

Fundamentals Level – Skills Module

Taxation (Malawi)

Tuesday 2 June 2015



Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

This 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 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 exam 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

ICAM THE INSTITUTE OF
CHARTERED ACCOUNTANTS
IN MALAWI

Paper F6 (MWT)

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		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 Mayeso Limited is a company incorporated in Malawi trading as a wholesale merchants. It prepares accounts to 31 December. During the year to 31 December 2014, it made a profit before taxation of K650,000, after charging depreciation of K125,000 and interest of K65,000 on a loan for purchase of shares in XYZ Limited. Capital allowances have been agreed at K200,000 and capital losses brought forward from the previous year at K75,500.

What will be the taxable profit of the company for the year ended 31 December 2014?

- A K564,500
- B K575,000
- C K640,000
- D K499,500

- 2 Masamba Limited is a company involved in the growing of tea and coffee. In addition to assets brought forward, the company had the following transactions in assets during the year to 30 September 2014: bought brand new machinery at K45 million; sold motor vehicles with tax written down value of K65,000 for K45,000.

What types of allowances will be available to be claimed by Masamba Limited on these transactions for the year ended 30 September 2014?

- A Initial allowances and annual allowances
- B Investment allowances, initial allowances and annual allowances
- C Investment allowances, annual allowances and balancing allowances/charges
- D Initial allowances, balancing allowances/charges and annual allowances

- 3 Angler Limited provides benefits to its three most senior employees as follows:

	Employee 1	Employee 2	Employee 3
Rents a house for its general manager (per month)	K80,000	–	–
Housing allowance (per month)	–	K65,000	K65,000
School fees paid directly to the school in respect of the general manager’s children (per quarter)	K120,000	–	–
Utility allowances paid to employee (per month)	K40,000	K40,000	K40,000

No other benefits are provided.

What is the value of fringe benefits per quarter?

- A K360,000
- B K750,000
- C K1,110,000
- D K600,000

- 4 Doongle Limited has estimated taxable profits of K2,500,000 for the year ended 31 December 2014. The actual taxable profits for the year ended 31 December 2013 were K2,800,000. The profits accrue evenly over the year.

What will be the instalment of provisional tax to be paid each quarter for the year ended 31 December 2014?

- A K210,000
- B K187,500
- C K168,750
- D K189,000

- 5 Beeze Limited's tax liability for the year ended 31 March 2014 was K855,400. K600,000 had been paid by the year end. The balance was paid on submission of the return of income. The tax return and payment was only made on 30 November 2014.

How much was the penalty charged for late payment of the balance?

- A K8,554
- B K6,000
- C K1,916
- D K2,554

- 6 Chigwilizano Sports Club was formed for recreational purposes. The surplus for the year to 31 December 2014 was K650,000. Members' subscriptions amounted to K165,000, sales of goods were K540,000 and cost of sales was K359,000.

What will be the tax payable by the club for the year ended 31 December 2014?

- A K195,000
- B K162,000
- C K10,125
- D K12,188

- 7 Meyer Limited is registered for value added tax (VAT) and makes both taxable and zero rated supplies.

During the month of May 2015, the company made taxable supplies amounting to K550,000 and zero rated supplies amounting to K165,000. Total monthly expenses for the month amounted to K465,000, which included salaries of K125,000. All figures are exclusive of VAT where applicable.

How much VAT was payable to the Malawi Revenue Authority for the month of May 2015?

- A K14,025
- B K41,250
- C K70,125
- D K34,650

8 John Phiri is married to Jane. For the year to 30 June 2015, John and Jane's earnings were:

	John K	Jane K
Salary	345,000	400,000
Bank interest (gross)	75,000	
Rental income		245,000
Director's fees		60,000
Dividend from a Malawi company		66,000

What will be the total amount which will be considered as income for John for the year ending 30 June 2015?

- A K665,000
- B K1,065,000
- C K725,000
- D K791,000

9 Which of the following are exempt from capital gains tax?

- (1) Disposal of offices
- (2) Transfer of capital assets between spouses
- (3) Disposal of quoted shares on the Malawi Stock Exchange held for less than one year
- (4) Contribution of assets to capital of a company where contributors own at least 80% of equity

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

10 Dzimwe Trading is an unincorporated business owned by Mulumbe. In the year to 30 June 2014, a taxable profit of K340,000 was registered. There was a capital tax loss brought forward of K200,000 and a trading tax loss of K120,000 from the year to 30 June 2013.

What is the total loss available for offset against the taxable income of Mulumbe for the year to 30 June 2014?

- A Nil
- B K120,000
- C K200,000
- D K320,000

11 ABC Limited has a taxable income of K3,000,000 for the year to 31 December 2014.

During the year K250,000 of withholding tax was deducted from payments made by the company and K650,000 deducted from receipts. Total fringe benefits tax paid was K175,000. No provisional tax payments had been made.

What is the balance of total income tax to be paid by ABC Limited for the year to 31 December 2014?

- A K475,000
- B K75,000
- C K650,000
- D K250,000

- 12** John Bazawa is employed as a salesman and in the month of December 2014 his salary was K245,000 and he received housing allowance of K65,000. The company deducted pension contributions of K15,000 and medical aid of K35,000

What was the total PAYE which was paid by John for the month of December 2014?

- A** K86,250
- B** K71,250
- C** K75,750
- D** K81,750

- 13** Denje Limited is a company which makes taxable supplies. In October 2014, the VAT return indicated VAT payable of K165,000. The VAT, however, was not paid until 16 December 2014 when the return was submitted.

How much was the penalty which was due on late submission of the VAT return?

- A** K20,000
- B** K40,000
- C** K35,000
- D** K15,000

- 14** John Baziwa sold two assets in the year to 30 June 2014. These were a cottage for K120 million which he bought in 2004 for K45 million and machinery he uses in the business for K15 million which he bought in 2005 for K9 million. He claims capital allowance on the machine.

How much was John's capital gains tax liability for the year ended 30 June 2014?

- A** K1.8 million
- B** K0.97 million loss
- C** K3.36 million
- D** K4.33 million

- 15** Maziko Limited had a tax loss of K235,000 and capital loss of K15,000 as at 30 June 2013. In the year to 30 June 2014, it made a taxable profit of K200,000 before a capital gain of K65,000.

How much loss relief is available against the profits of Maziko Limited for the year ended 30 June 2014?

- A** K200,000
- B** K235,000
- C** K240,000
- D** K15,000

(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** AJ Bunda is a property developer registered with the National Construction Industry Council and is registered for value added tax (VAT).

During the year to 30 June 2014 he had two building projects. He was constructing an office complex as well as a residential house.

Both projects were started and completed during the year to 30 June 2014.

He sold the properties as follows:

	K'000
Residential property	24,000
Office complex	80,000

The following information is available in connection with expenditure incurred:

Construction materials	36,000
Wages	14,000
Electricity	4,500
Water	50
Construction equipment hire	2,700
Fuel for equipment	1,500
Security	69

One third of the above expenditure relates to the building of the residential house.

The above figures are exclusive of VAT.

Required:

- (a) State, in general terms, under what circumstances VAT must be imposed.** (3 marks)
- (b) Calculate the VAT which was payable by AJ Bunda for the year to 30 June 2014.**

Note: Where an item does not result in any VAT payable or reclaimable, indicate this with a zero (0) against the item. (7 marks)

(10 marks)

- 2 Abraham Bengo sold 240,000 ordinary shares he held in Mazengo Limited on 15 June 2014 for K960,000. These shares were bought by him at K2 per share on 1 January 2006. A further 10,000 shares were sold on 15 June 2014 to his 43-year-old son at K2·50, which was less than market value.

Abraham had a house which caught fire on 3 March 2014. The house was bought in 2002 for K168,200. The market value at the date of the fire was K16,000,000. He claimed from the insurance and the insurance company paid him K16,000,000 in respect of the claim on 1 May 2014.

On 1 January 2013, there was an initial public offering (IPO) and Abraham bought 200,000 shares at K2 each in BAC Limited, a company which was listing on the stock exchange. On 10 October 2013, he sold 150,000 of the shares at K6 per share, the selling expenses were 0·05% of the sales value. On 1 March 2014, he sold the remaining shares at K6·50 per share.

Required:

- (a) Calculate the capital gains tax liability for Abraham Bengo for the year ended 30 June 2014.

Note: Clearly indicate transactions not resulting in a tax liability with a zero (0). (7 marks)

- (b) Explain the effect on the capital gains tax liability if Abraham Bengo sold all the shares in BAC Limited on 1 March 2014 and decided to buy another property with the insurance proceeds.

Note: No calculations are required in this part. (3 marks)

(10 marks)

- 3 Peter Bazele is a farmer who grows timber for sale to the construction industry.

He has been growing timber since 2007. He has 200 hectares which were all planted in 2007. The growing expenses incurred on the timber have been as follows:

Year	Amount K
2007	325,000
2008	200,000
2009	150,000
2010	40,000
2011	100,000
2012	85,000
2013	100,000

In 2014 he harvested 100 hectares, and he sold the timber harvested for K1,500,000.

Required:

- (a) Explain how the income of a farmer growing timber is determined. (4 marks)

- (b) Calculate the income for Peter Bazele from the sale of timber which will be subject to income tax for the year ended 30 June 2014. (6 marks)

(10 marks)

4 James Ndala is a sole proprietor and has registered his business with the Malawi Revenue Authority for all the taxes due by him: PAYE, withholding taxes and fringe benefits tax (FBT). James also works as an accountant outside his business, where PAYE is duly deducted from his earnings.

He prepares his accounts to 31 March each year.

The following were the results and transactions for the year ended 31 March 2015:

	K
Tax adjusted profits	2,650,500
Withholding tax deducted by James on payments to his suppliers	125,000
Withholding tax suffered by James on his sales	45,000

James has a withholding tax exemption certificate but one customer had deducted withholding tax in error.

At the beginning of the year it had been estimated that taxable profits for the year to 31 March 2015 were going to be K1,450,000.

Required:

(a) Calculate the provisional tax payments which should have been made by 31 March 2015, and state the due date and amount.

Note: You should assume withholding taxes were not being deducted from the provisional tax payments. (3 marks)

(b) Calculate the final amount of tax payable in respect of the year ended 31 March 2015 and state the due date for payment. (4 marks)

(c) If James does not pay the final balance of tax until 31 October 2015, calculate the penalties which will be due. (2 marks)

(d) State the frequency and due dates (in general terms) of PAYE, withholding tax and FBT. (1 mark)

(10 marks)

- 5 George Manganya is employed as a marketing manager of Zaone Limited. He started employment on 1 July 2011. His terms of employment were that he is employed on both pensionable earnings as well as a gratuity for period of 36 months.

His earnings from employment were:

	K
Year to 30 June 2012	2,400,000
Year to 30 June 2013	3,000,000
Year to 30 June 2014	3,500,000

His gratuity would be at 15%, and the company would contribute 10% towards the pension fund.

The company pays him a housing allowance of 10% of salary payable to him in cash.

PAYE deducted from his employment earnings was K1,474,500.

In addition George operates a lodge, where his wife is a manager. She is paid a salary of K500,000 per annum.

The adjusted profits before capital allowances for the year to 30 June 2014 were K650,000; capital allowances have been agreed at K125,000.

His other income for the year was:

	K
Director's fee (gross)	165,000
Interest from seven day call account (net received)	65,000
Rent from property he owns jointly with his wife	345,000

George paid city rates on the property amounting to K75,000.

No withholding tax was deducted from the rental.

Required:

- (a) State how interest receivable by an individual is treated for both income tax and withholding tax.

(2 marks)

- (b) Calculate the income tax payable by George Manganya for the year ended 30 June 2014.

(13 marks)

(15 marks)

6 Juwayeyi Limited is a company incorporated in Malawi involved in the growing and processing of tea and coffee in the northern region of Malawi. The company prepares its financial statements to 30 September each year.

The comprehensive income statement for the year to 30 September 2014, showed profit before taxation of K2,556,800.

This was after charging:

	K
Depreciation	650,000
Directors' fees	580,000
Auditors' remuneration	600,000
Interest paid – bank loan	15,000
Fertiliser and pesticides	875,000
General expenses	920,000
After crediting:	
Interest – staff loans	65,000
– treasury bills	345,000
Dividends received	450,000
Capital gain on sale of shares in a listed company (The shares were held for 22 months before being sold)	345,000

The company's accounting policy is that tea and coffee stocks are valued at lower of cost and net realisable value. However, for tax purposes the Commissioner accepts stock valuation for tea and coffee at net realisable value only.

Tea and coffee stocks were valued as follows:

	30 September 2014 K	30 September 2013 K
Cost – Tea	575,000	375,000
– Coffee	75,000	65,000
Net realisable value		
– Tea	865,000	475,000
– Coffee	85,000	77,000

The following further information is available:

- (1) Included in fertiliser and chemicals is fertiliser at a cost of K275,000 which is being stored on the farm as it relates to the next crop season.
- (2) General expenses include the following items:

	K
Renewal of lease	175,000
Professional fees for valuation of land	235,000
Donations to political party	55,000
Fringe benefits tax	115,000

- (3) The company spent K400,000 on clearing the land in preparation for the planting of coffee and tea. This amount has been capitalised.
- (4) The loan was obtained to finance packaging materials.
- (5) The company's fixed assets had the following net tax written down values as at 1 October 2013:

	K
Factory building	865,000
Plant and machinery	700,000
Motor lorries	895,000
Office equipment and furniture	125,000

There were no additions or disposals during the year.

Tax losses brought forward as at 1 October 2013 amounted to K865,000.

Required:

Compute the liability to taxation of Juwayeyi Limited for the year ended 30 September 2014.

(15 marks)

End of Question Paper