Tutorial letter 202/1/2015

Taxation of Individuals

TAX3702

Semester 1

Taxation Department

SUGGESTED SOLUTION TO COMPULSORY ASSIGNMENT 1

Bar code

Learn without limits.

UNISA university of south africa

Dear Student

Enclosed are the solutions to Assignment 01/1/2015. Please work through the solutions 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 assignments stimulating.

Kind regards

<u>LECTURERS: TAX3702</u>

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ASSIGNMENT 1 – FIRST SEMESTER

SUGGESTED SOLUTIONS

<u>ASSIGNMENT 1</u> (70 marks, 84 minutes)

1. 3
   - Statement (iv) is incorrect as rebates and tax credits are not deducted in the calculation of taxable income, the other items are correct.
   - Statement (v) is incorrect as net normal tax is calculated as normal tax less rebates less tax credits, the other items are correct.

2. 5
   - The other options are incorrect, either because local dividends were not exempted, the total capital gain was not reduced by the annual exclusion of R30 000 and/or the inclusion rate was not applied.

3. 4
   - Normal tax is calculated per the tax tables, without deducting rebates, tax credits or pre-paid taxes.

4. 5
   - Normal tax is calculated per the tax tables and it must only be reduced by rebates and tax credits to equal net normal tax, it is not reduced by prepaid taxes. Where a person dies during the year of assessment, the primary, secondary and tertiary rebates are apportioned from the beginning of the year of assessment up to the date of death.

5. 1
   - Normal tax less rebates less tax credits equals net normal tax. Net normal tax less prepaid taxes equals net normal tax liability or refund.

6. 3
   - All the statements are correct.

7. 4

8. 2
   - Although the youngest son was only born on 1 October 2014, a medical scheme fees tax credit applies to him from the date of birth. The other son is 14 years old and school going. The mother is also a dependant and qualifies for a medical scheme fees tax credit.

9. 1
   - Foreign interest is fully taxable. Foreign dividends that are not otherwise exempt, have a ratio exemption of 25/40 of the gross foreign dividend. The full amount of foreign taxes withheld from foreign interest and from foreign dividends qualify for the section 6*quat* rebate, even though foreign dividends have a partial exemption.

10. 5
    - The formula is:

$$\frac{\text{Taxable income from all foreign sources}}{\text{Taxable income from all sources}} \times \text{SA normal tax payable on taxable income from all sources}$$

11. 2

<u>ASSIGNMENT 1</u> (continued)

12. 5 - (a) Not unconditionally entitled at 28 February 2015, therefore “accrual” had not taken place.
(b) Not “in favour of”.
(c) Entitlement only conditional at 28 February 2015, therefore no “accrual”.
(d) “Received” and “accrued” at 28 February 2015, therefore included.

13. 4

14. 4

15. 2 - The person was in SA more than 91 days during the 2015 year of assessment, more than 91 days in SA during each of the preceding 5 years of assessment (2010 to 2014) and more than 915 days in SA in total during the preceding 5 years of assessment (2010 to 2014).

16. 3 - The SA dividends are fully exempt. For persons 65 years and older, R34 500 of SA interest is exempt. The foreign interest is fully taxable and 15/40 of the foreign dividends are taxable.

17. 2

18. 5

19. 1

20. 4 - (i) The employer is not engaged in the transporting of passengers for reward.
(iv) The employer subsidises the employee.

21. 3 - The determined value includes VAT. **Two completed periods of 12 months** lapsed from the date of purchase to the date Jan received the use of the vehicle.

22. 2 - As the vehicle is subject to a maintenance plan, 3.25% **per month** is used. Jan had the use from 1 June 2014 to 28 February 2015, which is 9 months.

23. 3 - The cash equivalent may be **reduced by** the business kilometres travelled as a proportion of the total kilometres travelled.

24. 1 - The cash equivalent may be reduced by the private kilometres travelled multiplied by the fuel rate per km, as read from the deemed travel expense table, in relation to the vehicle’s determined value.

25. 2 - Only the amounts the pension or provident fund contributions are based on constitutes retirement funding income.

26. 4 - The non-retirement funding income is calculated as:
R450 000 - R400 000 + R45 000 = R95 000.

ASSIGNMENT 1 (continued)

27. 3 - "Gross income" less exempt income equals "income". The ratio exemption for foreign dividends is 25/40. Thus 15/40 x R30 000 is taxable.

28. 2 - The pension fund contribution deduction is limited to 7.5% of the retirement funding income (salary and bonus). Current pension fund contributions disallowed in previous years are carried forward to retirement.

29. 1 - A maximum of R1 800 per year is allowed as a deduction in respect of past period pension fund contributions. Past period pension fund contributions that were disallowed in previous years, may be carried forward to the next year of assessment.

30. 4 - Salary and bonus represent retirement funding income. The calculation eliminates all the items that relate to retirement funding income, to give an answer that represents non-retirement funding income.

31. 3 - The question gives the non-retirement funding income as R30 000, so the 15% limitation merely has to be applied to it.

32. 4 - The first two dependants qualify for a R257 monthly medical scheme fees tax credit each and thereafter each dependant qualifies for a R172 monthly medical scheme fees tax credit.

33. 3 - The amount paid by the employer for the year of assessment constitutes the fringe benefit.

34. 1 - The amount paid by the employer and employee for the year of assessment, must be reduced by 4 x the medical scheme fees tax credit.

35. 5 - The medical aid contributions paid by the employer and employee for the year of assessment, must be reduced by 4 x the medical scheme fees tax credit. If the result of the previous calculation is positive, this amount is added to the other qualifying medical expenses. If this total exceeds 7.5% of the taxable income, the excess is multiplied by 25% to determine the additional medical expense tax credit.

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