
UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING & FINANCE

SUPPLEMENTARY EXAMINATION PAPER

JULY 2015

DEGREE/YEAR OF STUDY:		BACHELOR OF- COMMERCE YEAR III/DIPLOMA IN COMMERCE YEAR IV
TITLE OF PAPER	:	INTRODUCTION TO TAXATION/TAXATION FOUNDATIONS
COURSE CODE	:	AC318/ IDE AC 315 (S) JULY 2015
TOTAL MARKS	:	100 MARKS
TIME ALLOWED	:	THREE (3) HOURS
INSTRUCTIONS	1	There are three (3) questions. Answer all.
	2	Begin the solution to each question on a new page.
	3	The marks awarded for each question are indicated at the end of the question.
RECOMMENDATION	1	Reading time should not exceed fifteen minutes

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

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

SPECIAL REQUIREMENTS: NONE

QUESTION 1

Sibanyoni Thembumenzi (Who was 35 years on 30 June 2015) is employed as the country Manager for Lewis Furniture Swaziland. He had the following particulars for the year ended 30 June 2014.

1. He had a basic salary monthly salary of E 200 000 for the tax year ended 30 June 2015 from Lewis.
2. He uses his Ford Ranger 3200cc for the employer's business. The car was acquired at a VAT inclusive value of E 500 000 from Carson Motors on 01 July 2014. He does not maintain a log-book.
3. He received an annual car allowance of E 200 000
4. His employer provided him with a 4 bedroom house. It was situated in the exclusive suburb of Coates Valley. The property was rented from Mr. S Dlamini (A Landlord) by Lewis Furniture. It has a lot size of 1 600 sq.m and its floor area was 300 sq.m. Mr. S Dlamini charged rental of E 10 000 per month for offering the accommodation.
5. He was advanced E 50 000 for entertaining business customers. He could only account for E 30 000.
6. He enjoyed the following services courtesy of his employer
 - i) In-house maid- The maid was paid a weekly salary of E 1 500 and had her son's school fees of E 5 000 paid for by Lewis Furniture at the behest of Thembumenzi.
 - ii) 16 hour Security- 4 Him security provided this service at a monthly cost of E 1 000 for an eight hour day.
 - iii) Telephone costs- E 35 000 per year
7. The employer had extended a loan of E 150 000 with no interest. The Central Bank of Swaziland average discount rate for the 2015 tax year was 5%.
8. Lewis Furniture contributed E 18 000 to Swazi med for the benefit of Thembumenzi's family.
9. Thembumenzi acts as the Ambassador of Kuwait to Swaziland. He received 150 000 Kuwait Dinars during the tax year under review. The Kuwait Dinar is the highest valued currency in the world. The average exchange rate to the Swazi Lilangeni was 1:41.24 during the year.
10. Lewis Furniture paid for the transportation to school for Thembumenzi's children during the year. This privilege was extended to the other staff members on equal terms. Each employee would have paid E 500 for an equivalent service on market terms. Thembumenzi has 3 Children.

11. He had a house in Mbabane which he rented out to tenants. The annual rental from this house for the 2014 financial year was E 150 000. Rent for two months was outstanding at 30 June 2014.
12. He received a dividend of R 150 000 from First rand Limited, a South African company.
13. He received interest of E 15 000 from his unit trust investments with African Alliance.
14. He received E 1 000 interest income from his savings at the First National Bank of Swaziland.
15. He received E 55 000 alimony payments from his Ex-Wife. His ex-wife is a high ranking official in Saudi Arabia. The divorce decree had been granted by the high court in Swaziland.
16. He incurred E 45 000 for medical expenses at Mbabane clinic. This money could not be recovered from his medical aid. His employer reimbursed 55% of this amount. This 55% represents the maximum fee that was to be paid by Lewis Furniture in accordance with their standard employment contract for all employees.
17. The total expenses of the Mbabane property were E 120 000. All this expenses qualify for deductions under section 14 of the income tax order.
18. He contributed 9% of his gross salary to the Lewis Furniture employee's pension fund
19. He had a mortgage loan with Swaziland building Society and paid interest of 20 000.
20. He joined the dups funeral scheme and paid E 5 000 premiums during the year. You can assume that the commissioner deems this scheme to meet the definition of insurance against death.
21. Pay as you earn of E 289 811 has been deducted from Sibanyoni Thembumenzi's salary.

Required:

Compute the tax liability for Sibanyoni Thembumenzi for the year ended 30 June 2015.

Total:

[60 Marks]

QUESTION 2

In the following five cases studies, the inclusion of the amounts in “Gross income” is in question. All the taxpayers are residents in Swaziland.

1. Ciniso Makama, who carries on business as a second-hand car dealer, sold his private (family) car for E 130 000.
2. Mphumelelo Shongwe has a furniture shop in Bloemfontein. During the current year of assessment He sold a bedroom suite to a customer for E 5 000. The customer paid E 4 000 in cash and Mphumelelo accepted the customer’s second-hand bedroom suite as a trade-in for the balance of E 1 000. Three days later He sold this three bedroom suite to another customer for E 1 500.
3. Nomzamo Ltd carries on the business of structural engineers specializing in the erection of aviaries. On 14 June 2015, two weeks before the end of the year of assessment, it completed the erection of an aviary for bird-viewers club. In terms of the contract, 95% of the contract price is due and payable on completion of the aviary and 5% of the contract price is to be retained as “retention moneys” until a final certificate is issued by the engineers six months after the erection of the aviary. The contract price of the Bird-viewers club contract was E 100 000.
4. Nightlife (Pty) Ltd sells fashion garments. On 25 June 2015, it sold a collection of evening outfits on credit to the Pretoria model agency for E 60 000. In terms of this contract of sale, Nightlife (Pty) Ltd undertook to deliver the evening outfits to the Pretoria Model Agency on 03 July 2015- which in fact it did.
5. Siboniso Mavimbela requires a deposit of 5% on orders placed by his customers for fresh eggs and farm chickens. Should the customer cancel the order, he forfeits the deposit. During June of the current year of assessment, he accepted deposits amounting to E 5 000 for deliveries to be made in July of the following year of assessment.

Required:

Determine, in each of the above studies, the amounts to be included in Gross Income of the taxpayers in question for the 2015 year of assessment.

Total:

[25 Marks]

QUESTION 3

- i) Briefly discuss the concepts of tax evasion and tax avoidance **[5 Marks]**
- ii) Discuss at least five methods through which tax can be avoided

[10 Marks]

Total:

[15 Marks]

SCHEDULES

A

RATES OF NORMAL TAX FOR INDIVIDUALS

Taxable Income Exceeds	But does not exceed	Rates
E0	E100 000	0 + 20% of the excess of E0
E100 000	E150 000	E20 000 + 25% of the excess of E100 000
E150 000	E200 000	E32 500 + 30% of the excess of E150 000
E200 000		E47 500 + 33% of the excess of E200 000

B

Rental Category	Floor Area	Area A Taxable Benefit / Month (E)	Area B Taxable Benefit / Month (E)	Area C Taxable Benefit / Month (E)
Prime location 3-5 bedrooms 2-3 bathrooms Double garage Servant quarters Secure perimeter 1 500 sq.m and above lot	250sq.m and above	4 607	3 915	2 740
As above, but smaller	200sq.m and above	4 145	3 524	2 465
3 Bedrooms 2 Bathrooms A garage Servants quarters Secure perimeter	150sq.m and	3 686	3 133	2 193

700 sq.m and above lot	above			
Lesser than prime location 3 Bedrooms 1-2 Bathrooms 700 sq.m and above lot	120sq.m and above	3 190	2 710	1 899
2-3 Bedrooms 1 Bathroom or shower	100sq.m and above	2 393	2 033	1 422
2-3 Bedrooms 1 Bathrooms	70-100sq.m	1 612	1 370	960
2-3 Bedrooms 1 Bathrooms	40-70sq.m	1 330	1 129	790
1 Bedroom	70sq.m and above	910	773	542
1 Bedroom	Under 70 sq.m	761	648	452
Bedsitters	Under 70 sq.m	531	452	317
Quarters	Under 70 sq.m	213	180	110

In this schedule, the locations are designated in categories A, B, C, and are detailed as follows:

Area A: is accommodation or housing situated in the residential areas of Mbabane Municipal area, Waterford, Pine Valley, Coates Valley, Extension 6, Madonsa Township, Thomasdale and within ten kilometres from the old Mbabane/Manzini road.

Area B: is accommodation or housing situated in the residential areas of Manzini and surrounds; except Coates Valley, Extension 6, Madonsa Township and Thomasdale.

Area C: is accommodation or housing situated in the major agricultural and industrial sectors and other towns.

2. MOTOR VEHICLE BENEFITS

The benefits are as follows:

Private Use of Motor Vehicle (including aircraft)

Where the motor vehicle (or aircraft) is available for use both for work and private purposes. The formula is as follows:

$$(20\% \times A \times B/C) - D$$

Where:

A is the market value of the motor vehicle at the time it was first provided for the private use of the employee

B is the number of days in the year of assessment on which the motor vehicle was used or available for use for private purposes by the employee for all or part of the day

C is the number of days in the year of assessment

D is any payment made by the employee

Note the following

- Market value of the car is the cost to the employer at the time it was first provided to the employee
- Second Hand cars values are shown in the Auto Dealer's Guide
- Where an employee is provided with more than one car, the taxable benefit shall be evaluated on an individual basis.

Employee using personal motor vehicle on employer's business

$$A = B - \left(\frac{C \times D}{E} \right)$$

Where

A is the amount to be included in taxable income

B is the car allowance received (car allowance includes all cash allowances plus market value of any free benefit i.e. free fuel)

C is the actual expenditure on fixed and running cost (net of any recoupments) or is the deemed fixed and running costs where accurate records are not kept

D is the business mileage recorded in a log book or number record; or the deemed business is mileage of **6000 km** where accurate records are not kept

E is the total mileage; or deemed total mileage of 24 000 km where accurate records are not kept

Cost of motor vehicle means the costs as quoted by the manufacturer or what the purchaser paid including VAT/Sales Tax, air conditioners, radio tape, alarm and excluding finance charges (bank loan)

Deemed expenditure is determined on the following basis:

Fixed Costs: 25% of the original cost of the motor vehicle in each year

Running costs per km: up to 1600cc	54c per km
1600cc to 2000cc	76c per km
Over 2000cc	85c per km

The rule does not apply to the following circumstances:

- The employee in terms of the written employment contract is required to have such a motor vehicle for the performance of employee's duties.
- The size and type relates to duties to be performed in terms of the contract of employment
- The employee uses the motor vehicle for the employer's business.
- The employee is required to keep a record of the millage in respect of business and private use.