Fundamentals Level – Skills Module

Taxation (South Africa)

Thursday 7 December 2017

Paper F6 (ZAF)

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.

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 28 February 2017/31 March 2017

Rebates	
Primary rebate	R13,500
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	R286
Member plus one dependant	R572
Each subsequent dependant	R192

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 28 February 2017

Where taxable income:

does not exceed R188,000	18% of each R1 of the taxable income
exceeds R188,000 but does not exceed R293,600	R33,840 plus 26% of the amount over R188,000
exceeds R293,600 but does not exceed R406,400	R61,269 plus 31% of the amount over R293,600
exceeds R406,400 but does not exceed R550,100	R96,264 plus 36% of the amount over R406,400
exceeds R550,100 but does not exceed R701,300	R147,996 plus 39% of the amount over R550,100
exceeds R701,300	R206,964 plus 41% of the amount over R701,300

Tax rates for small business corporations
for the year of assessment ended 31 March 2017

Where taxable income:

does not exceed R75,000	Nil
exceeds R75,000 but does not exceed R365,000	7% of the amount over R75,000
exceeds R365,000 but does not exceed R550,000	R20,300 plus 21% of the amount over R365,000
exceeds R550,000	R59,150 plus 28% of the amount over R550,000

Turnover tax rates for micro businesses
for the year of assessment ended 28 February 2017

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) R372 per day (local travel)
Deemed expenditure for incidental costs only (per Government regulation) R115 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)	R40,000
Annual exclusion (in year of death)	R300,000
Primary residence exclusion (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)	R2,000,000
Inclusion rate (natural persons)	40%
Inclusion rate (non-natural persons)	80%

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 2016

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	26,675	82·4	30·8
80,001 – 160,000	47,644	92·0	38·6
160,001 – 240,000	68,684	100·0	42·5
240,001 – 320,000	87,223	107·5	46·4
320,001 – 400,000	105,822	115·0	54·5
400,001 – 480,000	125,303	132·0	64·0
480,001 – 560,000	144,784	136·5	79·5
Exceeds 560,000	144,784	136·5	79·5

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 R3·29 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 Congress Ltd and Entertainment Ltd operate together in partnership in equal shares to run large wedding events. For this purpose, the partnership owns a number of luxury assets. Due to a recent downturn in the economy, the partnership decided to sell the following two of these assets in the year of assessment ended 28 February 2017:

1. **Yacht used as a venue for wedding receptions**
   The yacht is 20 metres in length and was acquired for R2,000,000 on 1 August 2013. The Commissioner for the South African Revenue Service (SARS) permitted wear and tear allowances over 12 years. The yacht was sold on 1 April 2016 for R1,200,000.

2. **Building used as a venue for wedding ceremonies**
   The building was purchased on 1 September 2001 for R500,000. On 1 September 2002, the partnership incurred a further R1,350,000 to extend the building so that it could accommodate larger wedding events. The building was sold on 1 December 2016 for R6,000,000. No valuation was performed at 1 October 2001.

Congress Ltd has a capital loss brought forward of R100,000 as at 1 March 2016 in respect of the sale of equipment to Entertainment Ltd in the 2016 year of assessment. Entertainment Ltd has no assessed capital loss brought forward as at 1 March 2016.

Required:

With respect to disposals (1) and (2), for the partnership's year of assessment ended 28 February 2017:

(a) Calculate the capital gain/capital loss for each disposal. (8 marks)

(b) Calculate the total taxable capital gain/assessed capital loss for Congress Ltd. (2 marks)

Note: In both parts, indicate clearly any items which do not give rise to a tax effect by the use of a zero (0).

(10 marks)

2 Local Fashion (Pty) Ltd (LF) designs and produces fashion garments using local materials for local and international distribution. The company has a financial year ending on 31 December each year and is a registered value added tax (VAT) vendor. LF entered into the following transactions for the 2017 year of assessment. All transactions (unless otherwise stated) took place between VAT registered vendors and the company is in possession of all the necessary documentation. All amounts are stated inclusive of VAT where applicable.

1. Sales of local fashion garments totalling R1,300,000 to customers in South Africa and R250,000 to foreign customers outside South Africa.
2. Sale of stock used previously as window display items for R25,000. The original market value of the stock was R30,000 at the date of manufacture.
3. Interest earned on cash deposits of R2,000.
4. Dividends received of R2,000 from a local company in which LF holds an investment interest.
5. Legal costs of R30,000 defending a claim against LF's profits by a local designer who claimed that the designs used by LF had been copied.
6. Courier fees for delivery of garments totalling R15,000 to customers in South Africa and R29,000 to customers outside South Africa.
7. Wages payable to the local dressmakers employed by LF of R350,000.
8. Bad debts written off of R22,000.
9. Evening function for the local designers costing R20,000 after a runway show hosted by LF costing R100,000. The runway show generates new garment orders.
10. Bank charges on company bank accounts of R3,000.

Required:

(a) Calculate the input value added tax (VAT) and output VAT arising from each of the transactions (1) to (10).

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. (7 marks)

(b) LF has noted from its records, that a tax invoice received from a local supplier in November 2016 has not yet been paid. On further investigation, it was discovered that the local supplier cannot be traced, nor has any liquidator or curator been identified. The invoice was for the amount of R11,400. On 1 December 2017, the South African Revenue Service (SARS) approached LF and demanded the payment of R11,400 to be made to SARS in partial settlement of the outstanding tax liabilities of the supplier.

Required:

Briefly explain whether any action is required in December 2017 with respect to the unpaid supplier invoice and whether the amount of R11,400 as demanded by the South African Revenue Service (SARS) must be paid. (3 marks)

(10 marks)

3 Plumb Co Ltd (PC) is a plumbing supply and service company owned by four shareholders who are also directors. The company has a 31 March year end and is a registered value added tax (VAT) vendor. All amounts below exclude VAT where applicable.

The following information is relevant for the year of assessment ended 31 March 2017:

(i) The four shareholders and directors of PC are all trained plumbers and each manages a team of two people. One director's team consists of his brother and another unconnected full-time employee. The other three teams comprise one full-time and one part-time employee (in addition to the director managing the team).

(ii) The turnover from plumbing services is R1,500,000 and from the sale of plumbing equipment is R13,000,000.

(iii) The directors all have shareholdings in other companies listed on the Johannesburg Stock Exchange.

(iv) PC holds 25% of the shares in Tap Ltd and earned dividends of R40,000.

(v) Interest received on the company bank account amounted to R25,000.

(vi) Stock of plumbing goods on hand at 1 April 2016 was R560,000, stock purchased during the year was R7,000,000 and stock on hand at 31 March 2017 was R600,000.

(vii) Wages amounted to R5,000,000.

(viii) Miscellaneous deductible costs amounted to R700,000.

Required:

(a) Explain whether Plumb Co Ltd qualifies as a small business corporation. Your answer should apply the qualifying criteria for a small business corporation to the facts supplied above. (6 marks)

(b) Calculate the tax payable by Plumb Co Ltd for the year of assessment ended 31 March 2017, assuming the company is classified as a small business corporation. (4 marks)

(10 marks)

4 David Smith is an engineer. His employer, ES Ltd, requires him to be at or near the engineering site during the construction phase of each project he is working on. He is therefore required to move regularly. David receives a monthly cash salary of R71,000.

The following information is relevant for the 2017 year of assessment:

Period from 1 March to 30 June 2016

(i) ES Ltd provided David with a family home near Engineering Site 1 for which the company paid rentals of R25,000 per month.

(ii) ES Ltd paid school fees for David's children amounting to R7,500 per month.

Period from 1 July 2016 to 28 February 2017

(iii) On 1 July 2016, ES Ltd relocated David to a new project.

(iv) ES Ltd provided him with a fully-furnished family home near Engineering Site 2. The company owns this home consisting of seven rooms and pays for all the running costs. The remuneration proxy has been accepted by the Commissioner for the South African Revenue Service (SARS) as R850,000. As the location of the property is near to the beach, David asked ES Ltd if he could buy the property from the company. The company agreed that the property could be purchased at a future date for its market value of R9,000,000 as at 1 December 2016 (the date of the agreement). Until the future purchase date, the agreement stipulated that David would pay the company rental equivalent to 1% of the purchase price of the property as at 1 December 2016.

(v) ES Ltd paid school fees for David's children at the new location amounting to R5,500 per month.

(vi) Costs of R120,000 were incurred by ES Ltd in relocating David and his family.

Required:

(a) Calculate the amount to be included in David's taxable income with respect to the fringe benefits, in (i) and (iv) above, supplied by ES Ltd during the 2017 year of assessment. Give brief explanations where appropriate. (5 marks)

(b) Assuming David purchases the property on 1 December 2017, explain whether any further fringe benefit arises if the market value on that date is R10,000,000. (1 mark)

(c) Calculate David's normal tax payable (before tax credits) for the 2017 year of assessment. (4 marks)

(10 marks)

5 Ice-Cool Ltd (Ice-Cool) is a company which manufactures ice cream. It is not a small business corporation. The process is considered to be one of manufacture by the South African Revenue Service (SARS).

During the year of assessment ended 31 March 2017, Ice-Cool recorded the following transactions. All amounts are stated exclusive of value added tax (VAT) where applicable.

1. The sales of ice cream are made to large retail customers. The pricing varies based on the storage and packaging required by the customer. Total sales for the year amounted to R28,000,000, including the disputed revenue from the sale in (3) below.
2. Customer W requires its ice cream to be stored at Ice-Cool's premises at a specific temperature with special cargo doors to enable its trucks to collect the ice cream. Due to increased orders from Customer W, Ice-Cool added a new refrigeration room to the end of the production line in its factory building. This new refrigeration room cost Ice-Cool R1,500,000 to construct and the refrigeration units cost a further R500,000. The refrigeration room and units form part of Ice-Cool's factory building. The end of one of the production line conveyor belts, which had been purchased and installed on 1 May 2015 for R150,000, also had to be moved to the new refrigeration room at a cost of R21,000.
3. Customer P sent back an entire shipment of ice cream with a sales price of R240,000 (cost of R150,000) to Ice-Cool claiming a refund. It was discovered that the truck sent by Customer P had broken down and the ice cream melted and was spoiled. Ice-Cool disputed the claim, holding Customer P liable for the invoice. Legal fees of R10,000 were incurred by Ice-Cool in successfully disputing the claim by Customer P. The invoice has still not yet been paid and Ice-Cool has charged R3,000 interest on the amount unpaid as it is outside of the terms of credit offered to Customer P. Ice-Cool considers the payment of the invoice and interest to be doubtful and has provided for these amounts as at 31 March 2017. No other debts are considered doubtful for the 2017 year of assessment.
4. Bad debts written off amounted to R56,000, which was the amount of the accounting provision for the year of assessment ended 31 March 2016. The Commissioner for SARS permits doubtful debts at 25% of the list value.
5. The stock on hand on 1 April 2016 amounted to R8,000,000, manufactured products amounted to R12,000,000 and closing stock on hand at 31 March 2017 amounted to R9,000,000 (the closing stock includes stock of R400,000 which has a market value of R370,000).
6. One of Ice-Cool's mixing machines broke down on 1 August 2016. The machine had originally cost R300,000 on 1 May 2014. Ice-Cool's insurance policy covered the machine for replacement value and paid the company R450,000. Ice-Cool acquired a new machine for R470,000 on 5 August 2016.
7. Wages and salaries paid amounted to R3,500,000.

Required:

Calculate the taxable income of Ice-Cool Ltd for the 2017 year of assessment.

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

(15 marks)

6 The following information relates to Rose Plant for the 2017 year of assessment.

Employment

Rose, aged 40, works full time as an administrative assistant for Training (Pty) Ltd ('Training'), earning a cash salary of R30,000 per month. Rose makes a contribution of 5% of her cash salary to the company provident fund and Training matches her contribution. All employees of Training contribute to the chosen medical aid scheme and Rose's contributions to this scheme amount to R2,000 per month. At Rose's request, her employer also takes R600 of her salary per month to donate to a local public benefit organisation. This organisation sends Rose the required certification for her donation.

Training has a loan scheme for employees who have been with the company for more than five years. On 1 July 2016, her five-year anniversary at the company, Rose took out a loan of R500,000 from Training. The company charges Rose interest of 2% on the loan and the loan agreement stipulates that the loan may only be used for housing. Rose sold her flat and, using the sales proceeds plus the loan from Training, bought a small house (see below).

From 1 February 2017, Training gave Rose a travel allowance of R3,000 per month. Rose only travels from home to the office.

Flat/house

Rose bought a flat when she started her working life on 1 January 2002. She paid R350,000 for the flat and has already repaid the bank mortgage in full. In November 2014, Rose renovated the kitchen in the flat which cost R150,000 and added value to the flat. On 1 August 2016, Rose sold this flat for R900,000. She did not have the flat valued at 1 October 2001. Rose incurred agent fees of R27,000, legal fees of R10,000, R5,000 obtaining the various compliance certificates and R20,000 to conduct the repairs necessary to meet the new standards.

On 1 July 2016, Rose's offer on a house was accepted with transfer on 1 August 2016. The cost of the house was R1,350,000.

Art gallery

Rose is very interested in art and runs a small art gallery from a friend's art studio. The Commissioner for the South African Revenue Service (SARS) considers the buying and selling of art from this gallery to be a trade. The trade either breaks even or makes a loss. None of the losses have been ring-fenced by the Commissioner. Rose has a loss brought forward from this trade of R8,000 as at 1 March 2016.

One of the artists has recently died. Rose owns two of his paintings, which have now become valuable. She sells one at auction for R400,000. She bought the painting in March 2016 for R4,000. Other net costs for the gallery amounted to R5,000.

Rose's last tax assessment (2016) reflects a taxable income of R355,000. Her first provisional tax payment was nil. The return was filed on time.

Required:

(a) Calculate the employees tax withheld and paid to the South African Revenue Service (SARS) by Training (Pty) Ltd for the year of assessment ended 28 February 2017 in respect of Rose's employment. (6 marks)

(b) Calculate Rose's taxable income for the year of assessment ended 28 February 2017.

Note: Indicate clearly any items of income which are not taxable or expenses which are not deductible by the use of a zero (0). (7 marks)

(c) Explain what amount Rose could have used to achieve the minimum second provisional payment. (2 marks)

(15 marks)

End of Question Paper