

UNIVERSITY OF SWAZILAND**IDE****SUPPLEMENTARY EXAMINATION PAPER, JULY 2005**

DEGREE/DIPLOMA AND YEAR STUDY : **DIP. COM III**

TITLE OF PAPER : **PRINCIPLES OF TAXATION AND
AUDITING**

COURSE CODE : **AC 304-2 (S) 2005**

TIME ALLOWED : **TWO (2) HOURS**

- INSTRUCTIONS**
1. **TOTAL NUMBER OF QUESTIONS ON THIS PAPER: THREE (3)**
 2. **ANSWER ALL QUESTIONS**
 3. **THE MARKS AWARDED FOR A QUESTION/PART ARE INDICATED AT THE END OF EACH QUESTION/PART OF QUESTION.**
 4. **WHERE APPLICABLE, SUBMIT ALL WORKINGS AND CALCULATIONS.**

NOTE: **YOU ARE REMINDED THAT IN ASSESSING YOUR WORK, ACCOUNT WILL BE TAKEN OF ACCURACY OF THE LANGUAGE AND THE GENERAL QUALITY OF EXPRESSION, TOGETHER WITH THE LAYOUT AND PRESENTATION OF YOUR FINAL ANSWER.**

SPECIAL REQUIREMENTS: **NONE**

THIS PAPER IS NOT BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVIGILATOR.

TAXABLE INCOME	RATES OF INCOME
0 to 20,000	0
20,001 to 30,000	12% in excess of over 20,000
30,001 to 45,000	1,200 + 20% in excess over 30,000
45,001 to 60,000	4,200 + 25% in excess over 45,000
60,001 to 75,000	7,950 + 30% in excess over 60,000
75,001 and over	12,450 + 33% in excess over 75,000

TAXATION OF TAXABLE BENEFITS

1 FREE AND SUBSIDISED HOUSING

Where a benefit provided by an employer to an employee consists of accomodation or housing, and

- a. **The employer does not own the accomodation or housing, the value of the benefit is the rent payable for the accommodation or housing, reduced by any payment made by the employee for the benefit.**

The amount to be included in taxable income for accommodation or housing is as follows:

2004/2005 40% of the benefit value as computed above.

Taxable benefit	Year	Computation	
Accommodation	2004/2005	(Rent payed by employer less contributions by the employee)*40%	

- b. **The employer owns the accommodation or housing, the value of the benefit is the rental benefit of the accommodation or housing determined in accordance with the following formula:**

(A-B)*C/100*D/12)*40% less payment by the employee. Where,

- A = the remuneration for the previous year of assessment; or if not available the current remuneration,
- B = an abatement equal to E20,000,
- C = 18 where the accommodation or housing is situated in Manzini or Mbabane urban areas and along the Manzini/Mbabane corridor,
 = 12 if such accommodation or housing is situated in an agricultural estate or other towns;
 = 10 if the housing is institutional housing and is situated in Manzini or Mbabane or along the Manzini/Mbabane corridor: and,
 = 5 in respect of accommodation or housing not covered above.
- D = the number of months in the year of assessment during which the employee was entitled to occupation of the accommodation or house.

Provided that the amount so determined in terms of subparagraph b. shall be reduced by any payment made by the employee for the benefit.

- c. **In this paragraph, "remuneration" does not include the value of any benefits in kind and reimbursive allowances.**
- d. The amount to be included in taxable income for accommodation or housing is as follows:

Provided that the amount so determined in terms of subparagraphs (a), and (b), after deducting of the payment, if any, made by the employee for the benefit, **other than values determined in respect of institutional housing**, shall not be less the annual or monthly values as follows:

	In Mbabane/Manzini and corridor		Agricultural & Industrial Estates		Other areas	
	Per annum	Monthly	Per annum	Monthly	Per annum	Monthly
Executive house (4 bedroomed)	E8,640	E720	E2,880	E240	E2,160	E180
Medium houses (2/3 bedroomed)	E5,760	E480	E1,440	E120	E720	E60
Bedsitters to 1 bedroom houses	E4,320	E360	E720	E60	E360	E30

e. In this paragraph, "institutional housing" means housing provided by the Swaziland Government or a para-statal or provided by another body for an employee of the Government or para-statal.

2. WHOLLY OR PARTIALLY PRIVATE BENEFIT USE BY AN EMPLOYEE OF MOTOR VEHICLES (including any aircraft or helicopter)

The value of the benefit is calculated as follows:

$(X \cdot A \cdot B / C) - D$

Where,

- X. Is the year of assessment 2004/2005 equals 14%
- A. Is the market value of the motor vehicle at the time when it was first provided for the private use of the employer.
- B. is the number of days in the year of assessment on which the motor vehicle was used or available for private use;
- C. is the number of days in the year of assessment;
- D. is any payment made by the employee for the benefit.

The amount so determined, after deduction of the payment by the employee shall not be less than the annual or monthly value as follows:

Cubic capacity of the vehicle	Taxable benefit Per annum	Taxable benefit per month
	E	E
Under 1600cc	5160	430
1600cc to 2000cc (with value less than E60,000)	6900	575
1600cc to 2000cc (with value E60,000 and above E60,000)	8640	720
Over 2000cc (with value less than E80,000)	8640	720
Over 2000cc (with value over E80,000)	15480	1.290

2.2 The market value of the car is the cost (without sales tax) to the employer at the time it was first provided to the employee. The market value of second hand car is shown in the Auto Dealer's Guide. For vehicles that were purchased in Swaziland this value may be adjusted to 110/114 (96.5) or 112/114 (98.25) of the Guide value, depending on the rate of sales tax in force in Swaziland at the time the vehicle was purchased. That is, the value of the car is cost less sales tax.

2.3 Where an employee is provided with more than one vehicle, taxable benefits will be evaluated on an individual basis.

2.4 Where an employee purchases a vehicle with assistance from the employer as part of the benefit or advantage accruing by way of employment, the fixed allowances given towards the *fixed capital* and running costs of the vehicle are taxed in full.

But if the commissioner is satisfied that circumstances warrant a variation the following may be used to determine the annual benefits.

3. ALLOWANCES

3.1 Any amount paid by an employer to an employee as allowance (such as house allowance) is a taxable benefit.

3.2 *Reimbursive allowance:* Where an allowance or advance is paid by the employer to an employee in respect of expenses of travelling, entertainment or other service, as is not actually expended for official purposes, will be regarded as taxable benefit in the hands of the employee. The benefit is determined according to the following formula:

$A=(B-C)$ Where,

A is the taxable benefit,

B is the actual amount paid by the employer to the employee,

C is the justifiable official expense incurred by the employee.

3.3 Where an employee incurs expenditure on travel, entertainment etc on the employer's business and the employer reimburses such employee, and where the employer pays an allowance in respect of the use of the employee's private vehicle for the employer's business at fixed rates per kilometre (which rates approximate the rates published by AA of South Africa) *the amount so received is not income in the hands of the employee but merely a reimbursement of expenses.*

4. PROVISION OF DOMESTIC ASSISTANTS

4.1 Where a benefit provided by an employer to an employee consists of the provision of a domestic assistant, the value of the benefit is the remuneration paid to the domestic assistant in respect of the services rendered to the employee. The amounts to be included in taxable income are as follows:

2004/2005 40% of benefit value

Provided that the amount so determined, shall not be less than the annual or monthly values as follows:

	Per annum (each) E	Monthly (each) E
<i>Domestic servants</i>		
Households (cooks, maids)	954	80
Security guards	954	80
Gardeners	476	40

5. UTILITIES

5.1 Where a benefit provided by the employer to an employee consists of the reimbursement or discharge by the employer of an employee's utilities expenditure, the value of the benefit is the amount of the reimbursement or discharge, if separately metered.

a. The amounts to be included in taxable income when separately metered are as follows:

2004/2005 40% of cost of utility

Provided the amount so determined, shall not be less than the annual or monthly value as follows:

	Per annum (each) E	Monthly (each) E
Electricity	840	70
Telephone	840	70
Gas	390	35
Water	390	35
Fuel	390	35

b. Where the utilities are not metered and paid separately, 10% of the housing benefit value for each service.

5.2 "Utilities expenditure" means any expenditure for fuel, power, water, sewerage, or telephone in respect of an employee's place of residence.

6. CHILDREN'S EDUCATIONAL BENEFITS

6.1 The taxable value of educational benefits (such as school fees) is tax assessed 100% of the costs of these benefits. The value of any transportation of employee's children provided by the employer is tax exempt.

6.2 Educational benefits are school fees, boarding fees and other educational expenses paid by the employer on account of the education of the employee's children.

7. SOFT LOANS

7.1 A taxable benefit accrues to an employee where:

QUESTION 1:

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The following were year ended 30.6.2005 income particulars of Lungile Dube who worked as an Operations Manager in a company based in Matsapha..

1. A monthly salary of E8,000.
2. On 1.7.2004 her employer hired her a three bedroom house in Manzini. The rental was E3,000 per month. Lungile Dube contributed E300 per month.
3. A hardship allowance of E1,500 per month.
4. An end of the year bonus of E4,000.
5. Her employer paid the following monthly services: a security guard at E1,200, electricity E400, and water E400.
6. She received E2,000 per month alimony from her former husband.
7. Her employer paid E7,500 medical expense bills at Imphilo clinic.
8. Her employer paid E2,500 for a uniform which Dube Lungile was supposed to wear at work.
9. From 1.7.2004 the employer provided a 1600 cc car with a value of E75,000 for official and personal use
10. She received E2,000 as interest revenue from fixed period shares in the Swaziland Building Society.
11. She received E11,000 as a war benefit in relation to her late father.
12. She received E4,600 as dividend from a Swazi quoted company.
13. Lungile Dube acts as Ambassador of Tanzania in Swaziland. Up to 30.6.2005 she received E60,000 related to this work.

REQUIRED: Compute the tax payable/receivable

(30 marks)

EXPENSES/PAYMENTS

1. She paid medical bills amounting to E4,000.
2. She made contributions to an approved pension fund amounting to E2,500.
3. She paid E5,000 to repair her accident damaged vehicle. The vehicle was fully insured.
4. She was deducted E23,980 as PAYE.

REQUIRED: Explain why some of the information is not used.

(10 marks)

Total for question **(40 marks)**

QUESTION 2:**REQUIRED :**

What are tax bases, tax structures, marginal tax rates, and average tax rates?

(30 marks)

QUESTION 3:**REQUIRED :**

Discuss the history of taxation in both England and Swaziland.

(30 marks)

Total marks **(100 marks)**