

DEPARTMENT OF ACCOUNTANCY

TAXATION 2A [BEL2A01]

FINAL SUMMATIVE ASSESSMENT OPPORTUNITY

5 NOVEMBER 2015

TIME: 150 minutes

MARKS: 125

ASSESSOR: Mr S Makhaya

MODERATORS: Ms S Mostert

Mr R Wessels

INSTRUCTIONS TO CANDIDATES

1. This paper consists of **7 pages** including the cover page and Appendix A.
2. You are reminded that answers may **NOT** be written in pencil. **NO** tippex may be used.
3. The marks shown against the requirement(s) for every question should be regarded as an indication of the expected length and depth of your answer.
4. Answer the questions by the use of:
 - Effective structure and presentation;
 - Clear explanations;
 - Logical arguments; and
 - Clear and concise language.
5. Show all calculations clearly.
6. All open spaces must be crossed out with a pen. Failure to cross out the open spaces will **disqualify you from handing in your script for remark.**
7. Round all amounts to the nearest Rand, where applicable.

Question	Marks	Time Allocated
1	40 Marks	48 minutes
2	40 Marks	48 minutes
3	20 Marks	24 minutes
4	12 Marks	14.4 minutes
5	13 Marks	15.6 minutes
Total	125 Marks	150 minutes

QUESTION 1

40 MARKS

PART A

Quality Doors (Pty) Ltd is a South African resident based in Durban. It is **not** a Small Business Corporation. Quality Doors manufactures and installs sectional wood, steel and zinc alum roll-up garage doors. It supplies these garage doors to building materials retailers and directly to individual customers. The manufacturing of the garage doors qualifies as a process of manufacture. Quality doors is a vendor for Value-Added Tax (VAT) purposes and all purchases were from VAT vendors unless stated otherwise.

Profit before tax as per the statement of comprehensive income for the financial year ended 30 September 2015 is R4 320 100.

Included as part of the operating expenses are the following costs:

1. Depreciation of various assets amounting to R467 800. The assets on the fixed asset register are as follows:
 - 1.1. Second-hand machines were purchased on 20 November 2013 at a cost of R1 710 000 (including VAT) from vendors. The cost of installing all machines was R34 200 (including VAT). The machines were brought into use in the process of manufacture on 1 December 2013.
 - 1.2. A new Machine A was purchased from a VAT vendor at a cost of R912 000 (including VAT) on 24 August 2015. This machine was brought into Quality Door's process of manufacture on 30 August 2015. The costs of transporting the machine from the seller amounted to R13 680 (including VAT).
 - 1.3. A factory building used by Quality Doors in a process of manufacture. The construction of this factory building commenced on 13 January 2012 and was completed on 30 March 2013. The factory was only brought into use on 1 November 2013. The cost of construction amounted to R2 200 000 (excluding VAT).
 - 1.4. Three delivery trucks which were all purchased on 1 December 2013 and brought into use on the same day. The cost of each truck was R410 400 (including VAT). One of the trucks was disposed on 31 July 2015 for R342 000 (including VAT).
 - 1.5. Office equipment with the cost of R399 000 (including VAT) purchased in 2013. The equipment is used by Quality Doors throughout the 2015 year of assessment.
 - 1.6. A second-hand laptop which costs R6 700 was acquired on 1 June 2015 and brought into use for an accountant of Quality Doors on the same day, from a non-vendor who is not connected to Quality Doors.
 - 1.7. Interpretation Note 47 provides for the following write-off periods:
 - 1.7.1. Office furniture and equipment – 6 years
 - 1.7.2. Delivery trucks – 4 years
 - 1.7.3. Laptops – 3 years
2. Included in the profit before tax figure was also accounting profit from disposal of assets amounting to R260 500 which was as a result of disposing the following assets:
 - 2.1. Shares in Woods Co. Limited which were acquired in 2013 at a cost of R350 000, were disposed on 30 June 2015 for R560 000.

Assessed capital losses from 2014 year of assessment amounted to R80 000.

YOU ARE REQUIRED TO:

Calculate the taxable income of Quality Doors (Pty) Ltd for its year of assessment ending on 30 September 2015. You must start your calculation with **profit before tax**. **Show all workings clearly (20 marks)**

QUESTION 1 CONTINUED

PART B

Quality Doors is registered as a vendor on an invoice basis. It accounts for VAT on a monthly basis. The transactions provided below are for the September 2015 tax period. Unless otherwise stated, all amounts are inclusive of VAT and purchases are made from vendors.

1. Sales for the month of September to South African customers amounted to R2 280 000 and export sales amounted to R570 000.
2. Interest received from local banks on short term investments amounted to R51 300.
3. Two local debtors who were previously written off paid the amounts that was due by them. The amount recovered was R79 800.
4. Income from servicing of garage doors and installations amounted to R216 600.
5. Quality Doors decided to write off an amount of R91 770 which was receivable from three of its debtors. R34 200 of this amount was due from its customer based in Zambia and the balance was due from South African customers.
6. All purchases of raw materials are made from South African suppliers. In September 2015, Quality Doors purchase new materials from vendors amounting to R706 800.
7. Quality Doors occasionally buys second-hand garage doors from individuals who are replacing their old garage doors. In September 2015, Quality Doors purchased second-hand doors costing R51 300 (excluding VAT) for cash from unconnected individuals who are not VAT vendors.
8. Quality Doors paid wages and salaries amounting to R427 500 to its employees in September.
9. Depreciation for the month of September was R32 500.
10. Quality Doors paid rent of R7 980 in respect of the water-coolers situated in the factory in order to supply cold water to the factory employees.
11. The bank statement reflects interest charged on overdraft facility amounting to R18 240 and the bank charges amounting to R3 648.
12. Motor vehicle expenses which comprises of petrol and diesel amounting to R25 080 and vehicle servicing and maintenance amounting to R31 920 for September 2015.
13. The costs of transporting garage doors to other neighboring countries by road amounted to R14 250 and the cost of transporting raw materials from local suppliers by road transport amounted to R5 700.
14. Quality Doors received R262 542 from its local customers who were billed in the previous months.

YOU ARE REQUIRED TO:

Calculate the VAT payable by or refundable to Quality Doors (Pty) Ltd for the one month tax period ended 30 September 2015. Provide reasons where the VAT amounts are zero. **(20 marks)**

QUESTION 2

40 MARKS

Ms Sarah Roussouw is a South African resident for normal tax purposes. She is 39 years old and she is a widow. During the 2015 year of assessment, she derived her income from employment and also from rental income. She works as a sales person in one of the motor car retail dealers. She has two cottages in the yard of her home and she derived rental income from these.

From her employment she received a monthly basic salary of R18 000 throughout the year and a total annual commission of R67 000 for the whole 2015 year of assessment.

QUESTION 2 CONTINUED

Her rental income for the cottages is R6 000 per month for both cottages. The cottages were occupied for the first time by the tenants unrelated to Sarah on 1 December 2014. Rentals are payable in advance and an upfront deposit equal to the monthly rental was received by Sarah. The deposit and interest on deposits is refundable to the tenants when they vacate the cottages on the condition that there is no damage caused by the tenants to the property other than from the normal wear and tear. These deposits were put in a separate savings account which earns interest and Sarah does not intend to use the money for her own benefit.

She also has funds invested in a fixed deposit which earned her interest of R31 000 during 2015 year of assessment.

Before commencing the rental trade, she incurred the following costs as part of preparing the cottages for occupation during August and September 2014:

	R
Replacing the tiles which had cracked in the cottage bathrooms and kitchens. She could not find the exact same tiles, however, she chose the similar colour.	3 500
She added some built-in closet in the bedroom as there was none that was there previously`.	3 200
Hired carpet cleaners to clean the carpets as there were stained.	1 500
Installation of a separate electricity meter box so she could get two separate electricity bills for her private house and for the cottages.	7 500
She repainted the walls inside the bedrooms and outside.	2 200
Fitting the trellis doors in the main entrances of the cottages.	9 000
Advertising the cottages on a local newspaper.	300

The other monthly expenses amounted to R3 800 which she started incurring from the time the cottages were occupied. These expenses relate to electricity, water, rates and a share of garden maintenance for the cottages only. The tenants are not charged separately for these expenses. In other words, rental income includes these expenses.

When her husband passed away, she used a portion of her cash inheritance to purchase an annuity. She had paid R600 000 on 1 March 2012 to purchase an annuity from the insurer. She has been receiving a monthly annuity amounting R11 000 which was payable over six years in terms of the initial contract. On 31 January 2015, she decided to terminate the annuity contract and she received a lump-sum amounting to R330 000.

YOU ARE REQUIRED TO:

1. Calculate normal tax payable by Sarah for the year of assessment ended on 28 February 2015. **(25 marks)**
2. Discuss whether Sarah qualifies to register as a provisional taxpayer. **(3 marks)**
3. Calculate the **first** provisional tax payment for Sarah for the 2015 year of assessment. On 30 July 2015, Sarah received her assessment for the 2012 year of assessment which reflected a taxable income of R222 000. In 2012 she had a taxable capital gain of R16 000. Employees' tax paid by her for the 6 months period ending on 31 August 2014 was R16 200. **(10 marks)**
4. When is the **first** provisional tax payment due for a natural person? **(1 mark)**

QUESTION 2 CONTINUED

5. When is the **third** optional payment due if a natural person wish to avoid section 89*quat* interest? (1 mark)

QUESTION 3

20 MARKS

PART A

Your uncle is a Human Resources Director of Bronlex Limited, a South African resident. The Board of Directors of Bronlex are in the process of approving and implementing a bursary scheme to assist employees and their relatives to further their studies. Knowing that you studying Taxation 2A at the University of Johannesburg this year, he has asked you to advise him on the tax implications for the potential bursary holders before the Board approves the bursary policy.

YOU ARE REQUIRED TO:

Explain to your uncle, what the normal tax implications will be for the employees if they are awarded with bursaries and what the implications will be if their relatives are awarded with bursaries. (8 marks)

PART B

Mr Andrew Lewis is a South African resident. He is 55 years old. His wife passed away two years ago. All his children are no longer staying in South Africa. He now feels lonely and has decided to sell some of his assets and distribute them to his grandchildren.

1. He sold his home in Parktown where he has been staying for the past 13 years. He purchased this house in 2002 at a cost of R750 000. The house has become too big and empty as he now stays alone. He sold this house for R3 200 000 in order to buy a smaller house.
2. He sold his 12 meter yacht. He purchased it in 2006 at a cost of R3 million. He sold it for R1 800 000.
3. He sold some house furniture, including paintings for R320 000 which he acquired at a cost of R450 000.
4. He had sold shares he had in resident companies. The shares costed him R400 000 and were sold for R830 000. Andrew Lewis is not a share dealer.
5. In 2014 year of assessment he had an assessed capital loss of R70 000.

YOU ARE REQUIRED TO:

Calculate the **taxable capital gain** to be included in the taxable income of Andrew Lewis for 2015 year of assessment. Provide reasons for amounts not included in the taxable capital gain. (12 marks)

QUESTION 4**12 MARKS**

Mayibuye (Pty) Ltd, a South African unlisted resident company, declared a cash dividend of R0.40 per share to its shareholders on 31 October 2015. The issued shares of the company were 1 000 000. The shareholders according to the shareholders' register were:

Shareholder	Shareholding %
Nestar Limited – listed in JSE	25%
Mduduzi Ngema – A South African resident taxpayer	60%
Maluadzi Provident Fund	15%

YOU ARE REQUIRED TO:

1. Calculate the amount of the dividend that will be payable to each shareholder by Mayibuye (Pty) Ltd in 2015. **(9 marks)**
2. When (full date) was dividends tax introduced in South Africa? **(1 mark)**
3. List two beneficial owners of shares who are exempt from dividends tax. **(2 marks)**

QUESTION 5**13 MARKS**

Nxamalala CC is a South African resident which only has one member, Fisokwakhe Zuma. Nxamalala produces shoes for all genders which are sold to clothing and shoe retailers. The gross income for the current year of assessment is R6 500 000. Fisokwakhe's only other investment is 7% equity shareholding in Baron Limited, a company listed on JSE. Nxamalala has no investments elsewhere.

Nxamalala acquired the following three assets during the year.

1. On 21 March 2015, it purchased a Hydraulic Leather Die Cutting Press Machine, which it uses in the process of manufacture. The cost of the machine was R345 000 (excluding VAT). This machine was brought into the process of manufacture on 1 April 2015.
2. A small Honda generator which costs R6 500 (excluding VAT) which was brought into use on 1 September 2015.
3. A warehouse rack, costing R21 000 (excluding VAT) purchased on 26 June 2015 and brought into use on 1 July 2015.

SARS allows a wear and tear allowance in terms of Interpretation Note 47 as follows:

- 5 years for portable generators
- 10 years for warehouse rack
- 5 years for machinery

YOU ARE REQUIRED TO:

1. Assess if Nxamalala CC qualifies as a **Small Business Corporation** in terms of section 12E of the Income Tax Act for the 2015 year of assessment. **(5 marks)**
 2. Assuming Nxamalala CC is a Small Business Corporation, **discuss and calculate** the allowances that are claimable under section 12E in 2015 year of assessment. Assume that Nxamalala would like to pay minimum taxes in the current year. **(8 marks)**
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APPENDIX A

RATES OF NORMAL TAX PAYABLE BY NATURAL PERSONS, DECEASED ESTATES, INSOLVENT ESTATES, AND SPECIAL TRUSTS IN RESPECT OF THE YEAR OF ASSESSMENT COMMENCING ON 1 MARCH 2014 OR ENDING 28 FEBRUARY 2015.

TAXABLE INCOME	RATES OF TAX
Not exceeding R174 550	18% of each R1
Exceeding R174 550 but not exceeding R272 700	R31 419 + 25% of the amount by which taxable income exceeds R174 550
Exceeding R272 700 but not exceeding R377 450	R55 957 + 30% of the amount by which the taxable income exceeds R272 700
Exceeding R377 450 but not exceeding R528 000	R87 382 + 35% of the amount by which taxable income exceeds R377 450
Exceeding R528 000 but not exceeding R673 100	R140 074 + 38% of the amount by which taxable income exceeds R528 000
Exceeding R673 100	R195 212 + 40% of the amount by which taxable income exceeds R673 100