

**INSTITUTE OF BANKERS IN MALAWI**

**DIPLOMA IN BANKING EXAMINATION**

**SUBJECT: TAXATION 1 (IOBM – D213)**

**Date: Tuesday, 10th May 2016**

**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, 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 books 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. Define the following elements of a good tax system: Equity, Certainty, Convenience and Economy. *(4 marks)*

1. **Mbuna Tamwani** is employed by Zidyewe Bank as an operations officer. He earns an enviable salary of K100, 000 per month. In the month of January 2015, he spent some of his salary on the following items: paying for his December, 2014 electricity bill, December 2014 water bill, a bag of maize, vegetables, and opaque beer – chibuku shake shake.

**Required**:

1. State the taxes that Mbuna Tamwani suffered during the month of January, 2015.  *(7 marks)*
2. State the due date for the taxes suffered by Mbuna Tamwani*. (4 marks)*

**(Total 15 marks)**

**QUESTION 2**

1. What name is given to the basis of assessment where the taxpayer prepares accounts in line with the tax year ending 30 June?  *(1 mark)*
2. What name is given to the basis of assessment where the taxpayer prepares accounts on such a date other than the tax year ending 30 June? *(1 mark)*
3. State the tax year in which the income of a sole trader who prepared their accounts for the year ended 30 September, 2012 was assessed*. (1 mark)*
4. State any **two** conditions which must prevail for a taxpayer to get an allowance after paying for a premium for the right to use or occupy land or building, or for a right to use machinery, or patent, or trade mark.*(3 marks)*
5. Mbalame trading paid K30million for the right to manufacture and use the trademark fanta in their newly introduced drink. The right for a period of 30 years.

**Required**:

1. Calculate the amount of premium that will be expensed and shown in the accounts of Mbalame trading annually. *(2 marks)*
2. Compute the annual allowance that Mbalame trading will be allowed to claim for tax purposes in respect of the premium paid. *(7 marks)*

**(Total 15 marks)**

**QUESTION 3**

1. State when the following allowances are claimed in line with the second schedule of the Taxation Act
2. Investment allowances. *(2½ marks)*
3. Initial allowances. *(2 marks)*
4. Annual allowances.*(1 mark)*
5. **Khongoni Investments** capital allowances tax schedules as at 31 December, 2013 were as listed;

|  |  |  |
| --- | --- | --- |
| **Asset** | **Tax written Down Value**  **MK 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, 2014, 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 2012 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:*

The new computers worth 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, 2015.

**Required:**

1. Compute the tax written down value for the machine that was sold. *(1 mark)*
2. Calculate the capital allowances due for the year ended 31 December, 2013. *(8½ marks)*

**(Total 15 marks)**

**QUESTION 4**

1. Define the following in terms of Section 58 of the taxation Action
2. Water control work. *(3 marks)*
3. Water conservation work. *(1½ marks)*
4. State any **five** expenditures, incurred by a farmer, that are admissible as a deduction in the determination of taxable income derived by any farmer during any year of assessment.  *(5 marks)*
5. State how the taxable income of a cooperative that is liable for tax is determined and taxed in line with section 59 of the Taxation Act. *(2 marks)*
6. Compute tax payable for Joni Kwada who earns a salary of K2, 550, 000 per annum. *(3½ marks)*

**(Total 15 marks)**

**SECTION B (40 MARKS)**

Answer **ANY TWO** questions from this section

**QUESTION 5**

**Chitimbe Limited**, whose main business is production of shoes, is incorporated in Malawi. A summarized profit and loss account for the year ended 31 December, 2013 is as listed:

|  |  |  |  |
| --- | --- | --- | --- |
| **Details** | **Note** | **K’000** | **K’000** |
| **Sales** |  |  | **12, 200, 000** |
| Cost of sales | 1 |  | 8, 950, 000 |
| **Gross profit** |  |  | **3, 250, 000** |
| Other income | 2 |  | 24, 100 |
|  |  |  |  |
| *Expenses* |  |  |  |
| Depreciation |  | 11, 500 |  |
| Audit fees |  | 3, 500 |  |
| Bad debts |  | 750 |  |
| Doubtful debts | 3 | 900 |  |
| Traffic fines |  | 1, 250 |  |
| Repairs and maintenance | 4 | 13, 950 |  |
| Fringe benefits tax |  | 6, 200 |  |
| Staff expenses | 5 | 22, 450 |  |
| Directors fees |  | 2, 500 |  |
| Company incorporation expenses |  | 421 |  |
| General expenses | 6 | 52, 600 |  |
|  |  |  | 116, 021 |
| **Profit before tax** |  |  | **3, 158, 079** |

Notes:

1. Included in the cost of sales is K7, 500, 000 in respect of depreciation of plant and equipment.
2. Included in other income is a net dividend of K2, 200, 000 received from a company Chitimbe Limited bought shares in lately.
3. Doubtful debts comprise specific provisions of K220, 000.
4. Repairs and maintenance costs include an amount of K380, 000 in respect of maintenance of a vehicle of the General Managers’ wife who does not work for Chitimbe Limited.
5. Staff expenses include a provision for staff bonuses of K3, 630, 000 and K2, 100, 000 being company’s contribution for staff pension to unapproved pension scheme.
6. General expenses include stock write off of K1, 200, 000 which was stolen during the year but the insurance company compensated the company for the loss in question.
7. Capital allowances were agreed at K15, 750, 000.

**Required:**

1. Compute the taxable income for the accounting year to 31 December, 2013 and then calculate the amount of tax payable thereon.  *(15 marks)*
2. In which tax year is the taxable income going to be assessed? *(1 mark)*
3. By what date is Chitimbe Limited expected to have submitted the income tax return? *(1 mark)*
4. Section 85(2) of the Taxation Act states that any person carrying on trade in Malawi may be required to submit to the Commissioner, other returns which may be required by the Commissioner [other than the income returns].

**Required:**

State **three** information which these additional returns should show [contain]

*(3 marks)*

**(Total 20 marks)**

**QUESTION 6**

1. Define a fringe benefit in terms of the Taxation Act. *(2 marks)*
2. State the records that must be kept by an operator of fringe benefits tax system.  *(1½ marks)*
3. State any **two** offences that can lead into a fringe benefits tax operator to be penalized. *(2 marks)*
4. Assume that your friend got employed on 1 October, 2014 by one of the reputable banks downtown Blantyre as a Relationship Manager. This position went away with the following benefits:
5. A salary of K950, 000 per month;
6. A motor vehicle without restriction to business use only which was bought in 2013 at K10, 000, 000.
7. A company house which is fully furnished. The house is being rented for you at K150, 000 per month.
8. The bank pays for DSTV subscription, Water and electricity charges for your friend at K35, 000, K22, 000 and K33, 000 per month directly to service providers.

**Required:**

Compute the fringe benefits tax payable for the quarter ending 31 December, 2014 on provision of a motor vehicle, furnished rented house, payment of DSVT subscription, water and electricity charges. *(9½ marks)*

1. The Commissioner General is given discretionary powers under the Taxation Act because administration of the Taxation Act demands constant use of “common sense”.

**Required**:

State any **five** examples of expressly stated discretionary powers of the Commissioner General under the Taxation Act. *(5 marks)*

**(Total 20 marks)**

**QUESTION 7**

1. Withholding tax and PAYE systems are some of the methods that the Malawi Revenue Authority uses to collect tax from taxpayers.

**Required**:

Describe the **two** methods of tax collection in terms of:

1. Who operates it
2. The due date for payment
3. Applicable penalties for offences committed
4. Their treatment when compiling the year end returns for tax payers.

*(11 marks)*

1. **Tilingamawa** is working for an NGO in Lilongwe as an Accountant. For the tax year ended 30 June, 2014, her salary was pegged at K539, 000 per month, a car allowance of K50, 000 per month, and telephone allowance of K20, 000 per month. All these emoluments were being paid directly to her.

During the same year, she paid for her ACCA membership subscription amounting to K198, 500, city rates for a house which she owns but rented out amounting to K147, 000. She also received in total, during the same year, K2, 200, 000 after grossing up from the tenant who rents her house in Chilinde.

During her spare time, she runs a business in form of a shop. She imports most her goods for sell from China and South Africa and makes a sizeable profit from the business.

**Required**:

1. Using examples from Tilingamawa’s transactions for the tax year ended 30 June, 2014, state the forms / methods of collection of taxes that she suffered, and/or operated and/or paid during the tax year in question. *(3 marks)*
2. Calculate income tax payable by Tilingamawa for the twelve months ended 30 June, 2014. [Excluding the business from this computation].  *(6 marks)*

**(Total 20 marks)**

**QUESTION 8**

1. **Tilile Investments** imported goods from China on 1 January, 2015 on an open account. The goods cost the business US$450, 000. At the time of importation the exchange rate was Mk458 to US$1. The business prepared management accounts for the month of January 2015 and recorded the foreign liability in its books using an exchange rate of K450 to US$1which was ruling at 30 January 2015. The business, eventually, paid for the goods on 16 February, 2015 when the exchange rate was K440 to US$1.

**Required**:

1. Calculate the value of the goods in Malawi kwacha at the time of importation and also at the time the business was preparing management accounts. *(1 mark)*
2. When are foreign exchange gains or losses said to be from a source from Malawi. *(2 marks)*
3. Calculate the exchange gain or loss to the business at the date of paying for the goods. *(2 marks)*
4. Assuming the goods imported by Tilile investments attracted customs duty at 25%, excise duty at 30% and value added tax of 16.5%.

**Required:**

1. Calculate the value for duty purposes in respect of the imported goods  *(1 mark)*
2. Calculate the total duties and taxes [customs duty, excise duty and value added tax] that the business paid in order to clear the goods. *(7 marks)*
3. According to the Customs and Excise Act, goods may be imported for a number of reasons.

**Required:**

1. State any **three** reasons that the Act allows that goods should be imported for. *(3 marks)*
2. State any **four** documents that are commonly used in customs clearance which must be submitted to Customs.  *(4 marks)*

**(Total 20 marks)**

**END OF EXAMINATION PAPER**

**Income Tax Rates: Individuals - Annual**

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 EXAMINATION PAPER**