
UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING & FINANCE

MAIN EXAMINATION PAPER

DECEMBER 2015

DEGREE/YEAR OF STUDY: BACHELOR OF- COMMERCE YEAR III/IDE
YEAR IV

TITLE OF PAPER : INTRODUCTION TO TAXATION/PRINCIPLES OF
TAXATION

COURSE CODE : AC318/ IDE AC 315/AC 318 (M) DECEMBER 2015

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 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: FINANCIAL CALCULATOR

Question 1

Siphesihle Maphanga was 59 years old on 30 June 2016 (Assume that the date today is 01 July 2016). Siphesihle was employed by UCS (Pty) Ltd until his retirement on 31 December 2015. On 01 January 2016 he started a business repairing electronic equipment.

Income accrued during the 2016 year of assessment:	Notes	E
Basic salary per month (Received from employer)		8,000
Annual bonus (Received from employer)		29,198
Entertainment allowance	1	9,250
Use of company vehicles (From 01 July 2015)	2	?
Briefcase received in recognition of 35 years' service	3	8,383
Lump sum received from pension fund	4	800,000
Monthly pension received	4	6,500
Dividends received from South African companies		4,000
Monthly annuity received	5	6,000
Income from electronic repairs business		200,000
Deductions allowable per section 14 of the tax order for electronic repair business		240,000
Expenses incurred during the 2016 year of assessment:		
Monthly pension contributions (Based on basic salary only- contributed until retirement on 31 December 2015)	4	640
Total annual retirement annuity fund contributions		12,000
Monthly medical aid contributions- Fully paid by company until retirement and paid for by Siphesihle after retirement)		2,000
Medical expenses paid for and not refunded by medical aid fund		6,000
Purchase price of home on retirement date	6	650,000

Notes:

1. Siphesihle was required to entertain clients on a regular basis and incurred entertainment expenses of E 6 120 (He can produce proof thereof) for the period until his retirement.
2. As from 01 July 2015 until the retirement date Siphesihle enjoyed the use of two company cars:
 - 2.1 Mrs Maphanga used the second hand Toyota Fortuner whose value per the Auto dealer's guide without VAT was E 80 000

- 2.2 Siphesihle used the other vehicle. The company purchased this vehicle on 01 July 2015 for E 108 300 (including VAT)
3. After 21 years of service, this was the first time Siphesihle received any reward for long service.
 4. Siphesihle received the lump-sum payment of E 800 000 at retirement from the UCS pension fund. Siphesihle's membership to the fund was a condition of his employment. After retirement he is also receiving a monthly pension of E 6 500.
 5. A Monthly annuity of E 6 000 is paid to Siphesihle by Bunny Insurance Company. He purchased the annuity for E 800 000 and it was payable for 30 June 2015.
 6. Mr Maphanga purchased the house on 01 January 2015. He obtained financing from the Swaziland Building Society and committed to repaying it over a period of 10 years. The agreed upon interest rate was prime less 2%. You can assume that the prime interest rate has been 9% for the duration of the loan. The employer offered to pay the monthly installment for the period between January and December 2015. You can assume that the tax computation for the 2015 year of assessment had included all taxable benefits. (Please use your financial calculator to determine the loan repayment amount)
 7. PAYE of E 30 947 had been deducted from Mr Maphanga's salary.

Required: Determine Mr Maphanga's tax due or refundable for the 2016 year of assessment.

[45 Marks]

Question 2

The definition of “gross income” is an important definition relating to the determination of a taxpayer’s taxable income. In the following case studies, the inclusion of the amount concerned within gross income is in question. All the taxpayers are residents of the Kingdom of Swaziland.

- i) Nomabizo Masango is a salesperson in a large company. During the current year of assessment he won a prize as the salesperson of the year. The prize consisted of an all-inclusive, two-week holiday during December at a seaside resort valued at E 10 000.
- ii) Mzabalazo Malaza who lives in Mbabane and works there as a teacher, inherited a house valued at E 1 500 000 in Manzini from his grandfather, who lived in the house at the time of his death. Mzabalazo had no wish to live in Manzini due to the perceived crime rate in Manzini. He advertised the house in the Times of Swaziland and within 2 weeks it was sold for E 1 650 000.
- iii) Sibonelo Maziya, a civil engineer, purchased a plot of land in Nhlangano on which he erected a house for himself and his family. He was forced to acquire a far larger property than he required as the seller was unwilling to dispose of only part of the property. Subsequent to the purchase, Sibonelo applied for the subdivision of the property. Immediately after the subdivision was completed, he advertised and sold the excess portion of the property at a profit of E 500 000. The sale of the excess portion was concluded on 30 June 2014.
- iv) Machawe Hlophe holds rental deposits amounting to E 10 000 originating from tenants occupying flats in an apartment block in Siteki which he erected during the previous year of assessment and which he has let during the current year of assessment. These deposits are refundable to tenants who vacate the premises, provided the premises are in the same condition as to when they obtained the right to lease them and they have occupied the premises for a contractual period of lease for at least 6 months. He has banked the E 10 000 in a separate bank account and will not use these funds, except for the repayment of a deposit to qualifying tenants.

You are required to discuss which of the amounts referred to in each case above has to be included in the respective taxpayer’s gross income giving brief reasons. (In point format)

[20 Marks]

Question 3

Sivelelwe Breweries manufactures 'African beer'. It is a VAT vendor. During its current two month VAT period (Which ended on 30 September 2015), it completed, amongst others, the following transactions (All amounts include VAT unless otherwise stated or where VAT is not applicable):

- 1) Purchased a new delivery vehicle on credit for E 228 000.
- 2) It purchased a new motor car for E 171 000
- 3) It sold 50 crates of beer on credit to Kwamanini (Pty) Ltd, a resident customer. The selling price of a crate of beer is E 180 (Exclusive of VAT).
- 4) It sold (and exported) 100 crates of beer on credit to Letibandzako Beverages Ltd, a foreign customer. The selling price of a crate of beer is E 180 exclusive of VAT.
- 5) On 01 August 2015 it paid E 8 550 for the lease of a shop in a shopping centre. Then again, on 01 September 2015, it paid E 8 550 for the lease of the shop in a shopping centre. This shop is used by Sivelelwe Breweries (Pty) Ltd to retail bar accessories to the public.
- 6) On 31 August 2015, it paid a local service station E 6 840 for fuel purchased during the month. The fuel was consumed by its delivery vehicles. On 30 September 2015, it again paid a local service station, this time, E 6 270 for fuel purchased during the month. The fuel was consumed by its delivery vehicles.
- 7) On 30 September 2015, its bank account was credited with E 57, being interest earned on its favourable balance for the month of September 2015.

You are required to prepare all the necessary journal entries to record the above transactions in the books of Sivelelwe Breweries (Pty) Ltd. The narration to each journal entry must clearly indicate the VAT consequences that arise out of the transaction. (Amounts should be rounded to the nearest Lilangeni.)

[25 Marks]

Question 4

List at least five offences for which a penalty is imposed for contravening the provisions of the income tax order governing the PAYE system. What is the Penalty?

[10 Marks]

END OF QUESTIONS SECTION

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

When applying the above rates the following should be taken into account:

1. Tax payable by a natural person will be reduced by a tax rebate amount not exceeding E8 200 per tax year.
2. In the case of a person (other than a company or trust), the rate of tax on dividend shall be 10%.

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

AC318/ IDE AC318 [PART-TIME] (M) DECEMBER 2015

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.