

Fundamentals Level – Skills Module

Taxation (South Africa)

Monday 1 June 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)

The ACCA logo consists of the letters 'ACCA' in a bold, white, sans-serif font, centered within a solid black square.

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	12.5%
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 the 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

Car allowance

Maximum deemed kms	R32,000
Deemed private kms	R18,000
Maximum vehicle cost for actual expenses	R360,000

Fringe benefit (company car)

Benefit percentage	2·5%
Reduction for all private fuel paid	0·22%
Reduction for all maintenance paid	0·18%

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	25%

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)	Fixed cost	Fuel cost	Maintenance cost
R	R p.a.	c/km	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

Note:

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 Toyz Unlimited (Pty) Ltd (Toyz) is a manufacturer of toys for children of all ages.

You have been provided with an abbreviated Income Statement, at 30 June 2009 as follows:

	Notes	R
Sales		20,000,000
Cost of sales		(11,500,000)
Gross profit		<u>8,500,000</u>
Dividends received – domestic companies		20,000
Profit on sale of machine		35,000
		R
Administration expenses		1,400,000
Depreciation	1	536,300
Donations	2	100,000
Royalties paid	3	220,000
Repairs and maintenance	4	250,000
Research and development expenditure	5	920,000
Salaries and wages	6	<u>3,200,000</u>
		<u>(6,626,300)</u>
Net Profit		1,928,700
Dividend declared		(400,000)
		<u>1,528,700</u>

Notes

1. Depreciation is calculated as follows:

	Purchased Date	Cost	Depreciation
Manufacturing machines (various) all new	1 July 2007	R500,000	111,300
Manufacturing machine B (used)	1 August 2008	R120,000	27,500
Manufacturing machine S which cost R80,000 and which is included in the various category, was sold on 1 January 2009 to a connected person for R85,000 (VAT exclusive). Its market value on that date was R86,000 (VAT inclusive).			
Delivery vehicles	1 March 2007	R300,000	75,000
Motor cars	1 July 2008	R700,000	175,000
Manufacturing building (acquired from a person who was claiming 2%)	1 March 2006	R2,200 000	110,000
Office building – new	1 January 2009	R1,500 000	37,500

2. Donations

On 1 December 2008 Toyz donated toys costing R100,000 (VAT exclusive) to The Childrens Fund – a registered Public Benefit Organisation (PBO) from which the appropriate tax receipt was obtained.

3. Royalties paid

Toyz pays royalties to a German company for the use of their trademark in certain of its products. The royalty paid is the net paid over to the German company.

4. Repairs and maintenance

Included in the repairs of R250,000 is an amount of R20,000 incurred for the construction of an entirely new security door for an office which then became a walk in safe.

5. Research and development expenditure

Toyz was in the process of developing a new material for the manufacture of toys which would not be harmful to small children if chewed. Development would be completed by 30 June 2009 and production would begin immediately from that date. Expenditure incurred was as follows:

	R
New equipment purchased on 1 August 2008	400,000
Salaries and wages of researchers	320,000
Revenue expenditure	<u>200,000</u>
	<u>920,000</u>

6. Salaries and wages

Salaries include an amount of R450,000 paid to a key manager who had to resign due to ill health. Toyz paid this amount in respect of the manager's past services to the company.

Required:

- (a) **Compute the tax payable by Toyz for the year of assessment ending 30 June 2009. If you consider any amounts of expenditure in the Income Statement are not deductible for tax purposes or any items of income are not taxable, give your reasons.** (25 marks)
- (b) **Compute the Secondary Tax on Companies liability of Toyz and indicate by which date this would have to be paid.** (3 marks)
- (c) **Compute the withholding tax on royalty payments that Toyz would have paid over to the Commissioner of the South African Revenue Services.** (2 mark)

(30 marks)

- 2** Jason Thyme, who is 52 years old, is employed by the City Council of Bellville in the Western Cape. In addition to his employment Jason runs a small gardening service on the weekends. The following information is available for the year of assessment ended 28 February 2009:

Employment

- (i) Jason is paid a gross salary of R25,000 per month. The City Council and Jason both contribute 4% of his salary to a pension fund for Jason.
- (ii) Jason uses his own car for business purposes and receives a travel allowance of R2,000 per month. Jason pays for all his own maintenance expenses amounting to R2,300 for the year. The City Council pays for all Jason's fuel costs. Jason travelled a total of 35,000 kilometres for the year and does not keep a log book. His 4x4 vehicle cost him R298,000 two years ago.
- (iii) The City Council pays R1,000 per month of the total contributions towards Jason's medical fund. Jason's total contributions are R2,500 per month. The members of the fund are himself, his wife and their two children. Jason spent an additional R28,500 on medical expenses for his son who was in an accident, which was not recovered from his medical fund.
- (iv) Jason was given a loan of R50,000 at an interest rate of 6% in 2007. Jason repaid the loan on 31 December 2008. Jason had used half of the loan as working capital in his gardening business.

Self-Employment

- (i) Jason is not VAT registered.
- (ii) Sales for the year amounted to R42,000.
- (iii) Tax deductible expenses amounted to R18,000.
 - Not included in the R18,000 are purchases of small tools and equipment totalling R7,000. Each of these items cost less than R5,000 each and were purchased on 1 February 2009.
 - Included in the R18,000 is an amount of R10,000 which Jason has paid himself as salary.
- (iv) On 1 June 2008 Jason purchased a second-hand vehicle from his brother, George, for R120,000 to use in his business. His brother had purchased the vehicle new for R180,000 and had claimed allowances of R72,000.

Required:

- (a) Compute the income tax payable by Jason for the year of assessment ended 28 February 2009.**

(23 marks)

- (b) Jason has asked your advice on the following matter: he sometimes receives additional cash or tips over and above an agreed price for a gardening assignment. He has asked you whether it is necessary for him to include these amounts in his income as he feels they are insignificant amounts. Advise Jason on this point.**

(2 marks)

(25 marks)

3 Jan Ortlep has approached you to work out the capital gains tax effects of various transactions that took place in his 2009 year of assessment.

The transactions are as follows:

- (i) Jan sold a holiday home for R2.4 million on 1 June 2008. He had purchased the house for R700,000 on 1 August 1998. Selling expenses amounted to R120,000 on 1 June 2008. The market value on 1 October 2001 was R1,000,000.
- (ii) Jan had been given a travel allowance by his employer in respect of his own motor car which had cost him R296,000 in 2002. On 1 December 2008, when he retired from employment, he sold the car for R96,000.
- (iii) Jan inherited some Kruger Rands (gold coins) from his late father who died in 2006. The market value at that date was R24,000. As the gold price had increased in recent years he sold the Kruger Rands for R44,000 on 1 January 2009.
- (iv) Jan also decided to sell his yacht which was 11 metres long. It had cost him R100,000 in 2003 and he sold it for R90,000 on 1 February 2009 after making essential improvements costing R9,500 in the 2009 tax year.
- (v) Jan is contemplating operating a small business from his home and needs to know what the tax effects of doing this will be.

Required:

- (a) **Compute Jan Ortlep's inclusion in income in respect of all the transactions in (i) to (iv).** (17 marks)
- (b) **Explain the capital gains tax consequences to Jan Ortlep of operating his business from his home if he had to sell this property in the future.** (3 marks)

(20 marks)

- 4 ALLTone Limited (ALLTone) has entered into the following transactions for its two-month value added tax (VAT) period ended 31 January 2009.
- (i) ALLTone purchased a fleet of four used trucks from a non-VAT vendor. The consideration was R40,000 for each truck. The market value of each truck was R50,000. The consideration was paid in two equal instalments of R80,000; one in January 2009 and one in February 2009.
 - (ii) ALLTone purchased a small piece of land for R120,000, the market value at the time, from a non-vendor. No transfer duty was payable as the value of the land was less than R500,000 (at which the rate is 0%).
 - (iii) ALLTone pays rent to its holding company of R7,000 per month inclusive of VAT. A market related rental is R6,000.
 - (iv) Trading stock of R160,000 was purchased during December 2008 and January 2009. Included in the R160,000 is R20,000 of new goods purchased from non-vendors.
 - (v) ALLTone made sales of R520,000 for the two-month period ended 31 January 2009. Included in the R520,000 is R50,000 received from goods exported to another country.
 - (vi) On 15 January 2009 ALLTone donated goods with a cost of R10,000 and a market value of R15,000 to a local charity.
 - (vii) On 1 January 2009 ALLTone purchased a new motor car for R290,000 (VAT inclusive) for the use by the sales manager from that date.
 - (viii) On 28 February 2009 ALLTone gave a company motor car with a cost of R200,000 and a market value of R60,000 to a retiring manager as a long service award.

Required:

For each of these items compute the input or output VAT. You must indicate clearly whether it is input or output VAT and give brief reasons where no VAT is payable or refundable.

(15 marks)

- 5 Arthur Timmins, aged 22, is a third year full-time university student. On 1 March 2008 he was granted a R200,000 student loan by a local bank. The loan is subject to interest at a rate of 9% per year. On the same day Arthur invested R100,000 in a money market account with another institution at an interest rate of 10% per year. He also invested R20,000 of the R200,000 in a small business he and a fellow student had started. The business took photographs at parties and compiled them onto DVD.

Arthur Timmins income and expenditure for the 2009 tax year was as follows:

	R
Net business income	8,000
Interest received	10,000
Interest paid	18,000

Required:

- (a) Explain and show by means of calculations whether Arthur Timmins will be allowed a deduction for the R18,000 interest paid. (6 marks)
- (b) Compute the taxable income of Arthur Timmins for the tax year 2009. (2 marks)
- (c) Calculate the interest deduction if Arthur Timmins had invested the R100,000 half in an interest bearing investment yielding interest of R6,000 and half in shares yielding dividend income of R4,000. (2 marks)

(10 marks)

End of Question Paper