



FACULTY/COLLEGE	College of Business and Economics
SCHOOL	School of Economics
DEPARTMENT	Commercial Accounting
CAMPUS(ES)	SWC
MODULE NAME	Taxation 3B
MODULE CODE	TAX33B3
SEMESTER	Second
ASSESSMENT OPPORTUNITY,  MONTH AND YEAR	Final assessment opportunity  November 2019

ASSESSMENT DATE	November 2019	SESSION	
ASSESSOR(S)	Ms. K Esterhuizen Mr. K Masehela Ms. J Soobramoney		
MODERATOR(S)	Dr. M Bornman Ms. L Bester		
DURATION	3 hours (180 min)	TOTAL MARKS	100

NUMBER OF PAGES OF QUESTION PAPER (Including cover page)	11
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### INFORMATION/INSTRUCTIONS:

- Answer all questions.
- Use a blue or a black pen only.
- Show all calculations, workings and reasoning clearly.
- Silent, non-programmable calculators may be used.
- **Round up** all amounts to the nearest **Rand**.

Question	Topic	Marks	Time
1	Individuals	35	63 minutes
2	Fringe Benefits	15	27 minutes
3	Capital Gains Tax	21	38 minutes
4	Employees' Tax	14	25 minutes
5	Provisional Tax	15	27 minutes
		<b>100</b>	<b>180 minutes</b>

**QUESTION 1****[35 Marks]**

Mr Smith, 52-years-old, was employed by ABC Couriers Ltd as a driver. Mr Smith lost his job on 30 November 2018 after he was found guilty of acting against company policy. He is married **out of community of property** to Janet and they have two children aged 13 and 16. Mr Smith approached you to help him determine his income tax liability for the 2019 year of assessment, and provided you with the following information:

1. Mr Smith received the following amounts from ABC Couriers:
  - A monthly salary of R22 800.
  - In March 2018, Mr Smith was awarded the “Employee of the month”-prize and received a flat screen television valued at R9 800 (excl. VAT).
2. While employed as a driver, Mr Smith saw the opportunity to make some money of his own and made private deliveries using the company vehicle. Income resulting from these private deliveries amounted to R32 000 during the year. This is against company policy, and after he was caught for the third time, the company took disciplinary action against him. This resulted in him being dismissed on the 30 November 2018.
3. Mr Smith earned the following amounts:
  - R6 000 interest from an investment in a bank in Switzerland.
  - R18 200 interest from a South African bank.
  - R4 200 foreign dividends. These shares were not listed on the South African Stock Exchange.
4. Mr Smith, inherited a block of flats from his father and currently all the flats are being rented out, resulting in a total rental income of R120 000 for the year of assessment. He appointed a caretaker for the building and paid the caretaker R48 000 for the 2019 year of assessment. During the current year he also incurred advertising costs to advertise his property for rent, amounting to R4 000.

5. Mr Smith belonged to the ABC Couriers Pension Fund and contributed R1 300 per month to the fund while he was employed. On resignation from the fund on 30 November 2018, Mr Smith received a retirement fund lump sum benefit of R750 000. During his previous years of service (excluding the current year), pension fund contributions of R6 400 were not allowed as deductions in terms of s11F.
6. Because Mr Smith no longer belonged to the pension fund, Mr Smith purchased a life annuity for R240 000 in December 2018. The annuity received is R15 000 per year, receivable monthly, for 24 years. The first annuity payment was received on 31 December 2018.
7. Mr Smith belonged to a registered medical aid fund for the entire tax year of assessment, with his wife and children being his dependants. Mr Smith's monthly contributions are R4 200. Other medical expenses incurred by the family and paid by Mr Smith during the year of assessment are as follows:
- R1 900 for specialised dentistry for his daughter.
  - R3 500 in psychological counselling for his wife who had a nervous breakdown after he lost his job.

None of these amounts were recovered from the medical aid.

**REQUIRED:**

Calculate Mr. Smith's normal income tax liability for that tax year of assessment ended 28 February 2019. (35)

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**QUESTION 2**

**[15 Marks]**

**PART A**

**(5 Marks)**

**REQUIRED:**

**Provide answers to each of the questions 1- 3 below.**

Remember to include explanations where necessary and show all workings.

Ignore any implications of VAT.

1. In order to calculate the net amount of a travel allowance to be included in an individual's gross income, there needs to be a distinction between two types of travel allowances. **Name two types of travel allowances.** (2)

2. An employer gives an old welding machine which had a cost price of R3 500 (Excluding VAT) to an employee. The machine was a capital asset of the employer and has a market value of R2 000 when given to the employee.

**Determine the cash equivalent of the fringe benefit received by the employee.**(1)

3. An employer contributes R30 per meal for his employees at a coffee shop close to where his business is situated. Each employee contributes an additional R360 and then receives 20 coupons for the month from the employer. Each coupon can be used to redeem a meal from the coffee shop.

**Calculate the taxable value of the employee's benefit received.** (2)

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## **PART B**

**(5 Marks)**

Mr. AK is an employee of ZM (Pty) Ltd. He and his family were provided with an unfurnished residential accommodation in an 8-roomed house owned by ZM (Pty) Ltd. Power and fuel was supplied by ZM (Pty) Ltd. The remuneration paid to Mr. AK by ZM (Pty) Ltd during the previous tax year was R120 000. Mr. AK does not have an interest in the house and is not a controlling shareholder in ZM (Pty) Ltd, nor does he have a pre-emptive right in respect of the house.

### **REQUIRED:**

Calculate the amount that should be included in Mr. AK taxable income calculation for the year ended 28 February 2019.

Remember to include explanations where necessary and show all workings.

(Ignore any implications of VAT) (5)

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**PART C****(5 Marks)**

Blue Line Enterprises Limited offers attractive packages to its staff and encourages them to become shareholders in the company through various schemes. Blue Line Enterprises Limited is a registered VAT vendor.

On 1 January 2019, Ms. Habakkuk, an employee of Blue Line Enterprises Limited, purchased her own house. She took out a home loan to purchase the house and Blue Line subsidized the loan by paying 6% of the total interest payable. Ms. Habakkuk paid the balance. The loan for R180 000 was taken out on 1 January 2019 when the loan interest rate was 8.5%. On 1 February 2019, the loan interest rate rose to 12%. (Assume an official rate of interest of 10% throughout the year).

**REQUIRED:**

Calculate the amount that should be included in Mr. AK taxable income calculation for the year ended 28 February 2019.

Remember to include explanations where necessary and show all workings.

(Ignore any implications of VAT)

**(5)****QUESTION 3****[21 Marks]****PART A****(18 Marks)**

Miss A was ordinarily resident in South Africa for her entire life, until her death on the 16 September 2018. She was never married. At the time of her death, she was 55-years-old. During her life, she had acquired the assets listed below. She still held these assets during her 2019 year of assessment until her death, after which these assets were transferred into her deceased estate.

1. Home in Johannesburg.

This was her home that she lived in for many years. She had bought the house on 1 December 1999 at a cost of R550 000. She made improvements to the house in 2005, when she extended the building to create a garage and an extra room.

The value of these improvements were R250 000. In 2009 she repaired her roof at a cost of R15 000.

The market values of the house were as follows:

Market Value on 1 December 1999 – R570 000

Market Value on 1 October 2001 – R750 000

Market Value on 16 September 2018 – R3 250 000

2. Boat.

Miss A owned a 12-metre long boat that she inherited from her uncle on 1 July 2017. The market value of the boat on 1 July 2017 was R115 000. At the time of her death, the market value of the boat was R105 000.

3. Motor Car

Miss A had purchased a car in 2015 for R550 000. She used this car for her work and private travel around South Africa. At the time of her death, the car had a market value of R325 000.

**REQUIRED:**

Calculate the net capital gain to be included in Miss A's taxable income calculation for the 2019 year of assessment. Ignore any possible Donations Tax or VAT implications.

**(18)**

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**PART B**

**(3 Marks)**

Company A Ltd is a company registered in South Africa since 2010. The company made a taxable income of R1000 000 prior to any inclusion of capital gains or losses for its 2019 tax year of assessment. The sum of its capital gains and losses for its 2019 year of assessment is R200 000.

**REQUIRED:**

Calculate the tax payable by Company A Ltd for its 2019 year of assessment.

**(3)**

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**QUESTION 4****[14 Marks]****PART A****(4 Marks)****REQUIRED:**

For each of the cases below (a-d), provide the amount on which the employees' tax should be calculated for the 2019 year of assessment.

- a) An amount of R45 000 that Mr. A received during the 2019 tax year of assessment from his private business that he managed.
  - b) Your employer contributed a total of R10 000 to your medical aid fund on your behalf. This is 50% of your total contribution to the medical aid fund for the year.
  - c) Your employer reimbursed you for a total amount of R2 500 for business expenses you incurred during September 2018.
  - d) You receive overtime remuneration from your employer amounting to R5 800 for the 2019 tax year of assessment.
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**PART B****(10 Marks)**

Mr. B is a 64-year-old employee of ABC (Pty) Ltd. He worked for this company since 1 January 2005. The following amounts represent his income and/or deductions for the 2019 year of assessment:

- A monthly salary of R40 000.
- A monthly travel allowance of R4 000. Mr. B estimated that he used his car for business purposes for 10% of the time.
- Mr. B received a R25 000 performance bonus in December 2018.
- Mr. B retired from his employment on 1 January 2019.

**REQUIRED:**

Calculate the employees' tax withheld from Mr. B's remuneration for the 2019 year of assessment.

**(10)**

**QUESTION 5****(15 Marks)****PART A****(6 Marks)****REQUIRED:****Provide answers to each of the questions 1 and 2 below.**

1. Any person who falls into the definition of a provisional taxpayer is required to register as a provisional taxpayer within 21 business days after becoming obliged to register. List three types of individuals required to register as provisional taxpayers.

**(3)**

2. Briefly explain the concepts below in the context of the South African income tax system:

(i) Tax Threshold **(1)**

(ii) Underestimation Penalty **(1)**

(iii) Tax Rebates **(1)**

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**PART B****(9 Marks)**

Mr. Addie is an employee of a company. He also runs his own business over weekends in order to earn additional income. Upon the submission of his Income Tax Return for Individuals (IT12) for the 2018 tax year, Mr. Addie received an assessment and was notified by the Commissioner of the South African Revenue Service (SARS) on 1 October 2018 that he is a provisional taxpayer. Mr. Addie is 42- years-old.

The following information relates to Mr. Addie for the year of assessment ended 28 February 2019.

	<b>R</b>
Basic Amount	R133 400
Estimated taxable income for second provisional payment	R 90 000
Actual taxable income	R150 000



Mr. Addie paid the following taxes:

Employee's tax paid of R5 000 from 1 March 2018 until 31 August 2018 and R3 189 from 1 September 2018 until 28 February 2019.

First provisional tax payment of R1 285.

Second provisional tax payment of R0

**REQUIRED:**

Calculate the underestimation penalty (Two-tier system) of Mr. Addie's provisional tax payment for the year ended 28 February 2019. **(9)**

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**TOTAL: 100 MARKS**

**APPENDIX****Rates of tax for individuals****2019 tax year (1 March 2018 - 28 February 2019)**

<b>Taxable income (R)</b>	<b>Rates of tax (R)</b>
Not exceeding - 195 850	18% of taxable income
Exceeding 195 850 – but not exceeding R305 850	R35 253 + 26% of the amount above R195 850
Exceeding R305 850 – but not exceeding R423 300	R63 853 + 31% of the amount above R305 850
Exceeding 423 300 – but not exceeding R555 600	R100 263 + 36% of the amount above R423 300
Exceeding R555 600 – but not exceeding R708 310	R147 891 + 39% of the amount above R555 600
Exceeds R708 310 – but not exceeding R1 500 000	R207 448 + 41% of the amount above R708 310
Exceeds R1 500 000	R532 041 + 45% of the amount above R1 500 000

**Retirement Lump sum Withdrawal Benefit****2019 tax year (1 March 2018 - 28 February 2019)**

<b>Taxable income (R)</b>	<b>Rate of tax (R)</b>
R0 - R25 000	0%
R25 001 - R660 000	18% of the amount above R25 000
R660 001 - R990 000	R114 300 + 27% of the amount above R 660 000
R990 001 and above	R203 400 + 36% of the amount above R990 000

**Retirement & Death Benefits or Severance Benefits****2019 tax year (1 March 2018 - 28 February 2019)**

<b>Taxable income (R)</b>	<b>Rate of tax (R)</b>
R0 - R500 000	0%
R500 001 - R700 000	18% of the amount above R500 000
R700 001 - R1 050 000	R36 000 + 27% of the amount above R700 000
R1 050 001 and above	R130 500 + 36% of the amount above R1 050 000

**Travel allowance – cost scale**

Travel allowance for years of assessment **commencing** on or after 1 March 2018 (Government Gazette No. 38516 of 28 February 2019):

<b>Where the value of the vehicle -</b>	<b>Fixed Cost</b>	<b>Fuel Cost</b>	<b>Maintenance</b>
	<b>R</b>	<b>c/km</b>	<b>Cost c/km</b>
Does not exceed R85 000	28 352	95,7	34,4
Exceeds R85 000, but does not exceed R170 000	50 631	106,8	43,1
Exceeds R170 000, but does not exceed R225 000	72 983	116	47,5
Exceeds R225 000, but does not exceed R340 000	92 683	124,8	51,9
Exceeds R340 000, but does not exceed R425 000	112 443	133,5	60,9
Exceeds R425 000, but does not exceed R510 000	133 147	153,2	71,6
Exceeds R510 000, but does not exceed R595 000	153 850	158,4	88,9
Exceeds R595 000	153 850	158,4	88,9