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# Answers

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**Section A**

**Marks**

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|-------------|--|------------|
| <b>1 A</b>  | $8,450,000 \times 20\% + 8,450,000 \times 20\% + 650,000 \times 20\% + 650,000 \times 40\%$        | 3,770,000  |
| <b>2 C</b>  | $865,000 \times 16.5\% - 658,130 \times 16.5 / 116.5$  | 49,513     |
| <b>3 D</b>  | $(1,250,000 + 650,000 - 850,000) / 2 \times 3/8 + (1,250,000 + 650,000 - 850,000) / 2 \times 4/10$ | 406,875    |
| <b>4 B</b>  | $150,000 \times 3 \times 50\%$   | 225,000    |
| <b>5 A</b>  | 1 only   |            |
| <b>6 D</b>  | $840,000 \times 6.25\% + 180,000$  | 232,500    |
| <b>7 B</b>  | 0%   |            |
| <b>8 C</b>  |  |            |
| <b>9 A</b>  | $(1,800,000 - 360,000 - 60,000)$   | 1,380,000  |
| <b>10 D</b> | $(15,000,000 \times 30\%) \times 90\%$   | 4,050,000  |
| <b>11 B</b> | $19,500,000 / 25$  | 780,000    |
| <b>12 C</b> | $85,000 - (40,000 \times 1.402)$   | 28,920     |
| <b>13 D</b> | $175,000 - 65,000$   | (110,000)  |
| <b>14 A</b> | $(35,000,500) - (4,500,000 \times 2.345)$  | 24,448,000 |
| <b>15 C</b> |  |            |

2 marks each

**30**

**Section B**
**Marks**
**1 (a)** Circumstances in which input VAT is not reclaimable are:

- |   |     |
|---|-----|
| (i) Where a taxpayer makes exempt supplies, they cannot claim input tax on taxable supplies if these are less than 5% of total supplies;  | 1/2 |
| (ii) After expiration of 12 months from the date the right to deduction accrued;  | 1/2 |
| (iii) On motor vehicles or motor vehicle spare parts unless the taxable person is in the business of dealing in, or hiring of, motor vehicle spare parts.<br>However, where motor vehicles and motor vehicle spare parts are used wholly, exclusively and necessarily for business, they qualify for input tax deduction; | 1/2 |
| (iv) In respect of entertainment, including restaurant meals and hotel expenses, unless the taxable person is in the business of providing entertainment;   | 1/2 |
| (v) In respect of the personal element where the purchase is partly for business and partly for personal or other use.  | 1/2 |

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**3**
**(b) VAT payable by Geo Limited for the month of April 2015**

	Value K	VAT rate	VAT K	
<b>Output tax</b>				
Taxable supplies	14,600,000	16.5%	2,409,000	1/2
Zero rated supplies	1,800,000	0%	0	1/2
Exempt supplies	650,000	–	0	1/2
	<u>17,050,000</u>		<u>2,409,000</u>	
<b>Input tax</b>				
Purchases taxable supplies	9,150,000	16.5%	1,509,750	1/2
Purchases zero rated supplies	950,000	0%	0	1/2
Purchases exempt supplies	350,000	–	0	1/2
Salaries and wages	3,250,000	–	0	1/2
Repairs to motor vehicles	1,650,000	16.5%	272,250	1/2
Security (725,000 – 85,000)	640,000	16.5%	105,600	1/2
Electricity	250,000	16.5%	41,250	1/2
Water	100,000	0%	0	1/2
Rent of shop	622,747	16.5%	102,753	1
Fuel for vehicle	125,000		0	1/2
	<u>17,087,747</u>		<u>2,031,603</u>	
VAT payable			377,397	7

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**10**
**2 (a)** The income of any club operated solely for pleasure or recreation shall be liable to income tax notwithstanding that it arises from transactions with its members.

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The taxable income shall be deemed to be 6.25% of all receipts or accruals to or in favour of it from sales of goods, cinematograph performances, stage plays or gambling machines and shall be charged at the rate applicable to companies.

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**(b)** The interest received by a club is subject to tax in full and will not be subject to a fraction adjustment. Any withholding tax deducted is given as a credit, except where withholding tax is deducted on interest above K10,000.

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## (c) Tax payable by Malindi Recreation Club for the year ended 30 June 2015

	K	
Golf course fees	800,000	½
Membership fees	0	½
Entrance fees	0	½
Bar sales	11,465,100	½
Restaurant sales	9,210,500	½
	<u>21,475,600</u>	
Taxable amount 6·25%	1,342,225	1
Add interest receivable	465,000	1
	<u>1,807,225</u>	
Tax at 30%	542,168	½
Less provisional tax	(425,000)	1
Withholding tax interest (465,000 – 10,000)*20%	(91,000)	1
	<u>26,168</u>	<u>7</u>
		<b>10</b>

- 3 (a) John Sauli must submit his tax return 180 days from the end of the financial year; in this case it means by 31 December 2014 (since the revenue authority work to the last date of the month).

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- (b) The penalty for late filing for individuals is K50,000 unless an extension for late filing has been granted.

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## (c) Tax payable by John Sauli for the year ended 30 June 2014

	K	K	
Profit before taxation		2,400,000	½
Add items not allowable for taxation			
Depreciation	600,000		½
Donations to church	250,000		½
Private use of vehicle (25%)	93,750		1
Penalties for late payment of tax	165,100	1,108,850	½
		<u>3,508,850</u>	
Less items not taxable or allowable			
Dividends	130,000		½
Capital allowances			
Construction equipment	465,800		½
Motor Vehicle (425,000*75%)	318,750	(914,550)	½
		<u>2,594,300</u>	
Taxable income			
Adjusted business profits		2,594,300	
Consultancy fee		2,500,000	½
		<u>5,094,300</u>	
Less exempt interest		(10,000)	
		<u>5,084,300</u>	
Tax payable			
First K240,000	–		
Next K60,000 at 15%	9,000		
Balance (5,084,300 – 300,000)*30%	1,435,290		½
	<u>1,444,290</u>		
Total tax		1,444,290	
Less			
Withholding tax		(250,000)	1
Provisional tax		(650,000)	½
		<u>544,290</u>	
Balance of tax due			<u>7</u>

**Marks**

- (d) If the final tax was paid 30 days after the due date of filing the return, then the penalty would be the interest payable on the balance at 3/4% for the first month.

1/2

In this case the amount payable would be:

	K	
Balance due	544,290	
Interest at 3/4%	4,082	1/2
		<u>1</u>
		<b>10</b>

**4 (a) (i) Masauko Mbedza – capital gain**

	K	
100,000 shares at cost of K5 each	500,000	1/2
Indexation of cost	2·3459	1
Adjusted cost to 2014	1,172,950	
Sales proceeds		
100,000 at K15 per share	1,500,000	1/2
Capital gain	327,050	
Capital gain tax at 30%	98,115	1
		<u>3</u>

- (ii) If these shares had been held in a listed company, there would be no capital gain as the shares were held for more than 12 months.

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The gain would only be subject to tax if the shares were held for less than 12 months.

**(b) (i) Majuba's chargeable gain for the year ended 30 June 2014**

	K	K	
Cost of house		13,500,000	1/2
Less cost of adjoining plot		(2,400,000)	1
Adjusted cost		11,100,000	
Indexation of cost		2·8655	1
Adjusted cost		31,807,050	
Sales proceeds	75,500,000		
Less selling expenses	(7,550,000)	67,950,000	1
Chargeable gain		36,142,950	1/2
			<u>4</u>

- (ii) If the house had been destroyed by fire and the insurance paid out K60,000,000, the gain would have been:

	K	
Insurance proceeds	60,000,000	1/2
Less adjusted cost	(31,807,050)	1/2
Capital gain	28,192,950	
		<u>1</u>

- (iii) There would be no taxable capital gain if involuntary conversion of the asset is claimed to the extent that the proceeds are used to acquire qualifying replacement assets, within two years of the year of assessment in which the capital gain is realised.

1/2

However, if the proceeds are not fully reinvested, there would be a taxable gain, restricted to the excess of the proceeds over the cost of the replacement asset.

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**10**

5 (a) Peter Chisale's income for the tax year 2014/15  
(based on the results to 30 June 2015)

	K	
Salary	4,650,000	½
Housing allowance	465,000	½
	<u>5,115,000</u>	
Less pension contribution	–	½
Partnership profits	2,315,000	1
Taxable property income	590,000	1
Taxable income for 2014/15	<u>8,020,000</u>	

Partnership taxable profits for the year ended 30 June 2015

	K	K	
Profit for the year		5,400,000	½
Add items not allowed for taxation			
Depreciation	700,000		½
Interest on capital	337,500		1
Fringe benefits tax	750,000		½
Partner's salary (John)	<u>1,440,000</u>	<u>3,227,500</u>	½
		8,627,500	
Less allowable items			
Capital allowances	<u>1,400,000</u>	<u>(1,400,000)</u>	½
Adjusted profits before tax		<u>7,227,500</u>	

Capital allowances

		K	K	
3 tonne lorry – cost			3,500,000	½
Less				
Initial allowance	20%	(700,000)		1
Annual allowance	20%	<u>(700,000)</u>		½
			<u>(1,400,000)</u>	
Tax written down value			<u>2,100,000</u>	

Allocation of profits amongst the partners

	Peter K	John K	Total K	
Salary	0	1,440,000	1,440,000	½
Interest on capital	135,000	202,500	337,500	1
	<u>135,000</u>	<u>1,642,500</u>	<u>1,777,500</u>	
Share of profits	2,180,000	3,270,000	5,450,000	1
	<u>2,315,000</u>	<u>4,912,500</u>	<u>7,227,500</u>	

Property income for Peter Chisale

	K	
Net rental	465,000	½
Add not allowed deduction		
Replacement of roof	<u>125,000</u>	1
	<u>590,000</u>	
		<u>13</u>

- (b) Partners shall make a joint return as partners of such trade. 1
- However, each partner shall be separately and individually liable for rendering a joint return.
- The partners shall be liable to tax in their individual capacity. 1
- Each partner will be individually assessed.

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**15**

## 6 (a) Taxable income for Brando Malawi for the year ended 31 December 2014

	K'000	K'000	
Profit before tax		4,435	½
Add items not allowed for taxation			
Depreciation	52,800		½
Border tax	68		1
Fringe benefits tax	74		½
Donations	2,500		1
Impairment of investments	2,200	57,642	1
		<u>62,077</u>	
Less			
Capital allowances (W1)	(53,175)		
Interest (W2)	(65)	(53,240)	½
Taxable income		<u>8,837</u>	

## Working 1

## Capital allowances

	TWDV K'000	Additions K'000	Total K'000	Investment K'000	Initial K'000	Annual K'000	Total K'000	TWDV K'000	
Factory building	85,500		85,500			4,275	4,275	81,225	½
Plant and machinery	45,000	35,000	80,000	35,000		4,500	39,500	40,500	2
Motor vehicle	15,000	16,000	31,000		3,200	6,200	9,400	21,600	2
	<u>145,500</u>	<u>51,000</u>	<u>196,500</u>	<u>35,000</u>	<u>3,200</u>	<u>14,975</u>	<u>53,175</u>	<u>143,325</u>	

## Working 2

## Interest receivable

	K'000	
Interest receivable per accounts	800	½
Less prior year accrued interest	(125)	½
Add current year accrual	60	½
	<u>735</u>	
Adjustment	(65)	<u>11</u>

## (b) Net tax payable by Brando Malawi for the year ended 31 December 2014

	K'000	K'000	
Adjusted profits for tax		8,837	
Tax at 35%		3,093	1
Less			
Provisional tax	1,200		½
Withholding tax on rental received (15%*120)	18		1
Withholding tax on interest received ((800 – 10)*20%)	158	(1,376)	1
Tax payable		<u>1,717</u>	½
		<u>4</u>	
		<u>15</u>	