



**2014 EXAMINATIONS**

**ACCOUNTING TECHNICIAN PROGRAMME**

**PAPER TC 10(B): TAXATION**

**THURSDAY 4 DECEMBER 2014**

**TIME ALLOWED: 3 HOURS  
9.00 AM - 12.00 NOON**

**INSTRUCTIONS:**

1. You are allowed **15 minutes** reading time **before the examination begins** during which you should read the question paper and, if you wish, make annotations on the question paper. However, you are **not** allowed, **under any circumstances**, to open the answer book and start writing or use your calculator during this reading time.
2. Number of questions on paper – 7.
3. The paper is divided into **TWO** Sections, **A** and **B**. **BOTH** questions to be answered in Section **A** and **ANY THREE** from Section **B**.
4. Each question carries 20 marks.
5. Use of non-programmable calculators is allowed.
6. You are provided with the following:
  - (i) A set of tables containing rates of tax on taxable income (Table 1).
  - (ii) Rates of capital allowances (Table 2).
  - (iii) Penalty rates for underpaid provisional tax (Table 3).
7. Begin each answer on a fresh page.
8. **DO NOT OPEN THIS PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR.**

This question paper contains 10 pages

This question paper must **not** be removed from the examination hall.

**SECTION A****ANSWER BOTH QUESTIONS IN THIS SECTION**

1. Lilongwe Limited is incorporated in Malawi. Its main activity is the production and sale of soap.

A summarized profit and loss account for the year ended 30 June 2013 is as follows:

	Note	K'000	K'000
Turnover			870,000
Less: production costs	1		<u>675,000</u>
			195,000
Less: Overheads			
Audit fees		1,200	
Provision for bad debts	2	1,500	
Provision for gratuities	3	920	
Provision for bonuses	4	880	
Depreciation, buildings		44,000	
Exchange losses	5	5,800	
Formation expenses		1,250	
Staff relief fund	6	1,850	
Repairs & maintenance	7	14,500	
Other allowable staff costs		9,000	
Other allowable expenses		14,500	
Fringe benefits tax		1950	
Traffic fines		250	<u>97,600</u>
Profit before tax			<u>97,400</u>

**Notes:**

- Production costs include K15,000,000 depreciation costs for machinery.
- K645,000 was in respect of a general provision, whilst the rest was in respect of one debtor who was under liquidation.
- Provision for gratuities is in respect of employees' contracts, which are running and not yet completed.
- Bonuses provided for had not yet been declared and therefore not paid out.
- K250,000 of exchange losses was unrealized.
- This was a self administered fund to provide sickness and accident benefits to employees or widows, children or nominees of deceased employees.
- A quotation for maintenance work for buildings K1,300,000, and machinery K650,000 was received. The actual work had not yet started by 30 June 2013.
- Capital allowances for the year, approved by the Commissioner General, amounted to K18,700,000.

**Required:**

- Compute the amount of taxable income or loss for the year to 30 June 2013. **6 Marks**
- Assuming that the taxable income in (a) above, amounted to K245,000,000, compute the amount of corporation tax payable by Lilongwe Limited for the year ended 30 June 2013. **2 Marks**
- Assume that Lilongwe Limited received a net dividend amounting to K2,700,000 from a subsidiary company during the financial year to 30 June 2012, and that towards the end of the same year, Directors of Lilongwe Limited declared a dividend to shareholders who were registered as at 31 December 2012. The dividend declared totalled K7,200,000 and was from the retained earnings which included the dividend from the subsidiary company.

**Required:**

- Calculate the tax paid on the dividend which was declared and paid by the subsidiary company. **2½ Marks**
- Calculate the tax payable by Lilongwe Limited on the dividend declared to the shareholders at the end of the financial year to 30 June 2012. **2 Marks**
- State whether or not the tax on dividends is recoverable. Give reasons for your answer. **2 Marks**

- (d) Under Section 94 of the Taxation Act, the register of assessments shall not be open to public inspection.

**Required:**

- (i) State the contents of the register and where is it kept. **1 Mark**
- (ii) Other than officials in the course of their duty, who else may see the register or may have access to any information in it? **2 Marks**
- (iii) Why is the register not open to public inspection? **1 Mark**

- (e) A return of income of a limited company requires that a declaration be made as to the company's country of incorporation.

**Required:**

Why should such a declaration be made?

**1½ Marks**  
**(TOTAL: 20 MARKS)**

2. (a) Jatropa Limited, a company that is involved in the Production of Biofuel from Jatropa in Balaka, has the following details in connection with its property and equipment for the year ended 31 December 2013:

Tax Written Down Values [TWDV] as at 1 January 2013 were as follows;

	K'000	Annual allowance rate
Factory building	15,250	5%
Plant and machinery	14,000	10%
Motor vehicles [commercial vehicles]	78,000	20%
Furniture and fittings	12,430	10%
Computers	9,250	40%
Motor vehicles [saloon]	12,500	20%

The following transactions took place during the year:

- (1) The company extended the factory building and brought it into use in April 2013. The extension cost the company 6,500,000 in total, out of which K1,500,000 was spent on partitioning a storeroom in the factory building.
- (2) Purchased plant for K8,400,000 through leasing on 10 December, 2013 but brought it into use on 4 January 2014.
- (3) Other additions to the property and equipment were as follows:

		K
February 2013	second hand seed extractor	8,800,000
May 2013	second hand 30 ton truck	45,000,000
August 2013	Motor vehicles [Saloon]	18,000,000

- (4) Disposals during the year were as follows:

		TWDV
August, 2013	Old extractor	K5,250,000
Sept, 2013	Motor vehicle (commercial)	K1,750,000
Dec, 2013	Furniture	K3,500,000

**Required:**

Prepare the Capital Allowances schedule for Jatropa Limited and compute all allowances that the company was entitled to in the year. **15 Marks**

- (b) In January 2013, a Malawian businessman imported trade goods whose cost was £375,000. On the day of the transaction, the rate of exchange was £1 to K450. Payment of these goods was made in three installments in June 2013 (£75,000), October 2013 (£150,000) and December 2013 (£150,000). The rate of exchange for these months were as follows :

	K
June, 2013	500
October, 2013	550
December, 2013	400

**Required:**

Using the formula given below, calculate the foreign exchange loss or gain realized on the day of the payment for the goods.

$a \times r_1 - a \times r_2$  where:

$a$  = amount of foreign currency involved.

$r_1$  = official rate of exchange of the pound sterling with respect to the Malawi Kwacha at the time of establishing the transaction.

$r_2$  = official rate of exchange of the pound sterling with respect to the Malawi Kwacha at the time of satisfying the transaction.

**5 Marks**

**(TOTAL: 20 MARKS)**

**SECTION B**

**ANSWER ANY THREE QUESTIONS ONLY**

3. (a) State the circumstances under which a person is registrable as taxable for purposes of the Value Added Tax (VAT) Act. **2½ Marks**
- (b) State **four** reasons why the Commissioner General may decline a person's registration application under the voluntary registration provisions of the Value Added Tax (VAT) Act. **2½ Marks**
- (c) The following transactions were recorded in the books of a VAT registered taxpayer for the month of June, 2013:

- (1) Business related expenditure, inclusive of VAT at 16.5%

	K
Security	291,250
Legal	186,400
Stationery	87,375
Office furniture	436,875
Office rentals	495,125
Electricity	80,385

- (2) Business related expenditure exclusive of VAT

	K
Salaries	6,250,000
Water	125,000
Postal services	252,200

In addition to the above transactions, the value of sales net of VAT were K9,600,000 and K4,300,000 in respect of local sales and exports respectively.

**Required:**

- (i) Calculate the amount of VAT paid or payable on each item stated above. **9 Marks**
- (ii) Calculate the amount of VAT chargeable on total sales, local and export, indicating gross sales values. **2 Marks**
- (iii) Calculate the amount of net VAT payable to the Malawi Revenue Authority after taking into account the input tax paid on each of the expenditure items given above. **1½ Marks**
- (c) State the conditions which must be fulfilled by a taxable person, who is not a motor vehicle dealer, to enable such a taxable person claim input tax deduction in respect of taxable supply of motor vehicles or motor vehicle spare parts. **2½ Marks**

**(TOTAL : 20 MARKS)**

4. (a) An employer intends to provide benefits to a few of his employees but before doing so, he seeks your advice.

**Required:**

- (i) Advise the employer on the tax implications of providing benefits to employees. **2½ Marks**
- (ii) How can the fringe benefits tax burden be reduced? **2½ Marks**

- (b) Chisitu Limited is a company that produces protective wear in Mulanje. The company provided salary and benefits as part of its remuneration package. The following members of staff were on its payroll and the annual payments were made to or for each member of staff in the year to 31 December, 2013.

Type of fringe benefit	General Manager	Chief Accountant	Production Manager	Human Resources Manager	Marketing Manager
	K'000	K'000	K'000	K'000	K'000
Annual salary (Subject to PAYE)	28,000	18,000	15,000	12,500	20,500
Car at cost	45,000	25,000	25,000	25,000	20,000
Accommodation: Unfurnished, owned by Chisitu (annual rental value)	5,400	3,600	3,600	2,400	3,600
School fees ( paid to school)	2,700	1,500	0	0	1,500
Garden boy ( paid direct to member of staff)	240		180	180	
Watchman(paid to security firm)	540	360	360	300	300
Cook( paid to cook)	360	0	180	180	0
DSTV subscription (paid to Multichoice)	420		420		420

**Required:**

Compute the fringe benefits tax that would be payable by Chisitu for the quarter ended 31 December, 2013.

**15 Marks****(TOTAL : 20 MARKS)**

5. (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 2013 in the absence of his return of income. Tax amounting to K3,875,500 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 K1,520,000. City rates of K184,000 were paid within the year and were the only expenditure incurred against the rental income.
- (2) Withholding tax amounting to K136,000 was recovered from the rental in (1) above.
- (3) A PAYE certificate showing K11,500,000 as total salary and K3,351,000 as PAYE deducted for the year under review.
- (4) Evidence of payment of professional subscriptions totalling K175,000 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 correctly operated, calculate the amount of withholding tax that should have been deducted and indicate the amount of the under or over deduction. **3 Marks**
- (ii) What are the consequences that are likely to follow, if a person fails to deduct withholding tax? **3 Marks**
- (iii) On the basis of the withholding tax and PAYE schemes that were 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)**

6. (a) Recently, the Government introduced several tax and non tax measures which are meant to underpin the domestic revenue side of the budget. Some of the measures were as follows:

- (1) Increased investment allowance from 40% to 100% for new and unused factory buildings and plant and equipment.
- (2) Increased export allowances from 15% to 25%.
- (3) Increased the zero percent threshold of the individual tax rate structure from K20,000 to K25,000 and also increased the 15% bracket of the same structure from K3,000 to K5,000 per month.
- (4) Increased excise tax rate from 150% to 250% on alcohol packed in sachets and plastic bottles.
- (5) Changed collection point of motor vehicle license fees from Road Traffic Directorate to the Malawi Energy Regulatory Authority (MERA) through the introduction of fuel levy.

**Required:**

State **one** specific objective of **each** of the measures listed above.

**5 Marks**

- (b) A taxpayer is allowed to deduct “deductible expenses” from his or her assessable income to determine the taxable income. Section 28(1) of the Taxation Act stipulates the conditions which must be met for expenses to be deductible from the assessable income.

**Required:**

Mention the **five** main conditions for allowable expenses as stipulated in Section 28(1) on the deductibility of expenses.

**5 Marks**

- (c) Define the term “capital gain” or “loss”. **2 Marks**
- (d) State any **three** instances where neither gain nor loss shall be recognized for purposes of the Taxation Act on the transfer or disposal of any capital asset. **3 Marks**
- (e) Calculate the amount of realized capital loss which is deductible from assessable income in the following circumstances. Assume that the capital loss arises from the disposal of assets in respect of which no capital allowances were given:
- (i) Where a taxpayer has a realized capital loss of K120,000 and there is a realized capital gain of K170,000. **2 Marks**
- (ii) Where a taxpayer has a realized capital loss of K60,000 and there is a realized capital gain of K40,000. **2 Marks**
- (f) How would you answer part (e) above, if the capital losses and gains related wholly to the disposal of assets on which allowances had been given? **1 Mark**

**(TOTAL : 20 MARKS)**

7. (a) (i) What is the term used to describe the levying of income tax by more than one country on the same income of a taxpayer? **1 Mark**
- (ii) How does the scenario in (i) above arise and how can it be mitigated or prevented in Malawi? **3½ Marks**
- (b) Under what **three** circumstances will a taxpayer make an appeal to the Commissioner General under the Taxation Act? **3 Marks**
- (c) Where a taxpayer is not satisfied with the determination of the Commissioner General, he has an option to appeal to the Special Arbitrator.

**Required:**

State the procedure that the Special Arbitrator follows in making his determination.

**3½ Marks**

- (d) Mention any **three** functions of customs officers under the Customs and Excise Act. **3 Marks**
- (e) State **six** methods of customs valuation under the new GATT valuation system. **6 Marks**

**(TOTAL : 20 MARKS)**

**E N D**