


**TAX1501
 TAX131S
 RTA131H**

May/June 2011

TAXATION OF SALARIED PERSONS

Duration 2 Hours

100 Marks

 EXAMINERS
 FIRST
 SECOND

 MS P OLIVIER
 MRS KL DE HART

Use of a non-programmable pocket calculator is permissible.

THIS PAPER CONSISTS OF SIX (6) PAGES plus Annexures (pp i – iii)

IMPORTANT INSTRUCTIONS:
Assumptions

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. 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 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 as far as possible):

QUESTION	TOPIC	MARKS	MINUTES
1	Taxable income	30	36
2	Fringe benefits and deductions	43	52
3	Capital gains tax	15	18
4	Gross income	12	14
		100	120

[TURN OVER]

QUESTION 1 (30 marks, 36 minutes)

Trevor is 67 years old and married in community of property. He was employed by XYZ Ltd for the period 1 March 2010 to 28 February 2011. The following information relates to Trevor for the 2011 tax year:

- 1 He received a salary of R336 000 for the year of assessment.
- 2 He received interest of R78 000 on his investments for the 2011 year of assessment. His wife received interest of R25 000 on her investments for the 2011 year of assessment.
- 3 His monthly contributions to a medical aid fund were R6 000 (of which R4 000 per month was paid by XYZ Ltd) for the full tax year. His wife and three (3) children are registered dependants on the medical aid.

Trevor had qualifying medical expenses of R12 000 during the 2011 tax year.

- 4 His contributions to XYZ Ltd's pension fund were 8% of his salary. XYZ Ltd made equal contributions every month to his pension fund.
- 5 Trevor paid his annual membership fees of R3 500 to the Institute of Engineers. It is a condition of his employment to be a registered engineer.
- 6 Trevor made monthly contributions, amounting to R38 400 for the year, to a retirement annuity fund for the full tax year.
- 7 Trevor was away from his home on a business trip for ten nights between 1 March 2010 and 28 February 2011. XYZ Ltd gave him a subsistence allowance of R42 000 for this trip. The trip was to one of XYZ Ltd's factories in Germany. XYZ Ltd paid the hotel accommodation, but Trevor had to pay for everything else. He incurred the following expenses in Germany of which he has proof (expenses to be converted to rand at 1€ = R9,01):

Meals	€1 200
Incidental costs	€ 300

The deemed cost as per the Government Gazette for Germany is €107 per day.

- 8 XYZ Ltd paid his children's school fees which amounted to R10 500 per month (excluding December, when no school fees are payable).
- 9 Trevor received a cell phone allowance of R26 400 for the year. He does not have any proof of what he paid for his cell phone. The cost of his phone calls for the period 1 March 2010 to 28 February 2011 were as follows (he has the itemised billing statement from the cell phone provider):

	R
Private calls	1 800
Business calls	1 100

[TURN OVER]

QUESTION 1 (continued)

10 XYZ Ltd's accountant deducted employees' tax of R90 000 in total for the period 1 March 2010 to 28 February 2011

REQUIRED:	MARKS
1 1 Calculate Trevor's taxable income for the 2011 tax year	27
1 2 Calculate Trevor's tax liability for the 2011 tax year	3

QUESTION 2 (43 marks, 52 minutes)

Please answer the taxpayer in each of the following scenarios

a. Medical aid (12 marks, 15 minutes):

Edward contributes R8 000 per month for the full tax year towards a medical aid fund. His employer, ABC Ltd, agreed to pay R6 000 of the R8 000 monthly premium. Edward had qualifying medical expenses of R13 000 during the 2011 tax year.

Edward's only income was a salary of R360 000 for the year. Edward is 34 years old. His wife and two (2) children are registered dependants on the medical aid. Neither he or any of his dependants are disabled as defined.

REQUIRED:	MARKS
Calculate Edward's taxable income for the year of assessment ended 28 February 2011	12

b. Residential Accommodation (5 marks, 6 minutes):

As part of his package, Mitchell has the right of use of a house owned by his employer (DEF Ltd). The house has four rooms. DEF Ltd provided furniture and paid for the water and electricity. DEF Ltd's costs in respect of the house (in total for the whole tax year) were as follows:

	R
Water & electricity	8 400
Rates & taxes	3 800

Mitchell's remuneration factor for the previous year of assessment was R160 000 and it was R200 000 for the current year of assessment. Mitchell paid R100 per month to his employer, to reside in this house.

REQUIRED:	MARKS
Calculate the taxable fringe benefit for the 2011 tax year	5

[TURN OVER]

QUESTION 2 (continued)**c. Travel allowance (15 marks, 18 minutes):**

Jackson received a travel allowance of R7 900 a month from his employer for the period 1 March 2010 to 28 February 2011. He kept a log book of his travels, which showed the following for the period 1 March 2010 to 28 February 2011

	Kilometres
Travel between house and office	4 320 km
Travel to clients	10 810 km
Travel for private use	2 210 km
	<u>17 340 km</u>

He also kept records and proof of his expenses for the period 1 March 2010 to 28 February 2011

	R
Petrol and maintenance	17 952
Capital repayment	6 452
Insurance	16 000
Finance charges on a R382 000 loan to purchase the Markade (see below)	27 831
	<u>68 235</u>

He drives a Markade which cost him R382 000 (including VAT) on 1 March 2010

REQUIRED:	MARKS
Calculate the taxable portion of the travel allowance for the 2011 tax year	15

d. Right of use of a motor vehicle (6 marks, 7 minutes):

Peter has the right of use of a BWM (a vehicle owned by his employer) from 1 October 2010 to 28 February 2011. The vehicle was purchased by the employer on 13 January 2009 at a cost of R819 660 (including VAT). Peter pays all the fuel and maintenance on the BWM.

REQUIRED:	MARKS
Calculate the taxable fringe benefit for the 2011 tax year	6

QUESTION 2 (continued)**e. Buying of a house (5 marks, 6 minutes)**

On 1 May 2010 Tom received a loan of R320 000 from his employer. Tom must repay R5 000 quarterly (end of March, end of June, end of September and end of December) on the capital amount owing. Interest will be calculated at 8% per year on the outstanding capital balance at the end of each month (starting end of May 2010). Assume an official interest rate of 11% per annum for the period.

REQUIRED:	MARKS
Calculate the taxable fringe benefit for the 2011 tax year	5

QUESTION 3 (15 marks, 18 minutes)

Oliver sold the following assets during the 2010 and 2011 years of assessment:

- Oliver sold shares in Boldworths during the 2010 year of assessment. This resulted in an assessed aggregate capital loss of R8 000 for the 2010 year of assessment.
- On 8 November 2010, Oliver sold his primary residence for R5 250 000. The residence was purchased for R2 800 000 (including VAT) on 1 June 2000. He made improvements of R300 000 to the house during 2005. The house was valued by a sworn appraiser at R3 100 000 on 1 October 2001. You can assume that the time apportioned base cost is R3 187 500.
- On 22 November 2010 he sold his speedboat of 15 metres long for R45 000. He purchased it during 2008 for R70 000.
- On 13 December 2010 he sold his aeroplane weighing 430 kilograms for R230 000. He purchased it during 2009 for R257 000.
- On 25 February 2011 he sold his collection of gold Krugerrands for R720 000. He purchased these Krugerrands during 2002 for investment purposes for R380 000.

REQUIRED:	MARKS
Calculate Oliver's taxable capital gain for his 2011 year of assessment. You can assume that Oliver did not sell any other assets during the above tax years.	15

QUESTION 4 (12 marks, 14 minutes)

You are a registered tax practitioner. One of your clients, Liam Benade (63 years old) is not ordinarily resident in the Republic of South Africa. He does however visit South Africa regularly, the details of which are as follows:

Year of assessment	Physically present in South Africa
2011	92 days
2010	110 days
2009	195 days
2008	197 days
2007	221 days
2006	205 days

Liam purchased shares of R100 000 in a foreign venture capital company, ABC Inc, during 2007. At the time of purchase, ABC Inc made it known to Liam that it will only declare dividends at the earliest in 2011. Liam consequently received foreign dividends of R10 000 during the 2011 tax year.

REQUIRED:	MARKS
4.1 Briefly list the requirements for a person to be considered a resident of South Africa in terms of the physical presence test, for income tax purposes. Determine whether Liam will be a resident in terms of physical presence, for the 2011 year of assessment.	7
4.2 a) How much of the dividends (if any) will be included as gross income in Liam's hands? b) Is there any exemption available for these dividends and, if applicable, how much? Assume that Liam is a RESIDENT of South Africa. Give a brief reason for each of your answers.	5

--- o 0 o ---

ANNEXURES

A. 2011 TAX TABLES FOR INDIVIDUALS

(i) Persons (other than companies and trusts)

Taxable income	Rates of tax
Where the taxable income does not exceed R140 000	18 per cent of each R1 of the taxable income,
exceeds R140 000 but does not exceed R221 000	R25 200 plus 25 per cent of the amount by which the taxable income exceeds R140 000,
exceeds R221 000 but does not exceed R305 000	R45 450 plus 30 per cent of the amount by which the taxable income exceeds R221 000,
exceeds R305 000 but does not exceed R431 000	R70 650 plus 35 per cent of the amount by which the taxable income exceeds R305 000,
exceeds R431 000 but does not exceed R552 000	R114 750 plus 38 per cent of the amount by which the taxable income exceeds R431 000,
exceeds R552 000	R160 730 plus 40 per cent of the amount by which the taxable income exceeds R552 000

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 R 40 000	14 672	58,6	21,7
exceeds R 40 000 but does not exceed R 80 000	29 106	58,6	21,7
exceeds R 80 000 but does not exceed R120 000	39 928	62,5	24,2
exceeds R 120 000 but does not exceed R160 000	50 749	68,6	28,0
exceeds R160 000 but does not exceed R200 000	63 424	68,8	41,1
exceeds R200 000 but does not exceed R240 000	76 041	81,5	46,4
exceeds R240 000 but does not exceed R280 000	86 211	81,5	46,4
exceeds R280 000 but does not exceed R320 000	96 260	85,7	49,4
exceeds R320 000 but does not exceed R360 000	106 367	94,6	56,2
exceeds R360 000 but does not exceed R400 000	116 012	110,3	75,2
exceeds R400 000	116 012	110,3	75,2

[TURN OVER]

(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. INCOME TAX MONETARY THRESHOLDS SUBJECT TO PERIODIC LEGISLATIVE CHANGE

Description	Reference to Income Tax Act, 1962	Monetary amount
General savings thresholds		
Exemption for interest and certain dividends		
Exemption for domestic interest and otherwise taxable collective scheme dividends in respect of persons younger than 65 years	Section 10(1)(i)(xv)(bb)(B)	R22 300
Exemption for passive portfolio savings in respect of persons 65 years or older	Section 10(1)(i)(xv)(bb)(A)	R32 000
Maximum application of the above exemption for foreign interest and otherwise taxable dividends	Section 10(1)(i)(xv)(aa)	R3 700
Annual donations tax exemption		
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	R17 500
Exclusion for the disposal of a primary residence	Paragraph 45(1) of Eighth Schedule	R1,5 million
Exclusion on death	Paragraph 5(2) of Eighth Schedule	R120 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
Retirement annuity fund ceiling for arrear contributions	Section 11(n)(bb)	R1 800

Description	Reference to Income Tax Act, 1962	Monetary amount
-------------	-----------------------------------	-----------------

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)	R400 000
Ceiling on debt relating to vehicle cost	Section 8(1)(b)(iiiA)(bb)(B)	R400 000

Employment-related fringe benefits

Medical scheme contributions Medical scheme contributions are tax deductible if the individual pays (and tax-free if the employer pays) subject to monthly ceilings		
Monthly ceilings for schemes with one beneficiary	Section 18(2)(c)(i)(aa) and paragraph 12A(1)(a) of the Seventh Schedule	R670
Monthly ceiling for schemes with two beneficiaries	Section 18(2)(c)(i)(bb) and paragraph 12A(1)(b) of the Seventh Schedule	R1 340
Additional monthly ceiling for each additional beneficiary	Section 18(2)(c)(i)(cc) and paragraph 12A(1)(c) of the Seventh Schedule	R410
Awards for bravery and long service The deemed values of bravery and long service awards are reduced by the monetary amount indicated	Paragraphs (a) and (b) of the further proviso to paragraph 5(2) of Seventh Schedule	R5 000
Employee accommodation Employee accommodation is taxed by means of a formula if the employer owns the accommodation, but no tax is payable if the employee earns less than the amount indicated	Paragraph 9(3)(a)(ii) of Seventh Schedule	R57 000
Exemption for <i>de minimis</i> employee loans Employee loans below the amount indicated are not deemed to have any value as a fringe benefit	Paragraph 11(4)(a) of Seventh Schedule	R3 000

Administration

Investment income exempt from provisional tax If a natural person solely generates income from interest, dividends and real estate rentals, the income amount indicated is exempt from provisional tax		
In the case of natural persons below age 65	Paragraph 18(1)(c)(ii) of Fourth Schedule	R20 000
In the case of natural persons over age 65	Paragraph 18(1)(d)(i) of Fourth Schedule	R80 000
S I T E threshold Tax on employment income is subject to the SITE system up to the amount indicated	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
Automatic appeal to the High Court The full bench of the High Court has automatic jurisdiction to appeals if the disputed amount exceeds the amount indicated	Section 83(4B)(a)	R50 million