

# Preparing Taxation Computations

(South Africa)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

ADVANCED LEVEL

TUESDAY 15 JUNE 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

Paper T9(ZAF)



**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)	13·5%
4	Tax tables: attached	
	– tax rates for: – natural persons	
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 42 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)	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		

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

1 Mrs Anna du Toit, aged 50, operates a successful ‘home bake’ business in Bloemfontein. The business started in 1990 when Mrs du Toit first started selling home baked confectionaries to her friends. Her reputation soon spread and in 1995 she opened her first shop in the central business district of Bloemfontein. She presently has three shops in Bloemfontein and the surrounding area. All of the products sold in the shops are produced in a central production centre. The business produces cakes and jams in a process which is a process of manufacture. The manufacturing process is conducted in a building which is owned by Mrs du Toit. The retail activities are conducted in rented premises. The income statement for the year ended 29 February 2004 is as follows:

	Notes	R
Sales	1	3 000 000
Cost of sales – purchases	2	1 300 000
		<hr/>
Gross profit		1 700 000
<i>Less</i>		
Salaries and wages	3	580 000
Depreciation	4	140 000
Rental	5	90 000
Patent costs	6	30 000
Legal costs	6	10 000
Bad debts	7	20 000
Operating expenses	8	130 000
		<hr/>
Net income before tax		700 000
		<hr/>

Notes:

1. Ninety percent of sales are to customers who are not VAT vendors. The remaining ten percent is to VAT vendors.
2. The only stock on hand at the end of the year is consumables such as flour and sugar. Because the monetary value of such items is small and because they are used within a short period after the year end they are not reflected as stock in the income statement. At 29 February 2003 the cost of consumables on hand was R6 000. At 29 February 2004 the cost of consumables on hand was R11 000.
3. The business employs one accountant and fourteen employees who work in the shops and the manufacturing operation. The accountant is paid a cash salary of R100 000 and is given the use of a car which cost R120 000 (excluding VAT). Depreciation (which is the same as tax wear and tear) on the car was R20 000 for the year. Running expenses in respect of the car were R30 000 for the year. Both amounts are included in salaries and wages. The accountant uses the car solely for private purposes.

In October 2003 an employee resigned. Although it is not her practice to pay resigning employees retirement lumpsums Mrs du Toit decided to pay a lumpsum of R30 000 to this employee. This amount is included in salaries and wages.

- 4 (i) The manufacturing building  
In 1998 Mrs du Toit purchased vacant land for R50 000. A building was erected on the land in 1999. Erection was completed on 1 November 1999 and the building was brought into use on 1 December 1999. The cost of the building was R280 000 (excluding VAT). Mrs du Toit does not depreciate the building for accounting purposes. The building is used for carrying on a process of manufacture.
- (ii) Manufacturing equipment  
The equipment is used to manufacture cakes and jams. All of the equipment was acquired (new) in July 2001, at a cost of R300 000 (excluding VAT). In August 2003 a machine which had cost R60 000 (excluding VAT) was destroyed in a fire. The insurers paid an amount of R34 200 in respect of this machine. In November 2003 a new machine was acquired for R60 000 (excluding VAT) to replace the destroyed machine. The new machine was brought into use on 1 December 2003. All manufacturing equipment is depreciated at 20% per annum (straight line).
- (iii) Motor vehicles  
In 2000 a light delivery vehicle was acquired for R140 000 (excluding VAT). In 2002 a second light delivery vehicle was acquired for R164 000 (excluding VAT). Delivery vehicles are depreciated at 25% per annum (straight line). The Commissioner allows 20% per annum wear and tear.
5. Rental  
The rental is in respect of the retail outlets and shop fittings and is fully tax deductible.
6. Patent costs  
In 2000 Mrs du Toit discovered a new process for making jams which used no artificial ingredients. The cost of registering the patent was R30 000. The legal costs in respect of the registration were R10 000.
7. In 1998 Mrs du Toit lent one of her employees R12 000. Accrued interest on the loan up to 28 February 2003 amounted to R8 000. On 1 March 2003 Mrs du Toit decided that there was no chance of recovering the debt and wrote it off as bad.
8. Operating expenses  
Operating expenses are all tax deductible.

**Other information**

Mrs du Toit is married to Jan in community of property.

For the year ended 29 February 2004 Mrs du Toit earned interest income of R28 000. Jan earned interest income of R12 000.

Mrs du Toit rents an old mixing machine which she no longer uses, to a friend. The rental is R300 per month.

In 1990 Mr du Toit's father died and left his house to his son (Jan). Because he has no use for the house Jan rents it out to tenants. The rental income for the year ended 29 February 2004 was R60 000.

**Required:**

**Calculate Mrs du Toit's income tax liability for the year ended 29 February 2004.**

**(34 marks)**

**2** Wealth Generator cc is a close corporation which was formed in 1996 by Bert Smart and Alec Slik who are both accountants. Bert and Alec each hold fifty percent of the member's interest in the close corporation.

The business of the close corporation is to offer financial and investment advice to clients. The services are provided by Bert and Alec who are employed by Wealth Generator cc and are each paid a salary of R500 000 per annum. Profits of the close corporation are distributed to the members on the last day of the corporation's financial year which is 28 February. The close corporation is not a personal service company (as defined) for income tax purposes.

The business operations are conducted in premises in a suburb of Cape Town. The business premises are a house which the close corporation purchased in 1998 for R600 000 from a non-VAT vendor. To enable the close corporation to buy the house Bert and Alec each lent it R300 000. Interest of 15% per annum is payable on the loan. None of these loans have been repaid.

For the year ended 29 February 2004 the gross fee income (i.e. the total of all invoices) was R2 850 000. Expenses of operating the business for the year ended 29 February 2004 were R500 000 (as reflected in the income statement). This amount excludes any amounts paid to the members (Bert and Alec).

The expenses are all tax deductible.

Disposable profit for the year ended 29 February 2004 (after tax) was distributed to the members on 29 February 2004. In November 2003 the close corporation received a dividend of R90 000 from an investment in a South African company.

**Required:**

- (a) **State, giving reasons, whether or not Wealth Generator cc is a vendor for VAT purposes.** (3 marks)
- (b) **State, giving reasons, whether or not Wealth Generator cc is liable for STC (secondary tax on companies) when it distributes profits to its members.** (4 marks)
- (c) **Assuming Wealth Generator cc is liable for STC calculate the STC payable in respect of the 29 February 2004 distribution.** (8 marks)
- (d) **State the latest date by which the STC is payable.** (2 marks)
- (e) **State, giving reasons, whether or not Wealth Generator cc must withhold employees tax from the salaries paid to Bert and Alec and if so how much is SITE.** (3 marks)

**(20 marks)**



**3** The following information has been provided by the accountant of a small company in Johannesburg. The accountant knows very little about capital gains tax and has requested your assistance in this regard. He has calculated the company's taxable income for the year ended 31 December 2004 to be R1,8 million before taking into account the following.

1. Vacant land which the company had purchased in February 1998 for R600 000 was sold for R2,8 million in November 2004. The market value of the land on 1 October 2001 was R1,5 million.
2. A machine which had been acquired in June 1999 for R300 000 and which had a tax value of Rnil on 1 January 2004 was sold in July 2004 for R380 000. The machine had qualified for a s.12C tax allowance of  $33\frac{1}{3}\%$  per annum. The machine had a market value of R200 000 on 1 October 2001.
3. A new machine which had been bought in April 2002 for R800 000 and brought into use in April 2002 in a process of manufacture was sold in August 2004 for R1m.
4. A building which had cost R2m in November 2001 was sold for R1,8m in November 2004. The building did not qualify for any tax allowance.
5. Office furniture which had been purchased for R300 000 in January 2002 was sold for R310 000 in December 2004. The tax value at the time of sale was R190 000

All the above amounts (other than market values) exclude VAT.

**Required:**

- (a) Calculate the capital gain or capital loss in respect of each of the disposals in (1) to (5).** (16 marks)
- (b) Calculate the company's taxable income for its year ended 31 December 2004.** (5 marks)
- (21 marks)**

**4** Mrs Ngumbe was employed by a large company in Durban until her retirement on 31 August 2003. Her husband Sam was employed by a different company.

The following information is provided for the year ended 29 February 2004.

**Mrs Ngumbe**

Mrs Ngumbe was paid a cash salary of R4 500 per month. In addition she was paid a bonus of R15 000 in June 2003. Mrs Ngumbe was a member of a pension fund and contributed eight percent of her cash salary to the fund.

**Mr Ngumbe**

Mr Ngumbe is paid a monthly cash salary of R20 000. In addition he is given a travel allowance of R1 800 per month. Mr Ngumbe is required to use his own car for business purposes. Mr Ngumbe's car cost R100 000 (including VAT). During the period 1 March 2003 to 29 February 2004 the odometer went up by 22 000 kms. Mr Ngumbe did not keep a record of his business travel. Mr Ngumbe is a member of a medical aid fund. Monthly contributions in respect of his membership are R1 200. The company pays R1 000 of the contributions and Mr Ngumbe pays the remaining R200.

Mr Ngumbe's employer pays him an entertainment allowance of R500 per month. During the year Mr Ngumbe spent R5 000 on entertainment expenditure.

Mr Ngumbe is a member of a retirement annuity fund to which he contributes R4 000 per month. Mr Ngumbe paid medical expenses during the year of R70 000. Of this amount only 70% was recoverable from the medical aid fund. Mr and Mrs Ngumbe are both under the age of 65. Mrs Ngumbe is a handicapped person.

**Required:**

- (a) Calculate the SITE withheld by Mrs Ngumbe's employer.** (6 marks)
- (b) State which of the payments or benefits received by Mr Ngumbe are remuneration for the purposes of employee's tax. In each case calculate the monthly amount of remuneration.** (4 marks)
- (c) Calculate the SITE withheld by Mr Ngumbe's employer.** (2 marks)
- (d) Calculate Mr Ngumbe's taxable income for the year ended 29 February 2004.** (13 marks)
- (25 marks)**

**End of Question Paper**