Preparing Taxation Computations
(South Africa)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

ADVANCED LEVEL

TUESDAY 12 JUNE 2007

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 on tax underpaid	6·5% 10·5%
3	Interest – official rate (for fringe benefits)		8·0%
4	Tax tables: – tax rates for:	attached – 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 R100 000	18 per cent of each R1 of the taxable income;
Exceeds R100 000 but does not exceed R160 000	R18 000 plus 25 per cent of the amount by which the taxable income exceeds R100 000;
Exceeds R160 000 but does not exceed R220 000	R33 000 plus 30 per cent of the amount by which the taxable income exceeds R160 000;
Exceeds R220 000 but does not exceed R300 000	R51 000 plus 35 per cent of the amount by which the taxable income exceeds R220 000;
Exceeds R300 000 but does not exceed R400 000	R79 000 plus 38 per cent of the amount by which the taxable income exceeds R300 000;
Exceeds R400 000	R117 000 plus 40 per cent of the amount by which the taxable income exceeds R400 000.

Travel Allowance

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	19 869	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

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
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

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Question 1 begins on page 6.

ALL FOUR questions are compulsory and MUST be attempted

1 Cedric Matheson, a South African resident aged forty, is an accountant. Until he resigned on 31 May 2006, he was employed as a manager by a large firm of accountants.

Cedric resigned because he felt that his progress within the firm of accountants was not to his satisfaction. Following his resignation he established his own accounting practice, which provides accounting services to clients. Cedric spent the month of June 2006 setting up his business, which he named 'Sharp accounting services'. He commenced his business activities on 1 July 2006.

The following information relates to the year of assessment ended 28 February 2007.

1. Employment – 1 March 2006 to 31 May 2006

		R
The following information relates to Cedric's employment with the firm of accountants.		
–	Cash salary	120 000
–	Annual bonus The firm pays employees a bonus equivalent to one month's salary in the month of their birthday, which was April in Cedric's case	40 000
–	Travel allowance Cedric used his own car for the purpose of business travel. He was not required to account to the firm for his travel expenses. Cedric drives a 2005 BMW, which he had acquired at a cost of R300 000 (excluding VAT). During the period 1 March 2006 to 28 February 2007 the car covered a distance of 34 000 kilometres. Cedric did not keep a record of his business kilometres.	30 000
–	Contributions to a provident fund Cedric's employer contributes a similar amount to the fund. When Cedric resigned he received a lump sum from the fund which was tax free.	12 000

2. 'Sharp accounting services' – 1 July 2006 to 28 February 2007

Cedric conducts the business from premises which he owns. Cedric bought the premises, in June 2006, in a newly developed office complex, for R1 million (including VAT).
In June 2006, Cedric purchased office furniture at a cost of R57 000 (including VAT) and also acquired computer equipment at a cost of R25 000 (including VAT).
Cedric employs one person (Mrs Smith) who is his personal assistant.
The profit and loss statement for the business for the period 1 July 2006 to 28 February 2007 is as follows:

		R
Fee income		500 000
less	Expenses:	
	Salary (Mrs Smith)	(90 000)
	Holiday – Mrs Smith In December 2006 the business gave Mrs Smith an overseas holiday in recognition of her services. Mrs Smith was given an air ticket which cost R15 000 and R10 000 spending money.	(25 000)
	Electricity and water	(10 000)
	Municipal property rates	(8 000)
	Insurance premiums (the insurance is in respect of the building and equipment)	(4 000)
	Depreciation	(9 833)
	Travel expenses (Cedric keeps an accurate record of his business travel expenses which SARS accepts)	(9 000)
	Sundry expenses (all tax deductible)	(2 649)
Net profit		341 518

3. Other information

In addition to the information given in points 1 and 2 above, the following information relates to the period 1 March 2006 to 28 February 2007.

– Cedric contributed R5 000 per month to a retirement annuity fund (RAF)
– Cedric received interest income of R32 000 and dividend income of R21 000.
– In May 2006 Cedric sold the house in which he lived. The proceeds from the sale were used to acquire a new house, as well as the business premises. Cedric had bought the original house in December 2001 for R800 000, and had lived in the house for the entire period until he sold it. The house was sold for R3 200 000. The sale was a private sale and there was no agents' commission.

Required:

(a) Calculate the SITE (if any) withheld by Cedric Matheson's former employer. (2 marks)

(b) Calculate Cedric Matheson's total tax liability for the year ended 28 February 2007. (25 marks)

(27 marks)

2 Furnco (Pty) Ltd is a South African resident company, which manufactures quality furniture in a factory in Johannesburg. The following is the pre-adjustment trial balance of Furnco as at 28 February 2007.

	Notes	Dr	Cr
		R	R
Share capital (100 000, R1·00 shares)			100 000
Share premium			400 000
Retained income			2 500 000
Long term loan			200 000
Land and buildings (cost)	1	300 000	
Plant and machinery (cost)	2	700 000	
Motor cars (cost)	3	500 000	
Fixtures and fittings (cost)	4	100 000	
Accumulated depreciation			
– Buildings			75 000
– Plant and machinery			262 500
– Motor cars			300 000
– Fixtures and fittings			100 000
Depreciation (current year)			
– Buildings		5 000	
– Plant and machinery		187 500	
– Motor cars		100 000	
– Fixtures and fittings		20 000	
Lease costs (delivery trucks)	5	140 000	
Sales			12 000 000
Purchases		4 000 000	
Stock (at 1 March 2006)		300 000	
Sundry operating expenses	7	410 000	
Salaries and wages	8	3 500 000	
Debtors (Receivables)		2 300 000	
Creditors (Payables)			800 000
Cash		4 175 000	
		16 737 500	16 737 500

Notes:

1. Land and buildings
   The land and buildings were brought into use on 1 March 1992. The buildings are used for the purposes of conducting a process of manufacture. The buildings are depreciated on a straight line basis at a rate of 2% per annum. No additional amounts have been spent on improving the buildings since they were acquired.

2. Plant and machinery
   The plant and machinery which is used in a process of manufacture, was all acquired new in 2005 and was brought into use on 1 September 2005. On 31 August 2006 a machine, which had originally cost R100 000 (excluding VAT), was sold for R75 000 (excluding VAT). No additional machines have been acquired since 2005. Furnco depreciates its plant and machinery at a rate of 25% per annum on the straight line basis.

3. Motor cars
   Two identical motor cars were acquired and brought into use on 1 March 2004. The use of the cars was given to two senior employees as part of their remuneration package. The employees are not required to make any contributions to Furnco in respect of their use of the cars.

4. The tax wear and tear on the fixtures and fittings is the same as the accounting depreciation.

5. On 1 July 2003 Furnco entered into a lease agreement in terms of which it leases its delivery trucks. The lease is for a five-year period. At the end of the lease the trucks will be acquired by Furnco for a residual payment of R50 000. When the lease was entered into Furnco paid the lessor a lease premium of R100 000. The full lease premium was expensed in the 2004 year.

6. The cost of stock on hand at 28 February 2007 was R1 200 000.
7. The sundry operating expenses are all tax deductible.
8. Included in salaries and wages is a leave pay provision of R400 000. Although not liable to pay the amount Furnco decided to raise the provision.

Required:

(a) Calculate the VAT output for which Furnco (Pty) Ltd is liable for the year ended 28 February 2007 in respect of the use of the motor cars given to the two senior employees. (3 marks)

(b) Calculate Furnco (Pty) Ltd's taxable income for its year ended 28 February 2007. (21 marks)

(c) Calculate the STC payable if Furnco (Pty) Ltd declares a dividend of 50% of its 2007 after tax profits on 28 February 2007. (5 marks)

(d) Explain by which date the STC in (c) above must be paid. (2 marks)

(31 marks)

3 During the year of assessment ending 28 February 2007 David Sing sold the following assets.

1. A holiday home which had been acquired in June 1998 at a cost of R200 000. Because the house was seldom used David decided to sell it. As luck would have it David's neighbour was looking for a holiday home. David sold the house to his neighbour for R1,6 million on 1 August 2006. David had not valued the house on 1 October 2001.
2. The neighbour, who purchased the house referred to in (1) above, also offered David R25 000 for all of the furniture in the house. David accepted the offer. The furniture had been purchased in July 1998 for R35 000.
3. David, who was a keen fisherman, had acquired an eleven metre motorboat in January 2002 at a cost of R260 000. In August 2006 David sold the boat for R250 000.
4. In January 2006 David and his wife decided to move into a retirement village. As a result they put their domestic home on the market. The house was sold for R6 million in July 2006. David had acquired the house in January 1990 for R500 000, and he and his wife had lived in it permanently until it was sold. David had had the house valued on 1 October 2001, at which time the market value was R4,4 million.
5. In July 2006 David sold his motor car and bought a new one. The original car, which had been purchased in 2005 for R200 000, was sold for R110 000.
6. In November 2006 David sold the shares which he held in a private company, for R2 million. David had acquired the shares in May 1998 for R300 000. David had had the shares valued on 1 October 2001, at which time the market value was R900 000.

Required:

Calculate the total amount to be included in David Sing's 2007 taxable income as a result of the sale of the assets referred to in transactions (1) to (6).

(21 marks)

4 Redcap (Pty) Ltd is a South African company which carries on business in Cape Town. The manager of the business is Mr Blackcap.

Mr Blackcap is neither a shareholder in, nor director of, Redcap.

Mr Blackcap's current monthly remuneration (for the 2007 tax year) comprises the following:

– Cash salary of R35 000

– The use of a company car. The car cost Redcap R360 000 (including VAT) in 2005. Redcap pays all costs relating to the car i.e. fuel, insurance, licence and maintenance. Mr Blackcap is given the unrestricted use of the car.

– Use of residential accommodation. Mr Blackcap and his family live in an unfurnished house which is rented by Redcap. The monthly rental is R18 000. In addition Redcap pays for all related costs such as electricity and water. These costs amount to R3 000 per month. Mr Blackcap's remuneration for the 2006 tax year was R360 000.

– A non-contributory medical aid fund. Mr Blackcap and his family (a wife and one child) are members of the fund to which monthly contributions of R2 500 are paid by Redcap.

Apart from his income from employment Mr Blackcap's only other income for the year ended 28 February 2007 was interest of R135 000 and South African dividends of R20 000.

Mr Blackcap is aged 55.

Mr Blackcap's 2005 assessment which has a due date of 1 March 2006 reflects a taxable income of R800 000. Mr Blackcap had not been assessed for the 2006 tax year as at 28 February 2007.

Required:

(a) Calculate the employees' tax which Redcap (Pty) Ltd must withhold in respect of Mr Blackcap's monthly remuneration. (10 marks)

(b) Calculate the minimum first and second provisional tax payments which Mr Blackcap must pay in respect of the 2007 tax year, assuming that he uses the basic amount in calculating both payments and does not wish to incur any penalties. (4 marks)

(c) Calculate the amount that Mr Blackcap must pay as a third (top-up) provisional tax payment in respect of the 2007 tax year, if he wishes to avoid paying interest on the underpayment of provisional tax. (6 marks)

(d) State by which date the third (top-up) provisional tax payment (in (c) above) must be paid if interest is to be avoided. (1 mark)

(21 marks)

End of Question Paper