Fundamentals Level – Skills Module

Taxation (South Africa)

Thursday 8 June 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	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)	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 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	26,675	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 Alice Baker operates a small business as a sole proprietor. The business purchases inventory and resells it to customers for a profit. At age 65, Alice has decided to retire and sell all of the business assets. Alice would like to understand the capital gains tax consequences arising from the disposals.

Alice made the following disposals in the 2017 year of assessment:

1. Warehouse
   The warehouse had been acquired for R2,000,000 on 1 June 2000. It was sold on 1 July 2016 for R5,000,000. No market value was determined on 1 October 2001.

2. Forklift
   Alice had acquired a forklift truck in order to move inventory on pallets around the warehouse. The forklift truck had been acquired for R650,000 on 31 October 2008. The Commissioner of the South African Revenue Service permits forklift trucks to be written off over five years. The forklift truck was sold for R150,000 on 30 June 2016.

Alice has an assessed capital loss brought forward from 2016 of R390,000.

Required:

With respect to disposals (1) and (2), for Alice's 2017 year of assessment:

(a) Calculate the capital gain/capital loss for each disposal. (6 marks)

(b) Calculate the total taxable capital gain/assessed capital loss. (4 marks)

(10 marks)

2 Furniture Design & Deliver Ltd (FDD) is a company with a financial year ending on 31 March each year and is a registered value added tax (VAT) vendor. FDD 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 design services totalling R1,000,000.
2. Sales of furniture designed by FDD and manufactured by a sub-contractor totalling R3,500,000. All of these sales were made to non-VAT registered vendors.
3. Insurance premium paid for the raw wood stock used in the development of FDD's designs of R60,000.
4. New pipe-bending machinery used in the production of prototype designs including aluminium of R150,000.
5. Payments to sub-contractors for manufacture of furniture totalling R2,000,000.
6. Bad debts written off of R55,000.
7. Guest reception dinner at a furniture conference costing R75,000.
8. Wages and salaries totalling R500,000.
9. Interest earned on company bank accounts of R4,000.
10. Bank charges on company bank accounts of R6,000.
11. Design association fees of R20,000.
12. Transportation costs of R40,000 for delivery of furniture within South Africa and R35,000 for delivery to export countries.

Required:

(a) **Calculate the input value added tax (VAT) and output VAT arising from each of the transactions (1) to (12), giving a brief explanation for any transaction which does not result in either input VAT or output VAT.**

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) FDD recently received a tax invoice from one of its delivery service providers. The invoice provides for the service of R11,400 (including VAT) and a further charge of R3,000 for fuel on which VAT was levied by the service provider at 0%.

Required:

Briefly explain why the invoice from the delivery service provider is incorrect and state the action FDD should take in respect of the incorrect invoice. (2 marks)

(10 marks)

3 Karl Johnson planned to start a small business and registered a closely-held company Johnson Suppliers (Pty) Ltd (JS). JS has a year end of 31 March each year.

In preparing for trade, the company incurred a number of expenses in the year of assessment ended 31 March 2016. On 1 April 2016, JS began to formally trade.

The expenses incurred in the year of assessment ended 31 March 2016 were as follows:

1. JS acquired a small commercial building for R400,000. The company obtained a bank mortgage to purchase the property and incurred interest of R3,000 for the 2016 year of assessment.
2. JS acquired furniture for the office on 15 January 2016 for R50,000.
3. Inventory to commence trading was acquired by JS for R350,000.

For the year of assessment ended 31 March 2017, the following occurred:

4. Turnover earned was R890,000.
5. JS acquired further inventory totalling R100,000.
6. The value of closing inventory as at 31 March 2017 was R150,000.

Required:

(a) Calculate the tax payable by Johnson Suppliers (Pty) Ltd if the company is classified as a micro business for both the 2016 and 2017 years of assessment. (2 marks)

(b) Calculate the tax payable by Johnson Suppliers (Pty) Ltd if, alternatively, the company is classified as a small business corporation for both the 2016 and 2017 years of assessment. (8 marks)

Note: You should indicate by the use of zero (0) any amounts which are not taxable or not deductible.

(10 marks)

4 Andile Ngobo is employed by a large corporation as a sales manager. His employment package for the 2017 year of assessment is given below:

1. Andile received a cash salary of R560,000.
2. Andile made medical aid contributions for himself, his spouse and his two minor children of R8,000 per month in total. His employer did not make any contributions.
3. Andile was also provided with a travel allowance of R6,000 per month as he was required to visit the sales representatives in the region under his management. Andile used his personal motor car to make these journeys, which had cost him R350,000 in 2014. The company reimburses Andile for business fuel per the logbook. His logbook reflected that he had travelled 40,000 kilometres in the 2017 year of assessment, of which 30,000 kilometres had been for business purposes. Andile's car was still under a maintenance plan, so no maintenance costs were incurred, apart from R6,000 for new tyres.
4. Total employees tax withheld by Andile's employer amounted to R55,000.

Required:

(a) Calculate the amount of the travel allowance which will be included in Andile's taxable income for normal tax purposes for the 2017 year of assessment.

Note: You should indicate by the use of zero (0) any items not taken into account in the calculation. (6 marks)

(b) Calculate Andile's normal tax payable for the 2017 year of assessment.

Note: You should indicate by the use of zero (0) any items not taxable or not deductible. (4 marks)

(10 marks)

5 Compress Health Ltd (Compress) is a company which manufactures compression stockings for the health and sports industry. It is not a small business corporation. The process is considered to be one of manufacture by the South African Revenue Service.

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

1. Sales of stockings are made on two bases. Stockings are sold to the health industry based on orders received (after the receipt of a 50% deposit), whereas stockings to the sports industry are invoiced on delivery. Orders received from the health industry amounted to R7,500,000 for the year of assessment. Stock sold to the sports industry amounted to R5,000,000. VAT invoices are only issued on delivery.
2. As at 1 April 2016, stock in the Compress factory, valued at cost, was R3,700,000. During the year of assessment, stock manufactured by Compress amounted to R7,000,000 and stock sent on order or sold amounted to R9,200,000. Apart from these movements, the year-end stock count for Compress shows that the stock in the warehouse also includes R120,000 of stock (at cost) which is ready to be shipped for an order received in March 2017 from the health industry.
3. Compress outsources the delivery of its stock to its customers. The total delivery charges for the year amounted to R1,000,000. The truck delivering some stock ordered by the health industry was involved in an accident and the stock was damaged. Compress claimed the cost of the stock damaged which was R120,000 and a credit for the delivery which had been invoiced to Compress at R15,000 from the delivery supplier. The supplier agreed to pay both the damages for the stock and the credit for the delivery. The order which had been received from the health industry was cancelled. Stock is sold at a 25% mark-up on cost.
4. One of the hospitals to which Compress supplies stockings has gone into liquidation. The hospital owes Compress R50,000 for stock acquired. The directors of Compress have decided to write off this debt. In addition, doubtful debts amounted to R150,000 on 1 March 2016 and R125,000 on 28 February 2017. The Commissioner for the South African Revenue Service permits a deduction for doubtful debts at 25% of the list value.
5. Compress had to replace a manufacturing machine. The machine was acquired for R500,000 on 1 April 2015. It suffered a major failure in June 2016, later identified to be a manufacturing fault. The insurance has not provided a payment as the claim was directed to the manufacturer of the machine. The manufacturer has gone out of business, but the liquidator was able to pay R50,000 in settlement of the claim. A new machine was acquired on 1 September 2016 for R750,000.
6. Compress sponsored a running event, which served to promote its products. The payment to the organisers amounted to R250,000. Part of the sponsorship package was the supply of one pair of sports stockings (cost R80 per pair; retail R100 per pair) to each of the first 100 race entrants.
7. Wages and salaries paid amounted to R2,000,000.
8. Compress paid no provisional tax during the year of assessment ended 31 March 2017.

Required:

(a) Calculate the taxable income/assessed tax loss of Compress Health 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 zero (0) any items of income which are exempt or amounts which are not tax deductible. (13 marks)

(b) Explain when output VAT must be levied on sales by Compress Health Ltd to the health industry (see point 1). (2 marks)

(15 marks)

6 The following information relates to Arnold Botanist and his ventures for the 2017 year of assessment.

Employment

Arnold works in a full-time position as an environmental consultant for Green Design Architects Ltd (GDA). He earns a cash salary of R50,000 per month. GDA contributes the equivalent of 10% of Arnold's cash salary to a defined contribution pension fund and Arnold makes an equal contribution. His employer does not contribute to medical aid, but Arnold pays the R6,000 per month for himself, his wife and his son.

Arborist trade

Arnold is a trained arborist (tree specialist). He began a trade of trimming trees on large private estates at weekends. Arnold has registered his arborist business for value added tax (VAT). All amounts below exclude VAT (where applicable). He employs a small four-person team consisting of a foreman and three workers and he has trained them to safely trim the trees and remove alien vegetation.

Arnold's foreman is paid R4,500 per month and the three workers are paid R3,500 each per month. Arnold's reputation has attracted large clients and during the 2017 year of assessment, Arnold has invoiced R750,000. Arnold's foreman and workers are also employed by GDA during the week.

All equipment used in the business, such as chainsaws, regular saws, ropes, harnesses and other safety equipment, must be regularly checked and serviced. If faulty, the safety equipment must be replaced immediately. Safety equipment is therefore seen as a recurring expense. During the year, Arnold spent R5,000 in servicing costs and an additional R50,000 replacing safety equipment (mainly ropes and harnesses). He has five chainsaws which were acquired at the same time in the 2015 year of assessment for R66,000 in total.

In the 2017 year of assessment, Arnold acquired a chipper to chip the cut branches and a second-hand flatbed truck to take the chipped material to his farm for R300,000 and R250,000 respectively. At his farm, Arnold converts the cuttings to compost, which he sells back to his clients.

During the year, Arnold made an additional R260,000 selling the compost.

One of Arnold's workers accidently cut down a protected tree during one of the jobs during the year. Arnold was fined R70,000 by the municipality for the offence. Arnold was not insured in this respect.

As a result of this trade, Arnold also contributes 5% of his total business turnover (from the tree trimming and compost sales) to a retirement annuity fund.

The Commissioner for the South African Revenue Service allows chippers and chainsaws to be written off over six years and vehicles to be written off over four years.

Required:

(a) Calculate the total employees tax which Arnold must withhold on payments to his foreman and the three workers for the 2017 year of assessment. (2 marks)

(b) Calculate Arnold's income tax liability for the 2017 year of assessment, assuming he paid R300,000 in provisional tax for the year.

Note: You should indicate income not taxable or expenses not deductible by the use of a zero (0).

(13 marks)

(15 marks)

End of Question Paper