
Answers

	Marks
1 The treatment of income arising from the sale of investments in listed company shares for tax purposes depends on the length of time that the shares have been held, as follows:	
– If the shares have been held for less than 12 months, any profit arising from the sale of such shares will be subject to tax.	1
– If the shares are held for more than 12 months, the gain or loss is exempt from tax.	1
In calculating the capital gain in respect of a disposal of shares held for less than 12 months, the gain is calculated as the sale proceeds less the original cost of the shares. Consumer price indices will also be used to adjust the original cost of the shares.	$\frac{1}{2}$
	$\frac{1}{2}$
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Tutorial note: *No such calculation requires to be carried out in the case of a disposal of listed shares held for more than 12 months, since such a gain is exempt.*

(b) Capital allowances computation – Madengu Limited

Year ended 30 September 2014

Description of asset	TWDV 1 October 2013 K	Additions K	Disposals K	Total K	Investment rate	Capital allowances			Total allowances K	TWDV 30 September 2014 K	
						Initial rate	Annual rate				
Industrial building	6,500,000	2,500,000		9,000,000	100%		5%	325,000	2,825,000	6,175,000	2
Plant and machinery	7,500,000	885,500		8,385,500	40%	354,200	10%	838,550	1,192,750	7,192,750	2
Equipment	985,500		(185,500)	800,000		–	10%	80,000	80,000	720,000	1
Office furniture	475,400			475,400			10%	47,540	47,540	427,860	1½
Computers	1,200,000	450,000		1,650,000		20%	40%	660,000	750,000	900,000	1½
Motor vehicles	550,000	–	–	550,000		–	20%	110,000	110,000	440,000	1½
	17,210,900	3,835,500	(185,500)	20,860,900				2,061,090	5,005,290	15,855,610	

Note for marking: ½ mark each additions, disposals, initial allowances and annual allowances, 1 mark each for investment allowance.

Industrial building

Cost	K	
	3,625,000	
Less cost of office	(1,125,000)	cost of office more than 20% of total cost of building – does not qualify for allowances
	2,500,000	1

Balancing charge – disposal of equipment

Tax written down value	K	
	185,500	
Sale proceeds	(224,900)	½
Balancing charge	(39,400)	½

Summary of allowances

Investment	2,854,200	
Initial	90,000	
Annual	2,061,090	½
Balancing charge	(39,400)	
Total allowances	4,965,890	

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(c) Computation of taxable income of Madengu Limited year ended 30 September 2014

	K	K	
Profit before taxation		5,078,175	½
Add items not allowed for taxation			
VAT	315,500		1
Depreciation	6,865,000		½
Loss on sale of equipment	175,100		½
Interest to purchase shares	656,475		1
Donations – Milingo hospital	65,800		½
Donations – Chisomo private hospital	393,400		½
Premium for use of patents (working)	400,500		1
Impairment of investments	324,900		½
Fringe benefits tax	450,100		½
Penalties for late payment of PAYE	127,500		½
		<u>9,774,275</u>	
		14,852,450	
Less items allowable for taxation			
Gain on disposal of listed investments (shares held for > 12 months)	125,850		1
Dividends from Malawian companies	650,000		½
Share of profits of associates	865,200		1
Capital allowances (from part (b))	4,965,890		½
		<u>(6,606,940)</u>	
Adjusted profits for taxation		<u>8,245,510</u>	

Working:

The patents are amortised over 10 years for tax purposes. Therefore, a deduction of K44,500 is taken in the year ended 30 September 2014 and K400,500 (being K445,000 – K44,500) is added back in the computation.

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(d) Tax payable by Madengu Limited for the year ended 30 September 2014

	K	
Adjusted profits for taxation	<u>8,245,510</u>	
Tax at 30%	2,473,653	1
Less Provisional tax	(3,500,000)	1
Withholding tax on interest (85,000 * 20%)	<u>(17,000)</u>	1
Tax refundable	<u>(1,043,347)</u>	
		<u>3</u>

- (e)** If 5% of Madengu Limited's sales income were derived from exports to customers overseas, export allowances would be given to the company. This is because Madengu Limited's exports are not the traditional exports of tea, coffee or tobacco.

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Export allowance would be calculated at 25% of the taxable income derived from the non-traditional exports. In addition to this allowance, Madengu Limited would also qualify for export transport allowances calculated as 25% of the international transport costs of these exports.

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The effect of these additional tax reliefs would be that Madengu Limited's tax refundable would be higher than calculated in part (d).

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2 Miriam Maseko

(a) Taxable profits for the year ended 30 June 2014

	K	K	
Loss for the year		(75,000)	½
<i>Add items not allowed for taxation</i>			
Purchase of hairdryers	65,000		1
Depreciation	85,000		½
Drawings	200,000		1
		350,000	
		275,000	
<i>Less: Allowable items</i>			
Capital allowances		(120,000)	1
Taxable profits		155,000	
			4

(b) Miriam's taxable income for the year ended 30 June 2014

	K	K	
Business income:			
Taxable income – hair saloon (from part (a))		155,000	½
Employment earnings:			
Salary		1,500,000	½
<i>Less pension – Miriam's contribution</i>		0	½
Housing allowance		150,000	½
Medical aid		0	½
Pension – company contributions		0	1
Bonus		120,000	½
Rental income:			
Rental	300,000		½
<i>Less:</i>			
City rates	(135,000)		½
Repairs and maintenance	(65,000)		½
New driveway	0		1
Net rental income	100,000	100,000	
Income from other sources:			
Dividend		0	1
Director's fee		120,000	1
Interest		65,000	½
<i>Less: exempt interest</i>		(10,000)	1
Taxable income		2,200,000	10

(c) Total tax payable by Miriam for the year ended 30 June 2014

		K	
Taxable income for the year (from part (b))		2,200,000	
Tax payable			
First K240,000		0	½
Next K60,000 at 15%		9,000	½
Excess over K300,000			
K1,900,000 at 30%		570,000	½
		579,000	
<i>Less tax credits</i>			
PAYE (working)	450,000		½
Withholding tax – director's fees (10%)	12,000		1
Withholding tax – interest (20%)	13,000		1
		(475,000)	
Tax payable		104,000	

Working:**Tax collect via PAYE**

	K	
Salary	1,500,000	1/2
Housing allowance	150,000	1/2
Bonus	120,000	1/2
	<u>1,770,000</u>	
First K240,0000	0	1/2
Next K60,000 at 15%	9,000	1/2
Excess over K300,000		
K1,470,000 at 30%	441,000	1/2
	<u>450,000</u>	
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(d) Effect on Miriam's tax if she were married to John during the year

If Miriam was married to John during the year, her income, except her earned income, would be deemed to be the income of John.

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Therefore the tax payable by Miriam would be reduced by the following:

	K	
Taxable income from saloon	155,000	1/2
Income from rental	100,000	1/2
Net interest income	55,000	1
	<u>310,000</u>	
Tax at 30%	93,000	1/2
Withholding tax on interest	(13,000)	1/2
Reduction in tax payable	<u>80,000</u>	4
		<u>25</u>

3 Dango Motors Limited**(a) A supply for the purposes of value added tax (VAT) includes:**

- (i) Sale of goods or supply of services;
- (ii) The processing of data or supply of information or similar service;
- (iii) The supply of staff;
- (iv) The acceptance of a wager or stake in any form of betting or gaming, including lotteries and gaming machines;
- (v) The making of gifts or loans of goods;
- (vi) The leasing or letting of goods on hire;
- (vii) The appropriation of goods for personal use or consumption by the taxable person or by any other person;
- (viii) The sale, transfer, assignment, or licensing of patents, copyrights, trade marks, computer software, and any other proprietary information; and
- (ix) Exports.

1 mark each, maximum

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				Marks
(b) (i)	K	Status		
Expenditure				
Purchase of spare parts for resale	8,500,000	Standard rated		½
Purchase of vehicles for resale	55,000,000	Standard rated		½
Rental of house for the managing director	200,000	Exempt		½
Rental of showroom	1,200,000	Standard rated		½
Salaries and wages	5,000,000	Outside of scope		½
Purchase of furniture	765,000	Standard rated		½
Water	110,000	Exempt		½
Electricity	245,000	Standard rated		½
Withholding taxes	1,200,000	Outside of scope		½
Hotel accommodation	126,500	VAT suffered is irrecoverable		½
Telephones – ground lines	46,500	Standard rated		½
Purchase of motor vehicle for salesman	4,500,000	VAT suffered is irrecoverable		½
				<u>6</u>
(ii) VAT payable – June 2014				
	K	VAT K		
Sales of motor vehicles (new and second-hand)	76,550,000	12,630,750		1
Sales of spare parts – exports (zero rated)	4,500,000	0		1
Bank interest (exempt)	865,000	0		1
	<u>81,915,000</u>	<u>12,630,750</u>		
Input VAT				
Standard-rated purchases (8,500,000 + 55,000,000)	63,500,000	10,477,500		½
Purchase of furniture (capital item)	765,000	126,225		½
Other standard-rated expenses (rental of showroom, electricity and telephone expenses)	1,491,500	246,098		½
	<u>65,756,500</u>	<u>10,849,823</u>		
VAT payable for the month		1,780,927		½
				<u>5</u>
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- 4 (a)** The following expenditure incurred by a farmer in any year of assessment is specifically deductible:
- (i) the stumping, levelling and clearing of lands;
 - (ii) works for the prevention of soil erosion;
 - (iii) boreholes;
 - (iv) wells;
 - (v) aerial and geophysical surveys;
 - (vi) any water control work in connection with the cultivation and growing of rice, sugar or such other crop approved by the Minister.
- 1 mark each, maximum 3

(b) Treatment of items of income and expenditure in the income tax computation of Dziko Insurance Limited (Dziko)**Income:**

Gross written insurance premiums	6,520,000	Taxable as part of taxable income	1/2
Fees and commissions received	2,265,000	Taxable as part of taxable income	1/2
Dividends received	865,000	Not taxable on Dziko	1/2
Interest received on bank accounts	125,000	Taxable as part of taxable income – included gross of any withholding tax deducted	1/2
Rental income received	325,000	Taxable as part of taxable income – included gross of any withholding tax deducted	1/2
Profit on sale of property	69,500	The profit on sale is not taxable, however, capital gains will be calculated and included in Dziko's tax return	1/2

Expenses:

Insurance premiums on reinsurance	3,650,000	This is an allowable expense – deductible from taxable income	1/2
Staff costs	2,654,000	This is an allowable expense – deductible from taxable income	1/2
Commissions paid	425,000	This is an allowable expense – deductible from taxable income	1/2
Depreciation	895,000	This is not an allowable expense, however, capital allowances will be available	1/2
Impairment loss	759,000	This is not an allowable expense	1/2

6**(c) Exempt categories of income under the Taxation Act:**

- (i) The income of agricultural, mining and commercial institutions or societies not operating for private pecuniary profit or gain of the member.
- (ii) The income of clubs, societies and associations operated for social welfare or civic improvement or other similar purpose provided the income of such bodies may not be divided among or used for the benefit of members or shareholders.
- (iii) The income of ecclesiastical, charitable and educational institutions of a public character and trust of a public character.
- (iv) War disability or war widows pension.
- (v) Interest up to K10,000 received by or accrued to or in favour of an individual.
- (vi) Capital gains arising from the disposal of personal and domestic assets not used in connection with any trade.
- (vii) Capital gains arising on the transfer of assets between spouses, former spouses, to a spouse from the estate of a deceased spouse and to a child from the estate of a deceased parent.
- (viii) A capital gain arising from the disposal of a taxpayer's principal residence.
- (ix) Capital gain arising from the sale of shares traded on the Malawi Stock Exchange where they have been held for at least one year.
- (x) Redundancy pay of up to K50,000, excluding notice pay or commutation of leave.
- (xi) Dividends, although these are subject to 10% dividend withholding tax.
- (xii) Payment on account of ill health or disability.

1 mark each, maximum

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5 Mayamiko Zulu

(a) Tax payable on rental income for the year ended 30 June 2014

	K	
Property 1	2,070,000	½
Property 2	3,300,000	½
Property 3	2,760,000	½
Property 4 – 9 months	2,484,000	1
	<u>10,614,000</u>	
Less: Maintenance costs – 25% of rental	(2,653,500)	½
Advertising – Property	(50,000)	½
Net rental income	<u>7,910,500</u>	
Tax		
First K240,000 at 0%	0	½
Next K60,000 at 15%	9,000	½
Excess over K300,000		
K7,610,500 at 30%	2,283,150	½
	<u>2,292,150</u>	<u>5</u>

(b) Tax if two properties are sold

	Property 1 K	Property 2 K	
Cost	2,500,000	4,500,000	1
Conversion factor	7.550	2.865	2
Revised cost	<u>18,875,000</u>	<u>12,892,500</u>	
Selling price	<u>22,000,000</u>	<u>40,000,000</u>	1
Capital gain	<u>3,125,000</u>	<u>27,107,500</u>	<u>30,232,500</u>
Tax at 30%	937,500	8,132,250	9,069,750 ½
Rental property 3	2,760,000		} ½
Rental property 4	<u>2,484,000</u>		
	5,244,000		
Less: Expenses – maintenance	(1,311,000)		½
Advertising	(50,000)		½
	<u>3,883,000</u>		
Tax			
up to K300,000	9,000		
Excess over K300,000			
K3,583,000 at 30%	<u>1,074,900</u>		1
	<u>1,083,900</u>	<u>1,083,900</u>	
		<u>10,153,650</u>	
If property is sold, tax payable will increase by		7,861,500	<u>1</u>
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(c) In order to avoid any penalties, Mayamiko must file his self-assessment return by 31 December 2014 (or within 180 days from end of the financial period).

The tax payable should be remitted to the Commissioner General at the same time as his return is submitted.

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