAT on the lease rentals. VAT amount claimable is (16% of VAT exclusive price) = K313,200 * (4/29) = **K43,200**

(3) Lutanda Solar Plc will not be avle to claim Capital allowances on the equiiment.

(ii) **Hire Purchase Contract**

(1) The company can claim the full input VAT on the total purchase cost of the equipment. The VAT amount claimable is (16% of VAT exclusive price) = K1,740,000 x (4/29) = K240,000.
(2) A hire purchase agreement is considered a form of asset acquisition and the company is entitled to claim capital allowances on the VAT-exclusive cost of the equipment.

The amount of the Capital Allowances will be

= (K1,740,000 – K240,00) K1,500,000 x 25%.

= K375,000
(3) The capital portion of the hire purchase installments are not deductible expenses for income tax purposes, while the interest portion of the payments is a deductible expense as long as it is not more than 30% of the tax EBITDA.

(iii) **The taxation implications of purchasing the equipment outright using a 3-year bank loan**

(1) Since Lutanda Solar Plc is VAT-registered, it can claim the full input VAT on the total purchase price of the equipment at the time of purchase. The VAT component claimable is K1,740,000 * (4/29) = **K240,000**.
(2) The company can claim capital allowances (also known as wear and tear) on the VAT-exclusive cost of the equipment.

The amount of the Capital Allowances will be:

= (K1,740,000 – K240,00) K1,500,000 x 25%.
= K375,000

(3) The interest payments on the bank loan are deductible expenses for income tax purposes as long as the interest expense is incurred wholly and exclusively for the purpose of the business. However, Zambia's tax law limits the deduction of gross interest expense to 30% of the company's tax earnings before interest, tax, depreciation, and amortization (Tax EBITDA).

SOLUTION THREE

(a) Ethical implications of Tax optimization strategy

Clearly the Tax optimization strategy will be deemed as a tax avoidance scheme under the general anti-avoidance provisions of the Income Tax Act, as it was set up purely to avoid tax and as such will constitute tax evasion, which is illegal.

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 as is the case with OmniCorp. Therefore, entertaining the CEO's suggestion will be in breach of your ethical duties of integrity, objectivity and professional behavior.

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 tax optimization strategy is designed with the intention of being deliberately misleading and therefore, non-disclosure to comptent authorities means you will be knowingly be associated with this tax evasion scheme and you will not be objective in reporting on the true tax position of the client. Clearly such behavior will discredit you as a tax practitioner and bring the institute into disrepute, if this information becomes public.

Steps to Resolve the Ethical Dilemma

To resolve this complex ethical dilemma, one must take a structured, professional, and ethical approach as follows:

(1) Direct Communication with the Client:

The first step is to have a direct and honest conversation with Mr. Chisala. I should explain in a clear, non-confrontational manner the risks associated with their tax strategy. This includes explaining the potential for the ZRA to challenge the arrangement under anti-avoidance provisions, leading to significant penalties, interest charges, and reputational damage for OmniCorp.

(2) Internal Consultation:

Immediately after, I should consult with a senior partner or my firm’s in-house ethics committee. This provides a safeguard against the threats am facing. It ensures that the decision is not made in isolation and brings the collective expertise and ethical judgment of the firm to the issue. This also transfers the responsibility of the final decision to the firm, not just to me.

(3) Proposing a Professional Solution:

I should advise Mr. Chisala on a better course of action. The following courses of action are available:

(i) Full Disclosure:

Proposing that the company disclose the tax-planning arrangement to the ZRA, which demonstrates good faith and may lead to a more favorable outcome than a discovery during an audit.

(ii) Restructuring:

Advising the company to restructure the transactions to ensure they have genuine commercial substance and are aligned with an "arm's length" principle, making them more defensible from a tax perspective.

(iii) Disassociation:

As the last resort If, after providing all the necessary advice and explaining the risks, Mr. Chisala insists on proceeding with the aggressive tax position without any form of professional safeguard or disclosure, I must disassociate from the engagement. This is the ultimate and necessary step to protect my integrity and the reputation of the profession. I should inform Mr. Chisala, in writing, that you cannot prepare and submit a tax return that you believe is based on an invalid tax position. The value of my professional reputation and ethical principles must outweigh the financial gain from retaining a single client.

(b) Other ethical threats

(1) Familiarity threat

This threat arises from a close relationship with the client. My personal friendship with Mr. Chisala could make me too sympathetic to his position. This familiarity could make it difficult to maintain a professional distance and challenge his instructions, as you may be reluctant to damage the friendship.

Recommendation

(i) I should be removed from the assignment. The assignment should be allocated to another appropriately qualified professional from the firm.

(ii) Any work performed on the assignment can be reviewed by an independent professional reviewer.

(2) Self-Interest Threat:

This threat arises when a financial or other interest improperly influences a professional's judgment or behavior. The potential loss of OmniCorp as a major client and the associated revenue for my firm creates a powerful incentive to comply with the CEO's request. My own job security and the firm's profitability are at risk, which can cloud my judgment. (2)

Recommendation

The firm should consider terminating some services offered to OmniCorp or finding other clients to reduce the undue dependence on OmniCorp in order to reduce amounts received from the company to acceptable levels.

(3) Intimidation Threat:

This threat arises when a professional is deterred from acting objectively due to actual or perceived pressures, including threats. Mr. Chisala's veiled threat to take all of OmniCorp's business to a competitor is a clear form of intimidation. This pressure is designed to force me into a decision that I know is ethically and professionally wrong.

Recommendation

The firm must discontinue providing services to OmniCorp

(c) **Incentives available under the Zambia Development Agency Act for manufacturing companies**

The incentives available under the Zambia Development Agency Act for manufacturing companies operating in the Multi-Facility Economic Zones (MTEF) include:

(1) Corporate tax incentives

- 0% corporate tax on export profits for a period of 10 years from the first year of commencement of the operations
- 50% of the profits to be taxed from years 11 to 13
- 75% of the profits to be taxed from years 14 to 15
- 0% tax on dividends from profits made in the MFEZ from first year to 10 years.

(2) Capital allowances - accelerated depreciation at 100% on capital equipment and machinery

(3) VAT claims for up to 10 years on pre-production expenditure

(4) Zero rating of exports to other countries

(5) Waiver of customs duty on machinery and raw materials used in manufacturing

(6) 0% import duties on capital goods, specialized machinery and motor vehicles for the first five years

SOLUTION FOUR

(a) **Value Added Tax (VAT) Implications**

(i) **Services from VZP to VML**

(1) The supply of management and administrative services from VZP to VML is a taxable supply.

(2) VZP (the supplier) must charge Output VAT on the K1,200,000 value at the standard VAT rate of 16%.

The VAT payable is therefore K1,200,000 x 16% = K192,000

(3) VML (the recipient) can claim this K192,000 as Input VAT, provided the services are for making its own taxable supplies.

(ii) **Services from VGS to VZP**

(1) The provision of services by a foreign company (VGS) to a Zambian company (VZP) is considered an imported service.

(2) VGS will be charged reverse VAT on the provision of services. Reverse VAT is the transfer of liability to account for and pay VAT from the person making the supply to the person receiving the supply where the non-resident supplier has not appointed a tax agent in Zambia.

(3) VHP will be required to account for and pay VAT on the provision of services because the foreign supplier has not appointed a tax agent.

(4) The amount of VAT to be paid will be: K800,000 x 16% = K128,000.

(5) Reverse VAT paid is not recoverable as input VAT. Therefore, VZP will not be able to claim K128,000 as input VAT.

(b) **Property Transfer Tax (PTT) on Internal Restructuring**

(1) The Property Transfer Tax Act allows the Commissioner-General to treat a transfer of property between companies within a group as having a nil realized value, provided it is for the sole purpose of an internal reorganization.
(2) As the transfer is explicitly for an internal reorganization and the Commissioner-General has been notified,, the Commissioner may deem the trsansfer to have taken place at Nil realisable value in which case PTT liability would be nil.

(c) **Corporate Income Tax Treatment of Group Losses**

In Zambia, each company is treated as a separate entity for income tax purposes, and there is no provision for consolidated tax returns or for group loss relief where one member's loss can be offset against another member's profit.

The tax loss of K4,000,000 incurred by VZP cannot be used to offset the profit of VML.
VHP must offset the tax loss brought forward against 50% of the taxable profits of K9,400,000 generated by the company in the current year with the balance of the unrelieved loss being carried forward to be used against 50% its own future taxable profits, subject to the five-year limit.

The company income tax payable by each company in the tax year 2026, will therefore be:

	VZP	VML
	K	K
Taxable profit before loss relief	9,400,000	6,500,000
Less loss Relief restricted to		
(50% x K9,400,000)	(4,700,000)	
Final taxable profit	4,700,000	6,500,000
Company Income Tax @30%	1,410,000	1,950,000

(d) **PTT on Indirect Share Transfer**

(1) The transfer of VI's shares by to the foreign investor will be subjected to PTT, even though the transaction will occur outside Zambia. This is because the transfer will meet the definition of an indirect transfer of shares Under the provisions of The Property Transfer Tax (PTT) Act of Zambia

(2) Under the PTT Act 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. This criterion is met as VI hold 100% of the equity shares in VZP.
(3) The PTT payable will be computed on the realized value of the shares which will be computed as a 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.
(4) The PTT rate for the transfer of shares is generally 8% and the Zambian resident company is responsible for filing the PTT return in case of indirect share transfers

SOLUTION FIVE

(a) **How tax practitioners help entrepreneurs optimize finances and grow their businesses through tax planning and compliance**

(1) **Strategic advisors:** Tax practitioners act as strategic advisors, guiding entrepreneurs on how to structure their businesses to minimize tax liabilities from the outset.

(2) **Improve cashflow:** Tax practitioners allows the business to retain more capital through tax management and planning, which can then be reinvested into operations, expansion, or innovation.

(3) **Advising on entity selection:** The choice of business structure (e.g sole proprietorship, partnership, limited company) has different tax implications. A practitioner helps an entrepreneur select the most tax-efficient structure, ensuring the business starts on a financially sound footing.

(4) **Identifying tax deductions and credits**: Practitioners are experts in tax law and can identify all eligible deductions and credits that an entrepreneur might miss. This directly reduces the taxable income, lowering the overall tax bill. For example, they can advise on capital allowances and other incentives, allowing the business to save money.

(5) **Managing international tax considerations:** For entrepreneurs with foreign investments or operations, practitioners navigate complex international tax laws and double taxation agreements (DTAs). By providing advice on how to structure international ventures, they prevent punitive double taxation and ensure compliance in multiple jurisdictions.

(6) **Ensuring regulatory compliance**: Beyond saving money, tax practitioners free up an entrepreneur's time and resources by handling the complex and often time-consuming task of regulatory compliance. This is a critical function that ensures the business operates legally and avoids costly penalties, fines, or legal issues.

(b) Government’s policy rationale for increasing mobile money transaction levy rates

Government’s policy rationale is primarily revenue maximization as Mobile money usage has increased exponentially; taxing this segment aligns fiscal policy with digital market growth. Extension to self-transfers closes a loophole as these were not previously covered by the levy.

Potental impact on Chobombo Farms

(1) Customer Behavior and Transaction Volumes

The livestock payments platform depends on regular transaction activity. Small traders and rural suppliers may use the platform to receive payment for animals, transport fees, hides, skins, feed, veterinary services, or related livestock transactions. An increase may reduce the number of digital transactions users make. Some may return to cash, especially where transactions are small and margins are thin. This is a serious concern because rural traders and small livestock suppliers are often highly price sensitive. They may view the levy as an extra cost that reduces their income.

The extension of the levy to self-transfers may also discourage users from moving money between their own accounts or wallets. This matters because small traders often move funds between business and personal wallets, between trading locations, or between collection points and payment accounts. If these transfers become more costly, users may avoid them or reduce their frequency.

As a result, CLPL may experience lower transaction volumes on its platform. Since digital payment platforms often depend on volume, even a small reduction in transaction frequency may affect revenue sustainability.

(2) Revenue Sustainability and Platform Viability

The increase in mobile money levies creates a structural risk to CLPL's platform. If the platform earns income mainly from transaction-based fees, lower transaction volumes will reduce platform revenue. The company cannot assume that higher transaction costs will automatically produce more revenue. In price-sensitive markets, higher charges can reduce usage enough to weaken total income. There is also a competitive risk. If users believe the platform has become too expensive, they may shift to other payment channels, informal cash arrangements, or competitor platforms with lower effective costs. Once users leave a payment platform, it can be difficult and costly to win them back.

CLPL should therefore review its pricing model. The company may need to reduce its own platform fees to soften the effect of the levy, especially for high-frequency users such as transporters, livestock agents, and abattoirs. However, this would reduce CLPL's own margins, so the company must balance user retention against profitability.

(c) Government's policy rationale for extension of the 2% local content allowance

The 2% local content allowance now applies to income earned from value addition to milk, raw hides and skins. The allowance applied only to value addition of selected crops such as tomatoes, pineapples, cassava, mangoes, sorghum and millet. The measure is intended to promote value addition, reduce export of raw agricultural products, and support growth of the dairy and leather sub-sectors, which have high employment and import-substitution potential.

Potental impact on Chobombo Farms

(1) The allowance operates as a deduction against taxable income, calculated as 2%
qualifying gross income from the value-added hides and skins business. This means that Chobombo Farms taxable income from processed hides and skins would be reduced before corporate income tax is calculated. The direct effect is a reduction in tax payable and an improvement in after-tax profit from the processing unit, giving the company a modest but useful tax benefit. The hides and skins sector often faces high operating costs, including transport, curing chemicals, preservation materials, electricity, water, labour, and storage costs. These costs reduce margins, especially where the company competes with imported leather products or regional buyers with stronger purchasing power

(2) The incentive also encourages the company to increase local sourcing. Since the allowance is based on local content and value addition, Chobombo Farms should strengthen its procurement arrangements with small-scale livestock farmers, abattoirs, and rural suppliers. This may improve the supply chain by encouraging better record keeping, quality control, traceability of hides and skins, and formal contracts with suppliers. The allowance therefore supports a broader strategy of improving the local livestock value chain.

From a strategic point of view, CLPL should treat the 2% allowance as a supportive incentive, not as the main reason for investing in hides and skins processing. The main commercial drivers should remain product quality, efficient preservation, reliable supplier relationships, cost control, market access, and the ability to produce higher-grade products for local and regional buyers.

(d) **Tax incentives in the agriculture sector.**

(1) **Reduced corporate income tax:** Farming enterprises are subject to a significantly reduced company income tax rate of 10%, which is much lower than the standard 30% rate for other companies.
(2) **Generous capital allowances:** The sector provides accelerated wear and tear allowances at a rate of 100% on implements used directly in farming. Additionally, a farm improvement allowance and farm work allowance, both at 100%, are available for qualifying expenditures.
(3) **Development allowance:** A development allowance at the rate of 10% is available in the year that a business develops a qualifying plantation
(4) **Tax exemptions on dividends:** Dividends paid out of farming profits are exempt from tax for the first five years the distributing company commences farming, providing a significant benefit to investors.
(5) **VAT incentives:** The sector also offers VAT benefits, such as a guaranteed input VAT claim for four years prior to production and the zero-rating of agricultural products when exported.
(6) **Zero rated products:** The sector applies zero rating agricultural products and supplies when exported on most products.
(7) **VAT deferment**: VAT deferment on importation of some agricultural equipment and machinery.

END OF SUGGESTED SOLUTIONS