

Fundamentals Level – Skills Module

Taxation (Malawi)

Thursday 8 June 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



The Association of Chartered
Certified Accountants

The Institute of Chartered
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 from 1970 to 2016 – with 1970 as base year

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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

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** Lexo Properties is registered for value added tax (VAT). The company is involved in the construction, sale and rental of properties which are both residential and commercial.

In the month of December 2016, Lexo Properties entered into the following transactions:

	K
Income	
Residential property rental	650,000
Rental for commercial property	1,200,000
Sale proceeds of commercial property	32,000,000
Deposit on sale of residential property	4,500,000
Expenditure	
Salaries	450,000
Purchase of building materials	35,000,000
Motor vehicle repairs	2,750,000
Motor vehicle fuel	375,000
Rental of offices	850,000
Electricity	45,000

Notes:

The expenditure is split as follows:

- (i) 40% of the building materials purchases are for residential property.
- (ii) Other expenditure is split on a 50–50 basis.

The above figures are exclusive of VAT.

Required:

- (a) State when a supply is deemed to have occurred for VAT purposes.** (3 marks)
- (b) Calculate the output VAT chargeable and the input VAT claimable by Lexo Properties in respect of the above transactions for the month of December 2016.**

Note: Clearly indicate any item on which output VAT is not chargeable or input VAT not claimable by the use of a zero '0'. (7 marks)

(10 marks)

2 Sani Mega Limited is a company involved in the distribution of cosmetic products throughout the country.

The company makes up its financial statements to 31 December each year.

Due to cash flow problems, it sold its warehouse in May 2016 for K112,550,000. The property had been purchased in March 2000 for K11,500,000. No manufacturing activity was carried out in this warehouse.

In April 2016, the company also sold a motor lorry for K1,500,000. This vehicle was bought in June 2011 at a cost of K4,500,000 and had a net book value of K650,000 and a tax written down value of K450,000 as at 1 January 2016.

The company held 100,000 shares in Nova Limited, an unlisted company. This represented 45% of the total share capital. It sold 35,000 of these shares for K3,000 per share in January 2016. These shares had been purchased at K500 per share in December 2001. The shares were sold to a related party for K2,000 per share. The fair value of these shares was K3,400 per share.

Required:

(a) State the basis on which capital gains/losses are calculated. (3 marks)

(b) Calculate the gains chargeable to Sani Mega Limited for the year ended 31 December 2016.

Note: Where gains are not chargeable, clearly indicate the reason and explain any other tax consequences of the disposal. (7 marks)

(10 marks)

3 DYX Mining Limited is involved in the mining of rare earth in Kasungu.

The following information is available in connection with its results for the year ended 31 December 2016.

	Notes	K
Turnover		120,000,000
Cost of production	1	(88,500,800)
Gross profit		<u>31,499,200</u>
Less administration expenses	2	(22,458,000)
Profit before tax		<u>9,041,200</u>

Notes

Note 1. Included in cost of production are the following items:

	K
Depreciation	3,950,000
Royalties	6,500,000
Premium to acquire rights to mining for 20 years	1,500,000

Note 2. Included in administration expenses are the following:

	K
Audit fee	3,000,000
Legal fee – share capital structuring	500,000
Fringe benefits tax	675,000
Donation to local church	50,000

Note 3. The company purchased machinery during the year amounting to K7,500,000 and constructed buildings amounting to K8,500,000. These items will have no value after mining operations have ceased. The mining project has a life of 10 years.

Note 4. Expenditure on financing arrangements was K1,250,000. During the year income tax of K750,000 was paid.

Required:

(a) **Compute the taxable income of DYX Mining Limited for the year ended 31 December 2016, ensuring all claims are made as early as possible.** (5 marks)

(b) **Calculate the taxes payable by DYX Mining Limited for the year ended 31 December 2016.** (5 marks)

(10 marks)

4 Mafuleka Trading Limited is incorporated in Malawi and carries on the activity of a wholesaler of clothing.

The following financial information is provided for its activities for the past three financial periods. The year end is 30 September.

	30 September 2015 K	30 September 2016 K	30 September 2017 K
Adjusted profits before capital allowances	(350,000)	675,000	1,850,000
Capital allowances	235,000	475,000	425,000
Balancing charge	–	–	135,000
Capital (loss)/gain		(65,000)	735,000
Dividend received	–	50,000	150,000
Provisional tax paid	–	–	175,000
Withholding tax on interest	35,000	22,000	45,000

There is a pre-operating loss of K300,000 incurred before the company started its operations on 1 October 2014.

The capital loss in 2016 was earned on the sale of shares in an unlisted company. The capital gain in 2017 is made up of K100,000 gain from sale of shares and K635,000 from the sale of a residential house. The proceeds from the sale of the house were used to buy another house in 2017.

Required:

(a) Calculate the tax payable by Mafuleka Trading Limited for the three years ending September 2015, 2016 and 2017.

Note: Your answer should deal with all the items mentioned above, indicating by the use of a zero ('0') those which do not affect the tax payable. (8 marks)

(b) State how trading losses, capital losses and pre-operating losses are dealt with for the purpose of computing taxable income. (2 marks)

(10 marks)

5 Simon Phiri operates a business as an ICT consultant.

The following financial information is available in respect of the financial period ending 30 June 2016:

	K
Net profit before taxation	850,000

In arriving at these results the following were taken into account:

	K
(i) Depreciation	340,000
(ii) Simon's salary	650,000
(iii) School fees for Simon's children	450,000
(iv) Utilities for Simon's house	125,000
(v) Office rental	500,000
(vi) Accounting fee	245,000

It has been agreed that the capital allowances for the business assets are K480,500.

Simon is married to Jennifer, who is employed as a secretary by an unrelated construction firm.

The following further information is available in connection with their earnings in addition to the business income, for the year ended 30 June 2016:

	Simon	Jennifer
	K	K
Salary		650,000
Bonus		50,000
Director's fees (gross)		25,000
Interest received – call account (gross)	15,000	
Dividends		10,000
House rentals		860,000
Donations – Save the Children Fund	1,200	

The house rentals are from a house owned by Jennifer in Chilomoni.

The following are their outgoings in respect of the above income:

	Jennifer
	K
Mortgage capital payment	340,000
Mortgage interest	345,000
Repairs to the house	125,000

Required:

(a) Compute the taxable income for Simon and Jennifer Phiri for the year ended 30 June 2016.

Note: Your answer should list all items and indicate items not giving rise to an adjustment in the tax computation by the use of a zero ('0'). (12 marks)

(b) State what would be the tax implications of the amounts paid to or for Simon if the business were a limited company. (3 marks)

(15 marks)

6 Sawelenga Limited is a company involved in manufacturing plastic-ware.
 The company makes up its financial statements to 31 December each year.
 The following are the results for the year ended 31 December 2016.

	K
Turnover	85,500,000
Cost of sales	(65,820,500)
Gross profit	<u>19,679,500</u>
Interest received (gross)	22,000
Sundry sales – scrap	<u>65,000</u>
Total income	<u>19,766,500</u>
<i>Less Expenditure</i>	
Staff costs	9,500,000
Fringe benefits tax	650,000
Repairs and maintenance	895,000
Provision for doubtful debts – 2% of debtor balances	985,000
Donations (village community)	650,000
Insurance	1,200,000
Marketing expenses	550,500
Licences	125,000
Telephone	320,000
Other utilities	425,000
Other allowable operating costs	<u>1,250,800</u>
	<u>16,551,300</u>
Net profit before taxation	3,215,200

The following further information is available:

- (i) Included in cost of sales is depreciation of K890,000 and provision for stock losses of K475,000.
- (ii) Provisional tax paid was K650,000.
- (iii) The tax written down value of assets used in the company as at 1 January 2016 were:

	K
Factory building	5,500,000
Plant and equipment	4,450,000
Motor lorries	2,250,000
Motor cars	895,000

The following additions to the assets were made during the year:

	K
Second hand plant	2,800,000
Motor car	6,500,000

Required:

- (a) Calculate the capital allowances to be claimed by Sawelenga Limited for the year ended 31 December 2016.** (5 marks)
- (b) Calculate the tax to be paid by Sawelenga Limited for the year ended 31 December 2016.** (7 marks)
- (c) State when the company should pay the balance of any tax due and the penalties which would be suffered for non-compliance.** (3 marks)

(15 marks)

End of Question Paper