Answers

Marks

1 Phiri Dengu Limited

(a) Other than annual allowances, investment and initial allowances are available to be claimed

Investment allowances can be claimed by a manufacturer, such as Phiri Dengu Limited, in the year in which the asset is brought into use as follows:	½
– on new and unused industrial buildings and plant and machinery at 100%; and	1
– on used industrial buildings and plant and machinery at 40%.	1
Initial allowances can be claimed in the year of purchase at the rate of 20%	½
on the cost of the motor lorries.	½
Initial allowances cannot be claimed in respect of a private passenger motor vehicle; or on any asset where	½
the investment allowance has not been claimed. Therefore, Phiri Dengu Limited cannot claim initial allowances on its factory buildings or plant and machinery.	½
No capital allowances are available on houses or offices as these are not qualifying assets. The exception is	½
where an office is attached to an industrial building and its cost does not exceed 10% of the total cost of the building.	1
	6

(b) Taxes payable on the sale of the motor vehicle (all figures in K'000)

As capital allowances were claimed on the motor vehicle, a balancing charge or allowance will need to be calculated and this will increase or reduce the taxable profits of Phiri Dengu Limited.		1
Balancing charge/allowance		
	K	
Sale proceeds	850,000	½
Tax written down value	(750,000)	
Balancing charge	100,000	½
Tax payable at 30%	30,000	½
Phiri Dengu Limited is registered for value added tax (VAT), so it should charge VAT on the sale of the motor vehicle at its open market value.		1
Therefore the VAT payable will be:		
K1,000,000 at 16·5%	K165,000	½

Tutorial note: *If the employee has only been charged VAT based on the selling price of K850,000, then he will have to be charged the differential.*

The sale of the motor vehicle at less than market value has resulted in the balancing charge being understated. The Revenue authority are likely to consider this understatement, i.e. the difference between the		½
selling price and the open market value of K150,000, to be a benefit which will be subject to fringe benefit tax.		1
Therefore the additional fringe benefit tax will be:		
K150,000 at 30%	K45,000	½
		6

(c) Taxable income for the year ended 30 June 2013

	K'000	K'000	Marks
Profit before taxation		11,000	½
Add: Items not allowed for taxation:			
Local cost of sales:			
Depreciation	1,500		½
Stock of produce	3,550		½
Export cost of sales:			
Depreciation	800		½
Financial expenses:			
Consultancy	1,895		½
Tax penalties	1,205		½
Operational expenses:			
Depreciation	3,350		½
Fringe benefits tax	785		½
Donations	985		½
Pension contributions (K1,345*1%/16%)	84		1
Interest on loan to purchase shares	225	14,379	1
		25,379	
Less: Items allowed for taxation:			
VAT on local sales (K28,500*16·5%/116·5%)	4,036		1
Dividends from local companies	1,200		½
Proceeds from sale of a house	4,500		½
Proceeds from sale of a motor vehicle	850		½
Export allowance (Working 1)	2,955		W
International transport allowance (K15,000*25%)	3,750		1
Capital allowances (Working 2)	6,150	(23,441)	W
		1,938	
Add: Capital gain (Working 3)		1,466	W
Adjusted taxable income		3,404	

Workings:

	K'000	Marks
1. Export allowance		
Export sales	42,000	½
Cost of sales	(30,000)	½
Export licence	(180)	½
	11,820	
Export allowance 25%	2,955	1
2. Capital allowances		
Capital allowances (per question)	6,250	½
Less: Balancing charge (from part (a))	(100)	½
Net capital allowances	6,150	
3. Capital gain on sale of house		
Cost 2005	1,500	½
Conversion factor	2·023	½
	3,034	
Selling price	4,500	½
Capital gain	1,466	
		15

			Marks
(d) Tax to be paid by or refunded for the year ended 30 June 2013			
	K'000	K'000	
Taxable income (from (c))		3,404	
Tax at 30%		1,021	½
Less:			
Withholding tax:			
– on local sales (Working)	734		1
– on interest K1,375 at 20%	275		1
Provisional tax	1,200	2,209	½
Tax to be refunded		(1,188)	
			3
			30

Working:

Local sales (net of VAT) (28,500 – 4,036)		24,464
Withholding tax at 3%		734

2 Mapeto Produce Trading

(a) The income of a partnership is assessed on each partner individually and each partner is responsible for paying their share of the tax. 1

However, a joint return is submitted to the Commissioner in respect of the partnership trade. Each partner is separately and individually liable for the submission of the joint return. 1 1

3

(b) Taxable profit of the partnership for the year ended 30 June 2013

	K	K	
Loss for the year		(2,259,000)	½
Add: Items not allowed for taxation:			
Partners' salaries			
– Mayeso	850,000		½
– Chakudza	700,000		½
Purchases of assets:			
3-tonner lorry	1,850,000		½
Motor vehicle	450,000		½
Laptops	300,000		½
School fees for Mayeso's child	165,000	4,315,000	½
		2,056,000	
Less: Items not taxable:			
Introduction of capital:			
– Mayeso	600,000		½
– Chakudza	400,000	(1,000,000)	½
		1,056,000	
Less: Items allowed for taxation:			
Capital allowances (working)		(1,010,000)	W
Adjusted profit for tax		46,000	

Working: Capital allowances

Asset	Cost	Allowances Initial	Annual	Total	
	K	K	K	K	
3-tonner lorry	1,850,000	370,000	370,000	740,000	1
Motor vehicle	450,000	–	90,000	90,000	1
Laptops	300,000	60,000	120,000	180,000	1
		430,000	580,000	1,010,000	½
					8

Marks

(c) Allocation of profit amongst the partners for the year ended 30 June 2013

	Mayeso	Chakudza	Total	
	K	K	K	
Salaries	850,000	700,000	1,550,000	1
School fees	165,000	–	165,000	1
Interest on capital	60,000	40,000	100,000	2
	1,075,000	740,000	1,815,000	
Share of profit	(1,061,400)	(707,600)	(1,769,000)	2
	13,600	32,400	46,000	
				6

(d) Tax to be paid by Chakudza for the year ended 30 June 2013

	K	K	
Partnership income (from (c))		32,400	½
Interest (K45,000/0·8)	56,250		1
Less: Exempt	(10,000)	46,250	½
Dividends		0	½
Wife's salary		0	½
Sale of personal car		0	½
Taxable income		78,650	
Tax			
First K180,000 at 0%		0	½
Less:			
Withholding tax			
– On interest K56,250 at 20%	11,250		½
– On share of partnership interest 40% of K125,000 at 20%	10,000		1
PAYE (working)	147,000		1
Share of provisional tax paid 40% of K500,000	200,000	368,250	½
Tax to be refunded		(368,250)	
			7

Working: PAYE on salary of K700,000

	K
First K240,000	9,000
Excess of K460,000 at 30%	138,000
	147,000

(e) Provisional tax is paid quarterly, 25 days after the end of each quarter. 1

25

3 (a) John Mwasi

(i) Value added tax (VAT) using the retailer's special scheme

Where a retailer makes both taxable and exempt supplies, the output tax will be worked out in one of two ways as follows:

(1) If the retailer keeps separate records of any exempt supplies, the total of these will be deducted from the total of the daily gross takings for the month, and the output tax will be worked out by multiplying the result by the VAT fraction; 1

OR

(2) If no separate record of exempt supplies is kept, the value of the taxable supplies will be calculated from the purchase records, by dividing the total value of the taxable goods purchased for resale in the month by the total value of all the goods purchased for resale in the month; then multiplying the result by the total gross takings for the month and applying the VAT fraction. 1½

	Marks
The VAT fraction is:	
$\frac{\text{Rate of VAT}}{100 + \text{the rate of VAT}} = \frac{16{\cdot}5}{116{\cdot}5}$	½
If the second (purchase) method is used, an adjustment to the output tax declared must be made on each anniversary of the date the method was adopted.	½
The adjustment is made by recalculating the output tax based on the figures for the entire year and comparing this output tax figure with the sum of the output tax figures calculated for each of the preceding 12 months.	½
	4

(ii) Output tax for the month of June 2013

(1) Sales based method

		K	
Gross takings for the month		5,545,600	½
Less: Exempt supplies		(2,580,000)	½
		2,965,600	
Output VAT	(K2,965,600*16·5/116·5)	420,021	½

(2) Purchase based method

Total taxable purchases/total purchases	2,256,800/3,650,000	0·62	½
Gross takings multiplied by this percentage:	K5,545,600 x 0·62	3,438,272	½
Output VAT	3,438,272*(16·5/116·5)	486,966	½
			3

(b) Piringu Properties Limited

Value added tax (VAT) for the month of June 2012

	Taxable value K	VAT K	
Output tax			
Commercial property rentals	2,400,000	396,000	½
Sale of commercial property	8,500,000	1,402,500	1
Residential property rentals (exempt)	0	0	½
Sale of residential property (exempt)	0	0	½
	10,900,000	1,798,500	
Input tax			
Salaries and wages	0	0	½
Telephones	125,000	20,625	½
Security charges (K435,000 x 70%)	304,500	50,243	1
Water and sewerage charges (exempt)	0	0	½
Electricity charges	95,000	15,675	½
Rental for office building	435,000	71,775	½
Motor vehicle maintenance	215,000	35,475	½
Fuel	0	0	½
Photocopier	600,000	99,000	½
	1,774,500	292,793	
VAT payable		1,505,707	½
			8
			15

Marks

4 Munali Sports Club

(a) The income of a club formed and operated solely for recreational purposes is liable to taxation, notwithstanding that the income arises from dealing with its members. ½

The taxable income derived from dealings with members is determined at 6·25% on all receipts and accruals from the sale of goods, cinematograph performances, stage plays and gambling machines. ½ 1

No separate tax is levied on profits made from these trading activities. ½

Receipts from subscriptions and entrance fees is not subject to taxation. 1

Income received from sources other than members, such as investment income, is taxed as normal. ½

4

(b) Tax payable for the year ended 31 December 2012

			Marks
		K	
Bar sales		4,850,000	½
Restaurant sales		2,758,500	½
Drama shows		450,000	½
Video shows		175,000	½
Subscriptions and entrance fees		0	½
		8,233,500	
Taxable income at 6·25%		514,594	½
Add: Bank interest		185,000	½
Total taxable income		699,594	
Tax at 30%		209,878	½
Less:	K		
Withholding tax	37,000		½
Provisional tax	45,000	(82,000)	½
Tax to be paid		127,878	
			5

(c) The following transactions require a tax clearance certificate:

(i) the transfer of land and buildings;
(ii) the renewal of a certificate of fitness for commercial vehicles;
(iii) the issuance of a business residence permit;
(iv) the renewal of professional business licences and permits for medical practitioners, dentists, legal practitioners, engineers, and architects;
(v) the renewal of certificates of registration under the National Construction Act;
(vi) the transfer of a company as a going concern;
(vii) the change of ownership of a company;
(viii) the externalisation of funds to non-resident service providers;
(ix) the renewal of a business licence by the Ministry responsible for industry and trade;
(x) the renewal of a tourism licence by the Ministry responsible for tourism;
(xi) the renewal, extension or transfer of a mining licence, or the transfer of mineral rights by the Ministry responsible for energy and natural resources;
(xii) the renewal of a telecommunications licence by the Malawi Communications Regulatory Authority; and
(xiii) the renewal of the registration of a public transport conveyance by the Road Traffic Directorate.

Only SIX items required, 1 mark each maximum 6

15

Marks

5 **Bestheza Company Limited**

(a) **(i)** **As a division**

	2013 K	2014 K	2015 K	
Wholesale units adjusted results for tax purposes				
Profit before tax	(6,600)	4,550	4,000	½
Add: Depreciation	855	785	800	½
Less: Capital allowances	(1,255)	(890)	(755)	½
	(7,000)	4,445	4,045	
Bestheza Company Limited				
Taxable profits:				
– Bestheza	8,500	4,500	(3,500)	1
– Mwatipeza division	(7,000)	4,445	4,045	1
Total	1,500	8,945	545	
Tax at 30 %	450	2,684	164	1½
				5

(ii) **As a subsidiary**

	2013 K	2014 K	2015 K	
Mwatipeza Wholesale 'Limited'				
Taxable profits (as in (i))	(7,000)	4,445	4,045	½
Less: Tax loss carried forward	–	(7,000)	(2,555)	1
	(7,000)	(2,555)	1,490	
Tax at 30%	0	0	447	1
Bestheza Company Limited				
Taxable profits	8,500	4,500	(3,500)	½
Tax at 30%	2,550	1,350	0	1½
Total tax (group)	2,550	1,350	447	½
				5

(b) If the wholesale unit is operated as a division of Bestheza, then the losses and profits will be automatically offset against each other for tax purposes. This results in all losses incurred in the three years being utilised in the same period as the loss was incurred. 1½

If the wholesale unit is operated as a separate company (subsidiary), then Bestheza and Mwatipeza are each taxed separately. Therefore, their losses and profits may not be offset for tax purposes and any losses can only be carried forward and used against future profits in the same company. 1½

As a result, relief for Mwatipeza's 2013 loss would be deferred until 2014 and 2015 and Bestheza's 2015 loss must be carried forward to 2016. ½

If losses are expected to continue in either the manufacturing (Bestheza) or wholesaling (Mwatipeza) operations, it is advisable for Mwatipeza to be operated as a division of Bestheza as this will result in an overall lower tax liability for the group. 1½

5

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