

Preparing Taxation Computations

(South Africa)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

ADVANCED LEVEL

TUESDAY 12 DECEMBER 2006

QUESTION PAPER

Time allowed **3 hours**

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

Tax rates and tables are on pages 2–4

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)



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
- 5 Company tax rate 29%
- 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 R80 000	18 per cent of each R1 of the taxable income;
Exceeds R80 000 but does not exceed R130 000	R14 400 plus 25 per cent of the amount by which the taxable income exceeds R80 000;
Exceeds R130 000 but does not exceed R180 000	R26 900 plus 30 per cent of the amount by which the taxable income exceeds R130 000;
Exceeds R180 000 but does not exceed R230 000	R41 900 plus 35 per cent of the amount by which the taxable income exceeds R180 000;
Exceeds R230 000 but does not exceed R300 000	R59 400 plus 38 per cent of the amount by which the taxable income exceeds R230 000;
Exceeds R300 000	R86 000 plus 40 per cent of the amount by which the taxable income exceeds R300 000.

Travel Allowance

For years of assessment commencing on or after 1 March 2000

Where the value of the vehicle –	Fixed cost R	Fuel cost c	Maintenance cost c
does not exceed R40 000	14 489	34·5	21·6
exceeds R40 000 but does not exceed R60 000	18 869	36·2	22·4
exceeds R60 000 but does not exceed R80 000	25 068	36·2	22·4
exceeds R80 000 but does not exceed R100 000	30 893	40·7	27·8
exceeds R100 000 but does not exceed R120 000	35 578	40·7	27·8
exceeds R120 000 but does not exceed R140 000	40 732	40·7	27·8
exceeds R140 000 but does not exceed R160 000	46 157	45·0	37·7
exceeds R160 000 but does not exceed R180 000	51 930	45·0	37·7
exceeds R180 000 but does not exceed R200 000	57 332	51·1	41·6
exceeds R200 000 but does not exceed R220 000	63 287	51·1	41·6
exceeds R220 000 but does not exceed R240 000	68 697	51·1	41·6
exceeds R240 000 but does not exceed R260 000	74 287	51·1	41·6
exceeds R260 000 but does not exceed R280 000	78 992	53·9	49·8
exceeds R280 000 but does not exceed R300 000	83 744	53·9	49·8
exceeds R300 000 but does not exceed R320 000	88 854	53·9	49·8
exceeds R320 000 but does not exceed R340 000	94 322	53·9	49·8
exceeds R340 000 but does not exceed R360 000	99 240	59·8	65·5
exceeds R360 000	99 240	59·8	65·5

Where business kilometres during the year of assessment do not exceed 8 000 kilometres, and no other travel allowance is paid a rate of 238 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		

**Page 5 is a blank page
Question 1 begins on page 6**

ALL FOUR questions are compulsory and MUST be attempted

1 Ivan Reddy, a South African resident, was employed by Redhill (Pty) Ltd until 31 August 2005 when he retired at the age of 65. After his retirement Ivan operated a taxi service in Durban in order to keep himself busy and also to augment his income.

The following information is provided for the year ended 28 February 2006:

1 Employment

- Cash salary (per month) R20 000
- Travel allowance (per month) R4 000
Ivan was required to do a certain amount of business travel by his employer. Ivan used his own car for this purpose. The car is a 2004 Toyota which cost R200 000 (excluding VAT). During the period 1 March 2005 to 28 February 2006 the car travelled 34 000 kilometres.
- Low interest loan
Ivan's employer lent him R200 000 in June 2004. Interest of 0.25% per month is charged on the loan. When Ivan retired he repaid the loan.
- Rented house
Ivan and his family had the use of a house which Ivan's employer rented for R6 000 per month. When he retired Ivan assumed responsibility for the rental with effect from 1 September 2005. Ivan's employer did not pay for the electricity or water and did not provide any furniture. Ivan's remuneration for the previous tax year was R220 000.
- Provident fund
Ivan contributed 6% of his cash salary to a provident fund. His employer contributed an amount equivalent to 10% of Ivan's cash salary. When he retired Ivan received a lumpsum from the fund which was tax free.
- During his period of employment Ivan's employer paid his cell phone account. For the period 1 March to 31 August 2005 this amounted to R3 500 (excluding VAT).
- Annual bonus R30 000
Ivan was paid his annual bonus in June 2005.
- In recognition of his long service Ivan's employer presented him with a gold watch which cost R12 000 (excluding VAT).

2 Taxi business

On 1 September 2005 Ivan purchased a new Honda for R250 000 (excluding VAT). Ivan used the Honda solely for the purposes of his taxi business. Ivan did not use his old Toyota in the taxi business. The income statement for the taxi business for the period 1 September 2005 to 28 February 2006 is as follows:

	R
Income (fares)	160 000
Depreciation	(35 625)
Fuel	(13 000)
Insurance (including VAT)	(15 000)
Maintenance (including VAT)	(7 375)
	<hr/>
Net income	89 000
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3 Other income and expenses

Income

Interest from South African banks	R35 000
Dividends from South African companies	R20 000

Expenses

Retirement annuity fund contributions	R10 000
Medical expenses	R40 000

The medical expenses are in respect of an illness suffered by Ivan's wife. Ivan and his wife are not members of a medical aid fund.

Required:

- (a) **State, giving reasons, whether or not Ivan can claim a VAT input in respect of the VAT paid on the insurance and maintenance expenses incurred by his taxi business.** (3 marks)
- (b) **Calculate Ivan's income tax liability for the year ended 28 February 2006.** (27 marks)

(30 marks)

2 Before taking into account the matters discussed in points 1 to 8 below, the taxable income of Alpha (Pty) Ltd for the year ended 30 June 2006, was R10 million. In calculating Alpha's tax liability for the year ended 30 June 2006, the following must be taken into account:

1 Alpha conducts a process of manufacture in factories in Cape Town and Durban.
The factory building in Cape Town was acquired new from a property developer for R10 million in June 2005. Under the terms of the purchase agreement the purchase price is only payable in December 2006. The factory building was brought into use on 1 July 2005.

The factory building in Durban was a second hand building which was acquired at a cost of R5 million in October 1990. The person from whom it was purchased had erected the building at a cost of R1 million and had received a 2% building allowance. In 2003 Alpha spent R2 million on improvements to this building.

2 The machinery used in the process of manufacture in the Cape Town and Durban factories was all acquired, new, in August 2003 for R20 million. As at 30 June 2005 no machinery had been disposed of and no further machinery had been acquired.

In August 2005 a machine which had cost R500 000 was sold for R600 000. In September 2005 a new machine was acquired to replace the machine which had been sold. The new machine cost R1,2 million. Alpha elected to defer the capital gain on the sale of the machine in terms of paragraph 66 of the Eighth Schedule. The new replacement machine was brought into use on 10 September 2005.

An obsolete machine which had cost R200 000 was sold to a connected person for R50 000 in August 2005. At the time of the sale the machine had a market value of R150 000. This machine was not replaced.

In December 2005 a second hand machine was acquired from another connected person for R600 000. At the time of the purchase the market value of the machine was R520 000.

3 In 2002 Alpha purchased, with the intention of holding it as a capital asset, vacant land on which it planned to construct a new factory. The cost of the land was R3 million. Because of an economic downturn it was decided not to proceed with the construction of the new factory. In March 2006 a property developer purchased the land from Alpha for R5 million. Alpha sold the land as a capital asset.

4 In June 2006 a restraint of trade payment of R3 million was paid to an employee who had resigned. Under the terms of the agreement the employee is restrained from competing with Alpha for a period of two years.

5 In March 2006 a lump sum of R500 000 was paid to a retiring employee who had worked for Alpha for forty years in recognition of his services to the company. It is not the policy of Alpha to make such payments.

6 In July 2005 an employee disappeared without trace. Alpha had lent this employee R200 000 in 2000. At the time of his disappearance the employee owed Alpha R230 000, being the original debt of R200 000, plus accrued interest of R30 000. Alpha has written the entire R230 000 off as a bad debt.

7 On 1 July 2005 Alpha acquired a new Audi A6 for R450 000 (including VAT). The finance director had unrestricted use of the car for the full period 1 July 2005 to 30 June 2006. Alpha paid the insurance premium (R8 000) and all fuel costs (R15 000).

8 In the year to 30 June 2006 Alpha received dividend income (from South African companies) of R800 000. On 30 June 2006 Alpha declared and paid a dividend of R1,4 million. The previous dividend had been declared and paid on 30 June 2005.

Required:

(a) Calculate Alpha's income tax liability for the year ended 30 June 2006. (27 marks)

(b) Calculate the STC (secondary tax on companies) payable by Alpha in respect of the dividend declared on 30 June 2006. (2 marks)

(c) Explain when the STC must be paid. (1 mark)

(30 marks)

3 Petra Grad is a wealthy South African resident. Petra, who is unfamiliar with tax matters, has approached you to advise her on the tax consequences of the following matters:

1 Petra lived in a large house in Johannesburg which she acquired in July 1995 for R1 million. In November 2005 Petra sold the house for R6 million and paid the estate agent a commission of R500 000. Petra did not value the house on 1 October 2001.

2 Petra also owned a holiday house in Natal which she acquired at a cost of R600 000 in March 2002. In July 2005 she sold the holiday house for R2 million.

3 Petra has for many years collected works of South African artists as a hobby. She stored the paintings in her basement and displayed them on the walls of her house on a rotational basis.

In May 2005 Petra decided to open an art gallery and to sell a major portion of her art collection. Paintings with a market value of R2 million were transferred to the business and treated as opening stock. The market value of the paintings on 1 October 2001 was R1,3 million. Petra has adopted this market value as the base cost. By 28 February 2006 all of the paintings had been sold for a total of R3,6 million.

4 In November 2005 Petra sold her motor car for R400 000. The car had cost her R600 000 in 2003.

5 In 2004 Petra had bought shares in a listed company as a long term capital investment. The cost of the shares was R800 000. The shares were sold for R650 000 in March 2005.

6 In 2002 Petra's mother Ingrid had lent her R1 million. Ingrid died in October 2005 and in her will she bequeathed the outstanding loan of R1 million to Petra.

Required:

Calculate the amount to be included in Petra's taxable income, in respect of the matters set out in points 1 to 6, for the year ended 28 February 2006.

(20 marks)

- 4 Frank Dube, who is aged 50, is employed by a company in Johannesburg. Frank is paid a monthly salary of R8 000. Frank is a member of his employer's pension fund to which he contributes 10% of his cash salary. Frank's employer withholds R900 of employees tax from Frank's remuneration every month.

In addition to his employment income Frank receives rental income from properties which were left to him by his father. For the year ended 28 February 2006 Frank accrued rental income of R80 000 and incurred tax deductible expenses of R15 000.

In December 2004 Frank received his 2004 assessment which reflected a taxable income of R120 000. Frank's 2005 tax assessment, which reflected a taxable income of R140 000, was received in July 2005.

Frank's wife Lydia, who is aged 45, is also employed and earns a cash salary of R4 500 per month. In January 2006 Lydia was paid an annual bonus of R8 000. Lydia has no other income.

Required:

- (a) Calculate Frank's first provisional tax payment in respect of the 2006 tax year. (4 marks)
- (b) Calculate Frank's second provisional tax payment in respect of the 2006 tax year. (4 marks)
- (c) State the latest dates for the payment of the first and second provisional tax payments in respect of the 2006 tax year. (2 marks)
- (d) Calculate how much must be paid by Frank as a third provisional payment if he wishes to incur no s.89quat interest in respect of the 2006 tax year. (7 marks)
- (e) Calculate the SITE that Lydia's employer must withhold for the year ended 28 February 2006. (3 marks)

(20 marks)

End of Question Paper