Suggested solution

Section A

1 B

(K25 500,000 x 40%) + (K15,000,000 x 40%) + (K8,000,000 x 20%) + (K4,500,000 x 0%) + (K25,500,000 x 5%) + (K15,000,000 x 10%) + (K8,000,000 x 20%) + (K4,500,000 x 20%)
= K23,075,000

Investment allowance is given at 40% on the second-hand factory and plant and equipment, annual allowances are also given at 5% on the factory and 10% on the plant. Initial allowance is given on the truck at 20% but no initial allowance is available on the saloon car. Annual allowance is given in respect of both the truck and saloon car at 20%.

2 A

K65,000,000 + K 2,500,000 + K 800,000 + K 2,400,000 = K 70,700,000

Cumulative up to K30,600,000 = tax of K8,430,000

Next K40,100,000 x 35% = K14,035,000

Total PAYE (K8,430,000 + K14,035,000) = K22,465,000

3 C

K45,000,000 - K5,000,00 = K40,000,000 brought forward loss.
In 2024 (K37,000,000 - K40,000,000) = K3,000,000 plus K38,000,000 from 2025 = K41,000,000.

The loss available for offset in 2025 is K41,00,000 made up of the loss brought forward to the year ended 30 June 2023 of K45,000,000 less the loss of K5,000,000 no longer available (since it expired after six years), less the taxable trading profit in the year 30 June 2023 of K37,000,000 leaving a loss of K3,000,000 to carry forward to the year ended 30 June 2024. There was no offset in the year to 30 June 2024 and the K3,000,000 loss was added to the trading loss of K38,000,000 from that year. All of this amount of K41,000,000 was available for offset against the profits of K42,000,000 in the year ended 30 June 2025.

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4 A

Car and costs $2,500 x 2,000 = K5,000,000
Customs duty K1,250,000 (being K5,000,000 x 25%)

Gross total = K6,250,000

Excise duty K6,250,000 x 15% = K937,500

Total customs and excise duty K1,250,000 + K937,500 = K2,187,500

The car plus costs incidental to the delivery will be converted to Malawi Kwacha at the exchange rate ruling on the date of clearance. The customs duty at 25% will be applied to this amount. The excise duty at 15% is calculated on the gross of cost plus customs duty.

5 A and F

Property A K10,000,000 – K5,500,000 – K2,500,000 = K2,000,000

Property B = K0

This is revenue from property less allowable expenses on the property being rented; being city rates and repairs and maintenance. The construction of the driveway is capital expenditure and therefore not deductible from income. No loss is allowable on Property B as it is available rent-free to Philippe's mother.

6 K15,704,300

671,559.59/71,409,08 = 9.4044 x K5,500,000 = K51,724,200
671 559.59/652,898.18 = 1.0286 x K2,500,000 = K2,571,500
Indexed cost = K51,724,200 + K2,571,500 = K54,295,700
Sales proceeds = K70,000,000
Capital gain = K70,000,000 – K54,295,700 = K15,704,300

The capital gain is the sales proceeds less indexed cost of the house and of the extension.

7 B

(K6,400,000 + K450,000 – K395,000) = K6,455,000
Profit before taxation is adjusted to disallow the depreciation and deduct capital allowances. The capital loss is not deducted from trading profits and there is no adjustment to the gross interest credited as this forms part of taxable profits.

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8 A

(K6,250,000 + K16,500,000) = K22,750,000
Unearned income which has been received by Bonny will be taxed on Vaughan. In this case, it is bank interest and rental on property. Dividends are not taxable as the tax suffered at source is a final tax.

9 K540,000

(K1,350,000 – K250,000 – K160,000 – K400,000) = K540,000
The tax payable is made up of the tax liability on taxable profit less withholding tax on sales income, interest and the provisional tax paid. Withholding tax on dividends is not deducted since the dividend income is not included in the company's taxable income and the tax withheld on the expenses paid will be deductible by the supplier not Loma Ltd.

10 B and D

The taxpayer will make a proposal to the Commissioner on how much income should be taxed and the Commissioner will consider any proposals and determine the taxable income in a manner which appears appropriate.

11 B

Failure for late submission is K75,000 for first month or part thereof, for individuals.

12 D

K5,800,000 x 30% = K1,740,000
90% total provisional tax due K1,740,000 x 90% = K1,566,000
Less provisional tax paid of K800,000 = K766,000
Due date within 25 days of final quarter (ending 30 November 2024) is 25 December 2025

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13 K2,250,000

Car = 15% x K12,000,000 = K1,800,000/4 = K450,000
Higher of housing and rent = K600,000 x 3 = K1,800,000 or 12% x K4,000,000 = K480,000 x 3 = K1,440,000
Value for FBT = K450,000 + K1,800,000 = K2,250,000

The value for FBT is only on the housing and the car. The housing value is the higher of actual rental or 12% of salary. The benefit of the car is at 15% p.a. on cost of car, divided by 4 to arrive at quarterly amount.
The utility and the school allowances are paid directly to Churey and not directly to the ultimate supplier, therefore these are not subject to FBT but will be taxable directly on Churey.

14 A, C and E

The appeal must be made to the Commissioner
The appeal must be made within 30 days of the assessment
The appeal must be made in writing

15 A and B

The disposal of property between spouses and former spouses and the disposal of an individual's principal residence are both exempt from capital gains tax.

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Section B

Question 16

Dima Limited

(a) Conditions for deductible input value added tax (VAT)

A taxable person may deduct from output tax any input VAT chargeable on goods and services in Malawi or goods imported into Malawi where:

- The supply is a taxable supply and the taxable person possesses a tax invoice where the goods or services were purchased in Malawi.
- The expense must not be of a type on which input VAT is specifically not allowed to be deducted or in respect of an exempt supply.
- The standard method must be used to deduct input VAT for partial exempt taxpayers and the expense must be incurred within 90 days.

(b) VAT payable or refundable for the month of January 2026

Description	**Output VAT**	**Input VAT**
	K	**K**
Certificates issued for commercial building work done (K145,000,000 x 0.165)	23,925,000	
Interest received from fixed deposit amounts	0	
Proceeds on the sale of plant and equipment (K450,000 x 0.165)	74,250	
Purchases for materials used in the construction of the commercial building (K100,000,000 x 0.165)		16,500,000
Salaries for the month		0
Office supplies, including stationery and printing costs (K5,600,000 x 0.165)		924,000
Rent and rates (K8,500,000 – K1,500,000) x 0.165		1,155,000
Other expenses (K4,500,000 – K850,000) x 0.165		602,250
Management fee paid to a local holding company (K15,000,000 x 0.165		2,475,000
The cost of spare parts for motor vehicles		0
Capital goods at registration (K6,500,000 x 0.165)		1,072,500
Total	**23,999,250**	**22,728,750**
VAT payable or (refundable)	1,270,500	

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Question 17

(a) Capital gain which will be taxable on Aled for the year ended 31 March 2025

	K	K
Shares in Loga Limited		
10,000 shares at K8 per share	80,000	
Indexation factor (673,128.70/61,517.21) = 10.9241		
10.9241 x K80,000		875,368
500 shares at K10 per share rights issue	5,000	
Indexation factor (673,128.70/328,230.29) = 2.0508		
2.0508 x K5,000		10,254
Total value of 10,500 shares		**885,622**
Value of 10,500 shares		
Prorated cost value of shares (5,000/10,500) x K885,622		421,725
Sales proceeds of 5,000 shares (5,000 x K125)		625,000
Capital gain		**203,275**
Sale of vase		
Insurance proceeds		1,400,000
Less cost:	650,000	
Indexation factor to October 2024 (561,127.31/254,972.99) = 2.2007		
November 2019 indexed value (K650,000 x 2.2007)		(1,430,455)
Capital loss		**(30,455)**
Share swap		
8,000 shares cost	80,000	
February 2025 from September 2023 indexation factor (667,014.09/424,975.37) = 1.5695		
Indexed cost (K80,000 x 1.5695)		125,560
Share swap value (3,500 x K45)		157,500
Gain on share swap		**31,940**
Sale of shares		203,275
Vase		(30,455)
Share swap		31,940
Capital gain		**204,760**

(b) Reinvestment of insurance proceeds in another vase

If Aled were to reinvest the proceeds in another vase, then the loss would be carried forward and added to the cost of the new vase. There would be no benefit to Aled as he would be denied offsetting the loss in this current year. Therefore, a claim for a qualifying replacement on an involuntary conversion would represent a disadvantageous tax treatment if Aled were to reinvest the insurance proceeds in another vase.

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Question 18

(a) Withholding tax payable by Bell Limited

	Withholding tax amount
Local payments	**K**
Purchase of motor vehicle (K18,400,500 x 20%)	3,680,100
Rental for offices (K6,500,000 x 20%)	1,300,000
Advertisement (K2,500,000 x 20%)	500,000
Payment to contractor for canteen extension (K10,500,000 x 10%)	1,050,000
Audit fee (K6,500,000 x 20%)	1,300,000
Canteen supplies (all made in cash)	0
Interest paid on shareholder loan (K850,000 x 20%)	170,000
Payment of supplies to traders (K6,800,000 x 3%)	204,000
Commission paid (K650,000 x 20%)	130,000
Interim dividend (K10,000,000 x 10%)	1,000,000
International payments	
Management fee (K4,500,000 x 15%)	675,000
Procurement fee (K8,600,000 x 15%)	1,290,000
Insurance	0

(b) Penalties if withholding tax is not correctly deducted and remitted to MRA

If a taxpayer who is supposed to deduct the withholding tax does not do so, then they must pay to MRA the withholding tax which should have been deducted, Any withholding tax which was deducted must be remitted to MRA. A penalty of 20% will be levied on the unpaid amount.

Interest will charged on the outstanding amount at the prevailing bank rate plus 5% per year for each month or part thereof that the tax remains unpaid.

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Question 19

(a) Clubs formed for leisure or recreation

Clubs are not taxed based on profits, but revenues like bar sales, restaurant sales and gambling revenue.

6.25% of this revenue is taxed at the company rate which is 30%.

However, the assets are not an allowable deduction in arriving at taxable income and as such, capital allowances are not claimed on fixed assets.

Expenses are not allowed and thus are not taken into account in calculation of amounts.

(b) Tax payable by Dawel Sports and Recreation Club for the year ended 30 November 2025

	K
Bar sales	12,500,000
Plus accrual	465,000
Restaurant sales	8,200,000
Plus accrual	160,000
Gambling and stage plays	22,500,000
	43,825,000
Amount to be taxed at 6.25% (K43,825,000 x 6.25%)	2,739,063
Interest on bank amount	1,800,000
Taxable amount	**4,539,063**
Tax at 30%	1,361,719
Less tax withheld on bank account	(360,000)
Less provisional tax paid	(500,000)
Balance of tax payable	**501,719**

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Question 20

(a) Taxable income from Fredilo's taxi business

	K
Net profit	2,100,000
Depreciation	2,265,000
School fees	800,000
Staff costs (wife's salary)	4,000,000
Rental	0
Fuel and oil (K4,200,000/3) x 25%)	350,000
Insurance ((K435,000 + K300,000)/3 x 25%)	61,250
	9,576,250
Insurance allowable deduction	(300,000)
Capital allowances:	
Saloon cars AA at 20% (working)	(1,925,000)
Laptop AA at 40% (K500,000 x 40%)	(200,000)
Laptop IA at 20% (K500,000 x 20%)	(100,000)
Taxable income from taxi business	**7,051,250**

Working:

Saloon cars	**Annual allowance 20%**
	K
2 cars x K3,500,000 = K7,000,000	1,400,000
1 car with 75% business use = K3,500,000 x75% = K2,625,000	525,000
	1,925,000

(b) Fredilo's taxable income from all sources

	K
Taxi business	7,051,250
Salary	25,000,000
Bonus	5,000,000
Rent allowance	6,000,000
Pension from company	0
Own pension contribution	0
Sale of grain	10,500,000
Cost of grain	(6,000,000)
	47,551,250

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(c) Process for taxing income for year ended 31 March 2026

Employment income will be taxed under PAYE: K1,800,000 will be at 0%, up to K30,600,000 at 30% and the remainder at 35%.

Non-employment income will be taxed at the business rate of 30%.

The tax liability will be reduced by any withholding tax suffered and any provisional tax paid.

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Question 21

(a) Tax payable by Momumba Construction Limited for the year ended 31 December 2025

	K	K
Net profit before taxation		40,783,800
Add items not allowed for taxation:		
Construction costs – provision for losses	11,200,000	
Unrealised exchange losses	3,600,500	
Depreciation	8,400,000	
Impairment of investments	700,000	
Salaries and wages	0	
Penalties for tax	465,000	
Withholding tax on interest ((K3,500,000/0.8) x 20%)	875,000	
		25,240,500
		66,024,300
Less allowable for taxation or not taxable:		
Release of retention	4,500,000	
Profit on sale of property	7,500,000	
Dividends	4,500,000	
Capital allowances	8,566,000	
Management fee	0	
		(25,066,000)
Taxable trading profit		**40,958,300**
Capital gain (working)		21,894,650
Total taxable amount		**62,852,950**
Taxable at 30%		18,855,885
Less:		
Provisional tax	9,500,000	
Withholding tax on interest	875,000	
		(10,375,000)
Balance of tax to pay		**8,480,885**

Working:

	K
Proceeds	58,400,000
Indexation factor (667,014.09/63,951.10) = 10.4301	
Indexed cost (K3,500,000 x 10.4301)	(36,505,350)
Capital gain	**21,894,650**

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(b) Treatment and limitations applying to foreign exchange losses

Foreign exchange losses on foreign currency assets or liabilities are tax deductible only when they are realised.

However, if a taxpayer also has an unrealised foreign exchange (forex) gain, the allowable loss will be limited to the excess of the realised loss over the unrealised gain.

If the taxpayer has both an unrealised forex gain and an unrealised forex loss, the allowable loss will be the excess of the realised forex loss over the net of the unrealised gain and loss.

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Mark scheme

Section A

Questions 1 – 15 (all questions worth two marks)

Maximum 30 marks

Section B

Question 16

a	Taxable supply and possession of a tax invoice Not a disallowable expense or exempt supply Partial exempt taxpayers use standard method and expense must be incurred within 90 days	1 1 1
Maximum 3 marks		
b	Value added tax (VAT) payable or refundable by Dima Limited for the month of January 2026: - Commercial building work - Interest received - Sale of plant and equipment - Purchase of materials - Salaries - Office supplies - Rent and rates - Other expenses - Management fee - Spare parts - Capital goods - VAT payable	 0.5 0.5 0.5 0.5 0.5 0.5 1 1 0.5 0.5 0.5 0.5
Maximum 7 marks		
Total 10 marks		

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Question 17

a	Gain taxable on Aled for the year ended 31 March 2025:	
	Shares in Loga Ltd:	
	- Holding with indexation applied	1
	- Rights issue with indexation	1
	- Cost of shares sold	0.5
	- Sales proceeds	0.5
	Vase:	
	- Insurance proceeds	0.5
	- Indexed cost	1.5
	Share swap:	
	- Indexed cost	1
	- Swap value	0.5
	- Total gains	1
	- Capital loss	0.5
Maximum 8 marks		
b	Loss carried forward	1
	No loss set off in the current year	1
Maximum 2 marks		
Total 10 marks		

Question 18

a	Withholding tax payable:	
	- Motor vehicle	
	- Rental	1
	- Advertisement	1
	- Canteen extension	0.5
	- Audit fee	0.5
	- Canteen supplies	
	- Interest on loan	0.5
	- Payment of supplies	1.5
	- Commission	
	- Dividend	1
	- Management fee	0.5
	- Procurement fee	1
	- Insurance	0.5
Maximum 8 marks		
b	Penalty of 20% in addition to unpaid amount	1
	Interest at bank rate plus 5% per year	1
Maximum 2 marks		
Total 10 marks		

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Question 19

a	6.25% of selected revenue taxed at 30% No capital allowances No expense deductions	1 1 1
Maximum 3 marks		
b	Tax payable by Dawel Sports and Recreation Club for the year ended 30 November 2025: - Bar sales - Accrual - Restaurant sales - Accrual - Gambling and stage plays - Taxed at 6.25% - Interest - Taxed at 30% - Tax withheld on bank interest - Provisional tax	 1 0.5 1 0.5 0.5 1 0.5 0.5 0.5 1
Maximum 7 marks		
Total 10 marks		

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Question 20

a	Taxable income from Fredilo's taxi business for the year ended 31 March 2026:	
	- Depreciation	0.5
	- School fees	0.5
	- Wife's salary	1
	- Rental	0.5
	- Fuel and oil	1
	- Insurance	1
	- Allowable deduction insurance	1
	Capital allowances:	
	- Cars	1.5
	- Laptop annual allowance	0.5
	- Laptop initial allowance	0.5
Maximum 8 marks		
b	Taxable income from all sources:	
	- Taxi business	0.5
	- Salary	0.5
	- Bonus	0.5
	- Rent allowance	0.5
	- Pension – company contribution	0.5
	- Pension – own contribution	0.5
	- Sale of grain	0.5
	- Cost of grain	0.5
Maximum 4 marks		
c	Employment income at PAYE rates	1
	Non-employment at 30%	1
	Reduced by withholding tax and provisional tax	1
Maximum 3 marks		
Total 15 marks		

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Question 21

a	Tax payable by Momumba Construction Limited for year ended 31 December 2025:	
	- Construction costs	0.5
	- Unrealised exchange losses	1
	- Depreciation	0.5
	- Impairment of investments	0.5
	- Salaries and wages	0.5
	- Penalties	1
	- Withholding tax on interest	1
	- Release of retention	1
	- Profit on sale of property	1
	- Dividends	1
	- Capital allowances	0.5
	- Management fee	1
	- Capital gain	1.5
	- Taxable at 30%	0.5
	- Provisional tax	1
	- Withholding tax on interest	0.5
Maximum 13 marks		
b	Deductible when realised	1
	Limited to excess of realised loss over unrealised gain or excess of realised loss over net of unrealised gain and loss	1
Maximum 2 marks		
Total 15 marks		

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