
UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING & FINANCE

MAIN EXAMINATION PAPER

DECEMBER 2014

DEGREE/YEAR OF STUDY:	BACHELOR OF- COMMERCE YEAR III/DIPLOMA IN COMMERCE YEAR IV
TITLE OF PAPER	: INTRODUCTION TO TAXATION
COURSE CODE	: AC318/ IDE AC 315 (M) DECEMBER 2014
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. 4 Show all your workings. 5 Calculations are to be made to zero decimal places of accuracy, unless otherwise instructed.
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: CALCULATOR

Question 1

Mqiniseli Dlamini immigrated to Swaziland from Russia on 30 June 1999. He has been an employee of Shoprite from that date rising through the ranks to his current position of Manager in charge: Swaziland operation. The following income particulars for the year ended 30 June 2015 relate to Mqiniseli.

1. According to his employment contract commencing on the 01st of July 1999, he was entitled to a monthly salary of E 40 000 escalating by 10% for each completed year of service (yearly increment), such increment being based on the monthly salary of the last month of the preceding financial year. No changes were made to this contract. He was also entitled to a car allowance of E 2000 which also escalates on the same basis.
2. He received a long service award payment of E 120 000 during the year.
3. He received an alimony payment of E 150 000 from his former wife.
4. His employer provided him with a car for official and personal use. It has a capacity of 3500cc and it cost the employer E 1*000 000. He contributed E 500 per month towards its maintenance.
5. His employer paid him E 5 000 per month for the use of his own house as official accommodation.
6. The employer provided and paid for the following:
 - i) Maid @ E 2 000 per month
 - ii) Gardner @ E 1 000 per month
 - iii) Security guard @ E 1 500 per month
 - iv) Telephone @ E 500 per month
 - v) Electricity @ E 1 000 per month
7. He was advanced E 20 000 for the entertainment of a business client. He has failed to produce any invoices to support the incurrence of expenditure for this purpose.
8. He ceded the rights to the income of his residential flats to his 15 year old son, Ayanda. The total received from the rental business was E 15 000 during the tax year.
9. Deductible expenditure incurred in the rental business was E 16 200.
10. Mqiniseli was part of top management. He was granted an option in the 2015 year of assessment to acquire 1 000 shares in Shoprite Swaziland for E 10 per share on condition that the sales for the half year period ending 31 December 2014 should exceed E 15 000 000. The actual sales were for E 25 000 000. He exercised 80% of these options and sold the remainder to Class Rep, another member of the executive for E 20 per share. He retained neither further rights nor obligations in relation to these shares. The value for each share at exercise date was E 100.
11. The employer extended an interest free loan 01 January 2015 to enable Mqiniseli to exercise his share options (Exercise date for the shares). The loan was for value of the shares. The entire loan balance was waived by the employer on retirement date.

12. The employer paid E 4 500 as education fee expenses (within an approved bursary scheme) for Ayanda.
13. The employer contributed 19% of Mqiniseli' s basic salary as a pension to the Shoprite employees' pension fund (This fund is recognised by the registrar of Insurance and Retirement funds)
14. Mqiniseli acts as the ambassador of Russia in Swaziland. He was paid E 60 000 for that Job.
15. He was rewarded E 50 000 as copyright royalties for his book on the income tax in Swaziland.
16. He leased out construction equipment for E 25 000. Its annual maintenance was E 9 000.
17. He received E 10 000 from a Swaziland quoted company which had complied with the requirements of section 32D.
18. He received E 15 000 as interest income from permanent period shares with Swaziland Building Society, E 12 000 from savings with Swaziland Development and Savings bank, and E 6 000 from a fixed deposit account with First National Bank of Swaziland.
19. He received a collection of Vodka from a distant relative in Russia worth E 600 000.

The following expenses were incurred by Mqiniseli,

- 1) He contributed to E 600 to a registered medical fund. His employer contributed the balance of E 1200.
- 2) He incurred E 4 000 repairing his accident damaged vehicle. The vehicle was fully insured.
- 3) He contributed 10% to the pension fund.
- 4) PAYE of E 700 000 has been deducted from his salary.

Required:

Compute the tax payable by Mqiniseli for the year ended 30 June 2015.(You may assume that there will be no change in legislation between 2014 and 2015)

[60 Marks]

Question 2

Part A

1. Nomphumelelo Limited is a company involved in a manufacture of wooden fencing. On 01 February 2014 it completed a wooden fence for erection around a cricket field at a cost to itself of E 12 000. At its tax and financial year-end of 28 February 2014 the fair value of this fence was E 15 000. On 10 March 2014 the fence was sold and delivered to a cricket club for E 15 000.
2. Bianca Limited carries on the business of a building contractor specializing in the construction of sports pavilions. On 31 January 2014 it completed the building of a pavilion for Oval cricket club. In terms of the building contract, 90% of the contract price is due and payable on the completion of the Pavilion and 10% of the contract price is to be retained as 'retention moneys' until a final certificate is issued by the engineer six months after the completion of the building. The contract price of the Oval cricket club contract is E 1 125 000. Bianca's year of assessment ends on the last day of February each year.

Required:

Apply the 'entitlement' principle to each of the above two cases to determine the date of the accrual of the amount in question.

[10 Marks]

Part B

1. Mavuso Lwazi, a law abiding Swazi resident, has recently formed his own security business. The Swaziland Investment Promotion Authority (SIPA) has agreed to assist Lwazi with her business venture. It has approved a medium term loan that will be used by Lwazi to finance the costs of setting up his new business. On 01 March 2014 Peter received a loan of E 18 000 from SIPA.
2. Bhembe Lucky, a Swazi resident, is fulfilling a lifelong ambition by walking through all the rural areas in Swaziland. In order to do this he had to take leave of absence from the University of Eswatini where he had worked for a number of years. He had been earning a salary of E 15 000 a month from the bank. The bank has agreed to pay Lucky E 12 000 a month throughout the period he is on his walk subject to the condition that he must work for the bank for a similar period after his walk and must also wear the logo of the bank on his back pack. Should he break this agreement, Lucky will be required to repay the bank an amount calculated by multiplying E 12 000 by the number of months he failed to work for the bank in terms of his agreement. During the current year of assessment, Lucky received E 144 000 from the bank. He did not spend this E 144 000 but deposited

into a separate savings account in a bank in order to be able to repay it should the occasion arise.

3. Sihle Estate Agents collects rentals on behalf of a number of property owners. During the current year of assessment it received E 216 000 from the tenants occupying the flats and houses belonging to property owners. It kept E 10 800 being its commission on the rentals collected and paid over E 205 200 to the property owners.

Required:

Discuss whether or not the amounts referred to in the above three cases constitute 'gross income' in the hands of the respective recipients.

[15 Marks]

Total:

[25 Marks]

Question 3

'In order for a tax system to function effectively and efficiently, certain standards (Canons) have to be complied with'

Required:

Analyze the statement above with reference to the canons as articulated by Adam Smith.

[15 Marks]

SCHEDULES

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

1. Tax payable by a natural person will be reduced by a tax rebate amount not exceeding E8 200 per tax year.
2. Tax rebate in respect of retiring individuals is E2 700 in excess of the normal rebate.

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	250sq.m and above	4 607	3 915	2 740

above lot				
As above, but smaller	200sq.m and above	4 145	3 524	2 465
3 Bedrooms 2 Bathrooms A garage Servants quarters Secure perimeter 700 sq.m and above lot	150sq.m and above	3 686	3 133	2 193
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

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

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.