

**INSTITUTE OF BANKERS IN MALAWI**

**ADVANCE DIPLOMA IN BANKING EXAMINATION**

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

**Date: Wednesday, 16th May 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**

1. Expenditure may only be deducted from taxable income where the expenditure is wholly and exclusively and necessarily incurred by the taxpayer for the purposes of his trade.

**Required:**

Explain the meaning of the phrase “wholly, exclusively and necessarily”. *(2 marks*

1. Bad debts and doubtful debts can both be allowable deductions from the taxable income provided that the related income has been declared.

**Required:**

1. How do bad debts differ from doubtful debts? *(2 marks)*
2. Where a specific debt has been provided for and the provision has been allowed as a deduction, what adjustment, if any, should be made to the income of the taxpayer for the following year of assessment and to what extent is such adjustment affected if the debt:
3. remains unpaid;
4. is recovered;
5. has become bad? *(4 marks)*
6. In the case of transport allowance and training allowance, additional tax allowances are given over and above the actual cost of relevant transport and training costs.

In the case of export allowance, an additional tax allowance is given to the exporter effectively reducing the taxable income in respect of export sales.

**Required:**

Briefly describe, for the three allowances named above, the benefits given to the

taxpayer claiming these allowances. (Please indicate the basis for claiming and the rates of allowances).  *(7 marks)*

**(Total 15 marks)**

**QUESTION 2**

1. (i) Under the first schedule to the Taxation Act, some clubs, societies or

or associations are exempt from taxation.

**Required:**

State the conditions that must be met by the club, society or association in order to benefit from such tax exemption as is available in the first schedule to the Taxation Act. *(3 marks)*

(ii) State how the taxable income of those clubs, societies or associations which are liable to income tax is determined and at what rate they are taxed. *(3 marks)*

1. Kaporo Sports Club is operated principally for pleasure and recreation. The statement of income and expenditure for the year to 30 June 2016 which was used to support the club’s return of income for the same year is as follows:

Kaporo Sports Club

Income and expenditure statement for the year ended 30/06/16

|  |  |  |
| --- | --- | --- |
|  | Notes | K’000 |
| Gross revenue | 1 | 2,500 |
| Less: Expenses | 2 | 1,800 |
| Net Revenue |  | 700 |

Notes: 1. Gross revenue is made up of the following:

|  |  |
| --- | --- |
|  | K |
| Bar receipts | 800,000 |
| Donations | 300,000 |
| Entrance fees | 500,000 |
| Gambling machines | 200,000 |
| Members subscriptions | 300,000 |
| Stage plays and cinema | 200,000 |
|  | 2,500,000 |

The amount of expenses is arrived at as follows:

|  |  |
| --- | --- |
|  | K |
| Salaries and wages | 600,000 |
| Electricity | 200,000 |
| General expenses | 100,000 |
| Repairs & maintenance | 400,000 |
| Bar purchases | 500,000 |
|  | 1,800,000 |

**Required:**

Compute the taxable income of Kaporo Sports Club for the year to 30 June

2016.  *(3 marks)*

1. State any **three** types of expenditure which a farmer is allowed, under Section 58 of the Taxation Act, in determining the taxable income from pastoral, agricultural or other farming operations.  *(3 marks)*
2. How is the taxable income of an agricultural producers cooperative society, registered under any Malawi law, which is not exempt from income tax, determined?  *(3 marks)*

**(Total 15 marks)**

**QUESTION 3**

1. Name **four** income tax collection methods. *(4 marks)*
2. List any **four** advantages to the collecting body of collecting taxes using the methods above. *(4 marks)*
3. Vigogo Limited is a Malawian company which has a financial year ending 30 June. In June 2017 the company estimated taxable income for 2016/2017 to be K200, 000,000. The actual taxable profits are K250, 000,000 and the rate of tax is 30%.

**Required**

Show how provisional tax would be calculated. *(7 marks)*

**(Total 15 marks)**

**QUESTION 4**

1. List any **five** general conditions that all traders dealing with goods and services that attract Excise tax must comply with according to the customs and excise tax law. *(2½ marks)*
2. For purposes of Customs duty, the law demands that all goods must be cleared at the border port except in some circumstances where the importer is allowed to clear at an inland port.

**Required:**

Name any **four** reasons/circumstances that may necessitate the Commissioner General of the Malawi Revenue Authority to allow an importer to clear their goods at the inland port. *(2½ marks)*

1. In readiness for Valentine, a shop in Mzuzu had obtained a quotation to imported 2000 batteries from Dubai. The prospective supplier has just emailed a quotation which indicates that the cost of each battery is 5 United states dollars C.I.F Blantyre.

An enquiry from Malawi Revenue Authority reveal that, upon arrival at the border port of the imported batteries , the shop will be required to pay 25% customs duty, 10% excise tax and 16.5% Value added Tax.

**Required:**

1. Explain the term C.I.F normally used in international trade. *(1½ marks)*
2. Advise how much the church will pay to Malawi Revenue Authority, should they go ahead to import the cards. [Assume the exchange rate at the time of the arrival of the candles will be MK750 to 1 United States dollar].  *(8½ marks)*

**(Total 15 marks)**

**SECTION B (40 MARKS)**

Answer ANY **TWO** questions from this section

**QUESTION 5**

1. Define Testacy. *(1 mark)*
2. Domicile by choice is one of the three types of Domiciles recognized under the Estate duty Act.

**Required**:

1. Define domicile by choice *(2 marks)*
2. State any **five** factors that are taken into account to prove domicile by choice. *(5 marks)*
3. Under estate duty there are certain admissible deductions allowed from the total value of property before computation of taxable value following the death of a person.

**Required:**

State the admissible deductions. *(2 marks)*

1. Bhakhita Trading imported assorted merchandise to be sold through their shops. When the goods arrived and just before completing the bill of entry some were delivered into a temporary store and Bollore( Clearing Agent) on 10 March 2017 and others were delivered to private sidings on 20th March 2017.

**Required:**

Mention the latest date that these two consignments should have been cleared in order to avoid penalties. Give reasons for your answer. *(4 marks)*

1. Mr Gomani has been employed by Regal Home Decor Limited as a salesman for the past 5 years. During the 2016/2017 tax year, he earned basic salaries amounting to K18, 000,000, and was also being paid house allowance of 25% of the basic salary. The company provided him with free accommodation and water. During the year, he paid the following donations and subscriptions; K500, 000 being membership subscription for the year to Marketing Institute of Malawi; K200, 000 donation towards construction of Khombwe bridge in his home area.

**Required:**

Calculate the taxable income and tax payable of Mr Gomani for the 2016/2017 tax year. *(4 marks)*

1. It is possible that a Malawian taxpayer may have their income taxed twice due to circumstances at the time.

**Required:**

How does double taxation arise? *(2 marks)*

**(Total 20 marks)**

**QUESTION 6**

1. State any three significances of correctly completing the certificate of origin [form18] under the Customs and Excise Act [Cap 42.01] *(3 marks)*
2. Under the Customs and Excise Act what are the functions of customs officers. *(3 marks)*
3. Explain the **six** methods of Customs Valuation under the new GATT valuation system. *(6 marks)*
4. Discuss the principles of Customs Valuation. *(8 Marks)*

**(Total 20 marks)**

**QUESTION 7**

1. Name any four functions of the Malawi revenue Authority. *(2 marks)*
2. Define the terms “reorganization” and “qualified reorganization” for purposes of the Taxation Act. *(5 marks)*
3. State any **two** advantages that come as a result of having a reorganization approved by the Commissioner as a qualified reorganization. *(2 marks)*
4. Jetlag Limited, is a subsidiary of an international company from Mauritius, However, Jetlag Limited is registered for all taxes that are operational in Malawi since it is based and operates in Malawi. The following transactions took place at the company [Jetlag] during the financial year ended 30 June 2017.
5. On 1st November, 2017, the company remitted, through, Standard Bank, an amount of K15 million to their parent company in Mauritius. The amount was made up of K12million being an amount that the parent company had lent them and K3million was the interest that accrued on the amount that Jetlag borrowed from the parent company.
6. On 1st October , 2016, the company paid Phoso trading K750, 000 for supply of tomatoes, and other foodstuffs to the company which were being used to provide meals for its staff [Phoso]trading does not have a withholding Tax Exemption Certificate].
7. On 1st August, 2016, the company paid K1,200, 000 to Kharika Estate Agents being advance payment for rental for the General Managers’ house in new Area 47. [Kharika Estate Agents has a Withholding Tax Exemption Certificate].
8. The actual taxable profits for Jetlag Limited for the year ended 30 June, 2017 amounted to K300, 00, 000. Kakowa Limited paid K50, 000, 000 provisional tax during the year ended 30 June 2017 [in respect of these profits].

**Required:**

1. In respect of items i to iii, State the relevant taxes that should have been withheld by Jetlag Limited from the payments and also the amount that the payees should have been paid. Give reasons for your stand. *(6 Marks)*
2. As regards item iv, compute the provisional tax that should have been paid by Jetlag Limited and also state the monetary consequences of not following the rules, where applicable. *(5 marks)*

**(Total 20 marks)**

**QUESTION 8**

a)

1. Why does the Taxation Act require every person carrying on a business to keep sufficient records of income and expenditure of the business?

*(1½ marks)*

(ii) How long should the records referred to in (i) above, be retained? State the circumstances that would not require the observance of such time limit. (*2 marks)*

(iii) A taxpayer’s first accounts are made up for a period ending on some day other than 30 June.

**Required:**

Advise whether such accounts are acceptable for taxation purposes and if so, what conditions, if any, are imposed on the taxpayer’s accounts for the subsequent years of assessment. *(4 marks)*

b) Withholding tax from specified payments and provisional tax are both tax collection schemes which are used to encourage payment of tax in advance of the assessment of tax liabilities.

You are required to describe the **two** tax schemes named above using the guidelines given below. For each scheme, state:

1. By whom it is operated.
2. How the tax (to be paid) is determined.
3. When the tax is to be paid to the Revenue Authorities.
4. What penalties are imposed for non-compliance? *(12½ marks)*  **(Total 20 marks)**

**END OF EXAMINATION PAPER**