

EXAMINATION NO. _____



2016 EXAMINATIONS

PROFESSIONAL LEVEL - PAPER B4: TAX COMPLIANCE

WEDNESDAY 7 DECEMBER 2016

**TIME ALLOWED : 3 HOURS
2.00 PM – 5.00 PM**

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 – 6.
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).
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 13 pages

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

SECTION A

ANSWER BOTH QUESTIONS IN THIS SECTION

1. (a) Mention the **five** control elements that should be put in place to curb money laundering. **5 Marks**
- (b) Pengoma General Suppliers is a firm operating in Malawi. In April 2015 the firm became indebted to a supplier based in the United States of America (USA) in the sum of \$55,000 on account of the merchandise supplied.

\$20,000 was paid in August 2015 and \$25,000 was paid in December 2015. The balance of \$10,000 was included in the accounts for 31 December 2015 at K7 million using an exchange rate of \$1 = K700.

Required:

- (i) Using the formula specified in the Taxation Act, calculate the foreign exchange gains or losses on the above transactions, to be claimed for the year of assessment to 31 December 2015.

Assume the following exchange rates were in use:

April 2015 : \$1 = K650

August 2015 : \$1 = K715

December 2015 : \$1 = K700

4 Marks

- (ii) State whether the foreign exchange loss on the outstanding \$10,000 which has been converted to K7 million and included in the accounts to 31 December 2015 is an allowable deduction. Give reasons for your answer.

2 Marks

Continued/.....

- (c) (i) Under Section 45 of the Taxation Act, the deduction of contributions to a fund providing for sickness, accident, unemployment or other benefits other than contributions to an approved pension or provident fund is prohibited.

Required:

Mention any **five** other types of expenditure whose deduction is similarly prohibited.

5 Marks

- (ii) The first schedule to the Taxation Act contains several types of interest income which are exempt from taxation.

Required:

Mention any **four** types of such exempt interest income.

4 Marks

(TOTAL: 20 MARKS)

Continued/.....

2. (a) Dokowe Investments has been in business for a long time buying and selling cooking oil. The following are the transactions for the year ended 30 June 2016:

Statement of comprehensive income for the year ended 30 June 2016.

	K'000	K'000
Sales		34,600
Cost of sales		(24,021)
Gross profit		10,579
Administration costs	6,850	
Finance costs	2,546	
Other expenses	2,167	(11,563)
		(984)
Other income		
Profit on sale of fixed assets	456	
Interest from bank deposit account	342	
Sundry income	160	<u>958</u>
Profit / (loss) before tax		(26)

The following information is also available in connection with these results:

- (1) Included in the cost of sales are the following expenses:

	K'000
Depreciation of equipment	365
Fuel and oil for equipment	756
Painting owners house	1,250
Business electricity and water	1,001
Packaging material	1,951
Salaries and wages	4,595
Depreciation for van	450
Advertising	650
Customer entertainment	125
Traffic fines	650
Donation to Dimba LEA School	118

Continued/.....

(2) Administration costs include:

	K'000
Salaries and wages	1,550
Depreciation of furniture	540
Medical costs – staff	345
Rent and rates	2,400
Professional fees	
Debt collection	65
Audit fees	500
Property valuation	456
Subscription and donations	
Trade magazine	117
Save the Children Fund of Malawi	450
Fringe benefits tax	375

(3) Finance costs include:

Bad debts written off	750
Provision for doubtful debts – 2% of debtors	337
Interest for late payment of taxes	225
Interest on bank overdraft	657

(4) Other expenses include:

Staff welfare	222
Depreciation	413
Directors fees	1,000

(5) The company's capital allowances were calculated and agreed at K2,655,000.

Required:

Compute the taxable profit for Dokowe Investments for the year ended 30 June, 2016.

15 Marks

- (b) Magret Sitolo is the Finance Director of Chawala Limited. She is paid a monthly salary of K2,600,000 and a house allowance of 75% of salary. The salary went up by 15% on 1 January 2016.

Required:

Calculate her tax liability for the twelve months ended 30 June 2016.

5 Marks

(TOTAL : 20 MARKS)

Continued/.....

SECTION B

ANSWER ANY THREE QUESTIONS FROM THIS SECTION

3. (a) Distinguish between Testacy and Intestacy. **2 Marks**
- (b) Mr Joji Chadzayekha was an entrepreneur based in Blantyre. On 4 April, 2016, he died in a car accident. At the time of his death, the value of his estate was put at K36,200,000. This estate comprised cash in hand and at the bank, real properties, motor vehicles, plant and equipment, furniture and fixtures, among others.

A review of various documents in possession of the deceased revealed that included in the total valuation of the estate of K36,200,000 was property situated in Ndirande valued at K7,500,000 which his late sister had left for her children but was being administered by the late Mr Chadzayekha as a trustee. Also included in the estate were two houses valued at K3,000,000, located in Bangwe and K5,700,000, located in Lilongwe, which Mr Chadzayekha had made a disposition to his mother and father on 6 July, 2014 and 20 January, 2012 respectively. However, these properties were still in his possession and custody at the time of his death.

Required:

- (i) Define the term “estate duty”. **1 Mark**
- (ii) In determining the values of the estate for estate duty purposes, certain properties are excluded.

Required:

Name any **two** types of properties that are excluded. **2 Marks**

- (iii) Compute the estate duty payable on the estate of late Mr Joji Chadzayekha. Give reasons for the treatment of the amount that you take. **5 Marks**
- (c) 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 lays down the conditions that must be met for the expenses to be deductible from an assessable income.

Required:

Mention the major types of deductible expenses, according to Section 28(1) of the Taxation Act. **5 Marks**

Continued/.....

- (d) Madolo Limited, whose taxable profits for the 2014/2015 financial year amounted to K20,700,504 had not paid any provisional tax during this period.

Required:

Compute the penalty that the company is liable to pay.

5 Marks
(TOTAL: 20 MARKS)

4. (a) State the procedures and requirements for a taxpayer to account for output and input VAT. **5 Marks**
- (b) State the conditions necessary for input tax to be claimed on supplies that have been subject to output tax and are in stock at the date of registration for VAT. **3 Marks**
- (c) Explain how output tax will be calculated in the case of a taxpayer who is approved to use the special retail scheme making both taxable and exempt supplies. **4 Marks**
- (e) A Value Added Tax (VAT) registered taxpayer made the following transactions in the month of July 2016
- (1) Paid K233,000 security charges for the month of July 2016 to G4S, inclusive of VAT.
 - (2) Paid K550,000 salaries for the month of July 2016 exclusive of VAT.
 - (3) Paid K16,310 electricity bill for the month of June 2016 to ESCOM inclusive of VAT.
 - (4) In the month of July 2016, made local sales of K8,500,000 exclusive of VAT.
 - (5) Paid K2,500 for postage stamps to post price lists to prospective customers exclusive of VAT.
 - (6) Paid K29,125 to MTL in respect of June 2016 telephone bills inclusive of VAT.
 - (7) During the month of July 2016, exported goods translating to export sales of K1,300,000 exclusive of VAT.
 - (8) Bought stationery costing K9,320 inclusive of VAT.

Required:

Calculate the amount of VAT on **each** of the transactions listed above. **4 Marks**

Continued/.....

- (e) Chikondi Trading imported assorted goods to be sold through its retail shops situated all over the country. When the goods arrived and just before completing the bill of entry, some were delivered into a temporary store at MANICA Malawi Ltd on 6 January 2016 and others were delivered to private sidings on 10 January 2016.

Required:

Mention the latest date that these two consignments should have been cleared in order to avoid penalties. Give reasons for your answer.

4 Marks

(TOTAL : 20 MARKS)

Continued/.....

5. (a) (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**
- (b) Where a club or association is subject to tax, state how the taxable income is computed. **3 Marks**
- (c) Mzokoto Sports Club, which is a taxable club, carried out the following transactions in the year ended 31 December 2015:

	K'000
Income	7,250
This was made up as follows:	
Ground entrance fees	1,220
Rentals from accommodation	1,250
Sale of food	790
Sale of drinks	1,650
Club membership fees	980
TV shows – live football	710
Live band performances	460
Gambling machine	<u>190</u>
	<u>7,250</u>
Expenses	2,962
The breakdown was as follows:	
Trading licence	140
Food licence	115
Salaries and wages	1,480
Cost of goods sold	685
Repairs and maintenance	<u>542</u>
	<u>2,962</u>

Required:

- (i) Compute the taxable income of Mzokoto Sports Club for the financial year to 31 December 2015. **4½ Marks**
- (ii) Calculate the amount of tax payable on the taxable income computed in (i) above. **1½ Marks**
- (iii) State the tax year in which the taxable income computed in (i) above will be assessed. **1 Mark**

Continued/.....

- (d) Section 89 of the Taxation Act sets out provisions for the estimation of taxable income either by a taxpayer or the Commissioner General.

Required:

- (i) When may the Commissioner General accept a taxpayer's estimate of amount of his taxable income? **2 Marks**
- (ii) When may the Commissioner General estimate a taxpayer's taxable income or assessed loss? **3 Marks**

(TOTAL : 20 MARKS)

Continued/.....

6. (a) When are the following allowances claimed in line with the second schedule of the Taxation Act?

- | | |
|---------------------------|-----------------|
| (i) Investment allowances | 2½ Marks |
| (ii) Initial allowances | 2 Marks |
| (iii) Annual allowances | 1 Mark |

- (b) The following are capital allowance tax schedules for Makanami Investments, a manufacturer, as at 31 December 2015:

Asset	Tax written down value K'000	Rate of annual allowance
Factory Building	32,500	5%
Plant and machinery	15,200	10%
Motor vehicles	17,600	20%
Furniture & fittings	8,400	10%
Computer equipment	4,300	40%

During the year to 31 December 2015, the following transactions took place:

Plant and machinery:

Some plant and machinery was sold for K2,100,000. This transaction resulted into a gain of K540,000. New replacement machinery was acquired at a cost of K9,700,000.

Furniture and Fittings:

New furniture and fittings were purchased at a cost of K900,000. Additional fittings were bought second hand at K260,000.

Motor Vehicles:

One saloon motor vehicle acquired in October 2014 for K2,528,000 was sold during the year for K1,950,000. Another vehicle, a pick up, with a tax written down value of K665,000 was involved in an accident and was written off. The insurance paid K2,900,000 as compensation, and the whole amount was used to purchase another single cabin pick up as a replacement.

Office Equipment:

New computers costing K950,000 were acquired during the year.

Factory Building:

A total of K2,700,000 was spent on the extension of the factory building. The extension was only used for business from January, 2016.

Required:

Calculate the capital allowances due for the year ended 31 December, 2015.

9½ Marks

- (c) According to the Customs and Excise Act, goods may be imported for a number of reasons.

Required:

- (i) State any **three** reasons that the Act allows that goods may be imported.

3 Marks

- (ii) State any **four** documents that are commonly used in customs clearance which must be submitted to customs authorities.

2 Marks

(TOTAL : 20 MARKS)

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