



FACULTY/COLLEGE		College of Business and Economics	
SCHOOL		School of Accounting	
DEPARTMENT		Accountancy	
CAMPUS		APK	
MODULE NAME		Taxation 300 Intermediate Taxation and Tax Planning	
MODULE CODE		TAX300 S3BCTQ3	
SEMESTER		Second	
ASSESSMENT OPPORTUNITY, MONTH AND YEAR		Supplementary Assessment Opportunity January 2020	
ASSESSMENT DATE	6 January 2020	SESSION	08h00
ASSESSORS	Mr S Makhaya Mrs L Barnard Mr J Olivier		
INTERNAL MODERATOR	Mrs M van Heerden		
EXTERNAL MODERATOR	Mrs L Groenewald (NWU)		
DURATION	37 Minutes reading 188 Minutes writing	TOTAL MARKS	125

NUMBER OF PAGES OF QUESTION PAPER (including annexures)	10
NUMBER OF PAGES OF REQUIRED	2

INFORMATION/INSTRUCTIONS:

- This is an open-book assessment.
- There are 5 questions. **All questions are compulsory.**
- Answers may NOT be written in pencil. No tippex may be used.
- Round all amounts to the nearest Rand where applicable.
- **You may not take this paper with you. No marks will be awarded to students who do not hand back this question paper.**

QUESTION 1

40 MARKS

Mrs Suné Black is 66 years old and a resident of South Africa. Suné is a qualified Chartered Accountant and was employed as Chief Executive Officer of Hunters Black (Pty) Ltd (hereafter referred to as “Hunters Black”), until 31 October 2017, the date of her retirement. Suné is the sole shareholder of Hunters Black. Hunters Black, a South African resident company, specializes in the production of craft beer which is approved by the South African Revenue Service (SARS) as a process of manufacture. Suné has two children namely: Mark Black and Jaco Black.

Mark Black is 26 years old and qualified as a medical practitioner after years of intensive study. Currently he is employed at one of the best hospitals in South Africa and has aspirations to become a world class surgeon.

Jaco Black is 16 years old and diagnosed with a disability as defined in terms of section 6B(1) of the Income Tax Act. He was born very late in Suné’s life and is incapable of performing any daily activities independently. He is dependent on a permanent nurse appointed by Suné.

1. Information regarding Suné Black:

During 2017 Suné was diagnosed with a terminal heart disease. To prepare for her eventual death she consulted with an estate planner to ensure that her estate would be in order before her death. As Mark showed no interest in Hunters Black and as Jaco is incapable of taking over, the estate planner advised Suné to establish a family trust to which her assets can be sold and then managed to the benefit of her two sons.

Suné’s estate planner also indicated to her that if she established the trust and donated her assets to the trust while she is still alive, she would not be subject to capital gains tax or estate duty on this assets, on the date of her death.

Suné owned the following assets:

- Hunters Black shares, which she purchased for an amount of R5 000 during 2009; and
- An unlisted foreign investment that cost her R250 000 during 2011. She owns 5% of the equity shares and voting rights in this foreign company.

Suné established the Black Family Trust (hereafter referred to as “the trust”) on 1 June 2017 and donated her foreign investment to the trust on 30 June 2017.

She also sold the equity shares in Hunters Black to the trust for an amount of R10 000 000 on 1 March 2018. The purchase price remained outstanding on a loan account bearing annual interest of 3%.

The assets had the following market values on the respective dates:

Asset	30 June 2017	1 March 2018	31 December 2018
Hunters Black shares	R9 050 000	R10 000 000	R15 000 000
Foreign equity shares	R4 000 000	R4 025 000	R5 500 000

Information regarding Mark Black:

Mark Black received a work offer from one of the best medical facilities in New York, United States of America (USA). The only condition attached to the contract was that Mark worked a trial period of two months at the facility before he could be formally appointed.

Mark went to New York on 31 March 2018 to work the trial period from 1 April 2018 until 31 May 2018. He received a salary of R350 000 from the medical facility for the two month trial period. After Mark worked the two month trial period, the medical facility offered him a permanent position commencing 2 August 2018.

Mark returned home to South-Africa to get his affairs in order as he planned to accept the offer. He formally emigrated from South-Africa to the USA on 1 August 2018. Mark never visited South Africa after emigrating to the USA.

During 2017 Mark was part of a “Doctors without Borders” program aiding residents of Libya, North Africa. He went to Libya during the period 1 July 2017 up until 31 October 2017, after which he returned home to South-Africa.

Mark had the following assets during the 2019 year of assessment:

- An investment in 13% debentures issued by Hansel (Pty) Ltd (hereafter “Hansel”), a South-African resident company, to Mark at a purchase price of R500 000 on 1 March 2018. Interest on the investment, of R65 000, accrued to Mark on 28 February 2019.
- A stylish holiday house in Cape Town, South Africa which was rented out for the whole month of December 2018 at a price of R2 000 per day. The market value of the house on 31 July 2018 amounted to R12 250 000. Mark bought the house during 2016 for an amount of R9 500 000. He sold the house on 31 January 2019 to an unconnected South African resident at a market value of R12 500 000.

2. Information regarding the Trust

To administer the Trust Suné appointed the family attorney and a fellow accountant as the trustees. Jaco Black and Mark Black are the only beneficiaries.

Jaco Black has a vested interest in 50% of the Hunters Black shares and 50% of the dividend income received by the Trust from the Hunters Black shares, as it serves to finance his daily needs.

Mark Black has a vested right in R300 000 of the dividend income from the Hunters Black shares, payable annually in the form of an annuity on 31 January.

No beneficiary has a vested interest in any of the other assets or additional income retained in the trust. The trustees may distribute the other assets or additional income at their discretion.

The following table summarizes the income and distributions of the Trust during the 2019 year of assessment:

	Date of distribution	Total	Dividends on local shares	Dividends on foreign shares
		R	R	R
NET RECEIPTS		1 900 000	1 500 000	400 000
DISTRIBUTIONS				
To: Mark Black	1 October 2018	(400 000)		(400 000)
To: Jaco Black	31 January 2019	(750 000)	(750 000)	
To: Mark Black	31 January 2019	<u>(300 000)</u>	<u>(300 000)</u>	
INCOME RETAINED IN TRUST		<u>R450 000</u>	<u>R450 000</u>	<u>R-</u>

Additional information:

- Assume an official rate of interest of 7.75% per annum for the entire 2019 year of assessment.
- Assume a market related interest of 15% per annum for the entire 2019 year of assessment.
- No donations were made by Suné Black other than those indicated in the information above.

QUESTION 2

(30 MARKS)

PART A

William is a full time employee at Fashion (Pty) Ltd. Employees' tax of R7 000 per month is deducted from William's remuneration.

William had to register as a provisional taxpayer during the 2017 year of assessment because his taxable income from local rent producing properties he owns, exceeded R30 000. He earned local taxable rental income of R400 000 during the 2019 year of assessment.

William received a notice of income tax assessed (ITA34) for his 2017 year of assessment on 11 November 2017 and stated a taxable income of R600 000. The notice of income tax assessed (ITA34) for the 2018 year of assessment was received on 18 November 2018 and stated a taxable income of R720 000.

William does not contribute to a medical scheme, but had to pay R525 000 for his disabled mother's stay in the hospital and prescribed medicine for her during the 2019 year of assessment.

PART B

William also started a sole trader business on 1 July 2017 to increase his wealth. He is dealing in expensive and scarce wine. William unfortunately made a loss of R60 000 from this trade during the 2018 year of assessment

William received an additional assessment regarding his 2018 year of assessment on 20 February 2019. The SARS assessed William's taxable income for the 2018 year of assessment at a higher amount to what his calculation indicated. The reason for the higher amount is that the loss he made on dealing in wine was not allowed as a deduction from his taxable income. This resulted in him having to make an additional tax payment of R24 600. William wants to object to this assessment as he feels that he should be allowed to deduct this loss from his taxable income. He decided that he will not make the additional tax payment before this issue is resolved.

PART C

William has a daughter Petal, who is 26 years old and a Canadian tax resident.

1. Petal received a salary of R20 000 per month from her employer in Canada. All Petal's duties are performed in Canada and she only visits her family in South Africa in December for 30 days each year. Petal does not carry on a permanent establishment in South Africa.
2. Petal received interest of R35 000 from a fixed deposit at a bank in South Africa on 28 February 2019.
3. Petal received dividends of R5 000 on the shares that was donated to her by William on 28 February 2019.

QUESTION 3

(15 MARKS)

Aqua-Rico (Pty) Ltd (hereafter referred to as "Aqua-Rico") is a resident company that manufactures sneakers for sale within the boundaries of the North-West Province and has a February year-end. The company is registered as a category B vendor for Value-Added Tax (VAT) purposes that makes 98% taxable supplies. Where applicable, all the necessary documentation required by the VAT Act has been obtained.

PART A

Aqua-Rico was advised by its consultants to start providing additional compensation to its employees in order to motivate them and to gain their loyalty. Aqua-Rico therefore granted the

right of use of a company laptop to Steve Jones, one of its expert employees in the creditors division from 1 February 2019. Steve Jones has the right to use the laptop for one year, the useful life of the computer is four years. The laptop was acquired for R13 500 (VAT excluded) on 1 February 2019 and its open market value on this date amounted to R14 250. Steve Jones does not pay anything for the right of use and uses it mainly for private purposes. He is the only employee in the division to have received such right.

PART B

An unfortunate incident occurred on 19 September 2018 when a gas cylinder exploded in Aqua-Rico's sneaker manufacturing plant. This explosion caused an enormous uncontrollable fire that burnt all manufacturing equipment in the plant to ashes. Aqua-Rico had to suspend its manufacturing until such a time that the plant could be renovated and fitted with new equipment. The whole process was expected to be completed by 15 June 2019.

As part of Aqua-Rico's business continuity strategy, the plant and all manufacturing equipment were insured with Phoenix Insurers from the day it was brought to use. Phoenix Insurers conducted a comprehensive assessment of the scope of damages and paid Aqua-Rico the following amounts during December 2018:

- R 12 000 000 for renovations and acquisition of new manufacturing equipment; and
- R 5 250 000 as compensation for the fact that Aqua-Rico will not be able to carry on with its manufacturing until such a time its manufacturing plant is working again. These proceeds would be used to pay salaries and creditors for the period of the involuntary suspension.

QUESTION 4

(15 MARKS)

Lucky Woof (Pty) Ltd (hereafter referred to as "Lucky Woof") is a company that was incorporated and which is managed in Krugersdorp, South Africa. The company manufactures dog food. The company is a registered vendor for Value-Added Tax (VAT) purposes and the South African Revenue Service (SARS) is satisfied that Lucky Woof makes 96% taxable supplies. All the necessary documentation required by the VAT Act has been obtained. The SARS has approved the company's process as a process of manufacture. Lucky Woof has a 31 December financial year-end and does not qualify as a small business corporation.

Pieter Snoop is the chief executive officer (CEO) of Lucky Woof and a 20% holder of the equity shares and voting rights in the company. Pieter Snoop is not a registered VAT vendor.

Lucky Woof incurred the following expenditure during the 2019 year of assessment:

1. Annual security services fee of R100 000 (excluding VAT) which was paid on 1 October 2019 for the period 1 October 2019 to 30 September 2020.

Property taxes of R130 000 (excluding VAT), which is annually payable in terms of municipal regulations (legislation) requiring that property taxes must be paid in advance, was paid on 1 September 2019 for the period 1 September 2019 to 31 August 2020.

2. Pieter Snoop purchased a packaging machine from Lucky Woof for R230 000 (including VAT) on 1 April 2019. Lucky Woof originally acquired the machine new for R250 000 (including VAT) on 1 June 2018 and used it in the process of manufacture. The open market value of the machine amounted to R206 140 (excluding VAT) on 1 April 2019.

QUESTION 5

(25 MARKS)

Mr Kekana, a SA resident, passed away on 1 November 2018, aged 60. On 1 October 2018, he had donated his farm in Hermanus to his sister. Mr Kekana paid the donations tax on 31 October 2018. The farm had a market value of R2 million on 1 October 2018, and was purchased by Mr Kekana for R1 million during 2014.

Mr Kekana's assets had the following market values on 1 November 2018:

	R
Primary residence – Cape Town	10 000 000
Mercedes	800 000
Time share	40 000
Pay-out from pension fund	2 000 000
Shares in Babula (Pty) Ltd – valuation done by CA(SA)	100 000
Property in London	3 500 000

The property in London was left to him in the will of his grandmother, who was a British resident.

Mr Kekana is married out of community of property, with the accrual system, to Mrs Kekana (also a SA resident).

Assume, just for purposes of calculating the accrual, the following:

	Mr Kekana	Mrs Kekana
On date of marriage:		
Assets	R500 000	R250 000
Liabilities	R100 000	R50 000
On date of Mr Kekana's death:		
Assets	R5 million	R2 million
Liabilities	R400 000	R300 000

Mr Kekana's last will and testament stipulated the following (assume that the estate was liquidated by 28 February 2019):

- The primary residence was sold to a third party for R9 million.
- The Mercedes was left to his wife.

- The time share was sold to a third party for R30 000
- The shares in Babula (Pty) Ltd were sold to a third party for R85 000.
- The property in London was left to his sister.

The executor is not registered for VAT and charges the maximum prescribed fee.

The executor paid income taxes amounting to R323 800 over to SARS and paid medical expenses amounting to R32 600 to the hospital where Mr Kekana was being treated prior to his death.

MONETARY CHANGES

Source: North West University

Applicable in respect of years of assessment commencing **on or after 1 March 2018 (i.e. 2019 year of assessment)**.

REBATES (section 6)

Primary rebate increased from R13 635 to **R14 067**;

Secondary rebate increased from R7 479 to **R7 713**;

Tertiary rebate increased from R2 493 to **R2 574**.

MEDICAL CREDITS (section 6A)

Benefits for the taxpayer (or first dependant if taxpayer is not a member): R303 increased to **R310**;

Benefits for the taxpayer and one dependant (or first two dependants if taxpayer is not a member): R606 increased to **R620**;

Benefits for each additional dependant: R204 increased to **R209**.

RESIDENTIAL ACCOMMODATION (paragraph 9 of the Seventh Schedule)

Symbol B of R75 750 increases to **R78 150**.

RATES OF NORMAL TAX

- In respect of the taxable income (excluding any retirement fund lump sum benefit, retirement fund lump sum withdrawal benefit or severance benefit) of natural persons, estates and special trusts:

Taxable income	Rate of tax
Not exceeding R195 850	18 per cent of taxable income
Exceeding R195 850 but not exceeding R305 850	R35 253 plus 26 per cent of amount by which taxable income exceeds R195 850
Exceeding R305 850 but not exceeding R423 300	R63 853 plus 31 per cent of amount by which taxable income exceeds R305 850
Exceeding R423 300 but not exceeding R555 600	R100 263 plus 36 per cent of amount by which taxable income exceeds R423 300
Exceeding R555 600 but not exceeding R708 310	R147 891 plus 39 per cent of amount by which taxable income exceeds R555 600
Exceeding R708 310 but not exceeding R1 500 000	R207 448 plus 41 per cent of amount by which taxable income exceeds R708 310
Exceeding R1 500 000	R532 041 plus 45 per cent of amount by which taxable income exceeds R1 500 000

TRAVEL ALLOWANCE: COST SCALE

Where the value of the vehicle-	Fixed Cost (R)	Fuel Cost (c/km)	Maintenance Cost (c/km)
does not exceed 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 R255 000	72 983	116.0	47.5
exceeds R255 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

Alternative fixed rate for certain reimbursive travel allowances: **361** cents per kilometer (previously 355 cents per kilometer).

SUBSISTENCE ALLOWANCE

- Local travel:
 - Allowance for incidental costs only – **R128** (previously R122) per day.
 - Allowance for meals and incidental costs – **R416** (previously R397) per day.

TRANSFER DUTY (section 2(1)(b) of the Transfer Duty Act)

Value of the property-	Rate
does not exceed R900 000	0 per cent
exceeds R900 000 but does not exceed R1 250 000	3 per cent of the value above R900 000
exceeds R1 250 000 but does not exceed R1 750 000	R10 500 plus 6 per cent of the value above R1 250 000
exceeds R1 750 000 but does not exceed R2 250 000	R40 500 plus 8 per cent of the value above R1 750 000
exceeds R2 250 000 but does not exceed R10 000 000	R80 500 plus 11 per cent of the value above R2 250 000
exceeds R10 000 000	R933 000 plus 13 per cent of the value above R10 000 000

SMALL BUSINESS CORPORATION (as defined in section 12E)

Applicable in respect of years of assessment ending between 1 April 2019 and 31 March 2020:

Taxable income	Rate of tax
Not exceeding R79 000	0 per cent of taxable income
Exceeding R79 000 but not exceeding R365 000	7 per cent of taxable income above R79 000
Exceeding R365 000 but not exceeding R550 000	R20 020 plus 21 per cent of amount by which taxable income exceeds R365 000
Exceeding R550 000	R58 870 plus 28 per cent of amount by which taxable income exceeds R550 000

SEVERANCE BENEFITS AND RETIREMENT FUND LUMP SUM BENEFITS

Taxable income from lump sum benefit	Rate of tax
Not exceeding R500 000	0 per cent of taxable income
Exceeding R500 000 but not exceeding R700 000	18 per cent of taxable income above R500 000
Exceeding R700 000 but not exceeding R1 050 000	R36 000 plus 27 per cent of amount by which taxable income exceeds R700 000
Exceeding R1 050 000	R130 500 plus 36 per cent of amount by which taxable income exceeds R1 050 000

RETIREMENT FUND LUMP SUM WITHDRAWAL BENEFIT

Taxable income from lump sum benefit	Rate of tax
Not exceeding R25 000	0 per cent of taxable income
Exceeding R25 000 but not exceeding R660 000	18 per cent of taxable income above R25 000
Exceeding R660 000 but not exceeding R990 000	R114 300 plus 27 per cent of amount by which taxable income exceeds R660 000
Exceeding R990 000	R203 500 plus 36 per cent of amount by which taxable income exceeds R990 000