Fundamentals Level – Skills Module

Taxation (South Africa)

Tuesday 4 December 2012

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 29 February 2012/31 March 2012

Rebates	
Primary rebate	R10,755
Secondary rebate (over 65)	R6,012
Tertiary rebate (over 75)	R2,000
Interest exemption	
Under 65	R22,800
Over 65	R33,000
Of which the first R3,700 may be used for foreign dividends or foreign interest	
Medical contribution rates	
Single member	R720
Member plus one dependant	R1,440
Each additional dependant	R440
Companies	
Normal tax rate	28%
STC rate	10%
Official rate of interest (assumed)	8%

Rates of normal tax payable by persons (other than companies)
In respect of the year of assessment ended 29 February 2012

Where the taxable income	
Does not exceed R150,000	18% of each R1 of the taxable income
exceeds R150,000 but does not exceed R235,000	R27,000 plus 25% of the amount over R150,000
exceeds R235,000 but does not exceed R325,000	R48,250 plus 30% of the amount over R235,000
exceeds R325,000 but does not exceed R455,000	R75,250 plus 35% of the amount over R325,000
exceeds R455,000 but does not exceed R580,000	R120,750 plus 38% of the amount over R455,000
exceeds R580,000	R168,250 plus 40% of the amount over R580,000

Tax rates for small business corporations
for the year of assessment ended 31 March 2012

R0 – R59,750	Nil
R59,751 – R300,000	10% of the amount over R59,750
R300,001 and above	R24,025 plus 28% of the amount over R300,000

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 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) R286 per day (local travel)
Deemed expenditure for incidental costs only (per Government regulation) R88 per day (local travel)
Deemed expenditure for meals and incidental costs (foreign travel) – per published tables therefore 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 5 tax years
Small business corporation manufacturing plant and equipment	100%
Small business corporation (other assets) – unless wear & tear provides a greater deduction	50%/30%/20%

Wear & tear (based on Interpretation Note 47 and supplied in the question)

Manufacturing building allowance (unless seller's rate supplied)	5%
New or unused commercial building (not 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 'revenue nature' expenditure	150%
Research and development 'capital nature' expenditure	50%/30%/20%

Capital gains tax

Annual exclusion (while alive)	R20,000
Annual exclusion (in year of death)	R200,000
Primary residence exclusion	R1,500,000

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

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

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

Travel allowance table

for years of assessment commencing on or after 1 March 2011

Value of the vehicle (including VAT but excluding finance charges or interest)	Fixed cost	Fuel cost	Maintenance cost
R	R p.a.	c/km	c/km
0 – 60,000	19,492	64·6	26·4
60,001 – 120,000	38,726	68·0	29·2
120,001 – 180,000	52,594	71·3	31·9
180,001 – 240,000	66,440	77·7	35·0
240,001 – 300,000	79,185	87·0	44·7
300,001 – 360,000	91,873	93·9	54·2
360,001 – 420,000	105,809	100·9	65·8
420,001 – 480,000	119,683	113·1	67·6
Exceeds 480,000	119,683	113·1	67·6

Notes:

Where reimbursement is based on actual business kilometres travelled and no other compensation is paid to such employees and the kilometres travelled for business does not exceed 8,000, the prescribed rate is R3·05 per kilometre.

Rating formulae

$$Y = \left[\frac{A}{B + D - C}\right]$$

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Question 1 begins on page 6.

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ALL FIVE questions are compulsory and MUST be attempted

1 All Sports (Pty) Ltd is a resident company, owned by five natural person shareholders, manufacturing and distributing sporting equipment to gyms and clubs. The company has a year end of 31 March 2012. The South African Revenue Service (SARS) considers the manufacture of sporting goods to be a process of manufacture. With respect to all assets which are qualifying assets for the purposes of the wear and tear provision, SARS has notified All Sports (Pty) Ltd that it will accept a rate of 20% per annum.

All Sports (Pty) Ltd is also the sole shareholder of James' Gym (Pty) Ltd, a resident company responsible for the running of a number of gym establishments throughout South Africa. James' Gym (Pty) Ltd also has a year end of 31 March 2012. James' Gym (Pty) Ltd has a turnover greater than R14 million per annum.

An abridged income statement is provided for All Sports (Pty) Ltd for the year of assessment ended 31 March 2012.

	Notes	R	R
Sales	i		5,400,000
Cost of sales		(2,200,000)	
Profit on disposal of a manufacturing machine	ii		90,000
Depreciation	iii	(358,333)	
Finance charges	iv	(85)	
Operating lease expense	v	(240,000)	
Bad and doubtful debts	vi	(40,000)	
General expenses	vii	(55,000)	
Net profit before taxation expense			2,596,582

Notes:

(i) The sales figure comprises sales during the year and excludes refundable deposits of R270,000 for gym equipment with a sales price of R400,000 to be manufactured and delivered in April 2012. The deposits are only refunded if the order cannot be completed. In the prior year, similar refundable deposits of R200,000 had been received for sales amounting to R350,000. These sales were recognised in full in the current financial year.

(ii) The profit on disposal of the manufacturing machine was determined as follows:

	R	R
Proceeds on sale		500,000
Less: Carrying value		
Cost of asset (1 April 2007 – purchased new)	600,000	
Accumulated depreciation (10% per annum)	(190,000)	(410,000)
Profit		90,000

This was a disposal to James' Gym (Pty) Ltd on 1 June 2011 for use as a display in one of the gyms to show how sports equipment is made. The market value of the machine at the time of the sale was R550,000.

(iii) Depreciation comprises:

	R
Depreciation on machine sold	10,000
Depreciation on finance leased asset	33,333
Depreciation on furniture	15,000
Depreciation on other machines	300,000
Depreciation on 'showroom' machines	20,000

All Sports (Pty) Ltd wanted to test a new type of machine. As the directors did not want to incur the expense upfront, the company entered into a finance lease. The lease terms provide for a cash cost (value added tax (VAT) inclusive) of R1,140,000 and a residual value of R200,000. The 60 monthly payments are R13,589. The lease began on 1 July 2006. The directors decided to acquire the machine at the end of the lease and paid the residual value as stipulated in the lease agreement. The market value at the time was R250,000.

The furniture originally cost R100,000. The furniture was acquired on 1 June 2009.

The 'other machines' were all acquired on 1 February 2010 at a total cost of R3,000,000 excluding VAT. In the year ended 31 March 2011, All Sports (Pty) Ltd had sold some machines to James' Gym (Pty) Ltd. During the year ended 31 March 2012, All Sports (Pty) Ltd required James' Gym (Pty) Ltd to sell back some of these machines so that All Sports (Pty) Ltd could stock its showroom floor. All Sports (Pty) Ltd paid James' Gym (Pty) Ltd R200,000 for the machines on 1 April 2011 when the market value was R330,000. James' Gym (Pty) Ltd had only brought the machines into use for one month before the machines were sold back to All Sports (Pty) Ltd. James' Gym (Pty) Ltd had paid R320,000 to All Sports (Pty) Ltd for the machines (which was the market value at the time).

(iv) The finance charges all relate to the leased asset in note (iii).

(v) The operating lease expense is for the building in which the manufacturing operations are conducted. In terms of the lease, certain leasehold improvements had to be completed to the value of R1,500,000. These were completed at a cost of R2,000,000 (excluding VAT) four months into the ten-year lease. The lease began on 1 August 2008.

(vi) Bad and doubtful debts comprise one debt of R15,000 that has gone bad and been written off and the remaining R25,000 represents the movement in the provision from R20,000 to R45,000. The Commissioner only permits 25% of the doubtful debtors list in a year of assessment.

(vii) The general expenses are all tax deductible.

Other information:

(viii) All Sports (Pty) Ltd will apply any provision that reduces its liability for income tax, without incurring penalties.

(ix) A first provisional tax payment of R250,000 was made by All Sports (Pty) Ltd on 31 August 2011. The return was submitted the same day.

(x) Apart from their shareholding in this company, the five shareholders only have investments in shares listed on the JSE.

(xi) All amounts are exclusive of VAT, unless stated otherwise.

Required:

(a) Calculate the taxable income for All Sports (Pty) Ltd for the year of assessment ended 31 March 2012, indicating clearly any items of income which are exempt or amounts which are not deductible by the use of a zero. (22 marks)

(b) Calculate the second provisional payment for All Sports (Pty) Ltd for the year of assessment ended 31 March 2012, assuming they wish to pay the least amount of provisional tax, and state the date by which such payment is to be made. Give brief explanations of the calculation of the amount to be taxed and justify your choice of the tax rates to be applied. (7 marks)

(c) Calculate the normal tax liability for All Sports (Pty) Ltd for the year of assessment ended 31 March 2012. (1 mark)

(30 marks)

2 Ms Lizette Odendaal (30) is employed as the marketing director for Fresh (Pty) Ltd, a resident company engaged in the import and export of fruit and wine.

Employment package

(i) A cash salary of R44,000 per month against which the employee contributions to the pension fund of 8% of cash salary are deducted. The employer contributes an equal amount to the employee pension fund.

(ii) The employer does not contribute to the medical scheme but does take contributions paid by the employee into account for employees tax purposes where proof is supplied. Ms Odendaal supplied evidence of her monthly contributions of R1,500 per month.

(iii) The use of a laptop computer and a mobile phone are provided. The laptop was purchased by the company on 1 April 2011 for R9,000 and the mobile phone bills amounted to R13,000 for the year of assessment. The company pays all costs in full but requires its employees to prove that at least 50% of the use is for business purposes. Ms Odendaal provided such proof.

(iv) A travel allowance of R10,000 per month. Ms Odendaal travels extensively for the company. Total kilometres travelled for the year were 60,000 of which 45,000 were for business purposes. Ms Odendaal uses her own car, an Audi Q3 purchased for R400,000 on 1 March 2009. She pays all costs in relation to the running of the car; however, regular maintenance is covered by the maintenance plan. Ms Odendaal paid R2,500 for two new tyres and R62,000 for fuel for the year of assessment. Licensing and miscellaneous costs were R500.

(v) The company paid a subsistence allowance of $200 per day for her nine day trip to the United States on business and €150 per day for her eight day trip to Austria on business. The Commissioner has gazetted subsistence rates for the United States and Austria as $142 and €108 per day respectively. The appropriate rates of exchange are $1 = R8 and €1 = R10. Ms Odendaal kept a record of her costs which amounted to R7,500 for the United States trip and R9,000 for the Austrian trip, all for business purposes.

(vi) An entertainment allowance of R5,000 per month. Ms Odendaal incurred costs of R20,000 entertaining clients during the year of assessment. The company does not require Ms Odendaal to provide any evidence of her spending.

(vii) Employees tax withheld by the company amounted to R110,000 for the year of assessment.

Other information:

(viii) Ms Odendaal contributes R2,000 per month to a retirement annuity fund (RAF). This is not taken into account for employees tax purposes.

(ix) Medical costs (apart from the contributions detailed earlier) amounted to R13,000.

(x) Ms Odendaal makes an annual donation of R5,000 to the SPCA and receives an income tax certificate in this regard.

(xi) She earns interest income of R12,000 from a South African bank and dividend income of R7,000 from South African companies.

Required:

Calculate the normal tax liability for Ms Odendaal for the year of assessment ended 29 February 2012, indicating clearly any items of income which are exempt or amounts which are not deductible by the use of a zero.

(25 marks)

3 Mpho Bassier recently had a heart attack (at the age of 56). He has decided that it was the stress of his job. He has decided to take early retirement, sell most of his assets, donate others and, using the cash from those sales, travel the world. He is uncertain of the capital gains tax implications for a number of the sales that occurred in the 2012 year of assessment and has asked you for assistance in calculating the effects.

(i) A penthouse flat in Camps Bay, Cape Town. He had purchased this flat in May of 1979 at the age of 23 for R150,000. He spent R30,000 making improvements in 1990 and again a further R180,000 in 2002. The market value of the property on 1 October 2001 was R5,000,000 and when sold in December 2011 was worth R8,000,000. The flat had been his primary residence since he bought it, apart from the six years (from 1 March 2002 to 28 February 2008) he spent on secondment in the United Kingdom. The flat was rented out to tenants during his six year absence. Selling costs amounted to R400,000. (10 marks)

(ii) An aircraft, used for personal travel. The aircraft originally cost R8,000,000 in July 1999 and weighed more than 450 kg unladen. The market value of the aircraft on 1 October 2001 was R10,500,000. Its value when sold was R9,000,000. (5 marks)

(iii) Mpho sold a 15% interest in a small business. The business's assets, fairly valued, are worth less than R5,000,000. Mpho received R500,000 for this interest. He acquired the interest on 1 May 2008 for R120,000. Mpho previously sold a 10% interest in another small business (which also had assets worth less than R5 million at the time his interest was sold). The interest had generated a capital gain of R600,000 in 2009. (4 marks)

(iv) An art collection. Mpho had collected numerous works of art as an investment. He sold them all to a gallery for R900,000. The works combined had a base cost of R500,000. (1 mark)

Required:

For each of the four assets above:

Calculate the capital gain or capital loss arising on each disposal, providing explanations in support of your answer.

Note: The mark allocation is shown against each of the four assets above.

(20 marks)

4 Mrs Cloth (58) owns a number of laundry shops. The laundry machines are coin operated by the customers. Apart from the initial capital outlay for the machines, Mrs Cloth spends money only on rental of premises. This is often low as most of the shops are located in hotels and the hotel management wish to promote Mrs Cloth's business for guests (the hotels have their own facilities for their linen and towels). Mrs Cloth pays R50,000 in rentals per annum. A detergent company provides all the washing powder and fabric softener through vending machines so that they are not supplied by Mrs Cloth.

All of the machines have been fully depreciated for income tax purposes in prior years. Each week, Mrs Cloth goes to the various shops and collects the coins from the machines, banks the proceeds and withdraws the amount necessary to stock the machines to dispense change if needed. The total amount collected month to month varies, but turnover for the year generally does not exceed R550,000.

Apart from the laundry trade above, Mrs Cloth has a small share investment portfolio from which she receives dividends of approximately R10,000 per year. The shares are all JSE listed shares. Mrs Cloth also receives a widow's pension from a pension fund, since the death of her husband in 2010, amounting to R70,000 per annum. Employees tax of R1,845 was withheld for the 2012 year of assessment. Provisional tax of R125,000 was paid during the 2012 year of assessment by Mrs Cloth.

Mrs Cloth is not registered for value added tax (VAT) and currently operates as a sole proprietor.

Required:

(a) Explain whether or not Mrs Cloth should register voluntarily for value added tax (VAT). (3 marks)

(b) Explain the time of supply rules that would apply to the laundry trade, if Mrs Cloth registered for VAT. (1 mark)

(c) Assuming Mrs Cloth does not register for VAT, identify the various taxes for which Mrs Cloth would be liable (based on the above information) and the dates the returns and payments would be due.

Note: No calculations are required for part (c). (7 marks)

(d) Using the estimated figures supplied, calculate Mrs Cloth's normal tax liability for the year of assessment ended 29 February 2012. (4 marks)

(15 marks)

5 LongBoard Ltd produces a longer skateboard used as a newer form of commuting. These boards reach speeds of up to 40 km/hour. LongBoard Ltd began its business on 1 April 2011. By 30 April 2012, its turnover was R900,000. Included in the turnover is debts of R2,000 which the company believes to be bad and will be written off. There are also debts of R3,000 which the financial director believes are doubtful and a provision for these debts will be created. The financial director anticipates that the next financial year will result in a turnover of R1,400,000.

LongBoard Ltd rents a building from a value added tax (VAT) vendor from which to operate. The rental is R8,000 per month including VAT. Included in the rental is the monthly amount of R1,000 for municipal rates. As the premises are larger than required and the building is zoned for commercial and residential use, the company sub-lets the loft area as a residential flat.

To manage the business (both the rental and the manufacture and sale of boards), LongBoard Ltd purchased a computer for R7,500 and a printer for R1,500 from a VAT vendor. The financial director has noticed that the only evidence of these purchases is the till slip from the computer shop. The financial director purchased the equipment on behalf of the company and was reimbursed in full.

If apportionment of VAT is required, the Commissioner will consider 90% of the supplies taxable and 10% of the supplies exempt.

Required:

(a) Explain when the company would be required to register for value added tax (VAT) and the requirements to register. (3 marks)

(b) Explain whether tax invoices are required to support the inclusion of inputs and outputs on the VAT return. (1 mark)

(c) List ANY FOUR requirements to be met in order for an invoice to qualify as a tax invoice. (2 marks)

(d) Assuming the computer and printer were purchased in the manner described above, explain whether a VAT input could be claimed after LongBoard Ltd had registered for VAT. (1 mark)

(e) Assuming a VAT input could be claimed on the computer and printer, calculate how much that input would be and briefly explain your answer. (3 marks)

(10 marks)

End of Question Paper