

**INSTITUTE OF BANKERS IN MALAWI**

**DIPLOMA IN BANKING EXAMINATION**

**SUBJECT: TAXATION 1 (IOBM – D213)**

**Date: Tuesday, 30th April, 2013**

**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 books without examination number 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. Define Taxation. *(2 marks)*
2. Discuss **four** key canons of Taxation. *(4 marks)*
3. List and explain any **five** reasons why Governments impose taxes on its citizens. *(5 marks)*
4. Distinguish any **four** classes of Taxes. *(4 marks)*

**(Total 15 marks)**

**QUESTION 2**

1. What does the statement “Malawi Taxation is based on Source” mean? *(2 marks)*
2. Comment on whether or not the following items are taxable in Malawi and give reasons for your response:
   1. K8 million salary from Malawi Government to a Malawian on diplomatic service to Japan. *(1 mark)*
   2. K150, 000 interest earned from bank accounts in Japan. *(1 mark)*
   3. K102, 000 interest earned from money saved with a Reserve Bank registered Bank in Malawi. *(1 mark)*
   4. K735, 400 gifts from other diplomats in Japan during a farewell reception. *(1 mark)*
   5. K1, 300, 100 income from business interests in Malawi. *(1 mark)*
   6. K310, 000 profit from sale of household items upon leaving Japan. *(1 mark)*
3. Under what circumstances will a taxpayer make an appeal to the Commissioner General under the Taxation Act? *(3 marks)*
4. Where the taxpayer is not satisfied with the determination of the Commissioner General, he has an option to appeal to the Special Arbitrator. What procedure does the Special Arbitrator follow? *(4 marks)*  **(Total 15 marks)**

**QUESTION 3**

Timbaowns a manufacturing business and drew up the following summarized Profit and Loss Account for the year ended 30 June, 2012:

|  |  |  |  |
| --- | --- | --- | --- |
| **Details** | **Notes** | **MK’ 000** | **MK’ 000** |
| **Gross Profit for trading** |  |  | **10, 000** |
| Profit on sale of car |  | 100 |  |
| Discount received |  | 90 | 19 |
|  |  |  | 10, 019 |
| Less: Rent | 1 | 940 |  |
| Electricity and water | 1 | 654 |  |
| Travel expenses |  | 656 |  |
| Wages and Salaries | 2 | 3,103 |  |
| Depreciation |  | 151 |  |
| Repairs | 3 | 259 |  |
| Bad and Doubtful debts | 4 | 518 |  |
| Armotisation of Lease | 5 | 10 |  |
| Legal Expenses | 6 | 112 |  |
| General Expenses | 7 | 488 |  |
| Income Tax |  | 133 | 7, 024 |
| Net Profit for the Year |  |  | 2, 995 |

**Notes:**

1. Half of rent, electricity and water relates to the house in which Timba and her family live.
2. Salary includes K1, 200, 000 that Timba draws for herself.
3. Repairs account is made up of extension to the factory building K120, 000; general maintenance to the factory building K70, 000 and repainting the house in which Timba and family live K69, 000.
4. The breakdown of the bad and doubtful debts expensed is as follows: write off of staff loans for those who left the business K155, 000; increase in general provision for doubtful debts during the year K158, 000; increase in specific provision for doubtful debts during the year K205, 000.
5. In 2009, Timba paid a premium of K300, 000 to acquire a 30 year lease on the factory building. This is being written off in equal amounts over the 30 year lease period.
6. Legal expenses comprise K60, 000 for debt collection and K52, 000 for the extension of the factory building.
7. General expenses is made up of donations to Peoples Party for K120, 000; Malawi Red Cross for K230; and the balance represents allowable donations for tax purposes.

8 Capital allowances are agreed at an amount of K1, 120,000.

**Required:**

1. Compute the taxable income for the year of assessment ending 30 June, 2012. *(10 marks)*
2. Give reasons for the way you have treated the following items in (a).
   1. Profit on sale of a car *(1 mark)*
   2. Repairs  *(1 mark)*
   3. Bad and doubtful debts *(1 mark)*
   4. Legal expenses *(1 mark)*
   5. General expenses *(1 mark)*

**(Total 15 marks)**

**QUESTION 4**

1. In relation to income from farming, state **five** expenditures which have to be taken into account when determining taxable income. *(5 marks)*
2. Economic Recovery is the Managing Director of Malawi Limited. She is paid a monthly salary of K4, 000, 000 per month and a house allowance of 75% of salary. Calculate her tax liability for the twelve months ended 30 June 2012.  *(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)**

**SECTION B (60 MARKS)**

Answer **ANY TWO** questions from this section

**QUESTION 5**

1. Define the term “staff housing’’ in terms of the Malawi Taxation Act. *(2 marks)*
2. What must a taxpayer do to ensure maximum capital allowances are claimed in respect of staff housing? *(2 marks)*
3. Name the type of fencing expenditure which is eligible for Capital Allowances. *(1 mark)*
4. Namabetcha is running a manufacturing business. The capital allowances Schedule as at 1 July, 2011 contained the following information:

|  |  |  |
| --- | --- | --- |
| **Asset Type** | **Tax Written Down Value in MK’000** | **Annual Allowance Rate** |
| Factory Building | 28, 500 | 5% |
| Plant and Machinery | 10, 200 | 10% |
| Motor vehicles | 25, 800 | 20% |
| Furniture and Fittings | 2, 500 | 20% |

During the year to 30 June 2012, the following transactions were recorded:

**Fencing**

Fencing of the factory which started in 2003 was completed and brought into use during the year under review and an amount of K475, 000.00 was spent in this final phase.

**Plant and Machinery**

Some aging machinery was sold for K2, 350, 000. This sale resulted in a capital loss of K800, 000. New replacement machinery was acquired at a cost of K9, 650,000.

**Motor Vehicle**

One motor vehicle with a tax written down value of K1, 020, 000 was sold for K5, 450, 000. A replacement vehicle, saloon type was acquired at a cost of K10, 800, 000.

**Furniture and Fittings**

Additional furniture and fittings were acquired at a cost of K950, 000.

**Factory Building**

Due to the fact that business has boomed, Namabetcha bought an additional factory building during the year at a cost of K6, 550, 000.

**Required:**

1. Calculate the tax written down value of the machinery that was sold. *(2 marks)*
2. Calculate the capital gain or capital loss on the motor vehicle that was sold. *(2 marks)*
3. Calculate capital allowances due for the year to 30 June 2012.

[Assume initial allowance has been claimed where appropriate.]

*(11 marks)*

**(Total 20 marks)**

**QUESTION 6**

1. Section 84A of the Taxation Act requires that taxpayers pay Provisional Tax unless certain conditions regarding the amounts or sources of individual taxpayer’s income are expected to apply.

**Required:**

Name any **three** reasons why Provisional Tax system was introduced.  *(3 marks)*

1. Provisional Tax is one form of payment of income tax in advance. The Provisional Tax system is designed to require a taxpayer to pay income tax in advance of submitting a return of income, in quarterly installments.

**Required:**

State **two** other forms of payment of income tax in advance; indicating how often such tax is paid by or on behalf of the taxpayer. *(2 marks)*

1. The imposition of penalties under the Taxation Act is meant to achieve certain objectives

**Required:**

1. State any **three** objectives of penalties. *(3 marks)*
2. Discuss the circumstances under which the imposition of penalties may not achieve the intended objectives. *(3 marks)*
3. Devaluation Limited provides fringe benefits to its employees and in line with the Taxation Act, they computed Fringe Benefits Tax for the quarter ending 31 December, 2012 amounting to K215, 200. This amount was paid in full to Malawi Revenue Authority on 25th January, 2013 as they could not have paid earlier due to the fact that the company was not only closed for Christmas and new year break but after opening, they were busy attending to Auditors as the company’s yearend is December as such they had to meet their tight deadlines of submitting audited accounts to their parent company in UK by 31 January, 2013.

**Required:**

1. Define fringe benefit in terms of the Taxation Act *(2 marks)*
2. When does liability for fringe benefit tax arise? *(1 mark)*
3. Who is liable to pay fringe benefit tax? *(1 mark)*
4. When is fringe benefit tax due for payment to MRA? *(1 mark)*
5. Comment on the position taken by Devaluation Limited in relation to the fringe benefit tax [include any consequences to the Company]. *(4 marks)*

**(Total 20 marks)**

**QUESTION 7**

Under what circumstances is a person liable to register as a taxable person for purposes of the Value Added Tax [VAT] Act? *(2 marks)*

The following transactions were recorded in the books of a VAT registered taxpayer for the month of January 2013.

1. **Business related expenditure, inclusive of VAT at 16.5%**

**K**

Security expenses 23, 300

Legal expenses 58, 250

Stationery 163, 100

Office furniture 205, 040

Office rentals 60, 580

Electricity 6, 757

517, 027

1. **Business related expenditure exclusive of VAT**

**K**

Salaries 350,000

Water 2,500

Postal services 1,500

354,000

1. In addition to the above transactions, the value of sales net of VAT were K5, 000, 000 and K1, 000, 000 in respect of local sales and exports respectively.

**Required:**

1. Calculate the amount of VAT paid or payable on each expenditure item given above.  *(9 marks)*
2. Calculate the amount of VAT chargeable on total sales, local and export, indicating gross sale values. *(2 marks)*
3. Calculate the amount of net VAT payable to the Revenue Authorities after taking into account the input tax paid on each of expenditure items given above. *(2 marks)*
4. What are the **three** advantages and **two** disadvantages of the VAT credit system? *(5 marks)*

**(Total 20 marks)**

**QUESTION 8**

1. State any **three** significances of correctly completing the certificate of origin [form18] under the Customs and Excise Act [Cap 42.01]. *(3 marks)*
2. A trader imported goods from South Africa into Malawi worth K2, 500, 000 with the intention of using them as raw materials in their production. The raw materials were used to produce a product which was valued at K3, 000, 000.

**Required:**

1. Compute the percentage content of manufacture of that product. *(3 marks)*
2. Which is this product’s country of origin, give a reason.

*(2 marks)*

1. List any **four** functions of a customs officer. *(4 marks)*
2. Discuss the principles of Customs Valuation. *(8 marks)*

**(Total 20 marks)**

**END OF EXAMINATION PAPER**

**APPENDIX I**

**TAX RATES AND ALLOWANCES**

**Income Tax Rates: Individuals**

Cumulative Tax Rate MK

0 – 144, 000 0% 0

144, 001 – 180, 000 15% 5,400

180, 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.