Fundamentals Level – Skills Module

Taxation (South Africa)

Monday 3 December 2007

Time allowed
Reading and planning: 15 minutes
Writing: 3 hours

ALL FIVE questions are compulsory and MUST be attempted.
Rates of tax and tables are printed on pages 2–3.

Do NOT open this paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.

This question paper must not be removed from the examination hall.

The Association of Chartered Certified Accountants

Paper F6 (ZAF)

SUPPLEMENTARY INSTRUCTIONS

1. Calculations and workings need only be made to the nearest R.
2. All apportionments should be made to the nearest month.
3. All workings should be shown.

TAX RATES AND ALLOWANCES

The following tax rates and allowances are to be used in answering the questions.

Year ended 28 February 2007

Rebates	
Primary rebate	R7,200
Secondary rebate (over 65)	R4,500
Interest exemption	
Under 65	R16,500
Over 65	R24,500
Companies	
Normal tax rate	29%
STC rate	12·5%

Schedule 1

Rates of normal tax payable by persons (other than companies) in respect of the year of assessment ended 28 February 2007

Taxable income	Rates of tax
Where the taxable income –	
does not exceed R100,000	18% of each R1 of the taxable income
exceeds R100,000 but does not exceed R160,000	R18,000 plus 25% of the amount over R100,000
exceeds R160,000 but does not exceed R220,000	R33,000 plus 30% of the amount over R160,000
exceeds R220,000 but does not exceed R300,000	R51,000 plus 35% of the amount over R220,000
exceeds R300,000 but does not exceed R400,000	R79,000 plus 38% of the amount over R300,000
exceeds R400,000	R117,000 plus 40% of the amount over R400,000

Tax rates for small business corporations for the year of assessment ended 31 March 2007

Taxable income	Rates of tax
R0 – R40,000	Nil
R40,001 – R300,000	10% of the amount over R40,000
R300,001 and above	R26,000 plus 29% of the amount over R300,000

Travel allowance table
for the year of assessment ended 28 February 2007

Value of the vehicle (including VAT but excluding finance charges or interest)	Fixed cost	Fuel cost	Maintenance cost
R	R p.a.	c/km	c/km
0 – 40,000	15,364	47·3	22·5
40,001 – 60,000	20,910	49·4	26·2
60,001 – 80,000	25,979	49·4	26·2
80,001 – 100,000	31,513	54·8	30·5
100,001 – 120,000	36,978	54·8	30·5
120,001 – 140,000	41,771	54·8	30·5
140,001 – 160,000	47,512	57·2	39·8
160,001 – 180,000	52,629	57·2	39·8
180,001 – 200,000	58,334	65·9	43·8
200,001 – 220,000	64,591	65·9	43·8
220,001 – 240,000	69,072	65·9	43·8
240,001 – 260,000	74,777	65·9	43·8
260,001 – 280,000	79,918	69·3	52·5
280,001 – 300,000	85,440	69·3	52·5
300,001 – 320,000	88,793	69·3	52·5
320,001 – 340,000	95,218	69·3	52·5
340,001 and above	100,011	77·1	68·0

Where reimbursement is based on actual business kilometres travelled, no other compensation is paid to such employee and the kilometres travelled for business does not exceed 8,000, the prescribed rate is R2·46 per kilometre.

ALL FIVE questions are compulsory and MUST be attempted

1 Vista Gardening Services (Pty) Ltd (Vista) carries on the business of maintaining gardens and also manufactures fountains and fish ponds.

The following provisional income statement has been prepared for the year of assessment ended 28 February 2007.

Income		**Notes**	**R**
Contract income and sales			1,642,150
Interest	– on local bank accounts		16,200
	– on loans		350
Dividends	– on SA listed shares		14,500
Compensation (VAT inclusive)		2	
	– for damaged machinery	3	50,000
	– for damage to fixed property	4	70,000
	– for loss of profits		130,000
Profit on the sale of a truck		5	15,000
Expenditure			
Trade expenditure	– all tax deductible		(942,500)
Repairs to trucks			(9,100)
Depreciation			
	– on trucks at 30% per year on cost	5	(85,000)
	– on machinery at 25% per year on cost	6	(74,500)
	– on small tools at 20% per year on cost	6	(20,000)
Legal expenses		7	(1,800)
Cost of registering a trade mark		8	(4,500)
Bad debts written off		9	(22,000)
Pension fund contributions		10	(35,000)
Donations to qualifying public benefit organisations			(25,000)
Life insurance premiums paid			
	– on sole shareholder's life		(4,800)
	– on chief foreman's life		(5,400)
Damages paid		11	(22,100)
Net income			686,500

Notes:

1. All amounts in the provisional income statement are exclusive of VAT unless stated otherwise.
2. The compensation received, including for loss of profits, was in respect of a fire in the business premises on 1 March 2006.
3. The damage to the machinery was too great to be repaired and new replacement machinery costing R80,000 (VAT exclusive) was purchased and brought into use in a process of manufacture on 1 September 2006. The tax value of the damaged machinery at the date of the fire was R30,000, having originally cost R75,000 (VAT exclusive) on 1 March 2005. This damaged machinery qualified for the s.12C allowance. It was not used in the 2007 year of assessment.
4. The business premises (previously a residential home) had been purchased by Vista for R200,000 in 1975. No tax allowances had been claimed on the house.

   After the fire a new section was added to accommodate the fountains and fish pond aspects of the business. These improvements, which increased the industrial capacity of the premises, commenced on 1 July 2006 and were completed on 1 September 2006 at a cost of R800,000 (VAT inclusive). As a result of these improvements the building is now used 75% for carrying on therein a process of manufacture.

5. The company owned three trucks, which are not motor cars, on 1 March 2006. They each cost R114,000 (VAT inclusive) on 1 March 2004. One of these trucks was sold for R34,200 (VAT inclusive) on 1 January 2007.

6. R64,500 of the depreciation amount for machinery is in respect of machinery purchased new on 1 March 2005, other than the damaged machinery. The remainder relates to the replacement machinery purchased on 1 September 2006 (see note 3 above). The depreciation of R20,000 is in respect of small items of equipment each of which cost less than R5,000. These items were purchased on 1 March 2006 and are all used in the garden maintenance department of the business.

   In addition to the replacement machinery purchased following the fire (see note 3 above), a new moulding machine was acquired under a suspensive-sale agreement at a total price of R118,008. The cash purchase price would have been R98,000 (VAT inclusive). The agreement which was entered into on 1 September 2006 provided for 36 monthly instalments of R3,278. The machine was used in the manufacturing process from 1 September 2006. No expenditure in respect of this moulding machine has been included in the provisional income statement. The total finance charges are R20,008.

7. Vista used the services of a legal firm to assist with its compensation claim following the fire and their fee came to R1,800.

8. Vista registered a trade mark 'lighted waters' in respect of a bird bath and fountain it manufactures. The registration is for a five-year period from 1 July 2006.

9. Bad debts were in respect of

	R
– a loan given to an employee who died	10,000
– interest on the employee's loan (as above)	500
– customers who were unable to pay their debts	11,500
	22,000

10. Vista contributes to a pension fund on behalf of its employees at the rate of 8% of their remuneration.

11. A fish pond installed by Vista on a roof garden leaked causing damage to the ceiling and furniture below. Vista did not dispute the claim for damages made by the customer and paid for the repair in the amount of R22,100.

Required:

Calculate Vista Gardening Services (Pty) Ltd's taxable income/(loss) for the year of assessment ended 28 February 2007. You should commence your calculation with the gross income and list all of the items given in the provisional income statement, indicating by the use of '0' any items which are not taxable/not tax deductible.

(30 marks)

2 On 31 January 2007 Cherie Oldman, who is 56 years old, resigned as an employee of In-gear Limited (In-gear). She had been employed as a buyer for the company's teenage range of goods since 2001. Upon her resignation she rented a shop in a local shopping centre and bought and sold the In-gear brand of goods. The following information is available for the year of assessment ended 28 February 2007.

Employment

Gross salary	R380,000
Termination lump sum	R100,000
Annual bonus	R32,000
Use of company car	see note 1
Medical aid contributions paid by In-gear	see note 2

Notes:

1. The company car had cost In-gear R285,000 (VAT inclusive) in 2004. Cherie paid for all her own private petrol. She ceased to have the use of the car after her resignation.
2. In-gear had paid all of the contributions to the medical aid fund for Cherie. Following her resignation, she took over paying all of the contributions from 1 February 2007. The contributions have always been R1,500 per month. She and her husband are the only persons covered by the fund. Cherie also incurred medical expenses of R45,000 in respect of her husband's illness which were not paid by her fund.

Self-employment

		R
Purchase of stock		120,000
Rent paid		14,000
Salary of assistant		5,000
Interest paid (see note 4)	– January	9,000
	– February	9,000
Sales made in February		90,000
Merchandise on hand at 28 February 2007 at purchase price		71,000
Computer purchased on 1 February 2007		13,000
Office furniture		see note 5

Notes:

3. Cherie registered for value added tax (VAT) on 1 February 2007. All amounts are stated inclusive of VAT, where VAT applies.
4. Cherie obtained a loan of R100,000 from the bank on 1 January 2007, to help her pay for the upfront expenses of the business.
5. Office furniture was acquired at no cost from Cherie's parents on 1 February 2007. The market value of the furniture on that date was R15,000 and her parents had paid R25,000 in total for the furniture in previous years.

Other information

Cherie has contributed R600 per month to a retirement annuity fund since 2003.

Interest received by Cherie for the year of assessment ended 28 February 2007 was R31,000.

Required:

(a) Calculate Cherie's taxable income for the year of assessment ended 28 February 2007. (22 marks)

(b) State what advance payments of tax Cherie would be required to pay and when (monthly, annually etc). (3 marks)

(25 marks)

3 Jan Dekker is a wealthy individual who, amongst other things, has run a small helicopter tour service in the surrounds of Cape Town. The following transactions occurred during the tax year ended 28 February 2007. Jan is contemplating emigrating in the future and wishes to dispose of his assets before he does so.

1. On 30 September 2006 Jan ceased his helicopter tour service and sold the helicopter for R1,700,000 (VAT exclusive). The helicopter had cost him R1,500,000 (VAT exclusive) on 1 June 2004 and every tax year he had been claiming a tax wear and tear allowance of 20%, straight line. The helicopter weighs more than 450 kilograms. Jan deregistered as a VAT vendor only after he had sold all the business assets.
2. Jan owned a house in Camps Bay, which was his primary residence. He had purchased the house for R2,400,000 in December 1998. In October 2000 he improved the house at a cost of R300,000. As he was spending more time overseas he sold this house on 2 January 2007 for R8,000,000. He did not value the property on 1 October 2001.
3. Jan owned a vintage MG motor car which he had purchased in 2005 for R180,000. As he was approached with a good offer for the car he sold it on 15 January 2007 for R210,000.
4. Jan also owned a holiday cottage on the banks of the Breede River in the Western Cape. He had purchased this cottage in March 1992 at a cost of R200,000. In 2004 he spent a further R100,000 on replacing all the windows in the cottage. As he was not planning to use the cottage in the future he sold it on 30 November 2006 for R750,000. The market value of this property was R350,000 on 1 October 2001.

Required:

Calculate all the taxable income effects arising for Jan Dekker as a result of the four transactions listed above, for the year of assessment ended 28 February 2007.

(20 marks)

4 Talibo (Pty) Ltd (Talibo) is a category C VAT vendor (i.e. it accounts for value added tax (VAT) on a monthly basis). The company always pays its VAT by the 25th day of the following month.

On 1 June 2007 the credit balance on Talibo's VAT control account was R6,100.

The following transactions occurred during June 2007:

1. New machine purchased for R12,000
   This machine was purchased from HR Enterprises, which is not a VAT vendor. The market value of the machine at the purchase date was R10,000 and it was paid for in cash.
2. During June a debt of R1,000, owed in respect of a sale made in January 2007, was written off as a bad debt.
3. A passenger motor car was purchased on 2 June 2007 for R153,900 (VAT inclusive). It was to be used by the sales manager as a company car.
4. Sales with an invoice value of R342,800
   Included in this amount is R136,000 in respect of sales made to customers in export countries.
5. A television set with a cost of R6,840 was purchased to give to an employee as a long service award.
6. Purchases with an invoice value of R103,600
   These purchases were all of new goods and 20% of them were from non-vendors.
7. A passenger motor car costing R210,000 (VAT inclusive) in 2004 was given to an employee on his retirement after 30 years of service. Its market value in June 2007 was R102,000.
8. A second-hand goods vehicle was purchased from a non-vendor on 15 June for R84,000 and paid for in cash. Its market value at that date was R80,000.

Required:

Calculate the balance on Talibo (Pty) Ltd's VAT control account at 30 June 2007.

(15 marks)

5 Anne Ce operates a small business corporation registered as Ce Décor Close Corporation.

Anne and her daughter are the only members of the corporation. They manufacture quality jewellery in silver. They have their own range but also manufacture to order.

The following is their income and expenditure account for the year of assessment ended 28 February 2007:

	R
Gross income	7,000,000
Cost of sales	(4,000,000)
Staff costs – four independent employees	(1,400,000)
Depreciation of tools (see note 1)	(5,000)
Rental of premises	(220,000)
	1,375,000
Dividends paid	(500,000)
Retained income	875,000

Notes:

1. All of the tools were purchased in June 2005 and are being written off at the rate of 10% per annum for accounting purposes.
2. All amounts are stated exclusive of value added tax.

Required:

(a) Calculate all of the income tax liabilities payable by Ce Décor CC for the year of assessment ended 28 February 2007. (7 marks)

(b) If Anne and her daughter paid themselves a monthly salary from the close corporation, explain whether they would be liable to pay any PAYE and or SITE. (3 marks)

(10 marks)

End of Question Paper