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: FOR ADDITIONAL INSTRUCTIONS PLEASE TURN TO PAGE 2.
ADDITIONAL INSTRUCTIONS

1. This is an open-book examination. Copies of the relevant statute without any handwritten commentary or notations are allowed.

2. Annexure A, containing tax tables, and Annexure B, containing relevant formulae are attached at the back of this paper.

3. You may use a non-programmable calculator. Hand-held, self-powered, silent, non-programmable calculators are allowed.

4. Please note that the layout must be according to the syllabus.

5. Students are advised to show their intermediate working steps as part of the answer.
SECTION A

(10 MARKS)

TRUE OR FALSE QUESTIONS

Indicate whether the following statements are true or false. Write only 'true' or 'false' for your answer.

1. In order to ensure that the tax burden is fairly distributed amongst individuals, all individuals pay tax at the same percentage regardless of their level of earnings.

2. Any lump sum benefit which is paid by an employer to an employee or holder of an office will be excluded from the gross income of the recipient, because these receipts are generally capital in nature.

3. A portion of a purchased annuity is exempt from gross income in terms of S10A as this portion represents the return of capital initially invested by the taxpayer.

4. A person under 65 years of age who earns only local interest income of R75 000 for the year ended 28 February 2012 will not have to pay any tax in this year.

5. Where expenditure is incurred to fix an asset and the effect of this expenditure is to increase the income-earning capacity of this asset above its original level then the expenditure will be regarded as capital and therefore not deductible under S11(d).

6. Where an employer grants an employee an interest-free loan, the employee will be deemed to receive a fringe benefit equal to the interest that should have been charged on the loan based on the official rate for the period that the loan was outstanding in the current year of assessment.

7. In order for a person to be deemed a South African resident for tax purposes that person must either be ordinarily resident in South Africa or meet the criteria of the physical presence test during the current tax year.

8. The partners are individually liable for tax on their shares of the partnership income – no taxation is paid by the partnership itself as it is not a taxpaying entity.

9. The capital gains inclusion rate is dependant on the Rand value of the capital gain.

10. Net capital losses for the year may not be set off against a taxpayer’s other net income for the year, instead these can be carried forward and set off against any future capital gains.
**SECTION B**

(90 MARKS)

**QUESTION 1**

You are required to:
Study the information below and calculate the net normal tax payable or refundable for each of the taxpayers for the year ended 28 February 2011:

(a) Irene Smit is 24 years old and was unemployed for the period 1 August 2011 to 1 January 2011:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross income</td>
<td>50 000</td>
</tr>
<tr>
<td>Allowable deductions</td>
<td>12 000</td>
</tr>
<tr>
<td>Taxable portion of capital gains</td>
<td>2 000</td>
</tr>
<tr>
<td>Employees tax paid to SARS during the year</td>
<td>13 500</td>
</tr>
</tbody>
</table>

(b) The following is the income statement of One for One CC for the financial year ended 28 February 2012. The business is not a small business corporation (SBC).

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>855 000</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>285 000</td>
</tr>
<tr>
<td>Other operating income</td>
<td>60 000</td>
</tr>
<tr>
<td>Exempt income</td>
<td>30 000</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>195 000</td>
</tr>
<tr>
<td>Non-deductible expenses</td>
<td>60 000</td>
</tr>
<tr>
<td>Taxable portion of capital gains</td>
<td>45 000</td>
</tr>
<tr>
<td>Provisional income tax paid</td>
<td>102 000</td>
</tr>
</tbody>
</table>

**QUESTION 2**

Information for SA Timber CC is shown below:

- Cash sales for September: R1 710 000
- Stationery purchased: R3 000
- Water and electricity paid: R2 100
- Telephone paid: R2 800
- Fuel: R 3 500
- An insurance payout that was received for one of the company small vans that was stolen: R55 000
- Inventory purchased: R12 000
- Credit sales for September: R225 000
- Interest paid as per bank statement: R535
- Bank charges as per bank statement: R595
- A cash sale to a customer in Zimbabwe: R11 810
You are required to:

You are required to use the information for September 2011 above to calculate the amount payable or receivable from the South African Revenue Services on submission of the company’s VAT return.

You have to supply reasons where VAT is not taken into account.

(All amounts are VAT inclusive unless otherwise stated. Round off all amounts to the nearest cent where applicable).

QUESTION 3

The following information is relevant to Lynda, a South African resident, aged 34, during the 2011 tax year.

1. Lynda received an annual salary of R310 000 and a bonus of R30 000 from her employer, Just-so (Pty) Ltd.

2. She received a travel allowance of R50 000. Her motor vehicle cost R120 000 (including VAT). She did not keep records of her motor vehicle expenses. Her odometer readings were as follows:
   - 01/03/2010 76 380 km
   - 28/02/2011 101 420 km
   - Her log book reflects that she travelled 7 040 km on business trips

3. Her employer paid her monthly medical aid contributions of R2 750. Lynda is the main member of the medical aid and her husband and two children are dependants.

4. Lynda had a major operation and incurred additional medical expenses of R28 430 that were not covered by her medical aid.

5. Lynda contributes R48 000 to a retirement annuity fund – she does not belong to a pension fund.

6. Lynda has receipts for donations to Public Benefit Organisations totaling R31 500.

7. Lynda received dividends from her JSE share portfolio of R45 400 and dividends from UK shares of R1 150.

8. She earned interest of R20 740 on a local money market account.

9. On 1 June 2010 she bought a flat and immediately rented this out. She earned R48 000 in rental income during the year and incurred the following expenses:
   - Repairs and maintenance R9 400
   - Rates and electricity R9 970
   - Bond repayments R85 760 (including interest of R74 880)
10. She purchased furniture costing R18 000 on 1 June 2010 to be used by the tenant in the flat. SARS accepts a write-off period of 6 years on furniture and fittings.

11. Employees tax paid during the year amounted to R85 890

You are required to:

Calculate Lynda's tax owing to SARS or refund due by SARS for the year ended 28 February 2011. [40]

[90]

Section A: 10 marks
Section B: 90 marks
TOTAL: 100 MARKS
ANNEXURE A

For the 2011 tax year

A. 2011-TAX TABLES

i. Persons (excluding companies and trusts)

<table>
<thead>
<tr>
<th>Taxable income</th>
<th>Rates of tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Where the taxable income – does not exceed R140 000</td>
<td>18 per cent of each R1 of the taxable income;</td>
</tr>
<tr>
<td>exceeds R140 000 but does not exceed R221 000</td>
<td>R25 200 plus 25 per cent of the amount by which the taxable income exceeds R140 000;</td>
</tr>
<tr>
<td>exceeds R221 000 but does not exceed R305 000</td>
<td>R45 450 plus 30 per cent of the amount by which the taxable income exceeds R221 000;</td>
</tr>
<tr>
<td>exceeds R305 000 but does not exceed R431 000</td>
<td>R70 650 plus 35 per cent of the amount by which the taxable income exceeds R305 000;</td>
</tr>
<tr>
<td>exceeds R430 000 but does not exceed R552 000</td>
<td>R114 750 plus 38 per cent of the amount by which the taxable income exceeds R431 000;</td>
</tr>
<tr>
<td>exceeds R552 000</td>
<td>R160 730 plus 40 per cent of the amount by which the taxable income exceeds R525 000.</td>
</tr>
</tbody>
</table>

ii. Trusts (excluding special trusts).

40% of taxable income

iii. Companies (excluding small business corporations)

28% of taxable income

iv. Small business corporations

<table>
<thead>
<tr>
<th>Taxable Income</th>
<th>Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>R0 – R59 750</td>
<td>0%</td>
</tr>
<tr>
<td>R59 750 – R300 000</td>
<td>10% of the amount above R59 750</td>
</tr>
<tr>
<td>Exceeding R300 000</td>
<td>R24 580 + 28% of the amount over R300 000</td>
</tr>
</tbody>
</table>
B. FRINGE BENEFIT TABLES

i. Employee-owned vehicles (section 8(1))

1. Rate per kilometre schedule:

<table>
<thead>
<tr>
<th>Where the value of the vehicle –</th>
<th>Fixed cost ( R )</th>
<th>Fuel cost ( c )</th>
<th>Maintenance cost ( c )</th>
</tr>
</thead>
<tbody>
<tr>
<td>does not exceed ( R ) 40 000</td>
<td>14 672</td>
<td>5,86</td>
<td>21,7</td>
</tr>
<tr>
<td>exceeds ( R ) 40 00, but does not exceed ( R ) 80 000</td>
<td>29 106</td>
<td>5,86</td>
<td>21,7</td>
</tr>
<tr>
<td>exceeds ( R ) 80 00, but does not exceed ( R ) 120 000</td>
<td>39 928</td>
<td>6,25</td>
<td>24,2</td>
</tr>
<tr>
<td>exceeds ( R ) 120 00, but does not exceed ( R ) 160 000</td>
<td>50 749</td>
<td>6,86</td>
<td>28,0</td>
</tr>
<tr>
<td>exceeds ( R ) 160 00, but does not exceed ( R ) 200 000</td>
<td>63 424</td>
<td>6,88</td>
<td>41,1</td>
</tr>
<tr>
<td>exceeds ( R ) 200 00, but does not exceed ( R ) 240 000</td>
<td>76 041</td>
<td>8,15</td>
<td>46,4</td>
</tr>
<tr>
<td>exceeds ( R ) 240 00, but does not exceed ( R ) 280 000</td>
<td>86 211</td>
<td>8,15</td>
<td>46,4</td>
</tr>
<tr>
<td>exceeds ( R ) 280 00, but does not exceed ( R ) 320 000</td>
<td>96 260</td>
<td>8,57</td>
<td>49,4</td>
</tr>
<tr>
<td>exceeds ( R ) 320 00, but does not exceed ( R ) 360 000</td>
<td>106 367</td>
<td>9,46</td>
<td>56,2</td>
</tr>
<tr>
<td>exceeds ( R ) 360 00, but does not exceed ( R ) 400 000</td>
<td>116 012</td>
<td>11,03</td>
<td>75,2</td>
</tr>
<tr>
<td>exceeds ( R ) 400 000</td>
<td>116 012</td>
<td>11,03</td>
<td>75,2</td>
</tr>
</tbody>
</table>

Where the distance travelled in the vehicle for business purposes during the year of assessment does not exceed 8 000 kilometres, the said rate per kilometre shall at the option of the said recipient, and provided further that no other compensation in the form of an allowance or reimbursement is payable by the employer to the employee in respect of the vehicle in question, be determined in accordance with a scale of 246 cents per kilometre.

ii. Employer-owned vehicles (Paragraph 7(4) of the Seventh Schedule)

**Scale of values**
*From 1 March 2006*

Value of private use per month = 2.5\% \times \text{determined value}

Value of second vehicle per month = 4\% \times \text{determined value}

Where the employee –

(aa) bears the cost of all fuel used for the purposes of the private use of the vehicle the value of private use (including travelling between the employee's place of residence and his place of employment), will be the monthly percentage to be applied reduced by 0,22\%.

(bb) bears the full cost of maintaining the vehicle (including the cost of repairs, servicing, lubrication and tyres), the value of private use (including travelling between the employee's place of residence and his place of employment) will be the monthly percentage will be reduced by 0,18\%.
C. REBATES

Persons under 65  R10 260
Persons over 65   R15 935

D. INTEREST EXEMPTIONS

Under 65 years   R22 300
65 years and older R32 000

E. Rates of normal tax on the taxable income comprising of any retirement fund lump sum benefit derived upon retirement or death on or after 1 October 2007

<table>
<thead>
<tr>
<th>Taxable portion of withdrawal</th>
<th>Rates of tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>R0 – R22 500</td>
<td>0%</td>
</tr>
<tr>
<td>R22 501 – R600 000</td>
<td>18% of the amount over R22 500</td>
</tr>
<tr>
<td>R600 0001 – R900 000</td>
<td>R103 950 + 27% of the amount over R600 000</td>
</tr>
<tr>
<td>R900 001 +</td>
<td>R184 950 + 36% of the amount over R900 000</td>
</tr>
</tbody>
</table>

F. Official Rates of Interest

Use 7%

G. Thresholds

Under 65 R57 000
Over 65 R88 528
ANNEXURE B

FORMULAE

i. Section 5(10)

\[ A = \frac{A}{B + D - (C + L)} \times (B - L) + (L \times R) \]

ii. Section 10A

\[ Y = \frac{A}{B} \times C \]

iii. Second Schedule

\[ Z = C + E - D \]
\[ Y = \frac{B}{C} \times D \]