

Fundamentals Level – Skills Module

Taxation (Malawi)

Thursday 7 December 2017



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.

Think Ahead

ACCA

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IN MALAWI

The Association of Chartered
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Accountants in Malawi

Paper F6 (MVI)

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 to June 2016 – with 1970 as base year

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual (Avg)
2016	206,343.66	214,900.03	209,405.94	204,091.98	203,551.58	200,759.50							
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	178,783.13	187,519.64	196,256.15	172,943.79
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

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** Sasali Limited (Sasali) is a company incorporated in Malawi and registered for value added tax (VAT). The company is involved in the buying and selling of computers.

Sasali entered into the following transactions in the month of August 2017. All amounts are stated exclusive of VAT, where applicable:

1. Sales of computers to a local university valued at K400,000.
2. Sales of computers to XYZ Limited valued at K225,000 (these sales were invoiced in September 2017).
3. Purchases of computers for resale from a VAT-registered dealer for K350,000.
4. Paid rent on its warehouse and office building amounting to K165,000.
5. Paid electricity bills amounting to K65,000.
6. Paid rent for the managing director's house of K100,000.
7. Paid fuel for a company motor vehicle of K60,000.
8. Paid staff salaries totalling K125,500.

Sasali submitted its VAT return for the month of June 2017 on 20 September 2017 and paid the VAT due of K30,000 on the same date.

Required:

- (a) Explain the circumstances under which a taxpayer is required to register for value added tax (VAT).** (3 marks)
- (b) Calculate the net amount of VAT claimable or payable by Sasali Limited for the month of August 2017.**
Note: You should clearly identify any item(s) on which VAT is not chargeable or claimable by the use of a zero (0). (5 marks)
- (c) Explain the implications for Sasali Limited of the late filing of its VAT return and late payment of VAT for the month of June 2017.**
Note: Calculations are NOT required for this part. (2 marks)

(10 marks)

2 The following are the results of Jinja Golf Club for the year ended 30 June 2017:

	K
Income	
Golf course fees	3,500,000
Membership fees	4,600,000
Entrance fees	700,000
Bar sales	13,560,000
Restaurant sales	6,500,000
Film shows	650,000
Interest receivable (net)	400,000
	<hr/>
	29,910,000
Expenditure	
Golf course maintenance	665,000
Purchase of furniture	4,500,000
Bar purchases	6,500,000
Restaurant purchases	7,250,000
Salaries and wages	6,800,500
Water and electricity	895,000
	<hr/>
	26,610,500
	<hr/>
Surplus for the year	3,299,500

Jinja Golf Club paid provisional tax of K375,000 for the year ended 30 June 2017.

Required:

- (a) State how the income of a club is subjected to income tax. (2 marks)
- (b) State how the capital expenditure of a club is treated for tax purposes. (1 mark)
- (c) Calculate the tax to be paid by Jinja Golf Club for the year ended 30 June 2017.

Note: You should clearly indicate items not taxable by the use of a zero (0). (7 marks)

(10 marks)

- 3 Drone Limited is an engineering consultancy firm. The firm has two senior employees, Luke Chirwa and John Tsala, who are both currently employed on a fixed salary with no fringe benefits.

Current remuneration packages:

Luke and John are currently paid fixed annual salaries as follows:

	K
Luke Chirwa	36,500,000
John Tsala	42,800,000

Luke and John are both employed on pensionable terms. Drone Limited contributes 10% of each employee's salary and Luke and John each contribute 5%. In addition, Luke and John are each paid 10% of their salary as a bonus at the end of the year. The bonus is calculated on the salary before pension contributions and is payable in respect of cash salary only. The bonus is not pensionable salary.

Proposed remuneration packages:

Drone Limited wishes to change the method by which Luke and John are remunerated as they have each requested different packages to suit their individual requirements. Drone Limited is not prepared to pay more than it is currently paying them each in total.

The individual requirements of Luke and John are as follows:

	K
Luke Chirwa	
Company car (cost)	3,500,000
Rented house (unfurnished)	4,000,000
School fees (paid directly to the school)	1,850,000
Medical aid	450,000
John Tsala	
House allowance	4,340,000
Utilities allowance	125,000

Drone Limited already owns the car which it will provide to Luke as this vehicle is being used in his day-to-day duties.

Under the proposed remuneration packages Drone Limited will continue to provide Luke and John with the pension and bonus on the same terms as before.

Required:

- (a) Calculate the tax which is payable by Luke Chirwa and John Tsala based on their current remuneration packages. (2 marks)
- (b) In respect of the proposed remuneration packages:
- (i) Calculate the cost to Drone Limited of providing Luke and John with the fringe benefits requested. (5 marks)
- (ii) Calculate the revised cash salary, bonus and pension for Luke and John. (3 marks)

Note: You should assume that current tax rates and fringe benefit tax rules remain unchanged.

(10 marks)

- 4 (a) Peter Mbedza bought 500,000 ordinary shares in Miracle Limited, an unlisted company, in February 2008 for K2.5 per share. In the year ended 30 June 2017, Peter made the following disposals of Miracle Limited ordinary shares:

On 1 January 2016, Peter sold 250,000 of the Miracle Limited shares to Alfred for K10 per share, the market value at that date, as valued by a qualified valuer.

On 1 May 2016, Peter sold a further 100,000 of the Miracle Limited shares to his son for K5 per share. The market value of the shares at 1 May 2016 was K10 per share.

Required:

Calculate the capital gains tax payable by Peter Mbedza for the year ended 30 June 2016 and explain the tax treatment of the shares sold to his son. (5 marks)

- (b) Mustang Limited sold two properties on 1 June 2016. The first was a house the company owned in a residential area which it sold for K36,000,000. The house had been lived in by Mustang Limited's sales manager and was bought at a cost of K8,500,000 on 1 April 2010.

The second property sold by Mustang Limited was one of its factories located in another town which it sold for K12,000,000. The factory was bought second-hand on 10 August 2009 at a cost of K5,555,000. The tax written down value of the factory as at 1 January 2016 was K2,361,666.

As at 1 January 2016, Mustang Limited had a capital loss brought forward of K165,000 and a trading loss brought forward of K1,300,000.

Required:

Calculate Mustang Limited's chargeable gain for the year ended 31 December 2016. (5 marks)

(10 marks)

5 John Masinga is a dentist, practising as Masinga Dental Clinic, an unincorporated business.

John prepares financial statements to 30 June each year.

For the year ended 30 June 2017, he had a net profit before taxation of K600,000 after charging/crediting the following items to the statement of profit or loss:

	K	K
After charging:		
(i) John's salary		850,000
(ii) Rental for John's house		950,000
(iii) Depreciation for:		
Dental surgery equipment	185,000	
Office equipment	15,800	
Motor vehicle	<u>32,500</u>	233,300
(iv) Subscription to Dentist's Association		60,000
(v) Donations to a local church		26,500
After crediting:		
(vi) Interest on a fixed deposit account (net)		44,500

The motor vehicle is also used for private purposes. It has been agreed with the Malawi Revenue Authority that the private use of the motor vehicle is one third of the total usage. Motor vehicle running expenses excluding depreciation were K262,500.

PAYE had been deducted from John's salary from the practice.

Capital allowances for the practice are as follows:

	K
Dental surgery equipment	322,600
Motor vehicle	<u>115,800</u>
	438,400

Other information:

In addition to his income from Masinga Dental Clinic, John has the following earnings for the year ended 30 June 2017:

	K
Director's fees (gross)	100,000
House rentals (gross)	860,000

John had the following outgoings in respect of his additional income for the year ended 30 June 2017:

	K
Donations to Save the Children	120
Mortgage payments (60% capital)	440,000
Repairs to the house which is rented out	15,800

Withholding tax had been deducted on receipts of director's fees (10%), interest (20%) and rentals (15%).

Required:

- (a) **Compute the taxable income of Masinga Dental Clinic for the year ended 30 June 2017.** (7 marks)
- (b) **Calculate the tax payable by John Masinga for the year ended 30 June 2017, taking into account any tax already paid.** (8 marks)

Note: You should clearly indicate items not taxable or not deductible by the use of a zero (0).

(15 marks)

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Question 6 begins on page 14.**

- 6 Bullman Limited (Bullman) is a company incorporated in Malawi and makes up its financial statements to 31 December each year.

Bullman's results for the year ended 31 December 2016 are as follows:

	Note	K'000
Turnover		215,050
Cost of sales		(145,500)
Gross profit		<u>69,550</u>
Fair value of investments		2,000
Dividend received		1,700
Profit on sale of fixed asset	1	950
Interest received	2	<u>5,020</u>
Total income		<u>79,220</u>
<i>Less: expenditure</i>		
Administrative expenses		12,800
Depreciation		6,800
Salaries and wages		25,600
Donations	3	500
Interest paid		565
Legal fees	4	875
Rental of premises		2,200
Management fees	5	985
Impairment of investments		1,500
Provision of stock losses		<u>2,800</u>
		<u>54,625</u>
Profit before taxation		<u>24,595</u>

Notes:

1. The profit on the sale of the fixed asset is calculated as follows:

	K
Cost	8,500
Depreciation	(4,500)
Impairment	<u>(1,200)</u>
	2,800
Sale proceeds	<u>3,750</u>
Profit	<u>950</u>

The capital allowances claimed on this asset were K7,500,000.

2. Interest received is stated gross of withholding tax.
 3. Donations were made to the Save the Children Fund.
 4. Legal fees are comprised of:

	K
Advice relating to issue of new share capital	550
Debt collection	<u>325</u>
	<u>875</u>

5. Management fees were charged by Bullman's parent company in Kenya.

Other information:

- (i) Capital allowances for the year amounted to K5,650,000.
- (ii) A dividend of K1,200,000 was declared by Bullman on 3 March 2016 and paid on 30 June 2017.
- (iii) Provisional tax paid in June 2016 was K4,350,000.

Required:

- (a) Calculate the taxable income of Bullman Limited for the year ended 31 December 2016.**

Note: You should start your computation with the profit before taxation of K24,595 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.

(10 marks)

- (b) State for which of the items referred to in the question is withholding tax payable by Bullman Limited and calculate the amount of withholding tax.**

(3 marks)

- (c) Calculate the balance of tax payable by Bullman Limited by 30 March 2017 in respect of the year ended 31 December 2016.**

(2 marks)

(15 marks)

End of Question Paper