

STRICTLY CONFIDENTIAL



2015 EXAMINATIONS - TECHNICIAN LEVEL

PAPER TC10(B) : TAXATION

THURSDAY 3 DECEMBER 2015

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

SUGGESTED SOLUTIONS

SECTION A

ANSWER BOTH QUESTIONS IN THIS SECTION

1. (a) (i) Computation of taxable income and tax payable

	Mk' 000	K
Profit before taxation		4,450,930 1
Add: depreciation	9, 500	
Depreciation	7, 500	
General provisions-doubtful debts (900 – 22)	680	
Traffic fines	2, 250	
Repairs and maintenance	380	
Fringe benefits tax	3, 300	
Provision for staff bonus	3, 630	
Contribution to unapproved pension scheme	2, 100	
Incorporation expenses	520	
Insurance claimed stocks	4, 600	34,460
		4,485,390
Less: capital allowances	12, 350	
Dividend	5, 400	17, 750
Taxable profits		4,467,640
Tax payable	30% x 4,467,640	1,340,292

(ii) 2014/2015 tax year

(iii) 30 June, 2015

- (b) Any **three** declarations

- Payments made to any person in respect of any share or interest in such trade.
- Money received by him from any person on deposit for any fixed time or period with or without interest.
- Any other information which is in his possession in respect of income received by himself or any other person.
- A copy of the resolution declaring the dividend.

- A statement containing in respect of each person to whom a dividend has accrued:

- name and address of the person
- the amount of the dividend accrued
- the date on which the dividend was declared.

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2. (a) Calculation of accounting profits and accounting losses

	Proceeds K'000	Net Book Value K'000	Accounting Profit/(Loss) K'000
Plant and machinery	9,900 ½	6,700	3,200
Motor vehicle	3,940 ½	5,500	(1,560)
Furniture & fittings	260 ½	<u>0</u>	<u>260</u>

(b) Calculation of capital gains or capital losses

	Proceeds K'000	TWDV K'000	Capital Gain/(Loss) K'000
Plant and machinery	9,900 ½	10,700	(800)
Motor vehicle	3,940 ½	2,900	1,040
Furniture & fittings	<u>260 ½</u>	<u>154</u>	<u>106</u>

- (c) An accounting loss is an add back item in the tax computation it increases the taxable income or reduce computed loss.

On the other hand, an allowable capital loss is a deductible item in the tax computation. It reduce the taxable income or increases computed losses.

(d) Capital allowances computation

	Factory Buildings K'000	Plant & Machinery K'000	Motor Vehicles K'000	Furniture & Fittings K'000	Computer K'000
TWDV 30/6/14	75,000	65,000	45,800	14,500	5,600
Additions	<u>-</u>	<u>11,800</u>	<u>17,500</u>	<u>-</u>	<u>1,280</u>
Disposals	<u>-</u>	<u>10,700</u>	<u>2,900</u>	<u>154</u>	<u>-</u>
Less: Investment Allowance	75,000	66,100	60,400	14,346	6,880
Initial allowance	-	11,800	-	-	256
Annual All	<u>3,750</u>	<u>5,430</u>	<u>12,080</u>	<u>14,346</u>	<u>2,752</u>
	<u><u>71,250</u></u>	<u><u>48,870</u></u>	<u><u>44,820</u></u>	<u><u>12,911</u></u>	<u><u>3,872</u></u>

- (e) A capital loss is not tax deductible where it is not realized: or if realized, where it is in respect of an asset not used in trade or business

There is no realized capital gain

SECTION B

ANSWER THREE QUESTIONS ONLY FROM THIS SECTION

3. (a) Chilala Limited

- (i) (1) to (3) Withholding tax must be paid within 14 days of the month following the month it was deducted.
- (4) Fringe benefits tax must be paid within 14 days of the month following the end of the quarter to which it relates.
- (5) Provisional tax is paid quarterly, and must be paid within 30 days from the end of the quarter.
- (6) Value added tax is payable within 25 days of the month following the month to which it relates.

(ii)	K	K
Taxable profits		5,565,000
Tax at 30%		1,669,500
Less: Provisional tax	800,425	
Withholding tax on (20% x 455,000) interest received	<u>91,000</u>	<u>891,425</u>
Balance of tax payable		<u>778,075</u>

The payment of withholding tax on payments to suppliers has no effect on the tax payable. Such withholding tax is claimable against the income tax payable by the recipient.

Fringe benefits tax is not allowable as a deduction, and is added back to arrive at the taxable profits. Nor is it deductible from income tax payable. Therefore no effect.

Value added tax is an indirect tax which is ultimately paid by the consumer. VAT is not an expense to the business and is accounted for under a separate system using monthly returns. Therefore no effect.

- (b) (i) The tax in the four schemes is due for payment as follows:
- (1) PAYE – 14 days after the end of the month in which the tax was deducted.
 - (2) Provisional tax – 25 days after the end of each quarter in the year of assessment.
 - (3) Fringe Benefits Tax – 14 days after the end of each quarter in the year of assessment.
 - (4) Withholding Tax – 14 days after the end of the month in which deduction was made.

(ii) Penalty Rates

- | | | | | | | | | | |
|------------------------------------|------------------------|---|--|------------------------------------|-----------------------|------------------|------------------------|----------|------------------------|
| (1) | PAYE | - | 15% initial

5% additional on accrued amount monthly or part thereof. | | | | | | |
| (2) | Provisional Tax | - | <table border="0"> <tr> <td style="vertical-align: top;">Amount unpaid
Not exceeding 10%</td> <td style="vertical-align: top;">0% of amount not paid</td> </tr> <tr> <td style="vertical-align: top;">Between 10 – 50%</td> <td style="vertical-align: top;">25% of amount not paid</td> </tr> <tr> <td style="vertical-align: top;">Over 50%</td> <td style="vertical-align: top;">30% of amount not paid</td> </tr> </table> | Amount unpaid
Not exceeding 10% | 0% of amount not paid | Between 10 – 50% | 25% of amount not paid | Over 50% | 30% of amount not paid |
| Amount unpaid
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| Between 10 – 50% | 25% of amount not paid | | | | | | | | |
| Over 50% | 30% of amount not paid | | | | | | | | |
| (3) | Fringe Benefits Tax | - | 20% of amount due | | | | | | |
| (4) | Withholding Tax | - | 20% of amount due | | | | | | |

4. **Madachi Trading**

- (a) - The income of a partnership is assessed on each partner
- Each partner is responsible for paying their share of tax
- Each partner is separately $\frac{1}{2}$ and individually liable for the submission of a joint return for the partnership income.

(b) Taxable profit of the partnership for the year ended 30 June 2013

	K	K
Loss for the year		(2,626,400)
<i>Add:</i> Items not allowed for taxation:		
Partners' salaries		
– Mada	1,850,000	
– Chitsanzo	1,150,000	
School fees for Chitsanzo's child	665,000	
Interest on capital	240,000	<u>3,905,000</u>
		1,278,600
 <i>Less:</i> Items not taxable:		
Introduction of capital:		
– Mada		
– Chitsanzo	1,500,000	
	900,000	(2,400,000)
Adjusted loss for tax		
		<u>(1,121,400)</u>

(c) Allocation of profit amongst the partners for the year ended 30 June 2015

	Mada	Chitsanzo	Total
	K	K	K
Salaries	1,850,000	1,150,000	3,000,000
School fees		665,000	665,000
Interest on capital	<u>144,000</u>	<u>96,000</u>	<u>240,000</u>
	1,994,000	1,911,000	3,905,000
Share of profit	<u>(672,840)</u>	<u>(448,560)</u>	<u>(1,121,400)</u>
	<u>1,321,160</u>	<u>1,462,440</u>	<u>2,783,600</u>

(d) Tax to be paid by Chitsanzo for the year ended 30 June 2015

	K	K
Partnership income (from (c))		1,462,440
Interest K60,000/0.8)	75,000	
Less: Exempt	(10,000)	
		<u>65,000</u>
Dividends		-
Sale of personal car		<u>-</u>
Taxable income		<u>1,527,440</u>
Tax		0
First 240,000 at 0%		9,000
Next K60,000 at 15%		<u>368,232</u>
Balance K1,227,440 30%		<u>377,232</u>
Less:		
Withholding tax		
-On interest K75,000 at 20%	15,000	
Share of provisional tax paid		<u>199,000</u>
40% of K460,000	<u>184,000</u>	<u>178,232</u>
Tax to be paid		

5. (a)(i) The special allowances given to tax payers who are engaged in pastoral, agricultural or other farming operations are that the expenditure on the following will be fully (100%) allowable as a deduction from the taxable income of such farmers when incurred:
- the stumping, levelling and clearing of lands;
 - works for the prevention of soil erosion;
 - boreholes;
 - wells;
 - aerial and geophysical surveys; and
 - any water control works connected with the cultivation and growing of rice, sugar or such other crop that the Minister may approve.
- (ii) Farmers who derive taxable income from the growing of timber may elect that their taxable income be determined as follows:
- The cost of planting the timber to be carried forward until the timber has reached maturity.

- To the cost above until the timber reaches maturity a fixed percentage of 5% will be added annually.
 - When such timber is sold, the proportionate part of the cost and the total of the fixed percentage added annually will be deducted from the proceeds and the balance included in taxable income or assessed loss.
 - Each year the annual fixed percentage will be added to the taxable income or deducted from the assessed loss.
 - All expenditure incurred by the farmer including deductions under ss.33 and 34 and the second schedule on the maintenance and upkeep of such timber will be deducted from the taxable income or added to the assessed loss.
- (iii) – The taxable income of any club, society or association formed, organized or operated principally for pleasure or recreation shall be liable to taxation notwithstanding that it arises from transactions with its members.
- The taxable income is equivalent to six and one-quarter percent of all receipts by or accruals to, or in favour of it from the sale of goods, cinematograph performances, stage plays and gambling machines. Tax will be charged at the rate applicable to companies, currently 30%.
- (b) Mining expenditure means capital expenditure incurred in Malawi by a person carrying on or about to carry on mining operations in Malawi.
- in searching for or discovering and testing or winning access to deposits of minerals.
 - in the acquisition of or of rights in or over such deposits other than the acquisition from a person who has carried on mining operations in relation to such deposits.
 - in the provision of plant and machinery and industrial buildings which would have little or no value to such person if the mine ceased to be worked.
 - on the construction of any buildings or works which would have little or no value if the mine ceased to be worked.

- on development, general administration and management prior to the commencement of mining operations.
- (c) Waiver of secrecy
- Where the information is required by the Auditor General or any officer duly authorized by him for the performance of official duties.
 - Where information is required by authorized government officers of another country which has a double tax treaty with Malawi to enable implementation of tax relief under the agreement or prevention of tax avoidance.
 - Where the information is required by a taxpayer or a duly authorized agent of a taxpayer.
 - Where the Commissioner wishes to compile and publish statistics about the total amount of income received by any class of persons as declared in returns to the Commissioner.
 - Where information is required for the purpose of carrying the Act into effect or for the purpose of any prosecution for an offence committed in relation to any tax on income.
6. (a)(i) **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.
- No other business should be conducted on the entered premises except with the permission of the Controller.
 - No other excisable goods may be kept on the entered premises except those manufactured on the premises.
 - All rooms, stores, plant, equipment and warehouses must be given distinguishing marks and numbers.
 - The licensee must provide office, sanitary or living accommodation for an officer or facilities for proper exercise of the officers functions as the Commissioner require.
 - The name of the licensee must be exhibited on a conspicuous place outside the entered premises.
- (ii) **Five** reasons/circumstances that may necessitate the Commissioner general of the Malawi Revenue Authority to allow an importer to clear their goods at the inland port.
- Finance institutions are not available at the border.

- Need to facilitate trade.
- Carriers are not the owners of the goods and may not possess all the necessary documents for clearance at the border.
- No customs clearing agents at the border.
- Security reasons.

(b) (i) **Bad debts**

- debts proved to be bad to the satisfaction of the Commissioner and
- which have become bad during the year of assessment if
- the amount of the debt is included in the current year of assessment or
- was included in any previous year in the taxpayer's assessable income

(ii) **Doubtful debts** are allowed as a deduction from taxpayers assessable income where

- they are specific
- the amount of the debts are included in the taxpayers income of the current year of assessment
- the amounts are only those estimated to be doubtful
- were included in the previous year of assessment

In practice, only specific provisions of doubtful debts will be allowed, whereas general provisions are not allowed.

(iii) **Research and experiments** will be allowed as a deduction if it meets the following conditions:

- the amount of any expenditure, not being expenditure of a capital nature, incurred by the taxpayer during the year of assessment on experiments and research relating to his trade.
- any sum contributed by the taxpayer during the year of assessment to any scientific or educational society or institution or other body of a public

character approved by the minister if the taxpayer has stipulated that the sum must be utilized by such society, institution or body, as the case may be, solely for the purpose of industrial research or scientific experimental work connected with the trade of the taxpayer;

- any sum contributed by the taxpayer during the year of assessment in the form of grant, bursary, or scholarship to enable any other person to take a course of technical education related to the trade of such taxpayer at any educational institution approved by the Minister.

(iv) **Individual donations** of not less than K250 made during the year of assessment by the taxpayer to any such charitable organisation as the Minister may publish in the Gazette.

- Individual donations of not less than K500 made during the year of assessment by the taxpayer to any such non-profit institution operated solely or principally for social welfare, civic improvement, educational development, or other similar purposes as the Minister may, from time to time by notice, publish in the gazette approve.

Repairs sums actually expended by the taxpayer during the year of assessment for repairs not being expenditure of capital nature:

- to any premises or part of premises occupied for the purposes of his trade
- resulting from the letting of property; or
- of articles, implements, plant, machinery and utensils employed by him for the purposes of his trade shall be an allowable deduction.

7. (a)(i) 1. Taxable supplies made will be subject to value added tax (VAT) irrespective of whether they are sold to customers who are registered for VAT or not. Of relevance is the fact Mangunda Private Limited is registered for VAT and therefore charges VAT on all its supplies as long as they are taxable supplies.
2. The brand new pick-up will be subject to VAT by the supplier. Mangunda Private Limited will claim the VAT as input tax.
3. The stationery bought from an unregistered supplier will not have VAT charged and therefore will not be subject to a VAT claim.
4. The VAT charged by the hotel on an entertainment invoice of K46,200 will not

be claimable by ½ Mangunda Private Limited, since Mangunda Private Limited is not involved in the entertainment business.

5. Cassava are exempt from VAT. Vegetable products in a raw state are exempt from VAT.
 6. Electricity and telephone charges are subject to VAT. As these are used for the purpose of the business, the VAT will be claimed as input tax by Mangunda Private Limited.
 7. The consultancy services are subject to VAT. Although the consultant would not charge VAT on his ½ invoice, Mangunda Private Limited has to self declare and pay the relevant VAT as input tax.
 8. The bad debt written off will be claimed by Mangunda Private Limited and will reduce the output tax on sales.
 9. VAT would be paid on the whole amount of sale and included as output tax. As receipt of part payment is a time of supply, even if earlier than delivery of the goods.
- (ii) Calculation of VAT payable or carried forward for the month ending 29 February 2012

Value of	Taxable supply K	VAT Rate %	VAT K
Sales	3,250,000	16.50	536,250
Sales for the moth	675,000	16.50	111,375
Sale on credit	745,000	16.50	122,925
Bad debt	(275,600)	16.50	<u>(45,474)</u>
			<u>725,076</u>
Input tax			
Capital goods – Toyota	13,000,000	16.5	2,145,000
Stationery	165,000		27,225
Entertainment	46,100		0
Cassava	4,150,000		Exempt 0
Electricity and telephone	376,500	16.5	62,122.5
Consultants	5,250,000	16.5	<u>866,250</u>
			<u>3,073,372.5</u>
VAT payable/(claimable)			<u>(2,348,296.5)</u>

- (b) (i) fringe benefit is any asset, service or other benefit in kind provided to an employee if such benefit includes an element of personal benefit to the employee

(1) records to be kept by an employer

- Nature of fringe benefit
- Names of employees to whom fringe benefits are provided
- Taxable values of the benefits as determined in accordance with the rules

(2) Offences

- Failure to register for fringe benefits tax
- Failure to pay fringe benefits tax on due date

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