UNIVERSITY OF JOHANNESBURG

Department of Commercial Accounting

TAXATION (Module B)
TAX33B3/BBG11B1

FINAL ASSESSMENT OPPORTUNITY

November 2014

Time: 3 hours **Marks: 100**

Assessors: MS M BORNMAN
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External Moderator: (UNISA)

INSTRUCTIONS:

- This paper consists of 10 pages (including the cover page).
- **Answer all questions in the specially printed answer book.**
- Show all calculations, workings and reasoning clearly.
- Silent, non-programmable calculators may be used.
- Round up to the nearest Rand

Question	Topic	Marks	Time
1	Individual's tax calculations	41	74 minutes
2	Fringe benefits	22	40 minutes
3	Employees' tax	13	23 minutes
4	Provisional tax	9	16 minutes
5	Capital gains tax	15	27 minutes
		100	**180 minutes**

QUESTION 1 **[41 MARKS]**

Four unrelated cases are presented below, each stating its own requirements. Present all answers using the framework for calculating an individual's taxable income and show all calculations.

1.1 On 1 January 2012, Mr. Yale purchased an annuity; it is payable at the end of every month for 10 years, commencing on 31 January 2012. The annuity contract yields R120 000 per annum.. Mr. Yale paid R980 000 for the annuity.

On 1 December 2013, Mr. Yale commuted the annuity and received a lump sum of R850 000.

REQUIRED:

Determine the total amount of the purchased annuity that will be included in Mr. Yale's taxable income for the 2014 year of assessment. (6)

1.2 On 1 July 2013, Mrs. Singh (68 years old) joined an old friend of hers (Mrs. Cross) in business after being unemployed for a couple of months. They formed a partnership called The Coffee Crossingh, trading as a coffee shop in a busy shopping mall. They share profits and losses in an equal ratio.

Mrs. Singh's receipts for the 2014 year of assessment are as follows:

	R
Unemployment Insurance Funds receipts	15 000
Profit share from coffee shop	82 000
Cash inheritance from late husband's estate	440 000
Interest on fixed deposit	42 000
Cash stolen from coffee shop's cash register	7 500

The following transaction has not yet been taken into account in determining the net profit of the partnership:

- The partners decided to write off a total of R4 800 in bad debts. This is as a result of two separate debtors failing to pay after the coffee shop catered for two small functions. One of the debts totaling R2 500, originates from 2012 when Mrs Cross was still operating the coffee shop on her own. The other debt arose in August 2013.

Mrs. Singh had no other income or expenses for the period.

REQUIRED:

Determine Mrs. Singh's taxable income for the 2014 year of assessment. (6½)

1.3 Mr. Baloyi, a disabled taxpayer, died at the age of 64 on 31 May 2013 after a short sickbed. His only income, a salary, amounts to R30 660 per month for the period before his death. Mr. Baloyi belonged to his company's pension fund to which he contributed R2 360 per month. Upon his death, a lump sum of R725 000 was received from the pension fund. Previously disallowed contributions to the pension fund up to 28 February 2013 amounted to R12 800. Mr. Baloyi also belonged to a medical aid fund (single member) with contributions of R1 200 per month. During his illness, he paid the following medical expenses:

Hospital stay (recovered from medical aid)	R19 000
X-Rays (not recovered from medical aid)	R6 400
Registered nurse for home care (not recovered from medical aid)	R9 500

REQUIRED:

Determine Mr. Baloyi's tax liability for the 2014 year of assessment.

(11½)

1.4 Joel (38) and Anna (36) Mncunu are married in community of property and have two children aged 5 and 7. The information below relates to their respective receipts and payments for the 2014 year of assessment.

	Note	Joel	Anna
Receipts:		**R**	**R**
Annual Salary		320 000	295 000
Annual Bonus (non-pensionable)		21 000	19 500
Uniform allowance (annual)	1	9 600	
Subsistence allowance	2	?	
Prize	3	?	
Interest		1 900	14 400
SA Dividends		24 000	5 200
UK Dividends	4		18 200
Expenses:			
Annual provident fund contribution			24 000
Annual Retirement annuity fund contribution		28 800	6 400
Donation to Children's Hospital	5	12 500	
Annual medical aid fund contribution	6	43 600	
Other medical expenses	7	4 880	

Notes:
1) Joel is required to wear a distinctive uniform to work.
2) During November 2013, Joel attended a conference in Durban and spent three days away from work. His employer paid him a subsistence allowance of R350 per day for meals and incidentals costs.

3) Joel was awarded a prize for "Employee of the month" and received a flat screen television valued at R16 000.
4) Anna received dividends from shares in a UK company. The shares were donated to her by her grandfather and do not fall into the couple's joint estate. Anna holds 0.5% of the equity shares in the foreign company.
5) Joel received a s18 receipt for the donation to the Children's Hospital.
6) Joel is the main member of the Medical Aid fund, his wife and the two children are his dependents. His contribution to the fund for the entire year of assessment was paid by his employer.
7) Other medical expenses consist of the following amounts, none of which were recovered from the medical aid fund:

Visits to dentist	R3 600
Over the counter medicine	R1 280

REQUIRED:

1.4.1 Determine Joel's tax liability for the 2014 year of assessment. (14)

1.4.2 Calculate the amount that will constitute Anna's non-retirement funding employment income (non-RFE) for the 2014 year of assessment. (3)

QUESTION 2 [22 MARKS]

Each of the individuals below received fringe benefits as stated in each case. Determine for each case the taxable portions of the fringe benefits. Show all calculations.

2.1 Mr. Ling works for an insurance company. During the 2014 year of assessment he was granted the private use of the following employer-owned assets:

- A laptop computer with a cost of R12 400 (excl. VAT), purchased on 20 January 2013, which he used mainly for business purposes for the entire year of assessment.
- He had the sole use of a printer since 1 March 2013. The printer had a cost of R14 800 (excl. VAT) and Mr. Ling has been granted the use of it for two years, which is a major portion of its useful life.
- Mr. Ling also had the private use of a copier-machine, which had a cost price of R18 600, for a period of 2 months. During this time he replaced an ink cartridge costing R260, at his own cost.

REQUIRED:

Determine the total amount to be included in Mr. Ling's gross income for the 2014 year of assessment in respect of the above fringe benefits. (5)

2.2 A taxpayer, Mrs. Twale, received a travel allowance of R9 500 per month from her employer since 30 June 2013, her first month of employment. She has been using her own motor vehicle for business and private travel. The vehicle cost her R288 000 (including VAT) when she purchased it on 1 March 2013 (finance charges of R14 200 for the year ending 28 February 2014 is not included in this cost). Mrs. Twale kept a logbook and can prove that she travelled a total of 39 260 km for the year, of which 11 720 km were for private travel. Mrs. Twale is responsible for all running costs of the vehicle.

REQUIRED:

Determine the amount to be included in Mrs. Twale's taxable income for the 2014 year of assessment. (6)

2.3 STR Mines (Ltd) provides residential accommodation to its employees working at mining sites. One such employee, Mr. Adams, had the use of an employer-owned house consisting of three bedrooms for the entire 2014 year of assessment for which he was required to pay a monthly rental of R1 800. The house is furnished but the employer does not supply any power or fuel.
Mr. Adams' remuneration amounted to R236 000 for the previous year of assessment. For the 2014 year of assessment his salary increased with 8%. Neither Mr. Adams or his wife or child has a right of option to become the owner of the accommodation.

REQUIRED:

Determine the cash equivalent of the taxable benefit derived by Mr. Adams from the occupation of the residential accommodation. (5)

2.4 Mr. Zondo had the right of use of an employer owned motor vehicle, with a cost price of R525 000 (incl. VAT), for the entire year of assessment since 1 March 2013. The vehicle was originally purchased by the employer on 1 December 2011. Mr. Zondo kept an accurate logbook of his travels and can prove that 14 000 kilometres of the 26 000 kilometres travelled for the year was for business purposes. He has also borne the full cost of fuel for the private use and was responsible to pay the annual insurance cost of R7 350 for the vehicle.

REQUIRED:

Calculate the amount that must be included in Mr. Zondo's taxable income for the 2014 year of assessment in respect of the right of use of the motor vehicle. (6)

QUESTION 3 **[13 MARKS]**

Two unrelated cases are presented below, each stating its own requirements.

3.1 Indicate whether the following amounts are subject to employees' tax (PAYE) and if so the amount on which the employees' tax is calculated.

a) A travel allowance of R4 000 paid to an employee. The employer is satisfied that the vehicle is being used 80% for business purposes.

b) A subsistence allowance of R320 per day paid to an employee who spent four days away from his residence for business purposes.

c) The employer contributed R22 500 to the medical aid fund on behalf of Mr. A, one of his employees. This is 50% of Mr. A's total contribution to the medical aid fund for the year.

d) The employer reimbursed an employee, Mr T, an amount of R3 900 for entertainment expenses incurred in the course of his employment.

e) Mr. Z receives overtime remuneration from his employer amounting to R1 800 for the month.

(7)

3.2 Miss Gray is 22 years old and has been employed by Colours CC since 1 September 2013. She earned a monthly salary of R12 850 and contributed 8% of her salary towards the company's pension fund. This was her only income and expenses for the period of her employment.

REQUIRED:

Calculate the employees' tax withheld from Miss Gray's remuneration while employed by Colours CC for the 2014 year of assessment. (6)

QUESTION 4 **[9 MARKS]**

Two unrelated cases are presented below, each stating its own requirements.

4.1 Indicate whether the following statements are TRUE or FALSE. (3)

a) A natural person under 65 whose only income is a salary of R420 000 from his employer and interest of R14 500 from a South African bank, is exempt from paying provisional tax.

b) The first provisional tax payment for an individual who is a provisional taxpayer is due not later than 30 June each year.

c) A 72 year old natural person who derives taxable income in the form of interest and rentals that exceeds R120 000 for the year, falls within the definition of "a provisional taxpayer."

4.2 A provisional taxpayer, Mr. Feld (aged 44) received his 2012 assessment from SARS on 22 August 2013 indicating a taxable income of R366 000. His 2011 assessment, received in January 2013, reflected a taxable income of R314 000. For the first six months of the 2014 year of assessment, Mr. Feld paid R28 200 in employees' tax.

REQUIRED:

Calculate Mr. Feld's first provisional tax payment due for the 2014 year of assessment. (6)

QUESTION 5 **[15 MARKS]**

5.1 Four independent events relating to the disposal of capital assets follow below. You are required to indicate for each case whether a disposal (or deemed disposal) of the asset took place. Also indicate the amount that will constitute "proceeds" where applicable. (5)

a) A business asset with a cost price of R66 000 and a market value of R48 000, is changed into a personal use asset.

b) An asset with a cost price of R47 500 and market value of R39 000 is donated to a child care facility.

c) A South African resident person immigrates to Canada. The market value of his assets (excluding immovable property) amounts to R945 000 and the value of immovable property amounts to R1 800 000.

d) A person transfers an asset with a cost of R128 000 to the bank as security for a debt. The asset has a market value of R175 000.

5.2 Mr. Patel purchased a holiday house at the South coast on 1 August 1994 at a cost of R1 800 000. At that time, the market value was R1 95000 000. He immediately effected renovations to the property at a total cost of R260 000. In 2010, Mr. Patel spent another R90 000 on improvements to the property. On 24 January 2014, Mr. Patel sold the holiday house for R3 280 000.

Mr. Patel had the house valued on 1 October 2001. The valuation was R2 650 000.

REQUIRED:

Calculate the amount of the capital gain or loss made with the sale of the holiday house. (10)

2014 - STATUTORY RATES OF TAX
Rates applicable to individuals

TAXABLE INCOME	RATES OF TAX
Not exceeding R165 600	18% of each R1
Exceeding R165 601 but not exceeding R258 750	R29 808 + 25% of the amount by which taxable income exceeds R165 600
Exceeding R258 751 but not exceeding R358 110	R53 096 + 30% of the amount by which the taxable income exceeds R258 750
Exceeding R358 111 but not exceeding R500 940	R82 904 + 35% of the amount by which taxable income exceeds R358 110
Exceeding R500 941 but not exceeding R638 600	R132 894 + 38% of the amount by which taxable income exceeds R500 940
Exceeding R638 601	R185 205 + 40% of the amount by which taxable income exceeds R638 600

Retirement fund lump sum benefit - tax table	
Taxable income from Lump sum benefits	**Rate of Tax**
R0 - R315 000	0% of taxable income
R315 001 - R630 000	R0 plus 18% of taxable income exceeding R315 000
R630 001 - R945 000	R56 7000 + 27% of taxable income exceeding R630 000
R945 001 -	R141 750 plus 36% of taxable income exceeding R945 000

Retirement fund Lump sum Withdrawal benefit - tax table	
Taxable income from Lump sum benefits	**Rate of Tax**
R0 – R22 500	0% of taxable income
R22 501 - R600 000	R0 plus 18% of taxable income exceeding R22 500
R630 001 - R900 000	R103 950 + 27% of taxable income exceeding R600 000
R900 001 -	R184 950 plus 36% of taxable income exceeding R900 000

Travel Allowance - Cost scale

Where the value of the vehicle -	Fixed Cost R	Fuel Cost c/km	Maintenance Cost c/km
Does not exceed R60 000	19 310	81,4	26,2
Exceeds R60 000 but does not exceed R120 000	38 333	86,1	29,5
Exceeds R120 000 but does not exceed R180 000	52 033	90,8	32,8
Exceeds R180 000 but does not exceed R240 000	65 667	98,7	39,4
Exceeds R240 000 but does not exceed R300 000	78 192	113,6	46,3
Exceeds R300 000 but does not exceed R360 000	90 668	130,3	54,4
Exceeds R360 000 but does not exceed R420 000	104 374	134,7	67,7
Exceeds R420 000 but does not exceed R480 000	118 078	147,7	70,5
Exceeds R480 000	118 078	147,7	70,5

FORMULAE:

1.	Y = A/B x C
2.	X = A - D
3.	A = B x C
4.	(A – B) x C/100 x D/12
5.	Y = B + [(P-B) x N] / T + N
6.	P = R x B / (A + B)