TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D4 – PERSONALTAXATION

TUESDAY 15 DECEMBER 2015

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

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading. 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 **FOUR (4)** questions of twenty Five (25) marks each. You MUST attempt all the **FOUR (4)** 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 pages 2 and 3

Taxation Table

Income Tax

Standard personal income tax rates

Income band	**Taxable amount**	**Rate**
K1 to K36,000	first K36,000	0%
K36,001 to 45,600	next K9,600	25%
K45,601 to K70,800	next K25,200	30%
Over K70,800		35%
Income from farming for individuals		
K1 to K36,000	first K36,000	0%
Over K36,000		10%
Gratuity		
K1 to K36,000	first K36,000	0%
Over K36,000		25%
Terminal benefits		
K1 to K35,000	first K35,000	0%
Over K35,000		10%

Capital Allowances

Implements, plant and machinery and commercial vehicles:		
Wear and Tear Allowance	Standard rate always applicable	25%
	Rate applicable if used in Manufacturing, Farming, Leasing	50%
Non- commercial vehicles		
Wear and Tear Allowance	Standard rate always applicable	20%
Farming Allowances		
Development Allowance		10%
Farm Works Allowance		100%
Farm Improvement Allowance		100%

Presumptive Taxes

Turnover Tax	3%

Presumptive tax for transporters

Seating capacity	Tax per annum K	Tax per day K
Less than 12 passengers and taxis	1,200	3.20
From 12 to 17 passengers	2,400	6.60
From 18 to 21 passengers	4,800	13.20
From 22 to 35 passengers	7,200	20.00
From 36 to 49 passengers	9,600	26.00
From 50 to 63 passengers	12,000	32.80
From 64 passengers and over	14,400	39.40

Property Transfer Tax

Rate of Tax on Realised Value of property other than mining rights	10%
Rate of Tax on Realised Value on a transfer or sale of a mining right	10%

Value Added Tax

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

ATTEMPT ALL FOUR (4) QUESTIONS

QUESTION ONE

You should assume that today's date is 15 December 2014 and the NAPSA earnings limit for the year ending 31 December 2015 is K191,088.

Justin, who is aged 47 years old, is the 90% shareholder and Chief Executive Officer of Jay Enterprises Limited, a trading company making up its accounts to 31 December each year. After a successful year to date the company's business profits for the year ended 31 December 2015 have been forecast at K800,000 after deducting a gross annual salary for Justin of K240,000. Apart from this salary, Justin currently has no other income.

Justin has written to you seeking advice concerning the payment to him of a bonus of K100,000 (gross) before 31 December 2015. He has suggested that this could either be in the form of an additional lump sum salary or a dividend.

As alternatives Justin would also like to know the tax implications if the payment takes the form of:

(1) A lump sum premium by Jay Enterprises Limited to an approved pension fund for his benefit,

(2) An interest free loan made to himself and repayable in full after two years.

Justin does not currently charge any rent to Jay Enterprises Limited for the company's use of his property upon which he has a large mortgage.

You have also been discussing with Justin the possibility of gifting some of his shares in Jay Enterprises Limited to his sin, Martin who is aged 25 years old. Justin has also been considering gifting some other shares in Jay Enterprises Limited to his younger brother, Bernard. Bernard is currently studying at a foreign University.

Required:

Prepare notes for Justin advising him:

(a) Of the income tax and NAPSA implications if the bonus payment of K100,000 were to take the form of an additional salary compared with taking the form of a dividend payment. You should include appropriate calculations and a conclusion as to whether this bonus should take the form of additional salary or a dividend payment (11 marks)

(b) Of the Income Tax implications of:

  (i) The two alternatives (pension payment or interest free loan) that Justin has suggested; and

  (ii) Charging a rent to Jay Enterprises Limited for the company's use of his property. (10 marks)

(c) Of the Property Transfer Tax implications of:

  (i) Gifting some of his shares in Jay Enterprises Limited to his son.

  (ii) Gifting more shares in Jay Enterprises Limited to his younger brother (4 marks)

[Total: 25 marks]

QUESTION TWO

Daniel Mwale, a Zambian resident individual is married to Jessica Mwale who is also resident in Zambia. The following information is available in respect of both Daniel and Jessica for the tax year 2015.

Daniel Mwale

Daniel commenced trading on 1 January 2015, running a retail business. He will prepare his first accounts for the eighteen month period ending 30 June 2016. He then intends to immediately change his accounting date and will prepare the next accounts for the thirteen month period ended 31 July 2017.

On 1 January 2015, he acquired a delivery van to be used in his trade at a cost of K90,000. On 1 August 2016, he will purchase office furniture at a cost of K30,000.
The amounts of tax adjusted profits before capital allowances are expected to be as follows:

	K
Period ended 30 June 2016	990,000
Period ended 31 July 2017 (forecast)	858,000

Jessica Mwale

Jessica Mwale has been employed as a public relations manager at TNC plc for many years. Her contract of employment provided for the following in the tax year 2015:

(1) An annual salary of K240,000 and she received an annual educational allowance of K18,000.

(2) The company reimbursed her the following expenses she incurred in the tax year 2015, after producing relevant supporting documentation:

	K
Medical bills	25,000
Life insurance premiums	12,000
Electricity bills	14,400
Water bills	7,200

(3) In the tax year 2015, the company provided her with shopping vouchers with a value of K16,000.

(4) Throughout the tax year 2015, she was provided with free meals in TNC plc's staff canteen. The total cost of these meals to the company was K19,000. The canteen is available to all of the company's employees.

(5) Throughout the tax year 2015, Jessica used her own personal Toyota Fortuner motor car with a cylinder capacity of 3000cc for the purposes of the employment. She acquired the car on 1 January 2015 at a cost of K150,000. She travelled a total of 30,000 kilometers in the motor car in the tax year 2015, out of which 21,000 kilometers where in the performance of the duties of her employment. She incurred motor car running expenses of K2,000 per month in the tax year 2015. TNC plc paid her a commuted fuel allowance of K1,000 per month throughout the tax year 2015.

(6) Jessica is accommodated in a company house, which had a market value of K700,000 in the tax year 2015. Had it been let out on a commercial basis, the company would have received monthly rentals of K10,000.

(7) She was additionally given a labour day award of K15,000 cash, on 1 May 2015 and a long service award of K25,000 cash on the same day.

(8) She made NAPSA contributions of 5% of her basic salary throughout the tax year 2015 and TNC plc also contributed 5% of her basic salary as employer's NAPSA contribution on her behalf in the tax year 2015.

(9) She paid interest of K500 per month on a personal bank loan and professional subscriptions relevant to the duties of her employment of K1,100 during the tax 2015.

(10) Pay As You Earn of K89,287 was deducted from her emoluments in the tax year 2015.

Other income

Jessica received royalties of K18,000 (gross), bank fixed deposit account interest of K3,000 (gross), dividends of K2,500 (gross) from TYC Limted, a private company and rental income of K120,000 (gross).

Required:

(a) Advise Daniel Mwale of the amounts that will be chargeable to income tax in respect of his trade for the tax years 2015, 2016 and 2017, explaining the basis of assessment for each tax year. You should assume that the tax rules for the tax year 2015 will apply throughout to all the above tax years. (12 marks)

(b) Calculate the total income tax payable by Jessica Mwale in the tax year 2015. Your answer should include an explanation of the tax implications for Jessica of being accommodated in a company house and being provided with free meals from the staff canteen of in the tax year 2015. (13 marks)

[Total: 25 marks]

QUESTION THREE

Munalula is the Chief Executive Officer of MNL Ltd, a Zambian private company. Munalula has accumulated substantial assets over the past few years. The family house is owned jointly with his wife, Monde, and is worth K600,000. Munalula has a K320,000 mortgage on the house. In addition, Munalula has liquid assets worth K110,000 and Monde has shares in quoted companies currently worth K300,000. Munalula has no forms of insurance, and believes he should make sure that his wealth and family are protected. He is keen to find out what options he should be considering.

Munalula has no overseas investments and does not have any income from abroad. He wishes to find out how such income would be charged to income tax in Zambia before he finally invests in shares of foreign companies. He is concerned about his dividends from abroad being subjected to double taxation.

Munalula has also been concerned about the high taxes he and his company have been subjected to and needs to find ways of reducing the taxes. Munalula does not know the difference between tax evasion and tax avoidance and needs some clarification.

Required:

(a) Explain the possible causes of, and the differences between tax avoidance and tax evasion and discuss the practical consequences of practicing each of them. (7 marks)

(b) Provide three examples of Three (3) personal financial planning protection products that would be of use in Munalula's situation. Justify your selections by reference to the type of protection provided. (6 marks)

(c) Briefly outline the tax consequences for Munalula if the types of protection identified in (b) were to be provided for him by MNL Ltd compared to providing them for himself. You are not required to discuss the company Income tax consequences for MNL Ltd. (4 marks)

(d) Explain to Munalula how double taxation would arise and how taxes legislation provides for elimination of double taxation. (8 marks)

[Total: 25 marks]

QUESTION FOUR

(a) Explain the meaning of the term domicile and distinguish between domicile of origin and domicile of choice. (4 marks)

(b) Explain why an individual who is domiciled in a foreign country would be liable to Zambian Income Tax. (2 marks)

(b) **For the purpose of this part of the question assume that today's date is 1 December 2014 and that the earnings ceiling for NAPSA contributions purposes is K191,088 per annum.**

Namonde wishes to commence in business on 1 January 2015, running a retail business. He will prepare accounts to 31 December each year. Namonde would like to involve his son Twambo in running this business, but is not sure whether from a taxation point of view, it will be beneficial to involve Twambo in the business by taking him on as an employee or as a partner.

Regardless of whether Twambo is involved in running the business as a sole trader or as a partner, a Toyota motor car and a Mitsubish canter van will be purchased at a cost of K140,000 and K150,000 respectively during the tax year 2015. The Mitsubishi canter van will be used wholly and exclusively for business purposes, whilst the Toyota car will have business use of 60% by Namonde.

If Namonde involves Twambo in the business as an employee, he expects to make a taxable business profit of K 850,000 before capital allowances and any withdrawals of profit by either Namonde or Twambo, in the year ending 31 December 2015. Namonde will withdraw K250,000 of the profits as his annual salary. He will also pay Twambo an annual salary of K190,000. He will then pay employer's NAPSA contributions of 5% of Twambo's salary. Twambo will also be required to pay 5% of his salary to NAPSA as employee's contribution.

If Namonde takes on Twambo as a partner, the taxable business profits for the year ending 31 December 2015, is still expected to be K850,000 before capital allowances and any withdrawals of profit by either Namonde or Twambo. The annual partnership salaries will be K250,000 for Namonde and K190,000 for Twambo. Profits and losses would then be shared between Namonde and Twambo in the ratio of 7:3 respectively. NAPSA contributions would not be payable by either party under this option.

Required:

Calculate the income tax payable by Namonde and Twambo for the tax year 2015 on the basis that:

(i) Twambo is brought into the business as an employee. (7 marks)

(ii) Twambo is brought into the business as a partner. (8 marks)

(iii) Advise Twambo as to which of the two options is beneficial from a tax point of view. (4 marks)

[Total: 25 marks]

END OF PAPER

D4: PERSONAL TAXATION

SUGGESTED SOLUTIONS

DECEMBER 2015 EXAMINATIONS

SOLUTION ONE

As requested, here are the notes concerning the various tax issues for Justin

(a) Profit Extraction through an additional salary compared with a Dividend

If the additional bonus were to take the form of an additional salary, the following will be the income tax and NAPSA implications:

(i) An additional salary will be an allowable expense when computing the company' taxable profits.

(ii) As a result, an additional salary will result in a saving in company income tax at the rate of 35%. The tax saved will amount to 35% x K100,000 = K35,000.

(iii) On this additional salary, Justin will be assessed to income tax at the rate of 35% as his current income is already above K70,800 for the tax year 2015. The additional income tax that she will pay will therefore also be equal to K35,000.

(iv) No additional NAPSA contributions will be payable by either the company or Justin as the existing salary of K240,000 is already in excess of the NAPSA contributions earnings ceiling of K191,088.

(v) As a result, taking the K100,000 as an additional salary will not increase or decrease the total income if only income tax is being taken into account because the additional income tax payable by Justin of K35,000 will be covered by the saving in company income tax of K35,000.

On the other hand, if the bonus payment were to take the form of a dividend, the income tax and NAPSA implications would be as follows:

(i) The dividend payment will not be an allowable expense when computing the company's taxable income. The dividend will therefore be paid out of profits which will have been subjected to company income tax.

(ii) The dividend will be subjected to withholding tax at the rate of 15% and this will amount to 15% x K100,000 = K15,000.

(iii) Justin will not be subjected to any income tax on the dividend he will receive from the company as withholding tax on dividends is the final tax.

(iv) NAPSA contributions will not be payable by either the company or Justin as dividends are not earnings for the purposes of NAPSA contributions.

(v) This means the payment of K100,000 as a dividend will increase the amount of taxation payable by the amount of withholding tax of K15,000.

In conclusion, the bonus payment of K100,000 should take the form of an additional salary as this will then be cheaper for the company and Justin. If the payment were to take the form of a dividend payment, there would be a reduction in the available

income by the amount of withholding tax of K15,000.

(b) (i) If the payment of the bonus were to take the form of a contribution into an approved pension fund, the taxation implications would be as follows:

(1) The amount would be an allowable deduction when computing the company's taxable profit as it would be a payment into an approved pension fund.

(2) The payment will result in a saving in the company income tax by K35,000, being, 35% of K100,000.

(3) The amount paid as a contribution into the approved fund by the company will not be treated as a taxable benefit in kind for Justin.

(4) Upon retirement, Justin would be able to receive a tax free lump sum payment from the approved pension fund.

On the other hand, if the bonus were to be in the form of an interest free loan to Justin, the following would be the taxation implications:

(1) The interest free loan would be a loan to an effective shareholder as Justin has a shareholding of more than 5% in the company.

(2) The company will be required to pay income tax at the rate of 35% on the grossed up amount of the loan. This income tax will amount to 35/65 x K100,000 = K53,846. This tax would be payable not later than 14 days following the end of the income tax month when the loan was made available to Justin.

(ii) The income tax implications of Justin charging rent to Jay Enterprises Limited for the use of his property would be as follows:

(1) The amount of rent paid to Justin would be an allowable expense for the purposes of computing the company's taxable profits.

(2) If the rent being charged is excessive, the excess amount of the rent over the reasonable commercial rent may be treated as a loan to an effective shareholder and may therefore not be an allowed expense when computing the company's taxable profit.

(3) The rent received by Justin would be subjected to withholding tax at the rate of 10% as the final tax and he will not be subjected income tax on it.

(4) Any amount of such rent as may be determined to be a loan to an effective shareholder would be subjected to tax payable by the company at the rate of 35/65 of the amount of the loan.

(c) Property Transfer Tax issues:

(i) If Justin were to gift some of his shares in Jay Enterprises to his son, then, for the purposes of property transfer tax, the Commissioner General may determine that the transfer has no realised value as this is a transfer to a member of the immediate family. Property transfer tax would therefore not be payable.

(ii) If Justin were to transfer some other shares to his brother, then there would be property transfer tax payable by Justin on the realised value of the shares transferred. Justin's brother is not a member of his immediate family.

SOLUTION TWO

(a) Since the first accounting period is made up of more than 12 months, the 18 months period ended 30 June 2016 must be split into two notional accounting periods for tax purposes. The first period will have less than 12 months and the second period must have exactly 12 months. (1 mark)

This will give a period of 6 months ending on 30 June 2015 which will be the basis period for the tax year 2015 and a period of 12 months ending on 30 June 2016. Which will be the basis period for the tax year 2016. (2 mark)

The profits before capital allowances for the 18 month period must then be divided between the two notional accounting periods on a pro-rata basis as shown below.

Following the expected change of the accounting date, which will result in accounts being prepared for the thirteen months period ending 31 July 2017, The thirteen month period to 31 July 2017, will become the basis period for the tax year 2017. (1 mark)

TAX YEAR 2015

Period ended 30 June 2015	K
Tax adjusted profit before capital allowances:	
6/18 × K990,000	330,000
Less: capital allowances (W)	(22,500)
Final tax adjusted profit	307,500

TAX YEAR 2016

Year ended 30 June 2016	K
Tax adjusted profit before capital allowances:	
12/18 × K990,000	660,000
Less: capital allowances(W)	(22,500)
Final tax adjusted profit	637,500

TAX YEAR 2017

Period ended 31 July 2017	K
Tax adjusted profit before capital allowances	858,000
Less: capital allowances (W)	(30,000)
Final tax adjusted profit	828,000

COMPUTATION OF CAPITAL ALLOWANCES

Tax year 2015	K
Delivery van	
Wear and tear allowance	
(K90,000 × 25%)	22,500

Tax year 2016	
Wear and tear allowance on Delivery Van	22,500

Tax year 2017	
Wear and tear allowance on delivery van	22,500
Wear and tear allowance on office furniture	
(K30,000 ×) × 25%	7,500
Total capital allowances for 2017	30,000

(b) JESSICA

PERSONAL INCOME TAX COMPUTATION FOR THE TAX YEAR 2015

	K	K
Salary		240,000
Educational allowance		18,000
Life insurance premiums		12,000
Electricity bills		14,400
Water bills		7,200
Shopping vouchers		16,000
Commuted fuel allowances (K1,000 x12)		12,000
Long service award		25,000
Total emoluments		344,600
Investment income		
Royalties		18,000
Total income		362,600
Less allowable deductions:		
NAPSA contribution (restricted to maximum)	3,060	
Capital allowances (K150,000 x 20%) x 21,000/30,000)	21,000	
Motor car running expenses (K2,000 x12) 21,000/30,000)	16,800	
Professional subscriptions	1,100	
Taxable emoluments		(41,960)
Total income		320,640
Less tax free income		(36,000)
		284,640
Income Tax		
K9,600 x 25%		2,400
K25,200 x30%		7,560
K249,840 x 35%		87,444
		97,404
Less PAYE		(89,287)
WHT on Royalties (K18,000 x 15%)		(2,700)
Income Tax payable		5,417

Tax implications for Jessica:

(1) Provision of company accommodation:
There will be no tax implications for being accommodated in a company as such benefits not convertible into cash do not constitute taxable emoluments.

(2) Equally, no taxable benefit will arise on Jessica for being provided with free meals at the company's staff canteen.

SOLUTION THREE

(a) Tax evasion refers to the use of illegal means to avoid tax. Such means include failing to disclose the relevant amounts of income and other forms of fraud which the tax payers may engage in. The aim of the tax payer practicing tax evasion is to defraud the government of the revenue.

Tax evasion arises when taxes are perceived to be too high or unfair on the tax payers. Another cause of tax evasion may be intentional where the tax payer intentionally hides some income.

Tax evasion is an offence and may be punishable by fines and/or imprisonment.

On the other hand, tax avoidance is concerned with identifying any loop holes in the taxes legislation, and using them to minimize or defer tax liabilities. Tax avoidance is, however difficult to define more thoroughly.

Tax avoidance is caused by tax payers planning their tax affairs so as to minimise or defer taxation liabilities.

Tax avoidance is not an offence, though, to discourage its practice, the government may issue anti-avoidance legislation. Anti-avoidance legislation aims at sealing the loop holes in the taxes legislation so as to prevent taxpayers from taking advantage of them, and thereby reducing their tax liabilities lawfully.

(b) Protection products

Munalula is still working and has a mortgage to support. He therefore needs to protect not only his assets but also cover any debt, or the ability to repay. The following protection policies may be relevant to Munalula's situation.

(i) Life assurance

This is a form of insurance that pays out on a chargeable event, usually death. The main types are:

(1) Term Assurance which provides cover for a fixed term with the sum assured payable only on death. No investment benefits or payments arise on survival.

(2) Whole of Life Assurance where the policy provides life protection. The sum assured is payable on death at any time and usually some form of investment benefit will accrue in the form of a surrender value.

A qualifying policy will give a tax-free lump sum that could, for example, be used to repay the mortgage.

(ii) Permanent health insurance

Permanent health insurance policies are designed to provide the policyholder with a benefit if he or she is unable to work through sickness or if he or she needs medical expenses or long-term care.

This would provide Munalula with an income in the event of illness. This again is useful given his mortgage, and would avoid the need to liquidate other assets to pay the mortgage or ongoing costs.

(iii) Critical illness insurance

These policies provide a capital sum where a critical illness (from a large range listed in the policy) is diagnosed. For the same reasons above,

Munalula should consider this in conjunction with permanent health insurance.

(c) Provision of protection: company or individual

If any of the policies are taken out and paid for by Munalula personally, then there will be no tax relief on the premiums, but neither will there normally be any tax payable on the proceeds or benefits received. Withholding tax would apply on the interest elements of any proceeds from the investment.
If MNL Ltd were to pay the premiums on a policy taken out by Munalula, and of which he was the direct beneficiary, then this will constitute a benefit in kind, on the grounds that the company will have satisfied a personal liability of Munalula's. Accordingly, income tax will be payable on the benefit.

If, however, MNL Ltd were to decide to offer protection benefits to their employees on a group basis (and not just to Munalula), then it would be possible to avoid a charge under the benefits in kind rules and/or obtain a lower rate of premium under a collective policy.

(d) Double taxation would arise in Zambia where income received in Zambia should be charged to Zambian tax when such income arises from a foreign source where it has already been subjected to a foreign tax.

Taxes legislation provides for the elimination of double taxation by requiring taxable persons who would suffer double taxation to make a claim for double taxation relief. Double taxation relief is a relief that is aimed at eliminating double taxation and it may granted using any of the following methods:

(i) Treaty relief:

This is a relief that is given where there is a treaty between two countries A and B, stating how income received from country A should be treated in country B and vice versa. Double taxation relief is given respectively according to that treaty.

(ii) Unilateral relief:

This is a relief whereby double taxation relief is given unilaterally in one country because there is no treaty between the two countries involved. The amount treated as the double taxation relief is taken as the lower of the foreign tax paid and the local tax on the foreign income.

(iii) Unilateral expense relief:

This type of double taxation relief is also given where there is no treaty between the countries concerned. Double taxation relief is given by treating the amount of foreign tax paid as an allowable expense in the country in which the foreign income is received.

SOLUTION FOUR

(a) The term domicile refers to an individual's permanent home. A person is said to be domiciled in the country which is that individual's permanent home. The two types of domicile are domicile of origin and domicile of choice.

Domicile of origin is the domicile acquired at birth. This means that an individual is primarily domiciled in the country in which he or she was born.

Domicile of choice is the domicile acquired by choice. An individual can renounce his/her domicile of origin on attaining the age of 16 and chose what country should be his or her permanent home.

(b) Zambia operates a source based taxation system. This means that any income earned from Zambian sources is liable to Zambian income tax. This means that the residence status of an individual is of secondary importance in determining whether income earned by that individual is liable to Zambian income tax. Domicile is not applicable when determining whether an individual is chargeable to Zambian income tax. Therefore, an individual who is domiciled in a foreign country will still be liable to Zambian income tax where that individual earns income from Zambian sources.

(b) (i) NAMONDE

PERSONAL INCOME TAX COMPUTATION FOR 2015 IF TWAMBO IS EMPLOYED

	K	K
Original adjusted profit		850,000
Less:		
Capital allowances		
- On Toyota car (K140,000 x 20%) x60%	16,800	
- On van (K150,000 x 25%)	37,500	
Twambo's salary	190,000	
Employer's NAPSA (5% × K190,000)	9,500	
		(253,800)
		596,200
Less tax free income		(36,000)
Taxable income		560,200
Income tax		
K9,600 × 25%		2,400
K25,200 × 30%		7,560
K525,400 × 35%		183,890
Income tax payable		193,890

TWAMBO

PERSONAL INCOME TAX COMPUTATION FOR THE TAX YEAR 2015

	K
Salary from employment	190,000
Less NAPSA contribution (restricted)	(3,060)
	186,940
Less tax free	(36,000)
	150,940

Income Tax	
K9,600 × 25%	2,400
K25,200 × 30%	7,560
K116,140 × 35%	40,649
	50,609

(ii) COMPUTATION OF FINAL TAXABLE PROFITS FOR 2015 IF TWAMBO IS TAKEN AS A PARTNER

	K	K
Original adjusted profit		850,000
Less:		
Capital allowances		
- On Toyota car (K140,000 x 20%) x60%	16,800	
- On van (K150,000 x 25%)	37,500	
		(54,300)
		795,700

PERSONAL INCOME TAX COMPUTATIONS IF TWAMBO WAS A PARTNER

	Total	Namonde	Twambo
	K	K	K
Partnership salary	440,000	250,000	190,000
Balance (7:3)	355,700	248,890	106,710
Total Income	795,700	498,990	296,710
Income tax			
First K70,800		9,960	9,960
Excess K428,190/K225,910 × 35%		149,867	76,069
Income tax payable		159,827	89029

(iii) COMPUTATION OF NET INCOME UNDER EACH OPTION

	Twambo engaged as an employee	*Twambo engaged as a partner*
	K	K
Total income	850,000	850,000
Income tax for		
– Namonde	(193,850)	(159,827)
– Twambo	(50,609)	(89,029)
Twambo's NAPSA contribution	(9,500)	Nil
Employer's NAPSA	(9,500)	Nil
	586,541	601,144

Based on the above analysis, it is more beneficial for Namonde to take on Twambo as a partner rather than as an employee as the net income under this option will be higher by:

K601,144 – K586,541 = K14,603

END OF SOLUTIONS