NOVEMBER 2013 EXAMINATION

DATE: 6 NOVEMBER 2013

TIME: 09H00 – 12H00 TOTAL: 100 MARKS

DURATION: 3 HOURS PASS MARK: 40%

(BUS-LT / KJ-59)

INCOME TAX / TAXATION

THIS EXAMINATION PAPER CONSISTS OF 4 SECTIONS:

SECTION A: CONSISTS OF:
(i) 10 MULTIPLE-CHOICE QUESTIONS (10 MARKS)
(ii) 10 MATCHING-STATEMENT QUESTIONS (10 MARKS)
ANSWER ALL THE QUESTIONS

SECTION B: CONSISTS OF 4 SHORT QUESTIONS
ANSWER ALL THE QUESTIONS (20 MARKS)

SECTION C: CONSISTS OF 4 LONG ANSWER QUESTIONS
ANSWER ALL THE QUESTIONS (40 MARKS)

SECTION D: CONSISTS OF 2 INTERPRETATIVE QUESTIONS
ANSWER ONE OF THE QUESTIONS (20 MARKS)

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 MAY USE A NON-PROGRAMMABLE CALCULATOR.
SECTION A (20 MARKS)

ANSWER ALL THE QUESTIONS

(i) 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. Capital expenditure is expenditure that is undertaken:
   (a) with the objective of halting future recurrent income.
   (b) with the objective of producing future recurrent income.
   (c) with the objective of reducing tax losses.
   (d) to keep the shareholders satisfied.

2. The tax year for an individual ends on the:
   (a) last day of December.
   (b) last day of February.
   (c) last day of March.
   (d) last day of June.

3. In order to be recognised, a medical scheme must be registered:
   (a) under the provisions of the Medical Schemes Act 1 of 1967.
   (b) under the provisions of the Income Tax Act of 2005.
   (c) by the National Medical Scheme.
   (d) with SARS.

4. A bursary is any bona fide monetary assistance granted to enable or assist any person:
   (a) to study at a foreign school.
   (b) to lecture at a recognised educational or research institution.
   (c) to study at a recognised educational or research institution.
   (d) to claim a tax benefit.

5. The official rate of interest is:
   (a) fixed by the Minister of Finance.
   (b) fixed by the Reserve Bank.
   (c) fixed by the commercial banks.
   (d) the rate of interest that was used in the previous year.

6. 'Long service' means an initial unbroken period of service of not fewer than:
   (a) 5 years.
   (b) 10 years.
   (c) 15 years.
   (d) 20 years.
7. Remuneration factor means, in relation to a year of assessment, the remuneration derived by the employee:

(a) during the year of assessment even though service has been for more than two years.
(b) the average remuneration for the past five years.
(c) according to tax returns submitted for two years.
(d) during the year of assessment immediately preceding that year of assessment.

8. A taxable benefit is deemed to have been granted to an employee if the employer has:

(a) paid his salary in advance.
(b) paid an amount owing by the employee to a third party.
(c) stood surety for an amount owing by the employee to a third party.
(d) assisted with drafting a repayment schedule.

9. SITE:

(a) is not a separate tax, but forms part of the well-known Pay-As-You-Earn (PAYE) system.
(b) is a separate tax.
(c) has absolutely nothing to do with PAYE.
(d) is a tax that used to be charged in South Africa.

10. A person who starts working will have a tax period commencing:

(a) on the first day of the next tax year.
(b) when they register for tax.
(c) from the 1 March of that year.
(d) on the day he or she was employed.
(ii) **MATCHING-STATEMENT QUESTIONS**

Match the statements in Column B to the terms in Column A. Write down the answers only, for example 1. (a).

<table>
<thead>
<tr>
<th>Column A</th>
<th>Column B</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. total receipts</td>
<td>(a) standard income tax on employees</td>
</tr>
<tr>
<td>2. the rebate system</td>
<td>(b) a financial institution will purchase an asset from a business and then lease it back to the business</td>
</tr>
<tr>
<td>3. a leaseback</td>
<td>(c) any employment in terms of which the employee is required to work for any one employer for at least 22 hours in every full week</td>
</tr>
<tr>
<td>4. employee</td>
<td>(d) any profit made on the sale of an asset</td>
</tr>
<tr>
<td>5. retirement annuity fund</td>
<td>(e) any person who receives any remuneration, or to whom any remuneration accrues</td>
</tr>
<tr>
<td>6. SITE</td>
<td>(f) natural persons</td>
</tr>
<tr>
<td>7. standard employment</td>
<td>(g) ensures that the poorer sector of the population do not pay tax</td>
</tr>
<tr>
<td>8. a partnership</td>
<td>(h) all the capital receipts and income from both RSA and non-RSA sources</td>
</tr>
<tr>
<td>9. general public</td>
<td>(i) any retirement fund, other than a pension or provident fund</td>
</tr>
<tr>
<td>10. a capital gain</td>
<td>(j) not a legal personality</td>
</tr>
</tbody>
</table>

[10]

[20]
SECTION B: SHORT QUESTIONS (20 MARKS)

ANSWER ALL THE QUESTIONS

QUESTION 1
For tax purposes, who is a holder of public office? [3 × 2 = 6]

QUESTION 2
Under what circumstances will meals, supplied by an employer, not be taxed as a fringe benefit? [5]

QUESTION 3
What tax value is placed on holiday accommodation given to an employee? [6]

QUESTION 4
List the contributions made by an employee that an employer may take into account in determining SITE liability. [3]

[20]
SECTION C: LONG ANSWER QUESTIONS

(40 MARKS)

ANSWER ALL THE QUESTIONS

QUESTION 1

Thomas Gable, who is the manager of a small trading store has the following information for the tax year ended 28 February:

INFORMATION

- salary for year to 28 February, R160 000
- annuity from insurance company in terms of aunt's will, R 9 000. The value of the annuity (per annum), R12 000, but one quarter's instalment is in arrears.
- Christmas bonus from employer, R2 500 (handed out at Christmas party in cash)
- payment from correspondence college for setting of an examination paper, R2 500
- interest on savings account at local bank, R600
- prize in lottery, R25 000
- dividend from a public company, net of withholding tax, R1 600
- Gable occupied a house belonging to his father-in-law, an insurance agent, for which he pays no rent. The annual rental value of this house is estimated at, R48 000.
- Gable owns a house for which he receives R3 600 rent per month. The present lessee has been in the house for the full tax year and no rent is outstanding. In terms of the lease, the lessee is bound to effect improvements to the house to the value of R20 000. In view of the shortage of building materials, however, it has not yet been possible to commence these improvements. During the current year, Gable spent R4 900 in repairs on this house.

You are required to:

Determine the taxable income of Thomas Gable. Give reasons for the inclusion or exclusion of both income and expenses. [21]

QUESTION 2

For income tax purposes, what is the definition of a ‘small business corporation’? [8]

QUESTION 3

What constitutes an offence in the obtaining and/or issuing of an IRP5? [7]
QUESTION 4

When and on what basis should companies pay provisional tax? [2 × 2 = 4] [40]
SECTION D: INTERPRETATIVE QUESTIONS (20 MARKS)

ANSWER ONE OF THE QUESTIONS

QUESTION 1

SPA family trust, a discretionary inter vivos trust, had the following assets:

An apartment which was purchased at market value by the trust, and
A money market account which arose from a R800 000 donation from Mr Aaron.

The trust earned the following income in the year ended 28 February 2013:

- Rental income on the apartment: R120 000
- Interest income on the money market account: 40 000

The following distributions were made to the beneficiaries (Mr Aaron’s children) on 28 February 2013:

- Sharon (aged 23): R20 000
- Phillip (aged 17): R60 000

The remainder of the income was retained in the trust.

You are required to:

(a) Calculate the trust's tax liability. Note that the tax rate on a trust of this nature is 40%. (10)

(b) Calculate the amount of taxable income that will be included in Sharon, Phillip and Mr Aaron’s income as a result of the above transactions. (10) [20]

OR

QUESTION 2

Jessica manufactures i-pad protection covers. She has had the following transactions:

Expenses:

- Rent paid for the offices used in business (VAT included): R10 000.
- Purchases of raw material (VAT included): R100 000.
- Wages paid to staff: R85 000.
- Purchase of a factory building (VAT included): R600 000.
- Transfer duty on the factory building: R50 000.
- Passenger car purchased: R215 000.
Income:
• Interest received from a Nedbank fixed deposit: R30 000.
• Fees from consulting (VAT included): R10 000.
• Rental from letting a house to students: R5 000.
• Sale of fixed assets (VAT included): R60 000.
• Sales of inventory (VAT included): R200 000.
• Sales of inventory to Zambia: R80 000

You are required to:
Calculate the VAT implications for Jessica.  

Section A: 20 marks  
Section B: 20 marks  
Section C: 40 marks  
Section D: 20 marks  
TOTAL: 100 MARKS