Fundamentals Level – Skills Module

Taxation (South Africa)

Thursday 7 June 2018

F6 ZAF ACCA

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.

Paper F6 (ZAF)

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 2018/31 March 2018

Rebates	
Primary rebate	R13,635
Secondary rebate (over 65)	R7,479
Tertiary rebate (over 75)	R2,493
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 25/45ths of the dividend is exempt
For companies 8/28ths of the dividend is exempt

Medical aid contribution tax rebate rates	
Single member	R303
Member plus one dependant	R606
Each subsequent dependant	R204

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	20%
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 2018

Where taxable income:	
does not exceed R189,880	18% of each R1 of the taxable income
exceeds R189,880 but does not exceed R296,540	R34,178 plus 26% of the amount over R189,880
exceeds R296,540 but does not exceed R410,460	R61,910 plus 31% of the amount over R296,540
exceeds R410,460 but does not exceed R555,600	R97,225 plus 36% of the amount over R410,460
exceeds R555,600 but does not exceed R708,310	R149,475 plus 39% of the amount over R555,600
exceeds R708,310 but does not exceed R1,500,000	R209,032 plus 41% of the amount over R708,310
exceeds R1,500,000	R533,625 plus 45% of the amount over R1,500,000

Tax rates for small business corporations
for the year of assessment ended 31 March 2018

Where taxable income:	
does not exceed R75,750	Nil
exceeds R75,750 but does not exceed R365,000	7% of the amount over R75,750
exceeds R365,000 but does not exceed R550,000	R20,248 plus 21% of the amount over R365,000
exceeds R550,000	R59,098 plus 28% of the amount over R550,000

Turnover tax rates for micro businesses
for the year of assessment ended 28 February 2018

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	R595,000

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) R397 per day (local travel)
Deemed expenditure for incidental costs only (per Government regulation) R122 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 2017

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 – 85,000	28,492	91·2	32·9
85,001 – 170,000	50,924	101·8	41·2
170,001 – 255,000	73,427	110·6	45·4
255,001 – 340,000	93,267	118·9	49·6
340,001 – 425,000	113,179	127·2	58·2
425,001 – 510,000	134,035	146·0	68·4
510,001 – 595,000	154,879	150·9	84·9
Exceeds 595,000	154,879	150·9	84·9

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 12,000, the prescribed rate is R3·55 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 Gerald is employed as a sales representative of Sale Co Ltd. Sale Co Ltd offers its sales representatives either a reimbursement per kilometre travelled or a travel allowance. Gerald would like to determine which option will provide him with the most after-tax cash.

Sale Co Ltd offers either a travel allowance of R3,000 per month or a reimbursement of R3·50 per kilometre travelled. Maintenance and fuel costs are borne by the sales representative. Whichever option Gerald chooses, his cash salary will remain the same.

Gerald travels 8,000 business kilometres out of a total of 15,000 kilometres travelled during the 2018 year of assessment. His car originally cost him R260,000 two years ago. Gerald's actual fuel cost for the year was R15,525 and he did not incur any maintenance costs.

Required:

(a) Calculate the inclusion for normal tax purposes for the 2018 year of assessment, assuming Gerald chooses:

(i) The monthly travel allowance;
(ii) The reimbursement per kilometre.

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

(b) Calculate the amount of after-tax cash Gerald will receive for the 2018 year of assessment, assuming he chooses:

(i) The monthly travel allowance;
(ii) The reimbursement per kilometre.

Note: You should indicate by the use of zero (0) any items not taxable or not deductible. (3 marks)

(10 marks)

2 Lynda Fry started her business in the form of a company on 1 March 2017.

She would like to use a tax efficient vehicle and has heard that there are advantages of being classified as a micro business.

For the year of assessment ended 28 February 2018, the following information is relevant:

(i) Lynda's company was awarded a contract earning R900,000 for the year of assessment.
(ii) The company incurred deductible expenses of R100,000.

Required:

(a) Briefly explain the advantages of qualifying as a micro business.
(2 marks)

(b) Calculate the after-tax cash for Lynda's company for the year of assessment ended 28 February 2018:

(i) Assuming it qualified as a micro business and all the after-tax profits were declared as a dividend;
(ii) Assuming it operated as a standard company and all the after-tax profits were declared as a dividend.

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

(10 marks)

3 We-Courier Ltd (WCL) is a courier company and a registered value added tax (VAT) vendor.

WCL entered into the following transactions for its one-month VAT period ending 31 January 2018. All transactions (unless otherwise stated) took place between VAT registered vendors and WCL is in possession of all the necessary documentation. All amounts are stated inclusive of VAT where applicable.

(1) Courier services rendered in South Africa totalling R5,000,000.

(2) Purchase of a second hand courier vehicle from a non-VAT registered vendor for R250,000, which reflects an arm's length price. The vehicle is not a motor car.

(3) Purchase of a motor car for R600,000 from a car dealership. The motor car was purchased for use by a company director.

(4) Services received in January 2017 from a sub-contracted courier company (at a cost of R57,000) had still not been paid. Despite all efforts by WCL to contact the sub-contractor to make payment, no details could be obtained. It was later discovered that the sub-contractor had been sequestrated and the matter was closed.

(5) Bad debts written off of R150,000.

(6) Bad debt recovered of R11,400. The debt had been written off as bad for VAT purposes in a prior VAT period.

(7) Rental of office space totalling R60,000. R30,000 was in respect of January 2018 and R30,000 was a prepayment for February 2018.

(8) Sponsorship services at a publishing event in which WCL provided free courier services of the publisher's product to customers. All products were delivered with a brochure about WCL's services. The cost to WCL was R40,000 and the market value of the services was R65,000.

(9) Wages and salaries totalling R1,500,000.

(10) Interest earned on the company's bank account of R12,000.

Required:

(a) Calculate the input value added tax (VAT) and output VAT arising from each of the transactions (1) to (10) for the one-month VAT period ending 31 January 2018, giving a brief reason for any amount generating a zero (0).

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) WCL issued an invoice to a customer in January 2018 reflecting an amount of R47,000. The customer queried the invoice in February 2018 as the service was actually for consideration of R4,700.

Required:

Briefly explain what action should be taken by WCL in respect of the invoice error. (2 marks)

(10 marks)

4 Carol Peters, aged 43, sold two assets during the 2018 year of assessment. Carol would like to understand the capital gains tax consequences arising from these disposals.

(1) **Holiday house**
The holiday house was acquired on 1 April 1999 for R300,000. By 1 October 2001, due to high demand for property in the area, the holiday house had increased in value to R2,000,000. Shortly afterwards, however, property prices in the area declined following the announcement that a surface mining operation was due to begin in the area. Due to environmental disputes, it was a number of years before the mining operation started to acquire land. Carol sold her holiday house to the mining operation for R1,500,000 on 30 September 2017. Carol had only maintained the property and had not made any improvements to it. Selling costs of R50,000 were incurred on the disposal.

(2) **Primary residence**
Carol also sold her primary residence for R4,000,000 on 30 November 2017 so that she could move to a secure estate. Carol had used 10% of the property to conduct her home-based consultancy business. The property was purchased on 1 July 2009 for R2,700,000.

Carol has an assessed capital loss brought forward from the 2017 year of assessment of R40,000.

Required:

With respect to disposals (1) and (2), for Carol's 2018 year of assessment:

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

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

(10 marks)

5 Recycle Running (Pty) Ltd (RRL) is a company which manufactures running shoes entirely from recycled plastic for sale to retail customers. RRL is 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 2018, RRL recorded the following transactions. All amounts are stated exclusive of value added tax (VAT) where applicable.

(1) Sales generated turnover of R10,000,000.

(2) As at 1 April 2017, stock valued at cost amounted to R2,500,000. Stock of R3,000,000 was purchased by RRL during the year. At the year end, stock on hand amounted to R2,700,000. In addition, stock of R400,000 was held in a distribution warehouse of a courier company for delivery to retail clients.

(3) Not included in any of the figures given in (1) and (2) above are the following sales revenues and costs associated with defective shoes. During the year, complaints were received with respect to some shoes which tore apart after one use. The problem was traced to a particular batch of shoes which had been sold for R250,000 and had a cost of R160,000. The returned shoes were collected from the retail customers at a cost of R50,000 and disposed of with other plastics for recycling. Replacement stock costing R175,000 was delivered to the retail customers affected for which delivery costs of R25,000 were incurred. In addition, RRL granted the retail customers a 50% discount on their next order. The orders were all received and the cost to RRL of the stock sold was R300,000 with a retail price (before discount) of R450,000.

(4) RRL wrote off debts amounting to R25,000. In addition, doubtful debts amounted to R30,000 on 1 April 2017 and R40,000 on 31 March 2018. The Commissioner for SARS permits a deduction for doubtful debts at 25% of the list value.

(5) RRL replaced the gluing machine from its process of manufacture which had caused the stock failure in (3) above. The machine was taken out of the process on 1 July 2017 and sold for scrap on 1 August 2017 for R20,000. The machine had been acquired for R200,000 on 1 July 2016. It had not been insured. A new machine was acquired on 15 August 2017 for R350,000.

(6) A donation of running shoes was made to a local (disadvantaged) running club for its top athletes. The shoes donated cost RRL R30,000. The donation was not advertised.

(7) Wages and salaries paid amounted to R3,000,000.

(8) RRL paid provisional tax of R300,000 on 30 September 2017 and a further R400,000 on 31 March 2018.

Required:

Calculate the normal tax liability of Recycle Running (Pty) Ltd for the 2018 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.

(15 marks)

6 The following information relates to Jeremy Law, a registered value added tax (VAT) vendor for the 2018 year of assessment. All amounts, where applicable, exclude VAT.

Part-time employment

Jeremy works part-time as a law academic for a local legal college. He earns a cash salary of R40,000 per month. The legal college requires all employees to contribute 5% of their cash salary to the college's pension fund.

Private legal trade

In addition to his part-time employment, Jeremy provides private legal consultancy services to large corporate clients. It is from this trade that he earns the majority of his income. During the year, Jeremy earned consulting income of R2,000,000.

Jeremy's secretary, Joan, has been working for him for ten years. Joan resigned on 30 June 2017 at the age of 50. She had earned a market-related salary of R10,000 per month and Jeremy had contributed 10% of her salary to a retirement annuity fund in her name. Jeremy also paid Joan a voluntary lump sum of R120,000 on her retirement. He has decided not to hire a secretary to replace Joan.

Jeremy operates from a home office which is dedicated to his trade. The office occupies 10% of his house and his household expenses amounted to R250,000 for the year. In addition, Jeremy has a dedicated work telephone line and internet service, the total cost of which amounted to R19,000 for the year.

In addition to his contributions to the legal college pension fund, Jeremy contributed R70,000 per month to a retirement annuity fund in his name.

Required:

(a) Calculate the employees tax withheld with respect to Jeremy's part-time employment for the 2018 year of assessment. (2 marks)

(b) Calculate the employees tax which Jeremy must withhold on the salary and retirement lump sum payments to his secretary, Joan, for the 2018 year of assessment. (6 marks)

(c) Calculate Jeremy's taxable income, before tax credits, for the 2018 year of assessment. (7 marks)

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

(15 marks)

End of Question Paper