

OCCUPATIONAL CERTIFICATE: TAX PROFESSIONAL

SAQA ID: 93624

Initial Test of Competency

RPL Assessment

July 2017

Paper 1: Questions 1 and 2

QUESTIONS

CANDIDATE NUMBER									
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Instructions to Candidates

1. This competency assessment consists out of 2 papers.
2. This paper comprises questions 1 and 2.
3. Answer each question in a separate answer book.

Paper 1: Question	Topic	Marks	Answer Book
1	General awareness	30	Green
2	Individuals (Personal tax)	30	White

Total marks: 60 Marks

Time: 3 ½ hours writing time

The marks specified are an indication of the expected length and detail of your response.

4. Enter your examination number on the cover of each answer book as well as on all answer sheets.
5. Your name must not appear anywhere in the answer books.
6. Answers may not be written in pencil and correction pens (Tipp-ex) may not be used.
7. 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.
8. 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.
9. **Please take note of the additional instructions for Question 1:** Multiple Choice Question that count 30 marks (25 Questions)
10. Please take note of the **tax rates and tables provided** in Annexure A to this paper (see page 18).

QUESTION 1: GENERAL AWARENESS [PART A TO PART C]

MULTIPLE CHOICE & TRUE FALSE

30 Marks

Each **question** in the first paper is a **multiple-choice question** with four answer **choices**. Read each **question** and answer **choice** carefully and choose the ONE best answer. Please use the Multiple Choice Answer Grid that was included and mark one box only for each question. Only use a pencil and make a (X) over the correct choice.

Assume that all taxpayers mentioned in the multiple choice questions below are all residents of the Republic of South Africa.

PART A - INDIVIDUALS / PAYROLL TAXES

1. In order for an individual taxpayer (except those earning mainly commission income) to claim section 11(a) business expenditure outside the requirements of section 23(m) of the Income Tax Act No. 58 of 1962, which one of the following statements are correct?

A	The taxpayer must earn income solely from a salary.
B	The taxpayer must earn income from local interest.
C	The taxpayer must earn income as a sole proprietor.
D	Individual taxpayers are always subject to section 23(m).

[1]

2. Under which one of the following conditions are employers allowed to apply 20% of the value of the travel allowance when calculating the Pay-As-You-Earn (PAYE) of the taxpayer?

A	The employer must set a formal travel allowance policy in which reasonable portion of personal use can be justified.
B	The employer must be satisfied that the employee uses the car for business use with personal use being less than 20% of the time.
C	The employer must be satisfied that the employee makes use of the car for personal use more than 20% of the time.
D	The employer must be satisfied that the employee maintains a valid logbook.

[1]

3. Lebo decides to transfer 50% ownership of the family home (primary residence) to her spouse (as defined in section 1 of the Income Tax Act), Thukili. The cost of the house was R2 000 000 on 1 July 2013, and the total market value of the property was R3 200 000 at transfer date.

Which one of the following statements most accurately reflects the capital gains tax (CGT) position for the year of assessment ended 28 February 2017?

A	The CGT inclusion in taxable income will be 40% of R1 200 000.
B	The taxable capital gain will be R600 000.
C	The taxable capital gain will be R240 000.
D	The CGT inclusion in taxable income will be Rnil.

[1]

4. Liza is an employee. She is personally making the following employment contributions for her retirement:
- R10 000 to a Retirement Annuity Fund;
 - R15 000 to a Provident Fund of her employer; and
 - R12 000 to a Tax Free Savings Account.

Liza earns R120 000 (remuneration) for the year of assessment ending 28 February 2017. How much can Liza claim as a deduction for retirement fund contributions in the 2017 tax return?

A	R10 000
B	R18 000
C	R25 000
D	R33 000

[1]

5. Martin, 67 years of age, receives a medical tax certificate that shows the number of dependents having changed from 2 dependants during the months of March 2016 to June 2016, to 4 dependants during the months of July 2016 to February 2017. His total contribution to the medical scheme in respect of himself and all dependants amounts to R25 000 for the 2017 year of assessment which he paid himself.

How much will Martin's total Medical Tax Credit be for the 2017 year of assessment?

A	R2 634
B	R3 508
C	R9 936
D	R10 536

[1]

6. Will owns a 2-bedroom flat in Parktown, Johannesburg, which he leases out. Will purchased the flat on auction in the 2014 year of assessment, but has made a rental loss for 3 consecutive years of assessment (i.e. 2014 up to 2016). The losses were caused by higher than anticipated special levies and tenant non-payments. Which one of the following statements are true in terms of Will claiming a loss against his salary income in the 4th year when submitting his income tax return (assuming that he pays tax at the marginal rate of tax)?

A	Rental income can never be used to offset salary income.
B	Will cannot claim the loss if he knew the odds of a loss arising were high in the first and second years after purchase.
C	Will can probably claim the loss as long as he nor any family member lived in the rental property.
D	Will can automatically claim the loss without regard to the ring-fencing provisions because a rental is classified as a trade under the section 1 definition.

[1]

7. Lerato owns a granny flat in Durban. She allowed her cousin to use the flat for 4 years while her cousin was in school. Thereafter, Lerato leased the flat out to a student tenant for a monthly rental of R2 500, but decided to sell the flat as it has become a nuisance to her. The cost of the granny flat was R400 000 on 1 March 2011, and she sold the flat for R650 000 on 28 February 2017. The flat was also subject to repairs of R53 000 two months before the disposal. What is the effect on Lerato's taxable income in respect of the flat during the 2017 year of assessment?

A	Rnil – the capital gain is below the R2 million capital gains tax threshold.
B	R61 000
C	R92 800
D	R250 000

[1]

8. Which persons described below will qualify as 'employees' for PAYE purposes?

A	Part-time employees and directors of private companies.
B	Part-time employees and independent contractors.
C	Directors of private companies and independent contractors.
D	Part-time employees, directors of private companies and independent contractors.

[1]

9. Complete the following sentence:

In order to qualify for a travel allowance, an employee....

A	...must elect to receive the travel allowance as part of a monthly remuneration package.
B	...must be required to travel for business purposes.
C	...must be required to travel for business purposes every single month.
D	...does not have to travel for business purposes.

[1]

10. Rudi is an employee and his salary for the 2017 year of assessment is R100 000. Rudi personally makes total contributions of R80 000 to his employer's Provident Fund for the year. The allowable tax deduction on the payroll for the 2017 year of assessment in respect of these contributions are:

A	R100 000
B	R80 000
C	R27 500
D	Zero deduction as Provident Fund contributions are not deductible.

[1]

PART B – COMPANIES (CORPORATE TAX)

11. Company X has trading stock that reflects the following for the 2017 year of assessment:

Opening stock	R200 000
Purchases of trading stock for the year	R400 000
Closing stock	R150 000

Indicate the net amount related to trading stock that will be included/deducted from the taxable income of Company X for the 2017 year of assessment.

A	R600 000 deduction
B	R150 000 inclusion
C	R450 000 deduction
D	R450 000 inclusion

[1]

12. Sandile Company provided the following records relating to its debtors and other receivables for the 2017 year of assessment:

Debtors at year-end	R1 200 000
Loan to employee	R40 000
Loan to employee written off during current year of assessment	R40 000
Bad debts during the year of assessment	Rnil

What is the total amount that will be allowed as deduction in terms of sections 11(j) (bad debts) for the 2017 year of assessment?

A	Rnil
B	R40 000
C	R1 240 000
D	R1 200 000

[1]

13. Kramden Company has a December financial year-end and is engaged in the delivery of coffee for use in office buildings. On 1 June 2017, Kramden Company purchased a delivery vehicle with the value of R250 000 (excluding VAT).

The vehicle was delivered and brought into use by Kramden Company on 1 July 2017. The write-off period acceptable to the SARS for the delivery vehicle is four years in terms of Interpretation Note: No. 47.

What is the total amount that the Kramden Company can claim as capital allowance in terms of section 11(e) for the 2017 year of assessment?

A	R31 250
B	R36 458.33
C	R62 500
D	R250 000

[1]

14. Company U has a financial year-end of 28/29 February. Based on this information, when is Company U's second provisional tax payment due?

A	28/29 February
B	30 September
C	31 August
D	31 December

[1]

15. Maple Company has 100 issued ordinary equity shares held by three holders of shares as follows: Alice owns 25 equity shares, Norton owns 25 equity shares, and Burlington Company owns the remaining 50 equity shares (which in turn is wholly owned by Sepe). Maple Company generates R18 million in total gross income as a retail clothing store per annum. Of this amount, R17 million stems from the sale of clothing, R800 000 from providing tailoring services as ancillary to the clothing sales, and R200 000 from interest arising from a bank account used as working capital. Alice, an accountant, runs the strategic aspects of the business. Norton runs the daily operations with a total of 10 employees.

Will Maple Company qualify as a 'small business corporation' as defined?

A	No: Maple Company will not qualify as a small business corporation because of the nature of the management.
B	No: Maple Company will not qualify as a small business corporation because of the nature of the holders of shares.
C	No: Maple Company will not qualify as a small business corporation because of the nature of the revenue.
D	Yes: Maple Company will qualify as a small business corporation.

[1]

16. Company Doppio is engaged in repairing tyres and has a calendar financial year. In 2016, Company Doppio began start-up operations but earned no revenue during this pre-opening period. Company Doppio incurred R900 000 in employee business expenses to set up the office space, advertise and formalise supplier relationships.

In the 2017 year of assessment, Company Doppio opened its doors, generating R4.1 million in revenue and R4 million in total section 11(a) expenditure. In the 2018 year of assessment, Company Doppio generated R6.3 million in revenue and R4 million in total section 11(a) expenditure.

Which one of the following statements are true in respect of the R900 000 of expenditure incurred in 2016?

A	The R900 000 amount is fully deductible as a section 11(a) business expense in 2017, being fully eligible for carryover via section 20.
B	The R900 000 amount is fully deductible in the 2018 year of assessment.
C	Of the R900 000 amount, R100 000 is deductible in 2017 with the R800 000 potentially deductible in 2018.
D	The R900 000 amount will never be deductible because no trade has started in 2016 year of assessment when it was incurred.

[1]

17. WeFitIT Construction Company specialises in medium-sized construction projects and renovation. Two days before the company's year-end, the company entered into a contract for which it received a deposit of R200 000 from a client in the 2017 year of assessment. The construction work required under the contract is only required to commence in the 2018 year of assessment and will end in 2019. The key numbers contained within the contract are as follows:

Details	Amount
Estimated total project turnover	R1 000 000
Estimated total cost for the project	R800 000

WeFitIT Construction Company has spent many hours in calculating and estimating the cost for the project based on detailed specifications and confirmed pricing.

What amount must be included in the 2017 year of assessment (if any)?

A	R1 000 000
B	R400 000
C	R40 000
D	Rnil

[1]

18. Savings Company is wholly owned by Lucia Ogutto, both of whom have a year of assessment ending at the close of February. Savings Company has invested all of its capital in listed shares traded on the Johannesburg Stock Exchange (JSE). The company holds a balanced portfolio of shares, none of which exceed a 0.001 per cent

interest in any entity. Lucia Ogutto created Savings Company to have funds set aside for retirement and for family members upon her passing.

The sole earnings of Savings Company for the 2017 year of assessment stems from dividends on the shares held. These dividends amount to R1.5 million for the 2017 year of assessment. No shares were sold during the year. In order to maintain itself, Savings Company incurred the following expenses:

- R5 000 of bank charges;
- R30 000 of brokerage fees for the share portfolio; and
- R40 000 in accounting and audit fees.

What amount of the above expenditure can be deducted against against Savings Company’s tax return for the 2017 year of assessment (if any)?

A	Rnil
B	R5 000
C	R25 000 (1/3 rd of all charges)
D	R75 000

[1]

19. Electronic Software Company has a new sales team that significantly expanded sales but lacks dedicated staff to pursue the new set of outstanding debtors. This weakness resulted in high revenue sales figures but also high and long outstanding debtors. In respect of the 2017 year of assessment, the company’s debtors and other receivables are as follows:

New debtors outstanding at year-end	R2 500 000
Bad debts written off during the year of assessment	Rnil
Total doubtful debtors at year-end which can be proven as doubtful to the SARS	R1 000 000
Provision for doubtful debts prior year	Rnil

It is the company's policy to provide for 30% of their total debtors book as a provision for doubtful debts.

What is the total taxable income in respect of the above debtor’s and other receivables for the company’s 2017 year of assessment?

A	R1 500 000
B	R2 100 000
C	R2 250 000
D	R250 000

[1]

20. Hutco Production is a small bottle manufacturer with a calendar financial year. On 1 February 2016, Hutco Production Company acquired and brought into use a new manufacturing machine acquired from an independent producer. The machine cost Hutco Production R1 million. The machine was sold on 1 September 2017.

What is the capital allowance permissible for the 2017 year of assessment assuming R40 million of turnover for that year?

A	R1 000 000
B	R400 000
C	R200 000
D	R133 333

[1]

PART C – VALUE-ADDED TAX (VAT)

21. A person carries on a business that makes both taxable and exempt supplies. The exempt activities carried on by the person...

A	Form part of the enterprise carried on by the person for VAT purposes.
B	Does not form part of the enterprise carried on by the person for VAT purposes.
C	Only form part of the enterprise carried on by the person for VAT purposes if the person also makes taxable supplies.
D	Only form part of the enterprise carried on by the person for VAT purposes if the person also makes taxable supplies that exceeds 95 per cent of the total.

[2]

22. The general voluntary registration threshold for a person carrying on a VAT enterprise is a value of taxable supplies of...

A	R120 000
B	R1 million
C	R60 000
D	R50 000

[2]

23. Compute the value of the following that will constitute taxable supplies made by a VAT vendor.

Source of income	Value (excluding VAT)
Supply of local services	R200 000
Supply of services to non-residents who are outside South Africa at the time that the services are rendered	R100 000
Export of goods delivered at addresses in foreign countries	R200 000
Dividends received on investments in South Africa	R10 000
Local supply of financial services	R200 000
TOTAL REVENUE	R710 000

A	R710 000
B	R700 000
C	R500 000
D	R10 0000

[2]

24. If a vendor's value of taxable supplies is R100 million per annum, into which tax period category does the vendor fall?

A	Category A
B	Category B
C	Category C
D	Category D

[2]

25. Gauteng Company, a VAT vendor, purchases a computer software system for a price of R72 000 (including VAT). The company is engaged in renting both residential rental as well as commercial rental with the overall administrative department overseeing both. The commercial rental office within the department has several dedicated personnel. This office ordered the software for its own use. The commercial office regularly incurs R1 million of expenses, the residential office incurs R100 000 of expenses, and total department overheads (including electricity and levies amounts to R100 000).

Total rental turnover is R8 million with R2 million rental turnover dedicated to downtown residential rentals. All suppliers to Gauteng Company are VAT vendors that include VAT on their invoices.

What percentage of input tax deductions can be claimed by Gauteng Company?

A	Zero per cent can be claimed
B	25 per cent can be claimed
C	80 per cent can be claimed
D	The full 100 per cent can be claimed

[2]

TOTAL: 30

QUESTION 2: INDIVIDUALS (PERSONAL TAX)

30 Marks

1 Ms Moonsamy is 35 years old, not married and a resident of the Republic of South Africa. She works as a sales representative for a large pharmaceutical company. She has just received her IRP5 Employee Income Tax Certificate from her employer in respect of the year of assessment ended 28 February 2017. The following is reflected on the IRP5:

- Income R500 000
- Annual payment R150 000
- Travel allowance R 30 000 (also see paragraph 2)
- Subsistence allowance R 2 000 (also see paragraph 3)

2. She travelled a total of 22 000 km during the 2017 year of assessment. She kept an accurate and valid log book reflecting that 14 000 km was spent in respect of business travel. She also kept an accurate supporting records of actual travel related expenditure for the year, being as follows:

- Licence R 1 200
- Insurance R 4 500
- Fuel R24 000
- Maintenance R 8 500

3 The subsistence allowance (R500 per night)_was paid to Ms Moonsamy for attending a training course at the company's head office in Johannesburg. The training course lasted 5 days and Ms Moonsamy spent 4 nights in Johannesburg which she was remunerated for. The subsistence allowance is meant to defray meals and incidental costs. Ms Moonsamy did not keep any records of actual meal and incidental costs while on her business trip to Johannesburg.

4. As Ms Moonsamy is a sales representative, her employer does not expect her to always work from the office and she is allowed to work from home. She has a home study which she uses exclusively and regularly for work purposes. The home study takes up 10% of the total floor space of her primary residence. Ms Moonsamy's salary consists mainly of commission income.

She has kept a record of the following expenses relating to her entire home (including the home study) for the 2017 year of assessment:

- Mortgage bond, capital portion R100 000
- Mortgage bond, interest portion R 20 000
- Municipal rates & electricity costs R 12 000

5. Ms Moonsamy has invested her savings in listed shares. Her investments are part of her nest egg which she sets aside for her retirement. Her portfolio statement from her investment manager reflects the following for the 2017 year of assessment:

• South African dividend income	R40 000
• Dividends tax withheld	R 6 000
• Interest earned on cash account	R24 000
• Capital gain on disposal of investment	R80 000
• Capital loss on disposal of investment	R20 000

6. During the 2017 year of assessment, Ms Moonsamy sold her house. She has lived in the house and used it as her primary residence since she bought the house. Since acquisition date she used 10% of her house as her home study (see paragraph 4).

She bought the house for R1 100 000 in 2007 and sold the house for R3 500 000 in November 2016. She paid her estate agent a total fee of R192 500 in respect of the disposal of the house.

7. Ms Moonsamy donated R10 000 to the SPCA, a registered public benefit organisation. She received a section 18A certificate from the SPCA for her R10 000 donation. Ms Moonsamy also sponsored her niece to attend a European school tour. She paid R10 000 towards her niece's costs in this regard. These are the only donations made by Ms Moonsamy during the 2017 year of assessment.

8. Ms Moonsamy contributed R50 000 to a retirement annuity fund during the 2017 year of assessment. She also contributed R1 500 per month to a medical scheme for the entire 2017 year of assessment (the medical scheme fee contributions were made by her and not by her employer. Her employer is also unaware of her medical scheme fee contributions). She is the main member of her fund and has no registered dependants.

REQUIRED: QUESTION 2		MARKS
1.	Based on the amounts per the IRP5, in paragraph 1 of the case study, on which amounts of Ms Moonsamy's income would her employer have withheld employees' tax? Please comment on each of the income streams on her IRP5 and specify on what amount tax will be withheld.	3
2.	Based on your answer in 1. above, relating to the information on the IRP5, what is the total tax due on the above amounts, as would be disclosed on the IRP5.	2
3.	Given the information in paragraph 2 of the case study, what is the total taxable portion of her travel allowance of R30 000 upon assessment?	2
4.	What amount must be included in her taxable income in respect of her R2 000 subsistence allowance, as per paragraph 3 of the case study?	1
5.	Which of the home office expenses, as set out in paragraph 4 of the case study, can Ms Moonsamy deduct from her income for income tax purposes and what amount (value) can she deduct? Please comment on each item.	2
6.	Given the information in paragraph 5 of the case study, what is the income tax treatment of each item and what part of each item should be included in Ms Moonsamy's taxable income. Assume that the interest income earned is the only interest income that she has earned for the year. For purposes of this calculation, please ignore the annual exclusion relating to capital gains tax. Please refer to the specific legislation in your response.	3
7.	Calculate Ms Moonsamy's net capital gain in respect of the sale of her primary residence, as per paragraph 6 of the case study. Provide a short explanation of your calculation.	4
8.	With reference to the donations made by Ms Moonsamy, as per paragraph 7 of the case study, are these donations deductible for income tax purposes, and if so to what extent?	2
9.	Will Ms Moonsamy have a donations tax liability? Please refer to specific legislation in your answer.	2

10.	Provide a short explanation of how the income tax deduction in respect of retirement annuity fund contributions, as per paragraph 8 , is calculated. No actual calculation is however required.	1
11.	With reference to paragraph 8 of the case study, calculate the medical scheme fees tax credit(s) that Ms Moonsamy can deduct from her tax liability for the 2017 tax year (if any)? Please provide a reference to relevant legislation in your answer.	1
12.	Given all the information in the case study and your answers to the questions above, compile an income tax calculation for Ms Moonsamy. Take into account any rebates or annual exclusions that may apply.	6
13.	Will Ms Moonsamy have a rebate when comparing the above tax liability with the tax withheld by her employer, as per her IRP5, or will she have to pay extra tax to the SARS on assessment?	1
TOTAL MARKS		(30)

*****END OF PAPER*****

ANNEXURE A

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

Small Business Corporations:

Tax Rates for Small Business Corporations (Applicable in respect of years of assessment ending on or after 1 April 2016)	
Taxable income (R)	Rate of tax (R)
0 – 75 000	0%
75 001 – 365 000	7% of taxable income above R75 000
365 001 – 550 000	R20 300 + 21% of taxable income above R365 000
550 001 and above	R59 150 + 28% of taxable income above R550 000

Transfer Duty Rates:

In respect of acquisition of property on or after **1 March 2016**

VALUE OF PROPERTY (Rand)	RATE
0 - 750 000	0%
750 001 - 1 250 000	3% on the value above R750 000
1 250 001 - 1 750 000	R15 000 + 6% of the value above R1 250 000
1 750 001 - 2 250 000	R45 000 + 8% of the amount above R1 750 000
2 250 001 - 10 000 000	R85 000 + 11% of the amount above R2 250 000
10 000 001 and above	R937 500 + 13% of the value exceeding R10 000 000