



TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C5: INDIRECT TAXES

THURSDAY 17 DECEMBER 2015

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.

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:** 25%
 - Excise Duty:**
 - 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 15%
 - Excise Duty 10%
- 3. Buses/coaches for the transport of more than ten persons**
 - Customs Duty:** 15%
 - Excise Duty:
 - 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:** 15%
 - Excise Duty:** 0%

The minimum amount of Customs Duty on Motor Vehicles in categories from 1 up to 3 above is K2,000

Attempt all FIVE (5) Questions

QUESTION ONE

- (a) Value Added Tax (VAT) is a consumption-based tax that is levied in the supply chain at each point where value is added to a good or service. This tax is administered by ZRA under the Domestic Taxes division.

Required:

Explain four (4) advantages and one (1) disadvantage of Value Added Tax (VAT).
(5 marks)

- (b) Explain the meaning of the following:

- (i) Supplies of goods
- (ii) Supplies of services
- (iii) Supplies of neither Goods nor Services (3 marks)

- (b) In the context of value added tax explain the following:

- (i) Taxable supplies
- (ii) Exempt supplies
- (iii) Standard rated supplies
- (iv) Zero rated supplies (6 marks)

- (c) Explain the types of registration for the purposes of Value Added Tax (VAT).
(6 marks)

[Total: 20 Marks]

QUESTION TWO

- (a) Explain any three (3) taxes administered under the customs and excise division of Zambia Revenue Authority (ZRA). (6 marks)

- (b) Explain the main functions of the customs and excise division of Zambia Revenue Authority (ZRA). (8 marks)

- (c) Explain four (4) conditions to be met for the customs officers to use transaction value method in valuing imported goods. (4 marks)

- (d) State any two (2) matters that the COMESA Customs Union focuses on. (2 marks)

[Total: 20 Marks]

QUESTION THREE

- (a) Define Reverse VAT and explain the conditions to be met for services to be considered as imported into Zambia. (4 marks)
- (b) List any Six (6) documents that will be examined by the Zambia Revenue Authority (ZRA) officers during the VAT inspection visit in order to satisfy themselves that the VAT due has been correctly worked out. (6 marks)
- (c) Explain Three (3) advantages and two (2) disadvantages of accounting for VAT on cash basis compared to invoice basis of accounting for VAT. (5 marks)
- (d) Foreign tourists visiting Zambia are permitted to get a refund of VAT paid on goods purchased from approved retailers that are exported from Zambia.

Required:

Explain two (2) conditions to be met for a tourist to be eligible for this VAT refund scheme. (2 marks)

- (e) List any Six (6) contents which must appear on the tax invoice. (3 marks)

[Total: 20 Marks]

QUESTION FOUR

- (a) In relation to Value Added Tax, explain the following types of accounting for VAT:
- (i) A cash accounting scheme (3 marks)
 - (ii) A normal accounting scheme (1 mark)
 - (iii) An extended accounting scheme (Extended Tax Period) scheme. (2 marks)
- (b) Explain the advantages and disadvantages of cash accounting scheme (4 marks)
- (c) Classic Limited is a Zambian registered company that is also registered for Value Added Tax. In February 2015, the company produced the following management accounts:

	K	K
Sales		199, 900
Cost of sales		
Opening stock	1,000	
Purchases	<u>125,600</u>	
	126,600	

Less: closing stock	<u>1,300</u>	
Cost of sales		<u>125,300</u>
Gross profit		74,600
Less: Expenses		
Depreciation	2,500	
General Expenses	24,600	
Bad debts written off	26	
Overheads	<u>21,200</u>	
Total Expenses		<u>48,326</u>
Net Profit		<u>26,274</u>

The following additional information is also relevant:

- 1) Exempt Suppliers taken as a proportion of total sales amount to 10%. Included in the remainder are zero rated supplies of K25,000
- 2) 30% of the standard rated sales were made to customers who are not registered for Value Added Tax purposes.
- 3) Purchases include exempt supplies whose value is K30,000. The remainder of the purchases are standard rated for Value Added Tax purposes.
- 4) 40% of the standard rated purchases were from non-Value Added Tax registered supplies.
- 5) General expenses is inclusive of Value Added Tax (VAT) and is made up of :

	K
Telephone bills	3,000
Diesel	11,000
Petrol	4,100
Entertaining customers	2,975

- 6) The bad debts were written off on 28th February 2015. The figure consists of two invoices of K11,000 and K15,000 in respect of which payments was due on 1st August 2013 and 1st December 2013 respectively.

- 7) The overheads are all standard rated supplies for the purposes of Value Added Tax.

Unless stated otherwise, all the above figures are Value Added Tax exclusive.

Required:

Calculate the amount of Value Added Tax payable or repayable for the month of February 2015. (10 marks)

[Total: 20 Marks]

QUESTION FIVE

- (a) What is excise duty? (2 marks)
- (b) State any three (3) types of goods or services where excise duty is levied on. (3 marks)
- (c) A manufacturer of goods which involves excise duty must apply to the Commissioner General for a license.

Explain the two (2) obligations of the licensee. (4 marks)

- (d) When excise duty is paid late, the license holder will pay penalties and interests. State the penalties and interests which are payable. (5 marks)
- (e) Mr. Motoka imported a second hand light truck with gross weight of 15 tons from Japan costing \$1050 in February 2015. The charge for insurance was \$100 and freight up to Nakonde (the point of entry into Zambia) was \$1000. The freight charge from the point of entry to his premises was K2,200.

The Commissioner General advised that the Exchange rate ruling at the time was K6.1 per US \$1. However, when Mr. Motoka bought the US dollars for paying for the importation of the truck, exchange rate was K6 per US\$1.

Required:

Calculate the following for the motor vehicle:-

- (i) The value for duty purposes for customs duty (2 marks)
- (ii) The amount of customs duty payable (2 marks)
- (iii) The amount of excise duty payable and (1 mark)
- (iv) The Value Added Tax payable (1 mark)

[Total: 20 Marks]

END OF PAPER

C5 INDIRECT TAXES
SUGGESTED SOLUTIONS
DECEMBER 2015 EXAMINATIONS

SOLUTION ONE

a. Advantages of VAT

- i. It is invoice based and therefore uniform and uncomplicated, offering a sound financial management system with less collection weaknesses.
- ii. The Input credit mechanism gives registered traders back much of the tax they pay on purchases and expenses used for making taxable supplies, and as a result, it avoids the tax on tax character of sales tax.
- iii. A wider tax base has resulted in less distortion of trade and a greater sharing of the cost of collecting it at various stages of value chain and remitting it to the Government.
- iv. It gives the potential for a stronger home manufacturing industry and more competitive export prices.
- v. VAT is less complex than sales tax, as VAT has only two rates, and the registration threshold eliminates small businesses to minimize administration costs.

Disadvantages

- i. VAT is regressive like other indirect taxes. Regressively is partially minimized by exempting most essential consumer items like food and health supplies.
- ii. The claim that small businesses may find it difficult to maintain the required VAT records may be exaggerated.

b. (i) Supplies of goods

Supplies of goods include transferring the ownership and possession of goods, either immediately or at a specified future date, and/or applying a treatment or process to another person's goods, and/or supplying any form of power, heat, refrigeration or ventilation.

(ii) **Supplies of services**

Supplies of services include all things done for a consideration which are not supplies of goods. An example is the assignment, grant or surrender of any right.

(iii) **Supplies of neither goods nor services**

Supplies of neither goods nor services are generally those items which fall outside the scope of VAT i.e. no VAT is calculated on them.

c. Taxable supplies

These are supplies on which Value Added Tax (VAT) is charged, and they consist of standard-rated supplies and Zero-rated supplies.

Standard-rated supplies are those on which VAT is charged at the rate of 16% on the VAT exclusive amount and the VAT fraction of $\frac{4}{29}$ is used if the amount is inclusive of VAT.

Zero-rated supplies are those on which VAT is charged at the rate of 0%.

Exempt supplies

These are supplies of goods and services on which no VAT is charged, and no input VAT attributed to them is available for credit.

These supplies are not taken into account in determining whether or not a trader is a taxable person.

d. Statutory or Compulsory Registration

A trader is required by law to register for VAT if the turnover of his/her taxable supplies, excluding VAT, for the twelve months or three months exceeds registration threshold.

The current registration threshold is K800,000 per twelve months or K200,000 per three months.

Registration should be made within 30 days from the date when the registration threshold is exceeded.

Voluntary Registration

All persons whose annual turnover is below K800,000 may decide to register for VAT under voluntary registration.

It is advantageous to traders who are charged VAT on their purchases so that they could claim input VAT on purchases and other expenses

SOLUTION TWO

a. The following are the taxes:

- i. **Customs duty:** this is the duty (tax) collected on imported goods.
- ii. **Excise duty:** this is the duty collected on locally manufactured goods and on certain imports.
- iii. **Import VAT:** it is the VAT collected on imported goods
- iv. **Dumping duty:** it is the duty collected on goods which are imported in Zambia which unfairly disadvantage Zambian goods

b. The following are the functions:

- i. **Collection of revenue**
The customs and excise division collects revenue (duties) on behalf of the central Government. The examples of duties collected are customs duty, excise duty, import VAT etc.
- ii. **Providing trade data statistics**
The customs and excise division is obliged to provide statistical data on imports and exports to the Government via certain agencies such as the Bank of Zambia, Central statistical office etc.
- iii. **Prevention of Smuggling**
Smuggling takes place when goods are imported or exported without being cleared by customs so that trade taxes are not charged on them. The division is responsible for ensuring that all goods entering and leaving the country are subjected to appropriate duties.
- iv. **Protecting local industry**
The division is responsible for protecting Zambian industry from unfair competition using various means under the Act. E.g. offering rebate of duty on imported raw materials used in the manufacture of certain goods specified in the Act.

- c. The transaction value method can only be used if:
 - i. There are no restrictions to the use of the goods.
 - ii. There are no conditions to deter determination of the Value for Duty purposes.
 - iii. No part of the proceeds or resale value would accrue to the seller, unless included in the value.
 - iv. No relationship exists to influence the value.

- d. Any of the following two:
 - i. The internal free trade area
 - ii. Relations with third countries including the application of the CET
 - iii. Trade remedies
 - iv. Export promotion
 - v. Dispute settlement.

SOLUTION THREE

- a. Reverse VAT is the transfer of liability to account for and pay VAT on imported services from the person making the supply to the person receiving the supply. Reverse VAT is levied on all imported services provided by a non-resident supplier where a tax agent has not been appointed.

A service will be considered imported if:

- i. It is performed or undertaken in Zambia
 - ii. Utilized (or if the benefit of its supply is for a recipient) in Zambia regardless of where it is performed.

- b. The following documents will be examined:
 - i. Books of accounts i.e. purchases and sales day books, cash books, and Ledgers.
 - ii. Sales invoices and receipt books, and bank records.
 - iii. VAT records i.e. the VAT account showing sources of figures on the return.
 - iv. Daily gross takings for retailers
 - v. Original copies of purchase invoices
 - vi. The most recent audited accounts and monthly management accounts.

- c. Advantages of cash accounting of VAT
 - i. It is easy to prepare the VAT returns as the cash book can be used to do so.
 - ii. Bad debts relief occurs automatically since no VAT is payable if customers have not made the payments
 - iii. VAT is only payable when cash is received from the customers.

Disadvantages

- i. The scheme is not open to all kinds of traders and, therefore, small scale traders in sectors other than construction sector cannot benefit from it.
 - ii. Input VAT cannot be claimed if payment has not been made to the suppliers. This means that input VAT will be delayed if payments have not been made.
- d. The foreign tourists will only be eligible for the VAT refund if:
 - i. A tourist is not a resident of Zambia i.e. has not been in Zambia for more than twelve (12) months out of the previous twenty-four (24)
 - ii. A tourist does not possess a Zambian passport.
- e. Details on the tax invoice:
 - i. The words "Tax Invoice"
 - ii. The Name, address, and VAT registration number of suppliers.
 - iii. The Name or business name and address of the purchaser/recipient of the goods
 - iv. The quantity/volume of the goods/services supplied.
 - v. A description of the goods/services supplied
 - vi. The total amount of VAT charged
 - vii. The selling price, excluding VAT and any discount

SOLUTION FOUR

- a) When VAT is accounted for, some special schemes are available:-
 - i) A cash accounting scheme where VAT is only accounted for when receipts from sales are received and payments made for purchases. This is different from the normal VAT accounting where cash and credit sales and purchases have to be accounted for. The only businesses allowed are members of the Association of building and civil engineering contractors.
 - ii) The normal accounting scheme for VAT is where both credit and cash transactions occurring in a month have to be accounted for

- iii) An extended accounting scheme (extended tax period) where VAT is accounted for at extended tax period of 3 months instead of the normal one month period. This is normally granted where the trader's business is not continuous on a daily basis.

b) The advantages of a cash accounting scheme are

- Bad debts for VAT do not arise.
- The cash book can be used for preparing the VAT return
- VAT is only accounted for when cash is received and payments made.

The disadvantages of a cash accounting scheme is that input VAT is only recoverable when the payment is made.

Kapalu Ltd – VAT Payable for February 2015

	K	K
Output VAT		
Standard rated sales (K155, 910 x 16%)		24,946
Less: Input VAT		
Purchases [K125, 600 – K30, 000] x 60%] x 16%	9,178	
Telephone expenses	-	
Diesel (K11, 300 x $\frac{4}{29}$)	1,559	
Petrol (K4, 100 x $\frac{4}{29}$) x 20%	113	
Entertaining customers	-	
Bad debts – Aug 2013 (K11, 000 x 16%)	1,760	
- Dec 2013	-	
Overheads (K21, 200 x 16%) x 90%	<u>3,053</u>	
		<u>15,663</u>
VAT Payable		<u>9,283</u>

Workings

Total sales	199,900
Exempt 10%	(19,990)
Zero-rated	<u>(25,000)</u>
∴ standard rated	<u>155,910</u>

SOLUTION FIVE

- a) Excise duty is a tax on particular goods or products which are normally luxuries. The duty is imposed on domestic or imported goods by reference to such things as weight, quantity or value.
- b) Three types of goods where excise duty is levied on include:-
- Cigarettes
 - Clear and opaque beer
 - Carbonated soft drinks
 - Fuel-petrol and diesel
 - Wines
 - Aerated water
 - Talk time
 - Cosmetics
- c) A manufacturer of goods where excise duties apply, must apply to the C.G. for a license. Once granted a license, the manufacturer has two obligations:-
- i) Must submit on or before of the 20th day of the month that to which the return relates and the return must be accompanied by certified cheque for the amount payable.
 - ii) Keep books of accounts recorded in the English language.
- d) Late submission of returns and non-payment of tax will attract interest at the prevailing Bank of Zambia interest rate plus 2% and penalties of 1,000 penalty units and an additional 100 penalty units for each day of the return is late.

(e) (i) V.D.P.	\$		Taxes
Cost	1,050		
Insurance	100	K	K
Freight	<u>1,000</u>		
VDP	<u>2,150</u> x ZMK 6.1	13,115	
(ii) Customs duty @ 15%		<u>2,000</u>	2,000
Value for excise duty purposes		15,115	
(iii) Excise duty @ 10%		<u>1,512</u>	1,512
Value for VAT purposes		16,627	
(iv) VAT @ 16%		<u>2,660</u>	<u>2,660</u>
Total costs		<u>19,287</u>	
Total taxes			<u>6,172</u>

END OF SOLUTIONS