



**NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY**

FACULTY OF MANAGEMENT SCIENCES

DEPARTMENT OF ACCOUNTING, ECONOMICS AND FINANCE

QUALIFICATION : BACHELOR OF ACCOUNTING	
QUALIFICATION CODE: 07BACC	LEVEL: 6
COURSE: Taxation 202	COURSE CODE: TAX621S
DATE: November 2019	SESSION: Theory, Calculation
DURATION: 180 Minutes	MARKS: 90

EXAMINATION PAPER	
Examiner:	Mr. A Ketjinganda and Mrs Z. Maritz
Moderator:	Ms. Yolande Andrew

INSTRUCTIONS TO CANDIDATES
<ol style="list-style-type: none">1. This paper consists of 6 pages including appendix A (including cover page).2. You are reminded that answers may NOT be written in pencil. NO tippex may be used.3. The marks shown against the requirement(s) for every question should be regarded as an indication of the expected length and depth of your answer.4. Answer the questions by the use of:<ul style="list-style-type: none">- Effective structure and presentation; clear explanations;- Logical arguments; and clear and concise language.5. Show all calculations clearly.6. Round all amounts to the nearest Rand.

Question 1(24 Marks)

Part A (15 Marks)

In each of the following questions, indicate whether the statement is TRUE or FALSE. In each instance, you are required to motivate your answer with the appropriate part of the gross income definition and provide relevant case law.

- a. If a taxpayer who sells electronic equipment, exchanges the equipment with another taxpayer who sells clothes, no amount of gross income will be recognized.
- b. A new lounge suite is sold to a customer on credit. The sale is subject to the customer being allowed to return the lounge suite within 30 days and receive a refund. The amount must be included in gross income on the date of sale.
- c. Soft drinks are sold at N\$10 per bottle, if the customer returns the bottle; he/she receives a refund of N\$1 per bottle. The seller must only include N\$9 in its gross income when the sale takes place.
- d. A loan is included in gross income.
- e. A clothing store that offers 6 months interest free accounts should not include an amount in gross income until after the expiration of the 6 month period.

Part B (9 Marks)

A taxable income of R500 000 for the 2019 year of assessment is calculated for the following taxpayers:

- a. Mr. Wheelie, a RSA resident, aged 52.
- b. Barrow Trust (other than a special trust)
- c. Cars Pty Ltd

Required:

Calculate the tax liability for each taxpayer, showing all the workings.

Question 2 (12 Marks)

In each of the following scenarios, the taxpayer had certain expenses. You are required to state, with supporting reasons, if you believe the expense qualify for a deduction in terms of Section 11 (a) (the general deduction formula).

- a. Mrs Jones incurred legal expenses of R20 000 during the course of finalizing her divorce.
- b. Mr Country rents a flat near the campus for R5 000 per month. He charges his son R1 000 per month for staying in the flat. His son can't afford to pay more from his part time salary.
- c. Brian incurred costs of R550 at the local coffee shop whilst having a business meeting with Sarah, his client.
- d. A local restaurant purchased ingredients, to the value of R1500, for an event that it had been hired to cater for. The event was unfortunately cancelled and the ingredients got spoiled and had to be discarded of.
- e. John started a cell phone repair business and borrowed R20 000 from his father. The capital will be used for operating expenses. His father did not charge any interest, but if John borrowed the money from the bank, he would have paid 10% interest.
- f. Sarah bakes rusks from home to supplement her income. She incurred electricity expenses of R5 600 for using the oven for the baking. She kept a record of the times she used the oven for baking purposes.

Question 3 (30 Marks)

Dr Botox, a 45 year old SA resident, is an employee of the Rondebosch Hospital in Cape Town, since 2017.

- He receives a monthly salary of R55 000 and contributes 8% of his basic salary to the pension fund. His employer contributes the same amount.
- He also contributes R500 per month to a Retirement Annuity Fund.
- Dr Botox is responsible to visit other hospitals in and around Cape Town. For this purpose, he receives a monthly travelling allowance of R7 000. He bought a Land Rover in March 2017 for R550 000. A 7 year write of period is approved by SARS
- Dr Botox kept records of all his business travels and expenses. He travelled a total of 23 000 km for the year, 18 000 km of this travelling was for business purposes. He further incurred fuel, licence, insurance and maintenance costs of R28 000.
- Dr Botox donated R10 000 to the SPCA and obtained the necessary Section 18A certificate.
- Dr Botox received the following amounts from investments:
 - Interest from First National Bank, Cape Town, R29 000
 - Dividends from a local company, R11 000
 - Net Dividends from a foreign 2% shareholding, R18 000, after a deduction of 10% withholding tax.
 - Net rentals from a flat in Windhoek, R60 000

Required:

Dr Botox wants to pay the least tax and asked your assistance with the calculation of his tax liability for the 2019 year of assessment. When no amount is included, the reason for such treatment will earn marks.

Question 4 (24 Marks)

Emma Maison is a 49 year old fashion buyer for Fashion and Designs, a SA company. She has been working for Fashion and Designs for the last 19 years. The following information relates to her employment for the 2019 year of assessment.

- Emma received a monthly salary of R40 000 and a 13th cheque in December of R40 000.
- Emma was provided with the exclusive use of a car from 1st March 2018. Fashion and Designs purchased the car for R342 000 which included VAT. The vehicle was purchased with a full 5 year maintenance plan. Emma does not contribute to any maintenance costs. She is allowed to take the vehicle home and unlimited use over weekends. Emma travelled a total distance of 20 000 km of which 4 000 km were travelled for business purposes.
- Emma received R1400 in reimbursement for entertaining customers.
- She also receives a mobile phone allowance of R1 200 per month. Her monthly contract expense towards the phone is R1 100. She uses this phone only for business purposes as she has a private phone.
- From 1st October 2018, she received the free use of a 5 room furnished employer owned house. Her remuneration proxy is R500 000.
- Emma was away from home for business purposes and received R500 per day for 5 days. The subsistence allowance is paid to cover the costs of meals and other incidental costs. Emma did not keep record of all the expenses.
- Her employer owns a sport club which is solely for the use of employees. Normal fees to such a club will be R800 per month.
- She has been awarded a cash amount of R15 000 in recognition for long service.

Additional information:

- Emma received an annuity of R1500 per month from Sanlam. She purchased the annuity in 2012 for R240 000 for a 20 year period. Her life expectancy in 2012 was 33.67 years and in 2019, 27.55 years.

Required:

Calculate the normal tax liability for the 2019 year of assessment. Show all your workings and use the prescribed tax framework.

Appendix A

Rates of Natural persons and special trusts – 2019	
Taxable income	Rates
R0 – R195 850	18% of taxable income
R195 851 – R305 850	R35 253 + 26% of taxable income exceeding R195 850
R305 851 – R423 300	R63 853 + 31% of taxable income exceeding R305 850
R423 301 – R555 600	R100 263 + 36% of taxable income exceeding R423 300
R555 601 – R708 310	R147 891 + 39% of taxable income exceeding R555 600
R708 311 – R1 500 000	R207 448 + 41% of taxable income exceeding R708 310
R1 500 001 and above	R532 041 + 45% of taxable income exceeding R1 500 000

Tax rate - Trusts (other than special) - 45%
Tax rate - Companies - 28%

Tax		
	Rebates (Rand)	
	2019	2018
Primary rebate (Persons under 65)	14 067	13 635
Secondary rebate (Persons 65 and under 75)	7 713	7 479
Tertiary rebate (Persons 75 and above)	2 574	2 493
Annual interest exemption		
	Rand	
	2019	2018
Persons under 65	23 800	23 800
Persons 65 and above	34 500	34 500

Travel			
Scale of values (2019 year of assessment)			
Where the value of vehicle is	Fixed Cost (R)	Fuel cost	Maintenance cost (c/km)
R0 – R85 000	28 352	95.70	34.4
R85 001 – R170 000	50 631	106.80	43.1
R170 001 – R255 000	72 983	116.00	47.5
R255 001 – R340 000	92 683	124.80	51.9
R340 001 – R425 000	112 443	133.50	60.9
R425 001 – R510 000	133 147	153.20	71.6
R510 001 – R595 000	153 850	158.40	88.9
Exceeding R595 000	153 850	158.40	88.9

Subsistence allowance		
	Rand	
	2019	2018
Meals and incidental costs	416	397
Incidental costs only	128	122