

BICA – PRINCIPLES OF TAXATION – DECEMBER 2018 SOLUTIONS

Computation of taxable income for tax year 2017/18:

	P	
Employment income (W1)	255,900.00	1
Rental income	120,000.00	1
Interest income	-	1
Dividend income	-	1
Allowable farming loss	-	1
Total Taxable Income	375,900.00	

Working 1 - Employment income

	P	
Salary for the year	162,000.00	1
Subsidised meals	-	1
School fees for daughter	60,000.00	1
Housing benefit (P270,000 x 10%)	27,000.00	1
Car benefit ((P10,000 + (15% x P28,000) - P5,000) x 9/12)	6,900.00	2
Chargeable employment income	255,900.00	10

Computation of Tau Ltd's taxable total income fye 31/10/2018:

	P	
Accounting profit	2,655,000.00	
Depreciation	340,000.00	
Training expenditure	(122,000.00)	1
Donation	-	1
Consultancy fees	-	1
Profit on disposal of plant	(102,000.00)	1
Balancing charge / (allowance) (W1)	138,000.00	1
Bank interest	-	1
Capital allowances (W2)	(7,750.00)	1

Total taxable income

2,901,250.00

Working 1 - Balancing charge/ allowance on plant

	P	
ITWDV brought forward	82,000.00	
Sales proceeds	(220,000.00)	
Balancing charge	(138,000.00)	1

Working 2 - Computation of Capital allowances

	Car P	Computer P
Cost	175,000.00	31,000.00
Annual allowances at 25%	-	7,750.00

Total Annual Allowances

7,750.00

2

1. C
2. D
3. C
4. D
5. P31,200 (P208,000 x 15%)
 - a. Chargeable gains and bank deposit interest are not included in the chargeable income for determining the allowable pension contributions.
6. Taxable income – P240,000 (P130,000 + P110,000)
7. C
8. Housing benefit in kind – P4,960 – (248 x P250 x 8%) x 9/12
9. D
10. P22,000 - (P120,000/20 years) + (P240,000/15 years)
11. B
12. P50,000 – 2 houses x P25,000
13. B - P23,750 – 6/12 x P190,000 x 25%
14. D – P0 no allowances are granted in the year of disposal
15. A – P96,000 balancing charge
16. A – P186,250

Cost	175,000
Allowances granted 3 years x 25%	(131,500)

	43,750
Sales proceeds	230,000

Balancing charge	186,250

17. C
18. B
19. D
20. P52,500 – P210,000 x 25%
21. B – P120,000

- 22.A
- 23.A
- 24.C
- 25.B
- 26.D
- 27.B
- 28.D
- 29.C & F
- 30.D
- 31.B
- 32.B and D
- 33.P205,100
- 34.C – repairs are not capital expenditure
- 35.A
- 36.P9,000

Computation of chargeable gain

Sales proceeds	20,000
Allowable cost $4,000/4500 \times P9,000$	(8,000)

Un-indexed gain	12,000
Less moveable allowance at 25%	(3,000)

Chargeable gain	9,000

37. Taxable income = P906,250

Taxable income before capital expenditure	1,200,000
Less cost of grain silos	(250,000)
Less capital allowances on car at 25%	(43,750)

	906,250

38. Chargeable gain – P1,895,640

Sales proceeds	3,500,000	
Less allowable cost:		
(1,200,000 + 34,000)	(1,234,000)	

	2,266,000	
Indexation allowances:		
(1802.5 – 1386.4)/1386.4 x P1,234,000	(370,360)	

Chargeable gain	1,895,640	

39. B – 15 November 2018

40. Total tax liability – P20,750

Income tax liability:		
First P72,000	1,800	
Next P8,000 x 12.5%	1,000	
	-----	2,800
CGT liability:		
First P144,000	13,950	
Next P16,000 x 25%	4,000	
	-----	17,950

Total tax liability		20,750
