



FACULTY/COLLEGE	College of Business and Economics
SCHOOL	School of Accounting
DEPARTMENT	Department of Accountancy
CAMPUS	APK
MODULE NAME	Tax Planning
MODULE CODE	TXP2B01 / TXP02B2
SEMESTER	Second
ASSESSMENT OPPORTUNITY MONTH AND YEAR	Last Assessment Opportunity November 2019

ASSESSMENT DATE	11 November 2019	SESSION	TBA
ASSESSOR	CD Anschutz		
MODERATOR	Mrs M Wassermann		
DURATION	150 min	TOTAL MARKS	100

NUMBER OF PAGES OF QUESTION PAPER (Including cover page)	13
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INFORMATION/INSTRUCTIONS:

- This is a closed-book assessment.
- This paper is printed on **13 (thirteen)** pages.
- There are **5 (five)** questions which are all **compulsory**.
- The use of silent non-programmable calculators are permitted.
- Read the questions carefully and answer only what is required.
- Number your answers clearly and correctly as per the question paper.
- Write neatly and legibly on both sides of the paper in the answer book, starting on the first page.

Question	Topic	Marks	Time
1	Taxation of a trust	20	30 minutes
2	VAT calculation for a company	25	37 minutes
3	CGT	25	38 minutes
4	Estate duty	25	38 minutes
5	Estate Planning	5	7 minutes
		100	150 minutes

QUESTION 1**[20 marks]**

On 28 February 2016, Mrs Mona Morkel formed The Morkel Family Trust. The trust deed stipulates that the beneficiaries of the trust are:

- Mrs Mona Morkel;
- Mr Albertus Morkel (Mona's husband);
- Celeste aged 25, (Albertus and Mona's daughter)
- Bertie aged 15, (Albertus and Mona's son)

In terms of the trust deed an annuity of R150 000 (per annum) must be paid to any child (of Albertus and Mona) who has attained the age of 21.

Apart from the annuity all income distributions are at the sole discretion of the trustees.

On the day when the trust was created (28 February 2016), the following assets were donated to the trust:

Asset	Donor
A building in Cape Town	Mona Morkel (currently 52 years old)
South African Listed Shares	Albertus Morkel (currently 56 years old)
Money market investment	Joan Johnson (Mona's mother – currently 75 years old)

The income from the trust, for the year ended on the last day of February 2019 was as follows:

Line Item	R
Rental (from the building)	500 000
Dividends (gross amount – ignore withholding tax)	200 000
Interest form the money market investment	300 000

All dividends were received prior to the vesting date of the discretionary distributions (below). SARS therefore accepted the trust as being the beneficial owner of the shares.

On the last day of February 2019 the trustees paid the R150 000 annuity to Celeste and in addition, they made a discretionary distribution of R80 000 (each) to Celeste and Bertie. All distributions were made from the general pool of income.

All the persons are South African residents. Albertus and Mona are married out of community of property. No trustees' remuneration was paid.

YOU ARE REQUIRED TO calculate the taxable income for the 2019 year of assessment for:

- 1.1 Mona;
- 1.2 Albertus;
- 1.3 Joan;
- 1.4 Celeste;
- 1.5 Bertie; and
- 1.6 The Morkel Family Trust.

QUESTION 2**[25 marks]**

Otto Stern is a manufacturing jeweller. He manufactures and retails his jewellery from a shop he leases in an up-market shopping centre in Durban. He is a sole proprietor. He is registered for value-added tax on the invoice basis.

After a recent query regarding Otto Stern's value-added tax affairs from the local SARS office, he has requested your assistance in completing his value-added tax return for the two-month period 1 August 2018 to 30 September 2018.

An analysis of Otto Stern's income and expenditure for his two-month tax period ending 30 September 2018 is set out below. Unless otherwise stated, **all amounts are inclusive of value-added tax when applicable**:

Description	Note	R
INCOME		
Sales of jewellery		322 000
Repairs of jewellery		29 900
Interest on current accounts		5 175
Indemnity payment received	Note 1	51 750
Fashion award	Note 2	25 300
EXPENDITURE		
Bad debts	Note 3	13 325
Bank charges		920
Depreciation	Note 4	16 560
Flowers	Note 5	2 530
Insurance premiums	Note 6	3 450
Petrol		1 495
Printing and stationery		1 610
Purchases	Note 7	160 425
Salaries		41 400
Refreshments	Note 8	1 380
Rentals	Note 9	13 340

Notes:

1. The indemnity payment of R51 750 was awarded for two expensive items of jewellery (trading stock) that was stolen from Otto Stern's shop in June 2018.
2. Otto Stern was voted 'Jewellery Designer of 2018' by a leading fashion magazine. He was awarded R25 300 by it for this achievement.
3. Otto Stern's bad debts written off of R13 325 comprise the following:
 - R10 350 owing by a long-standing customer of his as a result of a credit sale (not being the normal policy of his business). This customer has since emigrated and he has been unable to trace her. Please note: this debt has been outstanding since before April 2018.
 - R2 875 was lent to an employee who left town without repaying the loan.

4. Depreciation (for the two-month tax period) is charged for the following assets owned by Otto Stern:

Manufacturing equipment that was purchased in a previous tax period for R276 000 (R240 000 plus VAT of R36 000). **11 500**

A computer that was purchased on 1 August 2018 for R16 560 (R14 400 plus VAT of R2 160). **920**

A motor car that was purchased on 1 September 2018 for R310 500 (R270 000 plus VAT of R40 500). The motor car is used in his business. **4 140**

TOTAL DEPRECIATION for the TWO MONTHS R16 560

5. Fresh flowers costing R2 530 in total are purchased twice a week by Otto Stern and displayed in the shop.
6. Insurance premiums were incurred by Otto Stern for the following assets:

Manufacturing equipment	460
Office computer	230
Motor car	1 035
Trading stock	1 725

Total insurance premium 3 450

7. Purchases made by Otto Stern of R160 425 are made up as follows:

Purchases of raw materials (all from registered vendors)	126 500
Second-hand jewellery purchased from registered vendors	17 250
Second-hand jewellery purchased (and paid for) from non-registered vendors	16 675

Otto Stern purchased second-hand jewellery from both registered vendors (for example auctioneers) as well as from non-registered vendors (for example private individuals, deceased estates). He displays and sells second-hand jewellery in his shop.

8. Refreshments cost Otto Stern R1 380 and this amount includes coffee, tea and biscuits are provided to his employees and certain customers. (Otto Stern estimates that roughly 35% of the coffee, tea and biscuits are consumed by customers and the rest by his employees).

9. Rentals of R13 340 incurred by Otto Stern are for the following items:

• Shop premises	10 925
• Cash register	1 495
• Coffee machine	920

10. In August 2017 Otto Stern bought jewellery (trading stock) for R23 940 (R21 000 plus VAT at 14% of R2 940) from a local supplier. He enjoyed an input tax deduction of R2 940 in his tax period 1 August 2017 to 30 September 2017. He then encountered quality problems with this trading stock and paid the supplier only R19 152 (R16 800 plus VAT at 14% of R2 352) on September 2017. He refused to settle this account until the quality problems were resolved. At 30 September 2018, R4 788 (R4 200 plus VAT at 14% of R588) was still outstanding despite numerous letters of demand having been received by him from his supplier.

YOU ARE REQUIRED TO calculate the net value-added tax due to, or from the Commissioner for Otto Stern's two-month tax period ended 30 September 2018.

Provide brief reasons if any line item has no effect on the VAT calculation.

QUESTION 3**[25 marks]**

Andreas Nelson who is 60 years old decided to reorganise his assets during the 2019 year after he won R25 000 000 in the South African National Lottery.

Andreas disposed of the following assets during the 2019 year of assessment:

Primary residence

Andreas purchased his home on 1 June 2001 for R330 000. In August 2011 he made improvements to the home which cost him R50 000. He obtained a valuation of his home on 1 October 2001 which was R550 000. He sold his home on 1 July 2018 for R3 400 000 and moved into a retirement village.

Aircraft hangar and aircraft

Andreas had purchased an aircraft hangar (this could be described as a garage for an aeroplane) at a private airport in December 2008 at a cost of R240 000. During the 2019 tax year, Andreas decided to sell the hangar, as he was offered an amount of R440 000 by a prospective buyer. At the same time, he sold his private light aircraft for R2 100 000. He had purchased the plane in November 2008 for R1 300 000. The plane weighed 400 kilograms.

Car

Andreas, in the 2019 tax year, sold his car for a profit. It was a vintage Dart that he purchased for R20 000 in December 2011. He sold it in December 2018 for R35 000.

Boat

Andreas owned a 15-metre yacht which had cost him R750 000 on 1 November 2007. On 1 May 2018 he sold the yacht for R800 000. He had used the yacht for personal enjoyment.

Plots of land

Andreas owned two plots of land in Betty's Bay, Cape Town, which he had bought in 2007 for R120 000 each, with the intention that his two sons could each build a holiday house there once they had established themselves in their respective careers. Andreas's eldest son, however, subsequently emigrated to New Zealand, and indicated that as grateful as he was he was unlikely ever to make use of this opportunity. On 22 December 2018 Andreas therefore transferred ownership of one plot to his second son, and donated the second plot to SANParks, for which he received a section 18A certificate. The value of the plots on this date was R650 000 each.

Kruger Rands

Andreas sold his collection of Kruger Rands during the 2019 tax year, which he had purchased for R65 000. However, since the value of gold had decreased since he acquired them, he was only able to sell them for R47 000.

YOU ARE REQUIRED TO calculate the taxable gain that will be included in Andreas Nelson's taxable income for the year of assessment ended 28 February 2019. Briefly discuss any issues you had to consider during your decision making. And give reasons if a line item has no effect on the final answer.

NOTE: You are **NOT** required to calculate any donations tax effect, and may ignore any effect that donations tax may have in the determination of capital gains and losses.

QUESTION 4**[25 marks]**

Kitty Konstantinis was born on 5 May 1945. She died on 9 September 2018. She was ordinarily resident in South Africa throughout her life.

Her husband, Theo Konstantinis, had died on 31 May 2015. They had been married under an ante-nuptial contract.

Included in the donations that Kitty Konstantinis had made during her lifetime were the following donations:

- On 17 November 2015 (i.e. when she was 70 years old) to her elder son, Aristotle (born 5 April 1971), her house on the island of Mykonos in Greece, subject to her retaining the use of it until she died. The cost of the house in 2012 was the equivalent of R63 000 and its market value on 17 November 2015 was the equivalent of R210 000. Transfer duty paid by Aristotle was the equivalent of R1 290.
- On 18 November 2015 (i.e. when she was 70 years old), to her younger son, Pythaoras (born 27 October 1973), South African listed shares, subject to her continuing to receive the dividends from them until she died. The cost of the shares was R107 000 and their market value on 18 November 2015 was R240 000. Securities transfer tax paid by Pythagoras was R2 400.
- On 9 February 2018, to her cousin Clara (born 16 March 1941), an annuity of R6 000 (payable at the rate of R500 a month) for the remainder of Clara's life.
- On 1 July 2018 to her niece Olga, her jewellery valued at R60 000, subject to her right to take back the jewellery at any time, but on her death, Olga was to have it.

On her death, Kitty Konstantinis left the following property, liabilities and bequests:

- A residence in Kloof, Durban. It was sold for R2 790 000. A company purchased it and paid transfer duty of R222 400. She had inherited this residence from her husband when its value was R2 300 000. In the determination of the dutiable value of her husband's estate, a section 4A abatement of R3 500 000 was deducted.
- Furniture, pictures, and other household items, valued at R64 719.
- A fixed deposit of R80 000. Its interest was used to fund the R6 000 annuity payable to Clara (see above).
- Cash of R37 814.
- The market value of the house on the island of Mykonos in Greece donated to Aristotle was the equivalent of R300 000.
- The market value of the shares donated to Pythagoras was R380 000.
- Debts owed by her were R12 400, funeral expenses were R13 800, and the costs of winding-up her estate were R17 500.
- She bequeathed R20 000 cash to a South African registered political party and the residue of her estate equally to her daughter and her sons.

YOU ARE REQUIRED TO calculate the estate duty payable by her estate.

QUESTION 5**[5 marks]**

Jonathan Davies died at the age of 47. At the time of his death he was married (by ante nuptial contract) to Mafusi (43). They had three children, Thandeka (15), Busisani (13) and Donald (10). Both Jonathan's parents (Philip and Mary) are still alive and he also has a brother Andy.

Jonathan had no last will and testament (i.e. he died intestate). Jonathan's estate (available for distribution) amounted to R948 000.

YOU ARE REQUIRED TO calculate how much Philip, Mafusi, Busisani and Andy will receive from the estate.

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Appendix A**INCOME TAX: INDIVIDUALS & SPECIAL TRUSTS – 2019**

Taxable income (R)	Rate of tax (R)
0 – 195 850	18 % of taxable income;
195 850 – 305 850	35 253 + 26 % of taxable income above 195 850
305 850 – 423 300	63 853 + 31 % of taxable income above 305 850
423 300 – 555 600	100 263 + 36 % of taxable income above 423 300
555 600 – 708 310	147 891 + 39 % of taxable income above 555 600
708 311 – 1 500 000	207 448 + 41 % of taxable income above 708 310
1 500 001 and above	532 041 + 45 % of taxable income above 1 500 000

Appendix B**Travel allowance cost scale**

Value of the vehicle is -	Fixed Cost (R p.a.)	Fuel cost (c/km)	Maintenance cost (c/km)
0 – 85 000	28 352	95,7	34,4
80 001 – 170 000	50 631	106,8	43,1
170 001 – 255 000	72 983	116,0	47,5
255 001 – 340 000	92 683	124,8	51,8
340 001 – 425 000	112 443	133,5	60,9
425 001 – 510 000	133 147	153,2	71,6
510 001 – 595 000	153 850	158,4	88,9
Exceeding 595 000	153 850	158,4	88,9

Appendix C**Withdrawal lump sum benefits**

Taxable income (R)	Rate of tax (R)
0 – 25 000	0% of taxable income;
25 001 – 660 000	0 + 18% of taxable income above 25 000
660 001 – 990 000	114 300 + 27% of taxable income above 660 000
990 000 and above	203 400 + 36% of taxable income above 990 000

Retirement, Death AND Severance Benefit... lump sum benefits

Taxable income (R)	Rate of tax (R)
0 – 500 000	0% of taxable income
500 001 – 700 000	0 + 18% of taxable income above 500 000
700 001 – 1 050 000	36 000 + 27% of taxable income above 700 000
1 050 001 and above	130 500 + 36% of taxable income above 1 050 000

Appendix D (Page 1 of 2)

Life expectancy and present value tables (Table A)

Age	Expectation of life		Present value of R1 per annum for life		Age	Expectation of life		Present value of R1 per annum for life	
	Male	Female	Male	Female		Male	Female	Male	Female
0	64,74	72,36	8,327 91	8,331 05	46	24,58	30,14	7,819 24	8,059 56
1	65,37	72,74	8,328 28	8,331 14	47	23,79	29,27	7,771 09	8,031 19
2	64,50	71,87	8,327 76	8,330 91	48	23,00	28,41	7,718 43	8,000 26
3	63,57	70,93	8,327 14	8,330 64	49	22,23	27,55	7,662 36	7,966 17
4	62,63	69,97	8,326 44	8,330 33	50	21,47	26,71	7,602 01	7,929 50
5	61,69	69,02	8,325 67	8,329 99	51	20,72	25,88	7,537 13	7,889 67
6	60,74	68,06	8,324 80	8,329 61	52	19,98	25,06	7,467 48	7,846 46
7	59,78	67,09	8,323 81	8,329 18	53	19,26	24,25	7,393 87	7,799 65
8	58,81	66,11	8,322 71	8,328 69	54	18,56	23,44	7,316 31	7,748 34
9	57,83	65,14	8,321 46	8,328 15	55	17,86	22,65	7,232 34	7,693 55
10	56,85	64,15	8,320 07	8,327 53	56	17,18	21,86	7,144 14	7,633 63
11	55,86	63,16	8,318 49	8,326 84	57	16,52	21,08	7,051 78	7,568 96
12	54,87	62,18	8,316 73	8,326 08	58	15,86	20,31	6,952 25	7,499 27
13	53,90	61,19	8,314 80	8,325 22	59	15,23	19,54	6,850 04	7,423 21
14	52,93	60,21	8,312 65	8,324 27	60	14,61	18,78	6,742 06	7,341 35
15	51,98	59,23	8,310 29	8,323 20	61	14,01	18,04	6,630 10	7,254 57
16	51,04	58,26	8,307 70	8,322 03	62	13,42	17,30	6,512 32	7,160 20
17	50,12	57,29	8,304 89	8,320 71	63	12,86	16,58	6,393 01	7,060 46
18	49,21	56,33	8,301 80	8,319 26	64	12,31	15,88	6,268 22	6,955 37
19	48,31	55,37	8,298 41	8,317 64	65	11,77	15,18	6,137 89	6,841 61
20	47,42	54,41	8,294 71	8,315 84	66	11,26	14,51	6,007 26	6,723 93
21	46,53	53,45	8,290 61	8,313 83	67	10,76	13,85	5,871 65	6,598 93
22	45,65	52,50	8,286 13	8,311 61	68	10,28	13,20	5,734 03	6,466 35
23	44,77	51,54	8,281 17	8,309 12	69	9,81	12,57	5,591 82	6,328 18
24	43,88	50,58	8,275 64	8,306 33	70	9,37	11,96	5,451 65	6,184 66
25	43,00	49,63	8,269 59	8,303 26	71	8,94	11,37	5,307 75	6,036 07
26	42,10	48,67	8,262 74	8,299 81	72	8,54	10,80	5,167 44	5,882 78
27	41,20	47,71	8,255 16	8,295 95	73	8,15	10,24	5,024 37	5,722 22
28	40,30	46,76	8,246 77	8,291 71	74	7,77	9,70	4,878 76	5,557 43
29	39,39	45,81	8,237 37	8,286 97	75	7,41	9,18	4,734 90	5,388 93
30	38,48	44,86	8,226 94	8,281 70	76	7,07	8,68	4,593 54	5,217 27
31	37,57	43,91	8,215 38	8,275 83	77	6,73	8,21	4,446 63	5,046 79
32	36,66	42,96	8,202 57	8,269 30	78	6,41	7,75	4,303 09	4,870 92
33	35,75	42,02	8,188 36	8,262 10	79	6,10	7,31	4,158 98	4,693 89
34	34,84	41,07	8,172 62	8,254 00	80	5,82	6,89	4,024 40	4,516 47
35	33,94	40,13	8,155 36	8,245 09	81	5,55	6,50	3,890 51	4,343 99
36	33,05	39,19	8,136 47	8,235 17	82	5,31	6,13	3,768 02	4,173 15
37	32,16	38,26	8,115 58	8,224 26	83	5,09	5,78	3,652 76	4,004 82
38	31,28	37,32	8,092 74	8,211 99	84	4,89	5,45	3,545 46	3,839 88
39	30,41	36,40	8,067 81	8,198 66	85	4,72	5,14	3,452 32	3,679 21
40	29,54	35,48	8,040 30	8,183 86	86	4,57	4,85	3,368 64	3,523 71
41	28,69	34,57	8,010 67	8,167 62	87	4,45	4,58	3,300 66	3,374 26
42	27,85	33,67	7,978 44	8,149 83	88	4,36	4,33	3,249 07	3,231 75
43	27,02	32,77	7,943 44	8,130 12	89	4,32	4,11	3,225 97	3,102 96
44	26,20	31,89	7,905 47	8,108 81	90	4,30	3,92	3,214 38	2,989 12
45	25,38	31,01	7,863 80	8,085 27					

Annuity table (Table B)

Year	Amount	Year	Amount	Year	Amount	Year	Amount
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 E**The a (55) life mortality tables**

The a(55) tables for annuitants (published in 1953 by the University Press, Cambridge)								
Male					Female			
Age		Age			Age		Age	
20	53,379	60	17,520		20	57,496	60	21,144
21	52,341	61	16,773		21	56,562	61	20,330
22	51,405	62	16,041		22	55,630	62	19,526
23	50,469	63	15,323		23	54,696	63	18,733
24	49,531	64	14,622		24	53,761	64	17,9 53
25	48,593	65	13,936		25	52,827	65	17,185
26	47,656	66	13,268		26	51,892	66	16,430
27	46,717	67	12,617		27	50,955	67	15,690
28	45,778	68	11,984		28	50,020	68	14,965
29	44,839	69	11,370		29	49,084	69	14,2 56
30	43,900	70	10,774		30	48,148	70	13,563
31	42,961	71	10,199		31	47,211	71	12,887
32	42,023	72	9,643		32	46,275	72	12,229
33	41,085	73	9,107		33	45,339	73	11,590
34	40,149	74	8,592		34	44,404	74	10,9 70
35	39,214	75	8,098		35	43,470	75	10,370
36	38,281	76	7,622		36	42,537	76	9,788
37	37,349	77	7,166		37	41,605	77	9,226
38	36,420	78	6,731		38	40,674	78	8,686
39	35,495	79	6,317		39	39,745	79	8,1 67
40	34,572	80	5,923		40	38,818	80	7,669
41	33,654	81	5,547		41	37,894	81	7,192
42	32,739	82	5,192		42	36,972	82	6,736
43	31,829	83	4,856		43	36,053	83	6,302
44	30,925	84	4,539		44	35,137	84	5,8 90
45	30,026	85	4,241		45	34,225	85	5,500
46	29,133	86	3,961		46	33,316	86	5,131
47	28,247	87	3,698		47	32,411	87	4,782
48	27,368	88	3,453		48	31,511	88	4,455
49	26,496	89	3,223		49	30,615	89	4,1 47
50	25,632	90	3,009		50	29,724	90	3,859
51	24,776	91	2,818		51	28,838	91	3,596
52	23,929	92	2,640		52	27,957	92	3,352
53	23,091	93	2,477		53	27,082	93	3,126
54	22,263	94	2,326		54	26,212	94	2,916
55	21,445	95	2,186		55	25,349	95	2,723
56	20,636	96	2,058		56	24,492	96	2,544
57	19,839	97	1,941		57	23,643	97	2,379
58	19,054	98	1,832		58	22,801	98	2,228
59	18,280	99	1,731		59	21,968	99	2,087