
Answers

Marks

1 Lipuo Molatelle

(a) Chargeable income for the year ended 31 March 2007

| | Employment income M | Business income M | Property income M | |
|--|---------------------------|-------------------------|-------------------------|---|
| Employment Income | 210,000 | | | 1 |
| Pension | 0 | | | ½ |
| Cash allowances | 90,000 | | | 1 |
| Reimbursement | 0 | | | ½ |
| Business income | | 160,000 | | 1 |
| S.27 interest received | | | 0 | ½ |
| Sale of fridge | | 0 | | ½ |
| Rental income | | | 19,000 | 1 |
| | 300,000 | 160,000 | 19,000 | |
| | | | 19,000 | |
| Total gross income | | | 479,000 | |
| Allowable expenses | | | | |
| Motor car running costs (paid for by LHDA) | | 0 | | 1 |
| Staff welfare | | 4,200 | | ½ |
| Wages and salaries | | 66,000 | | ½ |
| Office general costs | | 12,500 | | ½ |
| Interest paid (M6,950 x 1.25) | | 8,688 | | 2 |
| Repairs and maintenance | | 3,500 | | ½ |
| Depreciation | | 0 | | ½ |
| Depreciation allowance (working 1) | | 12,800 | | |
| Accounting fees | | 8,200 | | ½ |
| Provision for outstanding expenses (working 2) | | 27,705 | | |
| Insurance premium (working 3) | | 14,000 | | |
| | | 157,593 | | |
| Chargeable income | | | 321,407 | |

Workings

1. Depreciation: Furniture and engineering equipment

| | M | |
|-----------------------------------|--------|---|
| 1 April 2005 Cost | 80,000 | |
| 31 March 2006 Depreciation at 20% | 16,000 | 2 |
| | 64,000 | |
| Adjusted cost base (ACB) | 64,000 | |
| 31 March 2007 Depreciation at 20% | 12,800 | 1 |
| | 12,800 | |

Investment assets are not depreciable. Therefore, depreciation on the rented flats is not allowed as a deduction nor is any depreciation allowance available. 1

2. Provision for outstanding expenses

| | M | |
|--------------------------------|--------|---|
| December 2006 Electricity paid | 3,200 | ½ |
| Stationery paid | 7,040 | ½ |
| Provision for doubtful debts | 0 | ½ |
| Provision for unpaid expenses | 0 | ½ |
| Rent paid | 17,465 | ½ |
| | 27,705 | |
| Total | 27,705 | |

3. Insurance premiums

| | M | |
|--|--------|----|
| Staff work compensation policy | 4,000 | ½ |
| Professional indemnity for engineering staff | 10,000 | ½ |
| Ms Molatelle's life assurance policy | 0 | ½ |
| | <hr/> | |
| Total | 14,000 | 20 |
| | <hr/> | |

(b) (i) Tax payable for the year ended 31 March 2007

| | | M | |
|---------------------------------------|-----------------|--------------------|---|
| Chargeable income (from (a) above) | | 321,407 | |
| Chargeable Income | Tax rate | Tax payable | |
| | | M | |
| 1st M35,060 | 25% | 8,765 | 1 |
| M286,347 | 35% | 100,221 | 1 |
| | | <hr/> | |
| Total tax due | | 108,986 | |
| <i>Less: Withholding taxes</i> | | | |
| Tax withheld by LHDA | | (66,494) | 1 |
| Withholding tax on government payment | | (5,600) | 1 |
| Withholding tax on pension | | 0 | 1 |
| | | <hr/> | |
| Net tax payable (balance due) | | 36,892 | 5 |
| | | <hr/> | |

(ii) Ms Molatelle must submit an annual return of income to the Commissioner of Income Tax and pay any outstanding tax due not later than the last day of the third month following the end of the year of assessment i.e. by 30 June 2007. 2

(c) Calculation of fringe benefit tax

| | M | |
|--------------------------------------|--------|-------|
| Taxable value of car (350,000 x 15%) | 52,500 | 1 |
| Taxable amount (52,500/0.65) | 80,769 | 1 |
| Fringe benefit tax (80,769 x 35%) | 28,269 | 1 |
| | | <hr/> |
| | | 3 |
| | | <hr/> |

(d) A gain arising from the disposal of personal assets is exempt from tax. Similarly, a loss on the disposal of such assets is not allowable for tax purposes. 2

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2 Naledi Bus Service

(a) Depreciation allowances for the year ended:

| | Group 1 25% | Group 2 20% | Group 4 5% | Total | |
|------------------------------------|-----------------|----------------|----------------|---------------|----|
| 31 March 2003 | | | | | |
| Opening balance | – | – | | | ½ |
| ½ previous acquisitions | – | – | | | ½ |
| ½ current acquisitions | 164,000 | 171,000 | | | 2 |
| | <u>164,000</u> | <u>171,000</u> | | | |
| Depreciation | (41,000) | (34,200) | | 75,200 | 1½ |
| Adjusted cost base | <u>123,000</u> | <u>136,800</u> | | | |
| 31 March 2004 | | | | | |
| Opening balance | 123,000 | 136,800 | | | ½ |
| ½ previous acquisitions | 164,000 | 171,000 | | | ½ |
| ½ current acquisitions | – | 98,500 | | | 1 |
| Less: Disposals | (80,000) | – | | | 1 |
| | <u>207,000</u> | <u>406,300</u> | | | |
| Depreciation | (51,750) | (81,260) | | 133,010 | 1½ |
| Adjusted cost base | <u>155,250</u> | <u>325,040</u> | | | |
| 31 March 2005 | | | | | |
| Opening balance | 155,250 | 325,040 | | | ½ |
| Addition in year | – | – | 213,890 | | 1 |
| ½ previous acquisitions | – | 98,500 | | | ½ |
| ½ current acquisitions | – | 319,500 | | | 1 |
| Less: Disposals | | (96,150) | | | 1 |
| | <u>155,250</u> | <u>646,890</u> | <u>213,890</u> | | |
| Depreciation | (38,813) | (129,378) | (5,347) | 173,538 | 2 |
| | <u>116,437</u> | <u>517,512</u> | <u>208,543</u> | | |
| 31 March 2006 | | | | | |
| Opening balance | 116,437 | 517,512 | 208,543 | | ½ |
| ½ previous acquisitions | – | 319,500 | | | ½ |
| ½ current acquisitions | – | 97,500 | | | 1 |
| | <u>116,437</u> | <u>934,512</u> | <u>208,543</u> | | |
| Depreciation | (29,109) | (186,902) | (10,427) | 226,438 | 2 |
| Adjusted cost base | <u>87,328</u> | <u>747,610</u> | <u>198,116</u> | | |
| 31 March 2007 | | | | | |
| Opening balance | 87,328 | 747,610 | 198,116 | | ½ |
| ½ previous acquisitions | – | 97,500 | | | ½ |
| ½ current acquisitions | – | | | | |
| Less: Disposals | (120,000) | (76,890) | | | 2 |
| | <u>(32,672)</u> | <u>768,220</u> | <u>198,116</u> | | |
| Depreciation | – | (153,644) | (9,906) | 163,550 | 1½ |
| Balance taken to revenue | <u>(32,672)</u> | | | <u>32,672</u> | 1 |
| Adjusted cost base carried forward | | <u>614,576</u> | <u>188,210</u> | | ½ |

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(b) Under the pooling method, a gain on disposal, being the excess of disposal proceeds over the balance of the pool, is included in gross income.

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A loss on disposal, being the balance after deducting any disposal proceeds, is treated as an allowable deduction only when all the assets in the pool have been disposed of.

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(c) Assets in Groups 4 and 5 are specifically excluded from using the pooling method.

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3 Mr Ralimpe and Sunshine Motors

| | M | |
|---|----------------|-----------|
| (a) 1 Car fringe benefit | | |
| Taxable value (142,000/0.75) | 189,333 | 2 |
| Taxable amount (189,333 x 15% x (365-104)/365) – (500 x 12) | 14,308 | 3 |
| Taxable amount (14,308/0.65) | 22,012 | ½ |
| Fringe benefit tax at 35% | 7,704 | ½ |
| 2 Housing fringe benefit | | |
| The maximum house benefit is the lower of the costs to the employer and 20% of remuneration | | |
| House benefit (8,200*12) | 98,400 | ½ |
| Employee contribution (98,400*20%) | (19,680) | |
| House benefit based on rental costs | <u>78,720</u> | 2 |
| Salary | 120,000 | ½ |
| Car (as above) | 14,308 | ½ |
| Utilities ((400 + 700 + 1,200)*12) | 27,600 | ½ |
| Debt waiver | 8,500 | ½ |
| Medical aid (1,595*12) | 19,140 | ½ |
| Security guard and domestic assistant (1,748 + 600)*12) | 28,176 | ½ |
| House (as above) | <u>78,720</u> | ½ |
| Total remuneration | <u>296,444</u> | |
| 20% maximum restriction | <u>59,289</u> | ½ |
| Taxable amount (59,289/0.65) | 91,214 | 1 |
| Fringe benefit tax at 35% | 31,925 | ½ |
| 3 Utilities | | |
| Taxable amount (27,600/0.65) | 42,462 | 1 |
| Fringe benefit tax at 35% | 14,862 | ½ |
| Domestic assistance | | |
| Taxable amount ((600*12)/0.65) | 11,077 | 1 |
| Fringe benefit tax at 35% | 3,877 | ½ |
| The provision of a security guard is an exempt fringe benefit | | 1 |
| 4 Medical aid | | |
| This is an exempt fringe benefit | | 1 |
| 5 Debt waiver fringe benefit | | |
| Taxable amount (8500/0.65) | 13,077 | 1 |
| Fringe benefit tax at 35% | 4,577 | ½ |
| Total fringe benefit tax (7,704 + 31,925 + 14,862 + 3,877 + 4,577) = 62,945 | | ½ |
| | | <u>21</u> |

(b) The fringe benefit tax due on 31 March 2007 is payable within 14 days after 31 March 2007 i.e. by 14 April 2007. 1

(c) A cash allowance of M800 per month is not a fringe benefit. It is included in the employee's employment income and is therefore taxable at his marginal income tax rate. 2

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4 Tanki
Gains/losses on disposals of assets

- 1 There is no gain/no loss on a transfer of assets between former spouses as part of a divorce settlement, therefore the disposal by Tanki does not result in a chargeable event. 1

The cost base of an investment asset on such a transfer is the adjusted cost base of the assets at the date of transfer. Therefore, the cost base of the shares to Mosa is M90,000. 2

| | | |
|---------------------|----------|---|
| | M | |
| Proceeds | 150,000 | |
| Cost base | 90,000 | |
| Taxable gain (Mosa) | 60,000 | 1 |

- 2 Where there is an involuntary disposal of an asset, as in this case, no gain/no loss arises to the extent that a similar asset is subsequently acquired with the proceeds of the disposal. 1

| | | |
|----------------------|----------|---|
| | M | |
| Proceeds (insurance) | 50,000 | |
| Cost base | 40,000 | |
| Taxable gain (Tanki) | 10,000 | 1 |

The cost base of the replacement asset is the adjusted cost base of the involuntarily disposed of asset. Thus, the cost base of the replacement vehicle is M35,650. 2

- 3 There is no gain/no loss on asset swaps. The assets are deemed to have been acquired at their respective adjusted cost bases. 2

Thus, the cost base of the van to Tanki is M60,000; and the cost base of the car to Refiloe is M40,000. 1
1

- 4 The contribution of an asset into a partnership is treated as if the partner has disposed of the asset to the partnership. However, if, as here, the partner's interest in the partnership will be 50% or more immediately after the contribution of the asset, then the transfer of the asset(s) is a no gain/no loss transfer. 2

The tax cost to the partnership is the adjusted cost base of the contributing partner immediately prior to the contribution. Therefore, the laptops will be deemed to have been acquired by the partnership at their adjusted base cost at the date of transfer of M20,630. 2