



**PAMIBIA 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: January 2020	SESSION: Theory, Calculation
DURATION: 180 Minutes	MARKS: 100

SECOND OPPORTUNITY	
Examiner:	Mr. A Ketjinganda and Ms Z Maritz
Moderator:	Ms. Yolande Andrew

INSTRUCTIONS TO CANDIDATES

1. This paper consists of 7 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:
 - 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	Marks	Time allocated (minutes)
1	15	27
2	17	31
3	40	72
4	28	50
Total	100	180

Question 1**15 Marks**

You are employed at a student clerk at an accounting firm to assist with various accounting and tax matters at JW accounting firm. Following your study on fringe benefits for employees, Jack Wallis would like to know from you on the matters below:

Fifteen statements on the taxation of fringe benefits and tax payable follow:

1. If a fringe benefit is subject to normal tax under paragraph (i) of the definition of 'gross income', it is not subject to normal tax under paragraph (c) of the definition of 'gross income'.
2. For an employee who is away from home on business in South Africa for at least a night, his employer may award him R416 a day 'tax free'.
3. Medical aid contribution paid by the employer on behalf of the employee does not constitute a fringe benefit.
4. A 'long service' award as defined will have a 'nil' taxable value if is a non-cash award and its cost to the employer was more than R5 000.
5. If a motor car bought by the company and utilised by the company itself for more than 12 months, then granted to employee to use, its determined value must be depreciated by 16%.
6. If employer trading stock is provided to an employee, it is a fringe benefit to be included at market value.
7. The factor used in the determination of the taxable benefit for the use of a motor vehicle fringe benefit is reduced to 3.25% a month when the motor vehicle is the subject of a maintenance plan.
8. The value of the taxable benefit for the use of motor vehicle fringe benefit is reduced on assessment when the employee travels in it for business purposes.
9. Annuity receipt is not subject to inclusion in gross income as it is of capital nature.
10. If taxpayer is above 65 years qualifies for primary rebate only of R14 067.

Required:

State whether the above statements are true or false. Provide brief reasons where it is false. (15 Marks)

QUESTION 2

17 MARKS

Alex Nawa is a 2nd year B. Acc student at the Namibia University of Science and Technology (NUST). Alex is currently performing very well in his studies and is amongst the top students in his class. Alex grew up in the small village, Mgwali, in Eastern Cape, South Africa. He goes home to Mgwali every holiday where his community is very proud of what he is achieving at NUST. As he has a keen interest in taxation, he is often asked to assist with tax queries from people in his community.

During the September recess, Alex has received the following queries:

Issue 1:

3 marks

Mama Selma, his next-door neighbor, has recently received an amount of R35 000 as payment for work that her daughter, Ndishi, has done when working as a hostess on the Bluewaves cruise ship. As the cruise ship is at sea a lot, Ndishi has asked for her salary to be paid into her mother's bank account in order to assist with living expenses her family has to cover back in Mgwali while she is at sea.

REQUIRED:

Mama Selma is worried that she will be taxed on the money being paid into her account. Explain to Mama Selma whether the money she has received will be taxable in her own name. Refer to case law in your answer or case principle.

Issue 2:

4 marks

Alex's grandmother, Mama Sophia, owns a flat in Port Elizabeth (PE) where she used to live when she was still employed by the local municipality in PE. Mama Sophia has since retired and has moved back to Bulungula. She now wants to sell her flat in PE but she is worried about the tax implications as she is going to make a substantial profit on the sale as the value of property in the neighborhood has soared since she acquired the property. She has recently been in contact with an ex-colleague of hers who has complained that he has been in a dispute with SARS regarding the disposal of 5 flats he owned. The ex-colleague has a knack for identifying run down flats, fixing them up and then selling them to make a quick profit.

REQUIRED:

Explain to Mama Sophia if the substantial profit she makes will result in SARS including the proceeds of her sale in her gross income. Refer to case law and relevant principles in your explanation.

Issue 3:

4 marks

Alex's cousin, Tangeni, has recently opened up a new spaza shop in Bulungula. The biggest part of his business will be the selling of a variety of cool drinks in 2 litre glass bottles. Tangeni has negotiated with his supplier to return empty glass bottles to them in exchange for a refund of R3,50 as a deposit per bottle. Tangeni will subsequently

offer his customers a refund of R3,50 of the original selling price per bottle of cool drink that they return to his store. Tendani does not keep the R3.50 he receives from his customers upon the initial sale of a cool drink as a deposit in a separate bank account but includes it with the rest of his sales.

REQUIRED:

Assist Alex in compiling a short summary of what the issue is, judgment and subsequent principles established in the Pyott vs CIR court case in order to explain the tax consequences of the receipt of the R3.50 (deposit) per bottle of cool drink by Tangeni.

Issue 4:

3 marks

Alex's uncle, Jossy, owns a workshop where he does motor vehicle repairs as a mechanic. During March, an electrical fault caused the wiring of his entire workshop to collapse. Uncle Jossy was forced to close his workshop for an entire week in order for an electrician to come and rewire the building. Luckily, uncle Jossy has an insurance policy that covers loss of income due to unforeseen events.

REQUIRED:

Uncle Jossy wants to know whether he has to include the money he received from the insurance payout in his gross income. Refer to case law or principle in your answer.

Issue 5:

3 marks

Alex's brother, Dexie, is a successful investment banker in Sandton, Johannesburg. As a student he won Naspers shares worth R60 000 as a prize for the best performing Investment Banking student in his final year. This was more than 10 years ago. The value of the shares has since grown substantially. Dexie has recently left his job as an investment banker to start trading in shares permanently. In his 2018 year of assessment he has made a profit of R400 000 by actively trading in shares. Dexie argues that because he owns his Naspers shares for such a long time, it is proof of his share trading activities being capital in nature.

REQUIRED:

Advise Dexie on whether the profits from his share trading activities are of capital or revenue in nature. Refer to case law or principle in your answer.

Question 3

40 Marks

This question consists of two unrelated parts.

Part A

(15 Marks)

Joe Stein was a lecturer employed by the Wits University, in South Africa. For the past 15 years Wits has had a lecturer exchange program in partnership with the University of Sydney in Australia. This exchange program provides lecturers with the opportunity to spend extended periods of time at the partnering universities. During the periods abroad the monthly salaries of the lecturers partaking in this program is covered by the university they are visiting.

Joe has made use of this opportunity and has spent increasing amounts of time at the University of Sydney over the last couple of years. Since 2019 Joe has relocated his wife and two children to Australia permanently. His children attend an international school in Sydney and his wife volunteers at a shelter for abused animals across the road from their children's school on a permanent weekly basis. In January 2019 Joe was offered a full-time lecturing position at the University of Sydney and has subsequently quit his position at Wits University in order to pursue this full-time position in Sydney. In February 2019 Joe sold their family home in Northcliff and shipped all their furniture to Australia.

Joe deems himself not to be ordinarily resident in South Africa anymore, but he is worried about his tax residency based on the physical presence test.

The amount of time Joe has spent in South Africa over the last couple of years are as follows:

2014 – 235 days
2015 – 220 days
2016 – 185 days
2017 – 153 days
2018 – 122 days
2019 – 92 days

REQUIRED:

- a) Advise Joe on whether he will be taxed in South Africa on his worldwide income for the 2019 year of assessment based on the physical presence test requirements and its application thereof. (10)
- (b) Explain whether Joe will be taxed on any income in South Africa if he is found NOT to be a South African tax resident for his 2019 year of assessment. (1)
- (c) State two law cases and their principles that led to the meaning of 'ordinarily resident'. (4)

Part B

(25 Marks)

Listed below are 10 receipts or accruals that various taxpayers have either received or which have accrued to them in the circumstances indicated:

1. Cash stolen by a pickpocket.
2. From the result of a bet on the outcome of a rugby match.
3. As a restraint of trade payment received by a natural person in respect of employment.
4. As compensation for damages to an office block owned by a property investor.
5. As a loss of profits insurance claim.
6. From the sale of shares held as investment.
7. From the sale of shares held as trading stock.
8. As inheritance from a deceased estate.
9. As lump-sum goodwill amount on the sale of a business.
10. From backing the winner of a major horse race.

REQUIRED:

- a) State whether each receipt or accrual will constitute gross income or not. Give reasons for your answer in each case. (20 Marks)
- b) List 5 (five) components of gross income as set out in Section 1 of the Income Tax Act. (5 Marks)

Question 4

28 MARKS

Susan Rose is 30 years old and has been employed by JT Timbers Ltd ("JT Timbers") since 1 January 2018. She is married and has a son. On 1 October 2018 she gave birth to a baby daughter. She was on maternity leave from 1 October 2018 until 31 January 2019. JT Timbers did not pay her any maternity benefits as it is their policy to only pay maternity benefits to employees who are employed for more than one year.

Susan received the following from JT Timbers:

1. Salary of R40 000 per month (March to Sept 2018 and February 2019)
2. JT Timbers gave Suzie a wooden cot from their inventory when the baby was born. The cost price of the cot is R1 500 (including VAT), and the market value R3 700 (including VAT).
3. To assist with all the extra expenses a baby brings forth, JT Timbers gave Susan a loan of R15 000 on 1 September 2018 at an interest rate of 4% per year. She only paid it back on 1 April 2019. Assume official interest rate is 7.75%.
4. Susan is a member of the JT Timbers Provident fund and contributes 7% of her salary per month to the fund. JT Timbers contributes 10% of her salary per month to the fund. Both Susan and JT Timbers still contributed during the months she was on maternity leave.
5. On 1 October 2018 Susan purchased an annuity of R2000 per month for herself, for which she paid an amount of R216 000. The annuity will be paid for the rest of her life. Her life expectancy as per table assume to be 16.042.
6. The company expect Susan to visit customers on a regular basis and pays her a travel allowance of R9 800 per month. Susan has a VW Jetta that she had purchased on 1 February 2017 for R245 000 (including VAT). She has travelled 28 000 kilometres in total for the 2019 year of assessment, of which 16 000 kilometres was for work purposes (per her logbook).

Other information:

1. She contributed R2 000 per month to the RMB Retirement Annuity Fund.
2. While she was on maternity leave, she received R5 700 per month from the UIF fund.
3. Since March 2017 Susan invests R30 000 on 1 March every year in the Alex Ford Tax free investment. Interest for the 2019 year of assessment amounted to R8 600.

REQUIRED:

- a) Calculate Susan's Income Tax Payable for the 2017 year of assessment. (25 Marks)
- b) State the components of general deduction formula/ (s11(a)). (3 Marks)

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		
	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

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