



TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C5: INDIRECT TAXES

THURSDAY 16 JUNE 2016

TOTAL MARKS – 100: TIME ALLOWED: THREE (3) HOURS

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question. You will be told when to start writing.
2. This question paper consists of FIVE (5) questions of twenty (20) marks each. You MUST attempt all the FIVE (5) questions.
3. Enter your Student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.
10. A taxation table is provided on page 2 only.

TAXATION TABLE FOR THE CHARGE YEAR 2016

Value Added Tax

Registration threshold	K800,000
Standard Value Added Tax Rate (on VAT exclusive turnover)	16%

Customs and Excise

Duty rates on:

1. Motor cars and other motor vehicles (including station wagons) principally designed for the transport of less than ten persons, including the driver:	
Customs Duty:	
Percentage of Value for Duty Purposes	30%
Minimum Specific Customs Duty	K6,000
Excise Duty:	
Percentage of Value for Duty Purposes for Excise Duty Purposes	
Cylinder capacity of 1500 cc and less	20%
Cylinder Capacity of more than 1500 cc	30%
2. Pick-ups and trucks/lorries with gross weight not exceeding 20 tones:	
Customs Duty	
Percentage of Value for Duty Purposes	15%
Minimum specific Customs Duty	K6,000
Excise Duty:	
Percentage of Value for Duty Purposes for Excise Duty Purposes	10%
3. Buses/coaches for the transport of more than ten persons	
Customs Duty:	
Percentage of Value for Duty Purposes	15%
Minimum Specific Customs Duty	K6,000
Excise Duty:	
Percentage of Value for Duty Purposes for Excise Duty Purposes	
Seating Capacity of 16 persons and less	25%
Seating Capacity of 16 persons and more	0%
4. Trucks/lorries with gross weight exceeding 20 tonnes	
Customs Duty:	
Percentage of Value for Duty Purposes	15%
Excise Duty:	
Percentage of Value for Duty Purposes for Excise Duty Purposes	0%
5. Surtax	
On all motor vehicles aged more than five (5) years from year of manufacture	K2,000

Attempt all FIVE (5) questions

QUESTION ONE

Customs and excise division is one of the operating divisions of the Zambia Revenue Authority (ZRA).

Required:

- (a) Explain dumping duty and the main reason why this duty is charged by the Zambia Revenue Authority (ZRA). (2 marks)
- (b) Explain four (4) powers of the customs officers with regard to customs and excise duties. (4 marks)
- (c) Explain six (6) methods that are used to calculate the Value for Duty Purposes (VDP) of imported goods. (12 marks)
- (d) Explain Excise duty. (2 marks)

[Total: 20 Marks]

QUESTION TWO

- (a) Value Added Tax (VAT) is one of the indirect taxes administered by Zambia Revenue Authority (ZRA).

Required:

- (i) Define the tax point and explain its importance for the purposes of Value Added Tax (VAT) (3 marks)
- (ii) Explain how the basic tax point is determined for the supply of goods, and the circumstances under which it can be changed. (3 marks)
- (iii) Explain how the tax point on lease rentals is determined. (3 marks)
- (iv) Explain any four (4) expenses on which Input VAT is not recoverable. (4 marks)

(b) Mwape made and received the following supplies during the month of April 2016:

	K
Standard-rated sales	986,000
Zero-rated sales	200,000
Exempt sales	296,500
Standard-rated purchases	348,000
Zero-rated purchases	250,000
Exempt purchases	150,000
Diesel	143,840
Petrol	103,820
General overheads (standard-rated)	132,240

Unless stated otherwise, all of the above figures are inclusive of VAT

Required:

Calculate the VAT payable by Mwape for the month of April 2016, clearly showing how VAT on each of the above items will be paid or claimed. (7 marks)

[Total: 20 Marks]

QUESTION THREE

Value Added Tax (VAT) is one of the indirect taxes paid by Zambian tax payers.

(a) VAT can be classified into the following groups:

- (i) Indirect Tax.
- (ii) Regressive Tax.
- (iii) Capital tax.
- (iv) Revenue tax.

Required:

Explain each of the above classification of taxes. (8 marks)

(b) There are a number of advantages and disadvantages of applying the VAT tax System in the Zambian economy. Explain:

- (i) The merits of a VAT tax system (8 marks)
- (ii) The demerits of a VAT tax system (2 marks)

- (c) State under which operating division is VAT administered at ZRA and states two (2) other taxes administered under that operating division. (2 marks)

[Total: 20 Marks]

QUESTION FOUR

The following transactions were recorded for the month of April 2016 by a trader who is registered for VAT.

(1) Purchases:	K
(i) Zero rated raw materials	30,000
(ii) Standard rated materials (VAT inclusive)	69,600
(iii) Exempt materials	20,000
(2) Sales:	
(i) Standard rated cash sales	60,500
(ii) Standard rated credit sales	144,000
(iii) Zero rated credit sales	32,000

- (3) The trader made standard rated gifts of goods worth K3, 000 at selling price to six customers. The margin on these goods was 20%. No VAT was charged on these goods and as such is not included in the sales figure.

(4) Capital expenditure:	
(i) Plant and machinery	14,000
(ii) Delivery van	56,000
(iii) Nissan saloon car	48,000

NOTE:

The plant and machinery was partly bought using a grant from well-wishers amounting to K4, 000 and this amount is included in the K14,000 above.

All the above figures are VAT exclusive unless stated otherwise.

Required:

- (a) To prepare a VAT return showing the VAT payable or refundable and state the due date for payment of VAT related to the above. (10 marks)
- (b) In what ways should ZRA be notified on cancellation of VAT registration? (4 marks)
- (c) Explain the ways in which cancellation of registration **may** take place. (2 marks)
- (d) On de-registration, why is a business required to charge VAT on the value of stocks (inventories) and non-current assets (fixed assets) on hand. (2 marks)
- (e) Some business changes do not require cancellation of VAT registration.

Required:

Explain any two (2) circumstances which do not require VAT de-registration. (2 marks)

[Total: 20 Marks]

QUESTION FIVE

- (a) Miko Bwembya regularly imports various goods from Dubai. The goods are sold in his shop in Lubuto in Ndola and details of his latest imports are as follows:-

	K
CIF Dar-el-Salaam-Tanzania	85,000
Transport charges from Dar-el-Salaam to Nakonde	6,500
Transport charges from Nakonde to Lubuto	2,300
Clearing charges at Nakonde	3,500

The customs officers at Nakonde informed Mr. Bwembya that customs duty would be at 25%.

Required:

- (i) Calculate the Value for customs duty purposes and the customs duty on the imports. (4 marks)
- (ii) Calculate the Value for VAT purpose and the VAT payable. (2 marks)

(b) When the goods arrived, Mr. Bwembya had only 50% of the customs duty and VAT payable and therefore, some of the goods were stored without payment of duty at a bonded warehouse in Nakonde.

Required:

Explain the following:

- (i) The criteria used for accepting a bonded warehouse by ZRA. (4 marks)
- (ii) The advantages of a bonded warehouse. (3 marks)
- (iii) The disadvantage of a bonded warehouse. (2 marks)

(c) When clearing motor vehicles imported, there are procedures which are followed by ZRA.

Required:

Explain the procedures involved in clearing motor vehicles. (5 marks)

[Total: 20 Marks]

END OF PAPER

JUNE 2016: INDIRECT TAXES (C5)

SOLUTIONS

SOLUTION ONE

- a. This is tax charged on goods which are imported into Zambia which unfairly disadvantage Zambian goods.
This tax is meant to protect Zambian industries from unfair foreign competition.
- b. The following are the powers of the customs officers:
- I. To stop and search any person, including any person within or upon any ship, aircraft, or vehicle, whom he has reason to suspect of having secreted about him or in his possession and dutiable goods in respect of which there has been a contravention of the law.
 - II. Enter any shop, office, store, structure or enclosed area for making such examination and enquiry, as he considers necessary.
 - III. Demand for any book, document or thing which is required under the Act.
 - IV. Examine and make extracts from and copies of such books and documents.
 - V. Take with him onto such premises an assistant who may be a police officer.
- c. The following are the methods used to value imported goods:

Transaction value

This is based on the price actually paid or payable including Insurance, Freight and other incidental costs to the extent that they are paid.

Transaction value of identical goods

This is the price of identical goods imported by another importer into Zambia from the same source including Insurance, Freight and other incidental costs.

Transaction value of similar goods

This is the price of similar goods imported by another importer into Zambia from the same source, including Insurance, Freight and other incidental costs.

Deductive value

This is the price at which identical and similar goods imported into the country are sold in their quantities in Zambia.

Computed value

This is the price based on cost of production, Insurance, Freight and other incidental costs incurred in the delivery of goods to Zambia.

Residual basis of value

This is the price arrived at by going through all the above five (5) methods flexibly.

- d. Excise duty is the tax imposed or charged on some locally manufactured goods and on certain imported goods.

SOLUTION TWO

- a. (i) The tax point is the time when a supply is deemed to have been made. The tax point is important because:
- I. It helps to determine the tax period in which VAT on a supply is to be accounted for (payable or claimable).
 - II. It helps to determine the VAT rate or scheme to be applied to a particular supply, in case of a change in the VAT rate or scheme.

(ii) The basic tax point is the time when goods are made available to a customer or collected by a customer, or services are provided or rendered.

The basic tax point can be changed if a tax invoice is issued or payment made before the goods are made available to a customer. In this case the earlier date is the tax point.

If the tax invoice is issued within a period fourteen (14) days after the basic tax point, the tax point is the same as when the invoice is issued.

- (iii) The tax point on lease rentals is the earliest of the following:
- I. The time when the lease rental payment is received from the lessee.
 - II. The time the lessor issues a tax invoice.
 - III. The time the leasing services are rendered which is at the expiry of the lease.
- (iv) The input VAT incurred on the following expenses is irrecoverable for VAT purposes:
- I. Input VAT on business entertainments.
 - II. Input VAT on motor cars, unless the motor is acquired new for resale, acquired for use in taxi business or for leasing to a taxi business and if it is acquired for use in self-drive car hire or driving school.
 - III. Input VAT on expenses incurred on domestic accommodation for employees.
 - IV. Input VAT on telephone bills and internet services.
 - V. Input VAT on petrol is partially recoverable. Only 20% is recoverable.

(b) MWAPE
VAT PAYABLE FOR THE MONTH OF APRIL 2016

	K	K
OUTPUT VAT		
Standard-rated sales: K986,000 X $\frac{4}{29}$		136,000
Zero-rated sales: K200,000 X 0%		0
Exempt sales		<u>-</u>
		136,000
INPUT VAT		
Standard-rated purchases: K348,000 X $\frac{4}{29}$	48,000	
Zero-rated purchases: K250,000 X 0%	0	
Exempt purchases	-	
Diesel: K143,840 X $\frac{4}{29}$	19,840	
Petrol: K103,820 X $\frac{4}{29}$ X 20%	2,864	
General overheads: K132,240 X $\frac{4}{29}$ X 80%	<u>14,592</u>	
		<u>(85,296)</u>
VAT payable		<u>50,704</u>

SOLUTION THREE

(a) VAT can be classified into the following groups;

(i) Indirect Tax

These are taxes that are imposed indirectly and are taxes suffered by individuals or organisations but ZRA normally do not have a record of the taxpaying individual or organisation. Only the paying agent record is available.

(ii) Regressive Tax

These are taxes that represent a small proportion of a person's income as the income of that person rises, the average rate of tax falls. VAT is a regressive tax because the rate of VAT is the same on the good or service whether bought by a rich person or a poor person.

(iii) Capital taxes are taxes on capital sales e.g. land and building and shares, i.e. (PTT). No VAT is applied on sale of capital sales.

(iv) Revenue taxes are taxes which are applied on revenue receipts (i.e. receipts from a sale of a non-capital item). VAT is sometimes applied on selected revenue sales. (Standard rated and zero rated items)

(b) (i) There are a number of arguments to support the VAT system and some of these are;

- It is invoice based and therefore uniform and uncomplicated, offering a sound financial management system with less collection weaknesses.

- VAT has a 'self-policing' nature thereby enhances compliance. Indirect tax laws and those who do not. This is re-enforced by strong penalties and effective control policies. VAT has elements of self-checking mechanism to minimise evasion. One person's output tax becomes the input tax of another. VAT facilitates cross checking of sales between businesses.
- It gives the potential for a stronger home manufacturing industry and more competitive export prices.
- The input credit mechanism gives registered businesses back much of the tax they pay on purchases and expenses used for making taxable supplies, and as a result, largely avoids the 'tax on tax' character or sales tax.
- A wider tax base has resulted in less distortion of trade and a greater sharing of the costs of collecting it at various stages of the value chain and remitting it to the government.
- Is internationally proven in developed and developing economies.
- In view of the broad tax base, revenue yield is generally higher and stable and is less susceptible to fluctuations. Increased revenues are the major goal of VAT.
- VAT is less complex than sales tax. There are just two rates of VAT. The registration threshold eliminates small businesses to minimise administrative costs. A culture of maintaining business records is encouraged for proper assessment of the tax.

(ii) Demerits of VAT

But there also arguments against VAT, Some of these are:

- VAT is regressive like other indirect taxes. Regressively is partially minimized by exempting most essential consumer items like food and health supplies.
- The claim that small business may find it difficult to maintain the required VAT records may be exaggerated. Proper business records are necessary for all businesses, big and small. They are required for proper management of any business. In fact adequate records are required for other taxes too, e.g. income Tax. These records may be concealed to evade tax. In Zambia only business with a turnover of K800, 000 or more to register for VAT.

(c) Operating divisions at ZRA are departments which collect taxes unlike support divisions which are concerned with the administration of ZRA only.

VAT used to be a division on its own at ZRA but recently has been part of the Domestic Taxes division.

PAYE, PTT, and WHT are other taxes under the Domestic taxes division.

SOLUTION FOUR

(a) The VAT Return:

1. Output VAT:

1. Cash sales K60, 500 x 16%	9, 680
2. Credit sales K144,000 X 16%	23, 040
3. Gifts K3, 000 x 80% x 16%	<u>384</u>
Total	33, 104

2. Less Input VAT:

1. Standard rated materials purchases K69, 600 X 4/29	9, 600
2. Plant and machinery (K14, 000-K4, 000) X 16%	1, 600
3. Delivery van K56, 000 X 16%	<u>8, 960</u>
4. Total	20, 160

3. Vat payable 12, 944

(b) The due date of the VAT payable was on or before 21st May 2016.

(c) Cancellation or de-registration from VAT should be notified in the following circumstances:

- Where there is a change in legal status of an entity (e.g. a partnership is dissolved)
- If the business ceases trading permanently
- If the business is sold
- If you registered as an intended trader and your intention to make supplies ceases.

(d) Cancellation of Vat registration may take place.

- If you have been granted registration in an anticipation of commencing a business on a certain date but do not carry out any business on or before the due date.
- When the value of taxable supplies falls consistently below the Vat registration threshold.

(e) VAT registered business are required to pay VAT on the value of any stocks and capital assets on hand at the date of de-registration. This is because the registered supplier is in effect making a taxable supply to himself as a newly registered business.

(f) Changes not requiring cancellation of registration are:

- A change in the trading name of the business, the name of the business or an address of any partner of the business.
- A change in the business address of the principal place at which the business is carried on.
- Transfer of a going concern.

All a business has to do in the above circumstances is to notify the nearest VAT office and have the changed details amended.

SOLUTION FIVE

(a) Custom duty and VAT payable – M Bwembya

	K
CIF – Dar-el-salaam	85, 000
Transport to Nakonde	6, 500
Clearing charges	<u>3, 500</u>
	95, 000
Customs duty @ 25%	<u>23, 750</u>
Value for VAT purposes	118,750
VAT @ 16%	<u>19, 000</u>
Total amount paid by Bwembya	<u>137,750</u>

(b) (i) The criteria used after the application by the station manager for a bonded warehouse are:-

- The warehouse must be conveniently situated i.e. within 20km from the controlling station
- The warehouse must be secure and separate from retail outlets.
- The doors must be strong and have a provision for customs lock.
- Access to the warehouse must be restricted.

A bonded warehouse is a licenced building in which goods may be stored without payment of duty

(ii) The advantages of a bonded warehouse are:-

- Goods can be stored without payment of duty thus giving the importer enough time to source for funds.
- Some goods may sell slowly due to fluctuating demand, hence duty can be paid according to demand.
- A constant supply of raw materials can be assured.

(iii) The disadvantages of the bonded warehouse are that goods must be paid for and removed from the bonded warehouse before the period expires. After the period expires, storage charges, penalties and interest are charged. If still not paid for, the goods may be auctioned,

(c) Procedures involved in motor vehicle clearance are:

1. Presentation of the following documents:
 - Purchase invoice
 - Insurance certificate
 - Freight charges statement
 - Bill of lading
2. Valuation of the motor vehicle by ZRA.
3. Payment of the various taxes calculated.
4. Payment of asycuda fees.

END OF SOLUTIONS