

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING AND FINANCE
MAIN EXAMINATION PAPER DECEMBER 2017
ACADEMIC YEAR 2017/2018

PROGRAMME OF STUDY	Bachelor of Commerce
YEAR OF STUDY	Year 4 (Full Time)
TITLE OF THE PAPER	Tax Applications
COURSE CODE	AC 423
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 your necessary workings.

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 layout and presentation of your answer.

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

SPECIAL REQUIREMENT: CALCULATOR

Housing Benefit

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 700 sq.m and above lot	150sq.m and above	3 686	3 133	2 193

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.

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.

Employee using personal motor vehicle on employer's business

Where an employee uses a personal vehicle on employer's business, the annual value of benefits are attributable to such an employee for use of the vehicle for private purposes is determined by the following formula:

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

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.

QUESTION 1

Peterous Shongwe had the following income particulars for the year ended 30th June, 2016.

SALARY AND BENEFITS

- ✓ He was employed as from 1.7.2015 up to 30.6.2016 on a monthly salary of 9,000.
- ✓ He had a hardship allowance of E2, 000 per month.
- ✓ He got a Christmas bonus of E1 0,000.
- ✓ He received an alimony payment E 15,000 from his former wife.
- ✓ His employer provided him a car for official and personal use. It had a capacity of cc 2,500, and it cost E150, 000 before VAT. He contributed E400 p.m. for its maintenance.
- ✓ He was provided by his employer a 4 bed room house in a prime location of Coates Valley, Manzini. The house had a lot of 1,450 and a floor area of 240 sq.m. He contributed E500 p.m. for the maintenance of the house.
- ✓ The employer provided and paid for:
a maid at E1,200 p.m., a gardener at E1,000 p.m., two security guards at E1,500 p.m. per a security guard, a telephone at E500 p.m., and electricity at E400 p.m.
- ✓ He was advanced E20, 000 for entertainment of business customers. He accounted for only E16,000.
- ✓ On 1.7.2015 the employer extended a loan of E100,000 at 5.5% interest, the Central bank discount rate was 5 %.
- ✓ The employer paid E 5,000 as education expense, and E5,000 as transport costs for Mr Shongwe's children.
- ✓ The employer contributed 15% of Mr Shongwe's basic salary as a pension with the employer's pension fund.

B. OTHER INCOME

- ✓ Mr Shongwe acts as the Ambassador of Mauritius in Swaziland. He was paid E56, 000 for that job.
- ✓ He was rewarded E25, 000 as copyright royalties for the education modules he had previously written.
- ✓ He rented out a house in Mbabane for E24, 000. Its annual maintenance was E9, 000.
- ✓ He leased out construction equipment for E19, 000. The repair cost of the equipment was E3, 000.
- ✓ He received E20, 000 as a dividend from a South African quoted company, and E 10,000 from a Swaziland quoted company. The investment into the South African company was done through a Swazi broker based in Mbabane. The money was remitted through a Mbabane Standard bank branch.
- ✓ He received E 5,000 as interest income from a permanent period shares with Swaziland Building Society, E 2,000 from the savings account with Swaziland Development and Savings Bank, and E6, 000 as interest income from a fixed deposit account with Standard Bank.
- ✓ He received war benefit related to his late father of E 5,000

C. MR. SHONGWE'S EXPENDITURE

- ✓ He incurred E6, 000 as medical expenditures at Manzini clinic.
- ✓ He incurred E4, 000 repairing his accident damaged vehicle. The vehicle was fully insured.
- ✓ He incurred E2, 000 membership fees to a club in Pretoria, where is a guest speaker at a fee.
- ✓ The employee pension contribution was 5% of his basic pay.
- ✓ He paid E7, 000 as an additional pension contribution to an unapproved scheme. That is, a scheme not established by law.
- ✓ Mr Shongwe had been deducted E25, 740 as PA YE by his employer.

REQUIRED:

- A. Compute the tax payable by Mr Shongwe for the year ended 30th June, 2016.
- B. On a separate note show why some of the information is not considered in the computation of the tax liability

Total 30 Marks

QUESTION 2

Swazi Mobile, a new mobile services provider in Swaziland which started operations on 1 August 2016 had incurred huge start-up expenses in the previous month which incorporated purchase of a new building for offices (**E 5.5 million** including VAT) and acquisition of start-up stock worth **E3.2 million** (excluding VAT) which was bought from South Africa. They also imported top of the range furniture from Japan for **E 1.1 million** (CFI) in July 2016 –all applicable taxes at the border were 51% of CFI cost. They were charged **E27, 000** to transport the stock bought in South Africa by Logico which included **E5, 000** for the logistics of declarations processing at the border and **E7000** for insurance.

Additional information

- During the year their sales revenue amounted to E15 million which included VAT where applicable. Their sales are fairly evenly distributed during the year. However, an analysis of their financials indicate that E300, 000 of this was received in various foreign currencies being payment for roaming services which are considered to be exported services.
- Their board of directors resolved in their first board meeting that the company adopt a July to June financial year in line with the Commissioner General's tax year.

- While the company registered for its Income taxes well on time they faced challenges with VAT and could only register on the 1st of October 2016.

Required

For each of the transactions and scenarios described above, indicate the tax implications in Swaziland including the amounts of tax involved, the tax types affected and how they are individually so affected. Tabulate your responses as follows:

	TRANSACTION/ SCENERIO	INCOME TAX IMPLICATION	VAT IMPLICATION	CUSTOMS IMPLICATION
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Total 25 Marks

QUESTION 3

Mlondvo Breweries manufactures and distributes different varieties of beer. It is a VAT taxable person using the default basis to account for VAT. During its current month VAT period (Which ended on 30 November 2017), it completed, amongst others, the following transactions (All amounts include VAT unless otherwise stated or where VAT is not applicable):

1. Purchased a new 5 ton delivery vehicle on credit for E 228 000.
2. It purchased a new motor car, the latest Toyota Fortuner for the General Manager for E 650 000
3. It imported various types of alcoholic beverages from Drink-Till-u-Drop beverages of South Africa worth E3 500 000
4. It sold 500 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).
5. It exported 250 crates of beer on credit to Obrigado Beverages Ltd, a foreign customer. The selling price of a crate of beer is E 220 exclusive of VAT.
6. On 01 October 2017 it paid E 8 550 for the lease of a shop in a shopping centre. Then again, on 01 November 2017, it paid E 8 550 for the lease of the shop in a shopping centre. This shop is used by Mlondvo Breweries (Pty) Ltd to retail bar accessories to the public. Rent for this shop is always paid for each month at the beginning of that month.
7. Water bill for the month was E500 and Electricity was E1500
8. On 31 October 2017, it paid a local service station E 16 840 for fuel purchased during the month. The fuel was consumed by its delivery vehicles. On 30 November 2017, it again paid a local service station, this time, E 16 270 for fuel purchased during the month. The fuel was consumed by its delivery vehicles.

9. On 30 November 2017, its bank account was credited with E 57, being interest earned on its favorable balance for the month of November 2017.
10. On 30 November 2017 it received an insurance payment of E250 000 in respect of beer that was stolen during the month of August 2017 from their Matsapha warehouse.

Required

- a) Prepare the VAT Account for Mlondvo Breweries for the November 2017 tax period in the following format. (Amounts should be rounded to the nearest Lilangeni.)

TRANSACTION	INPUT VAT			OUTPUT VAT		
	Amount including VAT	VAT Paid	VAT INPUT	Amount including VAT	VAT Receivable	VAT OUTPUT

- b) Identify any transactions that do not form a part of this return and explain why that is so.
2 marks
- c) List Transactions with no input and output VAT for the month of November indicating why that is so.
4 Marks
- Total 25 Marks**

QUESTION 4

- a) Distinguish between Tax Planning, Tax Avoidance and Tax Evasion. **5 Marks**
- b) Identify and describe any **two** tax planning initiatives that a taxpayer can employ with respect to the following tax types in Swaziland:
- Corporate income tax **5 Marks**
 - Personal income tax (PAYE) **5 Marks**
 - VAT **5 marks**
- Total 20 Marks**

END OF PAPER