

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
MAIN EXAMINATION PAPER, MAY 2011

DEGREE/DIPLOMA AND YEAR STUDY:BCOMM V/ IDE BCOMM LEVEL 6

TITLE OF PAPER :ADVANCED TAXATION

COURSE CODE : AC405 (M) 2011/ IDE AC405(M)2011

TIME ALLOWED :THREE (3) HOURS

- INSTRUCTIONS**
1. TOTAL NUMBER OF QUESTIONS ON THIS PAPER ARE FOUR (4). ANSWER ALL.
 2. THE MARKS AWARDED FOR A QUESTION/PART ARE INDICATED AT THE END OF EACH QUESTION/PART OF QUESTION.
 3. 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:INCOME TAX TABLE,HOUSING TABLE A, STANDARD VALUES OF LIVESTOCK, AND A SAMPLE OF CUSTOMS AND EXERCISE TARRIF TABLE

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

QUESTION 1: CALCULATION OF TAXATION PAYABLE BY A FARMER

Mr. Wandile Kunene is a farmer. His income particulars for the year ended 30th June 2011 were as follows.

INCOME STATEMENT

	E	E
DEVELOPMENT EXPENDITURES		
Cottages for employees (one for E10,000 and another for E15,000)	25,000	
Dams and boreholes	12,000	
Establishment of orchards	14,000	
New fencing	4,000	
Road making	15,000	
Soil erosion capital works	7,000	
NORMAL FARMING EXPENDITURES		
Fertilizers and manures	50,000	
Food for livestock	60,000	
Livestock purchases	130,000	
General farming expenses (all allowable)	14,000	
Interest expense	6,000	
Repair of damaged fencing	4,000	
Seeds	30,000	
Wages and rations	123,000	
Wear and tear allowances (all allowable)	15,000	
INCOME		
Dividend received from Swaziland quoted companies		25,000
Dividend received from South African companies		5,000
Fees for letting of construction machines		12,000
Grazing fees		34,000
Interest income received from investments		10,000
Livestock sales		1,000,000
Produce sales (maize, and fruits)		120,000
Sale of wool (from sheep)		50,000
Sale of timber		500,000
Total debits	509,000	
Net profit c/d	1,247,000	0
	1,756,000	1,756,000

OTHER INFORMATION

1. The general development farming expenditure brought forward as at 1.7.2010 was E100,000. And the plantation development expenditure b/f was E200,000.
2. The agricultural tax loss b/f as at 1.7.2010 was E70,000.
3. The executors of the estate of his late father handled him on 1.7.2010; 2,000 ewes, 400 rams, and 600 lambs. The current market value of these animals at the date of his father's death were E700,000, and this was the fair market price on 1.7.2010.
4. On 1.11.2010 he also received by way of donation from his aunt 1,000 ewes and 200 rams. At the date of donation the fair market value of the animals was E250,000.
5. During the year his family consumed produce at an estimated cost of E4,000 and at a market value of E6,000.
6. During the year 2 bulls were slaughtered and distributed as rations to employees. The cost value of each bull was E5,000, and the market value of each bull was E7,000.
7. 4 bulls were donated to a church. The cost for each bull was E5,000, and the market value of each bull was E7,000.
8. As at 30th June 2011 the number of livestock on hand was as follows:

	Number
Bulls	50
Cows	100
Heifer 2 year old	60
Heifer 1 year old	50
Calves	100
Ewes	2,000
Rams	300
Lambs	500

9. The estimated cost and market values of produce, fruit, and wool was as follows

	Cost value E	Market value E
Maize on cobs in the farm	80,000	160,000
Dry de husked maize in bags ready for sale to National Milling Corporation	100,000	240,000
Fruit ready for sale	50,000	100,000
Sheep wool in bales	40,000	90,000
Un sheared wool on the backs of sheep	60,000	110,000

REQUIRED :

- A. Calculate the deemed opening money value of livestock stock, the closing money value of livestock, produce, fruit and wool. (10 marks)
- B. Calculate the taxable income of farmer Wandile Kunene for the year ended 30th June 2011. (20 marks)

Total for the question

(30 marks)

QUESTION 2:

Set out below is the Income Statement of Siteki (Pty) Limited for its financial year ended 31st December 2010. It is a resident company in the Kingdom of Swaziland.

SITEKI (PTY) INCOME STATEMENT FOR THE YEAR ENDED 31.12.2010

	E	E
INCOME		
Dividends from Swazi quoted companies		5,000
Dividends from South African companies		7,000
Rentals from an immovable property in Maputo, Mozambique		36,000
Profit on sale of an old business premises (Note 1)		212,000
Profit on sale of a motor car (Note 3)		35,000
Net income from trading activities (before deducting the expenditure and losses below)		<u>618,000</u>
		913,000
LESS EXPENDITURE AND LOSSES		
Depreciation		
Warehouse building used for the storage of trading stock	16,000	
Equipment	22,000	
Vehicles	44,000	
Loss on sale of delivery van (also refer to Note 3)	25,000	
Provision for doubtful debts (Note 4)	7,000	
Damages and compensation (Note 5)	55,000	
Bad debts written off (Note 6)	9,000	
Rates on the Maputo property	4,000	
Repair and maintenance of Maputo property	5,000	
Basic salaries to employees	100,000	
Employer pension contribution (25% of the basic salaries) Note 7	25,000	
Lease premium (Note 8)	<u>18,000</u>	
Total expenses	330,000	330,000
NET INCOME FOR THE YEAR		583,000

NOTE 1:

The profit on sale of an old premises was arrived as follows:

The building was sold on 1st July 2010. The tax value of the premises at 1st July was E230,000

	E
Written down cost value /or tax written down value	<u>230,000</u>
Proceeds from sale	<u>442,000</u>
Profit on sale	<u>212,000</u>

NOTE 2:

The rates of depreciation written off for assets and articles used by Siteki (Pty) are similar to the wear and tear allowances used by the Income Tax Department.

NOTE 3 :

The profit and loss on the sale of motor vehicles were arrived at as follows:

	E	E
	Motor car	Delivery van
Purchase price	<u>150,000</u>	<u>180,000</u>
Depreciation to date before sale/tax writing down wear allowances	<u>30,000</u>	<u>36,000</u>
Book or tax written down value	<u>120,000</u>	<u>144,000</u>
Proceeds of sale	<u>155,000</u>	<u>119,000</u>
Profit or (loss)	<u>35,000</u>	<u>(25,000)</u>

The motor car and delivery van were sold on 1.1.2010. They were sold one year after they were bought.

NOTE 4 :

The provision for doubtful debts of E7,000 is based on a 5% of sales.

NOTE 5 :

Damages and compensation is made up as follows:

- a. E30,000 was paid as a compensation to a previous Maputo tenant for the waiver of his legal right to continue in occupation for a further one and half years.
- b. E15,000 was paid being damages paid to a customer under contractual guarantee given by Siteki (Pty) Limited.

NOTE 6 :

The bad debts written off of E9,000 are made up of trade debts of E6,000 which proved to be bad, and a E3,000 loan to an absconded ex employee.

NOTE 7.

There was no employee contribution to the pension scheme.

NOTE 8:

The lease premium of E18,000 was paid on 1.1.2010. It was paid for the premises currently used by Siteki (Pty) Limited. It is for a period of 6 years.

NOTE 9

Siteki (Pty) Limited has an assessed loss of E15,000 brought forward from its year 2009 profit and loss assessment.

REQUIRED :

Calculate the company tax payable by Siteki (Pty) Ltd for the year ended 31.12.2010.

(30 marks)

QUESTION 3:
REQUIRED :TAX PLANNING COMPUTATIONS

- A. Mr and Mrs Simelane are a married couple who work for two (2) separate employers. Mr.Simelane would be 64 years old as at 30th June 2011.Mrs. Simelane would be 59 years as at 30th June 2011.The income and expenses of these two employees before income splitting was as follows for the year ended 30th June 2011.

TYPE OF INCOME/EXPENSE OR BENEFIT OF MR.SIMELANE	E
Basic salary of Mr.Simelane	200,000
5 bedroom house provided by the employer at Pine Valley,Mbabane with a lot of 1,700 sq meters and a built up surface area of 300 sq meters	
School fees paid by employer for Mr Simelane's children	35,000
School travelling expenses of Mr. Simelane's children	20,000
Rent income from a rented house owned by Mr Simelane	48,000
Expenses of a rented house	(12,000)
Investment income of Mr Simelane.The investment is in Swaziland	25,000
Net farming income.	40,000
Lunch provided by the employer in the canteen of the employer	20,000

TYPE OF INCOME/EXPENSE OR BENEFIT OF MRS SIMELANE	E
Basic salary	40,000
House allowance instead of an employer's house	10,000
Value of lunches provided by the employer at the canteen owned by the employer	5,000

REQUIRED :Calculate the total tax payable by the Simelane,s family for the year ended 30th June 2011.

(10 marks)

B :
REQUIRED :

Suppose Mr Simelane had decided to split,and transfer to his wife the farming income, and the investment income,what would the tax payable by the Simelane family be?

(10 marks).

Total for the question (20 marks)

QUESTION 4:
REQUIRED :

With SACU in mind calculate the Emalangeni Exercise Duties, and Custom Duties that would be collected from the following transactions.

1	Importation of 10 motor vehicles each capable of transporting 10 or more persons including a driver that would have the recommended total retail price (exclusive of sales tax) of E1,000,000. The total value for Ad Valorem custom duty purpose would be E750,000.
2	Importation of 20 motorcycles with reciprocating internal combustion engine capacity of 800 cc .They were valued at a total of E200,000.
3	Importation of perfume and toilet water valued at a total value of E5,000.
4	Importation of 25 air conditioning machines of the wall type-split systems used in buildings valued at a total value of E50,000.
5	Importation of refrigerators, and freezers worth a total value E25,000.
6	Importation of 1,000,000 "Rothmans" cigarettes (individual cigarette sticks) valued at a total value of E10,000,000.
7	Importation of 200kgs "Havana" cigars valued at a total value of E150,000.
8	Importation of 2,000 litres of sparkling wine valued at a total value of E1,000,000.
9	Importation of 3,000 litres of fortified wine of a total value of E300,000
10	Importation of 1,500 litres of distilled wine of a total value of E225,000
11	Importation of 1000 litres of "Waragi" spirit from cane sugar, s molasses. The tourists from Europe had an affection for the spirit. The spirit had 95% absolute alcohol. It was valued at a total value of E100,000.
12	Importation of firearms of a total value of E50,000..
13	Importation of 10 Nokia cell phones valued at a total value of E40,000
14	Importation of articles and equipment for general physical exercise, gymnastic, and other sports of a total value of E30,000

(20 marks)

TOTAL FOR THE PAPER

(100 marks)

RATES OF NORMAL TAX FOR INDIVIDUAL PERSONS OTHER THAN COMPANIES OR TRUSTS (WITH EFFECT ON JULY 1ST 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 100,001	23,000 +33% of the excess over 100,000
	In the year of assessment 2010/2011 certain benefits are taxed at 100% of the benefit value.

SCHEDULE A:

Rental category	Floor area	Area A Taxable benefit per month	Area B Taxable benefit per month	Area C Taxable benefit per month
Prime location 3-5 bedrooms 2-3 bathrooms Double garage Servant quarters Secure perimeters 1,500 sq.m and above lot	250 sq.m and above	E 4,607	E 3,915	E 2,740
As above, but smaller	200-249 sq.m	4,145	3,524	2,465
3 bedrooms 2 bathrooms a garage Servant quarters Secure perimeter 700 sq.m and above lot	159-199 sq.m	3,686	3,133	2,193
Lesser than prime location 3 bedrooms 1-2 bathrooms 700 sq.m and above lot	120-158 sq.m	3,190	2,710	1,899
2-3 bedrooms 1 bathroom or shower	100-119 sq.m.	2,393	2,033	1,422
2-3 bedrooms 1 bathroom or shower	70-99 sq.m	1,612	1,370	960
2-3 bedrooms 1 bathroom or shower	40-69 sq.m	1,330	1,129	790
1 bedroom	69 sq.m and above	910	773	542
1 bedroom	Under 69 sq.m	761	648	452
Bedsitters	Under 69 sq.m	531	452	317
Quarters	Under 69 sq.m	213	180	110

THE STANDARD VALUES OF LIVESTOCK

Description of livestock		Standard value Emalangeni
Cattle	Bulls (uncastrated male cow)	720
	Oxen (castrated male cow used for draught)	440
	Cows (fully grown female of a bovine animal)	440
	Tollies and Heifers 2years (heifer a young cow especially one that has not had more than one calf)	280
	Tollies and Heifers 1 year	200
	Calves under 1 year	120
Sheep	Wether (castrated ram-old English)	60
	Rams (uncastrated male sheep)	100
	Ewes (female sheep-old English)	40
	Lambs (young sheep)	10
Goats	Fully grown	40
	Kids under 1 year	10
Horses	Stallion 4 years and over (uncastrated adult male horse)	600
	Mares 4 years and over (female horse)	400
	Gelding 3 years and over (castrated horse)	300
	Colts and fillies 3 years (colt-young male horse, filly young female horse)	300
	Colts and fillies 2 years	200
	Colts and fillies 1 year	150
	Foals under 1 year (young male horse)	60
Donkeys	Jacks over 3 years (Jack ass-male donkey)	15
	Jacks under 3 years	10
	Jennies over 3 years (jennies-female donkeys)	15
	Jennies under 3 years	10
	Foals under 1 year (foal-young of a horse or related animal)	5

Standard values continued

Description of livestock		Standard value Emalangen
Mules	Over 4 years (mule-generally offspring of a female donkey and male horse, but could be offspring of male donkey and female horse)	300
	3 years to 4 years	200
	2 years to 3 years	150
	Under 2 years	60
Pigs	Over 12 months	250
	Under 12 months	50
Poultry	Over 9 months	5

AC405:ADVANCED TAXATION,A SAMPLE OF CUSTOMS AND EXERCISE TARRIF (TAX RATES)
SCHEDULE 1/PART 1

SPECIFIC EXERCISE DUTIES,AND SPECIFIC CUSTOMS DUTIES ON IMPORTED GOODS OF THE SAME CLASS OR KIND

Tariff Item	Tariff heading	Article Description	Rate of Duty	
			Excise	Customs
104		PREPARED FOODSTUFFS;BEVERAGES,SPIRITS AND VINEGAR; AND TOBACCO		
104.01				
104.01	19.01	Malt extract;food preparations of floor,groats, meal,starch or malt extract		
104.1	22.03	Beer made from malt		
	0.1	Traditional African beer (such as Chibuku or mkhombози)	7.82c/li	7.82c/li
	0.2	Other such as the Nubian gin (burn with blue flame)	3667.82c/li	3667.82c/li
104.15	22.04	Wine of fresh grapes,including fortified wines		
	22.05	Vermouths and other wine of fresh grapes flavoured with plants or aromatic substances		
	0.02	Sparkling (appear to emit sparks) wine such as the champagne wine	465.58c/li	465.58c/li
	0.04	Unfortified wine	158.09c/li	158.09c/li
	0.06	Fortified wine (increase the strength/wine value by vitamins etc)	287.88c/li	287.88c/li
104.17	22.06	Other fermented beverages (for example,cider,perry, mead);mixtures of fermented beverages and non alcoholic beverages		
	0.15	Other fermented beverages,unfortified	183.38c/li	183.38c/li
	0.17	Other fermented beverages,fortified	365.35c/li	365.35c/li
	0.22	Mixtures of fermented beverages and non alcoholic beverages	183.38c/li	183.38c/li
104.2	22.07	Undenatured ethyl alcohol of an alcoholic strength by volume of 80% volume or higher;ethyl alcohol and other spirits,denatured,of any strength: (Natured adj.(in comb.) having a specified disposition (good-natured)		
	22.08	Undenatured ethyl alcohol of an alcoholic strength by volume of less than 80% volume;spirits,liquers and other spirituous beverages:		
	0.1	Wine spiritis,manufactured by distillation of wine eg. the French brandy of Cavoiseur (favoureb by Napoleon)	5521.00c/li	5521.00c/li
	0.15	Spiritis,manufactured by distillation of any sugar cane product eg.Konyagi of Tanzania,a corruption from the French brandy name of Cognac.It has a lucrative export potential even in SD.	5521.00c/li	5521.00c/li
	0.25	Spiritis,manufactured by distillation of any grain product	5521.00c/li	5521.00c/li
	0.29	other spirits	5521.00c/li	5521.00c/li
	0.4	Liquers and other spirituous beverages	5521.00c/li	5521.00c/li
104.3	24.02	Cigars,cheroots,cigarillos and cigarettes,of tobacco or tobacco substitutes:		
	0.1	Cigars,cheroots and cigarillos,of tobacco etc	148515.70c/kg net	148515.70c/kg net
	0.2	Cigarettes,of tobacco substitutes	278.04c/for 10 cigarettes	278.04c/for 10 cigarettes
104.35	24.03	Other manufactured tobacco and tobacco substites, reconstructed tobacco,tobacco extracts and essences:		
	0.1	Cigarette tobacco and substitutes	15649.41c/kg	15649.41c/kg
	0.2	Pipe tobacco and substitutes etc	8261c/kg net	8261c/kg net

105		MINERAL PRODUCTS		
105.1	27.1	Petroleum oils and oils obtained from bituminous minerals, other than crude		
	0.03	Petrol, as defined in Additional Note 1(b) to chapter 27	3.909c/li	3.909c/li
	0.09	Aviation kerosene (for aircraft), as defined in Additional Note 1(d) to chapter 27	free	free
	0.13	Illuminating kerosine, as defined in Additional Note 1(f) to chapter 27, marked	free	free
	0.15	Illuminating kerosine, as defined in Additional Note 1(f) to chapter 27, unmarked	3.817c/li	3.817c/li
106				
106.1	29.03	Halogenated derivatives of hydrocarbons:		
	0.03	Carbon tetrachloride	500c/kg	500c/kg
	0.05	1,1,1-Trichloroethane (methyl chloroform)	500c/kg	500c/kg
106.2	38.24	Prepared binders of foundry moulds or cores; chemical products and preparations of the chemical or allied industries not elsewhere specified or included		
	0.1	Mixtures containing acyclic hydrocarbons	500c/kg	500c/kg
	0.2	Mixtures containing dichlorodifluoromethane	500c/kg	500c/kg
	0.4	38.24 Biodiesel as defined in Additional note 1(a) to chapter 38	3.817c/li	3.817c/li
	0.5	38.24 Other biodiesel	3.817c/li	3.817c/li

SCHEDULE 1/PART 2/SECTION B					
AD VALOREM EXERCISE DUTIES, AND AD VALOREM CUSTOMS DUTIES ON IMPORTED GOODS OF THE SAME CLASS OR KIND					
Tariff item	Tariff Heading	Sub Heading	Article description	Rate of duty	Rate of duty
118.15	33.03	3303	Perfumes and toilet water	7%	7%
118.2	33.04		Beauty or made up preparations for the care of the skin(excluding medicaments),including usunscreen or suntan preparations;manicure or pedicure preparations		
		3304.1	Lip make up	5%	5%
		3304.2	Eye make up	5%	5%
		3304.3	Manicure or pedicure	5%	5%
118.33	36.04		Fireworks,signalling flares,rain rockets,fog signals and other pyrotechnic articles		
		3604.1	Fireworks	7%	7%
120.1	43.03		Articles of apparel,clothing accessories and other articles of furskin		
		4303.1	Articles of apparel and clothing asessories	7%	7%
120.15	43.04		Artificial fur and articles thereof	7%	7%
		4304	Articles of apparel and clothing asessories	7%	7%
124.05	84.15		Air conditioning machines of a kind used in buildings,comprising a motor driven fan and elements for changing the temperature and humidity		
		8415.1	Window or wall types,self contained or "split systems",having a rated cooling capacity not exceeding 8.8 kW	7%	7%
		8415.8	Other,having a rated cooling capacity not exceeding 8.8 kW	7%	7%
124.07	84.17		Refrigerators,freezers and other refrigerating or freezing equipment,electric or other;heat pumps other than air conditioning machines		
		8418.6	Other refrigerating or freezing equipment and heat pumps	7%	7%
124.37	85.17		Telephone sets,including telephones for cellular networks or for other wireless networks		
		8517.11	Line telephone sets with cordless hand sets	7%	7%
		8517.12	Telephones for cellular networks or for other wireless networks	7%	7%
124.4	85.18		Microphones and stands therefor,loud-speakers;headphones and earphones		
		8518.2	Loudspeakers	7%	7%
		8518.4	Audio-frequency electric amplifiers	7%	7%
		8518.5	Electric sound amplifiers sets	7%	7%
126.02	87.02	8702	Motor vehicles for transport of 10 or more persons including the driver	((0.00003*A)-0.75) % with a maximum of 20%	((0.00003*B)-0.75) % with a maximum of 20%
			"A" means the recommended retail price, exclusive of value added tax,less 20%. "B" means the value of the ad valorem custom duty purposes as prescribed in section 65(8)(a).		
126.1	87.11		Motorcycles (including mopeds)and cycles fitted with auxillary motor		
		8711.20.90	With reciprocating internal combustion piston engine of capacity 200cc or more	5%	5%
		8711.5	With reciprocating internal combustion piston engine of capacity 800cc or more	7%	7%
		8711.90.30	other,of a cylinder capacity of 200cc or more but nit exceeding 800cc	5%	5%
129.1	93.02	9302	Revolvers,pistols and firearms	7%	7%

130.1	95.04	Articles for funfair,table or parlor games, including pintables,billiards,special tables for games and automatic bowling equipment		
	9504.1	Video games of a kind used with a television receiver	7%	7%
	9504.3	Other games of chance,operated by means of coin,encoded magnetic strip,smart cards or other tokens		
	9504.9	Video games with self contained screen and games of skill or chance with an electronic display	7%	7%
130.15	95.06	Articles and equipment for general physical exercise,gymnastic,other sports		
	9506.32	Golf balls	7%	7%