

TAXATION PLANNING 2A [TXP2A01]

FINAL ASSESSMENT OPPORTUNITY: 14 June 2016

Assessors: **Ms M. Lephoto**

Time: **2.5 hours**

Mr S. Makhaya

Moderator: **Ms M. Wassermann**

Marks: **125 marks**

INSTRUCTIONS TO CANDIDATES:

This paper consists of 11 pages and **no appendices**. Ensure that no pages are missing.

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

Round off answers to the nearest Rand.

Summary of Questions and Time

Question	Marks	Time
1a	15	18 Minutes
b	20	24 Minutes
c	24	29 Minutes
2	20	24 Minutes
3a	7	8 Minutes
b	13	16 Minutes
4	16	19 Minutes
5	10	12 Minutes
	125	150 Minutes

QUESTION 1

(59 MARKS)

This question consists of three (3) parts that are independent of each other.

PART A

(15 marks)

YOU ARE REQUIRED TO determine whether the disposal of property in each of the following scenarios is **a donation as defined** in s55 (1) of the Income Tax Act 58 of 1962 and in each case provide a brief reason:

1. Trevor Noah (hereafter Trevor) performed a stand-up comedy set for the benefit of the Nelson Mandela Children's Fund (hereafter the Fund). In terms of the agreement, all the money raised will be for the benefit of the Fund and Trevor will not be paid for his services. For a similar set, Trevor normally charges R65 000.
(2)
2. Atul Gupta (hereafter Atul) acquired an apartment in Dubai 2 years ago for the equivalent of R5 000 000 and in the period since he has not occupied it. He has been kept busy by his family's varied business interests in South Africa. He therefore decided to give it to his nephew, Yeshan Gupta (hereafter Yeshan). Yeshan did not have to pay anything. The market value on the date he gave it to Yeshan was R8 000 000.
(3)
3. Duduzane Zuma (hereafter Duduzane) gave his uncle Khulubuse Zuma a R34 000 000 loan to help him through a difficult financial time. After 3 years, Khulubuse Zuma had only managed to pay back R20 000 000. Duduzane then told his uncle that he no longer needed to pay back the rest of the money.
(3)
4. Jacob and Nkosazana Zuma (hereafter Jacob and Nkosazana respectively) are married in community of property. Jacob decided to give R250 000 out of their joint estate to the Society for the Prevention of Cruelty to Animals (SPCA). (4)
5. Dominique Abrahams (hereafter Dominique) gave his son a second-hand car for his 19th birthday. Dominique bought the car for R140 000. His son didn't like the car and sold it for R95 000 the same day he got it.
(3)

Please present your answer in a tabular format as follows:

Description	Donation/Not donation	Reason	Value of donation
1.	1. Donation (1)	1. Gratuitous disposal of property OR Waiver or renunciation of right (1)	1. R 1 000 000 (1)
2.	2. Not donation (1)	2. No disposal of property OR no gratuitous disposal of property OR no waiver/renunciation of right (1)	2. R0

When providing a reason, please limit your answer to the options provided in the table above.

PART B**(20 marks)**

During the 2016 year of assessment, Mrs Gupta (a resident) made the following donations:

1. Mrs Gupta gave her daughter Pranisha (aged 21), a monthly grocery allowance of R2 000 as she was away from home attending the University of Johannesburg. The allowance was granted to her every month except for the months of July, December and January.
2. On 20 March 2015, she donated an amount of R40 000 to her niece who was going on an overseas trip.
3. On 30 April 2015, she donated R50 000 to her husband.
4. She donated R100 000 to a trust for the benefit of her three sons: Ajal, Atul and Rajesh on 15 May 2015.
5. Mrs Gupta has a soft spot for children and therefore decided to donate R120 000 to the Red Cross Children's Hospital on 10 June 2015; the hospital is an approved public benefit organisation.
6. On 20 July 2015, Mrs Gupta terminated the services of her chauffeur (driver). Mrs Gupta gave the chauffeur a severance lump sum of R50 000.
7. Mr. Gupta celebrated his birthday on 4 August 2015. Mrs Gupta deposited R200 000 into his bank account for him to spend on an overseas holiday. Mr. Gupta spent R150 000 and returned R50 000 to Mrs Gupta.
8. In an attempt to avoid tax, Mrs Gupta sold the family's grand piano, valued at R120 000, to his brother for R40 000 on 18 September 2015. Mrs Gupta's brother told her that should the Commissioner require any payment of donations tax to be made, he would make the payment.
9. Mrs Gupta made a R450 000 donation to the Democratic Alliance, a political party, on 21 October 2015.

YOU ARE REQUIRED TO:

Calculate the **donations tax payable** by Mrs Gupta for the 2016 year of assessment. In columnar format (table):

- **Value each donation, indicate whether an exemption applies, and if an exemption applies, please give a brief description.**
- **Indicate whether donations tax is payable and, if so, how much.**
- **Indicate by when and whom the donations tax is payable. (You may assume that all legal formalities in respect of the donation are also concluded on the dates above).**

Asset	Date of donation	Value of donation	Exempt portion	General Exemption	Donations tax	Person liable	Due date
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(20)

PART C

(24 marks)

The Gupta Family Trust was established in the 2014 year of assessment in terms of the last will and testament of Arjay Gupta (hereafter Arjay), Mr. Kapil Gupta's deceased father.

Arjay donated a rental property to the Gupta Family Trust in his will.

The beneficiaries of the trust are Mr. Kapil Gupta, Mrs Gupta and their three sons: Atul (35 years old), Ajal (21 years old) and Rajesh (15 years old).

Atul lives in India with his wife and 3 sons where they are ordinarily resident.

In the 2016 year of assessment, Mrs Gupta (45) made a further donation of R100 000. All the interest earned by the trust is from the investment of this amount in a South African bank.

Mr. Kapil Gupta (66) owned shares in a company listed on the Johannesburg Stock Exchange; he donated the shares to the Gupta Family Trust.

The table below details the receipts and accruals of the trust as well as the distribution thereof to the trust beneficiaries for the 2016 year of assessment.

	Total	Rentals	Dividends	Interest
Receipts and accruals	60 000	10 000	30 000	20 000
<i>Less:</i> Distributions	(25 000)	(4167)	(12 500)	(8 333)
Annuities:				
- Rajesh	(10 000)	(1 667)	(5 000)	(3 333)
Lump sums:				
- Mr. Kapil Gupta	(5 000)	(833)	(2 500)	(1 667)
- Atul	(2 000)	(333)	(1 000)	(667)
- Ajal	(8 000)	(1 333)	(4 000)	(2 667)
Retained Income	35 000	5 833	17 500	11 667

YOU ARE REQUIRED TO:

Calculate the taxable income of the following taxpayers for the 2016 year of assessment:

- a) Mrs Gupta (8)
- b) Mr. Kapil Gupta (8)
- c) Rajesh (1)
- d) Atul (1)
- e) Ajal (5)
- f) The Gupta Family Trust (1)

QUESTION 2

(20 MARKS)

Automobile Cooling Limited (hereafter “AC Limited”) is a manufacturer and assembler of air conditioning and engine cooling components for automobiles, which is a process of manufacture. AC Limited is a resident of South Africa for income tax purposes and has a financial year that ends on 30 June.

The following transactions took place during the year of assessment ending on 30 June 2016:

1. The sales of air conditioners and cooling components amounted to R10 950 000.
2. The purchase of raw materials amounted to R7 690 000.
3. Employees’ wages and salaries amounted to R1 200 000.
4. AC Limited has 35% shareholding in Simplex (Pty) Ltd, a South African resident company. During the 2016 year of assessment, AC Limited received a dividend amounting to R800 000 from Simplex (Pty) Ltd.
5. Interest amounting to R86 000 was received from a fixed deposit and other funds held in call accounts with South African banks.
6. On 5 March 2016, AC Limited purchased a new biometric fingerprint clock device (used by factory employees to clock in and out of the factory) at a cost of R6 400. The device was installed on 1 April 2016 and AC Limited started using the machine from that date. SARS allows a write-off period of 3 years for the clocking devices.
7. As at 30 June 2015, the provision for doubtful debts was R120 000 and as at 30 June 2016, the provision for doubtful debts was R185 000. AC Limited has a complete list of all the debtors that were provided for as doubtful.
8. The factory building was purchased and brought into use on 20 August 2014 from Denset (Pty) Ltd at a cost of R4 000 000. Denset (Pty) Ltd was claiming a 5% allowance on this factory in terms of section 13 of the Income Tax Act prior to selling the factory to AC Limited.
9. Various machines with the cost of R1 400 000 were acquired new and unused on 14 September 2014 and were installed and brought into use in a process of manufacture on 20 September 2014.
10. During the 2016 year of assessment, one employee of AC Limited, Thato Motaung died. Thato owed AC Limited R22 000 in the form of a loan that was granted to him by AC Limited. The loan amount was written off on 30 June 2016. In addition,

AC Limited paid an annuity amounting to R2 600 per month effective from 1 April 2016 to an 18 year-old child of Thato, who was dependent on Thato prior to his death.

11. A customer of AC Limited was liquidated during the year and upon liquidation there were no funds available to pay the general creditors. The amount owed by this debtor was R33 000. AC Limited had to write off this amount as a bad debt.
12. On 1 March 2016, AC Limited concluded a restraint of trade agreement with its former sales manager in order to restrict her from working for any competitor for a period of two years. AC Limited paid R150 000 on 30 March 2016 to the former sales manager.
13. On 21 August 2015, AC Limited completed the construction of 6 stand-alone residential units. The cost of the land on which these units were constructed amounted to R450 000 and the cost of constructing each unit was R120 000. The units were occupied by the employees of AC Limited from 1 October 2015 and the rental amount is R800 per month per unit.
14. Other tax deductible expenses and allowances for the year of assessment amounted to R245 000.
15. AC Limited made a donation R140 000 to a public benefit organisation (PBO) which is approved by SARS and received a section 18A receipt for this donation. There were no donations in the previous year.

YOU ARE REQUIRED TO:

Calculate the normal tax liability of AC Limited for the year of assessment ending on 30 June 2016. Provide reasons for amounts not included in the calculation. Value-Added Tax (VAT) must be ignored for purposes of this question. **(20)**

QUESTION 3

(20 MARKS)

This question consists of two parts which are independent of each other.

PART A

(7 marks)

Hugh Mupfunya is a 25 year-old South African resident for income tax purposes. He works as a marketing manager at a motor car dealer. He earns a monthly basic salary of R22 000 and receives a monthly fixed travel allowance amounting to R3 000. He is required as a condition of service to wear black pants, white shirt and a black tie (not branded) while at work and he receives a monthly allowance of R200 for the clothes.

YOU ARE REQUIRE TO:

Calculate the **employees' tax** to be deducted from Hugh Mupfunya's salary in February 2016. (7)

PART B

(13 marks)

Q-Tech (Pty) Ltd is a South African resident company with a financial year that ends on 30 September of every year. On 20 March 2016, SARS issued an assessment for the 2014 year of assessment which reflected a taxable income of R1 360 000. The assessment for the 2013 year of assessment had been issued on 5 January 2015 and reflected a taxable income of R2 600 000. Included in the taxable income during the 2013 year of assessment was a taxable capital gain of R720 000.

On 30 September 2016, the directors estimated that the taxable income will be R1 900 000 and are very confident that this estimate will be within 80% of the actual taxable income. However, after the finalisation of the audit of the financial statements on 30 November 2016, the actual taxable income was calculated to be R2 050 000.

YOU ARE REQUIRED TO:

Calculate the **first, second and third** provisional tax payments of Q-Tech (Pty) Ltd for the 2016 year of assessment. (13)

QUESTION 4

(16 MARKS)

Neville Mokoena (hereafter Neville) is a 61 year-old South African resident. He is married to Emma Mokoena, hereafter Emma (56), out of community of property. They have two sons together: Katli (34) and Keke (31).

Neville worked as a teacher his entire adult life and retired when he was diagnosed with liver cancer.

Neville passed away on 17 April 2015 after a lengthy stay in hospital.

Neville held the following assets upon death at the values specified below:

1. An old BMW 5-series which he acquired for R1 000 000. At the date of death, the car had a market value of R80 000.
2. The house that he shared with Emma had a market value of R2 500 000 on 17 April 2015. The house had been acquired for R600 000 in 1986. Neville bequeathed the house to Emma in terms of his will.
3. Cash in bank accounts amounting to R56 000 that is bequeathed to Neville's church, a registered public benefit organisation (PBO).
4. Neville owned shares in an unlisted company with a directors' valuation of R98 000 as at 17 April 2015. The executor sold the shares for R50 000.
5. The executor also sold shares in a listed company for R150 000 that had a market value of R190 000 on the date of Neville's death.
6. Sanlam paid out R150 000 to Emma in lieu of a domestic life insurance policy on Neville's life. The policy was taken out after Neville married Emma. Neville paid all the premiums.
7. Neville owned a small pig farm on the outskirts of Bethlehem valued at R300 000 on 17 April 2015.

The following expenses were settled by the executor in winding up the estate:

8. Neville owed SARS R58 000 in normal tax calculated up to the date of his death including the capital gains effects arising upon his death.
9. While terminally ill, he incurred costs of R20 000 in medical expenses.
10. The executor's fee is 3.5% of the gross value of the estate.

YOU ARE REQUIRED TO:

Calculate the **estate duty liability** payable by the deceased estate of Neville Mokoena. (16)

QUESTION 5**(10 MARKS)**

Pearl Khambule is a 36 year-old resident of South Africa for income tax purposes.

On 6 March 2015, she played the South African National Lottery PowerBall Plus for the first time and won R25 million.

She decided to sell her existing house in Buccleuch (north of Johannesburg) where she has been residing for the past 9 years and purchased a new house at Waterfall Estate (Midrand). She had purchased the Buccleuch house in 2006 at a cost of R850 000; she sold the house on 12 June 2015 for R3 300 000.

She had installed a swimming pool at a cost of R120 000 and a lapa at a cost of R50 000. The lapa burnt down when she and her friends were having a braai and she decided not to replace it.

She also sold the furniture that was in the Buccleuch house for R260 000 at Cash Crusaders; the cost of the furniture was R305 000.

She had purchased an 8 metre boat to use for recreational purposes at a cost of R1 300 000 in April 2015. She sold the boat for R1 250 000 on 22 January 2016.

YOU ARE REQUIRED TO:

Calculate the **taxable capital gain** to be included in the taxable income of Pearl Khambule for the 2016 year of assessment. **(10)**