

OCCUPATIONAL CERTIFICATE: TAX TECHNICIAN

SAQA ID: 94098

Initial Test of Competency

RPL Assessment

July 2017

Paper 1

**SUGGESTED SOLUTIONS FOR
QUESTIONS 1 TO 4**

QUESTION 1: GENERAL AWARENESS

MULTIPLE CHOICE QUESTIONS

30 Marks

1. CORRECT ANSWER: **D** **[3]**
- R1 276.84 less trade discount R319.21 (i.e. 25% x R1 276.84) = Selling price value of R957.63.
Cash discount can only be accounted for once early settlement condition is met and no need to issue a credit note as it is indicated on the invoice itself.
Consideration of the supply on the invoice: R957.63 x 114/100 = R1 091.70
2. CORRECT ANSWER: **D** **[3]**
- $(R13\ 500 + R7\ 407) \times 204 / 365 \text{ days} = R11\ 685.$
Days must be used and not months as it is the SARS practice to use days.
3. CORRECT ANSWER: **B** **[3]**
- 1 is **false** as if the company has its place of effective management in South Africa, then it can be a tax resident.
2 is **true** as this is the tax rate for a company.
3 is **false** as the inclusion rate for the net capital gain is 80% for a company for a year of assessment commencing on/after 1 March 2016.
4 is **false** as only certain deductions are allowed under section 11 and there are multiple requirements to be met before a tax deduction is allowed.
5 is **true** as per the definition of resident in section 1 of the Income Tax Act.
4. CORRECT ANSWER: **B** **[3]**
- Statement (a) is incorrect as any person (both companies and natural persons) would qualify for deductions in terms of the Income Tax Act as long as the expenditure is incurred in the production of income. Statement (c) is also incorrect as allowances afforded, for example, in terms of section 12C, section 13 and section 13quin are not apportioned if a person applied the respective assets for a portion of the year of assessment.

5. CORRECT ANSWER: **A**

[3]

- 1 is **false** as an assessed loss is the amount by which the section 11 deductions exceed the income of the company.
- 2 is **true** as per proviso (b) to section 20(1).
- 3 is **false** as companies are not subject to the ring-fencing provisions in terms of section 20A.
- 4 is **false** as a company must be carrying on a trade for the assessed capital loss to be deducted.
- 5 is **false** as there is no tax refund for an assessed loss – the assessed loss is carried forward to the next year of assessment and used to reduce future taxable income.

6. CORRECT ANSWER: **D**

[3]

- 1 is **false** as section 89*quat* only allows for the payment date of the third payment to be 7 months after the end of the year of assessment if the year of assessment of the company ends on 28/29 February each year.
- 2 is **false** as the basic amount used in the first payment calculation depends on the which year of assessment is the latest preceding year of assessment (as determined in paragraph 19 of the Fourth Schedule) and is subject to some adjustments (for example, removal of any taxable capital gains in that year).
- 3 is **false** as the second payment can pay off the entire tax liability – the third payment is optional if the full liability is not extinguished by the second payment.
- 4 is **false** – using paragraph 20(1) of the Fourth Schedule, depending on whether the taxable income is more than R1 million or R1 million or less, one can base the second provisional tax payment on a lower amount than the actual taxable income for the year of assessment.
- 5 is **false** as provisional tax merely represents prepayments of a company’s normal tax liability – it is not a separate tax from the normal tax liability.

7. CORRECT ANSWER: **A**

[3]

Calculation:

Estimated total taxable income for the 2017 YOA	R1 157 505
[R980 000 + R155 500 + R45 805 – R23 800]	
(use lower of estimate or basic amount, thus use basic amount of R1 100 000)	
Tax on taxable income of R1 100 000	R370 431
Less: section 6(2) rebate	<u>(R13 500)</u>
	<u>R335 931</u>
Half of tax payable above (÷ 2) or (x 50%)	R178 466
Less: ET deducted by ER for the 6 month period up until 31 Aug	<u>(R140 116)</u>
Provisional tax to be paid	<u>R 38 350</u>

8. CORRECT ANSWER: **C** **[3]**

Statement C is correct as paragraph 23(a) of the Fourth Schedule to the Act stipulates that the first payment should be made six months after the company's year-end, thus six months after 31 December 2016 in this case being 30 June 2017 in respect of the 2017 year of assessment.

9. CORRET ANSWER: **B** **[3]**

Local dividends will be exempt in terms of section 10(1)(k) but local interest will not qualify for the s 10(1)(j) exemption as only natural persons are allowed to qualify for the local interest exemption.

10. CORRECT ANSWER: **C** **[3]**

As the insurance payment was for the total reinstatement of a denied input good that was damaged beyond economic repair, there is no deemed supply in terms of section 8(8) and thus no output tax need to be accounted for. The journal should have been recorded as follows:

Dr	Bank	R500 000	
Cr	Insurance claim received		R500 000

TOTAL: 30

QUESTION 2: INDIVIDUALS (PERSONAL TAX)

30 Marks

Suggested solution

Details	Reason	Amount	Mark
Basic salary [(R20 000 x 4) + (R21 500 x 8)] OR R80 000 + R172 000		R252 000	1
Commission on 87 motor vehicles: (R1 000 x 87)		R87 000	1
<i>Commission on 3 motor vehicles: (R1 000 x 3)</i>	<i>Commission is variable remuneration and will be deemed to accrue only when paid in terms of section 7B.</i>	-	1
Fringe benefit: Contribution to pension fund (R252 000 x 5%)		R12 600	1P
Fringe benefit: Use of laptop	<i>Used mainly for purposes of employer's business = no value</i>	-	1
Local interest (R45 086 ÷ 2) <i>Married in community of property</i>		R22 543	1
GROSS INCOME		374 143	
LESS: EXEMPT INCOME			
Local interest – section 10(1)(i) R23 800 limited to actual interest received.		(R22 543)	1P
INCOME		351 600	
LESS: DEDUCTIONS		-	
<u>Plus:</u> Other amounts included in taxable income:			
Travel allowance	<i>See calculation 1</i>	47 559	

<p><i>[Please note that this amount should NOT be included in gross income. Deduct one mark if student included the amount in gross income.]</i></p>			
<p>Subtotal 1</p>		<p>399 159</p>	
<p>Less: Retirement fund contributions</p> <p>Actual contributions: 10% x R252 000 = R25 200</p> <p>Plus: Fringe benefit (deemed to be contributed by Mrs Donald) 5% x R252 000 = R12 600 = R37 800 (total)</p> <p><u>Less:</u> s 11(k) deduction Limited to the lesser of: - R350 000 [1]; or - 27.5% of the higher of: *taxable income before s 11(k) R399 159 + taxable capital gains [s 26A] R4 000 = R403 159</p> <p>OR: *Remuneration of R455 840 (given) Thus: 27.5% x R455 840 = R125 356 Thus: R125 356 limited to R37 800</p>		<p>1</p> <p>1P</p> <p>0.5</p> <p>0.5</p> <p>0.5</p> <p>1P</p> <p>1P</p> <p>0.5</p> <p>1</p>	
<p>Subtotal 2</p>		<p>361 359</p>	
<p><u>Add:</u> Taxable capital gains</p>	<p>See calculation 2</p>	<p>4 000</p>	
<p>TAXABLE INCOME</p>		<p>365 359</p>	

Normal tax determined per the progressive tax tables on taxable income	$[(R365\ 359 - R293\ 600) \times 31\%] + R61\ 296$	83 541	1P
Less: Section 6(2) rebate		(13 500)	1
Less: Section 6A $[(R286 + R286 + R192 + R192) \times 12]$		(11 472)	1
Less: Section 6B Contributions to medical scheme: [R9 500 x 12] R114 000 Less: 4 x Section 6A: (R45 888) Excess: R68 112 Add: QME - Dentist [R350 x 2] R700 - Mickey [R30 000 + R6 000] R36 000 - Grandma [R3 500 x 12] R42 000 R146 812 Less: 7.5% x Sub-total [7.5% x R365 359] (R27 402) R119 410 x 25% of R119 410			1 1 1 1 1 1P 1P
Normal tax payable by the individual (Mrs Donald)		28 716	

Calculation 1: Travel allowance

Total kilometres = 169 030 km – 145 525 km = 23 505 km

Total business km = 13 030 km (given)

- Fixed cost per km (R68 684 / 23 505 km)	292.2c	[1]
- Fuel cost per km	100.0c	[0.5]
- Maintenance cost per km	<u>42.5c</u>	[0.5]
Total cost per km	<u>434.7c</u>	

Allowance received:	R104 240	[0.5]
Less: Deduction for business use (R4,35 p/km x 13 030 km)	<u>(R56 681)</u>	[1P]
Taxable amount of travel allowance	<u>R47 559</u>	

Calculation 2: Taxable capital gains

Proceeds		R3 800 000	
Less: Base cost		<u>(R1 700 000)</u>	
Cost	R1 550 000		
Plus: Improvements	<u>R 150 000</u>		
Total capital gain		R2 100 000	[1]
<i>Need to be split between spouses <u>married in community</u> of property:</i>			
	Total	Mr Donald	Mrs Donald
Capital gain	R2 100 000	R1 050 000	R1 050 000
Less: Primary residence exclusion	<u>(R2 000 000)</u>	<u>(R1 000 000)</u>	<u>(R1 000 000)</u>
Balance	<u>R100 000</u>	<u>R50 000</u>	<u>R50 000</u>
Less: Annual exclusion			<u>(R40 000)</u>
Net capital gain			<u>R10 000</u>
Multiply with CGT inclusion rate			<u>x 40%</u>
Taxable capital gain (to be included in taxable income)			<u>R4 000</u>

Communication skills - layout and presentation

[1]

Available: 32

Maximum: 30

QUESTION 3: COMPANIES (CORPORATE TAX)
30 Marks

Suggested solution			
PART A	Calculations	R	Marks
Opening stock deduction - section 22(2) <i>Trading stock carried at the lower of cost or market value</i>	R1 240 000 + R3 180 000	(4 420 000)	1
Section 11(a) for rubies		(1 520 000)	
> Cost of acquisition	R1 100 000		1
> Transport costs	R150 000		1
> Agent's fees	R200 000		1
> Storage costs	R70 000		1
Gross income from sale of jewellery - gross income definition		5 000 000	1
Closing stock addition - section 22(1)		2 800 000	1
Tax deductible expenditure - section 11(a)		(415 000)	1
Contributions to medical scheme - section 11(a)		(300 000)	1
Contributions to pension fund - section 11(ℓ)		(267 000)	1
TAXABLE INCOME		878 000	
		Available:	10
		Maximum:	10
PART B	Calculations	R	Marks
Legal costs relating to retailer - section 11(c)	14 850	(13 026)	1
> Remove VAT - s23C - R14 850 x 14/114	-1 824		1
Legal costs relating to new sale contract		-	1
> Capital in nature as will enhance income earning capacity			1
Bribe - disallowed by section 23(o)		-	1
ASSESSED LOSS		(13 026)	

			Available:	5
			Maximum:	5
PART C	Calculations	R	Marks	
Acquisition of laptops and jewellery polisher - capital in nature, no s11(a)		-	1	
Manufacturing building capital allowance - section 13	R16 000 000 x 5%	(800 000)	1	
> Reason: section 13 or manufacturing building			1	
Administrative building capital allowance - section 13quin		-	1	
> Not new and unused, no allowance			1	
Jewellery making machinery - section 12C	R7 000 000 x 20%	(1 400 000)	1	
> Reason: section 12C or manufacturing machinery			1	
Jewellery polisher - section 12C	R5 000 000 x 20%	(1 000 000)	1	
> Not acquired new or unused, can't claim 40%			1	
4 Administrative Laptops (R6 000 each)		(24 000)	1	
> Each below R7 000 (small items), therefore deductible in full.			1	
> Section 11(e) and Interpretation Note: No. 47			1	
TAXABLE INCOME/ASSESSED LOSS		(3 224 000)		
			Available:	12
			Maximum:	10

PART D	Calculations	R	Marks
Taxable Income less than R1 million - it is R940 000 - apply paragraph 20(1)(b) of the Fourth Schedule.			
To avoid penalties and pay least tax possible, use lower of 90% of actual taxable income and basic amount:			
Lower of:			
1.) 90% of actual taxable income = 90% x R940 000 =	846 000		1
2.) Basic Amount (given) of	750 000		1
Use Basic Amount for 2nd payment			
Total Tax Liability = R750 000 x 28%	210 000		1
> LESS 1st Provisional Tax Payment	-60 000		
Correct amount of 2nd Provisional Tax Payment	150 000	150 000	1
Penalty:			
Underpayment of R14 000 (150 000 - 136 000 (actual Opaline payment))	14 000		1
Paragraph 20 penalty = 20% x R14 000	2 800	2 800	1
Interest:			
Will only be charged at the prescribed rate on the unpaid amount from 1 March 2017 - not in the 2017 year of assessment.			1
		Available:	7
		Maximum:	5

GRAND TOTAL FOR QUESTION 3	(30)
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QUESTION 4: VALUE-ADDED TAX (VAT)

10 Marks

VAT payable to or receivable from the SARS for the period 1 March 2017 to 30 April 2017:

		Calculation/Reason	R	Marks
<u>OUTPUT TAX:</u>				
1.	Local sales-equipment	R228 000 x 14/114	28 000	1
2.	Plumbing services	R157 000 x 14/114	19 281	1
5.	Sale of own private residence	Not a supply in furtherance of enterprise	-	1
8.	Rental received	Residential accommodation / Exempt supply (s 12)	-	1
9.	Services income from Tanzania	Exported services / Zero-rated supply (s 11(2)(k))	Nil	1
	Total output tax		47 281	
<u>INPUT TAX:</u>				
3.	Labour (remuneration)	Excluded from the definition of an enterprise” - <i>section 1 of the VAT Act</i>	-	1
4.	Purchases of plumbing equipment	R85 000 x 14/114	10 439	1
6.	Interest paid	Financial service (s 2) / Exempt supply (s 12)	-	1
7.	Fuel purchased	Zero-rated supply	Nil	1
10.	Purchase of delivery vehicle	R226 000 x 14/114 Not a motor car as defined therefore input tax not denied.	27 754	1
	Total input tax		38 193	
Net VAT PAYABLE TO THE SARS (R47 281 - R38 193)			9 088	1P
			Available:	11
			Maximum:	10