Preparing Taxation Computations

(South Africa)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

ADVANCED LEVEL

TUESDAY 14 JUNE 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

Paper T9(ZAF)

The Association of Chartered Certified Accountants

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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	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 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

[P.T.O.

ALL FOUR questions are compulsory and MUST be attempted

1 Mr and Mrs Zondi, who live in Durban, are married out of community of property. Mr Zondi is 66 years old and Mrs Zondi is 55 years old.

Mrs Zondi is employed as a bookkeeper by a large company. Mr Zondi, who is a keen gardener, operates a small nursery on land adjacent to the family home.

The following information is provided for the year ended 28 February 2005.

Mrs Zondi

In terms of her employment contract Mrs Zondi's monthly remuneration is as follows:

	R
– Cash salary	8 000
– Travel allowance Mrs Zondi is required to travel to the bank on company business three times a week. She is not required to account to her employer for her travel expenses. For the purposes of the business travel she uses her own car, a Toyota, which she purchased in 2000 for R120 000. Mrs Zondi does not keep a record of her business travel. The total kilometres travelled during the period 1 March 2004 to 28 February 2005 were 34 000.	3 500
– Medical aid fund In terms of the fund Mrs Zondi's monthly contribution is R1 200. Of this amount her employer pays R600 and she pays R600.	
– Entertainment allowance Mrs Zondi is required to entertain customers of her employer from time to time. She is not required to account to her employer for her expenditure. During the year ended 28 February 2005 Mrs Zondi spent R10 000 on entertainment.	1 000
– Telephone allowance Mrs Zondi is required, by her employer, to have a cell phone. The phone cost her R1 200 in 2004 and the monthly billing is in the order of R300. The phone is used 60% for private purposes and 40% for business purposes.	500
– Mrs Zondi is a member of a pension fund to which she contributes R800 per month. Her employer contributes R1 000 per month in respect of her membership. In terms of the rules of the pension fund only her cash salary is regarded as pensionable remuneration.	

In addition to her employment Mrs Zondi had the following income and expenses for the year ended 28 February 2005.

	R
Interest from a South African bank	15 000
Dividends from South African companies	2 000
Retirement annuity fund contributions	5 000
Medical expenses	32 000

Mrs Zondi's son is a handicapped person. As stated above she spent R32 000 on treatment in respect of his illness of which she recovered R25 000 from the medical aid.

Mr Zondi

Mr Zondi retired from his employment when he attained the age of 60. He now receives a monthly pension of R10 000 from a pension fund.

When he retired Mr Zondi purchased the vacant land adjoining his property for R300 000 and commenced a nursery business.

The following abridged income statement is for the year ended 28 February 2005.

	Notes	R000's
Sales (plants, fertilizer, etc)		600
Cost of sales	1	(200)
Gross profit		400
Salaries	2	(150)
Rates, electricity and water	3	(50)
Depreciation	4	(60)
Net profit		140

Notes:

1. The cost of sales is the cost of purchases plus opening stock less closing stock. The stock is reflected at the correct amount for tax purposes.
2. Included in salaries is an annuity of R10 000 paid to the wife of a former worker who had been killed in an accident at the nursery.
3. Rates, electricity and water are all tax deductible expenses.
4. Depreciation comprises
   - Depreciation on buildings (2% per annum) R20 000
   - Depreciation on vehicles (20% per annum) R30 000
   - Depreciation on sundry equipment R10 000

Notes: (i) The building houses the retail outlet.
(ii) The vehicles are heavy duty trucks.
(iii) The tax wear and tear on sundry equipment is the same as the accounting depreciation.

Mr Zondi has no other income or expenses.

Required:

(a) Calculate Mrs Zondi's income tax liability for the year ended 28 February 2005. (19 marks)

(b) Calculate Mr Zondi's income tax liability for the year ended 28 February 2005. (8 marks)

(c) State, giving reasons, if the pension which Mr Zondi receives is subject to SITE. (3 marks)

(30 marks)

2 Makit (Pty) Ltd, a South African company, carries on a manufacturing process in Cape Town.

The following is Makit's income statement for the year ended 28 February 2005.

	Notes	R 000's
Sales	1	40 000
Cost of sales	2	25 000
Gross profit		15 000
Investment income	3	1 000
Profit on sale of asset	4	500
Income		16 500
Less:		
Salaries and wages	5	2 500
Depreciation	6	3 000
Lease costs	7	2 000
Sundry expenses	8	1 000
Net income before tax		8 000

Notes:

1. Sales comprise

– Sales to South African customers	R35 000 000
– Sales to customers in Botswana	R5 000 000

2. Cost of sales comprises:

		R
Opening stock	– raw materials	1 000 000
	– work in progress	3 000 000
Purchases		16 000 000
Direct salaries/wages		10 000 000
Closing stock	– raw materials	500 000
	– work in progress	4 500 000

   At the end of the year a spare part for a machine which had cost R200 000 was in the workshop waiting to be fitted to the machine. Makit does not deal in such items and therefore did not include the part in stock.

3. Investment income comprises:

Dividends from South African companies	R800 000
Interest income	R200 000

4. Profit on sale of asset R500 000

   On 31 August 2004 a machine was sold for R1 100 000. The machine had originally cost R1 000 000 when it was acquired and brought into use on 1 September 2002. The machine was new when it was acquired. For accounting purposes the machine was depreciated at the rate of 20% per annum straight line. Because the machine was replaced by a new machine Makit elected in terms of paragraph 66 of the Eighth Schedule to defer the taxation of the capital gain. The new machine which cost R2m was brought into use on 1 December 2004. (Note that all machinery is used in a process of manufacture.)

5. Included in salaries and wages are:
   – A restraint of trade payment R900 000
     The restraint payment was made in August 2004 to a key employee who had resigned. In terms of the agreement the employee will not compete with Makit for a period of four years.
   – A lumpsum R500 000
     The lumpsum was paid to a retiring employee in recognition of 40 years of dedicated service to Makit. It is the policy of Makit to make such payments.

6. Depreciation R3 000 000
   (a) Buildings R600 000
   The factory building which was built in 1997 and brought into use in 1998 is depreciated (straight line) at a rate of 2% per annum.
   (b) Machinery R2 200 000
   All machinery is depreciated at the rate of 20% per annum on the straight line basis. The depreciation includes depreciation in respect of the two machines referred to in note 4 (above). Apart from the new machine referred to in note 4 all machines were acquired new and were brought into use in a process of manufacture on 1 September 2002.
   (c) Sundry assets R200 000
   The tax wear and tear on sundry assets is the same as the accounting depreciation.

7. Lease costs R2 000 000
   The lease costs are in respect of a fleet of motor cars which are given to staff as fringe benefits. In terms of the lease agreement the cars are leased for 60 months at a monthly rental of R200 000. The lease was entered into on 1 May 2004. At the time of entering into the lease the cash cost of the cars was R9 million.

8. Sundry expenses are all tax deductible.

Makit declares a dividend at the end of February every year. In February 2004 the dividend declared was R3 million. During the February 2004 dividend cycle dividends of R3·5 million accrued to Makit from South African companies. In February 2005 Makit declared a dividend of R2 million.

Required:

(a) Calculate Makit's income tax liability for the year ended 28 February 2005. (22 marks)

(b) Calculate the STC (secondary tax on companies) payable in respect of the February 2005 dividend declaration. (6 marks)

(c) State by when the STC must be paid. (2 marks)

(30 marks)

3 Electro (Pty) Ltd's taxable income for the year ended 28 February 2005 was R16m before taking the following into account:

1. On 10 May 2004 a machine which had cost R500 000 in August 2001 was sold for R600 000. The machine which was second hand when it was purchased was brought into use in a process of manufacture on 1 September 2001. The market value of the machine on 1 October 2001 was R200 000.
2. Vacant land which had been acquired in October 2002 with the intention of holding it as a capital asset was sold in October 2004. The land had cost R10m. On 1 March 2004 the company had changed its intention and decided to sell the land as trading stock. At the time the market value of the land was R15m. The land was sold in December 2004 for R20m.
3. In June 2003 Electro had used some of its trading stock to manufacture a capital asset for its own use. The cost of the stock was R150 000. The market value of the stock when it was taken out of stock was R200 000. The labour costs incurred in producing the asset were R50 000. In August 2004 the capital asset was sold for R400 000.
4. In March 2004 Electro sold an office building which it no longer used for R4m. Electro had acquired the building at a cost of R2m in June 1995. The building was not valued on 1 October 2001. The agent who handled the sale charged a commission of R200 000.
5. An Audi A8 motor car which had been acquired at a cost of R600 000 in March 2002 was sold for R500 000 in February 2005. At the time of its sale the tax value of the Audi was R360 000.

Required:

Calculate Electro's taxable income for the year ended 28 February 2005.

(20 marks)

4 Mr Sam Reddy is employed by Black Bean (Pty) Ltd, a Durban based company. Mr Reddy is paid a cash salary of R30 000 per month and has the use of a company car which cost Black Bean R250 000 (excluding VAT). Mr Reddy's only other income is interest of R251 000 per annum. Mr Reddy earned the above amounts for the 2005 tax year.

The most recent tax assessment that Mr Reddy had at 31 August 2004 was his 2003 tax assessment. The assessment reflected a taxable income of R460 000. In November 2004 Mr Reddy received his 2004 tax assessment which reflected a taxable income of R500 000. Throughout the 2005 year of assessment Black Bean had withheld employees tax of R10 800 per month from Mr Reddy's salary.

Mr Reddy is a South African resident and is 50 years old.

Required:

(a) **Calculate the minimum first and second provisional tax payments which Mr Reddy must pay in respect of the 2005 tax year if he does not wish to incur any penalties and state by when the two payments must be made.** (9 marks)

(b) **Calculate Mr Reddy's third (top-up) payment if he wishes to avoid any s.89*quat* interest in respect of the 2005 tax year.** (8 marks)

(c) **Assuming that Mr Reddy does not make the third (top-up) provisional tax payment, calculate the interest that he will be liable for in terms of the Income Tax Act if his 2005 assessment has an assessment date of 31 December 2005.** (3 marks)

(20 marks)

End of Question Paper