

**INSTITUTE OF BANKERS IN MALAWI**

**DIPLOMA IN BANKING EXAMINATION**

**SUBJECT: TAXATION 1 (IOBM – D213)**

**Date: Thursday, 3rd May 2011**

**Time Allocated: 3 hours (13:30 – 16:30 pm)**

**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.**

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

**SECTION A (60 MARKS)**

**Section A answer ALL questions**

**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**

( c )The tax written down value of business assets of a manufacturer as at 31st December,2009 was as follows:

**Item Tax written down value Rate of annual allowance**

K”000

Factory Building 7,200 5%

Plant and Machinery 5’400 10%

Motor vehicles 8’700 20%

Furniture and Fittings 2,300 10%

During the financial year to 31 December,2010 the following transactions took place:

1. **Asset disposals**

**Plant& Motor Office**

**Machinery Vehicles Furniture**

**K’000 K’000 K’000**

Net book value 31/12/09 670 - 85

Tax written down values 31/12/09 1200 567 150

Proceeds 1500 250 125

1. **Asset Additions**

**Date Item Cost**

K’000

1/1/2010 New Machinery 5,600

3/4/2010 New lorry 4,500

30/11/2010 Office furniture 800

**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,2010.  **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. K4 million- salary from Malawi Government to a Malawian on diplomatic service to Finland. **1 mark**
    2. K56,000- interest earned from bank accounts in Finland. **1mark**
    3. K75,000- interest earned from bank accounts in Malawi. The money was sent to him in Finland. **1 Mark**
    4. K500,000- gift from other diplomats in Finland during a farewell reception. **1Mark**
    5. K340,000- income from business interests in Malawi. **1 Mark**
    6. K430,000- profit on sale of wife car in Finland. **1 Mark**
    7. K120,000- Wife’s savings from monthly house keeping allowances given by the husband. **1.5Mark**

**7.5 Marks**

(c) Under section 45 of the Taxation Act, the deduction of contributions made by a taxpayer to a fund established for purpose of 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**

1. An employer has proposed to provide employment benefits to an employee as follows:
2. 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 Mk345,000 per month.
3. School fees of MK150,000 per term for each of his three children payable directly to the school.
4. Unrestricted use of a motor vehicle which was acquired at a cost of Mk6.5 million.
5. Vehicle insurance and running costs estimated at Mk250,000 and MK280,000 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 Mk15, 000 per month.

**Required:**

(i) Explain whether the employer or the employee will bear the tax burden in each of the employment benefit listed in1-5, above. **5 Marks**

(ii) Calculate the quarterly fringe benefits tax payable on school fees and motor vehicle. **4 Marks**

**(Total: 15 marks)**

**QUESTION 4**

(a) Explain the principles of customs valuation **(8 marks)**

(b) Explain six methods of customs valuation **(7 marks)**

**Total: 15 Marks**

**SECTION B**

**ANSWER ANY TWO QUESTIONS**

**QUESTION 5**

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

**2marks**

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 2009. The repayment of the loan was made as follows:

January,2010 - $45,000

March ,2010 - $20,000

Exchange rates for the relevant periods was as follows:

June, 2009 - $1 = K155

January,2010 - $1 = K160

March,2010 - $1 = K167

**Required:**

1. Calculate the value of the foreign currency in Malawi Kwacha, at the time of establishing the foreign currency liability, in June 2009.  **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 loses or how much would have been realized as additional foreign exchange gains if the whole of this foreign exchange liability was settled in January,2010. **3 marks**
4. What restrictions if any ,is imposed on the deductibility of a realized foreign exchange loss? **2 marks**

1. 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. **(i)** Explain the difference between direct taxes and indirect taxes. **3 marks**

**(ii)** Give two examples of direct taxes and three examples of indirect taxes used in Malawi.  **5 marks**

1. A taxpayer has received an estimated assessment fro tax Authorities showing that he has been assessed for the year of assessment to 30 June, 2010 in the absence of his return of income. Tax amounting to MK675, 235 is shown as due and payable. As no information has been provided, no credit or advance taxes paid have been given.

The taxpayer has asked for your assistance and has produced the following information as he wants to contest the assessment.

1. A statement that during the year under review, the taxpayer received gross rents amounting to MK600,000. City rates of Mk23, 500 were paid within the year and were the only expenditure against the rental income.
2. Withholding tax amounting to MK48, 000 was recovered from the rental in (1) above.
3. A PAYE certificate shoeing MK2, 400,000 as total salary and MK520, 000 as PAYE deducted for the year under review.
4. Evidence of payment of professional subscriptions to the tune of MK64, 000 was produce. These have been allowed for tax purposes in the past.

**Required:**

1. Advise the taxpayer whether or not withholding tax on rentals has been correctly operated by the taxpayer’s tenant. If not, what consequences are likely to follow on both the operator and the taxpayer? **5 marks**
2. State the disadvantages of under deducting of PAYE tax by the taxpayer. **1 mark**
3. Assuming that of the withholding tax and PAYE schemes were correctly operated , calculate and advise the taxpayer, the net amount of tax payable by him. Indicate by what amount the estimated assessment will be reduced or how much additional tax will need to be paid.  **6 marks**

**Total: 20 Marks**

**QUESTION 7**

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 4 of the Taxation Act).

**2 marks**

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

(ii) State 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 8**

1. Under what circumstances is the person registrable as taxable for

purposes of value added tax (VAT) Act? **2.5 Marks**

1. What conditions must be fulfilled by a taxable person who is not a

motor dealer, to enable such a taxable person to claim input tax

deduction in respect of taxable supply of motor vehicle or motor

vehicle spare parts.

(c) A manufacturer incurred business expenditure during the year to 31

December 2009 as follows:

Nature Cost

K

Security 225, 000

Stationery 82, 000

Rent 320, 000

Office furniture 72, 000

Electricity 120, 000

Legal 420, 000

Telephone 88, 000

In addition, raw materials were produced at a cost of K1, 398, 000 inclusive of VAT. The agreed rate for VAT for the period was 16. 5% During the same year, revenue from exports of manufactured products and from local sales exclusive of VAT was K2, 200, 000 and K3, 175, 000 respectively.

**Required:**

1. Calculate the amount of VAT paid on raw materials**. 2 marks**

1. Calculate the total amount on of VAT recoverable on sales**. 2 marks**
2. Calculate the net amount of VAT payable or recoverable, as the case may be, considering the input tax paid**. 4 marks**

(d) State any **five** offences listed under section 112 of the taxation act which, when committed, attract the imposition of a penalty. **6marks**

**(e**) What is the term used to describe the levying of income tax by more than one country on the same income of a taxpayer  **1 mark**

**(Total:20 Marks)**

**APPENDIX I**

**TAX RATES TO BE USED**

**INDIVIDUALS**

**ANNUAL TAXABLE INCOME RATE OF TAX**

First K120,000 0%

Next K36,000 15%

Excess over Mk156,000 30%

**COMPANIES**

On taxable income 30%

**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**

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

**-END OF QUESTION PAPER-**