DEPARTMENT OF TAXATION

The Taxation of Individuals

TXN201B

Tutorial letter 202/1/2011

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

School of Accounting Sciences
College of Economic and Management Sciences

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Dear Student

Enclosed are the solutions to Assignment 01/1/2011 and Assignment 02/1/2011. Please work through the solutions alongside the assignments and your answers. This is a significant part of the learning process. Note that it is very important to understand why a specific answer is correct while other options are not. In Assignment 02 it is important to understand why marks have been allocated to specific parts of your solution.

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

We hope that you have found the assignments stimulating.

Kind regards

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ASSIGNMENT 01 – 1st SEMESTER
SUGGESTED SOLUTIONS

ASSIGNMENT 01 (60 marks, 72 minutes)

1. 3 As per the definition of gross income.

2. 5 Normal tax on taxable income is calculated by referring to the tax tables for individuals for 2011. R300 000 falls between R221 000 and R305 000, therefore the tax is calculated as follows: 
   \[ ((R300 000 - R221 000) \times 30\% + R45 450) = R69 150 \text{ normal tax} \]

3. 1 Net normal tax represents normal tax less rebates, therefore normal tax = R75 000 – R15 935 (rebate) = R59 065 as Mrs A is > 65 years and the age rebate is applicable.

4. 3 Tax liability is the net normal tax payable less SITE, PAYE and any provisional tax payments made.

5. 4 R10 000 \times 12 = R120 000 + R10 000.
   **NB:** The annual bonus is included in the retirement funding income.

6. 4 South African dividends received are exempt in full.

7. 3 The full R3 500 will be exempted from her gross income as the foreign dividend and interest exemption for the 2011 year of assessment is R3 700. Hence she still has R200 to utilise against her foreign interest.

8. 3 Any individual is entitled to a R3 700 foreign dividend and interest exemption in total. The question states that Izabelle has already made use of R3 500 of her foreign allowable exemption against her foreign dividends, therefore only R200 remains (R3 700 – R3 500), which is available to exempt the foreign interest that she has received.

9. 4 Any individual under the age of 65 years is entitled to investment income exemption of R22 300. The exemption covers foreign dividends, foreign interest and local interest. The question states that Izabelle has already made use of the maximum allowable of R3 700 of this exemption for foreign income (dividends and interest received) and therefore only R18 600 (R22 300 – R3 700) is available to use as an exemption against her South African interest.
   **NB:** R22 300 is the total exemption for the year and R3 700 is the maximum allowed out of this R22 300 which can be used against foreign income (dividends and interest).

10. 1 As per the income tax framework.

11. 2 Pension fund contributions are R6 720 for the year, but this is limited to the greater of: R1750 or 7,5\% \times R84 000 (R7 000 \times 12) = R6 300, so even though the actual contribution is higher than R6 300, the limit is the ceiling and that is the maximum that will be allowed as a deduction.

12. 3 R31 250 is the limit that is applied. Actual contributions are R60 000 for the year, but only for 10 months of the year at the maximum deductible rate of 7,5\%.

13. 1 A donation of R20 000 was made. The rule is that the maximum allowed is 10\% of taxable income before the deduction. 10\% \times R250 000 = R25 000 but the donation was only R20 000. One can never deduct more than the actual expense, hence R20 000 is deductible for donations.
ASSIGNMENT 01 (continued)

14. 2 Family limit is calculated as follows: R670 (1st two beneficiaries) x 2 people (husband and wife) x 12 months of the year + R410 x 1 child x 12 months of the year.

15. 1 As per the definition of a resident.

16. 2 The mere transfer of funds does not determine where an activity has been performed, what the originating cause of income is, where capital is employed or where a contract has been concluded.

17. 4 When royalties are paid for use in South Africa, it is irrelevant where the book was written or from which country a royalty is paid.

18. 2 The golfer is not employed by a South African employer.

19. 1

20. 5

21. 3

22. 4

23. 1

24. 4

25. 5

26. 3

27. 5

28. 2

29. 1

30. 4

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**Personal notes**

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QUESTION 1 (30 marks)

Part A (26 marks)

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary</td>
<td>R 300 000</td>
</tr>
<tr>
<td>Bonus (20% x R300 000)</td>
<td>60 000 (1)</td>
</tr>
<tr>
<td>Accumulated leave pay</td>
<td>14 000 (1)</td>
</tr>
<tr>
<td>(No s 10(1)(x) exemption as Mariam does not qualify)</td>
<td></td>
</tr>
<tr>
<td>Travel allowance</td>
<td>45 000</td>
</tr>
</tbody>
</table>

Less: Travel expenses

**Actual kilometres:**
- Total: 37 490 km
- Private: (24 190 km)
- Business: 13 300 km (1)

Use actual business kilometres, therefore 13 300 km.

**Actual costs – no details of actual costs were recorded.**

**Cost per kilometre:**
- Cost of vehicle (including VAT): R313 500

**Deemed cost:**
- Fixed cost R96 260(1) / 37 490 km (1) = 2,568
- Fuel: 0,857
- Maintenance: 0,494
- Total: 3,919

Business expense: 13 300 km x R3,919 (52 123) nil (1)

Entertainment allowance
- No deduction as Mariam is not an agent who normally derives mainly commission income.

Use of a company car:
- R194 200/1,14 (1) (or x100/114) x 4% (1) x 12 (1) = R81 768
**QUESTION 1 (continued)**

Joe (Mariam's husband) travelled less than 10 000 km for private purposes:
Reduction: 7 200 km /10 000 km \( \times \) R81 768 58 873

Uniform allowance – exempt from tax as it is clearly distinguishable nil (1)
Inheritance – capital in nature therefore exempt nil (1)
Foreign dividends (R5 600/2 = R2 800 – R2 800) nil (1)
Local interest (R30 000/2 = R15 000 – (R22 300 – R2 800)) nil (1)

Medical fringe benefit
Employer's contribution 12 800 (1)

Less: Pension fund contributions \([8\% \times (R300 000 + R60 000)] = R28 800\)
Limited to greater of: R1 750 or
\(7.5\% \times (R300 000(1) + R60 000 (1)) = 27 000\) (27 000) (1)

Less: Medical aid contribution deduction
Medical aid contributions:
Mariam (R30 000 – R12 800 (employer)) 17 200 (1)
Add: Fringe benefit 12 800 (1)
30 000 (1)

Limited to family limit (25 920) (25 920)
[(R670 x 2) + (R410 x 2) x 12 months] (1)
395 253
Disallowed portion 4 080

Medical expense deduction
Medical contributions not allowed above 4 080 (1)
Qualifying medical expenses not paid 6 400 (1)
10 480

Less: 7.5% x R395 253 (1) (29 644) (nil) (1)

**TAXABLE INCOME** 395 253

Wrong order of deductions -1

**Part B (4 marks)**

Pension fund lump sum 535 000

Less: Allowable deductions
Contributions disallowed in previous years 8 000 (1)
Transfer to pension preservation fund 135 000 (1)
Current year's contribution disallowed (R28 800 – R27 000) (1) 1 800 (144 800)

Normal tax on taxable amount of lump sum
\([(R390 200 – R22 500) \times 18\%]\) (1) 66 186
**QUESTION 2 (11 marks)**

Calculation of James’s taxable income for the year of assessment ended 28 February 2011

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (R)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest – exempt (s10(1)(h))</td>
<td>- (1)</td>
</tr>
<tr>
<td>Royalties – documentary shot in SA sold in SA, exempt (s10(1)(/A))</td>
<td>- (1)</td>
</tr>
<tr>
<td>Royalties – documentary shot in SA sold in Australia, true source SA</td>
<td>1 140 000  (1)</td>
</tr>
<tr>
<td>Royalties – documentary shot in Australia sold in SA, exempt (s10(1)(/A))</td>
<td>- (1)</td>
</tr>
<tr>
<td>SA embassy fees – true source SA</td>
<td>50 000 (1)</td>
</tr>
<tr>
<td>Net rental income</td>
<td>36 000 (1)</td>
</tr>
<tr>
<td>Proceeds – disposal of SA property (Ignore – insufficient information provided regarding capital gains tax calculation)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Taxable income</strong></td>
<td><strong>1 226 000</strong></td>
</tr>
</tbody>
</table>

b) **Calculation of withholding tax**

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

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

**QUESTION 3 (9 marks)**

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