Fundamentals Level – Skills Module

Taxation (South Africa)

Thursday 9 June 2016

Paper F6 (ZAF)

Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

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.

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.

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 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 divided 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 (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)	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 Jane Thrifty is employed as a financial administrator with a large company which has branches all over South Africa. Jane is, at times, required to travel to a branch in her region to assist the branch with its administrative issues. In all cases, Jane drives to such branches using her own motor car. When away from the office for a night or two, Jane is provided with accommodation and a subsistence allowance by her employer.

The original cost of Jane's car was R250,000 (including value added tax (VAT)) in June 2013 and the car was purchased with a maintenance plan for five years.

The following information is relevant to the 2016 year of assessment:

(1) Jane received a travel allowance of R6,000 per month from her employer.

(2) Jane travelled 26,000 km for the year of which 8,000 km related to travel to branches in the region. This matches her logbook for the year of assessment.

(3) Jane spent R27,000 on fuel for the year and a further R4,000 to replace the tyres on her car.

(4) Jane made 12 trips during the year on which in each instance three nights were spent away from home.

(5) In addition to the accommodation paid for by the company, Jane received a daily allowance of R400 per day for meals and incidentals. This allowance is not refunded if unspent. For most trips, the hosting branch offer Jane lunch and she generally eats a light dinner costing no more than R100. Breakfast is always included with the accommodation.

Required:

(a) Calculate the amount of the travel allowance which would be included for employees tax purposes on a monthly basis. (1 mark)

(b) Calculate the amount of the subsistence allowance which would be included in Jane Thrifty's income for normal tax purposes for the 2016 year of assessment. (2 marks)

(c) Calculate the maximum possible reduction to the travel allowance which Jane Thrifty can claim for normal tax purposes for the 2016 year of assessment. (7 marks)

(10 marks)

2 Rodney Rich is concerned about his wife and children's wellbeing should he die, as most of the assets of the family are in his name. In March 2016, Rodney transferred some of his wealth to his wife and children as follows:

(1) The family home to his two children in equal shares. The home has a market value of R6 million and has a base cost of R4·5 million.

(2) To his wife, furniture and personal belongings with a market value R1 million and a base cost of R900,000. Also, artwork from his art collection valued at R2·5 million and with a base cost of R1·2 million.

(3) Cash of R500,000, to be split and R250,000 placed in each of his children's bank accounts.

You may assume that any relevant donations tax has been determined and any relevant portion included in the base cost of the assets.

Apart from the above, Rodney would like to sell the holiday home, which was purchased in June 2000 for R450,000 and is now worth R4,000,000. The holiday home was not valued at 1 October 2001. The sale will take place in June 2016 and the cash received will then be given to his wife.

Required:

(a) Calculate the taxable capital gain or assessed capital loss to be carried forward as a result of the above transactions. (9 marks)

(b) State, with reasons, how Rodney could have avoided incurring any capital gains tax on the above transactions. (1 mark)

(10 marks)

3 Edu-on-the-Go (Pty) Ltd (Edu) is a value added tax (VAT) vendor company offering mobile tutors for students. Edu's services are chargeable to VAT and are not exempt educational services. The following details relate to Edu's transactions during its two-month VAT period, April to May 2016:

(1) Tutoring services invoiced amounted to R40,000,000.

(2) Purchased a replacement fleet of ten motor cars for R3,000,000. The ten vehicles replaced were sold back to the dealership at a price of R250,000.

(3) Wages and salaries amounted to R2,700,000.

(4) Paid R10,000 to a higher education institution (a not-for-profit organisation) for advertising space at an educational conference and donated a further R40,000 in cash as a sponsorship of the conference.

(5) Paid invoices received in advance of the mid-year staff celebratory function of R100,000. This amount was all for advance payments to the caterers and entertainers.

(6) Edu has been struggling to collect some of the outstanding tutoring fees and an amount of R140,000 was written off in the period. Bad debts are written off after 16 months and debts older than 270 days are considered doubtful. The current age analysis of debts to the end of May for the tutoring fees outstanding shows:

60 days	R600,000
120 days	R250,000
270 days	R200,000
12 months	R175,000

(7) Debts previously written off of R26,000 were recovered in the period.

(8) Old stationery was donated to a charity. The market value of the stationery was R30,000 at the time of the donation.

All the amounts in (1) to (5) above are stated exclusive of VAT, where applicable. Edu has in its possession all the necessary documentation.

Required:

(a) Advise Edu-on-the-Go (Pty) Ltd whether or not it is required to issue an invoice for the donation of the stationery (item (8)). (2 marks)

(b) Calculate the net value added tax (VAT) payable by Edu-on-the-Go (Pty) Ltd in respect of the VAT period April to May 2016.

Note: You should list all of the items referred to in the question and indicate by the use of a zero (0) any item which has no VAT effect. (8 marks)

(10 marks)

4 **(a)** Custom Canoes (Pty) Ltd (CCL) is a recognised small business corporation and a resident company. The company's sole shareholder and director is James Cool. CCL has a turnover of approximately R3,000,000 per annum. Due to the accelerated capital allowances, CCL currently has an assessed loss brought forward from the 2015 year of assessment of R400,000.

James would like to take a year to travel and investigate the latest in canoe manufacturing technology. During this period, CCL will not trade.

During his travels, apart from private expenditure, James expects to spend R60,000 on visits to manufacturing facilities and machine testing to see whether or not he should invest in new machines for the more efficient manufacturing of canoes by CCL.

Required:

(i) Advise James Cool whether or not Custom Canoes (Pty) Ltd's assessed loss may be carried forward despite the period in which the company will not trade. (2 marks)

(ii) Advise James Cool whether or not on his return, the expenditure incurred during his travels to investigate new manufacturing technology may be claimed as a deduction. (2 marks)

(b) James Cool is also considering starting a second venture with his cousin, John Paddle. The venture would trade as 'Paddle Away'. The venture would specialise in the manufacture of custom oars for canoes, paddle boards, row boats, etc. James would personally contribute 60% of the initial capital to start the business and would also have a 60% share of the venture.

Required:

(i) Advise James Cool whether the registration of the new venture as (1) a company or (2) a partnership would have any impact on the classification of Custom Canoes (Pty) Ltd as a small business corporation. (3 marks)

(ii) Assuming the qualifying turnover of Paddle Away would be less than R1 million, advise whether Paddle Away could register as a micro business or a small business corporation if it were (1) a company or (2) a partnership. (3 marks)

(10 marks)

5 Jacob Skhosana is employed by Consult2U Ltd. Apart from his employment, Jacob also earns passive income in the form of rentals, dividends and interest from his investment in property and collective investment scheme holding.

The following information is relevant for the 2016 year of assessment:

Employment

(i) Cash salary from employment of R750,000.

(ii) Contribution to medical aid of R36,000 (Jacob is the main member with his wife and two children listed as dependants).

(iii) Pension contribution of R75,000.

Rental trade – single property

(iv) Rental income amounted to R144,000.

(v) Jacob received a security deposit of R7,000 from a new tenant in May 2015. Such security deposits are held in a separate bank account on which Jacob earns interest. The amount is in a separate account for record keeping purposes.

(vi) A security deposit of R5,000 received in 2013 was not returned to the tenant who vacated the property in March 2015, due to damage found. Jacob spent the R5,000 plus an additional R20,000 repairing the damage and repainting the property. He also spent a further R162,000 on a new kitchen for the property in April 2015, in the hope of attracting a higher rental.

(vii) The other running expenses for the rental property amounted to R40,000 for the year. All of these expenses are deductible for income tax purposes.

Investments

(viii) The tax certificate from the collective investment scheme showed the following:

(a) Gross local dividends received – R14,000
(b) Tax on local dividends – R2,100
(c) Local dividends not subject to tax – R13,000
(d) Dividends from real estate investment trusts (REITs) – R2,000
(e) Interest – R5,000
(f) Gross foreign interest – R3,500
(g) Foreign tax on interest – R350 (the full foreign tax on interest qualifies as a tax credit for Jacob)

Other

(ix) Jacob incurred additional medical expenses of R30,000 in the year which were not refunded by the medical scheme.

Required:

(a) Explain when the security deposits would be gross income. (2 marks)

(b) Calculate the normal tax liability of Jacob Skhosana 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 amounts which are exempt or are not deductible for income tax purposes. (13 marks)

(15 marks)

6 Cold Starch Ltd is a company which produces cold water starch for the dry cleaning industry. The process is considered to be one of manufacture by the South African Revenue Service (SARS).

During the 2016 year of assessment, Cold Starch Ltd recorded the following transactions. All amounts are stated exclusive of value added tax (VAT) where applicable.

(i) Invoiced sales amounted to R14,000,000.

(ii) The larger dry cleaning businesses buy the starch in bulk and with payment terms. Small scale businesses must purchase for cash. It is the industry standard to provide terms of up to 60 days. After 60 days the amount is considered a doubtful debt and after 120 days the amount is considered irrecoverable and written off. The year end age analysis of debts reflects amounts outstanding of:

30–60 days	R500,000 (2015: R400,000)
61–120 days	R300,000 (2015: R250,000)
beyond 120 days	R50,000 (2015: R30,000)

Excluded from the above is the interest charged on outstanding debts. The amount of interest earned for the 2016 year of assessment amounted to R7,000. Interest written off on outstanding debts amounted to R1,000.

(iii) Legal costs for debts outstanding on sales amounted to R50,000. Debt collection agencies were also paid R4,000 for pursuing debts older than 120 days. An amount of R30,000, including interest of R2,000, was collected by one of these agencies in May 2015.

(iv) A boiler, acquired in June 2014 for R100,000 and used in the manufacturing process, exploded in May 2015. Insurance paid out the replacement value for the boiler of R105,000 and this was used to purchase a new boiler in June 2015. However, the blast killed one of the workers on site. As the employee had no life insurance, the company paid his surviving spouse an amount of R250,000 as compensation.

It was found that the rivets of the boiler had been sub-standard. The company sued the supplier for damages to the factory and for the payment made to the surviving spouse. Legal costs amounted to R25,000 and in March 2016 the court awarded R70,000 in damages and half the amount paid to the surviving spouse.

(v) Wages and salaries totalled R4,500,000 and comprised:

(a) R3,600,000 paid as wages and salaries to employees; and
(b) R900,000 paid to the company medical aid scheme and pension funds

(vi) Bonuses of R360,000 were approved by the directors to be paid to employees still in service one year from the date of their decision. The meeting was held on 15 August 2015.

(vii) The company made donations to registered public benefit organisations (PBOs) amounting to R100,000.

Required:

Calculate the taxable income of Cold Starch Ltd for the 2016 year of assessment, giving a brief explanation of your treatment of the compensation payment made to the surviving spouse (item (iv)).

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

(15 marks)

End of Question Paper