

Fundamentals Level – Skills Module

Taxation (Malawi)

Monday 3 December 2007

Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

ALL FIVE questions are compulsory and MUST be attempted.
Tax tables and allowances are on page 2.

Do NOT open this paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.

This question paper must not be removed from the examination hall.

The Association of Chartered Certified Accountants

The Public Accountants Examination Council of Malawi



Paper F6 (MWI)

SUPPLEMENTARY INSTRUCTIONS:

- 1 Calculations and workings need only be made to the nearest K.
- 2 All apportionments should be made to the nearest month.
- 3 All workings should be shown.

TAX RATES AND ALLOWANCES:

The following rates of tax and allowances are to be used when answering the questions

Income tax: Individuals

K		Cumulative K
0 – 72,000		0
72,001 – 108,000	15%	5,400
108,000+	30%	–

Company rate

Locally incorporated	30%
Externally incorporated	35%

Annual allowance rates

(Guidelines laid down by the Commissioner of Taxes)

- 5% – Industrial buildings
 - Railway lines
 - Farm improvements
- 10% – General plant and equipment
 - Trailers
 - Farm fencing
- 15% – Mobile cranes
- 17.5% – General plant and equipment on double shift
- 20% – Motor cycles
 - Cars
 - Pick-ups
 - Light lorries (for light work)
 - Cement mixers
- 25% – Light lorries (for heavy work)
 - Tippers
 - Tracked tractors
 - Tree-dozers
 - Scrapers
 - Graders
 - Bulldozers
 - General plant and equipment working 24 hours a day
 - Tractors (for heavy work)
 - Transport services
- 40% – Computers

ALL FIVE questions are compulsory and MUST be attempted

1 Sellena Tourism Limited is in the leisure industry and operates a hotel in the Lake district of Mangochi. The company, which is incorporated in Kenya, prepares its accounts to 30 June annually.

A summary of the results of Sellena Tourism Limited for its most recent financial year ended on 30 June 2007 is:

	Note	K	K
Revenue			26,050,100
Cost of sales	1		6,262,525
Gross profit			19,787,575
Administration and other expenses	2	15,030,060	
Marketing costs	3	1,252,505	
Exchange losses	4	656,400	
Finance costs	5	501,002	
			17,439,967
			2,347,608
Other income			
Interest receivable	6	145,000	
Profit on the sale of fixed assets		86,500	
Sundry income	7	275,000	
			506,500
Profit before taxation			2,854,108

The following further information is available in connection with these financial results.

(1) Cost of sales includes:	K
Depreciation	685,457
Cutlery losses	72,500
Salaries and wages	3,500,000
(2) Administration and other expenses include:	K
Audit fee	750,000
Bad debt provision – 2% of debts	235,000
Debtors written off	146,300
Insurance	250,100
Fringe benefits tax	346,700
Training costs	765,100
Traffic fines	35,200

The training costs relate to expenses incurred in training the hotel's Malawian managers in hotel management. The training was conducted in Kenya.

(3) Marketing costs are made up of:	K
Advertising	774,305
Promotions	136,100
Donations to Macoha	152,100
Donation to a political party	65,000
Billboards	125,000
	1,252,505

(4) Exchange losses are made up of:	K
Losses on converting year end balances	356,000
Losses on payments to creditors	300,400
	<hr/>
	656,400
	<hr/> <hr/>

(5) Finance costs include:	K
Penalties for late payment of PAYE	89,500
Arrangement fee for overdraft	32,500
Lease charge interest	185,000

Although the company paid an arrangement fee for an overdraft, the facility was not used during the year. The lease charge interest relates to the interest charged on financing the lease of a delivery van.

- (6) Interest receivable
The interest receivable is on a treasury bill held through Stockbrokers Malawi Limited. The interest has been included in the financial statement gross of the withholding tax deducted.

(7) Sundry income is made up of:	K
Sales of containers	45,000
Dividend from PIM	230,000
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	275,000
	<hr/> <hr/>

- (8) The company entered into the following transactions in connection with fixed assets during the year.

- (i) Carried out extensions to the hotel which were completed and brought into use by 15 August 2006, incurring the following costs:

	K
Additional rooms	2,500,000
Offices	350,000

- (ii) Transactions in respect of other assets:

	Cost/(sales proceeds)
	K
Purchased laundry machinery (secondhand)	750,000
Purchased a computer	275,000
Purchased a motor vehicle – double cab	675,000
Delivery van acquired under a finance lease (capital cost)	1,500,000
Sold a saloon car	(250,000)

The saloon car sold had a tax written down value of K160,000 and a book value of K163,500 as at 30 June 2006.

- (9) The tax written down value of the company's fixed assets at 1 July 2006 were:

	K
Industrial buildings	965,000
Plant and machinery	750,000
Motor vehicles	465,000
Delivery vehicles	365,000
Computers	450,000
Furniture and fittings	135,500

- (10) The company had paid provisional tax amounting to K268,000 by 30 June 2007.

Required:

- (a) State the allowances that can be claimed on the purchase of the computer in the year of purchase and in subsequent years. (2 marks)
- (b) Calculate the amount of capital allowances available to Sellena Tourism Limited for the year ended 30 June 2007, clearly indicating the tax written down values carried forward at the end of the year. (16 marks)
- (c) Compute Sellena Tourism Limited's taxable profits for the year ended 30 June 2007. (8 marks)
- (d) Explain how a company's liability to income tax is settled and calculate the balance of income tax payable by Sellena Tourism Limited for the year ended 30 June 2007. (4 marks)

(30 marks)

- 2 Lapukeni Binali is employed by Kungade Holdings Limited as a marketing consultant. In addition, Lapukeni operates an internet café with his partner, Joseph Limbani, under the provisions of the Business Names Act.

The following information is available in connection with the financial affairs of Lapukeni for the year ended 30 June 2007:

Business – Internet Café

The net profit before capital allowances, but after deducting depreciation of K200,000 and a salary of K250,000 paid to Joseph, is K425,500.

The partners share profits in the ratio of 5:4 to Lapukeni and Joseph respectively.

The tax written down value of the computer equipment used in the business as at 1 July 2006 was K465,500.

The business paid provisional tax of K160,000 during the year.

Employment

Lapukeni is married to Jane. Jane is employed as a secretary at the Post Office.

Their respective salaries for the year ended 30 June 2007 were:

	Lapukeni K	Jane K
Salary (per month)	100,000	5,000

In addition, they each received a housing allowance of 40% of their salary.

The appropriate PAYE was deducted each month and remitted to the Malawi Revenue Authority.

Other income and information

- Lapukeni has a house in Namiwawa which he bought using a mortgage from the NBS Bank. The mortgage repayment is K48,000 per month (of which K42,000 is interest).

The house is rented for K60,000 per month to Blantyre Pharmacies. Blantyre Pharmacies deducts withholding tax on payment of the rent.

10% of the rent is paid to the property manager. During the year K60,000 was spent on repairing the roof and K120,000 on a new concrete driveway.

- Jane maintained a three months fixed deposit account with the National Bank of Malawi. During the year to 30 June 2007 interest was paid on the account as follows (all interest amounts are stated gross).

	K
30 September 2006	6,800
31 December 2006	12,000
31 March 2007	9,000
30 June 2007	14,000

- Lapukeni is a director at Maziko Limited. During the year he was paid directors fees amounting to K120,000 gross, from which 10% withholding tax was deducted.

Required:

- Explain how the income from the internet café business will be taxed on Lapukeni.** (3 marks)
- Compute the income from the internet café business that will be taxable on Lapukeni for the year ended 30 June 2007.** (4 marks)
- Compute the income tax payable by Lapukeni and Jane, respectively, for the tax year ended 30 June 2007.** (10 marks)
- Calculate any additional tax or any refunds of tax payable in respect of Lapukeni for the year ended 30 June 2007.** (8 marks)

(25 marks)

- 3 (a) In accordance with the VAT Act list the circumstances in which value added tax (VAT) is chargeable and state the person(s) liable for the payment of the tax in each case. (3 marks)
- (b) Presco Limited is a company that manufactures plastic tubing. The company is registered for VAT. The following information is available in connection with the company's returns for VAT for the months of January to August 2006:

Month	Amount paid K	Amount payable on re-assessment K	Date return submitted K
January	36,800	36,800	25 February 2006
February	38,500	42,600	25 March 2006
March	42,100	47,800	25 May 2006
April	–	86,000	–
May	66,100	77,500	25 July 2006
June	44,500	44,500	25 July 2006
July	50,100	32,500	25 August 2006
August	75,000	96,000	25 October 2006

When the Malawi Revenue Authority carried out an audit on 25 January 2007, they discovered anomalies and therefore, they recalculated the correct amount of VAT which should have been paid by Presco Limited. These revised amounts are shown in the 'Amount payable on reassessment' column in the table above.

Required:

Calculate the amount of additional value added tax (VAT) to be paid and the penalties due by Presco Limited for the undercalculations as at 31 January 2007. You should assume the bank rate is 25%. (11 marks)

- (c) State the penalties, if any, that are due for the late submission of a VAT return. (1 mark)

(15 marks)

- 4 Sections 58 to 65 of the Malawi Taxation Act set out the provisions for the taxation of 'special trades and cases'.

Required:

- (a) List the types of expenditure incurred by tax payers who are engaged in pastoral, agricultural or other farming operations which are specifically allowable in determining their taxable incomes. (3 marks)
- (b) Explain the special basis that tax payers who are engaged in timber growing operations may use to determine their taxable income. (6 marks)
- (c) State how the income of a club or society which is organised solely for the pleasure or recreation of its members is assessed to tax. (3 marks)

(12 marks)

- 5 (a)** The following transactions relate to Limbani Limited in the year ended 30 June 2007.
- (1) Received bank interest totalling K145,000 from which withholding tax had been deducted.
 - (2) Paid K360,000 in audit fees from which withholding tax was deducted.
 - (3) Made several payments to suppliers from which a total of K365,450 in withholding tax was deducted.
 - (4) Paid fringe benefits tax on the benefits given to its employees totalling K125,000.
 - (5) Paid total provisional tax of K465,425.
 - (6) Paid value added tax totalling K465,775.

The total tax adjusted profits of Limbani Limited, for the year ended 30 June 2007, were K2,205,000.

Required:

- (i) State by when the various taxes relevant to transactions (1) to (5) above would have been due and payable.** (3 marks)
 - (ii) Calculate the income tax payable by Limbani Limited for the year ended 30 June, clearly indicating the effect of the various taxes referred to in transactions (1) to (6) above on the amount of corporate tax payable. In the case of any amounts which you treat as having no effect, state why.** (5 marks)
- (b)** The following information is provided in connection with the capital gains and losses of Madimba Limited for the three years ended 30 June 2007.

Year ended 30 June	2005 K	2006 K	2007 K
Capital gains on assets			
– where capital allowances have been claimed	26,500	–	–
– other	–	47,500	15,000
Capital losses			
– where capital allowances have been claimed	46,500	–	18,000
– other	22,500	–	22,000

Required:

- (i) Explain how capital gains and losses are dealt with in the tax computation of a company.** (6 marks)
- (ii) Compute the taxable gains and/or losses to be included in the tax computation of Madimba Limited for the year ended 30 June 2007, and/or to be carried forward to future years.** (4 marks)

(18 marks)

End of Question Paper