
Answers

Marks

1 (a) Capital allowances claimed by Tanganda Limited for the year ended 30 September 2011

| | Tax Written Down Value 1 October 2010 K | Additions K | Disposals K | Total K | Investment K | Capital Allowances Initial K | Annual Rate % | Annual Allowances K | Total K | Tax Written Down Value 30 September 2011 K | |
|-----------------------------------|--|----------------|----------------|------------|-----------------|------------------------------------|---------------------|---------------------------|------------|---|----|
| Tea factory building | 9,476,100 | | | 9,476,100 | | | 5 | 473,805 | 473,805 | 9,002,295 | 1 |
| Coffee factory building | 4,560,000 | 875,000 | | 5,435,000 | 350,000 | | 5 | 271,750 | 621,750 | 4,813,250 | 2½ |
| Plant and machinery | 2,545,800 | 895,500 | | 3,441,300 | 179,100 | | 10 | 344,130 | 523,230 | 2,918,070 | 2½ |
| Tractors | 4,500,000 | | | 4,500,000 | | | 20 | 900,000 | 900,000 | 3,600,000 | 1 |
| Motor vehicles | 3,548,000 | 750,000 | | 4,298,000 | | 150,000 | 20 | 859,600 | 1,009,600 | 3,288,400 | 2½ |
| Computers | 235,500 | 650,400 | (2,800) | 883,100 | | 130,080 | 40 | 353,240 | 483,320 | 399,780 | 3 |
| Office furniture and equipment | 345,000 | | | 345,000 | | | 10 | 34,500 | 34,500 | 310,500 | 1 |
| | 25,210,400 | 3,170,900 | (2,800) | 28,378,500 | 529,100 | 280,080 | | 3,237,025 | 4,046,205 | 24,332,295 | |
| Disposal of computers | | | | K | | | | | | | |
| Tax written down values | | | | 2,800 | | | | | | | 1 |
| Sale proceeds | | | | 46,000 | | | | | | | |
| Balancing charge | | | | (43,200) | | | | | | | |
| Summary of allowances | | | | | | | | | | | |
| Investment allowance | | | | 529,100 | | | | | | | ½ |
| Initial allowance | | | | 280,080 | | | | | | | |
| Annual allowance | | | | 3,237,025 | | | | | | | |
| Balancing charge | | | | (43,200) | | | | | | | |
| Total allowances | | | | 4,003,005 | | | | | | | 15 |

Mark allocation: ½ mark for additions and disposals; 1 mark each for investment and annual allowance.

(b) Computation of profits of Tanganda Limited Chargeable to income tax for the year ending 30 September 2011

| | K | K | |
|--|-----------|-------------|-----|
| Profit before taxation | | 7,327,350 | 1/2 |
| Add: Income from tobacco sales omitted – 10,000,000*7% | | 700,000 | 1 |
| Adjusted profits | | 8,027,350 | |
| Add: items not allowed for tax purposes | | | |
| Cost of sales: | | | |
| Depreciation | 2,065,780 | | 1/2 |
| Administration costs: | | | |
| Pension costs – 658,800*60% | 395,280 | | 1 |
| Depreciation | 465,800 | | 1/2 |
| Valuation of property | 175,000 | | 1/2 |
| Increase in share capital | 65,000 | | 1/2 |
| Donations | | | |
| – Save the children fund | 150 | | 1/2 |
| – Magwere CCAP church | 155,000 | | 1/2 |
| Fringe benefits tax | 235,600 | | 1/2 |
| Finance costs: | | | |
| Interest for late payment of PAYE | 45,650 | | 1/2 |
| General provision for doubtful debts | 75,800 | | 1 |
| Write off of director's loan | 62,500 | | 1/2 |
| | | 3,741,560 | |
| | | 11,768,910 | |
| Less items allowed for taxation | | | |
| Capital allowances | 4,003,005 | | 1/2 |
| Profit on sale of fixed assets | 30,400 | | 1/2 |
| Payment into pension fund | 475,000 | | 1/2 |
| New coffee development | 395,000 | (4,903,405) | 1/2 |
| Adjusted profits for tax purposes | | 6,865,505 | 10 |

(c) Tax payable by Tanganda Limited for the year ended 30 September 2011

| | K | K | |
|---|------------|-------------|-----|
| Tax: | | | |
| Taxable profits | | | |
| 6,865,505 at 30% | | 2,059,652 | 1/2 |
| 2% of turnover | | | |
| Turnover per accounts | 76,500,000 | | |
| Withholding tax adjustment | 700,000 | | 1/2 |
| Adjusted turnover | 77,200,000 | 1,544,000 | 1/2 |
| As tax based on taxable profits is higher, this will be the basis for taxing Tanganda Limited | | | |
| Tax as calculated | | 2,059,652 | |
| Less | | | |
| Withholding tax on tobacco sales | | (700,000) | 1/2 |
| Withholding tax on interest – 46,500*20% | | (9,300) | 1/2 |
| Provisional tax | | (1,250,000) | 1/2 |
| Tax payable | | 100,352 | |
| | | | 3 |

(d) (i) The balance of tax payable by Tanganda Limited would be payable on submission of the income tax return, which is 180 days from end of the financial year.

1/2

(ii) Interest would be payable if the balance is not paid on the due date. The interest would be at 3/4% of the amount due for the first month, increasing by an additional 1/4% for each additional month or part thereof, with the final rate applying for the whole period.

1 1/2

2

30

2 (a) Calculation of capital gain

| | K | |
|--|----------|----------|
| Property 1 | | |
| Cost of property in 2006 | 235,000 | ½ |
| Factor | 2.441 | ½ |
| Value in 2011 | 573,635 | |
| Sales proceeds | 675,000 | ½ |
| Capital gain | 101,365 | |
| Property 2 | | |
| Cost of property in 2000 | 185,000 | ½ |
| Factor | 3.164 | ½ |
| Sales proceeds | 585,340 | |
| Capital loss | (30,340) | ½ |
| Net gain | 71,025 | 1 |
| Although the proceeds from the sale of property 2 will be reinvested, since it has made a loss then this loss will be offset against the capital gain on property 1. | | 1 |
| The net gain will be included in the assessable income of Peter. | | 1 |
| | | <u>6</u> |

(b) Calculation of taxes payable by or refundable to Peter and Lucia for the year ended 30 June 2011

| | | Peter K | Lucia K | |
|----------------------------------|---------------|------------------|----------------|---|
| Salary (W1) | | 1,170,000 | 780,000 | |
| Housing allowance (W2) | | 600,000 | | |
| Benefits | | 221,000 | | |
| Bank interest – Lucia | | 5,600 | | 1 |
| – Peter – $22,800 \times 100/80$ | 28,500 | | | 1 |
| Less exempt | (10,000) | 18,500 | | ½ |
| Rental | 360,000 | | | ½ |
| Less expenses | | | | |
| City rates | (45,000) | | | ½ |
| Agent's commission | (36,000) | | | ½ |
| Repairs to roof | (35,000) | | | ½ |
| Repainting of houses | (22,500) | | | ½ |
| Net rental | 221,500 | 221,500 | | |
| Capital gain | | 71,025 | | ½ |
| Directors' fees | | | 120,000 | ½ |
| | | <u>2,307,625</u> | <u>900,000</u> | |
| Taxable income | | 2,307,625 | 900,000 | |
| | Rate % | | | |
| Tax payable | | | | |
| First K144,000 | 0 | – | – | ½ |
| Next K36,000 | 15 | 5,400 | 5,400 | ½ |
| Excess over K180,000 | 30 | 638,288 | 216,000 | 1 |
| Total tax charged | | 643,688 | 221,400 | |
| Less | | | | |
| Withholding tax interest | | (5,700) | | 1 |
| Withholding tax rental | | (54,000) | | 1 |
| Withholding tax directors' fees | | | (12,000) | 1 |
| PAYE (W3) | | (548,700) | (185,400) | |
| Tax payable | | <u>35,288</u> | <u>24,000</u> | |

Workings

| | Peter K | Lucia K | |
|---------------------------------------|------------|------------|----|
| 1. Salary – Peter | | | |
| July 2010 to December 2010 – 95,000*6 | 570,000 | | ½ |
| January 2011 to June 2011 – 100,000*6 | 600,000 | | ½ |
| Lucia | | | |
| July 2010 to June 2011 – 65,000*12 | | 780,000 | ½ |
| Total salaries | 1,170,000 | 780,000 | |
| 2. Housing allowance – 50,000*12 | 600,000 | | 1 |
| Benefits | | | |
| Electricity – 8,000*12 | 96,000 | | ½ |
| Water – 5,000*12 | 60,000 | | ½ |
| School fee | 65,000 | | ½ |
| | 221,000 | | |
| Total for PAYE calculation | 1,991,000 | 780,000 | |
| 3. PAYE | | | |
| First K144,000 | 0 | – | ½ |
| Next K36,000 | 15 | 5,400 | ½ |
| Excess over K180,000 | 30 | 543,300 | 1 |
| | 548,700 | 185,400 | |
| | | | 17 |

(c) Effect on tax paid by the company as a result of transactions involving Peter for the year ended 30 June 2011

| | Amount | Tax effect | |
|---|-----------|------------|----|
| Salaries and benefits | 1,991,000 | (597,300) | ½ |
| Fringe benefits tax | 270,000 | 81,000 | ½ |
| Disallowable portion of pension (117,000 – 9,000) | 108,000 | 32,400 | ½ |
| Savings in tax | | (483,900) | |
| Car benefit | | | |
| 15% of 6,000,000 | 900,000 | | |
| Tax on benefit at 30% | 270,000 | | ½ |
| | | | 2 |
| | | | 25 |

- 3 (a) (i) A taxable person for VAT purposes is a person who makes taxable supplies of goods and services and whose business turnover is, or exceeds, K6,000,000 per annum. ½
- This includes an individual, partnership, group of persons, company or corporation registered by the Commissioner General. ½
- 1
- (ii) Any person who qualifies, or has grounds to believe they will qualify, should apply using the appropriate forms to the Commissioner General for registration. 1
- A person should apply within 30 days of qualifying or having reasons to believe they will qualify. ½
- The Commissioner General may notify a person that within the tax period he has exceeded or is below the turnover figure, therefore is registrable or not. ½
- 2
- (b) When goods are supplied on sale or return basis the tax point will be the earliest of:
- (i) the date when the purchaser chooses to keep the goods;
 - (ii) the issue of the tax invoice; or
 - (iii) the receipt of the payment by the seller; or

Marks

- (iv) the expiry of the period within which the customer may return the goods; or
 (v) 12 months after the date of despatch of the goods by the seller.

1 mark each, max

4

(c) (i) Calculation of penalties payable for late submission of returns

Late returns were submitted for the months of February, April and August.

| Month | Number of days late | Late filing pecuniary penalty | Further penalty K1,000 per day | Total penalty | |
|----------|---------------------|-------------------------------|--------------------------------|---------------|----------|
| February | 27 | 20,000 | 27,000 | 47,000 | 1 |
| April | 6 | 20,000 | 6,000 | 26,000 | 1 |
| August | 5 | 20,000 | 5,000 | 25,000 | 1 |
| | | | | <u>98,000</u> | <u>3</u> |

(ii) Calculation of additional VAT payable

| | Per return K | Per assessment K |
|------------------------|----------------|------------------|
| January | 125,465 | 125,465 |
| February | — | 60,407 |
| March | (35,100) | (22,400) |
| April | 85,600 | 125,600 |
| May | 45,100 | 76,400 |
| June | (75,100) | (75,100) |
| July | 100,700 | 88,400 |
| August | 125,600 | 125,600 |
| September | (65,100) | 40,500 |
| October | (125,100) | (136,400) |
| November | 82,500 | 100,700 |
| December | 35,400 | 55,400 |
| Additional tax payable | <u>299,965</u> | <u>564,572</u> |

2

(iii) Calculation of interest due on the balance of February 2011 return

| | Sum K | Interest K | |
|--|--------|---------------|----------|
| Interest to April at 20% | 60,407 | 12,081 | 1 |
| Additional charge at 5% per month from May to January 2012 | | | 1 |
| Number of months | 8 | | ½ |
| Interest per month | K3,020 | | ½ |
| Additional interest | | <u>24,160</u> | |
| Total Interest | | <u>36,241</u> | <u>3</u> |

15

- 4 (a) Calculation of income tax payable by San Semente Sports and Recreation Club for the year ended 31 December 2011

| | K | |
|----------------------|------------------|---|
| Bar sales (W1) | 3,670,000 | 1 |
| Sale of band tickets | 480,000 | ½ |
| Restaurant sales | 875,500 | ½ |
| Drama | 105,000 | ½ |
| | <u>5,130,500</u> | ½ |

| | | | |
|----------------|-------|---------|---|
| Taxable income | 6.25% | 320,656 | 1 |
| Tax payable | 30% | 96,197 | 1 |

Working

| | K | |
|----------------------|------------------|---|
| Bar sales | 250,000 | ½ |
| Closing debtors | 3,620,000 | ½ |
| Cash receipts | (200,000) | ½ |
| Less opening debtors | <u>3,670,000</u> | |

The taxable income of a club is taken as equivalent to 6¼% of all receipts by or accruals to or in favour of it from the sale of goods, cinematograph performances, stage plays and gambling machines and are charged at a rate applicable to companies. 1
1
1

Therefore the following are not taxable:

Income from subscriptions ½
Income from entrance fees. ½

Expenses are therefore not considered as a club is not taxed on profits earned from its activities. ½

As profits are not considered, therefore creditors for bar, subscriptions received in advance and those in arrears will not be considered in working out the taxable income. Similarly, stocks for bar stock will not be taken into account, since it is only the receipts from bar sales that are considered. ½
½

12

- (b) The income of an agricultural producers co-operative which is not exempt from taxation shall be taxed based on the proposals submitted by it to the Commissioner for the determination of taxable income. ½

The Commissioner will consider the proposals as submitted and if, in his opinion, the taxable income as calculated approaches closely to that which might be expected if the general provisions of the Tax Act were applied, then the proposals will be accepted. ½

The taxable income determined for any year of assessment shall be deemed to be the taxable income for that year of assessment. 1

If proposals were not submitted, the Commissioner will determine the taxable income in such a manner as appears to him to be most appropriate, taking into account the circumstances of the case. 1

3

15

5 Advice to management, whether they should consider the expansion programme

Tax considering the current situation

| | K | K | |
|------------------------------------|------------------|------------------|---|
| Profit before taxation | | 2,029,400 | ½ |
| Add items not allowed for taxation | | | |
| Depreciation: | | | |
| – Till and office equipment | 675,000 | | ½ |
| – Motor vehicles | <u>1,116,800</u> | | ½ |
| | | 1,791,800 | |
| | | <u>3,821,200</u> | |
| Less allowable for taxation | | | |
| Capital allowances | | | |
| – Till and office equipment | 828,000 | | ½ |
| – Motor vehicles | <u>1,862,500</u> | | ½ |
| | | (2,690,500) | |
| Profits adjusted for taxation | | <u>1,130,700</u> | |
| Tax at 30% | | 339,210 | ½ |
| Turnover taxation | | | |
| 45,500,000 at 1% | | 455,000 | 1 |
| Profit adjusted for taxation | | 1,130,700 | ½ |
| Less taxation | | <u>(455,000)</u> | 1 |
| | | <u>675,700</u> | |

After expansion

| | | | |
|--------------------------------------|------------------|--------------------|---|
| Profit before taxation | | 2,519,502 | ½ |
| Add items not allowable for taxation | | | |
| Depreciation: | | | |
| – Till and office machines | 715,500 | | ½ |
| – Motor vehicles | <u>1,233,600</u> | | ½ |
| | | 1,949,100 | |
| | | <u>4,468,602</u> | |
| Less allowable for taxation | | | |
| – Till and office machines | 877,500 | | ½ |
| – Motor vehicles | <u>2,048,750</u> | | ½ |
| | | (2,926,250) | |
| | | <u>1,542,352</u> | |
| Tax at 30% | | 462,706 | ½ |
| Turnover tax | | | |
| 50,160,500 at 2% | | 1,003,210 | 1 |
| The higher of the tax is taken | | | ½ |
| Profit adjusted for taxation | | 1,542,352 | ½ |
| Taxation | | <u>(1,003,210)</u> | 1 |
| Profit after taxation | | <u>539,142</u> | |

Dziko Limited should not consider this expansion unless there will be significant improvements in the margins earned.

1

What has happened is that, although the turnover has only increased by 10%, the tax paid has more than doubled as tax in this case will be based on turnover.

1

The return on shareholders' investment will drop, as amounts available for payment of dividends will be reduced as a result of the increase in tax.

1½

15