Preparing Taxation Computations

(South Africa)

Paper T9(ZAF)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

ADVANCED LEVEL

TUESDAY 14 DECEMBER 2004

QUESTION PAPER

Time allowed **3 hours**

ALL FOUR questions are compulsory and MUST be answered

Tax rates and tables are on pages 3–5

Do not open this paper until instructed by the supervisor

This question paper must not be removed from the examination hall

The Association of Chartered Certified Accountants

This is a blank page.
The question paper begins on page 3.

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

Tax Tables and Rates

1	VAT rate		14%
2	Interest – prescribed rate:	on tax overpaid	10%
		on tax underpaid	13·5%
3	Interest – official rate (for fringe benefits)		11%
4	Tax tables: attached		
	– tax rates for:	– natural persons	
		– non-natural persons (other than companies)	
5	Company tax rate		30%
6	Secondary tax on companies		12·5%
7	Car allowance table:	attached	
8	Wear and tear rates:	attached	

Tax Tables

Taxable income	Rates of tax
Where the taxable income: does not exceed R70 000	18 per cent of each R1 of the taxable income;
Exceeds R70 000 but does not exceed R110 000	R12 600 plus 25 per cent of the amount by which the taxable income exceeds R70 000;
Exceeds R110 000 but does not exceed R140 000	R22 600 plus 30 per cent of the amount by which the taxable income exceeds R110 000;
Exceeds R140 000 but does not exceed R180 000	R31 600 plus 35 per cent of the amount by which the taxable income exceeds R140 000;
Exceeds R180 000 but does not exceed R255 000	R45 600 plus 38 per cent of the amount by which the taxable income exceeds R180 000;
Exceeds R255 000	R74 100 plus 40 per cent of the amount by which the taxable income exceeds R255 000.

Travel Allowance

For years of assessment commencing on or after 1 March 2000

Where the value of the vehicle –	Fixed cost	Fuel cost	Maintenance cost
	R	c	c
does not exceed R30 000	16,916	23,1	17,1
exceeds R30 000 but does not exceed R35 000	18,984	23,5	17,3
exceeds R35 000 but does not exceed R40 000	21,051	23,8	17,8
exceeds R40 000 but does not exceed R45 000	23,116	24,3	18,5
exceeds R45 000 but does not exceed R50 000	25 197	24,8	19,2
exceeds R50 000 but does not exceed R55 000	27 670	25,3	19,9
exceeds R55 000 but does not exceed R60 000	29 778	25,5	20,6
exceeds R60 000 but does not exceed R70 000	33 873	25,9	21,3
exceeds R70 000 but does not exceed R80 000	38 102	26,1	22,2
exceeds R80 000 but does not exceed R90 000	40 538	26,3	22,7
exceeds R90 000 but does not exceed R100 000	44,535	26,5	23,4
exceeds R100 000 but does not exceed R110 000	48 533	26,8	24,1
exceeds R110 000 but does not exceed R120 000	51 110	27,5	24,8
exceeds R120 000 but does not exceed R130 000	54 990	28,1	25,5
exceeds R130 000 but does not exceed R140 000	58 803	28,9	26,2
exceeds R140 000 but does not exceed R150 000	62 677	29,4	26,9

Where the value of the vehicle exceeds R150 000 –

(a) the fixed cost shall be the sum of R62 677 plus R3 874 for every R10 000 or part thereof by which the value exceeds R150 000
(b) the fuel cost shall be 29,4 cents per kilometre
(c) the maintenance cost shall be 26,9 cents per kilometre.

Where business kilometres during the year of assessment do not exceed 8 000 kilometres, and no other travel allowance is paid a rate of 153 cents per kilometre may be used for the reimbursive allowance.

Schedule To Practice Note No 19
Write-off Periods Acceptable to Inland Revenue

Item	Period of write-off (number of years)
Adding machines	6
Air conditioners (window type, moving parts only)	6
Aircraft: Light passenger/commercial/helicopters)	4
Arc welding equipment	6
Balers	6
Battery chargers	5
Bicycles	4
Bulldozers	3
Burglar alarms (removable)	10
Calculators	3
Cash registers	5
Cheque writing machines	6
Cinema equipment	5
Cold drink dispensers	6
Compressors	4
Computers (main frame)	5
Computers (personal computers)	3
Computers software (main frames):	
Purchased	3
Self-developed	1
Computers software (personal computers)	2
Concrete transit mixers	3
Crop sprayers	6
Curtains	5
Debarking equipment	4
Delivery vehicles	4
Demountable partitions	6
Dental and doctors equipment	5
Dictaphones	3
Drilling equipment (water)	5
Drills	6
Electric saws	6
Electrostatic copiers	6
Engraving equipment	5
Excavators	4
Fax machines	3
Fertiliser spreaders	6
Fire extinguishers (loose units)	5
Fishing vessels	12
Fitted carpets	6
Fork-lift trucks	4
Front-end loaders	4
Furniture and fittings	6
Gantry cranes	6
Garden irrigation equipment (movable)	5
Gas cutting equipment	6
Gas heaters and cookers	6
Gear shapers	6
Graders	4
Grinding machines	6
Guillotines	6
Gymnasium equipment	10
Hairdressers equipment	5
Harvesters	6
Heat dryers	6
Heating equipment	6
Incubators	6
Ironing and pressing equipment	6
Kitchen equipment	6
Knitting machines	6
Laboratory research equipment	5
Lathes	6
Laundromat equipment	5
Lift installations (goods)	12
Lift installations (passengers)	12
Medical theatre equipment	6

Item	Period of write-off (number of years)
Milling machines	6
Mobile caravans	5
Mobile cranes	4
Mobile refrigeration units	4
Motorcycles	4
Motorised chain saws	4
Motorised concrete mixers	3
Motor mowers	5
Musical instruments	5
Neon signs and advertising boards	10
Ovens and heating devices	6
Ovens for heating food	6
Paintings (valuable)	25
Pallets	4
Passenger cars	5
Patterns, tooling and dies	3
Perforating equipment	6
Photocopying equipment	5
Photographic equipment	6
Planners	6
Pleasure craft etc	12
Portable concrete mixers	4
Ploughs	6
Portable generators	5
Portable safes	25
Power tools (hand operated)	5
Public address systems	5
Radio communication equipment	5
Refrigerated milk tankers	4
Refrigeration equipment	6
Refrigerators	6
Sanders	6
Seed separators	6
Sewing machines	6
Shop fittings	6
Solar energy units	5
Special patterns and tooling	2
Spin dryers	6
Spot welding equipment	6
Staff training equipment	5
Surveyors:	
Instruments	10
Field equipment	5
Tape-recorders	5
Telephone equipment	5
Television and advertising firms	4
Televisions sets, video machines and recorders	6
Textbooks	3
Tractors	4
Trailers	5
Traxcavators	4
Trucks (heavy duty)	3
Trucks (other)	4
Truck mounted cranes	4
Typewriters	6
Vending machines (including video game machines)	6
Video cassettes	2
Washing machines	5
Water distillation and purification plant	12
Water tankers	4
Water tanks	6
Weighbridges (movable parts)	10
Workshop equipment	5
X-ray equipment	5

[P.T.O.

ALL FOUR questions are compulsory and MUST be attempted

1 In 2002 Jake Matala and Cedric Pillay decided to go into partnership in a furniture making business, having both recently completed a woodworking diploma at a local Technikon. Initially they had considered forming a close corporation but were advised to go into partnership instead. Jake and Cedric each borrowed R100 000, from a bank, in their personal capacities. They then contributed the borrowed money to the partnership which reflected the amounts in their respective capital accounts. In addition Cedric contributed a further R50 000. It was agreed that the partnership would pay interest of 10% per annum (simple, in arrears) on the contributions. The partnership agreement provides for the payment of a salary (based on time worked) to Jake and Cedric. The profits of the partnership are to be shared equally between Jake and Cedric. When business commenced the partnership entered into a lease agreement in respect of a building in an industrial area. The lease is for a period of 20 years. All manufacturing machinery was leased for a period of five years in terms of a finance lease.

The income statement for the partnership for the year ended 29 February 2004 is as follows:

	Notes	R
Sales		5 000 000
Less cost of sales	1	(1 500 000)
Gross profit		3 500 000
Less:		
Salaries and wages	2	1 500 000
Rental	3	800 000
Depreciation	4	40 000
Interest	5	25 000
Sundry expenses	6	135 000
Net income		1 000 000

Notes:

1. Cost of sales comprises:

Opening stock	– materials	300 000
	– work in progress	150 000
Purchases		1 400 000
Closing stock	– materials	(250 000)
	– work in progress	(100 000)
		1 500 000

Included in the purchases amount of R1 400 000 is the cost of consumables of R100 000. At 29 February 2004, 20% of the consumables had not been used. These consumables were not included in the closing stock.

2. Salaries and wages comprise:

Salaries and wages paid to employees	1 100 000
Salary paid to Jake Matala	200 000
Salary paid to Cedric Pillay	150 000
Termination lumpsum paid to a former employee	50 000
	1 500 000

Note that it is not the policy of the partnership to pay termination lumpsums to employees.

3. Rental comprises:
   – Rental in respect of factory building R320 000

   When the partnership entered into the lease agreement it was required to pay a lease premium of R100 000. The lease premium was fully expensed in the 2003 income statement.

   – Rental in respect of machinery R480 000

   The manufacturing machinery was leased in June 2002 in terms of a finance lease. The lease agreement provides for the payment of sixty, R40 000 monthly rentals.

   The first rental was paid in June 2002. At the time at which the lease was entered into the cash cost of the machinery was R1 600 000 (excl VAT).

4. Depreciation is in respect of the following assets:
   – Delivery vehicles R30 000

     For accounting purposes the delivery vehicles are depreciated at the rate of 10% per annum (straight line). The vehicles were acquired in July 2002.

   – Fixtures and fittings R10 000

     For tax purposes the wear and tear on the fixtures and fittings is the same as the accounting depreciation.

5. Interest was paid as follows:
   – to Cedric R15 000
   – to Jake R10 000

6. The sundry expenses are all tax deductible.

During the period 1 March 2003 to 29 February 2004 Cedric (who is 35) had the following additional income and expenses.

Other income	
Interest (in addition to the amount paid by the partnership)	R20 000
Dividends	R10 000
Expenditure	
Retirement annuity fund contribution	R85 000
Medical expenses	R20 000

The medical expenses are in respect of Cedric's son Sam who is a handicapped person.

Required:

(a) Calculate Cedric Pillay's income tax liability for the year ended 29 February 2004. (28 marks)

(b) State, giving reasons, whether the salary paid to Cedric by the partnership is subject to SITE. (2 marks)

(30 marks)

2 Granno (Pty) Ltd is a company which manufactures granite tiles for the South African domestic market. Granite is acquired in bulk from a local quarry and is then cut and polished into tiles of varying sizes and quality. The production of tiles is a process of manufacture. The share capital of Granno is held in equal proportions by Guy Black and Joe White.

The following abridged income statement is supplied for the year ended 31 December 2004:

	Notes	R
Gross profit		15 000 000
Dividend income	1	250 000
Interest income	2	100 000
Profit on sale of assets	3	350 000
		15 700 000
less:		
Staff costs	4	(10 000 000)
Depreciation	5	(1 500 000)
Interest paid	6	(200 000)
Sundry expenses	7	(1 500 000)
Net income before tax		2 500 000

Notes:

(1) Granno invested a portion of its surplus funds in local equity markets. All the dividends were received from South African listed shares.

(2) Interest accrued evenly throughout the year on a monthly basis.

(3) On 30 June 2004 a tile cutting machine was sold for R750 000. The machine which had been purchased and brought into use on 1 July 2002 had a book value of R400 000 on 30 June 2004. For accounting purposes the machine has been depreciated at a rate of 10% per annum on the straight line basis.

(4) Included in staff costs are the following amounts:
- an annuity of R100 000 paid to a former employee who retired due to ill health.
- an annuity of R50 000 paid to the two dependants of a former employee who had been killed in an accident in the factory in 2000.

The cost of fringe benefits, being the use of company cars, is included in staff costs. Four senior employees were given the unrestricted use of company owned cars. The total costs in respect of the four cars were as follows:

Depreciation R 200 000

Depreciation is 20% of cost per annum on the straight line method. The tax wear and tear is the same as the accounting depreciation.

Running costs (fuel, maintenance, insurance, licence) R 40 000

The cars were all acquired in November 2003. The VAT on the fringe benefit has not been taken into account in the income statement.

(5) Depreciation was in respect of the following assets:

(a) Manufacturing machinery (including the asset sold in (3) above) R 1 000 000
All machinery was brought into use on 1 July 2002 and is depreciated at 10% per annum on the straight line basis.

(b) Trucks R 400 000
All vehicles were acquired in March 2003 and are depreciated at a rate of 25% per annum on a straight line basis. No vehicles were sold during the current year.

(c) Office furniture and equipment R 100 000
Tax wear and tear on the office furniture and equipment is the same as the accounting depreciation.

(6) The interest paid was on shareholders' loan accounts. In 2000 Granno had declared a dividend but as it had not sufficient liquidity to pay the dividend it had credited shareholders' loan accounts.

(7) The sundry expenses are all tax deductible.

Required:

(a) **Calculate Granno (Pty) Ltd's taxable income for the year ended 31 December 2004. Your calculation should be presented in the form of the company tax return, that is commencing with the accounting profit of R2,5 million.** (20 marks)

(b) **Calculate the STC payable if Granno declares a dividend of 25% of its after tax profits on 31 December 2004. You may assume that the most recent previous dividend accrued to shareholders on 31 December 2003.** (5 marks)

(25 marks)

3 During the year ended 29 February 2004 Jack Smart, a wealthy South African resident, sold a number of assets. Certain of these assets were held as capital assets. The following sales were made:

(a) In June 2003 Jack sold his residential property to a company in which he and his wife held all of the shares. Jack had purchased the property in November 1998 for R600 000. He and his wife lived in the house until it was sold. The selling price was R6,5 million. Jack had valued the property on 1 October 2001, the market value being R4 million.

(b) On 1 November 2002 Jack had bought a flat in Cape Town for R2,8 million. Jack expected the Cape Town property market to rise sharply in the next 12 months and it was his intention to sell the property at a profit if the market did rise. The property was sold in July 2003 for R4,5 million.

(c) Jack has always been an avid stamp collector. In October 2003 Jack sold a stamp for R62 000. He had bought the stamp for R12 000 in July 2000. This is the only stamp Jack has ever sold out of his collection.

(d) When he was younger Jack was a keen yachtsman. In November 1990 he had bought a 15 metre Shearwater yacht for R800 000. The market value of the yacht on 1 October 2001 was R2,5 million. Jack sold the yacht for R2,8 million in March 2003.

(e) In July 2003 Jack sold all the shares that he held in Company X for R4,6 million. The shares, which had been acquired in December 2001 for R3 million, were held by Jack as a capital asset.

(f) In August 2003 Jack sold his Audi A8 for R500 000. He had bought the car for R600 000 in 2002 and had sold it because he wanted to buy the new model Audi A8, which he did, at a cost of R720 000.

Apart from these transactions Jack's taxable income for the year ended 29 February 2004 was R3,8 million.

Required:

Calculate Jack's taxable income for the year ended 29 February 2004.

(21 marks)

4 Mrs Ann Loubser was employed by a large company in Cape Town until she retired on 30 June 2003. At the time of her retirement she was being paid a salary of R4 500 per month. This had been her monthly salary since 1 January 2003. In terms of her employment contract she was required to be a member of the company's medical aid fund. The monthly contributions to the medical aid fund were R900. Of this amount her employer paid R700 and she was required to pay R200. On her retirement she continued to be a member of the medical aid fund and assumed responsibility for the full monthly payment of R900.

Because she did not belong to a pension fund Ann had decided, in 1980, to contribute to a retirement annuity fund (RAF). Since 1 January 2003 her monthly contributions to the RAF have been R300. The RAF will mature when she turns 65, in five years time.

In March 2003 Ann had been paid an annual bonus of R12 000.

Ann's only other income for the year is interest income and rental from a house left to her by her late father. The interest income for the year was R15 000 and her net rental income for the year was R36 000.

Ann's husband Piet (aged 66) is a pensioner whose only income is a monthly pension (from a pension fund) of R12 000 and interest income (for the year) of R25 000.

Ann and Piet are married in community of property. Piet is a handicapped person. Piet retired in 2001.

Required:

(a) Calculate the SITE withheld by Ann's employer for the year ended 29 February 2004. (10 marks)
(You may assume that Ann has provided her employer with satisfactory evidence of her RAF contributions)

(b) Calculate Ann's taxable income for the year ended 29 February 2004. (10 marks)

(c) Calculate the employees tax (if any) which would be deducted from Piet's pension and indicate how much (if any) is SITE. (4 marks)

(24 marks)

End of Question Paper