

**INSTITUTE OF BANKERS IN MALAWI**

**ADVANCE DIPLOMA IN BANKING EXAMINATION**

**SUBJECT: TAXATION 2 (IOBM – AD 312)**

**Date: Wednesday, 15 May 2019**

**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 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 provisional tax. *(2 marks)*
2. Universal confectioneries whose year end is December, only managed to pay 35% of the due provisional tax that totalled K42 million since it had cash flow problems in the year ending 31st December 2018. The Commissioner General declines to waive the applicable penalties and has been instructed to remit the outstanding tax plus penalties by 20th February 2019. How much is the company coughing out for the same in February? *(3 marks)*
3. It has been pointed out that the Commissioner General, can in certain cases estimate assessable income for a taxpayer. What situations necessitate this action by the Commissioner General? *(3 marks)*
4. Identify **two** differences between provisional tax and corporation tax. *(4 marks)*
5. “He who comes to equity must come with clean hands” advice a taxpayer who would like to apply for the use of withholding tax exemption certificate. *(1 mark)*
6. What is the similarity of withholding tax and Pay as you earn? *(2 marks)*

**(Total 15 marks)**

**QUESTION 2**

1. A taxpayer had timber for sale growing on a land. Due to ill health he decides to dispose of both the **land and timber** to another investor for K150 million.

**Required**

Explain how this K150 million would be treated for assessment purposes. *(3 marks)*

1. What is the reason for exempting some clubs, societies and associations from paying tax? *(2 marks)*
2. Blantyre Sports Club is in the non exempt category. For the year ending 31st December, 2018 it has posted sales for the various Club products amounting to K12,000,000 and the records also indicate that in the year the Club generated K4,200,000 from theatre performances.

**Required:**

Determine tax payable by Blantyre Sports Club. *(3 marks)*

1. Moyo Assurance company is a company incorporated in Malawi and is in the business of life Assurance business.

For the year ending 31st December 2019 the company reported K120,000,000 income from its own investments and not for members and related activities and also incurred K90,000,000 for qualifying expenses.

**Required:**

In accordance to tax provisions specific to general insurance business, determine the taxable income for Moyo for the year.  *(4 marks)*

1. Explain for hire purchase transactions when income is deemed to have been earned and how much income? *(3 marks)*

**(Total 15 marks)**

**QUESTION 3**

1. Explain, giving your reasons, whether income tax and VAT are direct or indirect taxes.*(4 marks)*
2. Explain form P9 and the purpose of providing to employees. *(3 marks)*
3. Your friend Izeki has called you to share with some good news. He says he has now found a job and that he will be receiving K200,000 per month of which you ask if this is gross or net of taxes. He seems confused and now seeks clarification from you on the same. Explain and if necessary compute the monthly tax burden for Izeki. *(5 marks)*
4. For final tax assessments, an income tax return is supposed to be submitted within specified period.
5. When should income tax returns be submitted?  *(1 mark)*
6. If a taxpayeris not satisfied with a tax assessment, what options do they have? *(2 marks)*

**(Total 15 marks)**

**QUESTION 4**

1. Genesis Garage Ltd has the following results for the year ended 31st March 2019:

**K**

Trading profits 1,340,000

Rental Income 260,000

Chargeable Gains 220,000

Dividends received 180,000

The company also has the following losses brought forward from the previous chargeable accounting period:

**K**

Trade losses 130,000

Capital losses 50,000

**Required:**

Compute for Genesis Ltd the tax payable for the year ending 31st March 2019. *(8 marks)*

1. State the **three** conditions that must exist for a tax clearance certificate to be issued. *(3 marks)*
2. List **six** transactions that require a tax clearance certificate to be obtained before the transaction can be finalised. *(4 marks)*

**(Total 15 marks)**

**SECTION B (40 MARKS)**

**Answer ANY TWO questions from this section**

**QUESTION 5**

Asante Limited is a trading company incorporated and trading in Malawi. Trading results of the company for the 30th June 2018 were as follows:

**Asante Limited**

**Income statement for the year ending 30th June 2018**

**Note K’000 K’000**

Turnover 3,000

**Less cost of sales** 1,900

Gross profit 1,100

Add sundry income (1) 82

**Less operational expenses**:

Salaries and wages 165

Directors’ fee 60

Depreciation 98

General expenses 64

Fines 25

Provision for severance pay 50

Transport and travel 60

Bad and doubtful debts (2) 50

Legal costs (3) 6

Rent payable 120

Motor vehicle expenses 56

Auditors’ fees 15

Fringe benefits tax 19 788

**Profit before tax 394**

**Note**

1. Sundry income represents dividends payable on Asante Ltd investments in shares in a local cement manufacturing company.
2. Bad and doubtful debts

The amount was arrived at as follows: **K’000**

Bad debts written off 15

Increase in specific doubtful provision 30

Increase in general doubtful debts 5

**50**

1. **Legal costs**

This is the last portion of company formation expenses now being written off.

**Capital allowances**

An amount of K75,000 was computed by the company and agreed to by the Tax authorities.

**Required:**

1. Compute the taxable income of Asante Limited for the year 30th June 2018. *(6 marks)*
2. Assume that Asante Limited has its circumstances changed as follows:

During the period 30th June 2018 one of the company’s motor vehicles with a book value of K205,000 was sold for K250,000. The tax written down value was K300,000.

**Required:**

1. Calculate the accounting profit or loss on the disposal of the above motor vehicle which should be included in the company’s accounts**.**  *(2 marks)*
2. Indicate whether such capital gain or loss can be taxed in full or allowed as a deduction in full as the case maybe in the tax computation of the year under review. Give reasons for your answer. *(2 marks)*
3. Explain the tax provisions of dividends.  *(3 marks)*
4. Explain your treatment of provision for severance tax. *(2 marks)*
5. How does taxation of a sole trader differ from that of a company?  *(3 marks)*

**(Total 20 marks)**

**QUESTION 6**

1. Anganile is a Malawian resident in the United Kingdom. He has several properties in Malawi which is let out. During the year ending 30th June 2018 he received rent amounting to K720,000. This income is subject to tax in both Malawi and the United Kingdom.
2. How much tax is supposed to be collected on the rent? *(1 mark)*
3. Who is responsible for collecting this tax? *(1 mark)*
4. State receipts that are exempt from non resident tax. *(3 marks)*
5. What is earned income in general and how does it differ with wife’s earned income *(4 marks)*
6. Angozo realised the following gains and losses in 2018/2019 financial year.

Realised gain: K600,000

Realised loss: K1,000,000

Determine:

1. Allowable realised loss for the year
2. Assessable gain for the year
3. Loss, if any, to be carried forward into 2019/2020 *(3 marks)*
4. Foreign exchange losses are restricted from being deducted from assessable income by tax law provisions if the prevailing conditions are met.

**Required**

Mention **two** situations where a taxpayer is not prevented by tax law to deduct realised foreign exchange losses *(2 marks)*

1. When does foreign exchange gain or loss arise? *(2 marks)*
2. Differentiate tax avoidance and tax evasion with appropriate examples. *(6 marks)*

**(Total 20 marks)**

**QUESTION 7**

Zofunda Ltd. operates a business supplying luxury bed linens to the hotel markets in Malawi. The VAT return for the quarter ending 31st March 2019 is due for completion, but the new accounts assistant Sinjani, who is preparing information for this return, has a number of issues that she is unsure how to deal with.

1. The company sold linen to Alendo lodge in January 2019 amounting to K1,800,000 excluding VAT. Alendo lodge is registered for VAT.

**Required**

State how much VAT should Zofunda Ltd collect from Alendo Ltd. *(1 mark)*

1. Explain how Alendo Lodge should treat handle the VAT payable on this purchase of linen when it is also compiling a VAT return. *(2 marks)*
2. Linen amounting to K96,000 was sold in February 2019 to a Chikondi Mbama who was not registered for VAT and meant to use the linen to replace her old one at her personal cottage in Monkey Bay.

**Required**

Calculate Chikondi’s overall cost for the linen. *(2 marks)*

1. Why does Chikondi’s and Alendo Lodge’s VAT treatment differ? *(4 marks)*
2. A number of commercial samples have been given to customers in the quarter to launch a new product range for the coming cold season. In the quarter 75 such samples have been given at a cost of K25,000 per sample.

What it is the VAT implication on the samples? *(2 marks)*

Zofunda Ltd. has two cars that are used by its Directors Zoona and Safanana. Both vehicles have some element of private use but details are as follows:-

**Vehicle 1:**

This vehicle was purchased in May 2015, the petrol invoices the quarter ending 31st March 2019, amounted to K257,000 and also underwent repairs costing K450,000.

**Vehicle 2:**

This vehicle was bought on 14th February 2019 for K55,000,000. The related fuel and insurance costs for the quarter was K120,000 and K550,000 respectively.

**Required:**

1. Compute the applicable VAT on the purchases and their effect on the VAT returns for the month. *(4 marks)*
2. Khofi Delights Ltd is a VAT registered company operated in Northern Malawi. It is putting together for the first time, a luxury hamper, but is unsure of how this item should be dealt with for VAT purposes. A standard hamper contains the following goods at cost:

**K**

Goods @ Std. Rate 7,500

Goods @ Zero Rate 4,000

**11,500**

The hamper will sell for K25,000 excluding VAT.

**Required:**

Calculate the input payable by Khofi Delights and output VAT to be charged on the sale and state the VAT inclusive selling price of the final product. *(3 marks)*

1. What is the difference between exempt and zero rated supplies? *(2 marks)*

**(Total 20 marks)**

**QUESTION 8**

1. What is the principal purpose of levying excise tax? *(1 mark)*
2. *G*ive **four** examples of goods on which excise tax islevied. *(4 marks)*
3. Define duty drawback. *(2 marks)*
4. Suzitha Banda wants to import a car to ease her mobility challenges. She has limited cash on her and therefore an accurate cash flow is imperative. She goes on the Be-forward website, a common exporter of cars to Malawi, to identify the car and settles for a mazda Demio which costs $500. When she states her location, the supplier sends her a quote which includes transport amounting to $200 and insurance of $50. She understands that the taxes payable includes all the cost of bringing the vehicle in which her friend Mada says it is called CIF. She checks with bank and finds that the exchange rate is K720 to the US dollar currency of transaction used by Be-forward.

She further finds out that the applicable import duty for the car is 20%, VAT is also chargeable at 20% and that excise tax of 15% is also payable as the car she is interested in is relatively new.

**Required:**

(i) Explain what does the term CIF mean and what is its significance? *(4 marks)*

*(*ii) Assist Suzitha to have a close estimate of the total cost of the car up to Malawi border before any taxes. *(4 marks)*

**(**iii**)** Incorporate tax computations in Suzitha’s case. *(3 marks)*

(iv) Identify any **two** documents used in imports and their use. *(2 marks)*

**(Total 20 marks)**

**END OF EXAMINATION PAPER**