

A Leader in Accounting Education

Accountancy@UJ



TAXATION PLANNING 2B [TXP2B01]

FINAL ASSESSMENT OPPORTUNITY

31 October 2015

Examiner: **Ms M Lephoto**
Moderator: **Ms M Wassermann**

Time: **2.5 hours**
Marks: **125 marks**

INSTRUCTIONS TO CANDIDATES:

This paper consists of 8 pages and an appendix. Ensure that no pages are missing.

Show all calculations, workings and reasoning clearly.

Silent, non-programmable calculators may be used.

Do **NOT** use any **tippex**.

Refer to the mark allocation as a guide as to the amount of time to spend on each question.

You are reminded that answers may NOT be written in pencil.

Round off answers to the nearest Rand.

Summary of Questions and Time

Question	Marks	Time
1a	7	9 Minutes
b	11	13 Minutes
c	2	2 Minutes
2	27	32 Minutes
3	13	16 Minutes
4	20	24 Minutes
5	33	40 Minutes
6	12	14 Minutes
Total	125	150 Minutes

QUESTION 1

(20 Marks)

PART A

(7 Marks)

The following promotion appears on the Pick n' Pay website.



Pick n' Pay **registered** the Stikeez **trade mark** on 1 July 2015 and paid R119 700.

They **purchased** the **patent** for the Stikeez figurines from, Mr. Zhang Zhung, a Chinese inventor, for R125 000 (excluding VAT) on 1 January 2015. They paid a further R57 000 to **register** the **patent** in South Africa on 5 May 2015.

An independent consultant, who is registered for VAT, came up with the **design** of the flow pack in which the figurines were to be distributed; the **design** was **purchased** from him for R171 000 on 18 July 2015.

Pick n' Pay is a registered VAT vendor.

YOU ARE REQUIRED TO:

Calculate all the capital allowances that Pick n' Pay can claim regarding all the amounts incurred in relation to the Stikeez™ promotion for their 2015 year of assessment ending 31 December 2015. **All amounts include VAT unless otherwise stated.**

PART B

(11 Marks)

Mr. Zhang Zhung still owns the copyright relating to the Stikeez figurines. Pick n' Pay paid him **royalties** to the Rand equivalent amount of R555 000 that accrued on 1 February 2015.

Mr. Zhang Zhung is **not a resident** of the Republic. He received the following other amounts for the 2015 year of assessment:

- Dividends from South African resident companies, R32 500.
- Dividends from American companies, R451 900.
- Interest from South African companies, accruing on 1 January 2015, R78 400.

Mr. Zhang Zhung does not have a permanent establishment in South Africa. He also has not been present in South Africa at any time during the 2015 year of assessment.

IGNORE VAT FOR PURPOSES OF THIS QUESTION.

YOU ARE REQUIRED TO:

- a) Calculate the taxable income of Mr. Zhang Zhung for the 2015 year of assessment ended 28 February 2015, bearing in mind that **he is not a resident** of the Republic. (7)
 - b) **Identify and calculate** any withholding taxes that Mr. Zhang Zhung is liable for, assuming that there is no double tax agreement (DTA) between South Africa and China. (4)
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PART C

(2 Marks)

The information in PART B still applies.

Assume that the interest from South African companies of R78 400 as above accrued to Mr. Zhang Zhung after 1 March 2015.

IGNORE VAT FOR PURPOSES OF THIS QUESTION.

YOU ARE REQUIRED TO:

Calculate any additional taxes that Mr. Zhang Zhung would be liable to with regard to the interest.

QUESTION 2

(27 Marks)

Wistonia Ltd (hereafter referred to as Wistonia) is a resident bookseller that is **registered for VAT on the invoice basis**. The following information is applicable to the financial year ended 31 December 2014.

Wistonia acquired new shelves for their shops and brought them into use on 1 March 2001. The purchase price of the shelves was R3 192 000. The Commissioner allowed a write-off period of ten years in terms of Binding General Ruling 7.

Wistonia refurbished their branches and disposed of the shelving on 1 December 2014 for R3 534 000. The market value on 1 October 2001 was determined as R2 280 000.

All amounts include VAT where applicable.

YOU ARE REQUIRED TO:

Calculate the normal tax consequences for Wistonia Ltd's 2014 year of assessment. **Your answer should include the taxable capital gain and other amounts which will be included** in the taxable income of Wistonia Ltd for its **2014** year of assessment (no, this is NOT an error). Show detailed calculations in order to earn maximum marks, especially of the capital allowances claimed on the asset. (27)

QUESTION 3

(13 Marks)

Tahira Singh (hereafter Tahira) has for a number of years run a very successful take-away food shop in Rylands, Cape Town called, The Golden Samoosa. Tahira operates as a sole proprietor.

Tahira decided to expand her take-away business to include the sale of the ingredients used in the making of samoosas to her customers. In order to do this, it was necessary for her to take over the premises of the neighbouring shop. Tahira Singh entered into a twelve-year lease agreement with the owner (the lessor) of the adjacent property. The lease agreement provided for the following:

- A premium of R57 600 payable on 1 July 2014, the commencement of the lease.
- A rental of R1 600 a month to be paid for the first year and thereafter increasing by R400 a month in each subsequent year.
- An obligation to effect improvements amounting to R28 200 to be effected to the property.

The improvements were completed on 30 September 2014 at a total cost of R34 200. The new green grocery section of the shop opened to the public on 1 October 2014. This was the first time that the leasehold property was used for trading purposes.

IGNORE VAT FOR PURPOSES OF THIS QUESTION.

YOU ARE REQUIRED TO:

- a) Calculate the normal tax consequences of the lease agreement for the **lessee**, Tahira Singh, for her 2015 year of assessment ended 28 February 2015. (6)
- b) Calculate the normal tax consequences of the lease agreement for the **lessor** for the 2015 year of assessment ended 28 February 2015. (7)

Source: *Questions on SA Tax 2015 (Amended)*

QUESTION 4

(20 Marks)

Trevor Noah (hereafter Trevor), born 20 February 1984, is a South African comedian who started hosting Comedy Central's *The Daily Show* on 28 September 2015. Trevor has been living in New York since November 2014; he is, however, **still a resident** of the Republic for tax purposes.

In the 2015 year of assessment, he received the following amounts:

1. Dividends:

- a. From South African companies R20 000
- b. From foreign companies R10 000

(He owns 3% of the equity interest in the foreign company and paid the equivalent of R2 500 in foreign taxes which he has since recovered.)

On 1 January 2015, Trevor **sold** shares in a South African resident company for R125 000; the shares had been purchased for R55 000 on 25 June 2008.

2. Interest

- a. From a South African bank R50 000

3. Trevor earns most of his income from doing stand-up comedy all over the world. His income from stand-up comedy comprised the following:

Country	Amount (Rand equivalent)	Foreign taxes paid*
South Africa	100 000	-
Rest of the world	500 000	15 000

*The foreign taxes paid are not recoverable.

YOU ARE REQUIRED TO:

- a) Calculate Trevor Noah's **normal tax liability** for the year of assessment ended **28 February 2015**, including the taxable capital gain on the sale of the South African shares. (18)
- b) Calculate the **dividends tax** that Trevor Noah will be liable for on the dividends he received from the South African resident companies. (1)
- c) What is the responsibility, if any, of the South African resident company that declared the dividends tax to Trevor Noah? (1)

QUESTION 5**(33 Marks)**

Smile CC is registered for VAT on the invoice basis and is required to submit their VAT201 return every two months. You are provided with the following information for the two-month tax period ended 28 February 2015:

(All amounts include VAT where applicable, unless stated otherwise.)

➤ Local sales:	R
○ Invoices issued to non-vendors for cash sales	774 810
○ Invoices issued to vendors for credit sales	482 500
➤ Export sales delivered directly to clients in Australia	228 649
➤ Interest earned on bank deposit	7 600
➤ Cash received from Republic debtors	821 936
➤ Settlement discount granted to Republic debtors	22 528
➤ Credit notes issued to Republic debtors	31 692
➤ Debit notes issued to Republic debtors for interest charged on their overdue accounts	4 203
➤ Bad debts written off for SA debtors during the tax period	7 283
➤ Bad debts recovered from SA debtors during the tax period	6 134
➤ Indemnity pay-out from Liberace Insurance Company in relation to a stolen motor car as defined	78 400
Purchases from vendors:	
➤ Purchases of trading stock: On credit (included in this amount are purchases of R6 180 for which no tax invoices are available)	826 830
➤ Credit notes received from suppliers	38 521
➤ Advertising space in newspapers and trade magazines	38 940
➤ Salaries and wages	90 000
➤ Purchase of a new office coffee machine	10 750
➤ Petrol for business vehicles	7 249
➤ Oil for business vehicles	850
➤ Entertainment expenses	7 888
➤ Purchase of office refreshments for staff members	900
➤ A new motor car with a cost price of R812 500 was purchased on the 1 January 2014. The right of use of the vehicle was given to the managing director on the 1 January 2015.	
➤ Purchased a TV from ABC Furnishers for R1 300 to give to an employee.	
Purchases from non-vendors:	
➤ Purchase of used shelving for use in storeroom (market value: R 22 800)	27 500
➤ Trading stock	23 455

YOU ARE REQUIRED TO:

Calculate the VAT payable by or refundable to Smile CC for the two month tax period ended 28 February 2015. If there are no VAT consequences for an amount, please state the reason why.

(33 Marks)

QUESTION 6

(10 Marks)

1. What is the difference between **tax avoidance** and **tax evasion**? (2)
 2. Explain briefly what **s 103(2)** of the Income Tax Act is about. (2)
 3. Name the three requirements that must be met for **s 103(2)** to apply. (3)
 4. Define an **intragroup transaction** in terms of **s45** of the Income Tax Act. (2)
 5. What is the definition of an **assessed loss**? (1)
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Appendix A: Rates of tax

NORMAL TAX RATES

PERSONS OTHER THAN COMPANIES AND TRUSTS (NATURAL PERSONS)

Year of assessment ending 28 February 2015

Taxable Income		Rates of taxes	
Exceeds	Does not exceed		
R	R	R	R
0	174 550	18% of each R1	
174 550	272 700	31 419 + 25% of the amount above	174 550
272 700	377 450	55 957 + 30% of the amount above	272 700
377 450	528 000	87 382 + 35% of the amount above	377 450
528 000	673 100	140 074 + 38% of the amount above	528 000
673 100	+	195 212 + 40% of the amount above	673 100

