

Payroll Compliance

A short guide for payroll professionals navigating the latest employees' tax legislation.

Table of Contents

1. General Information	3
2. Pay As You Earn(PAYE).....	3
3. Exempt income	4
4. Fringe Benefits	4
5. Tax deductions	6
6. National Pension Scheme	6
7. Tevet Levy.....	7

1. General Information

1.1 Official currency

The official currency of Malawi is the Malawi Kwachas (MWK).

1.2 Tax year end

The tax year runs from 1 April to 31 March.

1.3 Revenue service

Malawi Revenue Authority

Website: www.mra.co.mw

2. Pay As You Earn(PAYE)

2.1 Administration & Compliance

Monthly Filing and payment

The deduction of PAYE from an employee's earnings becomes due at the time when earnings are paid to the employee. The amount of tax deducted should be remitted to MRA not later than the 14th day from the end of the month during which the tax was deducted. MRA will give the employer Form P12. This is a monthly payment form that should accompany any PAYE payments to MRA every month. Usually, a booklet of 12 copies of Form P12 is supplied to the employer to cover a period of one fiscal year.

Annually Filing and payment

The annual PAYE report is known as the P16.

The employees must be issued with the PAYE certificates, Form P9.

Personal Tax Returns must be filed within 180 days after the tax year has ended.

The employers' Income Tax returns are due within six months after the end of the tax year.

2.2 Taxable Compensation

Compensation received by an employee for services rendered constitutes taxable income. These include basic salary, bonus and cost-of-living.

Notice Pay and payment in lieu of leave earnings are fully taxable as normal income.

2.3 Tax Rates

Eleventh Schedule, Taxation Act

Monthly tax tables for PAYE

April 2023 – March 2024

From (MK)	To (MK)	Rate %
0	100 000	0%
100 000,01	450 000	25%
450 000,01	2 500 000	30%
2 500 000	and above	35%

The above tax rates also apply to the non-resident employees.

3. Exempt income

- The first MWK 50 000 of a redundancy and retrenchment payment is tax exempt.
- Pension income is tax exempt.
- All fringe benefits are not taxable in the hands of the employee
- Expenses that are wholly, exclusively, and necessarily incurred to carry out a job, such as vehicle running costs for a salesman (but not home to business costs) are exempt from tax.
- Any amount paid by the Government to its employees in respect of or in connection with leave passages to any country outside Malawi and any comparable amounts similarly paid by any other employer under a contract with an employee, which has been approved by the Commissioner, shall not be treated as a benefit

Section 16 of the taxation act has been amended (2010) to remove any tax free contract gratuity. Leave grant is fully taxable. No longer partially exempt.

4. Fringe Benefits

Fringe benefits Tax (FBT) is tax paid on the taxable values of fringe benefits being provided by an employer to an employee. All employers except the Government are liable to FBT.

With regard to employer/employee relationship, fringe benefit means any asset, service or other benefit in kind, provided by or on behalf of an employer to an employee, if such provision includes an element of personal benefit to the employee. For example, the paying of school fees by a company for an employee's children, provision of accommodation and concessionary loans etc.

Fringe benefits are taxable under fringe benefits tax at the rate of 30% of the taxable value of the fringe Benefits

Fringe Benefits Tax shall be paid to the Commissioner General in quarterly instalments not later than 14 days after the end of each quarter of the year of assessment.

An employer who fails to register in accordance with the regulations or fails to pay the Fringe Benefits Tax shall be liable to a penalty of 20% of the Fringe Benefits Tax.

Fringe benefits include, but are not limited to, the following:

- **Employer-provided housing** - For an **employer-owned unfurnished house**, the taxable value is either 10% of the employee's basic salary or the rental market value, whichever is greater.

For an **employer-owned furnished house**, the taxable value is either 12% of the employee's basic salary or the rental market value, whichever is greater.

Provided that the value determined may be reduced by 50%.

For a **rented unfurnished house** - the taxable value is either 10% of the employee's basic salary or the rental market value, whichever is greater.

For a **rented furnished house** - the taxable value is either 12% of the employee's basic salary or the rental market value, whichever is greater.

- **Furniture** - The entire cost is exempt.
- **Interest-free or below market rate loans** - The difference between the interest charged and market value is taxable.
- **Private use of a company car** - Taxable value is equivalent to 15% of cost of the vehicle.
- **Employer provided domestic assistance** - Taxable value is entire cost except for gardener, security guard, or watchmen for employer owned house.
- **Children's education** - The taxable value is 50% of costs paid by employer direct to institution.
- **Mid-term contract travel passages** - Entire cost to employer
- **Relocation costs** - Not taxable.
- **Small holiday travel grants** - Entire cost is taxable

5. Tax deductions

There are no tax deductions and no Personal allowances.

6. National Pension Scheme

It is mandatory that every employer shall make provision for every person to be a member of the National Pension Scheme.

Those earning less than MK10, 000.00 per month shall be exempted if the organisation has up to 5 employees.

However, where an employer has more than five employees who earn less than MK10, 000.00 per month, a provision for pension shall be made for all.

Employers shall pay a 5% gratuity for all employees who do not qualify for pension for each completed month of service on termination of employment.

Only permanent members of staff qualify for pension. This means that those on probation can only qualify for pension once confirmed.

With the birth of the Pension Act, the Employment Act has been amended as follows:

- Temporary period should not exceed six months, down from one year. Hence, the need to review seasonal contracts.
- Pensionable emoluments means guaranteed wages and other earnings, but not including personal investment income, capital gains or provision from employers in the form of houses or motor vehicles. In other words, the pension contribution is based on all the fixed cash earnings.
- A new severance pay schedule comes into effect.
- The National Pension Scheme to include everyone working in Malawi be it on Contract specifying a gratuity % or not.

6.1 Contributions to the fund

- It is Mandatory that up to 15% should go into the National Pension Scheme and only the

Ministry of Finance who are the Regulators under the Reserve Bank of Malawi reserves the right to exempt anyone in writing.

- Expatriates may produce written evidence that they are on pension in their home country to the National Pension Scheme in order to apply for exemption.
- Employer to contribute 10% of the pensionable amount.
- Employer may contribute up to a minimum of 7.5% for the first two years from the date of commencement.
- Employers can also exempt their employees from contributing to a pension fund due to low wages. However, where they are contributing everything, 5% is deemed to be the employee's contribution.
- Employee to contribute 5% but is at liberty to contribute more.
- Employee's current value of the severance allowance becomes the opening value of their pensions.
- Severance Pay to be calculated and transferred to individual Pension accounts within 8 years.

Contributions are remitted promptly (within 14 days) or else employers face penalties. Contribution arrears for organisations that do not remit contributions to pension funds need to remit within six months.

7. Tevet Levy

The purpose of the TEVET Levy is to fund approved technical education and training programmes in Malawi.

In accordance with section 20 (2) of TEVET Act, TEVET Levy (payroll-levy) is defined as the sum of money payable to TEVETA by all employers in the private and public sector. This sum of money is equal to 1% of the payroll (defined as gross annual emoluments) which an employer pays in respect to the previous financial period of July to June.

Gross annual emoluments - this is the total annual emoluments paid by employer to employee. This includes basic salary, overtime, and all cash benefit ascertained in monetary terms on the payroll less allowable deductions.

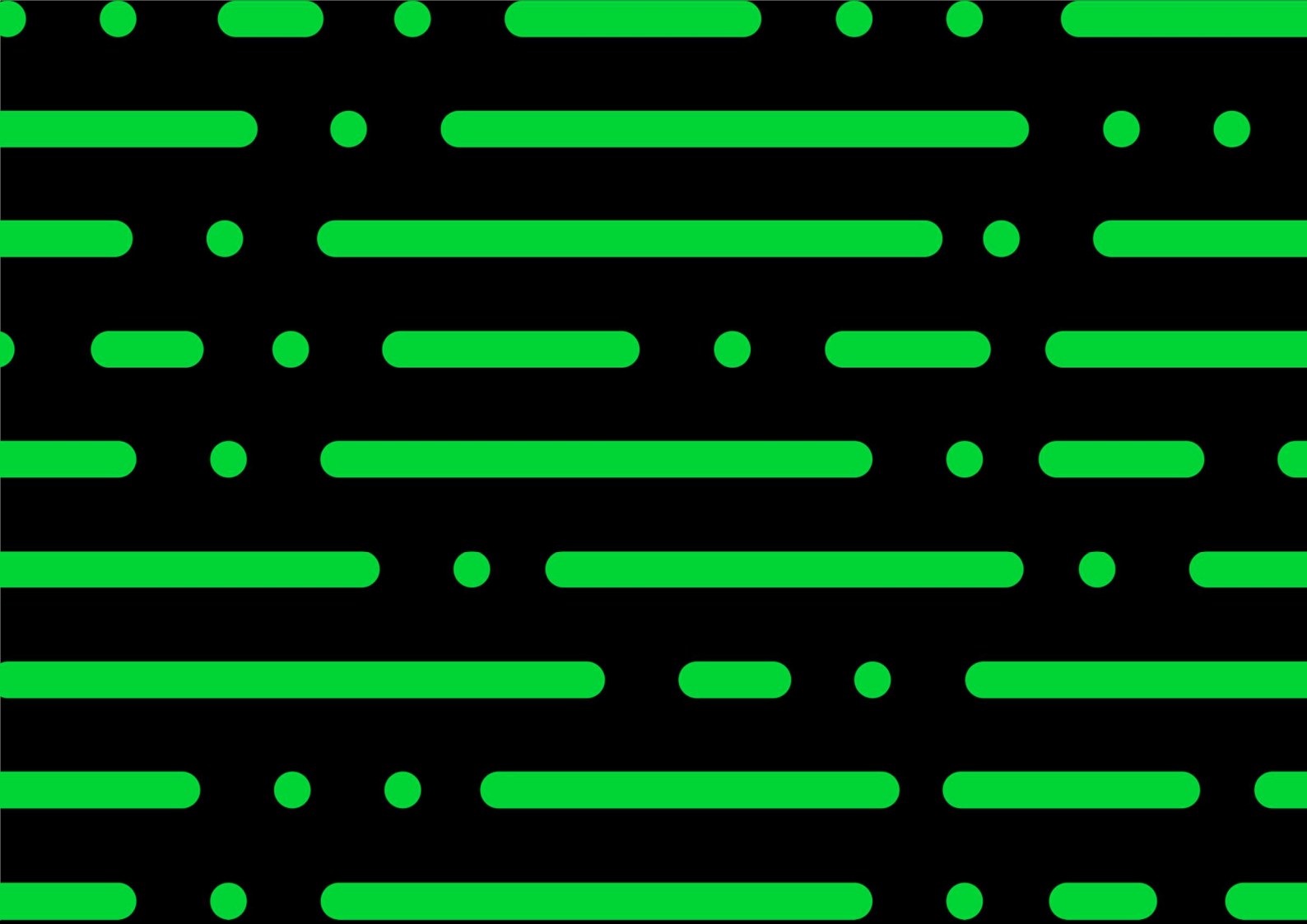
Any levy imposed and paid under TEVET Act, shall be deductible under the purpose of ascertaining the taxable income of the employer in accordance with the Taxation Act.

Section 20 (4) of the TEVET Act gives options to the employer to pay the levy in a period most suited to their cash flows position. The Act gives employers the option of paying lump sums or biannually, quarterly, or monthly.

For more information regarding the Tevet Levy visit <http://www.tevetamw.com/>

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