OCCUPATIONAL CERTIFICATE:

TAX TECHNICIAN

SAQA ID: 94098

Initial Test of Competency

RPL Assessment

July 2017

Paper 1

QUESTIONS 1, 2, 3 & 4

CANDIDATE NUMBER									

Instructions to Candidates

1. This competency assessment consists out of 1 paper.
2. This paper consists out of 4 questions.
3. Answer each question in a separate answer book.

Paper	Topic	Marks	Answer Book
1	General awareness	30	Green
2	Individuals (Personal tax)	30	White
3	Companies (Corporate tax)	30	Blue
4	Value-Added Tax (VAT)	10	Pink

Total marks: 100 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 (10 Questions).
10. Please take note of the **tax rates and tables provided** in **Annexure A** to this paper (see page 14) in respect of the **2017** year of assessment.

QUESTION 1: GENERAL AWARENESS

MULTIPLE CHOICE QUESTIONS

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.

1. Lerato is a VAT vendor and sells goods (a taxable supply) to a local client, Mpumi on 3 March 2016 to the value of R1 276.84. The sale is however subject to a trade discount of 25% (not yet taken into account) and the invoice indicates that Mpumi will also qualify for a cash discount of 5% if she settles her account within 30 days from the date of sale.

   The total consideration to be invoiced when the original sales invoice is to be issued to Mpumi on the date of sale would be...

   A. R1 018.92
   B. R1 455.60
   C. R1 244.42
   D. R1 091.70
   E. R1 037.02 **[3]**

2. Mr Adams, a resident of the Republic of South Africa, died on 20 September 2016. He would have turned 65 years on 10 October 2016. What is the amount of the section 6(2) rebate which Mr Adams will be entitled to in respect of the 2017 year of assessment?

   A. R13 500
   B. R7 407
   C. R20 907
   D. R11 685
   E. R12 831 **[3]**

3. With regards to a company operating within South Africa, which combination of the following statements (if any) are **true** in respect of a year of assessment commencing on/after 1 March 2016?

   (1) A company operating in South Africa can only be classified as a tax resident in South Africa if that company was formed, established or incorporated in South Africa.
   (2) A company that is a tax resident in South Africa is taxed (for normal tax purposes) at a rate of 28%.
   (3) A company that is tax resident in South Africa needs to include 40% of its net capital gains in its taxable income calculation.

(4) A company that is a tax resident in South Africa is entitled to claim tax deductions for normal tax purposes in respect of all of its expenditure incurred.
(5) A company that is not incorporated, formed or established in South Africa can still be a South African tax resident if it has its place of effective management in South Africa.

A. 1, 2 and 3
B. 2 and 5
C. 1 and 4
D. All of the above
E. None of the above **[3]**

4. Which of the following statement(s) are true in respect of capital allowances afforded in terms of the Income Tax Act relating to expenditure incurred to acquire depreciable assets for trade purposes used in the production of income?

A. Only companies would qualify to deduct capital allowances.
B. All taxpayers (both companies and natural persons) would qualify to deduct capital allowances in calculating taxable income.
C. All capital allowances need to be apportioned if the asset is only used for a portion of the year of assessment by the taxpayer for purposes of trade.
D. Both (B) and (C). **[3]**

5. With regards to the set-off of assessed losses, which combination of the following statements (if any) are **true?**

(1) An assessed loss is the amount by which the tax exemptions to which a company is entitled exceed its gross income.
(2) Where an assessed loss is incurred as a result of a company carrying on a trade outside of South Africa, this assessed loss cannot be set-off from South African trade activity income.
(3) A company that has incurred an assessed loss may have this assessed loss ring-fenced.
(4) A company need not be carrying on a trade to reduce taxable income by an assessed loss carried forward.
(5) An assessed loss results in the company being owed an amount equal to 28% of the assessed loss value by the South African Revenue Service (SARS).

A. 2
B. 2 and 4
C. 3 and 5
D. All of the above
E. None of the above **[3]**

6. With regards to provisional tax for a company that is a South African tax resident, which combination of the following statements (if any) are **false?**

(1) The deadline for the third provisional tax payment for a company is always 7 months after the end of the year of assessment.
(2) The basic amount used for the first provisional tax payment of a company is always equal to the prior year of assessment tax assessment by the SARS.
(3) A company must always make three provisional tax payments for a single year of assessment.
(4) The second provisional tax payment of a company must always be based on actual taxable income for that specific year of assessment.
(5) Provisional tax is a tax liability separate from normal tax for a company.

A. 1 and 2
B. 1 and 3
C. 3, 4 and 5
D. All of the above
E. None of the above **[3]**

7. Mr Provisional (35 years old, not married and a resident of the Republic of South Africa) is registered as a provisional taxpayer. On 31 August 2016, the last day for making his first provisional tax payment for the 2017 year of assessment, he expects that his taxable income for the 2017 year of assessment will consist of the following: salary of R980 0000, services rendered in his part-time business of R155 500 and local interest of R45 805. His employer confirmed that they have deducted employees' tax of R140 116 for the 6 month period up until 31 August 2016. The assessment issued by the SARS during July 2016 in respect of the 2016 year of assessment, reflects a basic amount of R1 100 000. What is the amount (if any) of the first provisional tax payment that Mr Provisional is required to make to the SARS on 31 August 2016?

A. R38 350
B. R29 638
C. Rnil
D. R34 517
E. R25 127

8. A company is registered as a provisional taxpayer and has a year of assessment ending on 31 December 2017. By which date should the company have paid their first provisional tax payment in respect of the 2017 year of assessment in order to avoid possible interest in terms of section 89*quat* of the Income Tax Act?

A. 31 August 2017
B. 30 September 2017
C. 30 June 2017
D. 31 December 2017 **[3]**

9. A South African resident company received the following amounts during its 2017 year of assessment:

Local dividends	R30 000

Local interest R25 000

What amount (if any) will be taxable in the hands of the company during the 2017 year of assessment?

A. R55 000
B. R25 000
C. R1 200
D. Rnil **[3]**

10. A motor car (as defined in section 1 of the VAT Act) was purchased for the use of business purposes (taxable supplies) only. Insurance premiums have been paid every month on this motor car to the insurance company. Unfortunately, the motor car was in an accident and the motor car was totally written off and the insurance company paid out R500 000 in cash as a total reinstatement of the car as it was damaged beyond economic repair. The company recorded the following journal entry:

Dr	Bank	R500 000	
Cr	Insurance claim received		R438 596
Cr	VAT control account (Output tax)		R61 404

Which one of the following options is true?

A. The journal entry is correct.
B. The journal entry is not correct as the company should account for input tax and not for output tax.
C. The journal entry is not correct as the company does not need to account for output tax.
D. The journal entry is not correct as insurance claim received should be treated as an exempt supply for VAT purposes. **[3]**

QUESTION 2: INDIVIDUALS (PERSONAL TAX)
30 Marks

Ignore Value-Added Tax implications.

Mrs Minny Donald (45 years old and a resident of the Republic of South Africa) works as a sales representative at WMB Motors (Pty) Ltd (hereafter referred to as 'WMB') in Johannesburg, South Africa, since January 2000. Mrs Donald is married in community of property to Mr Donald and together they have two children, namely: Mickey, who is 21 years old and a full-time student at Stellenbosch University, and Goofy, who is 16 years old and a pupil at a secondary school in Johannesburg.

All assets owned by Mr and Mrs Donald, as well as any return on the assets, form part of their joint estate, except where specifically stated otherwise.

On the evening of 28 July 2017, Mrs Donald was busy doing her tax calculation in respect of the 2017 year of assessment on Excel as she wants to submit her tax return (ITR12) on e-filing on 1 August 2017. She however encountered some problems in the calculation of her normal tax due by her in respect of the 2017 year of assessment and asked you to do her tax calculation as well so that she can compare the two calculations for correctness.

Mrs Donald provided you with the following information in respect of the 2017 year of assessment:

1. Mrs Donald works for a basic salary of R20 000 per month, which was increased to R21 500 from the start of July 2016. Together with the basic salary, she also receives commission of R1 000 per motor vehicle that is being sold by Mrs Donald. Mrs Donald received a report from WMB which confirmed that she sold 90 motor vehicles for the period 1 March 2016 to 28 February 2017, of which the Commission of 87 of the 90 motor

vehicles was paid to her in the 2017 year of assessment while the commission on 3 of the 90 motor vehicles were only paid to her on 3 March 2017.

2. Mrs Donald is a member of the WMB's approved Pension Fund. She personally contributes 10% of her monthly basic salary, while WMB contributes 5% of her monthly basic salary on her behalf towards the pension fund (thus, total contribution of 15% per month).

3. Mrs Donald is the main member with her entire family registered as dependants on her Medical Scheme for the entire 2017 year of assessment. Her monthly contribution of R9 500 is deducted from her monthly remuneration and paid over to the Afford Medical Scheme by WMB. WMB makes no contributions on behalf of Mrs Donald towards the medical scheme. Mrs Donald incurred and paid the following medical expenditure:
    a. Mrs Donald and Goofy visited the dentist on 8 April 2016 for their annual check-up. Each check-up amounted to R350 which Mrs Donald paid with her debit card on the same day.
    b. Mickey became extremely sick during December 2016 and needed to be hospitalised. The hospital bill amounted to R30 000 and the doctors' bills amounted to R12 000. Mrs Donald paid the hospital bill in full on 15 January 2017 with an electronic funds transfer (EFT), but paid the doctors' bill in two separate payments of R6 000 each in cash on 15 February 2017 and 15 March 2017 respectively.
    c. Mrs Donald's mother of 93 years old is living with the family in Johannesburg, as she can no longer look after herself. Mrs Donald hired a full time registered nurse at a fee of R3 500 per month to take care for her mother. Mrs Donald's grandma is however not a registered dependant of Mrs Donald's medical scheme.

   None of the above medical expenditure were recouped from the Afford Medical Scheme in any manner.

4. Mrs Donald is required to travel to clients' premises, to assess their motor vehicles if they wish to do a trade-in on a new motor vehicle. For this she received a travel allowance of R104 240 in total during the 2017 year of assessment. Mrs Donald owns a Ford Figo that cost her R230 000, inclusive of VAT but exclusive of finance charges, on 31 January 2013. Mrs Donald took a photo with her cell phone of her odometer on 1 March 2016 which

shows that the reading was 145 525 km and she again took a photo of her odometer on 28 February 2017 which shows that the reading was 169 030 km. Mrs Donald's total business millage for the 2017 year of assessment amounted to 13 030 km. Mrs Donald bears the full cost of the fuel and maintenance in respect of the vehicle.

5. Mrs Donald is equipped with a laptop which is provided by WMB to be used mainly for business purposes. She is also however also allowed to take the laptop home and to use it for private purposes. WMB acquired the laptop for R5 700 and immediately provided the right of use to Mrs Donald on 1 March 2016.

6. Mrs Donald received an IT3 from FNF Bank, a local bank, on 29 May 2017. The IT3 confirms that the balance of her investment amounted to R845 756 on 28 February 2017 and that she received local interest of R45 086 for the period 1 March 2016 to 28 February 2017.

7. Mr and Mrs Donald bought their primary residence in Johannesburg on 30 June 2005 for R1 550 000. The couple erected an extra bedroom to the house in 2007 for a price of R150 000. After Mickey left the house at the start of 2016, Mrs Donald felt that the family can move to a smaller house. Therefore they put the house up for sale on 1 October 2016 at a price of R3 900 000. They had no interest from potential buyers and thus decided to decrease the price to R3 800 000 (still regarded to be fair market value). They located a buyer (not a connected person) on 1 February 2017 and the sale agreement was finalised on 28 February 2017, when the selling price reflected in Mrs Donald's bank account. The family will move to their new house on 31 March 2017.

<table>
<tr><th>REQUIRED: QUESTION 2</th><th>MARKS</th></tr>
<tr><td>Calculate the normal tax due by (or to) Mrs Donald in respect of the 2017 year of assessment. Assume that the remuneration of Mrs Donald amounted to R455 840 (correctly calculated) for the 2017 year of assessment.
Communication skills – layout and presentation
<u>Instructions to candidates:</u>
• Your answer must be structured in the framework applicable to natural persons.</td><td>29
1</td></tr>
</table>

• *No section references to the Income Tax Act are required.* • *Clearly indicate, with a short reason, when an item has no effect on the tax calculation.* • *Show detail calculations and round your answers off to the nearest Rand.*	
TOTAL MARKS	**(30)**

QUESTION 3: COMPANIES (CORPORATE TAX)

30 Marks

This question consists of 4 related parts.

General information applicable to all parts

Opaline (Pty) Ltd ("Opaline") is a South African resident company involved in the manufacture of jewellery using precious metals and gems. Opaline wholesales jewellery and enters into contracts of sale with retailers. The Commissioner regards the manufacturing of jewellery as a qualifying process of manufacture.

The year-end of Opaline is the last day of February. Opaline is also a registered VAT vendor making 100% taxable supplies. All amounts exclude VAT, unless indicated otherwise.

PART A

As at 29 February 2016, Opaline held precious metals and gems to be used in manufacturing jewellery with a cost of R1 300 000 and a market value of R1 240 000. Completed jewellery pieces to be sold had both a cost and a market value of R3 180 000 at this date.

On 18 April 2016, Opaline managed to locate some rare rubies. The cost of these rubies amounted to R1 100 000. Other costs related to these rubies were: transport costs of R150 000, agent fees of R200 000 and storage costs of R70 000. These rubies were made into exquisite jewellery and sold for R5 000 000.

As at 28 February 2017, the market value of raw materials and completed jewellery pieces amounted to R2 800 000 in total being worth R50 000 less than its original cost.

General tax deductible expenses of Opaline during the 2017 year of assessment amounted to R415 000. For the 2017 year of assessment: contributions to a registered medical scheme made on behalf of employees and contributions to the Opaline pension fund made on behalf of employees amounted to R300 000 and R267 000 respectively.

PART B

During May 2016, a retailer with which Opaline had a contract of sale breached the contract. As a result and based on the contract details, damages became payable to Opaline. The retailer disputed the breach and entered into legal proceedings with Opaline. In the meantime, Opaline was negotiating another new contract of sale.

Opaline incurred legal costs amounting to R14 850 (including VAT) in relation to the lawsuit with the retailer and incurred R5 000 in relation to legal fees for the new contract of sale negotiation. In addition, Opaline paid a bribe of R50 000 to the senior counsel of the opposing retailer to ensure a favourable outcome for Opaline.

PART C

An extract of the fixed asset register of Opaline as at 28 February 2017 reflected as follows:

Item	Date of acquisition	Cost	Comments
Manufacturing building (100% used for manufacturing)	15 January 2012	R16 000 000	This factory was acquired new and unused from a property developer.
Administration building and head office	15 January 2012	R10 000 000	This building was acquired from the previous owner who used the building for trade purposes.
Jewellery making machinery	14 August 2015	R7 000 000	This machine was acquired new and unused.
Jewellery polisher	27 July 2016	R5 000 000	This machine was acquired second-hand from a VAT vendor.
4 administrative laptops	2 March 2016	R24 000 in total	These are for use by Opaline administrative staff.

PART D

On 30 August 2016 Opaline made a payment of R60 000 for its first 2017 year of assessment provisional tax payment.

On 28 February 2017 Opaline made a payment of R136 000 for its second provisional tax payment. Opaline based this payment on an amount of R700 000. Opaline's correctly determined basic amount for the 2017 year of assessment amounted to R750 000. Opaline's correctly calculated taxable income for the 2017 year of assessment amounted to R940 000.

REQUIRED: QUESTION 3		**MARKS**
Part A	Calculate the taxable income of Opaline for the **2017** year of assessment. Assume that the information presented in Part A is the only information available for this calculation.	10
Part B	Calculate the taxable income/assessed loss of Opaline for the **2017** year of assessment. Clearly indicate and provide brief reasons for nil effects. Assume that the information presented in Part B is the only information available for this calculation.	5
Part C	Calculate the taxable income of Opaline for the **2017** year of assessment. Provide brief reasons for your treatment. Assume that the information presented in Part C is the only information available for this calculation.	10
Part D	Calculate the correct amount that Opaline should have paid for its second provisional tax payment in respect of the **2017** year of assessment. In addition, calculate any penalties and interest arising in the 2017 year of assessment as a result of Opaline's actual second provisional tax payment. Assume that Opaline would like to pay the least amount of tax legally possible.	5

	Assume that the information presented in Part D is the only information available for this calculation.	
TOTAL MARKS		**(30)**

QUESTION 4: VALUE-ADDED TAX (VAT) **10 Marks**

Mr Jack Juby approaches you with his VAT queries. He wants you to assist him in calculating his VAT for the tax period 1 March 2017 to 30 April 2017 to submit his VAT201 return.
He is a local plumber and is a registered VAT vendor who only makes taxable supplies.
He had the following transactions during the above mentioned tax period (all amounts include VAT where applicable):

		R
1.	Local sales of plumbing equipment	228 000
2.	Charges for local installations and plumbing repair services	157 000
3.	Labour paid for the two months in total (R38 0000 per month)	(76 000)
4.	Purchases of plumbing equipment – from local suppliers registered as VAT vendors	(85 000)
5.	Sale of his own private residence	1 780 000
6.	Interest paid on his local business bank account	(12 000)
7.	Purchases of fuel for his business delivery van and bakkies (pick-ups)	(27 000)
8.	Rental received for a flat that he rents out in terms of an annual contract – for the two months (R5 000 per month)	10 000
9.	Installation income of bathrooms for a game lodge in Tanzania	254 000
10.	Purchase of new delivery vehicle (not a motor car as defined)	(226 000)

REQUIRED: QUESTION 4	**MARKS**
Calculate the final VAT payable to or receivable from the SARS for Mr Jack Juby for the tax period which he required. Where a specific transaction will have	10

no or a zero VAT effect it should be clearly indicated together with a short reason for it. Show output tax and input tax items separately.	
TOTAL MARKS	**(10)**

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

ANNEXURE A

Monetary amounts IN RESPECT OF THE 2017 YEAR OF ASSESSMENT:

Natural persons for the 2017 year of assessment

Exemption for interest income (section 10(1)(i))

- The annual exemption on interest earned for individuals younger than 65 years - **R23 800** (2016 - R23 800).
- The exemption for individuals 65 years and older - **R34 500** (2016 - R34 500).

Rebates (section 6)

- Primary rebate: **R13 500** (2016 - R13 257)
- Secondary rebate: **R7 407** (2016 - R7 407)
- Tertiary rebate: **R2 466** (2016 - R2 466)

Medical scheme fees tax credit (section 6A)

- Monthly tax credits for taxpayers:
  - **R286** (2016 - R270) for each of the taxpayer and first dependant, and
  - **R192** (2016 - R181) for each additional dependant.

Tax tables

Individuals and special trusts

Year of assessment ending 28 February 2017	
Taxable income	**Taxable rates**

0 – 188 000	18% of each R1
188 001 – 293 600	R33 840 + 26% of the amount above R188 000
293 601 – 406 400	R61 296 + 31% of the amount above R293 600
406 401 – 550 100	R96 264 + 36% of the amount above R406 400
550 101 – 701 300	R147 996 + 39% of the amount above R550 100
701 301 and above	R206 964 + 41% of the amount above R701 300

Travelling allowance

Value of the vehicle (including VAT)	Fixed cost	Fuel cost	Maintenance cost
R	**R per annum**	**c per km**	**c per km**
0 – 80 000	26 675	82.4	30.8
80 001 – 160 000	47 644	92.0	38.6
160 001 – 240 000	68 684	100.0	42.5
240 001 – 320 000	87 223	107.5	46.4
320 001 – 400 000	105 822	115.0	54.5
400 001 – 480 000	125 303	132.0	64.0
480 001 – 560 000	144 784	136.5	79.5
Exceeding 560 000	144 784	136.5	79.5

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

SARS Official Rate of Interest:

1 February 2016 – 7.75%

1 April 2016 - 8%