



DEPARTMENT OF TAXATION

The Taxation of Individuals

TXN201B

Tutorial letter 202/1/2011

**Solution: Compulsory Assignment 01 and Assignment 02
1st semester 2011**

**School of Accounting Sciences
College of Economic and Management Sciences**

Dear Student

Enclosed are the solutions to Assignment 01/1/2011 and Assignment 02/1/2011. Please work through the solutions alongside the assignments 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. In Assignment 02 it is important to understand why marks have been allocated to specific parts of your solution.

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 assignments stimulating.

Kind regards

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ASSIGNMENT 01 – 1st SEMESTER

SUGGESTED SOLUTIONS

ASSIGNMENT 01 (60 marks, 72 minutes)

1. 3 As per the definition of gross income.
2. 5 Normal tax on taxable income is calculated by referring to the tax tables for individuals for 2011. R300 000 falls between R221 000 and R305 000, therefore the tax is calculated as follows:
 $[(R300\ 000 - R221\ 000) \times 30\% + R45\ 450] = R69\ 150$ normal tax
3. 1 Net normal tax represents normal tax less rebates, therefore normal tax = R75 000 – R15 935 (rebate) = R59 065 as Mrs A is > 65 years and the age rebate is applicable.
4. 3 Tax liability is the net normal tax payable less SITE, PAYE and any provisional tax payments made.
5. 4 $R10\ 000 \times 12 = R120\ 000 + R10\ 000$.
NB: The annual bonus is included in the retirement funding income.
6. 4 South African dividends received are exempt in full.
7. 3 The full R3 500 will be exempted from her gross income as the foreign dividend and interest exemption for the 2011 year of assessment is R3 700. Hence she still has R200 to utilise against her foreign interest.
8. 3 Any individual is entitled to a R3 700 foreign dividend and interest exemption in total. The question states that Izabelle has already made use of R3 500 of her foreign allowable exemption against her foreign dividends, therefore only R200 remains ($R3\ 700 - R3\ 500$), which is available to exempt the foreign interest that she has received.
9. 4 Any individual under the age of 65 years is entitled to investment income exemption of R22 300. The exemption covers foreign dividends, foreign interest and local interest. The question states that Izabelle has already made use of the maximum allowable of R3 700 of this exemption for foreign income (dividends and interest received) and therefore only R18 600 ($R22\ 300 - R3\ 700$) is available to use as an exemption against her South African interest.
NB: R22 300 is the total exemption for the year and R3 700 is the maximum allowed out of this R22 300 which can be used against foreign income (dividends and interest).
10. 1 As per the income tax framework.
11. 2 Pension fund contributions are R6 720 for the year, but this is limited to the greater of: R1750 or $7,5\% \times R84\ 000$ ($R7\ 000 \times 12$) = R6 300, so even though the actual contribution is higher than R6 300, the limit is the ceiling and that is the maximum that will be allowed as a deduction.
12. 3 R31 250 is the limit that is applied. Actual contributions are R60 000 for the year, but only for 10 months of the year at the maximum deductible rate of 7,5%.
13. 1 A donation of R20 000 was made. The rule is that the maximum allowed is 10% of taxable income before the deduction. $10\% \times R250\ 000 = R25\ 000$ but the donation was only R20 000. One can never deduct more than the actual expense, hence R20 000 is deductible for donations.

**ASSIGNMENT 02
SUGGESTED SOLUTIONS**

QUESTION 1 (30 marks)**Part A (26 marks)**

Calculation of Mariam's taxable income for the year of assessment ended 28 February 2011

	R	R	
Salary		300 000	
Bonus (20% x R300 000)		60 000	(1)
Accumulated leave pay (No s 10(1)(x) exemption as Mariam does not qualify)		14 000	(1)
Travel allowance	45 000		

Less: Travel expenses

Actual kilometres:

Total	37 490 km		
Private	<u>(24 190 km)</u>		
Business	<u>13 300 km</u>		(1)

Use actual business kilometres, therefore 13 300 km.

Actual costs – no details of actual costs were recorded.

Cost per kilometre:

Cost of vehicle (including VAT) R313 500

Deemed cost:

Fixed cost R96 260**(1)** / 37 490 km **(1)** = 2,568

Fuel	0,857		
Maintenance	<u>0,494</u>		
Total	<u>3,919</u>		

Business expense: 13 300 km x R3,919	<u>(52 123)</u>	nil	(1)
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Entertainment allowance		2 500	(1)
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No deduction as Mariam is not an agent who normally derives mainly commission income.

Use of a company car:

R194 200/1,14 **(1)** (or x100/114) x 4% **(1)** x 12 **(1)** = R81 768

QUESTION 1 (continued)

	R	R
Joe (Mariam's husband) travelled less than 10 000 km for private purposes: Reduction: 7 200 km /10 000 km (1) x R81 768		58 873
Uniform allowance – exempt from tax as it is clearly distinguishable		nil (1)
Inheritance – capital in nature therefore exempt		nil (1)
Foreign dividends (R5 600/2 = R2 800 – R2 800)		nil (1)
Local interest (R30 000/2 = R15 000 – (R22 300 – R2 800))		nil (1)
<u>Medical fringe benefit</u> Employer's contribution		<u>12 800</u> (1) 448 173
<u>Less:</u> Pension fund contributions [8% x (R300 000 + R60 000)] = R28 800 Limited to greater of: R1 750 or 7,5% x (R300 000 (1) + R60 000 (1)) = 27 000		<u>(27 000)</u> (1) 421 173
<u>Less:</u> Medical aid contribution deduction Medical aid contributions: Mariam (R30 000 – R12 800 (employer)) <u>Add:</u> Fringe benefit	17 200 <u>12 800</u> 30 000	(1) (1)
Limited to family limit [(R670 x 2) + (R410 x 2) x 12 months] (1) Disallowed portion	<u>(25 920)</u> 4 080	<u>(25 920)</u> 395 253
Medical expense deduction Medical contributions not allowed above Qualifying medical expenses not paid	4 080 <u>6 400</u> 10 480	(1) (1)
<u>Less:</u> 7,5% x R395 253 (1)	<u>(29 644)</u>	<u>(nil)</u> (1)
TAXABLE INCOME		<u><u>395 253</u></u>

Wrong order of deductions -1

Part B (4 marks)

	R	R
Pension fund lump sum		535 000
<u>Less:</u> Allowable deductions		
Contributions disallowed in previous years	8 000	(1)
Transfer to pension preservation fund	135 000	(1)
Current year's contribution disallowed (R28 800 – R27 000) (1)	<u>1 800</u>	<u>(144 800)</u>
		<u><u>390 200</u></u>
Normal tax on taxable amount of lump sum [(R390 200 – R22 500) x 18%] (1)		<u><u>66 186</u></u>

QUESTION 2 (11 marks)**Calculation of James's taxable income for the year of assessment ended 28 February 2011**

	R	
Interest – exempt (s10(1)(h))	-	(1)
Royalties – documentary shot in SA sold in SA, exempt (s10(1)(IA))	-	(1)
Royalties – documentary shot in SA sold in Australia, true source SA	1 140 000	(1)
Royalties – documentary shot in Australia sold in SA, exempt (s10(1)(IA))	-	(1)
SA embassy fees – true source SA	50 000	(1)
Net rental income	36 000	(1)
Proceeds – disposal of SA property (Ignore – insufficient information provided regarding capital gains tax calculation)	<u>-</u>	
Taxable income	<u>1 226 000</u>	

b) Calculation of withholding tax

Withholding tax on royalties – (R780 000 **(1)** + R560 000 **(1)**) x 12% **(1)** = R160 800

Withholding tax on property – R1 800 000 **(1)** x 5% **(1)** = R90 000

QUESTION 3 (9 marks)

- Sale of livestock and harvest produce, farming income, R890 000 **(1)**
- Livestock used as rations for labourers, farming income R54 000 (market value) **(1)**
- Livestock used as rations for domestic servants, farming income, R8 000 (cost) **(1)**
- Donation of livestock to local church, farming income, R4 000 (market value) **(1)**
- Subsidy received in respect of interest on loan from Landbank, other income, R41 000 **(1)**
- Profit on disposal of tractor, farming income, R15 000 **(1)**
- Bonus from co-operative for sales to it, farming income, R33 000 **(1)**
- Preparation cost to establish an area to plant fruit trees, capital development expenditure, R87 000 **(1)**
- Paving of the driveway in front of Fred's house, other expense, R21 000 **(1)**