

**INSTITUTE OF BANKERS IN MALAWI**

**DIPLOMA IN BANKING EXAMINATION**

**SUBJECT: TAXATION 1 (IOBM –D 213)**

**Date: Tuesday, 14th May 2019**

**Time Allocated: 3 hours (08:00 – 11:00 Hours)**

**INSTRUCTIONS TO CANDIDATES**

1 This paper consists of **TWO** Sections, A and B.

2 Section A consists of 4 questions, each question carries 15 marks.

Answer **ALL** questions.

3 Section B consists of 4 questions, each question carries 20 marks. Answer **ANY TWO** questions.

4 You will be allowed **10 minutes** to go through the paper before the start of the examination, you may write on this paper but not in the answer book.

5 Begin each answer on a new page.

6 **Please write your examination number on each answer book used. Answer books without examination numbers will not be marked.**

7 All persons writing examinations without payment will risk expulsion from the Institute.

8 If you are caught cheating, you will be automatically disqualified in all subjects seated this semester.

9 DO NOT open this question paper until instructed to do so.

**SECTION A (60 MARKS)**

Answer **ALL** questions from this section

**QUESTION 1**

1. Briefly discuss any **four** tax collection methods in Malawi. *(8 marks)*
2. The taxes in Malawi are classified as regressive, proportional and progressive. Explain these taxes with appropriate examples. *(6 marks)*
3. Which one or ones in (b) confirms to the tax canon of equity?  *(1 mark)*

**(Total 15 marks)**

**QUESTION 2**

1. What must a taxpayer do to ensure maximum capital allowances?  *(1 mark)*
2. Briefly describe the importance of capital allowances to a taxpayer stating the effect of capital allowances on taxable income or assessed loss. *(2 marks)*
3. Give **three** reasons why depreciation is not allowed for tax purposes but capital allowances are. *(3 marks)*
4. If a taxpayer’s tax adjusted results before capital allowances showed a profit of K10,500,000, what effect would capital allowances amounting to K19,800,000 have on these results? *(1 mark)*
5. During the year ended 30th June 2018 a taxpayer purchased and brought into use the following new assets.

**Assets Cost Annual allowance**

Industrial building K1800,000 5%

Plant and machinery K2,600,000 10%

Delivery truck K1,520,000 25%

Mitsubishi Pajero K3,500,000 20%

**Required:**

Calculate the capital allowances available on the four assets. *(4 marks)*

**(Total 15 marks)**

**QUESTION 3**

1. What is the similarity between taxation for sole trader and partnership? *(3 marks)*
2. State the advantage of withholding taxes for:
3. MRA
4. Businesses  *(2 marks)*
5. Sakata Limited operates a food canning factory in the city of Zomba. It also has a number of residential properties in the City which it lets out. The details of its incomes for the year ending 30th June 2018 are:

**K**

Tax assessable income 6,230,000

Gross rental income 5,000,000

Gross bank interest 3,200,000

**14,430,000** **Required:**

How much withholding tax should have been collected on the rent and bank interest? *(2 marks)*

1. Assuming Sakata Limited qualifies to be granted a Withholding Tax (Exemption Certificate, describe **one** benefits and **one** disadvantage which the company will derive from holding such a certificate. *(2 marks)*
2. What is the effect of the withholding tax collected on rental income and bank interest on the company’s final tax liability? *(2 marks)*
3. Sakata Limited is liable to pay provisional tax.

**Required:**

Calculate the amount of provisional tax due for the year indicating how and when it is payable. *(4 marks)*

**(Total 15 marks)**

**QUESTION 4**

1. List any **four** incomes exempt from tax as provided by the Malawi Taxation Act. *(4 marks)*
2. Explain the conditions that must be satisfied if repairs to assets (premises and equipment) are to be allowed as a deduction from the taxable income of a taxpayer. *(3marks)*
3. Mr Mpesa has property in the suburbs of Blantyre that he lets out. He is due to submit his annual returns but is unsure how to go about it as previously his niece who was studying for a diploma in accounting used to handle all that record keeping for the business. Now she relocated to another place and he feels he can the books himself of course whilst consulting his niece. The niece has mentioned that some expense relating to repair works and certain maintenance works require certain tax treatments. Mr Mpesa is now more confused. For the year in question, one of his tenants vacated the house and Mr Mpesa incurred the following expenditure on the house before a new tenant moved in:
4. He put up a new structure at the front of the house to serve as a guard’s shelter.
5. The grass fence was demolished replacing it with a brick fence to enhance security.
6. Due to the heavy rains and leaking the house ceiling had to be replaced by another one as the original one fell in.
7. The house as per tenancy policy had to be repainted before the new tenant moved in.
8. Each of the bedrooms had to be provided with bathrooms and toilets to make them ensuite.
9. Following the construction of the brick fence due to security concerns, Mr Mpesa had to put up a new electric gate.

**Required:**

For each of the items of expenditure (i) to (vi), explain whether or not the related expenditure is allowable as a deduction for tax purpose, stating the reason for your answer. *(6 marks)*

1. If the said expenditures were incurred on Mr Mpesa’s personal house would your answer in (a) above been different? Explain? *(2 marks)*

**(Total 15 marks)**

**SECTION B (40 MARKS)**

Answer **ANY TWO** questions from this section

**QUESTION 5**

Che Makawa’s accounts clerk has produced the following in relation to Che Makawa’s business interest at Makawa trading centre in Mangochi.

**K K**

Gross Profit 9,190,400

Operating expenses

Office salaries (note 1) 871,300

Rent, Rates and insurance 113,500

Lighting and heating 82,000

Motor Expenses 65,220

Repairs and Renewals (note 2) 448,100

Professional fees (note 3) 119,500

Travel and hotel expense (note 4) 95,200

Gifts and donations (note 5) 28,500

Bad debts (note 6) 198,600

Depreciation 843,240

Other (all allowable) 373,270 (3,238,430)

Operating profit 5,951,970

**Income from Investments**

Dividends (note7) 385,000

Loan Interest (note 8) 240,000

Bank Interest (note 9) 56,000 681,000

663,297

Interest payable (150,000)

Profit before Tax **6,482,970**

**Notes:**

1. Office salaries include director’s remuneration, Che Makawa, of K340,000.

2. Repairs and renewals include K85,000 for replacing part of a wall that was knocked down by a lorry during loading and K147,000 for repairs necessary to a newly acquired office building. The building was not usable until the repairs were carried out.

**3. Professional fees:**

**K**

Accountancy and Audit fee 89,500

Legal fees re renewal of 20 year lease 24,000

Legal Fees re issue of long term (see note 10) 6,000

**119,500**

4. Travel and hotel expenses include the hotel bill for accommodation for 4 relatives who came for Che Makawa’s daughter’s wedding, at a cost of K2,000 a person.

5. Gifts and Donation  **K**

Donation to Malawi Lion’s club 10,000

Donation to a local church 4,500

Gifts to relatives for the festive season in hampers 28,500

6. Bad debts include: **K**

Bad debts written off 148,900

Loan to customer written off 27,500

Increase in provision for bad debts 22,200

**198,600**

7. The dividends were received net from other Malawian companies.

8. Loan Interest received was stated gross.

9. Bank interest was received on 31 March 2019 in respect of deposits held in form of some investments.

Capital allowances have been agreed with the revenue authorities to be at K650,000.

**Required:**

1. Calculate Cha Makawa’s tax adjusted profits for the year ending 31 March 2019. *(19 marks)*
2. From the adjustments you have made in (a), identify **one** aspect that differ with corporation tax computations. *(1 mark)*

**(Total 20 marks)**

**QUESTION 6**

1. What is fringe benefits tax? *(2 marks)*
2. Who is liable to pay the fringe benefits tax? *(1 mark)*
3. When is the fringe benefits tax payable? *(2 marks)*
4. Atuweni Yaadi works with a local sugar making and distribution company as an Operations Engineer. As part of the conditions of service, he is provided with some fringe benefits by his employer as follows:

**Housing accommodation**

* A house is provided and it is rented
* The house is fully furnished
* The monthly rental value is K250,000
* Yaadi’s salary is K1,500,000 per month

**Motor vehicle**

* + The vehicle provided to Yaad is a Toyota Hilux double cabin which was purchased in January 2018 for K18,000,000
  + Yaadi has unlimited use of the vehicle

**Security**

The employer provides one day guard and two night guards at a cost of K40,000 per guard per month.

**Gardener**

One full time gardener is provided by the employer at a salary of K35,000 per month

**School fees**

* Yaadi has two school going children and invoices are sent direct to the employer. When cheques are ready, he collects them and delivers them to the school. The fees are MK3,000,000 for the year in question.

**Required:**

Calculate the amount of the taxable values of the various fringe benefits for the year ending 30th June 2018 and work out the tax liability. *(15 marks)*

**(Total 20 marks)**

**QUESTION 7**

1. Explain why indirect taxes are considered inequitable. *(2 marks)*
2. The tax system in Malawi is designed to achieve specific objectives for the Malawi economic and social environment.

**Required:**

Identify a specific objective of the Malawi tax system and relate it with a given tax that is administered in Malawi.  *(8 marks)*

1. A good tax system should be designed to have principles known as canons.

Identify any **five** canons of taxation.  *(5 marks)*

1. Which are the **five** situations where the oath of secrecy can be waived?  *(5 marks)*

**(Total 20 marks)**

**QUESTION 8**

Kalizinje lost his job in 2012 and invested her compensation money in property situated in Chilomoni. The property is rent out at K75,000 per month and for the year ending 30th June 2018, Kalizinje incurred the following expenses relating to the property.

**K**

Repairs (note) 25,000

Mortgage interest 43,500

City rates 6,000

Insurance 3,000

Estate agent’s fee 4,000

**Note 1:**

These repairs were undertaken in August 2018 to both the bathroom and kitchen in the property. The bathroom was a straight forward replacement costing K5,000, however, Kalizinje took the opportunity to upgrade the kitchen whilst repairing it. She incurred a cost of K20,000 of which K8,000 was in respect of new kitchen cabinets.

**Required**

1. Calculate Kalizinje’s taxable profits/assessable loss on her rental property for the year ending 30th June 2018. *(8 marks)*
2. Advise Kalizinje on how any losses that she may make on her rental properties can be utilised. *(2 marks)*

(iii)In determining the taxable profit or loss, what did you consider in the nature of the above expenses? *(2 marks)*

(iv)If Kalizinje was to come to you for advice before he made any investment what advise would you give him on whether to invest in shares or property as he had done. Your decision should be purely on tax burden.  *(3 marks)*

(v) If Kalizinje was still in employment and still had the property in question. And further you are informed that he is entitled to accommodation by the employer and that effectively the employer was now renting Kalizinje’s house for him.

**Required:**

Isolate the relevant tax issues. *(5 marks)*

**(Total 20 marks)**

**END OF EXAMINATION PAPER**