Answers

Section A

1 C

The taxable income of a club is derived from the sale of goods and performances and not from club subscriptions or entrance fees. Other income such as interest is also taxable.

2 D (500,000 * 3) + (15% * 5,000,000)/4 + (80,000/2) * 3 = K1,087,500

The taxable fringe benefits value is calculated based on the higher of rental cost or 12 % of salary for furnished housing; 15% of the car value for the car benefit; and the actual cost of utilities paid to the service provider and, in this case, reduced by the element for business use.

3 C

A taxpayer who is aggrieved by a decision by the commissioner under s.97 may appeal to the special arbitrator.

4 D (65,000,000 – {85,000,000 – (45,000,000 * 250,492·10/174,279·78)}) = K44,678,500

Under the rollover relief provisions, where an asset is sold and a replacement asset bought, then the cost of the replacement asset is reduced by the gain on the asset sold.

5 A (5,500,000/6,450,000 * 4,500,500) * 16·5/116·5 = K543,528

Where a taxpayer deals in both taxable and exempt supplies, the value added tax (VAT) included in total sales is arrived at by applying a proportion of taxable purchases over total purchases to total sales and then applying the tax fraction of 16·5/116·5.

6 C

For debts written off to be allowed for tax purposes, they must be seen to be irrecoverable, meaning that all efforts made to recover the debts have not resulted in payment. The debt must have been in the books of the taxpayer and must be due to the taxpayer.

7 A (24,000,000 + 2,400,000) = 26,400,000; {420,000 * 0% + 60,000 * 15% + (26,400,000 – 480,000) * 30%} = 7,785,000/12 = K648,750

PAYE is paid on earnings received by an employee which in this case is salary and housing allowance. There is no PAYE calculated on benefits unless those benefits are paid in cash to the employee.

8 B (65,000 + 35,500 + 90,000) = K190,500

Investment income is income from dividends and interest, or capital gains through the sale of security or other assets. In this case, taxable investment income will exclude dividends as they are not taxable in the hands of the recipient.

9 D

Penalties are payable for failing to account for withholding tax. The penalty for non-compliance is K300,000 for the first month or part thereof and K50,000 for each month or part thereof during which the failure continues.

10 B (8,500,000 * 20%) + (500,000 * 20% + 500,000 * 40%) = K2,000,0000

Initial allowance at a rate of 20% will be claimed on the computer. No initial allowance is available on the vehicle as it a passenger carrying vehicle. Annual allowance will be claimed at a rate of 20% on the vehicle and at a rate of 40% on the computer.

Marks

11 **A** (650,500 + 265,000 – 345,000) = K570,500

Trading tax losses may be offset against trading income and capital gains. Therefore the tax loss for the year will be added to the tax loss brought forward from the previous year and offset against the gain. Capital losses can only be offset against capital gains.

12 **D** (575,500 + 65,000 + 125,000 – 185,000) = K580,500

Taxable income is calculated by taking profit before tax, adding back disallowed items, deducting items added to income but not taxable and also deducting capital allowances. In this particular case, depreciation will not be added as it was not charged. Interest will be added to income as it had not been recorded. The prepaid rent will be added back to income and capital allowances will be claimed.

13 **C**

Where a non-resident provides taxable services to a registered taxpayer, the taxpayer must self-account for the value added tax (VAT). The taxpayer will pay the VAT, but at the same time will claim the VAT as an input VAT.

14 **B** {(5,000,000 * 30%) * 90% = 1,350,000/4 = K337,500

Provisional tax is payable quarterly. By the end of the fourth quarter, the taxpayer should have paid at least 90% in total taxes to avoid payment of penalties.

15 **B** (55,000,000 * 60%) – {(2,500,000 * 245,235·69/48,725·5) – 15,000,000} = K5,417,488

The capital gain on the sale of the subsidiary is calculated as 60% of the sales proceeds (based on the percentage interest held by Times Limited) less the indexed cost of the purchase by Times Limited in Shoreline Limited. The value of the loan capital is deducted from the capital gain arrived at to give the net capital gain or loss. The loan not recoverable is treated as a capital loss and should be offset against the gain or added to the loss.

2 marks each **30**

Section B *Marks*

1 (a) Nyika Manufacturing Limited value added tax (VAT) return adjustments

1. The sale of equipment will be subject to VAT since Nyika Manufacturing is registered for VAT.

   However, it is the sales proceeds which are subject to VAT and not the profit. 1

   An adjustment will be needed to adjust to sales proceeds. ½

2. The purchases cost will be included based on the earlier of the receipt of the goods or the invoice date. 1

   In this case, it is correct to include the invoice irrespective of the fact that the goods have not been received because the invoice is dated before the receipt of the goods. ½

3. VAT is charged on commercial property rental only. Residential property rental is exempt from VAT, therefore the rental cost of the managing director's house will need to be excluded from the VAT return. 1

4. The sales returns relate to exports. Export sales are zero rated and therefore export sales returns will be treated in the same way. 1

   No VAT will be claimed on the goods returned. ½

5. Although hotel accommodation is taken as a business expense and the invoice for accommodation has been correctly accounted for, the expense is not allowed for the claiming of input VAT unless the company is involved in the business of providing entertainment.

   The expense will be removed from the list of inputs. ½

6. No document is expected for early settlement by the customer.

   Therefore no adjustment is required. 1

7

(b) Re-computation of excess outputs

	K'000	K'000	
Excess as per computation		944	
Adjustments:			
1. Sales proceeds on equipment (130 – 44)	86		½
2. Invoice for goods not received	0		½
3. Rent on residential property	580		½
4. Sales return on exports	625		½
5. Hotel invoice	65		½
6. Discount for early settlement	0	1,356	½
Revised output excess for VAT calculation		2,300	
			3
			10

2 (a) Calculation of Joseph's PAYE for the year ending 30 June 2019

	K	
Basic salary	8,650,500	½
Bonus	650,000	½
Pension – company contribution	0	½
Medical aid – company contribution	0	½
Company car	0	½
Utilities allowance	750,000	½
	10,050,500	
Less		
Pension contribution – self	0	½
Amount subject to PAYE	10,050,500	

		K	Marks
PAYE			
First 420,000	0%	0	
Next 60,000	15%	9,000	
Excess over 480,000			
(10,050,500 – 480,000)	30%	2,871,150	½
		2,880,150	
			4

(b) Joseph's taxable income

	K	
Rent (200,000 * 12)	2,400,000	½
Less		
Driveway	0	½
Rates	(120,000)	½
Mortgage interest	(335,500)	½
Insurance	(95,000)	½
Taxable income from rents	1,849,500	
Income from employment	10,050,500	½
Net rent	1,849,500	½
Dividend	0	½
Bank interest	156,875	1
Directors' fee	483,333	1
Taxable income	12,540,208	
		6
		10

3 (a) Explanation of whether items will be subject to capital gains tax

(i) The sale of the house which George was renting out will be subject to capital gains tax. ½

However, the gain could be subject to rollover relief if the asset is replaced by a similar asset within a period of 18 months of the disposal. 1

(ii) Shares sold in an unlisted company are subject to capital gains tax irrespective of the period that they have been held. ½

(iii) The transfer of the house in Namiwawa will not be subject to capital gains tax as it is a transfer of an asset to a spouse. Any transfer of assets to a spouse are exempt from capital gains tax. 1

(iv) The sale of a private motor car is not subject to capital gains tax. ½

The disposal of any personal assets not used in a trade is exempt from capital gains tax.

(v) The sale of the 10,000 ordinary shares in Muscat Limited will be subject to capital gains tax as they have been held for less than a year. If the shares were held for more than a year, they would be exempt from capital gains tax. 1 ½

5

(b) Calculation of George's net chargeable gain for the year ended 30 June 2018

		K	K	*Marks*
(i)	**Sale of house**			
	Selling price		65,000,000	½
	Less cost	10,500,000		
	Indexation			
	243,905·16/48,725·50	5·0057	(52,559,850)	½
	Capital gain		12,440,150	
(ii)	**Sale of shares**			
	Sales value 1,000 at K65		65,000	½
	Less cost 1,000 at K45	45,000		
	Indexation			
	245,235·69/167,614·82	1·4631	(65,840)	½
	Capital loss		(840)	
(iii)	**Transfer of house to spouse**			
	Exempt		0	½
(iv)	**Sale of private motor car**			
	Exempt		0	½
(v)	**Shares in Muscat Limited**			
	Sales value 10,000 at K22		220,000	½
	Less cost 10,000 at K20	200,000		
	Indexation			
	243,905·16/242,270·49	1·0067	(201,340)	½
	Capital gain		18,660	
Total gain			12,457,970	
Less capital loss brought forward			(35,500)	1
Net chargeable gain			12,422,470	
				5
				10

4 (a) Calculation of income tax payable by Malungo Sports Club for the year ended 31 August 2018

		K	
Bar sales (W1)		9,550,000	½
Restaurant sales		2,450,400	½
Christmas plays		250,000	½
Golf fees		385,000	½
		12,635,400	
Taxable income	6·25%	789,713	1
Interest received	235,000 * 100/80	293,750	1
Total taxable income		1,083,463	
Tax at 30%		325,039	½

W1

Bar sales

	K	
Closing receivables	250,000	½
Cash receipts	9,450,000	½
Less cancelled bar sales	(150,000)	½
Bar sales	9,550,000	
		6

		Marks
(b)	The taxable income of a club is taken as equivalent to 6·25% of all of its receipts or accruals in favour of it from the sale of goods, cinematograph performances, stage plays and gambling machines. The taxable income is charged at the rate applicable to companies.	½ ½ ½
	Therefore the following are not taxable:	
	– Income from membership subscriptions.	½
	Since a club is not taxed on income from the above source, membership subscriptions received in advance and refunds of membership subscriptions are also not taken into account in calculating taxable income.	½
	– Income from entrance fees.	½
	Furthermore, since a club is taxed on its receipts rather than on its profits earned from its activities, expenses and bar opening and closing inventory are not taken in to account in calculating taxable income.	½
	Capital allowances will also not be given.	½
		4
		10

5 (a) Calculation of Mervis' taxable business income or allowable loss for the year ending 30 June 2019

Capital allowances

	Furniture and fittings	Motor vehicle	Laptop computer	Total	
			K		
Tax written down value (TWDV) 1 July 2018	875,500	655,000		1,530,500	
Additions	0	0	475,500	475,500	½
Initial allowance	0	0	(95,100)	(95,100)	½
Annual allowance	(87,550)	(131,000)	(190,200)	(408,750)	1½
TWDV 30 June 2019	787,950	524,000	190,200	1,502,150	
Annual allowance rate	10%	20%	40%		

Taxable business income/allowable loss

	K	K	
Profit before taxation		191,720	
Less			
Bank interest	36,560		½
Bank loan	3,500,600		½
Capital allowances (95,100 + 408,750)	503,850		½
Dividend received	400,000		½
Proceeds on sale of vehicle (station wagon)	375,500		½
Rental income	2,300,400	(7,116,910)	½
		(6,925,190)	
Add			
Shop rental	0		½
House rental for Mervis	1,020,000		½
Purchase of laptop	475,500		½
Mervis' drawings	1,000,000		½
Withholding tax for house (K1,020,000 * 15/85)	180,000		1
Electricity and water (K800,000 * 20%)	160,000		1
Loan repayment capital	165,000		½
Air tickets for Mervis' son	1,250,000		½
Costs relating to rental income	655,508	4,906,008	½
Allowable loss		(2,019,182)	11

			Marks

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

Taxable income from rents

	K	
Rental income	2,300,400	½
Less		
Insurance and rates	(235,500)	½
Repairs and maintenance	(420,008)	½
	1,644,892	
Business loss	(2,019,182)	½
Net rental income	1,644,892	½
Dividend income	0	½
Bank interest (grossed) (K36,560 * 100/80)	45,700	1
Tax loss	(328,590)	4
		15

6 (a) Calculation of taxable income for Sesame Limited for the year ended 31 December 2018

	K	K	
Profit before taxation		2,208,336	
Add			
Donations – ruling political party	100,000		½
Donations – Save the Children	0		½
Fringe benefits tax	475,500		½
Impairment of investment	65,890		½
Interest on bank loan	323,100		½
Rent on warehouse	0		½
Unrecovered VAT	0		½
Withholding tax on interest (K137,458 * 100/80 * 20%)	34,365		1
Balancing charge (W1)	309,500	1,308,355	½
		3,516,691	
Less			
Bank interest	0		½
Profit on sale of office copier	300,000		½
Dividend received	178,000		½
Fair value adjustment	250,000		½
Capital allowances (W2)	53,950	(781,950)	½
Taxable income		2,734,741	
Tax liability (K2,734,741 * 30%)		820,422	½
Less withholding tax on interest		(34,365)	
Tax payable		786,057	

Workings

W1 Sale of copier

	K	
Cost	625,000	
Allowances claimed	(584,500)	½
Tax written down value (TWDV)	40,500	
Sales proceeds	350,000	½
Balancing charge	309,500	

Marks

W2 Capital allowances

	K	
Office equipment		
TWDV at 1 January 2018	580,000	
Less copier sold	(40,500)	½
	539,500	
Annual allowance 10%	(53,950)	½
TWDV 31 December 2018	485,550	
		10

(b) (i) Withholding tax on declared dividend

Dividend of K1,500,000 at 10%. Withholding tax is K150,000. 1

(ii) Withholding tax on dividends is now payable within 180 days of the dividend declaration. 1

Late payment will attract a penalty of 20% of the tax due for the first month or part thereof in addition to interest which may be charged. 1

2

(iii) Withholding tax should not be deducted from the following:

- Dividends payable to residents of a country where Malawi has a double taxation treaty and the dividend is exempt from Malawi tax in terms of that treaty; and 1
- Dividends declared paid out of dividends received which have had withholding tax deducted. 1

2

15