



JUNE 2012 EXAMINATION

DATE: 14 JUNE 2012

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 5 QUESTIONS:

ANSWER ALL THE QUESTIONS

(100 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 ARE ALLOWED TO USE A NON-PROGRAMMABLE CALCULATOR.

A TAX INFORMATION PAGE (APPENDIX A) IS ATTACHED AT THE END OF THIS EXAM PAPER.

ANSWER ALL THE QUESTIONS

(100 MARKS)

QUESTION 1

For income to be deemed to be from a South African source, the following needs to be established:

- the originating cause of the income (i.e. what gave rise to the income); and
- the location of the originating cause.

You are required to:

With respect to the above, discuss the topics below, also referring to case law in your answers.

- | | |
|---|----------|
| (a) Royalties | (5) |
| (b) Interest on investments | (3) |
| (c) Rent from the letting of fixed assets | (5) |
| (d) Dividends from shares | (3) |
| (e) Annuities | (2) [18] |

QUESTION 2

Determine whether the amounts referred to below will be included in the gross income of the recipient, clearly also referring to the requirements of gross income.

- | | |
|--|----------|
| (a) Lenny King trading as a sole trader and at the age of 58 decided to retire. He wanted to sell his business for R500 000 but could not find a purchaser who could pay the full amount in one go. He agreed with a friend, Jimmy Swaggart, to receive a payment of R200 000 for his business, plus R10 000 per month for the rest of his life. | (8) |
| (b) Jonnie Horseplay is a mechanic by profession. However, he also regularly plays and bets on horses in horse races. He has never won anything significant but on 10 February 2012 he won R2 500 000 on a horse race. | (3) |
| (c) Doberman Hond loves dogs. He bought two Siberian Huskies on 1 March 2011 for R5 000 each. The dogs bred and produced a litter of eight puppies. He kept three of the puppies for himself but sold five for a total of R40 000 on 1 January 2012. | (7) |
| (d) Bruce Sheilah is an Australian citizen who makes jewellery. On his travels through South Africa, over a period of five months, he managed to sell jewellery to the value of R50 000. (He had made the jewellery in Australia and brought it with him to South Africa.) | (4) [22] |

QUESTION 3

Donna Lee (50 years old) has registered her sole proprietorship as a micro business as from 1 March 2011. Information for the year ended 28 February 2012 is as follows:

Business non-capital receipts	660 000
Capital receipts (disposal of her house – 20% used as his office)	2 500 000
Doubtful debt allowance for 2011	40 000
Dividend income	3 000
Interest income	23 000
Receipts from outstanding trade debtors as at 28 February 2011	35 000

Donna had an assessed loss from her sole proprietorship after the 2011 tax year of R15 000.

You are required to:

Calculate the turnover tax payable by Donna Lee for the year ended 29 February 2012.

[18]

QUESTION 4

The statements below relate to fringe benefits. State whether the statements are 'true' or 'false'. Provide a comment to explain each 'true' or 'false' that you give.

- (a) A bravery award of R10 000 given by an employer to an employee, will have a fringe benefit value of 'nil'. (2)
- (b) An employee receives a long service award (which cost the employer R15 000) for twenty years service. This will result in a 'nil' value for fringe benefit purposes. (3)
- (c) An employee receives meals as part of doing work for his employer. These meals have a 'nil' value for fringe benefit purposes. (2)
- (d) An employee has the use of a home telephone account for business purposes, as she is often required to make business telephone calls by her employer. For fringe benefit purposes, this has a 'nil' value. (5) [12]

QUESTION 5

Information for the company ABC (Pty) Ltd follows below.

ABC (Pty) Ltd is an underwear manufacturer that has the following income and expenses for the year ended 29 February 2012.

	R
Sales	800 000
Cost of sales	(300 000)
Salaries and wages	(200 000)
Pension and medical aid contributions on behalf of employees	(15 000)
Lease fees on factory premises and machinery	(100 000)
Vehicle expenses – excl. wear and tear	(12 000)
Accounting fees	(10 000)

Additional information:

- On 1 January 2012 the company paid for an advertising campaign for a year, R120 000.
- On 1 June 2011 the company completed construction costs of R200 000. The work was required in terms of the company's factory lease agreement. The agreement stipulated that this construction work be done at a cost of R180 000. The lease commenced on 1 June 2010 for a 10-year period.
- On 1 March 2010 the company purchased a vehicle for R150 000. This vehicle was stolen on 30 September 2011 and insurance of R100 000 was received.
- The company purchased new machines on 15 February 2011 at a cost of R40 000 and immediately brought these machines into use.
- The company paid a monthly annuity of R400 to the spouse of an ex-employee and R400 to the child of the same employee from 1 June 2011 onwards.
- The company had a list of doubtful debts of R5 000. The commissioner had allowed an s11(j) allowance of R1 000 in the prior year.
- On 1 November 2011, the company purchased a new factory from a property developer for R1 500 000.

You are required to:

Determine the taxable income of ABC (Pty) Ltd for the year ended 29 February 2012.

[30]

[100]

TOTAL: 100 MARKS

APPENDIX A

TAX INFORMATION PAGE

YEAR ENDED: 29 FEBRUARY 2012

TAX RATES FOR NATURAL PERSONS AND SPECIAL TRUSTS

<i>TAXABLE INCOME</i>	<i>RATE OF TAX</i>
R0 – 150 000	18% of each Rand
R150 001 – R235 000	R27 000 plus 25% of the amount above R150 000
R235 001 – R325 000	R48 250 plus 30% of the amount above R235 000
R325 001 – R455 000	R75 250 plus 35% of the amount above R325 000
R455 001 – R580 000	R120 750 plus 38% of the amount above R455 000
R580 001 and above	R168 250 plus 40% of the amount above R580 000

TAX REBATES AND THRESHOLDS

AGE	TAX REBATE	TAX THRESHOLD
Natural persons under the age of 65	R10 755	R59 750
Natural persons aged 65 and below 75	R6 012	R88 528
Natural persons aged 75 and over	R2 000	R104 150

YEAR ENDED 28 FEBRUARY 2011

TAX RATES FOR NATURAL PERSONS AND SPECIAL TRUSTS

<i>TAXABLE INCOME</i>	<i>RATE OF TAX</i>
R0 – 140 000	18% of each Rand
R140 001 – R221 000	R25 200 plus 25% of the amount above R140 000
R221 001 – R305 000	R45 450 plus 30% of the amount above R221 000
R305 001 – R431 000	R70 650 plus 35% of the amount above R305 000
R431 001 – R552 000	R114 750 plus 38% of the amount above R431 000
R552 000 and above	R160 730 plus 40% of the amount above R552 000

TAX REBATES AND THRESHOLDS

AGE	TAX REBATE	TAX THRESHOLD
Natural persons under the age of 65	R10 260	R57 000
Natural persons aged 65 and over	R5 675	R88 528

TAX RATES COMPANIES – 28%

TURNOVER TAX

Taxable turnover (R)	2010/11 Rates of tax	Taxable turnover (R)	2011/12 Rates of tax
R0 – R100 0000	0% of each R1	R0 – R150 000	0% of each R1
R100 001 – R300 000	1% of the amount above R100 000	R150 001 - R300 000	1% of the amount above R150 000
R300 001 – R500 000	R2 000 + 3% of the amount above R300 000	R300 001 – R500 000	R1 500 + 2% of the amount above R300 000
R500 001 – R750 000	R8 000 + 5% of the amount above R500 000	R500 001 – R750 000	R5 500 + 4% of the amount above R500 000
R750 001 and above	R20 500 + 7% of the amount above R750 000	R750 001 and above	R15 500 + 6% of the amount above R750 000