Fundamentals Level – Skills Module

Taxation (South Africa)

Monday 7 December 2009

Time allowed
Reading and planning: 15 minutes
Writing: 3 hours

ALL FIVE questions are compulsory and MUST be attempted.
Tax rates and allowances are on pages 2–3.

Do NOT open this paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.

This question paper must not be removed from the examination hall.

The Association of Chartered Certified Accountants

Paper F6 (ZAF)

ACCA

SUPPLEMENTARY INSTRUCTIONS

1 Calculations and workings need only be made to the nearest R.
2 All apportionments should be made to the nearest month.
3 All workings should be shown.

TAX RATES AND ALLOWANCES

The following tax rates and allowances are to be used in answering the questions.

	Year ending 28 February 2009
Rebates	
Primary rebate	R8,280
Secondary rebate (Over 65)	R5,040
Interest exemption	
Under 65	R19,000
Over 65	R27,500
Companies	
Normal tax rate	28%
STC rate	10%
SARS Official interest rate	12%

Rates of normal tax payable by persons (other than companies)
In respect of the year of assessment ending 28 February 2009

Where the taxable income	
does not exceed R122,000	18% of each R1 of the taxable income
exceeds R122,000 but does not exceed R195,000	R21,960 plus 25% of the amount over R122,000;
exceeds R195,000 but does not exceed R270,000	R40,210 plus 30% of the amount over R195,000;
exceeds R270,000 but does not exceed R380,000	R62,710 plus 35% of the amount over R270,000;
exceeds R380,000 but does not exceed R490,000	R101,210 plus 38% of the amount over R380,000;
exceeds R490,000	R143,010 plus 40% of the amount over R490,000

Tax rates for small business corporations for
year of assessment ending 28 February 2009

R0 – R46,000	Nil
R46,001 – R300,000	10% of the amount over R46,000
R300,001 and above	R25,400 + 28% of the amount over R300,000

Medical tax-free monthly contributions:

Single member	570
Member plus one dependent	1,140
Each additional dependent	345

Capital gains tax:

Annual exclusion	R16,000
Primary residence exclusion	R1,500,000
Inclusion rate (natural persons)	25%
(companies)	50%

Time apportionment formula: $Y = B + [(P - B) \times N/(T + N)]$

Car allowance	
Maximum deemed kms	32,000
Deemed private kms	18,000
Maximum vehicle cost for actual expenses	360,000
Fringe benefit (company car)	
Benefit percentage	2·5%
Reduction for all private fuel paid	0·22%
Reduction for all maintenance paid	0·18%

Travel Allowance Table

For years of assessment commencing on or after 1 March 2008

Value of the vehicle (including VAT but excluding finance charges or interest) R	Fixed cost R p.a.	Fuel cost c/km	Maintenance cost c/km
0 – 40,000	14,672	58·6	21·7
40,001 – 80,000	29,106	58·6	21·7
80,001 – 120,000	39,928	62·5	24·2
120,001 – 160,000	50,749	68·6	28·0
160,001 – 200,000	63,424	68·8	41·1
200,001 – 240,000	76,041	81·5	46·4
240,001 – 280,000	86,211	81·5	46·4
280,001 – 320,000	96,260	85·7	49·4
320,001 – 360,000	106,367	94·6	56·2
360,001 – 400,000	116,012	110·3	75·2
Exceeds 400,000	116,012	110·3	75·2

Notes:

Where reimbursement is based on actual business kilometres travelled, no other compensation is paid to such employees and the kilometres travelled for business does not exceed 8,000, the prescribed rate is R2·92 per kilometre.

ALL FIVE questions are compulsory and MUST be attempted

1 Don McBlain, who is 48 years old, is employed by Orca Limited as a sales manager. Details of his salary package and related matters for the year of assessment ended 28 February 2009 are as follows:

Cash salary for the year		260,000
Commission		340,000
Pension fund contributions (based on cash salary)		20,000
Medical aid contributions paid by Orca	(note 1)	16,000
Travel allowance	(note 2)	52,000
Cell phone mainly used for business and all expenses paid by Orca		2,300
Entertainment expenditure paid by Don		5,600
Loan granted to Don	(note 3)	50,000
Retirement annuity contributions paid by Don and not taken into account by Orca		6,000

Note

1. Don has two other dependants (besides himself) on his medical aid scheme and also contributes R16,000 for the year to the scheme. In addition he has incurred qualifying medical expenditure, not covered by the medical aid scheme, of R51,000.
2. Don has a 4 x 4 vehicle which cost R480,000 (VAT inclusive). He does not keep a log book and Orca pays for all his petrol. Don pays his own maintenance costs of R3,400 per year. He travelled 42,000 kilometres during the year. On 28 February 2009 he sold his 4 x 4 for R320,000.
3. Don received the loan of R50,000 on 1 June 2008 and paid 5% interest, of R250, monthly to Orca. Don used this loan as capital in a small business he had just started from which he earned a net income of R8,000 before interest payable.

Required:

(a) Calculate Don's normal tax payable for the year of assessment ended 28 February 2009. (22 marks)

(b) Calculate the employee's tax withheld by Orca with respect to Don for the year of assessment ended 28 February 2009. (6 marks)

(c) Briefly state one way that Don could have reduced his employee's tax withheld by Orca. (2 marks)

(30 marks)

2 Clover (Pty) Limited (Clover) is a resident of South Africa. It is not a small business corporation and is involved in the manufacture and retailing of all items required for stage, film and wedding reception productions. Clover moved to new premises during its year of assessment ended 31 January 2009.

Clover had net income of R956,000 for the year to 31 January 2009 before taking into account the following:

1. On 1 February 2008 Clover entered into a lease agreement with a taxpayer whereby it would lease an industrial site from him for 20 years. The agreement provided for an initial premium of R50,000 to be paid on commencement of the lease which was signed on 1 February 2008. The lease provided for a monthly rental of R7,200 to be increased by 10% in each subsequent year. Clover was obliged in terms of the lease agreement to erect a factory on the land at a cost of R5,200,000. Work commenced on the factory on 1 February 2008 and was completed at a cost of R5,800,000 on 30 September 2008. The factory was immediately brought into use.
2. An old building which occupied part of the leasehold land could not be used and was demolished at a cost of R31,000.
3. A new machine, used in the manufacturing process, which cost R10,000 on 1 June 2007 was sold for R1,200 on 31 December 2008.
4. A machine was purchased from the major shareholder of the company for R15,000 on 1 January 2009. The shareholder had purchased the machine new on 1 December 2008 for R16,000 but never brought it into use in his subsidiary business of making artificial moulds. It was immediately taken into use in the manufacturing process on 1 January 2009.
5. A worker in the factory was granted a loan of R9,000 at an interest rate of 3% per year. The worker repaid half of the loan and then disappeared. An amount of R4,900 was unpaid which included interest of R400. Legal expenses of R900 were incurred in trying to recover the amount owing which was then written off as a bad debt.
6. In September 2008 Denise, the wife of one of the shareholders of the company, was given certain consumable stock items which were no longer of any use to Clover. Denise uses these items as props in her child photography business. These items were included in operating stock at R2,000 and had a market value of R1,000.
7. On 1 October 2008, one of Clover's delivery vehicles was involved in an accident. The driver was killed and Clover paid an amount of R100,000 as compensation to the surviving spouse of the driver. Legal costs of R8,000 were incurred in connection with the case and Clover undertook to pay a regular monthly amount of R900 for the benefit of the deceased employee's children until they reached the age of 18. Clover paid the R900 per month from 1 November 2008.

The net income above is **after** taking into account the following:

Dividends from listed South African companies	R22,000
Interest from an investment in a money market account at a local bank	R7,000

Clover has a policy of declaring a dividend once a year on the last day of its year of assessment. No secondary tax on companies (STC) was paid on the dividend declared on 28 January 2008 because its dividends accrued exceeded its dividend declared by R1,200. Clover declared a dividend of R30,000 on 31 January 2009.

Required:

(a) Calculate the normal tax liability of Clover (Pty) Limited for its year of assessment ended 31 January 2009. (22 marks)

(b) Calculate Clover (Pty) Limited's STC liability on the dividend declared on 31 January 2009. (3 marks)

Note: You may ignore value added tax (VAT).

(25 marks)

3 Jane Dow, a South African resident, has various assets. As she is nearing 70 years of age and due to go into a retirement home, she decided to dispose of various assets as follows:

1. Primary residence

   She sold this for R3·2 million on 15 January 2009. She acquired this residence from her husband when he died in 2007. The market value on his death was R3 million. Her husband had acquired the residence on 1 September 2001 for R900,000. Jane spent R80,000 on improvements in 2008.

2. Holiday house

   On 1 December 2008 she donated her holiday house in South Africa to her son, Mark. The house had cost R400,000 in January 2000, and improvements of R100,000 were carried out by Jane in January 2001. The market value at date of donation was R1·5 million. Jane had the house valued on 1 October 2001 at R850,000. Mark paid the donations tax in respect of this asset.

3. Vehicles

   Jane had two cars and decided to sell one for R160,000. It had cost R320,000 in 2006.

4. Shares

   Jane had a portfolio of listed shares which she held as an investment. She decided to sell some of these shares as follows:

   – 2,000 shares in A sold for R1,300.
     Jane held 10,000 shares in A which she had acquired as follows:
     2006 – 4,000 shares at a cost of R4,500
     2007 – 6,000 shares at a cost of R7,100
   – 5,000 shares in B sold for R13,000
     These shares were acquired in 2005 for R12,000.

   Jane has elected the weighted average method of determining the base cost.

Required:

(a) Calculate all the capital gains or capital losses for Jane Dow for the year of assessment ended 28 February 2009. (16 marks)

(b) Compute the inclusion in taxable income for Jane Dow for the year of assessment ended 28 February 2009. (4 marks)

(20 marks)

4 Rose and Janet are 55 years of age, and are in a partnership sharing profits and losses from their trade in equal shares. The partnership is not registered for Value Added Tax (VAT).

The partnership accounts are reflected as follows:

		R
Gross profit		420,000
Expenditure		
Legal expenses to renew their lease		3,200
Salary paid to Janet		100,000
Retirement annuity contributions – Janet		1,200
Loan repayments	Janet	10,000
	Rose	12,000
Interest on loan	Janet	300
	Rose	400
Net income		292,900
Share	Janet	146,450
	Rose	146,450

In addition to the above, Janet has local dividend income of R3,400 and interest income of R5,200 from a local South African bank.

During the year Janet took out a further Retirement Annuity and contributed a lumpsum of R15,000 at the end of the tax year.

Required:

(a) Compute Janet's tax payable commencing your calculation with her share of net income. (10 marks)

(b) Discuss whether Janet should have been making any advance payments of tax in respect of any of the above income and when these should have been paid. (3 marks)

(c) Briefly state whether the partnership should or may register for VAT. (2 marks)

(15 marks)

5 Indwe Holdings Limited (Indwe) pays valued added tax (VAT) on a two-monthly basis. During Indwe's two-month VAT period ending on 30 June 2009 the following transactions took place:

			R
1.	Sales	to export countries	400,000
	Sales	in South Africa	620,000
2.	Purchases	of goods from VAT vendors	250,000
	Purchases	of new goods from non-VAT vendors in South Africa	120,000
	Purchases	of second-hand goods from non-vendors (The market value of these goods is R22,000)	24,000

3. A watch was purchased for R6,000 to give to an employee as a long service award for 25 years loyal service. The watch was given to the employee on 30 June 2009.

All amounts are VAT inclusive where relevant.

Required:

Calculate all the inputs and outputs payable by Indwe Holdings Limited and indicate the amount payable to or refundable from the South African Revenue Services. Where no VAT is payable give a brief reason.

(10 marks)

End of Question Paper