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**INSTITUTE OF BANKERS IN MALAWI**

**ADVANCED DIPLOMA IN BANKING EXAMINATION**

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

**Date: Wednesday, 6th November 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**

1. Section 6 of the Taxation Act requires that Officers working under this Act observe secrecy.

**Required**

1. Explain the administrative procedures that a person taking up office under the Act must undergo and implications of not following these procedures. *(3 marks)*
2. List **five** circumstances when the duty to observe secrecy can be waived *(5 marks)*
3. The Taxation Act Chapter 41:01 provides for several incentives to taxpayers pursuing different endevours in Malawi and one of them is the provision of Mining Allowances.

**Required:**

1. Define Mining Expenditure in terms of part 2 of the second schedule of the Taxation Act. *(5 marks)*
2. Name **two** allowances which a tax payer claiming mining allowances cannot claim.  *(1 mark)*
3. List **two** situations where Mining Allowances are not claimable.  *(1 mark)*

**(Total 15 marks)**

**QUESTION 2**

Kandulo Investments has been in business for a long time buying and selling ethanol. The following are the transactions for the year ended 30 June, 2013

Comprehensive Income Statement for the Year ended 30 June, 2013.

|  |  |  |
| --- | --- | --- |
| **Item** | **K** | **K** |
| Sales |  | 34, 600 ,500 |
| Cost of sales |  | [24, 021, 600] |
| Gross Profit |  | 10, 578, 900 |
| Administration Costs | 6, 850, 500 |  |
| Finance costs | 2, 546, 200 |  |
| Other expenses | 2, 167, 900 | [11, 564, 600] |
|  |  | [985, 700] |
| Other Income |  |  |
| Profit on sale of fixed assets | 456, 900 |  |
| Interest from bank deposit account | 341, 900 |  |
| Sundry Income | 160, 000 | 958, 800 |
| Profit / [loss] before tax |  | [26, 900] |

The following information is available in connection with these results:

1. Included in cost of sales are the following expenses:

Depreciation of equipment 365, 800

Wages to staff 1 345, 000

Fuel and oil for equipment 755, 900

Painting owners house 1 250, 000

Business electricity and water 1 001, 000

Packaging materials 1 950, 500

Salaries and wages 3 250, 000

Depreciation for van 450, 100

Advertising 650, 000

Customer entertainment 125, 000

Traffic fines 650, 000

Donation to Changoima LEA School 117, 500

1. Administration costs include:

Salaries and wages 1, 550, 000

Depreciation furniture 540, 000

Medical costs – staff 345, 000

Rent and rates 2, 400, 000

Professional fees

Debt collection 65, 000

Audit fees 1, 500, 000

Property valuation 456, 000

Subscription and donations

Trade magazine 117, 500

Save the children fund 450

Fringe benefits tax 375, 000

1. Finance costs include:

Bad debts written off 750, 000

Provision for doubtful debts – 2% of debtors 337, 200

Interest for late payment of taxes 225, 000

Interest on bank overdraft 657, 900

1. Other expenses include:

Staff welfare 222, 900

Depreciation 413, 000

Directors fees 1, 000, 000

1. The company capital allowances were calculated and agreed at

K2,655,800.

**Required:**

Compute the taxable profits for Kandulo Investments for the year ended 30 June, 2013.  **(Total 15 marks)**

**QUESTION 3**

Masenjere Limited is a fast growing pharmaceutical company located in Lilongwe. In order to attract the right caliber of staff who can assist to grow the company quickly, the directors offer lucrative benefits to staff despite its small size.

The details listed are monthly actual payments applicable for the quarter ended 30 June, 2013:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Item | General  Manager | Accountant | Pharmacist | Admin  Officer | Dispatch  Officer |
| K | K | K | K | K |
| Salary | 900,000 | 710,000 | 520,000 | 95,000 | 40,000 |
| House rent | 150,000 | 80,000 | 60,000 | 20,000 | 16,000 |
| Water | 35,000 | 20,000 | 16,500 |  |  |
| Electricity | 50,000 | 40,500 | 30,000 |  |  |
| Telephone | 27,000 | 10,000 | 10,000 |  |  |

Masenjere Limited does not own houses but rents for its staff. The house being occupied by the General Manager is furnished.

Apart from the salaries and electricity expenses which are paid cash to respective employees, the rest of the benefits are paid directly to the service providers once the bills have been received.

Masenjere Limited provides a car to the General Manager which has no restriction for personal use. The car was bought one year ago at K15, 000,000.

**Required:**

1. Compute the fringe benefits tax that would be payable by Masenjere for the quarter ending 30 June, 2013, support your computations thoroughly. *(10 marks)*
2. After paying fringe benefits tax to Malawi Revenue Authority (MRA), the Accountant of Masenjere Limited subsequently received a note from MRA telling her that she should pay a penalty of K45, 000 and the Accountant is surprised and seeks your advice:

**Required:**

* 1. Name **one** reason that could have prompted MRA to raise a penalty of K45,000 to the company?  *(1 mark)*
  2. Based on the penalty from MRA, Compute the fringe benefits tax that was actually paid by the company and also the related taxable value of the fringe benefits being provided. *(2 marks)*

1. State **two** other benefits [apart from those dealt with in part (i) above], provided by an employer which attract fringe benefits tax and in each case state the basis of calculation of the taxable benefit amount. *(2 marks)* (**Total 15 marks)**

**QUESTION 4**

Makawa Sports Club was formed to offer pleasure and recreation to its members. The club makes up its accounts to 30 June every year. The statement of receipts and payments for the year ended 30 June 2013 was as follows:

K

**Receipts**

Opening bank balance 625, 100

Membership subscriptions 2, 120, 000

Entrance fees for new members 380, 500

Bar sales 3, 620, 000

Sale of band tickets 480, 000

Restaurant sales 875, 000

Drama 105, 000

8, 206, 100

**Payments**

Purchase of goods for bar 2, 980, 000

Purchase of drinks and supplies for restaurant 620, 500

Hire of band 125, 000

Wages for grounds men and guards 1, 820, 000

Salaries for other staff 1, 560, 000

Expenses for drama 62, 000

Other club running expenses 950, 000

8, 117, 500

Closing bank balance 88, 600

The following further information is available in connection with the affairs of the club;

30 June 2012 30 June 2013

K K

Creditors for bar expenses 356, 400 284, 000

Subscription received in advance 240, 000 200, 000

Subscription in arrears 100, 000 200, 000

Debtors for bar sales 250, 000 200, 000

Bar stock at cost 870, 000 625, 000

**Required:**

Calculate the income tax payable by Makawa Sports Club for the year ended 30 June 2013, clearly explaining the reasons for your treatment of the items of income and expenditure, including those that are not taxable or tax deductible.

**(Total 15 marks)**

**SECTION B (40 MARKS)**

Answer **ANY TWO** from this section

**QUESTION 5**

1. Distinguish between Testacy and Intestacy.  *(2 marks)*
2. Name the t**hree** types of domicile that are recognized in the Estate Duty Act in Malawi.  *(3 marks)*
3. The Malawi Taxation Act prescribes a number of strategies which the Tax collecting body [MRA] utilizes to gather taxes from the various taxpayers. Some of them include Withholding Tax and Provisional Tax.

**Required:**

1. List **two** similarities and **two** differences between these methods.  *(2 marks)*
2. Pay As You Earn [PAYE] is an example of a method of collecting tax under the withholding tax strategies which is operated by an employer.
   1. Explain the consequences to the employer who fails to operate the PAYE system. *(2½ marks)*
   2. Discuss how the PAYE system applies the four Canons of Tax.  *(4 marks)*
3. BEREU LIMITED, whose taxable profits for 2011/2012 amounted to K20,700,504 had never paid provisional tax during this period. Compute the Penalty that the company is liable to. *(5½ marks)*

**(Total 20 marks**)

**QUESTION 6**

1. Biriwiri Shop located in Ntcheu, is registered for VAT. The shop sells both taxable and exempt supplies. It is registered under the VAT special schemes in general and in particular under the retailer’s scheme. For the month of October 2013, the shop made the following transactions

MKW

Gross daily takings for the month 1, 540, 200

Exempt supplies in gross takings 710, 310

Total purchases for resale in the month 940, 120

Taxable purchases made in the month 840, 090

**Required**:

1. List **six** information which a tax invoice must contain. *(3 marks)*
2. Explain how the output VAT for Biriwiri shop will be calculated.  *(4 marks)*
3. Calculate the output VAT for Bwanje Shop for the month of October 2013. *(4 marks)*
4. State by when is Biriwiri shop VAT return due for submission to Malawi Revenue Authority. *(2 marks)*
5. State the significance of correct completion of Certificate of Origin [Form 18] whenever a taxpayer is about to clear imported goods.  *(3 marks)*
6. Name any **four** examples of goods that are not eligible for duty drawback under the Customs Duty Laws of Malawi. (*4 marks)*

. **(Total 20 marks)**

**QUESTION 7**

1. Write short notes on the following:-
   1. Submission of company Income Tax Returns. *(1½ marks)*
   2. The rules governing additional assessments of a taxpayer who has committed fraud by himself or on his behalf. *(2 marks)*
   3. The distinction between a tax representative and a public officer. *(2 marks)*
2. **CHINGENI [Mw] LIMITED** has, generally, always acted unethically regarding tax issues. Specifically, the company has in the past, either deliberately omitted taxable income and/or claimed allowances which the company was not entitled according to the Taxation law.

Recently, the company filed an Income Tax Return for the 2011/2012 tax year together with a cheque for the full payment of tax that was due and payable. The return showed that the taxable profits for the company were K6,501,450. This taxable profit was arrived at after claiming K2,000,700 as international transport costs allowance.

When MRA assessed Chingeni [Mw] Limited Income Tax Return, they discovered and proved that the company wrongly and fraudulently claimed international transport costs allowance. As a consequence, MRA issued an additional assessment to Chingeni [Mw] Limited.

**Required:**

1. Calculate the corporation tax that Chingeni [Mw] Limited paid at the time they were submitting the Income Tax Return.  *(1½ marks)*
2. What conditions must a taxpayer meet in order to claim international transport costs allowance as per Section 14 of the Export Incentives Act. *(2 marks)*
3. How much is a taxpayer who claims an allowance to which he is not entitled supposed to pay MRA. *(4 marks)*
4. Compute the additional amount [including any penalty applicable] that was to be paid by Chingeni limited as per the additional assessment.  *(6 marks)*
5. What is the purpose of giving a taxpayer a chance to appeal whenever they are not in agreement with MRA assessment? *(1 mark)*

**(Total 20 marks)**

**QUESTION 8**

1. Section 26 of the Taxation Act necessitate that all foreign gains and losses that arise from a source within Malawi be included in taxable income.

**Required:**

List **two** situations when foreign exchange gains or losses are said to be from a source within Malawi. *(2 marks)*

1. Dyeratu enterprise is a manufacturer of cane chairs which it exports to South Africa and other neighboring countries. The enterprise, which has been in operation for the past seven years now, is strategically positioned at Chikhwawa Boma. An extract of their accounting records for the year ending 31 March, 2013 reveal the following;

K

Realized exchange gains 200,900.00

Realized exchange losses 350,100.00

Unrealized exchange gains 95,300.00

Unrealized exchange losses 154,600.00

**Required:**

1. State how these foreign exchange gains and losses will be treated in the computation of taxable income for Dyeratu enterprises, giving reasons for your treatment in each case. *(6 marks)*
2. The owner of Dyeratu enterprises, Mrs. Bereu, has found out from a colleague she met at a bridal shower that she can claim allowances against her business taxable income because she exports her products. She approaches you to advise her after learning that you have recently completed an advance taxation paper in Banking.

**Required:**

Advise Mrs. Bereu, what allowances she would be entitled under the Taxation Act as an exporter. Outline the other benefits that would accrue to her business.  *(5 marks)*

1. The Taxation Act defines a Capital Loss as the excess of the basis or adjusted basis over the amount realized in the disposal of a capital asset.

**Required:**

1. Define adjusted basis, amount realised and disposal in terms of the taxation Act.  *(3 marks)*
2. State the rules governing the deductibility of a capital loss. *(4 marks)*

**(Total 20 marks)**

**END OF EXAMINATION PAPER**

**TAX RATES AND ALLOWANCES**

**Income Tax Rates: Individuals**

Cumulative Tax Rate MK

0 – 180, 000 0% 0

180, 001 – 240, 000 15% 9,000

240, 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.