

# **Tutorial letter 203/1/2015**

## **The Taxation of Individuals**

**TAX3702**

## **Semester 1**

## **Department of Taxation**

**Solution – Assignment 2**

Bar code

Dear Student

Enclosed is the solution to Assignment 2/1/2015. Please work through the solution alongside the assignment and your answers. This is a significant part of the learning process. Note that it is very important to understand why a specific answer is correct while other options are not.

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

We hope that you have found the assignment stimulating.

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 style="text-align: center;"><b>012 429 4133</b></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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## ASSIGNMENT 2 – SOLUTION

### QUESTION 1 (60 marks)

a) Calculation of Giovanni's tax payable for the year of assessment ended 28 February 2015

	R	R
Salary		1 650 000
Long service awards:		
Watch	25 000	
<u>Less: exempt portion</u>	<u>(5 000)</u>	<b>(1)</b>
	20 000	
Cash	<u>5 000</u>	25 000 <b>(1)</b>
Provident fund income		115 000 <b>(1)</b>
Retirement annuity fund income		120 000 <b>(1)</b>
Travel allowance		
Cost of vehicle: R540 000 x 1.14 = R615 600 <b>(1)</b>		

	km
<u>Business kilometres travelled</u>	
Total kilometres travelled	18 000
<u>Less: Private kilometres travelled</u>	<u>(8 000)</u>
Business kilometres travelled	<u><u>10 000</u></u> <b>(1)</b>

#### Deemed cost per kilometre

	R
Fixed cost: (R139 760 <b>(1)</b> / 18 000km <b>(1)</b> x 337/365 <b>(1)</b> )	7.169
Fuel	1.529
Maintenance	<u>0.713</u>
Deemed cost per kilometre	<u><u>9.411</u></u>

#### Actual expenditure

	R
Depreciation (R560 000 <b>(1)</b> / 7 years <b>(1)</b> x 337/365 <b>(1)</b> )	73 863
Running costs (given)	68 000 <b>(1)</b>
Capital payments (non-deductible)	0 <b>(1)</b>
Finance charges	
(R615 600 - R200 000 <b>(1)</b> ) = R415 600, less than	
R560 000 <b>(1)</b> , claim full amount)	<u>62 000</u>
Total actual expenses	<u><u>203 863</u></u>

Actual cost p/km: R203 863/18 000 km **(1)** = R11.326

Therefore, use actual cost per km as it is the higher amount.

Travel allowance received	110 000	
<u>Less: Business travel expenses (R11.326 x 10 000km) <b>(1)</b></u>	<u>(113 260)</u>	- <b>(1)</b>
Use of company car		
R500 000 x 85% <b>(1)</b> x 3.25% <b>(1)</b> x 11 months <b>(1)</b>	151 938	
<u>Less: Business km travelled (R151 938 x 10 000/15 000km) <b>(1)</b></u>	<u>(101 272)</u>	
<u>Less: Fuel (5 000km <b>(1)</b> x R1.479 <b>(1)</b>) *<sup>1</sup></u>	<u>(7 395)</u>	<u>43 271</u>
		1 953 271

**QUESTION 1 (continued)**

	R	R
Balance c/f		1 953 271
Subsistence allowance		
Flight tickets, hotel accommodation and meals – no benefit <b>(1)</b> (R153 x 40)	6 120	<b>(1)</b>
<u>Less: Use higher of actual or deemed expenses</u>		
Actual (R4 000 <b>(1)</b> + R591 <b>(1)</b> + R1 500 <b>(1)</b> = R6 091)		
Deemed (R103 x 40 days = R4 120) <b>(1)</b> , use actual	<u>(6 091)</u>	29
Medical fringe benefit		38 500 <b>(1)</b>
<u>Less: Provident fund contributions: R132 000 – not allowed <b>(1)</b></u>		-
Capital gain		<u>1 991 800</u>
Disposal of primary residence		
Proceeds > expenditure before and after 1/10/2001, use highest of: (Eighth Schedule par 26): <b>(1)</b>		
TAB – R1 300 000; or Market value – R1 500 000; or 20% x (R2 500 000 - R100 000 <b>(1)</b> ) - R150 000 <b>(1)</b> = R450 000		
Use market value as it is higher		
	R	
Proceeds	2 500 000	
<u>Less: Base cost</u>	<u>(1 750 000)</u>	
Valuation date value	1 500 000	<b>(1)</b>
Security equipment	100 000	<b>(1)</b>
Agent's commission (R2 500 000 x 6%)	150 000	<b>(1)</b>
Capital gain	750 000	
<u>Less: Portion utilised for home office (R750 000 x 5%)<b>(1)</b></u>	<u>(37 500)</u>	<b>(1)</b>
	712 500	
<u>Less: Primary residence exclusion – R2 000 000 limited to</u>	<u>(712 500)</u>	<b>(1)</b>
	-	
	37 500	
<u>Less: Annual exclusion</u>	<u>(30 000)</u>	<b>(1)</b>
	7 500	
Inclusion rate – 33.3% <b>(1)</b> x R7 500		2 498
Taxable income		<u>1 994 298</u>
<u>Net normal tax on taxable income:</u>		
[(R1 994 298 - R673 100) x 40%] + R195 212		723 691 <b>(1)</b>
<u>Less: Rebate</u>		(12 726)
<u>Less: Medical scheme fees tax credit ((R257 x 2) + R172) x 12</u>		(8 232) <b>(1)</b>
<u>Less: Additional medical expense tax credit</u>		
Contribution by Giovanni (R84 000 - R38 500)	45 500	<b>(1)</b>
Medical aid fringe benefit	38 500	<b>(1)</b>
	<u>84 000</u>	
<u>Less: Medical scheme fees tax credit x 3</u> (R257 x 2) + R172) <b>(1)</b> x 12 x 3 <b>(1)</b> Daughter has a disability <b>(1)</b>	<u>(24 686)</u>	
	59 304	
Medical expenses not reimbursed by medical scheme	26 000	<b>(1)</b>
Payments to registered nurse	24 000	<b>(1)</b>
	<u>109 304</u>	
Additional medical expense tax credit (R109 304 x 33.3%) <b>(1)</b>		<u>(36 398)</u>
Net normal tax		<u>666 335</u>

**-1 for incorrect order**

\*1 The determined value of the company vehicle has been reduced to R425 000 (R500 000 x 85%), accordingly the fuel cost on the deemed travel expense table must correspond to it.

**QUESTION 1 (continued)**

	R	R
b) <u>Tax on taxable portion of lump sums:</u>		
Accumulated leave pay		120 000 (1)
Provident fund retirement lump sum	1 500 000	
Disallowed provident fund contributions – previous years	(1 075 000) (1)	
Disallowed provident fund contributions – current year	<u>(132 000) (1)</u>	
Taxable portion of retirement lump sum	293 000	293 000
Retirement annuity lump sum received in 2014		<u>800 000 (1)</u>
Total taxable lump sums		<u><u>1 213 000</u></u>
Tax payable on taxable portion of lump sums:		
[(R1 213 000 - R1 050 000) x 36%] + R130 500		189 100 (1)
<u>Less:</u> Deemed tax on retirement annuity lump sum		
[(R800 000 - R700 000)] x 27% + R36 000		<u>(63 000) (1)</u>
Tax payable		<u><u>126 100</u></u>

**Unisa**

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