

What would happen to people who fail to comply with the requirements of Provisional Tax?

Anybody who fails to comply with the requirements of Provisional Tax, would be asked to pay the taxes defaulted. In addition, he/she would be penalised according to Section 84 E of the Taxation Act as follows:

- If the amount of the unpaid tax, as a percentage of the total tax liability
- Exceeds 10% but less than 50%, the taxpayer would be asked to pay 25% of the unpaid tax
- Exceeds 50%, the penalty would be 30% of the unpaid tax

Exemption from paying Provisional Tax

The following are circumstances where individual taxpayers are exempted from paying Provisional Tax.

Where the taxable income for the year of assessment is estimated:

- Not to exceed K180,000
- To exceed K180,000 but the whole of the income

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is from employment or pension or from both employment and pension and in relation to which PAYE tax is being deducted.

- To exceed K180,000 and to include non employment or non pension income of not more than K180,000.
- Registered for Turnover Tax.

Advantages of paying Provisional Tax

- It affords the taxpayer an ability to settle the liability in piece meal by paying in quarterly installments and accords government a steady flow of revenue.
- Allows the taxpayer to pay while the money is available

NOTICE:

The Law relating to Provisional Tax is the Taxation Act. The information in this brochure is not intended to be a legal interpretation of the Act (regulations made there under) nor does it override any provision thereof.



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Develop Malawi, Pay Taxes



Understanding... Provisional Tax



The taxpayer will estimate the total amount of tax payable by him /her in respect of that year of assessment



What is Provisional Tax?

Provisional Tax is an advance payment of income tax that is made in quarterly installments.

The tax enables the taxpayer to settle the tax liability in small amounts and accords the government a steady flow of income.

It is provided for in Section 84 A of the Taxation Act.

Who is liable to Provisional Tax?

1. Every persons chargeable to income tax are subject to Provisional Tax.
2. Individuals whose taxable income is more than K180,000 per annum if such income is not subject to PAYE deductions, are liable to pay Provisional Tax.

How can a taxpayer determine the amount of Provisional Tax to be paid to government?

- (a) The taxpayer will estimate the total amount of tax payable by him /her in respect of that year of assessment.

This tax will be divided by four and these amounts will be paid at the end of each quarter by the 25th of the following month.

For example, an individual business person whose tax estimate is K80,000 will be paying quarterly installment of K20,000.

And by using appropriate forms, the taxpayer is to pay this amount to MRA on the 25th day of the following month after the end of the quarter.

How is Provisional Tax administered?

After a period of twelve months, the taxpayer will have provisionally paid K80,000. However, this is not a final tax. The final tax will be calculated based on income earned

in that particular year after submission of business accounts. If provisional tax paid were higher than the final tax or payment of provisional tax were lower MRA would either ask the taxpayer to pay the difference or will refund the money.

For instance, if the taxable income for the business person at the end of the year were K500,000, the actual amount of tax due would be:

| | Taxable income | Rate | Tax |
|----------------------|-----------------------|-------------|------------|
| Total | K500,000 | - | - |
| First | K180,000 | @ 0% | K0.00 |
| Balance | K320,000 | | |
| Next | K60,000 | @ 15% | K9,000 |
| Balance | K260,000 | | |
| Tax on | K260,000 | @ 30% | K78,000 |
| Total tax calculated | | | K87,000 |
| Less Provisional tax | | | K80,000 |

Tax due will therefore be:

$$\mathbf{K87,000 - K80,000 = K7,000}$$