

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
SUPPLEMENTARY EXAMINATION PAPER, JULY 2009

DEGREE/DIPLOMA AND YEAR OF STUDY: B COM IV/ IDE B COM YEAR 6

TITLE OF THE PAPER : ADVANCED TAXATION
COURSE CODE : AC 405(S)2009/ IDE AC405(S)2009
TIME ALLOWED : THREE (3) HOURS
INSTRUCTIONS

- 1 There are three (3) questions in this paper. Attempt all of these questions.**
- 2 The marks awarded for a question are indicated at the end of each question.**
- 3 Show your workings.**

NOTE: You are reminded that in assessing your work account will be taken of accuracy of the language and the general quality of expressing together with layout and presentation of your answer.

Special Requirement: Tax tables attached

QUESTION 1 :**AC405(S)2009/IDE AC405(S)2008****Page 2 of 6**

Mahla Manufacturing Pty Ltd, carries on manufacturing business. The following is its detailed Profit and Loss Statement for the year ended 31st December 2008.

**MAHLA MANUFACTURING PTY LTD
PROFIT AND LOSS STATEMENT FOR THE YEAR ENDED 31.12.2008**

	NOTES	E	E
GROSS PROFIT			9,264,405
OTHER INCOME			
Bad debts recovered	1	50,550	
Dividend income	2	175,000	
Interest income	3	<u>105,000</u>	<u>330,550</u>
TOTAL INCOME			9,594,955
EXPENSES			
Employment costs	5	6,293,020	
Depreciation expense			
Industrial buildings and industrial machines	5	140,750	
Office equipment	6	187,500	
Administrative expenses	7	325,800	
Bad debts written off	8	<u>160,000</u>	
			<u>7,107,070</u>
NET PROFIT			<u>2,487,885</u>

NOTES

1. **Bad debt recovered**
The recovered bad debts relate to debts written off in the year 2007.
2. **Dividend income**
Dividends relate to dividends declared by Siteki Pty Ltd, a company in which Mahla owns 80% of the shares.
3. **Interest revenue**
Interest is the amount Mahla received on cash invested in a savings account with Swazi Bank.

4. Employment costs

- a. Employment costs include a salary of E280,000 paid to the husband of the Director General. The husband acts as a Director of Finance. He is paid E280,000 per annum. The amount that would normally be paid to someone of similar skills and with similar responsibilities at Mahla-Matsapha Township would be E150,000 per annum.
- b. The employment costs also include the salary of 2 house maids working at the Managing Director's residence. The value for the two maids is E24,000.

5. Depreciation-Industrial building and industrial machines

Mahla entered into the following transactions during the year.

- a. It erected an industrial building on an adjacent piece of land that was leased for 30 years commencing on 1.1.2007. The agreement provided that a building to the value of E3,250,000 was to be erected. The building was completed at a final cost of E3,750,000 on 31.12.2007 and brought into use on 1.1.2008.
- b. It acquired a new industrial machinery on 1.7.2008. The following costs relate to the equipment.

	E
Cash price	406,800
Installation costs	<u>60,300</u>
Total costs	<u>467,100</u>

The equipment was to work for two (2) shifts.

6. Depreciation- office equipment

Depreciation has been provided on office equipment, purchased on 1.1.2006 at a cost of E649,500. The Commissioner allows wear and tear in terms of section 14 of the Income Tax Order 1975 as amended.

7. Administrative expenses

Included in the administration costs are insurance premiums for loss of profits and cover of equipment. The premiums are always paid in advance in full on the first of July of each calendar year. The premiums are written off in full when paid. The premiums paid were as follows :

- a. E29,600 for loss of profit.
- b. E42,140 for cover of industrial machinery and office equipment.

8. Bad debts written off

The bad debts written off include a E25,000 loan made to a former employee who absconded during the year.

REQUIRED :

Determine the Corporation tax payable by Mahla Pty Limited for the year of assessment ended 31st December, 2008. (40 marks)

QUESTION 2 :

Mdu Bongani is a 50 year resident of Steki Township who farms Nguni cattle. He has contacted you to assist him to complete his income tax return for the year ended 30.6.2009. Mdu Bongani has given you the following information:

		E
INHERITED FROM HIS LATE FATHER INVESTMENTS	In Swazi dividend bearing shares	300,000
	In Swazi interest bearing bonds	150,000
INHERITED FROM HIS LATE FATHER LIVESTOCK	Standard value	5,000
	Market value	30,000
HIS OWN LIVESTOCK	Opening stock at standard value	10,000
	Closing stock at standard value	19,000
HIS INCOME	Dividend income	40,000
	Interest income	15,000
	Sales at market of livestock	600,000
	slaughtered livestock for own consumption	
	Standard value	200
	Market value	3,000
	Cost	2,000
	Slaughtered livestock for rations to employees	
	Standard value	300
	Market value	4,000
	Cost	3,000
	Donated livestock to local church	
	Standard value	100
	Market value	300
	Cost	200
	Donated livestock to NERCHA (A registered public organisation helping the orphans)	
	Standard value	150
	Market value	400
	Cost	300

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EXPENSES	Fodder purchased	8,000
	Animal medication and vaccines	5,000
	Repair to farmhouse-the family residence	18,000
	Dam repairs,necessitated by wear and tear	1,500
	Medical expenses for Mr Bongani's family	9,000
	Interest expense on the mortgage for the family	20,000
	Fuel for the vehicles	35,000
NEW CATTLE TRUCK PURCHASED ON 1.9.2008		250,000
DEVELOPMENT EXPENDITURE		
Housing built for four (4) employees,completed on 1.7.2008		160,000
New dam built		55,500
Expenditure on the prevention of soil erosion		27,000
Expenditure on eradication of noxious plants		23,000
Development expenditure b/f		120,000

REQUIRED :

Calculate Mdu Bongani's income tax payable for the year ended 30.6.2009.

(40 marks)

RATES OF NORMAL TAX FOR INDIVIDUAL PERSONS OTHER THAN COMPANIES OR TRUSTS (WITH EFFECT ON JULY 2008)

TAXABLE INCOME E	RATES OF INCOME E
0 to 60,000	0+20% of the excess over 0
60,001 to 80,000	12,000+25% of excess over 60,000
80,001 to 100,000	17,000+30% of the excess over 80,000
Over 100,000	23,000 +33% of the excess over 100,000
2008/2009 The tax shall be reduced by a General Tax Rebate E7,200. There should be an additional amount not exceeding E2,000 if the person is over the age of 60 years on the last day of the year of assessment	In the year of assessment 2008/2009 Certain benefits are taxed at 100% of the benefit value

QUESTION 3:**REQUIRED :**

- A. In Swaziland, what do the term "Tax Holiday" imply.
Quote the relevant 1975 Income Tax extracts.

(10 marks)

- B. A certain Company Y had the following annual net profits (incomes), annual wages, and year end fixed asset tax written down values (w.d.v.).

Year	1	2	3	4	5
	2003/2004	2004/2005	2005/2006	2006/2007	2007/2008
Taxable profits	350,000	400,000	450,000	500,000	550,000
Wages	40,000	60,000	80,000	100,000	120,000
Fixed asset tax (w.d.v)	250,000	300,000	350,000	400,000	450,000

REQUIRED :

If Company Y had applied for a tax holiday prior to year 2003/2004, calculate the tax implications over the above five (5) years.

(10 marks)**Total for the question (20 marks)****TOTAL FOR THE PAPER (100 marks)**