



UNIVERSITY
OF
JOHANNESBURG

DEPARTMENT OF ACCOUNTANCY

TAXATION 300/BCTA

SUPPLEMENTARY LAST ASSESSMENT

ASSESSORS: Mr J Olivier CA(SA)
Mrs L Barnard CA(SA)

READING TIME: 37 minutes
WRITING TIME: 243 minutes

INTERNAL MODERATOR: Mrs M van Heerden CA(SA)

MARKS: 125

EXTERNAL MODERATOR: Mrs L Groenewald CA(SA) NWU

INSTRUCTIONS TO CANDIDATES

1. This question paper consists of 8 pages of information and 2 pages required and 2 annexures.
2. Show all calculations clearly.
3. Round to the nearest rand.
4. You may not take this paper with you. No marks will be awarded to students who do not hand back this question paper.

QUESTION 1

40 MARKS

Mrs Suné Black is 66 years old and a resident of South Africa. Suné is a qualified Chartered Accountant and was employed as Chief Executive Officer of Hunters Black (Pty) Ltd (hereafter referred to as “Hunters Black”), until 31 October 2016, the date of her retirement. Suné is the sole shareholder of Hunters Black. Hunters Black, a South African resident company, specializes in the production of craft beer which is approved by the South African Revenue Service (SARS) as a process of manufacture. Suné has two children namely: Mark Black and Jaco Black.

Mark Black is 26 years old and qualified as a medical practitioner after years of intensive study. Currently he is employed at one of the best hospitals in South Africa and has aspirations to become a world class surgeon.

Jaco Black is 16 years old and diagnosed with a disability as defined in terms of section 6B(1) of the Income Tax Act. He was born very late in Suné’s life and is incapable of performing any daily activities independently. He is dependent on a permanent nurse appointed by Suné.

1. Information regarding Suné Black:

During 2016 Suné was diagnosed with a terminal heart disease. To prepare for her eventual death she consulted with an estate planner to ensure that her estate would be in order before her death. As Mark showed no interest in Hunters Black and as Jaco is incapable of taking over, the estate planner advised Suné to establish a family trust to which her assets can be sold and then managed to the benefit of her two sons.

Suné’s estate planner also indicated to her that if she established the trust and donated her assets to the trust while she is still alive, she would not be subject to capital gains tax or estate duty on this assets, on the date of her death.

Suné owned the following assets:

- Hunters Black shares, which she purchased for an amount of R5 000 during 2008; and
- An unlisted foreign investment that cost her R250 000 during 2010. She owns 5% of the equity shares and voting rights in this foreign company.

Suné established the Black Family Trust (hereafter referred to as “the trust”) on 1 June 2016 and donated her foreign investment to the trust on 30 June 2016.

She also sold the equity shares in Hunters Black to the trust for an amount of R10 000 000 on 1 March 2017. The purchase price remained outstanding on a loan account bearing annual interest of 3%.

The assets had the following market values on the respective dates:

Asset	30 June 2016	1 March 2017	31 December 2017
Hunters Black shares	R9 050 000	R10 000 000	R15 000 000
Foreign equity shares	R4 000 000	R4 025 000	R5 500 000

Information regarding Mark Black:

Mark Black received a work offer from one of the best medical facilities in New York, United States of America (USA). The only condition attached to the contract was that Mark worked a trail period of two months at the facility before he could be formally appointed.

Mark went to New York on 31 March 2017 to work the trail period from 1 April 2017 until 31 May 2017. He received a salary of R350 000 from the medical facility for the two month trial period. After Mark worked the two month trial period, the medical facility offered him a permanent position commencing 2 August 2017.

Mark returned home to South-Africa to get his affairs in order as he planned to accept the offer. He formally emigrated from South-Africa to the USA on 1 August 2017. Mark never visited South Africa after emigrating to the USA.

During 2016 Mark was part of a “Doctors without Borders” program aiding residents of Libya, North Africa. He went to Libya during the period 1 July 2016 up until 31 October 2016, after which he returned home to South-Africa.

Mark had the following assets during the 2018 year of assessment:

- An investment in 13% debentures issued by Hansel (Pty) Ltd (hereafter “Hansel”), a South-African resident company, to Mark at a purchase price of R500 000 on 1 March 2017. Interest on the investment, of R65 000, accrued to Mark on 28 February 2018.
- A stylish holiday house in Cape Town, South Africa which was rented out for the whole month of December 2017 at a price of R2 000 per day. The market value of the house on 31 July 2017 amounted to R12 250 000. Mark bought the house during 2015 for an amount of R9 500 000. He sold the house on 31 January 2018 to an unconnected South African resident at a market value of R12 500 000.

2. Information regarding the Trust

To administer the Trust Suné appointed the family attorney and a fellow accountant as the trustees. Jaco Black and Mark Black are the only beneficiaries.

Jaco Black has a vested interest in 50% of the Hunters Black shares and 50% of the dividend income received by the Trust from the Hunters Black shares, as it serves to finance his daily needs.

Mark Black has a vested right in R300 000 of the dividend income from the Hunters Black shares, payable annually in the form of an annuity on 31 January.

No beneficiary has a vested interest in any of the other assets or additional income retained in the trust. The trustees may distribute the other assets or additional income at their discretion.

The following table summarizes the income and distributions of the Trust during the 2018 year of assessment:

	Date of distribution	Total	Dividends on local shares	Dividends on foreign shares
		R	R	R
NET RECEIPTS		1 900 000	1 500 000	400 000
DISTRIBUTIONS				
To: Mark Black	1 October 2017	(400 000)		(400 000)
To: Jaco Black	31 January 2018	(750 000)	(750 000)	
To: Mark Black	31 January 2018	(300 000)	(300 000)	
INCOME RETAINED IN TRUST		<u>R450 000</u>	<u>R450 000</u>	<u>R-</u>

Additional information:

- Assume an official rate of interest of 7.75% per annum for the entire 2018 year of assessment.
- Assume a market related interest of 15% per annum for the entire 2018 year of assessment.
- No donations were made by Suné Black other than those indicated in the information above.

QUESTION 2

(30 MARKS)

PART A

William is a full time employee at Fashion (Pty) Ltd. Employees tax of R7 000 per month is deducted from William's remuneration.

William had to register as a provisional taxpayer during the 2016 year of assessment because his taxable income from local rent producing properties he owns, exceeded R30 000. He earned local taxable rental income of R400 000 during the 2018 year of assessment.

William received a notice of income tax assessed (ITA34) for his 2016 year of assessment on 11 November 2016 and stated a taxable income of R600 000. The notice of income tax assessed (ITA34) for the 2017 year of assessment was received on 18 November 2017 and stated a taxable income of R720 000.

William does not contribute to a medical scheme, but had to pay R525 000 for his disabled mother's stay in the hospital and prescribed medicine for her during the 2018 year of assessment.

PART B

William also started a sole trader business on 1 July 2016 to increase his wealth. He is dealing in expensive and scarce wine. William unfortunately made a loss of R60 000 from this trade during the 2017 year of assessment

William received an additional assessment regarding his 2017 year of assessment on 20 February 2018. The SARS assessed William's taxable income for the 2017 year of assessment at a higher amount to what his calculation indicated. The reason for the higher amount is that the loss he made on dealing in wine was not allowed as a deduction from his taxable income. This resulted in him having to make an additional tax payment of R24 600. William wants to object to this assessment as he feels that he should be allowed to deduct this loss from his taxable income. He decided that he will not make the additional tax payment before this issue is resolved.

PART C

William has a daughter Petal, who is 26 years old and a Canadian tax resident.

1. Petal received a salary of R20 000 per month from her employer in Canada. All Petal's duties are performed in Canada and she only visits her family in South Africa in December for 30 days each year. Petal does not carry on a permanent establishment in South Africa.
2. Petal received interest of R35 000 from a fixed deposit at a bank in South Africa on 28 February 2018.
3. Petal received dividends of R5 000 on the shares that was donated to her by William on 28 February 2018.

QUESTION 3

(15 MARKS)

Aqua-Rico (Pty) Ltd (hereafter referred to as "Aqua-Rico") is a resident company that manufactures sneakers for sale within the boundaries of the North-West Province and has a February year-end. The company is registered as a category B vendor for Value-Added Tax (VAT) purposes that makes 98% taxable supplies. Where applicable, all the necessary documentation required by the VAT Act has been obtained.

PART A

Aqua-Rico was advised by its consultants to start providing additional compensation to its employees in order to motivate them and to gain their loyalty. Aqua-Rico therefore granted the

right of use of a company laptop to Steve Jones, one of its expert employees in the creditors division from 1 February 2018. Steve Jones has the right to use the laptop for one year, the useful life of the computer is four years. The laptop was acquired for R13 500 (VAT excluded) on 1 February 2018 and its open market value on this date amounted to R14 250. Steve Jones does not pay anything for the right of use and is allowed to use the laptop as much as he wants for private purposes. He is the only employee in the division to have received such right.

PART B

An unfortunate incident occurred on 19 September 2017 when a gas cylinder exploded in Aqua-Rico's sneaker manufacturing plant. This explosion caused an enormous uncontrollable fire that burnt all manufacturing equipment in the plant to ashes. Aqua-Rico had to suspend its manufacturing until such a time that the plant could be renovated and fitted with new equipment. The whole process was expected to be completed by 15 June 2018.

As part of Aqua-Rico's business continuity strategy, the plant and all manufacturing equipment were insured with Phoenix Insurers from the day it was brought to use. Phoenix Insurers conducted a comprehensive assessment of the scope of damages and paid Aqua-Rico the following amounts during December 2017:

- R 12 000 000 for renovations and acquisition of new manufacturing equipment; and
- R 5 250 000 as compensation for the fact that Aqua-Rico will not be able to carry on with its manufacturing until such a time its manufacturing plant is working again. These proceeds would be used to pay salaries and creditors for the period of the involuntary suspension.

QUESTION 4

(15 MARKS)

Lucky Woof (Pty) Ltd (hereafter referred to as "Lucky Woof") is a company that was incorporated and which is managed in Krugersdorp, South Africa. The company manufactures dog food. The company is a registered vendor for Value-Added Tax (VAT) purposes and the South African Revenue Service (SARS) is satisfied that Lucky Woof makes 96% taxable supplies. All the necessary documentation required by the VAT Act has been obtained. The SARS has approved the company's process as a process of manufacture. Lucky Woof has a 31 December financial year-end and does not qualify as a small business corporation.

Pieter Snoop is the chief executive officer (CEO) of Lucky Woof and a 20% holder of the equity shares and voting rights in the company. Pieter Snoop is a not a registered VAT vendor.

The tax manager of Lucky Woof contacted you for assistance with the tax treatment of the following transactions that took place during the 2017 year of assessment, but that have not yet been recorded:

Lucky Woof incurred the following expenditure during the 2018 year of assessment:

1. Annual security services fee of R100 000 (excluding VAT) which was paid on 1 October 2018 for the period 1 October 2018 to 30 September 2019.

Property taxes of R130 000 (excluding VAT), which is annually payable in terms of municipal regulations (legislation) requiring that property taxes must be paid in advance, was paid on 1 September 2018 for the period 1 September 2018 to 31 August 2019.

2. Pieter Snoop purchased a packaging machine from Lucky Woof for R228 000 (including VAT) on 1 April 2017. Lucky Woof originally acquired the machine new for R250 000 (including VAT) on 1 June 2016 and used it in the process of manufacture. The open market value of the machine amounted to R206 140 (excluding VAT) on 1 April 2017.

QUESTION 5

(25 MARKS)

Mr Kekana, a SA resident, passed away on 1 November 2017, aged 60. On 1 October 2017, he had donated his farm in Hermanus to his sister. Mr Kekana paid the donations tax on 31 October 2017. The farm had a market value of R2 million on 1 October 2017, and was purchased by Mr Kekana for R1 million during 2013.

Mr Kekana's assets had the following market values on 1 November 2017:

	R
Primary residence – Cape Town	10 000 000
Mercedes	800 000
Time share	40 000
Pay-out from pension fund	2 000 000
Shares in Babula (Pty) Ltd – valuation done by CA(SA)	100 000
Property in London	3 500 000

The property in London was left to him in the will of his grandmother, who was a British resident.

Mr Kekana is married out of community of property, with the accrual system, to Mrs Kekana (also a SA resident).

Assume, just for purposes of calculating the accrual, the following:

	Mr Kekana	Mrs Kekana
On date of marriage:		
Assets	R500 000	R250 000
Liabilities	R100 000	R50 000
On date of Mr Kekana's death:		
Assets	R5 million	R2 million
Liabilities	R400 000	R300 000

Mr Kekana's last will and testament stipulated the following (assume that the estate was liquidated by 28 February 2018):

- The primary residence was sold to a third party for R9 million.
- The Mercedes was left to his wife.
- The time share was sold to a third party for R30 000
- The shares in Babula (Pty) Ltd were sold to a third party for R85 000.
- The property in London was left to his sister.

The executor is not registered for VAT and charges the maximum prescribed fee.

REQUIRED:

QUESTION 1

(TOTAL 40 MARKS)

1. Write an e-mail to the trustees of the trust where you explain whether or not the Black Family Trust will qualify as a “special trust”. (3)

Communication skills: Presentation and layout (1)

2. Calculate the taxable income (excluding capital gains) of Suné Black for the 2018 year of assessment. For this part ONLY – assume that Mark Black is a South African resident. (10)
3. Calculate with reference to legislation the South African normal tax due and withholding tax payable by Mark Black for the 2018 year of assessment. (20)
4. Discuss whether the creation of the trust by Suné Black will represent an ‘impermissible avoidance arrangement’. Assume that the transaction is not in a business context. (6)

Adapted – North West University

QUESTION 2

(TOTAL 30 MARKS)

PART A

1. Explain to William Mokoena which amount would be his “basic amount” for determining his second provisional tax payment for the 2018 year of assessment. (3)
2. Calculate with reasons William Mokoena’s second provisional tax payment for the 2018 year of assessment. You may assume that his actual taxable income amounted to R761 700 (correctly calculated) for the 2018 year of assessment and that a first provisional tax payment of R20 000 was made. William wants to avoid paying penalties for understatement. (9)

PART B

1. Discuss with reference legislation whether William can claim an assessed loss from his sole trader business against his employer related income. (2)
2. Discuss with reference to legislation whether William is allowed to withhold the payment of the additional tax in terms of the additional assessment with regards to his 2017 year of assessment, until his objection against the additional assessment has been finalised. (3)

PART C

1. Briefly discuss and calculate with reference to legislation the South African taxable income of Petal for the 2018 year of assessment. (10)
2. Calculate with reasons the withholding tax that will be withheld from amounts that was received by Petal for the 2018 year of assessment. (3)

Adapted – North West University

QUESTION 3**(TOTAL 15 MARKS)****PART A**

Discuss supported by calculations the VAT consequences of the transaction for Aqua-Rico for the VAT period ending 28 February 2018. Include the time and value of supply in your discussion. (7)

PART B

Discuss with reference to case law whether or not the receipts as listed should be included in Aqua-Rico's gross income for the 2018 year of assessment. (8)

Adapted – North West University

QUESTION 4**(15 MARKS)**

Calculate with reference to legislation the effect of each transaction on taxable income of Lucky Woof (Pty) Ltd for the 2018 year of assessment.

Adapted – North West University

QUESTION 5**(TOTAL 25 MARKS)**

1. Calculate all the taxes on the donation to Mr Kekana's sister. (7)
2. Calculate the estate duty payable in respect of Mr Kenana's estate (no income tax calculations necessary). Also advise what can be done to lower his current estate duty liability. (18)

TRANSFER DUTY TABLE

Value of property R	Rate
0 – R900 000	0%
900 001 – 1 250 000	3% of the value above R900 000
1 250 001 – 1 750 000	R10 500 + 6% of the value above R1 250 000
1 750 001 – 2 250 000	R40 500 + 8% of the value above R1 750 000
2 250 001 – 10 000 000	R80 500 + 11% of the value above R2 250 000
10 000 001 and above	R933 000 + 13% of the value above R10 000 000

REBATES

Primary rebate	R13 635
Secondary rebate	R7 479
Tertiary rebate	R2 493

MEDICAL REBATES

Section 6A

R303 pm for first member
R606 pm for first member + dependant
R204 pm for every additional dependant

SUBSISTENCE ALLOWANCE

Meals and incidental costs in Republic	R397 per day
Incidental costs only in Republic	R122 per day

INTEREST EXEMPTION

Younger than 65 yrs	R23 800
65 yrs and older	R34 500

RATES OF NORMAL TAX PAYABLE BY NATURAL PERSONS FOR YEARS OF ASSESSMENT ENDING 28 FEBRUARY 2018

Taxable income	Rates of tax
0 – R189 880	18% of taxable income
R189 881 – R296 540	R34 178 + 26% of taxable income above R189 880
R296 541 – R410 460	R61 910 + 31% of taxable income above R296 540
R410 461 – R555 600	R97 225 + 36% of taxable income above R410 460
R555 601 – R708 310	R149 475 + 39% of taxable income above R555 600
R708 311 – R1 500 000	R209 032 + 41% of taxable income above R708 310
R1 500 001 and above	R533 625 + 45% of taxable income above R1 500 000

RETIREMENT LUMP-SUM BENEFITS AND SEVERANCE BENEFITS

Taxable income (R)	Rate of tax (R)
0 – 500 000	0% of taxable income
500 001 - 700 000	18% of taxable income above 500 000
700 001 – 1 050 000	36 000 + 27% of taxable income above 700 000
1 050 001 and above	130 500 + 36% of taxable income above 1 050 000

WITHDRAWAL LUMP-SUM BENEFITS

Taxable income (R)	Rate of tax (R)
0 – 25 000	0%
25 001 - 660 000	18% of taxable income above 25 000
660 001 - 990 000	114 300 + 27% of taxable income above 660 000
990 001 and above	203 400 + 36% of taxable income above 990 000

DEEMED RATES FOR TRAVEL ALLOWANCES

Value of the vehicle (R)	Fixed cost (R p.a)	Fuel cost (c/km)	Maintenance cost (c/km)
0 - 85 000	28 492	91.2	32.9
85 001 - 170 000	50 924	101.8	41.2
170 001 - 255 000	73 427	110.6	45.4
255 001 - 340 000	93 267	118.9	49.6
340 001 - 425 000	113 179	127.2	58.2
425 001 - 510 000	134 035	146.0	68.4
510 001 - 595 000	154 879	150.9	84.9
more than 595 000	154 879	150.9	84.9

Life expectancy tables

Age	Life Expectancy		Present Value	
	Male	Female	Male	Female
57	16,52	21,08	7,05178	7,56896
58	15,86	20,31	6,95225	7,49927
59	15,23	19,54	6,85004	7,42321
60	14,61	18,78	6,74206	7,34135
61	14,01	18,04	6,63010	7,25457
62	13,42	17,30	6,51232	7,16020
63	12,86	16,58	6,39301	7,06046
64	12,31	15,88	6,26822	6,95537