



# TAX INCENTIVES IN MALAWI

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# KEY TERMS AND DEFINITIONS

<b>Capital Expenditure</b>	Funds used by a company to acquire or upgrade physical assets such as property, industrial buildings or equipment. It is often used to undertake new projects or investments by the firm. These expenditures can include everything from repairing a roof of a building, to purchasing a piece of a equipment, or building a brand new factory.
<b>Commercial Building</b>	a building that is used for commercial purposes
<b>Cost Insurance Freight</b>	The combination of the purchase price of goods, the cost of the carriage of goods to a port of destination, and the insurance cost of the good while in transit.
<b>Customs Duty</b>	A tax levied on imports (and, sometimes, on exports)
<b>Direct Taxes</b>	A tax, such as income tax, that is levied on the income or profits income, property, or wealth of individuals or companies who pays it, rather than on goods or services. Direct taxes are governed by the Taxation Act -Chapter 41:01 of the Laws of Malawi
<b>Domestic Tax</b>	tax levied on companies doing business and individuals living in a specific country
<b>Domestic Excise Tax</b>	A percentage levied on the manufacture, sale, or use of locally produced goods (such as alcoholic drinks or tobacco products).
<b>Excise Duty</b>	A Tax charged on the imports of certain products i.e. alcohol, tobacco products and cosmetics
<b>Fringe Benefit Tax</b>	tax charged on the total taxable value of such benefits enjoyed by the employee but payable by the employer
<b>General Tax Incentives</b>	are incentives which are applicable to every tax payer
<b>Import Duty</b>	A tax collected on imports and some exports by the customs authorities. This tax is based on the value of goods called ad valorem duty or the weight, dimensions, or other criteria of the item such as its size. Also referred to as customs duty, tariff, import tax and import tariff
<b>Import Value Added Tax</b>	Tax charged on imported goods and services. VAT is calculated as a percentage of the value of the imported goods, consisting of the product value, the freight & insurance costs, import duty paid, on certain products excise duty paid, .
<b>Income Tax</b>	Tax levied on the Taxable Income of a taxpayer from a source within or deemed to be within Malawi.
<b>Loss carried forward</b>	Losses that are carried forward for a specific period from the year they are incurred as stipulated in the Taxation Act.
<b>Non-Resident Tax</b>	tax for non residents on income of a revenue nature remitted outside Malawi
<b>Pay As You Earn</b>	A payment method in which an employer is required by law to deduct Income Tax from an employee's taxable wages or salary.
<b>Pre-business expenses</b>	Expenses incurred prior to commencement of trade as a person or business entity is preparing to launch their business.
<b>Provisional Tax</b>	an estimated total amount of Income tax payable in advance in quarterly installments
<b>Revenue expenses</b>	Shorter-term expenses required to meet the ongoing operational costs of running a business, and therefore they are essentially identical to operating expenses.
<b>Specific Tax Incentives</b>	Incentives which are applicable to a specific sector.
<b>Taxation at Source</b>	Malawi taxation is based on source principle while in certain other countries taxes are levied based on residence. Source entails income generated within the geographical boundaries of Malawi. Taxation at source therefore entails that all income generated in Malawi is taxed in Malawi.
<b>Value Added Tax</b>	VAT is a general tax on consumption expenditure that is levied on the 'value added' that has been created at various stages in the production and distribution chain.
<b>Withholding Tax on Dividends</b>	final tax charged on dividends
<b>Withholding Tax</b>	a method of collecting Income Tax on specified payments

# 1.

# INTRODUCTION

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Malawi offers a wide range of tax incentives with the aim of encouraging development, enhancing output, earning and saving foreign exchange, and expanding employment opportunities. These tax incentives are aimed at enabling business establishments to grow, and expand their operations, thereby contributing to the overall social-economic development of Malawi.

The incentives fall under two main categories of Taxes and these are, **Customs & Excise Taxes** and **Domestic Taxes**.

**Customs & Excise Taxes** are taxes imposed at a rate percent of the Cost, Insurance and Freight value of imported goods (i.e. CIF). Customs & Excise Taxes comprise of the following:-

1. Import Duty
2. Import Excise
3. Import Value Added Taxes (VAT) and
4. Export duty

The Malawi Customs & Excise Tariff book provides for various sector specific tax incentives through Customs Procedure Codes which give declaration of goods and conditions eligible for tax exemption.

**Domestic Taxes** are taxes collected from income generated within the geographical confines on the country. These include the following:-

1. Income Tax
2. Value Added Tax
3. Fringe Benefit Tax
4. Non-Resident Tax
5. Withholding Tax on Dividends
6. Domestic Excise

Domestic Tax Incentives in Malawi are mainly in form of tax exemptions against the levied taxes.

## 2. PRIORITY INDUSTRY STATUS

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1. The Malawi Government has, through the Taxation (Priority Industries) Regulations 2013, designated two (2) industries as Priority Sectors, and these are:-
  - (i) Agro-processing Sector; and
  - (ii) Electricity Generation, Transmission and Distribution Sector.
2. The companies that are accorded the Priority Industry status are given 0% Corporate Income Tax rates for a period not exceeding 10 years. The companies are also given an exemption of Duty on importation of capital goods and building materials as may be prescribed.
3. In order to qualify for the incentives under the Priority Industries Status, the following conditions should be met:-
  - (i) Agro-Processing Industries
    - Minimum investment capital of USD 500,000 or its kwacha equivalent for 100 percent local shareholding.
    - Minimum investment capital of USD 5 million or its kwacha equivalent for foreign shareholding.
    - 35 percent value addition
  - (ii) Electricity Generation, Transmission and Distribution Industries
    - Minimum investment capital of USD 30 million for any type of shareholding
4. In order to benefit from the Priority Industries Status incentive, the procedure is as follows:-
  - (i) The business entity should submit an application to the Commissioner General of MRA requesting to be considered for the Priority Industry Status. The application should include the following:-
    - Application Letter
    - Business Plan (the recommended Business Plan outline is obtainable from Malawi Investment and Trade Centre as well as Malawi Revenue Authority)
    - Certificate of Incorporation (only entities incorporated after 1st July 2013 are considered for Priority Industry Status)
    - Memorandum and Articles of Association
    - Malawi Investment and Trade Centre Investment Certificate
    - A Tax Identification Personal Number
  - (ii) Upon receipt of the application, a Tax Incentives committee assesses the application and makes recommendations to the Commissioner General accordingly.
  - (iii) Specifically the business plan will be assessed based on the following:-
    - Shareholding Structure
    - Level and Longevity of Investment
    - Investment in Plant and Machinery

- Employment of Nationals (skilled and non-skilled)
- Strategic Importance and Forex Generation

**Note 1:** Submission of application for Priority Industry Status does not entail automatic access to the Priority Industry Status Incentives

**Note 2:** Priority Industry incentives are not given to an entity that has already accessed other incentives similar in nature to the incentives prescribed by the Regulations.

**Note 3:** Exemption of Duty is subject to approval by he Commissioner General.

## 3. CUSTOMS & EXCISE TAX INCENTIVES

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Customs & Excise Tax Incentives come in two (2) forms, i.e. General Incentives, and Specific Incentives. General Incentives are applicable to any Malawian tax-payer upon importation of a product. On the other hand, Specific Customs & Excise Incentives apply to those approved to operate in a specific sector under agreed conditions.

### 3.1 General Customs & Excise Tax Incentives

Malawi's General Customs & Excise Tax Incentives are in the form of duty exemptions on machinery targeting different sectors of the economy. These exemptions are offered in four (4) exemption approaches as follows:-

1. Import duty and import VAT exemption on importation of most Machinery.
2. Import duty exemption while VAT remains payable at 16.5% on importation of specific type of Machinery.
3. Import duty and import VAT exemption on importation of special purpose motor vehicles other than those principally designed for transport of persons or goods. Examples of special purpose vehicles are concrete mixer lorry, mobile drilling vehicles, etc.
4. Solar products are import duty free while VAT remains payable at 16.5%. Examples of such solar products include solar batteries and solar energy lamps.

**Note:** An importer must consult the One Stop Service Centre's Customs and Tax Specialist to determine the applicable exemptions for specific types of machinery.

### 3.2 Specific Customs & Excise Tax Incentives

Specific Customs & Excise Tax Incentives in Malawi cover ten (10) sectors and these are, the Construction Sector, Energy Sector, Tourism Sector, Agriculture Sector, Transport Sector, Mining Sector, Education Sector, Health Sector, Manufacturing Sector, and Export Processing. Detailed information on the incentives is as follows:-

#### 3.2.1 Construction Sector

1. Duty and VAT free importation of Crane Lorries, Concrete Mixer Lorries, Mobile Drilling Derricks and Track Laying Tractors.

#### 3.2.2 Electricity Generation and Distribution Sector

1. Duty free importation but VAT payable at 16.5% on Electricity Generation equipment such as fuses, transformers, sling, ring main unit, insulators, galle chain equipment, conductors, surge arrestors, column duplex, AAC/PVC and electricity supply meters.
2. Duty free importation but VAT payable at 16.5% on energy saver bulbs, solar batteries, solar battery chargers, energy lamps, generators and inverters.

### 3.2.3 Tourism Sector

1. Investors in the tourism sector access free import duty, free import excise and VAT free importation on the following goods:-
  - (i) Glass, China porcelain earthenware and stone articles of table ware, enamel and hollowware for table use electro plated nickel – silver and pated ware, knives, forks spoons and similar articles for cutlery.
  - (ii) Industry catering equipment, motor boats scuba diving, jet skis, kayaks, wind surfers, pedals, air conditioners, generators, gym equipment, message equipment, industrial washing machines, bar fridges, sauna, hot steam baths.
  - (iii) Off-road game/scenery viewing motor vehicles specially designed for safari purposes
  - (iv) Three goods carrying vehicles , except used motor vehicles imported every five years

**Note for Incentive 1: In order for the items to benefit from the exemption, the items should be marked linen etched stamped or in any manner marked with the name of the hotel.**

2. Further to accessing incentive (1) above, for hotels, Lodges and Inns with 50 rooms and above the same duty exemptions are applicable on the following:-
  - (i) Furniture and furnishings
  - (ii) Two (2) new passenger carrying motor vehicles except used motor vehicles imported every five (5) years i.e. shuttle buses
3. Further to accessing incentive (1) above, materials and equipment for the establishment of a conference centre of seating capacity of 200 people being:-
  - (i) Public address system, video conferencing equipment, television screens, amplifiers, LCD equipment and industrial catering and bar equipment and indelibly engraved, itched, stamped or in any other manner marked with the name of the hotel, lodge or inn.

**Note for Incentive 3: In order for the items to benefit from the exemption, the entity should also be operating a hotel or lodge.**

### 3.2.4 Agriculture Sector

#### Animal Breeding

1. Import duty and VAT free on importation of livestock meant for breeding such as live bovine animals, live swine, sheep and goats.

**Note: This incentive will be accessed after prior recognition from Principal Secretary of the Ministry of Agriculture, Irrigation and Water Development.**

#### Irrigation

1. Import duty, import excise and VAT free on importation of the following goods for direct use in irrigation:-

PVC Pipes, Asbestos Pipes/Rubber Seals, Galvanized Pipes, Elbow, Sprinklers, Drainers, Control Valves, Solvent Cement, Diesel Engine Ranging From 12kw-17 Kw with Tubes, Pressure Gauges and Nozzles Imported by a Farming Entity.

**Note: This incentive will be accessed after prior recognition from Principal Secretary of the Ministry of Agriculture, Irrigation and Water Development.**

### **Horticulture Production**

1. Exemption of duty, import excise and VAT free on importation of the following products and equipment:-

Seeds, Cuttings, Seed Netting Greenhouse Structure, Climate Control Equipment, One Generator Set, Water Pump Or Borehole, Flower Power Lights, Pump, Electrical Engines, Diesel Engine for Irrigation with Tubing, PVC Piping, Valves, Sprinkler System, Irrigation Filters/Nozzles, Pressure Regulators, New Refrigerated Trucks per Five Years, Cold Rooms, Strapping Materials and Clips, Metal Wires, Strings Elastic Bands, Processing Equipment, Bag Strikers, Laboratory Equipment, Chemical and Reagents, Soil Testing Kits, Moisture Testers, Graders, Chemicals Rose Cutter, Spray Equipment and Fumigation Equipment.

**Note: This incentive applies to goods intended for export only and upon prior approval by the Minister of Industry and Trade.**

### **Fishing Industry**

1. Import duty, import excise and import VAT free on importation of the following Equipment and Machinery:-

Machinery, Plant, Laboratory Equipment and Materials, Aerators, Pumps, Blowers, Diamond Mesh, Nets, Measuring Equipment, Separators, Specialized Tanks and Diffusers, Boat Engines and Trawlers for Deep Sea Fishing.

**Note for Incentive 1: In order to access this incentive, the Investor should be issued with a letter of recommendation from the Department of Fisheries.**

2. Duty free importation but VAT payable at 16.5% of fishing vessels, factory ships and other vessels for processing or preserving fishery products.

### **Poultry Farming**

1. Duty free and VAT free importation of machines for cleaning, sorting or grading eggs
2. Duty free and VAT free importation of machinery for preparing animal feeding stuffs, poultry incubators.

### **Other Agricultural Goods**

In addition to the incentives for the subsectors above, the following are some of the goods and equipments which are essential for farming:-

1. Duty Free and VAT free importation of agricultural goods: fertilizers, pesticides, herbicides.
2. Duty Free and VAT free importation of agricultural equipments: ploughs harrows, scarifiers, cultivators, weeders, manure spreaders and fertilizer distributors and milking machinery.

## **3.2.5 Transport Sector**

### **Road Transport**

1. For Buses: Import duty, import excise and import VAT free on importation of new buses and buses used for a period not exceeding five (5) years of a seating capacity of forty five (45) persons or more persons including the driver.

2. For Minibuses: Import duty, import excise and import VAT free on importation of new minibuses and minibuses used for a period not exceeding five (5) years of a seating capacity of eleven (11) to forty four (44) persons or more persons including the driver.
3. For Trucks : Import duty and VAT free on new trucks and trucks used for a period not exceeding fifteen years of 15 tonnage or more capacity but attracts 5 % import excise. The same trucks used for a period exceeding fifteen years attracts 20 % import excise

### **Rail Transport**

1. Import duty free and VAT free on importation of Railway materials.

### **Air Transport**

1. Duty free and VAT free on importation of aero planes and other aircrafts of unloaded weight exceeding 2000 kg.
2. Duty free and VAT free on importation of equipment and materials for in-flight use in catering, hygiene or for similar purposes (only applicable for international scheduled services)

### **3.2.6 Export Processing Zone Scheme**

1. Exemption of all duties (Import, Excise and VAT on capital machinery, equipment, and raw materials directly used in the production of goods for export. 10 % of the produced goods is allowed to be sold locally after seeking approval from Ministry of Trade and Industry

**Note: In order to access this incentive, the Investor should be issued with an Export Enterprise Certificate from the Ministry of Industry and Trade.**

### **3.2.7 Exploration and Mining Sector**

1. Duty free and VAT free on importation of specialized goods for use in mining, such as machinery plant and exploration equipment.

**Note: A licence by the Ministry of Mines, Energy and Natural Resources is a prerequisite to accessing this incentive.**

### **3.2.8 Education Sector**

1. Duty and import excise free clearance and VAT exemption on importation of School stationery, instruments, apparatus, appliances and other tuition requisites including specialized furniture for use in the classroom, workshop or laboratory, athletic and sports goods, solar panels and accumulators for tuition purposes.
2. Duty and import excise free clearance and VAT exemption on importation of photocopying machines, building materials, pianos, organs, keyboards and computers for pre-school play groups.

**Note: A licence from the Principal Secretary of the Ministry of Education is required to access this incentive.**

3. Books of all types are import duty and VAT free.

### 3.2.9 Health

1. Duty, excise, and VAT free on importation by Hospitals, Nursing Homes, Clinics, Surgeries, and Dispensaries of the following items:-

Instruments, Apparatus, Appliances and Requisites including parts thereof and including specialized furniture solar panels, accumulators, surgical gloves; diagnostic and laboratory reagents for use in the diagnosis or treatment of diseases or infections of humans or animals.

**Note for Incentive 1: in order to qualify for this incentive, the health institution has to be registered and approved by the Principal Secretary for the Ministry of Health.**

2. Duty and VAT free on importation of Medical, surgical, dental and sight testing instruments.

### 3.2.10 Manufacturing Sector

#### Industrial Rebate Scheme

The Industrial Rebate Scheme applies to import and excise duty exemption of raw materials for designated manufacturing industries, but VAT is payable at 16.5%. However, raw materials for the manufacture of fertilizer, medicaments and pharmaceuticals are both import and VAT free under the scheme.

1. In order to qualify for the incentives under the Industrial Rebate Scheme, the following conditions should be met:-
  - (i) The manufacturing entity should be registered as an operator under the Industrial Rebate Scheme as detailed under 2 below.
  - (ii) Plant and machinery must be in place at the premises.
  - (iii) Value addition of 20% minimum<sup>1</sup>. Determination of the value addition is based on assessment of production cost. The investor should therefore submit this information to Malawi Revenue Authority (MRA) prior to benefiting from the Industrial Rebate Scheme.
2. The scheme lists the specific type of industries that would benefit for exemption. In order to benefit from the Industrial Rebate Scheme the procedure is as follows:-
  - (i) If the industry is not already under the listed industries in the scheme, the investor should submit an application to the Commissioner General of MRA for inclusion of the new industry.
  - (ii) If the industry already exists under the listed industries in the scheme, and the manufacturing entity's raw materials are not presently provided for under the scheme, the investor should firstly submit an application to the Commissioner General of MRA to be registered as an operator under the scheme. After being registered as an operator, the investor should then submit an application for inclusion of the additional raw materials for that specific industry.
  - (iii) If the industry is already under the listed industries in the scheme, and the manufacturing entity's raw materials are presently provided for under the scheme, the investor should submit an application to the Commissioner General of MRA to be registered as an operator under the scheme.

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<sup>1</sup> The minimum threshold is still 20 % regardless of the SADC 35 % requirement

## 4. DOMESTIC TAX INCENTIVES

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Domestic Tax Incentives are in two (2) forms, i.e. General Incentives, and Specific Incentives. General incentives are incentives which are accessible by every taxpayer operating as a 'business person' or business entity' in the country. On the other hand, Specific Domestic Tax Incentives are sector specific and are accessible by a taxpayer operating as a 'business person' or 'business entity' in that particular sector.

### 4.1 General Domestic Tax Incentives

There are 4 General Tax Incentives in Malawi and these are as follows:-

#### 1. Losses are carried forward up to 6 years for businesses.

- (i) Losses incurred by the business are carried forward for a maximum period of six years from the year in which they were incurred.
  - This provision allows an investor to carry forward business losses and factor in the previous years' losses into current years' profits. This results in an overall reduction of the tax liability at the time the business starts making profits, hence working capital is not adversely affected.

#### 2. Initial and annual allowances at various rates are granted besides the depreciation (annual) allowances.

These are essentially Capital Allowances allowable on staff housing specifically for the agriculture sector. A detailed explanation of the operationalization of the claim is as follows:-

- (i) Capital Allowances allow the loss of value of a business's capital items to be treated as a current expenditure and thereby be used in the assessment of a business's taxable income<sup>1</sup>.
  - This provision makes the loss of value of a capital item become an acceptable expenditure and is used to offset the gross profit, thereby reducing the total taxable income for Corporate Income Tax obligations.

- (ii) There are 3 different forms of capital allowances, as follows:- Initial Allowances, Investment Allowances, and Annual Allowances.

Initial Allowance is given to the tax payer in the first year after the tax payer has claimed the allowance at the end of the year upon submission of financial statements.

Annual Allowance is given to the tax payer every year from the first year for the lifespan of the capital asset.

Investment Allowance is given to the tax payer in the first year only.

Please refer to table 7 and table 8 in section 3.4 for specific rates and corresponding capital items.

**Note 1: Initial or Investment Allowances are only claimed once in the first year of use of the capital asset.**

**Note 2: No Investment Allowance can be claimed when Initial Allowance has been claimed. This entails that a business entity can only claim either Initial Allowance or Investment Allowance.**

**Note 3: Annual allowance is claimed at the end of each year, for the lifespan of the capital asset.**

**Note 4: Investment Allowance is not applicable as a General Incentive**

(iii) In order to benefit from this incentive the business entity is supposed to submit a return of income attaching the capital allowances schedule at the end of the financial year

**3. Commercial Buildings with a construction cost of MK 100 million or above, are subject to an Annual Allowance of 2.5%**

These are essentially Capital Allowances allowable on staff housing specifically for the agriculture sector. A detailed explanation of the operationalization of the claim is as follows:-

*For detailed explanation of capital allowances, please refer to section 3.1.*

**Note 4: Only claims on Annual Allowance are allowable for the case of Commercial Buildings of MK100 million in value and not Initial and Investment allowances.**

(i) In order to benefit from this incentive the business entity is supposed to submit a return of income attaching the capital allowances schedule at the end of the financial year.

4. **A claim of 50% allowance of social contributions** paid directly into the building of a public hospital or school, or the sponsoring of youth sporting development activities. Where a tax payer wants to fund corporate social activities, they can claim 50% of the expenditure. Taxable expenses are reduced by 50% of the donation. As long as the taxpayer has a record of the donation and indicates on the tax return a claim of the tax allowance.

## **4.2 Specific Domestic Tax Incentives**

Specific Tax Incentives in Malawi cover 4 sectors, the Manufacturing Sector, the Export Sector, the Agriculture Sector, and the Mining Sector.

### **4.2.1 Manufacturing Sector**

**1. Pre-business expenses of up to 18 months are allowable expenses**

- (i) 'Pre-business Expenses' are expenses incurred prior to commencement of trade as a person or business entity is preparing to launch their business.
- (ii) 'Allowable Expenses' are acceptable current expenditures for purposes of operating the business e.g. salary of an employee in the business.
- (iii) 'Up to 18 months' entails all expenses incurred 18 months prior to the commencement of production or trading.
  - This provision allows an investor in the manufacturing sector to claim expenses incurred '18 months prior to commencement of production' against income, thereby reducing the Corporate Income Tax paid.

**2. Losses are carried forward for six years to encourage investment in profitable business ventures**

(ii) Losses incurred by the business are carried forward for a maximum period of six years from the year in which they were incurred.

- This provision allows an investor to carry forward business losses and factor in the previous years' losses into current years' profits. This results in an overall reduction of the tax liability at the time the business starts making profits, hence working capital is not adversely affected.

**3. Capital Allowances are allowable on various capital items for the manufacturing sector.**  
Covering investment , initial and annual allowances

*For detailed explanation of capital allowances, please refer to section 3.1.*

Please refer to table 7 and table 8 in section 3.4 for specific rates and corresponding capital items.

**4.2.2 Export Sector**

Domestic Tax Incentives for the export sector are provided for under the Export Incentives Act.

**1. 25% export allowance for non-traditional exports as outlined in the Export Incentives Act.**

- (i) 'Export Allowance' entails an allowance given to a taxpayer who is an exporter calculated on the taxable income of his business.
- (ii) For a business person to qualify for this incentive, they have to be registered as an exporter
- (iii) 25% of the taxable income (i.e. net profit) is acceptable as expenditure, therefore this entails 25% of the taxable income will not be subjected to Corporate Income Tax.
  - This provision reduces the amount of Corporate Income Tax paid by the Business Entity.

**2. 25% international transport allowance for nontraditional exports**

- (i) 'International Transport Allowance' entails an allowance claimed by the taxpayer who is an international transporter over and above the expenses incurred during the year.
- (ii) Nontraditional Exports are exports excluded from the list of Traditional Exports outlined in the Export Incentive Act.
- (iii) This incentive is applicable only to international transportation of nontraditional exports
- (iv) A person engaged in mining operations shall not be eligible to claim any export allowance or any transport allowance for goods, materials or products exported from Malawi
- (v) International transporters of nontraditional exports claim additional 25% of the international transport costs incurred as an acceptable expenditure for that particular year. It is computed by including together with total expenses, 25% of costs incurred during international transportation of nontraditional exports, thereby ultimately increasing expenditures and reducing the amount of taxable income (i.e. net profit)
  - This provision reduces the amount of Corporate Income Tax paid by the Business Entity.

**Note 1: This incentive is accessible to business entities involved in transportation.**

**Note 2: Exporting entities, that also have their own transportation costs can also access this incentive**

**3. Exports are zero-rated for purpose of Value Added Tax.**

This implies that exporters can claim input VAT in the course of production. A detailed explanation of the operationalization of the claim is as follows:-

- (i) Value Added Tax (VAT) is a general tax on consumption expenditure that is levied on the 'value added' that has been created at various stages in the production and distribution chain. This tax is applied on a wide range of goods and services.
- (i) There are 2 rates at which VAT is charged, i.e. Standard Rate and Zero-Rate
  - Standard rate is used for supplies that are charged 16.5% VAT
  - Zero-rated supplies are charged 0% VAT
  - Exempt supplies are not charged VAT
- (i) There are 2 types of VAT that are charged by business entities on purchased items and these are:-
  - Input VAT is tax charged when one is purchasing items
  - Output VAT is tax charged when one is selling items
- (ii) Exporters claim from MRA input VAT on standard rated supplies and zero rated supplies.
- (iii) Operationally, for Standard rated VAT an exporter will claim input VAT and offset it against output VAT, and remit the balance to MRA
- (iv) Operationally, for Zero-rated VAT an exporter claims input VAT and since output VAT is zero, there is an excess and in such a scenario, the exporter claims a refund from MRA
- (v) In order to be able to claim VAT, a 'business person' or business entity needs to be registered for VAT.
  - Compulsory VAT Registration - business entities with an annual turnover of at least MK10 million have to register for VAT
  - Voluntary VAT Registration - business entities with annual turnover of less than MK10 million and want to claim VAT register for VAT voluntarily
  - Those trading in VAT exempt supplies (goods and services) do not have to register for VAT

**Note: This zero rate VAT on exports applies to any taxpayer engaged in the export of Malawi produced goods indicated by proof of export**

#### **4.2.3 Agriculture Sector**

- (i) Claim on capital expenditures are provided for the agriculture sector in relation to the construction of dams, dykes and land preparation are claimable. In this incentive the taxpayer is eligible to claim the full cost on the dam, dyke or land preparation. Capital expenditure entails an element of improvement of a capital item. Revenue expenditures are expenses incurred in order for one to generate revenue.

(ii) For special traders and cases as in the agriculture sector, some capital expenses are treated as acceptable expenses and will therefore be used to reduce net profit and thus reduce income tax.

- This provision reduces income tax payable by the Business Entity.

Growers of tea, coffee, tobacco, sugar, cocoa or such other crop as the Minister may approve, at a plantation level are recognized as manufacturers which means they can claim all incentives available to a manufacturer. A plantation is a large piece of land (or water) usually in a tropical or semitropical area where one crop is specifically planted for widespread commercial sale and usually tended by resident laborers.

### **1. Annual and Initial allowances on staff housing in the agriculture sector is claimable**

These are essentially Capital Allowances allowable on staff housing specifically for the agriculture sector. A detailed explanation of the operationalization of the claim is as follows:-

- (i) The capital allowances covers Initial Allowances, Investment Allowances, and Annual Allowances.

*For detailed explanation of capital allowances, please refer to section 3.1.*

Please refer to table 7 and table 8 in section 3.4 for specific rates and corresponding capital items.

#### **Note 4: Investment Allowance is not applicable to the Agriculture Sector**

- (ii) In order to benefit from this incentive the business entity is supposed to submit a return of income attaching the capital allowances schedule at the end of the financial year.

### **4.2.4 Mining Sector**

#### **1. The whole capital expenditure on plant and machinery is claimable in the first year of operation.**

A detailed explanation of the operationalization of the claim is as follows:-

- (iii) Capital expenditure, or CapEx, are funds used by a company to acquire or upgrade physical assets such as property, industrial buildings or equipment.

- (iv) Capital expenditure is treated as revenue expenditure and is used to offset the gross profit, thereby reducing the total taxable income for Corporate Income Tax obligations.

In order to benefit from this incentive the business entity is supposed to submit a return of income attaching proof of capital expenditure at the end of the financial year.

**Note: Those operating in this sector are expected to register but that is not the prerequisite to enjoying this incentive**

### 4.3 Summary of Domestic Tax Incentives

This section presents a summary of the domestic tax incentives that have been detailed in sections 3.1 and 3.2. Table 1 presents a summary of Income Tax Incentives, and Table 2 presents a summary of exemptions from income taxes.

**Table 1: Summary of Income Tax Incentives**

	Item	Description	Claimable Rate	Reference
1.	<b>Pre-business expenses for manufacturers</b>	In the course of establishing the business	Expenses up to 18 months before commencement of the business	Section 41 of the Taxation Act
2.	<b>Export allowance</b>	Allowance on taxable income on non-traditional exports (i.e. not un manufactured tobacco and tobacco refuse, tea, coffee and cane sugar )	25% of taxable income from export sales	Section 14 of Export Incentives Act and Section 36A of the Taxation Act
3.	<b>International Transport Allowance</b>	Allowance on international transport costs incurred by the taxpayer for his non-traditional exports	Additional 25% of international cost	Section 41B of the Taxation Act
4.	<b>Tax holiday</b>	Companies operating in priority industry so designated by the Minister of Finance	0% not exceeding 10 year period	Eleventh schedule of the Taxation Act
5.	<b>Initial annual and Investment allowance</b>			See the table below on Capital allowance
6.	<b>Other tax incentives</b>	(i) Duty free importation of qualifying capital goods used in manufacturing, tourism, mining, horticulture, information Technology, and telecommunication (ii) For manufacturing, duty free benefit also applies to raw materials (iii) VAT levelled at 16.5% is reclaimable (iv) Specific goods are VAT exempt or zero rated (v) Industrial rebate scheme: qualifying industries can import raw materials duty free		

**Table 2: Exemptions from Income Tax**

	Item	Description
1.	<b>Capital Gains and Capital Losses</b>	(i) Transfer of capital assets between spouses or between former spouses (ii) Transfer of capital assets from an individual to a trust (iii) On disposal of a principal residence (iv) From shares held on the Malawi Stock Exchange for more than one year. (v) On disposal of personal and domestic assets. (vi) (realised by an individual not used in connection with any trade)
2.	<b>Other</b>	(i) Severance pay of up to K50,000 (only applicable when it is due to redundancy or retrenchment) (ii) Interest up to K10, 000 (for individuals)

## 4.4 Schedule of Selected Domestic Tax Rates

The following is a schedule of selected domestic tax rates in Malawi and includes the following:- Income Tax, Withholding Tax, Fringe Benefit Tax, Value Added Tax, Capital Allowances, and Annual Allowances Fixed by the Commissioner General of MRA. Detailed information pertaining to each of these provisions is as follows:-

### 4.4.1 Income Tax

Tax levied on the Income of an individual or a business entity which includes the total amount in cash or otherwise received by or accrued to a person or a business entity from sources within Malawi, or deemed to be within Malawi. Table 3 presents information on various tax rates levied on Corporate Income and Personal Income.

**Table 3: Summary of Income Tax Rates**

	Tax Source	Descriptions	Rates
1.	Corporate Income Tax (CIT)	Domestic Incorporated Companies	30%
		Foreign Incorporated Companies	Add 5% to rate of domestic company
		Priority industry	0% CIT for a period not exceeding 10 years
		Export Processing Zone Companies	30%
		Insurance companies	21%
		Trusts and educational institutions	25%
		Pension funds	15%
		Ecclesiastical, Charitable or educational institutions of a public character or of trusts	30%
2.	Personal Income Tax - Pay as You Earn (PAYE)	First K20, 000/month	0%
		Next K5, 000	15%
		Excess over K25, 000	30%

### 4.4.2 Withholding Tax

Withholding Tax is an advance payment of Income tax deducted at source on specific payments. The tax is deducted by the entity making the payment at the time payment is made. Table 4 presents the withholding tax rates depending on the source of the income.

**Table 4: Summary of Withholding Tax Rates**

	Tax Source	Descriptions	Rates
1.	Final Income Taxes		
a.	Dividend Tax	Final Tax	10%
b.	Non Resident Tax	On Gross Income	15%
2.	Non-final tax rates applicable to residents on payments for:-		
a.	Royalties		20%
b.	Rent		15%
c.	Fees		10%
d.	Bank interest of over K10,000		20%
e.	Services		20%
f.	Commissions		20%
7.	Payment for carriage and haulage		10%
8.	Payment for tobacco sales		3%
9.	Payment to contractors/sub-contractors	Only contractors and subcontractors in the building and construction industry	4%
10.	Payment of any supplies to traders and institution	Foodstuff	3%
		Other	3%
11.	Public entertainment		20%
12.	Payment of over K15,000 for casual labour or services		20%

### 4.4.3 Fringe Benefit Tax

Fringe Benefit Tax is the tax that is charged on the total taxable value of fringe benefits provided by the employer to the employee. A fringe benefit means any asset, service or other benefit in kind that is provided by or on behalf of an employer to an employee, if such provision includes an element of personal benefit to the employee. Except government, all other employers are eligible for Fringe Benefit Tax. Table 5 presents the fringe benefit tax rates per income source.

**Table 5: Summary of Fringe Benefits Tax Rates**

	Taxable Item	Basis of Taxable Value	Rate	Option
1.	<b>Motor Vehicle</b>	15% Original Cost	30%	Non
2.	<b>Housing Accommodation</b>			
a.	Property owned by employer	50 percent of:- <ul style="list-style-type: none"> <li>• Open market value (OMV) or</li> <li>• 10% employee's salary for an unfurnished house</li> <li>• 12% employees salary for furnished house</li> </ul>	30%	The one with greater amount
b.	<b>Rented Property</b>	Rented value or <ul style="list-style-type: none"> <li>• 10% of salary (unfurnished housing)</li> <li>• 12% of salary (furnished Rented housing)</li> </ul>	30%	The one with greater amount
3.	<b>School fees and related expenses</b>	<ul style="list-style-type: none"> <li>• Cost</li> </ul>	30%	50% taxable if paid directly to an institution
4.	<ul style="list-style-type: none"> <li>• <b>Utilities, Household items, Vacations, travel,</b></li> <li>• <b>Domestic services:-</b> gardeners, maids, cooks, nannies, security guards and watchmen</li> </ul>	<ul style="list-style-type: none"> <li>• Cost</li> </ul>	30%	100% Taxable (but gardener security guard & watchmen are exempted if the property is owned by employer)

### 4.4.4 Value Added Tax

Value Added Tax (VAT) is a general tax on consumption expenditure that is levied on the 'value added' that has been created at various stages in the production and distribution chain. This tax is applied on a wide range of goods and services. Table 6 presents a detailed narrative of the execution of tax claims on VAT.

**Table 6: Execution of Claims on Value Added Tax**

Value Added Tax	
1.	There are 2 rates at which VAT is charged, i.e. Standard Rate and Zero-Rate <ul style="list-style-type: none"> <li>(i) Standard rate is used for supplies which are charged 16.5% VAT.</li> <li>(ii) Zero-rated supplies are charged 0% VAT</li> <li>(iii) Exempt supplies are not charged VAT.</li> </ul>
2.	There are 2 types of VAT that are charged by business entities on purchased items and these are:- <ul style="list-style-type: none"> <li>(i) Input VAT is tax charged when one is purchasing items</li> <li>(ii) Output VAT is tax charged when one is selling items</li> </ul>
3.	Exporters claim from MRA input VAT on standard rated supplies and zero rated supplies.
4.	Operationally, for Standard rated VAT an exporter will claim input VAT and offset it against output VAT, and remits the balance to MRA
5.	Operationally, for Zero-rated VAT you claim input VAT and since output VAT is zero, there is an excess and in such a scenario, the exporter claims a refund from MRA
6.	In order to be able to claim VAT, a 'business person' or business entity needs to be registered for VAT. <ul style="list-style-type: none"> <li>(i) Compulsory VAT Registration - business entities with annual turnover of at least MK10 million have to register for VAT</li> <li>(ii) Voluntary VAT Registration - business entities with annual turnover of less than MK10 million and want to claim VAT register for VAT voluntarily</li> <li>(iii) Those trading in VAT exempt supplies (goods and services) do not have to register for VAT</li> <li>(iv) Produce an EFD generated invoice</li> </ul>

#### 4.4.5 Capital Allowances

Capital allowances entail a reduction in the amount of corporate tax payable, offered as an incentive for investment in large-scale projects. A certain percentage of the capital asset's cost is allowed as capital allowance during the accounting period in which it was purchased.

(i) Capital Allowances allow the loss of value of a business's capital items to be treated as a current expenditure and thereby be used in the assessment of a business's taxable income (please refer to endnote i).

- This provision makes the loss of value of a capital item become an acceptable expenditure and is used to offset the gross profit, thereby reducing the total taxable income for Corporate Income Tax obligations.

(ii) There are 3 different forms of capital allowances, as follows:- Initial Allowances, Investment Allowances, and Annual Allowances.

Initial Allowance is given to the taxpayer in the first year after the taxpayer has claimed the allowance at the end of the year upon submission of financial statements.

Annual Allowance is given to the taxpayer every year from the first year for the lifespan of the capital asset.

Investment Allowance is given to the taxpayer in the first year only.

- Please refer to table 7 and table 8 in section 3.4 for specific rates and corresponding capital items.

**Note 1:** Initial or Investment Allowances are only claimed once in the first year of use of the capital asset.

**Note 2:** No Investment Allowance can be claimed when Initial Allowance has been claimed. This entails that a business entity can only claim either Initial Allowance or Investment Allowance.

**Note 3:** Annual allowance is claimed at the end of each year, for the lifespan of the capital asset.

**Table 7: Summary of Capital Allowance Rates**

	Item	Initial Allowance	Annual allowances	Investment Allowances
1.	Farm Improvements, Railway lines	10%	5%	-
2.	Industrial Building	10%	5%	<ul style="list-style-type: none"> <li>• 40% on used buildings</li> <li>• 100% on new and unused buildings</li> </ul>
3.	Plant or Machinery	20%	<ul style="list-style-type: none"> <li>• 10% normal shifts</li> <li>• 17.5% for 2 shifts</li> <li>• 25% for 24hrs/day</li> </ul>	<ul style="list-style-type: none"> <li>• 40% on used plant and machinery</li> <li>• 100% on new and unused plant and machinery</li> </ul>
4.	Farm Fencing	33.3%	10%	
5.	Staff Housing for manufacturers and large tobacco, tea, sugar & cocoa farmers	10%	5%	
6.	Commercial Building costing K100 million		2.5%	-
7.	Article, Implements	20%	Various as determined by Commissioner General	Refer to table 8.
<p><b>Note:</b> Those who qualify for both Initial and investment allowances are required to choose either of the two but not both. Investment allowance is given to a taxpayer who is also a manufacturer.</p>				

#### 4.4.6 Annual Allowances Fixed by the Commissioner General

Complementary to table 7, the following rates are fixed by the Commissioner General, except where stated, and are to be used on the diminishing balance of the original cost.

**Table 8: Summary of Annual Allowances for Various Articles and Implements**

	Goods And Services	Rates
1.	Air conditioner plant	10%
2.	Aircraft	20%
3.	Angle Dozers	25%
4.	Anvils	20%
5.	Bakers' Ovens (metal parts only)	10%
6.	Bicycles	25%
7.	Billiard Tables	10%
8.	Blinds, Venetian	10%
9.	Book-Keeping and calculating machines	10%
10.	Bulldozers	25%
11.	Caravans	20%
12.	Carpets (over 100 pound)	25%
13.	Clarinets	10%
14.	Combined Harvesters (self propelled)	20%
15.	Computer (on straight line basis)	40%
16.	Concrete Mixers	20%
17.	Cranes (Mobile)	15%
18.	Diesel Alternation sets, compressors and motors	10%
19.	Dozers – Angle bull and Tree	25%
20.	Electric cooking stoves	10%
21.	Electric fires and fans (renewals basis)	100%
22.	Electric Organ (portable)	20%
23.	Flues: Brick and tile maker	100% once or 10% annually
24.	Forges	20%
25.	Furniture: hotel, Boarding house and office	10%
26.	Craders	25%
27.	Helicopters	20%
28.	Hot water systems (Flats): equipment	10%
29.	Pipes	10%
30.	Industrial Plant	0%
31.	Instruments (Doctors & Dentists) (renewals basis)	100%
32.	Kilos: Brick & Tile maker	100% one or 10% annually
33.	Legal & Professional libraries	25%
34.	Lifts and Elevators	10%
35.	Lime Kilos	10%
36.	Linen, cutlery, crockery, glassware, Hotels, Boarding houses, restaurants etc (renewals basis)	100%
37.	Loose Tools (Renewals basis)	100%
38.	Machinery & Plant	10%
39.	Mattresses	25%
40.	Mechanical Elevator	25%
41.	Mechanical Shovels	25%
42.	Mobile cranes	15%

	<b>Goods And Services</b>	<b>Rates</b>
43.	Motor cars	<b>20%</b>
44.	Motor cars in special cases, such as commercial travellers, and where use is mainly on rough roads	<b>25%</b>
45.	Motor Lorries (town use-delivery van)	<b>20%</b>
46.	Motor lorries, heavy lorries and light trucks, where used heavy work or on rough roads	<b>25%</b>
47.	Special cases, such as road transport service	<b>33%</b>
48.	Musician's drum sets (replacement of vellums to be allowed as repairs)	<b>10%</b>
49.	Neon electric signs	<b>10%</b>
50.	Organ: Electric: portable	<b>20%</b>
51.	Pianos: Used in schools, music studios, hotels and used for private pupils	<b>10%</b>
52.	Pipes clocks	<b>10%</b>
53.	Railway lines (Light-movable)	<b>10%</b>
54.	Refrigerators	<b>10%</b>
55.	Road Scrapers	<b>25%</b>
56.	Safes	<b>10%</b>
57.	Saxophones	<b>10%</b>
58.	Scaffolding	<b>10%</b>
59.	Scales	<b>10%</b>
60.	Shop Fittings and fixtures	<b>10%</b>
61.	Sprinkler installation	<b>10%</b>
62.	Telephones & lines owned by taxpayers (excluding wiring which should be on the replacements basis)	<b>10%</b>
63.	Temporary Housing:- Uniport Huts Tents	<b>20%</b>
64.	Tractors: Farm	<b>20% (or up to 33% where justified)</b>
65.	Tractors: tracked	<b>25%</b>
66.	Trailers	<b>10%</b>
67.	Tree dozers	<b>25%</b>
68.	Trench diggers	<b>25%</b>
69.	Typewriters	<b>10%</b>
70.	Trumpets (musical)	<b>10%</b>
71.	Uniport Huts: Temporary housing	<b>20%</b>
72.	Venetian Blinds	<b>10%</b>
73.	Water-boring drills: Ordinary	<b>10%</b>
74.	High Speed rotary	<b>20%</b>
75.	Percussion	<b>15%</b>
76.	Water supply plant (Including windmills)	<b>10%</b>
77.	Wagon drills	<b>10%</b>
78.	Wagons	<b>15%</b>
79.	Wireless sets	<b>15%</b>
80.	X-ray plant	<b>20%</b>

<sup>i</sup> The basic principle of allowing capital allowances in the tax incentive regime is based on the understanding that capital items depreciate at the end of each year and the loss in value of capital items needs to be taken into account as business expenditure. Under normal circumstances, depreciation is not considered an expenditure in business operations. However, with capital allowances, the loss of value of a capital asset is allowed as a current expenditure.