

TAX3702 PRE-EXAM QUICK NOTES

1. Net normal tax liability
 - a. Draw a timeline of how long the taxpayer was employed for
 - b. Blue highlight = remuneration

Salary		Full
Commission		Full
Travel allowance: Travel allowance received (Amount x number of months) Compare deemed and actual expenses to determine which is higher:	XXX	
Deemed: Fixed cost/total km Fuel per table Maintenance per table Total deemed expenditure/km		
Actual: Depreciation: Cost of vehicle/7 Running costs Other costs Total actual expenditure/total km travelled = Total actual expenditure/km		
Multiply highest of deemed and actual expenditure by business km	(XXX)	
Subtract private costs covered by the employee	(XXX)	
Cash equivalent of fringe benefit		XXX
Right of use of motor vehicle: Cost of motor vehicle(excl VAT) x 1.14 x 85% (if purchased more than 12 months ago) x 3.25% (if there is a maintenance plan) or 3.5% (no maintenance plan) x n months	XXX	
(Less) Business portion (RXXX x business km/total km)	(XXX)	
(Less) Private costs covered by the employee (wrt fuel, even if they give us an amount, it is irrelevant. ALWAYS USE THE AMOUNT IN THE TABLE)	(XXX)	
Cash equivalent of benefit		XXX
Insurance policy: -Not employer owned policy -Employer owned policy -Pure risk policy *Amounts received from any of these		(Full)

policies are exempt (s10(1)(g)) Low interest loan: (Loan amount x (REPO+1%= official rate of interest) - employee interest rate%) x n/12 months		XXX
Housing acquired from employer at cost less than MV: (MV- Purchase price)		XXX
Housing subsidy (Loan amount x (Bank rate% - Employer rate%) x n/12 months		XXX
Long service award: First R5000 exemption	XXX (5000)	XXX - 5000
Medical expense fringe		
Foreign dividends Foreign dividend partial exemption 26/41 Total	XXX (XXX)	 XXX
Foreign interest		Full
Local interest Local interest exemption Total	XXX (23800)	 XXX - 23800
Subtotal		XXX
(less) Deductions		
Retirement annuity fund/ Pension fund/ Provident fund contributions: % limit: 27.5% of remuneration or 27.5% of taxable income or R350 000		(XXX)
Taxable income		XXX
Normal tax per table		XXX
(less) Primary rebate <65 years old: 65<n<75 years old: >75 years old:		(13500) (20907) (23373)
(Less) Medical scheme fees tax credit ((R286 + R286+ R192+...+R192)x n months taxpayer has contributed to medical scheme)		(XXX)
(Less) Additional qualifying medical expenses tax credit: Contributions by taxpayer Contributions by employer Total contributions: Less: 3 (disability) or 4 (no disability) x Medical scheme fees tax credit as calculated above Excess contributions: Add: additional qualifying contributions	XXX XXX XXX (XXX) XXX XXX	

Total:	XXX	
Total x 33.3% (disability) or 25% no disability	XXX	(XXX)
No disability: Less 7.5% taxable income	(XXX)	
Total		(XXX)
Net normal tax		XXX

2. EMPLOYEES TAX:

- a. Seen through the eyes of the employer – only consists of amounts that relate to employment, or that the employer is aware of.
- b. DO NOT DO THE ADDITIONAL QUALIFYING MEDICAL EXPENSES TAX CREDIT
- c. DISREGARD TAXABLE INCOME, WE ARE ONLY WORKING WITH REMUNERATION (the employer does not know how much money you earn from side-businesses, private consulting, or hobbies, or how much cash you have in the bank).

	Monthly
Salary	Full
Travel allowance (amount received x 80% (or 20% if the vehicle is used more than 80% of the time for business purposes): the employer does not care about the amounts in the logbook)	80% x XXX
Right of use of motor vehicle: [Cost of motor vehicle(excl VAT) x 1.14 x 85% (if purchased more than 12 months ago) x 3.25% (if there is a maintenance plan) or 3.5% (no maintenance plan) x 1 month] x 80% (or 20% if the vehicle is used more than 80% of the time for business purposes)	80% or 20% x XXX
Use of company asset: if it's mainly for business purposes then it's nil otherwise 15%	15% x XXX
Subtotal	XXX
(less) Retirement annuity fund/ Pension fund/ Provident fund contributions: % limit: 27.5% of remuneration or R350 000/12	(XXX)
Balance of remuneration	XXX
Annual equivalent (Balance of remuneration x 12)	XXX
(Less) Primary rebate	(XXX)
(Less) Medical scheme fees tax credit	(XXX)

Employees tax for the year (Excl bonus)		XXX
Employees tax for the month (employees tax for the year/12)		XXX
BONUS		
Annual equivalent as calculated above		XXX
Add: bonus		XXX
Tax on amount		XXX
(Less) Primary rebate		(XXX)
(Less) Medical scheme tax credit		(XXX)
Employees tax for the year incl bonus		XXX
Employees tax for year incl bonus - Employees tax for the year excl bonus = Employees tax on bonus		XXX
Employees tax per month + Employees tax on bonus = Employees tax per month incl bonus		XXX

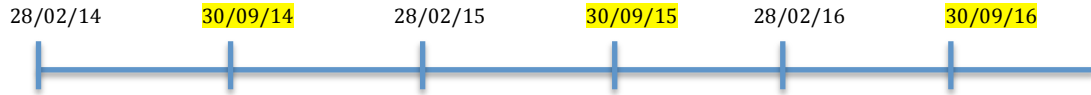
3. LUMP SUMS:

- a. There are two tables: post-retirement table and pre-retirement table (taxpayer withdraws early). If the employee has retired, only use the post-retirement table. If he has not retired, only use the pre-retirement table. DO NOT USE BOTH.

Lump sum received	XXX	
(Less) Amount transferred to approved pension preservation fund	(XXX)	
(Less) Current contributions disallowed	(XXX)	
(Less) Contributions previously disallowed	(XXX)	
Taxable portion of lump sum	XXX	
Add: previous lump sum	XXX	
Taxable amount	XXX	
Tax on lump sum (table)		XXX
(Less) Notional tax on previous lump sum received (use current year's table - same table used above)		(XXX)
Tax on pension lump sum		XXX

4. PROVISIONAL TAX PAYMENTS:

- a. 14 day rule: if the assessment is not given more than 14 days before the payment is due, you may not use it.
- b. 18 month rule: If the assessment is more than 18 months old, you must increase it by 8% per year.
- c. The first provisional payment is due 6 months after year end.
- d. 2nd provisional payment: due at year end



Yellow highlight: first provisional payment due date.

Basic amount (excluding taxable capital gain)		XXX
Add: taxable capital gain		XXX
Tax on amount		XXX
(Less) Primary rebate		XXX
(Less) Medical scheme tax credit (if taxpayer contributes to a medical scheme)		(XXX)
(Less) Employees taxes		(XXX)
Net normal tax payable		XXX
First provisional payment due on the 30 th of September: (Net normal tax payable/2)		XXX

5. CAPITAL GAINS TAX:

a. Pre-1/10/01 assets:

- i. Base cost: We need to get a valuation date value on 1/10/01 because we don't know how much the asset grew between the purchase date and 1/10/01 (CGT was not applicable before 1/10/01). Therefore we use the highest of:

1. Market value on 1/10/01 (will be given in exam)
2. TAB cost (will be given in exam)
3. 20% (Proceeds - allowable costs incurred before 1/10/01).

Proceeds	XXX	
(Less) Base cost:		
Market value on 1/10/01 or TAB cost or 20% x (Proceeds - expenditure incurred before 1/10/01)	(XXX)	
Allowable costs incurred after 1/10/01	(XXX)	
Capital gain/(loss) on asset	XXX	
(Less) Taxable portion of property not used as primary residence ($x\% \times$ Capital gain/loss)	(XXX)	XXX
(Less) Primary residence exclusion ($100\% - x\% \times$ Capital gain/loss)	XXX	nil
(Less) Annual exclusion		(40 000)
Capital gain/loss on asset		XXX
Taxable capital gain at the inclusion rate of 40%		XXX

b. Post- 1/10/01 assets:

- i. DO NOT USE MC; TAB COST AND 20%
- ii. Base cost: use cost incurred in acquiring the asset and costs incurred in selling the asset (p495 of textbook).
- iii. Improvements are allowed but not repairs
- iv. Property rates on a primary residence are not allowed.
- v. Proceeds must be gross

Proceeds	XXX	
(Less) Cost of asset	(XXX)	
(Less) Costs incurred in selling asset	(XXX)	
(Less) Other allowable costs	(XXX)	
Capital gain/loss on asset	XXX	
(Less) Taxable portion of property not used as primary residence ($x\% \times$ Capital gain/loss)	(XXX)	XXX
(Less) Primary residence exclusion ($100\% - x\% \times$ Capital gain/ loss)	XXX	nil
(Less) Annual exclusion		(40 000)
Capital gain/loss on asset		XXX
Taxable capital gain at the inclusion rate of 40%		XXX

6. DONATIONS TAX – LEVIED @ 20%

- a. Annual exclusion: R100 000
- b. Exemptions: p422 of textbook

7. ESTATE DUTY:

Assets:		
Houses, flats at MV ($70\% \times$ MV if the property is used for bona fide farming activities)		XXX
Usufruct and bare dominium: we can not value a bare dominium but we can value the usufruct: value of asset $\times 12\% \times$ present value of the person the usufruct is being transferred to (based on their age at their next birthday). If they ask you to calculate the bare dominium, calculate the usufruct value and subtract it from the total value of asset.		XXX
Unlisted shares at MV		XXX
Cash in bank		XXX
Furniture and fittings		XXX
Annuities: Annual value of annuity $[(\text{monthly payment} \times 12) \times 12\%] \times$ person benefit is being transferred to's present value		XXX
Deemed property		
Insurance policies – premiums paid by		

deceased		XXX
Insurance policies: premiums paid by beneficiary: Value of insurance policy (less): Premiums and interest paid by beneficiary	XXX (XXX)	XXX
PROPERTY		XXX
(Less) Liabilities:		
Admin costs		(XXX)
Executor's remuneration and Master's fees		(XXX)
Funeral and deathbed expenses		(XXX)
Other expenses		(XXX)
Bequeathed asset to surviving spouse		(XXX)
Donation to PBO		(XXX)
Net value of estate		XXX
(less) S4A abatement		(3500000)
(less) Remainder of predeceased spouse's S4A abatement		(350000 - value of spouse's estate)
(Less) Rapid death rebate		(XXX)
(Less) Foreign estate duty		(XXX)
Dutiable amount of estate		XXX
Estate duty at 20%		XXX

Calculation of estate duty payable by beneficiary: beneficiary's inheritance/Net value of estate x Estate duty @20%

8. GROSS INCOME DEFINITION:

In the case of a Resident of the Republic	The taxpayer is a resident (1)
The total amount in cash or otherwise	Rx amount was received in cash or otherwise (1)
Received by or accrued to such a Resident	The taxpayer received the amount (1)
During the year of assessment	The amount was received on _____ 2017 which falls in the year of assessment (1)
Not of a capital nature	Case law (1); apply case law to facts (1); subjective tests: intention of the taxpayer (1); Objective factors: manner of acquisition (1); Manner of disposal (1); Period for which the asset was held (1)
Conclusion (1)	Max 10 marks; 1 mark for gross

	income definition
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9. GENERAL DEDUCTION FORMULA:

Carrying on a trade	The taxpayer renders service as an employee and therefore carries on a trade (1)
Expenditure and losses	An amount of Rx was spent (1)
Actually incurred	The amount was actually incurred (1)
In the year of assessment	The expenditure was incurred on _____ 2017 which falls in the year of assessment (1)
In the production of income	The expenditure was to (e.g.: purchase stock) and is therefore in the production of income(1)
Not of a capital nature	Case law (1); Apply case law to facts (1); Other tests: true nature of transaction (1); closeness of the connection to income earning operations (1); An asset for an advantage or enduring benefit (1); Fixed or floating capital (1); "Once and for all" expenditure (1); Nature of the business carried on (1)
S23 Prohibited deductions	There is/isn't a s23 prohibited deduction (1)
Conclusion(1)	Max 10 - 12 marks; 1 mark for general deduction formula