Answers

Marks

1 Deluxe Engineering Limited

(a) Withholding tax for the year ended 31 December 2013

| | K | |
|---|-----------|-----|
| Rental paid for general manager's house K2,100,000 at 15% | 315,000 | 1/2 |
| Management fees K25,000,000 at 10% | 2,500,000 | 1 |
| Purchase of fixed assets: | | |
| Motor vehicle – K8,500,000 at 3% | 255,000 | 1/2 |
| Desk tops – K825,000 at 3% | 24,750 | 1/2 |
| Laptop – K325,000 at 3% | 9,750 | 1/2 |
| | 3,104,500 | |
| | | 3 |

Marking note: Withholding tax would not be deducted in the case of the purchase of assets if the supplier(s) had a withholding tax exemption certificate. Candidates who clearly stated this as the reason for not calculating tax at 3% were given equal marks.

(b) Capital allowances computation for the year ended 31 December 2013

| TWDV | MV Additions Disposals nuary 13 | Rate Rate 100% | Amount | | Amount K K 230,000 230,000 | Annual Rate 5% 20% 20% 40% 10% | Amount K 6,557,500 6,575,000 2,570,000 6,193,100 2,618,600 637,500 | Total allowances K | TWDV 31 December 2013 K 123,942,500 59,175,000 24,772,400 3,697,900 5,737,500 5,737,500 | 2, 2, 2, 2, 2, 2, 2, 2, 2, 2, 2, 2, 2, 2 |
|--|---|--|-------------------------|-----|-----------------------------|--|---|---------------------|--|--|
| 1 January 2013 | nuary K K K 650,000 650,000 55,500 8,500,000 75,000 1,150,000 10,300,000 10,300,000 10,300,000 | Rate 100% | Amount K 650,000 | ' ' | Amount K 230,000 | Rate 5% 20% 40% 10% 10% | Amount K 6,557,500 6,575,000 2,570,000 6,193,100 2,618,600 637,500 | ' ' | | 2 |
| K K K uilding 130,500,000 650,000 650,000 requipment 65,750,000 8,500,000 22,465,500 1,150,000 (28,500) rearying 22,465,500 1,150,000 (28,500) 10,300,000 28,500 red computers 4 10,300,000 (28,500) 10,300,000 10,300,000 of computers cof computers cof allowances | K K K 50,000 650,000 650,000 50,000 1,150,000 (28,500) 55,500 1,150,000 (28,500) 55,500 10,300,000 (28,500) | 100% | 650,000 650,000 | ' ' | Z30,000 | 5% 20% 20% 40% 10% | K 6,557,500 6,575,000 2,570,000 6,193,100 2,618,600 637,500 | 1 **1 | | 2 |
| uilding 130,500,000 650,000 I equipment 65,750,000 I carrying 22,465,500 1,150,000 (28,500) and equipment 6,375,000 1,150,000 (28,500) of computers additions of computers eeds cof allowances of charge g charge g charge g charge | 50,000 650,000 50,000 8,500,000 (28,500) 55,500 1,150,000 (28,500) 75,000 10,300,000 (28,500) | 100% | 650,000 | ' ' | 230,000 | 5% 10% 20% 40% 10% | 6,557,500 6,575,000 2,570,000 6,193,100 2,618,600 637,500 | 1 * 1 | | 2 |
| l equipment 65,750,000 licles: 12,850,000 r carrying 22,465,500 8,500,000 sand equipment 6,375,000 243,365,500 10,300,000 (28,500) of computers additions of computers sktops cof allowances nt cof allowances g charge | 50,000 50,000 55,500 8,500,000 1,150,000 10,300,000 10,300,000 10,300,000 10,300,000 10,300,000 10,300,000 | ,750,000 ,850,000 ,965,500 ,546,500 ,637,000 ,637,000 ,637,000 ,150,000 | | ' ' | 230,000 | 10% 20% 20% 10% | 6,575,000 2,570,000 6,193,100 2,618,600 637,500 25,151,700 | 1 **1 | | 2 2 2 2 2 2 2 |
| r carrying 12,850,000 s.5 22,465,500 s.500,000 s.s and equipment 6,375,000 1,150,000 (28,500) 243,365,500 10,300,000 (28,500) 2 243,365,500 10,300,000 (28,500) 2 43,365,500 computers additions sktops ceds scharge computers additions statement of computers additions sktops scharge scharge scharge computers additions statement of computers additions sktops scharge s | 55,500 8,500,000 25,000 1,150,000 (28,500) 6 6 55,500 10,300,000 (28,500) 10,300,000 10,300,000 | ,850,000 ,965,500 ,546,500 ,637,000 ,637,000 ,637,000 ,150,000 | | ' ' | 230,000 | 20% 20% 10% | 2,570,000 6,193,100 2,618,600 637,500 25,151,700 | · · | 1 . 4 1 | 7 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 |
| r carrying 22,465,500 8,500,000 rs 5,425,000 1,150,000 (28,500) and equipment 6,375,000 1,150,000 (28,500) 243,365,500 10,300,000 (28,500) 243,365,500 (28,500) 2 | 55,500 8,500,000 30 25,000 1,150,000 (28,500) 6 75,000 6 55,500 10,300,000 (28,500) 253 | ,965,500 ,546,500 ,375,000 ,637,000 ,637,000 ,150,000 | | | 230,000 | 20% 40% 10% | 6,193,10C 2,618,60C 637,50C 25,151,70C | | 1 4 4 1 | 2 1 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 |
| ters 5,425,000 1,150,000 (28,500) re and equipment 6,375,000 243,365,500 10,300,000 (28,500) rry of computers all of computers rry of allowances restricts res | 25,000 1,150,000 (28,500) 6 75,000 6 55,500 10,300,000 (28,500) 253 | ,546,500 ,375,000 ,637,000 K 825,000 325,000 ,150,000 | | | 230,000 | 10% | 2,618,60C 637,50C 25,151,70C | | 2 | 27,2 1 2,2 2,2 2,2 2,2 2,2 2,2 2,2 2,2 2,2 |
| re and equipment 6,375,000 To 300,000 To | 75,000 55,500 10,300,000 (28,500) 253 10,300,000 10,300,000 | ,375,000 ,637,000 K 825,000 325,000 ,150,000 | 650,000 | | 230,000 | 10% | 637,500 | | 2 | % |
| ry of computers additions lesktops location of computers location of computers location of computers location of computers location of allowances location of allowances location of allowances location of computers locati | 55,500 10,300,000 (28,500) 253 | ,637,000 K 825,000 325,000 ,150,000 | 650,000 | • | 230,000 | | 25,151,700 | | | 1 % |
| iry of computers additions lesktops ceeds ng charge iry of allowances ng charge ng charge | 1 | K 825,000 325,000 ,150,000 | | | | | | | | 71 |
| lesktops al of computers oceeds ng charge iry of allowances ng charge ng charge | | K 825,000 325,000 ,150,000 | | | | | | | | 1% |
| lesktops I of computers Doceeds Ing charge Iny of allowances Ing charge Ing charge | | 825,000 325,000 ,150,000 | | | | | | | | 1% |
| al of computers ceeds ng charge iry of allowances ng charge | | 325,000 ,150,000 | | | | | | | | 1/2 |
| al of computers coeds ng charge iry of allowances ng charge ng charge | | ,150,000 | | | | | | | | 7/ |
| oreeds ng charge iry of allowances ng charge ng charge | 22 | | | | | | | | | |
| oceeds ng charge iry of allowances lent ng charge | | | | | | | | | | |
| oceds ng charge iry of allowances lent ng charge | | 28,500 | | | | | | | | |
| ng charge Iry of allowances Lent ng charge | | 77,500 | | | | | | | | 1/2 |
| iry of allowances lent ng charge | | (49,000) | | | | | | | | 1/2 |
| nent ng charge | ices | | | | | | | | | |
| ng charge | | 650,000 | | | | | | | | |
| ng charge | | 230,000 | | | | | | | | |
| | 25, | ,151,700 | | | | | | | | |
| | | (49,000) | | | | | | | | 1/2 |
| 25,982,700 | 25, | ,982,700 | | | | | | | | |
| | | | | | | | | | | = |

| | T 11 1 2 1 1 2 1 2 2 2 2 2 2 2 2 2 2 2 2 | | | Marks |
|-----|--|-------------------------|--------------------------------------|------------------------------------|
| (c) | Taxable income for the year ended 31 December 2013 | | ., | |
| | Profit before taxation | K | K 11,407,450 | 1/2 |
| | Add items not allowed for taxation | | 11, .07, .00 | , _ |
| | Manufacturing costs: | 7.500.000 | | 1./ |
| | Depreciation of plant and factory Provision for material losses | 7,500,000 155,000 | | 1/ ₂ 1/ ₂ |
| | Pension contributions above 15% | 1,650,000 | | 1 |
| | Administrative expenses: | 1,000,000 | | - |
| | Depreciation | 10,589,000 | | 1/2 |
| | Pension contributions above 15% | 1,022,640 | | 1 |
| | Fringe benefits tax | 919,500 | | 1/2 |
| | Donations to a local church Finance costs: | 35,000 | | 1/2 |
| | Provision for doubtful debts | 712,950 | | 1/2 |
| | Impairment of goodwill | 237,500 | | 1/2 |
| | Penalty for late payment of taxes | 315,200 | 23,136,790 | 1/2 |
| | | | 34,544,240 | |
| | Less items allowed for taxation | | 01,011,210 | |
| | Profit on the sale of fixed asset | 32,500 | | 1/2 |
| | Dividend received | 62,500 | | 1/2 |
| | Capital allowances (from part (b)) | 25,982,700 | (26,077,700) | 1/2 |
| | Adjusted profits for taxation | | 8,466,540 | |
| | | | | 8 |
| (d) | Tax payable for the year ended 31 December 2013 Tax based on adjusted profits for the year K8,466,540 at 30% Less: Provisional tax | | K 2,539,962 (3,000,000) | 1/2 1/2 |
| | Withholding tax on interest K175,000*20% Withholding tax on rent K600,000*15% | | (35,000) (90,000) | 1 1 |
| | Tax refundable | | | 1 |
| | lax leiulidable | | (585,038) | |
| | | | | 3 |
| (e) | If Deluxe Engineering Limited's holding company is a foreign com | pany, then it would pa | y: | |
| | Value added tax (VAT) on the management fees payable, since to company would not be registered for VAT in Malawi. | this is a taxable supp | y and the holding | 1 1 |
| | Deluxe Engineering Limited would have to self declare the VAT pa | yable. | | 1/2 |
| | Withholding tax on the remitted management fees would be pay (rather than at 10%). | rable at the non-reside | ent tax rate of 15% | 1 |
| | | | K | |
| | VAT on management fee | | 4,125,000 | 1/2 |
| | Non-resident withholding (border) tax | | 3,750,000 | 1/2 |
| | | | 7,875,000 | |
| | Also, should the company declare a dividend, then border tax wo amount paid to its foreign holding company. | uld be payable at the | rate of 10% on the | 1/2 |
| | | | | <u> </u> |
| | | | | $\frac{\frac{1/2}{5}}{30}$ |
| | | | | |

| Mal | bvuto Soka | | | Marks |
|-----|---|-------------------------------|-----------------------|---------------------------------|
| | | | | |
| (a) | The benefits provided to Mabvuto will be taxed as follows: | | | |
| | Benefits provided to him in cash form will be added to his sal | | | 1 |
| | In this case, the benefits paid in cash are: the housing allowa | | | 1/2 |
| | Benefits which do not involve a cash payment to Mabvuto will of their taxable value. | be subject to fringe benefits | s tax (FBT) at 30% | 1 |
| | FBT is payable by the employer. | | | 1/2 |
| | The benefits not paid in cash are: | | | |
| | the free use of the car, the annual value of which is 15% the free electricity, the value of which is the electricity co | | I | 1/ ₂ 1/ ₂ |
| (b) | Taxable income of the wholesale business for the year ended | d 30 June 2013 | | |
| | , | K | K | |
| | Profit before taxation | | 2,093,110 | 1/2 |
| | Add items not allowed for taxation Depreciation | 455,000 | | 1/2 |
| | Drawings | 575,500 | | 1/2 |
| | Esmie's salary | 0 | | 1 |
| | School fees | 445,000 | 1 5 10 500 | 1/2 |
| | Traffic fines | 65,000 | 1,540,500 | 1/2 |
| | Less allowable items | | 3,633,610 | |
| | Capital allowances | | (460,000) | 1/2 |
| | Taxable income | | 3,173,610 | |
| | Taxable Incerne | | | 4 |
| (a) | Tour mountain on the annular mount assurings of Maharata for the | 2013 | | |
| (c) | Tax payable on the employment earnings of Mabvuto for the | year ended 50 Julie 2013 | | |
| | Salary | | K 6,000,000 | 1/2 |
| | Bonus | | 450,000 | 1/2 |
| | Housing allowance | | 600,000 | 1/2 |
| | Telephone allowance | | 65,000 | 1/2 |
| | Water allowance | | 75,000 | 1/2 |
| | Total earnings from employment | | 7,190,000 | |
| | Tax payable: | | _ | |
| | First 240,000 | | 0 | |
| | Next K60,000 at 15% Remainder (K7,190,000 – 300,000) at 30% | | 9,000 2,067,000 | |
| | | | 2,076,000 | 1/2 |
| | Total tax payable | | | 1/ ₂ |
| | | | | 3 |

1

1

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1/2

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(d) Tax payable by Mabvuto and Esmie for the year ended 30 June 2013

| | K | Mabvuto K | Esmie K | |
|--|----------|----------------|------------|------------------------------------|
| Employment earnings: | IV. | K | IX. | |
| Mabvuto (from (c)) | | 7,190,000 | | 1/2 |
| Esmie | | 2 172 610 | 1,560,000 | 1/2 |
| Business income (from (b)) Dividend received | | 3,173,610 0 | | 1/ ₂ 1/ ₂ |
| Director's fees | | 125,000 | | 1/2 |
| Interest received | 110,000 | , | | 1/2 |
| Interest received (wife) | 22,000 | | | 1 |
| | 132,000 | | | |
| Less exempt | (10,000) | 122,000 | | 1 |
| Rental income (wife) Less: | 345,000 | | | 1 |
| City rates | (32,000) | | | 1/2 |
| Plumbing maintenance | (22,000) | 001 000 | | 1/2 |
| Driveway (capital) | 0 | 291,000 | | 1 |
| Taxable income | | 10,901,610 | 1,560,000 | |
| Tax payable: | | | | |
| First K240,000 | | 0 | 0 | |
| Next K60,000 at 15% | | 9,000 | 9,000 | |
| Excess over K300,000 K10,601,610 at 30% | | 3,180,483 | | |
| K1,260,000 at 30% | | 3,160,463 | 378,000 | |
| ,, | | 3,189,483 | 387,000 | 1 |
| Less tax credits | | 3,109,403 | 367,000 | 1 |
| PAYE: | | | | |
| Mabvuto (from (c)) | | (2,076,000) | (227, 222) | 1/2 |
| Esmie Director's fees (K125,000*10%) | | (12,500) | (387,000) | 1 1 |
| Interest received: | | (12,300) | | 1 |
| Mabvuto (K100,000*20%) | | (20,000) | | 1 |
| Esmie (K12,000*20%) | | (2,400) | | 1 |
| Rental income (none – as per question) | | 0 | | 1/2 |
| Tax payable | | 1,078,583 | | _ |
| | | | | 14 |
| | | | | 25 |
| | | | | |

3 Bwanoni Limited

(a) Explanations of the value added tax (VAT) treatment of items

- As the company is registered for VAT, it should charge VAT on all of its supplies except for exempt supplies. The sale of the motor vehicle is a taxable supply on which VAT should have been charged.
- 2. VAT is chargeable on a deposit made by a customer. The time of supply and point at which VAT is chargeable is the date of receipt of the payment or part payment, i.e. in this case in March 2014.
- Where a discount is granted to a customer, the relevant VAT is a credit and should reduce the VAT payable.
 - The debit note issued for the undercharge increases the sales value and as such should be included as a part of sales.
- 4. VAT on hotel expenses is not allowed unless the company is in the business of entertaining.

VAT on spare parts is not claimable unless either the company is involved in the business of selling spare parts; or once they are used on vehicles which are used wholly and exclusively and necessarily for the purpose of the business.

VAT is not chargeable on the rental of residential property (exempt supply).

| | Dan drive a constant of the book of the constant of the consta | | la incarla la | | Marks |
|-------------------|--|---|-------------------------|---------------------------------|---|
| | Repairing a warehouse is a business expense and Supplies bought from a supplier who is not register | | | no input VAT can | 1/2 |
| | be claimed. | | | | 1/2 |
| 5. | VAT charged on a saloon car is not claimable but sh allowance purposes. | ould be taken as par | t of the cost of | the car for capital | 1/2 |
| | VAT charged on furniture will be claimable provided the business (i.e. it is not household furniture). | d it is used wholly a | nd exclusively f | for the purpose of | 1/2 |
| 6. | VAT on bad debts is allowable as a reduction in inpacollect the debts, but have not succeeded. | out VAT if it can be p | oroven that effo | orts were made to | 18 |
| Adj | usted VAT return for the period ended 31 March 20 | 014 | | | |
| | | Value K | Rate | VAT K | |
| Und | es and other outputs (working 1) derpayment from previous period ue of zero rated supplies | 27,020,000 100,000 825,000 | 16·5% 16·5% 0% | 4,458,300 16,500 0 | W 1/2 1/2 |
| Tota | al value and VAT due on outputs | 27,945,000 | | 4,474,800 | |
| Pur Cap Oth | ue of exempt supplies chases and other expenses (working 2) pital goods er adjustments (working 3) | 345,200 16,178,600 2,500,000 746,970 | 16·5% 16·5% 16·5% | 2,669,469 412,500 123,250 | 1/ ₂ W 1/ ₂ W |
| less | ess VAT brought forward from the previous period application for refund particles and other expenses | 0 650,000 | 0% | 0 | 1/2 |
| | al value and VAT on inputs | 20,420,770 | | 3,205,219 | |
| | payable | | | 1,269,581 | 1/2 |
| vvo | rkings: | К | | | |
| 1. | Sales Per original return | 26,550,000 | | | |
| | Motor vehicle Deposit | 350,000 120,000 | | | 1/ ₂ 1/ ₂ |
| | Берозіі | 27,020,000 | | | 72 |
| 2. | Purchases | | | | |
| ۷. | Per original return Less: | 22,500,000 | | | |
| | Hotel expenses Spare parts Rental of residential property Purchases from unregistered suppliers | (145,900) (75,500) (600,000) (5,500,000) | | | 1/ ₂ 1/ ₂ 1/ ₂ 1/ ₂ |
| | | 16,178,600 | | | |
| 3. | Other adjustments | | | | |
| | Discounts to a customer Bad debts | 96,970 650,000 746,970 | | | 1/ ₂ 1/ ₂ |
| | | | | | 7 15 |

(b)

4 (a) The following expenditure incurred by persons involved in mining operations is specifically deductible:

- (i) in searching for or in discovering and testing or winning access to deposits of minerals;
- (ii) in the acquisition of rights over the deposits, other than from a person who has carried out mining operations in relation to such deposits;

Marks

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- (iii) in the provision of plant and machinery and industrial buildings which would have no value if the mine ceased to be worked;
- (iv) on the construction of any buildings or works which would have little or no value if the mine ceased to be worked;
- (v) on development, general administration and management prior to the commencement of mining operations.

Such mining expenditure is claimable in full (100%) in the year it is incurred.

(b) JNJ Mining Limited

Income tax payable for the year ended 31 December 2013

| | K | K | |
|--|-------------------------------|---------------------|-----|
| Profit before taxation | | 8,929,000 | 1/2 |
| Add: | | , , | |
| Depreciation | 2,961,000 | | 1/2 |
| · | | | 1 |
| Premium (19/20*3,600,000) | 3,420,000 | 0.001.000 | 1 |
| Clinic (50%*1,200,000) | 600,000 | 6,981,000 | 1 |
| | | 15,910,000 | |
| Less: | | 13,310,000 | |
| | | (6,000,000) | 1 |
| Mining expenditure (specialised equipment) | | (6,000,000) | 1 |
| Taxable income | | 9,910,000 | |
| Less tax losses brought forward | | (5,000,000) | 1 |
| Less tax losses blought lorward | | (3,000,000) | 1 |
| Taxable income | | 4,910,000 | |
| | | | |
| Tax payable at 30% | | 1,473,000 | 1 |
| | | , , | |
| | | | 6 |
| | | | - |
| A company must submit its self-assessment return within 18 | O days from the end of the | year of assessment. | 1 |
| The balance of tax payable should be remitted at the same ti | me that the return is submit | ttod | 1 |
| The balance of tax payable should be leffilled at the same the | THE THAT THE TETATH IS SUDITH | ileu. | 1 |
| The penalty for the late submission of a company return is a | fine of K200,000. | | 1 |
| | | | |
| | | | 3 |

5 Millenium Limited

(c)

(a) (i) Lower expenditure option for the company

| | Option 1 K | Option 2 K | |
|---------------------------------------|---------------|---------------|-----|
| Salary | 3,511,600 | 2,450,000 | 1/2 |
| Bonus | 600,000 | _ | 1/2 |
| Pension contributions (10% of salary) | 351,160 | 245,000 | 1 |
| Housing allowance | _ | 800,000 | 1/2 |
| Commission on sales | _ | 1,400,000 | 1/2 |
| School fees | 750,000 | | 1 |
| Total payments Fringe benefits tax | 5,212,760 | 4,895,000 | |
| School fees: 50% of K750,000 at 30% | 112,500 | _ | 1 |
| Car: 15% of K6,500,000 at 30% | | 292,500 | 1 |
| | 5,325,260 | 5,187,500 | |
| | | | 6 |

| Higher take home pay for the sales manager | | | |
|--|---------------|----------------------|------------------------------------|
| | Option 1 K | Option 2 K | |
| Salary | 3,511,600 | 2,450,000 | 1/2 |
| Bonus | 600,000 | - | 1/2 |
| Housing allowance Commission on sales | _ | 800,000 1,400,000 | 1/ ₂ 1/ ₂ |
| School fees/use of car | = | - | 1/2 |
| Total income | 4,111,600 | 4,650,000 | |
| Less tax | (1,152,480) | (1,314,000) | 1/2 |
| Income after tax | 2,959,120 | 3,336,000 | |
| Less pension (5% of salary) | (175,580) | (122,500) | 1 |
| Take home pay | 2,783,540 | 3,213,500 | |
| Add school fees paid by employer | 750,000 | | 1 |
| | 3,533,540 | 3,213,500 | |
| Working: Income tax payable | | | |
| | Option 1 K | Option 2 K | |
| First K240,000 at 0% | 0 | 0 | |
| Next K60,000 at 15% Excess over K300,000: | 9,000 | 9,000 | |
| K3,811,600 at 30% | 1,143,480 | | |
| K4,350,000 at 30% | | 1,305,000 | |
| | 1,152,480 | 1,314,000 | 1 |
| | | | 6 |

(b) Based on the calculations in (a)(i), Option 2 would appear the cheaper option for the company by K137,760 per annum. However, this does not take into account the following:

(ii)

- the need for the company to fund the capital cost of purchasing the company car and its annual running costs;
- the possibility that sales (and thus the 2% commission payable to the sales manager) may be higher or increase at a faster rate than expected;
- the fact that a higher proportion of the costs of Option 2, i.e. the fringe benefit tax, is not tax deductible.

3 **15**

Marks

Tutorial note: Given that Millenium Limited is stated as being a highly profitable company, all of the expenditure, other than the fringe benefits tax, will be tax deductible, so their effective 'after tax' cost to the company will only be 70% of their absolute cost.