Answers

Section B *Marks*

1 Mazembe

(a)	When there are mixed supplies, that is both exempt and taxable supplies, a taxable person may only deduct the input tax directly attributable to the taxable supplies.	½
	Where input tax cannot be directly attributed to the taxable and exempt supplies, a taxpayer may claim a proportion of the input tax.	½
	If taxable supplies amount to less than 5% of total supplies, the taxpayer may not claim input tax for the period.	1
	If taxable supplies amount to more than 95% of total supplies, the taxpayer may claim all the input tax for the period.	1
		3

(b) Output value added tax (VAT) chargeable and input VAT claimable for the month of December 2015

		VAT at 16·5%	
	K	**K**	
Output VAT			
Taxable supplies	6,560,000	1,082,400	½
Exempt supplies	5,650,000	0	½
	12,210,000	1,082,400	
	Taxable supplies portion		
	K		
Input VAT			
Purchases	6,716,519	1,108,226	1
Wages and salaries (out of scope)	0	0	½
Rent of shop	295,515	48,760	1
Utilities:			
Water (exempt)	0	0	½
Other	299,545	49,425	1
Motor vehicle expenses:			
Repairs	1,262,655	208,338	1
Fuel (irrecoverable)	0	0	½
	8,574,234	1,414,749	

Working:

Proportion of taxable supplies: 6,560,000/12,210,000 = 53·73% ½

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Marks

2 Muziko Limited

(a) Taxable income for the year ended 31 December 2015

	K	K	
Profit before taxation		15,650,500	
Add: items not allowable			
Depreciation of motor vehicles	1,265,000		½
Provision for production losses	650,000		½
International transport costs	0		½
Fringe benefits tax	325,000		½
Legal fees for increase in share capital	465,000		½
Amortisation of mining rights	1,500,000	4,205,000	½
		19,855,500	
Less: allowable deductions/non-taxable income			
Exchange gain	2,235,000		½
Interest receivable	0		½
Mine machinery	6,500,000		1
Access to mineral deposits	4,500,000		1
Capital allowances	1,575,000	(14,810,000)	½
Taxable income		5,045,500	
No export allowance adjustment.			½
			7

(b) Balance of tax payable for the year ended 31 December 2015

	K	
Tax payable on K5,045,500 at 30%	1,513,650	½
Less: provisional tax	(1,400,000)	½
Withholding tax ((175,000 – 10,000) at 20%)	(33,000)	1
	80,650	

The balance of tax payable should be remitted with the company's self-assessment tax return within 180 days from the end of the year of assessment. 1

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3 Ngozi Limited

(a) Treatment of trading losses

Trading losses may be carried forward and offset against the first available profits of future years. 1

They cannot be carried back. ½

The maximum carry forward period is normally six years. ½

However, persons engaged in manufacturing, agricultural and mining operations may carry forward tax losses indefinitely. 1

3

Marks

(b) Chargeable income for the years ended 30 June 2013, 2014 and 2015

	2013	2014	2015	
	K	K	K	
Tax adjusted trading profit/(loss)	475,000	(300,000)	425,000	1
Less: capital allowances	(185,000)	(122,500)	(95,500)	1
	290,000	(422,500)	329,500	
Less: loss relief	0	–	(329,500)	1½
Trading profits subject to tax	290,000	0	0	
Capital gain/(loss)	(65,000)	(125,000)	250,000	½
Capital loss brought forward	0	(65,000)	(190,000)	1
Capital loss carried forward	(65,000)	(190,000)	–	
Net capital gain			60,000	½
Dividends (local)	0	0	0	1
Taxable income	290,000	0	60,000	½
				7
				10

4 Medieval Limited

(a) Sale of factory building

The accounting profit (disposal proceeds – net book value) on the sale will be deducted in arriving at the taxable trading profit for the year of disposal. 1

As the factory building qualified for capital allowances, the taxable gain will take the form of a balancing charge, which will be equal to the sales proceeds minus the tax written down value at the date of disposal. 1

The balancing charge will reduce/offset the capital allowances claimable in the year of disposal, including any allowances available on the new factory. But there is no specific rollover relief available in the case of gains on assets qualifying for capital allowances. 1

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(b) Net capital gains for the year ended 31 December 2015

	K	K	
Sale of Moldovia Limited shares			
Cost			
25,000 shares January 2010	375,000		½
Indexation adjustment			
140,414·56/70,917·84	1·979		1
Adjusted cost		742,125	
75,000 shares March 2013	1,875,000		½
Indexation adjustment			
140,414·56/116,997·12	1·200		½
Adjusted cost		2,250,000	
Total adjusted cost		2,992,125	
Sales proceeds		4,500,000	½
Capital gain on shares		1,507,875	

	K	K	*Marks*
Sale of general manager's house			
Cost			
Land bought in January 2005	250,000		½
Indexation adjustment			
140,414·56/43,350·64	3·239		1
Adjusted cost		809,750	
Construction cost February 2007	3,500,000		½
Indexation adjustment			
140,414·56/57,170·73	2·456		½
Adjusted cost		8,596,000	
Total adjusted cost		9,405,750	
Sale proceeds		15,000,000	½
Capital gain on house		5,594,250	
Total capital gains		7,102,125	
Less capital loss brought forward		(2,125,000)	½
Net capital gain		4,977,125	
No offset of trading loss brought forward			½
			7
			10

5 John Banda

(a) Tax payable for the year ended 30 June 2015

	K	K	
Tidziwane office building			
Profit for the year		1,525,000	½
Add: items not allowed			
Salary for John Banda		500,000	½
		2,025,000	
Less: allowable deductions/adjustments			
Rental received in advance	125,500		½
Deposits from tenants	300,000		1
Expenses recoverable from tenants	0		½
City rates not accrued	145,000		½
Bank interest	65,000	(635,500)	½
Adjusted business profits		1,389,500	
Style clothing shop			
Profit for the year		6,147,500	½
Add: items not allowed for tax			
Depreciation	580,000		½
Penalty for late payment of taxes	125,000	705,000	1
		6,852,500	
Less: allowable items			
Capital allowances		(475,000)	½
		6,377,500	
Taxable income:			
Adjusted profits – Tidziwane		1,389,500	½
Adjusted profits – Style		6,377,500	½
Interest received		65,000	½
		7,832,000	
Less: exempt interest		(10,000)	1
Taxable income		7,822,000	

	K	Marks
Tax payable:		
First K300,000	9,000	½
Excess over K300,000 (7,822,000 – 300,000) at 30%	2,256,600	½
Tax payable	2,265,600	
		10

(b) As a limited company, Style would be a separate entity for tax purposes. As such, its adjusted profits would not form part of John Banda's taxable income. 1

Therefore, John's taxable income would be reduced by K6,377,500 and his tax payable by K1,913,250 (6,377,500 x 30%). 1

However, a similar amount of income, i.e. K6,377,500, would be taxable on Style as a corporate entity, again at the rate of 30%, so there would be no overall tax saving/advantage. 1

The dividend payable by Style would be subject to withholding tax of 10%, i.e. K450,000. 1

This would be the final tax and the net dividend of K4,050,000 would not be subject to income tax in John's hands. 1

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6 ICT Limited

(a) Pre-operating expenditure is only allowed as a deduction for tax purposes in the case of a manufacturer and 1
then only if the expenditure was incurred not more than 18 months before the commencement of trading. 1

As ICT Limited is not a manufacturer, none of the pre-operating expenditure will be allowed as a deduction. 1

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(b) Taxable income for the year ended 31 December 2015

	K'000	K'000	
Profit before taxation		8,725	
Add: items not allowed for taxation			
Depreciation	1,250		½
Insurance and licensing	0		½
Salaries and wages	0		½
Pension contributions (limited to 15% of salaries and wages)	275		1
Entertainment	0		½
Repairs and maintenance	3,500		1
Interest on loan	500		½
Donations to a political party	450		½
Fringe benefits tax	225		½
Licence fee prepaid	4,500		½
Other (all allowable)	0	10,700	½
		19,425	
Less: items allowed/adjustments to profit			
Capital allowances (working)		(4,270)	½
Taxable income		15,155	

Marks

Working: Capital allowances

	Additions K'000	Initial K'000	Annual K'000	Total K'000	
Office equipment	3,550	710	355	1,065	1
Furniture and fittings	850	170	85	255	1
Passenger motor vehicle	2,500	–	500	500	1
Pick up motor vehicle	3,500	700	700	1,400	1
Permanent fixtures and fittings	3,500	700	350	1,050	1
	13,900	2,280	1,990	4,270	
					12
					15