FINAL REPORT

STUDY OF MALAWI TAXATION SYSTEM

PREPARED BY

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FOR:

THE CENTRE FOR SOCIAL CONCERN

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MALAWI
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EXECUTIVE SUMMARY

Tax justice is one subject that most taxpayers often seek in their continued efforts of complying towards payment of taxation. While tax authorities concentrate on raising more tax revenues by devising various measures aimed at increasing tax compliance, the question of who finally pays a particular form of tax and the effect of such tax on their incomes is usually not addressed. As such, one of the important features of a good tax system, equity, as identified by a famous legend economist Adam Smith is sadly ignored.

This study was undertaken with the aim of appraising the Malawi taxation system, especially with interest in Income taxation and Value Added Tax (VAT), identifying areas of tax injustices and making recommendations on how such identified injustices can be mitigated.

The study was conducted on a two-phased approach, with the first phase of the study dedicated to literature review of the Malawi tax system, where various tax legislations were studies to provide information on various forms of Malawi income tax as well as information on Value Added Tax (VAT). In addition, other literatures including journals, books and internet articles were used during this phase of the study in order to appreciate taxation systems of other neighboring countries. The second phase of the study involved the development of data collection instruments and administration of such instruments to selected groups of taxpayers in all the four cities of the country (Blantyre, Lilongwe, Mzuzu and Zomba) as well as selected number of districts surrounding each city. In addition, the second phase also involved carrying out consultative meetings with various key stakeholders in respect to tax justice affairs. In particular, meetings were conducted with officials from Malawi Revenue Authority (MRA), Malawi Congress of Trade Unions (MCTU), and Teacher’s Union of Malawi (TUM).

Following consultative meetings and administration of questionnaires, results were analyzed and findings were drawn providing important assessment of the taxation system, areas of injustices and suggestions from the views of the respondents. Thereafter, recommendations were drawn from both the field research findings and the study of literature on other tax systems.

In summary, the following key recommendations have been made by the study in order to mitigate tax injustices identified in the study.
A recommendation is made that the income tax rates should be adjusted, with adjustments made to both the income thresholds and the rates. The proposal further suggest that the new income tax rates should have four thresholds as opposed to the current three threshold system in order to provide real net disposal income to low and middle working class taxpayers. In addition, following adoption of these proposed income tax rates and changes to the income thresholds, the income thresholds should be subject to annual reviews with a minimum adjustment to each threshold equaling to the previous year’s annual inflation rate.

Another recommendation made by the study calls for the introduction of a presumptive income tax system for small scale informal businesses which most studies reveal that they are very low compliant to payment of tax with a very small fraction if any, paying taxes. The main reason for this low compliance level is due to non-availability of mechanisms by the Malawi Revenue Authority to collect taxes from them, despite such traders generating taxable incomes which are supposed to be liable to tax under the Income Tax Act. A presumptive tax is tax based on notional or estimated business income, or some presumed values, for instance, tax based on turnover assets and number of employees, wealth or a combination of various factors, and through this tax, Malawi Revenue Authority will be able to expand their tax revenue collecting base.

Another important recommendation made by the study addresses the problem of complexity of dealing with various forms of taxes by formal small scale business taxpayers. The study determined that a significant proportion of small scale formal businesses do not comply fully towards payment of taxes. The reasons for non-payment range from cash-flow problems, general unwillingness to pay taxes, to lack of adequate information on taxation laws and the complexity of dealing with various types/forms of taxes. As such, a recommendation is made calling for the introduction of turnover tax. Turnover Tax is a simple tax that will be intended for small businesses. The objective is to reduce the tax compliance and administrative burden by simplifying and reducing the number of returns that have to be filed by such businesses. A typical business may currently be liable for submitting the following to Malawi Revenue Authority, 1) monthly Value-Added Tax return (VAT), 2) Annual Income Tax return, and 3) Quarterly Provisional Tax. The simplified tax system will replace all these taxes with a simple
Turnover Tax for small businesses i.e. businesses with a turnover not exceeding K12 million per annum (K1 million per month). A similar tax system is used in the Republic of South Africa (RSA). With this turnover tax, tax compliance will be increased on the part of such small businesses as no complications will exist regarding what amount of tax to be paid by them, and will in turn increase Malawi’s domestic tax revenues.

We further recommend that a revision be made to the current list of exempt goods for Value Added Tax (VAT) purposes in order to include other necessities for the poor and the elderly, as one way of mitigating VAT injustices on the marginalized. This revision should also be supported by a reduction in the VAT rate from current 16.5% to 14%, in order to reduce tax burden on other taxable supplies of goods and services.

We recommend that in addition to Malawi Revenue Authority’s efforts to civic educate the taxpayers, more civic educating programs must be initiated by advocacy and other social justice groups. We believe that civic education efforts by MRA are not sufficient and mainly focus on taxpayers who are within the vicinity of towns. Uses of advocacy groups in tax education will also make taxpayers to be more receptive to the message as they will not be afraid that these groups will collect taxes from them unlike where MRA officers are used. Furthermore, these groups will be able to spread the message to everyone else including prospective business owners who will be able to have better information on taxes before venturing into their desired businesses. Currently, MRA tax education is mainly targeted to taxpayers who are already in business and their distribution of leaflets is only made to them. We also recommend improvements in enforcement regarding tax revenue collections by Malawi Revenue Authority especially in respect to withholding taxes and taxpayer submissions of tax returns.
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CHAPTER 1

RESEARCH BACKGROUND

Introduction and Core Objective of the Assignment

Centre for Social Concern with its aims at transforming unjust structures in Malawi society through research and advocacy, hired services of Malawi College of Accountancy, a competent, reputable and experienced consultant to carry out a study on the existing taxation system in Malawi.

The goal of the study is to get a more exact picture of taxation system in Malawi in order to broaden the tax base and propose ways to have the stronger shoulders carry the heavier burden.

Specific Terms of Reference

The terms of reference state that the broad objective of the study is to make an assessment of how the recent changes that were made in the personal income tax structure in Malawi affect the level of economic activity and to propose tax reform that would bring more equity in terms of income distribution and tax burden/incidence on low-income groups.

Specifically, the study is intended to:

1. Assess taxation system in Malawi and provide insights of how Malawi’s taxation system works;
2. Suggest any policy changes that would bring a more equitable income distribution;
3. Suggest challenges and limitations of any policy changes that would be associated with suggested policy changes;
4. Recommend proposals for restructuring the taxation system in order to reduce the burden carried by the poor and (possibly; increase the burden for the rich);
5. Look at the feasibility of introducing of VAT exemption for the elderly and the poorest through methods such as the distribution of VAT-claiming vouchers; and

6. Suggest ways of civic educating Malawians on their duty as citizens to pay tax
CHAPTER 2

LITERATURE REVIEW OF MALAWI TAX SYSTEM (INCOME TAXES AND VALUE ADDED TAX) AND INCOME TAX SYSTEMS OF SELECTED NEIGHBOURING COUNTRIES

2.1 MALAWI INCOME TAX

The Income tax system operated in Malawi is based on legislation contained under Chapter 41:01 of the Laws of Malawi under the Income Taxation Act.

The Malawi tax system is a mixture of direct and indirect taxes. Direct taxes are generally based on a taxpayer’s income/wealth. A direct tax is paid directly by the taxpayers to the revenue authority e.g. income tax, whereas indirect taxes are such taxes that are collected by the revenue authority such as the MRA’s Customs and Excise Department in Malawi from an intermediary (supplier) who then attempts to pass on the tax to the final consumer.

Malawi has 6,216,432 people who are over 18 years of age distributed as 2,972,335 male and 3,244,097 females. Employment rate of people who are over 15 years and above as at 2008 are 96.9% and 3.1% for unemployment. The greater proportion of people over the age of 25 years are employed as opposed to age between 15-24 years.

Income tax accounts for a large proportion of the total domestic revenues collected by Malawi government. The 2008/2009 budget estimated to collect K42.3bn Income tax out of total tax revenue projections of K107.3bn, representing 39.4%. Out of this amount, K23.2bn was projected to arise from Pay as You Earn (PAYE) income tax. In general, tax revenue for the year represented about 91% of the total domestic revenues. Likewise, during the 2007/2008 fiscal year, tax revenues contributed significantly toward the year’s annual budget, with a total contribution of around 90% of the total domestic revenues.

There are five main groups of taxes, some of which represent income tax. The groups are briefly summarised below.
DIRECT TAXES

1. **Taxes based on income** - Income Tax - This is a direct tax based on the income of a taxpayer (individual or corporate body)

2. **Tax based on wealth** - Estate Duty - This too is a direct tax which is based on the wealth of an individual at the date of death.

INDIRECT TAXES

1. **Sales Tax** - A sales Tax is an advalorem duty based on the value of goods or services that have been purchased. Sales tax in Malawi is known as Value Added Tax (VAT).

2. **Customs Duties** - This tax is levied on the value of goods that have been imported into the country.

3. **Excise Duties** - these are taxes/duties that are imposed on selected locally manufactured goods to discourage the consumption of such goods.

2.2 **TAX ADMINISTRATION IN MALAWI**

The administration of tax in Malawi is placed in the hands of Malawi Revenue Authority (MRA). Malawi Revenue Authority was established in 1998 by an Act of Parliament and was officially launched in the year 2000. MRA is a government agency responsible for assessment, collection and accounting for tax revenues, and is legally mandated to collect almost all government domestic revenue estimated at ninety eight per cent of total domestic revenue of the national budget. MRA absorbed the functions and duties of the then government departments of Customs and Excise and Income Tax, with the main aim of enhancing efficiency and effectiveness of revenue collections.

The Malawi tax year (fiscal year) runs from 1 July of each year to 30 June of the following year.

**Malawi Revenue Authority’s Mission Statement**

*The MRA Mission statement is: “to contribute to national development through cost effective, equitable and efficient enforcement of revenue laws and to continuously provide quality service to all stakeholders.”*
**MRA Core values**

- Professionalism
- Integrity
- Accountability
- Efficiency
- Effectiveness

In order to realize its mandate, the Authority administers the following written laws relating to revenue collection:

- Customs and Excise Act
- Taxation Act
- VAT Act.

Specifically MRA was established to:

- Improve taxpayer service
- Promote voluntary tax compliance to the highest degree
- Administer and enforce tax laws
- Counteract tax fraud

MRA comprises of two revenue divisions namely; Domestic Taxes Division (which account for Income taxes and Value Added Tax), and Customs and Excise Division (accounting for all import duties and excise duties).
2.3 DEFINITION OF ASSESSABLE INCOME

Assessable income is defined in Section 11 of the Taxation act as:

“The total amount in cash or otherwise including any capital gain received by or accrued to or in favour of a person in any year or period of assessment from a source within or deemed to be within Malawi and the person’s assessable income will be that excluding any amount exempt under the Act.”

Under this definition, assessable income is mainly made up of almost all incomes which an individual or business entity can realise from a Malawian source. Unlike other tax jurisdictions where income is assessable based on the status of one’s place or state of residence, the Malawi Income tax system uses source of the income in determining whether the income is assessable to tax or not.

A summary of Income tax provisions relating to personal and business income is highlighted in the attached Appendices 1 and 2.

2.4 FORMS OF INCOME TAXES

2.4.1 PAY AS YOU EARN (PAYE)

PAYE represents income tax which is collected from all individuals who are in employment. PAYE is collected by the MRA through use of employer organisations who have the obligation under the Taxation Act to collect and timely remit such amounts on a monthly basis.

PAYE is determined by applying the PAYE rates which are contained in the PAYE table provided by the Malawi Revenue Authority every year. An employer must therefore ensure that correct tax rates are being applied in calculating PAYE as any under-deductions or non-deductions attract significant incremental monthly penalties payable by the employer.

It must also be explained that PAYE is not a final assessment of tax on an employee, as it is merely a method of collecting income tax. The employee is required under Section 84(1) of the
Taxation Act to submit a tax return in respect of his income generated within a period of assessment/tax year, unless where his only source of income is from employment and which have properly suffered PAYE during the period. Where the employee submits his income tax return, the amount of PAYE paid during the year is used as a tax credit by the employee and reduces his tax liability due for the period. The return must be submitted within 180 days of the end of the period of assessment.

PAYE rates which are subject to annual review and changes are based on a progressive system with tax rates increasing as an employee’s taxable income/remuneration rises. Currently, the PAYE rates are based on a three (3) threshold basis as follows:

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<th>TAXABLE INCOME/REMUNERATION PER ANNUM</th>
<th>PAYE RATE OF TAX</th>
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<tr>
<td>First K108, 000</td>
<td>0%</td>
</tr>
<tr>
<td>Next K36, 000</td>
<td>15%</td>
</tr>
<tr>
<td>Excess over K144, 000</td>
<td>30%</td>
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These rates translate to following monthly values:

<table>
<thead>
<tr>
<th>TAXABLE INCOME/REMUNERATION PER MONTH</th>
<th>PAYE RATE OF TAX</th>
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<tr>
<td>First K9, 000</td>
<td>0%</td>
</tr>
<tr>
<td>Next K3, 000</td>
<td>15%</td>
</tr>
<tr>
<td>Excess over K12, 000</td>
<td>30%</td>
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2.4.2 INCOME TAX ON BUSINESS ENTITIES

Business entities such as sole proprietorships, partnerships and limited liability companies are all liable to income tax except those that are specifically exempt under the Taxation Act some of which are listed under Appendix 4 of this report.

However, unlike limited liability companies which are treated as legal persons and subject to tax in their personal capacity, sole proprietorships and partnerships do not pay tax on their own. For such entities, the owners are the ones who are assessed to tax on the profits generated by their businesses, and include such profits in their annual tax returns together with their other incomes.

In regard to what income is assessable to tax in respect to all types of businesses, the same criteria used in identifying assessable income for individuals contained under Section 11 of the Taxation Act is used. In practice, the income include revenues or fees realised, other incomes such as interest and royalties generated as well as capital gains realised on disposal of business assets.

Businesses are also allowed to deduct certain qualifying business expenditures whose strict qualifying criteria are set out under Section 28 of the Taxation Act.

Section 28 reads as follows-

“For the purpose of determining the taxable income of any taxpayer, there shall be deducted from the assessable income of such taxpayer the amounts of any expenditure... wholly, exclusively and necessarily incurred by the taxpayer... in the production of income.”

The phrase “wholly, exclusively and necessarily” in the context of allowable expenditure is borrowed from UK Tax Law.

Necessarily implies that the expenditure was somehow unavoidable, without which the trade would have been damaged or income reduced.

(Two tests are related with “wholly and exclusively”, “remoteness” and “duality”)?

Expenditure is too remote when it is incurred for purposes peripheral or too loosely connected to the trade - i.e. not exclusively for the trade.
Duality of purpose related to the word “wholly”. Expenditure which is in part not related to the business has a dual (double) purpose. While specific rules such as apportionment of capital allowance, Fringe Benefits Tax exists to deal with specific types of ‘dual’ expenditure, normally if there is any personal benefit, the whole expenditure is disallowed.

The specific rules governing the treatment of different expenditures including provision of certain allowances to businesses is covered under the Taxation Act and some of these are contained under Appendix 4 attached to this report.

In addition, all forms of businesses are required to pay tax quartely under the provisional tax system. The Provision Tax system was introduced in 1988. This was done to enable the Government to get revenue evenly throughout the year.

2.4.3 OPERATION OF THE PROVISIONAL TAX SYSTEM

Provisional tax is an estimate of the total income tax payable. A taxpayer must make the estimate at the beginning of every year of assessment.

A taxpayer will determine the provisional tax payable during the year of assessment by estimating the current year’s tax liability. The estimate must however not be less than 90% of the actual tax liability for the year of assessment as this will result into the business suffering penalties.

The instalments must be paid in such a way as to make sure that when the final instalment is paid the taxpayer will have paid at least 90% of the final tax liability. It is upon the taxpayer to decide on how much to pay at each date.

Provisional tax is payable in quarterly instalments and is due within 30 days of the end of each quarter.
2.4.4 WITHHOLDING TAXES

A withholding tax is a system of collecting tax whereby a person making payment withholds a percentage of the amount to be paid. The payee gets the net amount while the tax withheld is remitted to the tax department.

In the Malawi tax system, there are three forms of withholding taxes; these are Pay as You Earn (PAYE), Withholding Tax and Non-Resident/Border Tax.

A. NON RESIDENT TAX

Section 76A specifies that any income payable to a person not being a person resident in Malawi arising from a source within Malawi shall be liable to a final tax (Non Resident Tax) at the rate 15% of the gross amount of such income.

The Act defines a person resident in Malawi as

a. Any individual present in Malawi for an aggregate of 183 days or more in the year of assessment;

b. any trust, estate or partnership established or otherwise organised under any written law of Malawi; and

c. Any company incorporated in Malawi.

Any person other than the above is said to be a person not resident in Malawi.

PAYMENT OF NON-RESIDENT TAX

Non resident (Border) Tax payable should be deducted from the amount of income payable on

a. Accrual of the amount to a non-resident;

b. Payment of the amount to a non-resident whether directly to him or to his account in or outside Malawi.
c. Remittance of the amount to a non-resident;

d. Crediting of the amount or value thereof in favour of a non-resident.

In summary, this form of income tax borrows the same principles contained under Section 11 of the Taxation Act in regard to assessability of income to tax, as both incomes actually received as well as those not yet received but accrued or credited to a person is chargeable to tax.

**EXEMPTIONS**

Non-Resident tax is not payable in respect of:

a. Income and other amounts exempt under the First Schedule, e.g. dividends.

b. Any pension or annuity payment.

**B. OTHER WITHHOLDING TAXES**

The withholding Tax legislation was introduced in 1985 with the aim of accelerating tax collection and bringing into the tax net certain incomes which were not being declared by the recipients.

Under Section 102A, any person who makes any payment specified in the Fourteenth Schedule is required to withhold tax in accordance with the rates specified in the Schedule. For example a person making payment in respect of rent must withhold 10% of such payment as tax.

When tax has been deducted, the person making the deduction is required to prepare a Withholding Tax Certificate (WTF 1) in triplicate. The copies are distributed as follows:

- The original is remitted together with the tax deducted to the Malawi Revenue Authority;
The duplicate is issued to the person from whose payment Withholding Tax has been deducted;
• The third copy is retained by the person making payment.

The tax deducted is due within 14 days of the end of the month in which the deduction was made.

Failure to remit the tax deducted within the specified period shall render the person who fails to do so personally liable to an additional sum (penalty) of 20% of the Withholding Tax due. This penalty must be paid together with the Withholding tax due.

THE WITHHOLDING TAX EXEMPTION CERTIFICATE

No withholding tax shall be deducted from any payment to a person who is a holder of a valid Withholding Tax Exemption Certificate.

To be granted a withholding tax exemption certificate the following conditions must be satisfied:

a) The applicant is a registered taxpayer;

b) The applicant’s returns of income that are due have been submitted to the Commissioner and have been accepted;

c) The applicant has complied with Provisional tax, Fringe Benefits tax and Pay As You Earn law requirements; and.

d) The applicant has settled all outstanding tax.

A withholding tax exemption certificate is issued for a particular year of assessment or such period as determined by the Commissioner. The Commissioner may, by notice in writing, withdraw or cancel or order the taxpayer to surrender the certificate within the period specified in the notice.

The regulations are quick to point out that a withholding exemption certificate does not exempt its holder from paying income tax. It benefits the holder in that he is given the
opportunity to use the amounts which could have been withheld under the Withholding Tax system.

A provision to Section 102 A(1) also states that no withholding tax exemption certificate can be granted in respect of Bank Interest and rent (i.e. a person shall not be exempted from withholding tax on rent and bank interest on the basis that he is a holder of a valid exemption certificate). Bank interest includes:

- Interest payable by an institution registered under the Building Societies Act or the Banking Act on deposits held on accounts with such institutions; and
- Interest on treasury bills, stock, bonds or promissory notes raised by or on behalf of the Government under sections 24 and 26 of the Finance and Audit Act of Malawi.

Bank interest does not include:

- Interest payable by any person to institutions registered under the Building Societies Act or the Banking Act;
- Interest payable to a person exempt from income tax under the first schedule;
- Interest payable to a person who is not resident in Malawi and whose income is liable to Non-Resident tax.

2.4.5 CAPITAL GAINS TAX

Section 11 includes capital gains in the definition of assessable income which means that all capital gains that have been realised from a source within or deemed to be within Malawi are assessable to tax.

Capital gains (or losses) are deemed to accrue from a source within Malawi if the gains (or losses) are realised in respect of tangible property located in Malawi or property representing an interest in company incorporated in Malawi.

A Capital Gain is the excess of the amount realised on the disposal of a capital asset over its basis or adjusted basis.
EXEMPT GAINS AND LOSSES

Gains and Losses arising on the following transfers shall not be recognised:

a) between spouses or former spouses;
b) to a spouse from an estate of a deceased spouse;
c) to a child from an estate of a deceased parent; and
d) on disposal of an individual’s principal residence; and more generally,
e) On the disposal of an individual’s personal and domestic assets not used in connection with any trade.

2.3 VALUE ADDED TAX (VAT)

Value Added Tax is a tax that is chargeable on all supplies of taxable goods and services and is an indirect tax that does not depend on the level of a taxpayer’s income.

VAT was formally introduced into the Malawi tax system in 1989 under the Customs & Excise Tariff Order. VAT then known as surtax was charged on all taxable manufactured goods which were liable to this tax. Manufacturers and associated persons to manufacturers supplying taxable goods were required to register and operate Surtax credit systems upon reaching set sales limits.

In 2001, the Malawi National Assembly passed an Act known as Surtax Act 2001 which among other things had the following effects on Surtax:

a. The Act increased the application of Surtax to a wide range of commodities covering both manufactured as well as other goods and services. As such, service providers, retailers e.g. Grocery and shop owners, and manufacturers were all liable to register for Surtax on supplies of taxable goods and services.

b. This Act also introduced heavy penalties as part of campaign to enforce compliance to the legislation.
In 2005, Surtax was renamed to Value Added Tax (VAT) following the passing of VAT Act 2005. This Act consolidated provisions of the previous legislations, i.e. the Surtax Act 2001 and others.

For VAT purposes, goods and services are classified into taxable, zero rated and exempt supplies. Taxable supplies are goods and services which are liable to VAT at the standard rate currently at 16.5%, and previously the rate was at 17.5%. Zero rated goods are goods meant for export and other few selected goods which are liable to VAT at 0%. On the other hand, exempt supplies represent goods and services which are not subject to VAT. An appendix (Appendix 6) is attached highlighting the list of exempt and zero rated supplies.

**LIABILITY FOR REGISTRATION FOR VAT**

A person is liable for registration as a taxable person if one is a person who makes taxable supply of goods or services and, whose business turnover is, or exceeds, K2, 000,000 per annum. Registration must be made on form ST1 within 30 days from the date one qualified as a taxable person. This is called **COMPULSORY REGISTRATION**.

However, any taxpayer supplying taxable goods or services whose sales turnover does not exceed the prescribed limit may apply for registration if he can satisfy the Commissioner of Taxes that his business may suffer if he was not registered for VAT. This is called: **“VOLUNTARY REGISTRATION”**.

**2.4 PROBLEMS OBSERVED WITH PERSONAL TAXATION FROM LITERATURE STUDY**

There are a number of problems with personal taxation as observed from the literature study, one of which is the failure to index allowances and thresholds.

Failure to index by its nature is a revenue raising measure, albeit less obviously so to the public than raising tax rates. The failure to index has increased effective tax rates on income by meaning more income is subject to tax and at higher marginal rates.
A taxpayer will become liable to tax when his or her annual income exceeds around $770 per annum (which will be even less when the currency is devalued/depreciates further). The Millennium Development Goals define an international poverty line of $1.25 per person per day, which is $456.25 p.a. Therefore Malawi is taxing its people who are below the poverty line when you factor in the fact that one wage earner has several dependents who depend on this income as well. For instance, on average a household in Malawi has at least five (5) occupants which demand a minimum of $2,281.25 per annum to reach the Millennium Development Goals minimum criteria.

Different writers suggest that the tax free threshold (currently at MK 108,000 p.a.) should be increased, and that it is indexed at least at the rate of inflation in subsequent years with further increases in the thresholds when these can be afforded. Although any potential increase looks a considerable task, the failure to index properly in the past has increased effective taxes on the lowest paid and this is not fair given the levels of poverty in this country. It would also encourage more employment of workers and reduce administration costs, particularly for businesses with many lower paid workers. The actual tax take for government from this category is likely to be relatively low, given that the tax rate at this level is low, but the benefit to a person on less than $2/day would be high.

2.5 REVIEW OF INCOME TAX SYSTEMS OF NEIGHBOURING COUNTRIES

As part of the literature study, a review was made of the income tax systems of neighboring countries. In particular, income taxation systems of Zimbabwe, Tanzania, and Botswana were studied. The study however, did not cover their tax systems in depth and only focused on payroll tax (Pay as You Earn-PAYE).

The study observed that all of these countries had similar tax rates with only Botswana having its highest income band taxed at a lower rate of 25%, and Zimbabwe having its highest income band taxed at 37.5%.

However, one significant observation made showed that all these countries had income tax systems with at least five (5) income bands/thresholds as opposed to the Malawian scenario where only three (3) thresholds exist. In addition, the first band values normally taxed at zero percent
(0%), in all countries were at amounts significantly higher than the Malawi current situation, where up to only K108, 000 per annum is taxed at 0% as opposed to Zimbabwe (US$1,375 or Malawi equivalent of K192, 500, at US$1=K140), or Botswana (P30, 000 or Malawi equivalent of K600, 000 per annum, at P1=K20). However, we believe that these zero (0) percent thresholds can not be the same and cannot be used as a proper basis of comparison due to different economic environment of different countries.

An appendix (Appendix 5) is attached highlighting the income tax rates of selected neighbouring countries under the study.
CHAPTER 3

DATA COLLECTION

The second phase of the research study involved collection of data from different taxpayers and key stakeholder consultative groups. In particular, data collection was primarily conducted through usage of questionnaires which were administered in various selected locations. For the purpose of the study, a total of 80 questionnaires were administered in Chikwawa, Blantyre, Balaka, Zomba, Lilongwe, Kasungu, Mzimba and Mzuzu, with 10 questionnaires administered at each location. These locations were identified in all the three regions of the country to provide a fair representation of taxpayer’s views from different locations.

Although no formal systematic approach/method was used in drawing the research sample at each location, the data collection exercise was devised in such a manner as to collect data from both employed taxpayers and those in business on an equal basis with 5 questionnaires administered to employees and another 5 administered to taxpayers in business at each selected location.

In addition to the questionnaires, data was also collected through in-depth interviews which were arranged with key stakeholder groups. Officials from Teachers Union of Malawi (TUM), Malawi Congress of Trade Unions (MCTU), Malawi Revenue Authority (MRA) and Malawi Confederation of Chambers of Trade and Industry (MCCI) were interviewed in order to draw opinions from them.

The data collection instruments used in this exercise are attached under Appendices 3 and 4 at the end of the report.
CHAPTER 4

ANALYSIS OF STUDY FINDINGS

4.1 GENERAL ATTRIBUTES OF RESPONDENTS

A total of 77 out of 80 administered questionnaires responded, representing 96% of the research target largely due to methodology deployed in questionnaire administration where the researchers requested the respondents to complete and submit the questionnaires in good time.

Of the 77 respondents, 39 were employed taxpayers and 38 were business persons. Employed taxpayers comprised people at different levels with most of them made up of low and middle working level employees. Likewise, business persons of different categories were reached including hospital owners, filling station owners, restaurant owners and shop owners.

In regard to registration for income tax, a very high proportion of the respondents stated that they were registered for income tax (see chart below) with 72 registered and only 2 not registered with 1 not responding to the question.

Chart 1: Registration for Income tax
4.2 TAXPAYER’S KNOWLEDGE OF TAX MATTERS

Most taxpayers expressed that they were knowledgeable as regards to tax matters, nevertheless, a significant number of them, 22 out of 77 were only somewhat knowledgeable and 4 respondents stating that they had no knowledge at all of tax matters.

The chart below shows the findings on taxpayer’s knowledge of tax matters:

**Chart 2: Level of knowledge with regard to tax matters**

As regards knowledge of the importance of paying taxes, most respondents, (74 out of 77) expressed that they knew the importance of paying taxes, however, another measure used in assessing taxpayer’s knowledge of tax matters; their assessment of how the tax revenues collected by government is utilised produced mixed responses with 26 of the respondents not satisfied and 13 of them with no idea on how the taxes collected are used by government.

The following chart below show the above findings:
Chart 3: Taxpayer's assessment of government's utilization of tax revenue

4.3 TAX RATES

Most respondent taxpayers generally felt that the income tax rates are high, with only 2 expressing that the rates were low and 9 describing them as fair out of the 77 respondents. A total number of 66 respondents stated that they viewed the rates as high and very high.

The bar chart below shows these observations:
TAXPAYER’S SUGGESTIONS ON CURRENT INCOME TAX RATES AND INCOME THRESHOLDS

Almost all respondents suggested a reduction in the income tax rates as they expressed that the current tax rates are very high.

Some respondents specifically called for revision of the taxable income thresholds to reflect the cost of living of the taxpayers. Most taxpayers proposed that the first taxable income band/threshold should be increased and should be pegged at a minimum of K15,000 per month or K180,000 per annum. Some proposals pegged this amount at K20,000, with the highest proposal putting the figure at K25,000.

Some respondents also proposed the need to exempt housing allowances from taxation or to make a significant portion of a person’s housing allowances exempt from tax.

Respondents whose source of income is from employment also proposed need to increase the income thresholds in order to create a middle income band to be applied to middle income
earners, as opposed to the current system where only three thresholds exist and both middle and high income earners are taxed at the final rate of 30%.

Most business respondents expressed the need to have a fair tax system which collects from everyone else in business and not from a few compliant ones. Most respondents in this group also proposed changes in the way various taxes are administered, especially with regard to small scale businesses. The respondents explained that the current system is cumbersome to administer and burdensome on their businesses and called for changes to reduce these bottlenecks.

Furthermore respondents also proposed need for thorough tax education as most taxpayers are not adequately informed of the importance of tax revenue and use of the tax money. In regard to similar matters, respondents proposed transparency in regard to how the tax revenue is utilised with most proposals calling for period reports through public media outlets, on how tax revenues is being used by the government.

### 4.4 TAX COMPLIANCE

In regard to tax compliance especially relating to taxpayer’s attitude towards payment of taxation, most respondents (67 out of 77) expressed that they always pay taxes in time. However, it must be observed that as the study also involved employed taxpayers, this result may not reflect the actual tax compliance levels in practice, as employers are the ones who have the responsibility to deduct PAYE from their employee’s salaries and remit the amount to Malawi Revenue Authority.

### 4.5 VAT INJUSTICES

Most taxpayers felt that the VAT tax system has a lot of injustices ranging from the tax itself perceived as a double tax on income already suffered tax to the percentage used in the VAT system.
Mixed suggestions were made by respondents with most of them expressing views to exempt the marginalised elderly and other poor people from payment of Value Added Tax (VAT).

However, a significant proportion of respondents explained that the status quo should be maintained where everyone should be subject to this tax. A wide range of reasons were made for their suggestion including, the potential difficulty in devising a mechanism to exempt the elderly from paying this tax, as well as other respondent’s argument that it is usually the children or relatives of such elder people who actually procure goods for use by their elder parents or relatives. Others argued that lack of personal identification documents (IDs) will also make it difficult in regard to identification of the targeted elderly people and therefore any special VAT scheme for such group of people may be subject to abuse.

In addition, other respondents suggested the need to review goods and services which are currently exempt from VAT and include on such list goods which will be deemed as necessities for poor and elderly people.

Furthermore, other respondents explained that with most elderly and the poor residing in the rural areas, where most shop owners are small scale business persons with very little understanding of VAT, it would be very difficult to operate any special scheme meant to exempt or reduce the VAT burden of these marginalised groups, as such, these respondents proposed reduction in the VAT rate so as to benefit both urban working or business persons and the rural marginalised poor and elderly people.

Proponents of VAT rate reduction also argued on the basis that this taxation acts as a double taxation mechanism as it is charged on the employee’s after tax (PAYE) income and therefore the current high rate of 16.5% further reduces individual’s spending income.
4.6 RESULTS SUMMARY FROM STAKEHOLDER CONSULTATIVE MEETINGS

Meetings with different stakeholder groups produced valuable information regarding their perception of the Malawi tax system. In particular, the following key observations were drawn from these meetings:

a) Generally, stakeholders felt that the tax rates within the income tax system are fair, and that the domestic income levels on the other hand are low, and this situation result in taxpayers greatly affected by tax deductions from their already low earnings. The stakeholders expressed hope on this problem in the long-term to be reduced with increased economic growth and development in the country which improve income levels.

b) Stakeholders also generally expressed that Value Added Tax (VAT) is a tax of choice and depend on a taxpayer’s level of commodity and services consumption, as such; the question of unfairness does not really arise where one has a choice to attract the tax. Nevertheless, these stakeholders agreed that the tax does have a significant effect on prices.

c) Some stakeholders called for more and better tax education by the tax authorities and other relevant bodies, in order to make the tax system to be fair, as this improved awareness coupled with increased enforcement will widen the tax revenue collecting base.

d) In respect to perceived injustices on Value Added Tax especially on the elderly and the poor, stakeholders felt that other social protection programs by the state and other authorities or groups would provide best solutions to mitigate these injustices.
RECOMMENDATIONS AND CONCLUSIONS

RECOMMENDATIONS

A. REVISION OF INCOME TAX RATES AND INCOME THRESHOLDS

We recommend that the income tax rates should be adjusted, with adjustments made to both the income thresholds and the rates. We propose that the new income tax rates should have four thresholds as opposed to the current three threshold system, as follows:

PROPOSED INCOME TAX RATES:

<table>
<thead>
<tr>
<th>TAXABLE INCOME (ANNUAL)</th>
<th>TAX RATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>First K300,000</td>
<td>0%</td>
</tr>
<tr>
<td>Next K360,000</td>
<td>15%</td>
</tr>
<tr>
<td>Next K360,000</td>
<td>25%</td>
</tr>
<tr>
<td>Next K840,000</td>
<td>30%</td>
</tr>
<tr>
<td>Next K1,200,000</td>
<td>35%</td>
</tr>
<tr>
<td>Excess over K3,060,000</td>
<td>40%</td>
</tr>
</tbody>
</table>

These proposals have been made in the light of current cost of living data in the country and with comparison of income tax rates used by similar economies within the SADC grouping and Sub-Saharan countries, as well as assessment of stakeholder and respondent taxpayer’s suggestions.

We further propose that following adoption of these proposed income tax rates, the income thresholds should be subject to annual reviews with a minimum adjustment to each threshold equalling to the previous year’s annual inflation rate.

We believe that these proposed income tax rates will slightly reduce the domestic revenues collected from income taxes despite the proposed introduction of a higher rate of 40% due to the
fact that PAYE collections from middle income earners who make up a large proportion of the
employed taxpayer population will drop, for example, an individual earning a monthly salary of
K100, 000.00 currently will be paying a total of K26, 850.00 in PAYE and will only be paying
K16, 500.00 according to the proposed tax rates. On the other hand, a relatively high income
earner with a monthly salary of K500, 000.00 and currently paying K146, 850.00 as PAYE will
be paying a total of K166, 600.00 according to the proposed tax rates. The anticipated reduction
in tax revenue is projected at minimal levels due to increased PAYE revenues which will arise
from employed high income earners, thereby militating against the revenue drop.

We also believe that the tax loss from low and middle income earners will only be felt in the
short term as in the long-term, these measures which will increase taxpayer’s disposable incomes
will trigger increased demand for commodities which will have the result of increasing business
profitability, thereby increasing taxes collected from businesses. In addition, increased
commodity demand will result in more recruitment of labour, which will also mean more taxes
collected from increased number of employees.

Based on the 2008/2009 PAYE collection estimate of K23.2bn, which were determined from a
projected total annual salaries of K77.3bn, the proposed tax rates will have the effect of
increasing the estimated PAYE by almost K7.7bn as total annual PAYE will amount to
K30.93bn. However, as already described in detail above, the real revenue collections will
slightly drop due to the fact that most employed persons fall in the category of low and middle
income earners who will enjoy significant tax savings from the proposed rates.

**B. INTRODUCE PRESUMPTIVE TAX FOR SMALL SCALE BUSINESSES**

We propose the introduction of a presumptive income tax system for small scale informal
businesses which most studies reveal that they are very low compliant to payment of tax with a
very small fraction if any, paying taxes. The main reason for this low compliance level is due to
non-availability of mechanisms by the Malawian Revenue Authority to collect taxes from them,
despite such traders generating taxable incomes which are supposed to be liable to tax under the
A presumptive tax is tax based on notional or estimated business income, or some presumed values, for instance, tax based on turnover assets and number of employees, wealth or a combination of various factors.

Small scale business person refers to a person who carries on trade on his own account from which they derive income and include;

a) A hawker
b) a street vendor
c) a person who sells articles at a flea market or people’s market
d) a person who manufactures or processes articles in or from residential place
e) An individual who has not furnished a return for assessment of income in the most recent year.
f) Commuter minibuses operators
g) Taxicabs
h) Haulage trucks( such as used in ferrying sand, bricks in construction business)
i) Driving schools
j) Operators of hairdressing salons
k) Informal cross-border traders

Persons in the categories of (a-c) could be paying this tax when the trader pays rent to the local authority (town, city or disctrict assemblies) or other persons for their business premises. The presumptive tax could for example be at 10% of the rent charged by the local authority to the trader, as with the practice in Zimbabwe. Such recipients will be required to remit the collected amounts of tax to the Malawi Revenue Authority.

In regard to other above specified traders, specific industry related mechanisms could be identified of collecting this presumptive tax.
C. **INTRODUCTION OF TURNOVER TAX FOR SMALL SCALE FORMAL BUSINESSES**

A significant proportion of small scale formal businesses do not comply towards payment of taxes. The reasons for non-payment range from cash-flow problems, general unwillingness to pay taxes, to lack of adequate information on taxation laws and the sophistication of dealing with various types/forms of taxes.

Turnover Tax is a simple tax that will be intended for small businesses. The objective is to reduce the tax compliance and administrative burden by simplifying and reducing the number of returns that have to be filed by such businesses. A typical business may currently be liable for submitting the following to Malawi Revenue Authority, 1) monthly Value-Added Tax return (VAT), 2) Annual Income Tax return, and 3) Quarterly Provisional Tax. The simplified tax system will replace all these taxes with a simple Turnover Tax for small businesses i.e. businesses with a turnover not exceeding K12 million per annum (K1 million per month). A similar tax system is used in the Republic of South Africa (RSA).

With this turnover tax, tax compliance will be increased on the part of such small businesses as no complications will exist regarding what amount of tax to be paid by them, and will in turn increase Malawi’s domestic tax revenues.

D. **REVISION OF LIST OF EXEMPT GOODS FOR VAT PURPOSES AND REDUCTION OF VAT RATE**

We further recommend that a revision be made to the current list of exempt goods for Value Added Tax(VAT) purposes in order to include other necessities for the poor and the elderly, as one way of mitigating VAT injustices on the marginalized. Furthermore, we recommend the inclusion of solar and other alternative energy products on the list of exempt supplies in order to encourage use of better and environmentally friendly facilities in taking action against global warming and climate change. These revisions should also be supported by a reduction in the VAT rate from current 16.5% to 14%, in order to reduce tax burden on other taxable supplies of goods and services.
E. INCREASED TAX EDUCATION EFFORTS BY ADVOCANCY GROUPS

We recommend that in addition to Malawi Revenue Authority’s efforts to civic educate the taxpayers, more civic educating programs must be initiated by advocacy and other social justice groups. We believe that civic education efforts by MRA are not sufficient and mainly focus on taxpayers who are within the vicinity of towns. Uses of advocacy groups in tax education will also make taxpayers to be more receptive to the message as they will not be afraid that these groups will collect taxes from them unlike where MRA officers are used. Furthermore, these groups will be able to spread the message to everyone else including prospective business owners who will be able to have better information on taxes before venturing into their desired businesses. Currently, MRA tax education is mainly targeted to taxpayers who are already in business and their distribution of leaflets is only made to them.

F. IMPROVEMENT ON TAX COLLECTION ENFORCEMENT MEASURES

We strongly recommend improvements regarding tax collection enforcement measures; especially relating collection of withholding taxes on rental incomes, and requirements regarding submission of annual tax returns.

High amounts of revenues are lost from rental incomes, especially where residential properties are involved. The Taxation Act clearly creates obligations on tenants to deduct 10% withholding tax on rent income submissions to their landlords. The Act also imposes a 20% penalty on the value of rental amount due where a withholding tax system is not being observed by a taxpayer. Increased and improved enforcement will not only have the effect of increasing tax revenue collections from rental income, but will also enable Malawi Revenue Authority to have access to information which can be used in verifying tax returns submitted by the property owners at the end of each tax year.

Improved enforcement in regard to requirements of submitting annual tax returns will improve tax revenue collections; especially from the often non-compliant small and medium scale
A STUDY OF THE MALAWI TAXATION SYSTEM

business owners. Such annual tax returns would also provide a basis in identifying various businesses which the taxpayers would be compelled to disclose in their returns.

CONCLUSIONS

The Malawi taxation system just like any taxation system must strive on fairness as one of its pillars. The study has revealed that a lot need to be done to achieve equity and fairness within the system.

It is our hope that the results of this study will be accepted as being objective and representing taxpayer’s views and that the areas of injustices identified will be mitigated. We also express that one key limitation to the accuracy of the study results relates to the fact that only a sample of the taxpayer population were approached and contributed to the study. Nevertheless, we believe that the results indeed represent the opinions of the general countrywide taxpayer population.
CHAPTER 6

REFERENCES

1. Taxation Act, Chapter 41.01, Laws of Malawi


4. Zimbabwe Revenue Authority, Pay as You Earn (PAYE) and Value Added Tax (VAT) information, sourced from http://www.zimra.co.zw/index.cfm.

5. Tanzania Revenue Authority, Current tax rates, sourced from www.tra.go.tz.


9. 2008 Population and Housing Census preliminary report
APPENDIX 1: DATA COLLECTION QUESTIONNAIRE

CENTRE FOR SOCIAL CONCERN MALAWI TAX RESEARCH

SURVEY ON THE ASSESSMENT OF MALAWI TAX SYSTEM

Please tick in the box provided against your choice

1. Are you registered for tax?
   - YES □
   - NO □

2. What is the nature of your taxpayer status?
   - Employed □
   - Business □

3. Are you aware of the importance of paying taxes?  YES □
   NO □

4. How knowledgeable are you with tax matters?
   - Very knowledgeable □
   - Knowledgeable □
   - Somewhat knowledgeable □
   - Not knowledgeable □

5. What are your views regarding current income tax rates?
   - Too high □
   - High □
   - Fair □
   - Low □

6. Do you always pay tax on time?  YES □
   NO □
7. Are you aware that Malawi Revenue Authority is a government agency and that it collects taxes on behalf of government?

YES  NO

8. What are your views regarding MRA Officers’s approach to taxpayers?

Friendly  Unfriendly

9. How satisfied are you with government’s utilisation of taxpayers’ money?

Very satisfied  Satisfied  Not satisfied  No idea

10. What suggestions would you give to the income tax rates and income thresholds to make the Malawi tax system a good and fair system.

Please write your suggestions below:

................................................................................................................................................................

................................................................................................................................................................

11. What suggestions would you give to make Value Added Tax (VAT) fair especially on the elderly people of Malawi.

Please write your suggestions below:

................................................................................................................................................................

................................................................................................................................................................

THANK YOU FOR YOUR SUPPORT RENDERED TO OUR STUDY BY FINDING TIME AND FILLING THIS QUESTIONNAIRE
APPENDIX 2: DATA COLLECTION IN-DEPTH INTERVIEW QUESTIONS

CENTRE FOR SOCIAL CONCERN

SURVEY ON THE ASSESSMENT OF MALAWI TAX SYSTEM

In-depth Interview questions

1. How do you rate income tax rates in Malawi? Are they too high, high, fair or low?

2. How do you assess Value Added Tax (VAT) and its impact on taxpayers’ income?

3. What is it that you do not like about the fairness of the current Malawi taxation system?

4. What suggestions would you give to make the income tax system fair? In other words, what are the ways open to government be fair yet to raise enough revenue?

5. What suggestions would you give to reduce the burden of VAT on the elderly people of the country?
Appendix 3: Malawi Income tax summary of personal and other taxes as at 1 July, 2008

### 1.2 Taxation of Individual income

#### Taxation Act (Cap. 41:01)

<table>
<thead>
<tr>
<th>Taxable Persons</th>
<th>Exemptions</th>
<th>General tax rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax is payable on all income which arises within Malawi</td>
<td>In addition to the exemptions under the taxation of business income, the following exemptions apply to individuals</td>
<td>Annual income (MK)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Tax Rates</th>
<th>Exemptions, Allowances and Deductions</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 – 108,000</td>
<td>0</td>
</tr>
<tr>
<td>108,001 – 144,000</td>
<td>15</td>
</tr>
<tr>
<td>Over 144,000</td>
<td>30</td>
</tr>
</tbody>
</table>

#### Concept of income

The income of an individual includes remuneration, payments for services rendered, and other payments such as termination benefits. The taxable income is calculated as gross income (excluding exempted amounts and fringe benefits on which tax has already been borne by the employer) less any allowable deductions. Pensions are classified as separate source of income.

#### Withholding taxes

Non residents are taxed at 15 percent on gross income by withholding tax.

A withholding tax is deducted on domestic payments to a resident at the rates below. The tax withheld may be credited against the taxpayer’s final tax assessment, except for dividends where the withholding tax is considered final.

<table>
<thead>
<tr>
<th>Nature of payment</th>
<th>Rate of tax (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Royalties</td>
<td>20</td>
</tr>
<tr>
<td>Rents</td>
<td>10</td>
</tr>
<tr>
<td>Supplies under tender (above MK 60,000)</td>
<td>10</td>
</tr>
<tr>
<td>Fees and commissions</td>
<td>10</td>
</tr>
<tr>
<td>Carriage and haulage</td>
<td>10</td>
</tr>
<tr>
<td>Tobacco and other farm products</td>
<td>10</td>
</tr>
</tbody>
</table>
taxpayer’s principal residence;
(l) capital gains realised by an individual on the disposal of personal and domestic assets not used in connection with trade;
(m) gains from the sale of shares traded on the stock exchange if held for at least 1 year;; and
(o) up to MK 50,000 of any amount paid to an employee who has been made redundant, as well as an amount paid for voluntary termination.

**Deductible expenses**
In addition to deduction of expenses where applicable, individuals are entitled to the following deductions:
(a) professional subscription; and
(b) other expenses incurred to carry out a job.

### 1.3 Taxation of Capital

<table>
<thead>
<tr>
<th>Estate Duty Act (Cap. 43.02)</th>
</tr>
</thead>
<tbody>
<tr>
<td>An estate duty is levied on the estate in Malawi of every deceased person and in respect of foreign movable property in the case of those domiciled in Malawi.</td>
</tr>
<tr>
<td>The duty is levied on market value after deduction of debts due at the date of death</td>
</tr>
</tbody>
</table>

No tax is levied on estate valued at MK 30,000 or less.

The rates of estate duty are as follows:

<table>
<thead>
<tr>
<th>Value of estate (MK)</th>
<th>Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 – 30,000</td>
<td>0</td>
</tr>
<tr>
<td>30,000 – 40,000</td>
<td>4</td>
</tr>
<tr>
<td>40,000 – 80,000</td>
<td>5</td>
</tr>
<tr>
<td>80,000 – 140,000</td>
<td>6</td>
</tr>
<tr>
<td>140,000 – 200,000</td>
<td>7</td>
</tr>
<tr>
<td>200,000 – 400,000</td>
<td>8</td>
</tr>
<tr>
<td>400,000 – 600,000</td>
<td>9</td>
</tr>
</tbody>
</table>
### 2. Taxes on goods and Services

#### 2.1 VAT

**Customs and Excise Act (Cap. 42:02)**

<table>
<thead>
<tr>
<th>Taxable Persons</th>
<th>Exemptions</th>
<th>Tax rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>All businesses involved in importing, manufacturing or the provision of prescribed services must register as VAT taxpayers if the turnover in the current or ensuing 12 months will exceed MK 2 million.</td>
<td>The main exemptions are: (a) maize and many other unprocessed foodstuffs; and (b) petroleum, diesel and paraffin;</td>
<td>There are four statutory rates: (i) 16.5 percent applies to most taxed commodities, including electricity supplied to commercial premises; (ii) zero-rating applies to exports and other zero-rated goods.</td>
</tr>
<tr>
<td>Other businesses may register at the discretion of the authorities.</td>
<td>Many services are implicitly exempt (by the omission from the list of taxed services) including education, health and financial services.</td>
<td></td>
</tr>
</tbody>
</table>

#### Taxable transactions

VAT applies on goods imported into or Manufactured in Malawi and on the Following prescribed services:

- (a) professional services;
- (b) computer services;
- (c) services supplied by agents and brokers, excluding insurance and agricultural produce for export;
- (d) repairs of domestic appliances, vehicles and machinery;
- (e) building, electrical and plumbing contractors;
- (f) commercial and domestic electricity supply and telecommunication services;
- (g) hairdressing and beauty treatment, dry cleaning and laundry services;

In addition to exports, the following goods are zero rated:

- (a) pharmaceuticals;
- (b) fertilizers and insecticides;
- (c) some goods for the use of government;
- (d) animal feed;
- (e) many working vehicles;
- (f) black tea;
- (g) broken rice and grain sorghum;
- (h) laundry soap;
- (i) mosquito nets;
- (j) fresh and processed milk; and
- (k) capital goods and machinery used for manufacturing goods.
(h) landscaping and gardening services;
(i) secretarial agencies;
(j) advertising
(k) car hire and rental, including taxis;
(l) courier and security services;
(m) public entertainment;
(n) services provided by processing goods;
(o) accommodation and catering services
(p) satellite and cable television
(q) commercial transporters (excluding mini buses)

<table>
<thead>
<tr>
<th>2.2 Excise duties</th>
<th>Tax base</th>
<th></th>
<th>Tax rate</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>Customs and Excise Act (Cap. 42:02)</em></td>
<td>Excise duty is levied on specific manufactured goods on the ex-factory value (on domestically manufactured goods) or c.i.f. (on imports).</td>
<td></td>
<td>Excisable goods</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Alcoholic beverages</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Opaque beer</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Powers No. 1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Cigarettes</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Other tobacco products</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Petroleum</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Diesel</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Kerosene</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Jet fuel</td>
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<td></td>
<td></td>
<td></td>
<td>Other fuels</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Paraffin</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Petroleum jelly</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Passenger cars:</td>
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<td></td>
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<td>- up to 1,000 cc</td>
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<td>- 1,000 – 1,500 cc</td>
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<td></td>
<td>- 1,500 – 3,000 cc</td>
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<td></td>
<td></td>
<td>- above 3,000 cc</td>
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<td></td>
<td>Four wheel drive</td>
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<td></td>
<td></td>
<td>Double cabin pick-up</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Trucks</td>
</tr>
</tbody>
</table>
### 2.3 Customs duties
*Custome and Excise Act (Cap. 42:02)*

<table>
<thead>
<tr>
<th>Tax Base</th>
<th>Exemptions, Allowances and Deductions</th>
<th>Tax Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customs duties are levied on goods imported into Malawi calculated on the c.i.f. value. Malawi uses the Harmonized Tariff System.</td>
<td>Motor cycles</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>Yachts, pleasure vessels</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td>Electrical energy</td>
<td>20</td>
</tr>
<tr>
<td><strong>Other excisable goods:</strong></td>
<td><strong>Tax Rates</strong></td>
<td></td>
</tr>
<tr>
<td>- Wheat flour, fruit juices, textiles and fabrics, photocopying, typing and printing paper, some packing items, foot-wear, perfumes, furniture, toys and some seafood;</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>- Pocket lighters, smoking pipes, perfumes, carpets, textiles, human hair and wigs, clothing, and accessories made from fur skin;</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>- Precious stones and metals (except for industrial use), specific toiletries, cutlery, weapons and electro-mechanical domestic appliances;</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>- Electrical appliances</td>
<td>20</td>
<td></td>
</tr>
</tbody>
</table>

### Preferential duty rates
The tariff schedule allows for preferential tariff rates for imports originating in ACP States and COMESA countries. (SADC Preferential treatment effective only in 2006?)

### General duty rates
All general customs duties are imposed in the form of ad valorem rates and can be summarized in the following broad categories:

(i) low rates of 5 and 10 percent;  
(ii) an intermediate rate of 15 percent;  
(iii) a high rate of 30 percent.

### Duty drawback
There is duty drawback system in place.

Many products are exempt from customs duty.
for specified goods manufactured or processed in Malawi allowing a drawback of duty paid on materials and components used (either all or specified).

**Exemptions**
The law provides for suspensions, rebates, remissions, and refunds of duty in certain circumstances, and general exemptions from duty including inter alia goods imported for the use of the President.

3.0 Other Taxes

3.1 Stamp duty
*Stamp Duty Act (Cap. 43:01)*

Stamp duty is levied on a number of instruments, including agreements, bills of exchange, [bonds], leases and licenses, mortgages, and insurance policies.

No stamp duty is payable on instruments executed by the government and on all forms of securities.

Rates of stamp duty vary depending on the nature of the instrument and the Value thereof.

3.2 Motor vehicle taxes

Registration fees are levied at specific rates according to type of vehicle and weight.

MK [400]

3.3 Road levy

The road levy is for road construction and maintenance carried out by the National Road Authority.

MK 3.75 per litre
## APPENDIX 4: SUMMARY OF BUSINESS TAX RATES AND OTHER RELATED PROVISIONS

<table>
<thead>
<tr>
<th>Appendix</th>
<th>Malawi Income Tax Summary (As of July, 2008)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Taxes</td>
</tr>
<tr>
<td></td>
<td>Taxable Persons</td>
</tr>
<tr>
<td>1. Profit Taxes</td>
<td></td>
</tr>
<tr>
<td>1.1 Taxation of business income</td>
<td></td>
</tr>
<tr>
<td>Taxation Act (Cap. 41:01)</td>
<td></td>
</tr>
<tr>
<td>Income tax is payable on the net income of all corporations, companies and other operating entities unless explicitly exempted.</td>
<td>Income from the following is exempt:</td>
</tr>
<tr>
<td>(a) income of a public character from ecclesiastical, charitable and educational entities;</td>
<td>(b) approved provident funds, building societies and friendly societies;</td>
</tr>
<tr>
<td>(c) local authorities;</td>
<td>(d) employees' saving schemes;</td>
</tr>
<tr>
<td>(e) clubs, societies and bodies conducted for social welfare or civic improvement;</td>
<td>(f) non-commercial income of statutory corporations;</td>
</tr>
<tr>
<td>(g) land and agricultural banks; and investments attributable to provident and annuity funds</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Concept of income</td>
<td></td>
</tr>
<tr>
<td>Income includes all receipts and accruals, in cash or otherwise, if these arise from a source within Malawi.</td>
<td></td>
</tr>
<tr>
<td>The following are specifically included in the definition of income:</td>
<td>The following are specifically allowed under the Act</td>
</tr>
<tr>
<td>(a) rental income;</td>
<td>(a) bad and doubtful debts</td>
</tr>
<tr>
<td>Deductible Expenses</td>
<td></td>
</tr>
</tbody>
</table>

48
<table>
<thead>
<tr>
<th>Taxes</th>
<th>Tax Base</th>
<th>Exemptions, Allowances and Deductions</th>
<th>Tax Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>(b) interest and royalties;</td>
<td>(b) contributions up to certain limits to approved pension and provident funds;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(c) fees received in respect of services rendered;</td>
<td>(c) interest incurred in the production of income;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(d) premiums for the right to use or occupy land and buildings, plant and machinery or industrial property rights;</td>
<td>(d) any deductible expenditure incurred in the 18 months before setting up a ‘manufacturing’ business;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(e) capital gains from the sale of property;</td>
<td>(e) premiums paid for the use of land, buildings or industrial property rights, plant and machinery;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(f) income from investments other than equities in life assurance businesses;</td>
<td>(f) non-capital expenditure on experiments and research;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(g) lump-sum payments under a contract of employment or service;</td>
<td>(g) contributions to scientific or educational institutions connected with the taxpayer’s trade;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(h) amounts received from timber sales if growing costs have been claimed as deductions; and</td>
<td>(h) grants or scholarships for technical education;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) foreign exchange gains and losses which arise from a source in Malawi.</td>
<td>(i) donations to specific charities;</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(j) insurance premiums for insuring normal business risk;</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(k) legal fees incurred in production of income; and</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(l) contributions to the training funds set up under the TEVET Act</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Benefits in kind**

The value of benefits (e.g., housing, Motor vehicles, use of furniture) Provided by an employer, other than Government, to an employee with Taxable income in excess of MK 5,000 Results in a fringe benefit tax liability at The standard corporate tax rate on the employer and is not included in the employee’s taxable income.

**Nondeductible expenses**

The following are specifically disallowed expenses:

(a) domestic or private expenses;
(b) losses or expenses recoverable under insurance policies;
(c) any income tax or interest payable thereon;
(d) income transferred to a reserve fund or capitalised;
(e) expenses incurred on exempt income;
### Taxes

**Taxes**

- **Tax Base**
- **Exemptions, Allowances and Deductions**
- **Tax Rates**

The value of each benefit is generally calculated at cost though standard rates apply to certain specific items including the provisions of housing, a car and children’s education.

(f) contributions to non-approved pension, sickness, accident or unemployment funds;
(g) rent or cost of repairs to premises not occupied for the purpose of generating income; and
(h) expenses in respect of which a subsidy is received

### Depreciation allowances

Annual allowances are available for qualifying assets on a declining balance basis at the following rates:

(i) buildings, farm improvements, hotels 5%
(ii) industrial fencing 5%
(iii) farm fencing 10%
(iv) heavy machinery and installations 15%
(v) light machinery 10%
(vi) trucks and tractors 33.33%
(vii) light commercial vehicles 25%
(viii) motor vehicles 20%
(ix) computers 40%

### Other allowances

(a) **Initial allowance**

Available on capital expenditure during the year of acquisition at the following rates:

(i) buildings, farm improvements, hotels 10%
(ii) farm fencing 33.33%
(iii) heavy machinery and installations 20%
(iv) light machinery 20%
(v) trucks and tractors 20%

---

<table>
<thead>
<tr>
<th>Taxes</th>
<th>Tax Base</th>
<th>Exemptions, Allowances and Deductions</th>
<th>Tax Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxes</td>
<td>Tax Base</td>
<td>Exemptions, Allowances and Deductions</td>
<td>Tax Rates</td>
</tr>
<tr>
<td>-------</td>
<td>----------</td>
<td>--------------------------------------</td>
<td>-----------</td>
</tr>
<tr>
<td>(vi) automobiles forming part of a commercial hire fleet</td>
<td>20%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) Investment allowance</td>
<td>An additional deduction of 100 percent of Expenditure on fixed assets including industrial buildings, plant and machinery, and farm improvements. A 40 percent deduction is also allowed for used industrial buildings, plant and machinery.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(c) Training allowance</td>
<td>An allowance may be granted of 150 percent of the costs of training employees.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(d) Transport allowance</td>
<td>An allowance may be granted of 125 percent of the international outward Transport costs for exports.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(e) Export promotion</td>
<td>Under the Export Incentives Act, a registered exporter will be entitled to an income tax allowance of 4 percent of taxable income derived from exports. Under the Investment Promotion Act, certain exporters will be entitled to a tax allowance of 12 percent of export revenues for non-traditional exports.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Appendix 5: Summary of tax rates of selected neighboring countries

1. Botswana PAYE Tax rates

There is no distinction between married and unmarried individuals

Tax rates are based on residents or non resident.

A resident is an individual who is physically in Botswana for more than 183 days.

Tax Bands and rates for resident individuals are as follows:

<table>
<thead>
<tr>
<th>Band</th>
<th>Rate</th>
<th>MK equivalent (1Pula=K20.00)</th>
</tr>
</thead>
<tbody>
<tr>
<td>First</td>
<td>0%</td>
<td>K600000.00</td>
</tr>
<tr>
<td>Next</td>
<td>5%</td>
<td>K600020.00 to K1200000.00</td>
</tr>
<tr>
<td>Next</td>
<td>12.5%</td>
<td>K1200020.00 to K1800000.00</td>
</tr>
<tr>
<td>Next</td>
<td>18.75%</td>
<td>K1800020.00 to K2400000.00</td>
</tr>
<tr>
<td>Over</td>
<td>25%</td>
<td>K2400000</td>
</tr>
</tbody>
</table>

Tax Bands and rates for nonresident individuals trusts falling under section 14 (2) and the estates of deceased persons are as follows:

<table>
<thead>
<tr>
<th>Band</th>
<th>Rate</th>
<th>MK equivalent</th>
</tr>
</thead>
<tbody>
<tr>
<td>First</td>
<td>5%</td>
<td>K0.00 to K1200000.00</td>
</tr>
<tr>
<td>Next</td>
<td>12.5%</td>
<td>K1200020.00 to K1800000.00</td>
</tr>
<tr>
<td>Next</td>
<td>18.75%</td>
<td>K1800020.00 to K2400000.00</td>
</tr>
<tr>
<td>Over</td>
<td>25%</td>
<td>K2400000</td>
</tr>
</tbody>
</table>
2. **Tanzania monthly Tax brackets and tax rates**

<table>
<thead>
<tr>
<th>Band</th>
<th>Rate</th>
<th>MK Equivalent (10Shs=K1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Shs. 100000</td>
<td>0%</td>
<td>K10000.00</td>
</tr>
<tr>
<td>Next Shs. 100001 to 360000</td>
<td>15%</td>
<td>K10000.10 to K36000</td>
</tr>
<tr>
<td>Next Shs. 360001 to 540000</td>
<td>20%</td>
<td>K36000.10 to K54000.00</td>
</tr>
<tr>
<td>Next Shs. 540001 to 720000</td>
<td>25%</td>
<td>K54000.10 to K72000.00</td>
</tr>
<tr>
<td>Over Shs. 720000</td>
<td>30%</td>
<td>K72000</td>
</tr>
</tbody>
</table>

3. **Zimbabwe PAYE tax rates**

<table>
<thead>
<tr>
<th>Band</th>
<th>Rate</th>
<th>MK equivalent (1US$=K140.00)</th>
</tr>
</thead>
<tbody>
<tr>
<td>First US$ 1,375</td>
<td>0%</td>
<td>K192, 500.00</td>
</tr>
<tr>
<td>Next US$ 4,125</td>
<td>20%</td>
<td>K577, 500.00</td>
</tr>
<tr>
<td>Next US$ 5,500</td>
<td>25%</td>
<td>K770, 000.00</td>
</tr>
<tr>
<td>Next US$ 5,500</td>
<td>30%</td>
<td>K770, 000.00</td>
</tr>
<tr>
<td>Next US$16,500</td>
<td>35%</td>
<td>K2, 310, 000.00</td>
</tr>
<tr>
<td>Excess Over US$33,000</td>
<td>37.5%</td>
<td>K4, 620,000.00</td>
</tr>
</tbody>
</table>
Appendix 6: List of VAT exempt and zero rated supplies

List of exempt goods and services include the following:

a. Live animals
b. Animal products such as meat, edible meat offals, fish, natural honey, eggs
c. Vegetable produce in raw state
d. Water
e. maize
f. rice
g. cycles and carriages for disabled persons that are motorized or mechanically propelled
h. Petroleum products including paraffin
i. Printed books and newspapers
j. Mosquito and sand-fly nets
k. Ambulances, tractors and other goods carrying vehicles
l. Medical equipment
m. Educational services
n. Life insurance services
o. Banking and insurance services
p. Postal services
q. Funeral services such as provision of vehicles, coffins, wreaths and tombstones, and
r. Transport of exports.

Zero-rated supplies include:

a. Exported goods and services
b. fertilizer,
c. Condoms,
d. Books,
e. Salt,
f. Laundry,
g. Pharmaceutical products,
h. Soap