

Occupational Certificate Tax Professional

External Integrated Summative Assessment (EISA)

SAQA ID: 93624

July 2017 SUPPLEMENTARY
Paper 1: Individual Taxation Question

CASE STUDY AND REQUIRED

CANDIDATE NUMBER									
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Instructions to Candidates

1. This external integrated summative supplementary assessment paper consists of a Part A, Part B and Part C.

Time: 8 hours

2. Enter your examination number on each document and save all documents with your examination number.
3. Your name must not appear anywhere in the answer books or saved documents.
4. Answer the questions using effective presentation skills 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.
5. It is your responsibility to ensure that all assessment stationary is handed in to the invigilator before leaving the examination room and saved documents are forwarded as per assessment requirements.
6. Total marks for Paper 1: 100
7. Pass mark: 50 % pass is required per paper and competence achieved on all exit level outcomes per paper.

CASE STUDY

Background

You are employed at IRL Incorporated (“IRL”), a medium sized audit and accounting firm. You were contacted by a new client, Mrs. Elena Scott during March 2017.

Mrs. Scott (aged 40 years) is a conveyance attorney and trades as a sole proprietor called Scott Attorneys.

The independent contractor that previously provided Mrs. Scott with accounting and taxation services, became very ill and notified Mrs. Scott in the beginning of the year that she will be ending her engagement with Scott Attorneys during February 2017, after she has finalised the January 2017 accounting work for Scott Attorneys.

Mrs. Scott indicated to you that “numbers are not her strong point” and that her knowledge of taxation is very limited. IRL accepted the engagement and issued an engagement letter to assist Mrs. Scott and Scott Attorneys with the following services:

- Monthly accounting as from 1 February 2017;
- Preparation and submission of outstanding provisional tax returns and income tax returns;
- Ad-hoc tax advisory services.

During your meeting with Mrs. Scott on 13 March 2017, you obtained the following information:

- Mrs. Scott, trading as Scott Attorneys, is not registered for Value-Added Tax (VAT) although the previous accountant did mention to Mrs. Scott that she might have to register soon. You indicated that you will review the latest financial information of Scott Attorneys and will inform Mrs. Scott of the VAT registration requirements and the information that will be required to register Scott Attorneys for VAT, if required. You indicated that IRL does not act as a representative VAT vendor for their clients;
- Mrs. Scott provided you with the draft Statement of Comprehensive Income for the period 1 March 2016 to 31 January 2017 for Scott Attorneys – *refer to the Excel Attachment in Part B*. Mrs. Scott provided a few notes on the statement to explain the expenses;
- Mrs. Scott is registered for provisional tax. Mrs. Scott’s previous accountant assisted her with the completion and submission of her income tax – and provisional tax returns. Mrs. Scott’s first provisional tax return for the 2017 year of assessment was

submitted but not the second provisional tax return. Mrs. Scott paid R65 000 in respect of the first provisional tax estimate for the 2017 year of assessment;

- Mrs. Scott indicated that she will pay any outstanding provisional tax on 31 March 2017;
- You establish that Mrs. Scott's 2016 income tax return was submitted and assessed on 18 January 2017 and reflected a taxable income of R450 000;
- As per the bank statement of Scott Attorneys for February 2017, the following fees were transferred from the Trust Account:
 - Transfer Fees of R 59 000
 - Correspondence Fees of R16 000
 - Disbursement Income – Deeds Office Fees of R15 000
 - Disbursement Income: Other of R10 000
- As per the bank statement of Scott Attorneys for February 2017, the following payments were made:
 - Correspondence Fees Paid of R7 500
 - Disbursement Expenses – Deeds Office Fees of R20 000 in relation to January 2017 registrations
 - Disbursement: Levy & Rates Clearance Figures Fees of R5 000
 - Disbursement: Deeds Office Search Fees of R4 500
- As per the bank statement of Scott Attorneys for March 2017, Deeds Office Fees of R15 000 were paid in relation to February 2017 registrations;
- In addition to the income from Scott Attorneys for the 2017 year of assessment, Mrs. Scott also earned lecturing fees from the Attorney Training Institute (“ATI”) for classes that she presented twice a week. Mrs Scott earned R40 000 per month for 12 months for lecturing during the 2017 year of assessment. ATI withheld PAYE at a rate of 25% and indicated that they will provide Mrs. Scott with an IRP5 tax certificate by the end of June 2017;
- Mrs. Scott generally earns about R1 500 of interest on her personal bank accounts per year of assessment;
- Mrs. Scott contributed monthly an amount of R6 671 to Recovery Medical Aid for the 2017 year of assessment. She has two dependants;
- Mrs. Scott contributed monthly an amount of R5 000 to the Professional Retirement Annuity Fund for the 2017 year of assessment;

- When questioning Mrs. Scott whether she earned any other income during the 2017 year of assessment, she indicated that she received a donation from her father of R50 000;
- Mrs. Scott has one, qualified legal administrator, Tersia van Dyk (28 years), that assists her with submission of documents to the Registrar of Deeds and general administration duties. Tersia started working at Scott Attorneys on 1 April 2016 on a full-time basis;
- Tersia earns a monthly salary of R18 650. In December 2016, Mrs. Scott paid Tersia a bonus of R18 650;
- Mrs. Scott provided you with an excel spreadsheet which she used to keep track of amounts paid to Tersia and to SARS;
- Mrs. Scott and the previous accountant decided to simplify the monthly PAYE calculation and therefore deducted PAYE at a straight rate of 25% per month from Tersia's salary;
- Mrs. Scott prepared a draft IRP5 tax certificate for Tersia based on a template that she obtained from a friend. She requested that you review the IRP5 tax certificate before she issues it to Tersia. She needs you to assist her with the correct IRP5 codes to use;
- Tersia is paid R150 per month from petty cash to cover the business calls that she might incur on her personal cell phone. Tersia does not provide Mrs. Scott with any proof of actual business calls;
- In January 2016, Mrs. Scott purchased a new Toyota Yaris for R170 000 (VAT inclusive). The Yaris was purchased with a 3-year maintenance plan. The fuel cost are born by Scott Attorneys. Mrs. Scott bought the Yaris as a lot of traveling needs to be done to deliver and collect documents from the Johannesburg and Pretoria deeds offices. As from April 2016, Mrs. Scott allowed Tersia to use the vehicle as Tersia does most of the traveling to the deeds office and at least Mrs. Scott has the comfort knowing that the vehicle is parked in a secure garage at Tersia's house after hours and during weekends. Tersia keeps a logbook for the Yaris: the total kilometres travelled from 1 April 2016 to 28 February 2017 totalled 33 000km of which 29 000km was recorded as business travel;
- Mrs. Scott's email address is: elena@scottattorneys.co.za;
- Mrs. Scott's ID number is: 761222 0001 084.

In concluding your meeting with Mrs. Scott, you confirmed that you will assist with the following:

1. You will analyse the financial information provided for Scott Attorneys and you will advise Mrs. Scott on the VAT registration requirements and the effect of VAT registration. You will let Mrs Scott know what information is needed to register a business for VAT;
2. You will assist with the second provisional tax calculation and the completion of the IRP6 form;
3. You will review the payroll information and you will perform a reasonability test of the PAYE that have been withheld for Tersia van Dyk. You will review and complete the IRP5 tax certificate. You will also inform Mrs. Scott of any payroll issues or opportunities that you have identified following your review.

REQUIRED

QUESTION:	Marks
<p>Part A</p> <ol style="list-style-type: none"> 1. Draft an e-mail to Mrs. Scott advising her on the VAT registration requirements and the effect of VAT registration. <i>Please use the e-mail template provided in the excel file.</i> 2. Complete the attachment to the e-mail to be sent to Mrs. Scott that sets out a checklist of information that is require for the VAT registration. <i>Please use the VAT checklist template provided in the excel file.</i> <p>Communication skills – presentation and layout</p>	<p>12</p> <p>6</p> <p>2</p>
<p>Part B</p> <ol style="list-style-type: none"> 1. Prepare the second provisional tax calculation (including penalties and interest) for Mrs. Scott in respect of the 2017 tax year. <i>Please use the Statement of Comprehensive Income worksheet provided to calculate the estimated taxable business income and then the Provisional Tax worksheet to calculate Mrs. Scott’s second provisional tax payable, including penalties and interest.</i> 2. Complete Mrs. Scott’s 201702 IRP6 return on the template provided. <p>Communication skills – presentation and layout</p>	<p>28</p> <p>5</p> <p>2</p>
<p>Part C</p> <ol style="list-style-type: none"> 1. Perform a review of the payroll schedule, IRP5 tax certificate and additional information provided. Based on your review perform a reasonability test of the PAYE withheld. <i>Please use the PAYE template provided in the excel file.</i> 2. Update the Tax Certificate Information section of the IRP5 tax certificate template that has been highlighted in yellow. 	<p>15</p> <p>10</p>

