



## JUNE 2013 EXAMINATION

DATE: 13 JUNE 2013

TIME: 14H00 – 16H30

TOTAL: 100 MARKS

DURATION: 2½ HOURS

PASS MARK: 40%

(PO-04)

## A LOGICAL APPROACH TO SOUTH AFRICAN TAX

**THIS EXAMINATION PAPER CONSISTS OF 3 SECTIONS:**

<b>SECTION A:</b>	<b>CONSISTS OF 10 MULTIPLE-CHOICE QUESTIONS ANSWER <u>ALL</u> THE QUESTIONS</b>	<b>(10 MARKS)</b>
<b>SECTION B:</b>	<b>CONSISTS OF 1 SHORT QUESTION ANSWER THE QUESTION</b>	<b>(23 MARKS)</b>
<b>SECTION C:</b>	<b>CONSISTS OF 3 LONG ANSWER QUESTIONS ANSWER <u>ALL</u> THE QUESTIONS</b>	<b>(67 MARKS)</b>

**INSTRUCTIONS:**

1. Read the following instructions *carefully* before answering the paper, as failure to act upon them will result in a loss of marks.
2. Write your answers in your answer book, which is provided in the exam.
3. Ensure that your name and student number are clearly indicated on your answer book.
4. Write your answers in either blue or black ink in your answer book.
5. Read each question very carefully before you answer it and number your answers *exactly* as the questions are numbered.
6. Begin with the question for which you think you will get the best marks.
7. Note the mark allocations for each question – give enough facts to earn the marks allocated. Don't waste time by giving more information than required.
8. You are welcome to use diagrams to illustrate your answers.
9. Please write neatly – we cannot mark illegible handwriting.
10. Any student caught cheating will have his or her examination paper and notes confiscated. The College will take disciplinary measures to protect the integrity of these examinations.
11. If there is something wrong with or missing from your exam paper or your answer book, please inform your invigilator immediately. If you do not inform your invigilator about a problem, the College will not be able to rectify it afterwards, and your marks cannot be adjusted to allow for the problem.
12. This paper may be removed from the examination hall *after* the examination has taken place.

**NOTE: YOU ARE ALLOWED TO USE A NON-PROGRAMMABLE CALCULATOR.**

**SECTION A**

**(10 MARKS)**

**ANSWER ALL THE QUESTIONS**

**MULTIPLE-CHOICE QUESTIONS**

Choose the correct option for each of the following. Write only the question number and your chosen answer. For instance, if you think that the correct answer for number 1 is (a), then write it as 1. (a).

1. The section in the SA Income Tax Act that deals with local exempt interest is:
  - (a) s(10)(1) (i).
  - (b) s(10)(1) (h).
  - (c) s(10)(1) (j).
  - (d) None of the above.
  
2. The section in the SA Income Tax Act that deals with local dividend is:
  - (a) s(10)(1) (j).
  - (b) s(10)(1) (k).
  - (c) s(10)(1) (l).
  - (d) None of the above.
  
3. The section in the SA Income Tax Act that deals with exemption on lump sums received for the first time is:
  - (a) s(10)(1)(y).
  - (b) s(10)(1)(k).
  - (c) s(10)(1)(j).
  - (d) s(10)(1)(x).
  
4. A South African citizen who is over 65 years of age is entitled to a \_\_\_\_\_ rebate:
  - (a) second
  - (b) first
  - (c) substantial
  - (d) minimal
  
5. When a business wishes to qualify for a deduction in expenses in terms of s11(a), the key phrase to determine whether the expense is deductible is:
  - (a) in the production of income.
  - (b) whether it's related to the income capacity of the business.
  - (c) whether income and expenses can be matched.
  - (d) None of the above.

6. S(11)(n) deals with:
- (a) capital allowances.
  - (b) bad debts provisions.
  - (c) VAT provisions.
  - (d) retirement annuity deductions.
7. A business man who deals with motor vehicles decides to take one of his stock of vehicles for his own private use. Which of the following statement applies?
- (a) The value of this vehicle does not have to be included as part of his gross income.
  - (b) The value of this vehicle must be included as part of his gross income.
  - (c) The vehicle is classified as trading stock so must not be included in his gross income.
  - (d) The vehicle in this case is a fringe benefit so must not be included in his gross income.
8. Schedule 7 of the Income Tax Act deals with:
- (a) VAT.
  - (b) personal taxes.
  - (c) fringe benefits.
  - (d) trading stock.
9. A capital gain is derived at after deducting the base cost from the proceeds.
- (a) True
  - (b) False
  - (c) Partly true
  - (d) None of the above.
- 10, A business purchases an office water dispensing machine for its staff. Input VAT cannot be claimed for this item because:
- (a) it is classified as entertainment.
  - (b) the value of this item is very minimal.
  - (c) VAT is not charged on water machines.
  - (d) All of the above.

[10]

[10]

**SECTION B: SHORT QUESTION**

**(23 MARKS)**

**ANSWER THE QUESTION**

**QUESTION 1**

(a) Show the basic formula / framework for calculating income tax. (11)

(b) Ross Lee is a 26-year-old taxpayer and has supplied you with the following information for the tax year ended 29 February 2012:

Gross income	R148 000
Dividends received – local RSA company	13 000
Pension fund contributions	6 500
Taxable portion of capital gains	20 000
Employee's tax deducted during the year	19 800

Calculate the income tax liability of Ross Lee. (12) [23]

**[23]**

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**SECTION C: LONG ANSWER QUESTIONS**

**(67 MARKS)**

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**ANSWER ALL THE QUESTIONS**

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**QUESTION 1**

SARS uses donations tax as a means for compensating themselves for lost taxes (both estate duty and income tax) that may arise when a person donates an asset. The donor is generally the person liable for donations tax

Mr B, who has a marginal tax rate of 40%, donates a building which produces annual rentals of R100 000 and has a market value of R600 000, to his niece, Miss Z, who has a marginal tax rate of 25%. Mr B died the following year.

**You are required to:**

Discuss the income tax, estate duty and donations tax effect of this transaction. [23]

**QUESTION 2**

ABC family trust, a discretionary inter vivos trust, had the following assets: a flat which was purchased at market value by the trust and a money market account which arose from a R800 000 donation from Mr Z.

The trust earned the following income in the year ended 29 February 2012:

Rental income on the flat	R120 000
Interest income on the money market account	40 000

The following distributions were made to the beneficiaries (Mr Z's children) on 29 February 2012:

Aimee (aged 23):	R20 000
Keif (aged 17)	R60 000

The remainder of the income was retained in the trust.

- (a) Calculate the trust's tax liability. (10)
- (b) Calculate the amount of taxable income that will included in Aimee, Keif and Mr Z's income as a result of the above transactions. (12) [22]

**QUESTION 3**

Patience Geduld operates a as a sole trader. Information pertaining to this follows below:

Income:

Business income	R250 000
Interest received	R18 000

Expenses:

Office rental	R40 000
Telephone	R25 000
Stationery	R7 500
Accounting fees	R6 000
Retirement annuity fund contributions	R35 000

In addition Patience purchased a car on 1 March 2011 for R150 000 (incl VAT) for business and private travel. Her car expenses were as follows:

Fuel	R8 000
Licence fees	R350
Repairs and maintenance	R7 900
Insurance	R5 600

Patience also purchase a computer costing R12 000 on 1 May 2011 for business purposes.

Additional information:

On 1 March 2011 the business purchased a vehicle for R200 000, inclusive of VAT. No logbook was kept.

**You are required to:**

Determine the taxable income for the year ended 29 February 2012.

[22]

[67]

**Section A: 10 marks**  
**Section B: 23 marks**  
**Section C: 67 marks**  
**TOTAL: 100 MARKS**

### Income Tax Tables

**1 March 2011 - 28 February 2012**

<b>Taxable Income</b>	<b>Tax Rate</b>
R 0 – R 150 000	18%
R 150 001 – R 235 000	R 27 000 + (25% of amount above R 150 000)
R 235 001 – R 325 000	R 48 250 + (30% of amount above R 235 000)
R 325 001 – R 455 000	R 75 250 + (35% of amount above R 325 000)
R 455 001 – R 580 000	R 120 750 + (38% of amount above R 455 000)
R 580 001 and above	R 168 250 + (40% of amount above R 580 000)

<b>Primary Rebate</b>	R 10 755
<b>Secondary Rebate (Persons 65 and older)</b>	R 6 012
<b>Tertiary Rebate (Persons 75 and older)</b>	R 2 000

Tax rate for trusts:     40%  
 Donations tax:         20%  
 Estate duty:             20%

Total interest exemption including foreign interest:

Below 65	R22 800
65 and over	R33 000
Foreign interest and dividends	R3 700