**DIPLOMA IN BANKING**

**TAXATION 1 [IOBM – D213] – Solutions**

**SECTION A**

**Question 1**

1. Penalties on late payment on PAYE
2. 20% of the amount [PAYE due] **[1]**

Surcharge of 5% of the amount for each month the PAYE remains unpaid **[1]**

1. Amount payable = K240, 530

Due date for payment = 14thDec. 2013 **[½]**

Date paid = 17th April, 2014

Number of months outstanding = 4 months **[½]**

Penalty [20% \* 240, 530] **[½]** = 48, 106 **[½]**

Surcharge [5% \* 5 \* 240, 530] **[½]** = 60, 132 **[½]**

Total penalties [48, 106 + 48, 106] **[½]** = 108, 238.5 **[½]**

1. Significance of penalties
2. They enforce compliance of the tax rules**[1]**
3. They are a source of revenue to the Government**[1]**
4. They act as an enforcement measure**[1]**
5. Under deduction of PAYE by employer
6. The employer will be responsible for amount under deducted **[½]** and the penalty on that amount **[½]**.
7. The employer can recover from the employee the amount previous under deducted**[1]**
8. The employer cannot recover from the employee the penalty paid on the amount under deducted from the employee **[1]**
9. Bodies to appeal to are:
10. The Malawi Revenue Authority – the Commissioner General**[1]**
11. The special arbitrator**[1]**
12. The high court**[1]**

**Question 2**

1. Fringe benefit tax for the quarter ending 30 September, 2012.

Housing

Taxable value =Higher of open market value rental and 12% of salary. **[½]**

The chosen amount will have to be reduced by 50% because the house is owned and situated in the company premises. **[½]**

Market value rental [K600, 000 per month \* 3] **[½]** =1, 800, 000 **[½]**

12% of salary [12% \* 60, 000, 000 \* ¼] **[½]** =1, 800, 000 **[½]**

The taxable amount is K1, 800, 000 **[½]**

Since it is owned and situated in compound, taxable value will be as follows:

[1, 800, 000 \* 50%] **[½]** = 900, 000 **[½]**

Motor Vehicle

Taxable value [15% \* ¼ \* 44, 000, 000] **[½]** = 1, 650, 000 **[½]**

Total Taxable values [900, 000+1, 650, 000] = 2, 550, 000 **[½]**

Fringe benefit tax [30% \* 2, 550, 000] **[½]** = 765, 000 **[½]**

1. Records to be kept
2. The name of the employee who is receiving the FBT**[1]**
3. The nature or type of fringe benefit**[1]**
4. The taxable value of the fringe benefit**[1]**
5. Supporting documents to accompany a return include:
6. Balance Sheets, **[1]**
7. Statement of assets and liabilities and **[1]**
8. other accounts necessary to support information contained in the return**[1]**

**Question 3**

1. taxable supplies – **[any three for 1 Mark each = 3 Marks]**
   * 1. the processing of data or supply of information or similar service
     2. the supply of goods to staff
     3. the acceptance of a wage or stake in form of betting or gaming, including lotteries and gaming machines
     4. the making of gifts or loans of goods
     5. the leasing or letting of goods on hire
     6. the appropriation of goods for personal use or consumption by the taxable person or by any other person
2. types of supplies
3. **Standard rated supplies.** These are supplies which are made at a rate which is standard, 16.5 % at present. **[1]**
4. **Zero rated supplies.** These are supplies which attract VAT at the rate of 0%. **[1]**
5. **Exempt supplies.** These are supplies which are exempt from VAT. **[1]**
6. Relevant VAT
7. Stationery [16.5%/116.5% \* 60, 580] =8, 580 **[1]**
8. Salaries =0 **[1]**
9. Rice =0 **[1]**
10. Postage stamps =0 **[1]**
11. Bought Sugar[16.5% \* 220, 000] =36, 300 **[1]**
12. Electricity [16.5%/116.5% \* 59, 337.75] =8, 404 **[1]**
13. Fertilizer =0 **[1]**
14. Sold sugar to Tanzania =0 **[1]**
15. Sold sugar in Makhetha[16.5% \* 150, 000] =24,750  **[1]**

**Question 4**

1. Taxable profits for the partnership

|  |  |  |
| --- | --- | --- |
|  | Mk Million | Mk Million |
| Profit per account |  | 15.6 |
| Add: Depreciation | 3 **[1]** |  |
| Salaries | 19 **[1]** |  |
| Interest on capital | 5.4 **[1]** | 27.4 |
| Taxable profits |  | 43 **[1]** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Description | Total | Fanta | Sprite | Coke |
| Salary | 19 | 9 **[1]** | 7 **[1]** | 3 **[1]** |
| Interest on capital | 5.4 | 2 **[1]** | 1.5 **[1]** | 1.9 **[1]** |
| Balance [1:1:1] | 18.6 | 6.2 **[1]** | 6.2 **[1]** | 6.2 **[1]** |
|  | 43 | 17.2 | 14.7 | 11.1 |

1. if the partnership has an assessed loss, the loss in share among the partners as if it were a profit each partner can relieve the loss by offsetting it against his income of either the year of the loss or the following year. [**2 Marks**]

**Question 5**

1. purpose of taxation **[any four for one mark each = total 4 Marks**]
2. To raise revenue for the government, local authorities and other similar bodies:
3. To redistribute wealth:
4. To protect industries from foreign competition.
5. To discourage the consumption of certain commodities which are considered undesirable e.g levying excise duty on cigarettes.
6. To make adjustments to the economy by adjusting tax rates to deal with certain economic conditions:
7. Foreign exchange gains and losses are said to be from a source from Malawi when:
   * 1. they are realized in connection with foreign currency assets or liabilities held in Malawi , and also **[1]**
     2. they are realized by a firm established in Malawi. **[1]**
8. Formula for ar1 minus ar2 **[1]**

a = the amount in foreign currency received, paid or otherwise computed with respect to foreign currency asset or liability in the transaction in which the foreign currency asset or liability is disposed of, converted, repaid or otherwise eliminated. **[1]**

r1 = is the official rate of exchange for the foreign currency with respect to the Malawi currency at the date on which the foreign currency asset or liability was obtained or established by the tax payer**[1]**

r2 = is the official rate of exchange for the foreign currency with respect to the Malawi currency at the date of satisfying the transaction. **[1]**

1. ar1-ar2

10, 520 [395 – 480] **[½]**

10, 520 \* -85 **[½]**

K894, 200 exchange loss **[1]**

1. Capital loss is the excess of the basis or adjusted basis of a capital asset over the amount realised on disposal of the capital asset. **[2]**
2. Capital gain or loss

Amount realised K450, 000

Tax written down value K198, 300

Capital gain K251, 700**[1]**

Amount realised

Tax written down value

31 December 2011 cost of salon car K4, 500, 000**[½]**

Annual allowance [20% \* 4, 500, 000] **[½]** 900, 000**[½]**

K3, 600, 000**[½]**

Loss on disposal K 530, 000**[½]**

Amount realised [3, 600, 000-530, 000] **[½]** K3, 130, 000 **[1]**

**Question Seven:**

1. (i) Why farming and cooperatives are considered special trades
   * + - Farming: expenditure that would ordinarily be classified as capital in nature and not allowable in other trades are deductible under farming. **[1]** for example The stumping, leveling and clearing of lands, Works for the prevention of soil erosion, Boreholes, Wells, Aerial and geographical survey etc.
       - Cooperative: for taxable cooperatives, taxable income is computed as 6¼% of turnover and not turnover minus deductible expenses as is the case with other trades. **[1]**

(ii) Taxable clubs, societies or Associations **[½].**

* These are formed or operated solely for pleasure……….. **[½]**
* or recreation ……………………………………………………...**[½]**
* even if the taxable Income arises from transactions with its members. ………………………………………………………….**[½]**

Exempt clubs, societies or associations ………………………………**[½]**

* Theseare formed or operated solely for social welfare **[½]**,
* civic improvement **[½]**
* or similar purposes. **[½]**
* Their receipts are not divided amongst their members or shareholders. **[½]**

(iv) The expression stage play includes any tragedy, comedy, play, opera, farce, revue, variety, burlesque, melodrarma, pantomime, dialogue, prologue, epilogue or other dramatic entertainment [The expression stage play includes comedy, play, opera, pantomime and other dramatic entertainment. …………………….**[½ Mark for each up to five for 2½]**

1. Total gross receipts and accruals = K572, 634 **[1]**

Taxable income [6¼% 572, 634] **[1]** = 35, 789.63 **[2]**

Tax payable [30% 35, 789.63] **[1]** = K10, 736.89 **[2]**

(iii) 2012/2013 Tax year **[1]**

1. Two types of taxes based on income

Income tax **[1]**

Corporation tax **[1]**

**Question Eight:**

1. Only income that has a source in Malawi will be subject to tax in Malawi **[2 Marks]**

Comment on the following

1. Taxable, the source of salary is Malawi
2. Not taxable, the source of the interest is not Malawi
3. Taxable, the interest has a Malawi source
4. Not taxable, source not Malawi
5. Taxable, income has a Malawi source
6. Not taxable, source not Malawi

**[1 Mark for each]**

1. Latest date for clearance

Those in temporary store with MANICA

Date delivered at MANICA 6th January, 2014 **[½]**

Maximum days allowed at temporary store by the Customs and Excise tax law before clearing **[½]** within 30 days **[½]**

Latest day to clear will be 5th February, 2014 **[½]**

Those delivered to private sidings

Date delivered 10th January, 2014 **[½]**

Maximum days allowed at private sidings by Customs and Excise Tax law before clearing **[½]** within 10 days **[½]**

Latest day to clear will be 19th January, 2014 **[½]**

1. Uses of the bill of entry [**1 Mark each for three marks**]
2. Used by Government to audit customs documentation
3. For accounting purposes by importer
4. Used to compile trade statistics by Malawi National Statistics Office
5. Factors to consider before approving a bonded warehouse [**1 Mark each for five marks**]
   1. The financial standing of the applicant
   2. The amount of revenue involved in the goods proposed to be warehoused
   3. The situation of the proposed warehouse
   4. The security arrangements at the proposed warehouse and
   5. The bonded warehouse facilities already available to the public in the area.