Fundamentals Level – Skills Module

Taxation (Malawi)

Tuesday 2 December 2014

Paper F6 (MWI)

Time allowed
Reading and planning: 15 minutes
Writing: 3 hours

ALL FIVE 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.

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

The Association of Chartered Certified Accountants

The Public Accountants Examination Council of Malawi

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.

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
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	2014 conversion factor
2003	154·20	2·6152
2004	172·00	2·3459
2005	198·50	2·023
2006	226·10	1·7846
2007	244·10	1·6530
2008	265·40	1·5203
2009	287·70	1·4025
2010	309·05	1·3058
2011	332·00	1·2131
2012	403·00	1·1200
2013	415·25	1·0000

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Question 1 begins on page 5.

ALL FIVE questions are compulsory and MUST be attempted

1 Madengu Limited, a company incorporated in Malawi, is involved in the fabrication of equipment for use in irrigation and makes up its financial statements to 30 September each year.

The following are the results of Madengu Limited for the year ended 30 September 2014.

	Note	K	K
Turnover			145,500,000
Cost of sales	1		(105,890,500)
Gross profit			39,609,500
Less expenditure:			
Depreciation		6,865,000	
Staff costs	2	22,555,000	
Interest payable	3	656,475	
Loss on sale of equipment	4	175,100	
Donations	5	650,000	
Premium for use of patent	6	445,000	
Impairment of investments		324,900	
Administrative expenses	7	4,585,900	(36,257,375)
			3,352,125
Other income			
Gain from disposal of investments	8	125,850	
Dividends from Malawi companies		650,000	
Bank interest received	9	85,000	
Share of profits of associates		865,200	1,726,050
Profit before taxation			5,078,175

Notes:

1. Cost of sales include an amount of K315,500 relating to input value added tax (VAT) on raw materials purchased during September 2014.

   Also included within the cost of sales expense are staff costs of K15,600,500 relating to factory employees. Madengu Limited contributes 15% of each employee's salary to a pension fund.

2. Staff costs include:

	K
Medical costs – factory employees	650,000
Pension contributions – 15%	1,275,000
Costs relating to the staff canteen	2,250,000

3. The interest payable is all in respect of a bank loan obtained to purchase shares in a listed company. The shares are held by Madengu Limited as an investment.

4. The loss on the sale of equipment has been calculated as follows:

	K
Cost of equipment	475,000
Accumulated depreciation	(250,000)
	225,000
Fair value adjustment	175,000
Sale proceeds	(224,900)
Loss on sale	175,100

   The tax written down value of the equipment as at 1 October 2013 was K185,500.

5. Donations are made up of:

	K
Save the Children fund	190,800
Milingo Hospital	65,800
Chisomo private school	393,400
	650,000

6. The premium for the use of the patent was paid in order for Madengu Limited to acquire the right to use the design of the irrigation equipment for a period of ten years commencing with the year ended 30 September 2014.

7. Administrative expenses include:

	K
Fringe benefits tax	450,100
Penalties for late payment of PAYE	127,500
Subscription to an engineering magazine	107,500

8. The gain on disposal of investments relates to shares in a listed company. The shares were purchased by Madengu Limited in 2009.

9. Bank interest received is stated gross of withholding tax of 20%.

Additional information

(i) The tax written down values of Madengu Limited's assets as at 1 October 2013 were:

	K
Industrial building	6,500,000
Plant and machinery	7,500,000
Equipment	985,500
Office furniture	475,400
Computers	1,200,000
Motor vehicles	550,000

(ii) The following additions were made to fixed assets during the year:

- New computers were bought for K450,000.
- An extension was made to the industrial building at a cost of K3,625,000. The extension included an office attached to the building at a cost of K1,125,000.
- Second-hand plant was purchased at a cost of K885,500.

(iii) During the year Madengu Limited paid the following amounts:

	K
Provisional taxes	3,500,000
Withholding taxes deducted from purchases	465,000

No tax was withheld in relation to any of Madengu Limited's sales income.

Required:

(a) State how gains from the sale of investments in listed company shares are dealt with for corporate income tax purposes and state how any gain would be calculated. (3 marks)

(b) Prepare Madengu Limited's capital allowances computation for the year ended 30 September 2014. Clearly identify the total capital allowances for the year and the tax written down values (TWDVs) carried forward as at 30 September 2014. (10 marks)

(c) Compute the taxable income of Madengu Limited for the year ended 30 September 2014, briefly explaining your treatment of the premium for the use of the patent. (11 marks)

(d) Calculate the tax payable by Madengu Limited for the year ended 30 September 2014 and state when the balance of any tax will be due. (3 marks)

(e) State the impact on the tax payable/refundable by Madengu Limited for the year ended 30 September 2014 if 5% of its sales income were derived from exports to customers overseas.

Note: Calculations are not required in support of this requirement. (3 marks)

(30 marks)

2 Miriam Maseko is employed as a travel consultant with ABC Travels. In addition to her income from employment, Miriam also has income from a number of other sources, as detailed below.

The following information is available in connection with her income and outgoings for the year ended 30 June 2014.

1. Employment income and outgoings:

	K
Salary	1,500,000
Housing allowance	150,000
Medical aid	60,000
Pension – company contribution	150,000
Pension – employee contribution	75,000
Bonus	120,000

PAYE was deducted from Miriam's employment income and duly remitted to the Revenue Authorities by the due date for payment.

2. Miriam owns a house in Chirimba which she rents out to tenants. The following information is available in relation to the year ended 30 June 2014:

	K
Rental income	300,000
Rental expenses:	
City rates	135,000
Repairs and maintenance	65,000
Building of a new driveway	175,000

Withholding tax was not deducted from the rental income received by Miriam.

3. Miriam operates a hair salon in Chirimba. The results of the business for the year ended 30 June 2014 are as follows:

	K	K
Gross profit		650,000
Less expenses:		
Salaries and wages	450,000	
Purchase of hairdryers	65,000	
Depreciation	85,000	
Rental costs	125,000	(725,000)
Loss for the year		(75,000)

Included within salaries and wages are drawings of K200,000 made by Miriam in the year.

Capital allowances for the business for the year ended 30 June 2014 have been agreed at K120,000.

4. Income from other sources:

	K
Dividend (net)	32,000
Director's fee (gross)	120,000
Interest (gross)	65,000

Withholding tax has been deducted from the above income, where appropriate.

5. Miriam has a boyfriend, John. John is employed as an engineer and his only income is employment income. John earned a salary of K2,600,000 for the year ended 30 June 2014.

Required:

(a) Compute the taxable profits for Miriam's hair salon business for the year ended 30 June 2014. (4 marks)

(b) Calculate the taxable income of Miriam for the year ended 30 June 2014.

Note: Indicate any items which are not taxable or not deductible by the use of a zero ('0') (10 marks)

(c) Calculate the total tax payable by Miriam for the year ended 30 June 2014. (7 marks)

(d) Calculate the reduction in the tax payable by Miriam for the year ended 30 June 2014 if she were married to John during the year. (4 marks)

(25 marks)

3 Dango Motors Limited is a Malawi incorporated company, registered for value added tax (VAT), and involved in the sale of both new and second-hand motor vehicles and parts.

Dango Motors Limited entered into the following transactions in the month of June 2014.

	K
Income	
Sale of motor vehicles – new	65,000,000
Sale of motor vehicles – secondhand	11,550,000
Spare parts – exported to Zambia	4,500,000
Bank interest received	865,000
Expenditure	
Purchase of spare parts for resale	8,500,000
Purchase of vehicles for resale	55,000,000
Rental of house for the managing director	200,000
Rental of showroom	1,200,000
Salaries and wages	5,000,000
Purchase of furniture	765,000
Water	110,000
Electricity	245,000
Withholding taxes	1,200,000
Hotel accommodation	126,500
Telephones – ground lines	46,500
Purchase of motor vehicle for salesman	4,500,000

The above figures are all exclusive of VAT.

Required:

(a) Identify ANY FOUR transactions, which would constitute a supply for the purposes of value added tax (VAT). (4 marks)

(b) (i) In respect of Dango Motors Limited's expenditure transactions ONLY, state whether each of these is standard rated, zero rated, exempt or outside the scope of VAT. Identify any transactions where the VAT suffered will be irrecoverable by Dango Motors Limited. (6 marks)

(ii) Calculate the VAT payable by Dango Motors Limited for June 2014.

Note: Items of expenditure may be grouped into appropriate categories for the purposes of the calculations, provided that the basis of the grouping is clear. (5 marks)

(15 marks)

4 (a) Give examples of ANY THREE types of expenditure incurred by farmers which are specifically allowable against income derived from farming activities. (3 marks)

Dziko Insurance Limited is a Malawi resident company involved in general insurance business. The following financial information is available in respect of Dziko Insurance Limited for the year ended 30 June 2014:

	K
Gross written insurance premiums received	6,520,000
Fees and commissions received	2,265,000
Dividends received	865,000
Interest received from bank accounts	125,000
Rental income received	325,000
Profit on sale of property	69,500
Insurance premiums paid on reinsurance	(3,650,000)
Commissions paid	(425,000)
Staff costs	(2,654,000)
Depreciation	(895,000)
Impairment loss	(759,000)

Required:

(b) Briefly state how each of the items listed above will be treated in the income tax computation of Dziko Insurance Limited. (6 marks)

(c) List ANY SIX types of income which are exempt from taxation under the Taxation Act. (6 marks)

(15 marks)

5 You should assume that today's date is 20 June 2013.

Mayamiko Zulu is a land surveyor based in Blantyre. Mayamiko is involved in property development and trades as Mayamiko Properties.

Mayamiko owns four properties which he rents out to tenants. The following historic financial information is available in respect of the properties:

	Year bought	Description	Cost	Annual rental
			K	K
Property 1	1998	House	2,500,000	1,800,000
Property 2	2002	Flat	4,500,000	3,000,000
Property 3	2004	House	6,500,000	2,400,000
Property 4	2005	House	7,500,000	2,880,000

Mayamiko spends 25% of the rental income of each property on maintenance and rates.

Mayamiko has approached you for advice as he is considering selling two of his rental properties at some point in the future rather than continuing to rent them out. Mayamiko will increase the rent charged on all of the properties rented out in the year ended 30 June 2014. The rent charge will increase by 15% for all of the properties except for property 2 (the flat) where the rent will only increase by 10%.

The tenant in property 4 has stated that he will move out on 1 October 2013. Mayamiko estimates that he will have to spend K50,000 on advertising to find a new tenant for this property and that the property will lie empty from the date the old tenant moves out until 1 January 2014.

Mayamiko's intention is to sell property 1 for K22,000,000 and property 2 (the flat) for K40,000,000 at some point in the future.

The following indices are applicable:

Year	CPI	Conversion factor
1998	788·00	7·550
2000	1,476·00	4·030
2002	140·80	2·865
2014	406·00	1·000

Required:

(a) Calculate the tax which will be paid on the rental income for the year ended 30 June 2014.

Note: Assume that none of the properties are sold and that Mayamiko has no other sources of income. (5 marks)

(b) Calculate the increase in the total tax paid by Mayamiko for the year ended 30 June 2014 if the two properties are sold on 1 July 2013. (8 marks)

(c) Advise Mayamiko on the date by which he must submit his self-assessment return and pay the tax due to the Commissioner General in respect of the year ended 30 June 2014. (2 marks)

(15 marks)

End of Question Paper