
Answers

Section B

Marks

- 1 (a) A supply for value added tax (VAT) purposes is deemed to have occurred:

In the case of goods, when an owner of the goods parts with or will part with possession of goods including sale, barter, lease, transfer, gift or appropriation to own use 1

In the case of services includes on:

The performance of services for another person; 1

The making available of any facility or advantage; ½

Tolerating any situation or refraining from the doing of any activity. ½

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- (b) Calculation of output and input VAT for the month of December 2016

	K	16.50% K	
Income			
Residential property rental	650,000	0	½
Rental for commercial property	1,200,000	198,000	½
Sold commercial property	32,000,000	5,280,000	½
Deposit on sale of residential property	4,500,000	0	½
	<u>38,350,000</u>	<u>5,478,000</u>	
Expenditure			
Salaries	450,000	0	½
Purchase of building materials – R	14,000,000	0	½
Purchase of building materials – C	21,000,000	3,465,000	½
Motor vehicle repairs – R	1,375,000	0	½
Motor vehicle repairs – C	1,375,000	226,875	½
Motor vehicle fuel	375,000	0	½
Rental of offices – C	425,000	70,125	½
Rental of offices – R	425,000	0	½
Electricity – R	22,500	0	½
Electricity – C	22,500	3,712	½
	<u>39,470,000</u>	<u>3,765,712</u>	
VAT payable		1,712,288	7
			<u>10</u>

- 2 (a) A capital gain or loss is calculated as the difference between the disposal proceeds of an asset and its adjusted cost. ½

Capital gains are included in income and taxed at the rate applicable to the taxpayer. ½

The determination of adjusted cost depends on whether capital allowances have been claimed or not. ½

On assets where capital allowances have been claimed, the adjusted cost is the tax written down value of the asset. The excess of disposal proceeds over tax written down value is treated as taxable income. ½

Where no capital allowances have been claimed, and it is a qualifying asset for capital gains, the cost of the asset is adjusted using consumer price indices at the date of disposal of the asset and that applicable to the year in which the asset was purchased or constructed or completed, or the 1992 index where a 1992 valuation was registered. ½

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(b) Calculation of gains chargeable to Sani Mega Limited for the year ended 31 December 2016

	K	K	
Warehouse			
Sales proceeds		112,550,000	½
Less cost	11,500,000		½
Adjusted cost			
203,551·58/22,393·5	9·0897		1
		104,531,550	
Capital gain		8,018,450	
Motor lorry			
Because the lorry was sold for less than cost, there is no capital gain.			
Neither is there a capital loss, but there is a balancing charge if sales proceeds exceed the tax written down value.			
			1
A balancing charge will be worked out and this will reduce the amount of capital allowances to be claimed.			
			1
The balancing charge is disposal proceeds less tax written down value. The balancing charge is K1,050,000.			
			½
	K	K	
Shares			
Sales proceeds			
35,000 shares at K3,400 (fair value)		119,000,000	1
Less cost			
35,000 shares at K500	17,500,000		½
Adjusted cost			
206,343·66/29,564·96	6·9793		1
		122,137,750	
		(3,137,750)	
The total chargeable gain		4,880,700	7
			10

3 (a) Computation of taxable profits for DYX Mining Limited for the year ended 31 December 2016

	K	K	
Profit before taxation		9,041,200	½
Items not allowed for taxation			
Depreciation	3,950,000		½
Premium	1,425,000		1
Legal fees – capital restructuring	500,000		½
Fringe benefits tax	675,000		½
Donations	50,000	6,600,000	
		15,641,200	
Less			
Annual allowance – machinery	750,000		1
Annual allowance – building	425,000	1,175,000	1
Taxable profits		14,466,200	5

(b) Tax payable

	K	K	
Income tax at 30%		4,339,860	1/2
Resource rent tax			
Taxable profits	14,466,200		1/2
Taxation paid	750,000		1
Less:			
Expenditure from financing	(1,250,000)		1
Resource rent	13,966,200		1
Tax 15%		2,094,930	1
Total tax		6,434,790	5
			10

4 (a) Calculation of tax payable by Mafuleka

	30 September 2015 K	30 September 2016 K	30 September 2017 K	
Adjusted profits before capital allowances	(350,000)	675,000	1,850,000	1/2
Less capital allowances	(235,000)	(475,000)	(425,000)	1/2
Add balancing charge	—	—	135,000	1/2
Adjusted profits for tax	(585,000)	200,000	1,560,000	1/2
Less loss relief	—	(200,000)	(385,000)	1
Loss carried forward	(585,000)	(385,000)	—	
Pre-trading loss (not a manufacturer)	0	0	0	1
Profit after loss relief	0	0	1,175,000	1/2
Capital gain from sale of shares	—	0	100,000	1/2
Less capital loss from sale of unlisted shares	—	—	(65,000)	1/2
Dividend received	—	0	0	1/2
Taxable profits	0	0	1,210,000	1
Tax at 30%	—	—	363,000	
Less:				
Provisional tax	—	—	(175,000)	1/2
Withholding tax	(35,000)	(22,000)	(45,000)	1/2
Tax payable/(refundable)	(35,000)	(22,000)	143,000	
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Tutorial note: The capital gain on the property will not be taxable as it is to be rolled over into the new property.

- (b) Trading losses are carried forward to be offset against future profits. 1/2
- Capital losses may be offset only against capital gains and not against trading profits. 1/2
- Trading losses may be carried forward for a maximum of six years in this particular instance. 1/2
- Pre-operating losses may not be offset against future income unless it is for a manufacturer and was incurred in the course of setting up the business. 1/2
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5 (a) Computation of taxable income for Simon and Jennifer Phiri for the year ended 30 June 2016.

Business income – Simon

	K	K	
Profit before taxation		850,000	1/2
Add items not allowed for taxation			
Depreciation	340,000		1/2
Simon's salary	650,000		1/2
School fees	450,000		1/2
Utilities for house	125,000		1/2
Office rental	0		1/2
Accounting fee	0	1,565,000	1/2
		<u>2,415,000</u>	
Less capital allowances		(480,500)	1/2
Adjusted profits		<u>1,934,500</u>	

	Simon K	Jennifer K	
Business income	1,934,500		1/2
Salary		650,000	1/2
Bonus		50,000	1/2
Interest – Simon	15,000		1
Director's fee – Jennifer		25,000	1/2
Dividends		0	1
House rental	860,000		1
Less:			
Mortgage capital payment	0		1
Mortgage interest	(345,000)		1
Repairs to house	(125,000)		1/2
Donations	(1,200)	0	1/2
Taxable income	<u>2,338,300</u>	<u>725,000</u>	

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Tutorial note: Jennifer's rental income is taxed on Simon, because this is unearned income.

(b) Tax implications of amounts paid to or for Simon if the business were a limited company

The salary would be an allowable business expense and in Simon's personal income. The company would be required to account for PAYE on the amount. 1/2

With regard to the payment of school fees and utilities, these would be subject to either PAYE or fringe benefits tax. 1/2

If the amounts are paid in cash to Simon, then PAYE would be payable. 1/2

However, if the school fees are paid directly to the school, then fringe benefits tax would apply. The FBT would be on 50% of the fee and charged at 30% of the amount. 1

With regard to utilities, if paid directly to the provider, then FBT would be on the total amount paid at 30%. 1/2

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6 (a) Calculation of capital allowances to be claimed by Sawelenga Limited for the year ended 31 December 2016

Asset	TWDV	Additions	Total	Allowances			Total	TWDV	
	1 January 2016			Investment	Initial	Annual		31 December 2016	
	K	K	K	K	K	K	K	K	
Factory building	5,500,000		5,500,000			275,000	275,000	5,225,000	½
Plant and equipment	4,450,000	2,800,000	7,250,000	40%	1,120,000	725,000	1,845,000	5,405,000	2
Motor lorries	2,250,000		2,250,000			450,000	450,000	1,800,000	½
Motor cars	895,000	6,500,000	7,395,000			1,479,000	1,479,000	5,916,000	1½
	<u>13,095,000</u>	<u>9,300,000</u>	<u>22,395,000</u>		<u>1,120,000</u>	<u>– 2,929,000</u>	<u>4,049,000</u>	<u>18,346,000</u>	
Summary of allowances							Mark for indicating closing TWDV		½
			K						
Investment			1,120,000						
Initial			–						
Annual			<u>2,929,000</u>						
			<u>4,049,000</u>						<u>5</u>

(b) Calculation of tax to be paid by Sawelenga Limited for the year ended 31 December 2016

	K	K	
Net profit before taxation		3,215,200	½
Add items not allowable			
Fringe benefits tax	650,000		½
Provision for doubtful debts	985,000		1
Donations	650,000		1
Provision for stock losses	475,000		1
Depreciation	<u>890,000</u>	<u>3,650,000</u>	½
		6,865,200	
Less capital allowances		<u>(4,049,000)</u>	½
Taxable profit		<u>2,816,200</u>	
Tax at 30%		844,860	½
Provisional tax paid		(650,000)	½
Withholding tax – interest 22,000*20%		<u>(4,400)</u>	1
Tax payable		<u>190,460</u>	
			<u>7</u>

- (c)** The balance of the tax should be paid on the submission of the tax return which is due 180 days from the end of the financial year. In this case it will be on 30 June 2017. 1
- Interest is due where the balance of tax due is not paid at the time of filing. ½
- The interest is calculated on the outstanding amount at the prevailing bank interest rate plus 5% per annum. ½
- In addition, there is a penalty for late filing of K200,000. 1

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