

Fundamentals Level – Skills Module

# Taxation (Malawi)

Thursday 9 June 2016



**Time allowed**

Reading and planning: 15 minutes

Writing: 3 hours

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.**

**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 question paper.**

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

Think Ahead

**ACCA**

**ICAM** THE INSTITUTE OF  
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The Association of Chartered  
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Accountants in Malawi

# Paper F6 (MWI)

## 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 November 2014 (rebased to 1970: 1970 = 100)**

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual (Avg)
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	-	-
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** Mazembe is a wholesaler who is registered for value added tax (VAT). He makes both taxable and exempt supplies.

The following information relates to the transactions entered into by Mazembe in the month of December 2015:

	Notes	K
Sales:		
– taxable supplies		6,560,000
– exempt supplies		5,650,000
Expenditure:	2	
Purchases		12,500,500
Wages and salaries		2,500,000
Rent of shop		550,000
Utilities	3	1,207,500
Motor vehicle expenses	4	2,432,500

**Notes:**

1. All the figures are exclusive of any applicable VAT.
2. The split of all expenditure items between those relating to taxable supplies and those relating to exempt supplies is in direct proportion to the supplies made.
3. Utilities includes K650,000 for water.
4. Motor vehicle expenses comprise: repairs of K2,350,000 and fuel of K825,000. The motor vehicle is used wholly and exclusively for business purposes.

**Required:**

- (a) **State how input value added tax (VAT) is dealt with when there are mixed supplies.** (3 marks)
- (b) **Calculate the output VAT chargeable and input VAT claimable by Mazembe in respect of each of his transactions for the month of December 2015. Clearly identify any item on which VAT is not chargeable or claimable by the use of zero (0).** (7 marks)

**(10 marks)**

2 Muziko Limited is a company involved in mining in Mzimba. The following financial information relates to Muziko Limited for the year ended 31 December 2015:

	K
Profit before tax	15,650,500
After charging:	
Depreciation of motor vehicles	1,265,000
Provision for production losses	650,000
International transport costs	7,450,000
Fringe benefits tax	325,000
Legal fees relating to an increase in share capital	465,000
Amortisation of mining rights	1,500,000
After crediting:	
Exchange gain from the conversion of the year-end debtors balances	2,235,000
Bank interest receivable (gross)	175,000

**Additional information:**

1. 50% of Muziko Limited's taxable profits are derived from exports.
2. During the year the company:
  - purchased machinery which will be used at the mine for K6,500,000. The machinery will have no value once the mine ceases to be worked; and
  - paid K4,500,000 for access to mineral deposits. This amount has been capitalised and is being amortised at the rate of K1,500,000 per year.
3. Capital allowances have been agreed at K1,575,000.
4. Muziko Limited paid provisional tax of K1,400,000 during the year ended 31 December 2015.

**Required:**

**For Muziko Limited for the year ended 31 December 2015:**

**(a) Compute the taxable income on the basis that the company always claims the maximum possible allowances.**

Note: You should start your computation with the profit before taxation of K15,650,500 and list all of the items referred to in the question, indicating by the use of zero (0) any item which does not require adjustment. (7 marks)

**(b) Compute the balance of tax payable and state by when it should be paid.** (3 marks)

**(10 marks)**

- 3 Ngozi Limited is a company involved in running a chain of supermarket stores in Malawi. The company has a 30 June year end and its summarised results for the three years ended 30 June 2015 are as follows:

	2013 K	2014 K	2015 K
Tax adjusted trading profit/(loss) (before capital allowances)	475,000	(300,000)	425,000
Capital allowances	185,000	122,500	95,500
Chargeable gain/(loss) on sales of shares	(65,000)	(125,000)	250,000
Dividends from local companies	100,000	65,000	175,000

**Required:**

- (a) Explain the treatment of trading losses for income tax purposes. (3 marks)
- (b) Calculate Ngozi Limited's income chargeable to tax for each of the years 2013, 2014 and 2015, ensuring losses are claimed as early as possible. (7 marks)

**(10 marks)**

- 4 Medieval Limited is a company in the manufacturing sector, with a financial year end of 31 December. During its financial year ended 31 December 2014, Medieval Limited entered into the following transactions concerning its assets and investments:

On 10 September 2014 sold 100,000 shares in Moldovia Limited for K4,500,000. These shares had been bought as follows: 25,000 in January 2010 for K375,000; and 75,000 in March 2013 for K1,875,000. Prior to this sale Medieval Limited had owned 80% of the shares in Moldovia Limited, which is not listed on the Malawi Stock Exchange.

On 20 September 2014 sold the general manager's house for K15,000,000. The house had been built on a plot the company bought in January 2005 for K250,000. The house was constructed in February 2007 at a cost of K3,500,000.

On 15 October 2014 sold a factory building for K65,000,000. The factory had been built in March 2005 at a total cost of K15,000,000. The company has been claiming capital allowances on the factory building, and at the date of sale, the tax written down value of the building was K2,500,000 and the net book value was K6,500,000. The entire proceeds from the sale are to be invested in a new factory.

Medieval Limited has a capital loss and a trading loss carried forward from the year ended 31 December 2013 of K2,125,000 and K655,000 respectively

**Required:**

**For Medieval Limited for the year ended 31 December 2014:**

- (a) Explain, in detail, how the sale of the factory building will be dealt with for tax purposes.

Note: Calculations are NOT required for this part. (3 marks)

- (b) Calculate the net amount of capital gains subject to corporation tax as a result of the above disposals.

(7 marks)

**(10 marks)**

- 5 John Banda runs two businesses, neither of which is incorporated. He owns an office in Tidziwane, which is rented out and runs a men's clothing shop called Style. His year end is 30 June.

John does not employ an accountant, but writes up the books himself and gets a friend to prepare his financial statements.

The following information relates to John's two businesses for the year ended 30 June 2015:

	Notes	K
<b>Tidziwane office building</b>		
Rental income	1	2,800,000
Bank interest		65,000
		<u>2,865,000</u>
<i>Less: Expenditure</i>		
Salaries	2	800,000
City rates	3	365,000
Insurance		175,000
		<u>1,340,000</u>
Profit for the year		<u><u>1,525,000</u></u>
<b>Style clothing shop</b>		
Trading income		<u>8,588,000</u>
<i>Less: Expenditure</i>		
Depreciation	4	580,000
Legal and professional fees	5	465,000
Overdraft interest		145,500
Salaries		1,250,000
		<u>2,440,500</u>
Profit for the year		<u><u>6,147,500</u></u>

**Notes:**

- The rental income includes the following:

Rental received in respect of the month of July 2015	K125,500
Deposits received from tenants	K300,000
Expenses recoverable from tenants	K750,000
- Included in salaries for the property business is a salary of K500,000 claimed by John Banda.
- City rates do not include K145,000, which was due but not paid at the year end.
- Capital allowances for Style have been calculated as K475,000.
- Included in legal and professional fees is K125,000 being a penalty for the late payment of taxes.

**Required:**

- (a) Calculate the tax payable by John Banda for the year ended 30 June 2015.

Note: Your computation should list all of the items referred to in notes 1 to 5, indicating by the use of zero (0) any which do not require adjustment. (10 marks)

- (b) Explain how your answer in (a) would change if Style were a limited company in which John Banda owned 100% of the shares and it had declared a dividend of K4,500,000 in the year ended 30 June 2015.

(5 marks)

**(15 marks)**

6 ICT Limited (ICT) is a company involved in the provision of internet services, which makes up its financial statements to 31 December. ICT was incorporated on 1 March 2013 but did not commence operations until 1 January 2015.

Details of ICT's financial results for the year ended 31 December 2015 are as follows:

	Notes	K'000
Gross profit		38,500
Bank interest received		250
Total income		<u>38,750</u>
<i>Less: Expenditure</i>		
Depreciation		1,250
Insurance and licensing		2,500
Salaries and wages		5,500
Pension contributions	1	1,100
Entertainment		650
Repairs and maintenance	2	3,500
Interest paid	3	500
Donations to a political party		450
Fringe benefits tax		225
Renewal of operating licence	4	9,000
Other (all allowable)		5,350
		<u>30,025</u>
Profit before taxation		8,725

**Notes:**

1. ICT has only five employees and the company's pension contribution is 20% of each employee's salary.
2. The repairs and maintenance costs all relate to permanent fixtures and fittings at ICT's company offices.
3. The interest paid all relates to a loan obtained on behalf of a shareholder in order to enable him to purchase shares in the company.
4. ICT is billed for licence fees by the regulator. The amount shown in the financial statements is the amount billed in November 2015. This includes an amount of K4,500,000 for the period commencing 1 January 2016.

**Additional information:**

(i) The pre-operating expenses incurred by ICT are as follows:

Ten months ended 31 December 2013	K450,000
Year ended 31 December 2014	K750,000

(ii) The assets brought into use during the year ended 31 December 2015 were:

	K'000
Office equipment	3,550
Furniture and fittings	850
Motor vehicles:	
Passenger car	2,500
Pick up	3,500



**Required:**

(a) State, giving reasons, whether ICT Limited will be able to deduct any of its pre-operating expenditure for tax purposes, and if so, how much. (3 marks)

(b) Compute the taxable income of ICT Limited for the year ended 31 December 2015.

Note: You should start your computation with the profit before taxation of K8,725,000 and list all of the items of expenditure referred to in the question, indicating by the use of zero (0) any item which does not require adjustment. (12 marks)

**(15 marks)**

**End of Question Paper**