

Fundamentals Level – Skills Module

# Taxation (South Africa)

Monday 2 June 2008

**Time allowed**

Reading and planning: 15 minutes

Writing: 3 hours

ALL FIVE questions are compulsory and MUST be attempted.  
Tax rates and allowances are on pages 2–4.

**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)

The ACCA logo consists of the letters 'ACCA' in a bold, white, sans-serif font, centered within a solid black rectangular background.

## 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 29 February 2008

Rebates	
Primary rebate	R7,740
Secondary rebate (over 65)	R4,680
Interest exemption	
Under 65	R18,000
Over 65	R26,000
Companies	
Normal tax rate	29%
STC rate	10%

### Schedule 1

Rates of normal tax payable by persons (other than companies)  
in respect of the year of assessment ended 29 February 2008

Taxable income	Rates of tax
Up to R112,500	18% of each R1 of the taxable income
exceeds R112,501 but does not exceed R180,000	R20,250 plus 25% of the amount over R112,500
exceeds R180,001 but does not exceed R250,000	R37,125 plus 30% of the amount over R180,000
exceeds R250,001 but does not exceed R350,000	R58,125 plus 35% of the amount over R250,000
exceeds R350,001 but does not exceed R450,000	R93,125 plus 38% of the amount over R350,000
exceeds R450,001	R131,125 plus 40% of the amount over R450,000

Tax rates for small business corporations for  
year of assessment ended 29 February 2008

Taxable income	Rates of tax
Up to R43,000	Nil
R43,001 to R300,000	10% of the amount over R43,000
R300,001 and above	R25,700 plus 29% of the amount over R300,000

**Travel allowance table**

For years of assessment commencing on or after 1 March 2006

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
Up to 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

**Notes:**

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

**Schedule to Practice Note No 19**  
**Write-off periods acceptable to Inland Revenue**

Item	Period of write-off (number of years)	Item	Period of write-off (number of years)
Adding machines	6	Milling machines	6
Air conditioners (window type, moving parts only)	6	Mobile caravans	5
Aircraft: Light passenger/commercial/helicopters	4	Mobile cranes	4
Arc welding equipment	6	Mobile refrigeration units	4
Balers	6	Motorcycles	4
Battery chargers	5	Motorised chain saws	4
Bicycles	4	Motorised concrete mixers	3
Bulldozers	3	Motor mowers	5
Burglar alarms (removable)	10	Musical instruments	5
Calculators	3	Neon signs and advertising boards	10
Cash registers	5	Ovens and heating devices	6
Cheque writing machines	6	Ovens for heating food	6
Cinema equipment	5	Paintings (valuable)	25
Cold drink dispensers	6	Pallets	4
Compressors	4	Passenger cars	5
Computers (main frame)	5	Patterns, tooling and dies	3
Computers (personal computers)	3	Perforating equipment	6
Computers software (main frames):		Photocopying equipment	5
Purchased	3	Photographic equipment	6
Self-developed	1	Planners	6
Computers software (personal computers)	2	Pleasure craft etc	12
Concrete transit mixers	3	Portable concrete mixers	4
Crop sprayers	6	Ploughs	6
Curtains	5	Portable generators	5
Debarking equipment	4	Portable safes	25
Delivery vehicles	4	Power tools (hand operated)	5
Demountable partitions	6	Public address systems	5
Dental and doctors equipment	5	Radio communication equipment	5
Dictaphones	3	Refrigerated milk tankers	4
Drilling equipment (water)	5	Refrigeration equipment	6
Drills	6	Refrigerators	6
Electric saws	6	Sanders	6
Electrostatic copiers	6	Seed separators	6
Engraving equipment	5	Sewing machines	6
Excavators	4	Shop fittings	6
Fax machines	3	Solar energy units	5
Fertiliser spreaders	6	Special patterns and tooling	2
Fire extinguishers (loose units)	5	Spin dryers	6
Fishing vessels	12	Spot welding equipment	6
Fitted carpets	6	Staff training equipment	5
Fork-lift trucks	4	Surveyors:	
Front-end loaders	4	Instruments	10
Furniture and fittings	6	Field equipment	5
Gantry cranes	6	Tape-recorders	5
Garden irrigation equipment (movable)	5	Telephone equipment	5
Gas cutting equipment	6	Television and advertising firms	4
Gas heaters and cookers	6	Televisions sets, video machines and recorders	6
Gear shapers	6	Textbooks	3
Graders	4	Tractors	4
Grinding machines	6	Trailers	5
Guillotines	6	Traxcavators	4
Gymnasium equipment	10	Trucks (heavy duty)	3
Hairdressers equipment	5	Trucks (other)	4
Harvesters	6	Truck mounted cranes	4
Heat dryers	6	Typewriters	6
Heating equipment	6	Vending machines (including video game machines)	6
Incubators	6	Video cassettes	2
Ironing and pressing equipment	6	Washing machines	5
Kitchen equipment	6	Water distillation and purification plant	12
Knitting machines	6	Water tankers	4
Laboratory research equipment	5	Water tanks	6
Lathes	6	Weighbridges (movable parts)	10
Laundromat equipment	5	Workshop equipment	5
Lift installations (goods)	12	X-ray equipment	5
Lift installations (passengers)	12		
Medical theatre equipment	6		

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Question 1 begins on page 6.**

**ALL FIVE questions are compulsory and MUST be attempted**

1 Fireglow (Pty) Ltd (Fireglow) is a manufacturer of stone fireplaces. The following information is relevant for the year ending 31 December 2008:

**Operating profit**

The operating profit is R950,000. The expenses that have been deducted in calculating this figure include the following:

	R
Amortisation of lease premium and improvement	10,277
Depreciation	337,332
Loss on sale of delivery vehicle	9,334
Repairs and maintenance	22,100
Penalties and fines	517

**Leasehold property**

On 1 March 2008 Fireglow entered into a fifteen year lease to acquire the use of an office building. The company paid R150,000 as a lease premium on 1 March 2008. The monthly lease rental commencing on 1 April 2008 was R4,500 per month.

Fireglow needed to make an improvement to the property and this was built into the lease agreement. The amount specified in the lease agreement for the improvement was R45,000. Fireglow completed the improvement on 1 June 2008 at a cost of R50,000 and brought it into use immediately.

**Purchase of manufacturing building**

Fireglow purchased new factory premises on 1 April 2008 and these were immediately brought into use. The cost was made up as follows:

	R
Land	780,000
Factory building	720,000
	<hr/>
	1,500,000

The factory building includes a small office which occupies 10% of the factory building space.

**Plant and machinery**

On 1 January 2008, details of the existing machinery used in the manufacturing process were as follows:

		R
New machinery purchased on 1 January 2004	at cost	240,000
Second-hand machinery purchased on 1 January 2005	at cost	310,000

**Vehicles**

At 31 December 2008, Fireglow has two delivery trucks, which it uses to collect the stone slabs and to deliver the partly assembled fireplaces to clients.

The purchase costs of the trucks have been as follows:

		R
1 January 2004	one truck purchased	198,000
30 June 2004	one truck purchased	220,000
1 December 2008	one truck purchased	240,000

The truck purchased on 30 June 2004 was sold on 1 February 2008 for R20,000.

### Repairs and maintenance

Repairs and maintenance includes an amount of R3,400 for spare parts purchased during the year, intended to replace worn out sections of the machinery that is currently in use. None of these spare parts were applied to any machinery by 31 December 2008. Fireglow does not account for spare parts in its closing inventory.

### Penalties and fines

A penalty of R117 was paid to the Receiver of Revenue on 1 August 2008 in respect of a late payment of provisional tax in June 2008.

A fine of R400 was paid to the traffic department in respect of a traffic offence on 1 December 2008.

### Other information

In the year ending 31 December 2008 Fireglow paid R335,000 provisional tax for the 2008 year of assessment and paid R3,500 in respect of an under payment of income tax for 2007.

Fireglow is not a small business corporation as defined in the Income Tax Act.

### Required:

- (a) **Compute Fireglow (Pty) Ltd's taxable income for the year of assessment ending 31 December 2008.** (17 marks)
- (b) **Compute Fireglow (Pty) Ltd's tax payable and outstanding tax liability for the year ending 31 December 2008.** (2 marks)
- (c) **Briefly discuss the income tax effects of the lease agreement for the lessor. Support your answer by reference to appropriate amounts, assuming that the lessor also has a 31 December 2008 year end.** (5 marks)
- (d) **Briefly discuss how Fireglow (Pty) Ltd would have benefited if the company had been classified as a small business corporation. You are not required to prepare calculations for this part.** (6 marks)

Note: for the purpose of this question you should ignore value added tax (VAT).

**(30 marks)**

2 Elizabeth Klow, who is 48 years old, is employed as a project director of new service stations for Essen Limited. In addition to her employment Elizabeth trades in listed shares on the Johannesburg Stock Exchange (JSE) and has a rental property. The following information is available for the year of assessment ended 29 February 2008.

**Self-employment**

1. Elizabeth has two portfolios, one is a trading portfolio and the other is a long-term investment portfolio.
2. The operating profit of the trading portfolio was R450,000 before making the following adjustments:  
 Shares which cost R12,000 in 2005 were transferred to her investment portfolio and she notified the Commissioner for the South African Revenue Services (CSARS) accordingly of her change of intention. The market value of these shares was R25,000 at the date of transfer.
3. The closing stock of shares in Elizabeth’s trading portfolio includes a share with a cost of R7,000 but which only had a market value of R4,000 at 29 February 2008.
4. The cost of shares in Elizabeth’s investment portfolio was R840,000 at 28 February 2007 and the market value at that date was R1.2 million. The market value of the investment portfolio at 29 February 2008 was R1 million. Included in the cost of her investments at 28 February 2007 was a share which she had purchased for R10,000. She sold this share for R30,000 on 1 June 2007.
5. In addition to the above, Elizabeth received the following:

		R
Dividends	– trading portfolio	52,000
Dividends	– investment portfolio	31,000

6. During the 2008 tax year, Elizabeth employed her nephew to assist her with managing her trading portfolio and paid him R16,000. This amount has not been taken into account in arriving at the operating profit in 2. above.

**Employment**

- (i) Elizabeth is paid a salary of R38,000 (gross) per month by Essen Limited (Essen), from which employee’s tax (PAYE) of R14,400 per month has been deducted.
- (ii) Elizabeth has had the use of a company motor car since 2006 when Essen purchased the car for R250,000 (VAT inclusive). Elizabeth pays for all her own private fuel and this amounted to R300 per month. Essen pays for all maintenance costs of the car.
- (iii) Essen pays Elizabeth an entertainment allowance of R2,000 per month for which she is not required to account to Essen. Her expenditure on entertainment for the year amounted to R16,000.
- (iv) Essen pays all of Elizabeth’s contributions to her medical aid fund amounting to R600 per month. She is the only member of the fund.

**Rental property**

Elizabeth purchased a holiday flat in South Africa in 2006. In order to finance the purchase Elizabeth took out a mortgage bond over the property. The flat has been let out since the purchase date to persons who are not relatives. She has been incurring net losses in respect of this flat as follows:

	R
2006	11,500
2007	9,000
2008	4,300

Elizabeth has provided no details in her tax return except for the amount of the loss.

**Other information**

Elizabeth has a capital loss brought forward from the 2007 year of assessment of R2,000.

Elizabeth paid R170,000 in provisional tax for the 2008 year of assessment.



**Required:**

- (a) **Compute the income tax payable or overpaid by Elizabeth for the year of assessment ended 29 February 2008, clearly stating how the rental loss has been treated.** (18 marks)
- (b) **Briefly explain what Elizabeth should have done in order to ensure that her rental loss would have been allowed as a deduction.** (3 marks)
- (c) Assume that the share in Elizabeth's trading portfolio with a cost of R7,000 and a market value of R4,000 on 29 February 2008 (per item 3, above) subsequently recovered in value to R9,500 on 28 February 2009.

**Required:**

**State, giving reasons, what effect (if any) this would have on Elizabeth's taxable income for the year of assessment ending 28 February 2009.** (2 marks)

- (d) When Elizabeth received her assessment for the 2007 year of assessment, she noticed that the CSARS had made a mistake and shown her rental loss of R9,000 as R19,000. She has already received a refund in respect of the 2007 year and feels that she has no responsibility towards CSARS.

**Required:**

**Advise Elizabeth on the action she should take.** (2 marks)

**(25 marks)**

- 3** Randy Lenox disposed of the following assets during the year of assessment ended 29 February 2008:
1. On 1 April 2007 Randy sold 4,000 R1 ordinary shares in Aqua Limited, a listed company, for R19,000. He had originally purchased 20,000 shares in the company on 15 June 2005 for R102,000.
  2. On 15 April 2007 Randy sold his motor car for R65,000. The motor car had been purchased on 10 February 2005 for R310,000. He had used this car for travelling on business for his employer, for which he had received a travel allowance.
  3. On 1 June 2007 Randy sold a plot of land to his son on interest free loan account for R800,000 even though the market value of the plot at that date was R1.2 million. Randy had purchased the plot in 2003 for R300,000 and in 2006 he spent R40,000 laying a foundation in preparation for building a house on the plot.
  4. On 1 July 2007 Randy sold his primary residence for R2.5 million. The house had cost R330,000 on 1 August 1975. He had made improvements to the house costing R200,000 on 1 September 2000.
  5. On 1 September 2007 Randy sold his holiday house for R1.5 million. He incurred selling costs of R52,000. The holiday house had cost him R200,000 in June 2000. He had the house valued on 1 October 2001 and the market value arrived at was R600,000.

**Required:**

**Compute Randy's taxable capital gains for the year of assessment ended 29 February 2008.**

Note: assume that Randy will make any elections that are beneficial to him.

**(20 marks)**

4 John Hardy is employed by Environ Limited (Environ), a company which specialises in assisting other companies or businesses to dispose of their factory waste in an environmentally friendly way.

Environ offers its employees various fringe benefits in addition to their salaries.

John is directly involved in marketing and a portion of his package is in the form of commission.

For the year of assessment ended 29 February 2008, John's employment package consisted of the following:

	R
Cash salary	350,000
Commission	300,000
Travel allowance	60,000

John uses his own motor car which cost him R398,000 (VAT inclusive) in 2006. For the year under review he travelled a total of 65,000 kilometres. He does not keep a log book as Environ pays for all his fuel. John pays for his own maintenance of the car. Environ spent R7,500 on fuel for the year.

John was given a company loan of R50,000 at a rate of interest of 6% on 1 January 2006. He has not made any repayments of this loan.

John had been in Environ's employ for fifteen years on 1 June 2007 and he was awarded a watch which cost Environ R7,500 (VAT inclusive). Environ has a policy of making awards of this nature.

John spent R4,000 during the year on entertaining customers. He was not reimbursed for this expenditure.

**Other information**

Environ is a VAT vendor.

**Required:**

- (a) Calculate all the income tax effects of John Hardy's employment package for his employer, Environ Limited, for the company's year of assessment ended 29 February 2008. (6 marks)
- (b) Calculate John Hardy's taxable income for the year of assessment ended 29 February 2008. (9 marks)

**(15 marks)**

- 5** Atlantis (Pty) Ltd (Atlantis) is registered for value added tax (VAT) and has to submit one monthly VAT returns. The following are the company's transactions for the month of May 2008. All amounts include VAT where applicable.
1. Sales made to customers in South Africa amounted to R4,500,000.
  2. Sales made to customers in export countries amounted to R450,000.
  3. Purchases from vendors were R340,000.
  4. A second-hand machine was purchased from a non-vendor for R80,000. The market value of the machine was R75,000 and Atlantis paid half of the purchase price in May 2008 and the remaining half in June 2008.
  5. A new motor car was purchased for the use of the managing director of the company for R310,000 on 1 May 2008. The managing director used the car immediately from that date. Atlantis pays for all fuel and maintenance in respect of the car. The fuel paid for in May was R500,00 and a minor repair was also needed in that month which cost R650,00.
  6. Atlantis sold trading stock with a cost of R4,000 to its major shareholder for R4,000. The market value of the stock was R6,000. The major shareholder is not a VAT vendor.

**Required:**

**Compute all Atlantis (Pty) Ltd's VAT inputs and outputs for the month of May 2008, stating the reason for any exclusions.**

**(10 marks)**

**End of Question Paper**