



University of Fort Hare
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NKUHLU DEPARTMENT OF ACCOUNTING
TAXATION 3
ATA300E

FINAL ASSESSMENT OPPORTUNITY
NOVEMBER 2019

ASSESSORS: Ms Asanda Ngcofe
Mrs Gail Young

MODERATORS : Mr Daylan Staude (Internal)
Mr Brendon Smith (External)

TIME: 3 hours (plus 30 minutes reading time)

MARKS: 120

PAGES: 13 pages (including front page)

INSTRUCTIONS:

1. Answer **all** the questions.
2. Start each question on a new page.
3. Show all workings clearly – marks are allocated to workings.
4. Only answers in ink will be marked (including workings). Pages where pencil or tippex were used will not qualify for remarking.
5. Only silent, non-programmable calculators are allowed.
6. Students that contravene the rules in the General Prospectus of the University of Fort Hare will be disciplined in accordance with said rules.
7. The following texts are allowed for use during the examination (provided they contain **NO** annotations other than underlining, side-lining and/or highlighting):
 - SAICA Handbook

QUESTION	MARKS	MINUTES
1	50	75
2	40	60
3	30	45

QUESTION 1**50 MARKS (75 MINUTES)****PART A****30 MARKS (45 MINUTES)**

Typing.com (Pty) Ltd (Typing.com), is a local East London business that is currently considering expanding their operations. Typing.com manufactures office supplies. The directors of the company are considering whether to purchase their own manufacturing building or to rent premises in a local warehouse. Typing.com is currently not registered as a VAT vendor as their taxable supplies do not exceed R1 000 000 and majority of their purchases are from non-vendors. The company has a 31 December year-end. The details of the properties are listed below:

Rental option

Typing.com approached a rental agent (Rental EL CC) who identified a property suitable to their needs in in Vincent, East London. The property is owned by Mega Properties (Pty) Ltd. The details of the lease agreement are:

1. The owners will charge R9 870 (excl VAT) per month as rental. The owners of the property are VAT vendors. The lease will commence on 1 February 2019.
2. Typing.com would have to pay a rental deposit of one month's rental. The deposit will be refunded at the end of the lease provided the building is in a good condition.
3. To secure the lease, a lease premium will have to be paid of R25 000 (incl VAT) up front.
4. The premises would have to be modified to suit their manufacturing needs and Typing.com would have to modify to the premises at a cost of R90 000 (incl VAT). The modifications relate to fixtures and fittings in the building. The lease agreement states that the property has to be returned in the condition which it was found. Typing.com has entered into an agreement with the company installing the fixtures that they would unassemble the fittings when the lease ends, at no additional charge. According to the Interpretation note 47 the modification has a write off of 15 years.

5. The lessor requires that Typing.com signs a 7 year lease with an option to renew for another 5 years.

The monthly rental will be collected on behalf Mega Properties (Pty) Ltd by Rental EL CC. Mega Properties (Pty) Ltd asked Rental EL CC to source a new tenant for their property and agreed to pay them a monthly commission of 5% of the rental payment received. The directors of Mega Properties (Pty) Ltd approached Typing.com to bypass the agent and rather rent directly from them (i.e. the owner will collect the rental directly) This would mean that the owner would not have to pay the commission to the agent.

Purchase option

Typing.com has identified a property in Cambridge, East London to purchase:

1. The property has a purchase price of R2 450 000. The current owner, Mr Ndlovu the seller, utilises the property as his primary residence. The date of sale will be 1 January 2019.

2. The property would have to undergo extensive renovations to the structure to make it suitable for their manufacturing operations. These renovations have an estimated cost of R345 000 (incl VAT).

QUESTION 1 PART A REQUIRED:		MARKS
(a)	Calculate the tax effects of the above two options available to Typing.com.	19
(b)	Discuss if the owner's conduct by approaching Typing.com to suggest bypassing the agent.	4
(c)	Discuss whether Typing.com could register as a VAT vendor and whether you would advise them to register	7

PART B**20 MARKS (30 MINUTES)**

Camila Parker was employed by Typing.com (Pty) Ltd as the company's financial manager. Camilla passed away on 23 July 2018. She was 53 years old when she passed away. She had worked for Typing.com for 28 years. The following information relates to Camila's 2019 year of assessment:

1. She received office supplies to the value of R4 500. She gave the office supplies to her daughter to use for her schooling needs. Typing.com has a mark-up of 25% on cost of all goods.
2. Camila needed part of her pension fund to support her family. This was the first time she withdrew any funds from her pension fund. She withdrew R349 000 from her retirement fund on 1 April 2018. On her death, R5 900 000, which was the remaining balance of her pension fund was paid out to her estate. She made no contributions to her pension fund in the 2019 year of assessment and previous contributions were all allowed as a deduction.
3. Camilla received a salary of R34 500 per month from Typing.com. She was paid until the end of July.
4. Camilla donated her ski boat to the ski boat club in June 2018. She had used the boat to go fishing with her husband prior to the divorce and as it had too many memories, she decided to donate it. The boat was 3 metres in length. The boat had cost R89 760 when she purchased it on 1 January 2009. The market value of the boat at the date of donation was R95 490. The ski boat club paid the donations tax due.
5. Camilla's sold her car to her cousin 1 July 2018 for R49 098. The market value at the time of the sale was R129 000. She had purchased the car in 2007 for R167 500. Camilla had planned to purchase a new car, but had not managed to do so before she passed away.

6. She paid her insurance on the vehicle which was sold, at R2 390 per month while she was alive.
7. She had paid employees tax of R25 789 for the year of assessment.

QUESTION 1 PART B REQUIRED:	MARKS
Calculate, with reasons, Camilla's Parkers final normal tax liability for 2019 year of assessment. Include in the calculations any NIL items	20

QUESTION 2

40 MARKS (60 MINUTES)

You are a tax expert specializing in consulting with various clients on tax related matters. During the 2019 year of assessment you received the following tax queries:

Client 1: Mrs Norma Helele

Norma, a South African resident, is a 63 year old and a retired doctor. Her taxable income consists of a pension and returns from various investments (dividends and interest from investments). According to her calculations, her total taxable income for the 2019 year of assessment was R780 000.

Norma did not enjoy driving and she therefore employed Ethan Walton, 31 years old, on a full-time basis as her chauffeur (a person employed to drive a car). Ethan was employed from the beginning of March 2018. Ethan is required to be on call 6 hours per day and works from Monday to Saturday.

In terms of his employment contract, Ethan is entitled to the following:

1. A cash salary of R9 000 per month.
2. Accommodation in a furnished granny flat situated on the property that Norma owns. Before Ethan moved into the property, it was rented out at a monthly rental of R2 500. The granny flat is small but has a kitchen, lounge, bedroom and bathroom. The flat also has a small braai area. Norma does not charge Ethan for water or electricity as she expects it will only cost her an extra R600 per month.

Ethan's 'remuneration proxy' (as defined in paragraph 9(1) of the Seventh Schedule) is R85 150. His earnings and benefits from Norma are his sole receipts and accruals and he is not entitled to any tax deductions or allowances.

3. Meals are prepared by Norma's housekeeper and are served to Ethan in the granny flat. The meals that are provided to him cost R600 per month.

4. Ethan's washing and ironing of his casual clothes that he wears on duty and at home is done by Norma's housekeeper. If Ethan had to take his laundry to a laundromat, it would cost him R200 per month
5. Ethan receives a cellular telephone in order for Norma to phone him on when she needs to be dropped or collected. Ethan occasionally uses the phone to phone his mother. The telephone costs Norma R850 per month.
6. Norma purchased a VW Polo at a cost of R343 850 (R299 000 plus VAT of R44 850 at 15%) on 30 April 2018. The motor car is used by Ethan to drive Norma around in, however, Ethan also has use of the motor car in the evenings and on the days he is off. According to the log book that he kept, he travelled a total of 38 789 km for the year of which 32 971 km were for driving Norma around.

7. Additional information related to Mrs Norma Helele:

- Norma paid her first provisional tax payment for the 2019 year of assessment timeously (before 31 August 2018) and estimated her taxable income at an amount equal to her basic amount of R625 000.
- She paid her second provisional tax payments for the 2019 year of assessment on 28 February 2019. She estimated her taxable income at an amount equal to R600 000.
- Her taxes, as defined in section 89quat (1) are made up as following:

	R
Employees tax (deducted from her monthly pension)	110 400
First provisional tax payment	16 650
Second provisional tax payment (determined on the estimated taxable income R600 000)	24 090

Client 2: Miss Mia Smith

Mia Smith is a resident in the United State of America. She has never been a resident of South Africa, but she does travel to South Africa occasionally for business purposes. Mia is 33 years old and an actress (entertainer as defined in the South African Income Tax Act). Her accountant has made the following summary of the transactions that relate to her 2019 year of assessment:

1. Dividends received

Dividends from a South African company amounting to R12 300.

2. Annuity

Mia received a monthly annuity of R3 200. The annuity has been inherited from her father, who had purchased it from a South African insurance company. He purchased the annuity in 2015 for R100 000 and Mia will receive the monthly annuity for another 7 years. Her father died on 23 June 2017, he was not a South African resident.

3. House in Port Alfred

Mia owns a house in Port Alfred in the Eastern Cape. She inherited the house from her father when he passed away. The market value was R675 000 on the date of her father's death. She rented out the house (fully furnished) to a tenant from 1 March 2017 at a monthly rental of R8 100 on a 1 year lease that is renewable annually. As part of the lease agreement they agreed that rent will increase by 10% per annum (effective from 1 March every year).

After staying at the house for 10 months the tenant wanted to buy new furniture and asked Mia to sell the furniture in the lounge to free some space. The furniture was sold for R72 560 to different buyers at an auction on 10 January 2019. The auctioneer charged her an administration fee of R9 450. Mia had initially purchased the furniture for a total of R61 430.

Mia decided to sell the house and offered the tenant the option to purchase the house for R1 750 000. The house was transferred to the new owner's name on 28 February 2019. Mia has not sold any fixed property before.

4. Employment income

- Mia receives a monthly salary, with a rand equivalent of R23 450, from an employer situated in USA for services rendered as the presenter of America Has Got Talent.

- While visiting her cousin, Mia auditioned for a guest presenter role in SA Idols. The role of a guest presenter is a specified activity as defined in section 47A(b) of the Income Tax Act. Mia will guest judge the Mthatha auditions. She will receive remuneration of R300 000 for her services rendered. She arrived in South African on the 15 June 2018 and returned to America after the auditions on the 13 October 2018.

5. Expenses incurred

Due to the late hours she was required to work at the SA Idols auditions, she was forced to find accommodation closer to the studio where the auditions were performed and paid a total of R18 000 for the 3 months she spent in Mthatha. She wanted to look professional for the auditions and decided to purchase new clothing and spent R12 723 on new clothing and shoes.

QUESTION 2 REQUIRED:		MARKS
a	Calculate, with reasons, the employees' tax that Mrs Helele should deduct from the remuneration of Ethan Walton each month.	12
b	Mrs Helele's correctly calculated taxable income as R780 000, calculate any penalties that she may be liable for in respect of her provisional tax payments.	7

c	Calculate and discuss Mia Smith's South African tax liability (if any) for the 2019 year of assessment. Include reasons for NIL items. Ignore Double Tax Agreement between South African and the USA.	21
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QUESTION 3**30 MARKS (45 MINUTES)**

Mr Betchu is employed by WcP Auditors. His taxable income has always been in excess of R1 500 000.

1. Mr Betchu was at a shopping centre where he was caught in the middle of an armed robbery. During the robbery, a small child was taken by the robbers. Without thinking, Mr Betchu grabbed the child and ran to safety. When he had found safety he realised that the child was his employer's, Mr Wild's managing director, son. Mr Wild, a director at WcP Auditors, was so grateful that Mr Betchu saved his son, he instructed WcP to gift Mr Betchu a car valued at R340 000.
2. He owns a large portfolio of listed shares. Some of the shares are held as investments and some are held for speculative purposes. He started his portfolio two years ago. In addition to the shares he holds, he also holds Bitcoin (cryptocurrency) for speculative purposes.

The price of Bitcoin has started declining sharply and Mr Betchu deduced to sell the bitcoin he owned. He purchased his Bitcoin on 1 November 2018 for R63 000 and sold them for R25 000 on 31 January 2019. In addition to the sale of his Bitcoin, he also sold his shares in Steinroff. He held the Steinroff shares for speculative purposes and had purchased the shares on 1 December 2017 for R230 000. As the company was being investigated for fraud, the shares had declined in value and he sold them for their market value of R2 300.

	QUESTION 3 REQUIRED:	MARKS
a	Discuss whether the car received by Mr Betchu should be included in his "gross income" in terms of par (i) of the definition of "gross income".	10
b	Discuss whether the firm can claim the cost of the car as a deduction for tax purposes under section 11(a).	5
c	Discuss if there would be any donations tax on this transaction. Include any necessary calculations	5

d	Discuss the income tax implications if he sold his speculative shares and Bitcoins at a loss to an unrelated third party, include in your discussion if the loss could be set off against his other taxable income.	10
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ADDENDUM

Tax Tables: 2019 year of assessment

Taxable income (R)	Rates of tax (R)
0 – 195 850	18% of taxable income
195 851 – 305 850	35 253 + 26% of taxable income above 195 850
296 541 – 423 300	63 853 + 31% of taxable income above 305 850
423 301 – 555 600	100 263 + 36% of taxable income above 423 300
555 601 – 708 310	147 891 + 39% of taxable income above 555 600
708 311 – 1 500 000	207 448 + 41% of taxable income above 708 310
1 500 001 and above	532 041 + 45% of taxable income above 1 500 000

Tax Rebates: 2019 year of assessment

Primary	R14 067
Secondary (65 or older)	R7 713
Tertiary (75 or older)	R2 574

Medical Tax Credits: 2019 year of assessment

R303 per month for the taxpayer who paid the medical scheme contributions
R303 per month for the first dependant
R204 per month for each additional dependant(s)

Interest Exemption: 2019 year of assessment

Person younger than 65	R23 800
Person 65 and older	R34 500

Fringe Benefit: Accommodation: 2019 year of assessment

Formula = $(A - B) \times C/100 \times D/12$

“B” in the formula is R78 150.