



**NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY**

FACULTY OF COMMERCE, HUMAN SCIENCES AND EDUCATION

DEPARTMENT OF ACCOUNTING, ECONOMICS AND FINANCE

QUALIFICATION: BACHELOR OF ACCOUNTING	
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COURSE: TAXATION 310	COURSE CODE: GTA711S
SESSION: JUNE 2022	PAPER: THEORY & APPLICATION
DURATION: 180 MINUTES	MARKS: 100

FIRST OPPORTUNITY EXAMINATION QUESTION PAPER	
EXAMINERS:	Mrs. Z van der Walt; Ms Y. Andrew & Mr Y. Elago
MODERATOR:	Mrs F. Haimbala

INSTRUCTIONS TO CANDIDATES
<ol style="list-style-type: none">1. This paper consists of 6 pages (excluding the cover page).2. Answer all the questions in the answer book in blue or black ink.3. Round off all amounts to the nearest Namibian Dollar, where applicable.4. The names of people or businesses used throughout this examination paper do not reflect the reality and may be purely coincidental.5. Questions relating to the examination paper may be raised in the initial 30 minutes after the commencement of the paper. Thereafter, candidates should use their own initiative to deal with any perceived error or ambiguities and any assumptions made by the candidates should be clearly stated.

QUESTION 1**(15 Marks)**

Kanye Kim has been a cattle farmer in Karibib district in Namibia all his life. His main source of income is the sale of milk from the dairy that he has on his farm. Ninety five percent of Kanye's income is obtained from selling milk to Namibia Diaries. He concluded the following transactions during the 2022 year of assessment:

Due to heavy rains and flooding during January 2022, part of Kanye's fence around his property was destroyed. He was underinsured and the full damage was not covered. He also did not have the cash on hand to repair the fence. Due to the urgency of the matter, Kanye decided to sell some of his cattle to cover the repair of the fence. In order to obtain the best price, Kanye took 10 cattle to the local stud fair, to show the quality of his herd of cattle to the attending farming community. He placed an advertisement in the local paper, as well as the nationally published Farmer's Weekly. On 15 February 2022 he sold 20 cattle at N\$8 000 each to a neighbouring cattle farmer.

REQUIRED QUESTION 1:	MARKS
Discuss with reference to case law whether the sale of the cattle was capital or revenue in the hands of Kanye Kim in terms of the Gross Income definition.	15

QUESTION 2**(25 Marks)**

Mr Thomas Gold, trading as "Gold Ideas" sells and repairs jewellery in the local mall and is a registered Value-added Tax ("VAT") vendor. The following receipts, accruals and expenditure relates to his two - month VAT period ending 30 November 2021. Gold Ideas only makes taxable supplies. All amounts are inclusive of VAT, unless stated otherwise.

<u>Receipts and accruals:</u>	<u>N\$</u>
Sales	207 000
Repairs	29 900
Interest	5 175
Indemnity award (note 1)	51 750

Expenditure:

Bad debts (note 2)	13 225
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Bank charges	920
Depreciation (note 3)	19 145
Insurance premiums (note 4)	3 450
Fuel	2 990
Printing and stationery	1 564
Purchases (note 5)	160 425
Salaries and wages	41 400
Rentals (note 6)	13 294

Notes

- The indemnity award of N\$51 750 was received from Mr Gold's insurer for two expensive watches that were stolen from his shop in August 2021.
- Bad debts of N\$13 225 written off by Gold Ideas, comprise of the following:
 - N\$10 350 owing by one of his long-outstanding customers from a credit sale. The customer has since emigrated and Mr Gold is unable to trace the customer.
 - N\$2 875 was lent to an employee, who has since left town without repaying the loan.
- Depreciation (for the two-month period) was charged on the following assets:

	Acquisition date	Cost (incl VAT) N\$	Depreciation N\$
Manufacturing equipment	15 September 2021	276 000	8 000
Computer	1 October 2021	14 375	695
Motor vehicle *	1 November 2021	632 500	10 450

*Note: Motor vehicle meets the definition of a passenger vehicle in terms of section 19(1) of the VAT Act. Mr Gold has the sole use of the motor vehicle and maintains accurate records of his travelling. He can prove that his business travel is 40% of his total travelling expenses.

- Insurance premiums of N\$3 450 were incurred on the following assets that belong to Gold Ideas:
 - Manufacturing equipment – N\$460
 - Office computer – N\$230
 - Motor vehicle – N\$1 035
 - Trading stock – N\$ 1 725
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- Purchases of N\$160 425 are made up as follows:
 - Purchases of raw materials from vendors – N\$126 500
 - Second-hand jewellery from vendors – N\$ 17 750
 - Second-hand jewellery from non-vendors – N\$ 16 675
- Rentals of N\$13 294 comprise of the following:

- a. Shop premises – N\$ 10 925
- b. Cash register – N\$ 1 495
- c. Tea urn – N\$ 874 (located in the shop for himself and employees to make tea)

REQUIRED QUESTION 2:	MARKS
Determine the Value-added tax payable or refundable of Gold Ideas for the two-month period ending 30 November 2021. Where no VAT is applicable, state the reasons thereof.	25

QUESTION 3

(30 Marks)

Fitness-2-Go (Pty) Ltd ('Fitness-2-Go') is a local manufacturer and supplier of gym and fitness equipment. The company's year-end is 31 December. Fitness-2-Go is not an approved manufacturer.

Fitness-2-Go has started its operations in January 2012 and has since inception grown considerably.

The following relates to the current year of assessment:

1. The company made sales of N\$13,800,000 and total purchases of NS\$9,800,000.
2. The closing inventory amounted to NS\$350,000 and the opening inventory N\$100,000.
3. Running operating expenditure in the production of income was NS\$3,080,000 of which N\$2,000,000 related to salaries for the manufacturing team as well as support staff and management of the company.
4. Fitness-2-Go has leased two properties, one which is used for its manufacturing activities in Walvis Bay and the other for its head office in Windhoek. During the current year of assessment Fitness-2-Go has built its own offices in the Central Business District (CBD) of Windhoek. The date of completion of the building was 31 July 2021 costing Fitness-2-Go N\$3,300,000. Fitness-2-Go was only able to move into the building on 01 September 2021. The monthly lease rental of its prior head office was NS\$16,500. Assume that the prior rental contract ended 31 August 2021.
5. The manufacturing building was leased as from 01 July 2012. The lease term is 20 years. as part of the lease agreement, a lease premium of N\$20,000 was payable upon inception of the lease as well as monthly rentals of N\$15,000. The lease contract also stipulated that the lessee needs to make improvements to the value of N\$750,000. The actual improvements had a cost of only N\$550,000 which was completed 02 January 2014.

6. As the manufacturing site is outside of Windhoek, Fitness-2-Go provides temporary housing for management who need to do periodic site visits to the manufacturing site. Thus, Fitness-2-Go has as from June 2012 also constructed housing for the management of the company close to the manufacturing site. The ownership of the properties all belongs to Fitness-2-Go and the total cost of construction of three houses was N\$1,350,000 in total.
7. As Fitness-2-Go manufactures gym and fitness equipment, they had acquired as part of their business plan a patent to fully automatize (make fully automatic) the production of the equipment. The patent cost Fitness-2-Go N\$680,000 acquired from an American software developer. The expected useful life of the patent at the date of acquisition of 31 March 2019 was 35 years. Another patent already acquired in August of 2012 was renewed at the cost of NS150,000 on 15 September 2021.
8. During the year Fitness-2-Go had created a provision for bad debts of N\$120,000 (During 2020, N\$80,000) based on the historic experience of defaulting debtors. Of the debtors, N\$100,000 went bad in the current year of assessment.
9. Fitness-2-Go took out a 'Key-man Policy' on Sven Goethe, the chief operations officer, a resident of Germany on 1 February 2021, paying a monthly premium of N\$4,500.
10. As part of their business activities, Fitness-2-Go had the following asset transactions:
 - a) Manufacturing machinery acquired in March 2017 at a cost of N\$1,200,000
 - b) Motor Vehicle no. 1 was acquired in April 2017 at a cost of N\$350,000.
 - Motor vehicle no. 1 was sold during the current year at a selling price of N\$100,000.
 - c) Motor Vehicle no. 2 was acquired on 01 July 2020 at a cost of N\$450,000.
 - During the current year of assessment, the motor vehicle no. 2 was taken out of use to donate it to a former employee of the company as a gift for his long service.
 - The market value at the date of donation was N\$200,000.
 - d) Motor Vehicle no. 3 was acquired in April 2021 at a cost of N\$550,000.
 - e) Furniture and Fittings acquired in August of 2020 at a cost of N\$60,000.


NOTE: IGNORE VAT

REQUIRED QUESTION 3:	MARKS
Calculate the taxable income of Fitness-2-Go (Pty) Ltd for the 2021 year of assessment. Give reasons where applicable, including where no adjustment is required.	30

QUESTION 4

(30 Marks)

Veronica, aged 40, with no dependants, is about get a revised employment contract and has approached you to clarify some of the tax aspects of the various options she is considering. She has been offered a package equivalent to a cost to her employer of N\$400 000 per annum. The following are included in the total cost to company package offered to her:

- a) A cash salary of N\$400 000 per annum.
 - b) Membership of a non-contributory provident fund. The employer will contribute N\$40 000 per annum to the fund, and her cash salary will be reduced accordingly.
 - c) Veronica receives an interest free home loan of N\$200 000 at an interest rate of 7% from her employer in terms of an approved housing scheme. Assume the official interest rate is 12%.
 - d) She receives the use of a company car. The car will have a cost-equal to the retail market value (including VAT) – of no greater than 40% of gross annual salary. Veronica's cash salary will be reduced by the cost of leasing the car, which is expected to be N\$4 000 per month, and all running expenses, which are expected to be N\$1 500 (excluding VAT) per month.
 - e) Free meals in a staff canteen. Veronica's salary will be reduced by N\$200 per month.
-  The acquisition of a flat currently owned by the company. The employer (the company) owns a number of flats. The employer will sell a flat (with a market value of N\$490 000) to Veronica for N\$200 000. Her salary will be reduced by N\$4 000 per month, i.e., equivalent to the rental cost of a similar flat.

REQUIRED QUESTION 4:	MARKS
1. Discuss the normal tax aspects of each of the items listed for the 2022 year of assessment.	10
2. Calculate Veronica's normal tax liability for the 2022 year of assessment assuming she accepts the offer.	20

Annexure A

Individual Income Tax

All individuals (incl. deceased estates and trusts) other than companies.

Taxable Income N\$	Rates of tax from years of assessment ending 2021/22 (N\$)
0 - 50 000	Not taxable
50 001 - 100 000	18% for each N\$ above 50 000
100 001 - 300 000	9 000 + 25% for each N\$ above 100 000
300 001 - 500 000	59 000 + 28% for each N\$ above 300 000
500 001 - 800 000	115 000 + 30% for each N\$ above 500 000
800 001 - 1 500 000	205 000 + 32% for each N\$ above 800 000
Above 1 500 000	429 000 + 37% for each N\$ above 1 500 000

Housing loans and mortgage subsidies

Housing loans provided to employees at a subsidised rate are taxable to the extent that the interest rate payable by the employee is less than 12% per annum (p.a.). The taxable value of housing benefits comprising free or subsidised housing is determined with reference to the location and size of the housing, as indicated in the following table:

	1 room	2 room	3 room	4 room	5 room	6 room	7 room	8 room	8+ room
Windhoek	500	750	1,000	1,400	1,800	2,200	2,800	3,400	4,000
Walvis Bay	350	550	750	1,000	1,300	1,700	2,100	2,550	3,000
Large Towns	250	375	500	700	900	1,100	1,400	1,700	2,000
Small Towns	125	175	250	300	450	550	700	850	1,000

END OF FINAL EXAMINATION – FIRST OPPORTUNITY