Fundamentals Level – Skills Module

Taxation (Malawi)

Thursday 8 December 2016

Time allowed: 3 hours 15 minutes

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.

Do NOT record any of your answers on the question paper.
This question paper must not be removed from the examination hall.

Paper F6 (MWI)

Think Ahead ACCA

ICAM THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

The Association of Chartered Certified Accountants

The Institute of Chartered Accountants in 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 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 (VAT)

Standard rate	16·5%
Zero rate	0%

Consumer price indices – 1970 to September 2015 (rebased to 1970: 1970 = 100)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual (Avg)
2015	167,164.48	174,279.78	171,577.77	168,785.69	167,614.82	163,561.80	161,310.12	164,192.27	174,279.78	–	–	–	–
2014	137,892.68	145,548.39	145,188.12	142,035.77	140,234.43	135,010.54	132,038.32	133,569.46	140,414.56	143,386.78	150,502.07	157,167.04	**141,915.68**
2013	109,521.56	116,816.99	116,997.12	114,565.31	114,385.18	110,152.03	107,900.35	107,269.88	113,484.51	116,276.59	121,680.61	126,634.30	**114,640.37**
2012	83,377.59	86,883.28	87,128.91	85,565.86	86,414.37	85,320.23	85,632.84	86,369.71	92,912.19	95,212.11	100,481.83	105,505.92	**90,067.07**
2011	75,562.33	78,375.82	78,219.52	76,075.91	73,664.34	71,051.81	70,359.61	68,818.89	72,391.57	72,905.15	75,383.70	78,398.15	**74,267.23**
2010	70,917.84	73,240.09	72,994.46	71,051.81	68,841.21	66,384.99	65,491.82	63,951.10	67,188.85	67,412.14	69,220.81	71,409.08	**69,008.68**
2009	65,759.77	67,680.09	67,367.48	65,737.44	63,839.45	61,718.17	61,025.96	59,641.55	62,789.98	63,169.57	65,045.23	67,188.85	**64,246.96**
2008	59,753.19	61,718.17	61,517.21	60,177.45	58,726.04	56,917.37	56,493.11	55,331.99	58,413.43	58,882.35	60,691.02	62,455.04	**59,256.37**
2007	55,460.11	57,170.73	56,858.78	55,656.63	54,406.44	52,459.53	51,945.52	50,708.09	53,432.79	53,803.44	55,376.71	56,810.74	**54,507.46**
2006	50,607.39	52,370.52	52,334.19	51,343.65	50,409.84	48,725.50	48,362.06	47,293.71	49,895.80	50,175.08	51,569.07	52,827.34	**50,492.85**
2005	43,350.64	44,738.86	44,886.38	44,217.91	43,548.66	42,268.81	42,072.68	42,212.39	44,691.78	45,219.75	46,685.98	47,968.15	**44,321.83**
2004	38,023.19	39,160.38	39,074.52	38,342.29	37,712.14	36,484.76	36,396.35	36,595.05	38,601.75	39,021.11	40,184.33	41,158.25	**38,396.18**
2003	34,542.41	35,522.11	35,283.50	34,499.01	33,870.39	32,690.06	32,669.80	32,892.31	34,792.78	34,791.72	35,610.47	36,188.95	**34,446.13**
2002	31,215.57	32,136.43	32,008.29	31,428.31	31,073.19	30,123.08	30,064.68	30,176.49	31,854.72	31,772.63	32,476.50	32,959.58	**31,440.79**
2001	27,025.48	27,650.37	27,307.29	27,067.69	26,932.97	26,048.57	26,253.60	26,213.45	27,596.56	28,138.41	28,989.11	29,564.96	**27,399.04**
2000	21,437.32	22,140.68	22,393.50	21,843.06	21,556.52	20,849.76	20,890.28	20,273.19	22,206.90	23,316.65	25,167.35	25,876.31	**22,329.29**
1999	16,472.36	16,963.03	17,380.67	17,240.65	17,474.00	17,061.91	16,674.36	15,643.06	17,080.66	17,281.18	18,650.51	19,104.26	**17,252.22**
1998	10,585.99	10,861.27	11,095.49	11,240.59	11,310.41	11,192.45	11,092.32	10,959.01	12,521.99	13,057.91	14,071.28	14,894.59	**11,906.94**
1997	8,958.45	9,159.98	9,242.13	9,355.56	9,403.61	9,334.57	9,278.04	8,716.08	8,752.50	8,804.78	9,239.28	9,728.72	**9,164.47**
1996	8,378.59	8,552.39	8,605.29	8,729.21	8,797.22	8,776.06	8,721.66	7,953.92	7,867.78	7,866.27	8,174.57	8,448.11	**8,405.92**
1995	4,887.51	5,144.43	5,339.39	5,510.16	5,673.38	5,809.40	6,002.84	6,093.52	6,474.37	6,962.51	7,485.42	7,916.14	**6,108.26**
1994	2,835.18	2,957.59	3,055.83	3,083.03	3,087.57	3,033.16	3,030.14	3,129.88	3,376.22	3,748.00	4,127.33	4,524.80	**3,332.39**
1993	2,356.10	2,404.46	2,424.11	2,413.53	2,398.42	2,372.73	2,353.08	2,427.13	2,531.41	2,602.44	2,687.07	2,726.37	**2,474.74**
1992	1,757.63	1,819.59	1,825.64	1,866.44	1,929.92	1,905.74	2,026.64	2,093.14	2,165.68	2,215.55	2,280.54	2,303.21	**2,015.81**
1991	1,576.28	1,588.37	1,594.41	1,614.06	1,615.57	1,627.66	1,651.84	1,647.31	1,653.35	1,682.07	1,685.09	1,692.65	**1,635.72**
1990													**1,511.29**
1989													**1,353.86**
1988													**1,170.01**
1987													**890.71**
1986													**702.64**
1985													**612.12**
1984													**532.53**
1983													**479.70**
1982													**422.99**
1981													**388.83**
1980													**352.20**
1979													**278.30**
1978													**240.80**
1977													**212.00**
1976													**187.70**
1975													**167.50**
1974													**140.00**
1973													**118.90**
1972													**112.50**
1971													**108.30**
1970													**100.00**

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 Dekani Limited (Dekani), a clothing manufacturer operating in Lunzu, registered for value added tax (VAT) on 1 April 2016.

As at its date of VAT registration, Dekani held the following assets:

– Stocks of goods for resale amounting to K550,000, of which K400,000 were bought on 15 January 2016 and K150,000 were bought on 30 November 2015.

– Machinery purchased for K650,000 on 1 December 2015.

Dekani carried out the following transactions in the month of April 2016:

1. Sales of K1,031,500, of which K806,500 were taxable at the standard rate and K225,000 at the zero rate.
2. Salaries paid were K475,000.
3. Purchases of raw materials of K585,000, of which K465,000 were taxable at the standard rate and K120,000 exempt.
4. Purchased a passenger-carrying motor vehicle for K500,000.
5. Paid rent on its factory of K325,000, including rent arrears of K80,000 for the month of March 2016.
6. Paid water costs for the month of K65,000.

All figures exclude any applicable VAT.

Required:

(a) Explain the circumstances in which pre-registration input value added tax (VAT) can be recovered.
(3 marks)

(b) Calculate the amount of output VAT chargeable and input VAT claimable by Dekani Limited for the month of April 2016. Clearly identify any item on which VAT is not chargeable or claimable by the use of a zero (0).
(7 marks)

(10 marks)

2 Joseph Mafuta is a farmer, who grows both tobacco and timber in Mchinji. The timber is all sold to the construction industry. Joseph has 1,000 hectares of land out of which 300 hectares is used to grow timber.

The timber was planted in 2000 at a total cost of K650,000. The following additional costs of growing the timber have been incurred:

Year	**K**
2001	280,000
2002	110,000
2003	145,000

During the year to 30 June 2016, Joseph incurred the following expenditure on the farm:

	K
Drilling of boreholes	325,000
Tobacco nurseries	800,000
Timber maintenance	185,000
Salaries and wages (including drawings of K650,000 by Joseph)	3,680,500

In the year ended 30 June 2016, Joseph harvested:

– 5,000 kg of tobacco, which he sold for an average price of K650 per kg; and
– 100 hectares of timber, all of which was sold in the period for K3,500,000.

Required:

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

(b) Calculate Joseph Mafuta's taxable income for the tax year ended 30 June 2016.

Note: You should assume that no allowances are available other than those for the items referred to in the question. (6 marks)

(10 marks)

3 Peter and Nelia are married and both are employed by Black Limited. The following information relates to their earnings and other income for the tax year ended 30 June 2016. All amounts are stated before deduction of any applicable withholding taxes.

	Peter	Nelia
	K	K
Salary	5,000,000	2,500,000
Gratuity	500,000	115,100
Bonus	–	650,000
Pension contributions made by Black Limited	750,000	375,000
Director's fees from Red Limited	125,000	–
Interest on fixed deposit	110,000	65,000
Gross rents received	–	600,000

Nelia owns a house which she has rented out for several years. The following expenses were incurred on this property for the year ended 30 June 2016:

	K
Mortgage interest	85,500
Insurance	65,000
Repairs	75,000
Rates	118,200
Agent's commission for finding a replacement tenant	45,000

Required:

(a) Calculate the PAYE which should have been deducted from Peter's employment package by Black Limited for the tax year ended 30 June 2016. (2 marks)

(b) Compute the taxable income of both Peter and Nelia for the tax year ended 30 June 2016.

Note: You should list all the items referred to in the question indicating by the use of zero (0) any items which are not taxable or not deductible. (8 marks)

(10 marks)

4 Nelson Manda is an entrepreneur, who is involved in several businesses, including manufacturing. In September 2015, he disposed of the following assets:

1. Sold ten hectares of land in Salima for K6,500,000 on 15 December 2015. Six hectares of this land had been bought for K645,000 in July 2007, and the remaining four hectares for K600,000 on 15 October 2010.
2. Sold a warehouse for K18,500,000 on 5 May 2016, which had been purchased for K4,500,000 in July 2010. At the date of sale the warehouse had an accounting net book value of K3,600,000 and a tax written down value of K2,200,000.
3. Sold a motor vehicle for K750,000 on 1 June 2016, which had been purchased for K1,500,000 in May 2010. This motor vehicle belonged to Nelson and had never been used for business purposes.
4. Sold a holiday house for K5,000,000 on 1 February 2016, which had been purchased for K95,000 in December 1999. This house was not Nelson's main residence.

Required:

(a) Calculate the chargeable gains arising from Nelson Manda's sales of assets in the tax year ended 30 June 2016. (5 marks)

(b) Explain the treatment of any of the asset disposals which do not result in a chargeable gain. (3 marks)

(c) Explain how your answer in part (a) might change if instead of being sold, the holiday house was destroyed in a fire and the K5,000,000 received was in the form of insurance proceeds. (2 marks)

(10 marks)

5 Handiwelo Mutata is employed as a consulting engineer by the Mafikeng Engineering Company (MEC). For the year ended 30 June 2016, MEC paid Handiwelo a salary of K6,850,000 plus a gratuity of K685,000.

In addition to his salary and gratuity, MEC provided Nelson with the following:

1. The use of a furnished house, for which MEC paid rent of K125,000 per month. Handiwelo contributed 10% of the rental amount.
2. School fees for his two children at a private school. The total fees paid for the year were K600,000.
3. A telephone and water allowance of K45,000 per month.
4. The free use of a motor vehicle, which cost K5,000,000 when purchased by MEC in December 2013.
5. A subscription for Dstv, which cost MEC a total of K365,000 for the year.
6. An air ticket for a business trip to South Africa, which cost MEC K375,000.

Handiwelo also earned the following other income in the year ended 30 June 2016:

	K
Bank interest (gross)	365,000
Director's fee (net)	145,800
Dividend from a listed company (net)	115,000
Profit from a property business (adjusted for tax)	650,000

Required:

(a) Calculate the fringe benefits tax (FBT) payable in respect of the benefits provided to Handiwelo Mutata for the year ended 30 June 2016

Note: You should list all the items (1) to (6) indicating by the use of zero (0) any on which FBT is not chargeable. (5 marks)

(b) Calculate the tax payable by Handiwelo Mutata for the tax year ended 30 June 2016. Clearly identify both the total tax liability and the final tax due.

Note: You should list all the items of other income referred to in the question, indicating by the use of a zero (0) any which are not taxable. (10 marks)

(15 marks)

6 Mulingo Limited (Mulingo) is a company involved in the manufacture of agricultural equipment. Mulingo was incorporated in Malawi on 1 March 2009 and makes up its financial statements to 31 December each year.

Mulingo's results for the year ended 31 December 2015 were as follows:

	K'000
Gross profit	48,875
Profit on the sale of assets (note 1)	65
Bank interest received (gross)	345
Total income	49,285
Less:	
Depreciation	8,250
Marketing expenses (note 2)	8,850
Staff costs (note 3)	10,875
Rental expense	6,500
Repairs and maintenance	2,500
Donations to a local church	500
Bank interest	875
Other operating expenses (all allowable)	1,500
	39,850
Profit before tax	9,435

Notes:

1. During the year, an item of machinery with a book value of K20,000 and a tax written down value of K0 was sold for K85,000.
2. Marketing expenses include:

	K
Provision for doubtful debts at 2% of the debtor balances at 31 December 2015	650,000
Bad debts written off	869,000
Damaged stock written off	750,000

3. Staff costs include fringe benefits tax of K875,000 paid during the year.

Additional information:

(i) The tax written down values of Mulingo's assets as at 1 January 2015 were:

	K'000
Fixtures and fittings	20,500
Light motor lorries	38,500
Plant and machinery	25,000

(ii) During the year ended 31 December 2015, Mulingo paid provisional tax of K1,500,000. In addition, withholding tax of K475,000 was deducted on turnover by some customers, despite the company having a withholding tax exemption certificate.

Required:

(a) Calculate the tax payable by Mulingo Limited for the year ended 31 December 2015.

Note: You should start your computation with the profit before tax figure and list all the items referred to in the question, indicating by the use of zero (0) any items for which no adjustment is required. (13 marks)

(b) Explain the effect on the amount of tax payable (as calculated in part (a)) if Mulingo Limited were a branch of a foreign incorporated company. (2 marks)

(15 marks)

End of Question Paper