

**INSTITUTE OF BANKERS IN MALAWI**

**ADVANCED DIPLOMA IN BANKING EXAMINATION**

**SUBJECT: TAXATON 2 (IOBM – AD313)**

**Date: Wednesday, 25th November 2020**

**Time Allocated: 3 Hours (08:00 – 11:00 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 3 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 when 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 sheets without examination numbers will not be marked.**

7 All persons writing examinations without payment will risk expulsion from the Institute.

8 If you are caught cheating, you will be automatically disqualified in all subjects seated this semester.

9 DO NOT open this question paper until instructed to do so.

**SECTION A (60 MARKS)**

Answer **ALL** questions from this section

**QUESTION 1**

1. Taxation is defined as an imposition made by governing bodies on the income and wealth of persons under their jurisdiction

**Required**:

Explain and give examples of the following terms: imposition, governing bodies, income and wealth, persons, jurisdiction. *(5 marks)*

1. Most people do not willingly pay taxes. Amongst the reasons they give is that taxes are very unfair and unnecessarily too high. Assume that your sister, who is a teacher, has the same thinking about taxes and has asked you to explain a few issues including the importance of tax compliance and the dangers of tax evasion.

**Required**:

Explain to your sister on these issues through a letter that should cover the following:

1. The definition of tax evasion *(2 marks)*
2. The dangers of tax evasion [2]. *(2 marks)*
3. The importance of tax compliance. *(1 mark)*
4. 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 the **five** circumstances under which the duty to observe secrecy is waived for persons carrying out duties under the Taxation Act. *(5 marks)*

**(Total 15 marks)**

**QUESTION 2**

1. State any **five** examples of income that is exempt under the first schedule of the Taxation Act. *(5 marks)*
2. **Thabwa Ginners** have been trading in cotton for many years. For the year ended 31 December 2017, the business made a profit of K20, 000, 000.

Included in the income for the year were:

* Interest receivable from a Reserve Bank of Malawi registered bank of K450, 000 gross
* Dividend received net of tax amounting to K1, 500 000

Among the expenses that were deducted to arrive at the profit were the following

* Depreciation K2,200,000
* Provision for bad debts amounting to K750, 000, out of which K150, 000 was for specific provisions
* Loss on disposal of motor vehicle amounted to K160, 000
* Donation to Malawi Red Cross was to the tune of K245

The Managing Director of the business uses a company car and the private usage is estimated at 10%. Capital allowance in respect of the car was agreed at K650, 000.

**Required**

Compute the tax liability for Thabwa Ginners for the financial year ending 31 December 2017. *(10 marks)*

**(Total 15 marks)**

**QUESTION 3**

In readiness for valentine day on February 14, 2018, a Floral Shop had earlier on in January 2018, ordered 2, 000 boxes of fresh roses, each box containing 500 roses, from South Africa costing US$2 per box CIF. When they arrived, the business lady was requested to pay 25% customs duty, 15% excise duty and 16.5% value added tax. Assume the exchange rate applicable was K750 to US$1.

**Required:**

1. What does CIF mean? *(1½ marks)*
2. Calculate the landed cost of the 2, 000 boxes of roses in Malawi. *(8½ marks)*
3. Assuming that the Floral Shop owner has information to the effect that according to the trade agreements between Malawi and South African, he was not supposed to pay import duties except for value added tax and that he wants to appeal, which three players would be involved in the appeal case assuming the case has gone all the way to the last player?  *(3 marks)*
4. Why is it important to have appeals procedures in the Taxation system? *(2 marks)*

**(Total 15 marks)**

**QUESTION 4**

1. Define Testacy *(2 marks)*
2. Domicile by choice is one of the three types of Domiciles recognized under the Estate duty Act.

**Required**:

i) Define domicile by choice.  *(2 marks)*

1. State any four factors that are taken into account to prove domicile by choice.

*(4 marks)*

1. **Madziabango Limited** is a company registered in Malawi. For the financial year ended 31 December, 2017, it had a taxable profit of K26,000, 000. Because of this enviable performance, the directors of the company declared a gross dividend of K5, 000, 000 and also approved a bonus of KK3, 000, 000 to senior management.

**Required**

1. Compute the company’s tax liability for the financial year to 31 December, 2017. *(2 marks)*
2. Assuming that Madziabango Limited was a foreign company but trading in Malawi, how much tax would it have paid? If at all. *(2 marks)*
3. State any three declarations that the Public Officer of Madziabango Limited would have made to the Commissioner of Malawi Revenue Authority within 30 days of company’s declaration of dividends. *(3 marks)*

**(Total 15 marks)**

**SECTION B (40 MARKS)**

Answer **ANY TWO** questions form this section

**QUESTION 5**

1. Define the following Stamp duty, Property tax; and Non resident Tax. *(3 marks)*
2. **Tawina Limited** had estimated taxable profits of K500, 000, 000 at the beginning of their financial year, on 1st January, 2017. However, at the end of their financial year, i.e. 31 December, 2017, the company had an actual taxable profit of K300, 000, 000.

**Required**

1. State any **three** situations where a taxpayer is exempted from provisional tax by the Act *(3 marks)*
2. Define seasonal income, in line with section 84A[4]. *(2 marks)*
3. Describe the procedures that a taxpayer, whose income for the year of assessment in question is estimated to include 75% or more income which meets the definition of seasonal income, will go through.  *(4 marks)*
4. Compute the provisional tax the company should have paid in line with the Taxation requirements, indicating the relevant due dates where applicable. *(8 marks)* **(Total 20 marks)**

**QUESTION 6**

1. Section 112 (1) of the Taxation Act give examples of acts which when any person fails to do shall be liable to a penalty not exceeding K30, 000.

**Required:** List any **four** of those acts which if any person fails to do shall be liable for a penalty not exceeding K30, 000. *(4 marks)*

1. Penalties serve a lot of purposes in the Taxation system

**Required:** State any **three** purposes that the Penalties serve in the Taxation system. *(3 marks)*

1. A Malawi registered business, in the name of **Tinkonze Auto Parts** is involved in a buying and selling of spares. On 18th February, 2017, Tinkonze Auto Parts bought spares worth K1,850, 000 from Chakudza trading on credit. Tikonze Auto Parts paid Chakudza trading on 19th April, 2017 net of 10% withholding tax because Makande trading had no Withholding Tax Exemption Certificate.

**Required:**

* 1. Calculate the amount of withholding tax that was deducted from Makande trading’s payment. *(2 marks)*
  2. When was the withholding tax deducted due for payment to Malawi revenue Authority. *(1 mark)*
  3. Calculate the penalty that Tikonze Auto Parts Enterprises could have paid assuming they did not remit the withholding tax to Malawi Revenue Authority on due date. *(4 marks)*
  4. Failure to operate a withholding tax scheme renders any person guilty of an offence punishable by a fine. State the amount of fine applicable in this case. *(2 marks)*
  5. State any **four** conditions that Chakudza trading must meet in order to be granted a withholding tax exemption certificate by Malawi Revenue Authority. *(4 marks)*

**(Total 20 marks)**

**QUESTION 7**

**Thoko** is a hardware merchant. The profit and loss account for the twelve months ended 30 June, 2017 is as listed:

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Notes** | **MK’ 000** | **MK’ 000** |
| **Sales** |  |  | **60, 000** |
| Cost of sales |  |  | 40, 000 |
| **Gross profit** |  |  | **20, 000** |
| Sundry income | 1 |  | 2,000 |
|  |  |  | **22, 000** |
| **Expenses** |  |  |  |
| Depreciation |  | 800 |  |
| Salaries |  | 400 |  |
| Legal costs | 2 | 900 |  |
| Fuel and lubricants | 3 | 1, 500 |  |
| General expenses | 4 | 600 |  |
| Electricity and water expenses |  | 150 |  |
| Vehicle maintenance | 3 | 950 |  |
| Travel costs |  | 650 |  |
| Rent payable | 5 | 550 |  |
| Certificate of fitness for vehicles | 3 | 85 |  |
| Fringe benefit tax |  | 800 |  |
| Penalties and fines | 6 | 200 | 7, 585 |
| **Profit before tax** |  |  | **14, 415** |

**Notes:**

1. **Sundry income: K2,0, 000**.

This amount comprises:

1. Bank interest recorded net of 20% withholding tax K800, 000
2. Gross rental for subletting some office space K1,200, 000

K2,000, 000

1. **Legal costs: K900, 000**

These were incurred as follows:

1. Debt collection K350, 000
2. Documentation and processing business contracts K250, 000
3. Defending a case against Thoko’s traffic offence K300, 000

K900, 000

1. **Private motoring**

In addition to vehicles specifically designated for private use, Mr Thoko and family made use of business vehicles for private purposes. Because of practical difficulties in tracking such private use, it was agreed by the Revenue Authority to estimate such private use at 30% and therefore disallow relevant expenses to that extent.

1. **General expenses: K600, 000**

These are made up of:

Donations to MACOHA K70, 000

Chileka a goat per family initiative K500, 000

Office refreshments and other allowable expenses K30, 000

K630, 000

1. **Rent payable: K550, 000**

K250, 000 of rent payable was in relation to a house Mr. Thoko used as his residence.

1. **Penalties and fines: K200, 000**

These were made up of:

Late submission of income tax returns K130, 000

Traffic offence by Thoko K70, 000

1. Capital allowances of K750,000 was agreed with the Revenue authority for that tax year.

**Required:**

1. Compute the taxable income for Thoko for the tax year ended 30 June, 2017. *(15 marks)*
2. Compute the amount of net tax payable assuming:
3. The taxable income in the above tax computation was K2, 400, 000;
4. Withholding tax was deducted from the bank interest at the rate of 20% as already stated;
5. Withholding tax was deducted from rentals receivable [see Note 1] at 15%; and
6. Provisional tax of K4,000, 000 was paid within the year under consideration. *(5 marks)*

**(Total 20 marks)**

**QUESTION 8**

1. (i) Define the term “fringe benefits” as stipulated in the Taxation Act. *(2 marks)*

(ii) How does the liability to fringe benefit tax arise? *(1 mark)*

(iii) What records should an employer maintain in relation to fringe benefits tax? *(2 marks)*

(iv) When is fringe benefits tax due for payment? *(1 mark)*

1. Assume that **Mene Mane Bank**, an esteemed bank / employer down town Thyolo city has offered you the following lucrative benefits upon taking up appointment with them as follows:
2. A housing allowance of K400, 000 per month payable in cash to you;
3. School fees of K600, 000 per term of three months payable directly to Kasuku Private where your children go to school;
4. Unrestricted use of a Ford ranger car which was acquired at a cost of K15, 000, 000;
5. Vehicle insurance and running costs of K850, 000 and K900, 000 per annum respectively. The insurance premium will be payable to the insurance company while the amount meant for the vehicle running costs will be payable to you in cash.
6. A gardener will be provided at a salary of K70, 000 per month

**Required**

1. State, with reasons, whether Mene Mane bank, the employer, or you, the employee, will bear the tax burden of each of the lucrative employment benefits listed and being offered to you under (i) to (v) above. *(6 marks)*
2. Calculate the fringe benefits tax payable on the school fees for one quarter. *(2 marks)*
3. The cost of the watchman is a fringe benefit if the employer rents a house for an employee, but not if the employer allows the employee use of a house owned by the employer.

**Required**

Why, do think, this represents an equitable and fair part of the tax legislation? *(2 marks)*

1. An expatriate employee from South Africa was refunded the costs of flying to Malawi with her family and personal effects at the beginning of her contract and for repatriation at the end of the contract.

**Required**

State the tax position of this expatriate as far as fringe benefits tax [only] is concerned. *(2 marks)*

1. How can an employer avoid becoming liable for the payment of fringe benefits tax? *(2 marks)*

**(Total 20 marks)**

**Income Tax Rates: Individuals**

Cumulative Tax Rate MK

0 – 420, 000 0% 0

420,000 – 480, 000 15% 9,000

480,000-3,000,000 30%

3,000,000+ 35% –

**END OF THE EXAMINATION PAPER**