

# Preparing Taxation Computations

(South Africa)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

ADVANCED LEVEL

TUESDAY 13 JUNE 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% of the amount by which the taxable income exceeds R80 000;
Exceeds R130 000 but does not exceed R180 000	R26 900 plus 30% of the amount by which the taxable income exceeds R130 000;
Exceeds R180 000 but does not exceed R230 000	R41 900 plus 35% of the amount by which the taxable income exceeds R180 000;
Exceeds R230 000 but does not exceed R300 000	R59 400 plus 38% of the amount by which the taxable income exceeds R230 000;
Exceeds R300 000	R86 000 plus 40% 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		

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

**1** Harry Hill, who is aged 58 and is a South African resident, is employed by a large company in Cape Town. Harry has no shares in the company.

The following information relates to Harry's tax affairs for the year ended 28 February 2006.

1. Employment
  - Cash salary R350 000
  - Use of company car  
The car cost the employer R200 000 (including VAT). Harry has unrestricted use of the car.
  - Free lunches in a staff canteen during office hours. It cost the employer R15 (per meal) to provide these meals.
  - Annual bonus R40 000
  - Retirement fund  
Harry belongs to a pension fund  
His employer contributes an amount equal to 10% of his cash salary to the fund and Harry is required to contribute an amount equal to 8% of his cash salary to the fund.
  - Medical aid fund  
Harry and his wife are both members of the fund. His employer contributes R1 000 per month to the fund and Harry contributes R800 per month to the fund.
  
2. Other income  
During the year Harry received the following income:
  - interest from a South African bank R20 000
  - dividends from South African companies R10 000
  - Rent R60 000  
Harry rents out a house which he inherited from his late mother.
  - Annuity from ABC Insurers R60 000  
In 1998 Harry purchased an annuity from the ABC insurance company. The annuity is R5 000 per month and is paid for a period of 10 years i.e. from 1998 to 2008. Harry paid a single premium of R400 000 in 1998.
  - Proceeds from the sale of a holiday house R600 000  
Harry had purchased the house for R400 000 in 2002. Since his children have left home Harry and his wife decided to sell the house in December 2005. The house is a capital asset.
  
3. Expenses  
During the year Harry incurred the following expenditure:
  - Retirement annuity fund (RAF) contributions R25 000  
The RAF will mature when Harry turns 60.
  - Repairs to the rented property R20 000  
In July the property was repainted at a cost of R14 000. Harry also decided to fit a burglar alarm at a cost of R6 000. The house had previously not had an alarm.
  - Medical expenses R40 000  
The expenses were in respect of an illness of June (Harry's wife). June is a handicapped person. Of the R40 000 expenditure the medical aid fund paid R25 000.

**Required:**

- (a) Calculate the SITE (if any) that must be withheld by Harry's employer (in respect of amounts paid to him) for the year ended 28 February 2006.** (2 marks)
  - (b) Calculate Harry's income tax liability for the year ended 28 February 2006.** (24 marks)
  - (c) Explain whether Harry must make provisional tax payments and if so when such payments must be made.** (4 marks)
- (30 marks)**

2 Avo (Pty) Ltd is a South African resident company which carries on a manufacturing business in Johannesburg. Avo manufactures electrical components which it sells throughout Africa. The manufacturing process is carried on in a factory which Avo erected in 2000.

The following is an abridged income statement for Avo for its year ended 30 June 2006.

	Notes	R 000's
Sales	1	10 000
Cost of sales	2	(3 000)
Gross profit		<u>7 000</u>
Interest income		50
Divided income (from South African companies)		10
Profit on the sale of an asset	3	40
		<u>7 100</u>
Salaries and wages	4	(1 000)
Depreciation	5	(625)
Sundry expenses	6	(700)
Net income before tax		<u>4 775</u>

*Notes:*

1. Sales comprises		
– sales to South African customers		R8 000 000
– sales to customers in Botswana and Namibia		2 000 000
		<u>10 000 000</u>
2. Cost of sales comprises		
– Opening stock		200 000
– Purchases		1 500 000
– Salaries and wages		800 000
– Depreciation		1 000 000
– Closing stock		(500 000)
		<u>3 000 000</u>

(i) Salaries and wages are in respect of employees who are engaged directly in the manufacturing process

(ii) Depreciation comprises

– Factory buildings	R300 000
– Machinery	R700 000

The factory building was erected in 2000 and was brought into use in July 2000. Avo depreciates the building at a flat rate of 2% per annum. The manufacturing machines were all acquired (new) and brought into use on 1 July 2005. Avo depreciates machinery at a flat rate of 25% per annum.

3. A motor car which was used by one of the company's employees was sold on 31 December 2005 for R140 000. The car had been purchased and brought into use on 1 January 2004, and was subject to depreciation at a flat rate of 25% per annum. The depreciation for the current year is included under note 5 (below).
4. Salaries and wages reflects amounts paid to management and administrative staff. Included in the R1m is an amount of R300 000 paid as a restraint of trade payment to an employee who resigned in March 2006. In terms of the restraint agreement the former employee may not compete with Avo for two years.
5. Depreciation is in respect of motor vehicles and is as follows:
- |                     |                |
|---------------------|----------------|
| – Heavy duty trucks | R 400 000      |
| – Motor cars        | 225 000        |
|                     | <u>625 000</u> |

All vehicles are depreciated at a flat rate of 25% per annum. Apart from the motor car sold on 31 December 2005 (see note 3) no vehicles were purchased or sold during the year ended 30 June 2006. Furthermore no vehicles had been fully depreciated in the year ended 30 June 2006.

6. Sundry expenses are all tax deductible.

**Required:**

**(a) Calculate Avo's tax liability for the year ended 30 June 2006.** (22 marks)

**(b) Calculate the STC payable by Avo if it declares a dividend of 50% of its after tax profits on 30 June 2006.** (5 marks)

**(c) Explain when the STC in (b) above must be paid.** (3 marks)

**(30 marks)**

**3** During the year ended 28 February 2006 Caple (Pty) Ltd sold a number of capital assets. You have been asked to determine the income tax effects resulting from the sale of these assets.

The following assets were sold:

1. A machine which had been acquired (new) in July 2003, and which had been brought into use in a process of manufacture in July 2003 was sold in December 2005 for R600 000 (excluding VAT). The machine had cost R400 000 (excluding VAT).
2. A motor car which had cost R300 000 (excluding VAT) on 1 May 2003 was sold for R200 000 (excluding VAT) on 30 May 2005. At the time of sale the car had a tax value of R175 000 and a book value of R150 000. The car had been used by a director as a company car.
3. In June 1995 Caple had bought vacant land as a capital asset for R1 million (excluding VAT). The land was sold for R5 million (excluding VAT) in November 2005. The selling agent charged a commission of R400 000 on the sale. The land was not valued on 1 October 2001.
4. In January 2002 Caple had purchased an eight metre yacht for R400 000 (excluding VAT). The yacht was acquired for the purposes of advertising. In August 2005 the yacht was sold for R300 000 (excluding VAT).
5. An office building which had cost R2 million (excluding VAT) to erect in June 2002 was sold to a connected person (in relation to Caple) for R6 million (excluding VAT) in June 2005. At the time of the sale the market value of the building was R5 million.

**Required:**

**Calculate the amount to be included in Caple's taxable income for the year ended 28 February 2006 in respect of each of the five assets.**

**(20 marks)**

4 Omega (Pty) Ltd is considering the introduction of a range of fringe benefits for a senior staff member. Under consideration are the following fringe benefits:

1. The use of a company car. Omega will purchase a car for R399 000 (including VAT). The unrestricted use of the car will be given to the staff member. The monthly costs associated with the car will be fuel and insurance. The cost of the fuel will be R1 500 (including VAT) per month and the monthly insurance premium is R1 026 (including VAT).
2. The use of residential accommodation. The staff member and his family will be given accommodation in a house which Omega will purchase for R3.5 million. Of the purchase price R1.5 million will be paid in cash and the balance (R2 million) will be financed by means of a mortgage bond on which the monthly interest will be R17 000. Omega will repay R20 000 of the capital every month. Omega will purchase all the furniture for the house at a total cost of R114 000 (including VAT). Omega will also pay for all electricity, water and municipal rates. These charges are estimated to be:

	R
Water	R1 000 (excluding VAT)
Electricity	R2 000 (excluding VAT)
Rates	R1 500

The house has ten rooms. The staff member's remuneration in the previous tax year was R400 000. The staff member does not have an interest in the house and owns no shares in the company.

3. The staff member and his spouse will be entitled to a two week vacation every year in a foreign destination of their choice. The costs of providing this benefit (for Omega) are as follows:
  - Two business class air tickets R50 000
  - Accommodation in hotels R25 000
  - Incidental costs R15 000

**Required:**

- (a) Calculate the annual VAT and income tax effects of the three fringe benefits, outline above, for Omega. (14 marks)
  - (b) Calculate the annual income tax effects of the three fringe benefits for the staff member. (6 marks)
- (20 marks)**

**End of Question Paper**