

**Tax Professional**

**Final Integrated Summative Assessment**

**2014 Sample Paper**

**Paper 1: Question**

## Instructions to Candidates

1. This final integrated summative assessment paper consists of one question.  
Time: 4½ hours plus ½ hour reading time
2. Enter your examination number on the cover of each answer book as well as on all answer sheets.
3. Your name must not appear anywhere in the answer books.
4. Answers may not be written in pencil and correction pens (tipex) may not be used.
5. Answer the questions using effective presentation and pay particular attention to the use of concise language, clarity of explanation and logical argument. Marks will be awarded for these aspects of your response.
6. It is your responsibility to ensure that all answer books are handed in to the invigilator before leaving the examination room, as answer books handed in thereafter will not be marked.

Mr. Puma is a 42 year-old South African citizen and resident for income tax purposes. He holds a degree in Engineering and has gained a good reputation working as a mining engineer over the past few years. During 1994 he started the mining engineering company, Puma Engineering (Pty) Ltd (Puma Engineering), together with his university friend, Mr. Ching. Messrs. Puma and Ching each hold 50% of the shares of the company.

Mr. Puma has accumulated significant wealth over the past 20 years without paying much attention to the tax implications or transfer of his estate if he were to pass away. He now requires guidance in structuring his estate and income-streams of his family in the most tax efficient manner. Mr. Puma is married out of community of property to XX aged XX and has 3 children aged 3, 6 and 8.

### Mr. Puma current wealth structure

Mr. Puma’s accountant prepared the following summary of his estate:

Description	Cost	Estimated market value and income stream from the asset
House – Lynnwood, Pretoria (current residence)	R600 000 (1995)	R2 000 000
Investment property in Wonderboom, Pretoria	R700 000 (2008)	R1 500 000 (rental: R8 000 per month)
Mpumalanga Farm (note 1)	R4 million (2009)	R4 500 000 – R500 000 for land, R4 million for forest (profit-sharing arrangement)
100% of shares in Puma Property (Pty) Ltd (note 2)	R100 (year?)	R1 800 000 (rental income of R15 000 per month paid into Mr. Puma’s bank account)
50% of shares in Puma Engineering (Pty) Ltd (note 3)	R100 (year?)	No assets in this company (cash flow from salary income)

Limpopo Game Farm	Unknown to me (note 4)	R18 000 000 (no income stream)
Cash in short-term investment	R80 000	R80 000

**Note 1:** The farm in Mpumalanga has a dense forest on it. Mr. Puma has entered into an agreement with a local person to manage and maintain the condition of the forest. The person is allowed to chop down the trees and process the logs using his own equipment for purposes of selling it, on condition that Mr. Puma gets 20% of the proceeds from the sale. This arrangement has been in place since 2009 and Mr. Puma has received amounts between R500 000 and R800 000 annually from this arrangement, depending on the level of activity of the local person. The farm was purchased for R4 million and is estimated to have a market value of R4,5 million.

**Note 2:** Extract from Balance Sheet of Puma Property (Pty) Ltd:

**Assets**

Rental property 1 (residential)	R1 100 000
Rental property 2 (residential)	R 900 000
Boat (docked in Cape Town and used by Mr. Puma and family when on holiday)	R1 000 000

**Liabilities**

Loan from Mr. Puma	R1 300 000
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**Note 3:** Mr. Puma is one of the two directors of Puma Engineering. He has earned the following salary income from Puma Engineering for the past 3 years of assessment:

	2012	2013	2014
Monthly salary (aggregate for the year)	R1 500 000	R1 600 000	R1 700 000
Bonus in December (based on profits available)	R3 000 000	R2 000 000	R1 800 000

**Note 4:** The game farm that has been in the family since 1880. The farm is held in the Lion Family Trust, which was established by his great-grandfather. It is not known what the value of the farm was when it was transferred to the trust, but it is currently estimated to be worth approximately R18 million. All distributions of income and capital are at the discretion of the trustees. At present, Mr. Puma is the only trustee of the trust as a result of his brother’s sudden passing away in 2013.

### Opportunity for work in Mongolia

Due to Mr. Puma’s good reputation in the mining sector in South Africa, he has had to opportunity to speak at various international conferences on the latest developments in the field of mine designing. Mongolia, a country in central Asia, has been a democratic republic since 1991 and has recently seen an inflow of investors into the mining sector due to the discovery of significant gold and copper reserves. The government of Mongolia has approached Mr. Puma with the request to assist the Ministry of Mines of that country in understanding feasibility studies submitted by mines, in particular the reasonability of costing estimates.

Mr. Puma has indicated his willingness to assist the government of Mongolia. Negotiations have reached an advanced point. The parties have agreed to remuneration of 180 million tugrugs (Mongolian currency). Mr. Puma will spend the period from 1 October 2014 to 30 April 2015 in Mongolia. Given the cost of flights to Mongolia, he will only return to his family in South Africa for a week over Christmas

time in December. Given Mr. Puma's experience and reputation in the industry, he will be able to determine how, when and where he performs his duties while in Mongolia. His presence in Mongolia is merely a measure to ensure that the project is not delayed to a lack of access to information. As a result Mr. Puma would be able to still serve his part of Puma Engineering's client base in South Africa while he resides in Mongolia. The government of Mongolia will ultimately make payment when the final output delivered to them is of an acceptable standard.

The last aspect of the work to be finalized is the engagement contract. The government of Mongolia has indicated to Mr. Puma that it would agree to any of the following two options:

1. The government of Mongolia concludes the contracting agreement directly with Mr. Puma. The following terms to the agreement are proposed:

<p style="text-align: center;">Project agreement between</p> <p style="text-align: center;"><b>The Government of Mongolia</b></p> <p style="text-align: center;">(the State)</p> <p style="text-align: center;">and</p> <p style="text-align: center;"><b>Mr. Plum</b></p> <p style="text-align: center;">(Contractor)</p> <p>...</p> <p><b>2. Duration of the project</b></p> <p>2.1. The project will commence on 1 October 2014 and must be concluded by the latest 30 April 2015.</p> <p><b>3. Fees</b></p> <p>3.1. The State will pay the Contractor a fee of 180 million tugrugs (Total Fee) for completion of the project and submission of the Deliverable that is of an acceptable standard to the State. The Contractor is entitled to a payment equal to 20% of the Total Fee upon submission of a work plan and a further 20% upon submission of a first draft of the Deliverable.</p>
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2. The government of Mongolia concludes the contracting agreement with Puma Engineering (Pty) Ltd. The following terms to the agreement are proposed:

<p style="text-align: center;">Project agreement between</p> <p style="text-align: center;"><b>The Government of Mongolia</b></p> <p style="text-align: center;">(the State)</p> <p style="text-align: center;">And</p> <p style="text-align: center;"><b>Plum Engineering (Pty) Ltd</b></p> <p style="text-align: center;">(Contractor)</p> <p><b>2. Duration of the project</b></p> <p>2.1. The project will commence on 1 October 2014 and must be concluded by the latest 30 April 2015.</p> <p><b>3. Fees</b></p> <p>3.1. The State will pay the Contractor a fee of 180 million tugrugs (Total Fee) on completion of the project and submission of the Deliverable that is of an acceptable standard to the State. The Contractor is entitled to a payment equal to 20% of the Total Fee upon submission of a work plan and a further 20% upon submission of a first draft of the Deliverable.</p> <p><b>4. Special terms of the project</b></p> <p>4.1. The Contractor confirms that Mr. Plum is currently an employee of the Contractor. The parties agree that the Contractor will use Mr. Plum to perform the services in terms of the agreement without any exception.</p>
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Mr. Puma and Mr. Ching have agreed that any fees earned by Puma Engineering from this agreement will be paid to Mr. Puma as a bonus over and above his normal remuneration.

The government of South African has not yet concluded a double tax agreement with the government of Mongolia. Mongolia withholds a final tax of 20% of any payment made to a foreign person (individual or entity) for services rendered in the territory of Mongolia. This withholding tax will apply in both instances listed above.

Required	Suggested time (270 minutes)
<p>a Mr. Puma has requested that you provide him with an indication of the potential tax risks and costs, tax inefficiencies as well as any favourable tax aspects of the current structure of his estate as described in the accountant's summary.</p>	85
<p>b Mr. Puma has indicated that he would prefer if most or all of his assets were held by the Lion Family Trust, rather than in his own name. He has requested that you prepare a tax opinion to advise him on which assets should be transferred, the tax implications of this transfer as well as with any other recommendations you may have for him to consider.</p> <p>His main condition with this transaction is that the Lion Trust does not have cash reserves and would therefore not have to be required or be able to make a cash payment to him for the assets. The transaction should be a once-off event where after he need not worry about the recurring implications again.</p>	93

c	<p>Mr. Puma needs to understand the implications of the two alternatives offered to him by the government of Mongolia. As the arrangement may also affect Puma Engineering, the implications that any of the alternatives may hold for it are also relevant. Mr. Puma has requested that you prepare a short presentation to be made to himself and the board of directors of Puma Engineering. You are also required to present any detailed workings and considerations to them to work through in their own time after the presentation should they have any concerns.</p> <p>For purposes of the presentation, you are only required to draft the content of the slides that you will prepare. You are <u>not</u> required to prepare the presentation in PowerPoint.</p>	92
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