

[BEL3B01; ADIA002; S3PACQ3] TAXATION 3B

FINAL ASSESSMENT OPPORTUNITY

30 NOVEMBER 2016

TIME: 150 minutes

MARKS: 125

ASSESSORS:

Mr S Makhaya

Dr M Bornman

INTERNAL MODERATORS:

Mr J Olivier

Mrs L Barnard

EXTERNAL MODERATOR:

Ms H Erasmus (University of the Witwatersrand)

INSTRUCTIONS TO CANDIDATES

1. This paper consists of ten (10) pages (including cover page and three (3) pages of appendices).
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.
6. Round all amounts to the nearest Rand, where applicable.

Question	Marks	Time Allocated
1	65 Marks	78 minutes
2	20 Marks	24 minutes
3	15 Marks	18 minutes
4	25 Marks	30 minutes
Total	125 Marks	150 minutes

QUESTION 1**65 MARKS**

Mr Richard Masondo (hereafter “Richard”) is a South African resident, who is 68 years old. Richard was a part-time lecturer at the University of Johannesburg after retiring as director at an accounting firm in Johannesburg in 2013. Richard died in an accident on 11 November 2015 (he was still 68 years old). He is survived by his wife, Baleka Masondo (60 years old) and his son, Senzo Masondo (26 years old). Richard and Baleka were married out of community of property. His income and expenditure for the 2016 year of assessment prior to his death was as follows (**1 March 2015 to 31 October 2015**):

	<i>Notes</i>	R
Salary (per month)	A	35 000
Local interest	B	38 000
Pension annuity (per month)	C	45 800
Local gross dividends		13 200
Rental income		48 000
Deductible expenses in respect of rental property		18 500

- A. The final salary for the period 1 November to 10 November 2015 was R14 500 and was paid to the Executor of the Estate on 30 November 2015.
- B. The interest was earned on funds that were invested in call accounts. The interest earned after Richard’s death amounted to R8 600 which was paid to the Executor.
- C. The pension annuity was payable to Richard for his lifetime. The pension annuity for part of November was R15 000 which was paid to the Executor of the Estate. The annuity ceased upon Richard’s death.

Employees’ tax amounting to R145 680 was deducted from the salary as well as from the annuity paid to Richard during the 2016 year of assessment. In addition, Richard had already submitted his first provisional tax return and made a first provisional tax payment amounting to R70 000 on 31 August 2015.

At the time of Richard’s death, he owned the following assets:

	Notes	Market Value at 11 November 2015 (R)
Rental residential property	1	900 000
Primary residence	2	4 800 000
Shares in a local company (not listed)	3	1 800 000
Private car	4	250 000
Household furniture	5	325 000
Cash in call account	6	800 000
Life Policy	7	2 000 000

Notes:

1. The rental residential property is let to a non-related tenant and it was acquired on 20 February 2002 for R520 000. Richard had installed electric fencing on the house at a cost of R32 000. This property was bequeathed to Richard’s son, Senzo. The rental income received by the Executor of the Estate from November 2015 to February 2016 amounted to R24 000.

QUESTION 1 CONTINUED

2. The primary residence was purchased on 1 November 2006 at a cost of R2 250 000. Richard left the ownership of the primary residence to his wife on condition that the ownership of the house will pass on to Senzo should his wife die.
3. The shares were purchased on 13 March 2013 at a cost of R1 200 000. The shares were subsequently disposed as stated in the will by the Executor on 12 February 2016 for R1 600 000. The fees for valuing the shares at the time of death R19 300. The final dividend amounting to R27 800 was paid on 10 February 2016.
4. Richard acquired the car on 27 November 2011 at a cost of R780 000. The car was sold by the Executor on 3 February 2016 for R190 000.
5. The house furniture was acquired after 1 October 2001 at a cost of R638 000. The house furniture was bequeathed to his wife.
6. The balance of the cash remaining in the estate after the disposal of assets (required to be disposed in terms of the will) and after paying all the debts of the estate will be distributed to the heirs (Baleka and Senzo) in equal shares.
7. Richard has a life policy with Alexander Forbes for R2 000 000. The life policy beneficiaries are Baleka (75%) and Senzo (25%). All the premiums on this policy were paid by Richard.

Richard had an assessed capital loss carried forward from the previous year of assessment amounting to R120 000.

The following expenses and liabilities had to be paid by the estate after the death of Richard (from the cash amount that was left by Richard).

- The funeral expenses amounting to R33 000.
- The amount due to the bank in respect of the car finance amounting to R141 500.
- The master's fees and administration costs are 2% of the gross value of the estate.
- The income tax payable to SARS.

The estate was wound up on 29 February 2016.

YOU ARE REQUIRED TO:	MARKS
1. Calculate the normal tax liability payable to SARS by Mr Richard Masondo for the 2016 year of assessment. Show all workings and provide reasons where amounts should not be included in your calculation.	(29)
2. Calculate the normal tax liability payable by the deceased estate of Richard Masondo for the 2016 year of assessment. Show all workings and provide reasons where amounts should not be included in your calculation.	(16)
3. Calculate the estate duty payable on the deceased estate of Richard Masondo on 29 February 2016. Show all workings and provide reasons where amounts should not be included in your calculation.	(20)

QUESTION 2**20 MARKS**

Simon Fox (24 years) started employment at KLY Enterprises on 1 November 2015 after completing his engineering degree earlier that year.

His remuneration package is structured as follows:

	<i>Notes</i>	R
Cash salary per month		18 000
Travel allowance per month	1	3 600
Cellphone allowance per month		800
Annual bonus – non-retirement funding	2	21 600
Simon's contribution to pension fund		8% of basic salary
Medical aid contribution paid by employee (monthly)	3	2 200
Bravery award	4	8 000
Other employment benefits may arise from time to time		

Other:

- In November, the employer deducted R200 from each employee (with their permission) and made a donation to an approved PBO on behalf of all the employees. A section 18A receipt was obtained.
- On 30 November, Simon received an unexpected performance bonus of R7 500 for his input in developing a new prototype of solar panel that will be patented by the company.
- During November, his employer granted Simon the use of a 3D printer (owned by the company and costing R28 000 (excluding VAT) to be used at home for mainly private purposes. Simon had the use of the printer for 9 days.

Notes:

- 1) Simon drives a 2012 Audi (cost R225 000). His employer is satisfied that at least 80% of the use of the car will be for business purposes.
- 2) Simon will receive a pro-rata portion of the bonus for the 2 months worked at the time on 31 December 2015.
- 3) Simon is not married and has no dependants. By the end of the year of assessment he has incurred an additional R1 400 in medical costs not covered by his medical aid.
- 4) His employer gave him a watch that cost R8 000 (excluding VAT) which was presented to him in November 2015 to appreciate him for his bravery act.

YOU ARE REQUIRED TO:	MARKS
Calculate the employees' tax to be deducted from Simon's remuneration for November 2015. Show all the calculation.	(20)

QUESTION 3**15 MARKS****PART A**

Blue and Red were partners in the 2015 financial year (28 February) that shared profits equally. At the end of their 2015 financial year, their debtors book amounted to R72 000. From 1 August 2015, Green joined the partnership and a new partnership agreement was drawn up stipulating that profits are to be shared equally between the three partners. On 30 November 2015, one of the debtors of Blue and Red (whose debt of R12 000 was included in the R72 000), was declared insolvent and the partnership subsequently wrote off this debt.

When Green joined the partnership, she sold her debtors amounting to R4 800 to the partnership. On 1 February 2016 a bad debt of R2 040 was recovered from a former debtor of Green when she was still trading on her own the year before.

YOU ARE REQUIRED TO:	MARKS
Calculate the amount that each partner can deduct for the bad debt incurred in terms of section 11(i) of the Income Tax Act as well as recoup in terms of section 8(4)(a) of the Income Tax Act for the 2016 year of assessment. (Explain your answers).	(6)

PART B

Rory and Reddy carries on a business venture since 2008 in the form of a partnership dealing in antique furniture. They share profits in the ratio 60% (Rory) and 40% (Reddy). They are both 54 years of age at the end of the 2016 year of assessment. For the 2016 year of assessment, the partnership preliminary net profit from business activities excluding the items listed below amounted to R1 465 820.

	Notes	R
Salaries for the year:		
- Rory		112 000
- Ryan		128 000
Wages to part-time staff		63 000
Interest earned from a local bank		49 500
Gross dividends received from SA companies		9 600
Donations made by the partnership	1	10 000
Interest on the capital paid to the partners:		
-Rory		1 800
Retirement annuity fund contributions paid by partnership:		
- Rory		22 500
- Reddy		12 800

QUESTION 3 CONTINUED

Notes

- 1) In January 2016, the partners donated R10 000 to a local child welfare organisation. The organisation is a registered public benefit organisation and the necessary s18A certificate was received.

YOU ARE REQUIRED TO:	MARKS
Calculate the taxable income of Rory for the 2016 year of assessment	(9)

QUESTION 4

25 MARKS

Sipho (52 years old) and Siphokazi (48 years old) are married **in community of property**. They have two children, Sibahle (26 years old) and Sithabile (31 years old). Sipho's mother (80 years old) lives with them and has no income of her own and depends on Sipho and Siphokazi for survival.

The following donations were made by Sipho and Siphokazi during the 2016 year of assessment out of their joint estate (unless otherwise stated):

1. Sipho's mother is paid an allowance of R2 000 per month for her living costs.
2. Siphokazi donated R100 000 to a trust for the benefit of her grandchildren, Thabo (8 years old) and Thandeka (11 years old).
3. Sipho and Siphokazi purchased a flat for R200 000 and immediately gave the usufruct to Sipho's mother for the rest of her life.
4. Birthday gifts of R8 000 were purchased by Sipho and Siphokazi.
5. Sipho purchased a car for Siphokazi worth R150 000 from funds that were not part of their joint estate.
6. Siphokazi sold her old car to her sister for R60 000. The market value of the car was R85 000 on the date of disposal.
7. Ownership of the flat (refer to (3) above) was later given to Sipho's father who is 80 years old. At the time of the donation, the flat was worth R220 000.
8. Siphokazi made a donation of R2 000 to Sibahle for the purchase of a cradle for her newborn baby. This was paid out of the inheritance received by Siphokazi in 2013 after the death of her father. The inheritance does not form part of the joint estate.

QUESTION 4 CONTINUED

YOU ARE REQUIRED TO:							MARKS
<p>Calculate the <i>donations tax</i> payable by Sipho for the 2016 year of assessment.</p> <ul style="list-style-type: none">• Provide reasons where specific exemptions apply or where there is no donation.• You may assume that the donations above are stated in the chronological order in which they took effect.• Show all calculations. <p>You answer must be presented in the following format:</p>							(25)
No.	Description	Value of donation	Specific exemption	Reason for Exemption	General exemption	Value subject to donation	Donations tax

Source: Questions on SA Tax (2016) - Amended

Appendix 1

THE EXPECTATION OF LIFE AND THE PRESENT VALUE OF R1 PER ANNUM FOR LIFE
CAPITALISED AT 12 PER CENT OVER THE EXPECTATION OF LIFE OF MALES AND FEMALES
OF VARIOUS AGES

Age	Expectation of life		Present value of R1 per annum for life		Age
	Male	Female	Male	Female	
0	64,74	72,36	8,327 91	8,331 05	0
1	65,37	72,74	8,328 28	8,331 14	1
2	64,50	71,87	8,327 76	8,330 91	2
3	63,57	70,93	8,327 14	8,330 64	3
4	62,63	69,97	8,326 44	8,330 33	4
5	61,69	69,02	8,325 67	8,329 99	5
6	60,74	68,06	8,324 80	8,329 61	6
7	59,78	67,09	8,323 81	8,329 18	7
8	58,81	66,11	8,322 71	8,328 69	8
9	57,83	65,14	8,321 46	8,328 15	9
10	56,85	64,15	8,320 07	8,327 53	10
11	55,86	63,16	8,318 49	8,326 84	11
12	54,87	62,18	8,316 73	8,326 08	12
13	53,90	61,19	8,314 80	8,325 22	13
14	52,93	60,21	8,312 65	8,324 27	14
15	51,98	59,23	8,310 29	8,323 20	15
16	51,04	58,26	8,307 70	8,322 03	16
17	50,12	57,29	8,304 89	8,320 71	17
18	49,21	56,33	8,301 80	8,319 26	18
19	48,31	55,37	8,298 41	8,317 64	19
20	47,42	54,41	8,294 71	8,315 84	20
21	46,53	53,45	8,290 61	8,313 83	21
22	45,65	52,50	8,286 13	8,311 61	22
23	44,77	51,54	8,281 17	8,309 12	23
24	43,88	50,58	8,275 64	8,306 33	24
25	43,00	49,63	8,269 59	8,303 26	25
26	42,10	48,67	8,262 74	8,299 81	26
27	41,20	47,71	8,255 16	8,295 95	27
28	40,30	46,76	8,246 77	8,291 71	28
29	39,39	45,81	8,237 37	8,286 97	29
30	38,48	44,86	8,226 94	8,281 70	30
31	37,57	43,91	8,215 38	8,275 83	31
32	36,66	42,96	8,202 57	8,269 30	32
33	35,75	42,02	8,188 36	8,262 10	33
34	34,84	41,07	8,172 62	8,254 00	34
35	33,94	40,13	8,155 36	8,245 09	35
36	33,05	39,19	8,136 47	8,235 17	36
37	32,16	38,26	8,115 58	8,224 26	37
38	31,28	37,32	8,092 74	8,211 99	38
39	30,41	36,40	8,067 81	8,198 66	39
40	29,54	35,48	8,040 30	8,183 86	40
41	28,69	34,57	8,010 67	8,167 62	41
42	27,85	33,67	7,978 44	8,149 83	42

Continued

Age	Expectation of life		Present value of R1 per annum for life		Age
	Male	Female	Male	Female	
43	27,02	32,77	7,943 44	8,130 12	43
44	26,20	31,89	7,905 47	8,108 81	44
45	25,38	31,01	7,863 80	8,085 27	45
46	24,58	30,14	7,819 24	8,059 56	46
47	23,79	29,27	7,771 09	8,031 19	47
48	23,00	28,41	7,718 43	8,000 26	48
49	22,23	27,55	7,662 36	7,966 17	49
50	21,47	26,71	7,602 01	7,929 50	50
51	20,72	25,88	7,537 13	7,889 67	51
52	19,98	25,06	7,467 48	7,846 46	52
53	19,26	24,25	7,393 87	7,799 65	53
54	18,56	23,44	7,316 31	7,748 34	54
55	17,86	22,65	7,232 34	7,693 55	55
56	17,18	21,86	7,144 14	7,633 63	56
57	16,52	21,08	7,051 78	7,568 96	57
58	15,86	20,31	6,952 25	7,499 27	58
59	15,23	19,54	6,850 04	7,423 21	59
60	14,61	18,78	6,742 06	7,341 35	60
61	14,01	18,04	6,630 10	7,254 57	61
62	13,42	17,30	6,512 32	7,160 20	62
63	12,86	16,58	6,393 01	7,060 46	63
64	12,31	15,88	6,268 22	6,955 37	64
65	11,77	15,18	6,137 89	6,841 61	65
66	11,26	14,51	6,007 26	6,723 93	66
67	10,76	13,85	5,871 65	6,598 93	67
68	10,28	13,20	5,734 03	6,466 35	68
69	9,81	12,57	5,591 82	6,328 18	69
70	9,37	11,96	5,451 65	6,184 66	70
71	8,94	11,37	5,307 75	6,036 07	71
72	8,54	10,80	5,167 44	5,882 78	72
73	8,15	10,24	5,024 37	5,722 22	73
74	7,77	9,70	4,878 76	5,557 43	74
75	7,41	9,18	4,734 90	5,388 93	75
76	7,07	8,68	4,593 54	5,217 27	76
77	6,73	8,21	4,446 63	5,046 79	77
78	6,41	7,75	4,303 09	4,870 92	78
79	6,10	7,31	4,158 98	4,693 89	79
80	5,82	6,89	4,024 40	4,516 47	80
81	5,55	6,50	3,890 51	4,343 99	81
82	5,31	6,13	3,768 02	4,173 15	82
83	5,09	5,78	3,652 76	4,004 82	83
84	4,89	5,45	3,545 46	3,839 88	84
85	4,72	5,14	3,452 32	3,679 21	85
86	4,57	4,85	3,368 64	3,523 71	86
87	4,45	4,58	3,300 66	3,374 26	87
88	4,36	4,33	3,249 07	3,231 75	88
89	4,32	4,11	3,225 97	3,102 96	89
90	4,30	3,92	3,214 38	2,989 12	90

Appendix 2

PRESENT VALUE OF R1 PER ANNUM CAPITALISED AT 12 PER CENT OVER FIXED PERIODS

Years	Amount	Years	Amount	Years	Amount	Years	Amount
	R		R		R		R
1	0,892 9	26	7,895 7	51	8,307 6	76	8,331 8
2	1,690 0	27	7,942 6	52	8,310 4	77	8,332 0
3	2,401 8	28	7,984 4	53	8,312 8	78	8,332 1
4	3,037 4	29	8,021 8	54	8,315 0	79	8,332 3
5	3,604 8	30	8,055 2	55	8,317 0	80	8,332 4
6	4,111 4	31	8,085 0	56	8,318 7	81	8,332 5
7	4,563 8	32	8,111 6	57	8,320 3	82	8,332 6
8	4,967 6	33	8,135 4	58	8,321 7	83	8,332 6
9	5,328 2	34	8,156 6	59	8,322 9	84	8,332 7
10	5,650 2	35	8,175 5	60	8,324 0	85	8,332 8
11	5,937 7	36	8,192 4	61	8,325 0	86	8,332 8
12	6,194 4	37	8,207 5	62	8,325 9	87	8,332 9
13	6,423 6	38	8,221 0	63	8,326 7	88	8,333 0
14	6,628 2	39	8,233 0	64	8,327 4	89	8,333 0
15	6,810 9	40	8,243 8	65	8,328 1	90	8,333 0
16	6,974 0	41	8,253 4	66	8,328 6	91	8,333 1
17	7,119 6	42	8,261 9	67	8,329 1	92	8,333 1
18	7,249 7	43	8,269 6	68	8,329 6	93	8,333 1
19	7,365 8	44	8,276 4	69	8,330 0	94	8,333 1
20	7,469 4	45	8,282 5	70	8,330 3	95	8,333 2
21	7,562 0	46	8,288 0	71	8,330 7	96	8,333 2
22	7,644 6	47	8,292 8	72	8,331 0	97	8,333 2
23	7,718 4	48	8,297 2	73	8,331 2	98	8,333 2
24	7,784 3	49	8,301 0	74	8,331 4	99	8,333 2
25	7,843 1	50	8,304 5	75	8,331 6	100	8,333 2

Appendix 3

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 2015 OR ENDING ON 29 FEBRUARY 2016.

TAXABLE INCOME	RATES OF TAX
Not exceeding R181 900	18% of each R1
Exceeding R181 900 but not exceeding R284 100	R32 742 + 26% of the amount by which taxable income exceeds R181 900
Exceeding R284 100 but not exceeding R393 200	R59 314 + 31% of the amount by which the taxable income exceeds R284 100
Exceeding R393 200 but not exceeding R550 100	R93 135 + 36% of the amount by which taxable income exceeds R393 200
Exceeding R550 100 but not exceeding R701 300	R149 619 + 39% of the amount by which taxable income exceeds R550 100
Exceeding R701 300	R208 587 + 41% of the amount by which taxable income exceeds R701 300