



TAX1501

May/June 2014

TAXATION OF SALARIED PERSONS

Duration 2 Hours

100 Marks

EXAMINERS
FIRST
SECOND

MRS R MOOSA
MR A SWANEPOEL

MS NV THOOTHE

Use of a non-programmable pocket calculator is permissible

Closed book examination

This examination question paper remains the property of the University of South Africa and may not be removed from the examination venue

THIS PAPER CONSISTS OF FIVE (5) PAGES PLUS ANNEXURES (pp i-v)

IMPORTANT INSTRUCTIONS:

1. All amounts exclude VAT unless stated otherwise.
2. All persons mentioned are residents of the Republic unless stated otherwise.
3. SARS = South African Revenue Service.
4. "Republic" refers to the Republic of South Africa.

Regarding the answering of this paper:

- 1 This paper comprises four (4) questions
- 2 All questions must be answered.
- 3 **All workings, where applicable, must be shown. If an amount is subject to a limitation, clearly indicate the application of the limitation. If any item is exempt from tax or not allowable as a deduction, it must be indicated and a brief reason given for its exemption on non-deductibility. All amounts must be rounded off to the nearest rand.**
- 4 Please complete the cover page of the answer book in full
- 5 You are reminded that answers may **NOT** be written in pencil
- 6 Any principle errors will be marked negatively
- 7 Proposed timetable (try not to deviate from this timetable):

QUESTION	TOPIC	MARKS	MINUTES
1	Taxable income and net tax liability/refund	38	46
2	Gross income	10	12
3	Capital gains tax	25	30
4	General deduction formula and fringe benefits	27	32
	Total	100	120

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QUESTION 1 (38 marks, 46 minutes)

Moses Mothipe is a South African resident and he is 66 years old. He is married to Jane out of community of property and has three children, aged 18, 16 and 14 years. Moses worked for his employer for the full year. His income and expenses for the 2014 year of assessment were as follows:

Income	Notes	R
Salary (retirement funding income)		360 000
Bonus	1	?
Interest from a South African bank		35 000
Interest from a British bank		20 000
Dividends from a South African company		15 000
Dividends from a foreign company (Moses holds 12% interest in the foreign company)		8 000
Expenses		
Purchase of a laptop computer	2	15 000
Speeding fine	3	500
Current retirement annuity fund contributions		14 400
Current pension fund contributions		28 000
Donation (section 18A certificate was received)		2 000
Medical aid fund contributions	4	24 000

Notes:

- 1 Moses received a performance bonus of 40% of his annual salary. The bonus does not form part of his retirement funding income.
- 2 Moses is required to use a laptop computer for work purposes. He purchased the laptop computer on 1 March 2013.
- 3 Moses was late for a work meeting and he exceeded the speed limit. As a result, he received a speeding fine.
- 4 The medical aid contributions made by Moses constitute 40% (which amounts to R24 000) of the total contribution for the year. The employer contributed 60% of the medical aid fund contributions. Moses incurred qualifying medical expenses of R6 200. For these qualifying medical expenses the medical aid fund refunded him R2 000. His wife and three children are registered as his dependants by the medical aid. None of them has a disability as defined.

Other information:

Moses' employer withheld employee's tax of R62 000 during the 2014 year of assessment.

The write-off period for laptop computers in terms of SARS's rules is three years.

REQUIRED:	Marks
(a) Calculate Moses Mothipe's taxable income for the 2014 year of assessment. Provide reasons where amounts are nil, exempt or not deductible.	30
(b) Assume that Moses Mothipe is 45 years old and his taxable income is R355 000. What would his tax liability or refund for the 2014 year of assessment be? Make use of all the relevant information in the question. Indicate whether the amount is payable to or refundable by SARS.	8

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QUESTION 2 (10 marks, 12 minutes)

Patricia is not ordinarily a resident of South Africa. She was in South Africa during the following periods:

Year of assessment	Days present in South Africa
2014	192 days
2013	242 days
2012	165 days
2011	246 days
2010	183 days
2009	93 days
2008	91 days

REQUIRED:	Marks
(a) Discuss whether or not SARS will consider Patricia to be a South African resident or not in terms of the physical presence test. Also, indicate in which year she will become a resident. Show all calculations.	8
(b) Indicate whether or not SARS would consider Patricia to be a South African resident in the 2013 year of assessment.	2

QUESTION 3 (25 marks, 30 minutes)

Macy Mass, 51 years old and unmarried, has lived in Port Elizabeth for the past 28 years. During the 2014 year of assessment, Macy was diagnosed with a terminal illness. She decided to move to an old-age home and sold the following assets during the year of assessment:

Primary residence

Macy purchased her house in Port Elizabeth on 1 June 1984 for R304 000. She lived in the house from the day that she purchased it until the date of sale, which was 31 May 2013. During 2004 she made improvements to the house at a cost of R600 000. During 2010 the paint started peeling and the re-painting of the house amounted to R25 000. She used 10% of her primary residence for her catering business from the date of purchase until the date of sale. The house was valued at R4 500 000 on 1 October 2001 and the time apportionment base cost of the house is R3 595 550. The house was sold for R7 500 000.

Small business

Macy owned Mac's Catering, a small catering business in a shopping mall. She decided to sell the business during the year of assessment. She realised a capital gain of R1 500 000 with the sale of the business.

Motor vehicle

Macy sold her white Y4, a two-seater sports car which originally cost her R720 000, to a used-car dealer for R450 000.

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QUESTION 3 (continued)**Yacht**

Macy Mass purchased an 11-metre yacht on 1 March 1995. She used to sail the yacht on weekends on family outings. Macy sold the yacht on 1 January 2014 for R120 000. The valuation date value of the yacht was R75 000. Macy paid for repairs to the sails during 2002, which amounted to R8 000.

Share transactions

Macy sold all her listed shares for R120 000. She did not speculate, but kept the shares as an investment. The base cost according to the broker's note (correctly calculated) amounted to R90 000.

Assessed capital loss

Loss brought forward from the 2013 year of assessment amounted to R8 000.

REQUIRED:	Marks
Calculate the taxable capital gain/assessed capital loss of Macy Mass for the year of assessment ended 28 February 2014. You can assume she did not sell any other assets during the year of assessment.	25
Par 26 of the Eighth Schedule applies	

QUESTION 4 (27 marks, 32 minutes)**Part A (12 marks, 14 minutes)**

Alfred Clarke started working for his employer on 1 March 2013. During the year, he moved to a flat closer to his work place. This saved him a considerable amount of money and time that he would have spent travelling.

In his 2014 tax return Alfred would like to claim the rent paid for the flat (R60 000 for the full year in terms of the lease contract) as a deduction.

REQUIRED:	Marks
List the requirements of the general deduction formula (read with section 23) and apply the information provided to determine if Alfred Clarke will be allowed to deduct the rent for the 2014 year of assessment.	12

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QUESTION 4 (continued)**Part B (15 marks, 18 minutes)**

Moshupi Ngcobo is employed by a medium-sized retail organisation. He received benefits from his employer and needs assistance in calculating the taxable portion of these benefits for the 2014 year of assessment.

1. Travel allowance (11 marks, 13 minutes)

He received a travel allowance of R90 000 for the year. Moshupi kept an accurate logbook and travelled a total of 68 000 km during the year, of which 50 000 km was for private purposes. The determined value of the car is R490 000.

The record of his actual expenses reflected the following:

Maintenance costs	R16 000
Fuel costs	R34 000

2. Residential accommodation (4 marks, 5 minutes)

Moshupi had the free use of an unfurnished flat owned by his employer for the full year. The flat has three rooms. He paid his own electricity. His remuneration factor for the 2013 year of assessment was R620 000 and for the 2014 year of assessment R680 000.

REQUIRED:	Marks
Calculate the taxable benefit of the above travel allowance and taxable portion of the fringe benefit for the 2014 year of assessment.	15

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ANNEXURES

A. 2014 – TAX TABLES

(i) Persons (other than companies and trusts)

Taxable income	Rates of tax
Where the taxable income does not exceed R165 600	18 % of each R1 of the taxable income,
exceeds R165 600 but does not exceed R258 750	R29 808 plus 25% of the amount by which the taxable income exceeds R165 600,
exceeds R258 750 but does not exceed R358 110	R53 096 plus 30% of the amount by which the taxable income exceeds R258 750,
exceeds R358 110 but does not exceed R500 840	R82 904 plus 35% of the amount by which the taxable income exceeds R358 110,
exceeds R500 940 but does not exceed R638 600	R132 894 plus 38% of the amount by which the taxable income exceeds R500 940,
exceeds R638 600	R185 205 plus 40% of the amount by which the taxable income exceeds R638 600

B. FRINGE BENEFIT TABLES

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

SCALE OF VALUES

Where the value of the vehicle	Fixed cost R	Fuel cost c	Maintenance cost c
does not exceed R60 000	19 310	81,4	26,2
exceeds R 60 000 but does not exceed R120 000	38 333	86,1	29,5
exceeds R120 000 but does not exceed R180 000	52 033	90,8	32,8
exceeds R180 000 but does not exceed R240 000	65 667	98,7	39,4
exceeds R240 000 but does not exceed R300 000	78 192	113,6	46,3
exceeds R300 000 but does not exceed R360 000	90 668	130,3	54,4
exceeds R360 000 but does not exceed R420 000	104 374	134,7	67,7
exceeds R420 000 but does not exceed R480 000	118 078	147,7	70,5
exceeds R480 000	118 078	147,7	70,5

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

Scale of values

Value of private use **per month**, vehicle not subject to maintenance plan = 3,5% x determined value

Value of private use **per month**, vehicle subject to maintenance plan = 3 25% x determined value

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C. REBATES

Persons under 65	R12 080
Persons 65 and under 75 (R12 080 + R6 750)	R18 830
Persons 75 and over (R12 080 + R6 750 + R2 250)	R21 080

D. 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 be 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

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

Description	Reference to Income Tax Act, 1962	Monetary amount
General savings thresholds		
Broad-based employee share schemes: 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.		
Maximum exemption for shares received by employees	The definition of "qualifying equity share" in section 8B(3)	R50 000
Maximum deduction for shares issued by the employer	The proviso to section 11(A)	R10 000
Exemption for interest and certain dividends:		
In respect of persons 65 years or older, exemption for interest from a source within the Republic which are not otherwise exempt	Section 10(1)(i)(xv)(bb)(A)	R34 500
In respect of persons 65 years, exemption for interest from a source within the Republic which are not otherwise exempt	Section 10(1)(i)(xv)(bb)(B)	R23 800
Annual donations tax exemption:		
Exemption for donations made by entities	Section 56(2)(a) and the proviso thereto	R10 000
Exemption for donations made by individuals	Section 56(2)(b)	R100 000
Capital gains exclusions:		
Annual exclusion for individuals and special trusts	Paragraph 5(1) of Eighth schedule	R30 000
Exclusion on death	Paragraph 5(2) of Eighth schedule	R300 000
Exclusion for the disposal of a primary residence	Paragraph 45(1)(a) of Eighth Schedule	R2 million
Exclusion in respect of disposal of primary residence (based on amount of proceeds on disposal)	Paragraph 45(1)(b) of Eighth Schedule	R2 million
Maximum market value of all assets allowed within the small business definition on disposal when person over 55	Definition of "small business" in paragraph 57(1) of Eighth Schedule	R10 million
Exclusion amount on disposal of small business when person over 55	Paragraph 57(3) of Eighth schedule	R1 800 000
Retirement savings thresholds:		
Deductible retirement fund contributions: Pension fund and retirement annuity fund members may deduct their contributions subject to certain percentage or monetary ceilings		
Pension fund monetary ceiling for contributions	Proviso to section 11(k)(i)	R1 750
Pension fund monetary ceiling for arrear contributions	Paragraph (aa) of the proviso to section 11(k)(ii)	R1 800
Retirement annuity fund monetary ceiling for contributions (if also a member of a pension fund)	Section 11(n)(aa)(B)	R3 500
Retirement annuity fund ceiling for contributions (if not a member of a pension fund)	Section 11(n)(aa)(C)	R1 750

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Description	Reference to Income Tax Act, 1962	Monetary amount
Retirement annuity fund ceiling for arrear contributions	Section 11(n)(bb)	R1 800
Permissible lump sum withdrawals upon retirement: Pension fund and retirement annuity fund members may withdraw lump sums upon retirement		
Pension fund monetary amount for permissible lump sum withdrawals	Paragraph (ii)(dd) of the proviso to paragraph (c) of the definition of "pension fund" in section 1	R50 000
Retirement annuity fund monetary amount for permissible lump sum withdrawals	Paragraph (b)(ii) of the proviso to the definition of "retirement annuity fund" in section 1	R50 000

Deductible business expenses for individuals:

Car allowance: Individuals receive an annual vehicle allowance to defray business travel expenses, including deemed depreciation on the vehicle		
Ceiling on vehicle cost	Section 8(1)(b)(iiiA)(bb)(A)	R480 000
Ceiling on debt relating to vehicle cost	Section 8(1)(b)(iiiA)(bb)(B)	R480 000

Employment-related fringe benefits

Exempt scholarships and bursaries: Employers can provide exempt scholarships and bursaries to employees and their relatives, subject to annual monetary ceilings		
Annual ceiling for employees	Paragraph (ii)(aa) of the proviso to section 10(1)(g)	R200 000
Annual ceiling for employee relatives	Paragraph (ii)(bb) of the proviso to section 10(1)(g)	R30 000 & R10 000
Awards for bravery and long service:	Paragraphs (a) and (b) of the further proviso to paragraph 5(2) of Seventh Schedule	R5 000
Employee accommodation:	Paragraph 9(3)(a)(ii) of Seventh Schedule	R67 111
Exemption for expatriate employees:	Paragraph 9(7B)(ii) of Seventh Schedule	R25 000
Exemption for <i>de minimus</i> employee loans:	Paragraph 11(4)(a) of Seventh Schedule	R3 000

Administration

Investment income exempt from provisional tax:		
In the case of a natural person below age 65	Paragraph 18(1)(c)(ii) of Fourth Schedule	R20 000
In the case of natural person over age 65	Paragraph 18(1)(c)(i) of Fourth Schedule	R120 000
SITE threshold	Items (a) and (b) of paragraph 11B(2) and items (a), (b)(ii) and (b)(iii) of paragraph 11B(3) of Fourth Schedule	R60 000
Threshold in respect of automatic appeal to High Court		R50 million