Answers

Section A *Marks*

1 C

2 D

3 B K5,000,000*10% = K500,000

4 D (465,000 + 400,000 – 65,000) = K800,000

5 A

6 C higher of (10%*2,500,000) = 250,000 or rent 240,000
(250,000 + 40,000)*3 = K870,000*30% = K261,000

7 B (835,000*16·5/116·5) – (435,000*0%) – (165,000*16·5/116·5) = K94,893

8 D

9 A (950,000 + 300,000 + 65,000 – 125,000 – 325,000) = K865,000

10 C (80,000 + 8,000)*3 = 264,000 <360,000 = K0

11 D (117,500 + 78,500 – 8,500) = K187,500

12 B

13 A (100,000*6) – 198,500 – (24,000/2) = K389,500

14 C (6,000,000*4) = 24,000,000*1·15 = 27,600,000*90% = 24,840,000 – 18,000,000 = K6,840,000

15 B (8,000,000*20%) + (850,000*20%) + (850,000*40%) + 465,000 = K2,575,000

2 marks each **30**

Section B *Marks*

1 (a) (i) Penalty and interest payable by Muscat Limited for the late submission of the VAT return for the month of April 2018

The penalty for the late submission of a VAT return is K300,000 for the first month and a further penalty of K50,000 for each additional month or part thereof that the return remains outstanding. ½

In this particular instance, the total penalty for late submission will be K350,000. ½

A further penalty of 20% will be payable on the outstanding amount, which in this case will be 20% of K45,000 giving K9,000. Interest is due on the unpaid tax at 16% plus 5% per annum for each month or part thereof during which the tax remains unpaid. ½

Total interest is therefore 21% per annum for one month and five days, giving K932 (K45,000*21%*36/365).

Therefore total penalties and interest amount to K359,932. ½

2

(ii) Calculation of VAT payable by Muscat Limited for the month of June 2018

	VAT exclusive amount K '000	VAT rate	VAT amount K '000	Marks
Output VAT				
Rental income (4,500 + 125)	4,625	16·5%	763	½
Supermarket sales	2,800	16·5%	462	½
Supermarket sales – exempt	350		0	½
	7,775		1,225	
Input VAT				
Purchases (VAT registered suppliers)	4,500	16·5%	743	½
Purchases (unregistered suppliers)	1,000		0	½
Depreciation	350		0	½
Motor lorry	1,500	16·5%	248	½
Electricity	65	16·5%	11	½
Water	15	16·5%	2	½
Printing and stationery	75	16·5%	12	½
Hotel accommodation	12		0	½
Repairs and maintenance	45		0	½
Wages and salaries	250		0	½
Fringe benefits	40		0	½
	7,852		1,016	
VAT payable			209	
				7

(b) VAT is payable on taxable services. If the services are provided by a non-resident, then because they are not registered for VAT in Malawi they cannot issue a tax invoice for their service. ½

In such a case, since the service provided would have been subject to VAT if provided by a resident supplier, the relevant VAT should be self-declared by the recipient and paid to the Malawi Revenue Authority. ½

1

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Tutorial note: *A VAT registered person may then reclaim it.*

Marks

2 (a) Taxable Income of Zalewa Mining Company Limited for the year ended 31 March 2018

	K	K	
Profit before taxation		3,500,600	
Add: items not allowed for taxation			
Depreciation of motor vehicles	565,000		½
Amortisation of mining rights	500,000	1,065,000	½
		4,565,600	
Less: non-taxable income/allowable expenditure			
Exchange gain (unrealised)	335,000		½
Royalties	350,000		1
Expenditure incurred on obtaining a licence	300,500		1
Contributions to mine closure fund	65,500		1
Annual allowance on equipment (4,650,000 x 20%)	930,000	(1,981,000)	½
Taxable income		2,584,600	5

(b) Calculation of tax payable by Zalewa Mining Company Limited for the year ended 31 March 2018

	K	
Corporate tax		
Taxable income for the year	2,584,600	½
Tax at 30%	775,380	½
Less: provisional tax	(400,000)	1
	375,380	
Resource rent tax		
Taxable income	2,584,600	½
VAT refund	425,500	1
Provisional tax paid	400,000	1
	3,410,100	
Resource rent tax at 15%	511,515	½
		5
		10

3 (a) Calculation of total chargeable gains or capital loss arising on transactions entered into by Bengo for the year ended 30 June 2017

(i) Cottage

	K	K	
Insurance proceeds (May 2017)		65,000,000	½
Cost of cottage in the year 2000	4,500,000		½
Indexation factor (243,824·58/25,876·31)	9·4227		1
Adjusted cost		(42,402,150)	
Renovations in July 2015	3,500,000		½
Indexation factor (243,824·58/161,310·12)	1·5115		1
Adjusted cost		(5,290,250)	
Capital gain		17,307,600	

If the proceeds were reinvested, then the gain would be rolled over and reduce the cost of the cottage for future capital gains; that is the cost would be K75,000,000 – 17,307,600. The base cost of the rebuilt cottage for chargeable gains purposes would be K57,692,400. 1

(ii) Sale of land

	K	K	
Sale proceeds		10,500,000	½
Cost of land	2,500,000		½
Indexation factor (223,457·87/44,217·91)	5·0536		1
Adjusted cost		(12,634,000)	
Capital loss		(2,134,000)	

		Marks
(iii) Shares sold		
	K	
Value of shares received in Malibu: 60,000 shares at K1·50	90,000	½
Cost of shares in NICOM: 30,000 shares at K2	(60,000)	½
Capital gain	30,000	
Total capital loss (2,134,000) + 30,000	(2,104,000)	½
Assuming Bengo elects to roll over the gain on the cottage.		
		8

(b) If the proceeds on sale of the land are used to invest in the cottage, there would be no roll over relief available as there is no capital gain on the land and it is not an asset similar in nature. Therefore, there would be no effect on Bengo's tax position. 1

If Bengo had not accepted the share swap, there would be no capital gain, as no transaction would have taken place. The swap attracts tax on the capital gain as the transaction happened within 12 months of acquiring the shares. However, as the loss on the sale of the land is offset against the gain on the share swap, no tax liability arises. 1

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4 (a) Claiming of losses

Tax losses arising from trading operations can be carried forward to be offset against future taxable profits for a maximum of six years commencing in the year of assessment following that in which the loss was incurred. 1

Mining losses attributable to start up expenditure can be carried forward for ten years. 1

Capital losses can only be offset against capital gains, however, trading losses may be offset against capital gains. 1

3

(b) Computation of taxable income for Sambuca Limited for the three years to 31 December 2017

	2015		2016	2017	
	K		K	K	
Profit/(loss) before capital allowances	585,000		(324,600)	465,000	½
Depreciation	250,000		175,000	165,000	½
Capital allowances	(275,000)		(150,000)	(145,000)	½
Dividends from local companies	(60,000)		(45,000)	(65,000)	½
Profit on sale of assets	(65,000)		0	(95,100)	1
Profits adjusted for tax	435,000		(344,600)	324,900	
Less: loss claim	0		0	(264,600)	1
Capital gain		165,000		57,000	1
Less: capital loss brought forward from 2015		(85,000)			
Net gain			80,000		1
Taxable income	435,000		(264,600)	117,300	

Loss claim memo

Tax adjusted loss per accounts year ended 31 December 2016	(344,600)	½
Trading loss used against 2016 net capital gain	80,000	½
Loss carried forward to 2017	(264,600)	
		7
		10

Marks

5 (a) (i) Peter's taxable employment income

	Current package K	Proposed package K	
Salary	6,240,000	10,500,000	½ + ½
Rent – house	0	N/A	½
Medical scheme – employer	0	N/A	½
Bonus	520,000	N/A	½
Electricity and water	1,140,000	N/A	½
Car allowance	1,440,000	N/A	½
Less:			
Pension – employee	0	0	½ + ½
Car running costs	0	N/A	½
Taxable income	9,340,000	10,500,000	5

Tutorial note: *Employee pension contributions are not tax deductible; and the employer will pay fringe benefit tax on the rent.*

(ii) Peter's income tax payable

	Current package K	Proposed package K	
Income tax payable by Peter			
First K360,000 at 0%	0	0	½ + ½
Next K60,000 at 15%	9,000	9,000	½ + ½
Excess			
(K9,340,000 – K420,000) at 30%	2,676,000		½
(K10,500,000 – K420,000) at 30%		3,024,000	½
Income tax payable	2,685,000	3,033,000	3

(b) Peter's disposable income after tax and expenses

	Current package K	Proposed package K	
Taxable income	9,340,000	10,500,000	½ + ½
Less: income tax payable	(2,685,000)	(3,033,000)	½ + ½
Net pay	6,655,000	7,467,000	
Less:			
Pension (5% x K6,240,000)	(312,000)		½
Pension (5% x K10,500,000)		(525,000)	½
House – rent (12 x K110,000)	N/A	(1,320,000)	½
Medical scheme (12 x K12,000)	N/A	(144,000)	½
Electricity and water	(1,200,000)	(1,200,000)	½ + ½
Car running costs	(822,000)	(480,000)	½ + ½
Disposable income	4,321,000	3,798,000	

Peter should choose his current package as his disposable income is K523,000 (K4,321,000 – K3,798,000) higher. 1

7

15

Marks

6 Taxable income for Njuli Coffee Limited for the year ended 31 December 2017

	K	Marks
Profit before taxation	2,500,000	½
Bank interest (K435,000 x 25%)	108,750	1
Profit on sale of equipment	(125,000)	½
Balancing charge on coffee equipment (K125,000 – K45,000)	80,000	1
Dividend	(65,000)	½
Rental	0	½
Depreciation	650,500	½
Donations – Save the Children fund	0	½
Donations – local church	80,000	½
Fringe benefits tax	275,500	½
Trade mark registration	105,000	1
Loss on sale of motor vehicle	35,000	½
Balancing charge on motor vehicle (K50,000 – K0)	50,000	1
Entertainment (K255,000 x 40%)	102,000	½
Farm expenses:		
Direct farm expenses	0	½
Farm overheads	0	½
Purchase of additional farm land	1,653,400	½
Land clearing	0	½
Dam construction	0	½
Capital allowances – initial	(870,000)	
Capital allowances – annual	(983,000)	
Finance charges	0	1
	3,597,150	

Capital allowances

	Cost	Initial allowance 20%	Annual allowance rate	Annual allowance	
	K	K		K	
Motor lorry	3,500,000	700,000	20%	700,000	1
Plant and equipment	850,000	170,000	10%	85,000	1
Passenger motor vehicle	990,000	0	20%	198,000	½
		870,000		983,000	
					15