

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
MAIN EXAMINATION PAPER DECEMBER 2014

DEGREE/ DIPLOMA AND

YEAR OF STUDY : B. COM LEVEL 6

TITLE OF PAPER : TAXATION 1

COURSE CODE : AC419 (M) DECEMBER 2014

TOTAL MARKS : 100 MARKS

TIME ALLOWED : THREE (3) HOURS

- INSTRUCTIONS
- 1 There are four (4) questions, answer all.
 - 2 Begin the solution to each question on a new page.
 - 3 The marks awarded for a question are indicated at the end of each question.
 - 4 Show the necessary working.
 - 5 Calculations are to be made to zero decimal places of accuracy, unless otherwise instructed.

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.

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SPECIAL REQUIREMENTS: CALCULATOR

Question 1**(20 Marks)**

With reference to relevant court cases briefly discuss the following essential elements of the General Deduction Formula.

- a) Actually incurred (5 Marks)
- b) In the production of income (5 Marks)
- c) Not of a capital nature (5 Marks)
- d) During the year of assessment (5 Marks)

Question 2**(25 Marks)**

Sidney who has been recently employed by the MTN- Swaziland has approached you to assist him determine how much tax he has to pay to the SRA. He has the following incomes, Benefits and outgoings/deductions.

Income and Benefits**(E)**

i.	Basic salary	250,000
ii.	Income from a block of flats situated in Mbabane	300,000
iii.	Gross winning from crossword puzzle	350,000
iv.	Interest from African Alliance	5,000
v.	Income from sale of his residential home situated in Manzini	1,000,000
vi.	Employer provides a 4 Bedroom house situated at Pine Valley in Mbabane	
vii.	The employer pays for his Domestic Servants	
	a. House assistant E 750 per month	
	b. Gardner E 500 per month	
viii.	The Employer pays school fees for his children amounting to 30,000	
ix.	Business income from his registered business in South Africa	100,000

Outgoings :

i.	Contribution to Swaziland National Provident Fund	980
ii.	Contribution to an approved pension fund	30,000
iii.	City council rates	15,000
iv.	He contracted Guard Alert Security PTY Ltd for the block of flats in Mbabane and paid:	45,000
v.	Paid a Commission to Mr Khumalo for the sale of her Private house in Manzini	10,000

vi.	PAYE	35,000
vii.	Provisional tax	20,000

Notes

- a) The rates includes rates which were paid in respect of his residential home in Manzini amounting to E2,500 and the rest was for the block of flats situated in Mbabane.
- b) In terms of the Income Tax Order 1975 contributions to an approved pension fund are to be limited to 10% of the basic salary

Required

- a) Determine the Normal Tax liability for Sidney for the year of assessment ended June 2014 tax payable or refund claimable.
- b) Determine Sidney's Tax outstanding or refund.

Question 3**(35 Marks)**

The Royal Swazi Sugar Cooperation (RSSC) (Pty) Ltd carries on the business of sugar producing at their Mills situated in Mhlume, Simunye and Big Bend. RSSC Statement of Comprehensive Income for the financial year ended 30 June 2014 is as follows;

Income	Notes	(E)	(E)
Domestic Sales		280,000	
Export Sales		300,000	
Sale of land owned by the company	1	500,000	
Income from a registered South African Branch	2	150,000	
			1,230,000
Expenditure			
Salaries and wages		420,000	
Rent	3	50,000	
Interest		25,000	
Electricity and Water		5,000	
Repairs	4	15,000	
Delivery costs		10,000	
Legal costs	5	7,000	
General expenses	6	40,000	
Bad debts written off	7	20,000	
Construction of storage house	8	80,000	
Purchase of Motor Vehicle for the Director	9	350,000	
Purchase of New Machinery	10	120,000	
Provision for Doubtful debts		4,000	
Overseas travelling costs	11	30,000	
Insurance		100,000	
Income Tax Liability	12	60,000	
Accounting fees		45,000	
Annuities former employees		10,200	
Depreciation	13	65,000	
Donations	14	10,000	
Net loss			(236,200)

Notes

- The land which was sold during the year was situated in Hhohho was sold to a group of Sugar cane growers

2. RSSC has a branch in South Africa and as a company policy they declare income received from the branch in their financial Statement. The branch is fully registered in the Republic of South Africa and conducts most of its business in the Republic.
3. **Rent:** 40% of the building on which rent was paid, were shut down at the beginning of the year of assessment, and have not been used ever since.
4. **The Repairs amount includes the following**

Replaced deteriorated carpets	6,000
Cash register repaired	5,000
Replaced glass windows with safety glas (there was nothing wrong with the windows)	4,000
5. **Legal costs is made up of the following**

Collection of debts	2,500
Attorney's fees to prevent the opposition to also sell Sugar	1,800
Attorney's fees to obtain new license from City Council	700
6. **General expenditure**

Subscription to flying club for the Managers	10,000
Income tax paid	25,000
Trade licence	5,000
7. **Bad debts**

Debtor, SNH Pty Ltd, insolvent: purchase sugar on credit	10,000
Debtor, Mr B, disappeared: purchased stock	6,000
Mr X, former employee who was given loan but later absconded	4,000
8. Construction of storage house 80,000
9. Purchase of Motor Vehicle for the Director 350,000
10. The machinery which was purchased during the year of assessment was approved by the Commissioner as qualifying for initial allowance
11. **Overseas travelling costs:** Directors' Holiday travel to the USA 30,000
12. The income tax liability was outstanding taxes for previous years 60,000
13. Depreciation was for business assets only
14. **Donations**

Miscellaneous donations	2,500
To the University of Swaziland	7,500

Required

With brief explanations Calculate the minimum tax liability for Manzini Pty Ltd for the year ended 30 June 2014

Question 4**(20 Marks)**

1. VAT is said to be destination based; with an illustration explain the meaning of this statement. (3 Marks)
2. Explain the importance of the following:- (3 Marks)
 - a. Place of Supply of goods
 - b. Time of supply of goods
 - c. Tax value
3. In terms of the VAT Act of 2011 (Sch 1 and 2) certain supplies of goods are Exempt and others are Zero Rated. In relation to a business person explain the differences between Zero Rated supplies and Exempt supplies; give 2 examples of each category of supplies.
(8 marks)
4. A VAT registered taxpayer has certain obligations that he has to meet. List 6 of such obligations. (6 Marks)

End of Exam

APPENDIX

1.

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 perimeter 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 sq.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 700sq.m and above lot	120sq.m and above	3 190	2 710	1 899
2-3 bedrooms 1 bathroom or shower	100 sq.m and above	2 393	2 033	1 422
2-3 bedrooms 1 bathroom or shower	70-100sq.m	1 612	1 370	960
2-3 bedrooms 1 bathroom or shower	40-70sq.m	1 330	1 129	790
1 bedroom	70sq.m and above	910	773	542
1 bedroom	Under 70sq.m	761	648	452
Bedsitters	Under 70sq. m	531	452	317
Quarters	Under 70sq.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 kilometers 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. Employee using personal vehicle on employer's business

- (1) Where an employee uses a personal vehicle on employer's business, the annual value of benefits attributable to such an employee for use of the vehicle for private purposes will be determined in accordance with the following formula –

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

Where,

- A. is the amount to be included in taxable income;
- B. is the car allowances received (car allowance defined as all cash allowances plus market value of any free benefit i.e. free fuel);
- C. is the actual expenditure on fixed and running costs (net of any recoupments); or
is the deemed fixed and running costs, where accurate records are not kept;
- D. is the business mileage as recorded in a log book or number record; or the deemed business mileage of 6 000 kilometres where accurate records are not kept;
- E. is the total mileage; or deemed total mileage of 24 000 kilometres where accurate records are not kept.

Deemed expenditure is determined on the following basis:

Fixed Costs: 25 per cent of the original cost to the taxpayer of the vehicle in each year.

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

3. Capital initial allowance 50% of the cost
4. Companies pay tax at the rate of 27.5%
5. Applicable Annual Tax Rates-Employment Income

Taxable income		Rate of tax	
EXCEEDS	BUT DOES NOT EXCEED		
E	E	E	
0	100 000	0	+ 20% of the excess over 0
100 000	150 000	20 000	+ 25% of the excess over 100 000
150 000	200 000	32 500	+ 30% of the excess over 150 000
200 000		47 500	+ 33% of the excess over 200 000

6. Rebates

- i. Primary Rebate
8,200
- ii. Secondary Rebate for the Elderly (60 yrs and above)
2,000
- iii. Contributions to pension fund are limited to 10% of basic salary
- iv. Provident fund and life insurance contribution combined are subject to a rebate of 10% of the amount contributed but limited to E360