Fundamentals Level – Skills Module

Taxation (South Africa)

Tuesday 4 June 2013

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 2013/31 March 2013

Rebates	
Primary rebate	R11,440
Secondary rebate (over 65)	R6,390
Tertiary rebate (over 75)	R2,130
Interest exemption	
Under 65	R22,800
Over 65	R33,000

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	R230
Member plus one dependant	R460
Each subsequent dependant	R154
Dividends Tax	15%
Companies	
Normal tax rate	28%
Official rate of interest (assumed)	8%

Rates of normal tax payable by persons (other than companies)
In respect of the year of assessment ended 28 February 2013

Where the taxable income	
Does not exceed R160,000	18% of each R1 of the taxable income
exceeds R160,000 but does not exceed R250,000	R28,800 plus 25% of the amount over R160,000
exceeds R250,000 but does not exceed R346,000	R51,300 plus 30% of the amount over R250,000
exceeds R346,000 but does not exceed R484,000	R80,100 plus 35% of the amount over R346,000
exceeds R484,000 but does not exceed R617,000	R128,400 plus 38% of the amount over R484,000
exceeds R617,000	R178,940 plus 40% of the amount over R617,000

Tax rates for small business corporations
for the year of assessment ended 31 March 2013

R0 – R63,556	Nil
R63,557 – R350,000	7% of the amount over R63,556
R350,001 and above	R20,051 plus 28% of the amount over R350,000

Turnover tax rates for micro business corporations
for year of assessment ending 31 March 2013

R0 – R150,000	Nil
R150,001 – R300,000	1% of the amount over R150,000
R300,001 – R500,000	R1,500 + 2% of the amount over R300,000
R500,001 – R750,000	R5,500 + 4% of the amount over R500,000
R750,001 and above	R15,500 + 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 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) R303 per day (local travel)
Deemed expenditure for incidental costs only (per Government regulation) R93 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 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 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 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: $Y = B + \left[\frac{(P - B) \times N}{(T + N)}\right]$

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

Travel allowance table

for years of assessment commencing on or after 1 March 2012

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	73·7	25·7
60,001 – 120,000	38,726	77·6	29·0
120,001 – 180,000	52,594	81·5	32·3
180,001 – 240,000	66,440	89·6	36·9
240,001 – 300,000	79,185	102·7	45·2
300,001 – 360,000	91,873	117·1	53·7
360,001 – 420,000	105,809	119·3	65·2
420,001 – 480,000	119,683	133·6	68·3
Exceeds 480,000	119,683	133·6	68·3

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 R3·16 per kilometre.

ALL FIVE questions are compulsory and MUST be attempted

1 Mrs Rina Janse van Rensberg (45) is a South African resident taxpayer and is employed to deliver commercial training courses all over South Africa by a resident company, Training Ltd. She lives in Durban.

Employment package

(i) A small cash salary of R4,000 per month and R5,000 per training course day. Rina delivered training courses on 100 days during the year of assessment.

(ii) A travel allowance of R5,000 per month for the travel around Durban. Total kilometres travelled for the year were 20,000 of which 5,000 were for business purposes. Rina uses her own car, purchased for R630,000 (including value-added tax (VAT)) on 1 March 2011. She pays all costs in relation to the running of the car; however, regular maintenance is covered by the maintenance plan. Rina paid R25,000 for fuel for the year of assessment. Licensing and miscellaneous costs were R1,500.

(iii) Rina purchased her own tablet device which she uses exclusively to deliver her lectures. The device cost R8,900 and was purchased on 1 May 2012. This device replaced her old laptop computer which had been fully written off for tax purposes. The laptop was outdated and had no market value on the date of disposal. It was sent to an electronic recycler. The Commissioner for the South African Revenue Service (SARS) permits tablet devices to be written off over three years in terms of Binding General Ruling 7.

(iv) The use of a mobile phone is provided by the company. The mobile phone bills amounted to R13,000 for the year of assessment. The company pays all costs in full and requires no proof of use. Rina estimates that she uses the phone 30% for business purposes.

(v) The company paid a subsistence allowance to cover meals and incidental costs amounting to R350 per day away from her usual place of residence. Rina spent 70 days away from her usual place of residence. She does not have to account to her employer for the costs incurred. In addition to the allowance, the company pays the hotel bills for her business travel. These bills are sent directly to the company.

(vi) 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. Rina supplied evidence of her contributions of R3,000 per month. The contributions relate to herself, her husband and her disabled minor child.

Other information:

(vii) Rina contributes R5,000 per month to a retirement annuity fund (RAF). This is taken into account for employees tax purposes.

(viii) Medical costs (apart from the contributions detailed earlier) amounted to R28,000 and were not recoverable from the medical scheme.

(ix) She earns foreign dividend income the equivalent of R13,000. There is no foreign tax on this foreign dividend income.

Required:

(a) Explain the two tests for determining residence for a natural person. (5 marks)

(b) Calculate the employees tax withheld and paid to the South African Revenue Service (SARS) by Rina's employer for the 2013 year of assessment in respect of Rina's employment. (14 marks)

(c) Calculate the normal tax liability for Mrs Rina Janse van Rensberg for the year of assessment ended 28 February 2013.

Note: Indicate clearly any items of income which are exempt or amounts which are not deductible by the use of a zero. (11 marks)

(30 marks)

2 Science Co Ltd is a resident company responsible mainly for manufacturing equipment for scientific laboratories, but also started a research and development (R&D) division on 1 April 2012. The Commissioner for South African Revenue Service (SARS) accepts that the manufacture of this equipment is a process of manufacture for the purposes of the Income Tax Act. The company has a financial year end of 31 March 2013. It is not classified as a small business corporation. The company is a value-added tax (VAT) vendor. All amounts below exclude value-added tax (VAT), unless otherwise stated.

Manufacturing division

(i) Sales for the year amounted to R25 million. Excluded from this amount is the sale of high-end scientific equipment sold in terms of suspensive sale arrangements. Five such arrangements were entered into in the current year of assessment. Each provide that a deposit of R150,000 be paid on order and instalments of R50,000 per month for 60 months be paid from the date of delivery. The yield to maturity on each of these arrangements is 1·08% per month. The equipment would sell for R2,350,000 (including VAT) if payment were immediately settled (i.e. this is the cash cost of the equipment). All five agreements began on 1 March 2013.

(ii) Cost of sales amounted to R21,000,000 for all sales and the gross profit percentage is 17% (excluding VAT and finance charges).

(iii) One manufacturing machine had to be replaced. The machine had been originally acquired new and unused on 1 June 2009 for R2,000,000 and was sold for R2,100,000 on 1 May 2012, having been taken out of use on 15 April 2012. The replacement machine was acquired new and unused on 17 May 2012 and brought into use from 1 June 2012 at a cost of R4,000,000.

(iv) The annual building insurance was paid by the company on 1 December 2012 for the period 1 December 2012 to 30 November 2013. The insurance premium amounted to R350,000. On 1 December 2011, the premium had been R310,000.

(v) Doubtful debts in the company's financial records are recorded as R1,500,000 for the 2013 year of assessment and R1,300,000 for the 2012 year of assessment. Debts written off as bad in the current year amounted to R170,000. This includes a loan of R10,000 to a former employee who cannot be traced. The loan to the employee is included in the doubtful debts listing for the 2012 year of assessment. The Commissioner for SARS accepts 25% of the listing of doubtful debtors for deduction purposes.

(vi) Other tax deductible expenses amounted to R2,500,000.

(vii) The company has an assessed capital loss brought forward from the 2012 year of assessment of R35,000. The company also has an assessed revenue loss brought forward of R650,000.

Research and Development (R&D) division

(viii) The company spent R2,000,000 on salaries for its technical scientific staff in the R&D division. Other expenditure of a revenue nature directly used for the R&D activities amounted to R500,000. All the projects conducted by the company are approved by the Minister of Science and Technology prior to its commencement.

(ix) Equipment used by the R&D division cost R450,000 in the current year of assessment.

(x) Staff salaries relating to the marketing department tasked with generating R&D business amounted to R350,000.

Other information:

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

(2) A first provisional tax payment of R500,000 was made by the company on 30 September 2012. The return was submitted the same day.

Required:

(a) **Explain how the residence of a company is determined, including a brief description of each alternative test of tax residence which is applied to companies.** (3 marks)

(b) **Calculate the taxable income of Science Co Ltd for the year of assessment ended 31 March 2013.**

Note: Indicate clearly any items of income which are exempt or amounts which are not deductible by the use of a zero. (18 marks)

(c) **Calculate the second provisional payment for Science Co Ltd for the year of assessment ended 31 March 2013, assuming the company wishes to pay the least amount of provisional tax, and state the date by which such payment is to be made.** (4 marks)

(25 marks)

3 **(a)** Joan Ogilvy (56 years of age) has disposed of a number of assets during the 2013 year of assessment, but is uncertain of the capital gains tax implications. The disposals include the following:

(i) Joan sold some assets, held for business purposes, on 30 July 2012. Joan is a sole proprietor of an advertising agency and is registered for value-added tax (VAT) for business purposes. The total assets in her agency are worth less than R5 million. She sold assets for an arm's length price of R650,000. These were items of furniture with an original cost (excluding value-added tax) of R430,000 and had all been acquired on 1 June 2009. Binding General Ruling 7 provides for a write off period of six years for such assets. (5 marks)

(ii) Joan paid a deposit of R5,000 to secure the right to acquire a boat of 11 metres for recreational use on inland waters. Joan failed to obtain the necessary finance to complete the transaction and the deposit was forfeited. (1 mark)

(iii) Some time after the deposit in (ii) above was forfeited, Joan won money on the South African lottery amounting to R250,000. Her ticket for that draw cost her R10. (1 mark)

Unless otherwise indicated, all figures are VAT inclusive, where appropriate.

Required:

For each of the above assets:

Calculate the capital gain or capital loss arising on the disposals for the 2013 year of assessment, providing explanations in support of your answer and indicate whether or not any provision will prevent the aggregation of the capital gain or capital loss.

Note: The mark allocation is shown against each of the assets (i) to (iii) above.

(b) Joan also has a transaction which she would like to undertake, but has approached you for an explanation of the income tax consequences.

Joan has a holiday house in Betty's Bay in the Western Cape. The house is currently worth R3,500,000 and is registered in her name. Joan's business has expanded recently and as a result, the value of her estate has grown and so she would like to donate the Betty's Bay house to her husband, Jeff. The house was originally acquired on 15 May 1995 for R100,000. In 1999, Joan added a double garage to the house at a cost of R57,000 and in 2010 she changed the house from single storey to double storey at a cost of R700,000.

Once Jeff receives the house, he is considering selling the house (for R3,500,000) to acquire a new holiday home in Langebaan. Selling costs will amount to R105,000. This new holiday home is next to the yacht club and will cost R4,000,000 (including transfer costs and legal fees).

All of the above transactions will take place in July 2013. The Betty's Bay house was not valued as at 1 October 2001.

Required:

(i) **Calculate the capital gains tax consequences for the above proposed transaction for both Joan and her husband (Jeff). You may assume that Jeff will dispose of the Betty's Bay house with a capital intention.** (11 marks)

(ii) **Explain what factors would indicate to the South African Revenue Service (SARS) that Jeff did not have a capital intent on disposal of the Betty's Bay house and explain the consequence of such a determination by SARS for Jeff's income tax calculation.**

Note: No computations are required in part (ii). (2 marks)

(20 marks)

4 African Products and Accommodation (Pty) Ltd is a registered value-added tax (VAT) vendor. The company has branches all around South Africa and one in Botswana. The branch in Botswana is considered to be independent for VAT purposes by the company and the South African Revenue Service (SARS). The company had a number of transactions for its April to May 2013 (two months) VAT period. These are detailed below.

All amounts are stated VAT inclusive, where appropriate, unless otherwise indicated.

(i) Various products (none of which are exempt or zero-rated) were acquired for R500,000 (excluding VAT where appropriate). Of these goods, 60% was acquired from non-VAT vendors.

(ii) R200,000 (excluding VAT) of goods acquired by the company were dispatched to the Botswana branch. The remaining R300,000 of goods were transferred to dependent branches throughout South Africa.

(iii) The Botswana branch recorded sales of R750,000 (all to non-South African customers). The South African branches recorded sales of R1,900,000.

(iv) The company acquired and took delivery of two delivery vehicles during the VAT period. The first vehicle was acquired in April second-hand from a VAT vendor. The payment terms for this vehicle are R20,000 for six months with a separate invoice issued for each payment. The cash cost of this vehicle is R119,500. The second vehicle was acquired in May, new from a dealership and the payment terms require a deposit of R30,000 and payment of R7,800 for 60 months with no residual payment. The yield to maturity on this arrangement is 1·55% per month. The cash cost of this vehicle is R480,000.

(v) The company wrote off bad debts amounting to R80,000.

(vi) Rentals paid for the premises of the South African branches amounted to R150,000 for the months of April and May. A further R20,000 was paid in respect of rental owed for the month of March for one branch.

Required:

(a) Explain when a branch may be classified as 'independent' for value-added tax (VAT) purposes and the possible implications of this status for both the branch and the head office. (3 marks)

(b) Calculate the input and output VAT effects for the above transactions (i) to (vi). You must clearly indicate by the use of a zero where a transaction does not give rise to a VAT effect and briefly state the reason for such nil effect. (10 marks)

(c) Calculate whether a payment is due to SARS or a refund is due from SARS for this VAT period and indicate the date by which payment must be made and the date by which the return must be filed electronically. (2 marks)

(15 marks)

5 **(a) Briefly explain the principal reason why governments levy taxes.** (2 marks)

(b) List at least FOUR separate taxes levied by the South African government. (2 marks)

(c) Briefly explain the difference between direct and indirect taxes, giving an example of each. (2 marks)

(d) Briefly explain the difference between tax avoidance and tax evasion, giving an example of each. (2 marks)

(e) State who, in terms of the Tax Administration Act, must register as a tax practitioner. (2 marks)

(10 marks)

End of Question Paper