

Applied Skills

Taxation – Malawi (TX – MWI)

Tuesday 4 June 2019



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.

MWI
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TX

Think Ahead



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.

2018/19 tax year Income tax rates: Individuals

Non-employment income		
Annual taxable income		
K	Rate	Cumulative
0 – 420,000	0%	0
420,001 – 480,000	15%	9,000
480,001 +	30%	–

Employment income		
Annual taxable income		
K	Rate	Cumulative
0 – 420,000	0%	0
420,001 – 480,000	15%	9,000
480,001 – 36,000,000	30%	10,656,000
36,000,001 +	35%	–

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 2018 – with 1970 as base year

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2018	245,235.69	250,492.10	243,905.16	–	–	–	–	–	–	–	–	–
2017	243,824.58	249,607.83	248,499.30	225,763.10	228,715.44	223,457.87	219,389.99	220,454.61	228,917.29	232,381.11	242,270.49	252,081.77
2016	206,343.66	214,900.03	209,405.94	204,091.98	203,551.58	200,759.50	199,138.29	201,660.17	211,117.21	214,629.83	224,897.47	235,435.32
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 A – ALL 15 questions are compulsory and MUST be attempted

Please use the grid provided on page two of the Candidate Answer Booklet to record your answers to each multiple choice question. Do not write out the answers to the MCQs on the lined pages of the answer booklet.
Each question is worth 2 marks.

1 Which of the following sources of income are subject to taxation in respect of a golf club formed for social purposes?

- (1) Membership fee
- (2) Bar sales
- (3) Golf fees
- (4) Entrance fee
- (5) Bank interest

- A** 1, 4 and 5
- B** 1 and 4 only
- C** 2, 3 and 5
- D** 2 and 3 only

2 Miyambo Limited remunerates its general manager with the following: salary K2,500,000 per month, free furnished housing rented at K500,000 per month and free use of a car which cost K5,000,000 three years ago. The company also pays him a total of K85,000 per month for water and electricity and pays the telephone company for his use of the telephone at K80,000 per month. 50% of the telephone charges are deemed to be for business.

What is the value of taxable fringe benefits per quarter?

- A** K1,207,500
- B** K1,057,500
- C** K2,182,500
- D** K1,807,500

3 Which body or person can a taxpayer appeal to if they disagree with a decision made by the Commissioner in respect of an assessment?

- A** Commissioner General
- B** High Court
- C** Special Arbitrator
- D** Supreme Court of Appeal

4 Simenya Limited sold a property for K85,000,000 on 1 February 2018. The property was purchased for K45,000,000 on 1 September 2015 and was being rented out. K65,000,000 of the proceeds were reinvested in another property on 30 June 2018. The new property is also available for rental.

What is the cost of the replacement property for capital gains purposes?

- A** K24,678,500
- B** K20,000,000
- C** K20,321,500
- D** K44,678,500

- 5 Jamu Traders is a value added tax (VAT) registered supplier and sells both taxable and exempt supplies. For the month ended 31 December 2018, his total sales, inclusive of VAT where applicable, were K4,500,500. The total taxable purchases for resale for the month were K5,500,000, whilst the total purchases for resale in the month were K6,450,000.

What is the output value added tax (VAT) for the month of December 2018?

- A K543,528
- B K637,410
- C K633,210
- D K742,583

- 6 Which of the following conditions must exist for a company to claim a debt written off as an allowable tax deduction?

- (1) The debt must be more than two years old
- (2) The debt must be irrecoverable
- (3) The debt must be due to the taxpayer
- (4) The debt must have been included in income either in the current year or a prior year

- A 1, 3 and 4
- B 2 and 3 only
- C 2, 3 and 4
- D 1, 2 and 4

- 7 Michael is employed as a salesman by Mudzi Limited. His basic salary for the year to 30 June 2019 is K24,000,000 and commission on sales of K1,200,000 will be paid to him at the end of the year. He is also paid 10% of his basic salary as housing allowance. The company provides him with the use of a company vehicle and the total private motor vehicle expenses for the year are K850,000.

What is the monthly PAYE deduction from Michael's salary for the year ending 30 June 2019?

- A K648,750
- B K678,750
- C K588,750
- D K700,000

- 8 Mabvuto expects to have the following income for the year ending 30 June 2019

	K
Salary	850,000
Bank interest (fixed deposit)	65,000
Dividend from a local company	45,000
Director's fee	125,000
Interest on loan to Mabvuto's brother	35,500
Redemption of treasury bill	455,000
Interest on treasury bill redemption	90,000

What is the taxable investment income of Mabvuto for the year ending 30 June 2019?

- A K235,500
- B K190,500
- C K600,500
- D K725,500

- 9 A company fails to submit a summary of withholding tax deducted as well as all withholding tax certificates completed during the month to which the remittance of withholding tax relates.

Which of the following penalties are payable by the company?

- (1) K300,000 for the first month or part thereof
- (2) K10,000 for each month or part thereof the failure continues
- (3) K75,000 for the first month or part thereof
- (4) K50,000 for each month or part thereof the failure continues

- A 3 and 4
- B 1 and 2
- C 2 and 3
- D 1 and 4

- 10 Muscat Limited bought a double cab vehicle for its sales manager on 2 February 2018 for K8,500,000 and a laptop for K500,000.

What is the maximum amount of capital allowances which can be claimed on these assets for the year ended 31 December 2018?

- A K3,700,000
- B K2,000,000
- C K3,600,000
- D K1,900,000

- 11 Dryden Limited has a tax loss brought forward from December 2017 of K650,500. For the year to 31 December 2018, the company's computed tax loss is K265,000 and it has a chargeable gain of K345,000.

What is the tax loss carried forward to be offset in the year to 31 December 2019?

- A K570,500
- B K915,500
- C K650,500
- D K305,500

- 12 Malumbo Limited showed a profit before tax for the year ended 31 December 2018 of K575,500 before charging depreciation of K165,000 and before crediting interest on a treasury bill of K65,000 (gross). The rent expense deducted in arriving at the profit includes rent prepaid for 2019 of K125,000. Capital allowances which may be claimed amount to K185,000.

What is the taxable income of Malumbo Limited for the year ended 31 December 2018?

- A K865,500
- B K745,500
- C K640,500
- D K580,500

- 13** Mulanje Limited, a company registered for value added tax (VAT), hired the services of a non-resident consultant. The consultant invoiced an amount of K6,500,000, exclusive of VAT, on 8 March 2019.

How should Mulanje Limited account for this transaction in its value added tax (VAT) return for the period?

- A** Include the invoice as an input
- B** Include the invoice as an output
- C** Include the invoice both as an output and as an input
- D** Exclude the invoice from the VAT return

- 14** Zoaland Limited is a manufacturing company and estimates its taxable profit for the year ended 30 September 2018 to be K5,000,000.

What is the minimum amount of provisional tax which should have been paid by Zoaland Limited each quarter to avoid payment of penalties?

- A** K375,000
- B** K337,500
- C** K1,125,000
- D** K1,250,000

- 15** Times Limited bought a 60% interest in Shoreline Limited on 30 June 2006 for K2,500,000. Neither company is listed on the stock exchange. Times Limited also provided a loan of K15,000,000 in July 2007 to Shoreline Limited to enable it to carry out investments in property. The whole issued share capital (i.e. 100%) of Shoreline Limited was sold to Genco Limited on 5 January 2018 for total proceeds of K55,000,000. The loan from Times Limited has not been repaid and the liability has not been taken over by Genco Limited.

What is the capital gain or loss arising on the sale of the subsidiary which is attributable to Times Limited for the year ended 31 December 2018?

- A** K20,417,488
- B** K5,417,488
- C** K27,417,488
- D** K(28,397,768)

(30 marks)

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 The following is a summarised value added tax (VAT) return for Nyika Manufacturing Limited for the year ended 30 September 2018.

	Notes	K'000
Outputs		
Sales		15,600
Purchase returns		425
Profit on sale of equipment	1	44
		<hr/> 16,069
Inputs		
Purchases	2	10,800
Rental of premises	3	2,580
Sales returns	4	755
Marketing expenses	5	865
Credit note issued		65
Discount for early settlement	6	25
Repairs and maintenance		35
		<hr/> 15,125
Excess of outputs over inputs		<hr/> 944

During a review of the VAT return by the financial accountant, the following matters were discovered:

1. Profit on sale of equipment relates to equipment which was sold for K130,000 and had a book value of K86,000 at the date of sale.
2. Purchases include an invoice for K185,000 dated and received before the year end, but the goods were received after the year end.
3. Rental of premises includes an amount of K580,000 relating to rental for the managing director's residence.
4. Sales returns include an amount of K625,000 relating to goods returned which were exported to Zambia.
5. Marketing expenses include an invoice for K65,000 relating to a hotel invoice for accommodation for the marketing manager whilst visiting customers on business.
6. There were no documents issued for early settlement other than the information on the original invoice and receipt issued for amounts received.

All amounts are exclusive of VAT and, where relevant, all suppliers are VAT registered unless otherwise stated.

Required:

- (a) In respect of each of the matters (1 to 6), state, giving reasons, whether or not there is any adjustment required to the value added tax (VAT) return computation. (7 marks)

- (b) Recompute the excess of outputs over inputs for the year ended 30 September 2018.

Note: You should start your answer with the excess outputs of K944,000, clearly indicating by the use of zero (0) any items not resulting in a VAT adjustment. (3 marks)

(10 marks)

- 2 Joseph is employed by Manu Bank. For the year ending 30 June 2019, his employment package is:

	K
Basic salary	8,650,500
Bonus	650,000
Pension – company contribution	868,050
Medical aid – company contribution	252,000
Company car (cost July 2018)	4,500,000
Utilities allowance	750,000

Joseph's contribution to the pension is K432,625.

Notes:

- (1) His other income for the year to 30 June 2019 is expected to be:

	K
Dividend	480,590
Bank interest received	125,500
Director's fee	435,000

The amounts above will have had the correct withholding tax deducted at source and the amounts are stated net of that tax.

- (2) Joseph owns a house which he lets out at K200,000 per month. The following costs relate to the year ending 30 June 2019:

	K
Construction of driveway	350,000
Rates	120,000
Mortgage interest	335,500
Insurance	95,000

Required:

- (a) Calculate the PAYE deductible from Joseph's earnings by Manu Bank for the year ending 30 June 2019.

Note: You should indicate by the use of zero (0) any amount of employment income in your calculation which is not taxable. (4 marks)

- (b) Calculate Joseph's taxable income for the year ending 30 June 2019, assuming his income is as expected.

Note: You should indicate by the use of zero (0) any items of income or expense which are not taxable or not allowable. (6 marks)

(10 marks)

3 George entered into the following transactions during the year ended 30 June 2018:

- (i) On 15 March 2018, he sold a house which he was renting out, for K65 million. The house cost K10.5 million when it was purchased on 5 June 2006.
- (ii) On 3 January 2018, he sold 1,000 ordinary shares held in Nook Limited, an unlisted company, for K65 per share. George bought the shares on 11 May 2015 for K45 per share.
- (iii) On 31 December 2017, George transferred a house in Namiwawa to his wife. The transfer value was set at K115 million. The house cost K45 million in October 2009.
- (iv) On 1 February 2018, he sold a private motor car for K650,000. George bought it on 15 October 2000 for K2,500,000.
- (v) On 10 March 2018, George sold 10,000 shares in Muscat Limited, a listed company, for K22 per share. He purchased the shares on 10 November 2017 at K20 per share.

George has a capital loss brought forward from the previous period of K35,500.

Required:

(a) Explain whether each of George's disposals listed in points (i) to (v) will be subject to capital gains tax, briefly mentioning any available tax reliefs. (5 marks)

(b) Calculate George's net chargeable gain or loss for the year ended 30 June 2018. (5 marks)

(10 marks)

- 4 The receipts and expenditure statement for Malungo Sports Club for the year ended 31 August 2018 is shown below:

	Notes	K
Receipts		
Bar sales	2	9,450,000
Restaurant sales		2,450,400
Membership subscriptions	4	1,250,000
Entrance fees		345,000
Christmas plays		250,000
Golf fees		385,000
		<u>14,130,400</u>
Expenditure		
Bar purchases		5,300,100
Purchases for the restaurant		1,100,000
Salaries and wages		4,500,000
Grounds maintenance		850,000
Refund of membership subscriptions		450,500
Cancelled bar sales		150,000
Water and electricity		956,000
		<u>13,306,600</u>
Excess of income over expenditure		823,800

Notes:

- Interest received on a fixed deposit account of K235,000 net of withholding tax was received but not recorded in the books of account.
- An amount of K250,000 relating to bar sales had not been received by the year end.
- A laptop costing K465,000, to be used by the club's accountant, was purchased on 1 July 2018. This is not included in the books of account.
- Included in membership subscriptions is a total amount of K365,000 being subscriptions received in advance for the year to 31 August 2019.
- Bar closing inventory is K165,000 at 31 August 2017 and K365,550 at 31 August 2018.

Required:

(a) Calculate the income tax payable on the income of Malungo Sports Club for the year ended 31 August 2018. (6 marks)

(b) Explain the basis of taxation of a club and the treatment of income and expenditure. (4 marks)

(10 marks)

- 5 Mervis is the sole proprietor of a shop business. His expected trading results for the year ending 30 June 2019 are shown below:

	Notes	K
Income		
Sales		7,850,568
Cost of sales (all allowable)		<u>(6,290,900)</u>
		1,559,668
Other income		
Bank interest	1	36,560
Bank loan		3,500,600
Dividend received	1	400,000
Proceeds on sale of personal vehicle (station wagon)		375,500
Rental income	1	<u>2,300,400</u>
		8,172,728
Expenditure		
Shop rental		2,040,000
House rental for Mervis		1,020,000
Purchase of laptop		475,500
Mervis' drawings		1,000,000
Withholding tax (shop and house rental for Mervis)		540,000
Electricity and water	2	800,000
Loan repayment	3	200,000
Costs relating to rental income	4	655,508
Air tickets for travel by Mervis' son	6	<u>1,250,000</u>
		7,981,008
Profit for the year		191,720

Notes:

1. Bank interest, dividends and rental income are recorded net of withholding tax.
2. 20% of electricity and water is for Mervis' residence.
3. The loan repayment includes K35,000 interest.
4. Costs relating to rental income are made up of:

	K
Insurance and rates	235,500
Repairs and maintenance	<u>420,008</u>
	655,508

5. The tax written down values of non-current assets as at 1 July 2018 are:

	K
Furniture and fittings	875,500
Motor vehicle (saloon car)	655,000

6. Mervis' son does not work for him.

Required:

- (a) Calculate Mervis' taxable business income or allowable loss for the year ending 30 June 2019 assuming his trading results are as expected.

Note: You should start your answer with the accounting profit of K191,720 and indicate by the use of zero (0) any item(s) of other income or expenditure referred to in the question which do not require adjustment.

(11 marks)

- (b) Calculate Mervis' net taxable income or loss from all sources for the year ending 30 June 2019.

Note: You should indicate by the use of zero (0) any income source which is not taxable.

(4 marks)

(15 marks)

- 6 Sesame Limited is a locally incorporated distributor of hardware products. The company's results for the year ended 31 December 2018 are shown below:

	Notes	K
Income		
Sales		13,463,392
Cost of sales (all allowable)		(9,934,024)
		<u>3,529,368</u>
Other income		
Profit on sale of office copier	1	300,000
Bank interest	2	137,458
Dividend received	2	178,000
Fair value adjustment		250,000
		<u>4,394,826</u>
Expenses		
Donations	3	500,000
Fringe benefits tax		475,500
Impairment of investment	4	65,890
Interest on bank loan	5	323,100
Rent on warehouse		672,000
Unrecovered value added tax (VAT)	6	150,000
		<u>2,186,490</u>
Profit before tax		2,208,336

Notes:

1. The office copier was sold for K350,000. The copier cost K625,000 and capital allowances of K584,500 had been claimed.
2. Bank interest and dividend received are stated at amounts actually received. The dividend was received from a local company.
3. The donations were made to Save the Children fund: K400,000, and a ruling political party: K100,000.
4. Impairment of investment is the loss in value of shares held in a listed company.
5. The bank loan was obtained to finance the construction of a house for the general manager. As at 31 December 2018 the house was not yet completed.
6. Unrecovered VAT relates to VAT on items of revenue expenditure which is not recoverable.
7. Office equipment had a tax written down value of K580,000 as at 1 January 2018.
8. A dividend of K1,500,000 was declared on 1 February 2019.

Required:

- (a) Calculate the taxable income of Sesame Limited as well as the tax payable by the company for the year ended 31 December 2018.

Note: You should start your answer with the profit before tax of K2,208,336 and indicate by the use of zero (0) any item(s) of other income or expenditure referred to in the question which do not require adjustment.

(10 marks)

- (b) (i) Calculate the withholding tax payable on the declared dividend. (1 mark)
- (ii) State when the withholding tax on the dividend is payable and any penalty for late payment. (2 marks)
- (iii) State when withholding tax should not be deducted from dividends. (2 marks)

(15 marks)

End of Question Paper