



UNIVERSITY  
OF  
JOHANNESBURG

## DEPARTMENT OF ACCOUNTANCY

### TAXATION 2A

**LAST ASSESSMENT OPPORTUNITY: 6 NOVEMBER 2014**

**TIME: 2½ Hours**

**MARKS: 125**

**ASSESSORS:** Ms S Erasmus

**MODERATORS:** Ms S Mostert

#### **INSTRUCTIONS TO CANDIDATES**

1. This paper consists of 7 pages including 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, and round to the nearest Rand.

Question	Marks	Time allocated (minutes)
1	20	24
2	45	54
3	45	54
4	15	18
<b>Total</b>	<b>125</b>	<b>150</b>

**QUESTION 1****20 MARKS**

Answer the following unrelated questions:

1.1 List the tax benefits given to a Small Business Corporation

**3 MARKS**

1.2 Phillip Young is not Ordinarily Resident in South Africa. He has business dealings in South Africa and spends time in the country. Over the past years, he's spent the following number of days in the country:

2014	200
2013	102
2012	190
2011	96
2010	99
2009	101
2008	300

Explain whether or not Phillip would be a "resident" of South Africa as defined for the 2014 year of assessment.

**4 MARKS**

1.3 Jenny Jones had two lucky winnings in the 2014 year of assessment. She attended a horse racing work function at Turfontein Race Course in Johannesburg and won R10 000 on the main race. It was her first time at a horse racing event. She also went on holiday to America in the year and one of the stops was to Las Vegas. Jenny did some gambling there and won the equivalent of R5 000.

**REQUIRED:**

Briefly discuss the whether the amounts would be included in Jenny's gross income in the 2014 year of assessment as well as any other possible tax consequences of her gambling winnings.

**7 MARKS**

1.4 ABC (Pty) Ltd incurred the following expenses in their 2014 year of assessment:

- a) R120 000 overseas travelling expenses for two of their directors to travel to Brazil in order to purchase new machinery for the factory.
- b) R3 000 on a Billboard advertisement which will remain in place for a year.
- c) R5 000 medical expenses for an employee who's hand was cut while operating one of the factory machines.

**REQUIRED:**

Briefly discuss if the above expenses are deductible in terms of the General Deduction Formula, s11(a)

**6 MARKS**

**QUESTION 2****45 MARKS**

Evodia Dube is a 48 year old South African Resident and works in a bank as a clerk. She has been divorced for 6 years and has 2 children. To supplement her income she has a cake making business she runs from home as a sole proprietor. She supplies cakes and cupcakes for all occasions. She is not a registered VAT vendor.

The following information relates to her 2014 year of assessment:

1. Annual Salary R400 000
2. In addition to her salary this year Evodia was given an annual allowance of R3 000 to purchase the bank's uniform. She is required to wear this when she works at the bank. It is a navy blue suit with trousers or a skirt. Woolworths supplies the suits as it is part of their Corporate Collection Range.
3. Monthly employees tax paid to SARS by her employer R8 000
4. Sales of cakes R20 000
5. Monthly alimony received from her ex-husband R9 000
6. Dividends received from an investment in a local company R4 000
7. Interest income from local investments R27 000
8. In 2010 Evodia inherited R300 000 from her deceased aunt's estate. She used the money to purchase an annuity. The annuity pays out R3 000 per month for 10 years. She received the first payment in January 2011. Over and above the lumpsum, she also receives R500 per month from her aunt's estate until her children reach the age of 21.
9. In May 2013 Evodia moved house. The house she has lived in since 2008 was not suitable anymore. It has cost her R1 200 000 when she purchased it. She sold it for R2 800 000. The new house she purchased cost her R3 500 000.
10. During the 2014 year Evodia sold the following assets.

	<b>Cost (R)</b>	<b>Sold for (R)</b>
Paintings	10 000	14 000
Kruger Rands	2 000	7 000
Time Share in a holiday resort	7 000	5 000
Holiday Home in the Eastern Cape	1 000 000	1 400 000

11. In the 2013 year of assessment Evodia had also sold assets and made a taxable capital gain of R40 000 on them.

## QUESTION 2 CONTINUED

12. The new house was ideal because it had a separate cottage Evodia wanted to use as her baking studio. The house is 450 square meters in total and the cottage makes up 54 square meters of that. It is used solely for her cake baking business. Evodia's bond repayments for the year on the new property were R150 000 of which R100 000 was the interest portion.
13. On 1 June 2013 Evodia purchased a top of the range oven for the baking studio at a cost of R300 000. She started using it immediately. SARS allows a 6 year write-off period for ovens. Baking cakes is not considered a process of manufacture.
14. Now that she has more space to store her ingredients in, Evodia is making use of the savings for buying her baking ingredients in bulk. She spent R45 000 purchasing ingredients and at the end of the 2014 year of assessment had R10 000 of unused ingredients in her store room.
15. Evodia paid a web designer to design and set up a website for her cake baking business. She paid him R10 000 in August 2013 for the initial design and set up and pays him a further R200 per month from 1 September 2013 to maintain the site and update it with any new pictures and information she has for her cakes.
16. Evodia pays her children's school fees. She pays them annually upfront to take advantage of the discount offered by the school for doing so. She paid R30 000 in total in January 2014 for the year's school fees, which saved her R6 000.
17. Due to her cake making income, Evodia is a provisional taxpayer. She paid her 1<sup>st</sup> provisional tax payment of R2 000 on 31 August 2013. Her estimate of her taxable income for 2014 was R500 000. She received her 2013 assessment from SARS on 20 January 2014 which reflected a Taxable Income of R520 000. She received her 2012 assessment from SARS on 30 September 2013 which reflected a Taxable Income of R430 000.

### REQUIRED:

- A. Calculate Evodia Dube's 2014 Taxable Income. **35 MARKS**  
Show all calculation clearly.  
Where an amount/transaction does not affect your calculation state the reasons why.
  - B. Calculate Evodia Dube's second provisional tax payment, stating clearly when it is due for payment. **10 MARKS**  
Show all calculations clearly.
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### QUESTION 3

45 MARKS

AB Electronics (Pty) Ltd manufactures smartphones and tablets. This is a process of manufacture as defined. The company has a 30 September year end.

**The company is a registered VAT vendor and trades with other VAT vendors unless stated otherwise.**

The following information relates to the company's 2014 year of assessment:

1. Sales according to the Trial Balance R4 000 000
2. Purchases according to invoices received R1 710 000
3. Raw materials on hand as per the inventory records:
  - 3.1. 2013 – R300 000
  - 3.2. 2014 – R200 000
4. AB Electronics donated tablets to a local charity with a cost prices of R12 000 (excluding VAT) and a market value of R25 000 (excluding VAT). They received the S18A certificate for the donation.
5. Salaries and wages paid R700 000
6. AB Electronics purchased their factory new and unused from a non-vendor in 2011 for R900 000. The land portion of this was R200 000.
7. The head office space is rented. The rental expense is invoiced to the company at R6 270 per month. The directors have been using this office space since 1 February 2014.
8. Machinery:
  - 8.1. Machine A was purchased new and unused and brought into use on 1 March 2012. The company paid R1 368 000 for the machine. This machine was sold on 30 June 2014 for R1 482 000.
  - 8.2. Machine B was purchased 2<sup>nd</sup> hand from a non-vendor on 1 March 2014. The cash price paid was R228 000. Machine B was struck by lightning in August 2014. It was sold for scrap to a non-vendor for R34 200.
  - 8.3. A new machine, Machine C, was purchased and brought into use on 1 September 2014 at a cash cost of R456 000.
9. The company wrote off bad debts which were recorded in the receivables ledger at R7 980.

### QUESTION 3 CONTINUED

10. The company paid the following annual annuities (all VAT exempt) in the 2014 year of assessment:

- 10.1. To a former employee who retired to further his studies – R6 000
- 10.2. To the dependents of a former employee who passed away – R8 000

**REQUIRED:**

Calculate the tax liability of AB Electronics at 30 September 2014.

Where an amount or transaction does not affect your calculation, state the reasons why.

Show all calculations clearly.

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### QUESTION 4

**15 MARKS**

Goo Goo Dolls is a resident company registered for VAT. The company is a retailer of toys and dolls. Goo Goo Dolls (GGD) has a February year end. The company was formed on 1 March 2013. (All amounts include VAT where applicable)

During the year ended 28 February 2014, the company purchased new trading stock for an amount of R410 400. All of these purchases were from vendors.

GGD made sales during the year of R796 600. Of this amount, R10 000 was made to one particular customer whose order was delivered to Australia.

The company also earned interest income of R7 890 during the year on its savings account.

On 15 March 2013, GGD bought five used computers from two different suppliers to deal with its administration and the running of the business. Three of these computers were bought from a non-vendor and two from a vendor. The consideration paid for the computers was R5 000 each. The open market value on purchase date was R4 200 each. GGD paid for the computers in full on the transaction date.

GGD purchased a VW Polo Playa (passenger vehicle) on 1 February 2014 for R130 000.

The company purchased a new delivery vehicle on 2 January 2014 for R87 500. Petrol costs for the van amounted to R1 140.

During December 2013 the company sold one of its computers to New Found Glory for R2 500. New Found Glory is a non-vendor.

During November 2013, a fire started in the trading premises and destroyed some trading stock, as well as the roof of the building. Repairs to fix the damage to the building cost R21 000. GGD received an insurance pay-out to the amount of R18 900 in respect of these damages, as well as R5 000 for the destroyed trading stock.

GGD incurred a salaries and wages expense of R200 000 during the year.

**REQUIRED:**

Show the VAT effects for Goo Goo Dolls' 2014 year of assessment. Give brief reasons for the inclusion or exclusion of items for the purposes of calculating the VAT effects. All VAT effects should be rounded to the nearest Rand.

**Clearly distinguish between input and output tax (for example by using two columns).**

*Source: Questions on SA Tax (adjusted)*

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**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 2013.**

<b>Taxable Income</b>	<b>Tax Rate</b>
R 0 - R 165 600	18%
R 165 601 - R 258 750	R 29 808 + (25% of amount above R165 600)
R 258 751 - R 358 110	R 53 096 + (30% of amount above R258 750)
R 358 111 - R 500 940	R 82 904 + (35% of amount above R358 110)
R 500 941 - R 638 600	R 132 894 + (38% of amount above R500 940)
R 638 601 and above	R 185 205 + (40% of amount above R638 600)