

Tax Technician

Knowledge Competency Assessment

NOVEMBER 2016

SOLUTIONS PAPER 1 & PAPER 2

Instructions to Candidates

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

Question	Topic	Marks	Answer Book
1	Individual Tax	35	
2	Donations Tax, Estate Duty, Provisional Tax, Employees' Tax and Diverse Income Tax issues	65	
3	Analysis of financial statements	40	
4	Corporate Tax	40	
5	Value-Added Tax	20	

Total marks: 100

Time: 4 hours plus ½ hour reading time

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

3. Enter your examination number on the cover of each answer book as well as on all answer sheets.
4. Your name must not appear anywhere in the answer books.
5. Answers may not be written in pencil and correction pens (tipex) may not be used.
6. 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.
7. 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.

PAPER 1

Question 1

35 marks

INDIVIDUALS

Individuals Question - Solution

E-mail 1

Current Status: Travel Allowance

Allowance Received		60 000	1
Total km	12 000		
Private km	5 200		
Business km	<u>6 800</u>		1
<i>Deemed Cost</i>			
Fixed cost according to table	84 945		0.5
Value of the vehicle including VAT but excluding finance charges			
R292 800 - R19 200 = R273 600			1
Fixed cost per km ($84\,945 / 12\,000 * 100$)	707.9c		0.5
Fuel cost per km	102.7c		0.5
Maintenance cost per km	<u>44.1c</u>		0.5
Total cost per km	<u><u>854.7c</u></u>		
<i>Actual Cost</i>			
Wear and tear ($R273\,600 / 7$)	39 086		0.5
Finance charges	9 625		0.5
Maintenance cost	4 700		0.5
Fuel	<u>34 400</u>		0.5
	<u>87 811</u>		
 R87 811 / 12 000 * 100	 <u><u>731.8</u></u>		 0.5P 0.5
Choose most favourable			1P
Deduction for business use ($6\,800 * 854.7c$) / 100		<u>-58 120</u>	1
Effect on taxable income		<u><u>1 880</u></u>	1P

Alternative 1: Reimbursive Allowance

Simplified method as he travelled less than 8000 km for business purposes during the year of assessment.

Received: (4.13 * 6 800 km)	28 084	0.5
		0.5
Business travel: (3.18 * 6 800 km)	-21 624	1
		0.5
Effect on taxable income	6 460	1P

Alternative 2: Right of use of a motor vehicle

		0.5
		1
Value of private use (R349 800 * 3.25% *12)	136 422	0.5
		0.5P
Par 7(7) adjustment (136 422 * 6 800 / 12 000)	-77 306	0.5
Par 7(8) adjustment		0.5
- Licence (730 * 5 200 / 12 000)	-316	0.5
		0.5
- Fuel Cost (5 200 * 109.9 / 100)	-5 715	1
		1
Effect on taxable income	53 085	1P

Conclusion: If you purely assess the situation based on the impact on taxable income, the best option would be to keep the current status, being the receipt of a fixed travel allowance.

1P

MAXIMUM

19

Individuals Question – Solution

E-mail 2

Zama's Tax due to or from SARS for the 2016 year of assessment

Marks not awarded for descriptions.

Gross Income

Annual Salary	Gross Income definition	R 600 000	0.5
Annual Bonus	Gross Income definition	R 50 000	0.5
Interest	Gross Income definition	R 5 000	0.5

Exempt Income

Interest	s 10(1)(i)	-R 5 000	1
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<65 - R23 800 (limited to R5000)

Income		<u>R 650 000</u>	
Deductions			
Laptop	s 11(e) <R7 000 small value item claimed in full	-R 6 500	1
Household expenditure	Not prohibited in terms of s 23(b) -Specifically equipped -Exclusively used for business purposes -Duties mainly performed from home		
- Rent	21 000 * 12 months * (50/270)	-R 46 667	0.5 1
- Housekeeper	2 300 * 12 months * (50/270)	-R 5 111	0.5 0.5P
- Gardener	9 500 * 20%	-R 1 900	1
- Water and electricity	31 600 * (50/270)	-R 5 852	0.5
Subtotal 1	A	<u>R 583 970</u>	
RAF	s 11 (n)	-R 14 400	
Contributions limited to the higher of:	1 200 * 12 = 14 400 - 1750 - 15% of NRFI (A) = 87 596 - R3 500 - amount deducted for PF (0) = 3 500 <i>Not limited</i>		1 0.5 1P 0.5
Taxable Income		<u><u>R 559 570</u></u>	
Tax as per tax tables	R149 619 + 39% (R569 570 - R550 100)	R 157 212	1P
Less Primary Rebate		-R 13 257	0.5
Less Section 6A credit	R270 * 12	-R 3 240	1

			0.5
Less Section 6B credit	25% * ((R1 040 x 12 = 12 480) - (4x R3 240) = 0	R 0	0.5
Less PAYE		-R 160 705	0.5
Tax due by / (to) taxpayer		-R 19 990	
MAXIMUM			16

Question 2

65 marks

DONATIONS TAX, ESTATE DUTY, PROVISIONAL TAX, EMPLOYEES' TAX AND DIVERSE INCOME TAX ISSUES

QUESTION

PART A

A. PROVISIONAL TAXPAYER RULES	
You earn remuneration as well as other business income	1
Which is greater than the tax threshold of R73 650 (2017: R75 000)	1
Your taxable income from investments is greater than the exemptions	1
Interest 36 000 and exempt 10(1)(i) 23 800 = 12 200	1
Dividends 2 000 and exempt 10(1)(k) 2 000 = 0	
You will need to register as a provisional taxpayer	1
WHEN TO REGISTER	
You need to register within 21 days of becoming a provisional taxpayer	1
You can register as an e-filer on SARS e-filing website and you can do and submit all tax returns on e-filing	1
HOW to PAY provisional tax	
Two compulsory payments every 6 months	1
(31 AUG and 28 FEB) and	1
compulsory third payment if your taxable income is >R50 000 –	1
7 months after your year end (30 SEPT)	1
RETURN	
IRP 6 return for each payment on e-filing	1
AVAILABLE	12
MAXIMUM	12

B. Employees tax	MARKS
John is a PART TIME EMPLOYEE	1
Employees tax at 25%	1
R48 000 x 25% = R12 000	1
AVAILABLE	3

MAXIMUM	3
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	MARKS
M Mahlangu annualised balance of remuneration for month of December is Salary and Commision R2 620 x 12 = R 31 440	1
Bonus R 500	1
Total annualised Dec salary R 31 940	
This is below the tax threshold of R73 650	1
So no tax needs to be deducted	1
AVAILABLE	4
MAXIMUM	4

PART B

2nd payment	Estimate	R342 000	1
Tax per tables	59 314 + (342 000 – 284 100) x 31%	77 263	1
Less rebate		(13 257)	1
Less first payment		(21 630)	1
Less employees tax		(21 440)	1
Tax payable		20 936	
Par 20 – under estimate	Estimate R342 000 < 90% x R395 000 = R355 500 and < basic 350 000		1
	Tax on Basic 79 743		1
	Less Rebate (13 257)		1
	Less: 1 st PMT (21 620)		1
	Less: PAYE (21 440)		1
	23 426		
PENALTY	23 426 x 20%	4 685	1 1P
PAR 27 LATE Payment	23 426 x 10%	2 343	1 1P
PAR20(2B)	The par20 penalty is reduced by a penalty imposed by par27. Therefore, the par20 penalty to be paid is R2 342 (R4 685 – R2 343)		1 1P
3rd Payment	Based on ACTUAL Taxable Income	395 000	1
Tax per tables	93 135 + (395 000 – 393 200) x 31%	93 693	1
Less rebate		(13 257)	1
Less first payment		(21 620)	1
Less employees tax		(21 440)	1
Tax Payable		37 376	

Plus penalties	2 342 + 2 343	4 685	1P
	TOTAL PAYABLE	42 061	1P
<u>MAXIMUM</u>			21

PART C

Loan to friend			
Debt written off	(20 000 – 2 000) = 18 000	18 000	11
Donation to husband	500 000 – exempt ito s56(1)b	0	1
Son - property	Bare dominium		
	Annual value 12% x R1 500 000 = 180 000		1
	Usufruct (husband) on next birthday 65 yrs		1
	Life expectancy 11.77		1
	Male factor 6.13789		1
	180 000 x 6.13789 = 1 104 820		1P
	Full market value R1 500 000		
	Bare dominium R1 500 000 – 1 104 820	395 180	11P
Husband usufruct	Based on donor/donee life or shorter period		
	Annual value 180 000		1
	Sarie next birthday 61		1
	Life expectancy 18.04 (7.25457)		1
	Son next birthday 26		1
	Life expectancy 42.10		1
	Use Sarie as LESSER life expectancy		1
	Usufruct value donated R180 000 x 7.25457	1 305 823	11P
Less exemption	Basic annual exemption s 56(2)(b)	(100 000)	1
Donations tax	@ 20%		1
			MAX 20

PLEASE REFER TO UPDATED/ALTERNVATIVE SUGGESTED SOLUTION BELOW:

Date	Donation	Donation	Specific Exemption	Annual exemption	Value subject to 20%	Donations Tax @20%	
1/11/2015	Deemed donation to friend R20 000 – R2 000 = R18 000	18 000	n/a	(18 000)	Rnil	Rnil	2
	Cash to husband	500 000	(500 000) S56(1)(b)	n/a	Rnil	Rnil	1
	Usufruct to husband: Market Value = R 1 500 000 Annual Value = R1 500 000 x 12% = R180 000 Shortest life expectancy of: Donor: 18.04 (61yrs.)	1 104 820	(1 104 820) S56(1)(b)	n/a	Rnil	Rnil	1P
							1
							1

	Donee: 11.77 (65 yrs.) Fixed period: n/a Therefore, use donee life expectancy						1
	PV = R180 000 x 6.13789 = R1 104 820						1P
	Bare dominium to son: Market Value = R 1 500 000 Annual Value = R1 500 000 x 12% = R180 000 Life expectancy of usufruct holder: 65 yrs. next birthday Life expectancy: 11.77 Male factor: 6.13789 Usufruct PV = R180 000 x 6.13789 = R1 104 820 (as above) Therefore, usufruct = R1 500 000 – R1 104 820 = R395 180	395 180	n/a	(82 000) [100 000 – 18 000]	313 180	62 636	11P
							1
							1
							1
							1
							1P
							1P
	AVAILABLE						20
	MAXIMUM						20

PART D

			MARKS
<u>1.</u>	B - Price obtained at auction – R1.8m	S5(1)a	2
2.	A – price on date of death – R20 000	S5(1)(f)(bis)	2
3.	12% of R4m = R480 000	S5(1)(b)	2
	AVAILABLE		6
	MAXIMUM		5

PAPER 2 QUESTION 1

ANALYSIS OF FINANCIAL STATEMENTS

1. Whether the company needs to be registered for VAT?
2. Does the company have to prepare financial statements in accordance with an accepted reporting framework?
3. And if so what this set of financial statements should include?
4. And if these financials statements need an external approval?

Any other concerns?

Discuss your concerns (risks evident) with regard to the financial statements and tax affairs of LAC (Pty) Ltd.

MARKS

VAT

- | | | |
|---|--|---|
| 1 | The company is not registered for VAT | 1 |
| | It's turnover was R39.5 million for the year | 1 |
| | while the registration threshold in the VAT Act is R1 million | 1 |
| | It also does not appear to be making exempt supplies (distribution of cell phone accessories not exempt)/ TAXABLE SUPPLIES ONLY | 1 |
| | May have 10% VAT penalties for not submitting VAT | 1 |
| | Invoices might be issued wrong | 1 |

FINANCIAL STATEMENTS - FRAMEWORK

- | | | |
|---|---|---|
| 2 | The financial statements are compiled internally . | 1 |
| | This is allowed by the Companies Act | 1 |

- | | | |
|---|---|---|
| 3 | No recognised accounting framework (standard) is used to prepare the financial statements. | 1 |
| | One needs to consider the Public Interest Score of the company to determine whether this is allowed: | 1 |

Average number of employees		1
58 + 2 (directors are also counted)	60	11

Each million in turnover (or portion thereof)		1
40 points for the R39.5 million in turnover	40	11

Each million in third-party liability (or portion thereof)		1
21 points for R20.1 million in third party liabilities	21	11

One point for each individual with interest in the shares		1
Three individual shareholders , therefore 3 points	3	11

TOTAL	124	1
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Since the Public Interest Score is more than 100 ,	1
the Companies Act requires the entity to compile its financial statements	1

	using IFRS	1
4	The financial statements are not subject to an audit . An audited enhances the credibility of the information reported in the financial statements. However, since the PI score is less than 350, no audit is required (not compulsory).	1 1 1
5	The financial statements are not subject to an independent review An independent review also enhances the credibility of the information reported in the financial statements. It is a Companies Act requirement to have at least an independent review unless: all persons who hold a beneficial interest in the company are also directors . Mike Burnett and Marcus Lowry are shareholders and also directors . But Carl O'Halloran is a shareholder but not a director . Therefore an independent review is required for the financial statements.	1 1 1 1 1 1 1
6	There is no statement of cash flows as part of the financial statements. There is no notes presented as part of the financial statements.	1 1
	The minimum requirements for financial statements (IFRS/IFRS for SMEs) is:	1
	Statement of financial position/ (balance sheet)	1
	Statement of other comprehensive income (income statement)	1
	Statement of changes in equity	1
	Statement of cash flows	1
	Notes to the financial statements	1
	These must all be presented with equal prominence .	1
	OTHER	
	FM attitude is questionable	1
7	The submission of the 2014 tax return was supposed to be made within one year after year-end (31 December 2015) and is therefore late . Not registered for Provisional tax Other valid concern	1 1 1 MAX 2
	MAXIMUM	40

PAPER 2 QUESTION 2

	Reason	Amount	Marks
Operating profit		1 312 200	0.5
Revenue	GI definition-amount accrued at year end	150 000	1
Bad debt	S 11(i)/ bad debts written off/ specific deduction- amount previously included in gross income	(175 000)	1
Provision for bad debts allowance 2016	75 000 X 25% - specific deduction/s11(j)	(18 750)	1
Provision for bad debts allowance 2015	50 500 X 25%	12 625	1
Legal fees	legal fees - specific deduction S 11 (c) / S11(a)	(14 000)	1
Provision for anticipated losses	Prohibited deduction s 23(e) Not actually incurred –	0	1
Loss of employee - Restraint of trade	Nasionale Pers/Edgars Stores S 11(cA) - Restraint of trade, specific deduction Lesser of = R250 000/3 = R83 333 = R250 000/5 = R50 000 R50 000 is deductible in the 2016 year of assessment.	(50 000)	1B
Salaries	S 11(l) - fund contribution deduction, specific deduction R600 000 limited to R2 500 000 * 20% - Limited	(500 000)	0.5 1 1
SARS penalties	Prohibited deduction s 23(d)	0	1
Commercial building allowance	S 13 quin/ special deduction: Original cost 2016: 2 200 000 X 5%	(110 000)	0.5 1
Computer Equipment	S 11 (e):/special deduction Original cost (R143 640 * 100/114) 2015: 126 000/3 X 2/12	126 000 (7 000)	1.5 1 1

	2016: $126\,000/3 \times 4/12$	<u>(14 000)</u>	(14 000)	1
	Tax value	<u>105 000</u>		
	Disposal allowance, s 11(o)/specific deduction			
	Proceeds limited to cost	80 000		0.5
	Tax value (<i>mark through</i>)	(105 000)		1P
	Disposal allowance	(25 000)	(25 000)	P
	No CGT, asset sold below tax value/ scrapping loss			0.5
Apartments	S13sex building allowance/ special deduction:			1
	= $R320\,000 * 55% * 6 * 5%$			0.5
			(52 800)	0.5
	Additional low cost allowance		(52 800)	1
	Test for low cost apartments: Cost \leq R350 000 and Monthly Rent \leq 1% of cost; both requirements satisfied			1
Rental	S11(a)/general deduction - Rental		(90 000)	1
	S 11(g) / Special deduction Lease premium = $R150\,000/5 \times 6/12$		(75 000)	11
Photocopy machine	S 11 (e): Original cost (R150 000) 2016: $150\,000/5 \times 12/12$ Moving Costs: R12 000 Written off over remaining years (4)		(30 000)	11
	= $12\,000/4$		(3 000)	0.5
Assessed loss	section 20		(230 000)	1
Taxable income			34 475	
Tax at 28%	$R34\,475 \times 28%$		9 653	1
Provisional payments			(70 000)	1
Tax due from SARS			(60 347)	
			Max	32

PAPER 2 QUESTION 2 PART 2

CALCULATION OF DIVIDENDS TAX

	Calculation	Reason	Amount	Mark
a) Dividend definition				
Dividend declared	$= 1\,000\,000 \times R2 = 2\,000\,000$			1
	000			
	The amount of R2 000 000 is an amount transferred for the benefit of shareholders in the company in respect of shares held by shareholders in the company.			1
	The amount transferred will qualify as dividends as defined			1
2. Dividends tax calculation				
1. Opperman	$= 600\,000 \times R2 = R1\,200\,000$			0.5
	$= 1\,200\,000 \div 2 = R600\,000$			0.5
	$= R600\,000 \div 115 \times 15 = R78\,261$		R 78 261	1
Audi A3	$= R520\,000 \div 115 \times 15 = R67\,826$		R 67 826	1
	OR GIVE 1mark vir x 15%			
2. Conradie	S64F(1)(a) - resident companies exempt from dividends tax		0	1

c) Date of payment

Dividends tax is levied on the **date that a dividend paid**.

For a non-listed company a dividend is deemed to be paid on the **earlier** of the date of which it is **paid** or the date on which it **becomes due and payable**.

For the cash dividend of R600 000 dividend tax is levied on **31 March 2016** which is the date it became due and payable.

Max

1
8

PAPER 2 QUESTION 3 - VAT

Output VAT	Calculation	Reason	R	Marks
Twelve cars sold	$2\,400\,000 \times 14/114$	Taxable supply	294 737	1 One for calc
Car to non-resident	$150\,000 \times 14/114$	Indirect export	18 421	11 One for calc, one for reason.
Total OUTPUT VAT			313 158	
Input VAT				

Eight motor cars	900 000 x 14/114	Bought from vendors, purpose to resell, input VAT allowed/ standard rate supply	110 526	11	One for calc, one for reason.
Four motor cars	550 000 x 14/114	Bought from non- vendors, purpose to resell, deemed input VAT allowed	67 544	11	One for calc, one for reason.
Two double cabs	400 000 x 0	Motor cars as defined, not purchased to resell, input VAT denied	0	11	One for calc, one for reason.
One personal vehicle	250 000 x 0	Not purchased to resell/ not part of enterprise, input VAT denied/motor vehicle as defined	0	11	One for calc, one for reason.
Fuel	3500 x 0	Zero-rated supply to RW	0	11	One for calc, one for reason.
Two front bumpers	45 000 x 14/114	Part of taxable supply	5 526	1	One for calc
One front light	500 x 14/114	Part of taxable supply	61	1	One for calc
One car tow bar	2 500 x 14/114	Not a motor car, part of enterprise, input VAT allowed	307	11	One for calc, one for reason.
One side mirror	1200 x 0	Not part of enterprise	0	11	One for calc, one for reason.
Total INPUT VAT			183 964		
Total VAT liability less VAT liability already paid			129 194	0.5P	
VAT owed to SARS			79 194	0.5	
SARS calc is R10k overstated MAXIMUM					1P 20