



PAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY
FACULTY OF MANAGEMENT SCIENCES

DEPARTMENT OF ACCOUNTING, ECONOMICS AND FINANCE

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SESSION: JUNE 2019	PAPER: THEORY & APPLICATION
DURATION: 3 HOURS	MARKS: 100

FIRST OPPORTUNITY EXAMINATION QUESTION PAPER	
EXAMINER(S)	Mr. G Jansen and Ms. M Weyulu
MODERATOR:	Mr. C Kotze

INSTRUCTIONS	
<ol style="list-style-type: none">1. This question paper is made up of four (4) questions.2. Answer ALL the questions and in blue or black ink.3. Start each question on a new page in your answer booklet.4. Please remove the last page of this paper and insert it in your answer booklet.5. The names of people and businesses used throughout this examination paper do not reflect the reality and may be purely coincidental.6. Questions relating to this examination may be raised in the initial 30 minutes after the start of the paper. Thereafter, candidates must use their initiative to deal with any perceived error or ambiguities & any assumption made by the candidate should be clearly stated.	

THIS QUESTION PAPER CONSISTS OF 13 PAGES (Including this front page)

QUESTION 1**(25 MARKS)****PART: A****(14 MARKS)**

Forexi is a Namibian resident and has his own business selling diamond rings to the local market in Windhoek.

Most of the diamonds he puts in the rings are imported from a supplier in Germany and takes about two weeks to get to Namibia.

On 1 December 2018, he purchased diamonds from his US supplier for US\$20 000. The supplier grants Forexi credit and he only has to pay back the supplier after 4 months. On 1 April 2019, Forexi repays his debt in full.

On 28 February 2019, he has closing stock of diamonds to the value of N\$350 000.

The exchange rates given are as follows:

	US\$	NAD
01-Dec-18	1,00	14,08
28-Feb-19	1,00	14,65
01-Apr-19	1,00	14,90

REQUIRED:

Calculate and explain **all** the tax effects of the above transaction on Forexi's taxable income. (14)

PART: B**(11 MARKS)**

Joh & John are twin brothers and partners in a law firm, providing legal advice and other legal consulting services to clients across Namibia. They are both residents of Namibia.

They share profits in the ratio 30:70 respectively. An extract of the statement of profit or loss for the year ending 28 February 2019 reveals the following:

Income	N\$
Legal fees income	1000 000
Dividends from Nedbank Namibia	50 000
Bad debts recovered (note 3)	20 000
Partners salaries: Joh	400 000
: John	320 000

Interest on capital accounts paid: Joh	36 000
: John	24 000
Insurance premiums (note 1)	100 000
Bad debts (note 2)	40 000
Donation to charity (certificate obtained)	10 000
Depreciation (note 5)	50 000
Profit for the year	90 000

NOTES:

1. The insurance premiums paid are on the joint lives of the partners.
2. Included in the N\$40 000 for bad debts is N\$ 20 000 which was a loan to an employee, who is unable to pay it back.
3. During the 2019 year of assessment, the partners recovered N\$20 000 from Vicky, a client. In the 2018 year of assessment the partners had rendered services to Vicky. Vicky experienced financial difficulties when she fell sick and lost income for which she was not insured for, therefore the partners decided to write off her debt.
4. John received interest of N\$100 000 on a savings account held at First National Bank of Namibia.
5. The entity acquired new computers for their office from Incredible Connection on 28 February 2018 for N\$250 000. The computers were valued to last for 5 years from the purchase date.

REQUIRED:

Calculate the gross income for each partner for the year of assessment ending 28 February 2019. Commence your answer with the net profit. (11)

QUESTION 2**(40 MARKS)**

Precious is a civil engineer specialising in the building of dams and bridges. She is employed by Exquisite Engineers CC. Precious is a resident of the Republic of Namibia.

Precious retired at the age of sixty on 31 August 2018, which is her last working day having provided 25 years of service to her employer.

One of her last projects that she worked on included the building of a Dam in the northern regions of Namibia. Due to the fact that she provided her technical expertise in the construction of the dam, she received a 'know-how' payment of N\$ 350,000.

Her salary earned up to the date of retirement was N\$ 50,000 per month.

On the date of Precious' retirement, she received her accumulated leave-pay amounting to N\$ 250,000 as well as a monthly pension of N\$ 15,500, payable starting 30 September 2018.

Precious has a nineteen-year-old son who has just started studying at the Namibian University of Science and Technology (NUST) in the current year of assessment. He is currently staying with his mother, Precious, and is fully dependent on her financial support. For this reason, Precious had taken out an education policy five years ago for the purpose of being able to finance her son's education. The policy matured on 01 June 2018, paying out a total amount of N\$ 95,000. The full amount has been used to pay for tuition at a local registered educational institutional. The premiums that were paid for the policy amounted to N\$ 1,500 per month. Assume that the premium payments ended with the maturity of the policy, in this case ended 31 May 2018.

During Precious' years of service at Exquisite Engineers CC, she had worked from 1993 through to 2003 in Zimbabwe on projects relating to her area of expertise. Since then she has always been working in Namibia up to her date of retirement.

Precious had received the following income from her investments:

Dividends received as follows:

Dividends from a Namibian construction company. The dividend was paid out due to liquidation of which N\$ 5,000 was paid out of capital reserves.	20,000
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Dividends received from shares held in Bank Windhoek. (N\$ 3,000 was paid out of capital reserves and the remaining out of Revenue reserves)	11,000
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Dividends received from shares held in MTC Namibia. 80% of the dividends value was paid out to shareholders from utilizing MTC's share premium account.	20,000
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Interest received as follows:

Interest from a savings account held at Nampost on behalf of her son. (The account is registered in Precious' name)	1,500
Interest from a collective investment scheme with IJG Namibia	13,500

Other Income received or expenses incurred:

Rental income received on Precious' second property which is leased out. (This property was bought on 11 October 2013)	60,000
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Precious had paid levies of N\$ 1,500 per month and incurred repairs and maintenance expenses of N\$ 20,000 during the year of assessment on the above-mentioned property.

Precious had purchased an annuity for N\$ 1,000,000 from an inheritance she received from her late Father. This annuity was purchased on 01 April 2018 and earns her a monthly annuity of N\$ 6,500 starting on 01 May 2018. Assume her age at the time of receiving the annuity was 60 years and her life expectancy is 18.78

Income from an Investment in a Unit Trust account in South Africa. (N\$ 3,000 of this income is regarded as dividends, the difference is regarded as Interest income)	5,000
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Precious received a vehicle from a company where she has 20% shareholding. The vehicle was given to her as a gift due to the fact that she is a shareholder. The market value of the vehicle at the time of granting the gift was N\$ 450,000.

Interest of N\$ 30,000 was paid on the loan to acquire the paid-up shares in the building society.

During the current year of assessment Precious received a lump sum payment of N\$ 670,000 relating to a backdated salary for the period relating to 01 March 2017 to 31 December 2017 and 01 March 2018 to 31 August 2018.

Precious receives a monthly housing allowance of N\$ 15,000. Assume it was provided as part of an approved housing scheme.

During the current year of assessment Precious has requested a loan from her employer for the purpose of renovating her residential property. This loan was granted to the value of N\$ 80,500. Precious has to pay 4% interest on the balance outstanding.

2 scenarios relate to this question, each unrelated:

SCENARIO A:

Part of Precious' salary package, she had received during the current year of assessment the free use of a company motor vehicle purchased by her employer for N\$ 350,000 including VAT. According to her employment contract, she must bear only the fuel costs of the vehicle. The other running expenses relating to the vehicle are paid by the company.

SCENARIO B:

Precious' employer also grants Precious a motor vehicle allowance of N\$ 10,000 per month. During the current year of assessment, Precious has travelled total kilometers of 101,500 km of which the private kilometers were only 46,700 km. Precious has kept a logbook of the kilometers travelled. The related running expenses incurred in relation to the vehicle were as follows:

1. Car insurance paid of N\$ 2,500 per month;
2. Fuel costs totaling N\$ 33,450 for the year of assessment;
3. Maintenance incurred totaling N\$ 12,234 for the year of assessment.

REQUIRED:

- (a) Calculate the taxable income of Precious for the year of assessment ending 28 February 2019. (36)
- (b) Calculate the tax liability of Precious assuming that she had paid total provisional tax payments of N\$ 301,500 for the 2019 year of assessment. (4)

QUESTION 3**(25 MARKS)**

Victor Stepli sells and repairs watches from a shop he leases in a local shopping centre. Victor Stepli is a sole proprietor and is registered for value-added tax.

An analysis of Victor Stepli's receipts and accruals and expenditure for his two-month tax period ending 30 September 2018 is set out below. Unless otherwise stated, all amounts are inclusive of value-added tax where applicable. He makes solely taxable supplies.

	NOTE	N\$
Receipts and accruals		
Sales of watches		233 470
Repairs of watches		31 560
Interest		8 110
Indemnity award	Note 1	40 000
Expenditure		
Bad debts	Note 2	14 060
Bank Charges		1 764
Depreciation	Note 3	29 813
Insurance Premiums	Note 4	4 137
Fuel		12 110
Printing and Stationery		2 150
Purchases	Note 5	189 730
Salaries		45 960
Rentals	Note 6	15 306

Notes:

1. The indemnity award of N\$40 000 was received during September 2018 by Victor Stepli from his insurer for two expensive watches that were stolen from his shop. The theft occurred in June 2018.
2. Bad debts of N\$14 060 written off by Victor Stepli, comprising the following:
 - N\$12 560 owing by one of his long-standing customers, from a credit sale. This customer has since emigrated and is unable to be traced.
 - N\$1 500 was lent by him to an employee, who left town without repaying the loan.
3. Depreciation (for the two-month tax period) is charged for the following assets owned by Victor Stepli:

	N\$
<ul style="list-style-type: none"> • Manufacturing equipment that was purchased by him in a previous tax period for N\$ 310 100 (Including VAT) 	26 965
<ul style="list-style-type: none"> • A computer that was purchased by him on 01 August 2018 for N\$ 21 250 (Including VAT) 	308
<ul style="list-style-type: none"> • A motor car was purchased by him on 01 September 2018 for N\$ 350 500, inclusive of VAT for which he has the sole use of it. (He maintains accurate records of his travelling and can prove that his business travelling is 40% of his total travelling.) 	2 540
TOTAL:	29 813

4. Victor Stepli's insurance premiums of N\$4 137 were incurred for the following:

	N\$
Manufacturing equipment	1 124
Office equipment	77
Motor Car	1 270
Trading stock	1 667
	4 137

5. Victor Stepli's purchases of N\$159 030 are made up as follows:

	N\$
Purchases of raw materials from vendors	156 100
Second-hand watches purchased from vendors	17 100
Second-hand watches purchased (and paid for) from non-vendors	16 530
	189 730

Victor Stepli purchases second-hand watches from both vendors (for example auctioneers) and from non-vendors (for example, private individuals and deceased estates). He displays and sells second-hand watches in his shop.

6. Victor Stepli's rentals are as follows:

	N\$
Shop premises	12 550
Cash register	1 780
Tea urn (located in the shop for his employees and himself to make tea)	976
	15 306

REQUIRED:

Calculate the value-added tax due to, or from the Receiver of Revenue for Victor Stepli's two-month tax period that ended 30 September 2018. (25)

Where an item does not have any VAT consequences, you must state reasons to earn a mark.

QUESTION 4**(10 MARKS)**

Mirjam (a Namibian resident) is employed by the City Police and works as a traffic officer at the City Police head office. The City Police issued a tax certificate with number M000123 to Mirjam on 1 March 2019. Mirjam is in employment for over 8 years at City Police. Her personal tax number is 611245111 and her Identity number is 0012150147.

Below find a list of receipts and accruals to Mirjam during the 2019 year of assessment.

Receipts and Accruals:

- An annual basic salary of N\$ 150 000.
- Housing benefit of N\$60 000 per annum. Her employer has an approved housing scheme in place.
- The private use of a motor vehicle. The cost price of the motor vehicle amounts to N\$200,000 including VAT. The employer was responsible for all the costs except for fuel.
- Mirjam paid N\$1000 per month towards her youngest son's educational policy. He is 10 years old.
- Pension fund contributions of 7.25% annual basic salary towards the *Orion* Pension fund. The fund is registered in Namibia.
- Employees tax deducted of N\$28 000 by *The City Police*.

REQUIRED:

Calculate Mirjam's tax liability for the 2019 year of assessment. Your answer is to be completed on the extract of the Namibian annual tax return provided (Schedule 3, 16 and 17) on the last page of this assessment paper. (10)

NOTE:

- Please ensure that you hand in the extract of the tax return together with your answer booklet. Write down your student number.
- Do not calculate the tax liability in your answer sheet. It will not be marked. Only the extract of the tax return will be marked.

END OF EXAMINATION

TAX TABLE

INDIVIDUAL INCOME TAX	
TAXABLE INCOME (N\$)	RATES OF TAX FROM YEARS OF ASSESSMENT ENDING 2018 / 2019 (N\$)
0 – 50 000	Not taxable
50 001 – 100 000	18% for each N\$ above 50 000
100 000 – 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

SCHEDULE 3: EMPLOYMENT, ETC.

				Line No.													Note No.
Revenue Code				1	Expenses						Income						1
Remuneration - salary, commission, etc.																	
Employer/period employed																	
PAYE certificate no. _____ From _____ To _____																	14
PAYE certificate no. _____ From _____ To _____																	14
PAYE certificate no. _____ From _____ To _____																	14
PAYE certificate no. _____ From _____ To _____																	14
PAYE certificate no. _____ From _____ To _____																	14
Gratuity, bonus or other compensation received as a result of termination of services																	
Amount claimed as an exemption (max. N\$300,000) in terms of Sect 16(1)(o)																	
Balance of Gratuity, bonus or other compensation (if so elected by you) to be deferred to:																	
- next year (1/3 of balance)																	26
- the year after next year (1/3 of balance)																	26
Tax value of free housing																	14
Tax value of housing allowance																	14
Tax value of Mortgage bond subsidies																	14
Tax value of subsidised loans (specify)																	14
Tax value of company vehicle(s)																	14
Other fringe benefits																	10, 14
Entertainment allowance																	14
Expenses incurred with allowance (Limited to amount of allowance)																	4, 15
Vehicle running expense allowance																	14
Vehicle purchase allowance																	14
Motor vehicle expenses (Where vehicle allowances are received, the amount claimed may not exceed such allowances)																	4
Subsistence and Travel expense allowance																	14
Expenses incurred with allowance (Limited to amount of allowance)																	15
Other allowances (specify)																	14
Expenses incurred with allowance (Limited to amount of allowance)																	15
Allowances recouped in terms of sections 14(4), 14(5) and 17(1)(e)																	4
Contributions to an approved Pension Fund																	14
Name of Fund: _____																	
Contributions to an approved Provident Fund																	14
Name of Fund: _____																	
Contributions to an approved Retirement Annuity Fund																	
Name of Fund: _____																	13
Name of Fund: _____																	13
Name of Fund: _____																	13
Name of Fund: _____																	13
Premiums paid i.r.o. study policies																	13
Amounts received from study policies																	13
Proceeds of study policies applied for post school tuition of children																	16
Other expenses incurred in the production of Income																	4
Donations in terms of Sect 17(1)(s)																	3
TOTALS																	16
TAXABLE INCOME				2													19

SCHEDULE 16: SUMMARY OF LOSSES/TAXABLE INCOME

	Line No.	Losses						Profits						Sched. No.
Employment														3
Interest from a Namibian Source other than a Namibian Banking Institution or Unit Trust Scheme														6
Interest and deemed interest from foreign sources														7
Namibian Building Society dividends														8
Rental														9
Minor children or stepchildren														10
Pension/provident fund payments and annuities														11
Endowment policies, purchased annuities and retirement annuities														12
Other revenue														13
TOTALS														
LOSS/PROFIT	X													Note 19
Pension or provident fund refunds on dismissal, resignation or retrenchment from employment, cessation of fund or withdrawal from a preservation fund	Y													4
LOSS/TAXABLE INCOME (TAXABLE AMOUNT)	124													Note 19

SCHEDULE 17: CALCULATION OF TAX PAYABLE

	Line No.	Debits						Credits						Note No.
Taxable amount - Excluding taxable income in Schedule 4 (Line X in Schedule 16)	A													
Tax on NS _____														23
Tax on balance NS _____ @ _____ %														23
Total	B													
Taxable income in Schedule 4 (Line Y in Schedule 16)	C													
The greater amount of: Line B divided by Line A, multiplied by Line C OR 18% of C	D													
Tax paid														
1st Provisional payment														
2nd Provisional payment														
Further Provisional payment(s)														
Foreign taxes paid on revenue deemed to be from a Namibian source														
Employee tax deducted:														
PAYE Certificate No. _____														14
PAYE Certificate No. _____														14
PAYE Certificate No. _____														14
PAYE Certificate No. _____														14
PAYE Certificate No. _____														14
PAYE Certificate No. _____														14
PAYE Certificate No. _____														14
TOTAL TAX PAYABLE (Lines B+D)/TAX PAID AND DEDUCTED														
NET TAX PAYABLE/DUE TO YOU														19

SCHEDULE 18: STATEMENT OF ASSETS AND LIABILITIES

This schedule to be completed by taxpayers who conduct business and/or farming operations - Obtain Form 6-0/0014A (Yellow form)