



TAX1501

May/June 2012

TAXATION OF SALARIED PERSONS

Duration 2 Hours

100 Marks

EXAMINERS :

FIRST

MS EH HAMEL

SECOND

MRS KL DE HART

Use of a non-programmable pocket calculator is permissible.

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 – 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	40	48
2	Fringe benefits	35	42
3	Capital gains tax	16	19
4	General deduction formula	9	11
		100	120

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QUESTION 1 (40 marks, 48 minutes)

Gus Emerald, 30 years old is married in community of property to Marike (32 years old) The following information relates to the 2012 year of assessment

Receipts and accruals	Note	R
Salary		700 000
Bonus (non-retirement funding)		58 334
Interest received	1	31 900
Dividends received – listed South African shares		26 450
Foreign dividends received (not exempt from normal tax)(equivalent in rand)		6 000
Net rental from property in Mauritius (equivalent in rand)		240 000
Expenses		
Medical deductions	2	?
Retirement annuity fund contributions – R2 500 per month		30 000
Donation to public benefit organisation (official receipt received)		53 000
Pension fund contributions – R4 667 per month		56 004
Employees' tax paid to SARS		278 000

Notes:**1. Interest received consists of the following:**

	R
Foreign interest (equivalent in rand)	1 400
Interest from a South African bank	30 500

Marike also received interest during the year of assessment from a South African bank amounting to R15 600

2. Medical expenses

Gus belongs to the employer's medical aid fund and Marike is a dependant. The total contributions to the medical aid fund amounts to R3 150 per month of which the employer contributes R1 575 monthly. Gus and Marike have no children and Gus was a member of the fund for the full year of assessment. He made contributions for the full year. They are not disabled as defined in the Act. Gus paid R15 500 out of his own pocket for qualifying medical expenses and this amount was not refunded by the medical aid.

3. Company car

Gus received the use of a company car for the full year of assessment. The vehicle was purchased on 1 January 2009 at a cost of R513 000 (including VAT). Gus received the right of use on 1 January 2011. The vehicle was purchased with a maintenance plan and all costs are paid by his employer.

REQUIRED:	MARKS
1 1 Calculate Gus Emerald's taxable income for the 2012 year of assessment	37
1 2 Calculate Gus Emerald's tax liability for the 2012 year of assessment	3

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QUESTION 2 (35 marks, 42 minutes)

Alex Mufasa (35 years old) received the following fringe benefits from Yip (Pty) Ltd during the 2012 year of assessment

2.1 Residential accommodation (5 marks, 6 minutes)

Alex received free accommodation in a furnished townhouse consisting of five rooms. This townhouse is owned by Alex's employer, Yip (Pty) Ltd. Alex occupied the townhouse from 1 September 2011. Yip (Pty) Ltd provided the furniture but did not pay for the water and electricity.

Alex's remuneration factor for the previous year of assessment was R330 000 and it was R350 000 for the current year of assessment.

2.2 Holiday accommodation (3 marks, 4 minutes)

During February 2012 Alex and his wife enjoyed the use of his employer's holiday cottage for ten days at Gordon's Bay in the Western Cape. The cottage is normally rented out at R1 000 a day. Alex paid R250 per day for the use of the cottage.

2.3 Travel allowance (10 marks, 12 minutes)

Alex received a travel allowance of R6 000 a month for the entire 2012 year of assessment. He did not keep accurate record of his actual costs incurred. He kept a logbook and travelled 12 540 business kilometres during this period. The odometer reading of the car was as follows:

1 March 2011 25 158 km
29 February 2012 46 118 km

The vehicle that Alex owns was purchased on 1 February 2011 at a cost of R250 000 (including VAT).

2.4 Subsistence allowance (7 marks, 8 minutes)

Alex received a subsistence allowance of R350 per day for 12 days that he was away for business purposes in Durban. This allowance was paid to him to cover his costs in respect of meals and incidental costs. Alex kept record and proof of his actual costs.

Business trip Durban

Meals and refreshments	R
Parking	2 940
Telephone calls	395
Laundry	175
	115

2.5 Low interest rate loan (8 marks, 10 minutes)

Alex borrowed R 40 000 from Yip (Pty) Ltd on 1 September 2011. The loan was used to pay for his wife's cookery course. His employer charges interest on this loan at 4% per annum.

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QUESTION 2 (continued)

Alex repaid the loan as follows

31 October 2011 R 5 000
31 January 2012 R10 000

The official interest rate is 7% for the 2012 year of assessment

2.6 Meals provided by Yip (Pty) Ltd (2 marks, 2 minutes)

Alex made use of the cafeteria on the premises of Yip (Pty) Ltd. This cafeteria is mainly used by the employees and is open during normal business hours. Alex consumed 165 free meals in the cafeteria during the 2012 year of assessment. The value of each meal is R40.

REQUIRED:	MARKS
Calculate the cash equivalent of each of the above fringe benefits and the taxable portion of any allowances for the 2012 year of assessment	35

QUESTION 3 (16 marks, 19 minutes)

Nancy Dawn, 45 years old and unmarried has lived in Durban for the past 24 years. During the 2012 year of assessment Nancy was transferred to Cape Town, by her employer. Nancy sold the following assets on 31 July 2011, before moving to Cape Town.

House:

Nancy purchased the house in Durban on 1 June 1987 for R104 000. She lived in the house from the day that she purchased it until the date of sale. In 2004 she made improvements to the house at a cost of R560 000. In 2008 repairs to the roof of the house amounted to R15 000. The house was valued at R3 500 000 on 1 October 2001 and the time apportionment base cost of the house is R2 959 550. The house was sold for R5 750 000.

Furniture:

Nancy sold some of the furniture, as she was moving into a smaller house. The furniture was sold for R30 000. The original cost price of the furniture sold amounted to R40 000.

Share transactions:

Nancy sold all her shares for R90 000. She did not speculate but kept the shares as an investment. The base cost per the broker's note (correctly calculated) amounted to R71 000.

QUESTION 3 (continued)**Assessed capital loss:**

Loss brought forward from the 2011 year of assessment amounted to R5 500

REQUIRED:	MARKS
Calculate the taxable capital gain of Nancy Dawn for the year of assessment ended 29 February 2012. You can assume she did not sell any other assets during the year of assessment.	16

QUESTION 4 (9 marks, 11 minutes)

Mike Baker owns a bakery and a coffee shop. A customer of Mike lost a finger when he used the bread slicing machine. The machine is made available to customers who purchase bread at the bakery. Mike was liable for compensation to be paid to the customer. He would like to claim the compensation as a tax deduction.

REQUIRED:	MARKS
Discuss whether Mike will be able to claim the expense in terms of the general deduction formula. Your discussion should include reference to applicable case law.	9

ANNEXURES

A. 2012 TAX TABLES FOR INDIVIDUALS

(i) Persons (other than companies and trusts)

Taxable income	Rates of tax
Where the taxable income does not exceed R150 000	18 per cent of each R1 of the taxable income,
exceeds R150 000 but does not exceed R235 000	R27 000 plus 25 per cent of the amount by which the taxable income exceeds R150 000,
exceeds R235 000 but does not exceed R325 000	R48 250 plus 30 per cent of the amount by which the taxable income exceeds R235 000,
exceeds R325 000 but does not exceed R455 000	R75 250 plus 35 per cent of the amount by which the taxable income exceeds R325 000,
exceeds R455 000 but does not exceed R580 000	R120 750 plus 38 per cent of the amount by which the taxable income exceeds R455 000,
exceeds R580 000	R168 250 plus 40 per cent of the amount by which the taxable income exceeds R580 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	Main-tenance cost c
does not exceed R 60 000	19 492	64,6	26,4
exceeds R 60 000 but does not exceed R120 000	38 726	68,0	29,2
exceeds R120 000 but does not exceed R180 000	52 594	71,3	31,9
exceeds R180 000 but does not exceed R240 000	66 440	77,7	35,0
exceeds R240 000 but does not exceed R300 000	79 185	87,0	44,7
exceeds R300 000 but does not exceed R360 000	91 873	93,9	54,2
exceeds R360 000 but does not exceed R420 000	105 809	100,9	65,8
exceeds R420 000 but does not exceed R480 000	119 683	113,1	67,6
exceeds R480 000	119 683	113,1	67,6

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

Value of private use per month = 3,5% x determined value, where the purchase of the vehicle is subject to a maintenance plan of at least 3 years or 60 000 km = 3,25% x determined value

C. REBATES

Primary (persons under 65)	R10 755
Secondary (persons over 65)	R16 767
Tertiary (persons over 75)	R18 767

D. INCOME TAX MONETARY THRESHOLDS SUBJECT TO PERIODIC LEGISLATIVE CHANGE

Description	Reference to Income Tax Act, 1962	Monetary amount
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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 800
Exemption for passive portfolio savings in respect of persons 65 years or older	Section 10(1)(i)(xv)(bb)(A)	R33 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	R20 000
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	R200 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
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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

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	R720
Monthly ceiling for schemes with two beneficiaries	Section 18(2)(c)(i)(bb) and paragraph 12A(1)(b) of the Seventh Schedule	R1 440
Additional monthly ceiling for each additional beneficiary	Section 18(2)(c)(i)(cc) and paragraph 12A(1)(c) of the Seventh Schedule	R440
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	R59 750
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	R120 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

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