****

**INSTITUTE OF BANKERS IN MALAWI**

**ADVANCED DIPLOMA IN BANKING EXAMINATION**

**SUBJECT: TAXATION 2 (IOBM – AD312)**

**Date: Wednesday, 1st May 2013**

**Time Allocated: 3 hours (08:00 – 11:00 am)**

**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 sheets without examination numbers will not be marked.**

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

**SECTION A (60 MARKS)**

Answer **ALL** questions from this section

**QUESTION 1**

In his presentation of the 2012/2013 budget, the Minister of Finance introduced several tax and non tax measures which are meant to underpin the domestic revenue of the budget. Some of the measures are as follows:

1. Taxes on gains from sale of shares that are held for more than one year were removed.
2. Investment allowance was increased from 40% to 100% for new and unused factory buildings and plant and equipment.
3. International transport allowance was increased from 15% to 25%.
4. Export allowances were increased from 15% to 25%.
5. Allowing for tax purposes 50% of the cost of Social contributions by companies towards construction of schools, construction of hospitals and sponsoring schools sports activities.
6. The zero percent threshold was increase from K12, 000 to K15, 000 and also increased the 15% bracket from K3, 000 to K5, 000 per month.
7. The corporation tax paid by cell phone operators was increased from 30% to 33%.
8. Value Added Tax (VAT) on machinery was removed.
9. VAT on newspapers and internet services was removed.
10. Removal of VAT on water supply by water boards.
11. VAT on financial services was removed.
12. Excise Duty rate was increased from 150% to 250% on alcohol packed in sachet and plastic bottles.
13. All taxes currently existing on big buses of a seating capacity of more than 45 passengers [including the driver] were removed.
14. All import duties, import excise and import VAT on raw materials imported under industrial rebate scheme were removed.
15. Collection point of motor vehicle license fees was changed from Road traffic directorate to MERA through introduction of fuel levy.

**Required:**

State one specific objective of each of the measures listed above.

**(Total 15 marks)**

**QUESTION 2**

1. A taxpayer is allowed to deduct “deductible expenses” from his or her assessable income to determine Taxable income. Section 28[1] of the Taxation Act states the conditions which must be met for expenses to be deductible from assessable income.

**Required:**

List the major ingredients of deductible expenses according to Section 28[1] as far as deductibility of expenses is concerned. *(5 marks)*

1. A Terminal benefit as defined in the Fourth Schedule of the Taxation Act is subject to tax on payment. This is one example of a lump sum that employees may be given on cessation of employment.

**Required:**

Explain the tax rules governing the taxation of terminal benefits as per the fourth schedule of the taxation Act.*(5 marks)*

1. Thabwa retired from employment on 31st March 2013 and received terminal benefits from an approved pension fund of K10, 000, 000 out of which she bought an annuity from a life assurance company in Malawi worth K3, 500, 000 and intended to invest the balance in property. Her tax taxable income for 2012/2013 (salary, taxable interest and rent from her Chilomoni house) amounted to K3, 538, 400.

**Required:**

Calculate the tax payable on the terminal benefit. *(5 marks)*

**(Total 15 marks)**

**QUESTION 3**

Section 58 to 65 of the Malawi Taxation Act, set out the provisions for the taxation of “special trades and cases”.

**Required:**

1. In terms of the Malawi Taxation rules, why are farming, cooperatives, clubs and societies included under special trades? *(2 marks)*
2. Explain the special basis that tax payers who are engaged in timber growing operations may use to determine their taxable income. *(5 marks)*
3. State how the income of a club or society which is organized solely for the pleasure or recreation of its members is assessed to tax. *(4 marks)*
4. It is possible that a Malawian taxpayer may have their income taxed twice due to circumstances at the time.

**Required:**

1. How does double taxation arise *(2 marks)*
2. List **two** strategies that the Taxation Act has put in place in order mitigate double taxation of tax payer’s income.  *(2 marks)*

**(Total 15 Marks)**

**QUESTION 4**

**Dyeratu Limited**, a company that is involved in ginning cotton in Chikwawa has the following details in connection with its property and Equipment for the year ended 31 December 2012;

Tax Written down Values [TWDV] as at 1 January 2012 were as follows;

K Annual allowance

Factory Building 3, 201, 016 5%

Ginning Machinery 4, 000, 001 10%

Motor Vehicles [Commercial vehicles] 18, 000, 000 20%

Furniture and Fittings 1, 439, 234 10%

Computers 2, 000, 567 40%

Motor Vehicles [saloon] 9, 500, 000 20%

The following transactions took place during the year;

1. The company extended the factory building and brought it into use in February 2012. The extension cost the company K1, 500,000 in total, out of which K350, 000 was spent on partitioning a storeroom in the factory building.
2. Purchased plant for K2, 400,000 through leasing on 25th October 2012 but brought it into use on 4th January 2013.
3. Additions to the property and equipment were as follows;

K

February 2012 Second hand ginning Machinery 800, 000

April 2012 second hand 10 ton truck 3, 000, 000

June 2012 Motor Vehicles [Saloon] 2, 000, 000

1. disposals during the year were as follows;

K

July 2012 Motor Vehicle

[Saloon-tax written down value] 700, 000

**Required:**

Prepare the Capital Allowances schedule for Dyeratu Limited and compute all allowances that the company was entitled to in the year **(Total 15 marks)**

**SECTION B (40 MARKS)**

Answer **ANY TWO** from this section

**QUESTION 5**

1. The Taxation Act allows a taxpayer to deduct both foreign exchange losses and capital losses from assessable income in order to arrive at taxable income.

**Required:**

1. State situations where the deductions of each of the losses i.e. foreign exchange losses and capital losses are restricted. *(2 mark*s)
2. Name the limitations in each of the two losses i.e. foreign exchange losses and capital losses *(3 marks)*
3. State the circumstances where the restrictions or limitations do not apply in each of the two losses i.e. foreign exchange losses and capital loss. *(3 marks)*
4. **MPIRA LIMITED** is a company that procures and sells produce locally in Malawi. Recently, in response to the Economic Recovery Program [ERP] that the Malawi Government launched, the company has been exporting rice and peas to China and has, in the process, generated a lot of foreign exchange for the country. For the year ended 31 March, 2013, Mpira had the following results in respect of foreign currency transactions:

**MKW**

Realized gains 3, 500, 465

Realized losses 2, 945, 100

Unrealized gains 1, 005, 000

Unrealized losses 959, 658

**Required:**

Compute the amount of foreign exchange gains which are assessable, the amount of losses which are deducible and gains or/and losses that shall not be allowed this tax year – what will happen to them? *(5 marks)*

1. Capital gains realized by a taxpayer under Involuntary Conversion and disposal of business assets are given tax relief if proper procedures under the Taxation Act have been adhered to by the taxpayer concerned.

**Required**:

1. Name **two** similarities in terms of requirements to be met before the Commissioner General grants the tax relief under both Involuntary Conversion and disposal of business assets. *(2 marks)*
2. Name **one** difference in terms of requirements to be met before the Commissioner General grants the tax relief under both Involuntary Conversion and disposal of business assets. *(2 marks)*
3. State the tax relief that a taxpayer who has complied with all the requirements and rules under both Involuntary Conversion and disposal of business assets would get under each one of the two. *(2 marks)*
4. What term is given to the tax relief that the taxpayer gets on disposal of business assets.  *(1 mark)*

**(Total 20 marks**)

**QUESTION 6**

1. Airtool (Malawi) Limited is a wholly owned subsidiary of Gabro Commnications Limited, a South African Company in telecommunications industry. During the year ending 30 June, 2012, Airtool remitted the following to its parent company, Gabro: Dividends to the tune of K205 million; Loan repayment totaling K650 million and interest on loan amounting to K43 Million.

**Required:**

Compute the non-resident tax due on the above amounts. *(3 marks)*

1. List **two** ways how the Testator may revoke and alter a will under the deceased estates. *(2 marks)*
2. In determining the values of the estate for Estate duty purposes, certain properties are excluded.

**Required:**

Name any **two** types of properties that are excluded. *(2 marks)*

1. In Law domicile is the status or attribution of being a permanent resident in a particular jurisdiction. Three types of domicile are recognized in the Estate Duty Act. Name and explain the **three** types of domicile as provided for in the Act *(9 marks)*
2. Mr. Changoima has been employed by Thabwa Limited as an engineer for the past 10 years. During the 2011/2012 tax year, he earned basic salaries amounting to K10, 200, 500, and was also being paid house allowance of 55% of the basic salary. The company provided him with free accommodation and water. During the year, he paid the following donations and subscriptions; K300, 000 being membership subscription for the year to Malawi Institute of Engineers; K400, 000 donation towards construction of Bereu primary school blocks.

**Required:**

Calculate the taxable income of Mr Changoima for the 2011/2012 tax year . *(4 marks)*

**(Total 20 marks)**

**QUESTION 7**

Chapambali and Tina are both employed in different companies as Accountant and Sales Consultant respectively. Their monthly salaries are K200,000 and K150,000 respectively. They both get an additional 40% of their salaries as house allowance. Their employers deduct the necessary PAYE and remit to Malawi revenue Authority as required.

**Other income and information:**

1. Chapambali has a house in Namiwawa which he bought through a mortgage from NBS Bank. The mortgage repayment is K48, 000 per month [of which interest is K42, 000].

The house is rented for K60, 000 per month to Kabula Pharmacies. Kabula Pharmacies deducts withholding tax on payment of rent, 10% of the rental is paid to the property manager. During the year K60, 000 was spent on painting the roof and K120, 000 on the new concrete drive way.

1. Tina maintains a fixed deposit account with National Bank of Malawi. During the year to 31 December 2012, interest was paid on the account as follows [all interest amounts are stated gross]

31 March 2012 K 6, 800

30 June 2012 K12, 000

30 September 2012 K 9, 000

31 December 2012 K14, 000

1. Chapambali is a Director at Lizulu Limited. During the year he was paid directors fees amounting to K120, 000 gross from which 10% withholding tax was deducted.

**Required:**

1. Compute the income tax liability by Chapambali and Tina respectively for the year ended 31 December 2012 and total tax payable by the two as at the end of the tax year. **(Total 20 marks)**

**QUESTION 8**

1. A taxable person must register for Value Added Tax [VAT]

**Required:**

1. State who is regarded as a registered person for VAT purposes. *(½ mark)*
2. State the circumstances in which a person must become registered for VAT and state the time limit for registering. *(2 marks)*

1. A taxable point must be established for purposes of charging VAT.

**Required:**

State the taxable point where goods are to be supplied on sale. *(3 marks)*

1. Sani Limited is a company that deals in taxable supplies and is registered for VAT purposes. In the 12 months period ended 31 December, 2012, the company submitted VAT returns as listed below.

|  |  |
| --- | --- |
| **Month** | **Date Return Submitted** |
| January 2012 | 25 February 2012 |
| February 2012 | 21 April 2012 |
| March 2012 | 21 April 2012 |
| April 2012 | 1 June 2012 |
| May 2012 | 24 June 2012 |
| June 2012 | 25 July 2012 |
| July 2012 | 24 August 2012 |
| August 2012 | 30 September 2012 |
| September 2012 | 25 October 2012 |
| October 2012 | 25 November 2012 |
| November 2012 | 22 December 2012 |
| December 2012 | 25 January 2013 |

**Required:**

1. State the due date for submission of monthly VAT returns by a registered taxpayer. *(1 mark)*
2. What penalties are given to a registered taxpayer who submits the monthly VAT return after the due date? *(2 marks)*
3. Calculate the penalties payable by Sani Limited for failing to submit the value added tax return by due date. *(6½ marks)*
4. List the type of expenditure incurred by the taxpayers who are engaged in pastoral, agricultural or other farming operations which are specifically allowable in determining their taxable incomes. *(5 marks)*

**(Total 20 marks)**

**END OF EXAMINATION PAPER**

**TAX RATES AND ALLOWANCES**

**Income Tax Rates: Individuals**

Cumulative Tax Rate MK

0 – 144, 000 0% 0

144, 001 – 180, 000 15% 5,400

180, 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.