



PAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY

FACULTY OF MANAGEMENT SCIENCES

DEPARTMENT OF ACCOUNTING, ECONOMICS AND FINANCE

QUALIFICATION: BACHELOR OF ACCOUNTING	
QUALIFICATION CODE: 07BOAC	LEVEL: 6
COURSE CODE: TAX621S	COURSE NAME: TAXATION 202
SESSION: JANUARY 2019	PAPER: THEORY AND CALCULATIONS
DURATION: 3 HOURS	MARKS: 100

SECOND OPPORTUNITY EXAMINATION QUESTION PAPER	
EXAMINER(S)	Mr. G Jansen, Mr E Hamukwaya and Mrs. Z Maritz
MODERATOR:	Mr. A Ketjinganda

<p style="text-align: center;">INSTRUCTIONS</p> <ol style="list-style-type: none">1. Answer ALL the questions.2. Start each question on a new page, number the answers correctly and clearly.3. Write clearly and neatly.4. The names of people and businesses used throughout this examination paper do not reflect the reality and may be purely coincidental.5. Questions relating to this examination may be raised in the initial 30 minutes after the start of the paper. Thereafter, candidates must use their initiative to deal with any perceived error or ambiguities and any assumptions made by the candidate should be clearly stated.

THIS QUESTION PAPER CONSISTS OF 8 PAGES (Including this front page)

QUESTION 1**(30 MARKS)**

Simon (40 years old and unmarried) is an RSA resident. He has a service contract with DesigningWeb and works as an IT specialist. DesigningWeb often sends him to provide training to its South American (Argentina) clients. Simon's receipts and accruals during the 2018 year of assessment were as follows:

	Note	R
Salary	1	255 000
Lump sum from employer	2	40 000
Leasehold improvements	3	?
Once-off amount received	3	?
Rent received	3	110 000
Dividends received	4	35 000
Annuity	5	?
Leave conditions amended	6	?
Gambling	7	100 000
Royalties	8	170 000

Notes

- Simon's salary was divided between the period that he worked in RSA and Argentina (he was, however, at all times an RSA resident)
 - RSA R200 000
 - Argentina R55 000
 - Total R255 000
- In recognition of all his years of faithful service, DesigningWeb voluntarily paid an amount equal to R40 000 to John on 28 February 2018.
- Simon owns a property in the Western Cape, which he leased to the Mahindi couple for the whole year. The lease contract was concluded on 1 August 2016 and specified the following:
 - The Mahindi couple are obligated to pay R10 000 from 1 August 2016. The Mahindis only paid the February 2018 rental on 15 March 2018.
 - Effect improvements to the house to the value of R40 000. Due to cash flow problems they could only complete the improvements during September 2017 at an amount of R39 000
 - The lease contract expired on 31 October 2017, however the Mahindis had a preference right to lease the house again and paid a once off amount of R6000 as a lease premium on 1 November 2017. The monthly rent remained unchanged.

4. Simon owns shares in both RSA and England companies and received the following dividends:
 - RSA R15 000
 - England R20 000
5. Simon purchased an annuity from Sanlam life insurers at R420 000 on 1 December 2017. He received a monthly annuity of R5000 from 1 December 2017.
6. DesigningWeb amended its leave policy to align it with the Labour Act of South Africa and as a result had to pay an amount of R15 000 as a leave pay-out to Simon on 1 March 2018. This amount accrued to Simon in December 2017.
7. During the December holidays Simon and his friends gambled at Grand West Casino for fun and Simon won R100 000 on that evening.
8. Simon wrote a manual on web design that was published during November 2017. The manual is distributed across the world and he received the following gross royalties:
 - RSA R90 000
 - From Overseas R80 000

REQUIRED:

- Calculate Simon's Income for the 2018 year of assessment.
- Indicate for each item whether it complies with the **general definition** of gross income **or a specific inclusion** of the section 1 gross income definition.
- If it is a specific inclusion, provide the paragraph number e.g. par (c). **You do not have to provide a reason for your answer**
- If an item is excluded from gross income, provide a brief reason by identifying the element of gross income that is not met.
- Show all your workings.
- **YOU DO NOT HAVE TO REFER TO CASE LAW.**

Make use of the compulsory format below when presenting your answer

ITEM	AMOUNT (R)	REASON
e.g. Salary	10 000	General definition
e.g. Private work	10 000	paragraph (c)

QUESTION 2

(20 MARKS)

Metro in Bloemfontein made William, aged 45, an employment offer on 15th January 2017. Should he decide to take the offer he will commence duties on 1st March 2017. His remuneration allows him to restructure his remuneration package. William is entitled to a gross annual salary of R280 000 **or** to a remuneration package, which is structured as follows:

- A salary of R14 000 a month.
- Free accommodation in a house consisting of 6 rooms, which is owned by Metro. Electricity, water and furniture will not be supplied. William is at present paying R3 000 per month for the flat in which he lives. His remuneration proxy is R190 000.
- A travelling allowance of R6 000 per month. He will buy a vehicle with a cash value of R123 120 (including VAT of 14%). This vehicle will be acquired on 1st March 2017.

William has confirmed that he will keep records of all his business trips. He estimates the costs to travel 35 000 km will amount to R44 500 (being R38500 for fuel, R5000 maintenance and R1000 licences). These costs excludes the lease payments. He will elect the actual costs basis on calculating the benefit.

William has estimated the following for the 2018 year of assessment:

Business km	24 000
Private km	11 000

REQUIRED:

- **A normal tax calculation based on the two options for the 2018 year of assessment and**
- **An after-tax monthly income based on the two options for the 2018 year of assessment**

You may assume that Metro will deduct PAYE on the full motor vehicle benefit (not reduced to 80%).

QUESTION 3

(35 MARKS)

James Bond, aged 40, is about to sign to revised employment agreement and has approached you to clarify some of the tax aspects of the various options he is considering.

He has been offered a package equivalent to a cost to his employer of R400 000 per annum. The following options are available.

Option A

A cash salary of R400 000 per annum.

Membership to a pension fund. Employer and employee contributes equally, total contribution of R50 000 per annum. His salary will be reduced by the employers' contribution.

Option B

Membership to a non-contributory provident fund. The employer will contribute R40 000 per annum and reduce his salary accordingly.

The use of a company car. The car will have a cost of R160 000. His salary will be reduced by R5 500 per month, being the interest payments carried by the employer and running expenses which is estimated at R1 500 per month.

Option C

Free meals in a staff canteen. His salary will be reduced by R200 per month.

Free accommodation in an unfurnished house owned by the employer. His remuneration proxy is R350 000. His salary will be reduced by R4 000 per month.

Option D

A motor vehicle allowance of R4000 per month, the employer will reduce his salary accordingly. James will buy a vehicle of R150 000 (Vat Included) and expect to travel 35000 km of which 24000 will be for business purposes. His total expenses of which he will keep proof (fuel, maintenance and insurance) are estimated at R4 500 per month.

REQUIRED:

Calculate the after tax earnings for all of the above options. Structure your answer as a normal tax calculation and discuss the tax consequences with each entry. All workings should be part of the calculation. For purposes of your answer, the tax rates of 2018 should be used.

Example:

<i>Annual bonus</i>	<i>300 000</i>	<i>Include as gross income</i>
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QUESTION 4**(15 MARKS)**

An employee who is not yet 65 years of age and who is a resident of the Republic, received the following income for the 2018 year of assessment.

Pensionable Salary R230 000

Overtime R17 000

Bonus R25 000

Interest from South African Banks R24 000

A uniform allowance of R4 000. This uniform can be distinguished from normal clothing.

He was instructed by his employer to take business customers for lunch on a regular basis and was reimbursement after submitting the original receipts pertaining the expenditure. The total amount reimbursed was R15 000 for the year.

Tax deducted or paid during the year of assessment is as follows: PAYE R42 177 and other tax payments of R1 500.

REQUIRED:

Calculate the tax liability for the 2018 year of assessment

(15)

END OF EXAMINATION

RATES OF TAX FOR INDIVIDUALS

2018 tax year (1 March 2017 - 28 February 2018)

Taxable income (R)	Rates of tax (R)
0 – 189 880	18% of taxable income
189 881 – 296 540	34 178 + 26% of taxable income above 189 880
296 541 – 410 460	61 910 + 31% of taxable income above 296 540
410 461 – 555 600	97 225 + 36% of taxable income above 410 460
555 601 – 708 310	149 475 + 39% of taxable income above 555 600
708 311 – 1 500 000	209 032 + 41% of taxable income above 708 310
1 500 001 and above	533 625 + 45% of taxable income above 1 500 000

2017 tax year (1 March 2016 - 28 February 2017)

Taxable income (R)	Rates of tax (R)
0 – 188 000	18% of taxable income
188 001 – 293 600	33 840 + 26% of taxable income above 188 000
293 601 – 406 400	61 296* + 31% of taxable income above 293 600
406 401 – 550 100	96 264 + 36% of taxable income above 406 400
550 101 – 701 300	147 996 + 39% of taxable income above 550 100
701 301 and above	206 964 + 41% of taxable income above 701 300

* Note: Parliament is processing tax legislation that will change the current amount of 61 269 to 61 296 later in 2017.

Tax Rebates

Tax Rebate	Tax Year				
	2018	2017	2016	2015	2014
Primary	R13 635	R13 500	R13 257	R12 726	R12 080
Secondary (65 and older)	R7 479	R7 407	R7 407	R7 110	R6 750
Tertiary (75 and older)	R2 493	R2 466	R2 466	R2 367	R2 250

Tax Thresholds

Person	Tax Year				
	2018	2017	2016	2015	2014
Under 65	R75 750	R75 000	R73 650	R70 700	R67 111
65 an older	R117 300	R116 150	R114 800	R110 200	R104 611
75 and older	R131 150	R129 850	R128 500	R123 350	R117 111

Table for Calculation of Rate per km/Travel Allowance

Value of the vehicle (including VAT) R	Fixed Cost (Rp.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