TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C1: BUSINESS MANAGEMENT

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.

2. This question paper consists of FIVE (5) questions of twenty (20) marks each. You MUST attempt all the FIVE (5) questions.

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

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

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

6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.

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

8. Present legible and tidy work.

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

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

Attempt all FIVE (5) questions

QUESTION ONE

(a) Maslow's Hierarchy of Needs is a motivational theory developed by Abraham Maslow, which proposes that human beings have a set of innate needs arranged in a hierarchical order. According to this theory, people must satisfy basic needs before they can focus on higher-level needs. The hierarchy is often depicted as a pyramid with five (5) levels, ranging from the most fundamental physiological needs to self-actualization at the top.

Required:

With a help of a diagram, explain how managers can use the Maslow's Hierarchy of Needs theory to motivate employees. (14 marks)

(b) Explain the following in Vroom's Expectancy Theory:

(i) Expectancy. (2 marks)
(ii) Instrumentality. (2 marks)
(iii) Valence. (2 marks)

[Total: 20 Marks]

QUESTION TWO

An investor of Asian origin recently set up a business in Zambia. It soon became obvious of the different cultural differences in work culture and the barrier of language. Despite these challenges, the investors were determined to set up in Zambia. The challenges however led to high labour turnover due to frequent misunderstandings and conflicts.

Management soon realized that they need to adapt the management style to accommodate the culture of the locals. As the business grew and more tensions arose, the investors were now considering outsourcing labour.

Required:

(a) Identify five (5) points can you advise management to favour recruiting internally as the business grows? (10 marks)

(b) Distinguish between Transactional and Laissez-Faire of leadership. (6 marks)

(c) List any other four (4) leadership styles other than the ones mentioned above. (4 marks)

[Total: 20 Marks]

QUESTION THREE

Kwashwa-mukwenu is a growing business ran by a group of youths in Mongu after winning a Constituency Development Fund contract. The business thrives in rice growing, fish farming, poultry and supply of agro inputs. In the last three (3) years the company has seen booming business and is now positioning itself into a full-fledged corporate entity. They have come to you for professional advice on how to strategize the business in the next three (3) years.

Required:

(a) Explain the strategic choices that are made at both business and corporate levels. (6 marks)

(b) Corporate strategy is concerned with the overall purpose and scope of the organisation. Describe the three (3) features of corporate strategy. (6 marks)

(c) The distribution function must minimise the costs and improve delivery service. List any four (4) things to consider when choosing the site of distribution function. (8 marks)

[Total: 20 Marks]

QUESTION FOUR

(a) Managers perform not only functional roles, but also leadership roles. Leadership is defined as the process of influencing, directing and motivating subordinates to perform the assigned tasks.

Required:

Give three (3) advantages and three (3) disadvantages of the authoritarian styles of leadership. (6 marks)

(b) Performance appraisal is a necessary function of managers and supervisors. State three (3) factors that should be considered to ensure performance appraisal achieves its objectives? (6 marks)

(c) Briefly explain the following:

(i) Organization structure. (2 marks)

(ii) Limited liability. (2 marks)

(iii) Centralization. (2 marks)

(iv) Partnership deed. (2 marks)

[Total: 20 Marks]

QUESTION FIVE

(a) Joining a new organization is not always easy. You are exposed to "new" people that do things differently. No matter what level you join, it is important to take time and learn what is on the ground, before you begin to implement new changes. But generally people don't like change. Most people would prefer the status quo to continue working as they are used to. However, long term thinking and repositioning requires that change happens even upsetting our comfort zones. But it is important to communicate the coming changes and justify them as necessary for the future we want.

Required:

Explain four (4) ways of how new employees learn culture in an organisation. (8 marks)

(b) Define effective business communication. (2 marks)

(c) Discuss five (5) barriers to effective communication. (10 marks)

[Total: 20 Marks]

END OF PAPER

C1 BUSINESS MANAGEMENT

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) Motivation

The following are the needs in a hierarchy starting with the most basic.

1. **Physiological needs** These are basic needs that are required for human survival such as food, water, shelter, clothing etc. The manager can satisfy these needs on employees by paying them a reasonable salary that will be able to meet the basic food basket needs and other physiological needs.
2. **Safety and Security needs** Physiological Needs Safety needs Love / social needs Esteem needs 12 Human beings after satisfying basic needs have a desire to fulfill security and safety needs. People need to be protected from any form of harm in the environment. Managers provide this need by hiring security personnel and giving out protective cloths to employees.
3. **Social needs** A human being is a social being who interacts with others, who needs to be loved and have a sense of belongingness. Therefore, managers should ensure that they create a friendly working environment where employees have a sense of belongingness. They can organize for team events such as corporate parties where employees interact with each other's.
4. **Self-esteem needs** These are needs satisfied by an individual through having a status and autonomy in the group or society. This is satisfied in business organizations by an employee being promoted and having autonomy in decision making.
5. **Self-actualization needs** This is the highest needs that an individual desire to satisfy after satisfying all the other needs. This is achieved by an employee realizing their full potential e.g. being a managing director. According to Maslow, needs should be satisfied in a hierarchy. This means that needs at the bottom should be satisfied first before seeking to satisfy the higher needs.

(b) **Vroom's Theory**

Describe the following in Vroom's Expectancy Theory:

1. Expectancy
   A person's belief that working hard will result in desired level of task performance being achieved (this is sometimes called Effort-performance expectancy)
2. Instrumentality- a person's belief that successful performance will be followed by rewards and other potential outcomes (this is sometimes called performance-outcome expectancy).
3. Valence- the value a person awards to the possible awards and other work related outcomes

The Expectancy theory positis that Motivation (M), expectance (E), intsumentality (I) and valence (V) are related in a multiplicative fashion:

(M= E X I X V)

SOLUTION TWO

(a)

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

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

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

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

AND

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

(c)

1. Transactional
2. Democratic
3. Autocratic
4. Charismatic
5. Bureaucratic
6. Servant

SOLUTION THREE

(a) The following are the strategic choices made at business and corporate levels:

1. At the strategic business unit, the choices are about how to achieve competitive advantage based on the understanding of customers and markets at the corporate level, strategy is primarily about scope concerned with the overall portfolio of products and business organisation.
2. Spread of the markets,
3. Relationships between business units and corporate centres.

(b) The following are the features of corporate strategy:

1. Scope of activities: it affects the entire organisation. The activities of all parts of the business operations should support thee corporate strategic plan and contribute to the achievement of corporate objectives.
2. Expectorations of stakeholders: the corporate strategy should seek to meet the expectations of stakeholders. The interests of stakeholders must be prioritised
3. Resources: it involves making choices about obtaining resources now and in the future.it also involves the allocation of these resources.

(c) The following are the things to consider when choosing the site for distribution function:

1. The site available
2. Whenever the customer come to the supplier or whether the supplier will deliver to the customer
3. Local transport facilities
4. Future development in the area
5. Whether a lease or freehold is required
6. Its geographical position within the market area
7. Nature of the product.

SOLUTION FOUR

(a) Authoritarian leadership This is a type of leadership style where the leader makes decisions without involving subordinates. Subordinates are just given instructions to perform assigned tasks and non-performance results into punishment.

Advantages:

1. Decision making process is fast as only one individual is involved in decision making process.
2. Tasks are carried out quickly without resistance for fear of punishment.
3. It is helpful where subordinates are ill-skilled.
4. Useful where Technical issues are involved

Disadvantages

1. It may result into employees being demotivated.
2. It may result into high labour turnover.
3. It bleeds discouragement to employees in decision participation
4. It stifles subordinates' initiative

(b) Factors to consider for performance appraisal.

1. The supervisors should be trained on how to conduct effective performance appraisals.
2. The person conducting appraisal should not be biased. It has to be carried out on merit grounds without favoritism or corruption.
3. Prior to conducting performance appraisal, the employee to be assessed should be given measurable targets to be achieved within a stated period. These targets should be agreed between the supervisor and the subordinate.
4. The supervisor should assess performance not personality. Performance appraisal should be based on factual evidence not on opinions.
5. A friendly environment should be created by the person conducting an appraisal to allow free exchange of views on key performance measures.

(c)

1. Mintzberg defines an organization structure as the total sum of the ways an organization uses to divide its labor into distinct tasks and achieves co-ordination among them.
2. Limited liability This means that the liability of the owner of the business is limited to the amount invested in the business. Therefore, is not personally liable for the debts of the business.
3. Centralization This is the extent to which people have to refer decisions upwards to their superiors. It is an arrangement where decision making authority is concentrated at the top.
4. Partnership Deed This is a legal document signed by the partners at the start of business. It clearly spells out the duties, rights, penalties and general functions of partners towards the business. This document in short regulates the way the business is run and it is a point of reference should there be a dispute in the course of running business.

SOLUTION FIVE

(a) Culture is learnt in a number of ways including:

1. **Stories**: organizational stories typically contain a narrative of significant events or people, including such things as the organisation's founders, rule breaking, rags-to-riches successes, reactions to past mistakes and so forth.
2. **Rituals:** corporate rituals are repetitive sequences of activities that express and reinforce the key values of the organisation. For example, at the Graduation ceremony: the way the procession moves and the dress of the academic staff and graduands are rituals that reinforce certain values and beliefs.
3. **Material symbols:** the layout of an organisation's facilities, how employees dress, the types of cars top executives are provided with and the class the travel when they fly are examples of material symbols. The size of the office, the elegance of the furnishing, executive perks provided to managers such as reserved car parking spaces, health club membership, golf club membership, medical and school fees, etc.
4. **Language:** language can define members of an organizational culture.by learning the organisation's language, members attest to their acceptance of the culture and in so doing, help to preserve and reinforce it. For example, at Microsoft, employees use the words *face mail* to denote talking to someone face to face; and *work judo* meaning the art of deflecting a work assignment to a colleague without making it appear that you are avoiding it.

(b) Define effective business communication and discuss five barriers to effective communication.

Effective Business communication can be defined as a well-organized and schemed process off sharing business idea, proposals, information, facts and/or reports within an organisation or outside to achieve a predetermined goal. In other words, it is the flow of messages within the business house among its employees and with its customers, clients, etc., ensuring its smooth running.

(c) Barriers to effective communication

1. Poor use of Communication Channels: good managers choose the right communication channel, or combination of channels. Written channels are acceptable for simple and easy-to-convey messages with oral channels work best for complex messages.
2. Semantic problems: this barrier s refers to the type of language used. It is important to use simple, straight forward language. Communication will be effective only to the extent that the sender expresses the message in ways that can be clearly understood.
3. Absence of feedback: this refers to the failure to provide the sender with cues, as to how the message has been received.
4. Physical distractions: any number of physical distractions can interfere with effective communication. For example, too much noise on the environment.
5. Status effects: the hierarchy of authority in organisations creates potential barriers to effective communication. Status effects refers to the unwillingness of people in lower positions in organisations to communicate bad or negative information to persons at higher levels.

END OF SUGGESTED SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C2: ECONOMICS & FINANCIAL MATHEMATICS

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

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

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

Attempt all five (5) questions.

QUESTION ONE

(a) Define the term 'price elasticity of demand'. (3 marks)

(b) Outline any four (4) factors that affect the price elasticity of demand for a good. (8 marks)

(c) Explain any three (3) monetary policy tools used Zambia. (9 marks)

[Total: 20 Marks]

QUESTION TWO

(a) Explain the output, income and expenditure approaches to measurement of Gross Domestic Product (GDP) by the Zambian Government. (9 marks)

(b) In line with Government stabilisation policies, explain the following concepts:

(i) Expansionary policies (3 marks)

(ii) Contractionary policies (3 marks)

(c) Explain the following terms of payment used in international trade:

(i) Open account method (2 marks)

(ii) Documentary credits (3 marks)

[Total: 20 Marks]

QUESTION THREE

(a) The following table shows two (2) projects:

Cash Flows

	Initial Cost	**Year 1**	**Year 2**	**Year 3**	**Year 4**
Project A	K50,000	K25,500	K24,500	K17,000	K14,000
Project B	K45,000	K12,500	K15,500	K21,000	K38,000

Choose between the two (2) projects using each of the following methods in turn:

(i) Net present value, using 22% and 28%. (6 marks)

(ii) Using the result from (a), estimate the internal rate of return for each of the projects. (5 marks)

(b) A school teacher is investigating the claim that class size does not affect GCSE results. His observations of GCSE classes are as follows:

Class	X1	X2	X3	X4	Y1	Y2	Y3	Y4	Y5
Student in class (c)	35	32	27	21	34	30	28	24	7
Average GCSE point score for class (p)	5.9	4.1	2.4	1.7	6.3	5	3.5	2.6	1.6

Determine the regression line for p on c. (9 marks)

[Total: 20 Marks]

QUESTION FOUR

(a) A volunteer ambulance service handles 1 to 10 service calls on any given day. The probability distribution for the number of service calls is as follows.

Number of service calls	1	2	3	4	5	6	7	8	9	10
Probability	0.15	0.10	0.10	0.01	0.08	0.01	0.05	0.02	0.28	0.20

Required:

(i) What is the expected number of service calls? (3 marks)

(ii) What is the standard deviation in the number of service calls? (5 marks)

(b) Suppose that today a principal of K25,000 is deposited in a savings account. After fifteen (15) years, the amount increased to K85,000. What was the nominal annual interest rate, assuming that nothing was added or withdrawn during that period if the interest was:

Required:

(i) Compounded semi -annually? (4 marks)

(ii) Compounded continuously? (4 marks)

(c) XYZ Airlines Services which arrive late to Kenneth Kaunda International Airport on a typical week can be modelled by a Poisson distribution with mean of 4.5. Determine the probability that on a given week there will be:

Required:

(i) Four (4) late arrivals. (2 marks)

(ii) Less than two (2) late arrivals. (2 marks)

[Total: 20 Marks]

<u>QUESTION FIVE</u>

(a) In a 2007 survey of consumer spending habits, Zambian residents aged 45 to 54 years spent an average of 9.32% of their after-tax income on food. Suppose that the current percentage of after-tax income spent on food by all Zambian residents aged 45 to 54 years follows a normal distribution with a mean of 9.32% and a standard deviation of 1.38%. Find the probability that a random selected person's after-tax income spent on food is:

Required:

(i) Greater than 11.1% (3 marks)

(ii) Less or equal 8.3% (3 marks)

(iii) Between 6.0% and 7.2% (5 marks)

(b) A couple decides to be saving up some money for their daughter's college expenses when she grows up. Suppose a K30,000 deposit is made at the end of each quarter and the money in their joint account is compounded quarterly at 8.5% interest for 20 years.

Required:

(i) Calculate how much will be in the account after 20 years? (5 marks)

(ii) Compute the total amount deposited? (2 marks)

(iii) Calculate the total amount of interest the couple earned? (2 marks)

[Total: 20 Marks]

END OF PAPER

C2 ECONOMICS & FINANCIAL MATHEMATICS

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) Price elasticity of demand is a measure of the responsiveness of the quantity demanded to a change in price.

(b) Factors that affect price elasticity of demand are:

1. Substitutability: A good with close substitutes has elastic demand while a good without close substitutes such as food or salt has inelastic demand.
2. Nature of the product: Luxuries are goods which make life easy and enjoyable. Life can continue without them hence demand is elastic. Necessities are goods needed for survival. Life cannot continue without them hence they have inelastic demand.
3. Proportion of total expenditure: Small items in expenditure such as a box of matches have inelastic demand while big items in expenditure such as a house have elastic demand.
4. Time: In the short run demand is inelastic while in the long run demand is elastic
5. Habit: When habit is strong demand is inelastic and when habit is weak demand is elastic.
6. Durability of the product: Durable products tend to have inelastic demand while non-durable products have elastic demand

(c) The following are the monetary policy tools:

1. Open market operation (OMO): This is the buying and selling of government securities such as treasury bills on the open market. The central bank can either sell or buy government securities depending on economic objectives being pursued.
2. Discount rate policy: The discount rate is the interest rate that the central banks charges to commercial bank that borrow from it. It can either be increased or reduced to meet economic objectives.
3. Required reserve policy: The required reserves is the fraction of the deposits that every deposit accepting institution is required to keep with central bank in order for to meet it legal obligations. It can either be increased or reduced to meet economic objectives
4. Prudential controls: The central bank will issue from time to time guidelines regarding sound banks management. The rules will cover such things as capital

adequacy, reporting of information to consumers as well as the calibre of management. The commercial bank which fails to meet these guidelines may have its operating license revoked.

5. Moral suasion: This is where the central bank advices commercial banks on sound banking without any legal backing. A Commercial bank that refuses to follow the advice cannot be prosecuted but can be refused loans from the central bank when it calls.

SOLUTION TWO

(a) The three approaches to national income

1. The output approach measures GDP in terms of the value added of each firm's own contribution to total output.
2. The expenditure approach measures the GDP in terms of the categories of expenditure required to purchase the total production.
3. The income approach measures GDP in terms of the factor-income claims generated in the course of production the total output.

(b) Stabilisation policies:

1. Expansionary policies: These are government policy actions intended to increase planned spending and output. Expansionary policies are normally implemented when an economy is in a recession
2. Contractionary: These are government policy actions designed to reduce planned spending and output. These policies are implemented when the economy overheats with output greater than potential output (an expansionary gap).

(c) Terms of payment used in international trade:

1. Open account method: This is a method requiring the importer to pay the exporter before goods are dispatched. It is the most secure method for the exporter ad the most risk method for the importer.
2. Documentary credit: This is a guarantee of payment by the importer's bank on condition that the exporter presents specified documents within a stipulated period and conforms to the terms of the letter of credit. The exporter ships the goods by relying on the reputation of the importer's bank. It is safer for both the exporter and the importer compared to open account method.

SOLUTION THREE

(a)

(i) At 22%

$$NPV_A = 25500(1.22)^{-1} + 24500(1.22)^{-2} + 17000(1.22)^{-3} + 14000(1.22)^{-4} - 50000$$
$$= 20901.64 + 16460.63 + 9362.02 + 6319.59 - 50000 = 3043.88$$

$$NPV_B = 12500(1.22)^{-1} + 15500(1.22)^{-2} + 21000(1.22)^{-3} + 38000(1.22)^{-4} - 45000$$
$$= 10245.90 + 10413.87 + 11564.84 + 17153.17 - 45000 = 4377.78$$

At 28%

$$NPV_A = 25500(1.28)^{-1} + 24500(1.28)^{-2} + 17000(1.28)^{-3} + 14000(1.28)^{-4} - 50000$$
$$= 19921.88 + 14953.61 + 8106.23 + 5215.41 - 50000 = -1802.87$$

$$NPV_B = 12500(1.28)^{-1} + 15500(1.28)^{-2} + 21000(1.28)^{-3} + 38000(1.28)^{-4} - 45000$$
$$= 9765.63 + 9460.45 + 10013.58 + 14156.10 - 45000 = -1609.24$$

Project B is better at either 22% or 28%.

(ii) Internal rate of return for project A:

$$IRR_A = \frac{(0.22 \times -1802.87) - (0.28 \times 3043.88)}{-1802.87 - 3043.88} = \frac{-396.6314 - 852.2864}{-4846.75} = \frac{-1248.9178}{-4846.75} \cong 0.2577.$$

Therefore, the internal rate of return for project A is approximately 25.77%.

$$IRR_B = \frac{(0.22 \times -1609.24) - (0.28 \times 4377.78)}{-1609.24 - 4377.78} = \frac{-354.0328 - 1225.7784}{- -5987.06} = \frac{-1579.8112}{-5979.06} \cong 0.2639$$

Therefore, the internal rate of return for project B is approximately 26.39%.

Hence, project B is better of the two projects.

(b)

c	p	c^2	cp
35	5.9	1225	206.5
32	4.1	1024	131.2
27	2.4	729	64.8
21	1.7	441	35.7
34	6.3	1156	214.2
30	5	900	150
28	3.5	784	98
24	2.6	576	62.4
7	1.6	49	11.2
$\sum c = 238$	$\sum p = 33.1$	$\sum c^2 = 6884$	$\sum cp = 974$

Now

$$S_{cc} = \sum c^2 - \frac{\left(\sum c\right)^2}{n} = 6884 - \frac{(238)^2}{9} = 6884 - 6293.78 = 590.22$$

$$S_{cp} = \sum cp - \frac{\left(\sum c\right)\sum p}{n} = 974 - \frac{(238)(33.1)}{9} = 974 - 875.31 = 98.69$$

Therefore,

$$\beta = \frac{S_{cp}}{S_{cc}} = \frac{98.69}{590.22} = 0.1672$$

and

$$\alpha = \bar{p} - \beta\bar{c} = \frac{33.1}{9} - 0.1672\left(\frac{238}{9}\right) = 3.68 - 0.1672 \times 26.44 = -0.741$$

Hence, the least –squares regression line is

$$p = \alpha + \beta c = -0.741 - 0.1672c$$

SOLUTION FOUR

(a)

(i) $$\mathrm{E}(\mathrm{X})=\sum_{x} x\mathrm{P}(\mathrm{X}=x)$$

$$=\sum_{x=1}^{10} x\mathrm{P}(\mathrm{X}=x)$$

$$=1(0.15)+2(0.10)+3(0.10)+4(0.01)+5(0.08)+6(0.01)+7(0.05)+8(0.02)+9(0.28)+10(0.20)$$

$$=0.15+0.20+0.30+0.04+0.40+0.06+0.35+0.16+2.52+2$$
$$=6.18$$

(ii) $$Var(\mathrm{X})=\mathrm{E}(\mathrm{X}^2)-[\mathrm{E}(\mathrm{X})]^2$$
$$\mathrm{E}(\mathrm{X}^2)=\sum_{x} x^2\mathrm{P}(\mathrm{X}=x)$$

$$=1^2(0.15)+2^2(0.10)+3^2(0.10)+4^2(0.01)+5^2(0.08)+6^2(0.01)+7^2(0.05)+8^2(0.02)+9^2(0.28)+10^2(0.20)$$

$$=0.15+0.40+0.9+0.16+2.00+0.36+2.45+1.28+22.68+20$$
$$=50.38$$

$$Var(\mathrm{X})=\mathrm{E}(\mathrm{X}^2)-[\mathrm{E}(\mathrm{X})]^2$$
$$=50.38-(6.18)^2$$
$$=12.1876$$

Standard Deviation $=\sqrt{Var(\mathrm{X})}$
$$=\sqrt{12.1876}$$
$$=3.49$$

(b)

(i) We are given $\mathrm{P}=\mathrm{K}25,000$, $\mathrm{A}=\mathrm{K}85,000$, $n=2$, and $t=15$ years. We have

$$\mathrm{A}(t)=\mathrm{P}\left[1+\frac{r}{n}\right]^{nt}$$

$$85,000=25,000\left[1+\frac{r}{2}\right]^{2(15)}$$

$$85,000=25,000\left[1+\frac{r}{2}\right]^{30}$$

$$\left(1+\frac{r}{2}\right)^{30}=3.4$$

$$1+\frac{r}{2}=(3.4)^{\frac{1}{30}}$$
$$\frac{r}{2}=(3.4)^{\frac{1}{30}}-1$$
$$\frac{r}{2}=0.042$$
$$r=0.042\times 2$$
$$r=0.084$$
$$\therefore r=0.084\times 100\%=8.4\%$$

(ii) $\mathrm{A}(t)=\mathrm{P}e^{rt}$

$$85,000=25,000e^{15r}$$
$$e^{15r}=3.4$$

We take the natural log on both sides. Thus,

$$\ln e^{15r}=\ln(3.4)$$
$$15r\ln e=\ln(3.4)$$
$$15r=\ln(3.4)$$
$$r=\frac{\ln(3.4)}{15}$$
$$r=0.082$$
$$\therefore r=8.2\%$$

(c)

(i) We are given $\lambda=4.5$

$$\mathrm{P}(\mathrm{X}=x)=\frac{e^{-\lambda}\lambda^{x}}{x!}$$
$$\mathrm{P}(\mathrm{X}=x)=\frac{e^{-4.5}(4.5)^{4}}{4!}$$
$$=0.1898$$

(ii) $\mathrm{P}(\mathrm{X}<2)=\mathrm{P}(\mathrm{X}=0)+\mathrm{P}(\mathrm{X}=1)$

$$=\frac{e^{-4.5}(4.5)^{0}}{0!}+\frac{e^{-4.5}(4.5)^{1}}{1!}$$
$$=0.0111+0.0500$$
$$=0.0611$$

SOLUTION FIVE

(a)

(i) $Z = \frac{X - 9.32}{1.38}$

$P(X > 11.1)$

$$P\left[\frac{X - 9.32}{1.32} > \frac{11.1 - 9.32}{1.32}\right]$$
$$= P[Z > 1.35]$$
$$= 1 - 0.9115$$
$$= 0.0885$$

(ii)

$P(X \le 8.3)$

$$P\left[\frac{X - 8.3}{1.32} \le \frac{8.3 - 9.32}{1.32}\right]$$
$$= P[Z \le -0.77]$$
$$= 1 - 0.7794$$
$$= 0.2206$$

(iii)

$P[6 < \mathrm{X} < 7.2]$

$$P\left[\frac{6 - 9.32}{1.32} < \frac{X - 9.32}{1.32} < \frac{7.2 - 9.32}{1.32}\right]$$

$$P[-0.24 < Z < -1.61]$$
$$P[Z < -1.61) - P[Z < -0.24]$$
$$0.9463 - 0.4052$$
$$= 0.5411$$

(b)

(i) The future value of the annuity formula is

$$\mathrm{A} = R\left[\frac{(1+r)^n - 1}{r}\right]$$

$$A = 30000\left[\frac{\left(1+\frac{0.085}{4}\right)^{4(20)}-1}{\frac{0.085}{4}}\right]$$

$$= K6{,}179{,}740.31$$

(ii) The total amount deposited is

$$30000(20)(4) = K2{,}400{,}000$$

(iii) The total amount of interest earned by the couple is

$$K6{,}179{,}740.31 - K2{,}400{,}000 = K3{,}779{,}740.31$$

END OF SUGGESTED SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C3: ACCOUNTANCY FOR TAX PRACTITIONERS

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

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

Attempt all FIVE (5) questions.

QUESTION ONE

The following list of balances have been extracted from the books of Adrian Phatashi, a sole trader, as at 30 June 2025.

	K	K
Land – cost	90,000	
Premises – cost	10,600	
Vehicles – cost	6,400	
Allowance for Depreciation		
-premises		3,180
-vehicles		1,280
Inventory (1 July 2025)	3,820	
Purchases	17,800	
Revenue		36,700
Wages	3,920	
Heating	740	
Insurance	360	
Rent	270	
Rates	1,010	
Administration expenses	1,050	
Receivables	2,400	
Payables		1,980
Bank	620	
Drawings	11,000	
Capital		106,850
	149,990	149,990

The following additional information is also available at 30 June 2025.

(i) Inventory was valued at K4,660
(ii) Wages outstanding were K80.
(iii) Insurance expenses prepaid were K60.
(iv) Depreciation for the year ended 30 June 2025 is to be provided for as follows:
- Premises – 10% on cost
- Vehicles – 20% on net book value

Required:

(a) Prepare for Adrian Phatashi, the statement of profit or loss for the year ended 30 June 2025. (7 marks)

(b) Prepare Adrian Phatashi, the statement of financial position as at 30 June 2025. (8½ marks)

(c) Leo prepared a trial balance on 30 September 2025 which failed to balance. He opened a suspense account. He then discovered the following errors:

(i) Discount allowed, K3,000 had been posted to the credit side of the discount received account.

(ii) Receipt of cash, K8,500, from Yolanda, a credit customer, had been credited to the account of Joan.

(iii) The total of the sales returns Journal, K11,000, had been posted as K10,000.

(iv) An invoice totaling K100,000 for computer equipment and supplies had included a charge of K15,000 for stationery. The total amount had been posted to the office equipment account.

Required:

Prepare journal entries to correct all the four errors. (Narratives are not required)

(4½ marks)

[Total: 20 Marks]

QUESTION TWO

During the year to September 2025 the partnership of Mwila and Chanda made a net profit of K135,000. From 1 October 2024 until June 2025 the partnership agreement was as follows:

		Per annum K'000
Salaries :	- Mwila	15,000
	- Chanda	22,500

Interest on capital was 3% of the opening capital balance.

Profit share : - Mwila $^{2}/_{3}$

	- Chanda	$^1/_3$

However, on 1 July 2025 the partnership agreement was changed as follows:

		Per annum
		K'000
Salaries :	- Mwila	18,000
	- Chanda	30,000

Interest capital was to be 3% of opening capital balance:

Profit share :	- Mwila	¾
	- Chanda	¼

The opening balances at 1 October 2024 on their capital and current accounts was as follows:

		K'000
Capital :	- Mwila	120,000
	- Chanda	75,000
Current :	- Mwila	3,000 (credit)
	- Chanda	4,500 (debit)

During the year ended 30 September 2025 Mwila made drawings of K66,000,000 and Chanda made drawings of K55,500,000.

Required:

(a) Prepare the partnership appropriation account for the year ended 30 September 2025. (14 marks)

(b) Prepare the partners current account for the year ended 30 September 2025. (6 marks)

[Total: 20 Marks]

QUESTION THREE

(a) When Sauti obtained a bank statement on 3 December, 2025 he discovered that he had a credit balance of K54,942. His general ledger showed a debit balance of K45,098.

Further investigations revealed the following:

(i) Bank charges amounting to K125 were omitted from the cash book.

(ii) Supplier dishonored cheque amounting to K5,502 was not reversed in the cashbook.

(iii) Standing orders to the value of K875 were yet to be recorded in the cash book.

(iv) A direct transfer of K1,005 from a customer B Banda was not updated in the cash book.

(v) Unpresented cheques amounting to K20,115 were not processed by the bank.

(vi) Outstanding lodgment valued at K15,778 were yet to be processed by the bank.

Required:

(i) Calculate the revised cash book amount for the month of November 2025. (3 marks)

(ii) Complete the bank reconciliation statement for the month of November 2025. (4 marks)

(b) Lemba received a statement from one of his suppliers during the month of May 2025 which showed that he owed K57,559. The supplier's account in Lemba's payables ledger shows a balance of K55,888. Upon investigation, Lemba discovered the following outstanding issues.

- A contra amounting to K4,442 was not included in the supplier's account.
- Goods valued at K9,500 were returned to the supplier but not showing on the statement.
- A trade discount of K888 was given as consideration for bulk purchases.
- A cash discount of K3,387 was not recorded in the supplier account.

Required:

(i) State any two (2) reasons for keeping a supplier account. (2 marks)

(ii) List and explain the three (3) main types of discounts offered by suppliers. (6 marks)

(iii) Calculate the revised amount on the supplier account which reconciles to the supplier statement. (5 marks)

[Total: 20 Marks]

QUESTION FOUR

(a) The following information has been extracted from the accounting records of EMS Ltd:

1 January 2025	**K**
Trade payables	14,000
Trade receivables	19,000

Transactions for the year ended 31 December 2025

	K
Revenue (all credit)	190,200
Sales returns	2,100
Purchases (all credit)	127,200
Purchases returns	3,900
Receipts from credit customers	185,500
Payments to credit suppliers	118,000
Refund to credit customers	900
Discount allowed	4,200
Discount received	1,700
Bad debts written off	600

Additional information as at 31 December 2024.

(1) EMS owed K200 to a supplier who also owed K360 to EMS. It was agreed to record this as a setoff in the control accounts.

(2) EMS owed K100 to a credit customer who had overpaid.

Required:

(i) Prepare the sales ledger control account. (4 marks)

(ii) Prepare the purchases ledger control account. (3 marks)

(iii) State five (5) problems EMS may face if her trade payables payment period deteriorates. (5 marks)

(b) Dentyne Ltd provided the following information at 31 December 2024 relating to its Liquidity at the time.

	K
Inventory	18,150
Bank overdraft	7,150
Trade receivables	15,300
Trade payables	10,960
Petty cash	120

Required:

(i) Calculate the current ratio. The calculation should be written to two (2) decimal places. (2 marks)

(ii) Comment on the current ratio calculated. (2 marks)

(iii) Calculate the quick ratio. The calculation should be written to two (2) decimal places. (2 marks)

(iv) Suggest two (2) reasons why the quick ratio could be lower. (2 marks)

[Total: 20 Marks]

QUESTION FIVE

You have been asked to help prepare the financial statements of Neli Ltd for the year ended 31 December 2025. The company's trial balance as at 31 December 2025 is shown below.

Neli Ltd's
Trial Balance as at 31 December 2025

	K '000	K '000
Sales		65,677
Purchases	48,900	
Inventories at 1 January 2025	6,480	
Share capital		14,000
Trade Payables		2,881
Property, Plant and Equipment:		
Cost	54,670	
Accumulated depreciation		28,980
Trade receivables	4,567	
6% Bank loan		12,000
Cash at bank	4,209	
Retained earnings		6,590
Interest	360	
Returns inwards	564	

Returns outwards		766
Distribution costs	4,555	
Administration expenses	6,589	
	130,894	130,894

Additional Information:

1. Inventories at 31 December 2025 were valued at K6,806,000

2. The company rented some temporary office space for the period 1 December 2025 to 28 February 2026. The contract price for the three (3) months was K144,000 and this was paid in full on 5 December 2025. The amount is included in administration expenses.

3. The company bought billboard advertising space for a period of three (3) months from 1 November 2025 to 31 January 2026. The invoice for the full three (3) months of K180,000 was paid on 10 January 2026. No entry has been made in the account for this transaction. This cost is charged to distribution costs.

4. Depreciation on property, plant and equipment is charged at 10% using reducing balance method and is charged to administration expenses.

5. Provide for income tax of K854,000 for the year 2025.

Required:

(a) (i) Prepare the statement of profit or loss for the year ended 31 December 2025. (9½ marks)

(ii) Prepare the company's statement of financial position as at 31 December 2025. (7½ marks)

(b) Identify any two (2) users of financial statements and accounting information and briefly explain the type of information they need. (3 marks)

[Total: 20 Marks]

END OF PAPER

C3 ACCOUNTANCY FOR TAX PRACTITIONERS

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) Adrian Phatashi's statement of Profit or Loss account for the year ended 30 June 2025.

	K	K
Revenue		36,700
Opening inventory	3,820	
Add: Purchases	17,800	
	21,620	
less Closing inventory	(4,660)	
Cost of goods sold		(16,960)
Gross profit		19,740
Less: Expenses		
Wages (3,920 + 80)	4,000	
Heating	740	
Insurance (360 - 60)	300	
Rent	270	
Rates	1,010	
Administration expenses	1,050	
Depreciation		
-Premises (10,600 x 10%)	1,060	
-Vehicles (6,400 x 1,280)x 20%	1,024	
		9,454
Net Profit		10,286

(b) Adrian Phatashi statement of Financial Position as at 30 June 2025

	K	K	K
Fixed Assets:			
Land	90,000	-	90,000
Premises	10,600	(4,240)	6,360
Vehicles	6,400	(2,304)	4,096
	107,000	6,544	100,456
Current Assets:			
Inventory		4,660	
Receivables		2,400	
Prepayments		60	
Cash at Bank		620	
			7,740
			108,196
Capital and liabilities:			
Capital		106,850	
Add: Net profit		10,286	
		117,136	
Less: Drawings			
		(11,000)	
			106,136
Current Liabilities:			
Payables		1,980	
Accruals		80	
			2,060
			108,196

(c) Correction of errors

Journal entries

		Dr	Cr
		K	K
1.	Discount allowed A/C	3,000	
	Discount received A/C	3,000	
	Suspense A/C		6,000
2.	Joan	8,500	
	Yolanda		8,500

3.	Sales Returns A/C	1,000	
	Suspense A/C		1,000
4.	Stationery	15,000	
	Office equipment		15,000

SOLUTION TWO

(a)

Appropriation Accounts

	1 Oct 2022 to 30 Jun 2023 K'000	1 July 2022 to 30 Sept 2023 K'000	TOTAL K'000
Net profit 9/12 and 3/12 x 135,000	101,250	33,750	135,000
Salaries:			
Mwila (9/12 x K15,000) and (3/12 x K18,000)	(11,250)	(4,500)	(15,750)
Chanda 9/12 x K22,500) and (3/12 x K30,000)	(16,875)	(7,500)	(24,375)
Interest:			
Mwila 9/12 and 3/12 x K3,600	(2,700)	(900)	(3,600)
Chand 9/12 and 3/12 K2,250	(1,688)	(562)	(2,250)
Net Profit	68,737	20,288	89,025
Profit share:			
Mwila (2/3 x 68,737) and (3/4 x 32,288)	(45,825)	(15,216)	(61,041)
Chanda 1/3 x 68,737) and (1/4 x 20,288)	(22,912)	(5,072)	(27,984)
	-	-	-

(b)

Current Account

	Mwila K'000	Chanda K'000		Mwila K'000	Chanda K'000
Balance b/d		4,500	Balance b/d	3,000	
Drawings	66,000	55,500	Salaries	15,750	24,375
Balance c/d	17,391		Interest	3,600	2,250
			Profit share	61,041	27,984
			Balance c/d		5,391
	83,391	60,000		83,391	60,000

SOLUTION THREE

(a) (i) Revised cash book

Revised cash book

	K		K
Balance b/f	45,098	Bank charges	125
Dishonoured chq	5,502	Standing order	875
Direct transfer	1,005	Bal c/d	50,605
	51,605		51,605
Balance b/f	50,605		

(a) (ii) Bank Reconciliation

Bank reconciliation

	K
Closing bank balance	54,942
Add outstanding lodgement	15,778
	70,720
Less Unpresented cheques	(20,115)
Balance as per revised cash book	**50,605**

b (i) reasons for keeping supplier account

- To prevent overcast or duplicate payments
- To help in resolving supplier related queries
- Compared against supplier statement
- used for reconciliation purposes

b(ii) List of discounts
- Cash discount - given for prompt payment
- settlement discount - given for paying within trade terms
- trade discount - given for bulk or regular purchases

b(iii)
Supplier reconciliation

	Personal Account K		Supplier Statement K
Unadjusted balances	55,888		57,559
Contra	(4,442)		
Returns			(9,500)
Cash discount	(3,387)		
	48,059	-	48,059

SOLUTION FOUR

(a)

(i) EMS sales ledger control Account

2023		K	2023		K
Jan 1	Balance b/f	19,000	Dec 1	Sales returns	2,100
Dec 31	Sales	190,200		Bank/cash	185,500
	Bank	900		Discount allowed	4,200
	Balance c/d	100		Bad debts	600
				PLCA/contra	200
				Balance c/d	17,600
		210,200			210,200

(ii) EMS purchases ledger control Account

2023		K	2023		K
Dec 31	Purchases returns	3,900	Jan 1	Balance b/d	14,000
Dec 31	Bank / cash	118,000	Dec 31	Purchases	127,200
	Discount received	1,700			
	SLCA/contra	200			
	Balance c/d	17,400			
		141,200			141,200

(iii) Problems EMS may face if her trade payables payment period deteriorates include:

1. An unsatisfactory payment period might make it difficult to obtain credit in the future.
2. Poor credit rating / reputation
3. Affect the ability to make purchases from chosen suppliers.
4. If unable to make purchases may not be able to satisfy their customers.
5. May be charged interest for late payment.
6. Cannot take advantage of cash / received discounts.
7. Supply maybe refused.

(b) (i) Current assets/ Current Liabilities

=(18 150 + 15 300 + 120)/ (10 960 + 7 150)

= 33 570/ 18 110

= 1.85: 1

(ii) Comments on the current ratio include:

1. Current assets almost twice the current liabilities
2. Can meet the current liabilities from the current assets
3. Slightly lower than the "benchmark" of 2:1
4. Appears to be adequate

(iii) (Current Assets-Inventory)/ Current Liabilities

=15 300 + 120)/ (10 960 + 7 150)

= 15 420/ 18 110

= <u>0.85: 1</u>

(iv) Two (2) reasons why the quick ratio could be lower include:

1. Increase in bank overdraft/change from debit to credit bank balance.
2. Purchase of non-current assets.
3. Repayment of long-term loan.
4. Increase in inventory.
5. Increase in dividends paid.

SOLUTION FIVE

(a)(i). Neli Ltd's
Statement of Profit or Loss Account for the year ended 31 December 2025

		K '000	**K** '000
Sales (65,677 – 564)			65,113
Opening inventory		6,480	
Purchases (48,900 - 766)		48,134	
		54,614	
less Closing inventory		(6,806)	(47,808)
Gross profit			17,305
Distribution costs	4,555		
Add: Accrued bill board costs ($\frac{2}{3}$ x $\frac{180}{1}$)	120	4,675	
Administration expenses	6,589		
Add: Depreciation on PPE 10% x (54,670-28,980)	2,569		
Less: Prepaid rent costs ($\frac{2}{3}$ x 144)	(96)	9,062	(13,737)
Profit from operations			3,568
Finance cost (6% x 12,000)			(720)
Profit before tax			2,848
Income tax			(854)
Profit for the year			1,994

(ii). Neli Ltd's
Statement of Financial Position as at 31 December 2025

	K	**K**	**K**
Non-Current Assets:			
Property, Plant and Equipment	54,670	31,549	23,121
Current Assets:			
Inventories		6,806	
Trade Receivables		4,567	
Cash		4,209	
Prepaid Administration		96	15,678
Total assets			38,799
Equity and Liabilities:			
Ordinary shares of K1 each		14,000	
Retained earnings (6,590 + 1,994)		8,584	22,584
Non-Current Liabilities			
6% Bank loan			12,000
Current Liabilities			

Trade Payables	2,881	
Accrued Administration expenses	120	
Accrued loan interest	360	
Income tax	854	4,215
		38,799

(b)(i). Managers of the company – financial situation as it is currently and as it is expected to be in the future. This is to enable them to manage the business efficiently and to make effective decisions.

(ii). Shareholders of the company – to assess how well the management is performing. Information on profitability of the business to decide how much should be paid out as dividends.

(iii). Banks – to assess company's ability to pay.

(iv) Suppliers – to assess company's credit worthiness and ability to pay.

TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C4: DIRECT TAXES

TUESDAY 9 JUNE 2026

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

INSTRUCTIONS TO CANDIDATES

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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%

Value Added Tax

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

Attempt all FIVE (5) questions.

QUESTION ONE

Malambo Plc is a Zambian resident company that is engaged in manufacturing. In 2025, the company listed its shares on the Lusaka securities Exchange (LUSE) and offered 35% of shares to indigenous Zambians. The company has produced the following summarised statement of profit or loss for the year ended 31 December 2026:

	Notes	K	K
Gross profit			820,000
Other income:			
Dividends (net)		68,400	
Bank interest received (net)		14,500	
Debenture interest (net)		48,100	
			131,000
Total income			951,000
Operating expenses:			
Depreciation		24,800	
Bad debts	1	20,400	
Professional fees	2	30,500	
Repairs and renewals	3	46,700	
Other operating expenses	4	176,000	
			(298,400)
Profit before taxation			652,600

The following additional information is relevant:

Note 1 Bad debts

The figure for bad debts has been arrived at as follows:

	K
Trade debts written off	23,100
Increase in specific bad debt provision	3,800
Decrease in general bad debt provision	(5,400)
Loans to former employee previously written off, now recovered	(1,100)
	20,400

Note 2 – Professional fees

The professional fees are as follows:

	K
Accountancy and audit fees	13,600
Legal fees in connection with issue of share capital	5,900
Legal fees in connection with purchase of land	4,500
Legal fees in connection with the defense of the company's internet domain name	3,300
Legal fees in connection with a court action for not complying with health and safety legislation	3,200
	30,500

Note 3 – Repairs and renewals

The figure for repairs and renewals includes K18,000 incurred on repainting the business premises and K22,300 for extending an administrative office. The remainder of the repairs is all allowable expenses.

Note 4 – Other operating expenses

The figure for other operating expenses includes K6,300 for entertaining customers, K4,900 for entertaining employees and a donation to a local approved charity of K3,500 and the remainder relates to revenue allowable expenses.

Additional Information:

(1) **Building**

The company bought a building which was brought into use in the year 2024 and the company claimed capital allowances for the past two (2) years. The building cost K850,000. This figure includes K80,000 for land, K70,000 for staff canteen and K120,000 for an administrative office. The balance is for the cost of factory.

(2) **Implements, plant and machinery**

On 1 January 2026, the income tax value of the only manufacturing equipment was K9,000. This equipment had been purchased at cost of K18,000.

The following transactions occurred during the year ended 31 December 2026:

		K
15 May 2026	Purchased a delivery van	125,000
20 June 2026	Purchased a computer	10,000
31 August 2026	Purchased computer printer	6,500
31 October 2026	Purchased a Motor car	115,000

The motor car purchased on 31 October 2026 is used by the Production Manager as a personal to holder car. It has a cylinder capacity of 2,000 cc. However, the private use of the car is 25% as agreed with the Commissioner General.

Required:

(a) Calculate the maximum capital allowances to be claimed by Malambo Plc for the tax year 2026. (10 marks)

(b) Calculate the tax adjusted business profit of Malambo Plc for the tax year 2026.

(7 marks)

(b) Calculate the company income tax payable by Malambo Plc for the tax year 2026. (3 marks)

[Total: 20 Marks]

QUESTION TWO

Muntu Phiri was employed as a Sales and Marketing Director by Chips Ltd from 1 August 2025. The company engaged him to promote and drive a new brand of their products on the market. However, the company failed to achieve the projected sales and as such, Muntu's contract of service was terminated on the 30 September 2026.

His conditions of service provided for the following:

Annual salary	K780,000
Car allowance	35% of basic salary
Education allowance	25% of basic salary
Medical allowance	K5,500 per month
Entertainment allowance	K8,000 per month
Talk time allowance	K2,500 per month

He was provided with free residential accommodation during his tenure of employment, in a company owned house for which he paid no rent. If the house was rented out on the open market, the company could have charged gross monthly rentals of K15,000. The company maintains the house surroundings and gardens and during the tax year 2026 the company incurred utility expenses amounting to K3,500 per month in connection with the house in which he was accommodated.

During the labour day awards held on 1 May 2026, Muntu was awarded a cash prize of K55,000 and a 55 inch TV valued at K29,000

On termination of his contract he received his gratuity amounting to K340,000, leave pay K56,000 and repatriation pay K45,000.

During the tax year 2026, he made the following payments:

	K
Tax paid under Pay as you Earn system	333,239
Subscription to the Zambia Institute of Marketing	10,400
Donation to an approved charity	15,000
Donation to a political party	25,000

He always paid his NAPSA contributions at 5% of his basic salary. During the tax year of 2026, he made National Health Insurance Management Authority NHIMA contributions at a rate of 1% of the basic salary.

Required:

(a) Explain the income tax treatment of each of the payments made to Muntu on termination of his contract of employment. (3 marks)

(b) Explain the time when payments made to Directors are deemed to have been received for tax purposes. (5 marks)

(c) Calculate the income tax payable by Muntu Phiri for the tax year 2026. (12 marks)

[Total: 20 Marks]

<u>QUESTION THREE</u>

Thandie and Taonga have been in partnership for many years preparing financial statements to 31 December each year, sharing profits and losses in the ratio 2:1 after allowing for annual salaries of K90,000 and K72,000 for Thandie and Taonga respectively. Capital contributions into the business are K168,000 for Thandie and K144,000 for Taonga. The partners are also entitled to interest on capital of 10% per annum.

On 1 July 2026, Lumuno was admitted to the partnership with a capital contribution of K129,000 and as such the partnership agreement was changed. Profits and losses were to be shared as follows:

- The partner's salaries were fixed at K95,000 for each partner per annum.
- Interest on capital was going to be at 10% per annum for all the partners.
- Profits and losses were to be shared equally.

During the year ended 31 December 2026, the partnership made a tax adjusted profit before capital allowances of K874,400.

The partnership had the following assets in use as at 1 January 2026:

Description	**Purchase cost (K)**	**Date of purchase**
Nissan Delivery Van	240,000	10 October 2025
Toyota Delivery van	200,000	15 December 2025

All the above vehicles were used by the employees of the partnership for their employment duties.

Required:

(a) Calculate the final taxable partnership profit, after capital allowances, for the year ended 31 December 2026. (2 marks)

(b) Calculate the amount of profits on which each partner will be assessed for income tax for the year ended 31 December 2026. (9 marks)

(c) Calculate the amount of income tax payable by each partner for the tax year 2026. (9 marks)

[Total: 20 Marks]

QUESTION FOUR

Masongo, a Zambian resident, intends to commence a farming business. During the year ended 31 December 2026, he entered into the following transactions to raise the required capital for his farming business:

(1) Sold 4,000 ordinary shares he held in TIK Ltd each with a nominal value of K2 each. They were sold at a market value of K4 each. He had bought the shares four (4) years ago at a cost of K9,000.

(2) He sold a Jeep motor car for K250,000. He had bought the vehicle at K120,000. The written down value of the vehicle was K96,000.

(3) He sold a three (3) bedroomed house to his son for K80,000. The open market value of the house, as determined by Government's valuation department, was K950,000 on the date of transfer. The house was acquired six (6) years ago at a cost of K250,000.

(4) Masongo sold a one bedroomed house to his Uncle for K250,000. According to Government valuations, the market value of the house was K350,000.

(5) Sold a piece of land for K400,000. The open market value of this land was determined to be K440,000 at the date of transfer. He incurred K6,000 to transfer title to the buyer. The land was acquired in 2021 at a cost of K300,000.

(6) He sold 9,000 ordinary shares of K2 each held in Pigeon Plc for K60,000 on 25 May 2026. He had acquired the ordinary shares at a price of K6 per share in August 2020. Pigeon Plc was listed on the Lusaka Securities Exchange in August 2020.

Required:

(a) Explain the transactions exempted from Property Transfer Tax. (4 marks)

(b) Explain how the realized value of land, buildings and shares is determined for the purposes of property transfer tax. (4 marks)

(c) Explain the Property Transfer Tax implications of each of the above transactions. Your answer should include a computation of the amount of any Property Tax arising in each case. (12 marks)

[Total: 20 Marks]

QUESTION FIVE

(a) Mrs. Kapata Moyo runs a retail business and leaves in a flat that accommodates her and her family on top of the business building. Her annual turnover has always exceeded K5,000,000. She prepares financial statements annually to 31 December. The statement of profit or loss for the year ended 31 December 2026 was as follows:

		K	K
Gross profit			458,450
Other income:			
Royalties		4,250	
Dividends		2,300	
			6,550
			465,000
Less:			
Depreciation		5,600	
Electricity	(note 1)	13,700	
Water	(note 1)	12,500	
Motor car running expenses	(note 2)	14,700	
Wage and salaries	(note 3)	65,000	
General expenses	(note 4)	11,500	
			(123,000)
Net profit			342,000

Note 1- Electricity and water

An agreement was reached with the ZRA Commissioner General that 20% of the expenditure on electricity and water relates to the flat on top of the business building.

Note 2- Motor car running expenses

During the year ended 31 December 2026, Kapata Moyo drove a total of 12,000 kilometers of which it has been agreed with the Commissioner General that 3,000 kilometers were for private purposes.

Note 3- Wages and salaries

Included in the wages and salaries is a salary for Kapata Moyo's Nephew who earns an annual salary of K9,000 on a full time basis. Other employees who do the same job as Kapata Moyo' s Nephew are each paid an annual salary of K6,600. The balance relates to salaries payable to other employees.

Note 4- General expenses

Included in the figure for general expenses is a fine of K1,200 for speeding offence committed by Kapata Moyo, theft of cash by an employee amounting to K3,000, donation to a political party of K5,000 and subscriptions to a trade association of K2,300.

Note 5- Goods taken for personal use

Mrs. Kapata Moyo withdrew some goods for personal use without paying for them. It has been estimated that during the year she withdrew goods costing K4,500. The goods had a mark-up of 20%. No entry had been made in the accounting records.

Note 6- Capital allowances

The only asset owned by Kapata Moyo was her Motor Car. On 1 January 2026, the motor car had an income tax value of K76,000. The motor car was acquired at a cost of K95,000. It has been agreed with the Commissioner General that the private use of the car is 25%.

Other Income

This represents Royalties and Dividends from Zambian companies amounting to K4,250 and K2,300 respectively. These figures represent the actual cash received by Kapata Moyo.

Required:

(i) Calculate the adjusted business profits for the year ended 31 December 2026. (10 marks)

(ii) Calculate the income tax payable by Kapata Moyo for the tax year 2026. (6 marks)

(b) The Government of the Republic of Zambia introduced the Presumptive taxes in order to increase the tax base by targeting small businesses in the private sector. These taxes are chargeable on businesses where the computation and collection of income tax in the normal way would be time consuming and expensive for both the Zambia Revenue Authority and the tax payers.

Required:

State any four (4) persons who are not liable to turnover tax. (4 marks)

[Total: 20 Marks]

END OF PAPER

C4 – DIRECT TAXES

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) MALAMBO PLC
COMPUTATION OF CAPITAL ALLOWANCES FOR THE TAX YEAR 2026

	K
Staff canteen	
Wear and tear allowance (K70,000 x 5%)	3,500
Administrative office	
Wear and tear allowance ((K120,000 + 22,300) X 2%)	2,846
Factory	
Wear and tear allowance (K580,000 X 5%)	29,000
Manufacturing equipment	
Wear and tear allowance (K18,000 X 50%)	9,000
Delivery van	
Wear and tear allowance (K125,000 X 25%)	31,250
Computer	
Wear and tear allowance (K10,000 X 25%)	2,500
Computer printer	
Wear and tear allowance (K6,500 X 25%)	1,625
Motor car	
Wear and tear allowance (K115,000 X 20%)	23,000
Total capital allowances	102,721

Workings

	K
Total cost	850,000
Less cost of land	(80,000)
Qualifying expenditure	770,000
10% x K770,000	77,000

The cost of administrative office amounting to K120,000 is more than 10% of the qualifying expenditure. Therefore, it will not qualify for industrial buildings capital allowances. Instead, it will be treated as a commercial building.

(b) Computation of tax adjusted business profit for the tax year 2026

	K	K
Profit before taxation		652,600
Add:		
Depreciation	24,800	
Legal fees – issue of share capital	5,900	
Legal fees – purchase of land	4,500	
Legal fees – Health & safety regulations	3,200	
Extension of the administration office	22,300	
Entertaining customers	6,300	
Personal to holder car	43,200	
		110,200
		762,800
Less:		
Dividends	68,400	
Bank interest received	14,500	
Debenture interest received	48,100	
Decrease in general provision	5,400	
Loan to former employee recovered	1,100	
Capital allowances	102,721	
		(240,221)
Tax adjusted business profit		522,579

(c) Computation of company income tax for the ta x year 2026

	K
Business profits	522,579
Add:	
Bank interest (K14,500 x 100/85)	17,059
Debenture interestK48,100 x 100/85	56,588
Taxable business profits	596,226
Company income tax (30% - 5%)= 25% X K596,226	149,057
Less: WHT- Bank interest (K17,059 X 15%)	(2,559)
WHT- Debenture interest (K56,588 X 15%)	(8,488)
Final company income tax payable	138,010

SOLUTION TWO

(a) Treatment of payments made on the expiry of a contract.

(1) Gratuity receivable is exempt from income tax as it is regarded as a pension benefit. Therefore, Muntu will not be required to pay income tax on the gratuity.

(2) Leave pay received is subjected to income tax under the pay as you earn system together with the final salary.

(3) Repatriation pay is regarded as a terminal benefit; therefore, no income tax is charged on it, as it is exempt from tax.

(b) Payments of Directors emoluments are deemed to have been received by each director.

(1) The time when payment is actually made.

(2) The time when the employee becomes entitled to the emoluments.

(3) The time when the amount payable is decided.

(4) The time when the amount payable is credited in the company's records

(5) The end of the company's accounting period

(c) Muntu Phiri's Personal income tax computation for the tax year 2026

	K	K
Salary (K780,000 x 9/12)		585,000
Car allowance (K585,000 x35%)		204,750
Education allowance (K585,000 x 25%)		146,250
Medical allowance (K5,500 x 9)		49,500
Entertainment allowance (K8,000 x 9)		72,000
Talk-time allowance (K2,500 x 9)		22,500
Incidental costs (K3,500 x 9)		31,500
Leave pay		56,000
Total Emoluments		1,167,500
Less allowable deductions		
Subscription to institute of marketing	10,400	
Donation to public benefit organisation	15,000	
		(25,400)
Taxable income		1,142,100
Less tax free income		(61,200)
		1,080,900
Next K24,000 x 20%		4,800
Next K25,200 x 30%		7,560
Balance K1,031,700 x37%		381,729
		394,089
Less tax paid		(333,239)
Income tax payable		60,850

SOLUION THREE

(a) Thandie, Taonga and Lumuno

Final taxable business profits for the year ended 31 December 2026

	K
Business profits	874,400
Less:	
Capital allowances	
Nissan Van (K240,000 x 25%)	(60,000)
Toyota Van (K200,000 x 25%)	(50,000)
Taxable business profits	764,400

(b) Thandie, Taonga and Lumuno

Allocation of partnership profits for the year ended 31 December 2026

	Total	Thandie	Taonga	Lumuno
First 6 months	K	K	K	K
Salaries	81,000	45,000	36,000	Nil
Interest on capital	15,600	8,400	7,200	Nil
Balance 2:1	285,600	190,400	95,200	Nil
(K764,400 x 6/12)	382,200	243,800	138,400	Nil
Last 6 months				
Salaries	142,500	47,500	47,500	47,500
Interest on capital	22,050	8,400	7,200	6,450
Balance 1:1:1	217,650	72,550	72,550	72,550
(K764,400 x 6/12)	382,200	128,450	127,250	126,500
Total	764,400	372,250	265,650	126,500

(c) Income tax payable for the tax year 2026

	Thandie	Taonga	Lumuno
	K	K	K
Taxable profits	372,250	265,650	126,500
Computation			
First K61,200 @0%	0	0	0
Next K24,000 @20%	4,800	4,800	4,800
Next K25,200 @30%	7,560	7,560	7,560
Excess:			
(K372,250 – K110,400) x 37%	96,885		
(K265,650 – K110,400) x 37%		57,443	
(K126,500 – K110,400) x 37%	---------	---------	5,957
Income tax payable	109,245	69,803	18,317

SOLUTION FOUR

(a) Transactions exempted from Property Transfer Tax

1. Transactions as a result of the sale or other disposal of any stock or share listed on the Lusaka Stock Exchange.
2. Contribution towards the equity for a company. The commissioner General may treat a transfer of property by a shareholder of a company incorporated under the Companies Act, if such transfer is his contribution towards the equity of the company as qualifying for exemption.
3. A transfer is not liable to PTT if it is occasioned by the death of the transferor to a member of the immediate family.

(b) The realized value is determined as follows:

Land and buildings the realized value is whichever is higher between;

1. The contract price agreed upon by the transferor and the transferee; and
2. The open market Value of the property on the date of transfer.

For shares, the realised value is whichever is higher between;

1. The actual price received or open market value of those shares; and
2. The nominal value of the shares

(c) Property Tax Implications

1. Shares in companies not listed on LUSE are chargeable to PTT and have a realized value. The realized value is the higher of their nominal value and their open market value. The nominal value of the shares is K8,000 and the open market value is K16,000.
   PTT K16,000 x 8% = K1280

2. Property Transfer Tax is not chargeable on movable assets (chattels). Therefore, the realizable value is nil. No PTT is chargeable

3. In respect to transfers to immediate family members, the realizable value is the actual price received. The son paid a consideration of K80,000. Therefore, PTT is charged on K80,000. PTT, K80,000 x 8% = K6,400

4. The sale of a house to the uncle who is not part of an immediate family member is therefore chargeable to PTT. The realizable value is the market value which is higher. PTT, K350,000 x 8% = K28,000

5. Property transfer tax will be charged on the transfer of land. The realized value is whichever is higher between the actual proceeds received and the open market value. In this case, the realized vale is K440,000 which is higher.

   PTT = K440,000 x 8% = K35,200.

6. Transfer of shares listed on the Lusaka Securities Exchange is exempted from PTT. Therefore, the sale of shares in Pigeon Plc is not subject to PTT and is Nil.

SOLUTION FIVE

(a) Kapata Moyo

(i) Computation of taxable business profit for the year ended 31 December 2026.

	K	K
Net profit for the year		342,000
Add:		
Depreciation	5,600	
Electricity (K13,700 x 20%)	2,740	
Water (K12,500 x 20%)	2,500	
Motor car running expenses		
(K14,700 x 3,000/12,000)	3,675	
Excess salary (K9,000 – K6,600)	2,400	
Fine for over speeding offence	1,200	
Donation to political party	5,000	
Goods taken from the business		
(K4,500 x 120/100)	5,400	
		28,515
		370,515
Less:		
Royalties	4,250	
Dividends	2,300	
Capital allowances		
(K95,000 x 20% x 75%)	14,250	
		(20,800)
Adjusted business profits		349,715

(ii) Personal income tax payable for the tax year 2026

	K
Adjusted business profits	349,715
Add:	
Royalties (K4,250 x 100/85)	5,000
Taxable income	354,715
Computation	
First K61,200 @0%	0
Next K24,000 @20%	4,800
Next K25,200 @30%	7,560
Excess (K354,715 – K110,400) x 37%	90,397
Income tax liability	102,757
Less:	
WHT – Royalties (K5,000 x 15%)	(750)
Income tax payable	102,007

(b) The following persons are not liable to turnover tax:

1. Any person whose annual business turnover is more than K5000,000.
2. Any person whose annual business turnover is less than K5000,000 but has voluntarily registered for value added tax.
3. Any person who is engaged in mining operations on a small scale or large scale.
4. Any partnership regardless of whether the annual business turnover is more than K5000,000.
5. Any person whose income constitutes income from partnership.
6. Any person who is engaged in public transportation business for the carriage of persons.

END OF SUGGESTED SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C5: INDIRECT 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 this time to carefully study the examination paper so that you understand what to do in each question.
2. This question paper consists of FIVE (5) questions of Twenty (20) marks each. You MUST attempt all the FIVE (5) questions.
3. Enter your Student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere in your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. Cell Phones are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.
10. A taxation table is provided on page 2 to 5.

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

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

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

Surtax

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

Customs and Excise on New Motor vehicles

Duty rates on:

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

   Customs Duty:

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

   Excise Duty:

   Percentage of Value for Duty Purposes for Excise Duty Purposes

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

2.	**Pick-ups and trucks/lorries with gross weight not exceeding 20 tones:**	
	Customs Duty	
	Percentage of Value for Duty Purposes	15%
	Minimum specific Customs Duty	K6,000
	Excise Duty:	
	Percentage of Value for Duty Purposes for Excise Duty Purposes	10%
3.	**Buses/coaches for the transport of more than ten persons**	
	Customs Duty:	
	Percentage of Value for Duty Purposes	15%
	Minimum Specific Customs Duty	K6,000
	Excise Duty:	
	Percentage of Value for Duty Purposes for Excise Duty Purposes	
	Seating Capacity of 16 persons and less	25%
	Seating Capacity of 16 persons and more	0%
4.	**Trucks/lorries with gross weight exceeding 20 tonnes**	
	Customs Duty:	
	Percentage of Value for Duty Purposes	15%
	Excise Duty:	
	Percentage of Value for Duty Purposes for Excise Duty Purposes	0%

Attempt all FIVE (5) Questions.

QUESTION ONE

Palusa Investment Ltd is a subcontractor company that supplies various Mining equipment to Kalumbila Mines. Palusa Investment Ltd was registered for Value Added Tax (VAT) some ten (10) years ago. The company is preparing to submit its VAT return for the month of November in the tax year 2026.

You have been supplied with the following information for the month of November 2026 as below:

1. On 20 November 2026, Palusa Investment Ltd received an advance deposit of K4,500 (VAT inclusive) in respect of a contract that is due to be completed during December 2026 from Kalumbila Mines. The total value of the contract is K10,000.

2. Sales invoices totalling K128,000 were issued in respect of standard rated sales. Palusa Investment Ltd offers its customers a 4% discount for prompt payment. Only 85% of the customers took up this discount.

3. Standard rated expenses amounted to K74,800. This includes K4,200 for entertaining customers, entertaining suppliers K3,200 and entertaining employees K4,800. The balance represents general business overheads.

4. On 21 November 2026 the company purchased a motor car costing K98,000 for use by its Sales Manager. The vehicle is provided as a personal to holder car and the company incurred a cost of K75,000 inclusive of VAT.

5. On 25 November 2026, the company purchased a Toyota Hilux double cab which is used by the Production Manager at a cost of K580,000 (VAT inclusive).

6. On 30 November 2026, Palusa Investment Ltd wrote off K12,000 due from a customer as a bad debt. The debt was in respect of three invoices, each of K4,000, that were due for payment on 15 March 2024, 15 May 2024 and 15 September 2024 respectively.

7. **Unless stated otherwise all of the above figures are exclusive of VAT.**

Required:

(a) Calculate the amount of VAT payable by Palusa Investment Ltd for the month of November 2026. (10 marks)

(b) Explain any four (4) arguments for and any two (2) against the introduction of VAT. (6 marks)

(c) Explain what is meant by "taxable supplies" and state the rate(s) at which taxable supplies are charged. (4 marks)

[Total: 20 Marks]

QUESTION TWO

(a) The Customs Union was launched in June, 2009 in Victoria Falls during the 13 Summit of Heads of State and Government. The Common Market for Eastern and Southern Africa (COMESA) is the largest trading block on the African continent compromising of 19 countries.

Required:

Explain three (3) major focus areas of the Customs Union. (3 marks)

(b) Lunzuwa Limited is considering acquiring a non-current asset, but is currently experiencing liquidity challenges due to huge amounts of bad debts written off. The Financial Manager has however, advised that the company could purchase the asset on a hire purchase arrangement or enter into an operating lease agreement with the financial institution.

Required:

(i) Explain how the tax point for each of the following transactions is determined:

(1) Lease rentals for assets under operating leases. (1½ marks)

(2) Sales under hire purchase. (1½ marks)

(ii) State any four (4) conditions which must be met for a business to claim bad debt relief. (4 marks)

(iii) Describe the procedure a business must follow in order to claim bad debt relief from the Zambia Revenue Authority (ZRA). (5 marks)

(iv) Describe the operation of the cash accounting scheme and state the main advantages of the scheme. (5 marks)

[Total: 20 Marks]

QUESTION THREE

(a) Katondo Ltd is a Zambian resident company which exports and imports various goods from abroad and sells them across the country. All the imports are chargeable to Customs duty and Value Added Tax (VAT). The company recently imported goods from Dubai via Durban, South Africa and the port of entry into Zambia was Livingstone. Details about the imports are:

	K
CIF up to Durban South Africa	153,000
Clearing and other incidental costs in Durban	6,300
Transport charges from Durban to Livingstone	11,700

The Customs Officer at Livingstone border informed the Marketing Manager of Katondo Ltd that the Customs duty would be at 30%. No excise duty was chargeable on the goods.

Required:

(i) Compute the Value for Customs Duty purposes and the customs duty on the imports. (3 marks)

(ii) Calculate the value for import VAT purposes and the VAT payable by the Company. (3 marks)

(b) Katondo Ltd also exported goods to Democratic Republic of Congo (DRC). The cost of production was K600,000. The cost of insurance was K80,000 and freight charges were K150,000.

Required:

Calculate the total cost of the exports and VAT on the exportation of the goods.

(4 marks)

(c) Katondo Ltd imported a brand new 20 tonne Light truck from China at a cost of $30,500. The company paid insurance charges of $1,200 and freight charges of $2,300. Other incidental costs up to the Nakonde border post were $940. The vehicle was manufactured in January 2025. On the date of arrival at the border, the Commissioner General's approved exchange rate was K18.90 per US$1.

Required:

(i) Compute the Value for customs duty purposes (VDP) (3 marks)

(ii) Calculate the Import taxes paid by Katondo Ltd (4 marks)

(iii) List six (6) documents ZRA Customs officials will require on the importation of motor vehicles. (3 marks)

[Total: 20 Marks]

QUESTION FOUR

(a) The transaction value is the price actually paid or payable for the goods when imported into Zambia, as adjusted by the Commissioner General where he is of the opinion that the price is affected by the special relationship between the exporter and the Zambian importer, i.e the price the importer is charged is not an open market price.

Required:

(i) Explain the conditions which should be considered to determine the transaction value. (4 marks)

(ii) Explain four (4) methods other than the transaction value method used to determine the Value for customs duty purposes on imported goods. (8 marks)

(b) The Zambia Revenue Authority (ZRA) gives new residents tax rebates when they come to take up residency in Zambia. Any person coming to take up residence or employment for the first time or a Zambian who is returning may be allowed to import his or her personal goods or other household effects, including one motor vehicle without payment of import taxes.

Required:

(i) Explain three (3) conditions which should be met for a new resident to claim the rebate. (3 marks)

(ii) State any four (4) documents required as evidence by the tax authorities that a person is coming to take up residence in Zambia. (4 marks)

(iii) Define Excise duty (1 mark)

[Total: 20 Marks]

QUESTION FIVE

(a) Kariba Limited has completed the construction of a bonded warehouse and an application has been made to the local Customs Station Manager requesting permission to have the warehouse approved and licensed. The Station Manager has acknowledged the receipt of the application and has informed the management of Kariba Limited of the need to inspect the Warehouse as required by the Customs and Excise Act.

Required:

(i) Explain to the management of Kariba Limited the conditions which need to be met before the warehouse is approved by the Station Manager. (4 marks)

(ii) State the advantages of a bonded warehouse. (3 marks)

(iii) State the maximum period goods may remain in the bonded warehouse. (2 marks)

(b) Zambia is a member of some International Trade agreements. There are various guidelines for importers and exporters involved in the conduct of international trade, as well as procedures governing the trade protocols between countries.

Required:

State the objectives of Preferential Trade Area (PTA). (4 marks)

(c) Explain the term Duty Drawback (DDB) and its purpose in relation to the exportation of goods. (3 marks)

(d) The mining sector is one of those contentious sectors in Zambia as regards to taxation. Recently there was debate in the country on whether to re-introduce sales tax and discontinue Value Added Tax (VAT), to try and avoid huge refunds to the mining companies. Unfortunately, the matter has not been resolved and the Government has put it on hold.

Required:

Explain the VAT considerations in the Mining sector. (4 marks)

[Total: 20 Marks]

END OF PAPER

C5 –INDIRECT TAXES

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) Palusa Investment Ltd

Computation of VAT payable for the month of November 2026

		K
Output VAT		
Sales (K128,000 x 16%)		20,480
Advance payment (4,500 X 4/29)		621
		21,101
Input VAT		
Expenses		
(74,800-K4,200-K3,200-4,800) X 16%	10,016	
Entertaining customers	0	
Entertaining suppliers	0	
Entertaining employees	0	
Motor car (irrecoverable)	0	
Toyota Hilux double cab (irrecoverable)	0	
Bad debts (4,000 + 4,000) X 16%	1,280	
		(11,296)
VAT PAYABLE		9,805

NOTE: Under VAT regulations, where a ***cash discount*** is offered to customers the value of the supply for VAT purposes is the ***undiscounted price***. However, where a **trade discount** is offered to customers then the value of the supply for VAT purposes is the discounted price

Therefore, the undiscounted VAT exclusive value of the standard rated supplies have been used to compute the amount of output VAT arising. (i.e. the cash discount is ignored in computing the output VAT).

(b) **Arguments for the introduction of VAT:**

1. It is invoice based and therefore uniform and uncomplicated, offering a sound financial management system with less collection weaknesses.
2. VAT has a self-policing nature thereby enhances compliance. VAT has elements of self-checking mechanisms to minimise evasion.
3. It gives the potential for a stronger home manufacturing industry and more competitive export prices.

4. The input credit mechanism gives registered business back much of the tax they pay on purchases and expenses used for making taxable supplies, and as a result, largely avoid the tax on tax character of sales tax.
5. A wider tax base has resulted in less distortion of trade and greater sharing of costs of collecting it at various stages of the value chain and remitting it to the government.
6. Is internationally proven in developed and developing economies.
7. In view of the broad tax base, revenue yield is generally higher and stable and is less susceptible to fluctuations.
8. VAT is less complex than sales tax.

Arguments against the introduction of VAT:

1. VAT is regressive like indirect taxes.
2. Small businesses may find it difficult to maintain the required VAT records.

(c)

1. Taxable supplies are goods or services sold by a taxable supplier. Not all taxable supplies are liable to VAT.
2. The VAT law separates supplies between taxable supplies and exempt supplies.
3. VAT is charged on a taxable supply of goods and services made by a taxable supplier in the course or furtherance of a business.
4. Thus the supply of goods and services must qualify as a taxable supply for VAT to be charged. The business charging VAT must be a taxable supplier.
5. Taxable supplies are liable to VAT either at standard rate of 16% or at zero-rate 0%.

SOLUTION TWO

(a) **Focus of Customs Union**

1. The internal free trade areas
2. Relations with third world countries including the application of the Common External Tariff (CET)
3. Trade remedies
4. Export promotion
5. Dispute settlement

(b) (i)Tax point for operating lease

The tax point for operating lease rentals is the earlier of:

1. The time when the lease rental payment is received from the lessee
2. The time the lessee issues a tax invoice; or
3. The time the leasing services are rendered which is at the expiry of the lease.

Tax point for goods under hire purchase

The tax point is determined as the earlier of the following time periods:

1. goods are collected, delivered or made available to the customer,
2. payment is made or
3. The tax invoice is issued.

(ii) The following conditions must be met for a business to claim bad debt relief;

1. A supply of goods and services must have been made for consideration in money or by
2. barter.
3. Output VAT must have been accounted for and paid by the supplier,
4. The whole or part of the debt must have been written off as bad in the records of the Supplier.
5. At least eighteen (18) months must have elapsed since the time when the payment was due.
6. The debtor must have been declared insolvent by the courts of law.

(iii) The following procedure must be followed in order to claim bad debt relief:

1. The supplier must make a claim from the administrator, receiver or liquidator for the
2. VAT inclusive amount that is owed by the insolvent debtor.
3. The supplier must obtain a written statement from the administrator, receiver or liquidator to the effect that the debtor is insolvent and that he cannot pay the debt.
4. The supplier must claim a credit for the amount of VAT remitted in respect of the debt by adding the bad debt to the input tax incurred on domestic purchases in the appropriate box of the VAT return.
5. The Zambia Revenue Authority (ZRA) has to be satisfied that claims for bad debt relief are correct. The supplier should therefore retain a copy of the tax invoice issued to the debtor in connection with the supply that later became a bad debt.
6. The supplier must provide evidence that the VAT being claimed was remitted to the ZRA
7. The trader is required to keep copies of the correspondence referred to above.

(iv) **Cash accounting scheme**

This is a scheme under which VAT is accounted for on the basis of the receipts and payments of cash and therefore, the tax point for cash accounting scheme is the time when payment is made. VAT payments and recoveries are dealt with in the return for the tax period in which cash is paid and received. VAT is only payable if the customers have made payments.

(Only members of the Association of the Building and Civil Engineering Association are eligible to use the cash accounting system.

Advantages of the cash accounting scheme

1. VAT is only payable if the customers have made payments.
2. It is easy to prepare the VAT return as the cash book can be used to do so.
3. Irrecoverable debt relief occurs automatically since no VAT is payable if the customers have not made payments.

SOLUTION THREE

(a) **COMPUTATION OF VALUE FOR CUSTOMS DUTY PURPOSES**

		K
	CIF- Durban	153,000
	Transport to Livingstone	11,700
	Clearing costs	6,300
(i)	Value for duty purposes	171,000
	Customs duty @30%	51,300
(ii)	Value for VAT purposes	222,300
	VAT @ 16%	35,568
	Amount payable by the importer	257,868

(b) **VAT ON EXPORTS**

	K
Cost of the exports	600,000
Insurance	80,000
Freight	150,000
	830,000
VAT @ 0%	0
Export after charging VAT	830,000½

All exports are zero rated for VAT.

(c) (i) **Computation of value for duty purposes**

	$
Cost	30,500
Insurance charges	1,200
Freight	2,300
Other incidental costs	940
CIF	34,940
VDP (34,940 X 18.90)	660,366

(ii) **Computation of import taxes paid**

Values Taxes paid

	K	K
Value for duty purposes	660,366	
Customs @ 15%	99,055	99,055
	759,421	
Excise duty @ 0%	0	0
	759,421	
VAT @ 16%	121,507	121,507
	880,928	
Total taxes paid		220,562

(iii) The documents ZRA Customs will require proper documents for the importation of motor vehicles as follows:

- Invoice showing the purchase price
- Bill of lading
- Insurance Certificate
- Freight Statement
- Contract of sale
- Police clearance certificate

SOLUTION FOUR

(a) (i) Conditions to be considered in determining the Transaction value:

1. There must be a valid or legally binding contract, legally enforceable against a defaulting party.

2. Determine the price, which in the case of imported goods is the sum of amounts actually paid/payable by the buyer to/for the benefit of the seller in respect of goods.

3. Make adjustments to the price if the price has been affected by any relationship between the buyer and the seller.

4. Other considerations such as price averaging.

(ii) The other methods used to determine the value for duty purposes include:

Transaction value of identical goods

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

Transaction value of similar goods

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

Deductive value

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

Computed value

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

Residual basis of value (fall-back)

This is the price arrived at by going through the above five (5) methods flexibly.

(b) (i) The following conditions should be met for the new resident to claim the new residence rebate:

1. The person claiming rebate has been resident outside Zambia for a period of not less than two (2) years before the date of arrival in or return to Zambia.
2. The effects were the property of that person before the date of departure for Zambia from the previous country of residence.
3. The effects must be imported at the time of arrival in Zambia or within six (6) months from the date of arrival of that person.

(ii) Documentary evidence required by tax Authorities:

1. Proof that the person is coming to take up residence in Zambia, such as valid work or residence permit/or and letter of employment offer/and or contract.
2. Proof that a person is coming back has been absent from the country for more than two (2) years from previous country of residence e.g copy of residence/study/work permit.
3. A copy of the passport will be needed.
4. For motor vehicles proof of ownership of the vehicle will also be required.

(iii) **Excise duty** is a tax charged on particular products whether produced domestically or imported.

SOLUTION FIVE

(a) (i) The following conditions should be met before the warehouse is approved as a bonded warehouse:

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 warehouse must be strong (grilled doors are recommended) and have provision for a Customs lock
4. Access into the warehouse should be restricted; and however the license of a bonded warehouse is not transferable from one operator to another

(ii) Advantages of a bonded warehouse are:

1. Goods can be stored without payment of duty, thus giving the importer enough time to source funds.
2. Some goods may sell slowly due to fluctuating demand, hence duty can be paid according to demand.
3. Constant supply of raw materials can be assured in manufacturing industry by importing in bulk and payments being made according to production demands.

(iii) The maximum period goods may remain in the bonded warehouse at present is:

1. Two years for goods on which duty and import VAT exceeds K180 or
2. One year for those goods on which duty and import VAT does not exceed K180.

(b) The objectives of PTA are summarised as follows:

1. To promote cooperation and integration covering all areas of economic activity, particularly trade and customs, industry, transport and communications, agriculture and monetary affairs
2. To raise the standards of living of the people of the region by fostering closer relations among Member states.

1. To create a common market in order allow the free movement of goods, capital and labour within the sub-region.

2. To contribute to the progress and development of all other African countries

(c) **Duty Drawback System** is an export support program by the government that enables local manufacturers to get back any taxes incurred either directly or indirectly on any goods produced for export.

The purpose is to avoid double taxation. DDB also improves the exporter cash flow.

(d)

1. Exports of the minerals are zero-rated. However, minerals sold locally attract VAT.
2. Hospital charges in the mine-run hospitals are zero rated.
3. Inputs such as electricity, coal, haulage services, mining contractor costs, copper concentrates, loader spares and other items directly linked to production including consumable items used in the production process are standard rated.
4. Input tax on them is claimable. Non-claimable items are usually those that are not processed further, including transport, uniforms, paper, beverages, etc.

END OF SUGGESTED SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C6: LAW FOR TAX PRACTITIONERS

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

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

Attempt all FIVE (5) questions.

QUESTION ONE

Pa Bond is a joint venture owned by two (2) businesses namely, Mega Wood and Urban Electronics which came together to enjoy the benefits of being a joint venture enterprise known as (Pa-Bond). In their signed agreement, they divided their work as follows: Mega Wood was to specialise in all wooden products, whilst Urban Electronics was to specialise in electronics – based products like fridges, television sets, stoves, etc.

Since the inception of the joint venture partnership, Pa Bond has been selling products on credit sales, hire purchase and cash sales basis. According to the manager, they have made more sales using hire purchase and credit sales in the recent past.

Required:

(a) State five (5) advantages of having a joint venture like Pa Bond. (10 marks)

(b) Explain the distinction between hire purchase and credit sale as used by Pa Bond joint venture. (5 marks)

(c) Why do you think, Pa Bond had to prepare a partnership agreement? (5 marks)

[Total: 20 Marks]

QUESTION TWO

Chanda offered to sell property to Mulenga a promoter of a company. Mulenga accepted the offer and bought the property in the name of the company that he was in the process of incorporating. Two (2) months later, the company was incorporated, however, Mulenga told Chanda that the company can only pay her after it ratifies the contract that he signed on its behalf with Chanda before its incorporation.

Required:

(a) Chanda wants to know the conditions which must be fulfilled for ratification of an agency relationship to be successful, explain to her. (10 marks)

(b) The principle of negotiability was formulated in the 17 Century which was then followed by the principles of transfer by endorsement and the rule that a bonafide holder's title was not invalidated by defects in title of the person transferring the bill. In light of the aforestated, outline five (5) requirements for negotiability. (10 marks)

[Total: 20 Marks]

QUESTION THREE

(a) Explain the jurisdiction of the Zambian High Court. (5 marks)

(b) Explain the advantages of Judicial Precedent. (5 marks)

(c) Explain five (5) duties of a carrier under Sale of Goods. (5 marks)

(d) Explain the difference between fixed and floating charges. (5 marks)

[Total: 20 Marks]

QUESTION FOUR

(a) Identify four (4) powers of an official receiver in bankruptcy. (8 marks)

(b) Explain the doctrine of 'Utmost Good Faith' in Insurance Contracts. (6 marks)

(c) Identify Contracts of Employment that have to be in writing. (6 marks)

[Total: 20 Marks]

QUESTION FIVE

Peter and Micah run a partnership business as husband and wife. Their business is focused on Supply of chicken feed, eggs and goats. The business has grown since its formation in 2021, the year they got married. Peter promised Micah an Audi Q7 on her birthday as he was happy with her dedication to work. He also promised her K10,000 for her upkeep each month. Now, from her birthday to date, Peter failed to buy the Audi Q7 but fulfilled the K10,000 promise. They have now separated as the once adored couple and business partners no longer see eye to eye. Peter had promised Micah on separation that he will continue paying her the K10,000 for upkeep. Micah hears that Peter is now a rich man as he expanded his businesses. She is in your office for advice as she wants to sue Peter for the Audi Q7 promised during her birthday celebration and an increase in upkeep.

Required:

(a) Advise her on the prospect of her success. (10 marks)

(b) Explain "capacity to contract" in general contract law. (4 marks)

(c) Explain the rights of a buyer in a higher purchase contract. (6 marks)

[Total: 20 Marks]

END OF PAPER

C6 LAW FOR TAX PRACTITIONERS

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) The five advantages of having a joint venture like Pa Bond include:

1. The pooling together of resources
2. Greater capacity of business
3. Increased technical expertise
4. Easy access towel established markets and distribution channels
5. Increased innovation
6. Increased productivity
7. Sharing of risks and cost
8. More capital and hence there may be no need for borrowing.

(b) The distinction between Hire Purchase and Credit Sale is that: ***Hire purchase*** is an agreement where the hirer obtains immediate use of the goods on hire upon payment of a deposit and rest in installments over a given period of time. He does not become the legal owner of the goods even if he is free to use them, until the final installment is paid. Additionally, the hirer is not free to sell the goods as they are not his legally, they still belong to the seller. Thus property in goods remains with the seller until the final installment is paid. Under hire purchase, in case of default, the seller gets the goods from the hirer and the hirer loses the already paid installments.

Whilst a ***Credit Sale*** is a contract for the sale of goods whereby, ownership and possession of goods passes to the buyer immediately after paying the deposit. The property in the goods passes to the buyer, the buyer becomes the owner and is free to resell them even if he has not finished paying for them. Further, in case of default in payment, the seller cannot repossess the goods, but can only sue for the price.

(c) ***A partnership deed or agreement*** is a document which lays down the rules and regulations regarding the management of the firm and the rights and duties of the partners. It is important in that it sets out the rules or procedures on how the partnership is to be run. It specifies what type of business the partnership will venture in and how the profits or losses of a partnership are to be shared. The partnership deed reduces or eliminates confusion as it gives direction to the partnership.

SOLUTION TWO

(a) The following conditions must be fulfilled for ratification to be effective:

1. The principal should be identified- the agent must reveal at the time of making the contract that he was acting on behalf of a principal who will subsequently ratify the contract. In **Watson V Davies (1931) ICU 455**, a third party offered to sell property to an agent of a charity (principle). The agent accepted the offer subject to the approval by the full board of the charity. Sometime later, and before board approval, the third party revoked the offer. Thereafter, the board ratified the acceptance and sued for specific performance. It was held that an acceptance by the agent made expressly subject to ratification was a nullity until ratified. There was no binding contract for the charity to sue in breach of contract.

2. The principal must be competent at time of contract- this condition is important especially in the case of contracts entered into on behalf of a company before its incorporation, for rights and obligations cannot attach to a non-existent person. In this condition, the principal must have had the capacity to enter into the contract at the time of contracting and its ratification. In **Kelner V Baxter (1866) LRZ CP 183** it was held that the company was not in existence and had no capacity, rights nor obligation as it was not yet incorporated at the time the agent entered into the contract.

3. Ratification must be of the whole contract- the principal must ratify the contract in total not partially. The ratification must be within a reasonable time and the contract must be capable of ratification. A contract void from inception cannot be ratified for instance, in the case of **Brook V Hook (1871) LR6 Exch** it was held that, a forged signature cannot be ratified.

(b) The following are the requirements for negotiability;

1. **Must be signed by the drawer or maker**- a negotiable instrument must be signed by the drawer or maker and such a signature may be by symbol made by the maker or drawer.

2. **Must be unconditional-** A negotiable instrument must contain an unconditional or express order or promise to pay.

3. **Must be of fixed amount-** A negotiable instrument must state a fixed amount of money which means an amount that can be determined from the face of the instrument and payable in money.

4. **Payable on demand or at a definite future time-** An instrument is payable on demand or on a presentation to the payer or drawee.

5. **Must be payable in money**

SOLUTION THREE

(a) The High Court of Zambia has unlimited jurisdiction in civil and criminal matters, as well as appellate jurisdiction. It also has supervisory and review jurisdiction.

Original jurisdiction

1. The High Court has original jurisdiction in civil and criminal matters
2. The High Court has divisions for industrial relations, commercial, and family and children's matters

Appellate jurisdiction

1. The High Court has appellate jurisdiction over appeals from lower courts
2. The High Court has jurisdiction over matters that would overwhelm the Supreme Court's docket if heard originally

Review jurisdiction

1. The High Court has jurisdiction to review decisions as prescribed

Bill of Rights matters

1. The High Court has jurisdiction over matters arising under the Bill of Rights
2. The Supreme Court has appellate jurisdiction over matters arising under the Bill of Rights

(b) **Judicial Precedent has the following advantages:**

1. **Equality**- the application of the same rule to successive similar cases result in equality of treatment for all who come before the court.
2. **Predictability –** consistently following precedents contributes to predictability in future disputes.
3. **Economy-** use of established criteria to settle new cases save time and energy.
4. **Respect-**adherence to earlier decisions show due respect to the wisdom and experience of prior generations of judges.

5. **Flexibility-** it gives room for new principles to be established by judges while interpreting the law. For instance, the 'Neighbor Principle' which was established by lord Atkins in the case of Donoghue v Stevenson.

(c) The duties of a carrier include:

1. To carry all goods of the class he professes to carry for anybody who delivers them to him, provided he has room in his carriage and the person offers to pay the proper charges.
2. To carry the goods by his ordinary route and his reasonable diligence and without unreasonable deviation or delay.
3. To deliver the goods to the consignee at the place designated by the consignor, unless the consignee requires delivery at another place, when he may deliver them accordingly.
4. To receive and carry all goods offered for carriage as long as the carrier is not exposed to extraordinary danger.
5. To take utmost care of goods from the moment of receipt to the place of destination.

(d) Fixed or specific charges are those which give the lender's rights to the property in question. A fixed charge gives rise to an equitable proprietary interest. **In Illingworth v Heuldsworth (1904),** Lord McNaughton expressed the view that a fixed charge was capable of being ascertained and defined. A floating charge on the other hand is a charge where the chargee's rights attach to a "shifting fund of assets" and can be in the form of stock in trade, receivables inter alia. It allows the company to continue dealing with the assets in the normal course of business without creditor interference. However, in case of default or if the company ceases its business, the floating charge crystallizes into a fixed charge by operation of law allowing the creditor the same rights as if the charge had been a fixed charge.

SOLUTION FOUR

(a)

1. The official receiver shall have perpetual succession as a corporate sole by the name of the official receiver and may sue or be sued in his corporate name.
2. Appoint or terminate the appointment of a special manager of the debtor's estate or business in the interest of the creditors.
3. Appoint a deputy official receiver.
4. Administer oaths.

(b) The contract of insurance is a contract 'umberrimae fidei' which means utmost good faith. This makes the contract of insurance one with extensive duties of disclosure. The parties to a contract of insurance owe each other a mutual duty of the utmost good faith to disclose all material facts. This means that the insurer is discharged from any liability if the insured gave any false statements on the insurance proposal form. In Banque Financier de la Cite v West gate Insurance Co. Ltd, it was held that, the insurer owed the insured party a duty to disclose all facts known to him which are material either to the nature of the risk sought to be covered or the recoverable of a claim under the policy which a prudent insured would take into account in deciding whether or not to place the risk for which he seeks cover with that insurer. Also, failure by the insured to disclose any material facts will make the contract of insurance voidable as this is the material on which the insurer evaluates the risk of insurance. The duty equally applies to the insured not to make fraudulent claims on the contract.

(c) The following Contracts of Employment have to be in writing:

1. Contracts made for a period exceeding six (6) months or for a number of working days equivalent to six months.
2. Contracts of foreign service.
3. Contracts for specific work and which cannot reasonably be expected to be completed in less than six (6) months.

SOLUTION FIVE

(a) This question borders on intention to create legal relations. Intention to create legal relations means that the parties must intend to enter into a legally binding arrangement in which the rights and obligations of the agreement are enforceable. As simple as this seems, the question as to whether the parties to a negotiation did intent to create legal relations is highly fact sensitive.

In the case at hand, domestic agreements are viewed at law not to be binding, thus, there is as a rule of thumb, no intention to create legal relations. The promise of buying her an Audi falls under this category. In **Balfour v. Balfour,** there was no intention to create legal relations. A husband promised to pay his wife a £30 per month allowance. The wife sued her husband to enforce the promise. **Synopsis of Rule of Law.** Agreements between husband and wife to provide monies are generally not contracts because generally the "parties d[o] not intend that they should be attended by legal consequences." So she can't succeed on her claim of an Audi. However, she will only succeed on her claim of k10,000 as she is on separation.

(b) Capacity to contract is a person's legal ability to enter into a binding agreement, such as a contract. It also refers to a person's ability to make other legal decisions.

Factors that affect capacity to contract:

1. **Age**: The age of majority varies by law, but is usually 18 years old
2. **Mental capacity**: A person's mental state may affect their capacity to contract
3. **Substance use**: Being under the influence of drugs or alcohol may affect a person's capacity to contract

Contract enforceability

1. The law assumes that everyone can contract, but this can be rebutted
2. A contract may not be enforceable if a person lacked the mental capacity to understand what they were doing
3. A contract made by a minor with an adult is binding on the adult but not on the minor

Other contract requirements:

1. Mutual assent, expressed by a valid offer and acceptance

2. Adequate consideration
3. Legality
4. Free consent from all parties

(c) In a hire purchase agreement, a buyer (also called the "hirer") has the right to possess and use the goods during the hire period while making installment payments, with the option to fully own the goods at the end of the agreement by paying the final balance, as well as the right to terminate the agreement early under certain conditions, and to receive a refund of any excess payments made; however, they do not have full ownership of the goods until all payments are completed.

Key rights of a buyer in a hire purchase agreement:

1. **Right to possession and usage:**

   The buyer has the right to use the goods during the hire period as long as they are making timely payments on the installments.

2. **Option to purchase:**

   At the end of the hire period, the buyer has the option to fully own the goods by paying the final balance due.

3. **Early termination:**

   In certain circumstances, the buyer may have the right to terminate the agreement early by giving proper notice, although they may be subject to penalties for early termination.

4. **Right to set-off:**

   If the seller breaches the agreement, the buyer may have the right to deduct any amounts owed to them from future installments.

5. **Right to inspect goods:**

   Before signing the agreement, the buyer has the right to inspect the goods to ensure they are in good working order.

6. **Right to receive a refund:**

   If the buyer terminates the agreement early and has made excess payments, they are entitled to a refund of those amounts.

Important points to remember:

1. **Conditional ownership:**

   Even while using the goods, the buyer does not have full ownership until all installments are paid.

2. **Legal obligations:**

   The buyer must make timely payments as per the agreement and maintain the goods in reasonable condition.

END OF SUGGESTED SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D1: BUSINESS INFORMATION MANAGEMENT

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.

2. This question paper consists of **FOUR (4)** questions of Twenty-Five (25) marks each. You must attempt all the **FOUR (4)** questions.

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

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

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

6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.

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

8. Present legible and tidy work.

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

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

Answer all FOUR (4) questions.

<u>QUESTION ONE</u>

(a) Ideally, Service Level Contracts should be aligned to the technology or business objectives of the engagements. Misalignment can have a negative impact on doing business or compromise with a lot of things or substandard works.

Required:

Outline four (4) key elements of a Service Level Contract (SLC) when outsourcing resources. (8 marks)

(b) Necessary management tools and techniques are used to control and monitor activities undertaken within the project.

Required:

Explain in detail the Work Breakdown Structure (WBS) and its use in a project. (8 marks)

(c) Dexton Business Centre is transitioning to an online platform to expand its market reach and improve knowledge sharing among employees.

Required:

Describe two (2) knowledge-sharing systems that could benefit Dexton Business Centre. (6 marks)

(d) Internet users frequently use Internet browser software.

Required:

List three (3) examples of Internet browser software. (3 marks)

[Total: 25 Marks]

QUESTION TWO

(a) Information Systems can be integrated into business strategies to enhance a company's ability to respond to competitive pressures, create value, and achieve long-term success in the marketplace.

Required:

Explain three (3) ways an Information System can help businesses improve operational efficiency. (6 marks)

(b) Analyse the relationship between Information Systems and Business Strategy. (4 marks)

(c) Data protection principles aim to protect individual's rights and privacy while allowing for the legitimate use of their data.

Required:

List five (5) Data Protection principles that business organization should comply with. (5 marks)

(d) The key to successful Information Systems is a good design. Designing Information Systems focuses on the processes, methodologies, and approaches involved in designing information systems.

Required:

Outline five (5) stages of the Information System development process. (10 marks)

[Total: 25 Marks]

QUESTION THREE

(a) Stakeholders are very important in a project. Organizations have not always been interested in stakeholders. The old way of doing business involves focusing primarily on shareholders and ensuring their interests and needs were met.

Required:

Identify the roles of five (5) key stakeholders in a project. (10 marks)

(b) Financial performance measurement has long been criticized for failing to help Managers cope with the pressures of today's competitive environment. This dissatisfaction has led to the development of a number of new approaches which integrates the measures and needs of various stakeholders and aligning them with the organization's strategic objectives.

Required:

Explain three (3) benefits of effective performance measurement. (6 marks)

(c) Your tax department is rolling out a new information system. It temporarily needs a new Project Manager to oversee this project successfully.

Required:

List five (5) duties of a Project Manager. (5 marks)

(d) New technologies and the way we store information is changing how knowledge management initiatives operate. It is not easy to set up a successful knowledge management system and its needs to be tailored to your own unique needs and circumstances. You need to gain a good grasp of how to structure your system, the potential obstacles that are in your way and the most effective tools that will enable you to implement your system.

Required:

Outline the relevance of knowledge management in a business organization. (4 marks)

[Total: 25 Marks]

QUESTION FOUR

(a) Most organizations are embracing the ICT for various reasons. Organizations relate and acquire ICT equipment from different vendors. Maintenance contracts and other forms of contracts are sometimes signed for either software or hardware.

Required:

List six (6) major contract elements to be included in a software contract with the vendor. (6 marks)

(b) Traditional transactions require a large inventory or have a high cost of stock outs. E-commerce will still gradually have large impacts on the transportation of goods and through other intermediate activities in a complex supply chain. Today, many of these transactions are driven by information technology and can be conducted in large parts as digital transactions via public switched telephone network, sending documents in a parallel data stream to the voice communications.

Required:

Discuss four (4) positive impacts of e-commerce on traditional business models. (8 marks)

(c) The type of technology an organization uses matters to improve its performance and production.

Required:

Outline three (3) benefits of ICT to a new business involved in production. (3 marks)

(d) Video conferencing is live, visual connection between two or more remote parties over the internet that simulates face-to-face meetings. It is important because it joins people who would not normally be able to form a face-to-face communication.

Required:

Describe four (4) devices one requires to carry out a video conference. (8 marks)

[Total: 25 Marks]

END OF PAPER

D1 BUSINESS INFORMATION MANAGEMENT

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) Four (4) key elements of a Service Level Contract (SLC) when outsourcing resources.

1. Service level: minimum levels of service to be provided
2. Time frame: When does the contract expire
3. Exit route: How to transfer to back after contract
4. Software ownership: Software licensing and copyright
5. Dependencies: level of quality agreed

(b) **Work Breakdown Structure and its use in a project**

1. WBS is the analysis of work of a project into different units or tasks. It identifies the work that must be done in the project, determines resources required, sequences work done to allocate resources in optimum way.
2. WBS is used as a starting point for many projects management functions. The process of work breakdown continues until the smallest possible subunit is reached. It can be used in devising estimates allowing for compilation of a complete list of every task that is going to attract expenditure.

(c) Two knowledge-sharing systems

1. **Intranet Portals**: Centralized platform for internal document sharing and communication.
2. **Enterprise Social Networks** (e.g., Microsoft Teams, Slack): Facilitates real-time knowledge exchange.

(d) Internet browsers

1. Mozilla Firefox
2. Internet Explorer
3. Google Chrome
4. Yahoo

SOLUTION TWO

(a) Three (3) ways an Information System can help businesses improve operational efficiency.

1. **Automation of Routine Tasks:**
   Information systems can automate repetitive and time-consuming tasks, such as data entry, processing transactions, and generating reports. Automation enhances speed, consistency, and accuracy across business operations.

2. **Real-Time Data Access and Decision-Making:**
   With an integrated information system, businesses can access real-time data from various departments. This enables faster and more informed decision-making, helping managers respond to operational challenges quickly.

3. **Streamlined Communication and Collaboration:**
   Information systems improve communication across departments, locations, and teams. With tools like email, project management software, and collaboration platforms, employees can easily share information, coordinate tasks, and solve problems more efficiently.

4. **Data Analytics and Reporting:**
   Modern information systems come with data analytics tools that help businesses analyze trends, identify inefficiencies, and predict future demands. Real-time reporting and dashboards also help managers track performance indicators and make adjustments as needed.

5. **Inventory and Resource Management:**
   Information systems can optimize inventory levels by tracking stock in real-time, preventing overstocking or stockouts. By using systems like Enterprise Resource Planning (ERP), businesses can better manage resources, schedule production, and track supply chain performance.

6. **Enhanced Customer Relationship Management (CRM):**
   An Information System can centralize customer data, providing a clear view of customer interactions, preferences, and purchasing history. personalized services and higher customer satisfaction. Efficient CRM also helps in managing customer inquiries and issues quickly.

(b) Analyze the relationship between Information Systems and Business Strategy.

Information Systems are not just tools that automate business operations; they are integral to forming, implementing, and adapting business strategies. From enabling real-time data-driven decisions to supporting innovation and competitive advantage, the relationship between information systems and business strategy is symbiotic and critical to long-term business success.

(c) **Key GDPR Principles**

1. Lawfulness, Fairness, and Transparency – Data collection should be legal and transparent.
2. Data Minimization – Only collect data necessary for processing.
3. Confidentiality and Security – Ensure adequate security measures are in place.
4. Accuracy – data should be accurate and up to date
5. Storage limitations – only stored for as long as necessary
6. Accountability – those responsibilities for personal data comply with laid principles

(d) IS development process

1. **Problem identification**: involves an analysis of the organization's information requirements. The analysis is carried out in conjunction with users so that their actual requirements can be identified rather than their likely requirements.
2. **Feasibility study**: involves a brief review of the existing system and the identification of a range of possible alternative solutions. One is recommended based on its costs and benefits.
3. **Systems investigation**: this is a fact-finding exercise which investigates the existing system to assess its problems and requirements and obtain details of data volumes, response times and other indicators.
4. **Systems analysis**: this process examines why current methods are used, what alternatives might achieve the same or better results, what restricts the effectiveness of the system and what performance criteria are required from a system.
5. **Systems design**: technical phase that considers both computerized and manual procedures addressing inputs, outputs, program design, file design and security. A detailed specification of the new system is produced.
6. **Systems operation**: this stage carries development through from design to implementation. It involves acquisition or writing of software, program testing, file conversion or set up, acquisition and installation of hardware going live.
7. **Review and maintenance**: this is an ongoing process which ensures that the system meets the objectives set during the feasibility study, that it is accepted by users and that its performance is satisfactory.

SOLUTION THREE

(a) Stakeholders are very important in a project.

The roles of five (5) key stakeholders in a project.

1. Project manager: establishing project environment and monitoring progress
2. Project sponsor: accountable for resources invested in the project.
3. Users: utilize the product
4. Risk manager: Controls risks
5. Quality manager: Ensuring that control procedures are in place

(b) Three (3) benefits of effective performance measurement.

1. Enhanced decision making and control
2. Supports strategic planning
3. Improved communication
4. Accountability

(c) Five (5) duties of a project manager.

1. Outline planning
2. Detailed planning
3. Team building
4. Communication
5. Co-ordinating
6. Monitoring and control
7. Problem resolution
8. Quality control

(d) Relevance of knowledge management

1. It helps retain, share and utilize valuable information, ultimately boosting productivity, innovation and customer satisfaction.
2. It ensures that employees have easy access to relevant knowledge, enabling faster decision making and improved problem solving.
3. By facilitating knowledge sharing and collaboration, knowledge management also fosters a learning culture and promotes innovation, contributing to the organisation's overall success.
4. A strong knowledge management system enables organisations to innovate, respond to market changes and gain competitive edge

SOLUTION FOUR

(a) Six (6) major contract elements to be included in a software contract with the vendor
1. Timeframe
2. Service level
3. Exit route
4. Software ownership
5. Dependencies
6. Employment issues

(b) Impact of e-commerce on traditional business models
1. Expands market reach beyond physical locations.
2. Reduces operational costs through automation.
3. Enhances customer engagement with personalized services.
4. Provides real-time data for better inventory management.
5. Increases competition and necessitates digital transformation.
6. Enables 24/7 business operations.
7. Offers multiple payment and fulfillment options.

(c) Outline three (3) benefits of ICT technology in a new business involved in production.
1. Cut off repetitive work
2. Cut production costs
3. Better quality
4. Efficiency and speed

(d) Four (4) devices one requires to carry out a video conference.
1. Computer – to display the presentation or what is being discussed
2. Speaker – allows you to hear audio from other participants
3. Camera – necessary for capturing the video feed
4. Internet source – internet connection which must be stable and reliable internet connection and is important for streaming video and audio

END SUGGESTED SOLUTION

TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D2: FINANCIAL MANAGEMENT

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 question paper consists of **FOUR (4)** questions of Twenty Five (25) marks each. You must attempt all the **FOUR (4)** questions.
3. Enter your Student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
6. All workings must be done in the answer booklet.
7. Present legible and tidy work.
8. Graph paper (if required) is provided at the end of the answer booklet.
9. Formulae, Present Value, and Annuity tables are provided at the end of this question paper.

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

Attempt all FOUR (4) questions.

QUESTION ONE

ZIG Inc. is considering the selection of one of a pair of mutually exclusive investment projects. Both projects require the purchase of machinery with a life span of five (5) years.

Project	Initial outlay (K'm)	Annual Cash flow (K'm)	Scrap Value (K'm)
A	800	250	75
B	1,870	550	320

ZIG Inc. uses the straight-line method for providing depreciation on plant, equipment and machinery. The company's cost of capital is 15% per annum. Assume that there will be no price changes over the project lives and that acceptance of one of the projects will not change the required amount of working capital.

Required:

(a) Advise which project should be undertaken based on each of the following investment appraisal techniques:

(i) Accounting Rate of Return (ARR) using the average investment; (6 marks)

(ii) Payback period; (3 marks)

(iii) Net Present Value, and (6 marks)

(iv) Internal Rate of Return (IRR) (5 marks)

(b) Based on the result in (a) above, recommend with reasons which project should be undertaken. (5 marks)

[Total: 25 Marks]

QUESTION TWO

Sidia holdings based in Europe has ten (10) subsidiary companies in five (5) different countries in Africa. It specializes in the manufacture of one of the main control components of electric vehicles. On the 30 of January, 2025, the company's Board of Directors held a virtual meeting in which one of the agenda items was to discuss and strategize on how to acquire some of the companies which had undervalued shares. The funds to carry out these activities were to be obtained from an international financial institution and paid back at prevailing interest rates. Further, in this meeting, some of the directors that participated expressed reservation that the stock market is efficient and argued that there are available prospects to purchase firms cheaply.

Required:

(a) Explain the various factors that influence interest rates. (6 marks)

(b) Explain four (4) main theories underlying the shape of the yield curve. (8 marks)

(c) Explain the term" efficient" as it relates to the stock markets and the different levels of stock market efficiency that may exist. (11 marks)

[Total: 25 Marks]

QUESTION THREE

REG Plc is a listed company in the telecommunications industry. It was established in the 1990's as a private company. REG Plc has in issue 750,000 ordinary shares and is just about to pay a dividend of 45 ngwee per share. The proportion of annual earnings distributed is 60% and the average return on reinvested funds is 15%. The market's required return on shares of this risk level is 25%. REG Plc recently acquired 53% of shares in Drift Limited whose market capitalization is K1.2 million.

Required:

(a) Estimate the total share value of REG Plc. (7 marks)

(b) State the reasons for undertaking a share valuation for an unquoted company. (3 marks)

(c) Explain the circumstances under which Drift Ltd would be considered as a subsidiary or an associate of REG Plc. (15 marks)

[Total: 25 Marks]

QUESTION FOUR

Guraian is a country in the South Eastern part of Africa. In this country, the staple food largely consists of Maize Meal. The country has only one large Government supported milling company called "Gurian National Milling Company" (GMC). The milling company supplies all milling outlets in Gurian with maize meal in 50 kg bags.

The maize meal requires a special ingredient to enhance its nutritional value. The annual demand for the special ingredient is 150,000 units. The milling company orders the special ingredient in a batch of 10,000 units at regular intervals throughout the year. There is a buffer stock which is enough to address 30 working days' demand.

It is the company's policy that after 60 days, suppliers of the special ingredient are paid. A discount of 2% for cash settlement within 20 days is given. The GMC milling company has a short-term cost of debt of 10% with a 365 days working year.

Details of the current inventory management system are detailed below:

Item	OD=Ordering Cost Per Order	P=Purchase Price Per Unit	I=Inventory holding cost per unit per year
Amount	K50	K22	0.20

The company is considering using the Economic Order Quantity (EOQ) to manage the inventory. Recently the company has expanded in all the parts of the country. However, the Board of Directors expressed concern about overtrading in relation to the expansion.

Required:

(a) Calculate the current annual holding costs. (6 marks)

(b) Calculate the Economic Order Quantity (EOQ) and advise the Board of Directors whether it is a beneficial method for the company to use in inventory management. (8 marks)

(c) Highlight typical symptoms of overtrading. (6 marks)

(d) Explain the possible actions that can be taken to address these symptoms. (5 marks)

[Total: 25 Marks]

END OF PAPER

Formula Sheet

Economic order quantity

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

Miller – Orr Model

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

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

The Capital Asset Pricing Model

$$E(r_i) = R_f + \beta_i(E(r_m) - R_f)$$

The asset beta formula

$$\beta_a = \left[\frac{V_e}{(V_e + V_d(1 - T))}\beta_e\right] + \left[\frac{V_d(1 - T)}{(V_e + V_d(1 - T))}\beta_d\right]$$

The Growth Model

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

Gordon's growth approximation

$$g = br_e$$

The weighted average cost of capital

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

The Fisher formula

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

Purchasing power parity and interest rate parity

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

Present Value Table

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

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

Discount rate (r)

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

(n)	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%	
1	0·901	0·893	0·885	0·877	0·870	0·862	0·855	0·847	0·840	0·833	1
2	0·812	0·797	0·783	0·769	0·756	0·743	0·731	0·718	0·706	0·694	2
3	0·731	0·712	0·693	0·675	0·658	0·641	0·624	0·609	0·593	0·579	3
4	0·659	0·636	0·613	0·592	0·572	0·552	0·534	0·516	0·499	0·482	4
5	0·593	0·567	0·543	0·519	0·497	0·476	0·456	0·437	0·419	0·402	5
6	0·535	0·507	0·480	0·456	0·432	0·410	0·390	0·370	0·352	0·335	6
7	0·482	0·452	0·425	0·400	0·376	0·354	0·333	0·314	0·296	0·279	7
8	0·434	0·404	0·376	0·351	0·327	0·305	0·285	0·266	0·249	0·233	8
9	0·391	0·361	0·333	0·308	0·284	0·263	0·243	0·225	0·209	0·194	9
10	0·352	0·322	0·295	0·270	0·247	0·227	0·208	0·191	0·176	0·162	10
11	0·317	0·287	0·261	0·237	0·215	0·195	0·178	0·162	0·148	0·135	11
12	0·286	0·257	0·231	0·208	0·187	0·168	0·152	0·137	0·124	0·112	12
13	0·258	0·229	0·204	0·182	0·163	0·145	0·130	0·116	0·104	0·093	13
14	0·232	0·205	0·181	0·160	0·141	0·125	0·111	0·099	0·088	0·078	14
15	0·209	0·183	0·160	0·140	0·123	0·108	0·095	0·084	0·074	0·065	15

Annuity Table

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

Where r = discount rate
n = number of periods

Discount rate (r)

Periods (n)	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	
1	0·990	0·980	0·971	0·962	0·952	0·943	0·935	0·926	0·917	0·909	1
2	1·970	1·942	1·913	1·886	1·859	1·833	1·808	1·783	1·759	1·736	2
3	2·941	2·884	2·829	2·775	2·723	2·673	2·624	2·577	2·531	2·487	3
4	3·902	3·808	3·717	3·630	3·546	3·465	3·387	3·312	3·240	3·170	4
5	4·853	4·713	4·580	4·452	4·329	4·212	4·100	3·993	3·890	3·791	5
6	5·795	5·601	5·417	5·242	5·076	4·917	4·767	4·623	4·486	4·355	6
7	6·728	6·472	6·230	6·002	5·786	5·582	5·389	5·206	5·033	4·868	7
8	7·652	7·325	7·020	6·733	6·463	6·210	5·971	5·747	5·535	5·335	8
9	8·566	8·162	7·786	7·435	7·108	6·802	6·515	6·247	5·995	5·759	9
10	9·471	8·983	8·530	8·111	7·722	7·360	7·024	6·710	6·418	6·145	10
11	10·37	9·787	9·253	8·760	8·306	7·887	7·499	7·139	6·805	6·495	11
12	11·26	10·58	9·954	9·385	8·863	8·384	7·943	7·536	7·161	6·814	12
13	12·13	11·35	10·63	9·986	9·394	8·853	8·358	7·904	7·487	7·103	13
14	13·00	12·11	11·30	10·56	9·899	9·295	8·745	8·244	7·786	7·367	14
15	13·87	12·85	11·94	11·12	10·38	9·712	9·108	8·559	8·061	7·606	15

(n)	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%	
1	0·901	0·893	0·885	0·877	0·870	0·862	0·855	0·847	0·840	0·833	1
2	1·713	1·690	1·668	1·647	1·626	1·605	1·585	1·566	1·547	1·528	2
3	2·444	2·402	2·361	2·322	2·283	2·246	2·210	2·174	2·140	2·106	3
4	3·102	3·037	2·974	2·914	2·855	2·798	2·743	2·690	2·639	2·589	4
5	3·696	3·605	3·517	3·433	3·352	3·274	3·199	3·127	3·058	2·991	5
6	4·231	4·111	3·998	3·889	3·784	3·685	3·589	3·498	3·410	3·326	6
7	4·712	4·564	4·423	4·288	4·160	4·039	3·922	3·812	3·706	3·605	7
8	5·146	4·968	4·799	4·639	4·487	4·344	4·207	4·078	3·954	3·837	8
9	5·537	5·328	5·132	4·946	4·772	4·607	4·451	4·303	4·163	4·031	9
10	5·889	5·650	5·426	5·216	5·019	4·833	4·659	4·494	4·339	4·192	10
11	6·207	5·938	5·687	5·453	5·234	5·029	4·836	4·656	4·486	4·327	11
12	6·492	6·194	5·918	5·660	5·421	5·197	4·988	4·793	4·611	4·439	12
13	6·750	6·424	6·122	5·842	5·583	5·342	5·118	4·910	4·715	4·533	13
14	6·982	6·628	6·302	6·002	5·724	5·468	5·229	5·008	4·802	4·611	14
15	7·191	6·811	6·462	6·142	5·847	5·575	5·324	5·092	4·876	4·675	15

D2 – FINANCIAL MANAGEMENT

SUGGESTED SOLUTIONS

SOLUTION ONE

(a)

	Project A	Project B
Cost	800	1870
Scrap	75	320
Depreciable amount	725	1550
Depreciation(depreciable amount/life span)	145	310

(i) ARR	Project A	Project B
Cash flow	250	550
Less: Depreciation	145	310
Average Profit	105	240
Average Investment (Cost + Scrap/2)	437.5	1095
ARR	**24%**	**22%**

Project A should be undertaken because it has a higher ARR

(ii) Payback	Project A	Project B
Net cash flow	250	550
Investment cost	800	1870
Payback (Years)	**3.2**	**3.40**

Project A should be undertaken because it has a shorter payback period.

(iii) NPV	Project A	Project B
Cash flow	250	550
Annuity @15%	3.352	3.352
PV of CF	838	1843.6
PV of Scrap@15%	37.275	159.04
Total PV	875.275	2002.64
Initial outlay	-800	-1870
NPV	**75.275**	**132.64**

Project B should be undertaken
because it has a higher positive NPV.

(iv) IRR	Project A	Project B
Cash flow	250	550
Annuity @20%	2.991	2.991
PV of CF	747.75	1645.05
PV of Scrap@20%	30.15	128.64
Total PV	777.9	1773.69
Initial outlay	-800	-1,870
NPV	**-22.1**	**-96.31**

IRR=L% + NPVL/NPVL-NPVH (H%-L%)	**18.87%**	**17.90%**

(b) Project A should be undertaken
because it has a higher IRR.

SUMMARY	Project A	Project B	Decision
ARR	24%	22%	Accept A
Payback Period	3.2	3.4	Accept A
NPV	75.275	132.64	Accept B
IRR	18.87%	17.90%	Accept A

1. Project B should be undertaken because NPV is a superior method. NPV seems to be a better method of appraising investment opportunities than these other methods because of the following:
2. The timing of the cash flows. By discounting the various cash flows associated with each project according to when it is expected to arise, NPV takes account of the time value of money. Associated with this is the fact that by discounting, using the opportunity cost of finance (that is, the return that the next best alternative opportunity would generate), the net benefit after financing costs have been met is identified (as the NPV of the project).
3. The whole of the relevant cash flows. NPV includes all of the relevant cash flows, irrespective of when they are expected to occur. It treats them differently according to their date of occurrence, but they are all taken into account in the NPV, and they all have an influence on the decision. Unlike IRR which produces multiple rates, NPV can be used for non-conventional cash flows without problems.
4. The objectives of the business. NPV is the only method of appraisal in which the output of the analysis has a direct bearing on the wealth of the shareholders of a business. Positive NPVs enhance wealth; negative ones reduce it. Since we assume that private-sector businesses seek to maximize shareholders' wealth, NPV is superior to these other methods.

SOLUTION TWO

(a) **Factors that influence interest rates:**

1. Default risk. Interest rates are expected to rise with increasing risk of default on loans.

2. Demand and supply of money. If demand for borrowing increases, banks will raise the interest rates on loans and vice versa.
3. Loan Duration (Loan Tenure) . Loans with longer maturity periods have higher interest rates to compensate investors

(b) **Four (4) main theories underlying the yield curve**

1. The expectations theory:
   This theory states discusses the expected behavior of the yield curve as it relates to interest rates. When the yield curve is shows a positive slop, it is attributed to the expectation that the short-term interest rates will rise in the near future

2. The liquidity preference theory
   This theory assumes that the bond holders will require a risk premium. The assumption is that they are risk averse and expect a return on their investment that compensates them with this uncertainty.

3. The preferred habitat theory
   This assumes that the term structure shows both the expectations of the future movements of interest rates that the liquidity premiums

(c)

Describe the term ”efficient” as it relates to the stock markets and identify the different levels of stock market efficiency that may exist

The Term efficient concerning stock markets means that, these take into account all publicly available data and information. In this scenario no investor, regardless of their skill and knowledge can achieve returns that are above the market average.

The different levels of stock market efficiency that may exist

Weak Form
Characteristics:
The current stock prices are as a result of the reflection of the historical price movements and therefore makes it impossible to achieve excess returns bay applying technical analysis

Semi-Strong

Characteristics:

This states that all publicly available information is factored in the current stock prices making it not possible to reach excess returns by applying fundamental analysis.

Strong –Form

Characteristics:

The Strong-Form implies that all information, whether private or public, is factored in the current stock prices, making it impossible to achieve excess returns using any type of analysis

SOLUTION THREE

(a) **Total Share Value**

g= 0.6 x 0.15= 9%

$$Po = \frac{0.45(1.09)}{0.25 - 0.09}$$

Po =K 3.07 per share

Equity valuation = 750,000 x K3.07 = K2, 302,500

(b) A share valuation will be necessary for unquoted companies, when:

1. The company wishes to 'go public' and must fix an issue price for its shares
2. There is a scheme of merger
3. Shares are sold
4. Shares need to be valued for the purposes of taxation
5. Shares are pledged as collateral for a loan

(c) **Consideration as subsidiary**

A subsidiary is an entity that is controlled by another entity (parent). Control means:

1. Power to direct relevant activities of investee and
2. Exposure or rights to variable returns from involvement with investee and
3. Ability to use power over investee to affect amount of investor's returns

An entity has control over an entity when it has the power to direct the activities, which is assumed to be when the entity has > 50% of the voting rights.

The parent, such as REG Plc must prepare consolidated financial statement of Drift Limited if it has control of Drift Limited. The underlying principles of consolidation are:

1. Substance over legal form
2. Control and ownership

Other situation where control exists are when the investor such as REG Plc:

1. Can exercise the majority of the voting rights in the investee
2. Is in a contractual arrangement with others giving control
3. Holds < 50% of the voting rights, but the remainder are widely distributed
4. Holds potential voting rights which will give control

Consideration of Associate

An associate is where an entity has significant influence over the associated company. Significant influence is the power to participate in the financial and operating policy decisions. It is presumed that an investment of between 20% and 50% indicates the ability to significantly influence the investee.

Other situations where significant influence exists are when the investor:

1. Representation on the board
2. Participation in policy making process
3. Material transaction between the two entities
4. Influence the interchange of managerial personnel
5. Influence the provision of essential technical information

SOLUTION FOUR

(a) Annual Holding Cost

Item	Computation
Average number of orders per year = demand/order size	150,000/10, 000 = 15 orders. (1mark)
Annual ordering cost =	15 x K50 = K750 (1mark)
Buffer inventory held =	150,000 x 30/365 = 12,328 units. (1mark)
Average inventory held =	12,328 + (10, 000/2) = 17,328 units (1mark)
Annual holding cost =	17,328 x 0.20 = K3,466

(b) Additional costs of EOQ

Item	Computation
EOQ	= $[(2 \text{ X } 150{,}000 \text{ X } 50)/0.20)^{0.5}]$= 8,660 units
Average number of orders per year	= 150,000/8,660 = 17.32 orders (1mark)
Annual ordering cost	= 17.32 x 15 = K260 (1mark)
Average inventory held	= 17,328 + (8660/2) = 21,658 units
Annual holding cost	= 21,658 x 0.20 = K4,331
Annual holding with EOQ ordering policy	= 4,331+ 260 = K4,591 (1mark)
Additional cost of using EOQ	= 4,591-3,466= K1,125

It would be more expensive to use the EOQ by K1,125 compared to the current policy. The company should not use the EOQ method.

(c) **Symptoms of overtrading**

1. An exponential increase in turnover over the period
2. When turnover ratios are calculated, they will show a deterioration trend.
3. The company will show that they will not be able to meet their short term obligations promptly and conveniently when the liquidity ratios are calculated i.e. current and acid test ratios.

4. Reduced gross profit and net profit ratios over the period.
5. Increasing dependence on short term finance such as an increase in bank overdraft and accounts payable.
6. There will be man insignificant increase in owner's capital.

(d) **Action that can be taken to address the symptoms**

- Take action to increase inventory turnover
  Adjust upwards the selling price of the commodity in order to increase net profit.
- Consider increasing new capital from the owners of the business.
- The use of credit and factoring agencies be considered
- Defer future capital expenditure until further notice.
- Improve cost control

END OF SUGGESTED SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D3: BUSINESS TAXATION

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 can understand what to do in each question. You will be told when to start writing.
2. This question paper consists of **FOUR (4)** questions of twenty-five (25) marks each. You MUST attempt all the **FOUR (4)** questions.
3. Enter your Student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. Cell Phones are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.
10. A taxation table is provided on pages 2 to 7 of this paper.

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

TAXATION TABLE

Income Tax

Standard personal income tax rates

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

Income from farming for individuals

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

Company Income Tax rates

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

Mineral Royalty

Mineral Royalty on Copper

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

Mineral Royalty on other minerals

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

Capital allowances

Implements, plant and machinery and commercial vehicles:

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

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

Presumptive Taxes

Turnover Tax

Annual turnover	
First 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
From 50 to 63 passengers	12,960	3,240
From 64 passengers and over	15,552	3,888

Property Transfer Tax

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

Value Added Tax

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

Customs and Excise duties on used motor vehicles

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

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

Cylinder capacity not exceeding 1000 cc	12,097	10,484	8,065	6,989
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	16,129	13,979	9,678	8,387
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	16,996	22,095	9,518	12,373
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,695	24,304	11,897	15,466
Cylinder capacity exceeding 3000 cc	22,095	28,723	13,597	17,676
Station wagons				
Cylinder capacity not exceeding 1000 cc	14,113	12,231	8,065	6,989
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	18,144	15,725	9,678	8,387
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	18,695	24,304	10,198	13,256
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	20,395	26,514	11,897	15,466
Cylinder capacity exceeding 3000 cc	25,494	33,142	13,597	17,676
SUVs				
Cylinder capacity not exceeding 1000 cc	17,598	15,252	10,559	9,151
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	20,463	17,735	12,278	10,641
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	23,794	30,933	14,277	18,560
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	27,193	35,351	17,540	22,802
Cylinder capacity exceeding 3000 cc	32,292	41,980	20,395	26,514

	Aged 2 to 5 years		**Aged over 5 years**	
Motor vehicles for the transport of goods	**Customs duty**	**Excise duty**	**Customs duty**	**Excise duty**
	K	K	K	K
Single cab				
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	24,777	10,737	9,911	4,295
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	29,732	12,884	17,344	7,516
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	34,687	15,031	19,821	8,589

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

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

Surtax

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

Customs and Excise on New Motor vehicles

Duty rates on:

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

   Customs Duty:

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

   Excise Duty:

   Percentage of Value for Duty Purposes for Excise Duty Purposes

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

Attempt all FOUR (4) questions.

QUESTION ONE

Kalambo Plc is a mining company resident in Zambia involved in the mining of base metals on the Copperbelt Province of Zambia.

For the year ended 31 December 2026, the company made a profit before tax of K278,500,000. This profit figure was arrived at after taking into account the following items:

(1) The cost of sales included expenditure on the construction of a community school at a cost of K25,000,000, construction of a police post at a cost of K6,000,000 in a mining township and repairs to mining equipment of K450,000.

(2) The operating expenses which included depreciation of K360,000, amortization of intangible non-current assets of K126,000, entertaining suppliers and employees of K240,000 and K135,500 respectively. Donation to an approved charity amounting to K60,000 and donation to a political party of K230,000. Gifts of Diaries to 400 suppliers valued at K170 per Diary per supplier totaling K68,000.

(3) Other income which included dividends from Zambian companies of K170,000 (net), royalties of K255,000 (net), bank interest of K85,000 (net) and profit on sale of mining equipment amounting to K45,000.

Additional information:

(i) The company produced and sold 2,000 tons of copper in the year 2026. The norm price of copper was $6,500 per ton based on the average London Metal Exchange cash price. The Zambian Kwacha per US$1 exchange rate approved by the Commissioner General from January to 31 December 2026 should be taken as K22 per US$1. The mineral royalty tax was paid on appropriate due dates but has not been accounted for in the statement of profit or loss.

(ii) During the year ended 31 December 2026, the company locally purchased and paid for the following capital assets in Zambian kwacha:

	K
Mining equipment	3,000,000
Delivery trucks	2,200,000
Motor car with cylinder capacity of 2,600 cc	350,000

The motor car was used by the Finance director on a personal to holder basis. However, it has been agreed with the Commissioner General that the motor car was used 25% for private purposes.

Required: NOTE-Round off your figures to the nearest thousand Kwacha(K'000).

(a) Calculate the mineral royalty tax paid by Kalambo Plc. (3 mark)

(b) Explain the consequences of paying mineral royalty tax late. (2 marks)

(c) Calculate capital allowances for tax year 2026. (5 marks)

(d) Calculate the tax adjusted mining profit for Kalambo Plc for the tax year2026. (9 marks)

(e) Calculate the income tax payable by Kalambo Plc for the tax year 2026. (6 marks)

[Total: 25 Marks]

QUESTION TWO

(a) Amenshi Ltd, is a VAT registered company which processes mineral water. The following information was provided for the month of May 2026:

(1) Sales amounted to K650,000. Of this figure, 25% were Zero rated supplies, 5% were exempt and the rest are standard rated.

(2) The company disposed-off a delivery van for K90,000 (VAT inclusive).

(3) The purchases for the month amounted to K345,000 out of which 25% are exempt supplies while the remainder are all standard rated supplies.

(4) The standard rated operating expenses included petrol costing K5,200, diesel of K6,400, telephone and internet services of K35,500, utility bill for the Director's accommodation of K12,400.

(5) The company bought a Toyota Canter Van and a Toyota Camry motor car at a cost of K350,000 and K250,000 respectively, both figures are VAT inclusive.

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

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

Required:

Calculate, to the nearest Kwacha, the VAT payable/claimable for the month of May 2026. You should indicate using a zero (0) all items on which VAT is not chargeable or recoverable. (14 marks)

(b) Amenshi Ltd, imported a brand new thirty-nine (39) seater Mitsubishi bus which was manufactured in the year 2024, from a motor vehicle dealership in Japan. The bus is to be used for transportation of workers to and from the distilling plant. The cost price was \$7,260 and the insurance and freight charges were \$1,089 and \$799 respectively in transit to the port of Dar-es-salaam. Incidental costs incurred to transport the bus up to the point of entry into Zambia amounted to \$915. The company paid motor vehicle transportation costs from Nakonde to Lusaka amounting to K3,500 and K2,600 being registration fees here in Zambia.

At the date of entry into Zambia, the exchange rate prevailing at the Bureau de Change was K27.37 per US\$1 while the exchange rate as provided by Bank of Zambia and approved by the Commissioner General was K27.05 per US\$1

Required:

(i) Calculate the total import duties paid by Amenshi Ltd. (7 marks)

(ii) Explain the documents which are required in a complete clearance procedure for a motor vehicle. (4 marks)

[Total: 25 Marks]

QUESTION THREE

(a) ABD Bank plc is a Zambian resident commercial bank. The Directors of ABD Bank intends to install an online client registration system that will be used to sign up new clients. The system is estimated to cost K6,400,000 (VAT exclusive) including installation fees. The Directors are considering engaging Dytech Ltd, a company resident in a foreign country. Dytech Ltd has not appointed any tax agent in Zambia.

ABD Bank plc is also considering acquiring new office equipment either under an operating lease of finance lease arrangement.

Required:

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

(ii) Explain the tax implications of acquiring of office equipment under an operating lease and under a finance lease. (6 marks)

(b) Chimuka is a commercial farmer in the Mukushi farming block of the Central Province who prepares his accounts annually to 31 December. In the 2026 tax year he made a taxable profit of K2,300,000 before deduction of capital allowances from an annual turnover of K11,600,000.

On 1 January 2026, all implements plant and machinery qualifying for capital allowances, were written down to zero. And during the year ended 31 December 2026, Chimuka incurred the following expenditures:

	K
Purchase of tractor	450,000
Expenditure on new irrigation system	230,000
Purchase of farm implements	320,000
Expenditure on development of avocado plantation	300,000
Construction of three (3) dwelling houses for farm employees costing K450,000 each	1,350,000
Purchase of Mistubishi fuso truck	420,000

In the tax year of 2025, Chimuka's farm made a taxable profit of K600,000. This profit was much lower than the profits generated business in the recent past due to a poor crop yield as a result of floods which swept most of the crops. This being the case, Chimuka wishes to make an election to average the taxable profits for the tax year 2025 with the taxable farming profits for the tax year 2026.

Required:

(i) Calculate Chimuka's final taxable farming profits for the tax year 2026 after Capital allowances. (8 marks)

(iii) Explain the circumstances under which income from farming may be averaged. (2 marks)

(iii) Calculate the final taxable farming profits for each of the tax years 2025 and 2026, assuming Chimuka is successful in making the election to have the profits averaged. (2 marks)

(iv) Compute Chimuka's income tax payable for the tax year 2026. (2 marks)

[Total: 25 Marks]

QUESTION FOUR

Laptop Plc is a Zambian resident company engaged in manufacturing which is registered for Value Added Tax (VAT) purposes and its shares were listed on the Lusaka Securities Exchange (LuSE) ten (10) years ago.

Laptop Plc holds 80% of the issued equity shares of Desktop Plc and 100% of the issued equity shares of Tablet Plc who are both Zambian resident companies engaged in manufacturing. Desktop Plc and Tablet Plc are both registered for VAT and each company listed its shares on the LuSE five (5) years ago. All companies in the group prepare their financial statements annually to 31 December.

On 1 October 2026, the directors of Laptop Plc decided to discontinue the operations of Tablet due to a rapid decrease in the demand for a product manufactured by the company. Tablet ceased to trade on 31 December 2026 and sold all its assets at their market values. The following is the statement of profit or loss extract for the year ended 31 December 2026 for Tablet Plc:

		K
Profit before tax	(Note 1)	1,200,000
Income tax expense	(Note 2)	(218,200)
Profit for the year		981,800

The following additional information for Tablet Plc is relevant:

(1) The profit before tax of K1,200,000 was arrived at after charging the following operating expenses:

	K
Salaries & wages	12,100,000
Depreciation	1,728,200
Canteen expenses	812,000
Donations to approved public benefit organisations	49,100
Profit on disposal of assets	(4,119,400)
Other revenue allowable expenses	28,800,000
	39,369,900

(2) This figure represents the amount of provisional income tax paid during the year ended 31 December 2026.

(3) Statement of assets and liabilities for Tablet Plc:

Asset/Liability	Original cost	Income Tax Value at 1 January 2026	Market value at 31 December 2026
	K	K	K
Land	800,000	Not applicable	3,800,000
Factory	2,400,000	840,000	6,200,000
Staff canteen	600,000	210,000	1,220,000
Administrative offices	1,000,000	780,000	3,900,000
Plant and machinery	3,000,000	1,500,000	1,300,000
Motor vehicles	1,400,000	350,000	300,000
Inventories	182,300	Not applicable	182,300
Trade payables	484,000	Not applicable	484,000

The above amounts are all exclusive of VAT where appropriate.

Required:

(a) Explain the income tax implications of ceasing Tablet's operations at 31 December 2026. (2½ marks)

(b) Calculate applicable balancing allowances or charges for the tax year 2026. (6 marks)

(c) Calculate the amount of income tax payable by Tablet for the tax year 2026. (5 marks)

(d) (i) Explain the property transfer tax implications arising from cessation of Tablet's operations. (3 marks)

(ii) Compute the amount of any property transfer tax arising on the disposal of assets. (3 marks)

(e) Explain the Value Added Tax implications arising from cessation of Tablet's operations and compute the amount of any VAT arising on the disposal of assets. (5½ marks)

[Total: 25 Marks]

END OF PAPER

D3 BUSINESS TAXATION

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) COMPUTATION OF MINERAL ROYALTY TAX FOR TAX YEAR 2026

	K'000
First $3,999 X 2,000 X K22 X 4%	7,038
Next $1,000 X 2,000 K22 X 6.5%	2,860
Balance $1,501 X 2,000 X K22 X 8.5%	5,614
	15,512

(b) If the mineral royalty tax is not paid on the due date, a penalty of 5% per month or part thereof is charged on the late payment of mineral royalty tax. Additionally, interest is charged on the overdue tax at the rate of 2% above the Bank of Zambia discount rate per annum.

(c) COMPUTATION OF CAPITAL ALLOWANCES

	K'000
Community school (K25,000 X 20%)	5,000
Police post (K6,000 X 20%)	1,200
Mining equipment (K3,000 X 20%)	600
Delivery trucks (K2,200 X 25%)	550
Motor car (K350 x 20%)	70
	7,420

(d) KALAMBO PLC

COMPUTATION OF TAX ADJUSTED MINING PROFIT FOR THE TAX YEAR 2026

	K'000	K'000
Profit before tax		278,500
Add:		
Construction of community school	25,000	
Construction of police post	6,000	
Depreciation	360	
Amortisation of intangible assets	126	
Entertaining suppliers	240	
Donation to political party	230	
Gifts of calendars (400 x K70)	28	
Personal to holder car	43	
		32,027
		310,527
Less:		
Mineral royalty tax	15,512	
Dividends (net)	170	
Royalties (net)	255	
Bank interest (net)	85	
Profit on sale of equipment	45	

Capital allowances (in part c)	7,420	
		(23,487)
Taxable mining profit		287,040

(e) KALAMBO PLC

COMPUTATION OF INCOME TAX PAYABLE FOR THE TAX YEAR 2026

	K'000
Taxable mining profit	287,040
Add:	
Royalties (K255,000 X 100/85)	300
Bank interest (K85,000 X 100/85)	100
Taxable income	287,440
Company income tax (K287,440 X 30%)	86,232
Less:	
WHT- Royalties (K300,000 X 15%)	(45)
WHT- Bank interest (K100,000 X 15%)	(15)
Final income tax payable	86,172

SOLUTION TWO

(a) AMENSHI Ltd
VAT COMPUTATION FOR THE MONTH OF MAY 2026

	K	K
OUTPUT VAT		
Standard rated sales (K650,000x 70% x 16%)		72,800
Zero rated sales (K650,000 x 25% x 0%)		0
Exempt sales (K650,000 x 5%)		0
Disposal of delivery Van (K90,000 x 16/116)		12,414
		85,214
INPUT VAT		
Purchases exempt	0	
Purchases (K345,000 x 75% x 16%)	41,400	
Petrol (irrecoverable)	0	
Diesel (K6,400 x 16%) x 90% x 95%	876	
Overheads (K95,204 x 16% x 95%)	14,471	
Telephone & internet (Irrecoverable)	0	
Directors' utilities (Irrecoverable)	0	
Purchase of:		
Toyota canter (K350,000 x 4/29) x 95%	45,862	
Motor car (Irrecoverable)	0	
		(102,609)
VAT payable/claimable (K85,214-K102,609)		(17,395)

(b) (i)CALCULATION OF IMPORT DUTIES PAID BY AMENSHI LTD

	US$
Cost price	7,260
Insurance	1,089
Freight	799
Incidental costs	915
Total	10,063
Value for Duty Purposes (US$10,063 x K27.05)	K272,204

	VALUE K	TAX PAID K
VDP	272,204	
Customs duty 15% x 272,204	40,831	40,831
	313,035	
Excise duty @ 0%	0	0
	313,035	
Import VAT 16% x K313,035	50,086	50,086

Total	363,121	
Total taxes		90,917

(b) (ii) Complete clearance of a motor vehicle

1. Bill of lading.
2. Invoice.
3. Freight charges
4. Insurance.

SOLUTION THREE

(a)

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

Reverse VAT is the transfer of liability to account for and pay VAT on imported services from the person providing the service to the person receiving the service. A service is considered to be imported if it is performed or undertaken in Zambia and if it is utilized in Zambia regardless of where it is performed. Reverse VAT is payable where the non-resident supplier has not appointed a tax paying agent in Zambia to account for and pay VAT.

In this case, ABD Bank plc will be deemed to have imported services into Zambia if it engages Dytech Ltd to install an online client registration system. Dytech Ltd has not appointed a tax paying agent in Zambia, therefore ABD Bank plc will be required to account for VAT on the fees paid to the foreign based company. The amount of VAT payable will be: K6,400,000 x 16% = K1,024,000.

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

(ii) Tax implications of an operating lease

Where an item of plant is acquired under an operating lease, the tax treatment will be as follows:

1. If an asset is acquired under an operating lease, it is the lessor who is entitled to claim capital allowances.
2. The operating lease rentals exclusive of VAT will be allowed when computing the taxable business profits of the company.
3. The lessee will be able to claim input VAT on operating lease rentals provided that the VAT in question is one which is recoverable.

Tax implications of a finance lease

Where an item of plant is acquired under a finance lease, the tax treatment will be as follows:

1. the lessee is entitled to claim capital allowances and interest will be an allowable expense when computing the taxable business profits.
2. The input VAT incurred on the purchase of the non-current asset will be claimed by the lessee provided VAT is recoverable.
3. The finance charge component of the lease rentals will be allowable when computing taxable profits subject to the 30% Tax EBITDA limitation of allowable interest expense rules.

(b) (i) CALCULATION OF FINALL TAXABLE PROFIT AFTER CAPITAL ALLOWANCES

	K	K
Taxable profits before capital allowances		2,300,000
Tractor		
Wear & allowances (K450,000 x 100%)	450,000	
Irrigation system		
Wear & tear allowance (K230,000 x100%)	230,000	
Farm implements		
Wear & tear allowance (K320,000 x 100%)	320,000	
Fruit plantation		
(K300,000x 10%)	30,000	
Dwelling houses Restricted (K100,000 x 3)		300,000
1		
Mitsubishi truck		
Wear & tear (K420,000 x 25%)	105,000	
Total		1,435,000
Taxable income		865,000

(ii) Averaging of farming income:

1. If for two consecutive years and it is such that one year's income is substantially greater than the income of the other year.
2. One year has a loss while the other year has a profit

(iii) The final taxable farming profit will be averaged farming profits for the two consecutive tax years and these will amount to:

	K
Profit for 2024	600,000
Add profit for 2026	865,000
Total profit	1,465,000

Average profit taxable in each year (K519,000 /2	259,500

(iv) CHIMIKA'S PERSONAL INCOME TAX COMPUTATION FOR THE TAX YEAR 2026

	K
Average taxable farming profit	732,500
Less tax	(61,200)
	671,300
Income tax liability (K671,300 x 10%)	67,130

SOLUTION FOUR

(a) Where a company is sold, that company exits the group and will be assessed to income tax using cessation rules.

Since the financial statements for the last accounting period were prepared to 31 December 2026, Tablet will be assessed to income tax using the current year basis of assessment. i.e.; the tax year 2026.

Capital allowances will not be claimed on the assets which are sold. However, the income tax value of the assets is compared with the disposal proceeds to determine whether there is a balancing charge or balancing allowance. For this purpose, the disposal proceeds will be restricted to original cost.

(b) balancing charges/allowances

Factory	
Balancing charge (K840,000 – K2,400,000)	(1,560,000)
Staff canteen	
Balancing charge (K210,000 – K600,000)	(390,000)
Administration offices	
Balancing charge (K780,000 – K1,000,000)	(220,000)
Plant & machinery	
Balancing allowance (K1,500,000 – K1,300,000)	200,000
Motor vehicles	
Balancing allowance (K350,000 – K300,000)	50,000
Net balancing charge	(1,920,000)

(c) TABLET

COMPUTATION OF INCOME TAX PYABLE FOR THE TAX YEAR 2026

	K	K
Profit before tax		1,200,000
Add:		
Depreciation	1,728,200	
Canteen expenses	812,000	
		2,540,200
		3,740,200
Capital allowances (net balancing charge)		1,920,000
Profit on disposal		(4,119,400)
Taxable business profits		1,540,800
Company income tax (K1,540,800 x 30%)		462,240
Less:		
Provisional income tax paid		(218,200)
Income tax payable		244,040

(d) The operations of Tablet ceased and individual assets sold not as a going concern entity.

(i) Therefore, property transfer tax will be payable on transfer of qualifying assets which in this case are the land, factory, staff canteen and administration offices.

On the other hand, there will be no property transfer tax to be charged on the transfer of plant & machinery, motor vehicles and inventories as these are chattels which do not qualify as property for property transfer tax purposes.

(ii) The property transfer tax payable on the transfer of properties is as computed below:

	K
Land (K3,800,000 x 8%)	304,000
Factory (K6,200,000 x 8%)	496,000
Staff canteen (K1,220,000 x 8%)	97,600
Administration offices (K3,900,000 x 8%)	312,000
Total PTT	1,209,600

(e) Where a company is sold not as a going concern, value added tax will be payable on the transfer of individual taxable assets. In this case, value added tax will be payable on the transfer of taxable assets since Tablet ceased to trade and individual assets were sold.

VAT payable on sale of assets

	K
Land (K3,800,000 x 16%)	608,000
Factory (K6,200,000 x 16%)	992,000
Staff canteen (K1,220,000 x 16%)	195,200
Administrative offices (K3,900,000 x 16%)	624,000
Plant and machinery (K1,300,000 x 16%)	208,000
Motor vehicles (K300,000 x 16%)	48,000
Inventories (K182,300 x 16%)	29,168
	2,704,368

END OF SUGGESTED SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D4: PERSONAL TAXATION

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.

2. This question paper consists of **FOUR (4)** questions of twenty (25) marks each. You MUST attempt all the FOUR (4) questions.

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

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

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

6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.

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

8. Present legible and tidy work.

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

10. A taxation table is provided on pages 2 to 7 of this paper.

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

Taxation Table

Income Tax

Standard personal income tax rates

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

Income from farming for individuals

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

Company Income Tax rates

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

Mineral Royalty

Mineral Royalty on Copper

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

Mineral Royalty on other minerals

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

Capital allowances

Implements, plant and machinery and commercial vehicles:

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

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

Presumptive Taxes

Turnover Tax

Annual turnover	
First 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
From 50 to 63 passengers	12,960	3,240
From 64 passengers and over	15,552	3,888

Property Transfer Tax

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

Value Added Tax

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

Customs and Excise duties on used motor vehicles

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

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

Cylinder capacity not exceeding 1000 cc	12,097	10,484	8,065	6,989
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	16,129	13,979	9,678	8,387
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	16,996	22,095	9,518	12,373
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,695	24,304	11,897	15,466
Cylinder capacity exceeding 3000 cc	22,095	28,723	13,597	17,676
Station wagons				
Cylinder capacity not exceeding 1000 cc	14,113	12,231	8,065	6,989
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	18,144	15,725	9,678	8,387
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	18,695	24,304	10,198	13,256
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	20,395	26,514	11,897	15,466
Cylinder capacity exceeding 3000 cc	25,494	33,142	13,597	17,676
SUVs				
Cylinder capacity not exceeding 1000 cc	17,598	15,252	10,559	9,151
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	20,463	17,735	12,278	10,641
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	23,794	30,933	14,277	18,560
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	27,193	35,351	17,540	22,802
Cylinder capacity exceeding 3000 cc	32,292	41,980	20,395	26,514

	Aged 2 to 5 years		**Aged over 5 years**	
Motor vehicles for the transport of goods	**Customs duty**	**Excise duty**	**Customs duty**	**Excise duty**
	K	K	K	K
Single cab				
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	24,777	10,737	9,911	4,295
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	29,732	12,884	17,344	7,516
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	34,687	15,031	19,821	8,589

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

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

Surtax

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

Customs and Excise on New Motor vehicles

Duty rates on:

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

   Customs Duty:

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

   Excise Duty:

   Percentage of Value for Duty Purposes for Excise Duty Purposes

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

Attempt all FOUR (4) questions.

QUESTION ONE

(a) Chanda is a married Zambian national who has been working and living in the United Kingdom (UK) for some time. Chanda returned to Zambia with his wife Evelyn and the rest of his family on 1 October 2026. He intends to stay in Zambia with his family permanently and has no intention of going back to the UK. Evelyn, Chanda's wife was born and has always lived in the UK until 1 October 2026. Chanda and Evelyn got married during Chanda's stay in UK. The couple have two (2) children who were all born in the UK. Chanda holds several investments in the UK from which he received investment income and has approached you as a tax consultant regarding the taxation of foreign income.

Required:

(i) Explain the reasons why Chanda's wife, Evelyn, will be regarded as being resident and ordinarily resident in Zambia in the tax year 2026. (3 marks)

(ii) State any six (6) persons who are exempt from Zambian income tax even though they are resident and ordinarily resident in Zambia . (6 marks)

(b) Explain the following methods of giving double taxation relief to Zambian resident individuals receiving income from foreign sources:

(i) Treaty relief. (2 marks)

(ii) Unilateral relief. (3 marks)

(iii) Unilateral expense relief. (2 marks)

(c) John Kabaso constructed the following properties which he intends to let out commencing from 1 January 2026, throughout the tax year 2026.

Type of property	***Number of units***	***Gross monthly rentals per unit***	***Maintenance costs per unit per month***
2 bedroomed houses	2	K3,500	K800
2 bedroomed flats	2	K1,500	K500
Retail shops	4	K2,500	K600

Required:

Explain how Kabaso will be assessed to tax on the above income he will generate during the tax year 2026 and compute the amount of tax arising in the charge year.

(9 marks)

[Total: 25 Marks]

QUESTION TWO

Tandeni is a multi-skilled person who was retrenched by his former employer, Topo Ltd, at the end of 2025, due to financial challenges the company was experiencing arising from the Corona Virus Pandemic.

In March 2026, he started working as a self- employed contractor generating a monthly turnover of K570,000 per month. He bought a utility van at a cost of K250,000 with an expected business use of 65%. Motor van running expenses averaged K9,000 per month. He hired two (2) employees to assist him in running the business paying them monthly salaries of K6,500 each. He paid monthly employer's NAPSA contributions of K325 for each employee. He also paid K8,000 per month for his own personal insurance.

On 1 May 2026, Topo Ltd hired Tandeni as an independent self- employed contractor on an eight-month project commencing on that date at an agreed contract price of K450,000 which will be paid to him monthly in arrears, in eight (8) equal installments (the amount of K450,000 has not been included in the monthly turnover figure of K570,000 given above). He is expected to perform his duties at Topo Ltd.'s premises and will be required to spend six (6) hours per day during week days at the company. He will be assisted by employees of Topo Ltd whenever executing his duties in relations to this contract. Tandeni will be required to rectify faulty work done on this contract in his own time and he will not be paid for that extra work.

The company will purchase equipment at a cost of K136,000 which Tandeni will use wholly and exclusively on the project and the company will pay for all expenses to be incurred on the project.

Topo Limited was recently visited by the Zambia Revenue Authority (ZRA) tax inspectors who queried Tandni's self-employed status in relation with the contract he signed with that company on 1 May 2026.

Required:

(a) Explain the reasons why it is important to distinguish employees from self-employed contractors. (5 marks)

(b) Explain the reasons why the ZRA tax auditors have queried Tandeni's self- employed status, in relation to the contract he signed with Topo Ltd on 1 May 2026. (6 marks)

(c) Explain the factors Topo Ltd and Tandeni would use to defend the self-employed status of Tandeni. (4 marks)

(d) Assuming that Tandeni is held to be self-employed in relation to the contract he signed with Topo Ltd on 1 May 2026:

  (i) Calculate the amount of Tandeni's final tax adjusted business profit for the period ended 31 December 2026. (6 marks)

  (ii) Calculate the amount of income tax payable by Tandeni for the tax year 2026. (4 marks)

[Total: 25 Marks]

QUESTION THREE

(a) Thomas Mvula is the Managing Director of THM Limited and holds 70% of the equity capital of THM Limited. He is considering awarding the Finance Director shares under an Employee Share Option Schemes (ESOPS). He has heard that there are tax benefits for both the employer and employees if the share option scheme is approved by the Commissioner General, but he does not know what those benefits are and the conditions to be met for the share option scheme to be approved.

Required:

(i) Explain any six (6) conditions to be met for an Employee Share Option Scheme to be approved by the Commissioner General. (6 marks)

(ii) Explain the tax benefits for the employer and the employees arising from participating in an approved share option scheme. (4 marks)

(b) Janet Mvula, Thomas's wife, commenced a public passenger transportation business on 1 April 2026 and bought a Twenty-Eight (28) seater Rosa Bus at a cost of K270,000 and a sixteen (16) seater Toyota Hiace bus at a cost of K200,000. She employed two (2) drivers and two (2) co-drivers paying them monthly salaries of K3,000 each and K2,000 each respectively. Other operating expenses amounted to K16,800 per month for each vehicle.

The buses are operational six (6) days a week for four (4) weeks per month from 1 April 2026, up the end of the tax year 2026. Revenue is expected to be K60,000 per month throughout the tax year 2026.

Required:

(i) Explain the benefits of presumptive taxes over the regular assessed income tax. (4 marks)

(ii) Calculate the amount of presumptive tax paid by Janet for the tax year 2026. You should explain the tax treatment of expenses she incurred wholly and exclusively for the purposes of the business. (4 marks)

(c) Janet Mvula took up some financial protection products to protect her children against the adverse financial effects that might arise from her death or ill health.

Required:

Explain the meaning and tax implications of each of the following financial protection products:

(i) Term life assurance (3 marks)

(ii) Permanent health care insurance (2 marks)

(iii) Family income benefit (2 marks)

[Total: 25 Marks]

<u>QUESTION FOUR</u>

Assume that todays' date is 20 December 2025

Kalima and Chilima wish to commence running a trading company known as KLM Ltd on 1 January 2026, which will be involved in the importation of fashion clothing from China and Dubai which will be sold on the Zambian market. Kalima will hold 85% of the ordinary shares of KLM Ltd, while Chilima will hold the remaining 15%. Kalima and Chilima will run the company as full-time working directors of the company. For the year ended 31 December 2026, Kalima and Chilima intended to withdraw annual amounts of K320,000 and K280,000 respectively from the company either as gross director's emoluments or as dividends and are keen to know what the taxation implications of drawing profits under each one of these two options would be.

The earnings ceiling for the purposes of NAPSA contributions is K446,832 per annum.

Required:

(a) Assuming that Kalima and Chilima each draw profits as director's emoluments:

(i) Explain, with appropriate supporting computations, the income tax and NAPSA implications for each individual. (7 marks)

(ii) Explain, with appropriate supporting computations, the income tax and NAPSA implications for KLM Ltd. (5 marks)

(iii) Show their overall after-tax position. (4 marks)

(b) Assuming Kalima and Chilima each draw profits as dividends:

(i) Explain with appropriate supporting computations the income tax and NAPSA implications for each individual. (3 marks)

(ii) Explain with appropriate supporting computations the income tax and NAPSA implications for KLM Ltd. (2 marks)

(iii) Show their overall after-tax position. (2 marks)

(c) Based on your evaluations in parts (a) and (b) above, advise them as to whether they should draw the profits as emoluments or dividends. (2 marks)

[Total: 25 Marks]

END OF PAPER

D4-PERSONAL TAXATION

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) (i) Reasons for Chanda's wife being considered as resident and ordinarily resident in Zambia for tax year 2026.

1. Primarily, an individual is regarded as resident in Zambia if that person is physically present in Zambia for a period of not less than 183 days in a charge year.
2. Additionally, individuals who normally live in Zambia are resident and ordinarily resident in Zambia
3. Even though Chanda's wife was not physically present in Zambia for a period of at least 183 days, in the tax year 2026, having stayed in Zambia for 92 days in the charge year from 1st October 2026 to 31st December 2027, she will still be regarded to be ordinary resident in Zambia from the time of arrival because she has intention of staying in Zambia for a period that will exceed a period of 12 months being married to a Zambian.

(ii) Persons exempt from Zambian income tax:

1. The Republican President on the income received as president.
2. Chiefs in respects of the income received from the Government.
3. Local authorities
4. Approved funds
5. Commonwealth Development cooperation
6. Clubs, Societies or Association organized and operated only for social welfare or recreation and improvement etc.
7. Registered Trade Unions
8. Political parties registered as statutory society under Societies Act.
9. Other persons listed in part three (3) of the schedule of income tax act

(b) Methods of giving double taxation relief.

(i) Treaty relief

This is the relief that is available when two or more states enter into an agreement on how income earned in one state should be treated for tax purposes if remitted in the other state and vice versa.

The double taxation relief under this method is given according to the treaty. In some cases, the treaty may provide that income is subjected to income tax only in one country or the tax charged apportioned between the two countries in question.

(ii) Unilateral credit relief

This method applies where there is no treaty relief. Under this method, double taxation is given unilaterally in the Republic of Zambia.

The amount of foreign tax suffered is credited against Zambian income tax on the foreign income, limited to a maximum of the Zambian tax on that foreign income.

The amount of tax available for credit is the lower of:

1. The actual amount of foreign tax paid to a foreign tax authority
2. The Zambian tax chargeable on the foreign income calculated using the formula:

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

(iii) Unilateral expense relief

Under this relief, the foreign tax paid is deducted from the foreign income as if it were an expense, before including it in the Zambian tax computation.

(c) **John Kabaso**

Kabaso will be assessed under rental income tax as he will generate income arising from letting out of property.

The rental income tax will be charged on the gross monthly rentals without deducting the expenses incurred wholly and exclusively for letting purposes and will be due on the 14th day following the end of each month.

The amount of rental tax arising will be computed as shown below:

COMPUTATION OF ANNUAL RENTAL INCOME

	Total K
<u>2 bedroomed houses</u>	
(K3,500 x 2 x 12)	84,000
<u>2 bedroomed semi-detached flats</u>	
(K1,500 x 2 x 12)	36,000
<u>Retail shops</u>	
(K2,500 x 4 x 12)	<u>120,000</u>

Total rental income	240,000
Rental income tax	
On first K30,000 x 0%	0
On excess (K240,000 – K30,000) x 4%	8,400
	9,120
Rental income tax per month (K8,400/12)	700

Since the annual rental income will be below K800,000 John Kabaso will be required to pay rental income tax at the rate of 4% of the gross monthly rental income after allowing a K1,000 tax free amount per month.

SOLUTION TWO

(a) Importance of the distinction between employees and self- employed

The main reason why it is important to distinguish between employees and the self-employed contractor is to enable a smooth classification of how the earnings would be classified and also how any taxes arising would be payable.

Where an individual is held to be an employee, then the earnings will be classified as emoluments for income tax purposes. The emoluments would be subjected to income tax under the Pay As You earn system. Under this system the employer will be responsible for calculating and deducting income tax from the emoluments.

The employee will be required to pay NAPSA contributions and the employer will be required to pay employer's NAPSA contributions.

On the other hand, if an individual is held to be self-employed, then the earnings will be classified as turnover. This turnover would be subjected to turnover tax if it were not more than K5000,000 per annum. In the event that the turnover was to exceed K5000,000 per annum, the self-employed individual would be subjected to income tax under the self-assessment system. The self- employed individual will be personally responsible for making the calculations of income tax and for making the payments.

Payment of NAPSA contributions for the self-employed is not mandatory.

(b) Reasons why the Zambia Revenue Authority may query Tandeni's self-employment status:

1. In the particular circumstances of the contract between Tandeni and Topo Plc the following factors may have led ZRA query his self-employed status:
2. The ZRA may query Tandeni's self- employed status because of his recent engagement with Topo Plc. It is highly likely that an agreement had been reached to let Tandeni to continue working for the company whilst also running his own business.
3. Tandeni is performing the duties at the company premises
4. Tandeni is expected to work for at least six (6) hours per day at the premises of Topo Plc which indicates that he is controlled.
5. Topo Plc employed Tandeni at an agreed contract price of K450,000 which will be paid to him, monthly in arrears, in eight (8) equal instalments.
6. In the performance of his duties Tandeni uses the equipment provided by Topo Plc and is assisted by the company's staff. This indicates employment as employees are normally provided with tools and equipment by the employer.
7. Tandeni has to personally perform the duties at the project personally or use his own employees to help him perform those duties. Employees rarely delegate their dutie

(c) Factors Tandeni's can use to defend his self-employment status.

1. Receipt of income from other projects amounting K570,000 per month
2. Employment of two (2) employees/helpers to be assisting him carry his duties.
3. Payment of personal insurance and not Topo plc paying for him, this is a strong indication of self-employment.
4. Tandeni does not exclusively work for Topo plc. He spends part of the time working for other clients.
5. Tandeni will rectify any faulty work outside the contract time and will not be paid for that extra work.

(d) (i) TANDENI
COMPUTATION OF FINAL TAXABLE PROFIT

As a self- employed	K	K
Income (K570,000 x 10)		5,700,000
Income (K450,000 x 8/12		300,000
	6,000,000	
Less:		
Motor vehicle running costs		
(K9,000 x 10 x 65%)	58,500	
Salaries (K6,500 x 10 x2)	130,000	
Capital allowance		
(K250,000 x 25% x 65%)	40,625	
	(229,125)	
Taxable income		5,770,875

(ii) TANDENI
PERSONAL INCOME TAX COMPUTATION FOR THE TAX YEAR 2026

Income Tax:	
First K61,200 x 0%	0
Next K24,000 x 20%	4,800
Next K25,200 x 30%	7,560
Balance K5,660,475 x 37%	2,094,376
Income tax payable	2,106736

SOLUTION THREE

(a) Share options

(i) The following are the conditions to have the share option scheme approved by the Commissioner General:

1. The employer setting up the scheme should be operating, either wholly or partially, in Zambia.
2. The employee share option scheme must be set up in Zambia.
3. Only ordinary shares of the company should be offered under the employee share option scheme.
4. The scheme should allow for the participation of all eligible employees including the directors.
5. The share option scheme must be open to permanent residents regardless of where they perform the duties from.
6. No employee should be allowed more than one-fifth (20%) of the shares under the share option scheme.
7. Employees should be allowed to exercise the rights within the specified time period at a fixed price.

(ii) The following are the tax benefits of an approved share option scheme

To the employer:

1. Costs incurred by the company to issue the shares under an approved share option scheme are tax deductible when computing the adjusted business profit.
2. The income derived from issue of shares under an approved share option scheme is exempt from tax.
3. There is no property transfer tax charged on the transfer of shares under an approved share option scheme.

To the employee:

1. Any benefit that accrues to the employee as a result of exercising the rights to buy the shares under an approved share option scheme is exempt from tax.

(b) Presumptive taxes

(i) The following are the benefits of presumptive taxes

1. Cash flow friendly
   Presumptive taxes are paid on quarterly basis. Operators find it easy to pay and the amounts do not seriously disrupt their cash flow position.
2. Simplified process
   The process of dealing with presumptive taxes has been simplified as the amounts of taxes are pre-determined and no returns are required to be filed.
3. No need for professional consultancy

Presumptive taxes require very little professional effort as the payment of presumptive taxes is straight forward.

4. Equity
   All transporters are expected to pay their part of presumptive taxes. This removes the aspect of free riders.

(ii) Presumptive tax payable

The operator can opt to pay presumptive taxes on a quarterly or annual basis.

Since the buses were brought into use in April 2025, they were operational in three quarters of the year. The presumptive tax paid will be computed as shown below:

	K
Rosa bus: K1,944 x 3	5,832
Toyota Hiace: K648 x 3	1,944
Total presumptive tax	7,776

All the expenses incurred wholly and exclusively for the purposes of the business will not be tax deductible in computing presumptive tax. This so because presumptive tax is a pre-determined fixed amount depending on the seating capacity of the vehicle.

(c) Personal financial protection products

(i) Term life assurance
Under this life assurance, the policy pays a lumpsum death benefit only where the life/lives of the assured die within the policy term.

Normally this policy can be used to redeem a repayment mortgage or other which can be outstanding at the time of the deceased's death.

The premiums paid by an individual are not tax deductible, therefore the policy proceeds are also exempt from tax.

(ii) Permanent healthcare insurance

This is a policy that replaces income and it is paid in the event of inability of the policyholder to perform own or suited activities of daily living following the expiration or predetermined deferral period due to illness or disability.
The premiums paid by an individual receive no tax relief, therefore the policy proceeds are not taxable.

(iii) Family income benefit

Under this policy, the death benefit is paid where the life/lives of the assured die withing the policy term, except that the benefit is paid in instalments of capital over the remaining policy term.

The premiums paid by an individual are not tax deductible, therefore the policy proceeds are not taxable.

SOLUTION FOUR

(a) (i) TAX IMPLICATIONS FOR KALIMA AND CHILIMA INDIVIDUALLY

(1) The emoluments will be taxable normally under PAYE using the income tax bands for individuals.

(2) The amount of income tax payable by each individual will be as follows:

	Kalima	Chilima
	K	K
Salaries	320,000	280,000
Income Tax		
On the first K110,400	12,360	12,360
On the excess K209,600/K169,600 x 37%	77,552	62,752
Income Tax payable	89,912	75,112

(3) the emoluments will attract employee's NAPSA contributions for each individual and these will amount to:

Kalima's employee's NAPSA contribution

K320,000 x 5% = K16,000

Chilima's employee's NAPSA contribution

K280,000 x 5% = K14,000

(ii) TAX IMPLICATIONS FOR KLM LTD

(1) The gross director's emoluments of K600,000 (K320,000 +K280,000) will be allowable when computing taxable profits.

(2) The extraction of the above amounts as emoluments will therefore result in tax savings of:

K600,000 x 30% = K180,000

(3) The emoluments will attract employers NAPSA contributions which will be allowable when computing taxable profits and these will amount to:

Kalima's employee's NAPSA contribution

K320,000 x 5% = K16,000

Chilima's employee's NAPSA contribution

K280,000 x 5% = K14,000

(4) The payment of the employer's NAPSA contributions will therefore result in tax savings for the company of:

(K16,000 +14,000) x 30% = K9,000

(iii) OVERALL TAX POSITION

Their overall tax position will be as shown below:

Personal Income Tax payable	
Kalima	89,912
Chilima	75,112
Employee's NAPSA (K16,000 +K14,000)	30,000
Employer's NAPSA (K16,000 +K14,000)	30,000
Total statutory payments	225,024
Less Tax Savings on:	
Director's emoluments	(180,000)
Employer's NAPSA Contributions	(9,000)
Net after tax cash outflow	36,024

(b) (i) TAX IMPLICATIONS FOR KALIMA AND CHILIMA INDIVIDUALLY

(1) Dividends are subjected to withholding tax at the rate of 15%. This amount of withholding tax is the final tax payable, and therefore the individual directors will not be subjected to personal income tax on the dividends.

(2) The amount of the WHT on the dividends will be:

(K320,000 + K280,000) x 15% = K90,000

(3) Employees NAPSA contributions will not be payable by Kalima nor Chilima as dividends are not earnings for NAPSA purposes.

(ii) TAX IMPLICATIONS FOR KLM LTD

(1) The dividends paid will not be allowable when computing the taxable profit of the company.

(2) Employer's NAPSA contributions will not be payable on the dividends as they are not earnings for NAPSA contributions purposes.

(iii) The overall after-tax cash outflow will be equal to:

(1) the WHT paid on dividends of K90,000.

(2) Plus, the increase in the tax liability of K9,000 (K30,000 x30%) resulting from taxable profits being higher as a result of the employer's NAPSA contributions of K30,000 (K16,000 + K14,000), not being available for deduction given that

dividends do not give rise to employer's NAPSA contributions.

(c) It will be beneficial to withdraw profits as emoluments as the overall after-tax cash outflow under this option will be lower than if dividends are drawn by:

(K90,000 +9,000) – K36,024= K62,976

END OF SUGGESTED SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D5: 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 can understand what to do in each question.
2. This question paper consists of **FOUR (4)** questions of Twenty Five (25) marks each. You must attempt all the **FOUR (4)** questions.
3. Enter your Student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.
10. A Taxation table is provided on pages 2 to 7.

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

TAXATION TABLE

Income Tax

Standard personal income tax rates

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

Income from farming for individuals

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

Company Income Tax rates

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

Mineral Royalty

Mineral Royalty on Copper

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

Mineral Royalty on other minerals

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

Capital allowances

Implements, plant and machinery and commercial vehicles:

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

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

Presumptive Taxes

Turnover Tax

Annual turnover	
First 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
From 50 to 63 passengers	12,960	3,240
From 64 passengers and over	15,552	3,888

Property Transfer Tax

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

Value Added Tax

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

Customs and Excise duties on used motor vehicles

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

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

Cylinder capacity not exceeding 1000 cc	12,097	10,484	8,065	6,989
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	16,129	13,979	9,678	8,387
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	16,996	22,095	9,518	12,373
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,695	24,304	11,897	15,466
Cylinder capacity exceeding 3000 cc	22,095	28,723	13,597	17,676
Station wagons				
Cylinder capacity not exceeding 1000 cc	14,113	12,231	8,065	6,989
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	18,144	15,725	9,678	8,387
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	18,695	24,304	10,198	13,256
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	20,395	26,514	11,897	15,466
Cylinder capacity exceeding 3000 cc	25,494	33,142	13,597	17,676
SUVs				
Cylinder capacity not exceeding 1000 cc	17,598	15,252	10,559	9,151
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	20,463	17,735	12,278	10,641
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	23,794	30,933	14,277	18,560
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	27,193	35,351	17,540	22,802
Cylinder capacity exceeding 3000 cc	32,292	41,980	20,395	26,514

	Aged 2 to 5 years		**Aged over 5 years**	
Motor vehicles for the transport of goods	**Customs duty**	**Excise duty**	**Customs duty**	**Excise duty**
	K	K	K	K
Single cab				
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	24,777	10,737	9,911	4,295
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	29,732	12,884	17,344	7,516
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	34,687	15,031	19,821	8,589

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

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

Surtax

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

Customs and Excise on New Motor vehicles

Duty rates on:

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

   Customs Duty:

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

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

Attempt all FOUR (4) questions.

QUESTION ONE

Comfort Chinyemba is employed at ProPay Bank Limited as a Branch Manager. She is paid a monthly basic salary of K36,490 and housing allowance amounting to K4,760 per month. She is provided with a 2100cc personal to holder motor vehicle which the company acquired at a cost of K300,000. ProPay Bank Limited deducted income tax under the pay as you earn system amounting to K110,475 from her salary during the year ended 31 December 2026.

In addition to her income from employment, she received the following income from Zambian sources:

	K
Bank interest	12,100
Consultancy fees	49,650
Royalties	78,000

The above amounts represent the actual amount of cash received. Withholding tax had been deducted at source where applicable.

During the year ended 31 December 2026, she received the following income from investments she holds in a foreign country:

	K
Bank interest	55,700
Dividends	93,120
Rental income	76,400

The bank interest and dividends are net of withholding tax deducted in a foreign country at a rate of 25% and 10% respectively. Rental income received from a foreign property is net of withholding tax at a rate of 20% deducted in that foreign country.

There is no double taxation convention between Zambia and the foreign country from which Comfort received the income. Tax credit is available against Zambian income tax for any direct taxes suffered in a foreign country.

Required:

(a) Explain the income tax treatment of the income received by Comfort from the foreign country. (6 marks)

(b) Calculate the amount of income tax payable by Comfort for the tax year 2026. You should indicate by the use of a zero (0) all the benefits and income which is not taxable. (19 marks)

[Total: 25 Marks]

QUESTION TWO

FishGold is a Zambian resident manufacturing company which is listed on the Lusaka Securities Exchange. The company acquired 60% of the issued equity shares of FishBite a company that is incorporated and resident in a country known as LakeView. The currency of LakeView is the LakeView Dollar (LV$).

FishGold made a profit of K12,100,000 for the year ended 31 December 2026. This profit is from Zambian operations and is after all tax adjustments but before making tax adjustments in respect of the following transactions it entered into with FishBite during the year ended 31 December 2026:

(1) FishGold imported raw materials from FishBite during the year ended 31 December 2026 at a transfer price of LV$120,000. FishGold could have acquired these goods at a market value of LV$80,000, if they were imported from an unrelated company in LakeView. The Zambian Kwacha (ZMW) to one LakeView Dollar (LV$1) exchange rate averaged K26.80 during the year ended 31 December 2026. These goods are included within cost of sales of FishGold at a transfer price of LV$120,000.

(2) FishGold borrowed K60,000,000 loan from FishBite on 1 January 2026, at an interest rate of 16% per annum. The open market interest rate on loans of a similar type was 11% per annum in Zambia on the same date. All the interest has been paid and was included in the finance costs in the statement of profit or loss.

(3) FishGold received dividends amounting to K930,000 from FishBite for the year ended 31 December 2026. This amount is net of withholding tax deducted in LakeView at a rate of 25%.

There is no double taxation convention between Zambia and LakeView. Any double taxation relief is given under unilateral credit relief in Zambia.

You should assume that the finance cost of FishGold, after taking into account the tax effect of each of the above transactions, is below 30% of the company's Tax Earnings Before Interest, Taxation, Depreciation and Amortisation (Tax EBITDA).

Other information

The Directors of FishGold made a decision to promote Gerald Pick, the Financial Accountant of FishBite, who is resident and ordinary resident in LakeView, to the position of Group Accountant. The office of the Group Accountant is located in Zambia. This means that Gerald will have to relocate to Zambia in January 2026 to take up this position. The directors have indicated that he will only be in Zambia for three (3) years and are wondering whether he will be liable to pay Zambian income tax.

Required:

(a) Explain the tax treatment of domestic investment income received by non-residents. (4 marks)

(b) Explain any four (4) problems associated with the arm's length principle. (4 marks)

(c) Discuss the taxation implications for FishGold of the importation of raw materials from FishBite at a transfer price of LV$120,000. (4 marks)

(d) Discuss the taxation implications for FishGold of the loan borrowed from FishBite at an interest rate of 16% per annum. (4 marks)

(e) Calculate the amount of income tax payable by FishGold for the tax year 2026.

(9 marks)

[Total: 25 Marks]

<u>QUESTION THREE</u>

(a) Tax Havens have recently been associated with Tax fraud. The OECD reported that some countries have harmful tax practices that encourage non-compliance with tax laws of other countries.

Required:

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

(b) Foreign Direct Investment (FDI) is the prevalent mode of entry to gain control over productive assets abroad. Control is achieved through the transfer of property rights to the foreign firm.

Required:

Explain any five (5) reasons why multinational enterprises make Foreign Direct Investment. (5 marks)

(c) Regional economic groupings are intergovernmental organisations where regional barriers to trade are reduced or eliminated among participating countries. Although advocates of world free trade oppose their existence, regional economic groupings have considerable advantages.

Required:

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

(ii) Explain any two (2) disadvantages of regional economic groupings. (4 marks)

[Total: 25 Marks]

QUESTION FOUR

(a) Double Taxation is the imposition of tax twice, in a country in which the income arises from and the country in which the income is received. Countries enter into agreements with each other in order to eliminate or minimize the effects of double taxation. These agreements are known as double taxation conventions, which are based on the concepts of source and residence.

Required:

(i) Explain the meaning of the concept of source and concept of residence as they apply in international taxation. (3 marks)

(ii) Explain two (2) reasons for taxing residents on their world-wide income in Zambia. (4 marks)

(b) Money laundering and tax evasion have negative effects on the economy as they deprive the Government of the much-needed revenue. This has resulted in many countries developing models that enhance co-operation between tax authorities in order to work to their mutual benefit. The Financial Task Force (FATF) on money laundering was created to design measures that can be used by national Governments to combat tax evasion and money laundering.

Required:

(i) Explain the impact of money laundering on tax revenue. (2 marks)

(ii) Explain any four (4) measures national Governments could implement to combat tax evasion and money laundering. (8 marks)

(iii) Explain four (4) main co-operation models adopted by revenue authorities.

(8 marks)

[Total: 25 Marks]

END OF PAPER

D5 INTERNATIONAL TAXATION

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) The following is the income tax treatment of the income received by Comfort from foreign sources:

1. Bank interest
   Bank interest received by a Zambian resident from bank deposit accounts held with banks situated in a foreign country is taxable in Zambia. The taxable amount is the gross amount of that foreign income subject to any double taxation relief available.

2. Dividends
   The dividends received by a Zambian resident from shares held in companies resident in a foreign country are taxable in Zambia. The taxable amount is the gross amount of dividends subject to any double taxation relief available.

3. Rental income
   Rental income received by a Zambian resident from a property situated in a foreign country is not subjected to Zambian income tax. This means that foreign rental income is exempt from Zambian tax.

(b) COMFORT
PERSONAL INCOME TAX COMPUTATION FOR THE THE TAX YEAR 2026

	K	K
Zambian employment income		
Basic salary (K36,490 x 12)		437,880
Housing allowance (K4,760 x 12)		57,120
Personal to holder car		0
		495,000
Other Zambian income		
Bank interest	0	
Consultancy fees (K49,650 x 100/85)	58,412	
Royalties (K78,000 x 100/85)	91,765	

		150,177
Foreign income		
Rental income	0	
Bank interest (K55,700 x 100/75)	74,267	
Dividends (K93,120 x 100/90)	103,467	
		177,734
Taxable world income		822,911
Income Tax		
On First K61,200 x 0%		0
On Next K24,000 x 20%		4,800
On Next K25,200 x 30%		7,560
On Excess (K822,911 – K110,400) x 37%		263,629
Income tax liability		275,989
Less:		
Pay as you earn	110,475	
WHT – Consultancy fees (K58,412 x 15%)	8,762	
WHT – Royalties (K91,765 x 15%)	13,765	
Double taxation relief:		
Bank interest (W1)	18,567	
Dividends (W2)	10,347	
		(161,916)
Income tax payable		114,073

Workings

(1) Double taxation relief on bank interest

Foreign tax paid: K74,267 x 25% = 18,567

Equivalent Zambian tax:

Gross foreign income x Zambian tax charge

Total assessable income

K74,267 x K275,989

K822,911

= K24,908

The double taxation relief is K18,567 which is lower.

(2) Double taxation relief on dividends

Foreign tax paid: K103,467 x 10% = 10,347

Zambian equivalent tax

K103,467 x K275,989

K822,911

= K34,701

The double taxation relief is K10,347 which is the lower.

SOLUTION TWO

(a) The following is the tax treatment in Zambia of domestic investment income received by non-residents

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

The rates are set at this level in domestic law to leave room for negotiating in the tax treaty process but usually to be below normal company tax rate in recognition of the fact that the tax is gross and does not take into account of expenses. In Zambia, investment income earned by non-residents is subjected to withholding tax of 20% which is the final tax.

(b) Problems associated with arms' length principle

1. Lack of comparable prices
2. Lack of information
3. Risk of effective double taxation through disagreement over transfer price (& weakness of mutual agreement procedures)
4. Huge information demands

Particular problems in modern business:

1. Increased fragmentation within multinational businesses
2. Growing importance of intellectual property & other intangibles
3. Resultant lack of comparable prices

(c) Where a Zambian resident company imports goods from a related company resident in a foreign country, the transfer price charged for the goods should be the arm's length price which the commercial market price of the goods.

If the actual transfer price charged is more than the open market price, then the actual purchases figure will be more than the purchases figure if the open market price was used. Hence, the taxable profits of the Zambian resident company will be understated.

In the case of FishGold, the actual transfer price of LV$120,000 is more than the open market value of the goods amounting to LV$80,000. This means that the taxable business profits of the company are understated, and therefore the difference between the actual transfer price and the open market value should be added back to the taxable business profits.

The amount to be added back to Fish Gold's taxable business profits is: ($120,000 - $80,000) x K26.80) = K1,072,000.

(d) Where the Zambian resident company takes a loan from a related company resident in a foreign country, the interest charged should be the arm's length (open market) interest rate. i.e., a true commercial market rate of interest should be charged on that loan.

If the actual interest rate charged is higher than the open market interest rate, then the actual interest expense will be more than what should have been charged as an expense, hence the amount of taxable profits is understated.

In the case of Fish Gold, the actual interest rate charged is 16% per annum instead of the open market rate of interest of 11% per annum. This means that Fish Gold's profits are understated by the difference between 16% and 11% of the loan amount.

The amount to be added back to the taxable business profits is: (16% - 11%) x K60,000,000 = K3,000,000.

(e) FISH GOLD'S
COMPUTATION OF COMPANY INCOME TAX PAYABLE FOR THE TAX YEAR 2026

	K	K
Business profits		12,100,000
Add:		
Transfer pricing adjustments:		
Loan obtained from FishBite	3,000,000	
importation of raw materials	1,072,000	
		4,072,000
Taxable business profits		16,172,000
Foreign income		
Dividends (K930,000 x 100/75)		1,240,000
Total taxable income		17,412,000
Company income tax		
(K17,412,000 x 30%)		5,223,600

Less:	
Double taxation relief	(310,000)
Income tax payable	4,913,600

Workings

Double taxation relief on dividends

Foreign tax paid: K1,240,000 x 25% =	310,000
Equivalent Zambian tax: K1,240,000 x 30% =	372,000

The double taxation relief is K310,000 which is the lower.

SOLUTION THREE

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

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

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

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

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

(b) The reasons why multinational firms make FDI are as follows:

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

(c) Regional economic groupings

(i) The following are the advantages of regional economic groupings

1. Foreign direct investment - regional economic groupings give rise to an increase in foreign direct investment in economies of participating countries. Larger markets

are created which results in lower cost of production as most goods will be manufactured locally.

2. Economies of scale – larger markets are created from the regional economic groupings which give rise to economies of scale as the average of cost of production is decreased because mass production is allowed.
3. Competition – regional economic groupings bring manufacturers in many countries together, resulting in greater competition, which promotes greater efficiency.
4. Trade effects – regional economic groupings eliminate tariffs, as a result it drives the cost of imports down. This allows firms with competitive advantage to thrive asdemand increases and consumers buy goods based on the lowest price.
5. Market efficiency – regional economic groupings gives market efficiency as the consumption increases resulting in greater amount of goods being produced.

(ii) The following are the disadvantages of regional economic groupings

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

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

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

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

SOLUTION FOUR

(a) Concept of source and concept of residence, and taxation of residents

(i) Concept of sources is the concept under which tax is imposed on the basis of the relationship of the income to the taxing state. This means that all the income, unless specifically exempted, generated in a country is subjected to tax in that country regardless of where the recipient resides.

On the other hand the concept of residency is a concept under which tax is imposed on the basis of the relationship of the taxpayer to the taxing state based on his residence or nationality. This means that all the income, unless specifically exempted, received by a resident of a country will be subjected to tax in that country in which the income is received regardless of the source of that income.

(ii) The following are the reasons for taxing residents on their worldwide income:

1. Fairness – Zambia operates a progressive income tax rate scale for individuals because it is considered fair for higher-income individuals to pay proportionally more of their income as tax.
2. Neutrality – If the progressive tax rates are the same in each country and each country taxes only on a source basis, an individual receiving income from each country may pay less tax in total to both countries than an individual who receives that same total amount of income from only one of the countries.

(b) Money laundering and tax evasion

(i) The impact of money laundering on tax revenue is that it makes it difficult for tax authorities to make accurate tax assessment and collect the correct taxes because taxable profits are not disclosed.

(ii) The following are the measures to combat tax invasion and money laundering which national governments should implement

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

2. Establish an interconnected and well integrated system of legal shareholder registries - Encompassing economic blocks and their member states, which will feature all necessary information concerning the shareholders of corporations operating within economic blocks. This registry may be complemented with a risk based index that will factor in some of the most suspicious aspects of a

corporation’s operations. This information on this registry should be available to authorities on demand and all corporations should be expected to provide information concerning their beneficial owner.

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

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

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

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

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

(iii) The following are the main co-operation models:

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

2. Inter-agency intelligence centers - These are typically established to centralize processes for information gathering and analysis for a number of agencies they

focus on specific geographical area or type of criminal activity or have a wider role in information sharing.

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

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

END OF SUGGESTED SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D6: 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.

2. This question paper consists of **FOUR (4)** questions of twenty-five (25) marks each. You MUST attempt all the FOUR (4) questions.

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

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

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

6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.

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

8. Present legible and tidy work.

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

10. A taxation table is provided on pages 2 to 7 of this paper.

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

TAXATION TABLE

Income Tax

Standard personal income tax rates

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

Income from farming for individuals

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

Company Income Tax rates

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

Mineral Royalty

Mineral Royalty on Copper

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

Mineral Royalty on other minerals

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

Capital allowances

Implements, plant and machinery and commercial vehicles:

Wear and tear allowance –	Standard wear and tear allowance	25%
	Wear and tear allowance if used in manufacturing and leasing	50%

Wear and tear allowance if used in farming and agro-processing	100%
Wear and tear allowance if used in Mining and Mineral processing	20%

Non-commercial vehicles

Wear and tear allowance	20%

Industrial buildings:

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

Low cost housing **(Cost up to K100,000)**

Wear and tear allowance	10%
Initial allowance	10%

Commercial buildings:

Wear and tear allowance	2%

Farming allowances

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

Presumptive Taxes

Turnover Tax

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

Tax on rental income

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

Presumptive Tax for transporters

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

From 64 passengers and over	15,552	3,888

Property Transfer Tax

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

Value Added Tax

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

Customs and Excise duties on used motor vehicles

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

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

Hatchbacks				
Cylinder capacity not exceeding 1000 cc	12,097	10,484	8,065	6,989
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	16,129	13,979	9,678	8,387
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	16,996	22,095	9,518	12,373
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,695	24,304	11,897	15,466
Cylinder capacity exceeding 3000 cc	22,095	28,723	13,597	17,676
Station wagons				
Cylinder capacity not exceeding 1000 cc	14,113	12,231	8,065	6,989
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	18,144	15,725	9,678	8,387
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	18,695	24,304	10,198	13,256
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	20,395	26,514	11,897	15,466
Cylinder capacity exceeding 3000 cc	25,494	33,142	13,597	17,676
SUVs				
Cylinder capacity not exceeding 1000 cc	17,598	15,252	10,559	9,151
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	20,463	17,735	12,278	10,641
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	23,794	30,933	14,277	18,560
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	27,193	35,351	17,540	22,802
Cylinder capacity exceeding 3000 cc	32,292	41,980	20,395	26,514

	Aged 2 to 5 years		**Aged over 5 years**	
Motor vehicles for the transport of goods	**Customs duty**	**Excise duty**	**Customs duty**	**Excise duty**
	K	K	K	K
Single cab				
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	24,777	10,737	9,911	4,295
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	29,732	12,884	17,344	7,516
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	34,687	15,031	19,821	8,589

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

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

Surtax

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

Customs and Excise on New Motor vehicles

Duty rates on:

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

   Customs Duty:

   Percentage of Value for Duty Purposes 30%

   Minimum Specific Customs Duty K6,000

   Excise Duty:

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

SECTION A

Attempt all FOUR (4) questions.

QUESTION ONE

You are employed in a tax practice and you are dealing with the tax affairs of Luena Plc, a client of your firm. The Finance Director of Luena Plc has briefed the Board of Directors on the possibility of a tax investigation by the Zambia Revenue Authority. The Director has indicated that facing a tax investigation can be a frightening experience for any business owner or individual. To ensure Luena Plc is in good standing with the Zambia Revenue Authority and avoid potential issues, the Directors of Luena Plc have requested your firm to help their company prepare for the tax audit.

Required:

(a) Explain any three (3) types of audits that can be conducted by a tax auditor. (6 marks)

(b) Explain any five (5) key principles that can be applied in order to come up with a quality tax audit. (10 marks)

(c) State any five (5) matters that would trigger a tax investigation of a taxpayer's affairs. (5 marks)

(d) Explain four (4) differences between a system based tax audit and risk based tax audit in a forensic investigation. (4 marks)

[Total: 25 Marks]

QUESTION TWO

(a) Zulu is a sole trader running a chain of retail outlets within Chipata city of Eastern Province. His business has grown significantly and he is considering incorporating his business into a limited company and run it with his wife as full time working Directors. He wishes to extract profits from the business either by drawing interest free loans or dividends.

Required:

(i) Describe three (3) types of incorporated companies. (6 marks)

(ii) Explain, for both the individual and the company, the income tax implications of drawing profits in form of an interest free loan. (4 marks)

(iii) Explain the income tax implications of drawing profits in form of dividends. (2 marks)

(b) CPC Limited is a Zambian resident company engaged in manufacturing. The company holds 80% of the issued equity shares of PCP manufacturers Limited, a company incorporated and resident in a country known as WetLands. The currency of WetLands is the WetLands Dollar (WL$). During the year ended 31 December 2026, CPC bought some raw materials from its subsidiary at a cost of WL$311,000. If CPC bought these goods from an unrelated company in WetLands, they could have been charged WL$230,000 as this was the open market value of the raw materials. CPC made a taxable profit of K31,100,000 for the year ended 31 December 2026. This profit is after all tax adjustments but before any transfer pricing adjustments. The company paid provisional income tax amounting to K4,819,000. The Zambian Kwacha (ZMW) to WetLands Dollar (WL$1) averaged K25.60 during the year ended 31 December 2026.

Required:

(i) Explain the meaning of the "Arm's Length" principle. (4 marks)

(ii) Explain the income tax implications arising from importation of raw materials from WetLands. (4 marks)

(iii) Compute the amount of income tax payable by CPC Limited for the tax year 2026. (5 marks)

[Total: 25 Marks]

QUESTION THREE

You have recently been appointed by your superiors to be part of the tax audit team that will be performing a tax audit at BTE Bank Limited in respect of the year ended 31 December 2026. The notice for a tax audit has already been received by the Directors of the Bank who have since acknowledged receipt of the notice.

The Directors of BTE Bank Limited are wondering whether a tax audit is the same as a tax investigation. The company prepares its financial statements annually to 31 December, and for the year ended 31 December 2026, the company prepared the following statement of profit or loss:

		K
Interest income		161,850,000
Interest expense		(38,500,000)
Net interest income		123,350,000
Provision for loan losses	(Note 1)	(25,220,000)
Non-interest income	(Note 2)	18,200,000
Non-interest expenses	(Note 3)	(45,900,000)
Net income before tax		70,430,000
Income tax expense	(Note 4)	(6,282,129)
Net income after tax		64,147,871

The following additional information is relevant:

(1) Provision for loan losses comprised of irrecoverable loans written off K11,400,000, decrease in general allowance for loan losses of K7,390,000 and increase in specific allowance for loan losses K21,210,000.

(2) Non-interest income is made up of dividends from Zambian companies of K98,000 (net), unrealized foreign exchange gains of K10,602,000 and royalties K7,500,000 (net).

(3) Non-interest expenses include:

	K
Loss on disposal of office equipment	12,600,000
Depreciation	7,500,000
Entertaining customers	5,200,000
Other revenue allowable expenses	20,600,000
	45,900,000

(4) Income tax expense represents the amount of provisional income tax paid by the company during the year ended 31 December 2026. The amount of withholding tax deducted at source from interest income amounted to K9,110,400.

(5) Implements, Plant & Machinery

The company held the following assets qualifying for capital allowances on 1 January 2026:

	Original cost	**Income tax value at 1 January 2026**
	K	**K**
Automated Teller Machines	21,250,000	15,937,500
Office equipment	25,000,000	18,750,000
Personal to holder car (2,900cc)	1,500,000	1,200,000
Built in cash in transit motor van (2,800cc)	950,000	712,500

The company sold the office equipment for cash proceeds of K22,500,000.

The personal to holder motor car is a Mercedes Benz and has been provided to the Chief Executive Officer on a personal to holder basis. It has been agreed with the Commissioner General that the business use of the car is 70%.

Required:

(a) Explain the nature and purposes of a tax investigation to Management of BTE Bank. (5 marks)

(b) Explain the income tax treatment of foreign exchange differences. (4 marks)

(c) Calculate the amount of capital allowances claimable by the company for the tax year 2026. (5 marks)

(d) Compute the amount of income tax payable for the tax year 2026. (11 marks)

[Total: 25 Marks]

QUESTION FOUR

(a) Blue Stone Mining Limited is a Zambian resident company engaged in mining, which is a subsidiary of a foreign based Multinational Mining Corporation. The company prepares its financial statements in United States (US) Dollars annually to 31 December, which are then translated into Zambian Kwacha (ZMW).

The company made a taxable mining profit of K23,210,000 for the year ended 31 December 2026. This profit figure is after capital allowances but before taking into account loss relief.

As at 1 January 2026, the company had an unrelieved mining loss brought forward of K4,300,000 which is the balance of the loss which was suffered by the company three (3) years ago.

In addition to the mining profits, the company received interest from investment in the Government of the Republic of Zambia (GRZ) Bonds amounting to K1,870,000 (net).

The following are the Zambian Kwacha (ZMW) to one US Dollar (US$1) average mid–exchange rates are available:

Year	ZMW to US$1
2025	K24.40
2026	K25.60

The indexation formula is as follows:

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

Required:

(i) Explain the circumstances under which mining companies are allowed to index their losses and capital allowances. (3 marks)

(ii) Calculate the indexed loss available for relief for the year ended 31 December 2026. (2 marks)

(iii) Calculate the amount of income tax payable by Blue Stone Mining Limited for the tax year 2026. (6 marks)

(b) Tax payers are required by law to keep proper accounting records and retain them for a minimum period of six (6) years. Where a tax payer has not kept adequate accounting records, there is a greater risk that the tax auditor may not see the audit trail to support a proper calculation of tax liability. In this case, the tax auditor may use indirect methods to verify and recalculate both taxable income and the income tax liability.

Required:

Explain any five (5) indirect methods tax auditors can use to verify taxable income.
(10 marks)

(c) There are various ways shareholders can use to extract profits from their businesses. The common ways used include drawing salaries (by working in the business as full time Directors) or drawing dividends.

Required:

Explain the income tax implications for both the individual shareholder and the company arising from drawing:

(i) Salaries (2 marks)

(ii) Dividends (2 marks)

[Total: 25 Marks]

END OF PAPER

D6 – TAX AUDIT & INVESTIGATIONS

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) The following are the types of tax audits that can be conducted:

1. Full audits: it entails a comprehensive examination of a tax payer's tax liabilities for a given period. The purpose is to determine the tax liability for a tax return as a whole.
2. Limited scope audit (Issue based audit): These are specific in nature and mainly done to examine key potential risk areas of non-compliance. In this case, few resources are used as opposed to a full-scale audit.
3. Single- issue based audit - these are tax audits that are confided to one potential item of non-compliance that may be apparent from examination of a tax payer's return.
4. Deregistration audits-these are usually conducted in an event that the business would like to file for deregistration for VAT. It normally happens when an entry's turnover falls below the VAT annual registration threshold of K800,000 or the entity no longer makes taxable supplies or the legal status of the business has changed.
5. Educational audits-the public needs to be sensitized in terms of knowing the importance of paying taxes to the government. It can also be done in an event that ZRA has introduced new tax legislation. An educational visit can be facilitated in order that tax payer know how such legislation will affect them.
6. Credibility audits-this a type of audit aimed at checking the correctness of certain claim for VAT refunds as it happened with the mines at the time they were claiming VAT refunds from the ZRA**.**

(b) The following are the key principles:

1. Accuracy – the tax auditor needs to interpret fairly the law relating to tax audit in order to ascertain the correctness and accuracy of information contained in the records of the tax payer.
2. Efficiency – In this particular case the ZRA staff should use few resources but come up with sufficient audit evidence that ultimately help to save resources at their disposal.
3. Objective – I t is important that all decisions that have been made are clearly based on tangible and factual evidence.
4. Transparency – the Zambia Revenue Authority staff needs to have an open discussion with all tax payers in order to hear their side so as to resolve all issues relating to findings of a tax audit.
5. Fairness – It is important that an audit is technically and professionally correct in accordance with domestic laws and be consistent with prevailing policies and procedures.
6. Complete – the tax audit should have a defined start and end point and the taxpayer should know when the tax audit process is complete,

7. Defensible – the decisions made in the tax audit and the actual tax audit process can stand up to external scrutiny.
8. Consistent – the same taxpayer circumstances should produce the same result regardless of which tax auditor undertakes the audit.

(c) The following represent primary tax investigation triggers and risk exposures to taxpayers:

1. Significant fluctuations in assessable profits
2. Huge and consistent loss situations;
3. Significant capital allowance and unutilized capital allowance claim;
4. High Value Added Tax (VAT) and Withholding Tax (WHT) refund claim situation;
5. Huge cost deductibility claim — for instance huge bad debts provision or written off situation.
6. High expenses to revenue ratio;
7. Related party transactions;
8. Business restructuring, mergers, and acquisition situation;
9. Double taxation agreement claims etc.
10. Failure to maintain proper and adequate financial records.

(d) The following are the differences between a risk – based tax audit and a system based tax audit:

1. A risk-based audit refers to the application of audit techniques which are responsive to risk factors in a taxpayer's environment, while systems-based approach uses audit techniques based on the assumption that the companies have internal control systems which will constitute or form a reliable base for the records and books for the tax payer.

2. In a risk-based approach, the auditor applies judgement to determine what level of risk pertains to different areas of a clients' system and then comes up with appropriate audit tests.

3. Risk based approaches can be cost effective as only selected areas that are based on risk analysis are undertaken, while system based , cover different systems internal controls such as IT system, financial accounting system or payroll systems.

4. Risk based approaches can be used in forensic audits so as to come up with recommendations that can prevent future occurrence of detected risks. The objective of a systems-based approach is to assess the effectiveness of internal controls in the taxpayers' accounting system.

SOLUTION TWO

(a) Incorporation of business and extraction of profits.

(i) The following are the types of companies that can be incorporated:

1. Company limited by guarantee

   Commonly used where companies are formed for non-commercial purposes such as clubs or charities. The members guarantee the payment of certain amounts if the company goes into insolvent liquidation, but otherwise they have no economic rights in relation to a company. A company limited by guarantee may be with or without having share capital.

2. Company limited by shares

   The most common form of company used for business ventures. Specifically, a limited company is a company in which the liability of each shareholder is limited to the amount individually invested with corporations being the most common example of limited company. A company limited by shares may be a Publicly traded company or a Private held company.

3. Unlimited company with or without share capital

   A hybrid entity, a company where the liability of members or shareholders for the debts (if any) of the company are not limited. In this case the doctrine of veil of incorporation does not apply.

(ii) If the company advances an interest free loan to a shareholder, the company will be deemed to have made a loan to an effective shareholder.

Therefore, the company will be required to pay income tax without assessment at a rate of 37% of the grossed up amount of the loan.

The amount of tax should be paid not later than the 14th day of the month following the month in which the loan will be drawn.

The income tax implications for the individual shareholder are if he/she fails to repay the loan, and the company writes off that debt, then the amount of loan written off shall constitute the taxable income of that shareholder.

(iii) Dividends drawn from the company are not deductible when computing the taxable business profits of the company as this is a distribution of profits to the owners of the company.
The income tax implications for an individual shareholder are that dividends will be subjected to withholding tax at a rate of 15% which will be the final tax.

(b) Transfer pricing

(i) The "arm's-length principle" of transfer pricing states that the amount charged by one related party to another for a given product must be the same as if the parties were not related.

An arm's-length price for a transaction is therefore what the price of that transaction would be on the open market.

In general when determining the true taxable income of a controlled taxpayer, the standard to be applied in every case is that of a taxpayer dealing at arm's length with an uncontrolled taxpayer.

A controlled transaction meets the arm's length standard if the results of the transaction are consistent with the results that would have been realized if uncontrolled taxpayers had engaged in the same transaction under the same circumstances (arm's length result).

(ii) Where a Zambian company acquires goods from a related party resident in another country, the amount paid for those goods should be the open market value. Where the amount paid is more than the open market value, the amount equal to the difference between the actual price paid and the open market value is added back to the taxable business profits.
CPC Limited will therefore, be disallowed the difference between WL$311,000 and WL$230,000. i.e., ($311,000 - $230,000) x K25.60 = K2,073,600.

(iii) CPC Limited
Income tax payable for the tax year 2026

	K
Business profits	31,100,000
Add:	
Transfer pricing adjustment	
($311,000 - $230,000) x K25.60	2,073,600
Total taxable income	33,173,600
Company income tax	
(K33,173,600 x 30%)	9,952,080
Less:	
Provisional income tax paid	(4,819,000)
Income tax payable	5,133,080

SOLUTION THREE

(a) A tax investigation is an in-depth examination process by the tax authorities in order to recover tax undercharged in previous years of assessment. A tax investigation will include a check that all documents that have been submitted to the tax administration are correct and complete, including supporting documentation.

The following are the reasons for a tax investigation:

1. Zambia Revenue Authority can conduct a tax investigation on a tax payer who has submitted wrong financial information which is not tallying with tax return submitted.
2. A tax investigation can also be conducted on a taxpayer when ZRA has received a tip off or suspects that the taxpayer may be engaging in tax evasion.
3. A tax investigation can also be conducted when the taxpayer consistently report taxable losses.

(b) A foreign exchange difference is the difference resulting from translating a given number of units of one currency into another currency at different exchange rates. The difference can either be a gain or a loss.

The income tax treatment of these differences is as follows:

1. Foreign exchange gain is only taxable if the gain is realised. Where the exchange gain is not realised, it is exempted from income tax.

2. Foreign exchange loss is only treated as an allowable deduction if it has been realised. Where the loss is not realised, then it will be added back when computing the taxable business profits.

(c) Capital allowances claimable for the tax year 2026

	K
Automated Teller machines (K21,250,000 x 25%)	5,312,500
CEO's Personal to holder car (K1,500,000 x 20%)	300,000
Office equipment (K18,750,000 – K22,500,000)	(3,750,000)
Cash in transit motor van (K950,000 x 25%)	237,500
Total capital allowances	2,100,000

(d) Income tax payable for the tax year 2026

	K	K
Income before tax		70,430,000
Add:		
Loss on disposal	12,600,000	
Depreciation	7,500,000	
Entertaining customers	5,200,000	
Personal to holder car benefit	57,600	
		25,357,600
		95,787,600

Less:		
Decrease in general allowance	7,390,000	
Dividends	98,000	
Unrealized foreign exchange gain	10,602,000	
Royalties	7,500,000	
Capital allowances	2,100,000	
		(27,690,000)
Taxable business profit		68,097,600
Add:		
Royalties (K7,500,000 x 100/85)		8,823,529
Total taxable income		76,921,129
Company income tax		
(K76,921,129 x 30%)		23,076,339
Less:		
Provisional income tax paid	6,282,129	
WHT – Interest income	9,110,400	
WHT – Royalties (K8,823,529 x 15%)	1,323,529	
		(16,716,058)
Income tax payable		6,360,281

SOLUTION FOUR

(a) Blue Stone Mining Limited

(i) Mining companies are allowed to index the losses incurred if their financial statements are prepared and maintained in United States (US) Dollars. Mining companies are allowed to prepare their financial statements in US Dollars if at least 75% of their gross sales are from outside Zambia.

Capital allowances are equally indexed if the assets on which those capital allowances are to be claimed were acquired from outside Zambia. This means that assets acquired from suppliers within Zambia do not qualify for indexation.

(ii) Indexed loss available for relief for the tax year 2026

[1 + (K25.60 – K24.40)/K24.40)] x K4,300,000

= K4,511,475

(iii) BLUE STONE MINING LIMITED

COMPUTATION OF TAXABLE INCOME FOR THE TAX YEAR 2026

	K
Taxable mining profits	23,210,000
Less:	
Loss relief	(4,511,475)
Final taxable mining profits	18,698,525
Non-mining income	
Interest on GRZ Bonds (K1,870,000 x 100/85)	2,200,000
Total taxable income	20,898,525

COMPUTATION OF COMPANY INCOME TAX

Mining income: K18,698,525 x 30%	5,609,558
Non-mining income: K2,200,000 x 30%	660,000
Income tax liability	6,269,558
Less:	
WHT – Interest (K2,200,000 x 15%)	(330,000)
Income tax payable	5,939,558

(b) The following are the indirect methods the tax auditor can use to verify and recalculate the taxable income:

1. Source and application of funds method

This method involves reconstructing taxable income in order to determine the actual income tax liability and it analyses the taxpayer's cash flows and comparison of all known expenditure with all receipts for the period. The increases and decreases in both assets and liabilities are taken into account together with non-deductible expenditure and tax exempt receipts. The unreported taxable income is calculated as the excess of expenditure over the sum of reported and non-taxable income.

2. Bank deposits and cash expenditure method

   This method is used to examine both the business and non-business returns as it may reveal additional unreported income by identifying the source of cash deposits.
   The method is based on the theory that if a tax payer receives money, only two things can happen i.e., it can either be deposited into the bank account or it can be spent.
   This can give evidence of taxable income by taking proof of deposits and adjust it for exempt income, and taking the cash expenditure as it shows that the source is a taxable source.

3. Mark up method

   This method recalculates the taxable income based on the use of percentages or ratios considered typical for the business under examination in order to make the actual determination of tax liability. It analyses the sales and/or cost of sales and an application of an appropriate percentage to determine the taxpayer's gross revenue.

4. Unit and volume method

   This method determines the taxable income by applying the selling price to the volume of business done by the taxpayer during the period. The volume or units of business done by the taxpayer can be obtained from the taxpayer's records under examination with the cost of goods sold and other expenses coming from third parties.

5. The net worth method

   This determines the taxable income by calculating the increase in the taxpayer's net worth during the tax year adjusted for non-deductible expenditure and exempt income. The method requires the reconstruction of the taxpayer's financial history, since the government must account for all assets, liabilities, non-deductible expenditures, and non-taxable income during the relevant tax year.

(c) Extraction of profits from the business using:

(i) Salaries

1. If the salaries are drawn, then the individual directors will be liable to pay income tax under the pay as you earn system in the month in which the salaries are drawn.

2. The company will be allowed a deduction of salaries payable to the individual directors when computing the company's taxable business profits.

(ii) Dividends

1. If dividends are drawn, each individual will be liable to pay withholding tax at a rate of 15% and this is the final tax.
2. The dividends payable to shareholders are not allowable as a deduction when computing the company's taxable business profits.

END OF SUGGESTED SOLUTIONS