

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
MAIN EXAMINATION PAPER
ACADEMIC YEAR 2006

DEGREE/ YEAR OF STUDY : B.COM IV
TITLE OF PAPER : TAXATION
COURSE CODE : AC405
TIME ALLOWED : THREE (3) HOURS
INSTRUCTIONS

1. TOTAL NUMBER QUESTIONS ON THIS PAPER: FOUR
2. ANSWER ALL QUESTIONS.
3. THE MARKS AWARDED FOR A QUESTION/ PART ARE INDICATED AT THE END OF EACH QUESTION/ PART OF QUESTION.
4. ALL CALCULATIONS ARE TO BE MADE TO THE NEAREST LILANGENI.
5. WHERE APPLICABLE, SUBMIT ALL WORKINGS AND CALCULATIONS.
6. TAX TABLES ARE ATTACHED.

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.

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

QUESTION 1

John Smith is a farmer in Lubombo. His activities include sugar cane, bananas, livestock and a bottle store in Mbabane. He manages his farm and is assisted by one his employees. He has submitted the following receipts and accruals for the year of assessment ended 30 June 2005 in connection with his farming operations:

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Sugar cane sales	500,000
Produce sales	250,000
Sales of Livestock (75 @ E2,000)	150,000
Sales of Bananas	65,000
Interest from call account held at Nedbank Swaziland Limited	20,000
Dividends from unlisted companies	15,000
Interest on Farm loan paid to Swaziland Development and Savings Bank	19,000
Purchases of livestock (120 @ E1,300)	156,000
Wages of labourers	250,000
Seeds and fertilisers purchased	30,000
General farming expenses (allowable)	35,000
Capital expenditure incurred during the year:	
Water furrows	120,000
Housing of employees (3 employees @ E35,000)	105,000
Smith's house constructed during the year	75,000
Fencing	21,000
Electricity Transmission line	9,500
Expenditure for the prevention of soil erosion	55,000
Director's fees paid to Mr. Smith	80,000
Provisional tax payments in respect of director's fees	5,000
Staff medical expenses	6,200
Rations for shareholders not employed on farm	4,500
Expenditure incurred on produce sold during the year	5,000
Expenditure incurred in respect of produce to be sold next year	18,000
SNPF Contributions paid on behalf of employees	3,500
Depreciation on new Machinery purchased @ 20% straight line	40,000
Maintenance of grazing pastures	8,500
Transportation of farm produce to customers	11,500
Other expenses (refer to note 7)	9,000
Research conducted by UNISWA on pest control for the farm	35,000
Proceeds on sale of machinery (Note 8)	37,000
Rent and rates (11 months @ E2,000)	22,000
Bad debts	2,000
Funeral expenses in respect of a relative of one of the employees of the farm	5,000

Notes

1. Assessable loss at 1 July 2004 was E17,000.
2. Two of the cows purchased were slaughtered and they were given to employees as rations and one was taken for use by Mr. John Smith's family.
3. Farming capital expenditure at 1 July 2004 E27,000 that was not claimed in the previous year.
4. Opening stock of Livestock at 1 January 2004 30 @ E440 E13,000
5. John Smith was not able to produce closing stock of Livestock and has given you information that is adequate to calculate it as there were not too many movements during the year which must be valued at standard price of E440.
6. The machinery was purchased from Johannesburg Agencies at the beginning of the tax year and it was agreed with the commissioner that wear and tear is at 15% on a reducing balance basis.
7. Other expenses

Company Licence	500
Traffic fines	3,500
Repairs to fencing	4,500
Hire of equipment	1,000
8. An asset that cost E35,000 that was fully depreciated for tax purposes which was being used in the farm sold during the year and realised E37,000.
9. Rent and rates not paid for 30 June 2005 amounted to E2,000.

(Total 50 marks)

QUESTION 2

- (a) Outline the appointment procedures of a public officer and his responsibilities.

(10 marks)

Chriss Eubanks who is the Tax Consultant of Fedex Investments Pty Limited has just received a notice of assessment from the commissioner of Taxes in respect of the company's tax liability of the year ended 30 June 2005. The tax liability on the notice of assessment is not the same as was original calculated by Chriss Eubanks of Fedex Investments as a result of certain items that were disallowed by the Commissioner of Taxes. Though Chriss has been working as a Tax Consultant for some time, he finds that he is not conversant with the procedures of lodging an objection against a notice of assessment. Chriss has therefore requested your advice as a Tax Specialist to advise him on the procedures for lodging an objection against the notice of assessment.

Required:

Out line the procedure for lodging an objection against notice of assessment.

(10 marks)

Total (20 marks)

QUESTION 3

Sales Tax:

- (a) List four of six categories where sales tax would be payable and note the rate of sales tax charged under each category. *(4 marks)*
- (b) What penalties are imposed for offences under the Sales Tax Act. *(2 marks)*
- (c) Under what circumstances can Sales Tax be refunded. *(2 marks)*
- (d) If there is any dispute as to whether any transaction is liable to tax, by whom shall the dispute be decided. *(2 marks)*

Total (10 marks)

QUESTION 4

- (a) What do you understand by the term “approved export promotion expenditure” *(10 marks)*
- (b) Which approved export promotion expenditure are allowed as per Practice Note 147. *(10 marks)*

(Total 20 marks)

RATES OF NORMAL TAX IN THE CASE OF PERSONS OTHER THAN COMPANIES				
Taxable income			Rate of tax	
Exceeds	But does Not exceed			
E	E		E	
0	30,000	0	+12%	OF THE EXCESS OVER 0
30,000	45,000	3600	+20%	OF THE EXCESS OVER 30,000
45,000	60,000	6600	+25%	OF THE EXCESS OVER 60,000
60,000	75,000	10350	+30%	OF THE EXCESS OVER 75,000
75,000		14,850	+33%	OF THE EXCESS OVER 75,000

***A TAX CREDIT OF E 2400 P.A. IS AVAILABLE TO ALL TAX PAYERS.**

CORPORATION TAX RATE IS 30%

TAXABLE BENEFITS

Taxation of benefits in kind for 2004/ 2005 Tax year	Amounts to included in taxable income
Provision of domestic servants	40% of benefit value
Utilities	40% of cost of utility
Soft loans	40% of benefit value

FREE AND SUBSIDISED HOUSING

	In Mbabane/ Manzini and corridor		Agricultural & Industrial Estates		Other Areas	
	Per annum	Monthly	Per annum	Monthly	Per annum	Monthly
Executive house (4 bedroomed)	8640	720	2880	240	2160	180
Medium houses (2/3 bedroomed)	5760	480	1440	120	720	60
Bedsitters to 1 bedroomed houses	4320	360	720	60	360	30

PRIVATE USE OF MOTOR VEHICLES

Cubic capacity of vehicle	Taxable benefit	
	Per annum	Monthly
Under 1600cc	5160	430
1600 cc to 2000cc (with value less than E60,000)	6900	575
1600cc to 2000cc (with value over than E60,000)	8640	720
Over 2000cc (with value less than E80,000)	8640	720
Over 2000cc (with value over than E80,000)	15480	1290

PROVISION OF DOMESTIC SERVANTS

Domestic servants	Per annum (each)	Monthly (each)
Household (cooks, maids etc)	E954	E80
Security guards	E954	E80
Gardeners	E476	E40

UTILITIES

	Per annum (each)	Monthly (each)
Electricity	E840	E70
Telephone	E840	E70
Gas	E390	E35
Water	E390	E35
Fuel	E390	E35