Preparing Taxation Computations

(South Africa)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

ADVANCED LEVEL

TUESDAY 13 DECEMBER 2005

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)

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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	6,5%
		on tax underpaid	10,5%
3	Interest – official rate (for fringe benefits)		8,5%
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 R74 000	18 per cent of each R1 of the taxable income;
Exceeds R74 000 but does not exceed R115 000	R13 320 plus 25 per cent of the amount by which the taxable income exceeds R74 000;
Exceeds R115 000 but does not exceed R155 000	R23 570 plus 30 per cent of the amount by which the taxable income exceeds R115 000;
Exceeds R155 000 but does not exceed R195 000	R35 570 plus 35 per cent of the amount by which the taxable income exceeds R155 000;
Exceeds R195 000 but does not exceed R270 000	R49 570 plus 38 per cent of the amount by which the taxable income exceeds R195 000;
Exceeds R270 000	R78 070 plus 40 per cent of the amount by which the taxable income exceeds R270 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

ALL FOUR questions are compulsory and MUST be attempted

1 Martha Swart retired in December 2003, at the age of 55. When she retired Martha received a retirement lumpsum of R500 000 on which tax of R100 000 was payable.

Because she was still young and needed to provide for her old age Martha decided to start a bakery business. She sought the advice of a friend and formulated a business plan. She decided that she would rent a small building on the outskirts of town which was suitable for her requirements. In March 2004 the rental of the building commenced, equipment was purchased and staff were employed.

The following information is provided for the period 1 March 2004 to 28 February 2005. All amounts are inclusive of VAT (if applicable) except where stated otherwise.

(1) The lease agreement for the building was signed on 1 March 2004. The agreement provided for the following payments:
- An initial lease premium of R57 000 payable on 1 March 2004.
- A monthly rental of R5 130 payable on the first day of each month, commencing in March 2004.

In addition it was a requirement of the lease that Martha carried out improvements to the building to the value of not less than R100 000. Work on the improvements commenced on 20 March 2004 and was completed on 30 April 2004. The total cost of the improvements was R159 600.

The lease is for a 20 year period.

(2) Two items of plant were acquired in March 2004.
- An industrial baking oven was acquired under the terms of a finance lease. The lease is for a 60 month period (commencing 1 March 2004) and the rental is R2 500 per month. Had Martha purchased the machine the cash cost would have been R114 000.
- A new dough mixing machine was acquired at a cost of R68 400.

(3) Sundry equipment was acquired at a cost of R22 800. The equipment is subject to a tax wear and tear allowance of 20% per annum. The equipment was acquired and brought into use on 1 May 2004.

(4) A delivery van was acquired at a cost of R136 800. The delivery van was brought into use on 1 May 2004.

(5) Ten employees were employed. The total salaries and wages in respect of the employees for the year ended 28 February 2005 was R500 000. Included in the salaries figure is a provision for leave pay of R30 000.

(6) A computer was acquired at a cost of R13 680. The computer was brought into use on 1 March 2004. In addition, an accounting software package was acquired at the same time at a cost of R2 850.

(7) A short term insurance policy was taken out to cover the damage or destruction of equipment, loss of profits and third party liability. The policy premium is R2 280 per month. The first premium was paid in March 2004.

(8) Manufacturing operations commenced in April 2004. The following information is provided for the period 1 April 2004 to 28 February 2005.

		R
–	Sales	1 200 000
–	Purchase of raw materials	200 000
–	Materials on hand at 28 February 2005	50 000
–	Packing materials (cost)	10 000
	(10% of the packing materials purchased were on hand at 28 February 2005)	
–	Electricity and water (cost)	35 000
–	Advertising (advertisements were placed in various newspapers)	20 000
–	Repairs to the delivery van	5 000
	(the driver of the delivery vehicle reversed into the door of the loading bay and damaged it. No claim was made against the insurers)	

The amounts shown above are all net of VAT.

(9) Martha registered as a VAT vendor on 1 March 2004.

(10) In addition to her business activities Martha had the following income and expenditure for the year ended 28 February 2005.

		R
–	Interest income (from a South African bank)	25 000
–	Dividend income (from South African companies)	15 000
–	RAF contributions	12 000
–	Medical aid fund contributions	24 000
–	Medical expenses Eighty percent of the medical expenses were recovered from the medical aid fund. The expenses were in respect of Martha's husband Jan who is a handicapped person.	41 000
–	Rental income The rental is in respect of a house which Martha inherited from her late father	60 000
–	Tax deductible costs in respect of the rented property	10 000
–	Repairs to the rented property Certain window frames had rusted and had to be replaced.	15 000

(11) Martha and Jan are married out of community of property.

Required:

Compute Martha's income tax liability for the year ended 28 February 2005.

(31 marks)

2 Goodshare (Pty) Ltd is a company which provides financial and investment services to clients. The shares in Goodshare are owned equally by Beth Sharp and June Skill who are both highly regarded investment analysts. Beth and June are both directors of Goodshare. The income of Goodshare is derived by charging clients for financial advice as well as the management of clients' investment portfolios. In addition Goodshare also derives income from its own investments. Both Beth Sharp and June Skill are employees of Goodshare. In addition to Beth and June Goodshare has ten other employees.

Beth and June both have employment contracts with Goodshare. Beth's employment contract (which is the same as June's) provides as follows:

- Cash salary (per month) R60 000
- Use of a company car
  The car cost Goodshare R410 400 (including VAT)
  Beth has full unrestricted use of the car. The total annual costs (including VAT where applicable) incurred by Goodshare in respect of both cars (Beth's and June's) are as follows:
  - Fuel R36 000
  - Insurance R11 000
  - Licence R1 200
  - Maintenance R5 700
- An interest free loan of R100 000.
- An entertainment allowance (per month) of R2 000
- A contribution to a provident fund (per month) R10 0000
  Beth does not contribute any amount to the fund.
- Medical aid fund contributions (per month) R2 100
  Beth does not contribute any amount to the medical aid fund.

In addition to paying the above remuneration to Beth and June, Goodshare has the following income and expenditure for the year ended 28 February 2005.

	Notes	R
Fee income	1	6 000 000
Investment income	2	1 000 000
Salaries and wages	3	1 500 000
Operating expenses	4	1 000 000

Notes:

(1) The fee income is received from South African clients and is shown exclusive of VAT.

(2) Investment income comprises:
Interest income R700 000
Dividends from South African companies R300 000

(3) Salaries and wages are in respect of the ten other employees (i.e. not Beth and June). Included in the salaries figure is an amount of R300 000 paid to one of the employees who resigned in November 2004. The amount is a restraint of trade payment. In terms of the restraint of trade payment the employee may not start a similar business within two years of the payment.

Apart from Mrs van Zyl who is the bookkeeper, employees are only paid a cash salary and receive no fringe benefits.

Mrs van Zyl is paid a monthly cash salary of R6 000. In addition she is paid a travel allowance of R2 000 per month. The travel allowance is paid to Mrs van Zyl because she is required to use her own car to conduct company business.

(4) Operating expenses are stated exclusive and are all tax deductible.

Goodshare declares a dividend of 50% of its previous years after tax profit on 25 March each year. The dividend paid on 30 March 2004 was R1m.

Required:

(a) Calculate the amount (per month) on which Goodshare (Pty) Ltd must calculate Beth's employee's tax. (4 marks)

(b) State, giving explanations how much of Beth's employee's tax is SITE. (1 mark)

(c) Calculate Goodshare (Pty) Ltd's taxable income for the year ended 28 February 2005. (18 marks)

(d) Calculate the secondary tax on companies (STC) (if any) payable in respect of the dividend declared on 25 March 2005 (you may assume that all the current year's dividend income accrued after 25 March 2004). Furthermore assume that accounting depreciation is the same as the tax wear and tear allowance. (6 marks)

(29 marks)

3 Capvest (Pty) Ltd is a company which carries on business in Cape Town. During the year ended 28 February 2005 Capvest sold the following assets:

(1) A machine which had been acquired (new) in June 2003 for R100 000 and brought into use in a process of manufacture in June 2003 was sold for R250 000 in July 2004. The machine was not replaced.

(2) In July 2004 a machine was damaged in an accident. The machine, which had cost R180 000 (new) in April 2002 and which had been used in a process of manufacture, was considered to be beyond repair. The insurers paid out an amount of R200 000. Capvest replaced the machine with a new machine costing R600 000 and elected to defer the capital gain in terms of paragraph 66 of the Eighth Schedule. The replacement machine was brought into use in a process of manufacture in September 2004.

(3) Shares which had been purchased in August 2004 in a speculative venture were sold in November 2004. The shares had cost R600 000 and were sold for R900 000.

(4) Vacant land which had been acquired in March 1998 as a capital asset for R500 000 was sold for R800 000 in August 2004. The market value of the land on 1 October 2001 was R640 000.

(5) A machine which had been acquired (new) for R300 000 in November 2000 was sold in December 2004 for R500 000. The market value of the machine on 1 October 2001 was R200 000. The machine had been used in a process of manufacture.

Required:

Calculate the effect of the sale of the five assets on Capvest (Pty) Ltd's taxable income for the year ended 28 February 2005. (Ignore VAT)

(20 marks)

4 Gen (Pty) Ltd offers its senior employees a wide range of fringe benefits as part of their remuneration packages. The following fringe benefits have been provided to certain senior employees in question for the year ended 28 February 2005.

(1) Mrs Dube has been given the use of a company car which cost Gen R342 000 (inclusive of VAT). Mrs Dube is not required to pay any consideration for the use of this car. Gen has also given Mr Dube (Mrs Dube's husband) the use of a car which cost Gen R456 000 (inclusive of VAT). Mr Dube is not an employee of Gen, and is not required to pay any consideration for the use of the car.

(2) Mr Tshabalala has been given the use of residential accommodation. For the previous tax year (year ended 28 February 2004) Mr Tshabalala received only a cash salary of R500 000 from Gen. Mr Tshabalala does not own any shares in Gen. The residential accommodation is an eight roomed house and Gen pays for all power and water. The house is not furnished. The costs incurred by Gen in respect of the property for the tax year ended 28 February 2005 were:

– Bond interest	R200 000
– Bond capital repayments	R100 000
– Electricity and water	R20 000
– Property rates	R18 000
– Insurance	R10 000

(3) Mr Reddy has been given a travel allowance of R4 000 per month. Mr Reddy is required to undertake business travel and uses his own car which cost him R130 000 (exclusive of VAT). Mr Reddy does not keep a record of his business travel expenses. The total kilometres travelled for the year were 36 000.

(4) Mrs Pillay was given a gold watch which cost Gen R11 400 (inclusive of VAT) when she retired, after 35 years of service.

(5) Mr Brown has been given a R200 000 loan by Gen to enable him to buy a house. Mr Brown is required to pay interest on the loan of 5% per annum.

Required:

In each of the five cases calculate the amount to be included in the income of the individual employee's for the year ended 28 February 2005.

(20 marks)

End of Question Paper