



NOVEMBER 2012 EXAMINATION

DATE: 15 NOVEMBER 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 MAY USE A NON-PROGRAMMABLE CALCULATOR.

Examiner: A Poole

ANSWER ALL THE QUESTIONS

(100 MARKS)

QUESTION 1

- (a) State whether the monies described in the following three scenarios should be included in gross income or not. Supply reasons and motivations for your answers:
- i. Just Tuesday lived and worked in Cape Town. He inherited a house upon the death of his uncle who lived in Durban. Since Just Tuesday did not want to relocate to Durban, he put the house on the market and managed to effect the sale of the house within two days, receiving proceeds of R900 000. (4)
 - ii. Thirsty Thursday owns a car dealership, with 20 demo cars. He sold three of these cars at a discounted price of R120 000 each. (4)
 - iii. Freaky Friday owns five properties that he lets out to tenants. Each tenant is required to pay a refundable deposit of R3 000. This deposit is held in a trust account by Freaky Friday. If a tenant provides the appropriate notice period and all conditions are met when the tenant vacates the property, the deposit is returned to the tenant. If conditions are not met when the tenant vacates the property, the deposit is not returned. (4)
- (b) State whether the following transactions qualify as exempt income in the tax calculation of Max Amillion, as part of his tax calculation for the 2010/2011 tax year. Supply reasons and motivations for your answers:
- i. He received R15 000 interest on his local bank account and R3 500 interest on his UK (foreign) bank account. (5)
 - ii. He received dividends of R10 000 on a JSE listed company. (2)
 - iii. Max was retrenched during the course of the financial year and received a lump sum of R100 000 from his employer. This is the first time he has received such a lump sum from any employer. (2)
 - iv. During the course of the tax year Max received R13 000 in unemployment benefits. (2) [23]

QUESTION 2

In the scenarios below, determine the qualifying medical expenses as well as the taxable income for the current year of assessment.

- (a) Hanna is 68 years old and has taxable income of R80 000 before medical expenses. She had the following medical expenses during the current year of assessment:
- Contributions to a medical aid: R18 000
 - Medical expenses not paid for by the medical aid: R1 800 (6)
- (b) Jonny B Goodtonite is 34 years old and earns an annual salary of R100 000. He pays medical aid contributions of R1 500 per month. His daughter is a dependant on his medical aid for the 2012 tax year. His other qualifying medical expenses not covered by his medical aid are R10 100 during the 2012 tax year. He has no other deductions. (10) [16]

QUESTION 3

Polly purchased a house on 1 December 2005 for R1 500 000. She incurred no further expenditure on this house and sold it on 1 March 2012 for an amount of R2 750 000. Polly made no other disposal during the financial year. Polly lived in the house as her primary residence but carried on a medical practice from a few rooms in the house during the period 1 March 2006 to 31 August 2008. She used approximately 25% of her house for this purpose.

You are required to:

Calculate the capital gain the year ended 29 February 2012. [17]

QUESTION 4

Calculate the net VAT payable or refundable for Sharkbite CC using the information below.

The business operates on an invoice basis on a two-month VAT cycle.

	R
Sale of trading stock	342 000
Insurance claim on stolen equipment	12 000
Interest received	6 000
Purchase of trading stock	136 800
Salaries and wages	110 000
Office rentals	60 000
Purchase of warehouse including transfer duty of R15 000	815 000
Motor vehicle expenses:	
Repairs	2 600
Petrol	3 000
Entertainment of clients	3 000

*Additional information on following page

In addition:

- A member of Sharkbite CC brought a table from home for the reception area of the office. The table originally cost R6 000 and currently has a market value of R4 000.
- Skarkbite CC gave three employees of the business stock as gifts. This stock cost the business R5 000 including VAT (and had a market value of R8 000).
- A debtor who owed Sharkbite CC R10 000 went into liquidation and his debt was written off as irrecoverable.

[28]

QUESTION 5

Mr Smith operates his own dental practice.

	R
<i>Income</i>	
Dental services	350 000
Interest received	27 000
 <i>Expenses</i>	
Office rental	36 000
Telephone	22 000
Stationery	5 000
Consulting fees	30 000
Accounting fees	5 000
Retirement annuity fund contributions	40 000

In addition Mr Smith purchased a car on 1 March 2010 for R150 000 (incl. VAT) for business and private travel. His car expenses were as follows:

Fuel	7 200
Licence fees	250
Repairs and maintenance	7 900
Insurance	6 000

Mr Smith also purchased a laptop costing R21 000 on 1 May 2010 for business purposes.

You are required to:

Determine the taxable income for Mr Smith's practice for the year ended 29 February 2012.

[16]

[100]

TOTAL: 100 MARKS