

UNIVERSITY OF ESWATINI
DEPARTMENT OF ACCOUNTING
MAIN EXAMINATION PAPER DECEMBER 2019

DEGREE/ DIPLOMA AND

YEAR OF STUDY : B. COM 111/ B.COM LEVEL 4

TITLE OF PAPER : INTRODUCTION TO TAXATION

COURSE CODE : ACF315/ AC318 (M) DECEMBER 2019

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 all the necessary workings.
 - 5 Round off as you deem appropriate.

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

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 Eswatini.

- i) Nomalanga Dlamini is a salesperson in a large company operating in Manzini. 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 2019 at a seaside resort in Mozambique valued at E 10 000.
- ii) Thando Mtsetfwa 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. Thando had no wish to live in Manzini due to the perceived high crime rate. He advertised the house in the Times of Swaziland and within 2 weeks it was sold for E 1 650 000.
- iii) Sabelo Khumalo, who is an Accountant at the CNO Limited received alimony payments amounting to E500,000 from Themba Nhlabatsi who is the ex-husband.
- iv) Nomalungelo Banda holds rental deposits amounting to E 10 000 originating from tenants occupying flats in an apartment block in Siteki which were erected during the 2018 year of assessment and which she has let during the 2019 current year of assessment. These deposits are refundable to tenants who vacate the premises, provided the premises are in the same condition as when they obtained the right to lease them. The lease agreement is for a contractual period of one year and she 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.
- v) Andrew Dlamini who is an employee of the University of Eswatini was given a soft loan by the University of E1,500,000 at an interest rate of 5%. The official rate of interest prevailing in the country is 10%.

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) (25 Marks)

QUESTION 2

- a) Adam Smith in his book titled: The “Wealth of Nations” in the 1770’s outlined the principles for an effective tax system. Write short notes on the principles of an effective tax system? (20 Marks)
- b) In a debate of the government of Eswatini budget, there is a group that strongly opposes the use of taxation as a means of raising government revenue citing that the government has a lot of income generating projects and businesses. They argue that this is nothing but reaping of the people. Briefly explain the main purposes of taxation? (8 Marks)
- c) The government of Eswatini is considering ways it can use to broaden the tax base of the Kingdom. Suggest two ways they can use to do this? (2 Marks)

Total: (30 Marks)

QUESTION 3

Mr. David Shongwe who is 40 years of age at the end of the year of assessment on 30 June 2019 has the following particulars of income and expenses:

a) He earned an annual salary of E250 000 from Nadine Limited a company that he works for on a full time basis and contributed P.A.Y.E of E30 000 for the year. The company extended a soft loan of E200 000 per annum at an interest rate of 5% whilst the official rate of interest is 12%. The company paid him a cash allowance of E5 000 for medical expenses on resumption of duty.

b) He won E300 000 from a raffle draw which was a fundraising activity to help orphanage children.

c) The following is a statement of comprehensive income for the year ended 30 June 2019 from his Sole trader business:

Sales revenue	E2 000 000
Cost of sales	<u>(1 200 000)</u>
Gross profit	<u>E 800 000</u>
Expenses	
Advertising	15 000
Electricity	10 000
Customer entertainment	5 000
Motor vehicle expenses	12 000
Depreciation of Motor vehicle at 30% of E150 000	30 000
Repairs to motor vehicle	<u>5 000</u>
Total expenses	<u>77 000</u>
Net profit	<u>E723 000</u>

Notes:

The Eswatini Revenue Authority allows wear and tear on the motor vehicle at the rate of 10% per annum. The car was purchased at the start of the financial year.

Required:

Using the tax tables, you are required to calculate the tax payable by David Shongwe to the Eswatini Revenue Authority for the year ended 30 June 2019.

Total: (20 Marks)

QUESTION 4

- a) Distinguish between tax avoidance and tax evasion (4 Marks)
- b) Briefly explain the tax structures that pertains in an economy? Of these three tax structures, which one focuses on the taxation of individuals in the country and why? (11 Marks)
- c) List five (5) conditions that are highlighted by Richard Goode's analysis for an effective tax system? (10 Marks)

Rates of normal tax in the case of persons other than companies or trust shall be as follows:

Taxable income		Rate of tax
Exceeds	But does not exceed	
E	E	E
0	60 000	0+20% of the excess over 0
60 000	80 000	12 000+25% of the excess over 60 000.
80 000	100 000	17 000+30% of the excess over 80 000
100 000	-	23 000+33% of the excess over 100 000