Fundamentals Level – Skills Module

Taxation (South Africa)

Thursday 8 December 2016

Time allowed: 3 hours 15 minutes

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.

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)

Think Ahead ACCA

The Association of Chartered Certified Accountants

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 ended 29 February 2016/31 March 2016

Rebates	
Primary rebate	R13,257
Secondary rebate (over 65)	R7,407
Tertiary rebate (over 75)	R2,466
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 26/41sts of the dividend is exempt
For companies 13/28ths of the dividend is exempt

Medical aid contribution tax rebate rates	
Single member	R270
Member plus one dependant	R540
Each subsequent dependant	R181

Additional medical expenses tax rebate

Persons 65 or older or persons younger than 65 if that person, his or her spouse or his or her 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 29 February 2016

Where taxable income:

does not exceed R181,900	18% of each R1 of the taxable income
exceeds R181,900 but does not exceed R284,100	R32,742 plus 26% of the amount over R181,900
exceeds R284,100 but does not exceed R393,200	R59,314 plus 31% of the amount over R284,100
exceeds R393,200 but does not exceed R550,100	R93,135 plus 36% of the amount over R393,200
exceeds R550,100 but does not exceed R701,300	R149,619 plus 39% of the amount over R550,100
exceeds R701,300	R208,587 plus 41% of the amount over R701,300

Tax rates for small business corporations
for the year of assessment ended 31 March 2016

Where taxable income:

does not exceed R73,650	Nil
exceeds R73,650 but does not exceed R365,000	7% of the amount over R73,650
exceeds R365,000 but does not exceed R550,000	R20,395 plus 21% of the amount over R365,000
exceeds R550,000	R59,245 plus 28% of the amount over R550,000

Turnover tax rates for micro businesses
for the year of assessment ended 29 February 2016

Where taxable turnover:

does not exceed R335,000	Nil
exceeds R335,000 but does not exceed R500,000	1% of the amount over R335,000
exceeds R500,000 but does not exceed R750,000	R1,650 plus 2% of the amount over R500,000
exceeds R750,000 but does not exceed R1,000,000	R6,650 plus 3% 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) R353 per day (local travel)
Deemed expenditure for incidental costs only (per Government regulation) R109 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 2015

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	26,105	78·7	29·3
80,001 – 160,000	46,505	87·9	36·7
160,001 – 240,000	66,976	95·5	40·4
240,001 – 320,000	84,945	102·7	44·1
320,001 – 400,000	102,974	109·9	51·8
400,001 – 480,000	121,886	126·1	60·8
480,001 – 560,000	140,797	130·4	75·6
Exceeds 560,000	140,797	130·4	75·6

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 R3·18 per kilometre.

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 Make Ltd is not a small business corporation. It is registered for value added tax (VAT) but calculates all VAT consequences separately.

The following information is relevant to Make Ltd for its year of assessment ended 31 March 2016. All amounts exclude VAT where applicable.

1. Machine A
Machine A, a large manufacturing machine, was sold for R880,000 on 15 January 2016. Machine A had originally cost R650,000 when purchased new on 1 August 2014 and had been used in a process of manufacture.

2. Machine B and Machine C
Spare parts for Machine B were acquired for R350,000 on 20 November 2014. During the year of assessment ended 31 March 2016, Machine C broke down and one of the spare parts acquired for Machine B, with a cost of R40,000, was used to repair Machine C.

3. Machine D
Machine D was sold for R250,000 to a related company, when its market value was R750,000. Machine D had originally been acquired second-hand for R800,000 on 1 December 2013 and had been used in a process of manufacture.

Required:

(a) With respect to Make Ltd for its year of assessment ended 31 March 2016:

(i) Calculate any recoupment or scrapping allowance on the disposal of Machine A. (3 marks)

(ii) Calculate the income tax effects of holding and using the spare parts for Machine B. (1 mark)

(iii) Calculate any recoupment or scrapping allowance on the disposal of Machine D. (3 marks)

(b) Recalculate your answers to parts (i) and (iii) above on the basis that Make Ltd was classified as a small business corporation, giving a brief explanation as to why the revised answer is either the same or different from the original answer. (3 marks)

(10 marks)

2 Teresa is employed by a large company, which offers her a comprehensive employment package. For the 2016 year of assessment, her package consisted of the following:

1. A cash salary amounting to R40,000 per month.
2. The use of a company motor car. The car cost R430,000 (including VAT) when purchased by the company on 1 March 2014. For the first year, the car was used by the sales director before its use was transferred to Teresa on 1 March 2015. Teresa travels for business purposes and 12,000 km of the 18,000 km travelled for the 2016 year of assessment were for business purposes. The car is still under a maintenance plan. Based on the log book and the total fuel expense, the company requires its employees to pay for private fuel. This formula resulted in Teresa paying her employer R9,360 in the 2016 year of assessment.
3. On her 50th birthday during the year and marking 25 years of service to the company, her employer gave Teresa an award of a bracelet purchased for R12,000. In addition, Teresa was permitted to stay rent free in the company holiday cottage on the West Coast for five days. The cottage is normally rented for R2,000 per day.
4. Teresa contributes R5,000 per month to her medical aid scheme. This is in respect of Teresa, her husband and two minor children.

Employees tax of R110,000 was withheld by Teresa's employer for the 2016 year of assessment.

Required:

(a) Calculate the addition to Teresa's taxable income for the 2016 year of assessment as a result of the fringe benefits in (2) and (3) above. (6 marks)

(b) Calculate the medical aid contribution rebate available to Teresa as a tax credit for the 2016 year of assessment based on the information in (4) above. (1 mark)

(c) Calculate Teresa's income tax liability for the 2016 year of assessment, assuming she does not qualify for any additional medical expense tax credit. (3 marks)

(10 marks)

3 Due to ill health, Prince Zulu has started to liquidate a number of his assets, both business and personal. The following disposals took place during the 2016 year of assessment:

1. He disposed of his 25% equity interest in Ncube & Associates (Pty) Ltd (Ncube), a small business corporation. Prince was one of the founding shareholders of Ncube and his shares originally cost R200,000. His shares were sold to the company's other shareholders at their market price of R2,500,000. The assets in Ncube have a total market value of less than R10 million. Prince has made no previous disposals of shares in a small business corporation.
2. He sold his 12-metre yacht for R2,000,000. Prince had purchased the yacht eight years previously for R2,200,000.
3. He donated his art collection, valued at R350,000, to a public benefit organisation. The art collection had been purchased for a total base cost of R80,000.
4. He sold his primary residence for R5,000,000. Prince had purchased the property six years previously for R3,500,000. He had used 5% of the property for a home office (which was accepted by the Commissioner for the purpose of income tax).

Prince has an assessed capital loss carried forward from the 2015 year of assessment of R30,000, of which R20,000 is an assessed capital loss on a transaction with a connected person. None of the above transactions have been entered into with that connected person.

Required:

(a) Calculate the capital gain or capital loss arising from each of the disposals (1) to (4) after applying any specific exclusion. Give a brief explanation of any capital gain or capital loss which you have treated as disregarded. (7 marks)

(b) Calculate the taxable capital gain or assessed capital loss which Prince Zulu can carry forward for the 2016 year of assessment. (3 marks)

(10 marks)

4 Leak Detect & Plumbing Ltd (LDP) is a company with a financial year ending on 31 March each year and a registered value added tax (VAT) vendor. LDP entered into the following transactions for the 2016 year of assessment. All transactions (unless otherwise stated) took place between vendors and the company is in possession of all the necessary documentation. All amounts are stated inclusive of VAT where applicable.

1. Sales of services totalling R12,000,000.
2. An insurance receipt of R200,000 for a motor vehicle which was stolen and R50,000 for the equipment which was in the vehicle at the time of its theft.
3. Purchase of a new motor vehicle for R315,000. The insurance proceeds were used to acquire this vehicle and the balance was financed. Interest charged for the year on the balance financed amounted to R9,000.
4. Fuel for LDP's fleet of company vehicles totalling R50,000.
5. Bad debts written off of R35,000.
6. Bad debts recovered of R10,000.
7. Year-end staff function costing R65,000.
8. Wages and salaries totalling R2,400,000.
9. LDP has a standing agreement with a local taxi company to drive its employees working after-hours shifts home at the end of the shift. The amount paid to the taxi company for the year amounted to R40,000.
10. Purchase of new leak detection equipment and gas for leak detection amounting to R92,000.
11. Miscellaneous tools and consumables costing R72,000.
12. Bank charges on bank accounts of R5,000.
13. Plumbing association fees of R20,000 and the managing director's rugby club association fee of R3,000.

Required:

(a) Calculate the input value added tax (VAT) and output VAT arising from each of the transactions (1) to (13).

Note: You should format your answers in two columns labelled 'Input VAT' and 'Output VAT' and indicate by the use of zero (0) any item which does not result in either input VAT or output VAT. (8 marks)

(b) State when Leak Detect & Plumbing Ltd should file its VAT return, if it is a category C (i.e. monthly) VAT vendor and files its returns electronically. (1 mark)

(c) State the penalties which will be imposed if a VAT return is filed late and payment is made late. (1 mark)

(10 marks)

5 The following information relates to Joe Entrepreneur and his ventures for the 2016 year of assessment.

Employment

Joe works in a full-time position as a manager of a large corporation. He earns a salary of R70,000 per month. There are no fringe benefits with this position. Employees tax of R250,000 was withheld by his employer for the 2016 year of assessment.

Rental trade

Some years ago, Joe began trying to earn additional income from renting out a house which he had inherited. His rental trading results for the 2013 to 2016 years of assessment have been as follows:

	2016	2015	2014	2013
Rental income	120,000	75,000	100,000	30,000
Running costs	(73,000)	(65,000)	(50,000)	(25,000)
Repairs	(75,000)	(20,000)	(3,000)	(12,000)
Taxable income/assessed loss	(28,000)	(10,000)	47,000	(7,000)

The losses for the 2015 and 2013 years of assessment were utilised against Joe's other income. Joe has made no submissions to the South African Revenue Service with respect to any of the losses from his rental trade.

Plumbing trade

After making a profit from the rental trade in the 2014 year of assessment, Joe decided to train as a plumber and offer emergency after-hours service. His training was completed in 2014 and since then he has been acquiring tools, a vehicle and the branding for 'Joe's Plumbing'. Joe started trading as a plumber in March 2015. He is not registered for value added tax (VAT).

To buy some of the initial equipment for this trade, Joe borrowed R200,000 from his bank on 1 May 2014. On 1 June 2014, he spent R75,000 in acquiring plumbing tools (none of which cost less than R7,000 as all are parts of sets). On 1 October 2014, Joe purchased a vehicle for R170,000. The branding for the vehicle, completed in February 2015, cost a further R30,000. For the 2015 year of assessment, interest on the loan amounted to R15,600.

Although during the 2016 year of assessment Joe's business started slowly, by February 2016, he was working most weekends and for the 2016 year of assessment he earned R55,000. He purchased further tools costing R30,000 (all loose tools costing less than R7,000) during the 2016 year of assessment. Interest on the loan for the 2016 year of assessment was R15,700.

The Commissioner allows vehicles to be written off over four years and plumbing tools over five years.

Required:

(a) Calculate the balance of pre-trade expenditure qualifying for deduction by Joe Entrepreneur on 1 March 2015, when he began trading as a plumber. (3 marks)

(b) State, giving reasons, whether the loss from Joe's rental trade for the 2016 year of assessment must be ring fenced or is available to be set off against income from other trades. (2 marks)

(c) Calculate Joe's income tax liability for the 2016 year of assessment, giving a brief explanation of the treatment of any losses. (10 marks)

(15 marks)

6 WePack (Pty) Ltd (WePack) is a company which bulk washes and packs fruit and vegetables for farmers of the Western Cape region. The process is considered to be one of manufacture by the South African Revenue Service.

During the year of assessment ended 31 March 2016, WePack recorded the following transactions. All amounts are stated exclusive of value added tax (VAT) where applicable.

1. Packing services invoiced for the 2016 year of assessment of R50,000,000.
2. One of the shunting machines (Machine A) broke down on 2 January 2016 and was beyond repair. Machine A had cost R400,000 when purchased on 1 May 2013. Machine A was insured and the insurance receipt was R250,000. A new shunting machine (Machine B) was purchased at a cost of R550,000.

   The insurance paid out a further R200,000 for the partially insured risk against damage or loss to farmer's produce. Farmer D's fruit had been damaged when the old shunting machine broke down and WePack paid him R350,000 as compensation for the loss of his produce.
3. One of the farmers (Farmer E) who uses WePack's services did not pay after one year and WePack wrote off his debt of R45,000 on 1 April 2015. WePack's doubtful debts list as at 31 March 2015 was R240,000 and as at 31 March 2016 was R220,000. The Commissioner for the South African Revenue Service (CSARS) permits doubtful debts at 25% of the list value.
4. Other assets held for the entire 2016 year of assessment were:
   (i) Office furniture costing R2,400,000 (spread over six years by the CSARS).
   (ii) Computer equipment costing R3,000,000 (spread over three years by the CSARS).
   (iii) Other machinery in its third year of use in a process of manufacture, which had cost R60,000,000.
5. On 1 November 2015, an office desk was purchased for the managing director, who is also a major shareholder in the company. The desk cost R27,000 and was immediately brought into use. The desk did not match the colour scheme in the office and on 1 February 2016 it was distributed as a dividend *in specie* to the managing director in his capacity as a shareholder. As a result of the increase in cost of solid wood, the market value of the desk on the date of its distribution was R30,000.
6. WePack paid provisional tax of R8,500,000 during the 2016 year of assessment.

Required:

Calculate the income tax and dividends tax liabilities of WePack (Pty) Ltd for the 2016 year of assessment.

Note: You should list all of the items referred to in the question, indicating by the use of zero (0) any items of income which are exempt or amounts which are not tax deductible.

(15 marks)

End of Question Paper