



UNIVERSITY
OF
JOHANNESBURG

Department of Finance and Investment Management

Employee Benefits

FPL01X7

FINAL ASSESSMENT OPPORTUNITY

2 November 2015

Time: 3 Hours

Marks: 100

Assessor: Roxanne Andrew

External Moderator: Riette Brune

INSTRUCTIONS:

- This paper consists of 8 pages.
- Answer ALL questions in the **answer book** provided. Only answers in your own handwriting in the official answer book will be considered.
- Silent, non-programmable calculators may be used, unless otherwise instructed. The use of any other electronic devices for whatever reason will lead to immediate expulsion from the examination as well as from the course.
- Where applicable, show all calculations clearly.
- Answers that have been corrected by the use of Tippex and answers in pencil will **not** be marked.
- Scratch out all open spaces and empty pages.
- Good luck!

Question	Topic	Marks	Time
1 - 2	Business Assurance	37	67 minutes
3	Business Entities and Business Tax	15	27 minutes
4 - 5	Corporate Retirement Environment	25	45 minutes
6 - 8	Healthcare, Basic conditions of employment and Compensation for occupational injury and diseases.	23	41 minutes
		100	180 minutes

Question 1

[27 Marks]

Scharadin (Pty) Ltd is owned by Tom (50%), his half-brother James (30%) and Sipho (20%). The company is a technology company that is the sole agent for five of the top calculators used in the finance and science fields. The calculators bring in 65% of the revenue that the company generates annually. Sipho is the product manager for the calculators - the knowledge that he has accumulated is vast and certainly valuable to the business. Since he started in 2000, Sipho has been an intrical part in growing the calculator business of the company and has achieved an average growth of 12% every year. The shareholders are each very skilled in their own area of expertise and they all agreed that the shareholders must at all times be actively involved in the business to ensure the success thereof. The business is valued at R7 896 325. Tom is very concerned about the financial implications if Sipho dies or become disabled. Assume an operation loss of R500 000 will result should either of these events occur.

QUESTION 1.1.

REQUIRED:

Advise the shareholders on the measures that can be taken to mitigate the risk of an operational loss of R500 000 in the event of Sipho's death or disability. Include in your advice Income tax implications of the measures that can be taken.

(15)

QUESTION 1.2.

REQUIRED:

Advise the shareholders on how they can prevent third party involvement in the business in the event of the death or disability of one of them. Include the estate duty implications of the measures that can be taken.

(7)

QUESTION 1.3.

The shareholders have taken your advice and implemented a buy and sell agreement. A few months after the inception of this agreement, James passed away. Since the passing of James, Tom and Sipho have decided to transfer their shares to their respective family trusts and to enter into a new buy-and-sell agreement. An agreement was reached where the trustees of Tom's trust took out a policy on Sipho's life and vice versa in order to purchase the respective shares in the company.

REQUIRED:

Explain the estate duty implications of the life policy owned by Sipho's trust on Tom's life in the event of Tom's death. (5)

QUESTION 2

[10 Marks]

Helene is the director of Honey Combe (Pty) Ltd. She has a R467 000 shareholder loan account owed to her by the company. The company decided to implement a loan redemption plan for five years in order to repay her shareholder loan. An investment rate of 11,5 % compounded monthly can be assumed.

REQUIRED:

Advise the Helene on how a loan redemption account works **and** whether or not the shareholder loan will be **fully** repaid at the end of five years.

Question 3

[15 Marks]

Mathew has been importing electronic goods and selling it on a part-time basis. He would like to turn this endeavour into a legitimate business but is unsure which business entity would be most suitable. He does not want to be legally liable for business debt and would need to employ three people to work for him. He estimates that his staff number will grow to at least 20 people. He is considering giving his daughter a share in the business.

QUESTION 3.1.

REQUIRED:

Advise Mathew on which business entity structure would be best suited. Motivate your advice.
(5)

QUESTION 3.2.

REQUIRED:

Mathew has decided to implement a company structure which qualifies as only SBC business. Advise him on the most efficient salary structure. You are provided with the information below. Show all calculations. (Use the tax tables provided)
(10)

	<u>2014</u>
Annual turnover:	980 000
Costs:	576 000
Profit (before tax and own salary):	404 000

Question 4

[7 Marks]

Kerry works for an investment company. She belongs to their pension fund which has a group life cover scheme. The group life will pay out six times her annual salary which is R230 000 per annum. The cost is R3.10 per R10 000. There is an approved fund and unapproved fund option.

REQUIRED:

Advise Kerry on the optimum structure between the approved and unapproved funds and the cost and tax implications thereof.
(7)

QUESTION 5

[18 Marks]

JamesT (Pty) Ltd has decided to establish a defined contribution pension fund for its employees and the fund managers have proposed the following investment strategy:

Single large cap share	17%
Medium cap shares	20%
Cash in ABSA bank	27%
Housing loans to members	16%
Commodities	9%
Hedge funds	11%

QUESTION 5.1.

REQUIRED:

Briefly discuss the benefits employees are entitled to. (12)

QUESTION 5.2.

REQUIRED:

State if each asset invested in as indicated above, meets the requirements of the relevant legislation and motivate why/why not. (6)

Question 6

[13 Marks]

Mrs Benjamin is 25 years old and was recently employed by a construction company as a secretary. She has only been a member of a medical scheme for the last year and a half, while she was an employee at her previous company. She now has to join the construction company's medical scheme. Previously she only had hospital cover and would like to consider the other options. She uses public transport to get to her place of work and would prefer if she could go to a doctor near her home. She would like her day to day medical expenses to be covered by her medical scheme and she would like to cover the risk that she will run out of funds to cover her day to day expenses.

The medical scheme has the following benefit options: hospital plan, new generation options with savings account, above threshold benefits and preferred provider network options.

REQUIRED:

Discuss the different medical aid benefit options stated above and advise Mrs Benjamin on the best option for her stated needs. Motivate your response. (13)

QUESTION 7

[5 Marks]

Trevor owns a small construction company. He employs **Eva** who earns a monthly salary of R28 000 and was severely injured in an accident at work due to poor safety measures implemented by the company. Eva incurred R50 000 in medical expenses that were not covered by her medical aid. The injury also resulted in Eva being temporary disabled.

REQUIRED:

Advise Trevor on the responsibility/liability and duration thereof that he has towards Eva. (5)

QUESTION 8

[5 Marks]

Justin worked for KYE (Pty) Ltd for 10 years in total. He started as a sales representative and resigned after two years. After nine months he went back to the company and remained with them for eight years until the company was forced to close their doors and liquidate earlier this year. This resulted in Justin being retrenched. Justin feels that the severance package he received is less than he should be entitled to. It is calculated only for eight years and does not include his pension contributions.

REQUIRED:

Explain to Justin what minimum benefits he is entitled to and if he is correct in saying he has received less than what he should be receiving. (5)

TOTAL 100 MARKS

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Appendix A:

Tax on retirement lump sum withdrawal benefits

Taxable income (R)	Rate of tax (R)
0 – 25 000	0% of taxable income;
25 001 – 660 000	0 + 18% of taxable income above 25 000
660 001 – 990 000	114 300 + 27% of taxable income above 660 000
990 001 and above	203 400 + 36% of taxable income above 990 000

Tax on retirement lump sum benefits

Taxable income (R)	Rate of tax (R)
0 – 500 000	0% of taxable income
500 001 – 700 000	0 + 18% of taxable income above 500 000
700 001 – 1 050 000	36 000 + 27% of taxable income above 700 000
1 050 001 and above	130 500 + 36% of taxable income above 1 050 000

INCOME TAX: INDIVIDUALS & SPECIAL TRUSTS

Rates of normal tax payable by persons (other than companies and trusts or approved public benefit organizations and recreational clubs) in respect of the year of assessment ending 29 February 2016

Taxable income (R)	Rate of tax (R)
0 – 181 900	18% of taxable income;
181 901 – 284 100	32 742 + 26% of taxable income above 181 900
284 101 – 393 200	59 314 + 31% of taxable income above 284 100
393 201 – 550 100	93 135 + 36% of taxable income above 393 200
550 101 – 701 300	149 619 + 39% of taxable income above 550 100
701 301 and above	208 587 + 41% of taxable income above 701 300

Micro business – Turnover tax

Taxable income (R)	Rate of tax (R)
0 – 335 000	0%
335 001 – 500 000	1% of each R above 335 000
500 001 – 750 000	1650 + 2% of R above 700 000
750 000 and above	6650 + 3% of R above 750 000

SMALL BUSINESS CORPORATIONS FOR THE 2016 TAX YEAR

TAXABLE INCOME	RATES OF TAX
R0 – 73 650	Nil
R73 651 - R365 000	7% of the amount over R67 111
R365 001 – R550 000	R20 395 + 21% of the amount over R365 000
R550 001 +	R59 245 + 28% of the amount over R550 000