Answers

Section B *Marks*

1 Durant Limited

(a) The VAT return for the month of February 2018 must be submitted by 25 March 2018. 1

(b) Calculation of VAT payable or refundable for the month ending 28 February 2018

Output VAT	**Value**	**VAT rate**	**VAT amount**	
	K		**K**	
Local sales	8,560,000	16·50%	1,412,400	½
Export sales	6,850,000	0%	–	½
Sale of motor vehicle	850,500	16·50%	140,333	½
	16,260,500		1,552,733	
Input VAT				
Purchases	8,500,500	16·50%	1,402,583	½
Wages and salaries	1,500,000		0	½
Directors' fees	450,000		0	½
Medical aid contribution	155,600		0	½
Fees paid to contractor for factory extension	345,000	16·50%	56,925	½
Rent for warehouse	2,500,000	16·50%	412,500	½
Rent for managing director's house	150,000		0	½
Credit notes issued on exports	650,000		0	½
Repairs to residential house	325,000		0	½
Furniture and fittings	300,500	16·50%	49,583	½
Utilities (K725,500 – K50,000)	675,500	16·50%	111,458	½
Utilities for personal use	50,000		0	½
Vehicle repairs	650,000	16·50%	107,250	½
Fuel	825,000		0	½
	17,077,100		2,140,299	
VAT refundable			(587,566)	½
				9
				10

2 Ludiwick

(a) Calculation of Ludiwick's taxable income in respect of timber for the year ended 30 June 2017

		K	
Cost of timber		15,600,000	½
Add fixed percentage 5% x K15,600,000 x 7 (Carried forward annually)		5,460,000	1
Total cost		21,060,000	½
Proportionate cost of timber sold 1/2		10,530,000	½
Sale proceeds of timber: 160 cubic metres x 300 hectare cubic metre	=	48,000	½
Sale proceeds (K625 x 48,000 cubic metres)	=	30,000,000	½
Less: Proportionate cost and fixed percentage		(10,530,000)	½
Cost of maintenance not previously deducted K365,000 x 8		(2,920,000)	½
Labour costs (K37,500 x 12)		(450,000)	1
Taxable income		16,100,000	½
			6

	Marks
(b) A farmer may not claim as deductible any expenditure which has been recovered through subsidies. In this particular case, the difference net of subsidy of K75,000 (K400,000 – K325,000) will be carried forward as the cost of growing the tobacco.	1½
A farmer may claim future crop expenditure in the year the revenue is earned. In this case, K225,000 spent on growing the tobacco will be carried forward on the balance sheet to be claimed against tobacco revenues in 2018.	1½
Future crop expenditure is expenditure on crops which will produce income only in a subsequent year of assessment and which is carried forward in the balance sheet to be offset against future income.	½ ½
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3 (a) John's income tax payable

(i) Current employment with Geo Consulting

	K	
Salary	41,600,000	½
Medical insurance – employer payments	0	½
Employer pension contributions	0	½
Taxable income	41,600,000	
Income tax payable by John		
First K360,000 at 0%	0	½
Next K60,000 at 15%	9,000	½
Next K35,580,000 at 30%	10,674,000	½
Excess over K36,000,000		
(41,600,000 – 36,000,000) at 35%	1,960,000	½
Income tax payable	12,643,000	

(ii) Prospective employment with Zed Consulting

	K	
Salary	29,500,000	½
Company car	0	½
School fees	850,000	½
Gratuity	2,950,000	½
Taxable income	33,300,000	
Income tax payable by John		
First K360,000 at 0%	0	½
Next K60,000 at 15%	9,000	½
On balance at 30%		
(K33,300,000 – K420,000) x 30%	9,864,000	½
Income tax payable	9,873,000	7

(b) After tax income of Geo Consulting/Zed Consulting employments

Geo Consulting

	K	
Taxable income	41,600,000	
Less: income tax payable	(12,643,000)	½
	28,957,000	
Children's school fees	(850,000)	½
Car expenses	(2,600,000)	½
Disposable income	25,507,000	

			Marks
Zed Consulting			
		K	
Taxable income		33,300,000	
Company car benefit		0	½
Less: income tax payable		(9,873,000)	½
		23,427,000	
Less: medical insurance cost		(145,000)	
Disposable income		23,282,000	

John's disposable income will be K2,225,000 (K25,507,000 – K23,282,000) higher by remaining employed at Geo Consulting. ½

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4 **Mr Malunga**

Chargeable gains for the year ended 30 June 2017

Cows

The sale of animals is exempt from capital gains tax. ½

The sale of animals is a trading transaction and as such any profits earned will be subject to income tax. 1

Main residence

A main residence is excluded from the calculation as this type of asset is exempted from the provisions of capital gains tax. 1

	K	K	
Investments Limited shares			
Sales price		850,000	½
Less cost			
Purchase price	45,000		½
Indexation factor			
K248,499·30/17,380·67	14·2975		1
Adjusted value	643,388	(643,388)	½
Capital gain		206,612	
Ten hectares of land			
Sales price		15,000,000	½
Less cost			
Purchase price	2,100,000		½
Indexation factor			
K228,715·44/31,854·72	7·1800		1
Adjusted value	15,078,000	(15,078,000)	
		(78,000)	½
Additional two hectares of land			
Sales price adjusted to market price		3,500,000	½
Less cost			
Purchase price	350,000		½
Indexation factor			
K223,457·87/32,476·50	6·8806		1
Adjusted value	2,408,210	(2,408,210)	
		1,091,790	½
			10

Marks

5 (a) Taxable income for the partnership for the year ended 30 June 2017

	K	K	
Net profit		2,510,500	½
Add items not allowable:			
Partners' salaries	2,500,000		½
Depreciation	345,000		½
House rent for Juliani	720,000		½
School fees for Juliani's children	400,000		½
Donation to village community	65,000		½
Expenditure on electricity in respect of Duli	44,500	4,074,500	½
		6,585,000	
Less items allowable:			
Capital allowances		(300,000)	½
Taxable profits for the year		6,285,000	
			4

(b) Allocation of partnership profits

	Duli K	Juliani K	Total K	
Salary	900,000	1,600,000	2,500,000	½
Rent		720,000	720,000	½
School fees		400,000	400,000	½
Electricity	44,500		44,500	½
Share of profits (4:6)	1,048,200	1,572,300	2,620,500	1
	1,992,700	4,292,300	6,285,000	
				3

(c) Income tax payable by Duli for the year ended 30 June 2017

		K	
Share of partnership profits (part b)		1,992,700	½
Salary from employment		950,000	½
Director's fee		120,000	½
Dividend from local company		0	½
Bank interest		116,000	½
Taxable income		3,178,700	
Income tax payable			
First K360,000 at 0%		0	½
Next K60,000 at 15%		9,000	½
Balance			
(K3,178,700 – K420,000) at 30%		827,610	½
		836,610	
Less tax credits			
PAYE	168,000		½
Withholding tax – interest – 20%	23,200		½
Withholding tax – director's fee – 10%	12,000		½
Share of partnership's provisional tax (K600,000 x 40%)	240,000	(443,200)	½
Tax payable		393,410	
			6

(d) Fringe benefits tax implications

Fringe benefits tax is applicable on benefits given to employees. ½

In the case of a partnership, these expenses would be taken as personal expenditure and as such any non-business related expenditure would be disallowed in the calculation of taxable income and as such no fringe benefits tax would be applicable. ½ 1

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			Marks
6 (a) Calculation of balancing allowance or charge			

Office equipment

	K	
Tax written down value		
Cost	657,000	
Less: capital allowances claimed	(525,600)	
Tax written down value	131,400	½
Sales proceeds	111,700	
Balancing allowance	19,700	½
		1

(b) Profits or losses chargeable to tax for Jacob Engineering Limited for the year ended 31 December 2017

	K	K	
Net profit before tax		1,080,520	½
Add items not allowable			
Fringe benefits tax	361,250		½
Donations to local school	175,000		½
Interest on loan to finance office building	135,800		½
Stamp duty for share capital increase	292,850		1
Loss on the sale of shares	78,100		½
Impairment of investments	175,580		1
Loss on sale of equipment	85,400		½
Depreciation	675,100		½
Tax penalties	44,500	2,023,580	½
		3,104,100	
Less items allowable			
Dividends	125,600		½
Fair value adjustment	235,800		½
Profit on sale of property	336,600		½
Capital allowances	695,250	(1,393,250)	½
		1,710,850	
Less: trading losses		(485,100)	1
Taxable income		1,225,750	

The capital losses brought forward may not be set against trading profits and there are no taxable capital gains in this period. 1

Any capital gain on the building would not be taxable and would be rolled over. 1

The capital loss on the sale of shares is not an allowable deduction. This would be carried forward to when there is a capital gain. 1

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(c) Provisional tax

The company is required to have paid at least in aggregate an amount for the year not less than 90% of the actual income tax liability for the year of assessment. ½

Penalties apply where provisional tax is underpaid.

If the amount of tax underpaid, as a percentage of the total tax liability:

– does not exceed 10%	Nil	½
– exceeds 10% but does not exceed 50%	25%	½
– exceeds 50%	30%	

The provisional tax penalty would be K1,225,750*30%*30% = K110,318 ½

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