

**INSTITUTE OF BANKERS IN MALAWI**

**DIPLOMA IN BANKING EXAMINATION**

**SUBJECT: TAXATION 1 (IOBM – D213)**

**Date: Tuesday, 8th November 2016**

**Time Allocated: 3 hours (13:30 – 16:30 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 sheets without examination numbers will not be marked.**

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

## SECTION A (60 MARKS)

## Answer ALL QUESTIONS from this section

**QUESTION 1**

1. (i) List the requirements for and the circumstances that must exist for a company to register for value added tax (VAT). *(3 marks)*

(ii) State the effect that failure to register will have on a company required so to do.

*(2 marks)*

1. VAT is applied when there is a taxable supply; state when a taxable supply is deemed to have occurred. *(7 marks)*
2. Explain the provisions introduced in the 2007 Tax Amendment Act in respect of duties and VAT on expenditure on tourism related items.  *(3 marks)*

**(Total 15 marks)**

**QUESTION 2**

1. In relation to income from farming, state five expenditures which have to be taken into account when determining taxable income.  *(5 marks)*
2. John Chalimba is the Managing Director of Chingoma Malawi Limited. He is paid a monthly salary of K5, 500, 000 per month and a house allowance of 75% of salary. Calculate her tax liability for the twelve months ended 30 June 2015. *(5 marks)*
3. Section 45 and 46 of the Taxation Act provide for inadmissible deductions for purposes of determining taxable income. Discuss any five inadmissible deductions under these two sections.  *(5 marks)*

**(Total 15 marks)**

**QUESTION 3**

Dongo Motors Limited is a Malawi incorporated company, registered for value added tax (VAT), and involved in the sale of both new and second-hand motor vehicles and parts.

Dango Motors Limited entered into the following transactions in the month of June 2015.

K

Income

Sale of motor vehicles – new 65,000,000

Sale of motor vehicles – secondhand 11,550,000

Spare parts – exported to Zambia 4,500,000

Bank interest received 865,000

Expenditure

Purchase of spare parts for resale 8,500,000

Purchase of vehicles for resale 55,000,000

Rental of house for the managing director 200,000

Rental of showroom 1,200,000

Salaries and wages 5,000,000

Purchase of furniture 765,000

Water 110,000

Electricity 245,000

Withholding taxes 1,200,000

Hotel accommodation 126,500

Telephones – ground lines 46,500

Purchase of motor vehicle for salesman 4,500,000

The above figures are all exclusive of VAT.

**Required:**

1. Identify any **four** transactions, which would constitute a supply for the purposes of value added tax(VAT)  *(4 marks)*

(b) (i) In respect of Dongo Lako Motors Limited’s expenditure transactions ONLY, state whether each of these is standard rated, zero rated, exempt or outside the scope of VAT. Identify any transactions where the VATsuffered will be irrecoverable by Dongo Lako Motors Limited*. 6 marks)*

(ii) Calculate the VAT payable by Dongo Lako Motors Limited for June 2014.

**Note:** Items of expenditure may be grouped into appropriate categories for the purposes of the calculations, provided that the basis of the grouping is clear. *(5 marks)*

**(Total 15 marks)**

**QUESTION 4**

Moses is contemplating starting a business which will be engaged in the selling and repairing of computers and related equipment. He will work full time in this business.

He will be preparing his financial statements to 31 December each year.

The following are his expected results for his first year of trading to 31 December 2015:

K K

Turnover 10,500,000

Cost of sales (4,500,500)

–––––––––––

5,999,500

Bank interest (gross) 55,000

*Less:* Other expenditure

Salaries 2,565,500

Motor vehicle expenses 175,000

School fees for child 235,000

Depreciation 355,000

Rent and rates 650,000

Utilities 36,500 (4,017,000) ––––––

Profit 2,037,500

Included in salaries is a salary of K1,800,000 payable to Moses.

He will have use of the motor vehicle, which will be used 50% for private purposes. The vehicle, which is second-hand, will cost K1,500,000.

School fees are payable for his son at Bambino Private School.

The projected rent and rates include the cost of renting a house for himself at K360,000 per annum. The balance of the rent is for business premises.

Moses has not decided whether he should operate as a sole trader or incorporate a limited company. He has approached you for advice. Moses has no other sources of income.

**Required:**

Advise Zakeyu whether to operate as a sole trader or to incorporate a limited company. Your advice should take into account both the taxes payable and the earnings available to Moses. Support your answer with detailed calculations. **(Total 15 marks)**

**SECTION B (40 MARKS)**

Answer **ANY TWO** questions from this section

**QUESTION 5**

The tax written down value of business assets of Chamama Limited as at 30 June 2014 was as follows:

|  |  |  |
| --- | --- | --- |
| Item  Factory buildings  Plant and machinery  Motor vehicles  Furniture and fittings  Computers | Tax written down value  K’000  86,000  44,000  12,600  4,500  \_\_\_-\_\_ | Agreed Rate for  annual allowance  5%  10%  20%  10%  40% |

During the year 30 June 2015 the following transactions took place.

(1) Some plant and machinery with a tax written down value of K6,500,000 and net book value of K3,200,000 on 30 June 2014 were disposed of for K4,000,000. Replacement plant and machinery was bought during the same year at K8,100,000.

(2) One motor vehicle with a net book value of K3,200,000 and a tax written down value of K1,800,000 was sold during the year for K1,980,000. A new vehicle a Nissan single cab pick up was purchased at a cost of K5,700,000.

(3) Office furniture with zero net book value but a tax written down value of K285,000 was sold for K220,000.

(4) Two new computers were purchased at a total cost of K1,460,000.

**Required:**

(a) Calculate the accounting profits or accounting losses resulting from the asset disposals stated above.  *(4½ marks)*

(b) Calculate the capital gains or losses resulting from the asset disposals stated above. *(4½ marks)*

(c) State the effects of an accounting loss as well as an allowable capital loss on the tax computation. *(2 marks)*

(d) Calculate the capital allowances, initial or investment allowances as the case may be, and annual allowances, on the business assets stated above for the financial year to 30 June 2008. *(7 marks)*

(e) Give the circumstances under which a capital loss is not deductible. *(2 marks)*

**(Total 20 marks)**

**QUESTION 6**

(a) (i) Explain the difference between **direct taxes** and **indirect taxes**. *(3 marks)*

(ii) Give **two** examples of direct taxes and **three** examples of indirect taxes used in Malawi. *(5 marks)*

(b) A taxpayer has received an estimated assessment from the Tax Authorities showing that he has been assessed for the year of assessment to 30 June 2015 in the absence of his return of income. Tax amounting to K245,300 is shown to be due and payable. As no information has been provided, no credit for advance taxes paid has been given.

The taxpayer has asked for your assistance and has produced the following information as he wants to contest the assessment.

(1) A statement that, during the year under review, the taxpayer received gross rents amounting to K 680,000. City rates of K15, 500 were paid within the year and were the only expenditure incurred against the rental income.

(2) Withholding tax amounting to K56,000 was recovered from the rental in (1) above.

(3) A PAYE certificate showing K2,400,000 as total salary and K639,000 as PAYE deducted for the year under review.

(4) Evidence of payment of professional subscriptions to the tune of K85,000 was produced. These have been allowed for tax purposes in the past.

**Required:**

(i) Advise the taxpayer whether or not withholding tax on rentals has been correctly operated by the taxpayer’s tenant. If not, what consequences are likely to follow on both the operator and the taxpayer? *(5 marks)*

(ii) State the disadvantages resulting from an under deduction of PAYE tax by an employer.  *(1 mark)*

(iii) On the basis of the withholding tax and PAYE schemes that were correctly operated, calculate and advise the taxpayer, the net amount of tax payable by him. Indicate by what amount the estimated assessment will be reduced or how much additional tax will need to be paid. *(6 marks)*

**(Total 20 marks)**

**QUESTION 7**

Mateyu Binali is employed by Chimanga Holdings Limited as a marketing consultant. In addition, Mateyu operates an internet café with his partner, Joseph Phiri, under the provisions of the Business Names Act.

The following information is available in connection with the financial affairs of Mateyu for the year ended 30 June

2015:

Business - Internet Café

The net profit before capital allowances, but after deducting depreciation of K200,000 and a salary of K250,000 paid to Joseph, is K425,500.

The partners share profits in the ratio of 5:4 to Mateyu and Joseph respectively.

The tax written down value of the computer equipment used in the business as at 1 July 2013 was K465,500. The business paid provisional tax of K160, 000 during the year.

Employment

Mateyu is married to Jane. Jane is employed as a secretary at the Post Office.

Their respective salaries for the year ended 30 June 2015 were:

Mateyu Jane

K K

Salary (per month) 400,000 150,000

In addition, they each received a housing allowance of 40% of their salary.

The appropriate PAYE was deducted each month and remitted to the Malawi Revenue Authority.

Other income and information

1. Mateyu has a house in Namiwawa which he bought using a mortgage from the NBS Bank. The mortgage repayment is K48,000 per month (of which K42,000 is interest).
2. The house is rented for K60,000 per month to Blantyre Pharmacies. Blantyre Pharmacies deducts withholding tax on payment of the rent.

10% of the rent is paid to the property manager. During the year K60,000 was spent on repairing the roof and K120,000 on a new concrete driveway.

Jane maintained a three months fixed deposit account with the National Bank of Malawi. During the year to 30 June 2014 interest was paid on the account as follows (all interest amounts are stated gross).

K

30 September 2014 6,800

31 December2014 12,000

31 March 2015 9,000

30 June 2015 14,000

1. Mateyu is a director at Maziko Limited. During the year he was paid directors fees amounting to K120,000 gross, from which 10% withholding tax was deducted.

**Required:**

1. Explain how the income from the internet café business will be taxed on Mateyu.

*(3 marks)*

1. Compute the income from the internet café business that will be taxable on Mateyu for the year ended 30 June 2014.  *(4* *marks)*
2. Compute the income tax payable by Mateyu and Jane, respectively, for the tax year ended 30 June 2014. *(8 marks)*

(d) Calculate any additional tax or any refunds of tax payable in respect of Mateyu for the year ended 30 June 2014. *(5 marks)*

**(Total 20 marks)**

**QUESTION 8**

1. (i) Describe the **two** types of clubs or associations which are recognized under the Taxation Act. *(3 marks)*

(ii) How is income of such clubs, societies or associations treated for tax purposes? *(2 marks)*

1. (i) Where a club or association is subject to tax, state how the taxable income is computed? *(3 marks)*

(ii) Kamba Sports Club, which is a taxable club, carried out the following transactions in the year ended 31 December 2014:

Income : K8, 308,000

This was made up as follows:

|  |  |
| --- | --- |
| Ground entrance fees  Rentals from accommodation  Sale of food  Sale of drinks  Club membership fees  TV shows – live football  Live band performances  Gambling machine | K’000    2,220  1,650  590  650  900  410  1460  428  8,308 |
|  |  |

Expenses : K1, 962,000

The breakdown was as follows:

|  |  |
| --- | --- |
| Trading licence  Food licence  Salaries and wages  Cost of goods sold  Repairs and maintenance | K’000  140  115  480  385  842  1,962 |
|  |  |
|  |  |

**Required:**

1. (i) Compute the taxable income of Kamba Sports Club for the financial year to 31 December 2014. *(4½ marks)*

(ii) Calculate the amount of tax payable on the taxable income computed in (i) above. *(1½ marks)*

State the tax year in which the taxable income computed in (i) above will be assessed. *(1 mark)*

(d)(i) When may the Commissioner accept the taxpayer’s estimate of amount of his taxable income? *(2 marks)*

(ii) When may the Commissioner estimate the taxpayer table income or assessed loss? *(3 marks)*

**(Total 20 marks)**

**END OF EXAMINATION PAPER**

**Income Tax Rates: Individuals - Annual**

Cumulative Tax Rate MK

0 – 240, 000 0% 0

240, 001 – 300, 000 15% 9,000

300, 001+ 30% –

**Investment Allowances**

New 100%

Second hand 40%

**Provisional Tax Penalty Rates**

If the amount of Provisional Tax unpaid as a percentage of total tax liability

**Penalty**

Does not exceed 10%. Nil.

Exceeds 10% but does not exceed 50%. 25% of the unpaid amount of provisional tax.

Exceeds 50%. 30% of the unpaid amount of provisional tax.