

Tutorial Letter 103/3/2018

Taxation of individuals

TAX3702

Both semesters

Department of Taxation

STUDY GUIDE 2 OF 2

This tutorial letter contains learning units 7–12, with integrated questions in learning unit 13, as well as additional questions to work through.

Bar code

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Please note:

Due to the University's print schedule, this tutorial letter had to be submitted by a certain date so that you would receive it in time. Unfortunately, the 2017/2018 Income Tax Act has not yet been promulgated, which means that **this tutorial letter** was based on a draft Income Tax Act. This however should not affect the content of this module. Should there be any major differences between the draft Act and the final Act we will communicate them to you through an announcement on myUnisa.

The other issue is that the **prescribed book** was not finalised at the time of writing this tutorial letter because of the Act not having been promulgated; therefore, some of the paragraph references in **this tutorial letter** may be incorrect. When the prescribed book is finalised we will compare it with this tutorial letter and advise you of any changes to paragraph numbering. We apologise for any inconvenience this may cause you and wish to state that we want to offer you the most up-to-date study material. Unfortunately, the combination of needing to have this tutorial letter available for you when registering and the fact that the South African Parliament was very late in promulgating the Income Tax Act resulted in this unfortunate situation. We would like to emphasise that at undergraduate level these issues should not impact negatively on your taxation studies or on the content presented to you.

ORIENTATION

1 GENERAL

This tutorial letter covers six learning areas and also contains a learning unit comprising integrated questions. Part A of this tutorial letter completes your “study guide”. Please use this tutorial letter to guide you through the contents of this module.

2 SUGGESTED APPROACH TO THE MODULE

Use this tutorial letter as a guide. Start by reading and understanding the material contained in the tutorial letter. This will guide you through the material in the prescribed book. After acquiring the necessary knowledge, you will find it far easier to approach the questions. We recommend that you review the detailed discussion in the Introduction to *Tutorial Letter 102/3/2018* on the best approach to the module.

3 CONTACT WITH LECTURERS

<p>The lecturers who are available to assist you are</p>	
Mr A Swanepoel	012 429 4313
Mr M van Dyk	012 429 4918
Ms M Bernard	012 429 4002
Ms C Stedall	012 429 4301
Ms MSI Wentzel	012 429 4876
Ms C Cass	012 429 8992
Ms I Kretzschmar	012 429 4394
Ms R Matenche	012 429 4752
Ms R Moosa	012 429 2883

Departmental secretary: Ms S Brecher 012 429 4494

You are welcome to contact any of your lecturers about the content of the module. Please remember to e-mail any questions via myUnisa to the relevant e-mail addresses:



TAX3702-18-S1@unisa.ac.za (first semester) or
TAX3702-18-S2@unisa.ac.za (second semester)



Undergraduate cell/mobile phone number **079 365 1124**

4 ADMINISTRATIVE ENQUIRIES

For any other enquiries, we refer you to *Tutorial Letter 101* and the *Study @ Unisa* brochure for all the contact details. Bear in mind that lecturers cannot assist you with queries about tutorial matter not received or with assignments submitted.

5 TIMETABLE

Please refer to the study programme as set out in *Tutorial Letter 101/3/2018*, section 6.

We do not know how many modules you are attempting this semester, so we suggest that you calculate how much time you will have available for this module. Then take the time that you have available and spend it as follows on each of the topics:

Proposed time schedule for learning units in module:	% time spent
1 Introduction to taxation and calculation of net tax payable	5%
2 Gross income (residents) and special inclusions	10%
3 Fringe benefits and allowances	15%
4 Exempt income	5%
5 Deductions: general, prohibited and specific	15%
6 Capital gains tax for individuals	15%
7 Lump sum benefits	5%
8 Non-residents	3%
9 Prepaid taxes.....	10%
10 Donations tax.....	4%
11 Estate duty.....	10%
12 Farming income.....	3%

This is only an indication of how you should spend your time on this taxation module.

6 KEY TO SYMBOLS USED IN THE LEARNING UNITS



These symbols represent us, your lecturers, talking to you about what you can expect in the exam.



This symbol is used when we refer you to the prescribed book and a specific section of work that you need to **study**. This means that you should work through the text that we refer you to, making notes and working through any of the examples that are included in that section. **Remember**, when you work through an example, first attempt it on your own to see if you have understood the reading, and only then check your answer against the solution. The **most** important step is therefore to understand where and why you went wrong (if you did)!



This symbol denotes an activity – these are extra activities that will help you to remember what you have learnt.



These are electronic activities. These activities are not compulsory but will assist you to reinforce the topic that you are busy with.



This symbol is used when we refer you to the prescribed book and a specific section of work that you need to read.

7 CONCLUSION

We wish you every success with your taxation studies. Please make the most of your opportunity to learn about this dynamic and practical subject. If you work diligently and practise the examples on your own, then you will be well on your way to successfully completing this module. We look forward to assisting you through the study material and explanations we have provided for you.

PART A: STUDY GUIDE

LEARNING UNIT 7

Learning unit

7

**INTRODUCTION
STUDY PROGRAMME
LEARNING OUTCOMES
PRESCRIBED STUDY MATERIAL FOR THIS
LEARNING UNIT
SECTIONS OF PRESCRIBED BOOK THAT YOU
MAY IGNORE**

CONTENTS OF LEARNING UNIT

- 7.1 Background
- 7.2 Lump sums received from an employer
- 7.3 Retirement fund lump sum withdrawal benefits and tax calculation
- 7.4 Retirement fund lump sum benefits and tax calculation
 - 7.4.1 Lump sums received from a government pension fund

**WRAP UP
ASSESSMENT CRITERIA
QUESTIONS
LITERATURE CONSULTED**

**Lump sum
benefits**

INCOME TAX FRAMEWORK

		R	
	Gross income	xxxxxxx	<i>(learning unit 2)</i>
	- Special inclusions	xxxxx	<i>(learning unit 2)</i>
	- Fringe benefits	xxxxx	<i>(learning unit 3)</i>
	- Lump sums (lump sums are taxed separately)	xxxxx	<i>(learning unit 7)</i>
<i>less:</i>	Exempt income	<u>(xxxxx)</u>	<i>(learning unit 4)</i>
<i>gives:</i>	Income	xxxxxxx	<i>(learning unit 1)</i>
<i>less:</i>	Allowable deductions		
	- General deductions	(xxxx)	<i>(learning unit 5)</i>
	- "Other" allowable expenses	(xxxx)	<i>(learning unit 5)</i>
<i>add:</i>	Taxable capital gain	<u>xxxx</u>	<i>(learning unit 6)</i>
		xxxx	
<i>less:</i>	Retirement fund contributions	<u>(xxxx)</u>	<i>(learning unit 5)</i>
		xxxxx	
<i>less:</i>	Donations	<u>(xxxx)</u>	<i>(learning unit 5)</i>
<i>gives:</i>	Taxable income	<u>xxxxx</u>	<i>(learning unit 1)</i>
	Normal tax (per the tax tables)	xxxxx	<i>(learning unit 1)</i>
<i>less:</i>	Rebates and credits		
	- Primary	(xxxx)	<i>(learning unit 1)</i>
	- Age ≥ 65	(xxxx)	<i>(learning unit 1)</i>
	- Age ≥ 75	(xxxx)	<i>(learning unit 1)</i>
	- Medical scheme fees tax credits (section 6A)	(xxxx)	<i>(learning unit 1)</i>
	- Additional qualifying medical expense tax credits (section 6B)	(xxxx)	<i>(learning unit 1)</i>
	- Foreign tax (section 6quat)	<u>(xxxx)</u>	<i>(learning unit 1)</i>
<i>gives:</i>	Net normal tax payable	xxxxx	<i>(learning unit 1)</i>
<i>less:</i>	Prepaid tax		
	- Employees' tax	(xxx)	<i>(learning unit 9)</i>
	- Provisional tax	(xxx)	<i>(learning unit 9)</i>
<i>gives:</i>	Tax liability	<u>xxxxx</u>	<i>(learning unit 1)</i>

INTRODUCTION

In order to make provision for retirement, many taxpayers make contributions of a portion of their salary/income to retirement funds during their working years. If the person is a salaried employee, the retirement fund will normally be a pension or provident fund. Over and above these funds, a taxpayer has the option of contributing to a retirement annuity fund as well.

On retirement, the taxpayer (depending on the type of fund to which he or she belongs) will have certain available options regarding how the retirement benefits should be paid out. The benefits may be in the form of a lump sum plus a monthly annuity or a lump sum only or a monthly annuity only. A person could also receive a lump sum when withdrawing from a fund or in the event of his or her death. In this learning unit, we will discuss the taxation of the retirement fund lump sums on withdrawal, retirement, death and retrenchment.

Over and above the amounts paid out by these funds, a person's employer may also pay a lump sum. These lump sums are known as severance benefits as they are paid out when the taxpayer's employment is terminated. They will also be discussed in this learning unit.

STUDY PROGRAMME

Refer to the study plan contained in *Tutorial Letter 101*.

LEARNING OUTCOMES

After working through this learning unit, you should be able to

- * calculate the tax payable when a person receives a severance benefit from an employer
- * identify permissible deductions from a lump sum benefit received from a retirement fund upon retirement, retrenchment or death, and upon withdrawal from the retirement fund
- * calculate the taxable portion of a lump sum benefit received from a retirement fund upon retirement, retrenchment or death, and upon withdrawal from the retirement fund
- * calculate the taxable portion of a lump sum benefit received from a state pension fund
- * calculate the tax payable on the taxable amount of a lump sum benefit received from a retirement fund upon retirement, retrenchment, death or withdrawal

PRESCRIBED STUDY MATERIAL FOR THIS LEARNING UNIT

Chapter 9 in the prescribed book

SECTIONS OF PRESCRIBED BOOK THAT YOU MAY IGNORE

Sections 9.4.5 and 9.5 in chapter 9

CONTENTS OF LEARNING UNIT

7.1 BACKGROUND

Prescribed book sections: 9.1 – 9.2



As indicated in the introduction to this learning unit, lump sums can be received from two different sources: from employers and from retirement funds. In the case of retirement fund lump sums it is important to distinguish between lump sums received on **withdrawal**, on the one hand, and lump sums received on **retirement, death or retrenchment**, on the other. Lump sums on **withdrawal** are taxed according to a particular tax table, while lump sums received on **retirement, death or retrenchment** are taxed according to another tax table.

Lump sums are specially included in gross income, along with other receipts and accruals. It is, however, important to be aware that the **calculation** of the tax payable on the lump sum is done separately from other taxable income, according to a different set of tax tables. Lump sum benefits are thus taxed at their own rates and are not affected by any assessed losses or annual rebates.

7.2 LUMP SUMS (SEVERANCE BENEFITS) RECEIVED FROM AN EMPLOYER

Prescribed book sections: 9.4.1 and 9.4.3



Severance benefits are paid out by employers when an employee's employment is terminated.

A severance benefit is taxed using the same tax table that is used for retirement fund lump sums. However, one of three conditions must be met in order to use the tax rates applied in the above table.

The three conditions are:

1. The person receiving the lump sum has reached the age of 55 years, or
2. the termination of the person's employment is basically as a result of their incapacity to carry on working due to medical reasons, or
3. the termination of the person's employment is as a result of their employer ceasing to trade, or because of a reduction in the workforce by the employer ("reduction in the workforce" condition will not apply if the recipient of the severance benefit held more than 5% of the share capital in the company employing him).

Where none of the above three conditions apply, a lump sum from an employer will be included in taxable income and taxed according to the normal tax table.



List the requirements for a lump sum from an employer to meet the definition of a severance benefit.

7.3 RETIREMENT FUND LUMP SUM WITHDRAWAL BENEFITS AND TAX CALCULATION

Prescribed book section: 9.4.2



Lump sums received from retirement funds because of **withdrawal** (prior to reaching retirement age) must be distinguished from lump sums received because of **retirement** (or **retrenchment** or **death**). The reason for the distinction is that lump sums received on **withdrawal** are taxed according to a separate and specific tax table.

Lump sums received prior to retirement could be the result of one of a number of possible reasons, which are all listed in your prescribed book.

There is essentially a four-step process when calculating the tax payable on a withdrawal benefit:

1. Establish the amount of the withdrawal benefit (which will always be given to you).
2. Subtract any allowable deductions in order to determine the,
3. “taxable amount” of the withdrawal benefit, and then
4. refer to the withdrawal benefit tax table to determine the tax payable.

In step 2 above, it is important to know that certain deductions (subject to various conditions) are allowed to reduce the withdrawal benefit. The deductions include contributions to various pension, provident and retirement annuity funds that have not previously been deducted from the taxpayer’s income. Should there be any contributions disallowed in the current year, they must also be taken into account as a deduction. Any portion of the withdrawal benefit that is transferred to another “approved fund” may also be subtracted.

After the deductions have been subtracted, the “taxable amount” of the benefit is then determined. Calculating the tax on the “taxable amount” is then simply a matter of referring to the correct tax table.



You will be provided with the retirement fund tax tables in the schedules to your exam paper.

All lump sums that are received from retirement funds are taxed on an accumulated basis (i.e. subsequent lump sum benefits will be added and possibly taxed at a higher marginal rate).

7.4 RETIREMENT FUND LUMP SUM BENEFITS AND TAX CALCULATION

Prescribed book section: 9.4.4



This section of the prescribed book covers retirement fund lump sum benefits received on **retirement**. As already discussed in section 7.3 of learning unit 7, it is important to make sure that you check whether the person **withdrew** or **retired** from the fund, as this makes a substantial difference to the calculation of the tax payable. Where a person receives a retirement fund lump sum as a result of **death** or, in certain circumstances, **retrenchment**, the receipt will be treated in the same way as if the taxpayer had **retired**.

The same four-step process outlined in section 7.3 is used to calculate the tax payable on a lump sum benefit on **retirement** (or **death** or **retrenchment**):

1. Establish the amount of the lump sum benefit (which will always be given to you).
2. Subtract any allowable deductions in order to determine the,
3. “taxable amount” of the benefit, and then
4. refer to the retirement lump sum benefit tax table to determine the tax payable.

Once again, it is important to know that in step 2, certain deductions (subject to various conditions) are allowed to reduce the lump sum benefit. The deductions include contributions to various pension, provident and retirement annuity funds that have not previously been deducted from the taxpayer’s income. Should there be any contributions disallowed in the current year, they must also be taken into account as a deduction. Any portion of the benefit that is transferred to another “approved fund” may also be subtracted.

Where a taxpayer dies during a year of assessment, the retirement lump sum receivable on death, is deemed to be received by the taxpayer on the day prior to his death. **Current retirement fund contributions disallowed during the current year of assessment** will not be deductible against the retirement lump sum but will **form part of property of the estate** (taxable) for estate duty purposes. (Refer to 12.3.2.3 in the textbook). Retirement fund contributions disallowed as a deduction in respect of the prior years will still be deductible against the retirement lump sum received.



List the deductions from the lump sum that are allowable in terms of the Second Schedule.

7.4.1 Lump sums received from a government pension fund

When a person receives a retirement lump sum from the public service, a portion may be tax-free. This will occur where the taxpayer (who retires in the current year of assessment) started working for the government **before 1 March 1998**. A formula must then be applied, in order to determine the portion of the lump that is subject to tax. Once “A” in the formula has been calculated, you simply follow the same four-step process, outlined above, in order to calculate the tax payable on the lump sum.

Lump sums that are received from retirement funds are taxed on an accumulated basis, thus subsequent lump sum benefits will be added and taxed at a higher marginal rate.



Do the self-assessment test on “**Lump sums**” on myUnisa.

WRAP UP

- * Severance benefits can be paid out by employers when an employee’s employment is terminated.
- * One of three conditions has to be met in order for a lump sum from an employer to qualify as a severance benefit.

- * When a person receives a retirement lump sum from the public service, a portion may be tax-free.
A distinction must be made between lump sums received from retirement fund as a result of **withdrawal** and lump sums received as a result of **retirement** (or **retrenchment** or **death**).
- * Certain deductions are allowed to reduce the taxable portion of the lump sum benefit. The deductions include disallowed contributions to various pension, provident and retirement annuity funds that have not previously been deducted from the taxpayer's income. Any current contributions disallowed in the current year must also be taken into account as a deduction, unless the person died.
- * There is a four-step process for calculating the tax payable on lump sums.
- * The calculation of the tax payable on the lump sum is done separately from other taxable income, according to a different set of tax tables.



Now you have completed this learning unit, please revisit the learning outcomes and make sure that you have attained all of them.

ASSESSMENT CRITERIA

We could assess your work on this learning unit in assignments or in the exam by asking you to:

- * Identify permissible deductions from a lump sum benefit received from a retirement fund upon retirement, retrenchment, death or upon withdrawal from the retirement fund.
- * Calculate the taxable portion of a lump sum benefit received from a retirement fund upon retirement, retrenchment, death or upon withdrawal from the retirement fund.
- * Calculate the tax payable when a person receives a severance benefit from an employer.
- * Calculate the taxable portion of a lump sum benefit received from a state pension fund.
- * Calculate the tax payable on the taxable amount of a lump sum benefit received from a retirement fund upon retirement, retrenchment, death or withdrawal.

QUESTIONS

Prescribed book section: 9.7



With regard to **lump sums**, **work through** exam preparation questions 9.1 to 9.4 in the prescribed book as well as questions 7.1 to 7.8 in part B of this tutorial letter.

The examination preparation questions are similar to the situations you will be faced with in practice.

LITERATURE CONSULTED

Stiglingh, M, Koekemoer, AD, Van Zyl, L, Wilcocks, JS & De Swardt, RD. 2017. SILKE - South African Income Tax. Durban: LexisNexis

Bruwer, L, Coetzee, K, De Hart, KL, Koekemoer, AD & Stedall, C. 2017. *A student's approach to income tax: Natural persons*. Durban: LexisNexis.

LEARNING UNIT 8**Learning unit****8**

INTRODUCTION
STUDY PROGRAMME
LEARNING OUTCOMES
PRESCRIBED STUDY MATERIAL FOR THIS STUDY UNIT
SECTIONS OF PRESCRIBED BOOK THAT YOU MAY IGNORE

CONTENTS OF LEARNING UNIT

- 8.1 Background
- 8.2 Non-residents
- 8.3 From a source in the Republic
- 8.4 Receipts of non-residents
 - 8.4.1 Interest
 - 8.4.2 Dividends
 - 8.4.3 Royalties
 - 8.4.4 Rental
 - 8.4.5 Services rendered
 - 8.4.6 Sale of trading stock
- 8.5 Other provisions

WRAP UP
ASSESSMENT CRITERIA
QUESTIONS
POINTS TO PONDER
LITERATURE CONSULTED

**Non-
residents**

INTRODUCTION

In learning unit 2, we determined whether an individual is classified as a South African resident or non-resident based on certain tests. It is important to distinguish between a resident and a non-resident. Residents are taxed on their worldwide income. For non-residents only receipts derived from sources within South Africa are subject to tax in South Africa, with certain exceptions.

STUDY PROGRAMME

Refer to the study plan contained in *Tutorial Letter 101*.

LEARNING OUTCOMES

After working through this learning unit, you should be able to

- list and apply the types of income received by or accrued to a non-resident, which will be from a source in the Republic
- list and apply the types of income received by or accrued to a non-resident that will be exempted from South African taxes
- calculate a non-resident's net tax liability
- list and apply the withholding taxes that one deducts from a non-resident's income

PRESCRIBED STUDY MATERIAL FOR THIS LEARNING UNIT

Chapter 7 in the prescribed book

SECTIONS OF PRESCRIBED BOOK THAT YOU MAY IGNORE

Section 7.5.1 in chapter 7

CONTENTS OF LEARNING UNIT

8.1 BACKGROUND

Prescribed book section: 7.1



All the other learning units in this module deal with the taxation of South African residents. This learning unit is the exception. It deals with the taxation of non-residents.

In this learning unit, you will learn the most common types of income earned by non-residents and how they are treated for income tax purposes.

8.2 NON-RESIDENTS

Prescribed book section: 7.2



You need to distinguish between a resident and a non-resident and how the application of the tax legislation differs depending on the above distinction.

Residents are taxed on their worldwide income, while non-residents are taxed only on income derived from a source within South Africa.

8.3 SOURCE IN THE REPUBLIC

Prescribed book section: 7.3



Remember that non-residents are only taxed on income, which has a source in the Republic. So if you determine that a non-resident earns income that has no South African source then that income will, by definition, not be taxable in South Africa.

The Income Tax Act does not define the concept of "source". However, many court cases have been decided in this regard and certain tests have been laid down in order to help determine the source of certain types of income. The most important being those listed in section 7.3.1 in the prescribed book.

Section 9 of the Act sets out the rules that relate to non-residents and income from a source within South Africa that is taxable in the non-resident's hands.

8.4 RECEIPTS OF NON-RESIDENTS

Prescribed book section: 7.4



8.4.1 Interest

Prescribed book section: 7.4.1



Interest refers to the income that is earned by keeping a positive balance on bank accounts, fixed deposits, saving accounts and so on.

Bear in mind that a 15% withholding tax on interest, that becomes due and payable to non-residents on or after 1 March 2015, has been introduced. The withholding tax will apply where the non-resident has spent less than 183 days in the Republic during the 12-month period preceding the date on which the interest is received or accrued; or the non-resident did not carry on business through a permanent establishment in the Republic, unless a specific exemption applies.

There are, however, certain important exemptions from this withholding tax. These exemptions include any interest paid by

- any sphere of the South African government
- South African banks
- any listed debt instrument

These exemptions therefore cover most – but not necessarily all – of the sources of interest included in this module.

Where the non-resident has, during the year of assessment, spent more than 183 days in the Republic or did carry on business through a permanent establishment in the Republic, the 15% withholding tax will not apply. The interest received in these circumstances will be subject, after the deduction of the R23 800/R34 500 interest exemption, to normal tax.

8.4.2 Dividends

Prescribed book section: 7.4.2



While studying this section you will note that even though dividends from a South African source are included in the non-resident's gross income they'll nevertheless be fully exempt from tax (s 10(1)(k)(i)).

8.4.3 Royalties

Prescribed book section: 7.4.3



When royalties are paid to a non-resident, there will be withholding tax payable as contemplated in section 9(2)(c), as well as when a non-resident receives royalties for the use of a patent, design and so on in the Republic. This withholding tax must be withheld and paid over to SARS by the person paying the royalties.

Note that the 15% withholding tax is a final tax and cannot be refunded. Remember that this withholding tax does not form part of the normal tax liability. Where a non-resident has no other South African income, no further tax will be payable by the non-resident.

With effect from 1 January 2015, non-residents will be exempt from the 15% withholding tax on royalties if they are physically present in the Republic for more than 183 days in total during the 12-month period before the royalty is paid, or if they carry on business through a permanent establishment in the Republic. If these conditions do apply, the royalties will instead be subject to normal tax.

8.4.4 Rental

Prescribed book section: 7.4.4



The source of rent received from the renting of immovable property is usually the place where the property is situated and the use thereof, which gives rise to the rent.

Where immovable property is situated in South Africa, a non-resident will be taxed on the net income. The non-resident is entitled to deduct all the allowable expenses from this income.

Where moveable property is involved, the non-resident will be taxed in South Africa on the net rental received, where the asset is used exclusively by a lessee in the Republic.

8.4.5 Services rendered

Prescribed book section: 7.4.5



The general rule is that the source of the income in respect of services rendered is the place where the service is rendered (the "activities test"). There are certain exceptions to the rule (especially in respect of directors' remuneration).

Non-residents will be taxed in South Africa on all pensions that are from a South African source. The pension will be taxable in South Africa if the pension originates from South Africa or if the person receiving the pension worked partially inside and outside South Africa for the period on which the pension is based. For the calculation of the taxable portion, please refer to learning unit 2.

Foreign entertainers and sports persons:

An entertainer is any person who receives a reward for performing any activity that is of an entertainment nature.

- South African residents who pay amounts to foreign entertainers and sports persons in respect of specified activities must withhold this tax (called the withholding tax on foreign entertainers and sports persons) and pay it over to SARS.
- This tax is a final tax (this means that it is the only tax payable in respect of this amount) payable at a flat rate of 15% of the gross amount paid.
- The 15% withholding tax does not apply to a non-resident person who is employed by a resident employer and is physically present in South Africa for more than 183 days in aggregate during any 12-month period, during which time the activity was carried out.

8.4.6 Sale of trading stock**Prescribed book section: 7.4.6**

Where a non-resident's trading activities are exercised in the Republic, the source of income from the sale of trading stock is in the Republic.

8.5 OTHER PROVISIONS**Prescribed book sections: 7.5.2 and 7.5.3****Capital profits and losses:**

Where a non-resident owns fixed property in South Africa, any capital gain or loss made on the sale of the property will be taxable in South Africa. The calculation of the capital gain or loss will be exactly the same as in the case of a resident, **except** that the exclusion in respect of a primary residence will not be available to a non-resident. The non-resident is not ordinarily resident in South Africa and therefore the fixed property could not be his primary residence and he will not qualify for the R2 000 000 exclusion. For the calculation of capital gains and losses please refer to learning unit 6 which deals with capital gains tax.

Disposal of assets by a non-resident person:

Withholding tax of 5% must be withheld from the amount paid to the non-resident, in respect of fixed property disposals of R2 million and more.



Prepare a summary of each type of income that could be received by a non-resident.
This activity will assist you when you answer the e-activity self-assessment questions.

A summary for each type of income could look something like this:

Income	Source within SA	Exemption (from normal tax)
Interest	<ul style="list-style-type: none"> • Paid by resident, unless it is in respect of permanent establishment outside South Africa • Is received or accrued in respect of funds used or applied by any person in South Africa 	<p>All – provided not 183 days in SA or did not carry on a business in SA during 12-month period – fully exempt</p> <p>– 15% withholding tax may apply</p>

Now continue with the activity as shown in the example above.

WRAP UP

The requirements of a non-resident:

- * Determine where the income arose from – the source rules.
- * Understand what types of income are taxed in the hands of the non-resident and what exemptions are available to the non-resident.



Now you have completed this learning unit, please revisit the learning outcomes and make sure that you have attained all of them.



1. Visit the discussion forum - **learning unit on non-residents**.

Discuss any concepts that you do not understand or, if you do understand, then answer those students who have posted questions.

2. Do the self-assessment questions on myUnisa on non-residents.

ASSESSMENT CRITERIA

We could assess your work on this learning unit in assignments or in the exam by asking you to:

- * Determine what the source rules are and their application.
- * Apply how the types of income that could be received by or accrued to a non-resident are taxed.
- * Apply how the most common types of income earned by non-residents are taxed.
- * Apply the court decisions and the general principles relating to non-residents.

QUESTIONS

Prescribed book section: 7.7



With regard to **non-residents, work through** exam preparation questions 7.1 to 7.4 in the prescribed book as well as questions 8.1 to 8.3 in part B of this tutorial letter.

The examination preparation questions are similar to the situations you will be faced with in practice.

As stated in an earlier learning unit, the questions in the exam will also be based on practical applications. The examination preparation questions will therefore help you prepare for the exam.

POINTS TO PONDER

- How do other countries determine residence?
- Would persons with more than one passport be able to circumvent the system?
- Should foreigners pay any tax in South Africa?
- What are the effects of withholding tax on interest?
- Why is it beneficial to let foreigners pay less tax?



LITERATURE CONSULTED

Stiglingh, M, Koekemoer, AD, Van Zyl, L, Wilcocks, JS & De Swardt, RD. 2017. SILKE - South African Income Tax. Durban: LexisNexis

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LEARNING UNIT 9**Learning unit****9**

INTRODUCTION
STUDY PROGRAMME
LEARNING OUTCOMES
PRESCRIBED STUDY MATERIAL FOR THIS STUDY UNIT
SECTIONS OF PRESCRIBED BOOK THAT YOU MAY IGNORE

CONTENTS OF LEARNING UNIT

- 9.1 Background
- 9.2 Employees' tax
 - 9.2.1 Calculation of employees' tax
 - 9.2.2 Administration of employees' tax
- 9.3 Provisional tax
 - 9.3.1 First provisional tax payment
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 - 9.3.3 Third provisional tax payment
 - 9.3.4 Additional taxes, interest and penalties
- 9.4 Questions
- 9.5 Solutions to activities

POINTS TO PONDER
WRAP UP
ASSESSMENT CRITERIA
LITERATURE CONSULTED

**Prepaid
taxes**

INCOME TAX FRAMEWORK

	R	
Gross income	xxxxxxx	<i>(learning unit 2)</i>
- Special inclusions	xxxxx	<i>(learning unit 2)</i>
- Fringe benefits	xxxxx	<i>(learning unit 3)</i>
- Lump sums (lump sums are taxed separately)	xxxxx	<i>(learning unit 7)</i>
<i>less:</i> Exempt income	<u>(xxxxx)</u>	<i>(learning unit 4)</i>
<i>gives:</i> Income	xxxxxxx	<i>(learning unit 1)</i>
 <i>less:</i> Allowable deductions		
- General deductions	(xxxx)	<i>(learning unit 5)</i>
- “Other” allowable expenses	(xxxx)	<i>(learning unit 5)</i>
<i>add:</i> Taxable capital gain	<u>xxxx</u>	<i>(learning unit 6)</i>
	xxxx	
 <i>less:</i> Retirement fund contributions	<u>(xxxx)</u>	<i>(learning unit 5)</i>
	xxxxx	
 <i>less:</i> Donations	<u>(xxxx)</u>	<i>(learning unit 5)</i>
<i>gives:</i> Taxable income	<u>xxxxx</u>	<i>(learning unit 1)</i>
 Normal tax (per the tax tables)	xxxxx	<i>(learning unit 1)</i>
<i>less:</i> Rebates and credits		
- Primary	(xxxx)	<i>(learning unit 1)</i>
- Age ≥ 65	(xxxx)	<i>(learning unit 1)</i>
- Age ≥ 75	(xxxx)	<i>(learning unit 1)</i>
- Medical scheme fees tax credits (section 6A)	(xxxx)	<i>(learning unit 1)</i>
- Additional qualifying medical expense tax credits (section 6B)	(xxxx)	<i>(learning unit 1)</i>
- Foreign tax (section 6quat)	<u>(xxxx)</u>	<i>(learning unit 1)</i>
<i>gives:</i> Net normal tax payable	xxxxx	<i>(learning unit 1)</i>
 <i>less:</i> Prepaid tax		
- Employees’ tax	(xxx)	<i>(learning unit 9)</i>
- Provisional tax	(xxx)	<i>(learning unit 9)</i>
<i>gives:</i> Tax liability	<u>xxxxx</u>	<i>(learning unit 1)</i>

INTRODUCTION

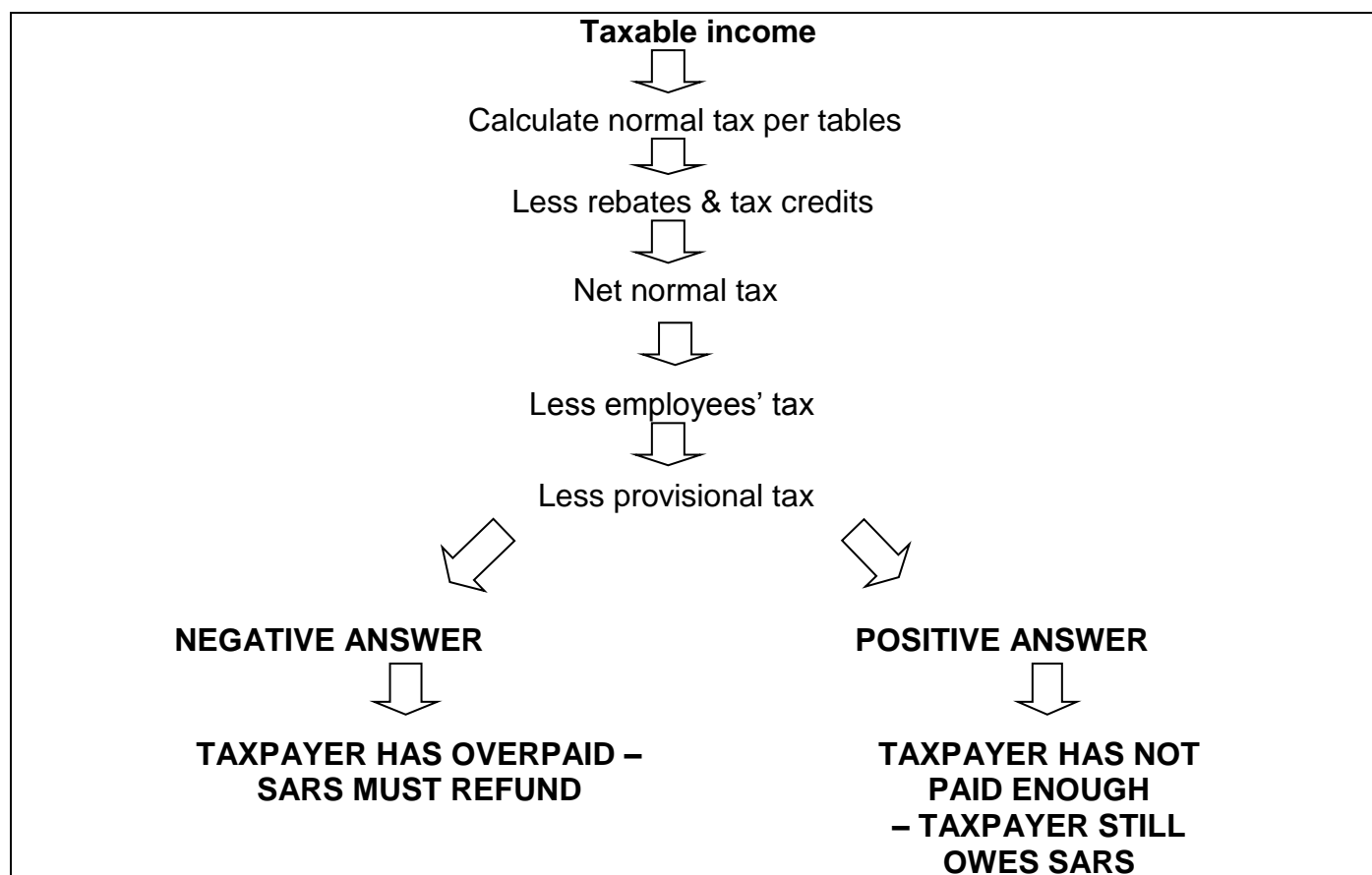
All the learning units up to now have added information to the income tax framework. The income tax framework shows the calculation of taxable income and normal tax. Once rebates and tax credits have been deducted from normal tax, this gives us the amount of net normal tax owing to SARS. Most taxpayers would not be able to pay this amount over to SARS at the end of each year of assessment, without having made provision for it. In this learning unit, we will look at two ways in which taxpayers in South Africa are forced to make provision for the tax that they owe to SARS.

The two systems are employees' tax and provisional tax.

Employees' tax is the tax that is deducted monthly from a person's remuneration from employment. It is not an additional tax but just a method of collecting the tax that must be paid for the year in any case.

Provisional tax is not an additional tax either. It is merely a method of collecting tax owing for the year of assessment, from persons who do not necessarily earn remuneration from employment on a monthly basis.

Prepaid tax, as the name indicates, is the tax that is due for the year but has been paid before the end of the year. When the tax owing to SARS is calculated at the end of the year, prepaid tax must be taken into account. This process can be summarised as follows.



STUDY PROGRAMME

Refer to the study plan contained in *Tutorial Letter 101*.

LEARNING OUTCOMES

After working through this learning unit, you should be able to

- calculate employees' tax for a year and for a period
- calculate employees' tax where the employee works for less than a year and earns other annual amounts
- calculate a provisional taxpayer's first provisional payment
- calculate a provisional taxpayer's second provisional payment
- calculate a provisional taxpayer's third provisional payment and identify when this is applicable
- identify when additional tax, penalties and interest will be applied in respect of provisional tax

PRESCRIBED STUDY MATERIAL FOR THIS LEARNING UNIT

Chapter 10 in the prescribed book

SECTIONS OF PRESCRIBED BOOK THAT YOU MAY IGNORE

Section 10.4 in chapter 10

CONTENTS OF LEARNING UNIT

9.1 BACKGROUND

No prescribed text



In this learning unit, we will look at two different systems of prepaying the tax that a South African taxpayer owes to SARS. The first system is that of employees' tax. Employees' tax can only be deducted where there is an employer-employee relationship. Employers need to register as employers with SARS and they must pay over the tax that they collect from their employees within seven days after the end of each month.

The other system of prepaying tax, namely provisional tax, is for taxpayers who earn income from sources other than, or in addition to, employment.

9.2 EMPLOYEES' TAX

Prescribed book section: 10.2



Employees' tax is only applicable if there is an employer-employee relationship. Income received from other sources, for example interest on a saving account, is not subject to employees' tax.

One way to make it much easier to understand employees' tax calculations is to think about how much information an employer will have at their disposal, concerning their employees. For example – your employer knows what salary they are paying you, **but** do you think that they know how much interest you earn each month on your bank account? Of course not! So will they include interest in their calculation of employees' tax? **No!** That applies to any other income or expenditure the employer is not aware of.

An employer must deduct employees' tax every month from the balance of remuneration of each employee.

9.2.1 Calculation of employees' tax

Prescribed book section: 10.3



The definitions in this section are very important. If you do not know them, you will not be able to do the calculations correctly. For example, the definition of remuneration states that only 80% of the travel allowance received is included in remuneration.

Summary of calculation of employees' tax:

Remuneration

Less: **Retirement fund contributions:**

- **Pension fund contributions** (subject to normal tax limits)
- **Provident fund contributions** (if the employer is aware that the employee belongs to a provident fund, subject to normal tax limits)
- **Retirement annuity fund contributions** (if the employer is aware that the employee belongs to a RAF fund, subject to normal tax limits)

Less: **Donations by employer on behalf of employee** (limited to 5% of remuneration after deducting above amounts)

Gives: **Balance of remuneration**

If the balance of remuneration is for a period of less than 12 months then you will have to calculate the annual equivalent (i.e. the balance of remuneration that employees would have earned if they had worked for the full year of assessment). We have to calculate the annual equivalent because our tax tables are drawn up for annual income.



ACTIVITY 9.1

1. Write down ten of the most common types of "remuneration" and learn these.
2. What is excluded from remuneration? Would you be able to identify this income in a question?

Blank lined area for notes or calculations.

When calculating employees' tax the only deductions that are allowed are:

- pension fund contributions
- provident fund contributions
- retirement annuity fund contributions
- donations by employer on behalf of employee

Although the taxpayer might receive a deduction of other costs when completing his own income tax return, **for employees' tax purposes these expenses are not taken into account.**

When calculating the annual equivalent it is important to note for which period an amount was received. If the amount received was a monthly amount it must be multiplied by 12 to give the annual equivalent.

If, however, the amount was for a period of five months, for example, then the amount must be multiplied by 12 but divided by 5 to give the annual equivalent.



For examination purposes, months (rather than days) can be used to calculate the tax period.

Another tip for answering questions is to leave the figures as they are given in the question:

- If all the information is given per month, calculate the balance of remuneration for one month and then multiply your answer by 12 at the end.
- If the information is given say for 7 months, then do your whole calculation for 7 months and at the end multiply by $12/7$.

If a taxpayer works for two different employers during the year of assessment they will each do a separate calculation for employees' tax. The two amounts are only added when the taxpayer completes his own income tax return at the end of the year of assessment.

Annual payments are added to the annual equivalent and not the monthly amount.

While studying the examples you should note the following amounts that are taken into account:

- ✓ Annual payments are added to the annual equivalent remuneration.
- ✓ Amounts received must comply with the requirements of the definition of remuneration before they can be included in the calculation.

9.2.2 Administration of employees' tax

Prescribed book section: 10.5



Read section 10.5 on **administration of employees' tax**.

9.3 PROVISIONAL TAX

Prescribed book sections: 10.6 – 10.6.1



Provisional tax is the tax that must be paid every six months on income that is not subject to employees' tax.

Only certain persons are required to pay provisional tax. **Study** section 10.6.1 and make sure that you know when an individual will be required to register for provisional tax.



ACTIVITY 9.2

List the requirements for a taxpayer to register as a provisional taxpayer.

•

•

•

•

Excluding

•

•

○

○

Where a person is liable for provisional tax he or she must register with his or her local SARS office within 21 days of becoming liable. If he or she does not register in time, it will result in interest and penalties being levied on late payments and for the late submission of provisional tax returns and additional tax for underestimation of provisional tax.

9.3.1 First provisional tax payment

Prescribed book section: 10.6.2



This payment must be made on 31 August, or the last business day of August, each year. It represents the tax payable for the first **six** months of the current year of assessment. Therefore, the first payment for the 2018 year of assessment will be made on 31 August 2017.

The first provisional payment is only for the first half of the year; therefore only half of the total tax for the year is payable. Should any employees' tax have been paid and it exceeds the amount due for the first provisional tax payment, the amount due is nil (no amount is refunded by SARS).

While studying the example you should note that

- ✓ although the taxable income amount is based on the adjusted taxable income of a previous year, the **current year's** tax tables are used to calculate the tax and the **actual** employees' tax paid for the current year can be used in the calculation.

Also note: When you are calculating provisional tax for the 2018 year of assessment, you must use the latest assessment from SARS, as long as it was received more than 14 days before the due date of the provisional tax payment.

Furthermore, where the estimate must be made more than 18 months after the latest preceding year of assessment and in respect of a period that ends more than one year after the latest preceding year of assessment, the basic amount will be increased by an amount equal to 8% per annum of that amount, from the end of such year to the end of the year of assessment in respect of which the estimate is made. The taxpayer will have to make use of his or her last assessed taxable income and add 8% of that figure for each year of assessment not assessed, for example (2016) + 8% = (2017); (2016) + 8% + 8% = (2018).

Examples of basic amount (*SARS guide for provisional tax*) follow.

Example 1

- *Statement:*

The notice of assessment for 2017 tax year of assessment was issued on 14 August 2017. The IRP6 for the 2018 tax year's first period is 31 August 2017. The notice of assessment for the 2016 tax year of assessment was issued on 1 February 2017.

- *Solution:*

The 2017 year of assessment was issued 17 days prior to submission of the provisional tax estimate (31 August 2017). Because the 14-day criteria were met, the latest preceding year is the 2017 tax year.

The estimate is **not made more than 18 months** after the end of the latest preceding year that was assessed (28 February 2017).

The estimate is **not** in respect of the period that ends **more than 1 year** after the end of the latest preceding year of assessment (28 February 2017).

Therefore, the basic amount increase of 8% will **not** be applied.

Example 2

- *Statement:*

The notice of assessment for the 2017 tax year of assessment was issued on 19 August 2017. The IRP6 for the 2018 tax year's first period is 31 August 2017. The notice of assessment for the 2016 tax year of assessment was issued on 1 February 2017.

- *Solution:*

The notice of assessment for the 2017 year of assessment was issued 12 days prior to the date on which the provisional tax estimate was submitted (31 August 2017). Therefore, the 2017 assessment does not meet the 14-day criteria, and the latest preceding year of assessment is the 2016 tax year of assessment.

The estimate is in respect of the period that ends **more than 1 year** after the end of the latest preceding year of assessment (29 February 2016).

The estimate is **not** made **more than 18 months** after the end of the latest preceding year that was assessed (29 February 2016).

Therefore, the basic amount increase of 8% will **not** be applied.

Another example for you to consider:

Godfrey Jones supplies you with the following information relating to his first provisional tax payment for the 2018 year of assessment:

- 2017 tax return has not been assessed yet.
- 2016 tax return has not been assessed yet.
- 2015 assessment was assessed on 3 December 2015 and his taxable income was R197 000.

He would like to know on what amount he must base his first provisional payment.

Your solution:

The first provisional payment (on 31 August 2017) must use the basic amount. As the 2016 and 2017 returns have not yet been assessed, we must test whether the 2015 assessment can be used. In this case the 2015 assessment was received more than 14 days before the provisional tax payment (31 August 2017) and therefore can be used.

This means that the 2015 assessment must be used, but it will need to be adjusted as it is in respect of a tax year (28 February 2015) more than one year, and more than 18 months, before 31 August 2017.

Therefore, the basic amount for 2018 is calculated as follows:

$$R197\,000 \times 8\% = R15\,760$$

$$R197\,000 + R15\,760 (2016) + R15\,760 (2017) + R15\,760 (2018) = R244\,280$$

He will base his first provisional payment for 2018 on R244 280.

The rules for the minimum amount differ depending on whether the taxpayer's taxable income is less than R1 million, or R1 million and more.

9.3.2 Second provisional tax payment

Prescribed book section: 10.6.3



The second provisional payment is for the full year of assessment. Therefore, any amount paid as employees' tax and the first provisional tax payment must be deducted from the amount due for the year. The second payment for the 2018 year of assessment is due on or before 28 February 2018 or the last business day in February 2018.

If the taxpayer pays less than the minimum amount or does not submit or pay his or her provisional tax return, penalties, additional tax and interest can be charged.

The rules for the minimum amount differ depending on whether the taxpayer's taxable income is less than R1 million or R1 million and more.

9.3.3 Third provisional tax payment

Prescribed book section: 10.6.4



If a provisional taxpayer does not make a sufficient third provisional tax payment, interest will be levied at the published rate from the date the third payment could have been made (i.e. seven months after the year of assessment) up to the payment date of the assessment. The interest will be levied on the outstanding tax for the year of assessment.



ACTIVITY 9.3

List the dates on which an individual will be expected to make provisional tax payments.

-
-
-

9.3.4 Additional tax, interest and penalties

Prescribed book section: 10.6.5



This additional tax, penalties and interest are levied where amounts are underestimated, not submitted or not paid before, or on, the prescribed dates.



Visit the discussion forum - **learning unit 9** - and discuss any concepts that you don't understand or, if you do understand, answer those students who have posted questions.

9.4 QUESTIONS

Prescribed book section: 10.8



Work through exam preparation questions 10.1 to 10.4 as well as questions 9.1 to 9.8 in part B of this tutorial letter. In these questions, you will have an opportunity to test your newfound knowledge. The exam preparation questions are similar to the situations you will be faced with in practice. The questions in the exam will also be based on practical applications.

While answering the questions you should note the following:

- ✓ The definition of "remuneration" includes only 80% of the travel allowance received.
- ✓ If the taxpayer has taxable income less than R1 million and wishes to pay the minimum amount for the second provisional tax payment, in order not to pay any penalties, the amount to be used must be the lower of the basic amount or 90% of the actual taxable income for the current year of assessment.

9.5 SOLUTIONS TO ACTIVITIES

- 9.1** Refer to section 10.3 in the prescribed book.
- 9.2** Refer to section 10.6.1 in the prescribed book.
- 9.3** 1st payment: 31 August 2017
 2nd payment: 28 February 2018
 3rd payment (if necessary): 30 September 2018

POINTS TO PONDER

- Why should a person make a third provisional tax payment when the first two are not sufficient?
- Is the system of collecting prepaid taxes constitutional, or should everyone only pay the tax due for the year at the end of the year?
- Why must interest and penalties be levied where the prepaid tax is not paid before or on the prescribed date?
- Why must additional tax be levied where the prepaid tax is underestimated?



WRAP UP

In this learning unit, you studied prepaid tax. This is the way to ensure that tax that is due for the year is collected during the year of assessment. Employees' tax and provisional tax are not additional taxes that are levied but are simply methods that SARS uses to collect taxes that are due for the year of assessment, during the year of assessment. If a person receives remuneration, he will pay employees' tax on a monthly basis. If a person receives income other than remuneration, he is required to pay provisional tax on a six-monthly basis – unless one of the exemptions, in terms of paragraph 18 of the Fourth Schedule, applies.

ASSESSMENT CRITERIA

We could assess your work on this learning unit in assignments or in the exam by asking you to:

- Calculate employees' tax for a year and for a period.
- Calculate employees' tax where the employee works for less than a year and earns other annual amounts.
- Calculate a provisional taxpayer's first provisional payment.
- Calculate a provisional taxpayer's second provisional payment.
- Calculate a provisional taxpayer's third provisional payment and identify when this is applicable.
- Identify when additional tax, penalties and interest will be applied in respect of provisional tax.

LITERATURE CONSULTED

Stiglingh, M, Koekemoer, AD, Van Zyl, L, Wilcocks, JS & De Swardt, RD. 2017. *SILKE - South African Income Tax*. Durban: LexisNexis

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Learning unit

10

LEARNING UNIT 10

INTRODUCTION
STUDY PROGRAMME
LEARNING OUTCOMES
PRESCRIBED STUDY MATERIAL FOR THIS STUDY UNIT
SECTIONS OF PRESCRIBED BOOK THAT YOU MAY IGNORE

CONTENTS OF LEARNING UNIT

- 10.1 Background
- 10.2 Persons liable for payment
- 10.3 Payment period
- 10.4 Calculation of donations tax
- 10.5 Specific exemptions
- 10.6 General exemptions
- 10.7 Value of property donated
- 10.8 Questions

POINTS TO PONDER
WRAP UP
ASSESSMENT CRITERIA
LITERATURE CONSULTED

**Donations
tax**

INTRODUCTION

Donations tax is regulated by the Income Tax Act but is not levied on an individual's income. Donations tax is levied when assets are transferred from one taxpayer to another at no consideration or an inadequate consideration. Donations tax is also not calculated once a year as in the case of income tax, but is calculated each time a donation (gift) is made. When a donation is made, the amount may sometimes be deducted in the normal tax calculation. **This deduction must not be confused with donations tax.**

The donations tax payable on a donation by a resident is calculated as follows:

- Step 1:** Determine whether a donation was made by a resident.
- Step 2:** Determine the value of the donation.
- Step 3:** Determine whether the donation or part thereof may be exempt (specific exemption).
- Step 4:** If not exempt, deduct any consideration paid.
- Step 5:** Deduct general exemption or part thereof.
- Step 6:** Multiply by 20%.

STUDY PROGRAMME

Refer to the study plan contained in *Tutorial Letter 101*.

LEARNING OUTCOMES

After working through this learning unit, you should be able to

- describe when donations tax will be levied
- determine the value of a donation
- identify those donations that are exempt from donations tax
- explain at what rate donations tax is levied
- describe which exemptions might apply
- state who is responsible for payment of donations tax
- calculate donations tax payable

PRESCRIBED STUDY MATERIAL FOR THIS LEARNING UNIT

Chapter 11 in the prescribed book

SECTIONS OF PRESCRIBED BOOK THAT YOU MAY IGNORE

The entire chapter is prescribed and no sections may be left out.

CONTENTS OF LEARNING UNIT

10.1 BACKGROUND

Prescribed book sections: 11.1 - 11.3



When a South African resident donates property for no consideration (a gratuitous disposal) or for inadequate consideration, donations tax at a rate of 20% may be payable on the value of the donation.



It is important to note that South African resident taxpayers and non-resident taxpayers are dealt with separately for donations tax purposes. To be a resident, the person must have been living in South Africa at a fixed address on a regular basis and with a degree of permanence or continuity. Non-residents do not pay donations tax.

10.2 PERSONS LIABLE FOR PAYMENT

Prescribed book sections: 11.4 - 11.4.2



The person making a donation is called the donor and the person receiving the donation is called the donee. Normally the donor is liable for payment of the donations tax. However, there may be exceptions, or sometimes property may be deemed to have been donated by someone else.



A donation made by someone married in community of property normally forms part of the communal estate and is therefore deemed to be made in equal portions by each of the spouses. In such a case, each spouse is entitled to the full general exemption. Each spouse is liable for his or her portion of the donations tax.

10.3 PAYMENT PERIOD

Prescribed book section: 11.5



Donations tax is payable at the end of the month, following the month in which the donation was made.




Donations tax is not an annual tax but is levied every time a taxpayer makes a donation.

Mr. Generous made the following donations:

1. On 1 March 2017 - a R35 000 donation to his ex-wife
2. On 30 April 2017 - a cash donation of R50 000 to his son
3. On 1 September 2017 - a R55 000 donation to his church (which was not registered as a public benefit organisation)
4. On 30 November 2017 - a cash donation of R50 000 to the ACN, his favourite political party, registered under the provisions of section 36 of the Electoral Act
5. On 1 January 2018 – diamond earrings and a necklace to the value of R45 000 to his fiancée, for her birthday



State the dates on which the donations tax must be paid. Assume none of the donations are exempt.	
<ol style="list-style-type: none"> 1. Donations tax is payable on or before 30 April 2017. 2. Donations tax is payable on or before 31 May 2017. 3. Donations tax is payable on or before 31 October 2017. 4. Donations tax is payable on or before 31 December 2017. 5. Donations tax is payable on or before 28 February 2018. 	

10.4 CALCULATION OF DONATIONS TAX

Prescribed book section: 11.6





Study section 11.6 in the prescribed book by trying to do the example 11.1 on your own before comparing your answer to the solution provided.

10.5 SPECIFIC EXEMPTIONS

Prescribed book section: 11.7



Some donations by a resident are exempt from donations tax, which means that no donations tax will be payable on these donations.

Mr Generous made the following donations:	
<ol style="list-style-type: none"> 1. On 1 March 2017 - a R35 000 donation to his ex-wife 2. On 30 April 2017 - a cash donation of R50 000 to his son 3. On 1 September 2017 - a R55 000 donation to his church (which was not registered as a public benefit organisation) 4. On 30 November 2017 - a cash donation of R50 000 to the ACN, his favourite political party, registered under the provisions of section 36 of the Electoral Act 5. On 1 January 2018 – diamond earrings and a necklace to the value of R45 000 to his fiancée, for her birthday 	
With regard to specific exemptions, state whether or not the donations are subject to donations tax. If they are, substantiate your answer.	
<ol style="list-style-type: none"> 1. Donations tax is payable – no specific exemption (donation to ex-wife, not spouse). 2. Donations tax is payable – no specific exemption. 3. Donations tax is payable – no specific exemption. 4. Donations tax not payable – exempt organisation. 5. Donations tax is payable – no specific exemption. 	



Always remember to provide a reason why you consider a donation to be exempt from donations tax when asked to calculate the donations tax liability.

10.6 GENERAL EXEMPTIONS

Prescribed book section: 11.8



If no specific exemption is available to set off against a donation, the annual exemption or part thereof can be applied to reduce the taxable value of the donation.



Note that the general exemption of R100 000 is available **per annum** and **not per donation**. Only natural persons qualify for the annual exemption.

Mr Generous made the following donations:

1. On 1 March 2017 - a R35 000 donation to his ex-wife
2. On 30 April 2017 - a cash donation of R50 000 to his son
3. On 1 September 2017 - a R55 000 donation to his church (which was not registered as a public benefit organisation)
4. On 30 November 2017 - a cash donation of R50 000 to the ACN, his favourite political party, registered under the provisions of section 36 of the Electoral Act
5. On 1 January 2018 – diamond earrings and a necklace to the value of R45 000 to his fiancée, for her birthday



Calculate the donations tax payable and substantiate your answer.

1. Donation of R35 000 to ex-wife: the general exemption is R100 000 per annum, leaving $R100\ 000 - R35\ 000 = R65\ 000$.
2. Donation of R50 000 to his son: R65 000 of general exemption is left; therefore the full R50 000 donation will be exempt. $R65\ 000 - R50\ 000 = R15\ 000$ left of general exemption.
3. Donation of R55 000 to church: using the R15 000 left of the general exemption, the balance will be taxable, so $R55\ 000 - R15\ 000 = R40\ 000$; $R40\ 000 \times 20\% = R8\ 000$. Donations tax is payable on or before 31 October 2017.
4. No donations tax is payable – exempt organisation.
5. Donation of R45 000 to his fiancée: full amount is taxable, as the total general exemption has been used. $R45\ 000 \times 20\% = R9\ 000$, payable on or before 28 February 2018.



10.7 VALUE OF PROPERTY DONATED

Prescribed book sections: 11.9
and 11.10



The value of property for donations tax purposes is normally the fair value of the property at the date of the donation. However, different rules may apply to certain types of donations or where a limited interest in property is donated rather than full ownership.

Study section 11.9 in the prescribed book.



The value of a donation is the market value on the date of donation and not the original cost price. The value is reduced if the donee pays any consideration for the donation.

Study section 11.10 in the prescribed book.

10.8 QUESTIONS

Prescribed book section: 11.12



You should now be able to calculate the donations tax payable on donations made by a resident taxpayer. We suggest you try to do the questions in section 11.12, as well as question 10.1 in part B on your own before comparing your answers to the solutions provided. This should allow valuable practice for your exam preparation.

POINTS TO PONDER

- * Why do you think donations tax is levied?
- * Why is the rate of donations tax 20%?



WRAP UP

- * Donations tax is calculated per donation.
- * Non-residents do not pay donations tax, irrespective of the location of the assets they are donating.
- * No donation occurs if services are rendered free of charge, because no transfer of property takes place.
- * The general exemption applies to a year of assessment. If the full exemption is not utilised, it cannot be carried forward but falls away.
- * The value of a donation of a limited right is calculated by capitalising the annual value (12%) of the property over the expected life of the donor (or donee if shorter), or a shorter period (if the right is granted for a shorter period).
- * When the bare dominium is donated, the life expectancy of the donor is irrelevant.
- * The life expectancy of a natural person is based on his or her age on his or her next birthday.
- * The life expectancy of a trust or a company is taken over a period of 50 years.
- * If the donee paid a consideration for obtaining a donation, this consideration is deducted to determine the taxable value of the donation.



Now you have completed this learning unit, please revise the learning outcomes and make sure that you have attained all of them.

This learning unit is an important learning unit. Remember that donations tax is payable every time a donation is made and not once a year, like income tax, or only after the death of a person, like estate duty.

ASSESSMENT CRITERIA

We could assess your work on this learning unit in assignments or in the exam by asking you to do the following:

- * Explain when the disposal of property will constitute a donation or deemed donation.
- * Identify donations that are exempt from donations tax.
- * Identify the person responsible for payment of donations tax and the date when donations tax is payable.
- * Calculate the value of a donation for donations tax purposes.
- * Calculate the donations tax payable on a donation.

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LEARNING UNIT 11**Learning unit****11****INTRODUCTION****STUDY PROGRAMME****LEARNING OUTCOMES****PRESCRIBED STUDY MATERIAL FOR THIS STUDY UNIT****SECTIONS OF PRESCRIBED BOOK THAT YOU MAY IGNORE****CONTENTS OF LEARNING UNIT**

- 11.1 Background
- 11.2 Calculation of estate duty
- 11.3 Property
 - 11.3.1 General definition of “property”
 - 11.3.2 Limited interests and annuities included as property
- 11.4 Deemed property
- 11.5 Deductions
- 11.6 Section 4A abatement
- 11.7 Successive death rebate
- 11.8 Deduction of foreign death duty and transfer duty
- 11.9 Persons liable for payment of estate duty
- 11.10 Assessment
- 11.11 Marriage in community of property
- 11.12 Summary
- 11.13 Questions

POINTS TO PONDER**WRAP UP****ASSESSMENT CRITERIA****LITERATURE CONSULTED****Estate duty**

INTRODUCTION

Estate duty is a wealth tax levied on the transfer of wealth from one person to another in the event of death. Estate duty is levied in terms of the Estate Duty Act 45 of 1955, which is administered by the Commissioner of the South African Revenue Service (SARS).

The executor of a deceased estate will calculate the estate duty liability in the estate, submit an estate duty return form (Rev 267) to the Master and will also be responsible for paying the relevant amount to SARS. However, in certain circumstances the executor can recover the estate duty payable from the beneficiaries.

The estate duty liability of a deceased estate can be calculated by using the following framework:

	R
Value of property	xx
<i>Add: Value of property deemed to be property</i>	xx
Gross value of estate	xxxx
<i>Less: Allowable deductions</i>	(x)
Net value of estate	xxx
<i>Less: Section 4A rebate</i>	(x)
Dutiable amount	xx

The estate duty payable = 20% of the dutiable amount.

STUDY PROGRAMME

Refer to the study programme contained in *Tutorial Letter 101*.

LEARNING OUTCOMES

After working through this learning unit, you should be able to

- apply the framework for calculating the estate duty liability of a deceased estate
- identify and value all property items including limited interests in assets contained in a deceased estate that will be subject to estate duty
- identify and value all property deemed to be property in a deceased estate that will be subject to estate duty
- list and apply the different deductions that will be allowed from a deceased estate for estate duty purposes
- list and apply the relevant rebates that will be allowed to determine the net estate duty payable by a deceased estate
- apportion the calculated amount of estate duty payable between the estate and beneficiaries who are responsible for paying this tax
- determine estate duty for marriages in community of property

PRESCRIBED STUDY MATERIAL FOR THIS LEARNING UNIT

Chapter 12 in the prescribed book

SECTIONS OF PRESCRIBED BOOK THAT YOU MAY IGNORE

Section 12.13 in chapter 12

CONTENTS OF LEARNING UNIT**11.1 BACKGROUND**

Prescribed book section: 12.1



When a South African resident dies, he or she will be liable for estate duty on all property and deemed property in his or her estate according to the provisions of the Estate Duty Act 45 of 1955 as amended. Non-residents could also be liable for estate duty in South Africa if they own property situated in South Africa.

11.2 CALCULATION OF ESTATE DUTY

Prescribed book section: 12.2



The Estate Duty Act distinguishes between “property” and “deemed property” for the purpose of valuing an estate. These concepts have very specific meanings, which will be explained in this learning unit.

To determine the dutiable amount in an estate, the value of all property and deemed property is added together. The total or gross value of the estate is reduced by deductions allowed by the Act, resulting in the net value of the estate. The net value of the estate is further reduced by a rebate allowed according to section 4A of the Act and the remainder is the dutiable amount on which estate duty will be charged.

Estate duty is levied on the dutiable amount in the estate at a rate of 20%.



It is important to note that South African resident taxpayers and non-resident taxpayers are dealt with separately for estate duty purposes. To have been a resident, the deceased person must have been living South Africa at a fixed address on a regular basis and with a degree of permanence or continuity. In this learning unit, the estate duty liability of South African resident taxpayers will be studied, with only brief mention being made to the estate duty liability of non-residents.

11.3 PROPERTY

Prescribed book section: 12.3



11.3.1 General definition of “property”

Prescribed book section: 12.3.1



Property is defined in section 3(2) of the Estate Duty Act and will include everything the deceased owned or had an interest in. For example:

- fixed property like farms, houses or flats
- movable property like motor vehicles and furniture
- shares and share options
- fixed deposits or other cash investments
- goodwill, copyrights and patents
- income earned by the deceased prior to death
- fiduciary interests
- usufructuary interests and bare dominium
- annuities charged on property
- other annuities
- excessive contributions to retirement funds



Once all the property items in a deceased estate have been identified, it is important to know at which value these items will be included in the estate duty calculation.

Section 5 of the Estate Duty Act describes how property items are valued for estate duty purposes.

Any property that is sold by way of a bona fide sale in the course of liquidating an estate will be included in the estate duty calculation at the selling price. Costs incurred in the selling of such property can be claimed as a deduction. However, shares in private companies (companies not listed on the stock exchange) and members' interests in close corporations must be included at the value of the shares at death, even if these have subsequently been sold for a different price.

Property, other than limited interests, not sold in the course of the liquidation of the estate must be valued at its fair market value. “Fair market value” means the price, which could be obtained when the property concerned is sold by a willing seller to a willing buyer at arm's length in an open market. If the property is land on which bona fide farming operations are carried out, the property may be valued at fair market value less 30%.

After the death of Mr Jones, a dairy farmer, the executor of his estate found the following assets in his estate:

1. The farm where Mr Jones lived and conducted his dairy business. The fair market value of the farm was judged to be R2 100 000 by an appraiser but the executor managed to sell it for R2 200 000.
2. A farm close to where Mr Jones resided. The farm was valued at R2 000 000 and was bequeathed to Mr Jones's only son who was already using the farm for breeding cattle.



3. A motor vehicle valued at R245 000, that was sold by the executor for R225 000.	
4. Shares to the value of R800 000 in a private company. The executor sold these shares for R750 000.	
5. Furniture and equipment with a total value of R1 500 000. Mr Jones's son received the furniture and equipment as part of his inheritance.	
List the assets with the values that they will be included at in the estate duty calculation.	

Asset	Value for estate duty R	
1. Farm where Mr Jones resided (sold)	2 200 000	
2. Farm bequeathed to Mr Jones's son (R2 000 000 x 70%)	1 400 000	
3. Motor vehicle	225 000	
4. Unlisted shares	800 000	
5. Furniture and equipment	1 500 000	

11.3.2 Limited interests and annuities included as property



Prescribed book section: 12.3.2



The Estate Duty Act specifically defines limited interests as property and prescribes how these limited interests should be valued. A limited interest is a registered right which one person has over property of another:



- *Fiduciary interest:* A fiduciary interest arises when a *fideicommissum* is created. A fideicommissum is created when a person transfers ownership in property to another person, the fiduciary, on the condition that the property will pass to a third person, the fideicommissary, on the happening of some event, usually the death of the fiduciary.
- *Usufruct:* A usufruct is a right to use and enjoy the property to which the usufruct relates. The usufructuary (owner of the usufruct) may not alienate, destroy or encumber the property to which the usufruct relates. When the usufructuary dies (or the period for which the right was granted elapses), the usufructuary rights revert to the bare dominium holder who then becomes the full owner, unless it is provided that the right accrue to another usufructuary.
- *Bare dominium:* A person who holds property, which is subject to a usufruct, is the holder of the bare dominium that is ownership without other rights. Upon the death of the bare dominium holder, his or her interest can be transferred to heirs by normal succession.

The Act also includes two types of **annuities** in the definition of property. An annuity refers to a fixed annual payment (even if it is divided into instalments, e.g. monthly payments) that is repeated for more than one year. Such annuity can be chargeable against property or can be an obligation of some person, but is not merely a payment at will.

<p>Three provisos apply to the calculation of a usufruct. (A proviso is a condition, stipulation or limitation.) What are these three and when do they apply?</p>	
<ol style="list-style-type: none"> 1. If the holder of a usufruct over a property dies and the bare dominium holder acquires full ownership of the property but paid some consideration for this right, the value of the usufruct can be reduced by the value of such consideration paid, plus 6% interest thereon. 2. If the bare dominium holder becomes the full owner of a property upon the death of the holder of the usufruct, the value of the usufruct may not be more than the fair market value of that property at the deceased's death, minus the value of the bare dominium as at the date when it was created. 3. If the person to whom a limited interest is transferred cannot be determined until some later date (e.g. unborn heirs), a life expectancy of 50 years should be used for that beneficiary. 	



You must know how to calculate the value of a limited right. We will provide you with the capitalisation tables. Remember that it is the **annual** value that is capitalised, either over the life expectancy of a person (the beneficiary) or over a fixed period. If the beneficiary is not a natural person (i.e. a trust, company or close corporation) a period of 50 years is used.

<p>What is the difference between calculating the value of an annuity charged on property and the valuation of other annuities?</p>	
<p>If a deceased person received an annuity charged on property and such annuity does not accrue to someone else at the death of the deceased but ceases, then the annuity is capitalised over the life expectancy of the owner of the property, which has been charged with the annuity. If an annuity not charged upon property ceases at the death of the deceased, the value of the annuity is Rnil.</p>	



Note that in the case of annuities the monthly value of an annuity must be multiplied by 12 to obtain the annual value. If the annuity amount is given per annum, that amount will be the annual amount that should be capitalised.

11.4 DEEMED PROPERTY



Prescribed book section: 12.4



“Deemed property” refers to assets and rights which did not exist at the date of death but will originate after the time of death and are therefore included in the dutiable estate of the deceased.

Deemed property includes:

- domestic policies on the life of the deceased
- benefits payable by funds in consequence of membership or past membership
- exempt donations
- accrual claims against the spouse
- property which the deceased was, immediately prior to his or her death, competent to dispose of for his or her own benefit or for the benefit of the estate

<p>1. Without looking at your prescribed book, list the types of policies that will not form part of the dutiable estate of a deceased person. You will need to be able to identify these.</p> <p>2. When can the proceeds of a policy included in the dutiable amount of a deceased estate be reduced by the premiums plus 6% interest?</p>	
<p>1.</p> <ul style="list-style-type: none"> • policies accruing to the surviving spouse or child of the deceased in terms of a pre- or ante-nuptial contract • policies payable to a person who was a business partner of the deceased at the time of the deceased's death (or a co-member in a close corporation or company) if such person took out the policy to acquire the deceased's share at his death provided the deceased did not pay any premium on the policy • other policies, if the following five conditions all apply: <ul style="list-style-type: none"> - such policy was not effected by or at the instance of the deceased - the deceased did not pay any premiums on the policy - no part of the policy proceeds will be paid to the deceased's estate - no relative or dependant of the deceased will benefit from the policy proceeds - no family company in relation of the deceased will benefit from the policy proceeds <p>2. The premiums and interest can be deducted only if these were paid by the beneficiary entitled to the proceeds of the policy.</p>	





Note that policies payable to the surviving spouse or a child are **not** exempt, except when such payment was agreed on in the pre- or ante-nuptial contract. However, all accruals (i.e. all property left) to a surviving spouse are deductible in terms of section 4(q). Therefore, a policy, which accrues to the surviving spouse, will never be taxed. Policies accruing to children may be taxed.

11.5 DEDUCTIONS

Prescribed book section: 12.5



Section 4 of the Estate Duty Act allows for the gross value of the dutiable estate to be reduced by deducting certain allowable deductions in order to determine the net estate.

<p>Without looking at your prescribed book, list the deductions allowed from the gross value of the estate for estate duty purposes. You will need to be able to identify these.</p>	
<ol style="list-style-type: none"> 1. Funeral, tombstone and deathbed expenses 2. Debts owed in South Africa 3. Costs of administration and liquidation 4. Expenses incurred to comply with the requirements of the Master/Commissioner 5. Certain foreign assets and rights 6. Foreign debt 7. Limited interests received as a gift 8. Bequests to public benefit organisations, the state or any local authority 9. Improvements made by beneficiaries 	

10. Improvements to property subject to a limited interest
11. Accrual claims
12. A limited interest created by a predeceased spouse
13. Books and art lent to the state
14. Deemed property taken into account in valuation of unlisted shares
15. Anything accruing to the surviving spouse



Note that the executor's remuneration is deducted in the estate duty calculation.

Please note: for the purposes of this module, you do not have to calculate the executor's remuneration. The amount will, if necessary, be provided to you.

11.6 SECTION 4A ABATEMENT

Prescribed book section: 12.6



If a deceased person had a spouse who had died previously, check the amount of the section 4A rebate that was used in the estate of the first-dying spouse to ensure that the correct amount is used in the estate of the second-dying spouse. The section 4A rebate reduces the net amount of the estate.

11.7 SUCCESSIVE DEATH REBATE

Prescribed book section: 12.7



Apart from the deductions, which can be made from the gross value of an estate, the successive death rebate can be deducted from the estate duty payable.



Note in example 12.17 that the value of the property used to calculate the rebate may not be more than the value of the property in the estate of the first dying, in this case the property was worth less in Tom's estate as it had declined in value to a value of R910 000. The rebate may also not exceed the amount of estate duty that was paid on the relevant property in the estate of the first dying – in this example, R12 799 is less than R187 500.

11.8 DEDUCTION OF FOREIGN DEATH DUTY AND TRANSFER DUTY

Prescribed book sections: 12.8 - 12.9





Apart from the deductions which can be made from the gross value of an estate, foreign death duty and transfer duty can be deducted as rebates from the estate duty payable.

11.9 PERSONS LIABLE FOR PAYMENT OF ESTATE DUTY

Prescribed book section: 12.10



Beneficiaries in a deceased estate may become liable for the payment of estate duty in the estate if certain property or deemed property accrue to them. If this is the case, the executor may recover any estate duty payable by such persons from them.



List the types of property and deemed property that may result in the beneficiaries to whom this property accrue, being liable for the estate duty.	
<ul style="list-style-type: none"> • usufructs • fiduciary assets • annuities • insurance policies • a donation <i>mortis causa</i> 	

11.10 ASSESSMENTPrescribed book section:
12.11**11.11 MARRIAGE IN COMMUNITY OF PROPERTY**

Prescribed book section: 12.12



In the case of spouses married in community of property, the assets of the joint estate belong in equal shares to the spouses. Consequently only half of the joint estate is the property of the deceased and therefore the survivor's half is not subject to estate duty in the estate of the deceased spouse.

After the death of Jamie Smith, who was married in community of property to Sandra Smith, the net value of their joint estate was calculated as R10 255 000. Included in this amount were costs of R10 000 paid for Jamie's funeral. Calculate the estate duty payable in Jamie's estate.																							
<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 80%;"></th> <th style="text-align: right; width: 20%;">R</th> </tr> </thead> <tbody> <tr> <td>Dutiable amount of joint estate</td> <td style="text-align: right;">10 255 000</td> </tr> <tr> <td><i>Add:</i> Funeral costs</td> <td style="text-align: right;">10 000</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">10 265 000</td> </tr> <tr> <td><i>Less:</i> Half because of marriage in community of property</td> <td style="text-align: right;">(5 132 500)</td> </tr> <tr> <td>Jamie's half of the estate</td> <td style="text-align: right; border-top: 1px solid black;">5 132 500</td> </tr> <tr> <td><i>Less:</i> Funeral costs</td> <td style="text-align: right;">(10 000)</td> </tr> <tr> <td>Net value of Jamie's half of the estate</td> <td style="text-align: right; border-top: 1px solid black;">5 122 500</td> </tr> <tr> <td><i>Less:</i> Section 4A rebate</td> <td style="text-align: right;">(3 500 000)</td> </tr> <tr> <td>Dutiable amount</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">1 622 500</td> </tr> <tr> <td>Estate duty at 20%</td> <td style="text-align: right; border-bottom: 3px double black;">324 500</td> </tr> </tbody> </table>		R	Dutiable amount of joint estate	10 255 000	<i>Add:</i> Funeral costs	10 000		10 265 000	<i>Less:</i> Half because of marriage in community of property	(5 132 500)	Jamie's half of the estate	5 132 500	<i>Less:</i> Funeral costs	(10 000)	Net value of Jamie's half of the estate	5 122 500	<i>Less:</i> Section 4A rebate	(3 500 000)	Dutiable amount	1 622 500	Estate duty at 20%	324 500	
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<i>Less:</i> Section 4A rebate	(3 500 000)																						
Dutiable amount	1 622 500																						
Estate duty at 20%	324 500																						



Always make sure of the marriage dispensation of a deceased person before calculating the estate duty liability in the estate, as estate duty is only levied on the deceased's half of the joint estate for spouses married in community of property.

11.12 SUMMARY

Prescribed book section:
12.14



11.13 QUESTIONS

Prescribed book section: 12.15



Work through the questions in section 12.15 of the prescribed book as well as questions 11.1 and 11.2 in part B of this tutorial letter. These questions will afford you the opportunity to test your knowledge. The questions are similar to situations you could be faced with in practice and should help you prepare for the examination.



POINTS TO PONDER

- * Why are deceased estates liable for estate duty?
- * Do you think it is fair that the same asset is liable for capital gains tax and estate duty?



WRAP UP

- * A framework is used in order to calculate the estate duty liability in a deceased estate.
- * Certain deductions and rebates can reduce the dutiable amount and the estate duty payable.
- * Under certain circumstances, the executor may be entitled to recover some of the estate duty payable from beneficiaries who may be liable for the payment of the estate duty on specific assets.



Now you have completed this learning unit, please revise the learning outcomes and make sure that you have attained all of them.

This learning unit is an important learning unit and it is imperative that you are able to calculate the estate duty liability of a deceased estate according to the personal situation of the deceased person. Your understanding of how to calculate the estate duty liability of a deceased estate will have to be applied when compiling the estate duty accounts for submission to the Master.



Do the self-assessment test on **estate duty** on myUnisa.

ASSESSMENT CRITERIA

We could assess your work on this learning unit in assignments or in the exam by asking you to do the following:

- * Calculate the value of a limited right for estate duty purposes.
- * Apply the definitions of property and deemed property to establish the gross value of a deceased estate for estate duty purposes.
- * Apply the available deductions to establish the dutiable amount in a deceased estate.
- * Determine whether the estate duty payable in a deceased estate can be reduced by any rebates.
- * Apply the current rate at which estate duty is charged to determine the estate duty liability of a deceased estate.
- * Apportion the estate duty payable in an estate between those persons that will be liable for the payment thereof.
- * Determine the estate duty for marriages in community of property.

LITERATURE CONSULTED

Abrie, W, De Clercq, B, Graham, C, Schoeman-Malan, MC & Van der Spuy, P de W. 2016. *Deceased estates*. Durban: LexisNexis.

Meyerowitz, D. 2010. *The law and practice of administration of estates and their taxation*. Cape Town: Meytax.

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Bruwer, L, Coetzee, K, De Hart, KL, Koekemoer, AD & Stedall, C. 2017. *A student's approach to income tax: Natural persons*. Durban: LexisNexis.

LEARNING UNIT 12**Learning unit****12****INTRODUCTION****STUDY PROGRAMME****LEARNING OUTCOMES****PRESCRIBED STUDY MATERIAL FOR THIS STUDY UNIT****SECTIONS OF PRESCRIBED BOOK THAT YOU MAY IGNORE****CONTENTS OF LEARNING UNIT**

- 12.1 Introduction
- 12.2 Who is considered a farmer?
- 12.3 Application of rules to farmers
- 12.4 Farming income
- 12.5 Stock on hand
- 12.6 Livestock purchases
- 12.7 Farming expenses
- 12.8 Capital development expenditure
- 12.9 Calculating taxable income from farming
- 12.10 Calculation of farmers' tax payable
- 12.11 Summary
- 12.12 Questions

WRAP UP**ASSESSMENT CRITERIA****LITERATURE CONSULTED****Farming
income**

INTRODUCTION

In all the other learning units you have been dealing with persons who earn income from formal employment, that is, they earn a salary and fringe benefits and income from investments. The following framework has been used to calculate the taxable income:

Gross income	XXXX
less: Exempt income	<u>(XXX)</u>
Income	XXXX
less: Deductions	<u>(XXX)</u>
Taxable income	<u>XXXX</u>

In this learning unit we deal with the regulations pertaining to farmers. Farmers, instead of earning salaries, live off the profit from their farming operations. Farmers are subject to the general provisions of 'gross income' and general deductions (i.e. the normal framework as set out above), as well as to the special provisions as contained in the First Schedule to the Income Tax Act.

This learning unit will discuss all the provisions applicable to farmers. For practical purposes it is normally easier to do a separate calculation of farming income and then add the total to other income. The reason for the separate calculation is that a number of rules relating to farmers are only applicable to farming income, so that if all the income is added together from the start, a second calculation has to be made for each of these deductions.

STUDY PROGRAMME

Refer to the study programme contained in *Tutorial Letter 101*.

LEARNING OUTCOMES

After working through this learning unit, you should be able to

- recognise that farmers are taxed according to some special provisions that apply to farmers only
- distinguish what the difference is between farming operations and farming income
- identify what farming capital cost can be claimed by a farmer for tax purposes
- be aware of how a farmer's tax will be arrived at

PRESCRIBED STUDY MATERIAL FOR THIS LEARNING UNIT

Chapter 8 in the prescribed book

SECTIONS OF PRESCRIBED BOOK THAT YOU MAY IGNORE

Section 8.5.3, 8.8.2, 8.9, 8.10.2 and 8.11 in chapter 8

CONTENTS OF LEARNING UNIT

12.1 INTRODUCTION

Prescribed book section: 8.1



When a taxpayer earns a salary and fringe benefits it is quite easy to calculate their taxable income because they earn a certain amount and they have specific contributions and amounts that can be deducted for income tax purposes.

A person who farms, in most instances, does not earn a salary but instead they run a business in the form of a farm. This means that they earn income from selling livestock or produce and they incur expenses in growing produce, feeding livestock and in general for the upkeep of the farm. Other farming activities that are not part of your studies include plantation farming, sugar cane farming and game farming. In the earlier learning units, we looked at 'gross income' and general deductions, in this learning unit we will be applying some of the rules that we learnt to the income and expenses of a farmer. Over and above these provisions, farmers have some very specific rules that apply to them. Farmers are special to our economy because they provide food for the nation as well as exports to other countries. The Income Tax Act takes this into account and provides some special rules for farmers in the First Schedule to the Income Tax Act.

12.2 WHO IS CONSIDERED A FARMER?

Prescribed book section: 8.2



The Act does not lay down rules to determine farming operations. Reliance must be placed on court decisions, interpretation notes, the SARS practice manual and guidelines, to ascertain who will be considered a farmer.



Work through example 8.1.

12.3 APPLICATION OF RULES TO FARMERS

Prescribed book section: 8.3



Understanding the basic framework involved in calculating the taxable income of a person involved in farming operations is critical because all the provisions of the Act, with respect to farmers, are based on the basic framework.

12.4 FARMING INCOME

Prescribed book section: 8.4



It is important to distinguish farming income from other income, as different rules apply to farming income.



Work through the examples of farming income.

12.5 STOCK ON HAND

Prescribed book section: 8.5



Study this section.



Work through the examples of stock on hand.

The table containing the standard values will always be provided to you (see par 8.5.1.2).

12.6 LIVESTOCK PURCHASES

Prescribed book section: 8.6



Read this section.



Work through the examples of livestock purchases.

12.7 FARMING EXPENSES

Prescribed book section: 8.7



Study this section.



Work through the examples of farming expenses.

12.8 CAPITAL DEVELOPMENT EXPENDITURE

Prescribed book sections: 8.8 - 8.8.1



Specific rules and limitations apply in respect of capital development expenditure and the deductible amounts thereof.



Work through examples 8.13 and 8.14.

12.9 CALCULATING TAXABLE INCOME FROM FARMING

Prescribed book section: 8.10.1



Once it has been established that a taxpayer is a farmer for income tax purposes, the First Schedule provides special rules for calculating the taxable income from farming.

When calculating the taxable income of a farmer, the provisions of 'gross income', exempt income and deductions according to the Income Tax Act are applied. The income and expenses from farming operations must be calculated separately, taking into account special provisions that apply to farmers in terms of the First Schedule. The First Schedule makes provision for certain amounts that farmers have to include in farming income, it also requires farmers to account for opening and closing stock of livestock at standard values and it allows farmers to deduct certain amounts that are of a capital nature.

In practice you need to be aware that special rules do exist and if you are involved in assisting farmers with their income tax return or calculating tax payable by a farmer you will have to familiarise yourself with these provisions.

12.10 CALCULATION OF FARMERS' TAX PAYABLE

No prescribed book section



Although farmers use the same framework for calculating taxable income, they are taxed at an average rate of tax, if they so wish (by exercising an option). This average rate of tax takes into account the taxable income from farming over the current and previous four years and taxes the farmer at an average rate of tax.

12.11 SUMMARY

Prescribed book section: 8.12



Pay attention to the table on page 338 for purposes of revision.

12.12 QUESTIONS

Prescribed book section: 8.13



Work through questions 8.1, 8.2 and 8.3 but only calculate the "taxable income" and not the tax payable. Work through the farming question in section B.

WRAP UP

In this learning unit you were made aware that special provisions, relating to persons carrying on farming activities, exist. You will have noted that farmers are subject to the same 'gross income' rules as well as the general deduction formula.

Farmers do however have certain provisions with specific rules that apply to them, for example:

- Section 12B(1)(f) provides a 50%, 30%, 20% write-off for farming machinery implements, utensils and articles (other than livestock). All other assets like motor vehicles, office furniture, computers, etc. are written off in terms of section 11(e), which is the same for all other business activities.
- Livestock has specific values for purposes of closing stock, donations, private use, etc.

- Crops (harvested and ready for the market) must be valued at cost, whereas standing crops have no value.
- Special rules exist for the write-off of capital development cost.
- Farmers may have other type of income for example interest received, rent etc., which is not farming income.

Farmers are also entitled to some special deductions such as capital development expenditure and they can choose to be taxed at an average rate of tax by using the rating formula.

ASSESSMENT CRITERIA

We could assess your work on this learning unit in assignments or in the exam by asking you to:

- identify who qualifies as a farmer
- identify and calculate farming income
- to account for stock on hand
- identify and calculate farming expenses, allowances and recoupments
- identify and calculate capital development expenditure and recoupments
- calculate taxable farming income/loss

LITERATURE CONSULTED

Stiglingh, M, Koekemoer, AD, Van Zyl, L, Wilcocks, JS & De Swardt, RD. 2017. SILKE - South African Income Tax. Durban: LexisNexis

Bruwer, L, Coetzee, K, De Hart, KL, Koekemoer, AD & Stedall, C. 2017. *A student's approach to income tax: Natural persons*. Durban: LexisNexis.

All the learning units that make up this module have now been completed. It is now time for you to practise as many examples as you can so that you can integrate the knowledge that you have gained while studying this module.

REMEMBER:

Tax rules change on an annual basis; therefore, if you are working or are considering a career in the tax field, it is imperative that you fully understand that your knowledge is **already out of date!!** You will need to update yourself with the new amendments on an annual basis.

SARS has some very good brochures available on their website. Even now, it might assist you with your studies to read through some of these brochures. Visit the website www.sars.gov.za for brochures and other tax-related information.

LEARNING UNIT 13

Learning unit

13

**Integrated
questions**

QUESTION 13.1 (20 marks, 36 minutes)

REQUIRED:

For each of the questions that follow, write down the number of the question and next to it the number of the correct answer. Each correct answer will be awarded 2 marks. No calculations are required.

1. Section 23 provides that no deductions may be made in respect of certain expenses, despite their compliance with section 11(a):
- (i) interest on a loan to finance purchases of shares to produce dividends
 - (ii) interest which might have been earned on any capital employed in trade (notional interest)
 - (iii) interest incurred on loans used for business purposes
 - (iv) interest payable in consequence of the late payment of any tax under any Act administered by the Commissioner, the Skills Development Levies Act and the Unemployment Insurance Contributions Act

Which of the following combinations represent the expenses listed above that are **not** deductible for income tax purposes?

- (1) all of the above expenses: **not** deductible
 - (2) (i) and (ii)
 - (3) (i), (ii) and (iii)
 - (4) (i), (ii) and (iv)
 - (5) all of the above expenses: **are** deductible
2. Which of the following losses resulting from theft or embezzlement are deductible in terms of the general deduction formula (s11(a) read with s23)?
- (i) theft by third parties of trading stock in a supermarket
 - (ii) theft by a director or a manager in the position of a proprietor
 - (iii) defalcations by a senior employee of a bank
 - (iv) theft of cash by junior employees

The correct option is:

- (1) **all** of the above expenses deductible
 - (2) (i), (iii) and (iv) will be deductible
 - (3) (i) and (iv) will be deductible
 - (4) (iii) and (iv) will be deductible
 - (5) **none** of the above expenses deductible
3. Which **one** of the following is **true** in the case of a person resigning from employment?
- (1) The lump sum is taxed according to a separate tax table; the first R500 000 is not taxed.
 - (2) The lump sum is taxed according to a separate tax table; the first R25 000 is not taxed.
 - (3) Any amount received from the employer on resignation will be exempt from tax as long as the taxpayer is over 65 years of age.
 - (4) A maximum of R5 000 will be exempted from tax in respect of a lump sum paid out by a provident fund.
 - (5) Lump sums received on resignation are not subject to tax; they are only taxed when you retire from employment.

QUESTION 13.1 (continued)

4. Carl Marx purchased an annuity when he was 45 years old. He paid R500 000 (out of an inheritance) for the annuity. He will receive R7 605 per month for the next 10 years. If he received the annuity from 1 June 2017, how much will be included in his income for the 2018 year of assessment, in respect of this purchased annuity?
- (1) Rnil to be taxable as the annuity was purchased with money that was inherited
 - (2) R7 605 x 12 months
 - (3) R7 605 x 12 months x 45%
 - (4) R7 605 x 9 months x 55%
 - (5) R7 605 x 9 months x 45%

Use the following information to answer questions 5 to 7.

Mr Ex Sa is in the process of emigrating to Canada and will be permanently established there by the end of February 2018. He sold all his personal belongings and his business as a property developer before emigrating. He recorded the following gains: sale of primary residence - R1 950 000 (proceeds R4 500 000), sale of furniture - R50 000, sale of Nissan 4X4 vehicle and trailer - R20 000, sale of 15-metre boat - R35 000, sale of property development business - R1 725 000.

Mr Ex Sa inherited a vacant plot of agricultural land 25 years ago. He never used it for farming purposes. When Mr Ex Sa decided to leave SA three years ago, he started the process of rezoning and subdividing the plot of land into residential stands. Together the stands were sold at a profit of R4 000 000 before emigrating. Mr Ex Sa could have sold the plot of land for a profit of R1 500 000 if he had **not** rezoned and subdivided it. Mr Ex Sa sold these stands independently of his property development business.

5. One or more of the following will not form part of the taxable capital gain:
- (i) Sale of primary residence, because the first R2 000 000 of the gain is excluded from tax
 - (ii) Furniture, Nissan 4X4 vehicle and trailer because they represent personal use assets
 - (iii) Sale of 15-metre boat because it is longer than the prescribed 10-metre exemption
 - (iv) Sale of property development business because the first R1 800 000 gain will always qualify for an exemption from capital gains tax

The correct option is:

- (1) (i) and (ii)
- (2) (i), (ii) and (iii)
- (3) (i), (ii) and (iv)
- (4) (iii) and (iv)
- (5) (i), (ii), (iii) and (iv)

QUESTION 13.1 (continued)

6. Listed below are some reasons given by Mr Ex Sa as to why the profit on the sale of the residential stands that he developed should **not** form part of his “gross income” for the year of assessment ended 28 February 2018:
- (i) Although Mr Ex Sa had a property development business, he developed and sold the residential stands in his personal capacity.
 - (ii) The plot of land was inherited.
 - (iii) Mr Ex Sa had the property for 25 years.
 - (iv) Mr Ex Sa only developed the land and did not build houses on it as well.
 - (v) Mr Ex Sa rezoned and subdivided the plot of land and sold the residential stands to realise the greatest possible benefit.

Which of the above reasons, based on case law, will support the fact that the profit should **not** be included in “gross income”?

- (1) (i), (ii) and (iii)
 - (2) (i), (ii) and (v)
 - (3) (ii) and (iii)
 - (4) (ii), (iii) and (iv)
 - (5) (ii), (iii), (iv) and (v)
7. The strongest factor against Mr Ex Sa in determining whether the profit with the sale of the residential stands should not be included in “gross income”, is:
- (1) the manner of acquisition
 - (2) the manner of disposal
 - (3) the occupation of the taxpayer
 - (4) the period for which the asset was held
 - (5) an operation of business in carrying out a scheme of profit making
8. Mr Seconds received the use of one of his employer’s vehicles (cost R114 000 excluding VAT) at the beginning of the 2018 year of assessment. Another employee had the use of this employer’s vehicle for 33 months before Mr Seconds. The employer’s vehicle is subject to a maintenance plan for 100 000 km or five years. He also received a travel allowance in respect of another vehicle (cost R100 000 including VAT) from the beginning of the 2018 year of assessment. The employer bears the cost of all fuel in respect of the employer’s vehicle, while Mr Seconds bears the cost of all the fuel in respect of his own vehicle. The value of the annual fringe benefit for the right of use of the employer’s vehicle is:
- (1) R31 127
 - (2) R36 619
 - (3) R28 178
 - (4) R39 436
 - (5) R33 521

QUESTION 13.1 (continued)

9. Mrs Minute has received free accommodation from her employer since 1 August 2017. The accommodation consists of four furnished rooms. She pays for the electricity. Her previous year's remuneration proxy was R165 211 and the current year's is R180 000. Assuming that all the other requirements of this fringe benefit are met, the value of the fringe benefit for the 2018 year of assessment is:
- (1) R8 872
 - (2) R11 167
 - (3) R9 915
 - (4) R9 393
 - (5) R16 103
10. Which one of the following statements is **incorrect**?
- (1) Only 80% of a travel allowance must be taken into account for purposes of calculating employees' tax.
 - (2) SARS rate for reimbursive travel allowance payments is R3.55 per kilometre.
 - (3) Vehicles are depreciated over a period of seven years for travel allowance purposes.
 - (4) When calculating wear and tear for travel allowance purposes, the value of the vehicle is limited to R595 000.
 - (5) The determined value of a sedan motor vehicle (using the tables when calculating expenses to be set off against a travel allowance) excludes VAT.

QUESTION 13.2 (22 marks, 40 minutes)

Section A (12 marks, 22 minutes)

Mahindra Naidoo, who is 40 years old and a resident of the Republic, is the marketing manager of Kiss-Me-Quick (Pty) Ltd.

Mahindra Naidoo is querying the accuracy of the employees' tax that is being withheld from his December 2017 earnings.

A copy of his December 2017 pay slip from Kiss-Me-Quick (Pty) Ltd indicates the following salary package (per month):

	R
Salary	30 000
Travel allowance	10 000
Bonus (December only)	20 000
Pension fund contributions (based on salary)	2 500

REQUIRED:	MARKS
Calculate the employees' tax that Kiss-Me-Quick (Pty) Ltd had to withhold from Mahindra's December 2017 earnings.	12

Section B (10 marks, 18 minutes)

Mahindra Naidoo (as above) is also concerned that he won't be able to claim enough travel expenses and that on assessment he will have to pay in tax to SARS.

Mahindra bought a Disco 3, Rover Land on 1 March 2017 for R580 000 (excluding VAT). He kept accurate records of the expenses incurred in respect of the current year of assessment. Mahindra kept accurate records of his kilometres travelled on business, which was 20 000 kilometres. He travelled a total of 35 000 kilometres during the current year of assessment.

The actual expenses incurred during the current year of assessment regarding his vehicle are:

	R
Finance charges (note)	42 100
Fuel	36 000
Insurance premiums and licence fees	9 600
Maintenance (all covered under a maintenance plan)	-

Note:

Mahindra paid a deposit of R100 000 when purchasing the Disco 3 and the outstanding balance was financed through Bankwest.

REQUIRED:	MARKS
Calculate the taxable portion of the travel allowance to be included in Mahindra's taxable income.	10

QUESTION 13.3 (29 marks, 52 minutes)

Ishmael Motsepe is 50 years old and is married out of community of property. His income and expenses for the 2018 year of assessment are listed below. A section 18A receipt was obtained, where applicable.

	Notes	R
Income		
Salary		202 800
Annual bonus		17 518
Interest received – South African fixed deposit (not a tax-free investment)		30 660
Interest received – United Kingdom money market account		4 730
Dividends received – South African public companies		5 580
Dividends received – United Kingdom unit trusts		1 037
Travel allowance	1	42 750
Subsistence allowance	2	3 032
Holiday accommodation	3	?
Expenses		
Donation	4	15 000
Current pension fund contributions (based solely on salary)		16 224
Past period pension fund contributions	5	2 000
Interest incurred in respect of a bond over private residence		26 772
Medical expenses	6	51 660

Notes:

- Mr Motsepe was required to travel for business purposes from 1 June 2017 after being promoted to the post of regional manager. As a result, he received a travel allowance of R4 750 per month from that date. He kept accurate records of business distances travelled but kept no records of costs incurred.

Details regarding Mr Motsepe's vehicle are as follows:

- | | |
|--------------------|----------|
| a. Cost | R275 000 |
| b. VAT | R 38 500 |
| c. Finance charges | R 18 375 |

Total kilometres travelled for the period 1 June 2017 until 28 February 2018: 24 365 kilometres, of which 10 500 kilometres were for business purposes.

- During the year, Mr Motsepe was required to spend eight nights away from his home, on a business trip to Durban. He received a subsistence allowance of R404 per night from his employer to cover meals and other incidental costs. No records were kept of amounts actually spent.
- During December 2017, Mr Motsepe's company gave him and his wife seven days free accommodation in a holiday flat. The company hired the accommodation at a rate of R350 per person per day (children stay free of charge). A once-off cleaning fee of R200 was also paid for by the company. Over the seven days Mr Motsepe's meals and refreshments cost R1 558, which he paid.

QUESTION 13.3 (continued)

4. During the year of assessment Mr Motsepe made a R15 000 donation towards the building of a new sports pavilion at his child's school.
5. In addition to his current pension fund contributions, Mr Motsepe also contributed R2 000 for past periods in previous years, which are to be reckoned as part of his pensionable service. Assume his remuneration was R275 000 for the year.
6. Mr Motsepe, his wife and one child are members of a registered medical scheme. His child has a disability, as defined.

The following is an extract from Mr Motsepe's medical aid statement for the year of assessment:

Medical scheme contributions for the year	R 30 360
Medical expenses not reimbursed by medical scheme	21 300
Total medical costs for the year	<u>51 660</u>

Mr Motsepe's employer paid R12 000 of the above medical scheme contributions.

REQUIRED:	MARKS
Calculate Ishmael Motsepe's net normal tax for the year of assessment ended 28 February 2018.	29

QUESTION 13.4 (34 marks, 61 minutes)

Jason Juta is 45 years old and is married out of community of property. He is employed by Jet Express Airways, a local airline. The following information relates to Jason Juta's income and expenditure for the year of assessment ended 28 February 2018:

1. In his position as marketing manager for Jet Express Airways, Jason Juta received an annual salary of R580 000.
2. Jason Juta had to travel for business purposes and accordingly also received a travel allowance of R75 000 for the year. The vehicle he used was purchased under a finance lease in November 2016. The cost of the vehicle was R234 500 (VAT inclusive) and total finance charges, spread evenly over the five-year term of the lease, amounted to R116 100. Jason kept accurate records of expenses incurred in connection with the vehicle. During the current year of assessment, he spent R30 700 on fuel, R12 200 on capital repayments of the finance lease, and R16 900 on vehicle insurance. Jason travelled 29 200 kilometres in total during the year of assessment. He kept an accurate logbook of the distance travelled for business purposes, which was 11 200 kilometres.
3. From 1 August 2017, Jason also received the right to use a company car for his private purposes. The cost of the vehicle was R188 543 (VAT exclusive). All fuel and maintenance costs are paid by Jet Express Airways. The company car is not subject to a maintenance plan.
4. During the previous year of assessment, Jason borrowed a sum of money from his employer in order to purchase a house. The capital outstanding at 1 March 2017 was R98 000. His employer charged him a fixed interest rate of 1,5% per annum. Assume further that the official rate of interest at 1 March 2017 was 6,5%. Assume the official rate increased to 7,5% on 1 September 2017 and thereafter remained unchanged for the remainder of the year of assessment. Jason made no capital repayments during the 2018 year of assessment.
5. Jason Juta received the following investment income for the current year of assessment:

- Dividends received (United Kingdom unit trusts)	R 8 528
- Interest received (South African fixed deposit) (not a tax-free investment)	R26 914
6. On 1 July 2017, Jason's employer gave him the right to use a laptop computer for private purposes. Jason had the right to use the computer until the end of the year of assessment. The company purchased the computer at a cost of R17 500 during May 2016. The market value of the computer at the time Jason received the right to use it was R14 700. Jason paid no consideration for using the asset.
7. During January 2018 Jet Express Airways, Jason Juta's employer, gave him four free return air tickets to Cape Town, for himself, his wife and his two children. The cost to the employer was R1 050 per return ticket. The market value of the tickets was R2 950 per return ticket.
8. To cover himself against the risk of injury or ill health, Jason Juta paid income protection insurance premiums totalling R7 320, during the year of assessment. In terms of the insurance policy, any amounts paid out to him will not be taxable.

QUESTION 13.4 (continued)

9. Jason Juta, his wife and two children are members of a registered medical scheme. His youngest child has a disability as defined. Mr Juta's medical aid contributions for the year of assessment amounted to R31 360. His employer paid no contributions on his behalf.
10. Jason Juta is not a member of a pension fund but he does make contributions to a retirement annuity fund. During the year of assessment, these contributions totalled R37 800. Contributions, totalling R3 200 that had been disallowed for tax purposes during previous years of assessment, were brought forward to the current year. Assume Jason's remuneration was R689 000 for the year.

REQUIRED:	MARKS
Calculate Jason Juta's net normal tax for the year of assessment ended 28 February 2018.	36

QUESTION 13.5 (45 marks, 81 minutes)

Vonani and Priscilla Kotani are married in community of property. Vonani is a South African resident and retired when he turned 65 years old on 31 August 2017. Vonani worked for Modise Holdings, a South African investment company. The following information is relevant to the 2018 year of assessment:

	Notes	R
Income/Receipts		
Total salary received up to 31 August 2017		240 000
Severance benefit from employer	1	35 000
Retirement fund lump sum benefit	1	2 500 000
Pension income received from 1 September 2017 to 28 February 2018		180 000
Proceeds on disposal of Kruger rands	2	?
Proceeds on disposal of primary residence	3	3 000 000
Gross rental receipts	4	66 000
Expenses/Contributions		
Rental expenditure	4	68 200
Medical	5	60 000
Pension fund contributions up to 31 August 2017 - current		22 400

Notes:**1. Severance benefit received from employer and retirement fund lump sum benefit**

This is the first time that Vonani has ever received a severance benefit from an employer.

The lump sum benefit of R2 500 000 was received from a pension fund. Vonani has never received any lump sum benefits in the past.

Vonani has current contributions (R56 000) to the pension fund that have been disallowed as a deduction in previous years of assessment.

Assume Vonani's remuneration amounted to R435 000 for the year.

2. Disposal of Kruger rands

Ten years ago Vonani inherited seven Kruger rands, valued at R8 000 each, from the estate of his late father. During December 2017, he sold three Kruger rands for R21 332 each and gave Priscilla two Kruger rands.

3. Disposal of primary residence

Vonani bought the house during September 1988 for R400 000. He has always utilised 5% of the house as his home office, as his employer required him to work at home when he needed to. Vonani's office expenses are deductible for income tax purposes.

During October 2001, a lapa and swimming pool were built for R100 000. The house was sold in August 2017 for R3 000 000. Assume the market value on 1 October 2001 was R2 000 000 and the time-apportionment base cost (TAB) was R1 400 000.

QUESTION 13.5 (continued)

4. Rental activities

Vonani purchased two apartments in a retirement village in August 2017.

Vonani and Priscilla lived in one apartment and let the other apartment from 1 September 2017.

Vonani set up an office, which comprises 5% of the apartment in which he and Priscilla reside.

Vonani utilises the office to administer the rental activities.

Details of the apartments are as follows:

	Apartment	
	Personal R	Let R
Rental receipts from 1 September 2017 to 28 February 2018:		
Deposit received from tenant, repayable on termination of rental agreement, deposited in separate trust account	-	10 000
Rental income – September 2017 to February 2018, R8 000 per month	-	48 000
Rent for March 2018, received 28 February 2018	-	8 000
Rental expenditure from 1 September 2017 to 28 February 2018:		
Property rates and taxes and electricity	16 500	6 000
Monthly levies	13 500	12 000
Installation of prepaid electricity meter	-	5 000
Agent's commission	-	7 200
Building of carport	-	8 000

5. Medical

The medical expenses are made up as follows:

	R
Vonani's medical aid contributions up to 31 August 2017	15 000
Vonani's medical aid contributions from 1 September 2017 to 28 February 2018.....	nil
Modise Holdings medical aid contributions up to 31 August 2017.....	15 000
Modise Holdings medical aid contributions from 1 September 2017 to 28 February 2018.....	30 000

Priscilla is the only dependent listed on Vonani's medical aid fund.

REQUIRED:	MARKS
a) Calculate Vonani's net normal tax (excluding the lump sums) for the 2018 year of assessment.	42
b) Calculate the tax payable on Vonani's lump sum receipts.	3

QUESTION 13.6 (35 marks, 63 minutes)

Lana (24 years old) is employed by one of the top four accounting firms. For the last three years she has been busy doing her articles at the firm and earned a **basic salary** of R4 000 per month with no benefits at all. She has now passed her board exams and her articles were completed on 30 June 2017. She will then be a qualified chartered accountant.

Her current firm has offered her employment from 1 July 2017. Her **new** monthly salary package will be as follows:

	Notes	R
Income		
Salary		24 000
Travel allowance	1	1 500
Entertainment allowance	2	950
Use of laptop	3	?
Expenses		
Monthly contribution to a medical aid fund	4	1 350
Medical expenses not covered by the medical aid fund (Jul 2017 – Feb 2018)	4	1 600
Monthly retirement annuity fund contributions	5	500

Notes:**1. Travel allowance**

Lana will be required to use her own vehicle to visit clients. The company will pay her a monthly allowance of R1 500 for this purpose. Lana bought a new WV Polo in January 2017 at a cost price of R132 000 (VAT inclusive).

Lana kept a logbook. She travelled a total of 16 500 kilometres for the period 1 July 2017 until 28 February 2018, with her business kilometres totalling 11 500 kilometres. She did not keep a record of actual costs.

2. Entertainment allowance

Occasionally Lana has to entertain clients on behalf of the company. She accordingly receives a monthly entertainment allowance of R950. Lana kept a record of the entertainment expenses she incurred for the period 1 July 2017 to 28 February 2018, which amounted to R2 360.

3. Use of a laptop

Lana will be provided with a new laptop with all the latest programmes needed. The laptop will be used mainly at clients but she is also allowed to use it for private purposes. The cost of the laptop is R15 000.

QUESTION 13.6 (continued)

4. Medical costs

Lana will contribute R1 350 per month to a medical aid fund. She has no dependants and is not a person with a disability as defined. Her employer will contribute the same amount.

During July 2017 to February 2018, she also incurred other qualifying medical expenses, not covered by her medical aid, amounting to R1 600.

5. Contributions to a retirement annuity fund

Lana has also decided to start contributing to a retirement annuity fund from 1 July 2017. Lana has proof of payment of her contributions. Where applicable, her employer has been provided with the evidence and has agreed to take the appropriate contributions into account when calculating her monthly employees' tax. Assume Lana's remuneration is R27 500 per month.

REQUIRED:	MARKS
A. Lana has never paid any employees' tax. She is very excited about her new job offer and asked you to help her to calculate the employees' tax she will be paying for July 2017.	13
B. Based on all the above information, calculate Lana's net normal tax for the year of assessment ending 28 February 2018.	22

QUESTION 13.7 (20 marks, 36 minutes)

Sarel Siddle is a South African professional cyclist and competes in cycle races all over the world. Sarel is unsure of how some of his receipts and expenses will be treated for South African income tax purposes.

Background information:

Sarel is not employed by anyone. He has one sponsor – 'Get Power', an energy drink manufacturer. Sarel's sponsor has stipulated that if he does not compete in at least 10 international races during the year, he will lose his sponsorship. He must also always be seen, in public during races, with at least one article of clothing displaying his sponsor's name.

Receipts:

- Sarel received 10 bicycles from his sponsor during the current year of assessment. He has a contract with them for five years and will receive 10 bicycles every year for the next four years.
- Sarel's sponsor paid him a lump sum amount on the condition that he did not cycle for another sponsor for the next four years of his contract.
- During the year of assessment, Sarel inherited R100 000 from his late uncle.

QUESTION 13.7 (continued)Expense:

- During the current year of assessment, Sarel purchased a lifetime gym contract. The gym has branches all over the world so that Sarel can do weight training wherever he is competing in a race, for the rest of his life (he paid a once-off amount for this contract).

REQUIRED:	MARKS
Briefly discuss, with reasons:	
a) whether the three receipts will be included in Sarel's gross income	15
b) whether the expense that Sarel incurred will be deductible in terms of the general deduction formula	5

PART

B

PART B: QUESTIONS

- 7 LUMP SUM BENEFITS**
- 8 NON-RESIDENTS**
- 9 PREPAID TAXES**
- 10 DONATIONS TAX**
- 11 ESTATE DUTY**
- 12 FARMING INCOME**

QUESTIONS

QUESTION 7.1 (20 marks, 36 minutes)

Motomi Baloy is a 66-year-old widower. Motomi retired on 31 October 2017 after 32 years and 11 months' service in the Department of Agriculture. This is a government department.

The following information is available for the current year of assessment:

	<u>Note</u>	R
Income from the Department of Agriculture:		
Monthly salary		20 000
Bonus (received April 2017)		20 000
Income from the state pension fund:		
Monthly pension (from 1 November 2017)		17 000
Lump sum received from state pension fund	2	2 750 000
Expenses:		
Monthly pension contributions (based on salary and bonus up to date of retirement)		2 250
Retirement annuity fund contributions – paid during the year		100 000
Entertainment expenses incurred on behalf of employer		2 000
Other receipts:		
Proceeds from an endowment policy	1	30 500

Notes:

1. Motomi took out an endowment policy on 1 July 1986 for which he paid a premium of R100 per month. The policy matured on 1 July 2017 and was paid out to him.
2. He was a member of the State Pension Fund for the full period of his service. No previous lump sums were received. No pension fund contributions were disallowed as deductions in previous years.

REQUIRED:

Calculate Motomi's total tax liability for the 2018 year of assessment.

QUESTION 7.2 (17 marks, 31 minutes)

Phillip Mhlongo has worked for SARS for the past 20 years. Prior to this employment he worked for an accounting firm for 15 years. Phillip has been very ill for the past year and on 1 December 2017, he retired from SARS due to ill-health. You may assume that, as a result of his illness, Phillip is a person with a disability, as defined. He turned 60 years of age on 18 August 2017.

Phillip had the following income and expenses for the 2018 year of assessment:

Income for the year:

	Notes	R
Salary up to date of retirement		210 000
Pension annuity received after retirement		30 000
Long-service award – cash received	1	5 000
Lump sum from pension fund	1	860 000
Severance benefit	2	23 000

Expenses for the year:

Medical aid fund contributions	3	24 452
Qualifying medical expenses		56 000
Insurance premiums	4	19 000
Retirement annuity fund contributions		32 000

Notes:

1. On the date of his retirement, Phillip had worked for SARS for 20 years and 9 months. He therefore qualified for a long-service award, which SARS pays out when a person retires after more than 10 years' service.

Phillip also received a lump sum from the government pension fund on the date of his retirement. All his pension fund contributions (over the last 20 years and 9 months) to the fund have been made by SARS based on his salary; Phillip was not required to contribute to the fund. The pension fund contributions for the period up to the date of retirement amounted to R34 000.

2. This is the first time that Phillip has received any form of lump sum from an employer.
3. Phillip contributes monthly from his salary to Medbest medical fund on behalf of himself and his wife (they are married out of community of property and she is 55 years old). He continued to contribute the same amount after his retirement. SARS contributed R500 per month to the medical fund up to the date of his retirement.
4. Phillip contributes to an income protection policy – the proceeds of which will be taxable when paid out. His contributions ceased the day that he retired.

REQUIRED:

Calculate Phillip's taxable income for the 2018 year of assessment as well as the taxable portion of the lump sums.

QUESTION 7.3 (27 marks, 49 minutes)

Jan Vermeulen retired on 31 October 2017 at the age of 60. Jan Vermeulen started working for a private company, Watertech, at a very young age. He was a member of the pension fund for his whole working life.

Jan Vermeulen had the following income and expenses for the 2018 year of assessment:

	Notes	R
Income		
Salary until retirement – R30 000 per month		
Pension after retirement – R12 000 per month		
Severance benefit		28 000
Lump sum from pension fund	1	1 198 000
Purchased annuity	2	14 400
Gift from colleagues	3	2 500
Gift from employer	4	5 658
Expenses		
Pension fund contributions until retirement – R2 400 per month		
Retirement annuity fund contribution		27 000
Medical expenses.....	5	49 500

Notes:

1. Lump sum from pension fund

An amount of R15 750 of Jan Vermeulen’s contributions to the pension fund were not allowed as deductions in previous years of assessment in terms of section 11(k). Jan did not receive any previous lump sums.

2. Purchased annuity

Jan used R100 000 from his life’s savings to purchase an annuity at the age of 50. His life expectancy at that stage was 21,47 years. In terms of the agreement, he was to receive an annuity of R14 400 (R1 200 per month) payable for life as from 1 November 2002.

3. Gift from colleagues

Jan started cycling about ten years ago. He is a very keen cyclist and has participated in the 94.7 race for the last five years. His colleagues decided to buy him some new cycle gear – shirt, shorts, water bottle and gloves. They personalised it by printing his name on it.

4. Gift from employer

Not to be outdone by the employees, his employer decided to give him a spinning bicycle in recognition of 36,5 years of loyal service.

5. Medical expenses

Medical aid contributions for the full year of assessment	R 14 000
Medical expenses not refunded/covered by the medical aid fund	35 500
His employer did not contribute to the fund.	

Jan Vermeulen and his wife were involved in a car accident seven years ago; he had minor injuries but the accident left her a person with a disability as defined.

REQUIRED:

Calculate Jan’s tax liability for the 2018 year of assessment.

QUESTION 7.4 (22 marks, 40 minutes)

Betty Happy worked for Big Smile CC for 40 years. She passed away on 31 January 2018. She would have retired on 28 February 2019 at the age of 65. Betty was married out of community of property. Her husband has already retired. Betty was the main member of a medical aid fund of which her husband is a dependant.

You received the following information relating to Betty's financial affairs for the year of assessment ended 28 February 2018:

	Notes	R
Income		
Salary and bonus up to 31 January 2018.....		500 000
Lump sum from pension fund	1	1 200 000
Retirement annuity fund income.....	2	66 000
Severance benefit from Big Smile CC to husband	3	25 000
Expenses		
Current contributions to pension fund.....	4	?
Medical aid fund contributions.....	5	33 000

Notes:

- Lump sum from pension fund.** Betty's estate received a lump sum of R1 200 000 on her death from the pension fund. She joined the fund 40 years ago when she started at Big Smile CC.

R12 000 of Betty's current contributions in the previous years of assessment were not allowed as deductions for tax purposes.
- Retirement annuity fund income.** Betty also joined a retirement annuity fund when she started working. It matured when she turned 55 years of age. Since then she received a monthly annuity of R6 000. Betty did not receive a lump sum from the retirement annuity fund.
- Severance benefit from Big Smile CC to husband.** Big Smile CC paid a severance benefit of R25 000 to Betty's husband. This payment was the first time ever that such a benefit was paid to either Betty or her spouse.
- Current contributions to pension fund.** Betty contributed 8% towards the pension fund that Big Smile CC belonged to. Big Smile CC contributed an equal amount. Betty further made voluntary contributions to the pension fund during the year to the date of her death of R80 000.
- Medical aid contributions.** Betty paid 75% (R33 000 represents her share) of her medical aid contributions, for the period that she was alive. Her employer paid the remaining 25% for the period she was alive. After her death, Big Smile CC carried on contributing the same monthly amount for her husband. The family had no other medical costs.

REQUIRED:

Calculate Betty Happy's net normal tax for the year of assessment ended 28 February 2018.

QUESTION 7.5 (29 marks, 52 minutes)

Mickey Mouse retired from Cartoon Ltd on 31 December 2017 at the age of 66 years. Mickey is married out of community of property. His children are all over the age of 18 years.

Mickey provides you with the following information.

R

1. Salary package received from Cartoon Ltd:

Monthly salary	17 000
Monthly entertainment allowance (he did not incur any costs)	1 100
Bonus received on 31 July 2017	17 000
Severance benefit paid on 31 December 2017	46 500
Free medical aid (company contributes R2 100 per month)	?

Mickey's wife is the only registered dependant on his medical aid fund.
After his retirement, Mickey left the medical aid.
2. After his retirement, Mickey still performed some occasional services for Cartoon Ltd. He received R13 000 in total for these services during the current year of assessment.
3. Mickey received a lump sum payment of R800 000 from the pension fund on retirement date and a monthly pension of R6 800. Mickey did not receive any other payments from any pension or other funds. Contributions, amounting to R290 670 made in the previous years of assessment, were not allowed as tax deductions.
4. Mickey used R550 000 of his lump sum to purchase a 10-year annuity from Sanlam. He will receive a monthly annuity of R6 250 for 10 years. The term of the annuity commenced on 1 January 2018.
5. Mickey received the following income from investments during the current year of assessment:

	R
Gross interest from local banks (not from tax free investments).....	35 900
Gross dividends from local listed companies.....	25 000
Gross dividends from foreign unit trusts	4 280
6. Mickey made pension fund contributions up to his date of retirement of R3 660 per month.

REQUIRED:

Calculate Mickey's tax liability for the year of assessment ended 28 February 2018.

QUESTION 7.6 (25 marks, 45 minutes)

Craig Davies is 50 years old and employed by Leisure Travel (Pty) Ltd. Craig decided to move his family to a different city and as a result decided to resign on 1 October 2017 and left the employment of Leisure Travel (Pty) Ltd.

The following information relates to Craig Davies for the year of assessment ended 28 February 2018:

Income	Notes	R
Salary (R18 000 for 7 months)		126 000
Lump sum received from pension fund	1	490 000
Gratuity from employer	2	18 000
Accumulated leave pay	2	16 000
Restraint-of-trade payment received	2	59 000
Gift from colleagues	2	1 000
Taxable income from bed and breakfast (B&B) establishment	3	15 000
Taxable foreign dividends		1 852
Local dividends		2 000
Expenses		
Retirement annuity fund contributions		14 000
Pension fund contributions		10 000
Medical expenses paid	4	47 000

Notes:

- Craig Davies has been a member of his employer's pension fund since he commenced working for Leisure Travel (Pty) Ltd. Up to the commencement of the 2018 year of assessment, all his contributions to the pension fund had been tax deductible. Craig had not received any lump sums in the past.
- Craig received the gratuity and accumulated leave pay on 30 September 2017. He had not received any such payments in the past. The gift from his colleagues was a fountain pen, which he received at his farewell party on 20 October 2017. Leisure Travel (Pty) Ltd paid Craig an amount of R59 000 to prohibit him from becoming involved in the travel industry (excluding accommodation) for two years.
- Craig was unemployed for three months and then started a bed and breakfast (B&B) establishment. The taxable income of the B&B was determined by one of his friends who is an accountant. His friend was not sure whether the following expense would be deductible for tax purposes:

Payment made to a web designer to design a web page, which would enable Craig to advertise his B&B to current and prospective clients. This expense amounted to R4 000 and **has not been taken into account** in the taxable income figure.

QUESTION 7.6 (continued)

4. Craig incurred the following expenses:	R
Medical aid fund contributions (R3 500 for 12 months)	42 000
(Employer did not contribute to the medical aid fund while Craig was employed.)	
Qualifying medical expenses not refunded by medical aid:	
- himself and his wife	1 500
- his son with a disability	3 500
Craig and his wife have one child with a disability (as defined in s18) who is a full-time second-year BCompt student at Unisa. He is 20 years old.	

REQUIRED:

Calculate Craig's net normal tax for the year of assessment ended 28 February 2018.

QUESTION 7.7 (5 marks, 9 minutes)

Martin retired on 30 September 2017 at the age of 65. On that date he received a retirement lump sum benefit, amounting to R700 000, from his pension fund.

Martin had no disallowed current pension fund contributions in any year of assessment. He also did not transfer any portion of the lump sum to another approved fund.

Martin did receive a retirement annuity fund lump sum, amounting to R580 000, during the 2015 year of assessment.

REQUIRED:

Calculate Martin's income tax liability in respect of the pension fund lump sum that he received during the 2018 year of assessment.

QUESTION 7.8 (14 marks, 25 minutes)

Martha received a severance benefit, amounting to R90 000, from her employer on 31 December 2017. She had previously received a retirement annuity fund lump sum, amounting to R520 000, during the 2016 year of assessment.

Martha retired on 31 January 2018 at the age of 65. On that date she received a retirement lump sum benefit, amounting to R500 000, from her pension fund. She transferred R100 000 of this amount to another approved pension preservation fund.

Martha had current pension fund contributions, amounting to R3 000, disallowed in the current year of assessment. Furthermore, she had disallowed current pension fund contributions, with respect to previous years of assessment, amounting to R7 000.

REQUIRED:

Calculate Martha's income tax liability in respect of the severance benefit and pension fund lump sum benefit that she received during the 2018 year of assessment.

QUESTION 8.1 (16 marks, 29 minutes)

George, who is 45 years old, is ordinarily resident in the Republic of South Africa. The following information is applicable to the 2018 year of assessment:

	R
Net royalties earned from abroad (for a patent that was developed in the Republic)	60 000
Interest on an overseas bank account	12 500
Return from a fixed-property collective investment scheme (not a tax-free investment) (100% is financed out of interest)	20 700
Return from an equity collective investment scheme (not a tax-free investment) (80% is financed out of dividends and 20% out of interest)	20 000
Director's emoluments received from non-resident company for services rendered as a director (all meetings were held abroad)	24 000

Ryno, who is 53 years old, is not and has never been ordinarily resident in the Republic. He has business interests in the Republic and spends about two months a year in the Republic to look after his business affairs. The following information is applicable to the 2018 year of assessment:

	R
Gross royalties earned on 1 February 2018 for the use in the Republic of his patent, which he developed abroad	80 000
Taxable profits from Republic business activities	120 000
Net taxable rentals - house in Australia	36 000
- house in Cape Town	24 000
Income from a SA fixed-property collective investment scheme (not a tax-free investment) (100% was financed out of interest)	8 000
Income from an SA equity collective investment scheme (not a tax-free investment) (60% was financed out of dividends and 40% out of interest)	18 000

REQUIRED:

- 1.1 Calculate George's taxable income for the 2018 year of assessment. (6)
- 1.2 Calculate Ryno's taxable income for the 2018 year of assessment. (8)
- 1.3 Calculate any withholding tax that could be withheld on income earned by Ryno for the 2018 year of assessment. (2)

QUESTION 8.2 (17 marks, 31 minutes)

The following investment income was earned by a person for the 2018 year of assessment:

	R
Net dividends earned from a Canadian company..... The amount represents the actual dividends received after the deduction of Canadian withholding tax of 10% (R496).	4 468
Interest on savings account - South African bank (not a tax-free investment).....	31 880
Royalties earned on 31 January 2018 on a design from its use in South Africa This design was developed in Canada. If applicable, expenses of R9 160 fulfil the requirements for being deducted for South African tax purposes for the 2018 year of assessment.	59 160
Net taxable rental received on a property situated in South Africa	30 000
Net taxable rental received on a property situated in Canada	38 000
Taxable capital gain (correctly calculated) from the sale of a holiday apartment situated in Canada	46 250

REQUIRED:

1. Calculate the **taxable income** assuming the person is **ordinarily resident in South Africa**. The person is 67 years old and married in community of property, and his or her spouse earned no passive income during the current year of assessment. (9)
2. Use the same investment income information provided above, but assume that the person is **ordinarily resident in Canada**. Calculate any **net normal tax** payable and any applicable withholding tax payable to SARS by the person for the year of assessment ended 28 February 2018. The person is 45 years old, unmarried and has never spent more than two weeks in South Africa during any of the past ten years. He has never lived in South Africa, except for 12 months (20 years ago) and he did not carry on any business in South Africa during the 2018 year of assessment. (8)

Note: Please ignore the effects of a double tax agreement between South Africa and Canada.

QUESTION 8.3 (7 marks, 13 minutes)

Mr Jung is 55 years old and is **not a resident** of the Republic and does not carry on business in the Republic. During the 2018 year of assessment, he lived and worked in Germany.

The following information is applicable to the current year of assessment:

1. Mr Jung is a mobile technology consultant. His office is in Germany and he received fees of 70 400 Euros per annum (R950 000) from his German clients.
2. During 2010, Mr Jung visited South Africa on holiday and while here opened a South African savings bank account (not a tax-free investment). He received R24 000 interest from this investment, for the 2018 year of assessment.
3. Mr Jung also purchased a flat in Cape Town. He rented out the flat to tourists for the full 12 months during the current year. Net rental income received from the property, for the 2018 year of assessment, was R148 000.
4. Mr Jung developed a patent for a digital instrument he designed in Germany during 2011. The patent was used in South Africa during the current year of assessment. Mr Jung received royalties on 24 February 2018 totalling R131 500 from the South African company that used the patent.
5. During July 2017, Mr Jung did some consulting work for a South African mobile phone company. The consulting was done in his office in Germany and the fee he received was R188 000.

REQUIRED:

- (a) Calculate Mr Jung's South African taxable income for the 2018 year of assessment. Provide a reason, if an amount is not included in taxable income. (5)
- (b) Calculate the withholding tax (if any) on Mr Jung's South African income. (2)

QUESTION 9.1 (17 marks, 31 minutes)

Mr Bonn, who is 40 years old, was offered a new job on 1 July 2017. Before accepting the position, he has asked you to calculate the amount of employees' tax that will be deducted on a monthly basis, in order to establish what his net take home pay will be.

- Mr Bonn has been offered a basic salary of R9 500 per month and a cellphone allowance of R513 per month. He will be obliged to contribute R990 per month to a provident fund.
- Mr Bonn has also informed you that he will have the use of a company car. The cost of the vehicle was R199 500 (VAT inclusive). It was purchased by the company 18 months ago. The car is not subject to a maintenance plan.
- The employer will also provide a company-owned, five-roomed, furnished house for no charge. Mr Bonn will, however, be responsible for paying the electricity bills.
- Mr Bonn and all other employees have the right to use the company's in-house gym, after office hours. The cost to the company of maintaining the gym amounts to R160 per month per employee.

Mr Bonn estimates that his average monthly cellphone costs amount to R350. He will also provide proof to his prospective employer that he contributes R400 per month towards an income protection policy, the proceeds of which are taxable.

REQUIRED:

Calculate the monthly employees' tax that should be deducted from Mr Bonn's remuneration.

QUESTION 9.2 (21 marks, 38 minutes)

Mafunda Boleko retired from Nkosi Ltd on 31 August 2017 at the age of 66 years. Mafunda received a structured salary package from Nkosi Ltd. His monthly salary package was as follows:

Receipts:	R
Salary.....	15 500
Travelling allowance	12 000
Entertainment allowance.....	200
Expenses:	
Pension fund contributions (based on his salary).....	1 300
Medical fund contributions (note 1)	500

Notes:

1. R500 is 20% of the total medical fund contribution payable. The company pays the balance of 80% of the total medical fund contribution.
2. On the date of his retirement Mafunda received taxable accumulated leave pay of R41 600 and a cash bonus of R27 000 for the fact that he had worked for the company for 26 years.
3. Each month Mafunda purchases medicine that is not covered by his medical fund. The cost of this medicine amounts to R250 per month. Mafunda purchased new glasses during April 2017 and he had to pay R400 towards the frames. His employer is not aware of these expenses.

QUESTION 9.2 (continued)

4. Mafunda received R600 000 on 31 August 2017 from his employer's pension fund. Only R400 000 of the lump sum is taxable.

REQUIRED:

Calculate the employees' tax that Nkosi Ltd must deduct from Mafunda's salary for August 2017.

QUESTION 9.3 (28 marks, 50 minutes)**Section A (12 marks, 22 minutes)**

Koos Veld, 42 years of age, is a provisional taxpayer in permanent employment and earns a considerable amount of investment income. He presents you with the following information:

	R
Taxable income for 2016 year of assessment, as assessed on 27 April 2017	120 000
Actual taxable income for the 2017 year of assessment (not yet assessed)	70 000
Estimated taxable income for the 2018 year of assessment	95 000

Koos wants to pay the minimum amount, but does not wish to pay any additional tax, interest or penalties. He believes that the estimated taxable income (of R95 000) will be higher than his actual taxable income for the year.

Koos paid R500 per month employees' tax for every month in the 2018 year of assessment.

REQUIRED:

Calculate the amount of provisional tax Koos has to pay for his first and second provisional tax payments for the 2018 year of assessment. Provide a brief reason for the determination of the basic amount.

Section B (12 marks, 22 minutes)

Wandi Longo (66 years old) is employed on a full-time basis at Kefilwe Ltd. During the current year of assessment Wandi earned a salary of R16 000 per month and a travel allowance of R6 000 per month. Wandi also received the following income from her employer during December:

- commission on sales of R8 000
- a bonus of R11 000

Wandi paid pension fund contributions of R1 400 per month and medical aid contributions of R600 per month, of which her employer is aware. Wandi paid R6 000 in medical costs that were not refundable by her medical aid, of which her employer was not aware.

Wandi received interest on her South African investments of R35 000.

REQUIRED:

Calculate the total employees' tax that Wandi's employer would have deducted for the 2018 year of assessment.

QUESTION 9.3 (continued)

Section C (4 marks, 7 minutes)

Lorraine Rayn is 46 years old and a provisional taxpayer. She received an IRP6 from SARS on 1 June 2017 indicating that her latest year of assessment was 2016. The taxable income indicated on the IRP6 is R220 000. Lorraine accepted the amount as her basic amount. Lorraine estimates her taxable income for the 2018 year of assessment to be R240 000.

Her employer deducted employees' tax amounting to R21 500 from her remuneration for the period relating to the first provisional payment. The employees' tax shown on the IRP6 is R20 670.

REQUIRED:

Calculate the amount Lorraine has to pay as her first provisional payment for the 2018 year of assessment.

QUESTION 9.4 (22 marks, 40 minutes)

Section A (12 marks, 22 minutes)

Simon Salusa, 66 years old, was in the employment of Lotta 2000 (Pty) Ltd for the period 1 March 2017 to 30 June 2017, after which he retired.

His monthly salary for this period was R15 000. Simon also received a monthly travel allowance of R6 000.

Simon belongs to the company pension fund, to which he contributes 7% of his salary. He is also a member of the company's medical fund. Lotta 2000 (Pty) Ltd contributes two-thirds of the total medical contribution and Simon the remaining one-third. Simon's monthly contribution amounted to R1 250. Simon cancelled his membership of the medical fund on retirement because it would be too expensive for him to continue.

Each month Simon purchased prescription medicine that is not covered by his medical fund. The cost of this medicine amounted to R350 per month. His employer was not aware of this.

Simon also received the following investment income for the above period:

	R
Interest received on a South African fixed deposit	33 580

REQUIRED:

Calculate the employees' tax that Lotta 2000 (Pty) Ltd must deduct from Simon's salary for the month of June 2017.

QUESTION 9.4 (continued)**Section B (9 marks, 16 minutes)**

Fill in the missing words/amounts (e.g. A1: R15 000).

Individual taxpayers earning income that is not classified as **A1**... are normally required to pay provisional tax. The first provisional payment must be made before or on the last day of the first **A2**... months of the year of assessment.

Where the year of assessment ends on 28 February 2018 (as for an individual), the effective date for the third provisional tax payment is **A3** ... months after the tax year-end.

A third provisional tax payment is a voluntary payment and is made by the taxpayer to prevent the payment of **A4**

If a provisional taxpayer's taxable income is less than R1 million and his estimate in respect of the second period is lower than the lesser of **A5**... of the actual taxable income for the year of assessment or the basic amount, additional tax of **A6**..., in terms of section 20, will be imposed on assessment.

REQUIRED:

State whether the following statements are true or false (e.g. "B1: true"):

- B1** Directors of private companies and members of close corporations must register as provisional taxpayers, irrespective of the fact that employees' tax is deducted on remuneration.
- B2** A penalty of 10%, in terms of paragraph 27, will be levied on late payment in respect of the second payment of provisional tax only.
- B3** The responsibility of calculating employees' tax and provisional tax is that of the employer.

QUESTION 9.5 (32 marks, 58 minutes)

Mr Sharp turned 65 years of age on 31 August 2017, on which date he retired from employment at Quickfix Ltd. He is unmarried and has no children.

Mr Sharp earned the following salary and benefits during the last six months of employment at Quickfix Ltd:

	R
Salary for 6 months	120 000

Residential accommodation (a house consisting of six rooms, fully furnished and electricity supplied by Quickfix Ltd). The accommodation was supplied up to the date of Mr Sharp's retirement. Mr Sharp's remuneration from employment at Quickfix Ltd, for the year of assessment ended 28 February 2017, was R234 800.

QUESTION 9.5 (continued)

Monthly medical benefit (Quickfix Ltd paid R2 800 of the total monthly medical aid contribution of R3 000). In terms of Quickfix Ltd's employment policy, they continue contributing the same percentage towards a retired employee's medical aid after the employee has retired. Their contributions continue up to the date of the former employee's death.

Mr Sharp contributed R10 800 towards the pension fund that Quickfix Ltd belongs to, for the six months up to the date of his retirement.

The pension fund paid Mr Sharp a monthly pension of R15 000 from 1 September 2017. Employees' tax of R940 per month was deducted by the pension fund from this pension.

During his active working years, Mr Sharp invested some extra money in different types of investments. The income from these investments, for the year of assessment ended 28 February 2018, is as follows:

	R
Interest from South African banks (not from tax free investments)	51 500
Dividends from SA companies	9 000

Mr Sharp is a provisional taxpayer. On 31 August 2017, he submitted a nil return for provisional tax purposes. At 28 February 2018, his latest year assessed was for the year ended 28 February 2017, with a taxable income of R265 000. The date of this assessment was 30 September 2017. Assume the basic amount is R265 000.

REQUIRED:

1. Calculate the employees' tax that should have been deducted by Quickfix Ltd for the year of assessment ended 28 February 2018. (16)
2. Calculate the amount of provisional tax Mr Sharp will have to pay (if any), in respect of the second provisional tax payment, on 28 February 2018. Mr Sharp would like to pay as little provisional tax as possible, without incurring penalties or interest. (16)

QUESTION 9.6 (33 marks, 59 minutes)

Jack Moyo, 50 years of age, is married out of community of property to Angie and has no dependent children. He works for Generous CC. He also earns rental income from an inheritance received from his late father. He is registered as a provisional taxpayer.

He asked you to assist him with his tax matters for the year of assessment ended 28 February 2018. He worked for the full 12 months and provided you with the following list of his income and expenses for the year:

Income	R
From employer:	
Monthly salary	15 000
Annual bonus in December	30 000
Monthly use of employer vehicle (taxable portion of fringe benefit).....	3 000
From property investment:	
Net rental income	45 000
Expenses	
Relating to employer:	
Monthly contributions to provident fund – 8% of salary and bonus	
Monthly medical aid fund contributions paid by Mr Moyo.....	2 500
Monthly prescription medicine not covered by medical aid.....	1 000
Monthly employees' tax	?

Jack Moyo's wife is the only dependant on his medical aid. Neither member has a disability as defined.

Jack Moyo's latest tax assessment was for the 2017 year, dated 30 November 2017. His taxable income on the assessment was R310 000. Assume the basic amount is R310 000.

Jack Moyo made a first provisional tax payment of R1 500 in respect of the 2018 year of assessment.

REQUIRED:**Marks**

1. Calculate the employees' tax that should have been deducted by Jack Moyo's employer from his income from employment for **the month of December 2017**. **16**
2. Calculate the minimum amount on which Jack Moyo will be allowed to base the second provisional tax payment, without incurring any underestimation penalty. Assume that his estimate of taxable income of R291 000, for the current year of assessment, was correct and that on assessment his actual taxable income amounted to R291 000. **2**
(Note: do not calculate the second provisional tax payment.)
3. Assume Jack Moyo paid an amount of R2 904 for his second provisional tax payment, based on an estimate of R261 900 (90% x R291 000). Assume that this estimate was incorrect and that on assessment, his actual taxable income amounted to R338 000 for the 2018 year of assessment. Calculate the underestimation penalty that will be levied as a result of there being a shortfall in his second provisional tax payment. (You may assume that his total employees' tax for the year amounted to R29 671.) **15**

QUESTION 9.7 (9 marks, 16 minutes)

Mike (44 years old) is a registered provisional taxpayer and is employed as a chief financial officer.

His second provisional tax payment is due on 28 February 2018 and he wants to pay the minimum amount without incurring penalties and interest.

Below are details of Mike's income and expenses for the year of assessment ended 28 February 2018:

	R
Income	
Salary.....	1 100 000
Taxable capital gain.....	90 000
Local interest received (not from a tax free investment).....	92 000
Expenses	
Provident fund contributions	95 200

Notes:

First provisional tax payment. Mike's first provisional tax payment amounted to R8 100.

Employees' tax paid. Mike's employer withheld R135 500 in employees' tax for the first six months of the 2018 year of assessment. During the second six months R143 000 employees' tax was withheld.

REQUIRED:

Marks

Calculate the minimum amount that Mike needs to pay for his second provisional tax payment for the 2018 year of assessment, without incurring penalties and interest.

9

QUESTION 9.8 (16 marks, 29 minutes)

Tsego (38 years old and unmarried) is a registered provisional taxpayer and is employed as a human resources manager.

His second provisional tax payment is due on 28 February 2018 and he wants to pay the minimum amount without incurring penalties and interest.

The year of assessment, ended 29 February 2016 was the last year Tsego was assessed. The date of the assessment is 15 July 2016. According to this assessment, his taxable income was R535 000. The taxable income includes a taxable capital gain of R8 000, which he realised with the disposal of his primary residence during July 2015.

Tsego's calculated taxable income for the year of assessment ended 28 February 2017 is R578 000, according to his own calculation.

QUESTION 9.8 (continued)

Below are details of Tsego's income and expenses for the year of assessment ended 28 February 2018:

	R
Income	
Salary	720 000
Foreign dividends received	183 841
Expenses	
Medical aid fund contributions	36 000

Notes:

First provisional tax payment for the 2018 year of assessment. Tsego's first provisional tax payment amounted to R800.

Employees' tax paid. Tsego's employer withheld R200 185 in employees' tax for the 2018 year of assessment.

REQUIRED:**Marks**

- | | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| 1. Calculate the basic amount in respect of the second provisional tax payment, as it would appear on the IRP6 provisional tax return issued by SARS, for the 2018 year of assessment. | 4 |
| 2. Calculate the minimum amount that Tsego needs to pay for his second provisional tax payment for the 2018 year of assessment, without incurring penalties and interest. | 12 |

QUESTION 10.1 (14 marks, 25 minutes)

Jake Black is a South African resident. He was born on 19 August 1944. He made the following donations during the 2018 year of assessment:

- On 1 March 2017 he gave his wife, Jessie, the family residence which had originally cost R75 000 in 1965 when Jake bought the house. This house was valued at R890 000 on 1 March 2017.
- On the same day, he also donated his farm in Botswana to a friend, Blacky White. On 1 March 2017, this farm had a market value of R500 000. Jake inherited this farm from his late father on 1 March 1996. His father had been a resident of Botswana all his life.
- He waived a debt owed to him by his cousin, John Smith, a full-time university student, to whom he had lent R12 000 on 1 May 2016, at an interest rate of 8% per annum. The capital and the interest due were repayable to Jake on 1 May 2017, the date he waived the loan.
- On 1 August 2017, he gave 20 000 shares in Rugby Ltd to his younger daughter, Vincie Black. On 1 August 2017, a Rugby Ltd share had a market value of R8. Jake Black paid R100 000 for these shares in Rugby Ltd.
- On 1 December 2017, he gave Gary, a younger brother (who was then 35 years old) a usufruct on two-thirds of a commercial building Jake would own for the remainder of Gary's life. On the same day, he donated to Bakkies, a nephew (who was then 16 years old), the two-thirds share in the commercial building, subject to Gary's usufruct. On 30 November 2017, an independent third party valued the commercial building at R1 200 000.
- On 1 February 2018, he donated R25 000 to Unisa. The university used the donation to subsidise the salary they were paying to one of the professors in its Department of Taxation. Unisa qualifies as a public benefit organisation.

The dates of birth of the Black family are as follows:

Jessie Black	–	16 August 1946
Vincie Black	–	12 October 1970

REQUIRED:**Marks**

Using the following table, calculate the total donations tax payable by Jake Black as a result of the donations he made during the period 1 March 2017 to 28 February 2018:

14

Date	Donation	Amount	Exemptions	Taxable amount	Tax @ 20%	Reason
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QUESTION 11.1 (12 marks, 22 minutes)

When A (the holder of a usufruct over a property) died, B (a male of 38 years old and the bare dominium holder of the same property) received the full ownership of the property. The property was worth R1 750 000 at the time of A's death.

The property was originally left to B, subject to a lifelong usufruct in favour of A (a male aged 82 years and two months), when F died, exactly two years ago. In terms of F's will, B paid a bequest price of R10 000 to F's widow. The value of the property was R1 500 000 at the time of F's death.

REQUIRED:

Calculate the value of the usufruct in A's estate.

QUESTION 11.2 (20 marks, 36 minutes)

John Rupert died in Bloemfontein on 31 October 2017. He is survived by his wife, Petronella, to whom he was married out of community of property, and his two major daughters, Rosemary and Marinda.

The executor in John's estate found the following assets, liabilities and interest in the estate:

	R
1. Residence in Bloemfontein, valued at	1 250 000
2. Furniture and effects, valued at	300 000
3. Proceeds of policy A on John's life, collected by the executor Premiums plus 6% interest on this policy amounted to R30 000.	250 000
4. Proceeds of policy B on John's life, paid directly to Petronella Rupert in terms of a properly registered antenuptial contract	160 000

Premiums plus 6% interest on this policy amounted to R20 000. John paid the premiums on both policies A and B.

5. John was the recipient of an annuity of R10 000 per annum, paid to him from the profits of a business left to his brother Mark by their late father. These payments were to cease upon John's death. The annuity was created in their father's will.

John was born on 16 June 1957.
Mark was born on 10 March 1962.

- | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|
| 6. Fixed deposit with a bank
John made this investment on 31 May 2013, when his father died, utilising the R120 000 proceeds of an insurance policy he had taken out on his father's life in 2005. | 120 000 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|

QUESTION 11.2 (continued)

R

The estate duty attributable to this policy in his father's estate amounted to R8 000. It was paid in full by John as the beneficiary under the policy. (See rapid succession.)

7. Units in Super Growth Fund, valued at 5 250 000
8. There were no liabilities, except the Master's fees of R600 and the executor's remuneration amounting to R250 950.

John's will contain the following relevant provisions:

- An amount of R10 000 was bequeathed to a registered charitable organisation.
- The residence, furniture and effects were bequeathed to the surviving spouse.
- The residue of the estate was bequeathed to the daughters in equal shares.

REQUIRED:

Calculate the estate duty payable in this estate. Round your answer off to the nearest rand.

FARMING INCOME**12****QUESTION 12.1 (39 Marks, 70 minutes)**

Jan Jacobs, a childless widower of sixty-four years of age, farms mainly with avocado pears in Mpumalanga, but also grows vegetables and farms with chickens.

He also had a balance of farm capital development expenditure amounting to R3 000 brought forward from the previous year of assessment.

Jan presents you with the following information for the 2018 year of assessment:

	R
1. Income	
Local sales of avocado pears	60 000
Exports of avocado pears	180 000
Rebate received under an approved scheme for the promotion of exports	30 000
Local sales of eggs, chickens and vegetables	23 000
Proceeds of the sale of a tractor on 31 August 2017, which was purchased on 1 January 2017 for R60 000	64 000
Letting of part of the farm to another farmer who uses it to grow tobacco	4 800
Letting of grazing to a local farmer whose grazing was destroyed by fire	300
Interest on a private loan to a local farmer:	
- Paid for the period 1 March 2017 to 31 December 2017	13 250
- Owing for the period 1 January 2018 to 28 February 2018	1 250
2. Expenses	
Purchases of packing materials	700
Fuel, oil and the purchase of other consumable materials	7 900
Electricity costs (the Commissioner is satisfied that 20% of these costs relate to Jan's private home)	1 150
Telephone costs (the Commissioner is satisfied that 50% of these costs relate to Jan's private use)	1 080
Rations - for labourers (outside purchases)	10 000
- for labourers (produced on the farm at average cost of production)	6 000
- for Jan's private use (produced on the farm at average cost of production)	4 000
Cost of soil erosion works on the part of the farm Jan lets	6 300
Cost of eradicating noxious plants in the avocado orchards	1 500
Cost of extending the irrigation system	10 000
Cost of building a new farm store	8 800
Other farming expenses (all deductible for tax purposes)	121 680

PART

C

PART C: SUGGESTED SOLUTIONS

- 7 LUMP SUM BENEFITS**
- 8 NON-RESIDENTS**
- 9 PREPAID TAXES**
- 10 DONATIONS TAX**
- 11 ESTATE DUTY**
- 12 FARMING INCOME**
- 13 INTEGRATED QUESTIONS**

**SUGGESTED
SOLUTIONS**

SOLUTION 7.1**Calculation of Motomi's normal tax payable for the current year of assessment:**

	R	
Salary – Department of Agriculture (R20 000 x 8 months)	160 000	(1)
Bonus	20 000	(1)
Pension received (R17 000 x 4 months)	68 000	(1)
Endowment policy – capital nature (1)	-	
	<u>248 000</u>	
Entertainment expenses – non-deductible (1) s23(m)	(-)	
	<u>248 000</u>	
Less: Retirement fund contributions (R2 250 x 8 months = R18 000 + R100 000 = R118 000) (2)		
Percentage limit: 27.5% of the greater of:		
- Remuneration: [27.5% x (R160 000 + R20 000 + R68 000) = R68 200 (1)], or		
- Taxable income: [27.5% x R248 000 = R68 200 (1)]		
Limited to the lesser of: R350 000 (1), or R68 200 (1), therefore deduct actual	<u>(68 200)</u>	(1)
Taxable income	<u>179 800</u>	
Lump sum		
Lump sum received from government pension fund:	R2 750 000	
Amount included in gross income per formula C:		
Formula C: A = B/C x D		
B = 19 (complete years since 1/3/98)		(1)
D = R2 750 000 (lump sum received)		(1)
C = 32 (total years' service)		(1)
A = R1 632 813 (19/32 x R2 750 000)		
Amount of government pension fund lump sum included in gross income	1 632 813	(1)
Less: Allowable deductions		
Retirement fund contributions disallowed in current year (R118 000 – R68 200)	(49 800)	(1)
Taxable portion of retirement lump sum	<u>1 583 013</u>	
Tax payable on taxable income excluding lump sum (R179 800 x 18%)	32 364	(1)
Less: Rebates	<u>(21 114)</u>	(1)
Tax payable on income excluding lump sum	11 250	
Tax payable on taxable portion of lump sum (R130 500 + (36% x (R1 583 013 - R1 050 000)))	<u>322 385</u>	(1)
Total tax payable	<u>333 635</u>	

SOLUTION 7.3

Salary until retirement – (R30 000 x 8 months)	R	R	
Pension after retirement – (R12 000 x 4 months)		240 000	(1)
Purchased annuity	14 400	48 000	(1)
The capital element of the purchased annuity is determined as follows in terms of section 10A of the Act:			
Y = A/B x C			
= R100 000/(R1 200 x 12 months x 21,47 years) x R14 400			
= R100 000 (1)/ R309 168(1) x R14 400 (1)			
= R4 658 (is capital in nature and therefore not taxable)	<u>(4 658)</u>	9 742	(1)
Gift from colleagues – capital (1)(not remuneration for services rendered)		-	
Long-service award – (R5 658 - R5 000)		<u>658</u>	(1)
		298 400	
Less: Retirement fund contributions	= R27 000		
Pension fund contributions - R2 400 x 8 months	= R19 200		
Disallowed pension fund contributions in prior years	= R15 750		
Total contributions	= <u>R61 950</u>		(2)
Percentage limit: 27.5% of the greater of:			
- Remuneration: [27.5% x R298 400 = R82 060(1)], or			
- Taxable income: [27.5% x R298 400 = R82 060 (1)]			
Limited to the lesser of: R350 000 (1), or R82 060			
Therefore allow actual		<u>(61 950)</u>	(1)
Taxable income		<u><u>236 450</u></u>	
Taxable amount of lump sums:			
Lump sum received from employer		28 000	(1)
Lump sum from pension fund	1 198 000		
Less: Allowable deductions			
Retirement fund contributions not allowed as a deduction [R27 000 + R15 750 + R19 200 – R61 950]		<u>(0)</u>	(1)
Taxable portion of retirement fund lump sum benefit		<u>1 198 000</u>	
Taxable portion of lump sums		<u><u>1 226 000</u></u>	
Calculation of total tax			
Tax payable on taxable income excluding lump sums:		46 286	(1)
(R236 450 – R189 880) x 26% + R34 178			
Less: Primary rebate		(13 635)	(1)
Medical scheme fees tax credit [(R303 + R303) x 12]		(7 272)	(2)
Additional qualifying medical expense tax credit			
Contributions	14 000		(1)
Less: 3 x R7 272 [(R303 + R303) x 12](2)	<u>(21 816)</u>		
Excess contributions	0		(1)
Qualifying expenses	<u>35 500</u>		(1)
	<u>35 500</u>		
R35 500 x 33.3%		<u>(11 822)</u>	(1)
Tax payable on taxable income (excluding lump sum)		13 557	
Tax payable on taxable portion of lump sums			
[R130 500 + (36% x (R1 226 000 - R1 050 000))]		<u>193 860</u>	(1)
Total tax payable		<u><u>207 417</u></u>	

SOLUTION 7.4**Calculation of Mrs Happy's net normal tax for the year of assessment ended 28 February 2018:**

	R	R	
Salary and bonus		500 000	
Retirement annuity fund income		66 000	
Pension benefit (R500 000 x 8%)		40 000	(1)
Medical aid benefit: 11-month period (R33 000/0.75 x 0.25)		11 000	(1)
Medical aid benefit: 1-month period (R1 000): no value (1) (<i>payment for deceased employee's dependant</i>) par 12A(5)(b)		-	
		<hr/>	
		617 000	
Less: Pension fund contributions – employee: R40 000 (1)			
– employer: R40 000 (1)			
– voluntary: R80 000 (1)			
Previously disallowed pension fund contributions: <u>R12 000 (1)</u>			
Total: <u>R172 000</u>			
Percentage limit: 27.5% of the greater of:			
- Remuneration: [27.5% x R617 000 = R169 675], or			
- Taxable income: [27.5% x R617 000 = R169 675 (1)]			
Limited to the lesser of:			
R350 000 (1), or R169 675; Therefore		<hr/>	(169 675) (1)
Taxable income		<hr/> <hr/>	447 325
Calculation of taxable amount of lump sums:			
Lump sum from employer (severance benefit)		25 000	(1)
Lump sum from pension fund	1 200 000		
Less: Allowable deductions			
Pension fund contributions not allowed as a deduction [R172 000 – R169 675 = R2 325 (1)] not allowed as a deduction at death, is an asset of deceased estate, Estate Duty Act s 3(2)(bA)(refer text book 12.3.2.3)		<hr/>	(0)
Taxable portion of retirement lump sum		<hr/>	1 200 000
Taxable portion of lump sums		<hr/> <hr/>	1 225 000
Tax payable on taxable income excluding lump sums: (R447 325 – R410 460) x 36% + R97 225		110 496	(1)
Less: Rebate (R13 635 x 337/365 days)		(12 589)	(1)
Medical scheme fees tax credit [(R303 + R303) x 11 mths]		(6 666)	(1)
Additional qualifying medical expense tax credit			
Medical aid contributions	33 000		(1)
Medical fringe benefit	11 000		(1)
Less: 4 x R6 666 [(R303 + R303) x 11 mths] (2)	<hr/>	(26 664)	
		17 336	
Add: Qualifying medical expenses		<hr/>	
		0	
		<hr/>	
		17 336	
As exceeds: 7,5% x R447 325 (1)		<hr/>	(33 549)
		<hr/>	
		-	
No additional qualifying medical expense tax credit		<hr/>	(1)
		91 241	
Tax on lump sums = R130 500 + (R1 225 000 - R1 050 000) x 36% (1)		<hr/>	193 500
Total tax		<hr/> <hr/>	284 741

SOLUTION 7.5

Calculation of the taxable income of Mickey Mouse for the year of assessment ended 28 February 2018:

	R	R	
Salary (R17 000 x 10 months)		170 000	(1)
Entertainment allowance (R1 100 x 10 months)		11 000	(1)
Bonus		17 000	(1)
Medical fringe benefit (R2 100 x 10 months)		21 000	(1)
Income – services rendered		13 000	(1)
Pension received (R6 800 x 2 months)		13 600	(1)
Purchased annuities (R6 250 x 2 months)	12 500		
Less: Capital portion			
A/B x C = R550 000/(R6 250 x 12 months x 10 years) x R12 500	<u>(9 167)</u>	3 333	(3)
Foreign dividends	4 280		
Less: Exemption (R4 280 x 25/45)	<u>(2 378)</u>	1 902	(1)
Interest – local bank	35 900		
Interest exemption	<u>(34 500)</u>	1 400	(1)
Dividends – South African companies – exempt		-	(1)
		<u>252 235</u>	
Less: Pension fund contributions – R3 660 x 10 months = R 36 600 (1)			
Previously disallowed pension fund contributions = R290 670 (1)			
Total <u>R327 270</u>			
Percentage limit: 27.5% of the greater of:			
- Remuneration: [27.5% x (R170 000 + R11 000 + R17 000 + R21 000 + R13 600 + R3 333) = R64 882 (1)], or			
- Taxable income: [27.5% x R252 235 = R69 365 (1)]			
Limited to the lesser of: R350 000, or R69 365; Therefore		<u>(69 365)</u>	(2)
Taxable income		<u>182 870</u>	
Calculation of taxable portion of lump sums			
Lump sum from employer		46 500	(1)
Pension fund lump sum	800 000		
Less: Allowable deductions			
Contributions previously disallowed (R327 270 – R69 365)	<u>(257 905)</u>		(2)
Taxable portion of retirement lump sum		<u>542 095</u>	
Taxable portion of lump sums		<u>588 595</u>	
Normal tax on taxable income excluding lump sums (R182 870 x 18%)		32 917	(1)
Less: Rebates		(21 114)	(1)
Medical scheme fees tax credit (R303 x 2 x 10)		(6 060)	(1)
Additional qualifying medical expense tax credit			
Medical fund contributions (fringe benefit above)	21 000		(1)
Less: 3 x R6 060 [R303 x 2 x 10] (2)	<u>(18 180)</u>		
Excess medical contributions	<u>2 820</u>		
(R2 820 x 33.3%)		<u>(939)</u>	(1)
Net normal tax on taxable income excluding lump sums		4 804	
Tax payable on taxable portion of lump sums (R588 595 - R500 000) x 18%		<u>15 947</u>	(1)
Total tax payable		<u>20 751</u>	

SOLUTION 7.6

	R	R	
Salary		126 000	
Gratuity from employer *1		18 000	(1)
Accumulated leave pay *1		16 000	(1)
Restraint of trade payment received s1(cA)		59 000	(1)
Gift from colleagues (capital) (1)		-	
Taxable income B&B (payment not deductible; capital of nature) (1)		15 000	(1)
Taxable foreign dividend	1 852		
Less: Exemption (R1 852 x 25/45)	<u>(1 029)</u>	823	(1)
Local dividends	2 000		
Less: Exempt (1) s 10(1)(k)	<u>(2 000)</u>	-	
		<u>234 823</u>	
Less: Pension fund contributions = R10 000			
RAF contributions = <u>R14 000</u>			
Total <u>R24 000</u> (2)			
Percentage limit: 27.5% of the greater of:			
- Remuneration: [27.5% x (R126 000 + R18 000 + R16 000 + R59 000) = R60 225 (1), or			
- Taxable income: [27.5% x R234 823 = R64 576 (1)]			
Limited to the lesser of:			
R350 000 (1), or R64 576			
Therefore allow actual		<u>(24 000)</u>	(1)
Taxable income		<u>210 823</u>	
Calculation of taxable portion of lump sum			
Pension fund lump sum	490 000		
Less: Allowable deductions			
Retirement fund contributions disallowed (R24 000 - R24 000)	<u>(0)</u>		(1)
Taxable portion of retirement lump sum		<u>490 000</u>	
Normal tax on taxable income excluding lump sum (R210 823 - R189 880) x 26% + R34 178		39 623	(1)
Less: Rebates		(13 635)	(1)
Medical scheme fees tax credit [(R303 + R303 + R204) x 12]		(9 720)	(1)
Additional qualifying medical expense tax credit (disabled dependant)			
Medical aid contributions	42 000		(1)
Less: 3 x R9 720 [(R303 + R303 + R204) x 12] (2)	<u>(29 160)</u>		
Excess contributions	12 840		
Add: Qualifying expenses	1 500		(1)
Qualifying expenses	3 500		(1)
	<u>17 840</u>		
(R17 840 x 33.3%)		<u>(5 941)</u>	(1)
Net normal tax		10 327	
Tax on lump sum benefit (R490 000 - R25 000) x 18%		<u>83 700</u>	(1)
Total tax payable		<u>94 027</u>	

*1 As Craig was only 50 years old, did not retire due incapability to do work or was not retrenched, the gratuity and accumulated leave pay are not "severance benefits" as defined and are therefore not taxable as lump sums.

SOLUTION 7.7

	R	R
Taxable amount = R1 280 000 [R700 000 + R580 000] (2)		
Tax = R130 500 + (R1 280 000 - R1 050 000) x 36% =		213 300 (1)
Less: Notional tax on R580 000 (retirement annuity fund lump sum) (R580 000 - R500 000) x 18% =		<u>(14 400) (2)</u>
Tax on pension fund lump sum		<u>198 900</u>

SOLUTION 7.8

Tax on severance benefit:

Taxable amount = R610 000 [R90 000 + R520 000] (1)		
Tax = (R610 000 - R500 000) x 18% =		19 800 (1)
Less: Notional tax on R520 000 (retirement annuity fund lump sum) (R520 000 - R500 000) x 18% =		<u>(3 600) (2)</u>
Tax on severance benefit		<u>16 200</u>

Tax on pension fund lump sum benefit:

Pension fund lump sum	500 000	
Less: Allowable deductions		
Pension fund contributions disallowed (current year)	(3 000)	(1)
Previous years' pension fund contributions disallowed	(7 000)	(1)
Transfer to approved pension preservation fund	<u>(100 000)</u>	(1)
Taxable portion of pension fund lump sum	390 000	

Taxable amount = R1 000 000 [R390 000 + R90 000 + R520 000] (2)		
Tax = (R36 000 + (R1 000 000 - R700 000)) x 27% =		117 000 (1)
Less: Notional tax on R610 000 [R90 000 + R520 000] (severance benefit + retirement annuity fund lump sum) (R610 000 - R500 000) x 18% =		<u>(19 800) (3)</u>
Tax on pension fund lump sum		<u>97 200</u>

Total tax on severance benefit and retirement fund lump sum (R16 200 + R97 200)		<u>113 400 (1)</u>
------------------------------------------------------------------------------------	--	--------------------

SOLUTION 8.1**1.1 Calculation of George's taxable income for the 2018 year of assessment:**

	R	R	
Net royalties		60 000	(1)
Interest – overseas bank account		12 500	(1)
Return from a fixed-property collective investment scheme - interest	20 700		
Less: Interest exemption	<u>(20 700)</u>	Nil	(1)
Income from equity collective investment scheme			
- financed by dividends (R20 000 x 80%) SA dividends - exempt		Nil	(1)
- financed by interest (R20 000 x 20%)	4 000		
Less: Interest exemption (R23 800 - R20 700)	<u>(3 100)</u>	900	(1)
Emoluments as a director of a foreign company (SA resident, thus gross income)		<u>24 000</u>	(1)
TAXABLE INCOME		<u><u>97 400</u></u>	

1.2 Calculation of Ryno's taxable income for 2018 year of assessment:

	R	R	
Royalties	80 000		
Exempt s10(1)(l)	<u>(80 000)</u>	nil	(1)
Taxable income from business activities		120 000	(1)
Rental income - house Australia (not an SA source)		nil	(1)
- house in Cape Town		24 000	(1)
Return from a fixed-property collective investment scheme - interest	8 000		
Less: Interest exemption – R23 800 limited to (note 1)	<u>(8 000)</u>	nil	(1)
Income from an equity collective investment scheme			
- financed by dividends – exempt SA dividends		nil	(1)
- financed by interest (R18 000 x 40%)	7 200		(1)
Less: Interest exemption (R23 800 - R8 000) limited to actual	<u>(7 200)</u>	<u>nil</u>	(1)
TAXABLE INCOME		<u><u>144 000</u></u>	

Note:

- Ryno is not entitled to the section 10(1)(h) exemption because he is carrying on business in the Republic, but he is still entitled to the general investment exemption.

1.3 Withholding tax on royalties:

(R80 000 x 15%)	R	
	<u><u>12 000</u></u>	(2)

SOLUTION 8.2

1. Calculation of taxable income of a resident for the year of assessment ended 28 February 2018:

	R	R	
Foreign dividends ((R4 468 + R496) x 50%) (note)	2 482		(1)
Less: s10B partial exemption (R2 482 x 25/45)	<u>(1 379)</u>	1 103	(1)
South African savings account (R31 880 x 50%) (note)	15 940		(1)
Less: Interest exemption (R34 500) limited to	<u>(15 940)</u>	-	(1)
Royalties - design - SA resident (R59 160(1) - R9 160(1))		50 000	
Rental SA resident [(R38 000 + R30 000) x 50%] (note)		<u>34 000</u>	(2)
		85 103	
Holiday apartment - capital gain		<u>46 250</u>	(1)
Taxable income		<u><u>131 353</u></u>	

2. Calculation of net normal tax payable by a non-resident for the year of assessment ended 28 February 2018:

	R	
Canadian dividends - not a SA source	-	(1)
Interest on savings account - SA – exempt (interest paid by bank, s50D)	-	(1)
Design royalties - exempt – s10(1)(l)	-	(1)
Rent received - SA property	30 000	(1)
Rent received - Canadian property - not SA source	-	(1)
Sale of holiday apartment - not SA source	<u>-</u>	(1)
Taxable income	<u>30 000</u>	
Tax on R30 000 @ 18%	5 400	
Less: Primary rebate - R13 635 limited to	<u>(5 400)</u>	(1)
Normal tax payable	<u><u>-</u></u>	

Withholding tax: R59 160 (full amount received) x 15% = R8 874 (1)

Note: Where a person is married in community of property then both spouses' "investment" income is added together and taxed 50/50 in each person's hands.

SOLUTION 8.3

1. Calculation of taxable income

	R	
Consulting fees – German clients (not SA source)	0	(1)
Interest received (exempt: s50D, interest paid by bank)	0	(1)
Rental income	148 000	(1)
Royalties (exempt: s10(1)(l))	0	(1)
Consulting fee – SA company (not SA source)	<u>0</u>	(1)
TAXABLE INCOME	<u><u>148 000</u></u>	

2. Calculation of withholding tax

Withholding tax (R131 500 (1) x 15% (1)) = R19 725

PREPAID TAXES

9

SOLUTION 9.1

	R	
Remuneration		
Salary	9 500	(1)
Cell phone allowance	513	(1)
Use of motor vehicle - fringe benefit $R199\,500 \times 85\% \text{(1)} \times 3,5\% \text{(1)} \times 1 \text{ month} \times 80\% \text{(1)}$	4 748	
Housing – fringe benefit $(A - B) \times C/100 \times D/12$ $A = (R9\,500 + R513 + R4\,784) \times 12 = R177\,132 \text{(2)}$ $(R177\,132 - R75\,750) \text{(1)} \times 18/100 \text{(1)} \times 1/12 \text{(1)}$	1 521	
Use of gym – benefit excluded(1) (place of recreation for all employees par10(2)(c))	-	
	<u>16 282</u>	
Income protection premiums– not deductible	-	(1)
Cell phone expenses – not deductible	-	(1)
Less: Provident fund contributions – R990 Percentage limit: 27.5% of: - Remuneration: $[27.5\% \times R16\,282 = R4\,478]$, Limited to the lesser of: $R350\,000/12 = R29\,167$, or R4 478		
Therefore allow actual	<u>(990)</u>	(1)
Balance of remuneration	<u>15 292</u>	
Annual equivalent (R15 292 x 12 months (1))	183 504	
Tax (R183 504 x 18%)	33 031	
Less: Rebate	<u>(13 635)</u>	(1)
Tax for the year	<u>19 396</u>	
Employees' tax for the month (R19 396/12 (1) months)	<u>1 616</u>	

SOLUTION 9.2

	R	
Calculation of employees' tax		
Monthly remuneration		
Salary	15 500	(1)
Travel allowance (R12 000 x 80%)	9 600	(1)
Medical benefit (R500/0.20 x 0.80)	2 000	(1)
Gratuities – annual amounts	-	(1)
Entertainment allowance	200	(1)
Remuneration	<u>27 300</u>	
Less: Pension fund contributions - R1 300 Percentage limit: 27.5% of: - Remuneration: $[27.5\% \times R27\,300 = R7\,508]$, Limited to the lesser of: $R350\,000/12 = R29\,167$, or R7 508		
Therefore allow actual	<u>(1 300)</u>	(3)
Balance of remuneration	<u>26 000</u>	

SOLUTION 9.2 (continued)

	R	
Annual equivalent of remuneration (R26 000 x 12 months)	<u>312 000</u>	(1)
Employees' tax on annual equivalent of remuneration (R312 000 - R296 540) x 31% + R61 910	<u>66 703</u>	(1)
Less: Primary rebate	(13 635)	(1)
Age rebate	(7 479)	(1)
Medical scheme fees tax credit (R303 x 12)	(3 636)	(1)
Additional qualifying medical expense tax credit – not allowed for employees' tax (1)		
	<hr/>	
Employees' tax for the year (T ₂)	<u>41 953</u>	
Employees' tax per month (R41 953/12 months)	<u><u>3 496</u></u>	(1)
Total remuneration		
Annual equivalent of remuneration	312 000	
Add: Annual payments received – not a severance benefit	-	
Leave pay received	41 600	(1)
Bonus received (no exemption – cash)	<u>27 000</u>	(1)
Total annual equivalent of remuneration	<u><u>380 600</u></u>	
Tax per tax table (R380 600 - R296 540) x 31% + R61 910	87 969	
Less: Rebate (R13 635 + R7 479)	(21 114)	
Medical scheme fees tax credit (R303 x 12)	(3 636)	
Additional qualifying medical expense tax credit – not allowed for employees' tax		
	<hr/>	
Employees' tax for the year on total remuneration (T ₁)	63 219	(1)
Less: Employees' tax for the year on the annual equivalent of monthly remuneration (T ₂)	<u>(41 953)</u>	
Employees' tax on annual payments	<u><u>21 266</u></u>	(1)
Total employees' tax deducted for August 2017:		
Employees' tax on monthly income	3 496	(1)
Add: Employees' tax on the cash bonus	<u>21 266</u>	(1)
	<u><u>24 762</u></u>	

The lump sum of R400 000 is below the R500 000 tax-free portion and thus not taxable.

SOLUTION 9.3**Section A****Calculation of the first provisional tax payment**

	R	
Payable on or before 31 August 2017		
Basic amount R120 000 (note 1)		
Normal tax payable on R120 000 ($R120\,000 \times 18\%$)	21 600	(1)
Less: Primary rebate	<u>(13 635)</u>	<u>(1)</u>
	<u>7 965</u>	
One half thereof ($R7\,965/2$)	3 983	(1)
Less: Employees' tax ($R500 \times 6$ months)	<u>(3 000)</u>	<u>(1)</u>
First provisional tax payment	<u>983</u>	

Calculation of the second provisional tax payment

Payable on or before 28 February 2018. Taxable income is less than R1 million; therefore calculated by using 90% of the estimate of R95 000 because it is less than the basic amount of $(R120\,000 + 8\% + 8\%) = R120\,000 + R9\,600 + R9\,600 = R139\,200$. (2)

	R	
Normal tax payable on R85 500 ($90\% \times R95\,000$)		
Normal tax payable ($R85\,500 \times 18\%$)	15 390	(1)
Less: Primary rebate	<u>(13 635)</u>	
Normal tax liability	1 755	
Less: Employees' tax (actual for year)	6 000	(1)
First provisional payment (see above)	<u>983</u>	<u>(1)</u>
Second provisional payment (note 2)	<u>nil</u>	

Notes:

1. The 2016 assessment can be used as it was received at least 14 (fourteen) days before 31 August 2017, the latest date on which the first provisional payment must be made. The basic amount (2016 assessment) is from a year of assessment that ended more than a year before the provisional estimate is due. However, when the 1st provisional payment is made on 31 August 2017, more than 18 months will not have passed (since 29 February 2016); therefore the basic amount should **not** be increased by 8% per year. However, assuming that only the 2016 year has still been assessed, when the second provisional payment is made on 28 February 2018, more than 18 months will have passed (since 29 February 2016); therefore for the second provisional payment, the basic amount should be increased by 8% per year (2017 and 2018). (3)
2. Koos is required to estimate his taxable income for the second payment. If he does not agree with the Commissioner's estimate and the calculation of the tax payable, he may fill in a different figure on the IRP6 form. If his estimate is lower than the lesser of 90% of actual taxable income for the 2018 year of assessment or the basic amount (of R139 200), he will be liable for 20% additional tax on the difference between the tax payable on his estimate and the tax payable on the lesser of 90% of actual taxable income for the 2018 year of assessment or the basic amount.

SOLUTION 9.3 (continued)

Section B

Calculation of the total employees' tax Wandi has to pay for the current year of assessment:

In order to calculate the employees' tax payable the remuneration has to be calculated.

	R	
Salary received	16 000	(1)
Interest received (not remuneration as defined)(1)	-	
Travel allowance received (80% x R6 000)	4 800	(1)
Remuneration	<u>20 800</u>	
Less: Pension fund contributions - R1 400		
Percentage limit: 27.5% of:		
- Remuneration: [27.5% x R20 800 = R5 720],		
Limited to the lesser of: R350 000/12 = R29 167, or R5 720		
Therefore allow actual	<u>(1 400)</u>	(2)
Balance of remuneration	<u>19 400</u>	
Annual equivalent remuneration (R19 400 x 12 months)	232 800	(1)
Add: Annual amounts received		
Commission on sales	8 000	(1)
Bonus received	<u>11 000</u>	(1)
Total annual equivalent remuneration	<u>251 800</u>	
Tax per tax table (R251 800 - R189 880) x 26% + R34 178	50 277	(1)
Less: Rebate	(21 114)	(1)
Medical scheme fees tax credit (R303 x 12)	(3 636)	(1)
Additional qualifying medical expense tax credit – not allowed for employees' tax (1)		
Employees' tax for the year	<u>25 527</u>	

Note: Only one calculation was needed to calculate the employees' tax because Wandi worked for the same employer for the full year of assessment and you were asked to calculate employees' tax for the **year** of assessment. You only need to apply T_1 and T_2 where the taxpayer has worked for less than 12 months in the current year of assessment and they earn an annual amount, or where you are asked to calculate employees' tax for a specific month and an annual amount was earned during that month.

Section C

Calculation of Loraine's first provisional tax payment for the current year of assessment:

	R	
Estimated total taxable income (basic amount)	<u>220 000</u>	(1)
Tax on taxable income (R220 000 - R189 880) x 26% + R34 178	42 009	
Less: Rebate	<u>(13 635)</u>	(1)
Total tax for the full year	<u>28 374</u>	
Tax for this period (R28 374/2)	14 187	(1)
Less: Prepaid tax		
Employees' tax in respect of this tax year	<u>(21 500)</u>	(1)
Provisional tax payable	<u>Nil</u>	

SOLUTION 9.4**Section A****Calculation of employees' tax for month of June 2017:**

	R	
Monthly balance of net remuneration		
Salary	15 000	(1)
Travel allowance (R6 000 x 80%)	4 800	(1)
Medical benefit (R1 250 x 3 x 2/3)	2 500	(1)
Interest received (not remuneration as defined) (1)	-	
Net remuneration	22 300	
Less: Pension fund contributions: 7% x R15 000 = R1 050		
Percentage limit: 27.5% of:		
- Remuneration: [27.5% x R22 300 = R6 133],		
Limited to the lesser of:		
R350 000/12 = R29 167, or		
R6 133		
Therefore allow actual	(1 050)	(2)
Balance of remuneration	21 250	
Annual equivalent of remuneration (R21 250 x 12 months)	255 000	(1)
Employees' tax on annual equivalent of remuneration (R255 000 - R189 880) x 26% + R34 178	51 109	(1)
Less: Primary rebate	(13 635)	(1/2)
Age rebate	(7 479)	(1/2)
Medical scheme fees tax credit (R303 x 12)	(3 636)	(1)
Additional qualifying medical expense tax credit – not allowed for employees' tax (1)		
Employees' tax for the year	26 359	
Employees' tax for June (R26 359/12 months)	2 197	(1)

Section B

- A1** Remuneration
A2 six (6)
A3 seven (7)
A4 interest
A5 90%
A6 20%

- B1** False
B2 False – it's a penalty of 20%
B3 False – provisional tax is not the employer's responsibility

SOLUTION 9.5

1. Calculation of the employees' tax that should have been deducted by Quickfix Ltd for the year of assessment ended 28 February 2018:

	R	
Salary (R20 000 x 6 months)	120 000	(1)
Interest (not remuneration) (1)	-	
Dividends (not remuneration) (1)	-	
Residential benefit ((R234 800 - R75 750) x 19% x 6/12)	15 110	(3)
Medical benefit – (R2 800 x 6 months) (no benefit after retirement)	<u>16 800</u>	(2)
	151 910	
Less: Pension fund contributions - R10 800, Percentage limit: 27.5% of: - Remuneration: [27.5% x R151 910 = R41 775], Limited to the lesser of: R350 000/2 = R175 000, or R41 775 Therefore allow actual	<u>(10 800)</u>	(3)
Balance of remuneration	<u>141 110</u>	
Annual equivalent (R141 110 x 12/6 months)	<u>282 220</u>	(1)
Thus tax on R282 220 (R282 220 – R189 880) x 26% + R34 178	58 186	
Less: Rebates 65 years and older Medical scheme fees tax credit (R303 x 12) Additional qualifying medical expense tax credit – not allowed for employees' tax (1)	(21 114) (3 636)	(1) (1)
	<u>33 436</u>	
Employees' tax for 6 months (R33 436 x 6/12)	<u>16 718</u>	(1)

2. Calculation of second provisional tax payment on 28 February 2018:

Estimated taxable income

	R	
Quickfix Ltd - (as above)	141 110	(1)
Pension fund - (R15 000 x 6 months)	90 000	(1)
Dividends - SA companies (exempt) (1)	-	
Interest (R51 500 - R34 500)	<u>17 000</u>	(1)
Estimated taxable income	<u>248 110</u>	
Basic amount (given)	265 000	

2nd payment

Use lesser of 90% x estimate (R248 110 x 90% = R223 299), or basic amount (R265 000 given)	(1) (1)
∴ use R223 299	(1)

SOLUTION 9.5 (continued)

	R	R
Tax (R223 299 - R189 880) x 26% + R34 178		42 867
Less: Rebates		(21 114) (1)
Medical scheme fees tax credit (R303 x 12)		(3 636) (1)
Additional qualifying medical expense tax credit		
Medical aid contributions [(R2 800 x 6) + (R200 x 12)]	19 200	(1)
Less: 3 x R3 636 [R303 x 12] (2)	(10 908)	
Excess contributions	<u>8 292</u>	
		<u>(2 761) (1)</u>
		15 356
Less: Employees' tax already deducted:		
- by Quickfix Ltd		(16 718) (1)
- by the pension fund (R940 x 6 months)		(5 640) (1)
1st provisional payment		<u>- (1)</u>
Provisional tax payable		<u>-</u>

SOLUTION 9.6**1. Calculation of the employees' tax that should have been deducted from Mr Moyo's income from employment for the month of December:**

	1 month R	
Salary	15 000	(1)
Use of employer vehicle	3 000	(1)
Rent received (not remuneration) (1)	-	
	<u>18 000</u>	
Less: Provident fund contributions: 8% x R15 000 = R1 200		
Percentage limit: 27.5% of:		
- Remuneration: [27.5% x R18 000 = R4 950],		
Limited to the lesser of: R350 000/12 = R29 167, or R4 950		
Therefore allow actual	(1 200)	(1)
Net remuneration	<u>16 800</u>	
Annual equivalent (R16 800 x 12)	<u>201 600</u>	(1)
Tax thereon (R201 600 - R189 880) x 26% + R34 178	37 225	(1)
Less: Rebates	(13 635)	(1)
Medical scheme fees tax credit (R303 x 2 x 12)	(7 272)	(1)
Additional qualifying medical expense tax credit – not allowed for employees' tax (1)		
	<u>16 318</u>	
Monthly employees' tax (R16 318/12 months)	<u>1 360</u>	(1)
Annual equivalent (above)	201 600	
Add: Provident fund contributions deduction (above) (R1 200 x 12 months)	14 400	(1)
Add: Bonus	30 000	(1)
	<u>246 000</u>	
Less: Provident fund contributions: 8% x [(R15 000 x 12) + R30 000] (1) = R16 800		
Percentage limit: 27.5% of:		
- Remuneration: [27.5% x R246 000 = R67 650],		
Limited to the lesser of: R350 000, or R67 650		
Therefore allow actual	(16 800)	(1)
Total annual equivalent net remuneration	<u>229 200</u>	

SOLUTION 9.6 (continued)

	R	
Tax thereon (R229 200 - R189 880) x 26% + R34 178	44 401	
Less: Rebates	(13 635)	
Medical scheme fees tax credit (R303 x 2 x 12)	(7 272)	
Additional qualifying medical expense tax credit – not allowed for employees' tax		
Employees' tax for the year on total remuneration (T ₁)	23 494	
Less: Employees' tax on annual equivalent	(16 318)	(1)
Employees' tax on bonus less additional provident fund deduction	7 176	

Total employees' tax for December R1 360 + R7 176 = R8 536 **(1)**

2. Calculation of the minimum amount on which Mr Moyo will be allowed to base the second provisional tax payment on without incurring any penalty:

	R
Taxable income for 2018	<u>291 000</u>
90% thereof (1)	<u>261 900</u>

Thus use R261 900 as it is less than R310 000. **(1)**

3. Calculation of underestimation penalty (assuming estimate of taxable income is incorrect):

Taxable income < R1 million and estimate of R261 900 was lower than:

- basic amount of R310 000 and **(1)**
- 90% **(1)** x R338 000 **(1)** = R304 200

Therefore, minimum estimate for second provisional payment should have been R304 200*.

Normal tax on R304 200 [R61 910 + (R304 200 - R296 540) x 31%]	64 285	(1)
<u>Less: Primary rebate</u>	(13 635)	(1)
Medical scheme fees tax credit [(R303 x 2) x 12]	(7 272)	(1)

Less: Additional qualifying medical expense tax credit:

Medical aid contributions:		
Employee (R2 500 x 12)	30 000	(1)
Employer	0	
	30 000	
<u>Less: 4 x medical scheme fees tax credit</u> [(R303 x 2) x 12 x 4]	(29 088)	(1)
Excess contributions	912	

SOLUTION 9.6 (continued)

	R	R	
Amount brought forward	912		
<u>Add: Qualifying medical expenses (R1 000 x 12)</u>	<u>12 000</u>		(1)
	12 912		
As exceeds (7,5% x R304 200)	<u>(22 815)</u>		(1)
Additional qualifying medical expense tax credit	0	<u>0</u>	(1)
Net normal tax on R304 200		43 378	
<u>Less: Employees' tax paid</u>		(29 671)	(1)
First provisional tax payment		(1 500)	(1)
Second provisional tax payment		<u>(2 904)</u>	(1)
Second provisional tax payment shortfall		<u>9 303</u>	
Penalty @ 20%		<u>1 860</u>	(1)

* *Second provisional tax payment for taxpayers with taxable income < R1 million: these taxpayers may submit an estimate lower than the basic amount. However, to avoid the levying of an underestimation penalty the estimate must at least be the lower of: the basic amount, or 90% of assessed taxable income. As assessment only occurs after 28 February 2018, it is important that the taxpayer ensure that his estimate of taxable income is accurate.*

SOLUTION 9.7

Calculation of minimum 2nd provisional tax payment:

	R	R	
Salary		1 100 000	
Taxable capital gain (included, taxable income > R1 000 000)		90 000	(1)
Local interest	92 000		
Less: Interest exemption	<u>(23 800)</u>	<u>68 200</u>	(1)
		1 258 200	
Less: Provident fund contributions: R95 200			
Percentage limit: 27.5% of:			
- Remuneration: [27.5% x R1 258 200 = R346 005],			
Limited to the lesser of:			
R350 000, or			
R346 005			
Therefore allow actual		<u>(95 200)</u>	(1)
Taxable income		<u><u>1 163 000</u></u>	
Taxable income > R1million			
Therefore:			
R1 163 000 x 80% (1) =		<u>930 400</u>	
Tax (R930 400 – R708 310) x 41% + R209 032		300 089	(1)
Less: Rebate		<u>(13 635)</u>	(1)
		286 454	
Less: First provisional payment		(8 100)	(1)
Employees' tax - 1st 6 months		(135 500)	(1)
Employees' tax - 2nd 6 months		<u>(143 000)</u>	(1)
Minimum amount payable:		<u><u>nil</u></u>	

SOLUTION 9.8

1. Calculation of basic amount:	R	R	
Taxable income 2016		535 000	(1)
Less: Taxable capital gain		<u>(8 000)</u>	(1)
		527 000	
Add: 8% adjustment per year not assessed at date of provisional tax date: (more than 18 months elapsed since end of last assessed year) (R527 000 x 8% (1) x 2 years (1))		<u>84 320</u>	
Basic amount on IRP6		<u><u>611 320</u></u>	

2. Calculation of minimum 2nd provisional tax payment:

Salary		720 000	
Foreign dividends	183 841		
Less: Partial exemption (R183 841 x 25/45)	<u>(102 134)</u>	81 707	(1)
TAXABLE INCOME		<u><u>801 707</u></u>	

Taxable income < R1million; therefore 2nd provisional tax payment may be based on lower of:

R801 707 x 90% (1) = R721 536

Or basic amount = R611 320

Therefore use basic amount as it is lower:

Tax on R611 320 (R611 320 – R555 600) x 39% + R149 475		171 206	(1)
Less: Rebate		(13 635)	(1)
Medical scheme fees tax credit (R303 x 12)		(3 636)	(1)
Additional qualifying medical expense tax credit			
Medical aid fund contributions	36 000		(1)
Less: 4 x R3 636 (R303 x 12) (2)	<u>(14 544)</u>		
Excess contributions	21 456		
As exceeds: 7,5% of R611 320	<u>(45 849)</u>		(1)
	<u>-</u>	-	
		<u>153 935</u>	
Less: First provisional payment		(800)	(1)
Employees' tax		<u>(200 185)</u>	(1)
Minimum amount payable		<u><u>-</u></u>	

SOLUTION 10.1

Date	Donation	Amount R	Exemption R	Taxable R	Tax @ 20% R	Reason
01.03.17	Jessie	890 000	890 000	-		(1) s56(1)(b) – donation to spouse
01.03.17	Blacky White	500 000	500 000	-		(1) s56(1)(g) – inherited from a non-resident
01.05.17	John Smith	12 960	12 960	-		s56(2) – R100 000 annual exemption
	Capital	12 000				(1)
	Interest	960				(1)
	(R12 000 x 8%)					
01.08.17	Vincie Black	160 000	87 040	72 960	14 592	s56(2) – R100 000 annual exemption
	(R20 000 x 8)		(100 000 – 12 960)			(1)
01.12.17	Gary (usufruct)	468 361	-	468 361	93 672	
	Annual value	96 000				
	(1 200 000 x 12%)					
	= 144 000 (1) x $\frac{2}{3}$ (1)					
	Jake’s age next birthday	74				
	Factor	4,87876				(1)
	Bakkies					
	(bare dominium)	18 899	-	18 899	3 780	
	Annual value	96 000				(1)
	Gary’s age next birthday	36				
	Factor	8,13647				(1)
	Value of usufruct	781 101				
	Value of bare dominium	18 899				
	Market value					
	(R1 200 000 x 2/3)	800 000				(1)
	Usufruct	(781 101)				(1)
01.02.18	Unisa	25 000	25 000	-		(1) s 56(1)(h) - public benefit organisation
				560 220	112 044	
				560 220	112 044	

SOLUTION 11.1

Value of the property	R1 750 000	(1)
Annual value (R1 750 000 x 12%)	R210 000	(1)
Capitalisation factor for B (male 39 years)	8,06781	(1)
Value of usufruct calculated per general rule (R210 000 x 8,06781)	R1 694 240	

1st proviso (B paid a bequest price)

Amount of consideration	R10 000	
Period from when consideration was paid	2 years	
Value of the consideration plus 6% interest (R10 000 x (1,06) ²)	R11 236	(2)

The value of the usufruct is therefore limited to R1 694 240 - R11 236 =
R1 683 004 by the 1st proviso (1)

2nd proviso (the bare dominium holder, B, acquired the full ownership)

Value of usufruct when created at F's death: (R1 500 000 x 12% x A's factor then)		(2)
= (R180 000 x 3,65276)		(1)
= R657 497		

Therefore value of bare dominium at F's death
= R1 500 000 - R657 497 (2)
= R842 503

The value of the usufruct is therefore limited to R1 750 000 - R842 503 = R907 497 by the 2nd proviso.

R907 497 is the smaller amount and is therefore the final value of the usufruct in A's estate. (1)

SOLUTION 11.2

Calculation of estate duty for estate of John Rupert:

		R	
Step 1:	Value of property (sec 3(2)):	6 991 441	
	Residence - valuation	1 250 000	(1)
	Furniture - valuation	300 000	(1)
	Annuity charged on property	71 441	(2)
	R10 000 x factor for Mark (56 on next birthday)		
	R10 000 x 7,14414		
	Fixed deposit	120 000	(1)
	Units in Super Growth Fund - valuation	5 250 000	(1)
Step 2:	Add: Value of deemed property (s3(3) - s3(5))	250 000	
	Proceeds: Policy A	250 000	(1)
	Proceeds: Policy B – exempt	-	(1)
	Equals: GROSS VALUE OF ESTATE	7 241 441	
Step 3:	Less: Allowable deductions (s4)	(1 811 550)	
	Charitable bequest - s4(h)	10 000	(1)
	Master's fees	600	(1)
	Executor's remuneration *1		
	@ 3,5% of (R7 241 441 - R71 441)	250 950	(2)
	Bequest to surviving spouse - s4(q)		
	(R1 250 000 + R300 000)	1 550 000	(1)
	Equals: NET VALUE OF ESTATE	5 429 891	
Step 4:	Less: Section 4A abatement	(3 500 000)	(1)
	Equals: DUTIABLE AMOUNT OF THE ESTATE	1 929 891	❶
Step 5:	Calculate the estate duty : ❶ x 20%.	385 978	(1)
Step 6:	Less: Estate duty rebates	(5 118)	
	• Successive death rebate		
	Period since father's death - 4 years, 5 months		
	○ Between 4 and 6 years		
	○ Rebate = 60%		
	60% x (R120 000/R5 429 891 x R385 978), but		
	limited to R8 000	5 118	(3)
	Estate duty payable	380 860	❷
Step 7:	Determine who is liable for payment of estate duty:		
	❷ Estate duty payable	380 860	❷
	Less: Estate duty payable owing to the inclusion of the following assets:	(5 011)	
	• Annuities		
	Mark, i.r.o. annuity		
	(R71 441/R5 429 891 x R380 860)	5 011	(2)
	Equals: Estate duty payable by estate	375 849	❸ [20]

*1 *Executor's remuneration – we will not expect you to calculate executor's remuneration, it will be provided to you in a question.*

FARMING INCOME	12
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SOLUTION 12.1 (39 Marks)

Taxable income from farming - 2018 year of assessment	R	R	
Local sales - Avocado pears		60 000	(1)
- Other produce		23 000	(1)
Export sales - Avocado pears (note 1)		180 000	(1)
Rebate - Export promotion scheme (exempt section 10(1)(zA))		-	(1)
Recoupment - sale of the tractor (note 2)		48 000	(1)
Letting of grazing (note 3)		300	(1)
Rations for farm labourers*		6 000	(1)
Jan's private use of produce (note 4)		4 000	(1)
Closing stock on hand (note 5)		16 310	(1)
		337 610	
<i>Less: Expenses and allowances</i>			
Opening stock on hand (note 5)	15 210		(1)
Allowance on tractor (note 2)	18 000		(1)
Purchases of packing materials (note 5)	700		(1)
Fuel, oil and consumables (note 5)	7 900		(1)
Electricity costs (note 6)	920		(1)
Telephone (note 6)	540		(1)
Rations for labourers (note 4) (outside purchases)	10 000		(1)
Rations for labourers (note 4) (produced on farm)*	6 000		(1)
Other farming expenses (given)	121 680		(1)
Wear and tear (note 2)	20 500	(201 450)	(1)
		136 160	
<i>Less: Eradication of noxious plants (note 7)</i>		(1 500)	(1)
Taxable income before capital development expenditure		134 660	
<i>Less: Farm development expenditure (note 7)</i>		(21 800)	(1)
Taxable income from farming		112 860	

Other income	R	R	
Letting of part of the farm (not farming activities)	4 800		(1)
<i>Less: Soil erosion works - R6 300, limited to the letting income (see section 17A and provided certification is received under the Conservation of Agricultural Resources Act 43 of 1983. The balance of R1 500 (R6 300 - R4 800) is carried forward to be deducted in the following year of assessment)</i>	(4 800)	-	(1)
Interest - received	13 250		(1)
- accrued (definition of gross income)	1 250		(1)
	14 500		
<i>Less: Basic interest exemption (s10(1)(i)(xv)) (R23 800 limited to)</i>	(14 500)	-	(1)
Other taxable income		NIL	

SOLUTION 12.1 (continued)

Notes

1. Export sales

A resident is taxed on his worldwide income.

2. Allowances and recoupment on fixed assets

R

Section 12B allowance on tractor 30% x R60 000
(for the full 2018 year of assessment)

18 000

This allowance is calculated at 30% as the asset was purchased on 1 January 2017 and 50% (R30 000) was written off during the 2017 year of assessment (28 February 2017).

Note that the allowance is **not** reduced **pro rata** when the asset is in use for less than 12 months. Note also that only **farming** equipment still qualifies for the section 12B allowance.

R

Recoupment on tractor:

Selling price limited to cost

60 000

Less: Tax value of the tractor R60 000 - R30 000 (2017) - R18 000 (2018)

(12 000) (2)

Recoupment

48 000

It should be noted that this recoupment is included in terms of section 8(4) of the Act and not in terms of paragraph 12(1B) of the First Schedule, which applies to other movable assets of a farmer. (A tractor is written off in terms of section 12B and not in terms of paragraph 12 of the first Schedule). In the case of recoupments under paragraph 12(1B), the recoupment is first deducted from any balance of farm development expenditure brought forward from the previous year of assessment and the balance of the recoupment (if any) added to the farmer's income. This does not apply to the section 8(4) recoupment, which is included in full in the taxpayer's income.

Section 11(e) wear and tear:

Office furniture – R10 000 x 5% = R500 (1)

Delivery vehicle – R120 000 x 20% = R24 000, but limited to remaining tax value at 1 March 2017, thus R20 000 (1)

3. Letting of grazing land

The letting of grazing land constitutes farming income, whereas the letting of part of a farm does not. Where the lessor receives a part of the farming proceeds of the part of the farm he lets, however, he is considered to be farming in partnership with the lessee and this does constitute farming income.

SOLUTION 12.1 (continued)

4. Use of produce of the farm and the provision of rations

Rations purchased from a third party constitute an expense, not of a capital nature, incurred for farming purposes and, like farm wages, are deductible in terms of section 11(a). Rations produced on the farm would also be deductible under section 11(a), but the same value would have to be included in farming income because the produce has been withdrawn from stocks of produce. The value of farm produce used for rations therefore has no effect on the net result.

Where the farmer uses farm produce for private purposes, no deduction is allowed because the expense is a private or domestic expense (see section 23(a)). The value of the produce will have to be added to farming income as it has been withdrawn from stock.

5. Stock on hand

The purchases of packing materials are deductible in terms of the 'general deduction formula' (section 11(a)) being non-capital expenditure incurred in the production of farming income. The purchases of fuel, oil and other consumable stores are deductible in the same way.

Trading stock of a farmer is dealt with in terms of special provisions in the First Schedule which deal with the tax treatment of only two types of stock, namely *livestock and produce*. The effect is that where a farmer has consumable stores or other non-livestock or non-produce items on hand at his year-end he does not have to account for them for income tax purposes. For example, if a farmer purchases ten tons of fertiliser during the year the cost is deducted under section 11(a). If some of the fertiliser is still on hand at the year-end it is not accounted for as closing stock.

Closing stock on hand:

	R	
Poultry: 310 x R1 each	310	(1)
Harvested avocado pears (but not growing crops)	<u>16 000</u>	(1)
	<u><u>16 310</u></u>	

Opening stock on hand:

Poultry: 210 x R1 each	210	(1)
Harvested avocado pears	<u>15 000</u>	(1)
	<u><u>15 210</u></u>	

6. Costs partly incurred for trade purposes

Electricity costs 80% x R1 150	=	R920 (1)
Telephone costs 50% x R1 080	=	R540 (1)

The above portions of these costs have been incurred in connection with Jan's trade of farming; the balance constitutes private expenses, the deduction of which is prohibited in terms of section 23(b). Section 23(g) permits the deduction of that part of an expense that has been incurred for the purposes of trade, provided a reasonable apportionment can be made of the total expense.

SOLUTION 12.1 (continued)

7. Farm capital development expenses

The costs incurred by a farmer in preventing soil erosion on property he occupies for farming purposes as well as costs incurred in eradicating noxious plants are farm development expenses, deductible in terms of paragraph 12(1)(a) and (b) of the First Schedule. Unlike the other farm capital development expenses referred to in sub-paragraphs (c) to (j), these expenses may be deducted in full from farming income even if, as a result, the farmer has a farming loss for tax purposes or, if the farmer already has a farming loss, these expenses may be added to the loss. The other capital development costs may only be deducted to the extent of the available farming income. Any balance which cannot be deducted in a particular year of assessment may be carried forward for deduction in subsequent years.

The farm capital development expenditure for the current year of assessment is as follows:

	R
Balance brought forward from the 2017 year of assessment	3 000 (1)
Cost of extending the irrigation system (para 12(1)(d))	10 000 (1)
Cost of building a new farm store (paragraph 12(1)(f))	<u>8 800</u> (1)
deductible in full, not limited as sufficient farming income	<u>21 800</u>

NB: If the total capital development expenditure is more than the taxable income **before** the capital development cost, the deduction is limited to the taxable income (R134 660). The balance of capital development expenditure is carried forward to the following tax year.

SOLUTION 13.1

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 2017.
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) $(R165\,211 - R75\,750) \times 18/100 \times 7/12$
10. (5) The determined value of the sedan motor vehicle includes VAT for this purpose.

SOLUTION 13.2**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))	8 000	
Remuneration	38 000	
<u>Less:</u> Pension fund contribution – R2 500		
Limited to the lesser of:		
27.5% x R38 000 (1) = R10 450; or		
R350 000/12 months = R29 167 (1), therefore limited to actual	(2 500)	(1)
Balance of remuneration	35 500	
Annual equivalent of balance of remuneration (R35 500 x 12 months (1))	426 000	

OR ALTERNATIVELY

Salary received (R30 000 x 12 months (1))	360 000	(1)
Travel allowance (R10 000 x 12 months x 80%)(1)	96 000	
Remuneration	456 000	
<u>Less:</u> Pension fund contribution – R2 500 x 12 months = R30 000		
Limited to the lesser of:		
27.5% x R456 000 (1) = R125 400; or		
R350 000 (1), therefore limited to actual	(30 000)	(1)
Balance of remuneration	426 000	

Tax on annual remuneration $[(R426\,000 - R410\,460) \times 36\%] + R97\,225$	102 819	(1)
<u>Less:</u> Primary rebate	(13 635)	(1)
T ₂	89 184	

SOLUTION 13.2 (continued)

Employees tax on net remuneration for the period (R89 184/12 months) (1)	R <u>7 432</u>	
Net remuneration annual equivalent	426 000	
<u>Add:</u> Annual payment (received in December)	<u>20 000</u>	(1)
Total net remuneration annual equivalent	<u>446 000</u>	
Tax thereon [((R446 000 - R410 460) x 36%) + R97 225]	110 019	
<u>Less:</u> Primary rebate	<u>(13 635)</u>	
T ₁	<u>96 384</u>	
Tax on bonus (T ₁ -T ₂) (R96 384 – R89 184)	7 200	(1)
Tax on net remuneration	<u>7 432</u>	
Total employees tax for December	<u>14 632</u>	(1)

PART B

Travel allowance - received	R	R	
<u>Less:</u> Business portion:		120 000	
Cost per kilometre			
<u>Deemed cost</u>			
Value of car R580 000 x 1.14 = R661 200, but limited to R595 000			
Fixed cost per kilometre <u>R154 879</u> * ¹ (1)			
35 000 km (1)	4.425		
Fuel cost	1.509	* ²	
Maintenance cost	<u>0.849</u>		
Cost per kilometre	<u>6.783</u>		
<u>Actual cost</u>			
Depreciation (Limited to R595 000 (1) over 7 years (1))	85 000		
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>172 700</u>		
Cost per kilometre	<u>R172 700</u>		
35 000km	= R4.934		(1)
∴ Deemed cost per kilometre will be selected as this is the highest.			
∴ Business travelling expenses (20 000 km x R6.783) = R135 660, limited to			
		<u>(120 000)</u>	(1)
Amount to be included in income		<u>0</u>	

SOLUTION 13.2 (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 R561 200 (R661 200 - R100 000 deposit), therefore it does not need to be limited in respect of the maximum allowable cost of R595 000.

SOLUTION 13.3

	R	R	
Salary		202 800	
Bonus		17 518	
Foreign dividend	1 037		
<u>Less: Exemption (R1 037 x 25/45)</u>	<u>(576)</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 (R93 267(1)/24 365km (1) x 273/365(1))	R2.863		
Fuel cost per kilometre (from table)	R1.189		
Maintenance cost per kilometre (from table)	<u>R0.496</u>		
Total cost per kilometre	<u>R4.548</u>		
Business travel (10 500 km's x R4.548) (1) limited to allowance received	<u>(42 750)</u>	-	(1)
Subsistence allowance received (R404 x 8)	3 232		
<u>Less: Deemed portion of the allowance (R397 x 8 days)</u>	<u>(3 176)</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)		<u>-</u>	(1)
Subtotal		249 525	

SOLUTION 13.3 (continued)

	R	R
<u>Less:</u> Pension fund contributions		
Actual R16 224 plus past period R2 000 = R18 224		
Percentage limit – limited to greater of:		
- Remuneration: 27.5% x R275 000 (1) = R75 265; or		
- Taxable income: 27.5% x R249 525 (1) = R68 619		
Deduction limited to lesser of:		
R350 000, or		
R75 265 (percentage limit), thus allow actual		<u>(18 224)</u> (1)
		231 301
<u>Less:</u> Donation – R15 000 limited to (R231 301 (1) x 10% = R23 130) therefore, allow in full.		<u>(15 000)</u> (1)
Taxable income		<u>216 301</u>
Normal tax per tables (R34 178 + (26% x (R216 301 - R189 880)))		41 047 (1)
<u>Less:</u> Rebate		(13 635) (1)
Medical scheme fees tax credit [((R303 x 2) + R204) x 12 months]		(9 720) (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 [((R303 x 2) + R204) x 12 x 3]	<u>(29 160)</u>	(2)
Excess contributions	1 200	
<u>Add:</u> Qualifying expenses	<u>21 300</u>	(1)
	<u>22 500</u>	
Additional qualifying medical expense tax credit (33.3% x R22 500) = R7 493		<u>(7 493)</u> (1)
Net normal tax		<u>10 199</u>

SOLUTION 13.4Calculation of taxable income

	R		R
Salary			580 000
Travel allowance			
Deemed cost per km			
Fixed cost: (R73 427(1) /29 200km (1) x 365/365 x 100c)	251.5c		
Fuel	110.6c		
Maintenance	<u>45.4c</u>		
Total cost per km	<u>407.5c</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 (407.5/100c x 11 200km)	<u>(45 640)</u>	(1)	29 360
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 (6.5% - 1.5%) (1) x 6/12] (1)	2 450		
[R98 000 x (7.5% - 1.5%) (1) x 6/12]	<u>2 940</u>		5 390
Foreign dividends	8 528		
<u>Less:</u> Exemption (R8 528 x 25/45)	<u>(4 738)</u>		3 790 (1)
Local interest	26 914		
<u>Less:</u> Exemption	<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>675 784</u>
<u>Less:</u> Income protection premiums (non-deductible) (1)			-
			<u>675 784</u>

SOLUTION 13.4 (continued)

Amount carried over	R	R	
		675 784	
<u>Less:</u> Retirement annuity contributions: R37 800 + R3 200 (1) = R41 000			
Percentage limit - limited to the greater of:			
- Remuneration: 27.5% x R689 000 (1) = R189 475, or			
- Taxable income: 27.5% x R675 784 (1) = R185 841			
Deduction limited to lesser of: R350 000, or R189 475 (percentage limit)			
Therefore allow actual		<u>(41 000)</u>	(1)
Taxable income		<u>634 784</u>	
Normal tax per tables (R149 475 + (39% x (R634 784 - R555 600)))		180 357	(1)
<u>Less:</u> Rebate		(13 635)	(1)
Medical scheme fees tax credit [((R303 x 2) + (R204 x 2)) x 12 months]		(12 168)	(1)
Additional qualifying medical expense tax credit:			
Medical aid contributions:			
Jason	31 360		(1)
<u>Less:</u> 3 x medical scheme fees tax credit [((R303 x 2) + (R204 x 2)) x 12 x 3]	(36 504)		(2)
Excess contributions	0		
<u>Add:</u> Qualifying expenses	0		(1)
	<u>0</u>		
Net normal tax		<u>154 554</u>	

SOLUTION 13.5 Part (a)

		R		R	
Salary				240 000	
Pension income				180 000	(1)
Rental income:					
Deposit (no accrual – separate trust account) (1)		-			
Rent received September 2017 to February 2018		48 000			
Rent received – March 2018		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)]				-	(1)
				449 650	
Taxable capital gain (1) for correct position					
Kruger rands sold	R				
Proceeds (R21 332 x 3)	63 996 (1)				
<u>Less:</u> Base cost R8 000 x 3	(24 000) (1)	39 996	(1)		
Gift to Priscilla – roll-over – Proceeds (par 67)	16 000		(1)		
<u>Less:</u> Base cost	(16 000)	-	(1)		
Primary residence					
Proceeds > expenditure and market value.					
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> Portion in respect of business use					
R900 000 x 5% (1)	(45 000)	45 000	(1)		
Capital gain in respect of private use	855 000				
<u>Less:</u> Primary residence exclusion R2 mil (1) limited to	(855 000)				
	0	0	(1)		

SOLUTION 13.5 (continued)

	R		R	
Total capital gain (R39 996 + R45 000) (1)	84 996	(1)		
Married in community of property – 50%	42 498			
<u>Less:</u> Annual exclusion	(40 000)			
	2 498			
Inclusion rate – 40% (1)	999		999	
			450 649	
<u>Less:</u> Pension fund contributions: R22 400 + R56 000 = R78 400 (1)				
Percentage limit – greater of: - Remuneration: 27.5% x R435 000 (1) = R119 625, - Taxable income: 27.5% x R450 649 (1) = R123 928				
Deduction limited to lesser of R350 000, or R123 928 (percentage limit), thus deduction limited to actual contributions			(78 400)	(1)
Taxable Income			372 249	
Normal tax per tables (R61 910 + (31% x (R372 249 – R296 540)))			85 380	(1)
<u>Less:</u> Rebate			(21 114)	(1)
Medical scheme fees tax credit [(R303 x 2) x 12 months]			(7 272)	(1)
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 [(R303 x 2) x 12 x 3]	(21 816)			(2)
Excess contributions	8 184			
<u>Add:</u> Qualifying expenses	0			
	8 184			
Additional qualifying medical expense tax credit (33.3% x R8 184)			(2 725)	(1)
Net normal tax			54 269	
<u>Part (b)</u>				
Severance benefit from employer			35 000	(1)
Retirement lump sum benefit			2 500 000	(1)
			2 535 000	
Tax on lump sum benefits ((R2 535 000 – R1 050 000) (1) x 36%) + R130 500 =			665 100	

SOLUTION 13.6**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	1 350	(1)
	<u>27 500</u>	
<u>Less:</u> Retirement annuity contributions (R500)		
Limited to the lesser of:		
R350 000/12 (1) = R29 167, or		
27.5% x R27 500 (1) = R7 563, limited to actual	(500)	(1)
Balance of remuneration	<u>27 000</u>	
Annual equivalent R27 000 x 12 months	<u>324 000</u>	(1)
Tax on R324 000 [R61 910 + (31% x (R324 000 - R296 540))]	70 423	(1)
<u>Less:</u> Rebate	(13 635)	(1)
<u>Less:</u> Medical scheme fees tax credit (R303 x 12)	(3 636)	(1)
Medical expenses – not taken into account for employees' tax purposes (1)	0	
(T2)	<u>53 152</u>	
Monthly employees' tax (R53 152/12)	<u>4 429</u>	(1)
	<u><u>13</u></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)	10 800	(1)
	<u>220 000</u>	
<u>Less:</u> Retirement annuity contributions (R4 000)		
Limited to the lesser of:		
R350 000 x 8/12 (1) = R233 333, or		
27.5% x R220 000 (1) = R60 500, limited to actual	(4 000)	(1)
Balance of remuneration	<u>216 000</u>	
Annual equivalent (R216 000 x 12/8) (1)	<u>324 000</u>	

SOLUTION 13.6 (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 [R50 924 (1)/16 500km (1) x 243/365 (1)]	2.055		
Fuel	1.018		
Maintenance	<u>0.412</u>		
	3.485		
Business cost [R3.485 x 11 500km] (1) = R40 078	<u>(12 000)</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: Retirement annuity contributions (R4 000)</u>			
Percentage limit – greater of:			
- Remuneration: 27.5% x (R27 500 x 12) = R90 750 (1), or			
- Taxable income: 27.5% x R226 400 = R62 260 (1)			
Deduction limited to lesser of: R350 000, or			
R90 750 (percentage limit), thus deduct actual		<u>(4 000)</u>	(1)
Taxable Income		<u>222 400</u>	
Normal tax per tables (R34 178 + (26% x (R222 400 - R189 880)))		42 633	(1)
<u>Less: rebate</u>		(13 635)	(1)
Medical scheme fees tax credit [R303 x 8 months]		(2 424)	(1)
Additional qualifying medical expense tax credit:			
Medical aid contributions:			
Employee	10 800		(1)
Employer	10 800		(1)
<u>Less: 4 x medical scheme fees tax credit [(R303 x 8) x 4]</u>	<u>(9 696)</u>		(2)
Excess contributions	11 904		
<u>Add: Qualifying expenses</u>	<u>1 600</u>		(1)
	13 504		
As exceeds (7.5% x R222 400)	<u>(16 680)</u>		(1)
No additional qualifying medical expense tax credit	0		(1)
Net normal tax		<u>26 574</u>	

SOLUTION 13.7**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 the 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 13.7 (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)**.