



Department of Commercial Accounting

## **TAXATION (Module B)**

**TAX33B3 / BBG11B1**

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### **SUPPLEMENTARY ASSESSMENT OPPORTUNITY**

**DECEMBER 2014**

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**Time: 3 hours**

**Marks: 100**

**Assessors:** MS M BORNMAN  
MS G MNGUNI  
MS J SOOBRAMONEY

**Internal Moderator:** MS M LEPHOTO  
**External Moderator:** MS R MATENCHE (UNISA)

#### **INSTRUCTIONS:**

- This paper consists of 8 pages (including the cover page).
- Show all calculations, workings and reasoning clearly.
- Silent, non-programmable calculators may be used.

Question	Topic	Marks	Time
1	Partnership	43	77 minutes
2	Provisional Tax	7	13 minutes
3	Employees' Tax	12	22 minutes
4	Fringe benefits	20	36 minutes
5	Capital gains tax	18	32 minutes
		<b>100</b>	<b>180 minutes</b>

**QUESTION 1****[43 MARKS]**

Mr Theo Day, aged 57, was employed by Plant Ranch nursery for 35 years. He lost his job on 30 November 2013 when the nursery closed down. Theo immediately opened up his own garden service from 1 December 2013 and soon had a healthy client base. Theo is married (in community of property) to Nicky (unemployed for a major portion of the year) and they have two children aged 17 and 21. The 21-year old is unmarried and a full-time student at a tertiary institution.

The receipts and payments/expenses for Theo and Nicky for the 2014 year of assessment are provided below:

<b>Receipts:</b>	Notes	Theo (R)	Nicky (R)
Salary from Plant Ranch (per month)		21 000	
Profit from own garden service business (total amount)	1	36 000	
UIF (total amount)			12 600
Uniform Allowance (per month)	2	800	
Prize	3	9 000	
Lump sum from pension fund	4	780 000	
Travel allowance (per month)	5	2 400	
Long service award	6	?	
Interest (RSA)		16 000	13 000
Dividends (SA)		22 400	
Rental income (total amount)	7		24 000
Compensation received	8	45 000	
<b>Expenses:</b>			
Other deductions – see note 1	1	?	
Pension fund contribution (per month)	4	1 680	
Retirement Annuity fund contributions (total amount)			3 800
Medical aid contributions (per month)	9	3 800	
Other medical expenses	10	?	

**Notes:**

- In determining the amount of profit from Theo's garden service, Theo made the following deductions but he was not sure about their tax deductibility:
 

Fine paid for overloading his truck	R4 500
Legal expense for trying to overturn the above fine	R800
Wear and tear on the truck calculated at 20% p.a.	R15 000

 (The Commissioner allows wear and tear on trucks to be written off over 4 years. The truck was purchased new on 1 November 2013 for R300 000)
- Theo was required to wear a distinct uniform while employed at the nursery.

3. During March 2013, Theo received a cash prize of R9 000 from his employer for submitting the best garden décor ideas.
4. While employed by Plant Ranch, Theo belonged to the company's pension fund and contributed R1 680 per month. With the company closing down, Theo received the lump sum from the pension fund. During his years of service (excluding the current year of assessment), pension fund contributions of R43 550 were not allowed as deductions in terms of section 11(k).
5. Theo received a travel allowance while employed by Plant Ranch. He used to visit wholesale nurseries and clients for business purposes. Theo drove a 2010 Ford Fiesta with a cost price of R165 000 (incl. VAT). He kept accurate records of distances travelled and for his period of employment, he can prove that he travelled a total of 21 400 km of which 9 800 km was for business purposes.
6. Theo received a long service award from his employer in April 2013. His award consisted of a water fountain (from trading stock) with a cost price of R8 500 and a market value of R9 1 00.
7. Nicky inherited a house from her father who passed away during 2013, and the house is currently being let. The house does not fall into the couple's joint estate.
8. While on holiday, Theo was attacked by a dog while walking on the beach. The owner of the dog paid him R45 000 in compensation for his pain and suffering.
9. Theo continued his contributions to the medical aid fund after he lost his job. His wife and children are his dependants on the medical aid.
10. Other medical expenses are as follows:
 

Doctor's visits not recovered from medical aid	R750
Over the counter medicine	R920
Blood tests and x-rays for his youngest son (not recovered from medical aid)	R1 400

**REQUIRED:**

- 1.1 Determine Theo's taxable income and tax liability for the 2014 year of assessment. (38)
- 1.2 Calculate Nicky's maximum allowable tax deduction for her retirement annuity fund contribution (RAF) for the 2014 year of assessment. Show the calculation of her non-RFE income. (5)

**QUESTION 2****[7 MARKS]**

Thulani, aged 28, is a registered provisional taxpayer and he requires your assistance in determining the payments due for provisional tax for the 2014 year of assessment.

He provides you with the following documents and information:

The assessment received from SARS for the year ended 28 February 2011 (the most recent he has and received in 2012) shows a taxable income of R185 000.

Estimated taxable income for the period 1 March 2013 – 28 February 2014: R212 000

Employees' tax paid for the period 1 March 2013 – 31 Aug 2013: R9 000  
Employees' tax paid for the period 1 Sept 2013 – 28 Feb 2014: R7 500

**REQUIRED:**

Calculate the first and second provisional tax payments to be made by Thulani for the 2014 year of assessment. Also indicate the dates on which these payments should be made.

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**QUESTION 3****[12 MARKS]**

Mr Stock was employed as a sales representative at JD Distributors for the period 1 March 2012 to 30 June 2012. During this time he received a salary of R5 000 per month, commissions amounting to R6 500 per month and a travel allowance of R4 000 per month. His employer was satisfied that at least 80% of the use of his motor vehicle will be for business purposes. In May 2012, he received a performance bonus of R25 000.

The only deduction taken into account for employees' tax purposes was Mr Stock's contribution to a retirement annuity fund of R800 per month for the period while he was employed.

**REQUIRED:**

Determine the total employees' tax to be withheld from Mr Stocks' remuneration by his employer for the period of his employment.

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**QUESTION 4****[20 MARKS]**

The following fringe benefits were included in the remuneration package of Mr Hlomo (aged 48) for the year of assessment ended 28 February 2014:

1. Mr Hlomo had the use of a company owned car for the full year of assessment which cost his employer R186 000 (including VAT). The car has a maintenance plan but Mr Hlomo is responsible for all the fuel cost which amounted to R2 500 for the year. He kept accurate record of all travel and can show that he travelled a total of 18 500 km during the year of which 1 250 km were for private purposes.
2. Mr Hlomo purchased a new leather couch held as trading stock by the company at half of the original cost price. The couch cost the company R8 500 and the current market value is R11 750.
3. On 1 July 2013, Mr Hlomo's employer helped him to buy a house by arranging a loan from Star Bank. The loan was for R750 000. The employer would pay the bank a 3.75% administration fee, and Mr Hlomo would pay the difference between the market rate and the 3.75%. R75 000 has to be repaid on the loan on the last day of December each year. During the year the following interest rates applied:

	Market rate	Official rate
1 March 2013 to 31 August 2013:	10.5%	11.5%
1 September 2013 to 28 February 2014:	9.5%	8.0%

Mr Hlomo and his family occupied the house on 1 July 2013.

4. Until Mr Hlomo and his family moved into the house (see note 3 above), they had the use of a furnished 6-roomed townhouse owned by Mr Hlomo's employer. Mr Hlomo's remuneration for the previous year of assessment was a salary of R38 000 per month, an annual bonus of R34 000 and the use of a company car fringe benefit valued at R3 500 per month. No member of Mr Hlomo's family had an interest in the townhouse. Mr Hlomo does not own any shares in his employer's company. Mr Hlomo was required to pay for electricity and water and rental of R1 850 per month.
5. Mr Hlomo was given the right of use of a colour printer for private use during the period 1 October 2013 to 31 December 2013. The printer is owned by the employer and was purchased on 1 March 2013 for R16 000 (excluding VAT). Its current market value is R16 200. Mr Hlomo was not required to pay anything for the use of the printer.
6. During January 2013, Mr Hlomo attended a trade show in Durban on instruction from his employer. He spent three nights away from home.

His employer paid the accommodation and gave Mr Hlomo R350 per day (three days) for meals and incidental costs.

**REQUIRED:**

Calculate the amounts to include in gross income for the above fringe benefits for Mr Hlomo Wilde for the year of assessment ended 28 February 2014.

[20]

**QUESTION 5**

**[18 MARKS]**

**Two case studies relating to capital disposals are provided below. Answer each one independently.**

**5.1** Mr A recently sold the following assets:

- a) On 15 April 2013, his primary residence for R2.6 million. The base cost of the residence is R1.4 million.
- b) On 21 September 2013, his 8 metre speedboat for R80 000. The base cost of the boat is R56 000.
- c) On 8 January 2014, the following shares:

	<u>Proceeds</u>	<u>Base Cost</u>
Shares in Y Ltd	180 000	68 000
Shares in Z Ltd	72 000	86 000

**REQUIRED:**

Determine the taxable capital gain to be included in Mr A's taxable income for the 2014 year of assessment.

(9)

**6.2** BASS CC acquired a new manufacturing machine at a cost of R765 000 (excluding VAT) on 1 August 2012. It was brought into use in a process of manufacture on that same date. In November 2013, BASS CC sold the machine for R725 000 (excluding VAT). The company has a 31 December year end.

**REQUIRED:**

Calculate the capital gain on the sale of the machine.

(9)

[18]

**TOTAL [100]**

**2014 - STATUTORY RATES OF TAX****Rates applicable to individuals**

<b>TAXABLE INCOME</b>	<b>RATES OF TAX</b>
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

<b>Retirement fund lump sum benefit - tax table</b>	
<b>Taxable income from Lump sum benefits</b>	<b>Rate of Tax</b>
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

<b>Retirement fund Lump sum Withdrawal benefit - tax table</b>	
<b>Taxable income from Lump sum benefits</b>	<b>Rate of Tax</b>
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.	$Y = A/B \times C$
2.	$X = A - D$
3.	$A = B \times C$
4.	$(A - B) \times C/100 \times D/12$
5.	$Y = B + [(P-B) \times N] / T + N$
6.	$P = R \times B / (A + B)$