DEPARTMENT OF TAXATION

The Taxation of Individuals

TXN201-B

Tutorial letter 101/3/2011

SCHEME OF WORK, STUDY RESOURCES AND ASSIGNMENTS

THIS TUTORIAL LETTER CONTAINS IMPORTANT INFORMATION THAT IS SPECIFIC TO THIS MODULE. PLEASE READ IT CAREFULLY

School of Accounting Sciences
College of Economic and Management Sciences

©
UNISA 2011
Dear Student

We have pleasure in welcoming you as a student to the income tax course. We hope that you will find your studies interesting and rewarding and that you will be successful in the examination. We will do our best to make your studying of this module successful. Please read this tutorial letter VERY carefully as it will answer many questions that you have regarding this module. Please also remember that not all modules are run in exactly the same manner, so you must read this tutorial letter to gain an understanding of how TXN201B will be run.

You will receive a number of tutorial letters during the year. A tutorial letter is our way of communicating with you about teaching, learning and assessment.

Tutorial Letter 101 contains important information about the scheme of work, resources and assignments for this module. We urge you to read it carefully and to keep it at hand when working through the study material, preparing the assignment(s), preparing for the examination and addressing questions to your lecturers.

Please read Tutorial Letter 301 in combination with Tutorial Letter 101 as it gives you an idea of generally important information when studying at a distance and within a particular College.

In this tutorial letter you will find the assignments and assessment criteria as well as instructions on the preparation and submission of the assignments. This tutorial letter also provides all the information you need with regard to the prescribed study material and other resources, and how to obtain it. Please study this information carefully and make sure that you obtain the prescribed material as soon as possible.

We have also included certain general and administrative information about this module. Please study this section of the tutorial letter carefully.

Right from the start we would like to point out that you must read all the tutorial letters you receive during the semester immediately and carefully, as they always contain important and, sometimes, urgent information.

We hope that you will enjoy this module and wish you all the best!

We would like to take this opportunity to extend our best wishes for success in your studies and assure you that we realise you are not studying under ideal conditions. We invite you to communicate with us on any matter concerning the content of the income tax course.

Kind regards

LECTURERS: TXN201B

PLEASE NOTE:

In order to obtain admission to the examination, compulsory assignment 01 must be submitted before or on the due date. No exceptions will be made and no extension for submission of the assignment will be given.
1. COMMUNICATING WITH THE UNIVERSITY AND YOUR LECTURERS

1.1 Communication regarding administrative matters (e.g. tutorial letters not received)

For any contact with the University concerning administrative matters, please consult the booklet *MY STUDIES @ UNISA* which you received with your study package, for contact details.

Administrative matters are as follows:

- Study material not yet received;
- Assignments handed in;
- Assignments not yet returned;
- Changes in the courses which you are registered for;
- Examination dates; etc.

Enquiries in connection with the above matters must be addressed to the relevant administration department to which the problem applies and **NOT** to the lecturers.

Here are some of the more important contact numbers:

- **UNISA Digital Contact Centre** 0861 670 411 (Nationally)  
  +27 11 670 9000 (Internationally)
- **Despatch Department** 012 429 4104
- **Fax number:** 012 429 4150 / +27 12 429 4150
- **E-mail:** study-info@unisa.ac.za
- **Online address:** [http://my.unisa.ac.za](http://my.unisa.ac.za)

When corresponding with the University in writing, always supply:

- your student number,
- module code and
- a telephone number where we can contact you.
You may enclose more than one letter in the same envelope. Do not, however, address several departments in one letter (e.g. despatch, the library and a teaching department). This will undoubtedly cause delay. Write a separate letter to each department and mark each letter clearly for attention of the relevant department.

Letters may not be enclosed together with assignments.

1.2 Communication regarding academic matters

If you have any queries in connection with the content of the module, please make use of any of the following methods of communication:

- **myUnisa**

  There are automatic email links from the myUnisa subject homepage where you can email the course directly. These emails are directed to a lecturer on the course who will promptly reply to your query.

- **Telephonically**

  During the 2011 year, the lecturers responsible for this module will be as follows:

<table>
<thead>
<tr>
<th>Name</th>
<th>Telephone number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr M van Dyk</td>
<td>(012) 429 4358</td>
</tr>
<tr>
<td>Mrs R Moosa</td>
<td>(012) 429 8976</td>
</tr>
<tr>
<td>Mrs MSI Wentzel</td>
<td>(012) 429 4876</td>
</tr>
<tr>
<td>Mrs E Doussy</td>
<td>(012) 429 4752</td>
</tr>
<tr>
<td>Mr AK Patel</td>
<td>(012) 429 4409</td>
</tr>
<tr>
<td>Mr CD Mahlaule</td>
<td>(012) 429 3372</td>
</tr>
<tr>
<td>Mrs C Stedall</td>
<td>(012) 429 4301</td>
</tr>
<tr>
<td>Prof AP Swanepoel</td>
<td>(012) 429 2054</td>
</tr>
<tr>
<td>Prof L Posthumus</td>
<td>(012) 429 4394</td>
</tr>
<tr>
<td>Ms P Mahlanga</td>
<td>(012) 429 4918</td>
</tr>
<tr>
<td>(administrative assistant)</td>
<td></td>
</tr>
</tbody>
</table>

  Departmental cell number: 072 895 4948

  Ensure that you have the right module code at hand when you contact the lecturers.

- **In writing**

  Communication in writing, regarding an academic matter, can be addressed to:

  Head of Department Taxation  
  School of Accounting Sciences  
  P.O. Box 392  
  UNISA  
  0003
• **E-mail**

You are welcome to contact the lecturers via e-mail. All e-mail must either be submitted through the myUNISA facility or directly to the following e-mail address:

- TXN201B-11-S1@unisa.ac.za (1st Semester students)
- TXN201B-11-S2@unisa.ac.za (2nd Semester students)

Do not e-mail the lecturers directly. Lecturers are sometimes on study leave for long periods of time and are therefore not in the office. Your e-mail may not get answered.

• **Consultation with lecturers**

It is possible to consult your lecturers in their offices. **It is however of the utmost importance to first contact the lecturer telephonically and to make an appointment.** This will save you from disappointment and frustration. Every lecturer plans his/her day according to work that has to be completed and it is very disruptive for lecturers to help students who arrive at their office without an appointment.

During a visit to your lecturer, please be prepared and be specific with your questions. It is the optimal way for a lecturer to help you in the time available.

2. **STUDY MATERIAL**

2.1 **Inventory letter**

You should have received an inventory letter telling you what you have received in your study package and also showing items that are still outstanding. Also see the brochure entitled *MY STUDIES @ UNISA*.

Check the study material that you have received against the inventory letter. You should have received all the items listed in the letter, unless there is a statement like “out of stock” or “not available”. If any item is missing, follow the instructions on the back of the inventory letter without delay.

**PLEASE NOTE:** Your lecturers cannot help you with missing study material. Please contact the Unisa Contact Centre at 0861 670 411 (RSA only), or +27 11 670 9000 (international calls) (also see par 3 above).

2.2 **Study material which will be issued by the University (Department of Despatch) to you**

• **Study guide**

For this module the study guide is contained in two tutorial letters (102/3/2011 and 103/3/2011). The reason for this is that the latest Income Tax Act is not available by the time that Unisa sets for study guides to be submitted for scheduling and printing. As the Income Tax Act is changing constantly, we need to update the study units annually, and this does not fit into Unisa’s three year study guide plan.

You must commence your studies by making use of the study units contained in tutorial letters 102/3/2011 and 103/3/2011, as these study units will guide you through the content of the module which is contained in the prescribed textbook.
• Tutorial letters

Tutorial letter 101/3/2011 (white)

It is this tutorial letter and contains very important information regarding the module. Keep it at hand as you will have to refer to it regularly.

Tutorial letter 102/3/2011 (glossy)

This tutorial letter will contain study guide 1 of 2 and will consist of the following study units:
- Study unit 1  Introduction
- Study unit 2  Salaried taxpayers
- Study unit 3  Gross income
- Study unit 4  Exempt income
- Study unit 5  Deductions
- Study unit 6  Farming

Tutorial letter 103/3/2011 (glossy)

This tutorial letter will contain study guide 2 of 2 and will consist of the following study units:
- Study unit 7  Fringe benefits
- Study unit 8  Retirement benefits
- Study unit 9  Capital gains tax
- Study unit 10  Prepaid taxes
- Study unit 11  Integrated questions

Tutorial letter 104/2011 (white)

This tutorial letter will contain information regarding the examination that you will be sitting.

Tutorial letter 201/2011 (pink)

This tutorial letter will contain the solutions to the questions in assignment 3 and solutions to the questions in study unit 11 of tutorial letter 103/3/2011.

Tutorial letter 202/2011 (pink)

This tutorial letter will only be sent out after the compulsory assignment is due and will contain the solution to the compulsory assignment as well as assignment 2’s solution.

Further tutorial letters

You may also receive further tutorial letters during the year as the need may arise. Tutorial letters are all sequentially numbered.

Additional study material

The above study material is the only study material which the University supplies to you. We believe that this is sufficient in order for you to successfully complete your studies. Therefore please do not request the lecturers to discuss previous exam questions with you or supply you with the solutions to these questions. This is not allowed and places them in a difficult position to say no. This will also ensure that all UNISA students throughout the world will be in the same position.
2.3 myUNISA online facility

myUNISA is an online facility available to all registered students. This facility provides access to study material and other resources and you are strongly recommended to register on the system and make use of the facilities and resources. As the postal system lets us down more and more, and because of the nature of distance learning we will be making increasing use of myUnisa as a tool for communicating with you. As semesters are so short, it is not always possible to communicate with you via tutorial letters, it is however possible via myUnisa to connect with the majority of students immediately.

On this module we will be making use of the following aspects of myUnisa:

- **Course contact** – you can email any content related queries to lecturers and you will receive a reply within 2 working days.
- **Discussion forum** – you can connect with other taxation students and discuss topics relating to taxation and to your studies. As lecturers we will not be taking part in the discussion forum, we will however be keeping an eye on the discussions. Where we feel that intervention needs to take place we will add our comments.
- **Announcements** – these are a VERY important tool for us and we will upload *errata* found in the study material by making use of announcements.
- **Schedule** – please check your schedule – assignment dates, exam dates and group visit dates will be loaded onto your schedule.
- **Assignments** – students can submit their assignments via myUnisa.
- **Frequently asked questions (FAQ’s)** – before you contact us please read through the FAQ’s it might save you a phone call. Also we will not answer any questions telephonically or by email that are contained in the FAQ’s or in your tutorial matter.

myUNISA is accessed from the UNISA Home Page by clicking on the myUNISA button or by making use of the following web address: [http://my.unisa.ac.za](http://my.unisa.ac.za).

Study material, as soon as it is print ready, is made available to students on the myUNISA facility. As a distance learner you are especially encouraged to make use of this electronic medium that is available to you.

To access the study material on myUNISA, do the following:

- Go to myUNISA
- Log in with your student number and password
- Select the module from the orange bar
- Click on “Materials” link on the left
- Access the folder ‘Official Study Material’ by clicking on it. Here you will find the electronic study material.

Also watch the subject landing page on myUNISA from time to time as we will make use of it, if and when we want to communicate something to you urgently.

If you experience any problems with the myUNISA facility, please make use of the following contact numbers:

UNISA Digital Contact Centre
- 0861 670 411 (Nationally)
- +27 11 670-9000 (Internationally).
2.4 Study material which you must obtain

- Prescribed textbook

It is essential that you either acquire or have at your disposal the following prescribed textbook:

*A Student’s Approach to Income Tax: Natural Persons 2011*, JMP Venter, M Stiglingh, *et al.*  
(Durban: LexisNexis Butterworths). ISBN 97804091 6558

Note that the library does not provide for this book specifically and that a copy of this book may not always be readily available in the library.

Please consult the list of official booksellers and their addresses in *MY STUDIES @ UNISA*.

If you have any difficulties with obtaining books from these bookshops, please contact the Registrar as soon as possible at telephone number 012 429 4152 or the Contact Centre at 086 167 0411 or email vospresc@unisa.ac.za.

You must obtain the prescribed book as soon as possible in the semester. Income tax books are updated annually and therefore the booksellers tend not to acquire excess books.

**PLEASE DO NOT USE AN OUTDATED VERSION OF THE PRESCRIBED BOOK – TAXATION RULES CHANGE ON AN ANNUAL BASIS AND YOU WILL BE PUTTING YOURSELF AT A DISADVANTAGE SHOULD YOU BE USING AN OLD TEXTBOOK.**

- Recommended material

If you wish you can also obtain the following book:

(Durban: LexisNexis Butterworths).

This publication contains questions and solutions which you can work through. This book is strongly recommended if you have enough time available to make proper use of the book.

---

3. HOW THE ASSIGNMENT SYSTEM WORKS FOR THIS MODULE

The assessment of this module consists of two parts, namely assignments and examination.

3.1 Assignments

**Assignment 1**:  
Compulsory  
Exam admission  
50% of year mark

**Assignment 2**:  
Compulsory  
50% of year mark

**Assignment 3**:  
Self assessment  
Does not count

---

10% of final mark

90% of final mark

**Assignment 1**:  
You have to complete and submit a *compulsory* multiple choice assignment on or before the due date. The submission of this assignment will give you exam admission. The mark obtained for this assignment will form 50% of your year mark for this module. This year mark will contribute 10% towards your final mark.
Assignment 2:
This assignment is a case study type question and will contribute 50% towards your year mark for this module. This year mark will contribute 10% towards your final mark.

Assignment 3:
This assignment consists of the May 2010 exam paper. You must not submit this assignment - it is a self-assessment assignment and does not contribute toward the year mark of the module. This assignment forms part of your learning process. The solution to this assignment (tutorial letter 201/2011) will be available with your study material that you receive on registration.

Assignments are seen as part of the learning material for this module. As you do the assignment, study the reading texts, consult other resources, discuss the work with fellow students or tutors, you are actively engaged in learning. Looking at the assessment criteria given for each assignment will help you to understand what is required of you more clearly.

Being a UNISA student, you do not write tests and therefore you need to use the assignments as a substitute. It is part of your learning process to receive feedback in the form of a reviewed assignment. The completion of your assignment will also help you, since only through much practice with the working out of questions in this module, will you obtain total understanding and proficiency in the application thereof. Please do not waste your own time and ours by submitting solutions that have been copied off our solution. This does not achieve anything as the marks for these assignments do not contribute towards a year mark and we do not look at these results at all.

Compulsory assignment
If you do not submit assignment 1 by the due date, you will NOT be admitted to the examination. You must keep a copy of your completed compulsory assignment, so that in the event that the assignment is lost before it can be assessed, you will have the necessary proof.

Submission of assignments
You may submit assignments in writing via post or electronically via the myUNISA facility. The faxing or e-mailing of assignments is not allowed. For detailed information and requirements as far as assignments are concerned, see MY STUDIES @ UNISA.

- Submission by post:
Assignments that are posted must be addressed to the Registrar and not the lecturers.

Assignments must be addressed as follows:
Assignments: Unisa
P O Box 392
UNISA, 0003

A mark-reading sheet is required for answering assignment 01. Before completing the mark-reading sheet please see the instructions contained in MY STUDIES @ UNISA. Read these instructions carefully and follow them exactly to avoid mistakes and delays.

- Electronic submission via the myUNISA facility:
To submit an assignment via myUNISA, do the following:
- Go to myUNISA
- Log in with your student number and password
- Select the module from the orange bar
- Click on assignments in the left menu
- Click on the assignment number you want to submit
- Follow the instructions
To find out in what format you can submit your assignment electronically, go to https://my.unisa.ac.za and before you log in, click on 'assignments' on the left, then click on “assignment submission with myUnisa”.

Remember if you use Microsoft Excel to submit your assignments all the answers must be on 'sheet 1'. If you use more than one 'sheet' only 'sheet 1' will be marked. Carefully read the instruction on how to do electronic submissions on myUnisa.

Marking of assignments
Assignment 1 will be marked electronically and the mark obtained will contribute 50% of your year mark for this module. Assignment 2 will also be marked and will contribute 50% of your year mark. Assignment 3 is a self assessment assignment. It is extremely important that, after receiving the solution, you carefully compare your answers with the answers that we have provided.

Feedback on assignments
You will receive the correct answers automatically for multiple-choice questions. For written assignments, markers will comment constructively on your work. However, commentaries on compulsory assignments will be sent to all students registered for this module in a follow-up tutorial letter, and not only to those students who submitted the assignments. The tutorial letter number will be 201, 202, etc.

As soon as you have received the commentaries, please check your answers. The assignments and the commentaries on these assignments constitute an important part of your learning and should help you to be better prepared for the next assignment and the examination.

Finality of due dates
The receipt of assignments after the due dates disrupts our marking programme, and as the uncontrolled submission of assignments furthermore creates administrative problems for us, you are requested to adhere strictly to the due dates and allow sufficient time for postal delays.

Please note the following:

NO EXTENSION FOR THE SUBMISSION OF ASSIGNMENTS WILL BE GRANTED. SINCE SOLUTIONS TO THE ASSIGNMENTS WILL BE FORWARDED AUTOMATICALLY TO ALL STUDENTS AFTER THE DUE DATES, NO CORRESPONDENCE OR TELEPHONE CONVERSATION WILL BE CONDUCTED IN REGARD TO SUBMISSION OF ASSIGNMENTS AFTER EXPIRY OF THE RELEVANT DUE DATES. IT FOLLOWS THEREFORE THAT ASSIGNMENTS RECEIVED AFTER THE RELEVANT DUE DATES WILL NOT BE MARKED.

Enquiries regarding assignments
For all enquiries about assignments (e.g. whether or not the university has received an assignment, marks awarded, the date that it was returned to you, etc.) the assignment section can be contacted at the UNISA Digital Contact Centre: 0861 670 411 (Nationally)
+27 11 670-9000 (Internationally).

Much of this information will be available to you on the myUNISA facility and you are again encouraged to make use of this electronic facility.

3.2 Examination
You will write an examination of 100 marks with a duration of two hours. The mark obtained for this examination will contribute 90% towards the final mark for this module, a sub-minimum of 40% must be obtained in the examination. In order to obtain admission to the examination you must submit the compulsory multiple choice assignment on or before the due date. For this you will be awarded 100 credits which will give you admission to the examination.
3.3 Final mark
You must obtain a final mark of 50% in order to pass this module.

Example:

If you obtain 78% for assignment 1, 60% for assignment 2 and 52% for the examination, the final mark will be calculated as follows:

Year mark (10% of final mark)

<table>
<thead>
<tr>
<th>Assignment</th>
<th>Mark</th>
<th>Weight</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assignment 1</td>
<td>78%</td>
<td>5%</td>
<td>3.90%</td>
</tr>
<tr>
<td>Assignment 2</td>
<td>60%</td>
<td>5%</td>
<td>3.00%</td>
</tr>
<tr>
<td>Examination</td>
<td>52%</td>
<td>90%</td>
<td>46.80%</td>
</tr>
</tbody>
</table>

Final mark 53.70%

4. HOW THE EXAMINATION SYSTEM WORKS

4.1 Examination admission requirement
You are required to submit a compulsory assignment (assignment 1) to obtain admission to the examination. Admission will be obtained by submitting the compulsory assignment on or before the due date and not by the marks you obtain for it.

Please ensure that this assignment (assignment 1) reaches the University on or before the due date. Late submission of the assignment will result in you not being admitted to the examination.

4.2 The examination

This module is offered in a semester period of fifteen weeks. This means that if you are registered for the second semester, you will write the examination in October/November 2011 and the supplementary examination will be written in May/June 2012.

During the semester, the Examination Section will provide you with information regarding the examination in general, examination venues, examination dates and examination times.

The examination of this module will consist of a two hour paper of 100 marks. We cover almost the whole syllabus in the examination and you can therefore not afford to leave out any part of it.

4.3 Examination dates

You are advised to consult the provisional timetable in good time in order to plan your final revision programme accordingly. Please note that the date may be altered and you must remember to consult your final timetable as soon as you receive it.

4.4 Supplementary, aegrotat and special examinations

Supplementary, aegrotat and special examinations are allowed in this module. If you have to write a supplementary examination during May 2012, you will have to download the updated study material from myUnisa (as you only pay supplementary student fees, there is no other way for us to send the latest study material to you). You will have to update yourself with any applicable changes to the Income Tax Act and therefore we recommend that you purchase the latest version of the prescribed textbook. The Income Tax Act is amended every year and you will be tested on the latest amended Act.
You will not be required to submit assignments if you are a supplementary, aegrotat or special examination student. Supplementary students – your exam mark will count the full 100% of your final mark. Aegrotat or special examination student – your year mark from the previous semester will be carried forward.

4.5 Final mark

The mark you obtain for the examination will contribute towards 90% of the final mark of this module. For more information please refer to “3. How the Assignment system works for this module” in this tutorial letter 101.

4.6 Enquiries regarding examinations

For all enquiries about examinations the examination section can be contacted at the UNISA Digital Contact Centre 0861 670 411 (Nationally) +27 11 670-9000 (Internationally).

Many of your enquiries could be answered by making use of the myUNISA facility and you are again encouraged to make use of this facility.

4.7 Previous examination papers

Previous examination papers are available to students. These are uploaded automatically on myUnisa. We advise you, however, not to focus on old examination papers only, as the content of modules and therefore examination papers changes from year to year. You may, however, accept that the type of questions that will be asked in the examination will be similar to those asked in your study guide and in the assignments. Remember that the solutions to the previous exam paper are not made available to students as they are out of date, as is the previous year exam paper. Assignment 3 is a previous exam paper that has been updated with the legislative amendments and a new solution is provided for you in tutorial letter 201.

4.8 Reviewing your exam script

If you failed a previous exam in this module, then you are able to request a lecturer to review your script and to tell you where you went wrong. Reviewing of scripts can only take place between the following dates:

<table>
<thead>
<tr>
<th>Date exam was written</th>
<th>Last date to request viewing of script</th>
</tr>
</thead>
<tbody>
<tr>
<td>October 2010</td>
<td>28 February 2011</td>
</tr>
<tr>
<td>May 2011</td>
<td>31 August 2011</td>
</tr>
<tr>
<td>October 2011</td>
<td>29 February 2012</td>
</tr>
</tbody>
</table>

The lecturers will not review your script after these dates.

5. GENERAL

5.1 Student support system

For information on the various student support systems and services available at Unisa (e.g. student counseling, tutorial classes, language support), please consult the publication MY STUDIES @ UNISA, which you received with your study material.
5.1.1 Contact with fellow students

Study groups

It is advisable to have contact with fellow students. One way to do this is to form study groups. The addresses of students in your area may be obtained from the following department:

Directorate: Student Administration and Registration
PO Box 392
UNISA
0003

Please contact the Unisa Contact Centre at 0861 670 411.

5.1.2 myUnisa

If you have access to a computer that is linked to the internet, you can quickly access resources and information at the university. The myUnisa learning management system is Unisa's online campus that will help you to communicate with your lecturers, with other students and with the administrative departments of Unisa – all through the computer and the internet.

To go to the myUnisa website, start at the main Unisa website, http://www.unisa.ac.za, and then click on the "Login to myUnisa" link on the right-hand side of the screen. This should take you to the myUnisa website. You can also go there directly by typing in http://my.unisa.ac.za.

Please consult the publication MY STUDIES @ UNISA, which you received with your study material, for more information on myUnisa.

5.1.3 Tutors

Tutors are available for certain modules, at certain Unisa centres, where numbers permit it. Please refer to the MY STUDIES @ UNISA brochure for details.

5.2 Answering of questions in the assignments and the examination

Show all calculations as marks are allocated to each step in a calculation. We cannot allocate marks for a wrong total. Where any item is exempt from tax or not allowed as a deduction, do not simply leave it out. Show the item, with a "nil" in the money column, giving a reason therefore.

5.3 Errors in study material

In spite of the care taken to ensure that the study guide, assignments and solutions are comprehensible and free from errors, omissions and discrepancies may occur. Should you come across such matters, or matters which are not clearly expressed, kindly let us know, to enable us to effect the necessary correction. As soon as we discover a mistake we will make an announcement on the myUnisa system, please ensure that you register yourself to receive e-mails from the system.

5.4 Advice to students

The academic semester is very short. Income tax covers a large volume of work. Further, due to the great number of students, it is sometimes difficult to make contact with a lecturer, especially prior to exams or due dates of assignments. It is therefore advisable that you start studying as soon as possible.
5.5 Plagiarism

Plagiarism is the act of taking words, ideas and thoughts of others and passing them off as your own. It is a form of theft which involves a number of dishonest academic activities.

The Disciplinary Code for Students (2004) is given to students at registration. Students are advised to study the Code, especially Sections 2.1.13 and 2.1.4 (2004:3 – 4). Kindly read the University's Policy on Copyright Infringement and Plagiarism as well.

6. STUDY PROGRAMME

The proposed percentage of the time you should devote to the study units dealt with in this tutorial letter, which is a section of the course, should be allocated as follows:

<table>
<thead>
<tr>
<th>Activity</th>
<th>Topic</th>
<th>Proposed percentage of time</th>
<th>Notional hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>Study unit 1:</td>
<td>Introduction</td>
<td>2%</td>
<td>2</td>
</tr>
<tr>
<td>Study unit 2:</td>
<td>Salaried taxpayers</td>
<td>10%</td>
<td>11</td>
</tr>
<tr>
<td>Study unit 3:</td>
<td>Gross income</td>
<td>10%</td>
<td>11</td>
</tr>
<tr>
<td>Study unit 4:</td>
<td>Exempt income</td>
<td>2%</td>
<td>2</td>
</tr>
<tr>
<td>Study unit 5:</td>
<td>Deductions</td>
<td>10%</td>
<td>11</td>
</tr>
<tr>
<td>Study unit 6:</td>
<td>Farming</td>
<td>2%</td>
<td>2</td>
</tr>
<tr>
<td>Study unit 7:</td>
<td>Fringe benefits</td>
<td>20%</td>
<td>22</td>
</tr>
<tr>
<td>Study unit 8:</td>
<td>Retirement benefits</td>
<td>15%</td>
<td>17</td>
</tr>
<tr>
<td>Study unit 9:</td>
<td>Capital gains tax</td>
<td>15%</td>
<td>17</td>
</tr>
<tr>
<td>Study unit 10:</td>
<td>Prepaid taxes</td>
<td>14%</td>
<td>16</td>
</tr>
<tr>
<td>Study unit 11:</td>
<td>Integrated questions</td>
<td></td>
<td>Study in con-</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>conjunction with</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>corresponding</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>study unit</td>
</tr>
<tr>
<td>Group discussion classes:</td>
<td>Attending one group discussion class per semester</td>
<td>5*</td>
<td></td>
</tr>
<tr>
<td>Assignment 01:</td>
<td>Study units 1 to 5</td>
<td></td>
<td>1*</td>
</tr>
<tr>
<td>Assignment 02:</td>
<td>Study units 1 to 8</td>
<td></td>
<td>1*</td>
</tr>
<tr>
<td>Assignment 03:</td>
<td>Study units 1 to 11</td>
<td></td>
<td>2*</td>
</tr>
<tr>
<td>Total number of notional hours</td>
<td></td>
<td></td>
<td>120</td>
</tr>
</tbody>
</table>

* Refers to the time spent to complete the assignment or attend the discussion class and does not include the preparation time – the preparation time is included in the study units above.

This is only a suggestion of how you should spend your time preparing for each section of this taxation module, and has no reference to the importance of the study units.
7. ASSESSMENT CRITERIA

SPECIFIC OUTCOME 1
Learners are able to calculate an individual’s tax liability in terms of the Income Tax Act.

Assessment Criteria
Learners will demonstrate that they have achieved the specific outcome when they are able to:

- have a basic knowledge of: the various types of taxation; the budget process; and the more important rules for interpreting the Income Tax Act;
- describe the income tax framework that is used for the calculation of taxable income and a tax liability;
- calculate the taxable income of a person married in community of property;
- calculate the net normal tax liability;
- explain the basic process for submitting tax returns, obtaining assessments and objecting to those assessments.

SPECIFIC OUTCOME 2:
Learners are able to apply the income tax provisions applicable to a salaried person in terms of the Income Tax Act and the relevant practice notes.

Assessment Criteria
Learners will demonstrate that they have achieved the specific outcome when they are able to:

- calculate the gross income of a salaried taxpayer
- exempt interest income (local and foreign) and dividend income (local and foreign) according to current legislation.
- calculate the following specific deductions:
  - income protection policy
  - pension fund contributions
  - provident fund contributions
  - retirement annuity fund contributions
  - donations to public benefit organisations
  - medical expenses
- apply deductions that are permitted for salaried taxpayers

SPECIFIC OUTCOME 3:
Learners are able to determine the gross income of an individual in terms of the Income Tax Act.

Assessment Criteria
Learners will demonstrate that they have achieved the specific outcome when they are able to:

- identify the key concepts forming part of the gross income definition for both residents and non-residents
• determine whether a person is a resident of the Republic as a result of being ordinarily resident or because they comply with the physical presence test.
• discuss the specific receipts and accruals which are included in the definition of gross income
• apply the rules laid down by the courts with regard to gross income
• calculate a person’s gross income
• apply the actual and deemed source rules for different types of income that a non-resident may receive
• apply the exemptions that are available to non-residents for the different types of income that they may receive
• apply the withholding taxes that are deducted from non-resident’s income

SPECIFIC OUTCOME 4:

Learners are able to determine the exempt income of an individual in terms of the Income Tax Act.

Assessment Criteria

Learners will demonstrate that they have achieved the specific outcome when they are able to:
• identify types of institutions are exempt from paying income tax
• identify types of income are exempt (or partially exempt) from income tax
• identify the difference is between an exemption and a deduction
• apply the exemptions while calculating taxable income

SPECIFIC OUTCOME 5:

Learners are able to apply the general deduction formula in terms of the Income Tax Act as well as the prohibited deductions in terms of sections 23 and 23B of the Income Tax Act.

Assessment Criteria

Learners will demonstrate that they have achieved the specific outcome when they are able to:
• differentiate between general and specific deductions
• identify and apply the components of the general deduction formula
• analyse each component of the general deduction formula in order to determine whether an expense will be deductible or not
• apply the rulings of the courts concerning the general deduction formula
• identify and apply the provisions of sections 23 and 23B in respect of prohibited deductions
• calculate a tax loss

SPECIFIC OUTCOME 6:

Learners know that farmers are taxed according to the First Schedule of the Act.

Assessment Criteria

Learners will demonstrate that they have achieved the specific outcome when they are able to:
• recognise that farmers are taxed according to the special provisions that apply to farmers
• identify farming operations
• identify farming capital cost can be claimed by a farmer for income tax purposes
• calculate a farmer’s tax liability
SPECIFIC OUTCOME 7:

Learners are able to calculate the fringe benefits of an individual in terms of the Income Tax Act and the relevant practice notes issued by the Commissioner.

Assessment Criteria

Learners will demonstrate that they have achieved the specific outcome when they are able to:

- identify fringe benefits in a case study type question and know how to value them, and bring them in as gross income when calculating taxable income
- calculate the taxable amount of all the fringe benefits listed in the 7th Schedule
- know and apply exemptions relating to fringe benefits
- calculate the amount to be included in income where a person receives a travel allowance for a full year or part of a year.

SPECIFIC OUTCOME 8:

Learners are able to apply the income tax provisions applicable to retirement and withdrawal benefits in terms of the Income Tax Act.

Assessment Criteria

Learners will demonstrate that they have achieved the specific outcome when they are able to:

- calculate the taxable portion of purchased annuities
- calculate the taxable portion of lump sums received from an employer
- calculate the taxable portion of lump sums received from different funds, on retirement, retrenchment, death or withdrawal
- calculate the taxable portion of lump sums received from government pension funds on retirement
- calculate normal tax on the different lump sums received by a taxpayer

SPECIFIC OUTCOME 9:

Learners are able to interpret and apply the income tax provisions regarding capital gains tax in terms of the Income Tax Act.

Assessment Criteria

Learners will demonstrate that they have achieved the specific outcome when they are able to:

- explain the specific capital gains tax terminology
- calculate aggregate and taxable capital gains and losses
- determine when a disposal of an asset takes place
- calculate the proceeds from a disposal
- determine the timing of a disposal
- calculate the base cost of an asset
- determine an attribution of a capital gain
- identify transactions to which capital gains tax applies
- identify the exclusions from capital gains tax
- correctly include a taxable capital gain in taxable income
SPECIFIC OUTCOME 10:

Learners know and are able to apply the provisions pertaining to employees’ tax and provisional tax in terms of the Income Tax Act.

Assessment Criteria

Learners will demonstrate that they have achieved the specific outcome when they are able to:

- explain what employees’ tax is and discuss the concepts involved in the provisions pertaining to employees’ tax
- calculate employees tax correctly according to current legislation
- calculate SITE correctly according to current legislation
- explain what provisional tax is
- calculate the different provisional tax payments that have to be made by a provisional taxpayer
- explain the penalties and interest applied in respect of provisional tax

9. Accreditation and moderation options:

1. Unisa is registered as a higher education provider by the Department of Education and accredited by the CHE/HEQC to offer this module.

2. Moderation of assessment will be conducted according to the Assessment Policy of Unisa (approved by Council on 30 September 2005) and the Assessment Procedures Manual (2007, revised annually), which are based on the principles established by SAQA and the CHE/HEQC.

3. The student's final mark will comprise a year mark earned from one or more assignments and a written examination of two hours. First examiners set and assess the assignments and examination. External examiners (markers) assist with the marking of the examination scripts. In the case of examinations, a second examiner moderates the questions, the marking process and the marked scripts. All examiners are senior academics or specialists in the field. External examiners from other universities act as re-markers.

10. Notes:

10.1 Critical cross-field outcomes:

The following critical cross-field outcomes are embedded appropriately in the module:

1. Identify and solve problems and make decisions relating to the taxation of natural persons using critical and creative thinking.

2. Collect, analyse, organise and critically evaluate information relating to the tax liability of natural persons.

3. Organise and manage himself/herself and his/her activities relating to his/her studies responsibly and effectively.

4. Communicate information relating to the tax liability of natural persons effectively using visual and language skills in the mode of written presentations.
In order to contribute to the full personal development of each student and the social and economic development of the society at large, it must be the intention underlying any programme of learning to make an individual aware of the importance of:

1. Reflecting on and exploring a variety of strategies to learn more effectively.
2. Participating as responsible citizens in the life of local, national and global communities.
3. Being culturally and aesthetically sensitive across a range of social contexts.
4. Exploring education and career opportunities.
5. Developing entrepreneurial opportunities.

10.2 Embedded knowledge:

The following knowledge is embedded in the module and will be assessed directly or indirectly through assessment of the specific outcomes in terms of the assessment criteria:

- Fringe benefits
- Income tax deductions
- Income tax liabilities
- Gross income definition
- General deduction formula
- Farming income
- Retirement benefits
- Capital gains tax
- Employees tax
- Provisional tax
- Taxation of non-residents
Assignment 01 for first semester 2011

DUE DATE: 14 March 2011

Unique number: 244020

PLEASE NOTE THAT SUBMISSION OF THIS ASSIGNMENT IS COMPULSORY TO OBTAIN ADMISSION TO THE EXAMINATION. Admission will be obtained by submitting the assignment and not by the marks you obtain for it. This assignment will count a maximum of 5% of your final mark. Please ensure that this assignment reaches the University before the due date as late submission will result in you not being admitted to the examination! No correspondence or telephonic conversation will therefore be entered into in this regard.

If you will be posting your assignment: Please make a copy of your final assignment before you post it to Unisa, in case your assignment gets lost in the post. We would like to advise you if at all possible to submit your assignment electronically!!

NB:
1. Questions can be answered on a mark-reading sheet and posted or submitted electronically via the myUNISA online system.
2. Before completing the mark-reading sheet please see the instructions contained in this year’s issue of MY STUDIES @ UNISA. Read these instructions carefully and follow them exactly to avoid mistakes.
3. This assignment covers study units 1-5 of tutorial letter 102/3/2011. Work carefully through the relevant tutorial matter before you tackle the assignment.
4. Do your calculations on a separate piece of paper before you complete the mark-reading sheet.

IMPORTANT ASPECTS REGARDING MULTIPLE CHOICE ASSIGNMENTS

REMEMBER:
- There is only one correct answer to each question.
- All questions are equal in value.
- Only mark-reading sheets provided may be used.
- Colour in the correct block with a HB pencil.
- Fill in your student number correctly.
- Fill in the assignment number correctly.
- Fill in the unique assignment number for the specific semester and the course you are registered for, correctly. Every assignment which is marked by the computer is given a unique number. The number contains information on the course code and assignment number. When the computer reads the mark-reading sheet with, say, the unique number 103039, it 'knows' that it is Assignment 01 for that specific module.
- Send only your mark-reading sheet to the Assignment Section in the appropriate envelope.
- Make sure you have enough mark-reading sheets.

DO NOT:
- Make more than one mark per question.
- Tear or fold the mark-reading sheet.
- Staple the mark-reading sheet to another piece of paper.
- Colour outside the block.
- Colour in the block with a pen.
- Make corrections with correction fluid.
- Submit answers on a written sheet of paper.
- Try to repair a torn mark-reading sheet with sticky tape - use another one.
ASSIGNMENT 01 (60 marks, 72 minutes)

ASSESSMENT CRITERIA FOR THIS ASSIGNMENT

For this assignment you will need to have achieved the learning outcomes set out in study units 1 to 5 as contained in Tutorial Letter 102/3/2011. This assignment will assess your ability to select the appropriate alternative that best reflects the quantitative/qualitative answer to a problem.

REQUIRED:

Select the number (1) to (5) that represents the correct answer to the question. Make sure that you take into account the supporting explanation or calculation (if included), as well as the answer.

Question 1

What is the most appropriate description of what constitutes an individual's taxable income?

(1) Gross income only
(2) Gross income less exempt income
(3) Gross income less exempt income less allowable deductions
(4) All income less exempt income less interest exemption less local dividends exemption
(5) Income less pension fund contributions less retirement annuity fund contributions

Question 2

Mrs A (66 years old and unmarried) receives a monthly salary of R25 000 for the 2011 year of assessment. What is her normal tax?

(1) R284 065 [R300 000 – R15 935]
(2) R300 000 [R25 000 x 12 months]
(3) R14 740 [R25 000 – R10 260]
(4) R9 065 [R25 000 - R15 935]
(5) R69 150 [R45 450 + (R300 000 – R221 000) x 30%]
**Question 3**

Assume that Mrs A’s normal tax (per the tax tables) based on her taxable income for the 2011 year of assessment is R75 000. Mrs A is 66 years old and unmarried. What is her net normal tax payable?

1. R59 065  \[R75 000 – R15 935\]
2. R64 740  \[R75 000 – R10 260\]
3. R64 741  \[R75 000 – R15 935 + R5 676\]
4. R75 000
5. Rnil  *Mrs A is over 65 and she is not liable to pay any tax*

**Question 4**

Assume that Mrs A’s net normal tax payable amounts to R55 000 for the 2011 year of assessment. She has paid SITE of R540, PAYE of R14 205 and made a 1st provisional tax payment of R4 125 during the 2011 year of assessment. Mrs A is 66 years old and unmarried. What is her tax liability?

1. R55 000
2. R54 460  \[R55 000 – R540\]
3. R36 130  \[R55 000 – R540 – R14 205 – R4 125\]
4. R65 620  \[R55 000 + R540 + R14 205 – R4 125\]
5. R9 900  \[R55 000 \times 18\%\]

**Question 5**

Alice Grey receives a monthly salary of R10 000 for the 2011 year of assessment. Alice also receives an annual bonus of R10 000 for the year. Her salary and bonus are taken into account for pension fund contributions. What is her retirement funding income for the year of assessment?

1. R120 000  \[R10 000 \times 12 \text{ months}\]
2. R110 000  \[R120 000 – R10 000\]
3. R10 000
4. R130 000  \[R120 000 + R10 000\]
5. R20 000  \[R10 000 + R10 000\]

**Use this information to answer questions 6 - 9:**

Izabelle Steven (32 years old and not married) is a South African resident and has the following income that has accrued to her in the 2011 year of assessment.

<table>
<thead>
<tr>
<th>Income Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>South African earned interest</td>
<td>25 500</td>
</tr>
<tr>
<td>South African dividends</td>
<td>16 500</td>
</tr>
<tr>
<td>Gross foreign dividends</td>
<td>3 500</td>
</tr>
<tr>
<td>Foreign interest</td>
<td>1 900</td>
</tr>
</tbody>
</table>

**Question 6**

How much of the South African dividends will be included in Izabelle’s income?

1. R16 500
2. R8 250  \[R16 500 \times 50\%\]
3. (R5 800)  \[R16 500 – R22 300 exemption\]
4. Rnil  *South African dividends are exempt from tax*
5. Rnil  \[R16 500 \times 50\% = R 8 250 but R22 300 is exempt from tax for persons under 65 years of age\]
**Question 7**

How much of the foreign dividends will be included in Izabelle’s income?

1. Rnil  
   *foreign dividends are not taxable in South Africa*
2. R1 750  
   *[R3 500 x 50% as only 50% of foreign dividends are included]*
3. Rnil  
   *[R3 500 – R3 500 = Rnil]*
4. R3 500  
   *full R3 500 as she is taxed on her world-wide income*
5. R1 600  
   *[R3 500 – R1 900 (foreign interest)]*

**Question 8**

Assume the allowable exemption on foreign dividends was R3 500, how much of the foreign interest will be included in Izabelle’s income?

1. Rnil  
   *foreign interest is not taxable in South Africa*
2. R1 900  
3. R1 700  
   *[R1 900 – (R3 700 – R3 500)]*
4. R750  
   *[((R1 900 x 50%) - (R3 700 – R3 500)]*
5. (R1 800)  
   *[R1 900 – R3 700]*

**Question 9**

Assuming that the foreign investment income exemption has been fully utilised, how much of the South African interest will be included in Izabelle’s income?

1. R25 500  
2. R3 200  
   *[R25 500 – R22 300]*
3. (R500)  
   *[R25 500 – (R22 300 + R3 700)]*
4. R6 900  
   *[R25 500 – (R22 300 – R3 700)]*
5. Rnil  
   *South African interest earned is exempt from normal tax*

**Question 10**

What is the **correct order of deductions** when calculating an individual’s taxable income for the year of assessment?

1. Income **less** other deductions **less** contributions to pension funds **less** contributions to retirement annuity funds **less** donations to public benefit organizations **less** medical expenses
2. Income **less** deductions in any order
3. Income **less** contributions to pension funds **less** contributions to retirement annuity funds **less** other deductions **less** donations to public benefit organizations **less** medical expenses
4. Income **less** contributions to retirement annuity funds **less** contributions to pension funds **less** other deductions **less** donations to public benefit organizations **less** medical expenses
5. Income **less** other deductions **less** contributions to pension funds **less** contributions to retirement annuity funds **less** medical expenses **less** donations to public benefit organizations
Question 11

Donald contributes 8% of his monthly salary to a pension fund. Donald earns R7 000 per month. What is the maximum allowable deduction that Donald can claim during his 2011 year of assessment?

(1) R1 750
(2) R6 300 \[R7000 \times 12 \text{ months} \times 7.5\%\]
(3) R6 720 \[R7000 \times 12 \text{ months} \times 8\%\]
(4) Rnil \(\text{pension fund contributions are not deductible for tax purposes}\)
(5) R12 600 \[R7000 \times 12 \text{ months} \times 15\%\]

Question 12

Yumna (aged 30 years) earns a salary of R500 000 per annum. She only worked for 10 months of the year of assessment. She contributed R5 000 per month to a pension fund for only 10 months of the year during the 2011 year of assessment. What amount will she be allowed to deduct in respect of her pension fund contributions?

(1) R50 000 \([R5 000 \times 10 \text{ months}]\)
(2) Rnil \(\text{contributions for part of a year are not allowed as a deduction}\)
(3) R31 250 \[R500 000 \times 7.5\% \times \frac{10}{12}\]
(4) R33 333 \[R500 000 \times 8\% \times \frac{10}{12}\]
(5) R10 000 \[R60 000 \times \frac{2}{12}\]

Question 13

Akbar donated R20 000 to a public benefit organization (PBO) as part of his community project. A section 18A receipt was obtained. How much will Akbar be allowed to deduct from his taxable income for the 2011 year of assessment, assuming Akbar has a taxable income before the donation deduction of R250 000?

(1) R20 000 \([10\% \times R250 000 = R25 000, \text{limited to R20 000}]\)
(2) R18 750 \([7.5\% \times R250 000]\)
(3) R25 000 \([10\% \times R250 000]\)
(4) Rnil \(\text{donations to PBO’s are not allowed as a deduction}\)
(5) R125 000 \([50\% \times R250 000]\)

Question 14

Juliet (31 years old) is married to Romeo. They have one child, Jerome aged 10 years. Juliet is a member of a medical aid fund and her husband and child are registered as dependants. What would Juliet’s family limit be in respect of her medical aid contributions for the 2011 year of assessment?

(1) R16 080 \([R670 \times 2 \times 12 \text{ months}]\)
(2) R21 000 \([(R670 \times 2 \times 12 \text{ months}) + (R410 \times 1 \times 12 \text{ months})]\)
(3) R1 750 \([R670 + R670 + R410]\)
(4) Rnil \(\text{there is no family limit to the medical aid deductions}\)
(5) R8 040 \([R670 \times 12 \text{ months}]\)
**Question 15**

A natural person will be a resident, for South African income tax purposes, by complying with:

1. the ordinarily resident test or the physical presence test.
2. both ordinarily residence test and the physical presence test.
3. the mere fact that the individual holds a South African passport.
4. the fact that the individual works in South Africa.
5. the fact that he is married to a South African resident.

**Question 16**

Which one of the following scenarios will not pass a true source test as applied by the courts?

1. Ms Flowers, a Zimbabwean resident, writes poems mainly in South Africa
2. Funds are transferred from England to Mr Radebe’s (a British resident) South African bank account
3. Engineering machinery produced in America is sold in South Africa
4. A farm in South Africa is leased to an Argentinean farmer
5. A contract signed in Germany to export goods from South Africa to Germany

**Question 17**

Dani is a Spanish resident and an author (writer). Dani received the following South African related income:

(i) Royalties received from a book written by Dani in South Africa and sold in South Africa
(ii) Royalties received from a book written by Dani in Spain and sold in South Africa
(iii) Royalties received from a book written by Dani in South Africa and sold in Spain. Dani is the first owner of the copyright
(iv) Rental income received by Dani for letting a holiday flat in South Africa
(v) Interest received by Dani from a South African bank account
(vi) Dividend declared by a property collective investment scheme

Which of Dani’s following South African income will not be exempt from normal tax?

1. (i) and (v)
2. (i), (iv), (v) and (vi)
3. (iii) and (iv)
4. (iv)
5. (ii), (iii), (iv) and (vi)

**Question 18**

Which one of the following payments is not exempt from normal income tax?

1. Foreign dividends received by a South African resident holding 20% of the total equity of the company declaring the dividend
2. Overseas prize money paid to a South African professional golfer who played overseas continuously for 190 days during the year of assessment
3. Pension paid by the Portuguese government to a South African resident. The pension relates to employment in Portugal before the individual became a South African resident
4. Compensation of R275 000 paid by an employer to the widow of a former employee who died in a mining accident
5. Prize money paid to an Australian tennis player for winning a South African tournament
**Question 19**

Jacob, a 59 year widower and South African resident, received South African dividends of R10 000, South African interest of R27 000, foreign interest of R400 and foreign dividends of R3 200. What portion of his investment income is taxable?

<table>
<thead>
<tr>
<th></th>
<th>Calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>R8 300 ( \frac{[R10 000 - R10 000] + (R3 200 - R3 200) + (R400 - R400) + (R27 000 - R22 300 + R3 200 + R400)]}{8 300} )</td>
</tr>
<tr>
<td>2</td>
<td>R1 100 ( \frac{[R10 000 - R10 000] + (R3 200 - R3 200) + (R400 - R400) + (R27 000 - R22 300)}{1 100} )</td>
</tr>
<tr>
<td>3</td>
<td>R4 700 ( \frac{[R10 000 - R10 000] + (R3 200 - R3 200) + (R400 - R400) + (R27 000 - R22 300 + R400)}{4 700} )</td>
</tr>
<tr>
<td>4</td>
<td>R8 400 ( \frac{[R10 000 - R10 000] + (R3 200 - R3 200) + (R400 - R400) + (R27 000 - R22 300 + R3 700)}{8 400} )</td>
</tr>
<tr>
<td>5</td>
<td>R1 000 ( \frac{[R10 000 - R10 000] + (R3 200 - R3 200) + (R400 - R400) + (R27 000 - R22 300)}{1 000} )</td>
</tr>
</tbody>
</table>

**Question 20**

Sarah, 70 years of age and married in community of property to Sam, received South African dividends of R8 000, South African interest of R58 000, foreign interest of R600 and foreign dividends of R8 400. What portion of her investment income is taxable?

<table>
<thead>
<tr>
<th></th>
<th>Calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>R30 700 ( \frac{[R8 000 - R8 000] + (R8 400 - R3 700) + (R600 - R600) + (R58 000 - R32 000)]}{30 700} )</td>
</tr>
<tr>
<td>2</td>
<td>R35 000 ( \frac{[R8 000 - R8 000] + (R8 400 - R3 700) + (R600 - Rnil) + (R58 000 - R32 000 + R3 700)]}{35 000} )</td>
</tr>
<tr>
<td>3</td>
<td>R17 500 ( \frac{[R8 000 - R8 000] + (R8 400 - R3 700) + (R600 - Rnil) + (R58 000 - R32 000 + R3 700)]}{17 500} \times 50% )</td>
</tr>
<tr>
<td>4</td>
<td>R15 650 ( \frac{[R8 000 - R8 000] + (R8 400 - R3 700) + (R600 - Rnil) + (R58 000 - R32 000)]}{15 650} \times 50% )</td>
</tr>
<tr>
<td>5</td>
<td>R1 500 ( \frac{[((R8 000 \times 50%) - (R8 000 \times 50%)) + ((R8 400 \times 50%) - R3 700) + ((R600 \times 50%) - Rnil) + ((R58 000 \times 50%) - R32 000 + R3 700)]}{1 500} )</td>
</tr>
</tbody>
</table>

**Question 21**

Which one of the following receipts or benefits are exempt from normal income tax?

1. Interest received by an American resident carrying on business in South Africa
2. South African dividends received by a German resident in the form of an annuity
3. Hiring residential accommodation for an employee for five months after being transferred
4. A bursary of R10 000 awarded to a relative of an employee who earns R120 000 per year
5. Maintenance received by a spouse in terms of a divorce order granted in 1961

**Question 22**

Which one of the following statements is correct?

1. Earning rental income is not classified as a trade
2. Earning interest from an investment, by looking for and negotiating the best rate, is regarded as a trade
3. Absence of profit excludes a transaction from being regarded as a trade
4. Expenses incurred before trading commences are deductible
5. Selling of trading stock during liquidation is carrying on a trade
**Question 23**

In which one of the following court cases was it held that expenditure subject to a *bona fide* dispute has not been actually incurred?

1. *ITC 1499* 53 SATC 266
2. *Commissioner for Inland Revenue v Nemojm (Pty) Ltd* 45 SATC 241
3. *CIR v George Forrest Timbers Co Ltd* 1 SATC 20
4. *Caltex Oil (SA) Ltd v SIR* 37 SATC 1
5. *ITC 1094* 28 SATC 275

**Question 24**

Dave is a handicapped person and has to make use of a wheelchair. He is an investment consultant and sees clients at their workplaces. He received fines during the year of assessment totalling R5 000 for illegal parking, where no special parking bays were available to park his car. The most difficult requirement Dave will have to prove in terms of section 11(a), in order to claim the fines as a deduction, is:

1. It was expenditure
2. It was actually incurred
3. It was incurred during the year of assessment
4. It was in the production of income
5. It was not of a capital nature

**Question 25**

In *ITC 1383* 46 SATC 90 it was held that:

1. Even if the scale of investment in shares is not very extensive, it may amount to carrying on a trade
2. Before it may be said that expenditure has actually been incurred, there must be a clear legal liability to pay
3. Recurrent rent paid for the use of another’s property was expenditure incurred in the production of income and of a non-capital nature
4. It is not necessary to turn to the ‘enduring benefit’ test where you have a permanent fixed capital asset
5. Where the risk of theft is inherent in and an inseparable element of a business, any loss arising as a result of theft will be deductible

**Question 26**

Which one of the following statements is false?

1. Money spent in creating an income-producing concern must be capital expenditure
2. The cost of improving or adding to capital assets is a capital expense
3. Payment of expenditure in annual instalments can never be of a capital nature
4. The nature of the business a taxpayer is engaged in may determine whether an expenditure or loss is deductible
5. Generally, capital expenditure is spent ‘once and for all’ and revenue expenditure is recurrent in nature
Question 27

James trades as a personal service provider and provides bookkeeping services to clients through persons he employs. He incurred several expenses during the year of assessment, including the following:

(i) Salaries paid to employees
(ii) Reimbursement of travelling expenses to employees
(iii) Rent of premises used for business purposes
(iv) Life insurance on James's life in favour of his wife
(v) Bad debts written off of clients that went bankrupt
(vi) Insurance on the computers used for bookkeeping work
(vii) Refreshments for and entertainment of clients.

Which one of the following will be allowed as deductions:

(1) (i), (iii) and (vi)
(2) (i), (iii), (iv), (v) and (vi)
(3) (i), (ii), (iii), (iv), (v) and (vi)
(4) (i), (ii), (iii), (v), (vi) and (vii)
(5) (i), (ii), (iii), (v) and (vi)

Question 28

Which one of the following is not a prohibited expense in terms of section 23?

(1) A provision made for expenditure that could be incurred in terms of warrantees provided with the sale of electronic equipment
(2) Levies paid in terms of the Skills Development Levies Act
(3) The cost of trading stock destroyed in a fire. The loss is covered by insurance
(4) Dry-cleaning costs of a chief executive officer’s suits that he wears to work
(5) A payment to an employee who resigned. The payment prohibits the employee competing against the employer's business

Question 29

Patricia is employed by Dust-buster Vacuum Machines. She earns a basic salary and commission on sales of vacuum machines. Her commission income exceeds her salary. Which of the following expenses incurred by Patricia, is she not allowed to claim as a deduction for income tax purposes?

(1) Medical expenses incurred when a vacuum machine fell on her big toe and broke it, whilst off-loading it for a client
(2) Printing costs in respect of flyers to advertise the products Patricia sells
(3) Ten percent of expenses relating to her home. The expenses are not of a capital nature. The section of her home was specifically equipped and regularly and exclusively used for her work purposes. Dust-buster Vacuum Machines does not provide her with a dedicated office
(4) Restraint of trade payment she is paying back to her previous employer because of breach of agreement
(5) Entertainment expenses in respect of clients
Question 30

Which one of the following expenses will be allowed as a deduction for income tax purposes?

(1) Rent paid in respect of a vacant piece of property to prevent competitors obtaining it
(2) Goodwill paid with the acquisition of a business
(3) Advertising costs incurred before the launch of a new business
(4) Insurance premiums paid in respect of a warehouse used for storing trading stock
(5) Interest paid on a loan made in order to pay income tax

END OF ASSIGNMENT 1
ASSIGNMENT 2 – 1st SEMESTER ONLY – counts 5% towards final mark

<table>
<thead>
<tr>
<th>COURSE</th>
<th>DUE DATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>TXN201-B</td>
<td>11 April 2011</td>
</tr>
</tbody>
</table>

NOTE: SUBMISSION OF THIS ASSIGNMENT IS COMPULSORY. NOTE THAT 5% OF THE MARK OBTAINED FOR THIS ASSIGNMENT WILL FORM PART OF YOUR YEAR MARK FOR THIS MODULE. YOUR YEAR MARK WILL CONTRIBUTE 10% TOWARDS YOUR FINAL MARK (CONSISTING OF 5% FOR ASSIGNMENT 01 AND 5% FOR ASSIGNMENT 02). PLEASE ENSURE THAT THIS ASSIGNMENT REACHES THE UNIVERSITY ON OR BEFORE THE DUE DATE BECAUSE LATE SUBMISSION WILL RESULT IN YOUR NOT BEING AWARDED 5% OF THE MARK OBTAINED FOR THIS ASSIGNMENT AS PART OF YOUR YEAR MARK! NO CORRESPONDENCE OR TELEPHONIC CONVERSATION WILL THEREFORE BE ENTERED INTO IN THIS REGARD.

ASSESSMENT CRITERIA FOR THIS ASSIGNMENT

For this assignment you will need to have achieved the learning objectives set out in study units 1 to 8 as contained in Tutorial Letters 102/3/2011 and 103/3/2011. The references to the chapters in the prescribed book are provided in the respective study units. This assignment will assess you on being able to answer the case study questions.

NOTE: SHOW ALL CALCULATIONS. MARKS ARE ALLOCATED TO EACH STEP IN A CALCULATION AND WE CANNOT THEREFORE ALLOCATE MARKS TO AN INCORRECT TOTAL FIGURE. WHERE ANY ITEM IS EXEMPT FROM TAX, OR NOT ALLOWED AS A DEDUCTION, DO NOT SIMPLY LEAVE IT OUT. SHOW THE ITEM AS A "NIL" IN THE MONEY COLUMN, GIVING REASONS FOR THIS.
Mariam (31 years old) is married to Joe in community of property. Mariam and Joe have 2 children, Aliya and Aman (aged 12 and 13 years respectively). Mariam is a full time salaried employee at a top notch IT company which imports computer peripherals from overseas. Details of Mariam’s income and expenses for the 2011 year of assessment are as follows:

<table>
<thead>
<tr>
<th>Notes</th>
<th>Income</th>
<th>R</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Salary (retirement funding income)</td>
<td>300 000</td>
</tr>
<tr>
<td>2</td>
<td>Bonus (retirement funding income)</td>
<td>14 000</td>
</tr>
<tr>
<td>3</td>
<td>Accumulated leave pay</td>
<td>535 000</td>
</tr>
<tr>
<td>4</td>
<td>Pension Fund lump sum</td>
<td>45 000</td>
</tr>
<tr>
<td>5</td>
<td>Travel allowance</td>
<td>2 500</td>
</tr>
<tr>
<td>6</td>
<td>Entertainment allowance</td>
<td>3 000</td>
</tr>
<tr>
<td>7</td>
<td>Use of company car</td>
<td>75 000</td>
</tr>
<tr>
<td>8</td>
<td>Uniform allowance</td>
<td>30 000</td>
</tr>
<tr>
<td>9</td>
<td>Inheritance received</td>
<td>5 600</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Notes</th>
<th>Expenses</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>9</td>
<td>Total medical cost</td>
<td>36 400</td>
</tr>
<tr>
<td>10</td>
<td>Current contribution to pension fund</td>
<td>24 000</td>
</tr>
</tbody>
</table>

Notes:

1. Bonus

Mariam’s bonus is calculated at 20% of her annual salary for the 2011 year of assessment.

2. Accumulated leave pay

Mariam had a substantial amount of leave pay due to her on 28 February 2011. Her employer accordingly compensated her by paying a gratuity of R14 000. This is the only gratuity ever received from her employer.

3. Lump sum received

Mariam resigned on the last day of assessment and decided to withdraw from her pension fund. She received a lump sum of R535 000 from this pension fund. An amount of R8 000 contributed to the pension fund was not allowed as a deduction in the previous years of assessment. Mariam transferred R135 000 to a pension preservation fund. This is the first retirement fund that she ever belonged to.

4. Travel allowance

Mariam received a travel allowance of R45 000 for the year. The cost of her vehicle was R313 500 (VAT inclusive). Mariam did not keep a record of her actual expenses for the year.

Mariam however kept a detailed logbook for the year of assessment. She traveled a total distance of 37 490 km for the year, of which 24 190km was for private purposes.
QUESTION 1 (continued)

5. Entertainment allowance

Mariam is required occasionally to entertain her company’s clients. Her employer accordingly paid her an entertainment allowance of R2 500 for the year of assessment. She kept proof of her entertainment expenses which totalled R1 450 for the year of assessment.

6. Use of company car

From 1 March 2010, Mariam’s husband Joe received the use of a brand new company car. The company purchased the vehicle on 18 February 2010 at a cost of R194 200 (VAT inclusive). Mariam’s husband kept an accurate record of his private travel which amounted to 7 200 km traveled for private purposes during the year of assessment. Her employer bears the full cost of all fuel and maintenance costs of the car. Joe used the car for the full year of assessment.

7. Uniform allowance

Mariam has to wear clothing bearing the company logo. Her employer accordingly paid her a uniform allowance of R3 000 for the year of assessment.

8. Inheritance received

Mariam’s father died during the year of assessment. On 1 January 2011 Mariam received a cash inheritance from her father’s estate amounting to R75 000. She decided to invest this inheritance received towards her children’s education policy.

9. Medical expenses

Mariam is a member of a registered medical scheme. Her husband and children are all dependants. None of them are “handicapped” as defined.

The following is an extract from Mariam’s medical aid statement for the year of assessment:

- Medical scheme contributions for the year R30 000
- Medical expenses not re-imbursed by the medical scheme R6 400
- Mariam’s employer paid R12 800 of the above medical scheme contributions.

10. Pension fund contributions

Mariam contributes 8% per month of her retirement funding income to a pension fund.

<table>
<thead>
<tr>
<th>REQUIRED</th>
<th>MARKS</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Calculate Mariam’s <strong>taxable income</strong> for the year of assessment ended 28 February 2011</td>
<td>26</td>
</tr>
<tr>
<td>B. What is the normal tax payable on the lump sum amount from the pension fund.</td>
<td>4</td>
</tr>
</tbody>
</table>
QUESTION 2 (11 marks, 13 minutes)

James Dunn (44 years old) is an Australian citizen and is not a resident of the Republic. He does not carry on business in the Republic. James is a filmmaker by profession. During the 2011 year of assessment James spent 120 days in South Africa and received the following amounts.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (R)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest received – South African fixed deposit</td>
<td>37 000</td>
</tr>
<tr>
<td>Royalties received from a documentary film shot in South Africa and sold in South Africa</td>
<td>780 000</td>
</tr>
<tr>
<td>Royalties received from a documentary film shot in South Africa and sold in Australia</td>
<td>1 140 000</td>
</tr>
<tr>
<td>Royalties received from a documentary film shot in Australia and sold in South Africa</td>
<td>560 000</td>
</tr>
<tr>
<td>Fees from South African Embassy in Australia for filming the progress of the renovations of the South African Embassy</td>
<td>50 000</td>
</tr>
<tr>
<td>Net rental income from a South African property owned by James</td>
<td>36 000</td>
</tr>
<tr>
<td>Proceeds on disposal of South African property</td>
<td>1 800 000</td>
</tr>
</tbody>
</table>

REQUIRED MARKS

(a) Calculate James’ South African taxable income for the 2011 year of assessment. 6
(b) Calculate the withholding tax (if any) on James’ South African income. 5

QUESTION 3 (8 marks, 10 minutes)

Fred Farmer has a farm on which various farming activities takes place. He received various forms of income and incurred various expenses.

The following details are available:

- Sale of livestock and harvest produce R890 000
- Livestock used as rations for labourers – R54 000 (market value), R32 000 (cost)
- Livestock used as rations for domestic servants – R14 000 (market value), R8 000 (cost)
- Donation of livestock to local church - R4 000 (market value), R1 600 (cost)
- Subsidy received in respect of interest on loan from Landbank – R41 000
- Profit on disposal of tractor, limited to original cost – R15 000
- Bonus from Co-operative for sales to it – R33 000
- Preparation cost to establish an area to plant fruit trees – R87 000
- Paving of the driveway in front of Fred’s house – R21 000

REQUIRED MARKS

For each of the listed items, indicate whether it is farming income (FI), other income (OI), capital development expenditure (CDE) or other expense (OE), as well as the value/cost at which it must be included. 9

END OF ASSIGNMENT 2
ASSIGNMENTS FOR SECOND SEMESTER STUDENT

Assignment 01 for second semester 2011

DUE DATE: 22 August 2011

Unique number: 221135

PLEASE NOTE THAT SUBMISSION OF THIS ASSIGNMENT IS COMPULSORY TO OBTAIN ADMISSION TO THE EXAMINATION. Admission will be obtained by submitting the assignment and not by the marks you obtain for it. This assignment will count a maximum of 5% of your final mark. Please ensure that this assignment reaches the University before the due date as late submission will result in you not being admitted to the examination! No correspondence or telephonic conversation will therefore be entered into in this regard.

If you will be posting your assignment: Please make a copy of your final assignment before you post it to Unisa, in case your assignment gets lost in the post. We would like to advise you if at all possible to submit your assignment electronically!!

NB:
1. Questions can be answered on a mark-reading sheet and posted or submitted electronically via the myUNISA online system.
2. Before completing the mark-reading sheet please see the instructions contained in this year’s issue of MY STUDIES @ UNISA. Read these instructions carefully and follow them exactly to avoid mistakes.
3. This assignment covers study units 1-5 of tutorial letter 102/3/2011. Work carefully through the relevant tutorial matter before you tackle the assignment.
4. Do your calculations on a separate piece of paper before you complete the mark-reading sheet.

IMPORTANT ASPECTS REGARDING MULTIPLE CHOICE ASSIGNMENTS

REMEMBER:
- There is only one correct answer to each question.
- All questions are equal in value.
- Only mark-reading sheets provided may be used.
- Colour in the correct block with a HB pencil.
- Fill in your student number correctly.
- Fill in the assignment number correctly.
- Fill in the unique assignment number for the specific semester and the course you are registered for, correctly. Every assignment which is marked by the computer is given a unique number. The number contains information on the course code and assignment number. When the computer reads the mark-reading sheet with, say, the unique number 103039, it ‘knows’ that it is Assignment 01 for that specific module.
- Send only your mark-reading sheet to the Assignment Section in the appropriate envelope.
- Make sure you have enough mark-reading sheets.

DO NOT:
- Make more than one mark per question.
- Tear or fold the mark-reading sheet.
- Staple the mark-reading sheet to another piece of paper.
- Colour outside the block.
- Colour in the block with a pen.
- Make corrections with correction fluid.
- Submit answers on a written sheet of paper.
- Try to repair a torn mark-reading sheet with sticky tape - use another one.
Second semester

ASSIGNMENT 01 (60 marks, 72 minutes)

<table>
<thead>
<tr>
<th>COURSE</th>
<th>DUE DATE</th>
<th>UNIQUE NUMBER</th>
</tr>
</thead>
<tbody>
<tr>
<td>TXN201-B</td>
<td>22 August 2011</td>
<td>221135</td>
</tr>
</tbody>
</table>

ASSESSMENT CRITERIA FOR THIS ASSIGNMENT

For this assignment you will need to have achieved the learning outcomes set out in study units 1 to 5 as contained in Tutorial Letter 102/3/2011. This assignment will assess your ability to select the appropriate alternative that best reflects the quantitative/qualitative answer to a problem.

REQUIRED:

Select the number (1) to (5) that represents the correct answer to the question. Make sure that you take into account the supporting explanation or calculation (if included), as well as the answer.

Question 1

Anthony’s taxable income for the 2011 year of assessment is R408 000. Anthony is 32 years old. His normal tax will be …

(1) R76 350
(2) R106 700
(3) R114 750
(4) R142 800
(5) R70 650

Question 2

Bongani is 65 years old. His normal tax for the 2011 year of assessment is R137 000. Bongani’s net normal tax payable will be …

(1) R24 660 \([R137\ 000 \times 18%]\)
(2) R132 415 \([R137\ 000 - (R10\ 260 - R5\ 675)]\)
(3) R137 000
(4) R126 740 \([R137\ 000 - R10\ 260]\)
(5) R121 065 \([R137\ 000 - (R10\ 260 + R5\ 675)]\)
**Question 3**

Gladness is 54 years old, her total taxable income is R560 000 and she also paid R100 000 employees’ tax and R20 000 provisional tax for the year of assessment. Gladness’s net normal tax liability is:

1. R88 065 \[\text{R}560\ 000 \times 40\% - R15\ 935 - R100\ 000 - R20\ 000\]
2. R53 670 \[\text{R}560\ 000 - R552\ 000 \times 40\% + R160\ 730 - R10\ 260 - R100\ 000\]
3. R47 995 \[\text{R}560\ 000 - R552\ 000 \times 40\% + R160\ 730 - R15\ 935 - R100\ 000 - R20\ 000\]
4. R33 670 \[\text{R}560\ 000 - R552\ 000 \times 40\% + R160\ 730 - R10\ 260 - R100\ 000 - R20\ 000\]
5. R27 995 \[\text{R}560\ 000 - R552\ 000 \times 40\% + R160\ 730 - R15\ 935 - R100\ 000 - R20\ 000\]

**Question 4**

Gerda is 48 years old. Her net normal tax payable for the current year of assessment is R48 460. Gerda is registered as a provisional taxpayer. Her provisional tax payments for the 2011 year of assessment amount to R11 800. Her employer deducted R34 000 employees’ tax during the year.

Her tax liability or refund for the current year is …

1. R2 660 liability
2. R14 460 liability
3. R36 660 liability
4. R2 660 refund
5. R48 460 liability

**Question 5**

The annual return a registered natural taxpayer has to complete and submit, is an:

1. IRP5/IT3(a)
2. IRP6
3. IT14
4. IT12
5. IT34

**Question 6**

In which of the following cases would a natural person, not ordinarily resident in the Republic of South Africa, be a resident due to the physical presence test?

1. Days in South Africa during the current (2011) year of assessment – 105 days;
   Days in South Africa during the five previous years of assessment: 113 days (2010); 210 days (2009); 295 days (2008); 85 days (2007); 305 days (2006)
2. Days in South Africa during the current (2011) year of assessment – 115 days;
   Days in South Africa during the five previous years of assessment: 92 days (2010); 98 days (2009); 110 days (2008); 94 days (2007); 140 days (2006)
3. Days in South Africa during the current (2011) year of assessment – 89 days;
   Days in South Africa during the five previous years of assessment: 125 days (2010); 98 days (2009); 245 days (2008); 150 days (2007); 335 days (2006)
Question 6 (continued)

(4) Days in South Africa during the current (2011) year of assessment – 93 days;
    Days in South Africa during the five previous years of assessment: 98 days (2010); 140 days
    (2009); 285 days (2008); 92 days (2007); 315 days (2006)

(5) Days in South Africa during the current (2011) year of assessment – 305 days;
    Days in South Africa during the five previous years of assessment: 91 days (2010); 93 days
    (2009); 118 days (2008); 97 days (2007); 93 days (2006)

Question 7

Ricardo is an Italian who, since 2002, has been working in South Africa.

The periods he was continuously inside South Africa were as follows:

<table>
<thead>
<tr>
<th>Tax year</th>
<th>Days in SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>53</td>
</tr>
<tr>
<td>2003</td>
<td>94</td>
</tr>
<tr>
<td>2004</td>
<td>326</td>
</tr>
<tr>
<td>2005</td>
<td>95</td>
</tr>
<tr>
<td>2006</td>
<td>352</td>
</tr>
<tr>
<td>2007</td>
<td>180</td>
</tr>
<tr>
<td>2008</td>
<td>255</td>
</tr>
<tr>
<td>2009</td>
<td>302</td>
</tr>
<tr>
<td>2010</td>
<td>114</td>
</tr>
<tr>
<td>2011</td>
<td>345</td>
</tr>
</tbody>
</table>

When did Ricardo became a resident of the Republic of South Africa, in terms of the physical presence test?

(1) 1 March 2005
(2) 1 March 2006
(3) 1 March 2007
(4) 1 March 2008
(5) 1 March 2009

Question 8

Fatima (a South African resident) decided to purchase a lottery ticket for the first time on 23 February 2011 and she was lucky enough to have won a prize of R1 000 000 on that day. The cash was paid out to her on 4th March 2011.

Fatima’s lottery winnings will be excluded from her 2011 gross income because they do not comply with one component of the “gross income” definition.

The components of the “gross income” definition for a resident are as follows:

- the total amount
- in cash or otherwise
- received by or accrued to
- during the year or period of assessment
- excluding receipts or accruals of a capital nature
Question 8 (continued)

The lottery winning is excluded because:

1. There was no actual amount
2. It was not in cash or otherwise
3. It was not received by or accrued to Fatima
4. It was not won during the 2011 year or period of assessment
5. It was a receipt or accrual of a capital nature

Question 9

Jacob (45 years old) is an engineer and a South African resident. He received the following amounts during the 2011 year of assessment:

a) Consulting fees amounting to R250 000, for work done in South Africa.
b) Consulting fees amounting to R80 000, for work done in Angola.
c) Interest amounting to R6 000, from a savings account in England.
d) An inheritance of R50 000 from his deceased uncle.
e) Receipt of R1 900 000 from the sale of the house he has lived for the past 20 years.

Jacob’s gross income for the 2011 year of assessment will be:

1. R2 286 000 \[R250 000 + R80 000 + R6 000 + R50 000 + R1 900 000\]
2. R2 282 300 \[R250 000 + R80 000 + (R6 000 – R3 700) + R50 000 + R1 900 000\]
3. R332 300 \[R250 000 + R80 000 + (R6 000 – R3 700) + Rnil + Rnil\]
4. R2 156 000 \[R250 000 + Rnil + R6 000 + Rnil + R1 900 000\]
5. R336 000 \[R250 000 + R80 000 + R6 000 + Rnil + Rnil\]

Question 10

Which one of the following tests is not an objective test in relation to the definition of gross income?

1. Continuity in similar transactions
2. Establishing of a person’s true intention
3. No change in ownership of the asset
4. Nature of the asset disposed of
5. Occupation of the taxpayer

Question 11

Johnny has been working as a trainer at Muscle Tone, a gymnasium, for 12 years. His employer gave him a whole set of old training equipment, valued at R3 000, that was replaced with new modern training equipment.

The value of the old training equipment will or will not be included in Johnny’s income. Which one of the following reasons is correct?

1. The value of the old training equipment is subjective, thus no value can be placed on it and it cannot be included in Johnny’s income.
2. The old training equipment was not received by, nor did it accrue to Johnny, but it was given to him. Therefore it does not form part of his income.
Question 11 (continued)

(3) All the requirements of gross income are met; therefore it will be included in Johnny’s gross income.
(4) The receipt is of a capital nature and the value of the old training equipment will not be included in Johnny’s gross income.
(5) Although the receipt is of a capital nature, it is specifically included in gross income under paragraph (c) of the gross income definition. The value of the old training equipment will be included in Johnny’s gross income.

Question 12

Which of the following scenarios meet the “accrued to” requirement of the gross income definition for the year of assessment ending 28 February 2011?

a) On 26th February 2011 a shopkeeper sells goods on credit to a customer. The customer agrees to pay for the goods within 30 days.

b) A travelling salesman will be paid a bonus of R20 000 if he achieves his sales target for the 12 months ended 28th February 2011. The annual sales figures will only be finalised in March 2011.

c) A car salesman sells a vehicle to a customer on 24 February 2011 (when the sale contract is signed). The customer will only take delivery of the vehicle, and make payment, on 3 March 2011.

d) A management consultant renders a service to a mining company during January 2011. He agrees to receive payment on 1 April 2011.

(1) a, b, c & d
(2) a, b & c
(3) b, c & d
(4) a, c & d
(5) a & d

Question 13

Which of the following receipts would be “special inclusions” in gross income in terms of paragraphs (a) to (n) of the gross income definition?

a) Receipt of a once-off R5 000 prize, won by an employee from his employer for high quality services rendered.

b) Receipt by an employee of a R200 000 restraint of trade payment from her employer, after termination of her services.

c) Receipt of a R50 000 bank loan.

d) Receipt of a R400 000 retirement lump sum benefit.

(1) b & c
(2) b
(3) a, b & d
(4) d
(5) a & c
Question 14

Which of the following receipts are exempt from income tax in terms of section 10?

a) Salary of R80 000 received during the 2011 year of assessment by a South African resident while working in London. During the 2011 year of assessment, the taxpayer was outside the Republic continuously for 210 days.

b) The receipt of R100 000 by a foreign (non-resident) sportsman. The amount is subject to a 15% withholding tax.

c) The award of R10 000 to a former miner as compensation for a lung disease contracted while he was employed.

d) The receipt by an employee of a R1 800 uniform allowance. The employee is required to wear a black jacket to work every day.

e) The receipt of R3 000 per month maintenance payments by a taxpayer from her ex-husband in terms of a divorce agreement concluded during the 2011 year of assessment.

(1) a, b, c & e
(2) a, b, c, & d
(3) b, c, d & e
(4) a, c & e
(5) a & c

Question 15

Junaid received the following amounts during the current year of assessment:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Foreign dividends</td>
<td>R16 800</td>
</tr>
<tr>
<td>b) Disability pension</td>
<td>R26 500</td>
</tr>
<tr>
<td>c) Local dividends</td>
<td>R34 800</td>
</tr>
<tr>
<td>d) Uniform allowance (Junaid has to wear a blue suit to work)</td>
<td>R1 200</td>
</tr>
</tbody>
</table>

Junaid’s income for the current year of assessment is …

(1) R40 800  
(2) R14 300  
(3) R79 300  
(4) R13 100  
(5) R3 960  

Question 16

Andile, aged 67 years, is married in community of property to Felicity, aged 63 years. Andile received taxable foreign dividends of R4 200, foreign interest of R2 800, South African dividends of R4 000 and South African interest of R37 000 for the 2011 year of assessment. How much of this will be included in Felicity’s taxable income?

(1) R2 500  
(2) R4 600  

\[(R4 200 - R3 700) + (R2 800 - R2 800) + (R4 000 - R4 000) + (R37 000 - R32 000)]/2
**Question 16** (continued)

(3) R6 000  
\[\frac{(R4 200 – R3 700) + (R2 800 – R0) + (R4 000 – R4 000) + (R37 000 – R32 000 + R3 700)}{2}\]

(4) Rnil  
\[\frac{(R4 200/2 – R2 100) + (R2 800/2 – R1 400) + (R4 000/2 – R2 000) + (R37 000/2 – (R32 000 – R2 100 – R1 400) }{2}\] limited to Rnil.

(5) R2 300  
\[\frac{(R4 200 – R3 700) + (R2 800 – R0) + (R4 000 – R4 000) + (R37 000 – R32 000 - R3 700)}{2}\]

**Question 17**

Corrie, aged 34 years, is unmarried. He received taxable foreign dividends of R1 300, foreign interest of R600, South African dividends of R9 000 and South African interest of R24 000 for the 2011 year of assessment. How much of Corrie’s investment income will be included in his taxable income?

(1) R10 700  
\[\frac{(R1 300 – R1 300) + (R600 – R600) + R9 000 + (R24 000 – R22 300)}{2}\]

(2) R1 700  
\[\frac{(R1 300 – R1 300) + (R600 – R600) + (R9 000 – R9 000) + (R24 000 – R22 300)}{2}\]

(3) R3 600  
\[\frac{(R1 300 – R1 300) + (R600 – R600) + (R9 000 – R9 000) + (R24 000 – R22 300 + R1 300 + R600)}{2}\]

(4) R34 900  
\[R1 300 + R600 + R9 000 + R24 000\]

(5) Rnil  
\[\frac{(R1 300 – R1 300) + (R600 – R600) + (R9 000 – R9 000) + (R24 000 – R22 300 – R3 700)}{2} = (R2 000), limited to Rnil\]

**Question 18**

Simon is a plumber. Which of his following expenses would qualify as deduction because they meet the requirements of “in the production of income”, in terms of section 11(a), the general deduction formula?:

a) Finance charges paid as a result of purchasing a truck for his business on an instalment credit agreement.

b) Loss incurred as a result of one of Simon’s workers having stolen some of his equipment.

c) Penalty paid as a result of late submission of his income tax return.

d) Monthly payments to a bookkeeper. Simon does not have time to maintain his accounting records himself.

(1) a & c
(2) a, b, c, & d
(3) b & d
(4) b, c, & d
(5) a, b & d
**Question 19**

Claire runs a bookkeeping service from home and uses a home office exclusively for her trade. The home office makes up 10 per cent of her home's floor space. Which of her following expenses would NOT qualify as a deduction because they are prohibited in terms of section 23 of the Income Tax Act?

a) Expenditure incurred to repair her computer's hard drive. The expense was recovered from her business insurance.

b) Ten percent of expenditure incurred in paying a gardener to keep her garden in good condition, in order to impress her clients when they visit her house.

c) Claire invested a capital sum into her bookkeeping business, which did not generate an immediate return. Claire has calculated that she has lost R5 000 in notional interest that could have been earned if she had instead invested the sum in a fixed deposit account at a bank.

d) Claire employs a maid to clean her house. She wants to deduct ten per cent of this expense.

(1) a, b & d
(2) b, c & d
(3) b & d
(4) a & c
(5) a, b, c, & d

**Question 20**

Shaveen earns a salary of R235 000 per year as well an annual bonus of R15 000. Both these amounts represent retirement funding income. He made current contributions of R17 500 towards the employers' pension fund, as well as R1 500 past period contributions during the year of assessment. Amounts that were not allowed as deductions in the previous year of assessment were R1 400 for current pension fund contributions and R800 for past period pension fund contributions. How much of his current pension fund contributions will be allowed as a deduction during the current year of assessment?

(1) R17 625 \[R17 500 + R1 500 + R1 400 + R800 = R21 200, \text{ limited to } R235 000 \times 7.5\% = R17 625\]
(2) R18 750 \[R17 500 + R1 400 = R18 900, \text{ limited to } (R235 000 + R15 000) \times 7.5\% = R18 750\]
(3) R21 200 \[R17 500 + R1 500 + R1 400 + R800 = R21 200, \text{ limited to } (R235 000 + R15 000) \times 7.5\% = R18 750\]
(4) R17 500 \[(R235 000 + R15 000) \times 7.5\% = R18 750, \text{ limited to } R17 500\]
(5) R1 750

**Question 21**

Use the same information under question 20 above. How much of Shaveen's past period pension fund contributions will be allowed as a deduct during the current year of assessment?

(1) R3 700 \[R1 500 + R1 400 + R800 = R3 700\]
(2) R1 800 \[R1 500 + R1 400 + R800 = R3 700, \text{ limited to } R1 800\]
(3) R1 800 \[R1 500 + R800 = R2 300, \text{ limited to } R1 800\]
(4) R1 800 \[R1 250 + R1 500 + R1 400 + R800 = R4 950, \text{ limited to } R1 800\]
(5) R2 300 \[R1 500 + R800 = R2 300\]
**Question 22**

Siphiwe earns a total salary package of R300 000. Of this amount, R260 000 represents retirement funding income. He contributes 8% towards a provident fund. His employer contributes 8% as well. How much of the provident fund contributions will he be allowed to claim as a deduction?:

1. Rnil  
   \[R260\,000 \times 8\% = R20\,800, \text{limited to Rnil}\]
2. Rnil  
   \[R300\,000 \times 8\% = R24\,000, \text{limited to Rnil}\]
3. R24 000  
   \[R300\,000 \times 8\% = R24\,000\]
4. R19 500  
   \[R260\,000 \times 8\% = R20\,800, \text{limited to (R260\,000 \times 7.5\%) = R19\,500}\]
5. R22 500  
   \[R300\,000 \times 8\% = R24\,000, \text{limited to (R300\,000 \times 7.5\%) = R22\,500}\]

**Question 23**

Sandy, a software programmer, earns a remuneration package of R550 000. She uses her own computer, which cost R27 000, for work purposes and she is allowed to claim depreciation on it over a three year period. She also contributed R18 000 towards an income protection policy of which any benefits are taxable. She is a member of a retirement annuity fund. She made current retirement annuity fund contributions of R36 000 and reinstatement retirement annuity fund contributions of R5 700. Contributions that were not allowed as deductions during previous years of assessment, were R2 000 in respect of current retirement annuity fund contributions and R900 in respect of reinstatement retirement annuity fund contributions.

How much will Sandy be allowed to deduct in respect of her current retirement annuity fund contributions for the current year of assessment?

1. R3 500  
   \[R3\,500 – \text{Rnil} = R3\,500\]
2. R36 000  
   \[\{(R550\,000 – R27\,000/3 – R18\,000) \times 15\% = R78\,450, \text{limited to R36\,000}\}\]
3. R38 000  
   \[\{(R550\,000 – R27\,000/3) \times 15\% = R81\,150, \text{limited to R36\,000 + R2\,000 = R38\,000}\}\]
4. R38 000  
   \[\{(R550\,000 – R27\,000/3 – R18\,000) \times 15\% = R78\,450, \text{limited to R36\,000 + R2\,000 = R38\,000}\}\]
5. R38 000  
   \[\{(R550\,000 – R27\,000/3 – R18\,000) \times 7.5\% = R39\,225, \text{limited to R36\,000 + R2\,000 = R38\,000}\}\]

**Question 24**

Use the same information under question 23 above.

How much will Sandy be allowed to deduct in respect of her reinstatement retirement annuity fund contributions for the current year of assessment?:

1. R3 500  
   \[R3\,500 – \text{Rnil} = R3\,500\]
2. R1 800  
   \[R5\,700, \text{limited to R1\,800}\]
3. R1 800  
   \[R2\,000 + R5\,700 + R900 = R8\,600, \text{limited to R1\,800}\]
4. R1 800  
   \[R5\,700 + R900 = R6\,600, \text{limited to R1\,800}\]
5. R1 750  
   \[R5\,700 + R900 = R6\,600, \text{limited to R1\,750}\]

**Question 25**

Gordon (48 years old) is married to Beth. They have two children at school. They also take care of Beth’s elderly mother who does not work. Gordon is a member of a medical aid fund and he contributed R58 000 for the current year of assessment. Gordon’s employer made no contributions. Beth, her mother and the two children are dependants of the medical aid fund.
Question 25 (continued)

The following medical expenses were also incurred during the year of assessment:

- Medical practitioners and prescription medicine paid for by the medical aid R23 000
- Medical practitioners and prescription medicine not paid for by the medical aid R 3 800
- Homeopathic medicine for the mother’s arthritis condition, not covered by the medical aid fund R 4 200
- Vitamin supplements bought during the year, not covered by the medical aid fund R 3 600
- Non-prescription pain tablets bought over the counter from pharmacies, not covered by the medical aid fund R 600
- Fees of a nursing assistant taking care of Beth’s mother, not covered by the medical aid fund R 6 000

What medical expenditures will qualify to be taken into account as a deduction for tax purposes?

(1) R99 200 \([R58 000 + R23 000 + R3 800 + R4 200 + R3 600 + R600 + R6 000]\)
(2) R72 000 \([R58 000 + R3 800 + R4 200 + R6 000]\)
(3) R76 200 \([R58 000 + R3 800 + R4 200 + R3 600 + R600 + R6 000]\)
(4) R66 000 \([R58 000 + R3 800 + R3 600 + R600]\)
(5) R72 600 \([R58 000 + R3 800 + R4 200 + R600 + R6 000]\)

Question 26

Betty is 42 years old, divorced and has four children. Betty is a member of a medical aid fund.

Details of the children are as follows:

- Koos – 24 years old, unmarried and financially independent as he operates his own minibus taxi.
- Steven – 22 years old, unmarried and a full-time student at University of Josie.
- Jeanette – 20 years old, married and unemployed.
- Ronnie – 16 years old, unmarried and in grade 9 at school

How much will Betty’s family limit be for the 2011 year of assessment?

(1) R27 720 \([(R670 + R410 + R410 + R410 + R410) \times 12]\)
(2) R30 840 \([(R670 + R670 + R410 + R410 + R410) \times 12]\)
(3) R22 800 \([(R670 + R410 + R410 + R410) \times 12]\)
(4) R25 920 \([(R670 + R670 + R410 + R410) \times 12]\)
(5) R21 000 \([(R670 + R670 + R410) \times 12]\)

Question 27

Peter (42 years old) is a member of a medical aid fund. His wife Pearl and their ten year old son are registered as his dependents on the medical aid fund.

Peter’s medical aid contributions amount to R500 per month. His employer contributed R1 850 per month to the medical aid fund on his behalf. All contributions were made for the entire 2011 year of assessment.
**Question 27 (continued)**

Peter’s taxable medical fringe benefit for the 2011 year of assessment is:

1. R1 850
2. R22 200 \[R1\ 850 \times 12 = R22\ 200\]
3. R16 200 \[(R1\ 850 - R500) \times 12 = R16\ 200\]
4. R100 \[(R1\ 850 - (R670 + R670 + R410)) = R100\]
5. R1 200 \[(R1\ 850 - (R670 + R670 + R410)) \times 12 = R1\ 200\]

**Question 28**

Thabo (31 years old) belongs to a medical aid fund.

His annual ‘family limit’ amounts to R21 000. No one in Thabo’s family is ‘handicapped’ as defined.

- His employer pays medical aid contributions of R26 500 per year on his behalf.
- The taxable fringe benefit in respect of his employer’s contributions amounts to R26 500.
- His own contributions to the fund for the 2011 year of assessment amounted to R18 000.
- He also incurred R4 500 qualifying medical expenses not covered by the medical aid fund.

How much will Thabo be able to deduct for income tax purposes in respect of medical aid fund contributions if his taxable income after donations to public benefit organisations amounted to R300 000?

1. R44 500 \[R26\ 500 + R18\ 000\]
2. R26 500
3. R21 000 \[R26\ 500 + R18\ 000 = R44\ 500, \text{ limited to family limit of R21 000}\]
4. R49 000 \[R26\ 500 + R18\ 000 + R4\ 500\]
5. R21 000 \[R26\ 500 + R18\ 000 + R4\ 500 = R49\ 000 - (R300\ 000 \times 7.5\% = R22\ 500)\]
   \[= R26\ 500, \text{ limited to family limit of R21 000}\]

**Question 29**

Rashni (26 years old) is a member of a medical aid fund. Her taxable income after the allowable donation deduction is R220 000.

The following information relates to her medical expenses for the 2011 year of assessment:

- Her annual ‘family limit’ amounts to R8 040.
- The fringe benefit in respect of her employer’s contributions amounts to R12 000.
- Her own contributions to the fund for the 2011 year of assessment amount to R13 940.
- Rashni’s medical expenses not covered by the medical aid fund amount to R2 100.

Rashni’s total qualifying medical expenses amount to:

1. R13 940
2. R8 040
3. R17 900 \[R12\ 000 + R13\ 940 - R8\ 040\]
4. R20 000 \[R12\ 000 + R13\ 940 - R8\ 040 + R2\ 100\]
5. R4 103 \[(R12\ 000 + R13\ 940 - R8\ 040 + R2\ 100 = R20\ 000) - ((R220\ 000 - R8\ 040) x 7.5\% = R15\ 897)\]
**Question 30**

Rory (26 years old) is a member of a medical aid fund. His taxable income after the medical aid contribution deduction is R220 000. His total qualifying medical expenses amount to R18 500 and his annual ‘family limit’ is R8 040.

Rory’s total qualifying medical expense deduction amounts to:

1. R10 460 \[R18 500 - R8 040 = R10 460\]
2. R16 500 \[R18 500, \text{limited to} \ (R220 000 \times 7.5\% = R16 500)\]
3. R18 500
4. R2 000 \[R18 500 - (R220 000 \times 7.5\%) = R2 000\]
5. R26 540 \[R18 500 + R8 040 = R26 540\]

END OF ASSIGNMENT 1
ASSIGNMENT 2 – 2nd SEMESTER ONLY – counts 5% towards final mark

<table>
<thead>
<tr>
<th>COURSE</th>
<th>DUE DATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>TXN201-B</td>
<td>19 September 2011</td>
</tr>
</tbody>
</table>

NOTE:

SUBMISSION OF THIS ASSIGNMENT IS COMPULSORY. NOTE THAT 5% OF THE MARK OBTAINED FOR THIS ASSIGNMENT WILL FORM PART OF YOUR YEAR MARK FOR THIS MODULE. YOUR YEAR MARK WILL CONTRIBUTE 10% TOWARDS YOUR FINAL MARK (CONSISTING OF 5% FOR ASSIGNMENT 01 AND 5% FOR ASSIGNMENT 02). PLEASE ENSURE THAT THIS ASSIGNMENT REACHES THE UNIVERSITY ON OR BEFORE THE DUE DATE BECAUSE LATE SUBMISSION WILL RESULT IN YOUR NOT BEING AWARDED 5% OF THE MARK OBTAINED FOR THIS ASSIGNMENT AS PART OF YOUR YEAR MARK! NO CORRESPONDENCE OR TELEPHONIC CONVERSATION WILL THEREFORE BE ENTERED INTO IN THIS REGARD.

ASSESSMENT CRITERIA FOR THIS ASSIGNMENT

For this assignment you will need to have achieved the learning objectives set out in study units 1 to 8 as contained in Tutorial Letters 102/3/2011 and 103/3/2011. The references to the chapters in the prescribed book are provided in the respective study units. This assignment will assess you on being able to answer the case study questions.

NOTE:

SHOW ALL CALCULATIONS. MARKS ARE ALLOCATED TO EACH STEP IN A CALCULATION AND WE CANNOT THEREFORE ALLOCATE MARKS TO AN INCORRECT TOTAL FIGURE. WHERE ANY ITEM IS EXEMPT FROM TAX, OR NOT ALLOWED AS A DEDUCTION, DO NOT SIMPLY LEAVE IT OUT. SHOW THE ITEM AS A "NIL" IN THE MONEY COLUMN, GIVING REASONS FOR THIS.
QUESTION 1 (30 marks, 36 minutes)

John (a widower) celebrated his 60th birthday on 31 October 2010, and retired the following day. He had been continuously employed for the past 15 years as a production manager at a packaging manufacturing plant.

Details of John’s income and expenses for the 2011 year of assessment are as follows:

<table>
<thead>
<tr>
<th>Notes</th>
<th>R</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary (retirement funding income)</td>
<td>1</td>
</tr>
<tr>
<td>Pension income</td>
<td>1</td>
</tr>
<tr>
<td>Accumulated leave pay</td>
<td>2</td>
</tr>
<tr>
<td>Retirement lump sum</td>
<td>3</td>
</tr>
<tr>
<td>Annuity income</td>
<td>4</td>
</tr>
<tr>
<td>Use of company vehicle</td>
<td>5</td>
</tr>
<tr>
<td>Gift from employer</td>
<td>6</td>
</tr>
<tr>
<td>Free parking</td>
<td>7</td>
</tr>
<tr>
<td>Local dividends</td>
<td>8</td>
</tr>
<tr>
<td>Inheritance received - cash</td>
<td>9</td>
</tr>
<tr>
<td>Inheritance received - shares</td>
<td>8</td>
</tr>
<tr>
<td>Foreign interest</td>
<td>2</td>
</tr>
<tr>
<td>Foreign dividends</td>
<td>1</td>
</tr>
</tbody>
</table>

**Expenses**

<table>
<thead>
<tr>
<th>Notes</th>
<th>R</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current contributions to pension fund</td>
<td>9</td>
</tr>
<tr>
<td>Purchased annuity</td>
<td>4</td>
</tr>
</tbody>
</table>

**Notes:**

1. **Salary and pension income**
   
   John received a salary of R22 000 per month (R176 000 for the eight months ended 31 October 2010). After retiring he received a monthly pension income equivalent to 85% of his salary (R74 800 for the four months ended 28 February 2011).

2. **Accumulated leave pay**
   
   John had a substantial amount of leave due to him on 31 October 2010. His employer accordingly compensated him by paying a lump sum of R16 000. This is the only lump sum he has ever received from his employer.

3. **Retirement lump sum benefit**
   
   On retirement, John received a lump sum of R900 000 from his pension fund. He transferred R130 000 of this amount to a pension preservation fund.
**QUESTION 1** (continued)

4. **Annuity income**

   John felt that his pension income would not be sufficient to cover all his living expenses for the medium to long term. In the weeks leading up to his retirement, John used R350 000 of his savings to purchase an annuity from an insurer. The annuity would provide him with an additional monthly income of R2 750 for the next 15 years. He received his first annuity on 1 November 2010. His life expectancy at the time when the annuity contract was concluded was 15.23 years.

5. **Use of company vehicle**

   From 1 March 2010 up until his retirement, John was granted the use of a company owned vehicle. The car was purchased by the company on 1 December 2008 for R225 000 (including VAT). John paid for all the fuel and maintenance of the car, as well as a small fee of R100 per month for the use of the vehicle.

6. **Gift from employer**

   Prior to his retirement, John’s employer gave him a set of golf clubs costing R6 800, as an award for his long and loyal service to the company.

7. **Free parking**

   While John was employed, his company provided free parking space, at the workplace, for all employees’ cars. John made use of this facility. The market related rental for this type of parking is R200 per month.

8. **Inheritances received**

   During the year of assessment, John’s father died and John received a cash inheritance of R200 000 as well as listed shares that had originally cost his father R40 000 but at the date of inheritance had a market value of R95 000.

9. **Pension contributions**

   Up until his retirement, John contributed to a company pension fund. The contributions amounted to 8.5% of his monthly salary. Pension contributions totalling R12 500 have been disallowed as tax deductions in previous years of assessment.

---

**REQUIRED**

<table>
<thead>
<tr>
<th>MARKS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Calculate John’s tax payable for the year of assessment ended 28 February 2011.</td>
</tr>
</tbody>
</table>
QUESTION 2 (10 marks; 12 minutes)

Emily (64 years old) used to be a resident of the Republic before she emigrated to Canada four years ago. She is now a non-resident and earns some of her income by writing children’s books. She does not carry on business in the Republic.

Emily received the following amounts during the 2011 year of assessment:

1. Pension received of R8 500 per month, for the full year of assessment. Emily was employed by a South African company for 18 years until she retired at the age of 60. She contributed to the company pension fund throughout that period. For the final three years of her employment (up until she retired), Emily worked outside the Republic, in her employer’s Canadian branch office.

2. Emily still retains a bank account in South Africa and she earned interest of R42 000 for the current year of assessment.

3. Royalties of R45 000 received from a South African publisher during the current year of assessment relating to the sale of a children’s book that Emily wrote in South Africa while she was still a resident of the Republic.

4. Royalties of R50 000 from a South African publisher relating to the sale of a children’s book that Emily wrote in Canada during the current year of assessment.

5. Net rental income of R130 000 from South African property she still owns.

<table>
<thead>
<tr>
<th>REQUIRED</th>
<th>MARKS</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Calculate Emily’s South African taxable income for the year of assessment ended 28 February 2011. If an amount is not taxable provide a brief reason.</td>
<td>7</td>
</tr>
<tr>
<td>b) Calculate the withholding tax, if any, that Emily may have to pay on the amounts she received.</td>
<td>3</td>
</tr>
</tbody>
</table>

QUESTION 3 (10 marks, 12 minutes)

Andries is an apple farmer in the Western Cape. The following transactions and events, relating to his farming operations, occurred during the 2011 year of assessment:

1. The donation of three crates of apples for the local town’s fete.

2. The consumption of eight crates of apples by Andries’ labourers.

3. Recoupment on the sale of a tractor. Andries had previously been allowed to deduct capital allowances in respect of the tractor.

4. Grazing fees received from a neighbouring farmer. The neighbour’s sheep graze on a portion of Andries’ land.

5. Costs relating to the removal of an alien invasive plant that had spread through the apple orchards.

6. Cost of erecting fencing around the apple orchards in order to minimise theft of his apple crop.

7. Cost of extending the apple storage room.
QUESTION 3 (continued)

8. Seed and fertiliser purchases.
9. Rental income received. Andries rents out his tractors during the winter season.
10. Bonus received from the local apple co-operative.

| REQUIRED |
|---------------------|-----|
| Write down the number of each transaction and state whether it is: |
| • farming income (FI); or |
| • other income (OI); or |
| • farming expense (FE); or |
| • capital development expenditure (CDE). |

END OF ASSIGNMENT 2
This assignment is the May 2010 exam paper. It is a self assessment assignment. This exam paper will also be used as a basis for the group discussion classes.

These are the instructions that will also appear on your exam paper (October 2010). Read them now and make sure that you understand what we require from you. We also suggest that you try and do this assignment like an exam, under exam conditions to see how much you know and to see what you need to spend time on.

This paper consists of eight (8) pages plus schedules (pg i - viii).

IMPORTANT INSTRUCTIONS:

Assumptions:

1. All amounts exclude VAT unless stated otherwise.
2. All persons mentioned are residents of the Republic unless stated otherwise.

Regarding the answering of this paper:

1. This paper consists of four (4) questions.
2. All questions must be answered.
3. Each question must be commenced on a new (separate) page.
4. All workings, where applicable, must be shown. Where an amount is subject to a limitation, clearly indicate the application of the limitation. Where any item is exempt from tax or not allowable as a deduction, this must be indicated. All amounts must be rounded to the nearest Rand.
5. Please complete the cover page of the answer book in full.
6. You are reminded that answers may NOT be written in pencil.
7. Principle mistakes will be marked negatively.
8. Proposed timetable (try as far as possible not to deviate from this timetable):

<table>
<thead>
<tr>
<th>Question</th>
<th>Subject</th>
<th>Marks</th>
<th>Minutes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Calculation of taxable income</td>
<td>30</td>
<td>36</td>
</tr>
<tr>
<td>2</td>
<td>Taxation of retirement benefits</td>
<td>28</td>
<td>34</td>
</tr>
<tr>
<td>3</td>
<td>Prepaid taxes</td>
<td>16</td>
<td>19</td>
</tr>
<tr>
<td>4</td>
<td>Various short questions</td>
<td>26</td>
<td>31</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>100</td>
<td>120</td>
</tr>
</tbody>
</table>
**QUESTION 1** (30 marks, 36 minutes)

Vusi Ngobo is 35 years old and married to Gladys out of community of property. They have one child, Tobi, who is four years old.

Vusi is an area manager for Homeshop, a large retail outlet in South Africa.

He provides you with the following information relating to his income, benefits and deductions for the year of assessment ended 28 February 2011:

### Income and benefits

<table>
<thead>
<tr>
<th>Description</th>
<th>Notes</th>
<th>R</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary (retirement funding income)</td>
<td></td>
<td>360 300</td>
</tr>
<tr>
<td>Bonus (retirement funding income)</td>
<td></td>
<td>40 000</td>
</tr>
<tr>
<td>Travel allowance</td>
<td>1</td>
<td>60 000</td>
</tr>
<tr>
<td>Use of a company car</td>
<td>2</td>
<td>?</td>
</tr>
<tr>
<td>Subsistence allowance</td>
<td>3</td>
<td>6 320</td>
</tr>
<tr>
<td>Uniform allowance</td>
<td>4</td>
<td>3 000</td>
</tr>
</tbody>
</table>

### Deductions

- **Pension fund contributions** – Vusi and his employer each contribute 8% of his retirement funding income.

- **Medical aid contributions and expenses**

- **Donations**

### Notes:

1. **Travel allowance**
   Vusi owns a WV 2.0Tdi, which cost him R190 000 (excluding VAT) a year ago. The vehicle was purchased under a finance lease and total finance charges, spread evenly over the five year term of the lease, amounted to R121 100 in total. Vusi kept accurate records of expenses incurred in connection with the vehicle. During the current year of assessment he spent R20 800 on fuel. He also kept a logbook, distinguishing between business and private trips. He travelled a total distance of 34 640km for the year, of which 21 040km was for private purposes.

2. **Use of company car**
   From 1 March 2010, Homeshop provided Gladys (Vusi’s wife) with the use of a brand new Yotoya, which cost R159 600 (including VAT). One of Homeshop’s employees had the use of the vehicle for 15 months before Gladys was given the use of it. Gladys travelled a total of 8 400km for private purposes for the year.

3. **Subsistence allowance**
   Vusi spent a total of 20 nights away from home on business trips in his area. The subsistence allowance was for meals and incidental expenses. Homeshop also paid for Vusi’s accommodation of R7 500 in total. Vusi did not keep record of his actual expenses.

4. **Uniform allowance**
   Homeshop requires its employees to wear clothes that are distinguishable from normal clothes with the business logo on them.

5. **Medical aid contributions and expenses**
   The medical aid contributions and expenses are made up as follows:

   - Vusi’s contributions to the medical aid fund for the year: 25 200
   - Qualifying medical expenses not paid by the medical aid fund: 6 800
**QUESTION 1 (continued)**

Homeshop contributes an amount equal to the employees' contributions to the medical aid. Vusi, Gladys and Tobi are members of the medical aid fund. No one is handicapped as defined.

6. **Donations**
   During the year Vusi made the following donation:  
   University of Pretshwane ................................................................. R 7 000

   A section 18A receipt was received from the University of Pretshwane.

<table>
<thead>
<tr>
<th>REQUIRED:</th>
<th>MARKS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Calculate Vusi's taxable income for the year of assessment ended 28 February 2011.</td>
<td>[30]</td>
</tr>
</tbody>
</table>

**QUESTION 2 (28 marks, 34 minutes)**

Rex Resilient (aged 45 and married out of community of property), was a maintenance manager at an aluminium factory. He was retrenched along with five other maintenance managers with effect from 1 March 2010, after the shutdown of his section of the factory. Rex had to live off his investment income and unemployment benefits for the year of assessment, as he was unable to find a new job.

Rex has supplied you with the following information relating to the year of assessment ended 28 February 2011:

<table>
<thead>
<tr>
<th>Notes</th>
<th>Income</th>
<th>R</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Accumulated leave pay</td>
<td>1 20 000</td>
</tr>
<tr>
<td>2</td>
<td>Lump sum benefit from a pension fund</td>
<td>2 515 000</td>
</tr>
<tr>
<td>3</td>
<td>Purchased annuity income</td>
<td>3 9 450</td>
</tr>
<tr>
<td>4</td>
<td>Unemployment insurance benefits</td>
<td>4 12 000</td>
</tr>
<tr>
<td>5</td>
<td>South African interest received</td>
<td>5 25 500</td>
</tr>
<tr>
<td>6</td>
<td>Foreign dividends received (gross amount)</td>
<td>6 4 900</td>
</tr>
<tr>
<td>7</td>
<td>Rental income</td>
<td>5 36 000</td>
</tr>
<tr>
<td>8</td>
<td>Sale of rental property</td>
<td>6 525 000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Notes</th>
<th>Expenses</th>
<th>R</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Purchase of annuity</td>
<td>3 110 000</td>
</tr>
<tr>
<td>2</td>
<td>Rental expenses</td>
<td>5 50 700</td>
</tr>
<tr>
<td>3</td>
<td>Study fees</td>
<td>7 13 400</td>
</tr>
</tbody>
</table>

**Notes:**

1. **Accumulated leave pay**
   On the date of his retrenchment Rex’s employer paid him his outstanding leave pay, amounting to R20 000.

2. **Lump sum benefit from a pension fund**
   As a result of his retrenchment, Rex received a lump sum from his pension fund. He had received no lump sums from other retirement funds in the past.
QUESTION 2 (continued)

Transferred to pension preservation fund .............................................................. R130 000
Paid out in cash ....................................................................................................... R385 000
Total lump sum ...................................................................................................... R515 000

3. Purchase of annuity
Rex decided to use R110 000 of his savings to purchase an annuity from an insurer. From 1 June 2010 he received an annuity of R1 050 per month (R 9 450 for the year) for the rest of his life.

Rex’s life expectancy at the time of concluding the annuity contract was 25,38 years.

4. Unemployment insurance benefits
Following his retrenchment, Rex was entitled to claim unemployment insurance benefits. He received R12 000 in total during the year of assessment.

5. Rental income and expenses
Rex owned a rental property which he let to tenants from 1 March 2010 to 30 November 2010. Total rental income for the period amounted to R36 000.

Rental expenses were as follows:

- Interest on property loan .................................................................................. R12 800
- Replacement of damaged carpets .................................................................... R 4 700
- Legal fees (in respect of non-payment of rent by tenants) .............................. R 3 200
- Once-off capital repayment on property loan ................................................ R30 000

R50 700

6. Sale of rental property
Due to problems with non-paying tenants, Rex sold his rental property on 1 December 2010 for R525 000. This was the net amount he received, after an estate agent’s commission of R21 000 had been deducted. The property was originally purchased on 1 June 2000 at a total cost of R285 000.

A swimming pool was built on the property in April 2007, at a cost of R35 000. Rex claimed no income tax deductions in respect of the swimming pool. It has, however, been his practice to claim any other rental related expenses as a tax deduction, where allowable.

Rex did not have the property valued at 1 October 2001. The time apportionment base cost has been correctly calculated at R314 795.

7. Study fees
In order to improve his prospects in the job market, Rex enrolled for a part-time course in financial management. The total course costs, including enrolment fees and textbooks, amounted to R13 400.

REQUIRED:

Calculate Rex Resilient’s total normal tax for the year of assessment ended 28 February 2011.

MARKS [28]
QUESTION 3  (16 marks, 19 minutes)

Savin Sheenvas (68 years old and unmarried) retired from employment on 31 December 2010. On the date of his retirement he received a retirement fund lump sum benefit from a pension fund of R1 500 000.

After his retirement he had the following income and deductions (in respect of the pension fund):

\[
\begin{align*}
\text{Monthly pension annuity (income)} & : 28 000 \\
\text{Monthly medical contributions (note)} & : 4 200 \\
\text{Annual Medical expenses (note)} & : 16 500
\end{align*}
\]

\textbf{Note:}

The extract from the medical aid fund statement showed the following:

- Monthly contributions received by the medical fund in respect of Mr Sheenvas:
  - Employers’ monthly contribution – this continued after retirement and the pension fund took these contributions into account for employee’s tax purposes: 3 360
  - Savin’s contribution per month: 840

\[
\begin{align*}
\text{Total medical expenses not recovered from the fund for the year} & : 4 200 \\
\end{align*}
\]

He also earned the following investment income for the year:

- South African interest on a fixed deposit: 35 000
- South African dividends: 10 000

Before retirement he had a balance of net remuneration amounting to R280 000, from his employer for the 10 months ended 31 December 2010.

\begin{tabular}{|l|l|}
\hline
\textbf{REQUIRED:} & \textbf{MARKS} \\
\hline
a) Calculate the employee’s tax that the \textit{pension fund} should have withheld from Savin’s remuneration for the 2011 year of assessment – you can assume that they received a tax directive in respect of the lump sum, directing them to withhold R351 000. & \[12\] \\
\hline
b) For the 2011 year of assessment, will Savin be considered a provisional taxpayer? Substantiate your answer (give reason(s)). & \[2\] \\
\hline
c) Indicate the two dates before which, provisional tax must be paid for the 2011 year of assessment. & \[2\] \\
\hline
\end{tabular}
QUESTION 4 (26 marks, 31 minutes)

Part A (10 marks, 12 minutes)

Fred Fortune is a retired electrical engineer who, during May 2010, used his lifetime savings to purchase a rental property in Cape Town. This was the first rental property Fred had ever owned. The property was let to tenants immediately.

During November 2010, Fred received an unexpected phone call from the representative of a Middle Eastern company. The company wanted to purchase Fred’s property and convert it into a small boutique hotel, in time for the April 2011 Easter holidays. The company was prepared to offer Fred more than double what he had paid for the property.

After thinking about the offer overnight, Fred decided to accept it, as he felt the offer was too good to turn down. The sale of the property duly took place.

REQUIRED: MARKS
Briefly discuss the applicability of any five relevant tests that the courts could apply, in determining whether Fred Fortune’s sale proceeds will, on a balance of probabilities, be included or excluded from his gross income based on its revenue or capital nature.

IGNORE the effect of capital gains tax. [10]

Part B (8 marks, 10 minutes)

Calvin Clubs, a British citizen (non-resident), is a professional golfer. He does not run a business in South Africa. He took part in the Sunland golf tournament in South Africa during December 2009.

Calvin also designs golf clubs which are used all over the world. He receives royalties from several manufacturers that use his designs to manufacture and sell the golf clubs in various countries.

Calvin received the following amounts during the 2011 year of assessment:

1. Prize money of R7 500 000 for winning the Sunland golf tournament.
2. Interest of R200 000 from a deposit in a South African Bank.
3. Royalties of R500 000 from a golf club design. He created the design in the USA and sold it to a South African golf club manufacturing company.
4. Net rental income of R150 000 from South African golf estate house, which he owns and rented out for the full year of assessment.

REQUIRED: MARKS

a) Calculate Calvin’s South African taxable income for the year of assessment ended 28 February 2011. If an amount is not taxable provide a brief reason. [4]
b) Calculate the withholding tax, if any, that Calvin may have to pay on the amounts he received. [4]
QUESTION 4 (continued)

Part C (8 marks, 9 minutes)

Dudu Dlhamini is a dairy farmer in the Middleburg district in South Africa. He has the following transactions during the 2011 year of assessment.

1. Sale of livestock.
2. Transporting livestock from neighbouring farms to the abattoir for a fee.
3. Houses built for farm labourers.
4. Royalties received on articles that he wrote in the local farming magazine.
5. Wages paid to labourers for building a dam.
6. Interest received on fixed deposit.
7. Running of electricity from the main line to the milking sheds.
8. Sale of milk to neighbouring farms.

He has approached you to classify the above transactions for his accountant.

<table>
<thead>
<tr>
<th>REQUIRED:</th>
<th>MARKS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Write down the number of the transaction and state whether it is:</td>
<td>[8]</td>
</tr>
<tr>
<td>• farming income (FI); or</td>
<td></td>
</tr>
<tr>
<td>• other income (OI); or</td>
<td></td>
</tr>
<tr>
<td>• farming (capital) development expenditure (CDE).</td>
<td></td>
</tr>
</tbody>
</table>

You are welcome to use the abbreviations given.

END OF ASSIGNMENT 3
SCHEDULES

These are the same schedules that you will receive with your exam paper.

A. 2011 - TAX TABLES

(i) Persons (other than companies and trusts)

<table>
<thead>
<tr>
<th>Taxable income</th>
<th>Rates of tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Where the taxable income does not exceed R1 400 000</td>
<td>18% of each R1 of the taxable income;</td>
</tr>
<tr>
<td>exceeds R1 400 000 but does not exceed R2 21 000</td>
<td>R25 000 plus 25% of the amount by which the taxable income exceeds R1 400 000;</td>
</tr>
<tr>
<td>exceeds R2 21 000 but does not exceed R3 05 000</td>
<td>R45 450 plus 30% of the amount by which the taxable income exceeds R2 21 000;</td>
</tr>
<tr>
<td>exceeds R3 05 000 but does not exceed R4 31 000</td>
<td>R70 650 plus 35% of the amount by which the taxable income exceeds R3 05 000;</td>
</tr>
<tr>
<td>exceeds R4 31 000 but does not exceed R5 52 000</td>
<td>R114 750 plus 38% of the amount by which the taxable income exceeds R4 31 000;</td>
</tr>
<tr>
<td>exceeds R5 52 000</td>
<td>R160 730 plus 40% of the amount by which the taxable income exceeds R5 52 000.</td>
</tr>
</tbody>
</table>

(ii) Trusts (other than special trusts)

40 per cent of each R1 of the taxable income.

(iii) Tax on retirement lump sum benefits (or death)

<table>
<thead>
<tr>
<th>Taxable income from benefit</th>
<th>Rate of Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>R0 – R300 000</td>
<td>0 per cent of taxable income</td>
</tr>
<tr>
<td>Exceeding R300 000 but not exceeding R600 000</td>
<td>R0 plus 18% of taxable income exceeding R300 000</td>
</tr>
<tr>
<td>Exceeding R600 000 but not exceeding R900 000</td>
<td>R54 000 plus 27% of taxable income exceeding R600 000</td>
</tr>
<tr>
<td>Exceeding R900 000</td>
<td>R135 000 plus 36% of taxable income exceeding R900 000</td>
</tr>
</tbody>
</table>

(iv) Tax on retirement lump sum withdrawal benefits (pre-retirement)

<table>
<thead>
<tr>
<th>Taxable income from benefit</th>
<th>Rate of Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>R0 – R22 500</td>
<td>0 per cent of the taxable income</td>
</tr>
<tr>
<td>Exceeding R22 500 but not exceeding R600 000</td>
<td>18% of taxable income exceeding R22 500</td>
</tr>
<tr>
<td>Exceeding R600 000 but not exceeding R900 000</td>
<td>R103 950 plus 27% of taxable income exceeding R600 000</td>
</tr>
<tr>
<td>Exceeding R900 000</td>
<td>R184 950 plus 36% of taxable income exceeding R900 000</td>
</tr>
</tbody>
</table>
B. **FRINGE BENEFIT TABLES**

(i) **Employee-owned vehicles (section 8(1))**

### SCALE OF VALUES

<table>
<thead>
<tr>
<th>Where the value of the vehicle</th>
<th>Fixed cost R</th>
<th>Fuel cost c</th>
<th>Maintenance cost c</th>
</tr>
</thead>
<tbody>
<tr>
<td>does not exceed R 40 000</td>
<td>14 672</td>
<td>58,6</td>
<td>21,7</td>
</tr>
<tr>
<td>exceeds R 40 000 but does not exceed R 80 000</td>
<td>29 106</td>
<td>58,6</td>
<td>21,7</td>
</tr>
<tr>
<td>exceeds R 80 000 but does not exceed R120 000</td>
<td>39 928</td>
<td>62,5</td>
<td>24,2</td>
</tr>
<tr>
<td>exceeds R120 000 but does not exceed R160 000</td>
<td>50 749</td>
<td>68,6</td>
<td>28,0</td>
</tr>
<tr>
<td>exceeds R160 000 but does not exceed R200 000</td>
<td>63 424</td>
<td>68,8</td>
<td>41,1</td>
</tr>
<tr>
<td>exceeds R200 000 but does not exceed R240 000</td>
<td>76 041</td>
<td>81,5</td>
<td>46,4</td>
</tr>
<tr>
<td>exceeds R240 000 but does not exceed R280 000</td>
<td>86 211</td>
<td>81,5</td>
<td>46,4</td>
</tr>
<tr>
<td>exceeds R280 000 but does not exceed R320 000</td>
<td>96 260</td>
<td>85,7</td>
<td>49,4</td>
</tr>
<tr>
<td>exceeds R320 000 but does not exceed R360 000</td>
<td>106 367</td>
<td>94,6</td>
<td>56,2</td>
</tr>
<tr>
<td>exceeds R360 000 but does not exceed R400 000</td>
<td>116 012</td>
<td>110,3</td>
<td>75,2</td>
</tr>
<tr>
<td>exceeds R400 000</td>
<td>116 012</td>
<td>110,3</td>
<td>75,2</td>
</tr>
</tbody>
</table>

(ii) **Employer owned vehicles (Paragraph 7(4) of the Seventh Schedule)**

**Scale of values**

*Value of private use per month = 2,5% x determined value*

*Value of second vehicle per month = 4% x determined value*

Where the employee -

(aa) bears the cost of all fuel used for the purposes of the private use of the vehicle (including travelling between the employee’s place of residence and his place of employment), the monthly percentage to be applied is reduced by 0,22 percentage points.

(bb) bears the full cost of maintaining the vehicle (including the cost of repairs, servicing, lubrication and tyres), the monthly percentage to be applied is reduced by 0,18 percentage points.

C. **REBATES**

Persons under 65 ........................................................................................................ R10 260

Persons over 65 (R10 260 + R5 675) ................................................................. R15 935
D. **FORMULAE**

Section 5 (10) (Rating formula)

\[ Y = \left[ \frac{A}{B + D - (C + L)} \right] \times (B - L) + (L \times R) \]

\[ R = \frac{F}{B + D - (C + L + G)} \]

- \( Y \) = the normal tax that must be calculated
- \( A \) = the normal tax on \( B + D - (C + L) \)
- \( B \) = the taxable income for the year
- \( C \) = special remuneration and average farming income
- \( D \) = the contributions made to a retirement annuity fund during the current year of assessment that have been deducted in terms of section 11(n) purely as a consequence of the lump sums \( "L" \) or excess farming income \( "C" \) being included in income
- \( F \) = the normal tax calculated on \( B + D - (C + L + G) \)
- \( G \) = the taxable capital gain calculated in terms of section 26A for the appropriate year of assessment that has been included in taxable income
- \( L \) = a lump sum received; and
- \( R \) = the greater amount after the formula

\[ R = \frac{F}{B + D - (C + L + G)} \]

has been applied to the current and previous year’s taxable income.

Section 10A (purchased annuity)

\[ Y = \frac{A}{B} \times C \]

- \( Y \) = the capital element to be calculated
- \( A \) = the total cash price payable by the purchaser to the insurance company in terms of the annuity contract
- \( B \) = the sum of all the expected returns over the term of the contract; and
- \( C \) = the total receipts during the current year of assessment.

Second Schedule

Formula C

\[ A = \frac{B}{C} \times D \]

- \( A \) = the portion subject to tax that must be calculated
- \( B \) = the total completed years of service from 1 March 1998
- \( C \) = the total completed years of service that are recognised as pension funding
- \( D \) = the lump sum that is payable.
E. **EXTRACT FROM THE INCOME TAX ACT (ACT 58 OF 1962, AS AMENDED) – EIGHTH SCHEDULE**

25. Determination of base cost of pre-valuation date assets. - The base cost of a pre-valuation date asset (other than an identical asset in respect of which paragraph 32 (3A) has been applied), is the sum of the valuation date value of that asset, as determined in terms of paragraph 26, 27 or 28 and the expenditure allowable in terms of paragraph 20 incurred on or after the valuation date in respect of that asset.

26. Valuation date value where proceeds exceed expenditure or where expenditure in respect of an asset cannot be determined. - (1) Where the proceeds from the disposal of a pre-valuation date asset (other than an asset contemplated in paragraph 28 or in respect of which paragraph 32 (3A) has been applied) exceed the expenditure allowable in terms of paragraph 20 incurred before, on and after the valuation date in respect of that asset, the person who disposed of that asset must, subject to subparagraph (3), adopt any of the following as the valuation date value of that asset-

   (a) the market value of the asset on the valuation date as contemplated in paragraph 29;
   
   (b) 20 per cent of the proceeds from disposal of the asset, after deducting from those proceeds an amount equal to the expenditure allowable in terms of paragraph 20 incurred on or after the valuation date; or
   
   (c) the time-apportionment base cost of the asset as contemplated in paragraph 30.

(2) Where the expenditure incurred before valuation date in respect of a pre-valuation date asset cannot be determined by the person who disposed of that asset or the Commissioner, that person must adopt any of the following as the valuation date value of that asset-

   (a) the market value of the asset on the valuation date as contemplated in paragraph 29; or
   
   (b) 20 per cent of the proceeds from disposal of the asset, after deducting from those proceeds an amount equal to the expenditure allowable in terms of paragraph 20 incurred on or after the valuation date.

(3) Where a person has adopted the market value as the valuation date value of an asset, as contemplated in subparagraph (1) (a), and the proceeds from the disposal of that asset do not exceed that market value, that person must substitute as the valuation date value of that asset, those proceeds less the expenditure allowable in terms of paragraph 20 incurred on or after the valuation date in respect of that asset.

27. Valuation date value where proceeds do not exceed expenditure. - (1) Subject to subparagraph (2), where the proceeds from the disposal of a pre-valuation date asset do not exceed the expenditure allowable in terms of paragraph 20 incurred both before and after the valuation date in respect of that asset, the valuation date value of that asset must be determined in terms of this paragraph.

(2) This paragraph does not apply in respect of any asset contemplated in paragraph 28 or in respect of which paragraph 32 (3A) has been applied.
(3) Where a person has determined the market value of an asset on the valuation date, as contemplated in paragraph 29, or the market value of an asset has been published in terms of that paragraph, and-

(a) the expenditure allowable in terms of paragraph 20 incurred before the valuation date in respect of that asset-

(i) is equal to or exceeds the proceeds from the disposal of that asset; and
(ii) exceeds the market value of that asset on valuation date,

is the valuation date value of that asset must the higher of-

(aa) that market value; or
(bb) those proceeds less the expenditure allowable in terms of paragraph 20 incurred on or after the valuation date in respect of that asset; or

(b) the provisions of item (a) do not apply, the valuation date value of that asset must be the lower of-

(i) that market value; or
(ii) the time-apportionment base cost of that asset as contemplated in paragraph 30.

(4) Where the provisions of subparagraph (3) do not apply, the valuation date value of that asset is the time-apportionment base cost of that asset, as contemplated in paragraph 30.

F. INCOME TAX MONETARY THRESHOLDS SUBJECT TO PERIODIC LEGISLATIVE CHANGE:

<table>
<thead>
<tr>
<th>Description</th>
<th>Reference to Income Tax Act, 1962</th>
<th>Monetary amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>General savings thresholds</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Broad-based employee share schemes:</strong> Employees can receive tax-exempt shares if the shares are part of a broad-based employee share plan. Companies can also deduct shares issued under the plan</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maximum exemption for shares received by employees</td>
<td>The definition of “qualifying equity share” in section 8B(3)</td>
<td>R50 000</td>
</tr>
<tr>
<td>Maximum deduction for shares issued by the employer</td>
<td>The proviso to section 11(1)(A)</td>
<td>R10 000</td>
</tr>
<tr>
<td><strong>Exemption for interest and certain dividends:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exemption for foreign dividends and interest from a source outside the Republic which are not otherwise exempt</td>
<td>Section 10(1)(j)(xv)(aa)</td>
<td>R3 700</td>
</tr>
<tr>
<td>In respect of persons 65 years or older, exemption for interest from a source within the Republic which are not otherwise exempt</td>
<td>Section 10(1)(j)(xv)(bb)(A)</td>
<td>R32 000</td>
</tr>
<tr>
<td>In respect of persons 65 years, exemption for interest from a source within the Republic which are not otherwise exempt</td>
<td>Section 10(1)(j)(xv)(bb)(B)</td>
<td>R22 300</td>
</tr>
<tr>
<td>Description</td>
<td>Reference to Income Tax Act, 1962</td>
<td>Monetary amount</td>
</tr>
<tr>
<td>----------------------------------------------------------------------------</td>
<td>-----------------------------------------------------------------------------------------------</td>
<td>----------------</td>
</tr>
<tr>
<td><strong>Annual donations tax exemption:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exemption for donations made by entities</td>
<td>Section 56(2)(a) and the proviso thereto</td>
<td>R10 000</td>
</tr>
<tr>
<td>Exemption for donations made by individuals</td>
<td>Section 56(2)(b)</td>
<td>R100 000</td>
</tr>
<tr>
<td><strong>Capital gains exclusions:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual exclusion for individuals and special trusts</td>
<td>Paragraph 5(1) of Eighth schedule</td>
<td>R17 500</td>
</tr>
<tr>
<td>Exclusion on death</td>
<td>Paragraph 5(2) of Eighth schedule</td>
<td>R120 000</td>
</tr>
<tr>
<td>Exclusion for the disposal of a primary residence</td>
<td>Paragraph 45(1)(a) of Eighth Schedule</td>
<td>R1.5 million</td>
</tr>
<tr>
<td>Exclusion in respect of disposal of primary residence (based on amount of proceeds on disposal)</td>
<td>Paragraph 45(1)(b) of Eighth Schedule</td>
<td>R2 million</td>
</tr>
<tr>
<td>Maximum market value of all assets allowed within the small business definition on disposal when person over 55</td>
<td>Definition of “small business” in paragraph 57(1) of Eighth Schedule</td>
<td>R5 million</td>
</tr>
<tr>
<td>Exclusion amount on disposal of small business when person over 55</td>
<td>Paragraph 57(3) of Eighth schedule</td>
<td>R750 000</td>
</tr>
<tr>
<td><strong>Retirement savings thresholds:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Deductible retirement fund contributions:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pension fund and retirement annuity fund members may deduct their contributions subject to certain percentage or monetary ceilings</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pension fund monetary ceiling for contributions</td>
<td>Proviso to section 11(k)(i)</td>
<td>R1 750</td>
</tr>
<tr>
<td>Pension fund monetary ceiling for arrear contributions</td>
<td>Paragraph (aa) of the proviso to section 11(k)(ii)</td>
<td>R1 800</td>
</tr>
<tr>
<td>Retirement annuity fund monetary ceiling for contributions (if also a member of a pension fund)</td>
<td>Section 11(n)(aa)(B)</td>
<td>R3 500</td>
</tr>
<tr>
<td>Retirement annuity fund ceiling for contributions (if not a member of a pension fund)</td>
<td>Section 11(n)(aa)(C)</td>
<td>R1 750</td>
</tr>
<tr>
<td>Retirement annuity fund ceiling for arrear contributions</td>
<td>Section 11(n)(bb)</td>
<td>R1 800</td>
</tr>
<tr>
<td><strong>Permissible lump sum withdrawals upon retirement:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pension fund and retirement annuity fund members may withdraw lump sums upon retirement.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pension fund monetary amount for permissible lump sum withdrawals</td>
<td>Paragraph(ii)(dd) of the proviso to paragraph (c) of the definition of “pension fund” in section 1</td>
<td>R50 000</td>
</tr>
<tr>
<td>Retirement annuity fund monetary amount for permissible lump sum withdrawals</td>
<td>Paragraph (b)(ii) of the proviso to the definition of “retirement annuity fund” in section 1</td>
<td>R50 000</td>
</tr>
<tr>
<td><strong>Deductible business expenses for individuals:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Car allowance:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individuals receive an annual vehicle allowance to defray business travel expenses, including deemed depreciation on the vehicle.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ceiling on vehicle cost</td>
<td>Section 8(1)(b)(iiiA)(bb)(A)</td>
<td>R400 000</td>
</tr>
<tr>
<td>Ceiling on debt relating to vehicle cost</td>
<td>Section 8(1)(b)(iiiA)(bb)(B)</td>
<td>R400 000</td>
</tr>
<tr>
<td>Description</td>
<td>Reference to Income Tax Act, 1962</td>
<td>Monetary amount</td>
</tr>
<tr>
<td>-----------------------------------------------------------------------------</td>
<td>-----------------------------------</td>
<td>-----------------</td>
</tr>
<tr>
<td><strong>Employment-related fringe benefits</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exempt scholarships and bursaries:</td>
<td>Paragraph (ii)(aa) of the proviso to section 10(1)(q)</td>
<td>R100 000</td>
</tr>
<tr>
<td>Annual ceiling for employees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual ceiling for employee relatives</td>
<td>Paragraph (ii)(bb) of the proviso to section 10(1)(q)</td>
<td>R10 000</td>
</tr>
<tr>
<td><strong>Exempt termination benefits:</strong></td>
<td>Section 10(1)(x)</td>
<td>R30 000</td>
</tr>
<tr>
<td>Employment-related fringe benefits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exempt scholarships and bursaries:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual ceiling for employees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual ceiling for employee relatives</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exempt termination benefits:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medical scheme contributions:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medical scheme contributions are tax deductible if the individual pays (and tax-free if the employer pays) subject to monthly ceilings</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Monthly ceilings for schemes with one beneficiary</td>
<td>Section 18(2)(c)(i)(aa) and paragraph 12A(1)(a) of the Seventh Schedule</td>
<td>R670</td>
</tr>
<tr>
<td>Monthly ceiling for schemes with two beneficiaries</td>
<td>Section 18(2)(c)(i)(bb) and paragraph 12A(1)(b) of the Seventh Schedule</td>
<td>R1 340</td>
</tr>
<tr>
<td>Additional monthly ceiling for each additional beneficiary</td>
<td>Section 18(2)(c)(i)(cc) and paragraph 12A(1)(c) of the Seventh Schedule</td>
<td>R410</td>
</tr>
<tr>
<td>Awards for bravery and long service:</td>
<td>Paragraphs (a) and (b) of the further proviso to paragraph 5(2) of Seventh Schedule</td>
<td>R5 000</td>
</tr>
<tr>
<td>Employee accommodation:</td>
<td>Paragraph 9(3)(a)(ii) of Seventh Schedule</td>
<td>R54 200</td>
</tr>
<tr>
<td>Exemption for expatriate employees:</td>
<td>Paragraph 9(7B)(ii) of Seventh Schedule</td>
<td>R25 000</td>
</tr>
<tr>
<td>Exemption for <em>de minimus</em> employee loans:</td>
<td>Paragraph 11(4)(a) of Seventh Schedule</td>
<td>R3 000</td>
</tr>
<tr>
<td><strong>Additional employer deductions for learnerships:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Monetary ceiling of additional deduction for the employer when entering into a learnership agreement with an existing employee</td>
<td>Section 12H(i)</td>
<td>R30 000</td>
</tr>
<tr>
<td>Monetary ceiling of additional deduction for the employer when entering into a learnership agreement with a new employee</td>
<td>Section 12H(2) and (3)</td>
<td>R30 000</td>
</tr>
<tr>
<td>Monetary ceiling of additional deduction for the employer in the case of completing a learnership agreement (all employees)</td>
<td>Section 12H(4)</td>
<td>+R20 000</td>
</tr>
<tr>
<td>Description</td>
<td>Reference to Income Tax Act, 1962</td>
<td>Monetary amount</td>
</tr>
<tr>
<td>----------------------------------------------------------------------------</td>
<td>-----------------------------------</td>
<td>-----------------</td>
</tr>
<tr>
<td>Administration</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment income exempt from provisional tax:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>In the case of a natural person below age 65</td>
<td>Paragraph 18(1)(c)(ii) of Fourth Schedule</td>
<td>R20 000</td>
</tr>
<tr>
<td>In the case of a natural person over age 65</td>
<td>Paragraph 18(1)(c)(i) of Fourth Schedule</td>
<td>R120 000</td>
</tr>
<tr>
<td>SITE threshold</td>
<td>Items (a) and (b) of paragraph 11B(2) and items (a), (b)(ii) and (b)(iii) of paragraph 11B(3) of Fourth Schedule</td>
<td>R60 000</td>
</tr>
<tr>
<td>Threshold in respect of automatic appeal to High Court</td>
<td></td>
<td>R50 million</td>
</tr>
</tbody>
</table>