



**NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY**

FACULTY OF COMMERCE, HUMAN SCIENCES AND EDUCATION

DEPARTMENT OF ECONOMICS, ACCOUNTING AND FINANCE

QUALIFICATION : BACHELOR OF ACCOUNTING (HONOURS)	
QUALIFICATION CODE: 08BOAH	LEVEL: 8
COURSE: ADVANCED TAXATION	COURSE CODE: ATX812S
DATE: JANUARY 2024	SESSION: THEORY & CALCULATIONS
DURATION: 4 HOURS	MARKS: 100

SECOND OPPORTUNITY EXAMINATION – QUESTION PAPER	
EXAMINER:	Ms Y Andrew
MODERATOR:	Ms M Amakali

INSTRUCTIONS TO CANDIDATES
<ol style="list-style-type: none">1. This paper consists of 8 pages (excluding cover page).2. Answer all the questions using either blue or black ink.3. Write neat and clear.4. A non-programmable calculator is permissible.5. The Namibian Income Tax Act no. 24 of 1981 is permissible.6. The Namibian Value-added Tax Act no. 10 of 2000 is permissible.7. Round off all amounts to the nearest Namibian Dollar (N\$).8. Clearly state (any) assumptions made (where applicable).9. Show all your workings.

QUESTION 1**15 marks (36 min)**

Manie DeKock saw an opportunity to “cash in” during the 2023 Rugby world cup and incorporated a new company, Rugby Fanatic (Pty) Ltd (“Rugby Fanatic”) with three of his friends. The company trades in various products, including rugby balls, vuvuzela’s, official rugby jerseys and rugby mascots. Rugby Fanatic commenced trading on 1 June 2021 and has a 31 December financial year end.

Being very optimistic, the company purchased trading stock at a cost of N\$1 665 000 in its first month of trading. The trading stock had a market value of N\$2 175 000. Sales did not meet expectations and in reaching its first year-end, Rugby Fanatic only had sales of N\$550 000. The cost of trading stock items sold was N\$450 000.

The shareholders of Rugby Fanatic were not discouraged by this and remained convinced that the demand for Rugby Fanatic’s products would increase as the 2023 Rugby world cup tournament approached. They subsequently decided to import a new range of rugby balls from Europe in order to expand their product range.

An order for 1 000 rugby balls were placed on 11 January 2022 to the value of Euro 155 000. The rugby balls were shipped free-on-board on 3 February 2022 and arrived as Rugby Fanatic’s premises on 5 March 2022. Rugby Fanatic agreed to settle the purchase price in full by 30 June 2022. No forward exchange contract was entered into as a hedge against currency fluctuations.

Being unhappy with the quality of the rugby balls received, Rugby Fanatic decided to withhold their payment until the dispute with the European supplier was resolved. On 31 December 2022, the full amount was still outstanding.

In anticipation of the 2023 Rugby world cup tournament, Rugby Fanatic decided to distribute rugby jerseys (trading stock) as a dividend in-specie to its shareholders. These rugby jerseys had a cost of N\$95 000 and a market value of N\$145 000.

During the 2022 financial year, trading stock with a cost of N\$950 000 was sold for N\$1 345 000.

Relevant exchange rates are as follows:

Date	Spot rate
11 January 2022	€1 = N\$17.50
3 February 2022	€1 = N\$17.45
5 March 2022	€1 = N\$17.60
30 June 2022	€1 = N\$17.20
31 December 2022	€1 = N\$17.90

REQUIRED	MARKS
Calculate the effect of the above transactions on Rugby Fanatic’s taxable income for its years of assessment ending 31 December 2021 and 31 December 2022. Show all your workings. Round off all amounts to the nearest Namibian Dollar (N\$).	15

QUESTION 2**20 marks (48 min)**

Quality Cement (Pty) Ltd is a Namibian resident company engaged in the production of cement and major competitor of Ohorongo Cement and Alpha Cement. The company is an approved manufacturer and has a 28 February year end. The company has been operating in Namibia for the past 12 years. The following information relates to their 28 February 2023 year of assessment:

Net profit before tax: N\$ 1 713 544

Additional information: Below amounts are included in the Net profit before tax unless stated otherwise.

1. The following relates to trading stock:

	28/02/2022	28/02/2023
Packaging materials	80 000	140 000
Spare parts	120 000	20 000
Other stock	<u>300 000</u>	<u>390 000</u>
Total	500 000	550 000

The other stock does not include any consumable stores.

2. Bad debts were recovered from Mr Kuchlenberg, debtor. Mr Kuchlenberg owed Quality Cement an amount of N\$9 000 in 2019. The total of Mr Kuchlenberg's debt of N\$10 200 (including N\$1 200 interest) had been written off as bad in 2021. When Mr Kuchlenberg was traced in July 2022 and he agreed to repay the full N\$10 200 owing, commencing with the interest, as and when funds become available. The accountant reinstated the debtor's account. To date Quality Cement has received a payment of N\$1 000 during January 2023. The transaction has not been recorded yet.
3. Proceeds of N\$75 000 was received from an insurance policy that relates to a life policy taken out on the life of one of Quality Cement's ex-employees, Mr Joshua. Mr Joshua had been the accountant of Quality Cement until his untimely death in September 2022. Quality Cement previously claimed all premiums paid by it on the life policy in terms of section 17(1)(w). Upon Mr Joshua's death, Quality Cement paid into his estate a gratuity of N\$60 000 and an annuity to his family of N\$4 000 per month (not included in Net profit before tax) which commenced on 1 September 2022.
4. Quality Cement concluded a lease agreement for the lease of vacant land on 1 June 2022 in order to build a second factory thereon. The lease agreement was to run for 10 years commencing on 1 June 2022. The agreement provided for a lease premium of N\$280 000 to be paid, which was duly done on 1 June 2022, and lease rentals of N\$10 000 per month payable by the 5th day of every month from June 2022. In terms of the agreement, Quality Cement was obliged to erect a factory costing at least N\$12 million on the land. Quality Cement commenced with the erection of this factory on 1 July 2022, and it was completed and brought into use for the purposes of producing cement on 1 December 2022, at a total cost of N\$12.5 million. Included in the N\$12.5 million is interest of N\$2.5 million on a loan taken out on 1 June 2022 repayable over 20 years to finance the erection of the factory. Only the lease rentals of N\$10 000 per month have been included in the Net profit before tax amount.

5. Depreciation relates to machinery (Machine A and Machine B) and equipment directly used in the production process. The company depreciates both the machinery and equipment at 25% per annum using the reducing balance method. The depreciation is calculated using cost, if no cost is available, the market value is used. Below are the details relating to the machinery and equipment:

	Machine A	Machine B	Equipment
Acquisition date	1 May 2020	1 Sept 2020	1 April 2022
Brought into use date	Same as above	Same as above	1 July 2022
Cost	N\$1 600 000	N\$2 000 000 (MV)	N\$750 000
Book value – 1 March 2022	N\$950 000	N\$1 312 500	-

The machinery and equipment will qualify for a wear and tear allowance in terms of section 17(1)(e).

6. Legal expenses of N\$7 500 relates to consulting fees paid to their attorneys Lorentz Angula Inc in respect of a legal suit brought against Quality Cement by its competitor, Alpha Cement. Alpha Cement alleges that Quality Cement caused damage to its reputation by publishing photographs of spoilage caused to the environment by Alpha Cement's factory. Quality Cement paid the legal expenses on the understanding that if Lorentz Angula Inc lose the case, Quality Cement will be entitled to the full refund thereof.
7. Salaries and wages of staff involved in the manufacturing process amounts to N\$260 000.
8. A restraint of trade payment of N\$300 000 was paid to a former employee who left the employment of Quality Cement on 30 September 2022. The restraint of trade agreement is effective for two years commencing on 1 October 2022. This payment has not been accounted for in the calculation of Net profit before tax.
9. Quality Cement has an assessed loss of N\$357 425 brought forward from its 2022 year of assessment.

REQUIRED	MARKS
Calculate the normal tax liability of Quality Cement (Pty) Ltd for the 2023 year of assessment. Start your calculation with the Net profit before tax . Show all workings.	20

QUESTION 3**20 marks (48 min)**

Builders Limited ("Builders") is a registered VAT vendor and a retailer of building and construction material in Namibia. The following transactions took place during September 2023. All amounts exclude VAT, unless stated otherwise.

1. Ten machines were purchased at a cost of N\$3 250 000 (including VAT); all machines have the same cost of N\$325 000 each (incl VAT).
2. The standard mark-up on the cost of the machines (including VAT) is 50%. Cost plus VAT is increased by 50% to arrive at the selling price of the machines.
3. Five machines were sold for cash.
4. One machine was sold in terms of an instalment sales agreement. The contract provides for 60 monthly payments of N\$8 900 at the end of each month. The monthly repayments commence at the end of September.
5. One machine was leased in terms of a finance lease agreement at a monthly rental of N\$8 000, payable at the end of each month.
6. An old machine which was held as opening stock and was reflected at N\$315 000 in the stock count was sold to Monique Faro, at a cost inclusive of VAT. Monique who is a 20% shareholder of Builders is not a registered VAT vendor. The market value of this machine at the date of sale was N\$195 000.
7. On 25 September a second-hand machine was purchased from a non-vendor for N\$210 000. Its market value was N\$225 800. Builders paid N\$110 000 immediately to secure the purchase and will pay the balance at the end of October.
8. The second-hand machine (point 7 above) was immediately sold to a vendor who is a connected person in relation to Builders for N\$230 000.
9. On 1 September 2023 a fire in the warehouse totally destroyed two (2) machines purchased in July 2023 for N\$349 800 (including VAT) each. Builders' insurer paid them N\$335 000 for each machine as compensation on 25 September 2023.
10. During September Builders purchased two (2) new water bottles for the cold-water dispenser in the staff canteen. These bottles each cost N\$1 950 (including VAT) and were paid for in September.

REQUIRED:	MARKS
Calculate the amount owing to or refund due from NAMRA in respect of Value-added Tax for the two-month VAT period ending 30 September 2023 of Builders Limited. Provide reasons for the inclusion or exclusion of VAT from your VAT due or refundable calculation.	20

QUESTION 4**15 marks (36 min)**

The Namibian Writers Association (“NWA”), a Publishing house recently published a novel written by an international author, Lee Yung, a resident of the Republic of Mauritius. The NWA made payments to her for the publishing and distribution of her novel in the country. The NWA requested your advice whether any taxes will be applicable on the payments made to Lee Yung.

	REQUIRED	MARKS
(a)	Advise the Namibian Writers Association what the tax implications will be in respect of the fee paid to a Lee Yung (a non-resident) with reference to the relevant legislation.	11
(b)	Advise the taxpayer who will be responsible for the payment of any taxes due to NamRA and when it will be due to NamRA.	4

QUESTION 5**30 marks (72 min)**

Mrs Feroza Kruger is a 55-year-old Namibian resident who is married and has 2 dependents. Mrs Kruger has worked as the senior electrical engineer at NamPower for the past ten (10) years and has been employed by the company for more than 20 years. The following relates to her 2023 year of assessment:

Description	Note	Amount
Salary	1	N\$780 000
Use of company motor car	2	?
Free housing	3	?
Holiday accommodation	4	?
Loan from NamPower	5	N\$2 500 000
Contribution to pension fund and retirement annuity fund	6	?
Entertainment allowance	7	N\$3 900
Interest income		N\$11 000
Dividends received		N\$17 800

Notes:

- In addition to her basic salary of N\$65 000 a month, Mrs Kruger received a long service award of N\$20 000 and a smart television set with a market value of N\$16 000 on 30 November 2022 in celebration of his 20th anniversary at the company. She also acquired an air conditioner from her employer for N\$5 500 in December 2022. The market value of the air conditioner was N\$6 500 on the date of acquisition.
- On 28 February 2022 NamPower entered into an instalment sales agreement of N\$12 650 per month (including VAT) repayable in 5 years and including finance charges of N\$1 800 per month in respect of a motor vehicle. Mrs Kruger had the right of use of this motor vehicle with a retail market value of N\$690 000 (including VAT) since 1 March 2022.

During the 2022 year of assessment Mrs Kruger travelled 18 000 kilometres in total with the motor vehicle. She kept an accurate logbook that proves that 6 000 kilometres were travelled for business purposes. The Commissioner accepted the logbook as accurate. NamPower paid the maintenance and insurance cost amounting to N\$30 000 for the year while Mrs Kruger paid the fuel cost in respect of the vehicle. During the 2023 year of assessment the fuel costs amounted to N\$2 100 per month.

3. Mrs Kruger is one of NamPower's key employees and works a lot of overtime. As NamPower is situated in Windhoek, Mrs Kruger's daily commute from Okahandja (where she lived) took a lot of time. To reduce her traveling time to and from work, NamPower offered her free accommodation in Windhoek and suggested that Mrs Kruger rent out her house in Okahandja and move to Windhoek. Mrs Kruger accepted the offer and moved into the 2-bedroom apartment owned by NamPower on 1 September 2022. However, Mrs Kruger's intention is to purchase her own house in Windhoek during the following year of assessment. NamPower has an approved housing scheme registered with NAMRA.
4. In December 2022, NamPower offered Mrs Kruger their holiday accommodation at the coast to be enjoyed by herself, her spouse and 2 children for 8 days. The accommodation is listed on the company's Airbnb profile as holiday accommodation charged at N\$1 550 per night.
5. In anticipation of buying the new house in Windhoek (refer to note 3) NamPower granted Mrs Kruger a loan of N\$2 500 000 on 1 December 2022, at an interest rate of 5% per annum to help her finance the new house that she plans to purchase in the coming year.
6. Mrs Kruger and NamPower each contributed 8% per month of her basic salary to a pension fund. In addition, Mrs Kruger contributes N\$1 500 per month to a retirement annuity fund.
7. Mrs Kruger receives an entertainment allowance of N\$3 900 per annum and she is required to entertain clients. She kept accurate records of her entertainment expenses during the year which amounted to N\$3 200.
8. Employees tax of N\$252 650 was deducted by NamPower in respect of Mrs Kruger's taxable income for the 2023 year of assessment.

REQUIRED	MARKS
Calculate Mrs Kruger's tax liability for her 2023 year of assessment. Show all workings and provide a reason if an amount is not included in or deducted/exempt from taxable income.	30

ANNEXURE

Individual Income Tax

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

Taxable Income N\$	Rates of tax from years of assessment ending 2022/23 (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

	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

Summary of Withholding tax payable and double Taxation Agreements

The Withholding tax rates and treaty relief for Namibian Double taxation agreements can be summarised as follows. Note that the tax treaties contain certain requirements that should be met before the reduced tax rate may be applied. The definitions of dividends, interest, and royalties in the various treaties should also be considered.

Recipient	WHT (%)				
	Dividends	Interest	Royalties	Management, administrative, technical, and consulting fees	Directors fees & Foreign Entertainers ⁷
Treaty:					
Botswana	10	10	10	10 ⁶	25
France	5/15 ²	10	10	0	25
Germany	10/15 ²	0	10	0	25
India	10	10	10	10	25
Malaysia	5/10 ¹	10	5	5	25
Mauritius	5/10 ¹	10	5	0	25
Romania	10 to 15 ²	10	5	0	25
Russian Federation	5/10 ⁴	10	5	0	25
South Africa	5/15 ¹	10	10	0	25
Sweden	5/15 ²	10	5	10 ⁶	25
United Kingdom	5/10/15 ⁵	10 ⁸	5	0	25

END OF SECOND OPPORTUNITY EXAMINATION