Fundamentals Level – Skills Module

Taxation (South Africa)

Tuesday 3 June 2014

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 2–4.

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 2014/31 March 2014

Rebates	
Primary rebate	R12,080
Secondary rebate (over 65)	R6,750
Tertiary rebate (over 75)	R2,250
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 rebate rates	
Single member	R242
Member plus one dependant	R484
Each subsequent dependant	R162
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 2014

Where taxable income:

does not exceed R165,600	18% of each R1 of the taxable income
exceeds R165,600 but does not exceed R258,750	R29,808 plus 25% of the amount over R165,600
exceeds R258,750 but does not exceed R358,110	R53,096 plus 30% of the amount over R258,750
exceeds R358,110 but does not exceed R500,940	R82,904 plus 35% of the amount over R358,110
exceeds R500,940 but does not exceed R638,600	R132,894 plus 38% of the amount over R500,940
exceeds R638,600	R185,205 plus 40% of the amount over R638,600

Tax rates for small business corporations
for the year of assessment ended 31 March 2014

Where taxable income:

does not exceed R67,111	Nil
exceeds R67,111 but does not exceed R365,000	7% of the amount over R67,111
exceeds R365,000 but does not exceed R550,000	R20,852 plus 21% of the amount over R365,000
exceeds R550,000	R59,702 plus 28% of the amount over R550,000

Turnover tax rates for micro business corporations
for the year of assessment ended 31 March 2014

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	R480,000

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) R319 per day (local travel)
Deemed expenditure for incidental costs only (per Government regulation) R98 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
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	100%

Additional 50% on expenditure incurred if R&D project is approved by the Minister of Science and Technology and incurred for R&D after such approval

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 formula:

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

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

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 2013

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 – 60,000	19,310	81·4	26·2
60,001 – 120,000	38,333	86·1	29·5
120,001 – 180,000	52,033	90·8	32·8
180,001 – 240,000	65,667	98·7	39·4
240,001 – 300,000	78,192	113·6	46·3
300,001 – 360,000	90,668	130·3	54·4
360,001 – 420,000	104,374	134·7	67·7
420,001 – 480,000	118,078	147·7	70·5
Exceeds 480,000	118,078	147·7	70·5

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 R3·24 per kilometre.

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Question 1 begins on page 6.

ALL FIVE questions are compulsory and MUST be attempted

1 Harry's Car Wash and Panelbeaters (Pty) Ltd (HCWP) is a company engaged in the washing and polishing and the dent repair and repainting of motor vehicles. The washing and polishing of motor cars are not considered processes of manufacture for the purposes of the Income Tax Act. However, the panelbeating and spray painting of motor cars are accepted as processes of manufacture for the purposes of the Income Tax Act.

HCWP is classified as a small business corporation. The company is registered as a value added tax (VAT) vendor but all amounts are stated excluding VAT.

The following information relates to HCWP's financial year ended 31 March 2014:

(i) Service fee income for the year amounted to R13,000,000, including R500,000 of interest income, but excluding any effects from point (iii) below. As part of the fee charged, HCWP issues the customer with a paid parking ticket for the parking garage (see point (vi) below). The cost to HCWP of the parking tickets for the period amounted to R175,000.

(ii) During the tax year, a number of vehicles were scratched by the employees when parking the vehicles after they were washed or in moving the vehicles around the service stations. HCWP only insures against significant damage to customer vehicles and as a result it settled an amount of R70,000 out of its own funds with customers whose vehicles suffered only minor damage. In other cases, repair work was completed on the customer vehicles by HCWP at no charge to the customer. These repairs cost the company R30,000. At 31 March 2014, HCWP provided for claims made by customers amounting to R25,000, but the company believes that only R15,000 of these claims are genuine and will have to be settled.

(iii) The spray booth used for spray painting vehicles was damaged when the compressor exploded. As this was HCWP's only spray booth, the company had taken out a loss of income insurance policy in case damage to the booth resulted in it being inoperable for a time. The insurance company paid R1,000,000 to HCWP in terms of this policy for the months of June and July 2013.

The compressor had to be replaced at a cost of R530,000 and the repairs to the spray booth cost a further R380,000. In terms of the insurance on the company's assets, the insurance company paid out R370,000 in respect of the compressor replacement and R150,000 in respect of the repairs to the spray booth, in addition to the loss of income payment. The acquisition and the repair work were completed by the end of July 2013. The original compressor had been acquired for R400,000 in August 2011 and the spray booth for R650,000 in the same month.

(iv) None of the other machines used by the company were replaced in the current year. These other machines comprise the following:

1. Pressure cleaning hoses (part of the washing process) with an original cost of R140,000 on 1 April 2011.
2. Pressure paint spray nozzles (part of the spray painting process) with an original cost of R80,000 on 1 August 2012.
3. Motorised polishing tools (part of the washing process) with an original cost of R180,000 on 1 February 2013.

(v) Consumables used in the business for the year amounted to R1,900,000. The consumables on hand as at 1 April 2013 had a cost of R450,000 and as at 31 March 2014 had a cost of R350,000.

(vi) HCWP operates from a shopping mall parking garage. Rent for the period 1 July 2013 to 30 June 2014 of R450,000 was paid on 1 June 2013. On 1 June 2012, the rental paid for the period 1 July 2012 to 30 June 2013 had been R400,000.

(vii) While doubtful debts are small, some customers leave without paying. Some of these are traceable but a few are written off as bad. The doubtful debts as recorded in HCWP's financial records were R3,000 as at 31 March 2014 and had been R4,000 as at 31 March 2013. Debts written off as bad in the year amounted to R1,000. The Commissioner for the South African Revenue Service (SARS) accepts 25% of the listing of doubtful debtors for deduction purposes.

(viii) Other tax deductible expenses for the year amounted to R7,150,000.

(ix) Other capital gains arising in the year amounted to R300,000.

(x) HCWP's provisional tax payments have been estimated as totalling R800,000.

Other information:

(1) HCWP will apply any provision which reduces its liability for income tax, without incurring penalties.

(2) The Commissioner for SARS permits any qualifying asset for wear and tear to be written off over five years in terms of Binding General Ruling 7.

(3) You should assume that the current legislation also applied in all relevant prior years.

Required:

(a) Discuss whether or not the settlement payments and repairs (as per point (ii)) will be deductible for income tax purposes by Harry's Car Wash and Panelbeaters (Pty) Ltd. (8 marks)

(b) Calculate the income tax liability of Harry's Car Wash and Panelbeaters (Pty) Ltd for the year of assessment ended 31 March 2014.

Notes:

1. Your treatment of the items in point (ii) should be consistent with the conclusion stated in your answer to part (a).
2. Indicate clearly any items of income which are exempt or amounts which are not deductible by the use of a zero. (22 marks)

(30 marks)

2 Mrs Samantha Parker (aged 33) is a South African resident taxpayer. She was employed by a business consultancy firm (BC Group) for much of the 2014 year of assessment. On 31 October 2013, Samantha resigned to pursue personal interests.

Information relating to Samantha for the year of assessment ending 28 February 2014 is given below.

Employment package

(i) A cash salary of R25,000 per month.

(ii) BC Group contributed 7% of her cash salary to its company pension fund for Samantha.

(iii) Samantha had been issued with a company laptop costing R16,000 on 1 May 2012 as well as a 3G data card for which the company pays R200 for data per month. Samantha used the computer and data card mainly for business purposes. The data card is in the name of the company. Both the computer and data card had to be returned to the company when Samantha resigned.

(iv) BC Group paid Samantha R2,000 per month as a travel allowance. Samantha used her own motor car for client visits. For the entire year, she travelled 12,000 kilometres for client to client trips, a further 8,000 kilometres for office to client visits, 2,000 kilometres for home to client visits, 4,000 kilometres for home to office trips and a further 13,000 kilometres for other private travel. She also incurred total fuel costs of R48,000 and purchased new tyres at a cost of R8,000; all her remaining maintenance was covered by the maintenance plan on the vehicle. The car had cost her R437,000 (including value added tax) on 1 March 2012.

(v) BC Group pays the entire scheme rate to the medical scheme on its employees' behalf. For Samantha, this amounted to R3,500 per month in total for herself, her husband and one child. Samantha's husband is considered 'disabled' for income tax purposes.

(vi) BC Group paid Samantha a resignation bonus of R50,000 in recognition of her high quality work over the years.

Other information:

(1) Samantha contributed R3,000 per month to a retirement annuity fund (RAF) for the full year of assessment and these contributions were not taken into account by BC Group when calculating the employees tax withheld.

(2) Samantha's husband took over payment of the medical contributions for himself, his child and Samantha (as in item (v)) with effect from 1 November 2013. Samantha incurred additional medical costs amounting to R2,000 in the year for her child, which were not recoverable from the medical scheme.

(3) Samantha earned R32,000 in interest and a further R7,000 in foreign dividends for which none of the specific foreign dividend exemptions are applicable.

(4) Samantha is not a provisional taxpayer.

Required:

(a) Calculate the employees tax withheld and paid to the South African Revenue Service (SARS) by BC Group for the year of assessment ended 28 February 2014 in respect of Samantha's employment. (11 marks)

(b) Calculate the normal tax liability due by, or refund due to, Samantha for the year of assessment ended 28 February 2014. (14 marks)

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

(25 marks)

3 Joe Ngcobo sold his home in Constantia, South Africa, for R17,200,000 on 15 January 2014. Joe had acquired the property on 1 May 1999 for R3,400,000. The property does not exceed two hectares. Joe and his family have always lived in the property as their primary residence.

Apart from the purchase price paid, Joe incurred the following costs with respect to the property:

On acquisition and prior to 1 October 2001:

(i) On acquisition: Transfer duty and legal fees of R243,000.

(ii) November 2000: Built another garage for the property at a cost of R55,000.

On or after 1 October 2001:

(iii) June 2002: Renovated the bathrooms at a cost of R190,000.

(iv) May 2004: Built a cottage on the property to use as a home office at a cost of R560,000. This cottage takes up 2% of the plot.

(v) September 2009: Replaced the kitchen at a cost of R950,000.

(vi) April 2010: Repaired the roof at a cost of R150,000.

(vii) October 2011: Installed a solar geyser and solar system for power at a cost of R550,000.

(viii) On sale: Agent's commission and legal fees of R900,000.

A valuator has confirmed that items (iii) and (vi) do not represent enhancements to the value of the property on the date of disposal.

The property had been valued on 1 October 2001 for the amount of R5,400,000.

Joe made no other capital disposals in the 2014 year of assessment and has no capital losses brought forward. He is taxed at the maximum marginal rate.

Required:

Calculate the income tax payable by Joe Ngcobo on the sale of the primary residence, on 15 January 2014.

(20 marks)

4 Cheap Tours and Transport (Pty) Ltd (CTT), a registered value added tax (VAT) vendor, operates a tourism and transportation business. The tours are considered a VAT-able supply, whereas the separately sold transport is an exempt supply where it is within South Africa and zero rated where it is carried out in a country outside South Africa. The Commissioner for the South African Revenue Service (SARS) has agreed to an apportionment of 60% to taxable supplies and 40% to exempt supplies.

CTT's transactions for its two-month VAT period, May to June 2014, are detailed below. All amounts are stated inclusive of VAT, where appropriate.

(i) CTT sold tours amounting to R12,000,000 to South African residents. These charges covered only the fee for the accommodation and guides, not the transport.

(ii) 60% of the tours involved transport within South Africa only. This transportation, which was by road, was charged separately from the tour cost and amounted to R2,500,000. The remaining 40% of the tours involved transport into Namibia and Botswana. The separate charges for this transport amounted to R1,500,000.

(iii) Payments of R3,000,000 were made to commercial accommodation vendors for tour guest accommodation. Of these payments, R1,200,000 pertains to the accommodation charges of lodges in Namibia and Botswana.

(iv) Bad debts, relating to tour only debtors, amounting to R40,000 were written off in the VAT period.

(v) Two vehicles were acquired and taken delivery of during the VAT period. The first vehicle (a 12-seater bus), acquired in May, was purchased second-hand from a VAT vendor for R350,000. This bus is to be used exclusively for tours and will not be used within the transport section of the business. The second vehicle (an SUV to carry a maximum of four passengers plus one driver), acquired in June, was purchased new for R500,000.

(vi) In April, CTT had also purchased a new SUV for R570,000. The managing director has been given exclusive use of this vehicle.

(vii) In May, a pool table was purchased for the recreational use by CTT's staff. The table cost the company R3,000.

(viii) In June, a new server was purchased for R25,000. The server will run CTT's IT commitments for its entire business.

Required:

(a) Briefly explain when a business may be deregistered for value added tax (VAT) purposes and how this can be achieved. (3 marks)

(b) Calculate the input and output VAT effects of Cheap Tours and Transport (Pty) Ltd's transactions (i) to (viii) above, giving brief explanations for your treatment of each item.

Note: Indicate clearly any transaction which does not give rise to a VAT effect by the use of zero.

(10 marks)

(c) State the amount payable to/refundable from the South African Revenue Service (SARS) for Cheap Tours and Transport (Pty) Ltd's VAT period May to June 2014, together with the date by which the VAT return must be filed electronically and any payment must be made. (2 marks)

(15 marks)

5 **(a) State the persons who are required to keep records, books of account or documents with respect to a tax period.** (3 marks)

(b) List and briefly describe the different types of assessment which the South African Revenue Service (SARS) can issue. (6 marks)

(c) State the persons who must register as tax practitioners with SARS. (1 mark)

(10 marks)

End of Question Paper