

UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING AND FINANCE

EXAMINATION PAPER DECEMBER 2017 ACADEMIC YEAR 2017/2018

PROGRAMME OF STUDY	Bachelor of Commerce
YEAR OF STUDY	Year 3 (Full Time/Part Time)
TITLE OF THE PAPER	Principles of Taxation
COURSE CODE	ACF 315 /AC 318
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

QUESTION 1

Swazi incorporated is a holding company operating in Swaziland and has interests in meat products, milling as well as property. During the month of November 2017, Swazi Incorporated entered into the following transactions throughout the three business units.

MEATS

- i. Imported a meat processor from South Africa for R500 000
- ii. Bought saw blades from Swazi Implements, a company based in Matsapha for E30 000. Swazi blades is not registered for VAT
- iii. Bought five heifers for Mr Dlamini whose farm recently registered for VAT under TIN number 100123456. The heifers cost E20 000 inclusive of VAT
- iv. Received an invoice from KPMG for audit services for E33 000 including VAT
- v. Received an invoice for E25 000 from Ngwane abattoirs for cattle slaughtering and dressing
- vi. Bought 500 broilers from Swazi Chickens for E15 500 before VAT
- vii. Exported beef and chicken to SA for E150 000 and pork to the USA for E200 000
- viii. Sold meat worth E 150 000 to the local market and forgot to charge VAT
- ix. Was fined E25 000 by the department of health for failing to meet the hygiene standards

MILLING UNIT

- i. Bought five tons of maize from local farmers who are not registered for VAT worth E225 000
- ii. Exported 2.5 tons of this maize to Mozambique at a 25% profit margin and milled the rest of the maize but could not find a buyer during the month
- iii. Repaired the milling grinder at a cost of E3 500 before VAT
- iv. Bought a twin cab vehicle for use by the Unit manager for E350 000

PROPERTY

- i. Received the final certificate for the completion of a building complex. The previous certificate indicated the building was 85% complete and the total cost of construction was E15million including VAT.
- ii. Parts of the complex were already being leased out and for the month of November, they received rentals of E1 350 000 before considering VAT. 65% of this amount was in respect of offices and supermarket space while the remainder was for residential.
- iii. Since the company is responsible for all electricity costs for all its buildings, the total bill was E 100 000 before considering VAT

ADDITIONAL INFORMATION

- Fuel costs for all business units was E45 000
 - Telephone costs were E4 500 for fixed lines and E16 000 for mobile phones
 - The business received E 3500 in interests from all its accounts with local banks
- **Assume VAT is not included in any amounts where nothing has been said of VAT for transactions attracting VAT**

Required

Calculate and indicate the amounts of Input and Output VAT for each of the transactions given above indicating clearly in the table where VAT input is denied (D), where there is zero rating (Z)and where exempt (E). Calculate the VAT Due/Refund for the month of November. Use the following format **(25 Marks)**

Item	Transaction	Amount Inc. VAT where applicable	Input	Output
1.				

Total 25 Marks

QUESTION 2

Queen LaDlamini who has been recently employed by Swazi Mobile has approached you to assist her determine how much tax she has to pay to the SRA. She 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
VI	Interest from African Alliance	5,000
V	Income from sale of her residential home situated in Manzini	1,000,000
VI.	Employer provides a 4 Bedroom house (175sq meters) which she accepted grudgingly arguing at just 50 meters away from the old Manzini-Mbabane road it's prone to noise and fumes pollution. The company pays her an annual noise pollution allowance equivalent to 5% of basic salary	
VII.	The employer pays for the following conveniences a) House assistant per month b) Gardner per month c) Fixed telephone per month with broadband (35% estimated business use)	750 500 1500
VIII	The Employer pays school fees (tuition) for her 2 children through an approved bursary scheme 30,000 per student (the amount does not include a pocket allowance of 10% of tuition per child)	
IX	The company has provided the latest 2 litre brand new Amarok double cab for business use 3 months into the tax year. LaDlamini was instructed to always carry a log book to record any personal use of the vehicle but she has not consistently recorded everything. The car was won when the company came first in the environmental friendly business awards and was valued at E 525, 000	
X	She makes monthly contributions of E345 to a pension fund and a further E400 monthly contribution to Kusitsana Maswati Provident fund.	
XI	The employer pays for medical aid in full for all her employees including their children. LaDlamini is on a Premium benefit scheme since she is a senior manager and the total contributions for her and her family comes to 9, 000 every month	
XII	Certificate from SRA show that LaDlamini's employer has deducted and remitted PAYE on behalf of LaDlamini	23, 300
XIII	He contracted 4HIM Security for the block of flats in Mbabane and paid:	35, 000

Additional Information

1. 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

2. MOTOR VEHICLE BENEFITS

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

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

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.

3. CHILDREN'S EDUCATIONAL ASSISTANCE BENEFIT

The value of the benefit is the cost to the employer for providing such educational assistance. If the educational assistance is provided through an approved bursary scheme, only 50% of the total amount paid by the employer during each year of assessment shall be taxable.

4. MEDICAL AID

Where an employer's contribution towards employee medical aid scheme exceeds 66.67% - or 2/3, the excess thereof shall be taxable.

5. OTHER

- i. Primary Rebate 8,200
- ii. Secondary Rebate for the Elderly (60 years and above) 2,700
- 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

Required

Determine the Normal Taxable Income and Tax liability or refund for LaDlamini for the year of assessment ended June 2017. **30 Marks**

***Assume any lumpsum amount not specified as monthly payment, to be the tax year amount*

QUESTION 3

a) Briefly explain how taxation is used by government to influence the direction and structure of the following economic factors **(20 Marks)**

- Interest rates
 - Inflation
 - Savings
 - Foreign Direct Investment
-

QUESTION 4

a) In Adam Smith's "Wealth of Nations" book, he outlined the canons of taxation whereby he recognized that the levy of taxation should comply with certain basic criteria/norms. Discuss any five of these tenets. **(15 Marks)**

b) Identify and explain any five non tax revenue sources for government **(10 marks)**

Total 25 Marks

END OF PAPER
