Fundamentals Level – Skills Module

Taxation (South Africa)

Thursday 10 December 2015

Time allowed

Reading and planning:	15 minutes
Writing:	3 hours

This question paper is divided into two sections:

Section A – ALL 15 questions are compulsory and MUST be attempted

Section B – ALL SIX questions are compulsory and MUST be attempted

Tax rates and allowances are on pages 2–5.

Do NOT open this question 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.

Do NOT record any of your answers on the question paper.

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

Paper F6 (ZAF)

The Association of Chartered Certified Accountants

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 in Section B.

TAX RATES AND ALLOWANCES

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

Year ending 28 February 2015/31 March 2015

Rebates	
Primary rebate	R12,726
Secondary rebate (over 65)	R7,110
Tertiary rebate (over 75)	R2,367
Interest exemption	
Under 65	R23,800
Over 65	R34,500

Foreign dividend exemptions
Fully exempt where 10% or more of the equity shares and voting rights are held.
Fully exempt where received by a company from a foreign company resident in the same country as the recipient.
To the extent of any controlled foreign company inclusions (net of applicable foreign tax)
To the extent that the foreign dividend is from a company listed on the JSE

To the extent that the above do not apply:
For individuals 25/40ths of the dividend is exempt
For companies 13/28ths of the divided is exempt

Medical aid contribution tax rebate rates	
Single member	R257
Member plus one dependant	R514
Each subsequent dependant	R172

Additional medical expenses tax rebate

Persons 65 or older or persons younger than 65 if that person, their spouse or their child is a person with a disability:

((Medical contributions – (medical aid contribution tax rebate x 3) + other qualifying medical expenses) x 33·3%

Persons younger than 65:

((Medical contributions – (medical aid contribution tax rebate x 4) + other qualifying medical expenses) as exceeds 7·5% of taxable income x 25%

Dividends tax	15%
Companies	
Normal tax rate	28%
Official rate of interest (assumed)	8%

Rates of normal tax payable by persons (other than companies)
for the year of assessment ended 28 February 2015

Where taxable income:

does not exceed R174,550	18% of each R1 of the taxable income
exceeds R174,550 but does not exceed R272,700	R31,419 plus 25% of the amount over R174,550
exceeds R272,700 but does not exceed R377,450	R55,957 plus 30% of the amount over R272,700
exceeds R377,450 but does not exceed R528,000	R87,382 plus 35% of the amount over R377,450
exceeds R528,000 but does not exceed R673,100	R140,074 plus 38% of the amount over R528,000
exceeds R673,100	R195,212 plus 40% of the amount over R673,100

Tax rates for small business corporations
for the year of assessment ended 31 March 2015

Where taxable income:

does not exceed R70,700	Nil
exceeds R70,700 but does not exceed R365,000	7% of the amount over R70,700
exceeds R365,000 but does not exceed R550,000	R20,601 plus 21% of the amount over R365,000
exceeds R550,000	R59,451 plus 28% of the amount over R550,000

Turnover tax rates for micro businesses
for the year of assessment ended 28 February 2015

Where taxable turnover:

does not exceed R150,000	Nil
exceeds R150,000 but does not exceed R300,000	1% of the amount over R150,000
exceeds R300,000 but does not exceed R500,000	R1,500 plus 2% of the amount over R300,000
exceeds R500,000 but does not exceed R750,000	R5,500 plus 4% of the amount over R500,000
exceeds R750,000 but does not exceed R1,000,000	R15,500 plus 6% of the amount over R750,000

Car allowance

Maximum vehicle cost for actual expenses	R560,000

Fringe benefit (company car)

Benefit percentage (where no maintenance plan exists)	3·5%
Benefit percentage (where a maintenance plan exists)	3·25%

General business reduction: Benefit value x business kms/total kms (as per logbook)
Private fuel reduction: Private fuel (R) x private kms/total kms (as per logbook)
Private maintenance reduction: Private maintenance (R) x private kms/total kms (as per logbook)

Subsistence allowances

Deemed expenditure for meals and incidental costs (per Government regulation) R335 per day (local travel)
Deemed expenditure for incidental costs only (per Government regulation) R103 per day (local travel)
Deemed expenditure for meals and incidental costs (foreign travel) – (per published tables) will be supplied in the question where relevant

Common capital allowances

New and unused manufacturing plant and equipment	40%/20%/20%/20%
Used or leased manufacturing plant and equipment	20% each year for five tax years
New or unused plant or machinery used for research and development (where it does not qualify for the research and development accelerated allowance)	50%/30%/20%
Small business corporation manufacturing plant and equipment	100%
Small business corporation (other assets) – unless wear and tear provides a greater deduction	50%/30%/20%

Wear and tear (based on Binding General Ruling 7) will be supplied in the question where relevant

Manufacturing building allowance (unless seller's rate supplied)	5%
New or unused commercial building (not a manufacturing building)	5%

- No deduction where another section of the Act applies to the building
- Where part of a building is acquired, 55% of the acquisition price is 'cost'
- Where an improvement to the building is acquired, 30% of the acquisition price of the improvement is 'cost'

Research and development (R&D) expenditure 150%

Costs related to immovable property, machinery, plant, implements, utensils or articles (excluding any prototype or pilot plant created solely for the purpose of the process of research and development) are not claimed as research and development expenditure. Financing and administrative or compliance costs may not be claimed as research and development expenditure.

Capital gains tax

Annual exclusion (while alive)	R30,000
Annual exclusion (in year of death)	R300,000
Primary residence exclusion	R2,000,000

(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)	33·3%
Inclusion rate (non-natural persons)	66·6%

Time apportioned base cost formulae:

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

$$P = R \times B/(B + A)$$

Where deductible enhancement expenditure has been incurred after the valuation date, the time apportioned base cost formulae change to:

$$Y = B + [(P_1 - B_1) \times N/(T + N)]$$

$$P_1 = R_1 \times B_1/(A_1 + B_1)$$

Travel allowance table

for years of assessment commencing on or after 1 March 2014

Value of the vehicle (including value added tax (VAT) but excluding finance charges or interest)	Fixed cost	Fuel cost	Maintenance cost
R	R p.a.	c/km	c/km
0 – 80,000	25,946	92·3	27·6
80,001 – 160,000	46,203	103·1	34·6
160,001 – 240,000	66,530	112·0	38·1
240,001 – 320,000	84,351	120·5	41·6
320,001 – 400,000	102,233	128·9	48·8
400,001 – 480,000	120,997	147·9	57·3
480,001 – 560,000	139,760	152·9	71·3
Exceeds 560,000	139,760	152·9	71·3

Note: 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 R3·30 per kilometre.

Section A – ALL 15 questions are compulsory and MUST be attempted

Please use the grid provided on page two of the Candidate Answer Booklet to record your answers to each multiple choice question. Do not write out the answers to the MCQs on the lined pages of the answer booklet.
Each question is worth 2 marks.

1 Anthony was born in the United Kingdom. He resigned from his job in the United Kingdom to come to South Africa for a 14-month contract appointment with a South African company. Anthony and his family moved to South Africa for the duration of the contract arriving in October 2013 for Anthony to begin working on 1 November 2013. Anthony and his family returned to the United Kingdom on 15 January 2015. During their stay in South Africa, Anthony rented accommodation and a car.

What is Anthony's South African residence status for income tax purposes for the 2015 year of assessment?

A Anthony is ordinarily resident as his job and family are in South Africa
B Anthony is resident as he has spent more than 330 days in South Africa
C Anthony is **not** a resident because he has not spent sufficient time in South Africa
D Anthony is resident as he spent more than 91 days in South Africa

2 Jonathan runs a landscaping business and has not yet registered as a value added tax (VAT) vendor. His annual turnover from services rendered is R950,000. In addition to this turnover, during the 2015 year of assessment, Jonathan sold some of his landscaping equipment for R60,000 and acquired some new equipment from a VAT vendor for a cost of R86,000.

In relation to Jonathan's VAT obligations, which of the following statements is/are true?

(1) Jonathan must register for VAT as his turnover from taxable supplies exceeds R1 million.
(2) Jonathan does not have to register for VAT as his turnover from his regular and continuous supplies are only R950,000
(3) Jonathan may voluntarily register for VAT
(4) Jonathan conducts an enterprise and may, therefore, claim a credit for input VAT whether he registers for VAT or not

A 1
B 2 and 3
C 3 and 4
D 2 and 4

3 Damien's taxable income has been determined as R377,450. Damien made annual contributions to a medical aid scheme for himself and his wife (as a dependant) of R27,600. Damien incurred additional medical expenses of R45,000 following a car accident during the year. Neither Damien nor his wife are disabled or older than 65 years.

What is Damien's additional medical expenses tax rebate?

A R11,073
B R8,079
C R18,014
D R4,905

4 James is a doctor. His income from his medical practice alone means he pays tax at the highest marginal rate. James started a gardening business three years ago. His gardening business has made losses in the previous three years of assessment although James anticipates that it will eventually become profitable. James will realise a loss from his gardening activities in the current year of assessment.

In relation to James's losses from this gardening business, which of the following statements is true?

A The current year loss from the gardening business **must** be ring fenced and cannot be set off against James's medical practice income

B The current year loss from the gardening business **may** be ring fenced but can be utilised against his medical practice income if James can prove to the South African Revenue Service (SARS) that there is a reasonable expectation of profit

C **All** losses from the gardening business should be ring fenced so that these losses may never be set off against James's medical practice income

D Ring fencing does not apply to any of the losses from the gardening business and SARS is obliged to set them off against James's medical practice income

5 **Which of the following taxpayers will be required to make provisional tax payments?**

A An individual aged 67 with taxable rental income from property of R115,000

B An individual aged 63 with taxable foreign dividends of R20,000

C An individual aged 68 with taxable income from a business of R115,000

D An individual aged 60 with taxable remuneration from employment of R250,000

6 Joe entered into the following transactions during the year of assessment 2015:

– Joe donated an asset with a market value of R35,000 and a base cost of R37,000 to a public benefit organisation
– Joe sold his personal motor car which had a base cost of R89,000 for proceeds of R55,000
– Joe sold his yacht of 11 metres to a fellow yacht club member for R1,500,000. Joe had purchased the yacht for R2,000,000 and used it for recreational purposes only

What is the amount of Joe's allowable capital losses for the purposes of capital gains tax in respect of the above transactions?

Note: You should ignore the annual exclusion.

A R534,000

B R536,000

C R500,000

D R0

7 Mining plc is a company incorporated and tax resident in the United Kingdom. However, the location of the majority of its mining operations are situated in South Africa. The company wished to further expand its mining operations in South Africa and therefore decided on 1 July 2014 to relocate the executive directors to South Africa. All future board meetings will take place in Johannesburg, South Africa. The executive directors are responsible for the strategy and operations on a daily basis. The company has a December year end.

In relation to the residency of Mining plc, which of the following statements is true?

A Mining plc became resident in South Africa from 1 July 2014

B Mining plc only became resident in South Africa at the start of its new year of assessment (i.e. 1 January 2015)

C As Mining plc is incorporated in the United Kingdom, it can only be tax resident in the United Kingdom

D Mining plc became resident in South Africa from 1 January 2014

8 World Curios (Pty) Ltd is a company which exports locally made souvenirs to the European market. It is not yet registered for value added tax (VAT).

World Curios (Pty) Ltd's annual financial results (expected to remain stable for the next few years) can be summarised as follows:

	RM
Turnover (all exports)	970,000
Costs	
Labour	(350,000)
Material and other costs (all from VAT vendors)	(150,000)

Would it be advantageous for World Curios (Pty) Ltd to register for VAT?

A No, as output VAT of 14% of turnover will be payable and VAT inputs will only be reclaimable on the material and other costs
B Yes, as World Curios (Pty) Ltd has breached the threshold for compulsory registration
C No, as the goods exported are exempt supplies and thus no input VAT will be recoverable
D Yes, as the goods exported are zero rated supplies and VAT inputs on the material and other costs can be reclaimed

9 XYZ Ltd is a South African resident company. XYZ Ltd has an assessed trading loss brought forward of R500,000 and an assessed capital loss brought forward of R340,000. For the 2015 year of assessment, the company made a taxable profit of R600,000 and had capital gains of R450,000 and capital losses of R200,000.

XYZ Ltd is not a small or micro business corporation.

What is the normal tax liability of XYZ Ltd?

A R11,217
B R214,620
C R74,620
D R28,000

10 Which of the following categories of person must ALWAYS register as a tax practitioner?

(1) Any person who provides advice with respect to the application of a tax Act or who assists in the completion of a tax return of another person
(2) Any person working for a tax practitioner who provides advice with respect to the application of a tax Act or assists in the completion of a return of another person for consideration
(3) A chief financial officer who provides tax advice to his employing company in the course of his overall duties
(4) Any person registered with a recognised controlling body

A 1, 2 and 3
B 2, 3, and 4
C 1 only
D 4 only

11 Odds and Ends (Pty) Ltd is a registered micro business. During the year ended 31 March 2015, the company had turnover of R850,000 and also sold certain chargeable assets realising proceeds of R160,000.

What is Odds and Ends (Pty) Ltd's income tax liability for the year ended 31 March 2015?

A R26,300
B R21,500
C R27,894
D R267,837

12 Delilah disposed of her primary residence in February 2015 for R1,900,000. She had originally purchased the property for R100,000 in November 2002, but following the discovery of rich mineral deposits in the area, a mining company had purchased her property. Delilah had always used 10% of her property for business purposes.

What is Delilah's capital gain before the annual exclusion?

A R0 as the proceeds for the disposal are less than R2 million
B R0 as the capital gain is less than R2 million
C R180,000 as 10% of the property was used for business purposes and the primary residence exclusion of R2 million applies to the remainder of the capital gain
D R1,800,000 as the property was not used exclusively as a primary residence

13 A Ltd is a registered value added tax (VAT) vendor which files VAT returns every two months via e-filing. The two-month period ended 31 January 2015 reflected a net payment of VAT due to the South African Revenue Service (SARS) of R450,000.

Note:

– 25 January 2015 is a Sunday
– 31 January 2015 is a Saturday
– 25 February 2015 is a Wednesday
– 28 February 2015 is a Saturday

What is the latest date by which A Ltd must have filed its VAT return and made payment of the R450,000 VAT due to avoid any penalties or interest charges?

A 27 February (being the last business day of February)
B 30 January (being the last business day of January)
C 25 February (being the 25th day of the month following the end of the period)
D 28 February (being the last day of February)

14 During the year ended 31 March 2015, ABC (Pty) Ltd, a registered value added tax (VAT) vendor, acquired a conference table and chairs for a cost of R6,900 (inclusive of VAT). ABC (Pty) Ltd is classified as a small business corporation.

What is the amount of capital allowances which ABC (Pty) Ltd may claim in respect of acquisition of furniture in the year ended 31 March 2015?

A R3,026
B R6,053
C R6,900
D R3,450

15 Anthony made two contributions during the year of assessment 2015 to public benefit organisations as follows:

– R2,000 to a charity for the elderly which provided him with entry into a lucky prize draw in return for the donation. No donation certificate was received.
– R1,500 to an animal rescue organisation. A donation certificate was received for this contribution.

Anthony has taxable income of R250,000 before any deduction for donations.

What deduction can Anthony claim for the two contributions to public benefit organisations in the year of assessment 2015?

A R3,500
B R2,000
C R1,500
D R0

(30 marks)

Section B – ALL SIX questions are compulsory and MUST be attempted

Please write your answers to all parts of these questions on the lined pages within the Candidate Answer Booklet.

1 Jessica is 28 years old and recently completed her post-graduate studies. She left her former employer to start a new job on 1 March 2014 at an increased salary of R71,200 per month. Jessica's new employer deducted R255,000 in employees' tax evenly over the 2015 year of assessment.

Jessica also has a hobby business which she carries out on weekends. The annual profit from the business (after deductible expenses) for the 2015 year of assessment was R245,600.

Jessica had based her first provisional tax payment on the basic amount of R500,000 from the 2013 year of assessment when her hobby business had realised a loss. This estimate provided for a nil payment on submission of her return. Her second provisional tax payment was based on estimated taxable income of R850,000. As Jessica had not had time to reconcile the financial records of her hobby business, she had guessed that, at best, it would break even or make a small profit.

Jessica was notified on 30 November 2015 of her assessment for the 2015 year of assessment via the electronic filing system. She noted that a penalty and interest on the amount owing had been levied.

Required:

(a) Calculate Jessica's second provisional payment based on her estimate of taxable income of R850,000. (2 marks)

(b) Calculate Jessica's normal tax liability for the year of assessment ended 28 February 2015, excluding any penalties and interest. (3 marks)

(c) Calculate the penalties and interest which would have been charged on Jessica in respect of the underestimate of provisional tax.

Note: You should assume that the prescribed rate of interest is 8%. (5 marks)

(10 marks)

2 Cook Ltd is a newly registered value added tax (VAT) vendor and the directors have approached you for information on certain aspects of VAT as follows.

The company does not acquire or sell second-hand goods.

(a) The average value of each invoice raised by Cook Ltd is R10,000 but the company sometimes raises invoices for amounts of around R3,000. Cook Ltd's customers include both VAT and non-VAT vendors.

(i) The directors wish to know what information is required to be presented on a full VAT invoice issued by the company. (3 marks)

(ii) The directors have also heard that abridged VAT invoices may be issued in certain circumstances and wish to understand when such an invoice can be issued and what the difference is between this and a full VAT invoice. (2 marks)

(b) Some customers only pay Cook Ltd after 90 days. The directors wish to know when the VAT output will arise in respect of supplies to these customers. (1 mark)

(c) The directors wish to understand the consequences of making a late payment of VAT to the South African Revenue Service (SARS). (1 mark)

(d) Cook Ltd's first two-month VAT period ended on 30 November 2015. During this period the following transactions occurred:

- A motor car for the company pool was acquired for R275,000 from a VAT registered car dealership.
- An invoice for R12,000 from the venue where the annual staff function was held was received and paid.
- A customer of Cook Ltd was put into liquidation and a debt owing to Cook Ltd from this customer of R45,600 was written off.

The directors wish to understand whether any of these transactions will result in an input VAT claim. (3 marks)

Required:

Provide explanations to address each of the value added tax (VAT) queries (a) to (d) raised by the directors of Cook Ltd.

Note: The split of the mark allocation is shown against each of the queries above.

(10 marks)

3 (a) Explain the THREE possible methods which may be used to determine the base cost of a pre-valuation date asset including the circumstances in which a company is likely to use each of these. (3 marks)

(b) Cape Town Advertising (Pty) Ltd provides a number of advertising services. The company has recently moved from focusing on advertising services via posters and billboards to advertising online via social media. The company does not qualify as either a micro business or a small business corporation for the purposes of income tax.

The company sold a billboard on its premises on 17 July 2014. The billboard had been damaged during a storm and insurance proceeds of R75,000 were received from the company's insurance provider prior to sale to cover the value lost as a result of the damage. The billboard was then sold to a scrap merchant for R50,000.

The billboard had cost R150,000 on 12 January 2000. No capital allowances were claimed on this asset. On 29 June 2007, the company had installed lights on the billboard which illuminated the advertisement and provided a much better service to its customers to whom the advertising space was sold. These lights originally cost R20,000 and were still considered to add value to the billboard at the date of sale.

The billboard was valued at R156,000 on 1 October 2001.

Cape Town Advertising (Pty) Ltd has no intention of replacing the billboard as their shift to advertising services via social media has largely replaced the need for a billboard for its customers.

Required:

Calculate Cape Town Advertising (Pty) Ltd's taxable capital gain or assessed capital loss for the 2015 year of assessment in respect of the billboard, using the time-apportioned base cost (TABC) method. (7 marks)

(10 marks)

4 Joseph incorporated a company, Baby Goods (Pty) Ltd, in November 2013 and registered the new company for value added tax (VAT). Baby Goods (Pty) Ltd will sell products for babies and infants.

Following incorporation, Baby Goods (Pty) Ltd started to acquire inventory for resale. As Baby Goods (Pty) Ltd had not yet secured shop premises, Joseph stored the inventory, which cost R500,000, in his garage at his home.

On 15 February 2014, Baby Goods (Pty) Ltd signed a lease agreement for a shop which took effect from 1 March 2014. The lease provides for a monthly rental payment of R15,000. The monthly rental is subject to annual review and the lease period is five years. The lease also specified that shop fittings to the value of R45,000 had to be installed by Baby Goods (Pty) Ltd as the tenant. Joseph, representing the company, began working on the premises in March 2014 with a view to opening the store to the public on 1 April 2014. The shop fittings were completed on 31 March 2014 for a total cost of R50,000.

Joseph moved Baby Goods (Pty) Ltd's inventory into the store on 31 March 2014 and the company began trading on 1 April 2014. The Commissioner for the South African Revenue Service (SARS) has accepted that 1 April 2014 is the date when Baby Goods (Pty) Ltd commenced to trade.

In the period ended 28 February 2015, Baby Good (Pty) Ltd made sales of R1,700,000 and acquired additional inventory of R550,000. Baby Goods (Pty) Ltd also paid wages to the store manager of R250,000. An annual insurance premium of R70,000 was paid by Baby Goods (Pty) Ltd on 2 April 2014 to insure the shop fittings and the inventory until 1 April 2015. On 28 February 2015, the value of Baby Good (Pty) Ltd's closing inventory was R100,000.

All values given are exclusive of VAT, where applicable. Apart from the sales, all other transactions took place with VAT vendors.

Required:

(a) Explain the treatment for income tax purposes of the expenditure incurred by Baby Goods (Pty) Ltd prior to 1 April 2014. (2 mark)

(b) Calculate the taxable income of Baby Goods (Pty) Ltd for the period 1 April 2014 to 28 February 2015.

Note: You should indicate clearly any items of income which are exempt or any expenses which are not deductible by the use of a zero (0). (6 marks)

(c) Before signing the lease agreement for the shop premises, Baby Goods (Pty) Ltd had been in discussions with another landlord. The terms of the alternative lease agreement were identical to the one eventually signed by Baby Goods (Pty) Ltd except for the payment terms. Under the alternative lease agreement, Baby Goods (Pty) Ltd would have been required to pay a premium of R200,000 on 1 March 2014 and a monthly rental of R10,000.

Required:

Calculate the tax deductions available in respect of the lease for the period 1 April 2014 to 28 February 2015 if Baby Goods (Pty) Ltd had signed this alternative agreement. (2 marks)

(10 marks)

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Question 5 begins on page 16.

5 ProBore Ltd is a company specialising in the drilling of wellpoints and boreholes. The company operates only in South Africa. ProBore Ltd is registered as a value added tax (VAT) vendor. The company is considered a small business corporation for income tax purposes. The Commissioner for the South African Revenue Service (SARS) considers the drilling of wellpoints and boreholes to be a process of manufacture.

The company foremen are all trained to divine for water. The company guarantees that, if a foreman has successfully divined for water, water will be found. All amounts received are refundable if the company subsequently does not find water but deposits are not held separately from the company's other funds and the monies are used immediately in the business. The company requires an upfront deposit on acceptance of a quote.

During the 2015 year of assessment, ProBore Ltd recorded the following transactions. All amounts are stated exclusive of value added tax (VAT) where applicable.

(i) Sales to customers in South Africa for completed boreholes and wellpoints amounted to R15,280,000.

(ii) At the year end, teams were working on two jobs (Job A and Job B). The deposits received for the jobs prior to the year end amounted to R130,000 for Job A and R200,000 for Job B.

(iii) At the end of the prior year of assessment (the 2014 year of assessment) one job was nearly complete. However, in April 2014, the foreman reported that he had hit rock formations. Consequently, the job was dismissed and the deposit of R120,000 was refunded to the customer during the 2015 year of assessment.

(iv) During the year, a foreman was dismissed from the company as he had entered into a dishonest transaction with a friend. The foreman had drilled a borehole for his friend following receipt of a deposit and then notified the company that no water had been discovered. The company therefore refunded the deposit to the foreman's friend. On discovery that water had been found, the company dismissed the foreman and sued the foreman's friend for full payment. Total legal costs of R85,000 were incurred: R25,000 in respect of a claim of unfair dismissal by the foreman and the balance for the case against the customer.

The company was successful in both cases and received the full proceeds of R189,000 from the foreman's friend.

(v) In another case, a customer claimed that ProBore Ltd's installation team had not taken due care to prevent the drilling slurry from reaching his swimming pool. After internal investigation, it was found that the team had not dug the drill pit deep enough and so it had overflowed into the customer's swimming pool. The company and the customer reached an out-of-court settlement of R90,000 to restore the pool. No external legal costs were incurred.

(vi) The company conducted research and development activities with respect to a new type of drilling rig for drilling boreholes. The rig is fully automated to allow continuous drilling. The Department of Science and Technology has approved the development as a research and development project. The development costs incurred by ProBore Ltd in the 2015 year of assessment included the following:

(a) The salaries of the development team of R750,000;
(b) Three prototypes built for testing purposes at a cost of R2,300,000;
(c) The salaries of the security staff at the development warehouse of R220,000.

(vii) The company acquired a new rig for R1,500,000 in May 2014 and a new digging machine for R3,000,000 in July 2014 for larger commercial jobs. The new rig replaced an older rig which had been acquired in April 2005 for R560,000. The new rig is larger and much more efficient. The old rig was sold in August 2014 for R570,000 to a competitor.

(viii) Additional items of office equipment were acquired for R150,000, of which R25,000 was for items which were not part of a set and which individually cost less than R7,000. ProBore Ltd also owns existing office equipment which was acquired in July 2013 at a cost of R130,000.

ProBore Ltd has an assessed capital loss brought forward of R55,000 from the 2014 year of assessment.

Required:

Calculate the taxable income of ProBore Ltd for the year of assessment ended 31 March 2015 and show any losses carried forward to the year of assessment 2016.

Note: Indicate clearly any items of income which are exempt or expenses which are not deductible by the use of a zero (0).

(15 marks)

6 Langi Ngcobo is 45 years old and tax resident in South Africa. Langi is a senior manager with a South African company. The following information is provided with respect to Langi in the 2015 year of assessment:

(i) Langi earned a monthly cash salary of R65,000.

(ii) Langi contributed 10% of her cash salary to her employer company's pension fund and the company made an equal contribution.

(iii) Langi received the use of a company car. The car originally cost her employer company R550,000 in June 2012. Langi was only granted use of the car in February 2014 after one of the directors received a new company car. The car still has an active maintenance plan. The company paid all of the vehicle's running costs but requires all employees to keep track of the distance they travel. Langi only used the vehicle for travel from her home to work during the week and for private purposes on weekends. Over the year, she drove 12,000 kilometres in total.

(iv) Langi's employer company has a compulsory medical aid scheme for its permanent employees. Langi is a member of the scheme and, in addition, listed her husband and her two minor children as dependants of the scheme. Her monthly contributions during the year amounted to R3,900. The company made no contribution to the medical aid scheme during the year and Langi incurred no additional medical expenses during the year.

(v) Langi made a single lump sum contribution of R30,000 to a retirement fund annuity scheme on 25 February 2015 as her husband was made redundant and she wanted to increase her retirement savings.

(vi) As Langi's employer company operates from a remote area, the company invests in the area by supplying schooling for the children of its employees. The company has constructed the relevant schools and supplies the teaching staff and has applied for an advance ruling to establish the cost to the company per child who attends the school. The ruling applicable to the school which Langi's two children attend was issued in June 2013 and provided that the cost to the company per child is R20,000 per annum. The ruling is valid for five years.

(vii) Langi's employer company also provides residential accommodation to its employees to use when undertaking long-term remotely located projects. Langi has been working on such a project for the last three years. She has been provided with a four-bedroomed fully furnished house by the company. The company also pays for all services (i.e. water and electricity). Her remuneration factor has been established as being R800,000 and the abatement value is R70,000.

(viii) Langi held an investment in a collective investment scheme. She was provided with a tax certificate showing the following information regarding the income from the scheme. Langi reinvested all the distributions she received from the collective investment scheme:

(a) Foreign dividends received of R3,750;
(b) Local dividends received of R10,000 (net of South African withholding taxes of R1,500);
(c) Local interest received of R11,000.

Required:

Calculate Langi Ngcobo's normal tax liability for the year of assessment ended 28 February 2015.

Note: Indicate clearly any items of income which are exempt or expenses which are not deductible by the use of a zero (0).

(15 marks)

End of Question Paper