

# **Tutorial letter 203/1/2018**

## **The Taxation of Individuals**

**TAX3702**

### **Semester 1**

#### **Department of Taxation**

#### **Solution – Assignment 2**

Bar code

Dear Student

Enclosed is the solution to Assignment 2/1/2018. Please work through the solution alongside the assignment and your answers. This is a significant part of the learning process. Note that it is very important to understand why a specific answer is correct while other options are not.

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

We hope that you have found the assignment stimulating.

Kind regards

**LECTURERS: TAX3702**

<p>The lecturers who are available to assist you are:</p> <p>Mr A Swanepoel          Mr M van Dyk          Ms M Bernard          Ms C Stedall          Ms MSI Wentzel          Ms R Moosa          Ms SC Cass          Ms I Kretzschmar</p>	<p>012 429 4313          012 429 4918          012 429 4002          012 429 4301          012 429 4876          012 429 2883          012 429 8992          012 429 4394</p>
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<b>ASSIGNMENT 2 – SOLUTION</b>
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**CASE STUDY 1 (50 marks)**a) Calculation of Thumelo's tax payable for the year of assessment ended 28 February 2018

	R	R	
Salary		1 280 000	
Pension income (R620 000 <b>(1)</b> – R72 000 <b>(1)</b> ) (Note 1)		548 000	
Use of employer motor vehicle:			
(R410 000 x 1.14 <b>(1)</b> x 85% <b>(1)</b> x 85% <b>(1)</b> x 3.25% <b>(1)</b> x 8 <b>(1)</b> )	87 801		
<u>Less: Reduction due to business use</u>			
(R87 801 x (26 000km - 8 000km) <b>(1)</b> /26 000km) <b>(1)</b>	<u>(60 785)</u>		
	27 016		
<u>Less: Insurance (R5 328 x 8 000km/26 000km) <b>(1)</b></u>	<u>(1 639)</u>		
<u>Less: Private fuel cost (8 000km <b>(1)</b> x R1.189*) <b>(1)</b></u>	<u>(9 512)</u>	15 865	
Foreign dividend	82 000		
<u>Less: Partial exemption (R82 000 x 25/45)</u>	<u>(45 556)</u>	36 444	<b>(1)</b>
Foreign interest		14 000	<b>(1)</b>
Local dividends (exempt)		-	<b>(1)</b>
Local interest	35 000		
<u>Less: Exemption</u>	<u>(34 500)</u>	500	<b>(1)</b>
Travel allowance	20 000		
Business kilometres travelled:			
Total kilometres travelled	11 000 km		
<u>Less: Private kilometres travelled</u>	<u>(7 800) km</u>		
Business kilometres travelled	<u><u>3 200 km</u></u> <b>(1)</b>		
Determined value: R690 000 x 1.14 = R786 600			
<u>Deemed cost per kilometre</u>			
Fixed cost: (R154 879 <b>(1)</b> /11 000kms <b>(1)</b> x 245/365 <b>(1)</b> )	9.451		
Fuel	1.509		
Maintenance	<u>0.849</u>		
Deemed cost per kilometre	<u>11.809</u>		
<u>Less: Business travel expenses (R11.809 x 3 200km) <b>(1)</b></u>			
= R37 789, limited to allowance	<u>(20 000)</u>	0	<b>(1)</b>
Free bus trip (excluded) <b>(1)</b>		0	
Long service award	30 000		
<u>Less: Exclusion</u>	<u>(5 000) <b>(1)</b></u>	25 000	
Medical fringe benefit (R8 000 x 40% <b>(1)</b> x 8 months <b>(1)</b> )		25 600	
Pension fund benefit		<u>70 000</u>	<b>(1)</b>
		<u>2 015 409</u>	

**CASE STUDY 1 (continued)**

	R	R	
<u>Less:</u> Contributions to pension fund: R286 000 <b>(1)</b> , limited to 27.5% of greater of remuneration or taxable income - 27.5% x R1 910 000 <b>(1)</b> = R525 250, or - 27.5% x R2 015 409 = R554 237 <b>(1)</b> , But limited to lesser of R350 000 or actual contributions		<u>(286 000)</u>	<b>(1)</b>
Taxable income		<u>1 729 409</u>	
* - <i>the employer vehicle's determined value is:</i> <i>R410 000 x 1.14 x 85% x 85% = R337 697</i>			
<u>Net normal tax on taxable income:</u>			
[(R1 729 409 – R1 500 000) x 45%] + R533 625		636 859	<b>(1)</b>
<u>Less:</u> Rebate		(21 114)	<b>(1)</b>
<u>Less:</u> Medical scheme fees tax credit (R303 x 2) <b>(1)</b> x 12 <b>(1)</b>		(7 272)	
<u>Less:</u> Additional qualifying medical expense tax credit			
Contribution by Thumelo [(R8 000 x 8 x 60%) + (R8 000 x 4)]	70 400		<b>(2)</b>
Medical aid fringe benefit (see above)	<u>25 600</u>		<b>(1)</b>
	96 000		
<u>Less:</u> Medical scheme fees tax credit x 3 (R7 272 <b>(1)</b> x 3 <b>(1)</b> )	<u>(21 816)</u>		
	74 184		
Medical expenses not reimbursed by medical scheme	<u>53 000</u>		<b>(1)</b>
	<u>127 184</u>		
Additional qualifying medical expense tax credit (R127 184 x 33.3%) <b>(1)</b>		<u>(42 352)</u>	<b>(1)</b>
Net normal tax		<u>566 121</u>	
b) <u>Tax on taxable portion of Thumelo's lump sums:</u>			
Lump sum received from employer pension fund	1 400 000		<b>(1)</b>
<u>Less:</u> Allowable deductions			
Current pension fund contributions disallowed (R286 000 – R286 000)	(0)		<b>(1)</b>
Transfer to preservation fund	<u>(400 000)</u>		<b>(1)</b>
Taxable portion of retirement lump sum		1 000 000	
Retirement annuity lump sum received in 2017		<u>800 000</u>	<b>(1)</b>
Total taxable lump sums		<u>1 800 000</u>	
Tax payable on taxable portion of lump sums:			
[(R1 800 000 - R1 050 000) x 36%] + R130 500		400 500	<b>(1)</b>
<u>Less:</u> Deemed tax on retirement annuity lump sum [(R800 000 – R700 000) x 27%] + R36 000 <b>(1)</b>		<u>(63 000)</u>	<b>(1)</b>
Tax payable		<u>337 500</u>	

Note 1

In terms of section 10C, pension fund, provident fund and retirement annuity fund contributions that were disallowed as a deduction in the past, will firstly reduce pension, provident and retirement annuity income.

**CASE STUDY 2 (10 marks)**

Calculation of Dewald's taxable capital gain/(assessed capital loss) for the year of assessment ended 28 February 2018

Capital gain

Disposal of primary residence

	R	R	
Proceeds	4 000 000		
<u>Less: Base cost</u>	(3 080 000)		
Cost of land (R900 000 x 55%)	(495 000)		(1)
Cost of subdivision (R100 000 x 55%)	(55 000)		(1)
Building cost	(2 530 000)		(1)
Capital gain	920 000		
Portion in respect of period not used as primary residence (R920 000 x 10% = R92 000)	(92 000)	92 000	(1)
Capital gain in respect of period used as primary residence	828 000		
Primary residence exclusion (R2 000 000 limited to R828 000)	(828 000)		
Capital gain in respect of primary residence	0	0	(1)
 <u>Disposal of residence let out</u>			
Proceeds	2 700 000		
<u>Less: Base cost</u>	(1 970 000)		
Cost of land (R900 000 x 45%)	(405 000)		(1)
Cost of subdivision (R100 000 x 45%)	(45 000)		(1)
Building cost	(1 520 000)		(1)
Capital gain	730 000	730 000	
Total capital gain		822 000	
<u>Less: Annual exclusion</u>		(40 000)	(1)
Aggregate capital gain		782 000	
 Taxable capital gain (x 40%)		 312 800	 (1)

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