

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING AND FINANCE
SUPPLEMENTARY EXAMINATION JULY 2018
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

- a. Compliance with tax laws is the main preoccupation of any tax administration. Identify the three main broad areas of compliance expected of any taxpayer and explain the nature and extent of the taxpayers' obligations including the triggering events where applicable under each category as well as the different tax types. **15 marks**
- b. Identify the specific taxes that are collected by the Swaziland Revenue Authority at the various borders around the country. What other important roles does the SRA play other than collecting taxes at the borders. **5 Marks**

Total 20 Marks**QUESTION 2**

Musa Mdluli (61 Years) was employed as a Finance Manager in a reputable Mbabane company from 1.8.2017. His income particulars for the financial year ended 30.6.2018 was as follows.

INCOME/RECEIPTS

1. From 1.8.2017 up to 30.6.2018 his monthly salary as a Finance Manager was E 10, 000.
2. From 1.9.2017 to 31.12.2018 his employer provided a three bedroom house with a lot of 1,400 sq. m with 210 sq. m floor area in a prime location of Mbabane. And from 1.1.2016 to 30.6.2018 his employer provided a four bedroom house with a lot of 1,600 sq. m and a floor area 255 sq. m in a prime location of Mbabane. He contributed E400 p.m. for a 3 bed room house, and E500 p.m. for a 4 bed room house.
3. From 1.9.2017 the employer provided the following services: telephone at a cost of E500 p.m., electricity at a cost of E400 p.m., water at a cost of E300 p.m., a house maid at a cost of E1,200 p.m., a cook at a cost of E1,200, and a security guard at a cost of E 500 p.m.
4. On 1.9.2017 the employer provided a 2200cc company car which was valued at E144, 000 after VAT was added to the cost.
5. To relocate to Mbabane Mdluli was given E7, 000.
6. The employer paid E 5,000 as school fees for Mdluli' s children, and E8,000 as transport cost to school for Mdluli' s children.
7. For the year 2015/2018 the company gave Mdluli an entertainment allowance of E 1,000.
8. From 1.9.2017 the company gave Mdluli a fuel allowance of E3, 000 per month.
9. The employer extended a loan of E50, 000 for a period 1.10.2017 to 30.9.2018. The interest charge by the employer was to be 1%. The charge by the Central Bank was 6%.
10. The vouchers accounting for entertainment allowance amounted only to E7, 000.
11. The vouchers accounting for fuel allowance amounted to E 7,000.
12. The employer's contribution to a statutory pension scheme was 15% of Mdluli's monthly salary.

13. Mdluli ran a driving school. He earned E60,000 but the expenses of the school were E30, 000.
14. Mdluli was an expert at the gambling machines. His net monthly income was E2, 000.
15. Mdluli received E 7,000 as interest revenue from subscription shares in a building society
16. Dividend from a Swaziland quoted company were E3, 000.
17. Interest received from a fixed deposit with Standard Bank amounted to E5,000.
18. Dividends from a unquoted Swazi company were E2,700..
19. Mdluli sold a plot of land in Manzini for E80,000. The cost of that land was E30,000 in 1999.
20. Mdluli won a lottery of E50, 000.

EXPENSES/PAYMENTS OF MUSA MDLULI

1. Examination expenses and annual fees to the ACCA accounting body were E2,400.
2. His contribution to a statutory pension scheme was 5% of his basic pay. That is, $E110,000 \times 5\% = E5,500$.
3. He paid E6, 000 as school fees for his brother's children.
4. He paid E5, 000 as premium for a life policy issued by Lobamba Royal Insurance Corporation.
5. He paid E2, 000 as a contribution to an approved provident fund.
6. He paid E5, 000 as alimony payments to his divorced wife.
7. He paid E 26, 100 as PAYE tax in advance.

REQUIRED:

Compute the taxable income and tax liability for Musa Mdluli for the year ended 30.6.2018.

Total 25 Marks

QUESTION 3

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 2018 is as follows:

Income Notes	(E)	(E)
Domestic Sales	280,000	
Export Sales	300,000	
Sale of land owned by the company	500,000	
Income from a registered South African Branch	1	<u>150,000</u>
		<u>1,230,000</u>
Expenditure		

Salaries and wages		420,000	
Rent	2	50,000	
Interest		25,000	
Electricity and Water		5,000	
Repairs	3	15,000	
Delivery costs		10,000	
Legal costs	4	7,000	
General expenses	5	40,000	
Bad debts written off	6	20,000	
Construction of storage house	7	80,000	
Purchase of Motor Vehicle for the Director	8	350,000	
Purchase of New Machinery	9	120,000	
Provision for Doubtful debts		4,000	
Overseas travelling costs	10	30,000	
Insurance		100,000	
Income Tax Liability	11	60,000	
Accounting fees		45,000	
Annuities former employees		10,200	
Depreciation	12	65,000	
Donations	13	<u>10,000</u>	<u>1,466,200</u>
Net loss		(236,200)	

Notes

1. 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.-Not local nor deemed local
2. 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.-Scope for disallowing but the period is short therefore could be treated as temporary hence allowable
3. The Repairs amount includes the following

- a. Replaced deteriorated carpets 6,000
 - b. Cash register repaired 5,000
 - c. Replaced glass windows with safety glass 4,000 (there was nothing wrong with the windows)-addition
4. Legal costs is made up of the following
 - a. Collection of debts 2,500
 - b. Attorney's fees to prevent the opposition to also sell Sugar 1,800-Preservation of income
 - c. Attorney's fees to obtain new license from City Council 700
5. General expenditure
 - a. Subscription to flying club for the Managers 10,000-Not in the production of income
 - b. Income tax paid 25,000-Taxes and fines not allowable
 - c. Trade licence 5,000
6. Bad debts
 - a. Debtor, SNH Pty Ltd, insolvent: purchase sugar on credit 10,000
 - b. Debtor, Mr B, disappeared: purchased stock 6,000
 - c. Mr X, former employee who was given loan but later absconded 4,000-Association
7. Construction of storage house 80,000-Capital
8. Purchase of Motor Vehicle for the Director 350,000
9. The machinery which was purchased during the year of assessment was approved by the Commissioner as qualifying for initial allowance allowed at 50%
10. Overseas travelling costs: Directors' Holiday travel to the USA 30,000 –Not in the production of income
11. The income tax liability was outstanding taxes for previous years 60,000 -non-allowable
12. Depreciation was for business assets only
13. Donations
 - a. Miscellaneous donations 2,500- Only allowable to specified public bodies and charities
 - b. To the University of Swaziland 7,500

Required

With brief explanations, Calculate the minimum tax liability for RSSC Pty Ltd for the year ended 30 June 2018.

Total 25 Marks

QUESTION 4

- a) In the following five cases studies, the inclusion of the amounts in "**Gross income**" is in question. All the taxpayers are residents in Swaziland.
- i. K Hlatini, who carries on business as a second-hand car dealer, sold his private (family) car for E 130 000.
 - ii. Winile Shongwe has a furniture shop in Bloemfontein. During the current year of assessment, she sold a bedroom suite to a customer for E 5 000. The customer paid E 4 000 in cash and Winile accepted the customer's secondhand bedroom suite as a trade-in for the balance of E 1 000. Three days later she sold this three bedroom suite to another customer for E 1 500.
 - iii. Nomzamo Ltd carries on the business of structural engineers specializing in the erection of aviaries. On 14 June 2017, two weeks before the end of the year of assessment, it completed the erection of an aviary for bird-viewers club. In terms of the contract, 95% of the contract price is due and payable on completion of the aviary and 5% of the contract price is to be retained as "retention moneys" until a final certificate is issued by the engineers six months after the erection of the aviary. The contract price of the Bird-viewers club contract was E 100 000.
 - iv. Siya (Pty) Ltd sells fashion garments. On 25 June 2017, it sold a collection of evening outfits on credit to the Pretoria model agency for E 60 000. In terms of this contract of sale, Siya (Pty) Ltd undertook to deliver the evening outfits to the Pretoria Model Agency on 03 July 2017-which in fact it did.
 - v. Siboniso Mavimbela requires a deposit of 5% on orders placed by his customers for fresh eggs and farm chickens. Should the customer cancel the order, S/he forfeit the

deposit. During June of the current year of assessment, he accepted deposits amounting to E 5 000 for deliveries to be made in July of the following year of assessment.

Required:

Determine, in each of the above case studies, the amounts to be included in Gross Income of the taxpayers in question for the 2017 year of assessment and briefly justify your answer.

Total 10 Marks

b) Briefly discuss the following essential elements of the General Deduction Formula.

- | | |
|-----------------------------------|------------------|
| i. Actually incurred | (5 Marks) |
| ii. In the production of income | (5 Marks) |
| iii. Not of a capital nature | (5 Marks) |
| iv. During the year of assessment | (5 Marks) |

Total 20 Marks

END OF PAPER
