Fundamentals Level – Skills Module

Taxation (South Africa)

Monday 6 December 2010

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 2010/31 March 2010

Rebates	
Primary rebate	R9,756
Secondary rebate (over 65)	R5,400
Interest exemption	
Under 65	R21,000
Over 65	R30,000
Medical contribution rates	
Single member	R625
Member plus one dependant	R1,250
Each additional dependant	R380
Companies	
Normal tax rate	28%
STC rate	10%
Official rate of interest (assumed)	12%

Rates of normal tax payable by persons (other than companies) in respect of the year of assessment ended 28 February 2010

Where the taxable income	
Does not exceed R132,000	18% of each R1 of the taxable income
exceeds R132,000 but does not exceed R210,000	R23,760 plus 25% of the amount over R132,000
exceeds R210,000 but does not exceed R290,000	R43,260 plus 30% of the amount over R210,000
exceeds R290,000 but does not exceed R410,000	R67,260 plus 35% of the amount over R290,000
exceeds R410,000 but does not exceed R525,000	R109,260 plus 38% of the amount over R410,000
exceeds R525,000	R152,960 plus 40% of the amount over R525,000

Tax rates for small business corporations for the year of assessment ended 31 March 2010

R0 – R54,200	Nil
R54,201 – R300,000	10% of the amount over R54,200
R300,001 and above	R24,580 plus 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	R400,000

Fringe benefit (company car)

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

Capital gains tax

Annual exclusion	R17,500
Primary residence exclusion	R1,500,000

(where proceeds are R2 million or less, the full gain is excluded for the portion of the property used for domestic purposes as a primary residence)

Inclusion rate (natural persons)	25%
Inclusion rate (non-natural persons)	50%

Time apportioned base cost formula: $Y = B + \left[\frac{(P - B) \times N}{(T + N)}\right]$

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

Notes:
Where reimbursement is based on actual business kilometres travelled and 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.

Rating formulae

$$R = \left[\frac{F}{B + D - (C + L + G)}\right]$$

$$Y = \left[\frac{A}{B + D - (C + L)}\right] \times (B - L) + (L \times R)$$

ALL FIVE questions are compulsory and MUST be attempted

1 Lam Wood Ltd is a company engaged in the process of manufacture of laminated wood. The company has a September year end and an annual turnover greater than R14 million. The company is a value added tax (VAT) vendor but all amounts given below exclude VAT (where appropriate) unless otherwise stated. Lam Wood Ltd wishes to minimise its tax liability wherever possible.

Lam Wood Ltd's net profit for the year ended 30 September 2010 before taking ANY of the information given in (i) to (x) below into account, amounted to R5,746,823.

(i) The company operates from a property it acquired in July 2008 at a cost of R6,900,000. This property replaced a previous smaller property owned by the company. The disposal of the building on the smaller property had generated a recoupment of R600,000 in the 2009 year of assessment.

(ii) During the year ended 30 September 2010, the company acquired a new machine (Machine Z) at a cost of R300,000. It cost a further R150,000 to construct the appropriate base on which to install Machine Z.

(iii) Two other machines (Machine F and Machine T) had been acquired in previous years of assessment.

Machine F had been acquired second-hand in November 2006 at a cost of R220,000. The company incurred costs of R40,000 moving Machine F from its previous factory to the newly acquired factory in July 2008.

Machine T had been acquired new in February 2009 at a cost of R285,000. Machine T was installed directly in the newly acquired factory.

(iv) In March 2010 a number of spare parts were purchased for the possible repair of the machines at a cost of R50,000. One part (costing R7,500 and included in the R50,000) had to be installed on Machine F in September 2010.

(v) In September 2010 the company purchased certain specialised laminated wood stocks for resale from an overseas supplier at a translated Rand cost of R60,000. The goods were sent by the supplier prior to the year end, but on arrival in South Africa, the unloaded stock could not be found by the harbour staff. The company is confident that the stock will be found somewhere on the dock.

(vi) The company has a current year list of doubtful debts amounting to R200,000. Included in this amount is the sum of R6,000 comprising a loan of R5,300 made to an employee on 1 November 2009 and interest charged on this loan of R700. The list of doubtful debts for the prior year amounted to R180,000. The Commissioner allows the company to claim 25% of the qualifying items on the doubtful debts list.

(vii) The company started a research and development (R&D) division during the year ended 30 September 2010. This division operates from dedicated floor space in the factory (10% of the floor space). This area was previously used for storage and cleared for the R&D team. Costs incurred on the R&D activities include:

(1) A new machine to test new lamination techniques at a cash cost of R180,000.
(2) The salaries of the chemical engineers employed for R&D purposes of R570,000.
(3) The salaries of the marketing team for the new products produced of R350,000.

The company also received a Government grant of R100,000 in support of its R&D activities. The grant which qualifies for exemption [in terms of s.10(1)(y)] requires the money to be used to fund the salaries of the chemical engineers.

(viii) The company also invests in the shares of some of its customers. Dividends received from these South African shares amounted to R30,000 in the year ended 30 September 2010. A further R20,000 had also been received prior to 1 October 2009 but since Lam Wood Ltd declared its last dividend.

(ix) Rory Wood is a director and the majority shareholder of Lam Wood Ltd. On 31 August 2010 he repaid the R300,000 loan the company had made to him two years previously. At the time it was made the loan had been treated as a deemed dividend by the South African Revenue Service.

(x) Lam Wood Ltd declared a dividend of R500,000 on 30 September 2010.

Required:

(a) **Calculate the normal tax liability of Lam Wood Ltd for its year of assessment ended 30 September 2010. If you consider that any of the items in (i) to (x) above requires no adjustment in the computation of taxable profits, give brief reasons.** (26 marks)

(b) **Calculate Lam Wood Ltd's secondary tax on companies (STC) liability on the dividend declared on 30 September 2010.** (4 marks)

(30 marks)

2 Simphiwe Cele has been employed as a senior manager of Rain Reserve and Irrigation Systems cc (Rain) with effect from 1 May 2009. His employment package and other information relevant to the year of assessment ended 28 February 2010 comprises the following:

	R
Monthly cash salary	45,000
Monthly pension contributions (made by Simphiwe based on his cash salary)	4,500
Monthly pension contributions (made by Rain as employer)	4,500
Monthly medical aid contributions made by Simphiwe (note 1)	2,750
Monthly entertainment allowance (note 2)	1,500
Monthly travel allowance (note 3)	2,500
Monthly retirement annuity contribution (note 4)	1,000

Notes:

1. Simphiwe's wife is a dependant in terms of his medical aid scheme. In addition to the contributions he made to the medical scheme, Simphiwe incurred further qualifying medical expenditure, not covered by the scheme, of R20,000. In the months of March and April 2009, Simphiwe had paid the same monthly amount to his medical scheme as he did in May 2009.
2. Simphiwe incurred entertainment costs, which he paid for out of the allowance, totaling R7,000 for the ten months to 28 February 2010. On instruction from Rain, he also incurred a further R10,000 in December 2009 and this amount was refunded directly to him.
3. Simphiwe drives a Mercedes car that cost R530,000 (including VAT). He keeps a log book of his business kilometres, which amounted to 10,000 for the year ended 28 February 2010. The total kilometres travelled in his car for the year ended 28 February 2010 was 36,000. Simphiwe pays for all of the car's running costs. He does not keep a record of these costs.
4. Rain has elected not to take Simphiwe's retirement annuity contributions into account for employees tax purposes. Simphiwe made his monthly contributions to the retirement annuity fund throughout the year ended 28 February 2010.

Required:

(a) Calculate Simphiwe's normal tax payable for the year of assessment ended 28 February 2010. If you consider that any items need not be included in his taxable income or result in no tax deduction, give brief reasons. (20 marks)

(b) Calculate Simphiwe's employees tax withheld by Rain Reserve and Irrigation Systems cc for the year of assessment ended 28 February 2010. (5 marks)

(25 marks)

3 Indigo (Pty) Ltd ('Indigo') has a 31 December year end. In June 2010 Indigo moved premises and the following capital transactions took place in the year ended 31 December 2010.

1. Old factory building

   The old factory building, which had always been used in the process of manufacture, was sold on 30 June 2010 for R4,500,000 (excluding VAT), all of which was used in the acquisition of the new building (see (2) below). The old building had originally been purchased in 2005 for R4,000,000 (excluding VAT).

2. New factory building

   The new factory building was acquired at a cost of R7,500,000 (excluding VAT) on 1 July 2010 and immediately brought into use in the process of manufacture.

3. Machine A

   This machine was sold for R100,000 (excluding VAT). Machine A had originally been purchased new for R750,000 (excluding VAT) in 2008 to replace another machine (Machine B). In respect of Machine B, Indigo had elected to defer both the capital gain (per paragraph 66 of the Eighth Schedule) and the recoupment (per s.8(4)(e)) when Machine A was acquired as a replacement.

   At the time Machine A was sold, the remaining capital gain to be recognised for Machine B amounted to R35,000 and the recoupment still to be recognised amounted to R200,000. No replacement machine was acquired on the disposal of Machine A.

4. Miscellaneous information

   (i) Indigo had R10,000 in other capital gains in the year ended 31 December 2010 and an assessed capital loss brought forward of R5,000 from the year ended 31 December 2009.

   (ii) Indigo has no revenue assessed losses.

   (iii) Indigo wishes to minimise its tax liability wherever possible.

Required:

(a) Calculate the capital gains or capital losses to be included in the determination of the aggregate capital gain or aggregate capital loss arising as a result of transactions (1) to (3) above. If an elective provision is applied give a brief reason for its application. (12 marks)

(b) Compute the taxable capital gain to be included in Indigo (Pty) Ltd's taxable income in respect of the aggregate amount calculated in part (a). (3 marks)

(c) Explain how the tax treatment of the disposal of the old factory building would differ if, instead of being sold, the factory had been destroyed in a fire and the new factory building had been purchased from the insurance proceeds received for the destroyed factory of R4,500,000. (5 marks)

(20 marks)

4 Robert Marley (aged 47) and his wife Marsha (aged 45) run a bed and breakfast in partnership at their home in Cape Town. They have not registered (and are not required to register) the bed and breakfast trade for value added tax (VAT).

Robert is aware of the need to separate trade expenses from non-trade (private and domestic expenses). He has provided the following information for the year ended 28 February 2010.

Income and expenditure statement for the bed and breakfast trade:

		R
Income from rental of rooms		450,000
Expenditure		
New towels for the rooms	3,200	
Salary paid to Marsha (a market related salary would be R54,000)	75,000	
Food for guests	25,000	
New fridge for a new room	5,400	(108,600)
Net income		341,400
Share of income: Robert		170,700
Marsha		170,700

Marsha tends to run the business as Robert is also in employment. Robert is employed as a financial director of a large corporation for an annual remuneration of R850,000. Robert paid employees tax of R273,204 evenly over the 2010 year of assessment. He separately consults to other organisations and earned R80,000 in fees for the year of assessment 2010, from which no employees tax was deducted.

In addition to the above, Robert received South African dividends of R80,000 and interest income of R25,500 from a local South African bank in the year ended 28 February 2010.

The most recent tax assessments received by Robert have been as follows:

Year of assessment	**Total amount of the assessment**	**Capital gains included in the assessment**	**Date received**
2007	R690,000	Nil	2 February 2009
2008	R750,000	R45,000	12 December 2009
2009	R900,000	Nil	27 January 2010

Required:

(a) Compute Robert's taxable income for the year of assessment ended 28 February 2010. (4 marks)

(b) (i) Compute the minimum provisional tax payments that Robert was required to make for the 2010 year of assessment in order to avoid any penalties. Support your computations with brief explanations of the basis used; (9 marks)

(ii) State the due date(s) by which the provisional tax returns and/or payments should be made. (2 marks)

(15 marks)

5 Indaba Fuel and Shop Limited (Indaba) operates a filling station (garage) and snack shop. Indaba is a value added tax (VAT) vendor on a four-month cycle (i.e. periods ending February, June and October).

The following transactions (inclusive of VAT where appropriate) took place during Indaba's four-month VAT period ended 31 October 2010:

	R
Sales of fuel (classified as fuel levy goods)	750,000
Sales of snacks	250,000
Purchases of fuel from the franchise supplier (a vendor)	725,000
Purchases of snacks for resale from vendors	120,000
Purchase of a second-hand till from a non-vendor to record sales of fuel and snacks (the market value of the till was R32,000)	30,000

Additional information:

(1) Indaba had purchased a new delivery vehicle in the VAT period ended 30 June 2010. In the current VAT period ended 31 October 2010 Indaba had given use of the old delivery vehicle to an employee. Indaba had originally purchased this old delivery vehicle 22 months previously from a VAT vendor for R114,000 (including VAT).

(2) A reasonable apportionment percentage for mixed supplies in the case of a business such as Indaba's is considered to be 40% for taxable supplies.

Required:

(a) Calculate all the VAT inputs and outputs of Indaba Fuel and Shop Limited for the four-month VAT period ended 31 October 2010 and the amount payable to or refundable from the South African Revenue Service (SARS). Where no VAT output is payable or no VAT input claimable, give a brief reason. (9 marks)

(b) State by when the VAT return for the period ended 31 October 2010 must be submitted. (1 mark)

(10 marks)

End of Question Paper