

**INSTITUTE OF BANKERS IN MALAWI**

**ADVANCED DIPLOMA IN BANKING EXAMINATION**

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

**Date: Wednesday, 14th November 2018**

**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**

Briefly explain the following:

1. Tax (1 *marks)*
2. Tax Avoidance *(2 marks)*
3. Bonded Warehouse. *(2 marks)*
4. Duty Point *(2 marks)*
5. Two situations when non-resident tax is exempted from a taxpayer *(2 marks)*
6. Three situations when the Commissioner General of Malawi Revenue Authority can send an additional assessment to a taxpayer. *(6 marks)*

**(Total 15 marks)**

**QUESTION 2**

1. State any **five** examples of income that is exempt under the first schedule of the Taxation Act. *(5 Marks)*
2. **James Gondwe** trading as **Ngala Ginners** have been ginning cotton for many years. For the year ended 31 December, 2017, the business made a profit of K20, 545, 300.

Included in the income for the year were:

* Interest receivable from a Reserve Bank of Malawi registered bank of K450, 555 gross.
* Dividend received net of tax amounting to K1, 354, 000.

Among the expenses that were deducted to arrive at the profit were the following:

* Depreciation K2, 158, 700
* Provision for bad debts amounting to K758, 000, out of which K108, 000 was for specific provisions
* Loss on disposal of motor vehicle amounted to K145, 000
* Donation to Malawi Red Cross was to the tune of K220

The Managing Director of the business uses a company car and the private usage is estimated at 10%. Capital allowance in respect of the car was agreed at K500, 000.

**Required**:

Compute the tax liability for Ngala Ginners for the financial year ending 31 December 2017. *(10 Marks)*

**(Total 15 marks)**

**QUESTION 3**

1. **Mbawala Limited** held a withholding tax exemption certificate for the year ended 31 December, 2017. Briefly describe the benefit to the company of having this certificate? *(2 marks)*
2. **Thandizo Life Assurance Company**, is a fast growing assurance company in down town Liwonde. Excepts of the life assurance company’s financial statements for the year ended 31 December, 2017 reveal the following:

* Total investment income K9, 548, 000 [made up of K5, 700, 560 investment income from pension funds and the balance was from individual life policies].
* Commission for sales agents selling life policies to individuals K2, 500, 000.
* Administration costs on the pension fund K600, 000.
* Maintenance costs on property which the company incurred on buildings which were built using proceeds of individual life policies K1, 350, 200.

**Required:**

1. State how investment income arising from the business of life assurance is treated for tax purposes according to Under Section 63(2). *(2 marks)*
2. Explain, in detail, how the taxable income of investment income from a business of life assurance that is liable to tax is determined. *(3 marks)*
3. Compute the taxable income from the investment income of Thandizo Life Assurance Company. *(8 marks)*

**(Total 15 Marks)**

**QUESTION 4**

1. Section 112 (1) of the Taxation Act give examples of acts which when any person fails to do shall be liable to a penalty not exceeding K30,000.

**Required:**

List any **five** of those acts which if any person fails to do shall be liable for a penalty not exceeding K30,000. *(5 marks)*

1. Penalties serve a lot of purposes in the Taxation system

**Required:**

State any **three** purposes that the Penalties serve in the Taxation system. *(3 marks)*

1. A Malawi registered business, in the name of Ifumbo Investments is involved in buying and selling of spares. On 15th April, 2017, Ifumbo Investments bought spares worth K200,000 from Lufita trading on credit. Ifumbo Investments paid Lufita trading on 9th May, 2017 net of 10% withholding tax because Lufita trading had no Withholding Tax Exemption Certificate.

**Required:**

* 1. Calculate the amount of withholding tax that was deducted from Lufita trading’s payment. *(2 marks)*
  2. When was the withholding tax deducted due for payment to Malawi revenue Authority. *(1 mark)*
  3. State any **four** conditions that Lufita trading must meet in order to be granted a withholding tax exemption certificate by Malawi Revenue Authority. *(4 marks)*

**(Total 15 Marks)**

**SECTION B (40 MARKS)**

Answer ANY **TWO** questions from this section

**QUESTION 5**

1. Mkanda Shop located in Mchinji, 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 April 2017, 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. Explain how the output VAT for Mkanda shop will be calculated. *(4 marks)*
2. Calculate the OUTPUT TAX for Mkanda Shop for the month of April 2017. *(4 marks)*
3. State by WHEN Mkanda shop VAT return is due for submission to Malawi Revenue Authority. *(4 marks)*
4. State the significance of correct completion of Certificate of Origin [Form 18] whenever a taxpayer is about to clear imported goods. *(4 marks)*
5. 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 6**

1. List any **five** types of expenditures that are specifically disallowed for tax purposes in Line with section 45 of the Taxation Act. *(5 marks)*
2. (i) Define Estate Duty. *(2 marks)*
3. Name the **three** types of domicile that are recognized in the Estate Duty Act in Malawi. (*4½ marks)*
4. Mention any **two** types of properties that are excluded when determining value for estate duty purposes. *(2 marks)*
5. **Mr Bright Mayendayenda** was a prominent entrepreneur based in the thriving location of M’baluku in Mangochi dealing in all sorts of hardware goods. Unfortunately, on 4th February, 2014, he died in a car accident as he was coming back from his business errands. At the time of his death, the value of his estate was put at K85, 201, 000. This estate comprised cash in hand and at the bank, real properties, motor vehicles, plant and equipment, furniture and fixtures just to mention a few.

A review of various important documents in possession of the deceased revealed that included in the total valuation of the estate of K85, 201, 000 was property situated in Naperi valued at K10, 000, 000 which his late sister had left for her children but was being administered by him [late Mr Mayendayenda] as a trustee. Also included in the estate were two houses valued at K8, 000, 000, located at Chinamwali in Zomba and K6, 000, 000, situated in Chibanja in Mzuzu, which Mr Mayendayenda had made a disposition to his mother and father on 6th July, 2012 and 20th January, 2010 respectively, but they were still is his possession and custody at the time of his death.

**Required:**

Compute estate duty payable on the estate of late Mr. Bright Mayendayenda, give reasons for any treatment of the amount that you take. Use the revised estate duty rates given. *(6½ marks)*

**(Total 20 Marks)**

**QUESTION 7**

1. (i) 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)*

(ii) Compute taxable income for a taxable club assuming that the taxable receipts and accruals are K24, 600, 000. *(2 marks)*

1. The Malawi Taxation Act prescribes a number of methods 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 methods which is operated by an employer.

**Required**

* 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)*

1. **Chididi Limited**, whose taxable profits for 2016/2017 amounted to K20, 700, 504 had not paid any provisional tax during this period. Compute the Penalty that the company is liable to. *(5½ marks)*

**(Total 20 marks)**

**QUESTION 8**

1. i) Name any **five** goods that are liable to excise tax. *(5 marks)*

ii) Mention any **five** documents that are commonly used in customs clearance.

*(5 marks)*

1. In readiness for the opening of their new building on November 30, 2017, a company had earlier on in September 2017, ordered 2, 000 boxes of invitation cards, each box containing 500 cards, from China costing US$2 per box CIF. When they arrived, the company was requested to pay 25% customs duty, 11% excise duty and 16.5% value added tax. Assume the exchange rate applicable was K710 to US$1.

**Required:**

1. What does CIF mean? *(1½ marks)*
2. Calculate the landed cost of the 2, 000 boxes of cards in Malawi. *(8½ marks)* **(Total 20 marks)**

**END OF EXAMINATION PAPER**

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**Estate Duty Rates**

|  |  |
| --- | --- |
| Threshold of Principal Value of Estate - MK | Rate % |
| Less than 20million | 0 |
| Exceeds 20million but does not exceed 25million | 4 |
| Exceeds 25million but does not exceed 35million | 5 |
| Exceeds 35million but does not exceed 50million | 6 |
| Exceeds 50million but does not exceed 70million | 7 |
| Exceeds 70million but does not exceed 90million | 8 |
| Exceeds 90million but does not exceed 100million | 9 |
| Exceeds 100million | 10 |