

**INSTITUTE OF BANKERS IN MALAWI**

**DIPLOMA IN BANKING EXAMINATION**

**SUBJECT: TAXATION 1 (IOBM – D213)**

**Date: Tuesday, 18th November 2014**

**Time Allocated: 3 hours (13:30- 16:30 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 4 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. All answer books without examination number 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. Kambewa Investments withheld Pay As You Earn [PAYE] from its employees for the month of November 2013 amounting to K240, 530. However, because of cash flow problems, they remitted this amount to Malawi Revenue Authority on 17 April, 2014.

**Required:**

1. Describe the penalties that are applicable on late payment of PAYE.  *(2 marks)*

1. Compute the penalties that will be payable by Kambewa Investments because of late payment of PAYE.*(4 marks)*

1. Name any **three** significances of penalties in a tax system.*(3 marks)*

1. What are the consequences to the employer when they under deduct PAYE from an employee? *(3 marks)*
2. State any **three** bodies to which an aggrieved taxpayer can appeal. *(3 marks)*

**(Total 15 marks)**

**QUESTION 2**

1. Tripartite Limited is a company that is into the business of baking bread and confectionery. To motivate its senior employees, the company provides company houses and company cars.

In respect of the year ending 31 December, 2012, the company provided the following to its Managing Director [MD]:

* A fully furnished house owned by the company but situated within the company’s compound so that the MD could easily supervise workers at night especially those who work on night shifts.
* An enviable salary of K60 million per annum.
* A latest Toyota Fortuner with a market value of K70 million but was bought a year and some months ago at K44 million.

The housewhich the MD was housed had been recently valued by Knight Frank and they had put the rental value at K600, 000 per month.

**Required:**

1. Compute the fringe benefit tax that Tripartite Limited paid for the quarter ended 30 September, 2012 in respect of the Managing Director’s benefits.*(9 marks)*
2. Name any **three** records which Tripartite Limited must keep for fringe benefit tax purposes. *(3 marks)*
3. Name any **three** examples of supporting documents that must always accompany a return from a taxpayer in line with Section 87 [3]. *(3 marks)*

**(Total 15 marks)**

**QUESTION 3**

1. List any **three** activities which are included in the definition of taxable supply by the VAT Law.  *(3 marks)*

1. Describe the **three** types of supplies as far as VAT is concerned, give examples for each. *(3 marks)*

1. Kanga Trading is a registered value added tax payer. The following transactions were picked from the records of the business for the month of March 2014:
2. Bought stationery worth K60,580 inclusive of value added tax.
3. Paid salaries amounting to K75,000 exclusive of value added tax.
4. Bought rice valued at K78,000 exclusive of value added tax to be sold.
5. Bought postage stamps worth K6,400 exclusive of value added tax.
6. Bought bales of sugar worth K220,000 exclusive of value added tax to be sold in his business.
7. Paid electricity charges amounting to K59, 337.75 inclusive of value added tax.
8. Sold fertilizer worth K150, 000 before value added tax to his customers.
9. Sold sugar worth K70, 000 to Tanzania exclusive of tax.
10. Sold sugar K150, 000 to consumers in Makhetha in Blantyre.

**Required:**

Form the transactions above, compute the relevant value added tax payable or chargeable by Kanga trading. *(9 marks)*

**(Total 15 marks)**

**QUESTION 4**

1. Fanta, Sprite and Coke have been in partnership for a long time trading as Fasco Partners. According to their partnership agreement, the three partners share profits on an equal basis. During the financial year ending 31 December, 2012 they had the following profit and loss records.

Mk Million Mk Million

Gross profit 60

Expenses:

General expenses 15

Advertising 2

Depreciation 3

Salaries [all three partners] Fanta 9

Sprite 7

Coke 3 19

Interest on capital Fanta 2

Sprite 1.5

Coke 1.9 5.4

Profit for the year 15.6

**Required:**

1. Compute the taxable profit for each partner for the year ended 31 December, 2012.  *(13 marks)*
2. Explain how an assessed loss for a partnership would be treated. *(2 marks)*

**(Total 15 marks)**

**SECTION B (40 MARKS)**

Answer **ANY TWO** questions from this section

**QUESTION 5**

1. Define the following Stamp duty, Property tax; and Non-resident Tax.*(3 marks)*
2. Timba Limited had estimated taxable profits of K200,000,000 at the beginning of their financial year, on 1st January, 2013. However, at the end of their financial year, i.e. 31 December, 2013, the company had an actual taxable profit of K129, 620, 300.

**Required:**

1. State any **four** situations where a taxpayer is exempted from provisional tax by the Act *(4 marks)*
2. Define seasonal income, in line with section 84A[4] *(1 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)*

1. 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. Explain any **four** uses of taxation in an economy. *(4 marks)*
2. When are foreign exchange gains and losses said to be from a source from Malawi? *(2 marks)*
3. Cash Gate imported assorted building materials from China in order to finish her mansion which she was constructing in the low density location of area 43 in Lilongwe. The materials were worthy 10, 520 United States Dollars. At the time of importation, the rate of exchange was K395 to 1 United Stated Dollar. Since Cash Gate was their good customer, the suppliers allowed her to pay for the goods three months later when the rate of exchange had moved to K480 to 1 United States dollar.

**Required:**

1. State the formula which taxpayers are requested to use when computing foreign exchange gains or losses for tax purposes as per the Taxation Act. *(1 marks)*
2. Explain what the symbols in the formula stand for. *(3 marks)*
3. Using the formula you have named and explained above, Calculate the exchange gain or loss which Cash Gate incurred from the transaction above. *(2 marks)*
4. Define the term capital loss. *(2 marks)*
5. A tax payer, who is a manufacturer, made the following transaction during the financial year ended 31 December, 2012.

* Sold plant and equipment which had a net book value of K345,900 for K450,000? The tax written down value of the plant and equipment at the date of disposal was K198,300.
* Made a loss of K530,000 from a disposal of a saloon car which had a net book value of K1,650,000 but was bought on 15th March, 2011 at K4,500, 000.

**Required:**

1. Compute the capital gain or loss on disposal. *(2 marks)*
2. Calculate the price at which the saloon car was sold.*(4 marks)*

**(Total 20 marks)**

**QUESTION 7**

1. Farming and Cooperatives are classified under special trades for tax purposes.

**Required:**

Name **one** tax treatment feature for each that qualify them to be classified under special trades for tax purposes. Give **one** example for each to illustrate your point. *(4 marks)*

1. Njati Club, a club registered in Malawi for purposes of pleasure and recreation of its members, prepares its income and expenditure accounts to 31December every year. The club paid tax amounting to K572, 634 in respect of its accounts for the year ended 31 December, 2012.

**Required:**

1. Describe **two** types of clubs, associations and societies which are recognised by the Taxation Act and also highlight the differences in the way they are operated. *(4½ marks)*
2. Compute the taxable income and total gross receipts and accruals for tax purposes for Njati Club for the year ended 31 December 2012.

*(7 marks)*

1. In which tax year was taxable income assessed?  *(1 mark)*
2. What does the expression stage play include? *(2½ marks)*
3. Name **two** types of taxes based on Income *(1 mark)*

**(Total 20 marks)**

**QUESTION 8**

1. What does the statement “Malawi Taxation is based on Source” mean? *(2 marks)*
2. Comment on whether or not the following items are taxable in Malawi and reasons for your response.
   1. K15 million salaries from Malawi Government to a Malawian on diplomatic service to China.  *(1 mark)*
   2. K560, 000 interest earned from bank accounts in Brazil. *(1 mark)*
   3. K700, 000 interest earned from money saved with a Reserve Bank registered Bank in Malawi.  *(1 mark)*
   4. K2, 500, 000 gifts from other diplomats in United Kingdom during a farewell reception.  *(1 mark)*
   5. K20, 500, 000 income from business interests in Malawi. *(1 mark)*
   6. K70, 000, 000 profits from sale of household items upon leaving India.  *(1 mark)*
3. Makanjira Trading imported assorted goods to be sold through his retail shops situated all over the country. When the goods arrived and just before completing a bill of entry, some were delivered into temporary store with MANICA on 6th January, 2014 and others were delivered to private sidings on 10th January, 2014.

**Required:**

1. State the latest date these two consignments should have been cleared in order to avoid penalties. Give reasons for your answer. *(4 marks)*
2. State **three** uses of a bill of entry. *(3 marks)*
3. State **five** factors which the Commissioner General considers before approving an application for a bonded warehouse. *(5 marks)*

**(Total 20 marks)**

**Income Tax Rates: Individuals**

Cumulative Tax Rate MK

0 – 240, 000 0% 0

240, 001 – 300, 000 15% 9,000

300, 001+ 30% –

**Investment Allowances**

New 100%

Second hand 40%

**Provisional Tax Penalty Rates**

If the amount of Provisional Tax unpaid as a percentage of total tax liability

**Penalty**

Does not exceed 10%. Nil.

Exceeds 10% but does not exceed 50%. 25% of the unpaid amount of provisional tax.

Exceeds 50%. 30% of the unpaid amount of provisional tax.

**END OF THE EXAMINATION PAPER**