

**INSTITUTE OF BANKERS IN MALAWI**

**DIPLOMA IN BANKING EXAMINATION**

**SUBJECT: TAXATION 1 (IOBM – D213)**

**Date: Tuesday, 24th 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. Under what circumstances is investment allowance given to a taxpayer? *(2.5 marks)*
2. Define the terms **farm improvement and farm fencing** for purposes of capital allowance claims under the second Schedule to the Taxation Act.  *(3 marks)*
3. The tax written down value of business assets of a manufacturer as at 31st December,2017 was as follows:

Item Tax written down value Rate of annual allowance

K’000

Factory Building 11,700 5%

Plant and Machinery 8,500 10%

Motor vehicles 9,600 20%

Furniture and Fittings 5,300 10%

During the financial year to 31 December,2018 the following transactions took place:

1. Asset disposals

Plant& Motor Office

Machinery Vehicles Furniture

K’000 K’000 K’000

Net book value 31/12/17 970 - 90

Tax written down values 31/12/17 1500 800 350

Proceeds 1800 500 250

1. Asset Additions

Date Item Cost

K’000

1/1/2017 New Machinery 8,500

3/4/2017 New lorry 5,500

30/11/2017 Office furniture 1,000

**Required:**

1. Calculate the capital allowances, initial or investment allowances as the case may be, and annual allowances on the business assets outlined above for the financial year to 31 December, 2017.  *(6 marks)*
2. Calculate the capital gains or capital losses from the asset disposals stated above.  *(3 ½ marks)*

**(Total 15 marks)**

**QUESTION 2**

1. Malawi taxation is based on source

**Required:**

Comment on what the statement above means. *(2.5 marks)*

1. Comment on whether or not the following items are taxable in Malawi. Give reasons for your answer.
   * 1. K9 million- salary from Malawi Government to a Malawian on diplomatic service to India. *(1 mark)*
     2. K85,000- interest earned from bank accounts in India.  *(1 mark)*
     3. K50,000- interest earned from bank accounts in Malawi. The money was sent by Malawi on diplomatic service to India. *(1 mark)*
     4. K900,000- gift from other diplomats in Finland during a farewell reception.  *(1 mark)*
     5. K5,400,00- income from business interests in Malawi.  *(1 mark)*
     6. K730,000- profit on sale of wife car in India.  *(1 mark)*
     7. K520,000- Wife’s savings from monthly housekeeping allowances given by the husband. *(1.5 mark)*

***(7.5 marks)***

(c)Under section 45 of the Taxation Act, the deduction of contributions made by a taxpayer to a fund providing for sickness, accident, unemployment or other benefits for employees or widows, children or nominees of deceased employees

is prohibited.

**Required:**

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

*(5 marks)*

**(Total 15 marks)**

**QUESTION 3**

(a)(i) What is a “fringe benefit” as defined by the Taxation Act?*(2 marks)*

(ii)When is fringe benefits tax due for payment to the Malawi Revenue Authority? *(1 mark)*

(iii)Explain how an employer can avoid becoming liable for the payment of fringe benefits tax. *(3 marks)*

(b)An employer has proposed to provide employment benefits to an employee as follows:

1. An unfurnished house rented by the employer at MK80,000 per month payable quarterly in advance directly to the employee. The employee’s salary is MK655,000 per month.
2. School fees of MK450,000 per term for each of his three children payable directly to the school.
3. Unrestricted use of a motor vehicle which was acquired at a cost of MK9.5 million.
4. Vehicle insurance and running costs estimated at Mk650,000 and MK480,000 per annum respectively.

The insurance premium is payable to the insurance company while the amount meant for vehicle running costs is payable to the employee in cash.

1. A cook is provided by the employer at a salary of MK75, 000 per month.

**Required:**

1. Explain whether the employer or the employee will bear the tax burden in each employment benefit listed in1-5, above. *(5 marks)*
2. Calculate the quarterly fringe benefits tax payable on school fees and motor vehicle.

*(4 marks)*

**(Total 15 marks)**

**QUESTION 4**

1. (i) Describe the **two** types of clubs’ societies or associations which are recognized under the Taxation Act? *(3 marks)*

(ii) How is the income of the two types of clubs, societies or associations treated for

tax purposes? *(2 marks)*

1. Where a club or association is subject to tax, state how the taxable income is computed for tax purposes. *(2.5 marks)*
2. The transactions of Chilipa club, which is a taxable club, for the financial year ended 31st December,2017were as follows:

K’000

Income 8,900

This was made up of:

**K’000**

Rentals from excess accommodation 900

Ground entrance fees 450

Sale of food 655

Sale of drinks 1 450

Club membership 1500

Video shows 720

Live band performances 1800

Gambling Machine 725

8,900

**K’000**

Expenses 4950

The breakdown was as follows:  **K’000**

Salaries and wages 1 430

Food licence 170

Repairs and maintenance 2150

Cost of goods sold 1 000

Trading licence 200

4, 950

**Required:**

1. Compute the taxable income of the Chilipa for the financial year to 31st December,2017 *(5 marks)* Calculate the amount of tax assuming the taxable income computed in (i) above is MK45,200.00 *(1.5 marks)*
2. State the tax year in which the taxable income computed in (i) above will be assessed.

*(1 mark)*

**(Total 15 marks)**

**SECTION B (40 MARKS)**

Answer **ANY TWO** questions from this section

**QUESTION 5**

1. define the term” foreign currency liability” as stipulated in the taxation Act.

*(2 marks)*

1. A Malawian entrepreneur obtained a foreign currency loan facility whose proceeds were used to pre-finance the importation of trade goods. The loan was $65,000 and was obtained in June 2017. The repayment of the loan was made as follows:

January,2017 - $45,000

March ,2017 - $20,000

Exchange rates for the relevant periods was as follows:

June, 2017 -$1 = K755

January,2017 -$1 = K760

March,2017 -$1 = K767

**Required:**

1. Calculate the value of the foreign currency in Malawi Kwacha, at the time of establishing the foreign currency liability, in June 2017. *(2 marks)*
2. Calculate the total amount of foreign exchange gain, or foreign exchange loss, as the case may be, realized on the loan transaction upon being paid in full. *(7 marks)*
3. Calculate how much would have been saved in realized foreign exchange losses or how much would have been realized as additional foreign exchange gains if the whole of this foreign exchange liability was settled in January,2018. *(3 marks)*
4. What restrictions if any, is imposed on the deductibility of a realized foreign exchange loss? *(2 marks)*

(c) Explain the circumstances under which individual donations may be allowed as deductions from a taxpayer’s assessable income. *(4 marks)*

**(Total 20 marks)**

**QUESTION 6**

1. The deduction of certain types of expenditure is specifically provided for in the taxation Act upon certain conditions being met.

**Required:**

State the conditions to be met and the amounts to be allowed as a deduction in respect of the following expenditure:

* 1. Premium or consideration in the nature of premium;( Section 34 of the Taxation Act) *(5 marks)*
  2. Bad Debts( Section 35 of the Taxation Act) *(4 marks)*
  3. New business initial expenditure (Section of the Taxation Act).

*(2 marks)*

**(b)** (i) Outline **five** reasons why government imposes taxes. *(2.5 marks)*

(ii) Sate for principles of Taxation. *(4 marks)*

(iii) A return of income of a limited company requires that a declaration be

made as to the company’s country of incorporation.

**Required:**

State the significance of this declaration. *(2.5 marks)*

**(Total 20 marks)**

**QUESTION 7**

a) Three civil engineers, A, B and C are in partnership trading as ABC Associates share their profits and losses equally. The following is the partnership profit and loss account for the year ended 31 December, 2017.

Gross Profit 28,000,000

Expenses

General expenses (5,000,000)

Advertising (2,000,000)

Depreciation (2,400,000)

Salaries A 1,900,000

B 2,100,000

C 3,000,000 (7,000,000)

Interest on Capital A 2,360,000

B 2,260,000

C 3,080,000 (7,700,000)

Net Profit 3,900,000

Note that partner B owns a house which he rents out and for the year ended 31 December, 2017, he received a gross amount of K240, 000 from his tenant.

**Required:**

(i) Compute the taxable profit for each partner. *(7½ marks)*

(ii) Calculate tax payable by partner B. *(3½ marks)*

(iii) In which tax year is the tax payable by B going to be assessed. *(1 mark)*

1. Explain how pension income is currently being taxed according to Section 14(5) of the Taxation Act.  *(2 marks)*
2. Explain how Value Added Tax can be used to achieve any three objectives of Taxation. *(3 marks)*
3. List any three grounds on which a tax payer may appeal to the Commissioner General of Malawi Revenue Authority.  *(3 marks)*  **(Total 20 marks)**

**QUESTION 8**

1. List any **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)*
2. 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 at an inland port.

**Required:**

Name any **four** 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. *(2½ marks)*

1. In readiness for Easter, a bookshop in Lilongwe had obtained a quotation to imported 5000 Easter cards from Israel. The prospective supplier has just emailed a quotation which indicates that the cost of each card is 2 United states dollars C.I.F Blantyre.

An enquiry from Malawi Revenue Authority reveal that, upon arrival at the border port of the imported candles, the church will be required to pay 10% customs duty, 20% excise tax and 16.5% Value added Tax.

**Required:**

1. Explain the term C.I.F normally used in international trade. *(1½ marks)*
2. Advise how much the bookshop will pay to Malawi Revenue Authority, should they go ahead to import the cards. [Assume the exchange rate at the time of the arrival of the cards will be MK750 to 1 United States dollar]. *(8½ marks)*
3. List **five** methods of Customs Valuation under the new GATT valuation system.  *(5 marks)*

**(Total 20 marks)**

**APPENDIX I**

**TAX RATES TO BE USED**

**INDIVIDUALS**

**ANNUAL TAXABLE INCOME RATE OF TAX**

First K420,000 0%

Next K60,000 15%

Next K2,520,000 30%

Excess over Mk3,000,000 35%

**COMPANIES**

On taxable income 30%

Telecom companies 33%

Those registered outside 35%

**INITIAL AND ANNUAL ALLOWANCES**

**Initial Allowance Annual Allowance**

**Group 1** 10% 5%

Farm improvements

Industrial Buildings

Railway lines

Group 2

Farm fencing 33¹/³ 10%

Group 3 20% As agreed with the

commissioner of taxes

Articles

Utensils

Implements

Machinery

Plant

Equipment

Motor Vehicles

**Investment Allowance**

Where this allowance is applicable the rate is 100% on new and unused items and 40% on used items.

**END OF THE EXAMINATION PAPER**