

Tutorial letter 203/1/2014

The Taxation of Individuals

TAX3702

Semester 1

Department of Taxation

Solution – Assignment 2



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ASSIGNMENT 2 – SOLUTION

QUESTION 1 (55 marks)

Calculation of Danny's tax payable for the year of assessment ended 28 February 2014

Salary	R		
Long service awards:			R 1 800 000
Television			
Less: exempt portion	25 000		
	(5 000)		(1)
	20 000		
Cash	5 000		
Pension fund income			25 000 (1)
Retirement annuity fund income			225 000 (1)
Travel allowance			15 000 (1)
Cost of vehicle: R540 000 x 1.14 = R615 600 (1)			
<u>Business kilometres travelled</u>		km	
Total kilometres travelled		22 000	
Less: Private kilometres travelled		(6 000)	
Business kilometres travelled		<u>16 000 (1)</u>	
<u>Deemed cost per kilometer</u>		R	
Fixed cost: (R118 078 (1) / 22 000km (1) x 306/365 (1))		4.500	
Fuel		1.477	
Maintenance		0.705	
Deemed cost per kilometer		<u>6.682</u>	
<u>Actual expenditure</u>		R	
Depreciation (R480 000(1) / 7 years (1) x 306/365 (1))		57 487	
Running costs (given)		48 000	
Capital payments (non-deductible)		0 (1)	
Finance charges			
((R480 000 / (R615 600(1) - R100 000(1)) x R72 000(1))		67 029	
Total actual expenses		<u>172 516</u>	
Actual cost p/km: R172 516 / 22 000 km (1) = R7.842			
Therefore, use actual cost per km as it is the higher amount.			
Travel allowance received		90 000	
Less: Business travel expenses (R7.842 x 16 000km) (1)		<u>(125 472)</u>	(1)
Use of company car			
R400 000 x 85%(1) x 3.25%(1) x 10 months(1)		110 500	
Less: Business km travelled (R110 500 x 12 000 / 16 000km (1))		(82 875)	
Less: Fuel (4 000km (1) x R1.303 (1)) *		<u>(5 212)</u>	22 413

QUESTION 1 (continued)

	R	R
Balance c/f		2 087 413
Medical fringe benefit		<u>30 000 (1)</u>
		2 117 413
<u>Less:</u> Pension fund contributions: R150 000 limited to the greater of R 1 750 or 7.5% x R1 800 000 (1) = R135 000 Therefore		<u>(135 000) (1)</u>
		1 982 413
<u>Less:</u> Retirement annuity fund contributions: R120 000 limited to the greater of R 1 750 or R3 500 – R135 000 = Rnil or 15% x (R1 982 413 - R1 800 000(1) + R135 000(1)) = R47 612 Therefore		<u>(47 612) (1)</u>
		1 934 801
Capital gain Disposal of primary residence Expenditure before 1/10/2001 cannot be determined, use any of (Eighth Schedule par 26): (1) Market value – R1 500 000, or 20% x (R2 115 000 + R135 000(1) – R135 000(1) - R100 000(1)) = R430 000 Use market value as it is higher		
Proceeds ((R2 115 000 x (100/(100 - 6))) (1)	2 250 000	
<u>Less:</u> Base cost	<u>(1 735 000)</u>	
Valuation date value	1 500 000	(1)
Swimming pool and lapa	100 000	(1)
Agent's commission (R2 250 000 x 6%)	135 000	(1)
Capital gain	515 000	
<u>Less:</u> Primary residence exclusion – R2 000 000 limited to	<u>(515 000)</u>	(1)
		<u>1 934 801</u>
Medical expense deduction: Contribution by Danny (R72 000 – R30 000)	42 000	(1)
Medical aid fringe benefit	<u>30 000</u>	(1)
	72 000	
<u>Less:</u> Medical scheme fees tax credit ((R242 x 2) + R162) x 12 x 4 (2)	<u>(31 008)</u>	
	40 992	
Medical expenses not reimbursed by medical scheme	20 000	(1)
Payments to registered nurse	<u>12 000</u>	(1)
Son has a disability (1), therefore deduct	72 992	(72 992)
		<u>1 861 809</u>
Taxable income		<u>1 861 809</u>
<u>Net normal tax on taxable income:</u> [(R1 861 809 – R638 600) x 40%] + R185 205		674 489 (1)
<u>Less:</u> Rebate		(12 080)
<u>Less:</u> Medical scheme fees tax credit ((R242 x 2) + R162) x 12		<u>(7 752) (1)</u>
Net normal tax		<u>654 657</u>

QUESTION 1 (continued)

	R	R
<u>Normal tax on taxable portion of lump sums:</u>		
Accumulated leave pay		
Gratuity		30 000 (1)
Retirement lump sum		70 000 (1)
	1 500 000	
Disallowed pension contributions – previous years	(75 000) (1)	
Disallowed pension contributions – current year (R150 000 – R135 000)	(15 000) (1)	
Disallowed retirement annuity contributions – current year (R120 000 – R47 612)	<u>(72 388) (1)</u>	
Taxable portion of retirement lump sum	1 337 612	1 337 612
Total taxable lump sums		<u>1 437 612</u>
Tax payable on taxable portion of lump sums: [(R1 437 612 - R945 000) x 36%] + R141 750		<u>319 090 (1)</u>
Total tax payable (R654 657 + R319 090)		<u>973 747</u>

-1 for incorrect order

*1 The determined value of the company vehicle has been reduced to R340 000 (R400 000 x 85%), accordingly the fuel cost on the deemed travel expense table must correspond to it.

QUESTION 2 (5 marks)

(a) Calculation of taxable income (4 marks)

	R
Royalties received from SA traders (exempt)	-
Royalties received from Chinese traders (not SA source)	-
Net rental income Italy: not SA source	-
Net rental income: SA source	120 000
	<u>120 000</u>
Taxable income	<u>120 000</u>

(b) Calculation of withholding tax (1 mark)

Withholding tax (R300 000 x 15% (1)) = R45 000

Unisa

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