

Tutorial letter 201/1/2015

Taxation of Individuals

TAX3702

Semester 1

Taxation Department

Self-assessment assignment 3

Solution – Assignment 3

Solution – Integrated questions, Study Unit 12

Bar code

Dear Student

Enclosed please find self-assessment assignment 3, as well as the solutions to assignment 3/2015 and to the integrated questions in study unit 12 of tutorial letter 103/3/2015. Please work through the solutions in conjunction with the assignment, integrated questions and your answers. This is a significant part of the learning process. It is important to understand why marks were allocated to specific parts of your solutions.


You should identify any problem areas early in the semester and make every effort to understand all aspects of the work that you have covered.

We hope that you have found the assignment and questions stimulating.

PLEASE NOTE: The schedules that are contained at the end of the assignment in this tutorial letter (assignment 3), are the schedules that will also be included in the exam paper that you will be writing during May 2015.

Kind regards

LECTURERS: TAX3702

<p>The lecturers who are available to assist you are:</p> <p>Mr A Swanepoel Mr M van Dyk</p> <p>Mrs C Stedall Prof AP Swanepoel Mrs MSI Wentzel Mrs E Doussy Ms R Matenche Mrs R Moosa Mrs C Cass Mrs H van der Merwe</p>	 <p>012 429 4133</p> <p>(this is a hunting line – you will need to let it ring so that the exchange can find a free extension)</p>
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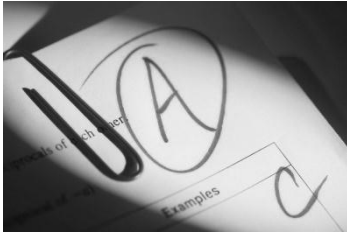
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ANNEXURE A: SELF-ASSESSMENT ASSIGNMENT 3/2015

ANNEXURE B: SOLUTION TO ASSIGNMENT 3/2015

ANNEXURE C: SOLUTIONS TO INTEGRATED QUESTIONS OF STUDY UNIT 12 IN TUTORIAL LETTER 103/3/2015

ANNEXURE A:**SELF-ASSESSMENT ASSIGNMENT 3 FOR BOTH SEMESTERS**

This assignment is the updated June 2014 examination paper. It is a self-assessment assignment.



These are the instructions that will also appear on your examination paper. Read them now and make sure that you understand what we require from you. We also suggest that you try to do this assignment like a proper examination, under examination conditions, to see how much you know and what you need to spend time on.

This paper consists of eight (8) pages, plus schedules (pp i - vii)

IMPORTANT INSTRUCTIONSAssumptions:

1. **All amounts exclude VAT unless stated otherwise.**
2. **All persons mentioned are residents of the Republic unless stated otherwise.**

Regarding the answering of this paper:

1. This paper consists of five (5) questions.
2. All questions must be answered.
3. Each question must be commenced on a new (separate) page.
4. **All workings, where applicable, must be shown. Where an amount is subject to a limitation, clearly indicate the application of the limitation. Where any item is exempt from tax or not allowable as a deduction, this must be indicated and a brief reason provided. All amounts must be rounded to the nearest Rand.**
5. Please complete the cover page of the answer book in full.
6. You are reminded that answers may **NOT** be written in pencil.
7. Principle errors may be marked negatively.
8. Proposed timetable (**try as far as possible not to deviate from this timetable**):

Question	Subject	Marks	Minutes
1	Net normal tax	35	42
2	Employees' tax and provisional tax	24	29
3	Capital gains tax	16	19
4	Donations tax and estate duty	18	22
5	Gross income	10	12
TOTAL		100	120

QUESTION 1 (35 marks, 42 minutes)

Simon (60 years old) was employed, until the date of his retirement on 30 November 2014, as a senior projects manager at a manufacturing company. He is married out of community of property and has two adult children. He supplies you with the following information relating to the 2015 year of assessment.

	Notes	R
<u>Income/benefits</u>		
Total salary received up to date of retirement		270 000
Use of company car	1	?
Use of tablet computer	2	?
Cell phone allowance	3	1 800
Pension income received post-retirement		63 000
Pension fund lump sum benefit	4	700 000
Foreign interest		7 000
Local interest		28 000
Reimbursive allowance.....	5	3 000
<u>Expenses/contributions</u>		
Medical expenses.....	6	21 000
Pension fund contributions		22 000

Notes:1. Use of company car

Simon received the use of a company car from 1 March 2014 until the date of his retirement. The company originally purchased the vehicle on 1 May 2012 at a cost of R230 000 (VAT exclusive). The vehicle was not subject to a maintenance plan and Simon was responsible for all fuel and maintenance costs. Simon's logbook indicated that he used the vehicle to travel a total of 7 000 kilometres during the period. Private travel constitutes 30% of the total distance travelled. He also kept accurate record of his expenses. Total fuel expenditure amounted to R6 800 and vehicle repairs amounted to R3 500.

2. Use of tablet computer

Simon also received the use, from 1 March 2014 until the date of his retirement, of a tablet computer that his employer leased from an external supplier. Total lease payments to the supplier amounted to R2 800 for the period that Simon received the right of use.

The tablet was used mainly for private purposes but Simon could prove that 25% of his usage was work related. The market value of the tablet, at the date that Simon was granted the right of use, was R6 300.

3. Cell phone allowance

Simon occasionally used his personal cell phone to make work related calls. His employer accordingly paid him a cell phone allowance amounting to R1 800 up to the date of his retirement. Simon kept a record of his business calls, which amounted to R700 for the period.

QUESTION 1 (continued)4. Pension fund lump sum benefit

Simon was paid out a pension fund lump sum of R700 000 on retirement. He decided to transfer R120 000 of that amount to a pension preservation fund.

He had previously received a retirement annuity fund lump sum, amounting to R580 000, during the 2014 year of assessment.

5. Reimbursive allowance

During the period that Simon was employed, he was occasionally instructed by his employer to entertain various clients. He had to keep an account, and provide proof of these expenses. All such expenditure (amounting to R3 000) was re-imbursed by his employer.

6. Medical expenses

Simon's medical expenses for the 2015 year of assessment are made up as follows:

	R
Medical aid contributions	17 000
Qualifying medical expenses not covered by the medical aid fund	4 000
	<u>21 000</u>

In addition to the above amounts, Simon's employer also contributed to the medical aid fund on his behalf. His employer contributed an amount of R11 000 during the period of his employment and continued to contribute after his retirement (an amount of R3 500).

Simon's wife is his only dependent on the medical fund. Neither he nor his wife has a disability as defined.

REQUIRED:	MARKS
a) Calculate Simon's net normal tax (lump sums excluded) for the 2015 year of assessment	28
b) Calculate the tax payable on the pension fund lump sum that Simon received during the 2015 year of assessment.	7

QUESTION 2 (24 marks, 29 minutes)

The question's marks increased due to changes in the Income Tax Act.

Barry (37 years old and unmarried) is employed on a permanent half-day basis as an accountant at Resprop, a company that leases residential property. During the portion of the day that he does not work at Resprop, he runs his own accounting practice, Barry's Accounting Services.

Below are details of Barry's income, benefits and expenses for the year of assessment ended 28 February 2015:

	Notes	R
<u>Income/allowances/benefits</u>		
<u>From Resprop</u>		
Salary: 1 March 2014 to 28 February 2015 (retirement funding income).....		216 000
Annual bonus: received December 2014 (non-retirement funding income).....		18 000
Travel allowance	1	12 000
<u>From Barry's Accounting Services</u>		
Taxable income from services to clients.....	2	150 000
<u>Other income</u>		
Foreign dividends.....	3	8 000
<u>Expenses</u>		
<u>Taken into account by Resprop</u>		
Contribution to medical aid fund.....	4	24 000
Medical expenses not covered by the medical aid fund.....	4	2 000
Pension fund contributions.....	5	17 280

Notes:1. Travel allowance

Barry is required to resolve financial matters with clients and needs to travel to them. From 1 September 2014 he received a travel allowance of R2 000 per month. His motor vehicle cost R180 000 (excluding VAT). He kept an accurate logbook of the distance he travelled during the period. He travelled 6 000km for private purposes and 4 000km for business purposes for the period. Barry did not keep accurate records of his actual expenses.

2. Taxable income from services to clients

Barry practices as an accountant and tax advisor during the afternoons, independently from his employment at Resprop. He earned taxable income of R150 000 from accounting and tax services he provided to his clients, for the 2015 year of assessment. You may assume that this figure has been calculated correctly.

3. Foreign dividend

Barry received foreign dividends of R8 000 from foreign equity unit trusts.

QUESTION 2 (continued)4. Medical expenses

Barry contributed R24 000 during the 2015 year of assessment to a medical aid fund. He has no dependants and has no disability as defined. During December 2014, he also paid for other qualifying medical expenses, not covered by his medical aid, amounting to R2 000.

You may assume that Resprop received proof of Barry's medical aid contributions.

5. Pension fund contributions

Barry contributed R17 280 to Resprop's pension fund for the 2015 year of assessment. Resprop also contributed R17 280 to the pension fund, in addition to Barry's contributions.

6. Provisional tax

Barry is registered as a provisional taxpayer as well.

Relevant information regarding the previous two years of assessment, is as follows:

	2013 year of assessment	2014 year of assessment
Taxable income	R275 000	R320 000
Taxable capital gain included in taxable income above	R15 000	Rnil
Date of assessment	30 September 2013	18 August 2014

REQUIRED:	MARKS
(a) Calculate the employees' tax that should have been deducted by Resprop for the 2015 year of assessment.	11
(b) Calculate Barry's first provisional tax payment he would have made for the 2015 year of assessment, by using your answer in (a) as well as other relevant information in the question. Assume the employees' tax was deducted evenly throughout the year of assessment. Give brief reasons and explanations for selecting the basic amount in your calculations.	13

QUESTION 3 (16 marks, 19 minutes)

Ayanda Radebe, a pre-school teacher, is 34 years old and married to Vusi out of community of property. Ayanda owns and lives in a house situated on a two-hectare plot of land. After the property was purchased, a separate building for a crèche was also erected on the land. Ayanda decided to dispose of the plot of land, the house and the crèche, in order for her and Vusi to move closer to the city.

Ayanda was approached by a property developer that wanted to erect a warehouse on the plot of land. The property developer will demolish the house and the crèche and erect the warehouse on the entire plot of land.

Ayanda purchased the plot of land and house in August 1997. She paid R300 000 for the house and R500 000 for the plot of land.

Ayanda had the crèche erected during 2004. The crèche was built at a cost of R600 000 and she used it for business purposes. The crèche was completed and brought into use on 1 October 2004. The crèche space comprises 20% of the entire property and was utilised up to the date of sale.

During 2007, a severe hailstorm caused extensive damage to the crèche. A section of the roof and some of the windows had to be replaced at a cost of R200 000. Ayanda received R150 000 from the company through which she was insured, as settlement of the claim for damages.

Ayanda's outstanding home loan owing to the bank, was R350 000 on the date of disposal.

Additional information relating to 1 October 2001:

	Entire property R
Time apportionment base cost	850 000
Market value	825 000

The entire property was sold for R4 000 000 on 30 September 2014. Commission of 6% on the selling price has to be paid to the estate agent who found the buyer.

REQUIRED:	MARKS
Calculate Ayanda's capital gain/(loss) for the year of assessment ended 28 February 2015. Note: Show all nil effects clearly, supported with brief reasons.	16

QUESTION 4 (18 marks, 22 minutes)

During 2014, Peter Dunn made the following donations:

- On 15 May he donated R75 000 to his sister Gwen before an overseas trip that she was planning to take.
- On 30 June he donated an amount of R100 000 to his cousin, Sylvia, when she graduated from college.
- On 5 July, he bought a brand new motor vehicle for his son, Tegan, when he started a new job that required him to travel extensively to some rural areas in South Africa. Peter paid R350 000 for the vehicle.

A few months later, on 15 January 2015, Peter died suddenly of a heart attack in Durban, South Africa, where he resided.

The executor in Peter's estate found the following:

	R
1. A townhouse, situated in Mont Aqua, Durban. The townhouse was Peter's primary residence and at the time of his death it was valued at.....	4 200 000
2. A studio flat in London that Peter bought five years ago, as he regularly had to travel to the United Kingdom for business purposes. At the time of his death the flat was valued at.....	2 980 000
3. Unlisted shares valued at R565 000 at the time of Peter's death. The executor subsequently sold the shares for.....	535 000
4. An insurance policy that Peter's business partner, Alfred, had taken out on Peter's life to enable him to acquire Peter's interest should he die. Peter did not pay any of the premiums on this policy. The proceeds of this policy amounted to.....	2 600 000
5. Peter had taken out an insurance policy on his life that was ceded and paid out directly to his son, Tegan. Peter paid premiums and interest of R56 000 on the policy.....	560 000
6. A painting by a famous artist, which Peter inherited from his late grandfather. Shortly before his death, Peter signed a notarial contract, lending the painting to a state-owned museum for 30 years.....	325 000

Peter bequeathed the townhouse in Durban to his cousin Sylvia and the flat in London to his son, Tegan. The residue was to be paid out to Peter's only sister, Gwen.

Accept that the only liabilities in the estate are the Master's fees of R600 and executor's remuneration of R165 725.

REQUIRED:	MARKS
(a) Calculate the donations tax that Peter paid on each of the donations that he made in 2014.	8
(b) Calculate the estate duty payable in the estate of Peter Dunn. No apportionment of the duty is required. Give reasons why certain assets will not be subject to estate duty.	10

QUESTION 5 (10 marks, 12 minutes)

Edward is a sixty-year-old medical doctor based in Johannesburg. For the past 35 years, he has owned a cottage situated on 20 hectares of bushveld property. Edward and his family have always used the property purely for vacation purposes.

Edward is planning to retire and, in order to enhance his financial position he decided to sell the entire property in 20 one-hectare plots of land. Each buyer has the right and responsibility to build a house, in an approved architectural style, on their portion of land.

Edward is responsible for supplying the necessary infrastructure (electricity, water, sanitation and roads) for each portion of land that he sells. In order to meet his obligations, Edward employed the services of a land surveyor, an architect and a civil engineer. He also contracted a local estate agent to sell the properties and, in addition, he set up a website to market the properties. He also printed a variety of advertising promotional material for widespread distribution.

Most of the plots of land were sold during the 2015 year of assessment. Edward regards all the sale receipts as being of a capital nature, which should not be included in his gross income. His stated intention, when originally acquiring the property, was to hold it long-term as a capital asset. As far as he is concerned, the sale of the properties is merely an attempt to realise a capital asset to its best advantage.

REQUIRED:	MARKS
<p>Briefly discuss whether Edward's stated intention is, or is not, supported by the facts and circumstances surrounding the sale of the properties.</p> <p>Ignore any capital gains tax implications.</p> <p>Providing the gross income definition is not required.</p>	10

SCHEDULES



These are the same schedules that you will receive with your exam paper.

A. 2015 – TAX TABLES

(i) Persons (other than companies and trusts)

Taxable income	Rates of tax
Where the taxable income does not exceed R174 550	18% of each R1 of the taxable income;
exceeds R174 550 but does not exceed R272 700	R31 419 plus 25% of the amount by which the taxable income exceeds R174 550;
exceeds R272 700 but does not exceed R377 450	R55 957 plus 30% of the amount by which the taxable income exceeds R272 700;
exceeds R377 450 but does not exceed R528 000	R87 382 plus 35% of the amount by which the taxable income exceeds R377 450;
exceeds R528 000 but does not exceed R673 100	R140 074 plus 38% of the amount by which the taxable income exceeds R528 000;
exceeds R673 100	R195 212 plus 40% of the amount by which the taxable income exceeds R673 100.

(ii) Trusts (other than special trusts)

40 per cent of each R1 of the taxable income.

(iii) Tax on retirement lump sum benefits (or death)

Taxable income from benefit	Rate of Tax
R0 – R500 000	0 per cent of taxable income
Exceeding R500 000 but not exceeding R700 000	R0 plus 18% of taxable income exceeding R500 000
Exceeding R700 000 but not exceeding R1 050 000	R36 000 plus 27% of taxable income exceeding R700 000
Exceeding R1 050 000	R130 500 plus 36% of taxable income exceeding R1 050 000

(iv) Tax on retirement lump sum withdrawal benefits (pre-retirement)

Taxable income from benefit	Rate of Tax
R0 – R25 000	0 per cent of the taxable income
Exceeding R25 000 but not exceeding R660 000 ...	18% of taxable income exceeding R25 000
Exceeding R660 000 but not exceeding R990 000 .	R114 300 plus 27% of taxable income exceeding R660 000
Exceeding R990 000	R203 400 plus 36% of taxable income exceeding R990 000

B. FRINGE BENEFIT TABLES**(i) Employee-owned vehicles (section 8(1))****SCALE OF VALUES**

Where the value of the vehicle	Fixed cost R	Fuel cost c	Maintenance cost c
does not exceed R80 000.....	25 946	92,3	27,6
exceeds R 80 000 but does not exceed R160 000.....	46 203	103,1	34,6
exceeds R160 000 but does not exceed R240 000.....	66 530	112,0	38,1
exceeds R240 000 but does not exceed R320 000.....	84 351	120,5	41,6
exceeds R320 000 but does not exceed R400 000.....	102 233	128,9	48,8
exceeds R400 000 but does not exceed R480 000.....	120 997	147,9	57,3
exceeds R480 000 but does not exceed R560 000.....	139 760	152,9	71,3
exceeds R560 000	139 760	152,9	71,3

(ii) Employer owned vehicles (Paragraph 7(4) of the Seventh Schedule)**Scale of values**

Value of private use **per month**, vehicle not subject to maintenance plan = 3,5% x determined value

Value of private use **per month**, vehicle subject to maintenance plan = 3.25% x determined value

C. REBATES

Persons under 65.....	R12 726
Persons 65and under 75 (R12 726 + R7 110)	R19 836
Persons 75and over (R12 726 + R7 110 + R2 367)	R22 203

D. FORMULAE**Section 10A** (purchased annuity)

$$Y = A/B \times C$$

- Y = the capital element to be calculated
A = the total cash price payable by the purchaser to the insurance company in terms of the annuity contract
B = the sum of all the expected returns over the term of the contract; and
C = the total receipts during the current year of assessment.

Second Schedule**Formula C**

$$A = \frac{B}{C} \times D$$

- A = the portion subject to tax that must be calculated
B = the total completed years of service from 1 March 1998
C = the total completed years of service that are recognised as pension funding
D = the lump sum that is payable.

E. EXTRACT FROM THE INCOME TAX ACT (ACT 58 OF 1962, AS AMENDED) – EIGHTH SCHEDULE

25. Determination of base cost of pre-valuation date assets. – The base cost of a pre-valuation date asset (other than an identical asset in respect of which paragraph 32 (3A) has been applied), is the sum of the valuation date value of that asset, as determined in terms of paragraph 26, 27 or 28 and the expenditure allowable in terms of paragraph 20 incurred on or after the valuation date in respect of that asset.

26. Valuation date value where proceeds exceed expenditure or where expenditure in respect of an asset cannot be determined. – (1) Where the proceeds from the disposal of a pre-valuation date asset (other than an asset contemplated in paragraph 28 or in respect of which paragraph 32 (3A) has been applied) exceed the expenditure allowable in terms of paragraph 20 incurred before, on and after the valuation date in respect of that asset, the person who disposed of that asset must, subject to subparagraph (3), adopt any of the following as the valuation date value of that asset–

- (a) the market value of the asset on the valuation date as contemplated in paragraph 29;
- (b) 20 per cent of the proceeds from disposal of the asset, after deducting from those proceeds an amount equal to the expenditure allowable in terms of paragraph 20 incurred on or after the valuation date; or
- (c) the time-apportionment base cost of the asset as contemplated in paragraph 30.

(2) Where the expenditure incurred before valuation date in respect of a pre-valuation date asset cannot be determined by the person who disposed of that asset or the Commissioner, that person must adopt any of the following as the valuation date value of that asset–

- (a) the market value of the asset on the valuation date as contemplated in paragraph 29; or
- (b) 20 per cent of the proceeds from disposal of the asset, after deducting from those proceeds an amount equal to the expenditure allowable in terms of paragraph 20 incurred on or after the valuation date.

(3) Where a person has adopted the market value as the valuation date value of an asset, as contemplated in subparagraph (1) (a), and the proceeds from the disposal of that asset do not exceed that market value, that person must substitute as the valuation date value of that asset, those proceeds less the expenditure allowable in terms of paragraph 20 incurred on or after the valuation date in respect of that asset.

27. Valuation date value where proceeds do not exceed expenditure. – (1) Subject to subparagraph (2), where the proceeds from the disposal of a pre-valuation date asset do not exceed the expenditure allowable in terms of paragraph 20 incurred both before and after the valuation date in respect of that asset, the valuation date value of that asset must be determined in terms of this paragraph.

(2) This paragraph does not apply in respect of any asset contemplated in paragraph 28 or in respect of which paragraph 32 (3A) has been applied.

(3) Where a person has determined the market value of an asset on the valuation date, as contemplated in paragraph 29, or the market value of an asset has been published in terms of that paragraph, and–

- (a) the expenditure allowable in terms of paragraph 20 incurred before the valuation date in respect of that asset–
 - (i) is equal to or exceeds the proceeds from the disposal of that asset; and
 - (ii) exceeds the market value of that asset on valuation date,

is the valuation date value of that asset must be the higher of—

(aa) that market value; or

(bb) those proceeds less the expenditure allowable in terms of paragraph 20 incurred on or after the valuation date in respect of that asset; or

(b) the provisions of item (a) do not apply, the valuation date value of that asset must be the lower of—

(i) that market value; or

(ii) the time-apportionment base cost of that asset as contemplated in paragraph 30.

(4) Where the provisions of subparagraph (3) do not apply, the valuation date value of that asset is the time-apportionment base cost of that asset, as contemplated in paragraph 30.

F. INCOME TAX MONETARY THRESHOLDS SUBJECT TO PERIODIC LEGISLATIVE CHANGE:

Description	Reference to Income Tax Act, 1962	Monetary amount
General savings thresholds		
Broad-based employee share schemes:		
Employees can receive tax-exempt shares if the shares are part of a broad-based employee share plan. Companies can also deduct shares issued under the plan		
Maximum exemption for shares received by employees	The definition of "qualifying equity share" in section 8B(3)	R50 000
Maximum deduction for shares issued by the employer	The proviso to section 11(A)	R10 000
Exemption for interest and certain dividends:		
In respect of persons 65 years or older, exemption for interest from a source within the Republic which are not otherwise exempt	Section 10(1)(j)(i)	R34 500
In respect of persons 65 years, exemption for interest from a source within the Republic which are not otherwise exempt	Section 10(1)(j)(ii)	R23 800
Annual donations tax exemption:		
Exemption for donations made by entities	Section 56(2)(a) and the proviso thereto	R10 000
Exemption for donations made by individuals	Section 56(2)(b)	R100 000
Capital gains exclusions:		
Annual exclusion for individuals and special trusts	Paragraph 5(1) of Eighth schedule	R30 000
Exclusion on death	Paragraph 5(2) of Eighth schedule	R300 000
Exclusion for the disposal of a primary residence	Paragraph 45(1)(a) of Eighth Schedule	R2 million
Exclusion in respect of disposal of primary residence (based on amount of proceeds on disposal)	Paragraph 45(1)(b) of Eighth Schedule	R2 million
Maximum market value of all assets allowed within the small business definition on disposal when	Definition of "small business" in paragraph 57(1) of Eighth	R10 million

Description	Reference to Income Tax Act, 1962	Monetary amount
person over 55	Schedule	
Exclusion amount on disposal of small business when person over 55	Paragraph 57(3) of Eighth schedule	R1 800 000

Retirement savings thresholds:

Deductible retirement fund contributions: Pension fund and retirement annuity fund members may deduct their contributions subject to certain percentage or monetary ceilings		
Pension fund monetary ceiling for contributions	Proviso to section 11(k)(i)	R1 750
Pension fund monetary ceiling for past period contributions	Paragraph (aa) of the proviso to section 11(k)(ii)	R1 800
Retirement annuity fund monetary ceiling for contributions (if also a member of a pension fund)	Section 11(n)(aa)(B)	R3 500
Retirement annuity fund ceiling for contributions (if not a member of a pension fund)	Section 11(n)(aa)(C)	R1 750
Retirement annuity fund ceiling for re-instatement contributions	Section 11(n)(bb)	R1 800
Permissible lump sum withdrawals upon retirement: Pension fund and retirement annuity fund members may withdraw lump sums upon retirement.		
Pension fund monetary amount for permissible lump sum withdrawals	Paragraph (ii)(dd) of the proviso to paragraph (c) of the definition of "pension fund" in section 1.	R50 000
Retirement annuity fund monetary amount for permissible lump sum withdrawals	Paragraph (b)(ii) of the proviso to the definition of "retirement annuity fund" in section 1	R50 000

Deductible business expenses for individuals:

Car allowance: Individuals receive an annual vehicle allowance to defray business travel expenses, including deemed depreciation on the vehicle.		
Ceiling on vehicle cost	Section 8(1)(b)(iiiA)(bb)(A)	R560 000
Ceiling on debt relating to vehicle cost	Section 8(1)(b)(iiiA)(bb)(B)	R560 000

Employment-related fringe benefits

Exempt scholarships and bursaries: Employers can provide exempt scholarships and bursaries to employees and their relatives, subject to annual monetary ceilings.		
Annual ceiling for employees	Paragraph (ii)(aa) of the proviso to section 10(1)(q)	R250 000
Annual ceiling for employee relatives	Paragraph (ii)(bb) of the proviso to section 10(1)(q)	R30 000 & R10 000
Awards for bravery and long service:	Paragraphs (a) and (b) of the further proviso to paragraph 5(2) of Seventh Schedule	R5 000
Employee accommodation:	Paragraph 9(3)(a)(ii) of	R70 700

Description	Reference to Income Tax Act, 1962	Monetary amount
	Seventh Schedule	
Exemption for expatriate employees:	Paragraph 9(7B)(ii) of Seventh Schedule	R25 000
Exemption for <i>de minimus</i> employee loans:	Paragraph 11(4)(a) of Seventh Schedule	R3 000

Administration

Investment income exempt from provisional tax:		
In the case of a natural person below age 65	Paragraph 18(1)(c)(ii) of Fourth Schedule	R20 000
In the case of natural person over age 65	Paragraph 18(1)(c)(i) of Fourth Schedule	R120 000
SITE threshold	Items (a) and (b) of paragraph 11B(2) and items (a), (b)(ii) and (b)(iii) of paragraph 11B(3) of Fourth Schedule	R60 000
Threshold in respect of automatic appeal to High Court		R50 million

G. DECEASED ESTATES

(i) RATE OF ESTATE DUTY

The rate of estate duty shall be 20 per cent of the dutiable amount of the estate.

Provided that where duty becomes payable upon the value of any movable or immovable property or on a value determined by reference to the value of any movable or immovable property, and duty has, upon the death of any person (hereinafter referred to as the first-dying person), who died within ten years prior to the death of the deceased, become payable upon the value of that movable or immovable property or upon a value determined by reference to the value of that movable or immovable property (or any movable or immovable property for which the Commissioner is satisfied that that movable or immovable property has been substituted), the duty attributable to the value of that movable or immovable property or, as the case may be, the value determined by reference to the value of that movable or immovable property, but not exceeding (in either case) an amount equal to the value on which duty has become payable on the death of the first-dying person, shall be reduced by a percentage according to the following scale:

if the deceased dies within two years of the death of the first-dying person	100 per cent
if the deceased dies more than two years but not more than four years after the death of the first-dying person	80 per cent
if the deceased dies more than four years but not more than six years after the death of the first-dying person	60 per cent
if the deceased dies more than six years but not more than eight years after the death of the first-dying person	40 per cent
if the deceased dies more than eight years but not more than ten years after the death of the first-dying person	20 per cent

subject to a maximum reduction equal to so much of the duty previously payable upon the death of the first-dying person as is attributable to the value of that movable or immovable property or, as the case may be, to an amount equal to the value determined by reference to the value of that movable or immovable property, and as is proved to the satisfaction of the Commissioner to have been borne by the deceased.

TABLE A

(iv) THE EXPECTATION OF LIFE AND THE PRESENT VALUE OF R1 PER ANNUM FOR LIFE CAPITALISED AT 12 PER CENT OVER THE EXPECTATION OF LIFE OF MALES AND FEMALES OF VARIOUS AGES

Age	Expectation of life		Present value of R1 per annum for life		Age
	Male	Female	Male	Female	
0	64,75	72,36	8,237 91	8,331 05	0
1	65,37	72,74	8,328 28	8,331 14	1
2	64,50	71,87	8,327 76	8,330 91	2
3	63,57	70,93	8,327 14	8,330 64	3
4	62,63	69,98	8,326 44	8,330 33	4
5	61,69	69,02	8,325 67	8,329 99	5
6	60,74	68,06	8,324 80	8,329 61	6
7	59,78	67,09	8,323 81	8,329 81	7
8	58,81	66,11	8,322 71	8,328 69	8
9	57,83	65,14	8,321 46	8,328 15	9
10	56,85	64,15	8,320 07	8,327 53	10
11	55,86	63,16	8,318 49	8,326 84	11
12	54,87	62,18	8,316 73	8,326 08	12
13	53,90	61,19	8,314 80	8,325 22	13
14	52,93	60,21	8,312 65	8,324 27	14
15	51,98	59,23	8,310 29	8,323 20	15
16	51,04	58,26	8,307 70	8,322 03	16
17	50,12	57,29	8,304 89	8,320 71	17
18	49,21	56,33	8,301 80	8,319 26	18
19	48,31	55,37	8,298 41	8,317 64	19
20	47,42	54,41	8,294 71	8,315 84	20
21	46,53	53,45	8,290 61	8,313 83	21
22	45,65	52,50	8,286 13	8,311 61	22
23	44,77	51,54	8,281 17	8,309 12	23
24	43,88	50,58	8,275 64	8,306 33	24
25	43,00	49,63	8,269 59	8,303 26	25
26	42,10	48,67	8,262 74	8,299 81	26
27	41,20	47,71	8,255 16	8,295 95	27
28	40,30	46,76	8,246 77	8,291 71	28
29	39,39	45,81	8,237 37	8,286 97	29
30	38,48	44,86	8,226 94	8,281 70	30
31	37,57	43,91	8,215 38	8,275 83	31
32	36,66	42,96	8,202 57	8,269 30	32
33	35,75	42,02	8,188 36	8,262 10	33
34	34,84	41,07	8,172 62	8,254 00	34
35	33,94	40,13	8,155 36	8,245 09	35
36	33,05	39,19	8,136 47	8,235 17	36
37	32,16	38,26	8,115 58	8,224 26	37
38	31,28	37,32	8,092 74	8,211 99	38
39	30,41	36,40	8,067 81	8,198 66	39
40	29,54	35,48	8,040 30	8,183 86	40
41	28,69	34,57	8,010 67	8,167 62	41
42	27,85	33,67	7,978 44	8,149 83	42
43	27,02	32,77	7,943 44	8,130 12	43
44	26,20	31,89	7,905 47	8,108 81	44
45	25,38	31,01	7,863 80	8,085 27	45

TABLE A (continued)

Age	Expectation of life		Present value of R1 per annum for life		Age
	Male	Female	Male	Female	
46	24,58	30,14	7,819 24	8,059 56	46
47	23,79	29,27	7,771 09	8,031 19	47
48	23,00	28,41	7,718 43	8,000 26	48
49	22,23	27,55	7,662 36	7,966 17	49
50	21,47	26,71	7,602 01	7,929 50	50
51	20,72	25,88	7,537 13	7,889 67	51
52	19,98	25,06	7,467 48	7,846 46	52
53	19,26	24,25	7,393 87	7,799 65	53
54	18,56	23,44	7,316 31	7,748 34	54
55	17,86	22,65	7,232 34	7,693 55	55
56	17,18	21,86	7,144 14	7,633 63	56
57	16,52	21,08	7,051 78	7,568 96	57
58	15,86	20,31	6,952 25	7,499 27	58
59	15,23	19,54	6,850 04	7,423 21	59
60	14,61	18,78	6,742 06	7,341 35	60
61	14,01	18,04	6,630 10	7,254 57	61
62	13,42	17,30	6,512 32	7,160 20	62
63	12,86	16,58	6,393 01	7,060 46	63
64	12,31	15,88	6,268 22	6,955 37	64
65	11,77	15,18	6,137 89	6,841 61	65
66	11,26	14,51	6,007 26	6,723 93	66
67	10,76	13,85	5,871 65	6,598 93	67
68	10,28	13,20	5,734 03	6,466 35	68
69	9,81	12,57	5,591 82	6,328 18	69
70	9,37	11,96	5,451 65	6,184 66	70
71	8,94	11,37	5,307 75	6,036 07	71
72	8,54	10,80	6,167 44	5,882 78	72
73	8,15	10,24	5,024 37	5,722 22	73
74	7,77	9,70	4,878 76	5,557 43	74
75	7,41	9,18	4,734 90	5,388 93	75
76	7,07	8,68	4,593 54	5,217 27	76
77	6,73	8,21	4,446 63	5,046 79	77
78	6,41	7,75	4,303 09	4,870 92	78
79	6,10	7,31	4,158 98	4,693 89	79
80	5,82	6,89	4,024 40	4,516 47	80
81	5,55	6,50	3,890 51	4,343 99	81
82	5,31	6,13	3,768 02	4,173 15	82
83	5,09	5,78	3,652 76	4,004 82	83
84	4,89	5,45	3,545 46	3,839 88	84
85	4,72	5,14	3,452 32	3,679 21	85
86	4,57	4,85	3,368 64	3,523 71	86
87	4,45	4,58	3,300 66	3,374 26	87
88	4,36	4,33	3,249 07	3,231 75	88
89	4,32	4,11	3,225 97	3,102 96	89
90	4,30	3,92	3,214 38	2,989 12	90

TABLE B

PRESENT VALUE OF R1 PER ANNUM CAPITALISED AT 12 PER CENT OVER FIXED PERIODS

Years	Amount	Years	Amount	Years	Amount	Years	Amount
	R		R		R		R
1	0,892 9	26	7,895 7	51	8,307 6	76	8,331 8
2	1,690 0	27	7,942 6	52	8,310 4	77	8,332 0
3	2,401 8	28	7,984 4	53	8,312 8	78	8,332 1
4	3,037 4	29	8,021 8	54	8,315 0	79	8,332 3
5	3,604 8	30	8,055 2	55	8,317 0	80	8,332 4
6	4,111 4	31	8,085 0	56	8,318 7	81	8,332 5
7	4,563 8	32	8,111 6	57	8,320 3	82	8,332 6
8	4,967 6	33	8,135 4	58	8,321 7	83	8,332 6
9	5,328 2	34	8,156 6	59	8,322 9	84	8,332 7
10	5,650 2	35	8,175 5	60	8,324 0	85	8,332 8
11	5,937 7	36	8,192 4	61	8,325 0	86	8,332 8
12	6,194 4	37	8,207 5	62	8,325 9	87	8,332 9
13	6,423 6	38	8,221 0	63	8,326 7	88	8,333 0
14	6,628 2	39	8,233 0	64	8,327 4	89	8,333 0
15	6,810 9	40	8,243 8	65	8,328 1	90	8,333 0
16	6,974 0	41	8,253 4	66	8,328 6	91	8,333 1
17	7,119 6	42	8,261 9	67	8,329 1	92	8,333 1
18	7,249 7	43	8,269 6	68	8,329 6	93	8,333 1
19	7,365 8	44	8,276 4	69	8,330 0	94	8,333 1
20	7,469 4	45	8,282 5	70	8,330 3	95	8,333 2
21	7,562 0	46	8,288 0	71	8,330 7	96	8,333 2
22	7,644 6	47	8,292 8	72	8,331 0	97	8,333 2
23	7,718 4	48	8,297 2	73	8,331 2	98	8,333 2
24	7,784 3	49	8,301 0	74	8,331 4	99	8,333 2
25	7,843 1	50	8,304 5	75	8,331 6	100	8,333 2

ANNEXURE B: SOLUTION TO ASSIGNMENT 3**SOLUTION: QUESTION 1 (35 marks)**

<u>a) Calculation of net normal tax</u>	R	R	
Salary		270 000	
Use of company car			
R230 000 x 1.14(1) x 85%(1) x 3.5%(1) x 9 mths (1) =	70 204		
<u>Less:</u> Business travel R70 204 x 4 900km/7 000km [or x 70%] (1) =	<u>(49 143)</u>		
	21 061		
<u>Less:</u> Maintenance (R3 500 x 2 100km/7 000km) [or x 30%] (1) =	(1 050)		
<u>Less:</u> Fuel (2 100km (1) x R1.120 (1))	<u>(2 352)</u>	17 659	
Use of tablet: rental paid by employer		2 800	(1)
Cell phone allowance (fully taxable)		1 800	(1)
Pension income		63 000	(1)
Reimbursive allowance: non-taxable allowance (1) (s 8(1)(a)(ii))		0	
Foreign interest		7 000	(1)
Local interest:	28 000		
<u>Less:</u> exemption	<u>(23 800)</u>	4 200	(1)
Medical fringe benefit: for period employed		11 000	(1)
Medical fringe benefit: post-retirement no taxable benefit (1) (paid on behalf of retired pensioner) (par 12A)		<u>0</u>	
		377 459	
<u>Less:</u> Pension fund contributions: R22 000 limited to the greater of R 1 750 or, 7,5% x R270 000(1) = R20 250, therefore		<u>(20 250)</u>	(1)
Taxable income		<u>357 209</u>	

SOLUTION: QUESTION 1 (continued)

	R	R
Normal tax per tables (R55 957 + (30% x (R357 209 - R272 700)))		81 310 (1)
Less: rebate		(12 726) (1)
Medical scheme fees tax credit [R257 x 2 x 12 months]		(6 168) (1)
Additional qualifying medical expense tax credit:		
Medical aid contributions:		
Employee	17 000	(1)
Employer	11 000	(1)
Less: 4 x medical scheme fees tax credit [(R257 x 2 x 12) x 4]	<u>(24 672)</u>	(2)
Excess contributions	3 328	
Add: Qualifying expenses	<u>4 000</u>	(1)
	7 328	
As exceeds (7,5% x R357 209)	<u>(26 791)</u>	(1)
	<u>0</u>	
No additional qualifying medical expense tax credit		<u>(0) (1)</u>
Net normal tax		<u>62 416</u>

b) Tax on pension fund lump sum benefit:

	R
Pension fund lump sum	700 000
Less: Pension fund contribution disallowed (current year) (R22 000 - R20 250)	(1 750) (1)
Less: Transfer to pension preservation fund	<u>(120 000) (1)</u>
Taxable portion of pension lump sum	<u>578 250</u>
Taxable amount = R1 158 250 [R578 250 (1) + R580 000 (1)]	
Tax = R130 500 + ((R1 158 250 - R1 050 000) (1) x 36%)	169 470
Less: Deemed tax on R580 000 (R580 000 - R500 000) (1) x 18%	<u>(14 400) (1)</u>
Tax on pension fund lump sum benefit:	<u>155 070</u>

SOLUTION: QUESTION 2 (24 marks)**Resprop - calculation of employees tax: 2015 year of assessment**

	R
Salary	216 000
Bonus	18 000 (1)
Travel allowance (R12 000 x 80%)	9 600 (1)
Taxable income from services to clients – not remuneration (1) para 1	0
Foreign dividend – not remuneration (1) para 1	0
	243 600
<u>Less:</u> Pension fund contribution (R17 280)	
Limited to the greatest of:	
R1 750, or	
7.5% x R216 000 (1) = R16 200	
Therefore limited to	(16 200) (1)
Annual equivalent	227 400
Tax on R227 400 [(R227 400 - R174 550) x 25%] + R31 419	44 632 (1)
<u>Less:</u> Rebate	(12 726) (1)
Medical scheme fees tax credit (R257 x 12) = R3 084 (1)	(3 084) (1)
Additional qualifying medical expense tax credit (not taken into account for employees' tax purposes (1))	0
Employees' tax	28 822

(b) Calculation of first provisional tax payment

The 2014 assessment may not be used, as it was not assessed more than 14 days before 31 August 2014. **(1)**

The 2013 assessment may be used as it was assessed more than 14 days before 31 August 2014. **(1)**

It does not have to be adjusted by 8% per annum, as the estimate does not have to be made more than 18 months after the latest preceding year of assessment, **(1)** and is not in respect of a period that ends more than one year after the latest preceding year of assessment. **(1)**

SOLUTION: QUESTION 2 (continued)

	R	
Basic amount (2013 taxable income)	275 000	
<u>Less:</u> Taxable capital gain	<u>(15 000)</u>	(1)
Adjusted basic amount	<u>260 000</u>	
Tax thereon $[(R260\ 000 - R174\ 550) \times 25\%] + R31\ 419$	52 782	
<u>Less:</u> Rebate	(12 726)	
Medical scheme fees tax credit (R257 x 12)	(3 084)	
Additional qualifying medical expense tax credit		
Medical aid contributions - employee	24 000	(1)
<u>Less:</u> 4 x medical scheme fees tax credit		
$[(R257 \times 12) \times 4]$	<u>(12 336)</u>	(2)
Excess contributions	11 664	
<u>Add:</u> Qualifying expenses	<u>2 000</u>	(1)
	13 664	
As exceeds: 7.5% x R260 000	<u>(19 500)</u>	(1)
No additional qualifying medical expense tax credit	<u>0</u>	(1)
	<u>36 972</u>	
Tax for first 6 months (R36 972/2 (1))	18 486	
<u>Less:</u> Employees' tax on annual equivalent for 6 months		
(R28 822 (1) /2)	<u>(14 411)</u>	
First provisional tax payment	<u>4 075</u>	

SOLUTION: QUESTION 3 (16 marks)

Par. 26 applies, as proceeds exceed expenditure. **(1)**

The valuation date value is the higher of:

TAB: R850 000 **(1)**, or

Market value: R825 000 **(1)**, or

20% rule: $20\% \times (R4\,000\,000 - R600\,000)$ **(1)** – R240 000 **(1)**
= R632 000

Use TAB as it is the highest.

Primary residence

	R	R	
Proceeds	4 000 000		(1)
<u>Less: Base cost</u>	(1 690 000)		
Valuation date value	(850 000)		(1)
Addition of crèche	(600 000)		(1)
Damage to crèche – not allowed – repair (1) para 20(2)	-		
Outstanding home loan – not allowed – not a cost of improvement (1) para 20(2)	-		
Estate agent commission (R4 000 000 x 6%)	(240 000)		(1)
Capital gain	2 310 000		
Portion in respect of period used trading as a crèche (R2 310 000 x 10yrs/13yrs (1) x 20% (1) = R355 385)	(355 385)	355 385	(1)
	1 954 615		
Primary residence exclusion (R2 000 000 limited to R1 954 615) (1)	(1 954 615)		(1)
Capital gain		<u>355 385</u>	

SOLUTION: QUESTION 4 (18 marks)

(a)			
		R	
<u>Donation to Gwen:</u>			
Value of donation		75 000	(1)
<u>Less:</u> Annual exclusion of R100 000 but limited to value of donation		(75 000)	(2)
Taxable amount		Nil	
Donations tax @ 20%		Nil	
 <u>Donation to Sylvia:</u>			
Value of the donation		100 000	(1)
<u>Less:</u> Portion of annual exclusion still available (R100 000 - R75 000)		(25 000)	(1)
Taxable amount		<u>75 000</u>	
Donations tax @ 20%		15 000	(1)
 <u>Donation to Tegan:</u>			
Value of donation		350 000	(1)
Donations tax @ 20%		70 000	(1)
			[8]
(b)			
		R	
Property			
Townhouse in Durban		4 200 000	(1)
Flat in London		2 980 000	(1)
Unlisted shares at valuation		565 000	(1)
Painting exempt because of 30 year loan to state museum		-	(1)
 Deemed property			
Insurance policy taken out by Alfred – exempt as “buy and sell” policy		-	(1)
Insurance policy taken out by Peter		560 000	(1)
		<u>8 305 000</u>	
<u>Less:</u> Master’s fees		(600)	(1)
Executor’s fees		(165 725)	(1)
		<u>8 138 675</u>	
<u>Less:</u> Section 4A abatement		(3 500 000)	(1)
Dutiable amount		<u>4 638 675</u>	
Estate duty @ 20%		927 735	(1)
			[10]

SOLUTION: QUESTION 5 (10 marks)

The taxpayers' stated intention and evidence can be tested and investigated using various objective factors. **(1)**

Occupation of the taxpayer (1)

The taxpayer is a medical doctor. He is not a property developer. **(1)**

That fact could support his contention that he was merely realising an investment and that the receipts are capital in nature. **(1)**

The period for which the asset was held. (1)

The property was held for a long period (35 years). **(1)**

That fact could support the contention that the receipts were capital in nature. **(1)**

The age of the taxpayer (1)

The taxpayer was approaching retirement (aged 60). **(1)**

That could support his contention that the receipts were capital in nature. **(1)**

He was merely realising an investment to assist himself financially in his retirement. **(1)**

The nature of the asset disposed of (1)

The sale of floating capital, such as stock-in-trade is revenue in nature. Whereas the sale of fixed property, such as land, could more likely be capital in nature. **(1)**

The nature of the asset disposed of could therefore support the contention that the receipts are capital in nature. **(1)**

Continuity of transactions (1)

It does not appear that the taxpayer has undertaken a continuous series of similar transactions in the past. **(1)**

That could support his contention that the receipts are capital in nature. **(1)**

An isolated transaction can, however, be revenue in nature if there is a scheme of profit-making involved. **(1)**

The manner of disposal (1)

The business activities undertaken (engagement of architect, land surveyor, civil engineer and estate agent) and widespread advertising **(1)** indicate that the receipt is revenue in nature **(1)**

An operation of business in carrying out a scheme of profit-making (1)

The business activities undertaken (engagement of architect, land surveyor, civil engineer and estate agent) and widespread advertising indicate that a scheme of profit-making was being conducted. **(1)**

That would indicate that the sale receipts were revenue in nature. **(1)**

Conclusion

Based on the objective factors applied above, it may be concluded that the sale receipts will be included in the taxpayer's gross income. **(1)**

Max (10 marks)

**ANNEXURE C: SOLUTIONS TO INTEGRATED QUESTIONS OF STUDY UNIT 12 IN
TUTORIAL LETTER 103/3/2015**

SOLUTION 12.1

1. (4) Only interest on loans used for business purposes will be deductible.
2. (2) Of the options only theft by managers or persons responsible for cash in business are not deductible
3. (2)
4. (5) The 45% is calculated as:
 $R500\ 000 / (R7\ 605 \times 12 \text{ months} \times 10 \text{ years}) = 55\%$
 If 55% is exempt from tax then: $100\% - 55\% = 45\%$ is taxable.
 The calculation is only done for 9 months in the current year of assessment as Carl only started receiving the annuity in June 2014.
5. (1)
6. (5)
7. (3)
8. (2) $R114\ 000 \times 1.14 \times 0.85 \times 0.85 \times 0.0325 \times 12 \text{ months}$
9. (4) $(R160\ 161 - R70\ 700) \times 18/100 \times 7/12$
10. (5) The determined value includes VAT for this purpose.

SOLUTION 12.2

PART A

** Note from the examiner:*

In this question all the information was given per month, it is therefore best to calculate balance of remuneration for a month and then to multiply by 12 only at the end. We have, however, supplied you with two alternative solutions, that you will see, arrive at the same answer.

	R	
Salary received	30 000	(1)
Travel allowance (R10 000 x 80% (1))	<u>8 000</u>	
Net remuneration	38 000	
<u>Less:</u> Pension fund contribution – R2 500		
Limited to the greater of		
7.5% x R30 000 (1) = R2 250; or		
R1 750/12 months = R146 (1) , therefore limit	<u>(2 250)</u>	(1)
Balance of remuneration	<u>35 750</u>	
Annual equivalent of balance of remuneration (R35 750 x 12 months (1))	<u>429 000</u>	

OR ALTERNATIVELY		
Salary received (R30 000 x 12 months (1))	360 000	(1)
Travel allowance (R10 000 x 12 months x 80%) (1)	<u>96 000</u>	
Net remuneration	456 000	
<u>Less:</u> Pension fund contribution – R2 500 x 12 months = R30 000		
Limited to the greater of		
7.5% x R360 000 (1) = R27 000; or		
R1 750 (1) , therefore limit	<u>(27 000)</u>	(1)
Balance of remuneration	<u>429 000</u>	
Tax on annual remuneration [$((R429\ 000 - R377\ 450) \times 35\%) + R87\ 382$]	105 425	(1)
<u>Less:</u> Primary rebate	<u>(12 726)</u>	(1)
T ₂	<u>92 699</u>	

SOLUTION 12.2 (continued)

Employees tax on net remuneration for the period (R92 699/12 months) (1)	R <u>7 725</u>	
Net remuneration annual equivalent	429 000	
<u>Add</u> : Annual payment (received in December)	<u>20 000</u>	(1)
Total net remuneration annual equivalent	<u>449 000</u>	
Tax thereon [((R449 000 - R377 450) x 35%) + R87 382]	112 425	
<u>Less</u> : Primary rebate	<u>(12 726)</u>	
T ₁	<u>99 699</u>	
Tax on bonus (T ₁ -T ₂) (R99 699 - R92 699)	7 000	(1)
Tax on net remuneration	<u>7 725</u>	
Total employees tax for December	<u>14 725</u>	(1)

PART B

	R	R	
Travel allowance - received		120 000	
<u>Less</u> : Business portion:			
Cost per kilometre			
<u>Deemed cost</u>			
Value of car R580 000			
Fixed cost per kilometre <u>R139 760</u> * ¹ (1)			
35 000 km (1)	3.993		
Fuel cost	1.529	* ²	
Maintenance cost	<u>0.713</u>		
Cost per kilometre	<u>6.235</u>		
<u>Actual cost</u>			
Depreciation (Limited to R560 000 (1) over 7 years (1))	80 000		
Finance charges* ³	42 100		(1)
Fuel	36 000		(1)
Insurance premiums and license fees	9 600		(1)
Maintenance (all covered under a maintenance plan)	-		(1)
Total vehicle expenses	<u>167 700</u>		
Cost per kilometre	<u>R167 700</u>		
35 000km	= R4.791		(1)
∴ Deemed cost per kilometre will be selected as this is the highest.			
∴ Business travelling expenses (20 000 km x R6.235)		<u>(124 700)</u>	(1)
Amount to be included in income		<u>0</u>	

SOLUTION 12.2 (continued)**Notes from the examiner:**

- *1 *When marking a travel allowance question we can see if the VAT has been included or excluded depending on the fixed cost used.*
- *2 *By taking the amounts for fuel and maintenance from the tables and converting them straight away to Rand it means that all your figures are in Rands and can be easily added together – this is a personal choice, you can work in cents and convert the cost per tables to Rand after you have added the three costs together – your answer might differ by a couple of cents due to rounding BUT remember that we mark principles and not figures!!*
- *3 *The finance charges in this question are based on a loan of R480 000 (R580 000 - R100 000 deposit), therefore they do not need to be limited.*

SOLUTION 12.3

	R	R	
Salary		202 800	
Bonus		17 518	
Foreign dividend	1 230		
<u>Less: Exemption (R1 230 x 25/40)</u>	<u>(769)</u>	461	(1)
Foreign interest		4 730	(1)
Taxable local interest	30 660		
<u>Less: exemption</u>	<u>(23 800)</u>	6 860	(1)
Local dividends	5 580		
<u>Less: exemption (1) (s 10(1)(k))</u>	<u>(5 580)</u>	-	
Travel allowance	42 750		
<u>Less: Travel deduction claimed against allowance</u>			
Value of vehicle (R275 000 + R38 500)	R313 500		
<u>Cost per kilometre:</u>			
Fixed cost per kilometre (R84 351(1)/24 365km (1) x 273/365(1))	R2,589		
Fuel cost per kilometre (from table)	R1,205		
Maintenance cost per kilometre (from table)	<u>R0,416</u>		
Total cost per kilometre	<u>R4,210</u>		
Business travel (10 500 km's x R4,210) (1) limited to allowance received	<u>(42 750)</u>	-	(1)
Subsistence allowance received (R342 x 8)	2 736		
<u>Less: Deemed portion of the allowance (R335 x 8 days)</u>	<u>(2 680)</u>	56	(1)
Medical aid fringe benefit		12 000	(1)
Holiday accommodation – fringe benefit (R350 x 2 x 7 days) (1) + R200 (1) + 0 (1)		5 100	
Interest on bond (private)		-	(1)
Subtotal		<u>249 525</u>	

SOLUTION 12.3 (continued)

<u>Less:</u> Pension fund contributions	R	R	
Actual R16 224, limited to the greater of 7,5% x R202 800 (1) = R15 210; or R1 750, therefore limited to		(15 210)	(1)
<u>Less:</u> Past period pension contribution, R2 000 limited to R1 800		<u>(1 800)</u>	(1)
		232 515	
<u>Less:</u> Donation – R15 000 limited to (R232 515 (1) x 10% = R23 252) therefore, allow in full.		<u>(15 000)</u>	(1)
Taxable income		<u>217 515</u>	
Normal tax per tables (R31 419 + (25% x (R217 515 - R174 550)))		42 160	(1)
<u>Less:</u> rebate		(12 726)	(1)
Medical scheme fees tax credit [((R257 x 2) + R172) x 12 months]		(8 232)	(1)
Additional qualifying medical expense tax credit:			
Medical aid contributions:			
Employee	18 360		(1)
Employer	12 000		(1)
<u>Less:</u> 3 x medical scheme fees tax credit [((R257 x 2) + R172) x 12 x 3]	<u>(24 696)</u>		(2)
Excess contributions	5 664		
<u>Add:</u> Qualifying expenses	<u>21 300</u>		(1)
	<u>26 964</u>		
Additional qualifying medical expense tax credit (33,3% x R26 964) = R8 979		<u>(8 979)</u>	(1)
Net normal tax		<u>12 223</u>	

SOLUTION 12.4**Calculation of taxable income**

	R	R	
Salary		580 000	
Travel allowance			
Deemed cost per km			
Fixed cost: (R66 530(1) /29 200km (1) x 365/365 x 100c)	227.8c		
Fuel	112.0c		
Maintenance	<u>38.1c</u>		
Total cost per km	<u>377.9c</u>		
Actual cost per km	R		
Depreciation (R234 500/7 yrs x 365/365)	33 500		(1)
Fuel	30 700		(1)
Capital repayments	-		(1)
Insurance 16 900			(1)
Finance charges (R116 100/5 yrs)	<u>23 220</u>		(1)
Total vehicle expenses for the year	<u>104 320</u>		
Actual cost per km (R104 320/29 200km (1) x 100c)	<u>357.3c</u>		
The deemed cost per km will be selected as it is the highest (1)			
Allowance received	75 000		
Cost of business travel (377.9/100c x 11 200km)	<u>(42 325)</u>	(1)	32 675
Use of company car:			
R188 543 x 1.14 (1) x 3.5% (1) x 7 months (1)			52 660
Low interest loan: [R98 000 x (7.5% - 1.5%) (1) x 6/12] (1)	2 940		
[R98 000 x (6.5% - 1.5%) (1) x 6/12]	<u>2 450</u>		5 390
Foreign dividends	1 204		
<u>Less: Exemption (R1 204 x 25/40)</u>	<u>(752)</u>		452 (1)
Local interest	26 914		
<u>Less: Exemption</u>	<u>(23 800)</u>		3 114 (1)
Right of use of computer (R14 700 (1) x 15% (1) x 8/12) (1)			1 470
Receipt of complementary air tickets: no value (1) (destination in SA & employer in business of transporting passengers for reward) (par 10(2)(a)(i))			-
			<u>675 761</u>
<u>Less: Income protection premiums</u> (non-deductible, proceeds not taxable) (1)			-
			<u>675 761</u>

SOLUTION 12.4 (continued)

Amount carried over	R	R	
		675 761	
<u>Less:</u> Retirement annuity contributions: R37 800 + R3 200 (1) = R41 000, limited to the greater of R1 750 or R3 500 - 0 = R3 500 (1) , or 15% x R675 761 (1) = R101 364 Therefore allow actual		<u>(41 000)</u>	(1)
Taxable income		<u>634 761</u>	
Normal tax per tables (R140 074 + (38% x (R634 761 - R528 000)))		180 643	(1)
<u>Less:</u> rebate		(12 726)	(1)
Medical scheme fees tax credit [((R257 x 2) + (R172 x 2)) x 12 months]		(10 296)	(1)
Additional qualifying medical expense tax credit:			
Medical aid contributions:			
Jason	31 360		(1)
<u>Less:</u> 3 x medical scheme fees tax credit [((R257 x 2) + (R172 x 2)) x 12 x 3]	<u>(30 888)</u>		(2)
Excess contributions	472		
<u>Add:</u> Qualifying expenses	<u>0</u>		(1)
	<u>472</u>		
Additional qualifying medical expense tax credit (33,3% x R472) = R157		<u>(157)</u>	(2)
Net normal tax		<u>157 464</u>	

SOLUTION 12.5: Part (a)

	R		R	
Salary			240 000	
Pension income			180 000	(1)
Rental income:				
Deposit (no accrual – separate trust account) (1)	-			
Rent received September 2014 to February 2015	48 000			
Rent received – March 2015	8 000	(1)		
<u>Less:</u> Rental expenses				
Home office expenses (R16 500 (1) + R13 500 (1)) x 5%	(1 500)			
Rates and taxes	(6 000)	(1)		
Monthly levies	(12 000)	(1)		
Electricity meter – capital (1)	(-)			
Agent's commission	(7 200)	(1)		
Carport – capital (1)	(-)			
	29 300			
Married in community of property – 50% (1)			14 650	
Medical fringe benefit			15 000	(1)
[Employer medical aid contributions post-retirement – no value par 12A(5)(a)]			-	
			449 650	
<u>Less:</u> Pension contributions:				
Current year – R20 400				
Limited to greater of R1 750 or, R240 000 x 7,5% = R18 000 (1)			(18 000)	(1)
Past period - (R6 000 + R2 000 = R8 000) limited to			(1 800)	(1)
			429 850	
Taxable capital gain (1) for correct position				
Krugerrands sold	R			
Proceeds	45 000			
<u>Less:</u> Base cost R8 000 x 3	(24 000) (1)	21 000		(1)
Gift to Priscilla – roll-over – Proceeds (par 67)	16 000			(1)
<u>Less:</u> Base cost	(16 000)	-		(1)
Primary residence				
Proceeds > expenditure. Use par 26				
Pre 1/10/2001 expenditure < proceeds and < market value, thus higher of: (1)				
• Market value – R2 000 000				
• TAB- R1 400 000				
• 20% x (R3 000 000 - R100 000 (1)) = R580 000				
Proceeds	3 000 000			
<u>Less:</u> Base cost	(2 100 000)			
Valuation date value – use highest value (1)	(2 000 000)			
Lapa and swimming pool	(100 000)			(1)
Capital gain	900 000			
<u>Less:</u> Primary residence exclusion				
R2 mil limited to R900 000 (1) x 95%(1)	(855 000)	45 000		

SOLUTION 12.5 (continued)

	R		R	
Total capital gain (R21 000 + R45 000)	66 000			
Married in community of property – 50%	33 000			
<u>Less:</u> Annual exclusion	(30 000)	(1)		
	3 000			
Inclusion rate – 33.3% (1)	999		999	
Taxable Income			430 849	
Normal tax per tables (R87 382 + (35% x (R430 849 - R377 450)))			106 072	(1)
<u>Less:</u> rebate			(19 836)	
Medical scheme fees tax credit [(R257 x 2) x 12 months]			(6 168)	
Additional qualifying medical expense tax credit: Medical aid contributions:				
Employee	15 000			(1)
Fringe benefit	15 000			(1)
<u>Less:</u> 3 x medical scheme fees tax credit [(R257 x 2) x 12 x 3]	(18 504)			(2)
Excess contributions	11 496			
<u>Add:</u> Qualifying expenses	0			
	11 496			
Additional qualifying medical expense tax credit (33,3% x R11 496) = R3 828			(3 828)	(2)
Net normal tax			76 240	
<u>Part (b)</u>				
Gratuity from employer			35 000	(1)
Retirement lump sum benefit	2 500 000	(1)		
<u>Less:</u> Allowable deductions				
Contributions disallowed in the past				
Previous years' current contributions	(50 000)	(1)		
Current year's current contributions (R20 400 - R18 000 (1))	(2 400)			
Past period previous years' contributions	(6 000)	(1)		
Past period current years' contributions (R2 000(1) - R1 800)	(200)		2 441 400	
			2 476 400	
Tax on lump sum benefits ((R2 476 400 - R1 050 000)(1) x 36%) + R130 500 =			644 004	

SOLUTION 12.6**PART A**

<u>Calculation of taxable income</u>	R	
Salary	24 000	
Travel allowance (R1 500 x 80%)	1 200	(1)
Entertainment allowance	950	(1)
Use of company laptop (excluded (1) - mainly business use) (par 6(4)(bA))	-	
Medical aid fringe benefit	<u>1 350</u>	(1)
	27 500	
<u>Less:</u> Retirement annuity contributions (R500) Limited to the greatest of: R1750/12 = R146 or (R3 500 - R0)/12 = R292 (1) or 15% x R27 500 (1) = R4 125	<u>(500)</u>	(1)
Balance of remuneration	<u>27 000</u>	
Annual equivalent R27 000 x 12 months	<u>324 000</u>	(1)
Tax on R324 000 [R55 957 + 30% x (R324 000 - R272 700)]	71 347	(1)
<u>Less:</u> Rebate	(12 726)	(1)
<u>Less:</u> Medical scheme fees tax credit (R257 x 12) Medical expenses – not taken into account for employees' tax purposes (1)	<u>(3 084)</u> 0	(1)
(T2)	<u>55 537</u>	
Monthly employees' tax (R55 537/12)	<u>4 628</u>	(1)
	<u>13</u>	

Alternative – 8 months		
Salary (R24 000 x 8 months)	192 000	
Travel allowance (R1 500 x 8) x 80%	9 600	(1)
Entertainment allowance (R950 x 8 months)	7 600	(1)
Use of company laptop (excluded (1) - mainly business use) (par 6(4)(bA))	-	
Medical aid fringe benefit (R1 350 x 8)	<u>10 800</u>	(1)
	220 000	
<u>Less:</u> Retirement annuity contributions (R4 000) Limited to the greatest of: R1 750 x 8/12 = R1 167 (R3 500 - R0) x 8/12 = R2 333 (1) , or 15% x R220 000 (1) = R33 000	<u>(4 000)</u>	(1)
Balance of remuneration	<u>216 000</u>	
Annual equivalent (R216 000 x 12/8) (1)	<u>324 000</u>	

SOLUTION 12.6 (continued)**PART B****Calculation of taxable income**

	R	R	
Salary (R4 000 x 4)		16 000	(1)
Salary (R24 000 x 8)		192 000	
Travel allowance (R1 500 x 8)	12 000		
<u>Less: Business expense</u>			
Business km	11 500km		
Deemed cost	R		
Fixed [R46 203 (1) /16 500km (1) x 243/365 (1)]	1,864		
Fuel	1,031		
Maintenance	0,346		
	<u>3,241</u>		
Business cost [R3,241 x 11 500km] (1)	<u>(37 272)</u>	-	(1)
Entertainment allowance		7 600	
Entertainment expenses – prohibited (1) (s 23(m))		-	
Use of company laptop (excluded (1) - mainly business use) (par 6(4)(bA))		-	
Medical aid fringe benefit		<u>10 800</u>	(1)
		226 400	
<u>Less:</u> Retirement annuity contributions (R4 000) Limited to the greatest of R1 750, or R3 500 - R0 = R3 500 (1) , or 15% x R226 400 (1) = R33 960		<u>(4 000)</u>	(1)
Taxable Income		<u>222 400</u>	
Normal tax per tables (R31 419 + (25% x (R222 400 - R174 550)))		43 382	(1)
<u>Less:</u> rebate		(12 726)	(1)
Medical scheme fees tax credit [R257 x 8 months]		(2 056)	(1)
Additional qualifying medical expense tax credit:			
Medical aid contributions:			
Employee	10 800		(1)
Employer	10 800		(1)
<u>Less:</u> 4 x medical scheme fees tax credit [(R257 x 8) x 4]	<u>(8 224)</u>		(2)
Excess contributions	13 376		
<u>Add:</u> Qualifying expenses	<u>1 600</u>		(1)
	14 976		
As exceeds (7,5% x R222 400)	<u>(16 680)</u>		(1)
No additional qualifying medical expense tax credit	<u>0</u>		(1)
Net normal tax		<u>28 600</u>	

SOLUTION 12.7**a) Receipts:**

For a receipt to be included in gross income, it must comply with all the requirements of the general definition of “gross income”. That is:

- the total amount,
- in cash or otherwise,
- received by or accrued to,
- during the year of assessment,
- not of a capital nature.

(2)

Or, alternatively, the receipt may be included in gross income via one of the special inclusions **(1)** as set out in paragraphs (a) to (n) of the gross income definition.

Receipt of 10 bicycles –

The bicycles are a non-cash receipt. It should be noted, however, that the term “total amount, in cash or otherwise” means that the value of every form of property received in lieu of cash can be included in gross income. **(1)**.

The receipt clearly complies with first four requirements of the general definition of gross income **(1)**. However, bicycles are capital assets for a cyclist. The final requirement of the general definition (“not of a capital nature”) is therefore not met. **(1)**

Sarel nevertheless renders advertising services for his sponsors in return for receiving the bicycles **(1)**. Paragraph (c) of the gross income special inclusions, includes amounts received for “services rendered” **(1)**.

The value of the bicycles will thus be included in Sarel’s gross income. **(1)**

Lump sum –

An individual’s ability to generate income is a capital asset **(1)**.

Sarel’s capacity to earn income from alternative sponsors has been restricted or “sterilised” as a result of the lump sum receipt **(1)**. The lump sum therefore represents a restraint of trade payment **(1)** and is consequently a capital receipt **(1)**.

The receipt thus complies with first four requirements of the general definition of gross income but does not comply with the final requirement of the general definition (“not of a capital nature”). **(1)**

However, paragraph (cA) of the gross income special inclusions, includes “restraint of trade” amounts **(1)**.

The lump sum will thus be included in Sarel’s gross income. **(1)**

Cash inheritance –

The inheritance of R100 000 is clearly an “amount”, in “cash”, “received” by Sarel, “during the year of assessment” and it therefore complies with the first four requirements of the general definition of gross income **(1)**.

SOLUTION 12.7 (continued)

Gifts and inheritances are, however, fortuitous receipts unconnected with business activities and are consequently capital in nature **(1)**.

The inheritance does not comply with the final requirement of the general definition (“not of a capital nature”) and therefore will not be included in Sarel’s gross income **(1)**.

b) Gym contract expense:

For an expense to be deductible, it needs to comply with all the requirements of the general deduction formula. These are:

- for purposes of trade,
- expenditure and losses,
- actually incurred,
- during the year of assessment,
- in the production of income,
- not of a capital nature.

(2)

The gym contract payment made by Sarel is clearly an “expense”, “actually incurred”, “during the year of assessment” **(1)**. The expense was also incurred “in the production of income”, as Sarel has to keep fit if he is to continue earning income as a professional cyclist **(1)**.

The expense therefore complies with first five requirements of the general deduction formula **(1)**. However as the contract is for a life-time it creates an enduring benefit **(1)** and is consequently capital in nature **(1)**.

The gym fees expense does not comply with the final requirement of the general deduction formula (“not of a capital nature”) and therefore will not be deductible for the purposes of determining Sarel’s taxable income **(1)**.