

EXAMINATION NO. _____



2015 EXAMINATIONS – TECHNICIAN PROGRAMME

PAPER TC10(B) : TAXATION

THURSDAY 3 DECEMBER 2015

**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 11 pages

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

SECTION A- ANSWER BOTH QUESTIONS

1. Namwera Limited, whose main business is production of blankets, is incorporated in Malawi. A summarized profit and loss account for the year ended 31 December 2014 is as listed:

Details	Note	K'000	K
Sales			21, 300, 000
Cost of sales	1		16, 800, 000
Gross profit			4, 500, 000
Other income	2		25, 200
Expenses			
Depreciation		9, 500	
Audit fees		2, 400	
Bad debts		750	
Doubtful debts	3	900	
Traffic fines		2, 250	
Repairs and maintenance	4	15, 000	
Fringe benefits tax		3, 300	
Staff expenses	5	12, 450	
Directors fees		3, 600	
Company incorporation expenses		520	
General expenses	6	23, 600	
			74,270
Profit before tax			4, 450,930

Notes:

- Included in the cost of sales is K7,500,000 depreciation of plant and equipment.
- Included in other income is a net dividend of K5,400,000 received from a company in which Namwera Limited bought shares lately.
- Doubtful debts comprise specific provisions of K220,000.
- Repairs and maintenance costs include an amount of K380,000 for maintenance of a vehicle of the General Managers' wife who does not work for Namwera Limited.
- Staff expenses include a provision of K3,630,000 for staff bonuses and K2,100,000 employer's pension contribution for staff to unapproved pension scheme.

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6. General expenses include stock write-off of K4,600,000 which was stolen during the year but the insurance company compensated the company for the loss in question. The rest were allowable for tax purposes.
7. Capital allowances were agreed at K12,350,000.

Required:

- (a) (i) Compute the taxable income for the accounting year to 31 December, 2014 and calculate the amount of tax payable assuming the taxable income computed was K4,467,640. **15 Marks**
- (ii) In which tax year is the taxable income going to be assessed? **1 Mark**
- (iii) By what date is Namwera Limited expected to have submitted the income tax return? **1 Mark**
- (b) Section 69 of the Taxation Act states that any person carrying on trade in Malawi may be required to submit to the Commissioner other returns, other than the income returns which may be required by the Commissioner.

Required:

Mention **three** information declarations that these additional returns should contain.

3 Marks

(TOTAL : 20 MARKS)

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

<u>Item</u>	<u>Tax written down value</u>	<u>Agreed Rate for annual allowance</u>
	K'000	
Factory buildings	75,000	5%
Plant and machinery	65,000	10%
Motor vehicles	45,800	20%
Furniture and fittings	14,500	10%
Computers	5,600	40%

During the year to 30 June 2015 the following transactions took place:

- (1) Some plant and machinery with a tax written down value of K10,700,000 and net book value of K6,700,000 were disposed of on 30 June 2014 for K9,900,000. New replacement plant and machinery was bought during the same year at K11,800,000.
- (2) One motor vehicle with a net book value of K5,500,000 and a tax written down value of K2,900,000 was sold during the year for K3,940,000. A new vehicle, a 3 tone lorry, was purchased at a cost of K17,500,000.
- (3) Office furniture with zero net book value but a tax written down value of K154,000 was sold for K260,000.
- (4) Two new computers were purchased at a total cost of K1,280,000.

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 2015. **7 Marks**
- (e) State the circumstances under which a capital loss is not deductible. **2 Marks**

(TOTAL : 20 MARKS)

SECTION B

ANSWER ANY THREE QUESTIONS

3. (a) The following transactions relate to Chilala Limited in the year ended 30 June 2014:
- (1) Received bank interest totaling K455,000 from which withholding tax had been deducted.
 - (2) Paid K750,000 in audit fees from which withholding tax was deducted.
 - (3) Made several payments to suppliers from which a total of K1,365,450 withholding tax was deducted.
 - (4) Paid fringe benefits tax on the benefits given to its employees totaling K125,000.
 - (5) Paid total provisional tax of K 800,425.
 - (6) Paid value added tax totaling K865,785.

The total tax adjusted profits of Chilala Limited, for the year ended 30 June 2014, were K5,565,000.

Required:

- (i) State by when should the various taxes relevant to transactions (1) to (6) above, be due and payable. **4 Marks**
- (ii) Calculate the income tax payable by Chilala Limited for the year ended 30 June, clearly indicating the effect of the various taxes referred to in transactions (1) to (6), above on the amount of corporate tax payable. In the case of any amounts which you treat as having no effect, state why. **6 Marks**

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(b) Mr Kadango is a registered taxpayer and operates the following tax schemes:

- (1) PAYE (Pay as you earn)
- (2) Provisional tax
- (3) Fringe Benefits Tax
- (4) Withholding tax

Required:

- (i) State when the tax in each of the four schemes is payable. **4 Marks**
- (ii) State the rate at which a penalty for late payment is charged in respect of each of the above tax schemes. **6 Marks**

(TOTAL : 20 MARKS)

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4. On 1 July 2013, Mada and Chitsanzo entered into a partnership to trade in produce under the name Madachi Trading. The partnership agreement states that they will share profits in the ratio 60:40. This profit sharing ratio has been based on their respective capital contributions to the business and will be computed after charging both salaries and interest on capital.

The income and expenditure statement for Madachi Trading for the year ended 30 June 2015, its first year of operation, is as follows:

	Note	K	K
Income			
Capital introduced:			
by Mada			1,500,000
by Chitsanzo			900,000
Sales of produce			7,600,000
Bank interest received (gross)			225,000
Sales of used packing materials			<u>175,000</u>
			10,400,000
Less: Expenditure			
Salaries	1	5,300,000	
Purchase of produce		3,400,000	
School fees for Chitsanzo's child	2	665,000	
Rental for warehouse		1,150,000	
Printing and stationery		82,400	
Maintenance of vehicles	3	1,340,000	
Fuel		849,000	
Interest on capital		<u>240,000</u>	<u>(13,026,400)</u>
Loss for the year			<u><u>(2,626,400)</u></u>

Notes:

1. Included in salaries are the salaries paid to the partners as follows:

	K
Mada	1,850,000
Chitsanzo	1,150,000

2. The school fees for Chitsanzo's child had been paid in cash to Chitsanzo.

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Other information:

- (1) The partnership paid provisional tax of K460,000 during the year.
- (2) Mada has no other source of income. However, Chitsanzo had other income in the year ended 30 June 2015 as follows:

	K
Interest from a savings account in a local bank (net amount received)	60,000
Dividends from a local company	86,500
Sale of his personal car (not a partnership asset) which had been bought for K2,000,000 in 2014	890,000

Required:

- (a) State how the income of a partnership is taxed, including who is responsible for submitting the tax return(s). **3 Marks**
- (b) Compute the taxable profit of the partnership for the year ended 30 June 2015. **4 Marks**
- (c) Show the allocation of the partnership profit between the partners. **5 Marks**
- (d) Calculate the tax to be paid by or refunded to Chitsanzo for the year ended 30 June 2015. **8 Marks**

Note: Indicate the items which are not taxable or not allowable by the use of a zero.

(TOTAL : 20 MARKS)

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5. (a) Sections 58 to 65 of the Malawi Taxation Act set out the provisions for the taxation of 'special trades.

Required:

- (i) List the types of expenditure incurred by taxpayers who are engaged in pastoral, agricultural or other farming operations which are specifically allowable in determining their taxable incomes. **3 Marks**
- (ii) Explain the special basis that taxpayers who are engaged in timber growing operations may use to determine their taxable income. **6 Marks**
- (iii)
 - (1) State whether or not the taxable income of a club or society which is organized or operated solely or principally for pleasure or recreation is liable to tax. **1 Mark**
 - (2) Explain how any taxable income is determined and taxed, if your answer was affirmative in (1) above. **2 Marks**
- (b) Define the term mining expenditure as stated in part (II) of the Second Schedule to the Taxation Act. **4 Marks**
- (c) Any person carrying out duties under the Taxation Act is required to observe secrecy. However, the duty to observe secrecy is waived in certain circumstances.

Required:

State any **four** circumstances under which the duty to observe secrecy is waived for persons carrying out duties under the Taxation Act. **4 Marks**

(TOTAL : 20 : MARKS)

Continued/.....

6. (a) (i) List **five** general conditions that all traders dealing with goods and services that attract Excise tax must comply with according to the Customs and Excise tax law. **2½ Marks**

- (ii) For purposes of Customs duty, the law demands that all goods must be cleared at the border port except in some circumstances where the importer is allowed to clear them at an inland port.

Required:

Name **five** reasons/circumstances that may necessitate the Commissioner General of the Malawi Revenue Authority to allow an importer to clear their goods at an inland port. **2½ Marks**

- (b) State the circumstances under which each of the following may be allowed as a deduction from a taxpayer's assessable income:

(i) Bad debts **3 Marks**

(i) Doubtful debts **3 Marks**

(iii) Research and experiments **3 Marks**

(iv) Individual donations **3 Marks**

(v) Repairs **3 Marks**

(TOTAL : 20 MARKS)

7. (a) Mangunda Private Limited is a cassava chips processing company located in Mangunda, and is registered for value added tax (VAT). In the month ended March 2014, the company entered into the following transactions:

- (1) Sold taxable supplies to customers as follows:

Sales to VAT registered customers K3,250,000 and K675,000 to unregistered customers.

- (2) Bought a brand new pick-up vehicle from Toyota at K13,000,000.

- (3) Bought stationery worth K165,000 from suppliers who are not registered for VAT.

- (4) Entertained major customers at a local hotel at a cost of K46,200.

- (5) Bought cassava from local farmers at a cost of K4,150,000.

- (6) Paid for electricity and telephone at K232,300 and K144,200, respectively.

- (7) A consultant on production processes was hired from Brazil. The consultant had no local office; as a result he was not registered for VAT. He invoiced K5,250,000 for the work done.
- (8) Wrote off K275,600 in debtors as a bad debt. This amount was due from a customer who has been put into liquidation.
- (9) Received a deposit of K250,000 on sale to a customer amounting to K745,000.

Unless specifically stated, all the above persons are registered for VAT, while the transactions are stated exclusive of VAT.

Required:

- (i) Explain the VAT treatment of each of the above transactions.
(Note: Calculations are not required). **8 Marks**
- (ii) Calculate the VAT payable or any excess carried forward for the period ended 31 March, 2014. **7 Marks**

(Note: Indicate items on which no VAT is due, or where no VAT claim is possible, by the use of a zero).

- (b) (i) Define the term “fringe benefit” as stipulated in the Taxation Act. **2 Marks**
- (ii) An employer operating a fringe benefits tax scheme is required, under the Fringe Benefits Tax Regulations to keep proper records of the scheme.

Required:

What information would you expect to see in such a record? **3 Marks**

(TOTAL : 20 MARKS)

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