

Fundamentals Level – Skills Module

Taxation (Malawi)

Thursday 10 December 2015



Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

This question paper is divided into two sections:

Section A – ALL 15 questions are compulsory and **MUST** be attempted

Section B – ALL SIX questions are compulsory and **MUST** be attempted

Tax rates and allowances are on pages 2–3.

Do NOT open this question paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.

Do NOT record any of your answers on the question paper.

This question paper must not be removed from the examination hall.

The Association of Chartered Certified Accountants

The Institute of Chartered Accountants in Malawi

ACCA

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CHARTERED ACCOUNTANTS
IN MALAWI

Paper F6 (MWI)

SUPPLEMENTARY INSTRUCTIONS

1. Calculations and workings need only be made to the nearest K.
2. All apportionments should be made to the nearest month.
3. All workings should be shown in Section B.

TAX RATES AND ALLOWANCES

The following rates of tax and allowances are to be used when answering the questions.

Income tax rates: Individuals

K	Rate	Cumulative K
0 – 240,000	0%	0
240,001 – 300,000	15%	9,000
300,001 +	30%	–

Company rate

Locally incorporated	30%
Externally incorporated	35%

Annual allowance – rates

(Guidelines laid down by the Commissioner of Taxes)

5%	– Industrial buildings
	– Railway lines
	– Farm improvements
10%	– General plant and machinery
	– Trailers
	– Farm fencing
	– Furniture and fittings
15%	– Mobile cranes
17·5%	– General plant and equipment on double shift
20%	– Motor cycles
	– Cars
	– Pick-ups
	– Light lorries (for light work)
	– Cement mixers
	– Tractors
25%	– Light lorries (for heavy work)
	– Tippers
	– Tracked tractors
	– Tree-dozers
	– Scrapers
	– Graders
	– Bulldozers
	– General plant and equipment working 24 hours a day
	– Tractors (for heavy work)
	– Transport services
40%	– Computers

Value added tax

Standard rate	16·5%
Zero rate	0%

Capital gain indices

Year	CPI	Conversion factor
2002	140·8	2·8655
2003	154·3	2·6152
2004	172·0	2·3459
2005	198·5	2·023
2006	226·1	1·7846
2007	244·1	1·6530
2008	265·4	1·5203
2009	287·7	1·4025
2010	309·0	1·3058
2011	332·6	1·2131
2012	403·00	1·1200
2013	415·25	1·060
2014	406·00	1·000

Section A – ALL 15 questions are compulsory and MUST be attempted

Please use the grid provided on page two of the Candidate Answer Booklet to record your answers to each multiple choice question. Do not write out the answers to the MCQs on the lined pages of the answer booklet.

Each question is worth 2 marks.

- 1 John Billiati is a sole trader involved in the buying and selling of produce. During the year to 30 June 2015, he bought a motor lorry for K8,450,000 and laptop computer for K650,000 for use in his business. There were no other business assets held by him before.

What are the maximum capital allowances which John Billiati can claim for the year ended 30 June 2015?

- A K3,770,000
- B K3,640,000
- C K2,925,000
- D K2,080,000

- 2 Beam Limited is registered for value added tax (VAT), and all its sales and purchases are subject to standard rated VAT. During the month of May 2015 the company had the following transactions:

Sales to its customers K865,000 exclusive of VAT

Purchases from suppliers K658,130 inclusive of VAT

There was no balance of VAT payable or refundable as at 1 May 2015.

How much VAT is payable by/refundable to Beam Limited for 31 May 2015?

- A K34,134
- B K29,299
- C K49,513
- D K(93,212)

- 3 Banda and Wachepa are in partnership sharing profits in the ratio 5:3 respectively. On 1 January 2015, Mandala joined the partnership and from that date the profit sharing ratio became Banda:Wachepa:Mandala 5:4:1 respectively after providing for an annual salary for Mandala of K600,000.

The partnership profit for the year ended 30 June accrued evenly for the year. It amounted to K1,250,000 after the depreciation charge of K650,000 and before capital allowances of K850,000.

What is Wachepa's share of profits for tax purposes for the year ended 30 June 2015?

- A K561,875
- B K420,000
- C K155,000
- D K406,875

- 4 Mudzi Limited owns a factory which manufactures liquid petroleum. It has a house on the factory premises, which is occupied by the factory manager rent free. The factory manager earns a salary of K6 million per year. A house of a similar nature on the market would be rented for K150,000 per month. The house is provided fully furnished.

What is the value of the house for fringe benefits tax purposes per quarter?

- A K450,000
- B K225,000
- C K180,000
- D K150,000

- 5 A company paid the following taxes and remitted them to the Malawi Revenue Authority during the tax year to 30 June 2015:
- (1) Provisional tax
 - (2) Withholding tax
 - (3) Pay as you earn (PAYE)
 - (4) Value added tax (VAT)

Which of these taxes will be offset against the company's tax liability at the end of the tax year?

- A 1 only
- B 2 and 3 only
- C 1 and 4 only
- D 1, 2, 3 and 4

- 6 The following information is available in connection with the transactions of Sana Recreation Club for the year to 30 June 2015:

	K
Subscriptions	230,000
Sale of food and drink	840,000
Interest received	180,000
Entrance fees	125,000

What is the amount which will be chargeable to tax for Sana Recreation Club?

- A K52,500
- B K254,687
- C K202,187
- D K232,500

- 7 BC Mining Limited made a profit for the year to 31 December 2014. The company rate of return was 12·5% on the profits.

What will be the applicable rate for the resource rent tax?

- A 12·5%
- B 0%
- C 10%
- D 25%

- 8 A VAT return should be submitted not later than the 25th day of the month following the tax period to which it relates.

What are the penalties for late submission of the return?

- A K10,000 plus K1,000 each day the return is not submitted
- B K20,000 plus K500 per month the return is not submitted
- C K20,000 plus K1,000 each day the return is not submitted
- D None, unless there is late payment of VAT

- 9 George rents out his house in Michiru. For the year to 30 June 2015, he received K1,800,000 in rents of which K360,000 relates to the period after June 2015.

The following expenses were paid for the year:

	K
Repairs and maintenance	60,000
New driveway	180,000

Withholding tax was applied on payment of the rent.

What is the amount of rent for which George will be subject to assessment of income tax for the year ended 30 June 2015?

- A K1,380,000
- B K1,200,000
- C K1,740,000
- D K1,560,000

- 10 Mayeso Limited makes up its financial statements to 31 March. Mayeso Limited had the following results:

	Turnover	Profit before tax
Year to 31 March 2015	K65 million	K15 million
Year to 31 March 2014	K50 million	K10 million

How much in provisional tax should Mayeso Limited have paid by the end of 30 days of the last quarter for 2015 (March 2015)?

- A K2,700,000
- B K4,500,000
- C K3,000,000
- D K4,050,000

- 11 XYZ Limited acquired rights to a patent for the manufacturing of irons for a period of 30 years, commencing 1 January 2014. The premium paid for the patent was K19,500,000.

How much of the premium is deductible for XYZ Limited for the year ended 31 December 2014?

- A K19,500,000
- B K780,000
- C K650,000
- D K9,750,000

- 12 On 1 June 2014, Peter sold shares he bought in ABC Limited for K85,000. These shares were bought on 5 May 2009 for K40,000. ABC Limited is an unlisted company.

How much is Peter's chargeable gain which will be subject to capital gains tax?

- A K45,000
- B K0
- C K28,920
- D K85,000

13 Noor Limited had the following results:

	K
	Profit/(Loss)
Year ended 31 December 2012	125,000
Year ended 31 December 2013	(160,000)
Year ended 31 December 2014	175,000

The profit for 2014 included a capital gain of K65,000.

How much of the December 2013 loss will be able to be offset against the profits of December 2014?

- A** K(160,000)
- B** K(95,000)
- C** K(35,000)
- D** K(110,000)

14 Maziko sold a house for K35,000,500 on 1 May 2014. The house was bought in 2004 for K4,500,000. After the sale, he bought another house which cost K27,500,000.

How much of Maziko's capital gain can be rolled over?

- A** K24,448,000
- B** K23,000,000
- C** K(3,052,000)
- D** K16,947,500

15 A taxpayer can opt to be assessed on profits, or pay tax based on turnover. For this to happen, the turnover must be less than a certain figure and there is a flat rate of tax applicable.

What is the applicable turnover and tax rate for a taxpayer to be able to opt to be assessed to pay tax based on turnover?

- A** K10,000,000 at 2%
- B** K6,000,000 at 4%
- C** K6,000,000 at 2%
- D** K10,000,00 at 4%

(30 marks)

Section B – ALL SIX questions are compulsory and MUST be attempted

Please write your answers to all parts of these questions on the lined pages within the Candidate Answer Booklet.

1 (a) State, in general terms, the circumstances in which input VAT is not reclaimable. (3 marks)

(b) Geo Limited is a company registered for value added tax (VAT). It is involved in the buying and selling of general merchandise.

The following is information for the transactions entered into in April 2015.

	K
Sales – taxable supplies	14,600,000
Sales – zero rated supplies	1,800,000
– exempt	650,000
Expenditure	
Purchases – taxable supplies	9,150,000
– zero rated supplies	950,000
– exempt	350,000
Salaries and wages	3,250,000
Repairs to motor vehicle (note 1)	1,650,000
Security (note 2)	725,000
Electricity	250,000
Water	100,000
Rent of shop (inclusive of VAT)	725,500
Fuel for vehicle	125,000

Notes:

1. The motor vehicle is used wholly and exclusively for business.
2. Included in security is an invoice for K85,000 dated July 2013, which had not been previously accrued and has not been claimed for before.

The above figures are exclusive of VAT, unless otherwise stated.

Required:

Calculate the VAT which was payable by Geo Limited to the Malawi Revenue Authority for the month of April 2015.

Note: You should clearly indicate items on which VAT is not chargeable or reclaimable by the use of a zero '0'. (7 marks)

(10 marks)

- 2 (a) State, in general terms, how the income of a club is subjected to income tax (2 marks)
- (b) State how interest received by a club is taxed. (1 mark)
- (c) The following are the results of Malindi Recreation Club for the year ended 30 June 2015:

	K
Income	
Golf course fees	800,000
Membership fees	8,450,000
Entrance fees	725,500
Bar sales	11,465,100
Restaurant sales	9,210,500
Interest receivable	465,000
	<hr/>
	31,116,100
Expenditure	
Golf course maintenance	1,500,000
Bar purchases	7,250,500
Restaurant purchases	6,500,100
Salaries and wages	4,800,500
Depreciation	2,100,000
Water and electricity	765,000
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	22,916,100
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Surplus for the year	8,200,000

Provisional tax paid for the year is K425,000.

Required:

Calculate the tax to be paid by Malindi Recreation Club for the year ended 30 June 2015.

Note: Clearly indicate items not taxable or not deductible by the use of a zero '0'. (7 marks)

(10 marks)

3 John Sauli is a self-employed civil engineer. He runs a construction firm called ZYX Construction.

The following summarised information is available in respect of the first year of trading to 30 June 2014:

	K
Work in progress	3,500,100
Profit before tax	2,400,000
After charging:	
– depreciation	600,000
– donations (church)	250,000
– penalties for late payment of PAYE	165,100
– motor vehicle expenses	375,000
After crediting:	
– bank interest (gross)	60,000
– dividends from local company	130,000

The capital allowances on construction equipment are K465,800 and on the motor vehicle K425,000.

It has been agreed with the Malawi Revenue Authority that private use of the vehicle is at 25%.

During the year John carried out a consultancy exercise for the construction industry for which he was paid K2,500,000, less 10% withholding tax.

No withholding tax had been deducted from receipts by ZYX Construction.

Provisional tax paid was K650,000.

Required:

- (a) State the date by which John Sauli must submit his tax return. (1 mark)
- (b) State the penalty for not submitting the return by the due date. (1 mark)
- (c) Calculate the tax payable by John Sauli for the year ended 30 June 2014 (7 marks)
- (d) If final tax was paid 30 days after the due date, calculate the penalty which would be suffered by John Sauli. (1 mark)

(10 marks)

- 4 (a) Masauko Mbedza is a business man. He owns 20% of the shares in Miyambo Limited, an unlisted company. He bought his holding of 200,000 ordinary shares of K1 each for K5 per share. The shares were bought in May 2004. He sold 100,000 of these shares to one of the existing shareholders in exercise of options in sale of shares on 1 May 2014. The shares were duly valued and were sold at K15 per share.

Required:

- (i) Calculate the capital gains tax which would be payable by Masauko Mbedza for the year ended 30 June 2014. (3 marks)
 - (ii) Explain how the sale would have been treated for tax purposes if Miyambo Limited were a listed company. (1 mark)
- (b) On 1 April 2015, Majuba sold a house he owned in Mandala which he used to let out for K75,500,000. Selling expenses were 10% of the selling price. The house had been bought in June 2002 for K13,500,000. This purchase price included an adjoining plot with an estimated value in June 2002 of K2,400,000. Majuba did not sell the adjoining plot.

Required:

- (i) Calculate Majuba's chargeable gain for the year ended 30 June 2014. (4 marks)
- (ii) If the house had not been sold but destroyed by fire, calculate the capital gain, assuming insurance proceeds of K60,000,000 were received. (1 mark)
- (iii) Briefly explain the tax position if Majuba were buying a replacement house. (1 mark)

(10 marks)

- 5 Peter Chisale and John Zowe are in partnership trading as agricultural produce merchants. They share profits 40% to Peter and 60% to John. The profit sharing ratio is applied to profits after paying interest on capital of K135,000 to Peter and K202,500 to John and paying a salary of K120,000 per month to John.

The results for the partnership to 30 June 2015 were as follows:

	K
Turnover	36,500,000
Cost of sales	(14,000,000)
Gross profit	22,500,000
Less:	
Depreciation	700,000
Interest on capital	337,500
Salaries and wages	6,662,500
Fringe benefits tax	750,000
Other (all allowable)	8,650,000
	17,100,000
Profit before tax	5,400,000

The partnership has only one asset, a 3 tonne lorry which was bought during the year for K3,500,000.

Peter is also employed as an agricultural adviser for Promax Limited.

His earnings for the year to 30 June 2015 were:

	K
Salary	4,650,000
Housing allowance	465,000

He is on pensionable employment and 5% of his salary is deducted as his contribution to the pension fund.

In addition, Peter owns a house in Zalewa which he lets out. The net rentals for the year were K465,000 after deducting the cost of a replacement roof of K125,000 and repairs to the house of K165,000.

Required:

- (a) Calculate Peter Chisales's taxable income for the tax year 2014/15.

Note: You should clearly indicate amounts not taxable or not deductible by the use of a zero '0'.

(13 marks)

- (b) State who is responsible for filing the partnership's income tax return and whether it is the partnership or the partners individually who will be assessed to income tax.

(2 marks)

(15 marks)

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Question 6 begins on page 14.**

- 6 Brando Malawi is a branch of an externally incorporated company. Brando Malawi is involved in manufacturing truck bodies and trailers.

The following are the results of its operations for the year ended 31 December 2014:

	K'000
Turnover	245,500
Cost of sales	(103,110)
Gross profit	142,390
Less expenditure:	
Depreciation	52,800
Donations	2,500
Legal fees	875
Rental of premises	12,100
Entertainment	1,200
Impairment of investments	2,200
Audit fee	7,500
Interest (working capital loan)	800
Salaries and wages	18,400
Administration expenses	40,500
	<hr/>
	138,875
Profit	<hr/>
	3,515
Add:	
Rent receivable	120
Interest received	800
	<hr/>
Profit before tax	4,435
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Administration expenses include the following:

	K'000
Border tax on management fees	68
Management fees	450
Fringe benefits tax	74
Directors' fees	80
Travel expenses (external directors)	65

Withholding tax was deducted on rent receivable, rent paid and on interest receivable. All amount given are gross of withholding tax.

Interest received does not include interest for the year accrued of K60,000 but received after the year end and includes interest accrued in the previous year of K125,000 but received in the current year.

The following are the details in connection with the fixed assets of the company:

	TWDV at 1 January 2014
	K'000
Factory building	85,500
Plant and machinery	45,000
Motor vehicles (saloon)	15,000

During the year, the company bought a new lathe machine at K35 million and two saloon cars at K8 million each.

The company made a payment of provisional tax of K1,200,000.

Required:

(a) Calculate the taxable income for Brando Malawi for the year ended 31 December 2014. (11 marks)

(b) Calculate the net tax payable or refundable to Brando Malawi for the year ended 31 December 2014. (4 marks)

(15 marks)

End of Question Paper