Answers

Section B *Marks*

1 (a) An input tax credit can be claimed for value added tax (VAT) which has been paid on expenditure incurred before registration, if on the date of registration:

(1)	the goods on which VAT has been paid are still in stock, and	1
	the supply or import occurred not more than four months prior to the date of registration; or	1
(2)	the goods are capital goods, which have been held for a period not exceeding six months from the date of registration.	1
		3

(b) Dekani Limited

Output VAT and input VAT claimable for April 2016

	Value of supply K	VAT at 16·5% K	
Output VAT			
Taxable supplies	806,500	133,073	½
Zero rated supplies	225,000	0	½
	1,031,500	133,073	
Input VAT			
Stocks bought 15 January 2016	400,000	66,000	½
Stocks bought 30 November 2015	0	0	½
Machinery bought 1 December 2015	650,000	107,250	1
Purchases (taxable)	465,000	76,725	½
Purchases (exempt)	0	–	½
Salaries (out of scope of VAT)	0	0	½
Passenger carrying motor vehicle (input disallowed)	0	0	1
Rent (325,000 – 80,000)	245,000	40,425	1
Water (exempt)	0	0	½
	1,760,000	290,400	
			7
			10

2 (a) The income of a farmer growing timber is determined as follows:

(1)	The cost of growing the timber is carried forward until the timber reaches maturity.	½
(2)	The cost of growing the timber is increased by an annual fixed percentage, calculated at 5% of the cost, until the timber reaches maturity.	1
(3)	When the timber is sold, a proportionate amount of the cost of planting and growing the timber, including the fixed percentage, is deducted from the proceeds of sale and the difference included in assessable income.	½
(4)	In each year of assessment the following are added to the taxable income or deducted from the assessed loss:	
	– the fixed percentage (of 5%) added to cost; and	½
	– the expenditure on the maintenance and upkeep of the timber.	½
		3

Marks

(b) Joseph Mafuta

Taxable income for the tax year ended 30 June 2016

Cost of growing timber

	Cost	No of years	Fixed percentage (5%)	
	K		K	
2000	650,000	16	520,000	½
2001	280,000	15	210,000	½
2002	110,000	14	77,000	½
2003	145,000	13	94,250	½
	1,185,000		901,250	

	K	
Total cost of growing timber	1,185,000	
Fixed percentage	901,250	
Total cost of growing 300 hectares of timber	2,086,250	½

Taxable income

	K	K	
Tobacco sales (5,000*650)		3,250,000	½
Timber sales		3,500,000	½
		6,750,000	
Less:			
Cost of timber sold (2,086,250*100/300)	695,417		1
Drilling of boreholes	325,000		½
Tobacco nurseries	800,000		½
Wages and salaries (3,680,500 – 650,000)	3,030,500		1
Timber maintenance	185,000		½
		(5,035,917)	
Taxable income		1,714,083	
			7
			10

3 (a) Peter – PAYE for the tax year ended 30 June 2016

	K	
Salary	5,000,000	½
Gratuity	500,000	½
Pension contribution by employer	0	½
	5,500,000	
First K300,000	9,000	
Excess of K5,200,000 at 30%	1,560,000	
	1,569,000	½
		2

Marks

(b) Peter and Nelia

Taxable income for the tax year ended 30 June 2016

	Peter	Nelia	
	K	K	
Salary	5,000,000	2,500,000	½
Gratuity	500,000	115,100	½
Bonus	–	650,000	½
Pension contributions (employer)	0	0	½
Director's fee	125,000		½
Interest on fixed deposit (110,000 + 65,000)	175,000		1
Less exempt portion	(10,000)		½
Rental income (working)	211,300		½
Taxable income	6,001,300	3,265,100	

Working: Rental income

	K	
Gross rents	600,000	½
Less expenditure		
Mortgage interest	(85,500)	½
Insurance	(65,000)	½
Repairs	(75,000)	½
Town rates	(118,200)	½
Agent's commission	(45,000)	1
	211,300	
		8
		10

4 Nelson Manda

(a) Capital gains for the tax year ended 30 June 2016

	K	K	
Sale of land in September 2015			
Cost			
Six hectares bought in July 2007	645,000		½
Indexation adjustment			
174,279·78/51,945·52	3·355		1
Adjusted cost		2,164,007	
Four hectares bought in October 2010	600,000		½
Indexation adjustment			
174,279·78/67,412·14	2·585		½
Adjusted cost		1,551,173	
Total adjusted cost for land		3,715,180	
Sales proceeds		6,500,000	½
Capital gain on land		2,784,820	
Holiday house bought in 1999	95,000		½
Indexation adjustment			
174,279·78/19,104·26	9·123		1
Adjusted cost		866,643	
Sales proceeds		5,000,000	½
Capital gain		4,133,357	
Total capital gains		6,918,177	
			5

Marks

(b) Other asset disposals

The warehouse is a business asset qualifying for capital allowances. Therefore, the disposal will result in a balancing charge equal to the difference between the sales proceeds and the tax written down value, i.e. K16,300,000 (18,500,000 – 2,200,000). The balancing charge will reduce any capital allowances claimed in the year. 2

The motor vehicle is a personal use vehicle, which is not used in connection with a trade. As such, it is an exempt asset for capital gains purposes. 1

3

(c) The calculation of the capital gain would only change if Nelson replaced the holiday house. In this case under the involuntary conversion provisions, the taxable gain would be restricted to the excess of the insurance proceeds over the cost of the replacement house. 2

10

5 Handiwelo Mutata

(a) Fringe benefits tax payable by the Mafikeng Engineering Company for the year ended 30 June 2016

		Value of benefit	
	K	K	
Housing			
Rental for the year	1,500,000		½
Less contribution	(150,000)		½
	1,350,000		
12·5% of K6,850,000 salary	856,250		½
Higher of two		1,350,000	½
School fees (50%*600,000)		300,000	½
Telephone and water		0	½
Motor vehicle (15%*5,000,000)		750,000	½
Subscription to Dstv		365,000	½
Air ticket		0	½
		2,765,000	
Tax at 30%		829,500	½
			5

(b) Tax payable by Handiwelo Mutata for the tax year ended 30 June 2016

	K	K	
Income from employment			
Salary		6,850,000	½
Gratuity		685,000	½
Telephone and water (45,000 x 12)		540,000	1
		8,075,000	
Other income			
Bank interest	365,000		½
Director's fee (145,800/0.9)	162,000		1
Dividends	0		1
Profit from business	650,000	1,177,000	½
		9,252,000	
Less exempt portion of interest		(10,000)	½
Taxable income		9,242,000	

	K	Marks
Tax payable		
First K300,000	9,000	
Excess of K8,942,000 at 30%	2,682,600	
Total tax payable	2,691,600	1
Less		
PAYE (working)	(2,341,500)	½
Withholding tax – interest (365,000*20%)	(73,000)	1
Withholding tax – director's fee (162,000*10%)	(16,200)	1
Final tax payable	260,900	

Working: Calculation of PAYE

	K	
First K300,000	9,000	
Excess of K7,775,000 (8,075,000 – 300,000) at 30%	2,332,500	
Tax payable	2,341,500	1
		10
		15

6 Mulingo Limited

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

	K	K'000	K'000	
Profit before taxation			9,435	½
Add items not allowed for taxation				
Depreciation		8,250		½
Marketing expenses:				
Provision for doubtful debts		650		1
Bad debts written off		0		½
Damaged stock written off		0		½
Staff costs – FBT		875		½
Rental expense		0		½
Repairs and maintenance		0		½
Donations		500		½
Bank interest paid		0		½
Other operating expenses		0		½
			10,275	
Less items allowed or adjustments to profit				
Profit on sale of assets		65		½
Bank interest received		0		½
Balancing charge		(85)		1
Capital allowances:	K			
Fixtures and fittings (20,500*10%)	2,050			½
Light motor lorries (38,500*20%)	7,700			½
General plant and machinery ((25,000 – 0)*10%)	2,500	12,250		1
			(12,230)	
Adjusted profits for tax			7,480	
Tax at 30%			2,244	½
Less				
Withholding tax – interest (345,000*20%)			(69)	1
Withholding tax – customers			(475)	1
Provisional tax			(1,500)	½
Tax payable			200	
				13

		Marks
(b)	The tax rate applicable to branches of foreign companies is 35% (instead of 30%).	1
	Therefore, if Mulingo Limited were a branch of a foreign registered company, the tax payable for the year ended 31 December 2015 would increase by K374,000 (7,480,000*5%).	1
		2
		15