

OCCUPATIONAL CERTIFICATE: TAX TECHNICIAN

SAQA ID: 94098

Initial Test of Competency

RPL Assessment

November 2017

Paper 1

QUESTIONS 1, 2, 3 & 4

CANDIDATE NUMBER									
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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 17) in respect of the **2017** year of assessment.

QUESTION 1: GENERAL AWARENESS

MULTIPLE CHOICE QUESTIONS

30 Marks

Question 1 consists of ten **multiple-choice questions**, each with five possible answer **options**. Read each **question** and answer **option** carefully and choose the **ONE** correct answer option. Please use the Multiple Choice Answer Grid that was included and mark only one box for each question. **Only use a pencil** and make a (X) over the correct answer option.

You may accept that all persons mentioned in the ten questions to follow are residents for South African Income Tax purposes.

QUESTION 1.1

[3 marks]

Bluebird (Pty) Ltd is a registered VAT vendor. The company purchased 2 new cell phones from Compu Co (Pty) Ltd for its employees at a total cost of R4 800 (VAT included). The SARS indicated to Bluebird (Pty) Ltd that the input tax deduction will not be allowed since Bluebird (Pty) Ltd is not in possession of a valid tax invoice. Bluebird (Pty) Ltd received the following invoice:

COMPU CO (PTY) LTD TAX INVOICE	
Cell phones	R4 800
Total price	R4 800

What additional information has to be included in the invoice for it to be a valid tax invoice?

- (1) VAT registration number and address of the supplier.
 - (2) Name, VAT registration number and address of the recipient.
 - (3) An individual serialized number and date upon which the tax invoice was issued.
 - (4) A description of goods supplied.
 - (5) The quantity of goods supplied.
 - (6) Value of the supply, the amount of tax charged and the consideration for the supply **OR** where the amount of tax charged is calculated by applying the tax fraction to the consideration, the consideration for the supply and either the amount of the tax charged, or a statement that it includes a charge in respect of the tax and the rate at which the tax was charged.
- A. All of the above must be included.
 - B. 1, 3, 4, 5 and 6 must be included.
 - C. 3, 4, 5 and 6 must be included.
 - D. 1, 3, 4, and 6 must be included.
 - E. 2, 3, 5 and 6 must be included.

QUESTION 1.2

[3 marks]

Bathilda Bagshot is 66 years old and not married. Bathilda sold her primary residence for R2 500 000 on 1 December 2016. The residence was originally acquired on 1 March 2014 at

a cost of R1 200 000. From the date of acquisition Bathilda used 40% of the total square meters of the property as a guest house. The remaining 60% was exclusively used for private purposes. Bathilda had no other disposals of capital assets during the 2017 year of assessment.

Bathilda Bagshot will realise a taxable capital gain of R_____ during the 2017 year of assessment:

- A R192 000
- B R384 000
- C R480 000
- D R0
- E R520 000

QUESTION 1.3

[3 marks]

During the 2017 year of assessment Ludo Bagman donated R6 000 in cash to his local animal shelter (a registered public benefit organisation). He received a valid section 18A receipt. His taxable income prior to any deduction under section 18A amounted to R55 000.

What is the amount Ludo Bagman may claim as a section 18A deduction for the 2017 year of assessment?

- A. Rnil, as cash donations are not allowed in terms of section 18A.
- B. R55 000
- C. R6 000
- D. R5 500
- E. R1 200

QUESTION 1.4

[3 marks]

Milk (Pty) Ltd is a registered VAT vendor who makes 95% taxable supplies. The company acquired a Volkswagen Polo for R228 000 (including VAT) on 1 January 2017. The right of use of the Volkswagen Polo was given to the financial manager from 1 January 2017. The financial manager is responsible for the full cost of the Volkswagen Polo's repairs and maintenance.

What will the VAT consequences of the above transaction be for the two-month VAT period ending on 28 February 2017?

- A. Input tax of R28 000 can be claimed, but there will be no output tax on the transaction.
- B. No input tax may be claimed, but output tax of R126.49 need to be paid.
- C. No input tax may be claimed, but output tax of R63.24 need to be paid.
- D. Input tax of R28 000 can be claimed and output tax of R126.49 need to be paid.
- E. No input tax may be claimed, but output tax of R147.37 need to be paid.

QUESTION 1.5

[3 marks]

Mr Desmond Pott purchased trading stock for R60 000 (excluding VAT). He also incurred handling fees of R1 500 (excluding VAT) and paid a transporter R5 000 (excluding VAT) to deliver the trading stock at his premises.

What will Mr Pott's cost price of the trading stock be for normal tax purposes?

- A. R65 000
- B. R60 000
- C. R61 500
- D. R66 500
- E. R67 200

QUESTION 1.6

[3 marks]

Mrs Denise Ching carries on a business as a sole proprietor and made the following payments during the 2017 year of assessment:

Medical scheme fee contributions in respect of all employees	R 65 000
Salaries and wages to employees	R500 000

What amount can Mrs Denise Ching claim as a deduction (if any) for normal tax purposes based on the information provided above in respect of the 2017 year of assessment?

- A. R565 000
- B. R500 000
- C. R550 000
- D. R 50 000
- E. Rnil

QUESTION 1.7

[3 marks]

Meyer Trust is a local testamentary trust and has a taxable income of R200 000 for the year of assessment ending on 28 February 2017. Included in the R200 000 is taxable interest income of R15 000. No beneficiary has a vested right to the income. Meyer Trust is not a special trust. Calculate the tax payable by Meyer Trust in respect of the 2017 year of assessment.

- A. R72 242
- B. R82 000
- C. R80 000
- D. R90 000
- E. R56 000

QUESTION 1.8

[3 marks]

Mrs Bright (a South African tax resident) lets out a room within her main home (used as primary residence) on a bed-and-breakfast basis. The bedroom has its own en-suite bathroom. The total area of the house (including garages and outbuildings) is 300 square

metres, while the area which is let, is 70 square metres (bedroom) and 16.25 square metres (en-suite bathroom). Mrs Bright’s total rental income for the 2017 year of assessment was R50 000. Mrs Bright incurred the following expenses during the 2017 year of assessment:

Expenses	Amount
Rates and taxes (for the entire residence)	R 9 600
Security (for the entire residence)	R 2 000
Advertisements (see note1)	R 1 000
Improvements to garage (see note 2)	R10 000

Notes:

1. Advertisements incurred 100% in production of rental income.
2. Improvements to garage are capital in nature.

What is the amount that Mrs Bright would be able to deduct for normal tax purposes in the 2017 year of assessment?

- A. R3 314
- B. R4 335
- C. R7 189
- D. R6 189
- E. R3 602

QUESTION 1.9

[3 marks]

Mr Kurk (66 years old) is retired and has a taxable income of R250 000 for the 2017 year of assessment. He is married and his wife is a qualifying dependant on his medical scheme. During the 2017 year of assessment Mr Kurk paid R3 000 per month to his medical scheme. He also paid medical expenses of R13 000, which were not recovered from the medical scheme.

The section 6 medical tax credits that Mr Kurk will be able to deduct from his normal tax liability for the 2017 year of assessment amounts to R_____.

- A. R 13 500
- B. R 6 864
- C. R20 364
- D. R 9 460
- E. R16 324

QUESTION 1.10

[3 marks]

Aaron, a South African resident, passed away on 30 January 2017, the day before his 65th birthday. He was married to Susan for 45 years. They were married in community of property. Susan is 60 years of age.

Which combination of the following statements are true?

- (1) Aaron will qualify for both the primary and secondary rebate in terms of section 6.
- (2) Aaron will qualify for an annual exclusion of R300 000 against his capital gains, while his estate will qualify for an annual exclusion of R40 000 against the estate's capital gains.
- (3) Both Aaron and his estate will each qualify for an annual exclusion of R300 000 against capital gains.
- (4) Aaron will only qualify for the primary rebate in terms of section 6 and not also for the secondary rebate.

- A. 1 and 2.
- B. 1 and 3.
- C. 2 and 4.
- D. 3 and 4.
- E. None of the above.

QUESTION 2: INDIVIDUALS (PERSONAL TAX)

30 Marks

Mr Florean Fortescue is 57 years old and ordinarily resides in South Africa. Florean is married out of community of property to Mrs Muriel Fortescue. The Fortescues do not have any children or other dependants. Florean is a senior store manager of Flourish and Blotts (an international bookstore chain).

The following information pertains to the 2017 year of assessment:

Receipts	Note	Amount
Lump sum	1	R150 000
Salary (annual)		R430 000
Right of use of a motor vehicle	2	?
Investment income	3	?
Expenses		
Fuel cost	2	R35 000
Pension fund contributions (own)	4	R72 000

Notes:

1. Florean's employment contract provides for the pay-out of his unused leave balance at the end of every three year cycle. Florean received a lump sum of R150 000 from Flourish and Blotts in respect of accumulated leave pay on 28 February 2017.
2. Flourish and Blotts requires Florean to attend local auctions of antique and uncommon books. Florean's own vehicle is not suitable to travel long distances. Flourish and Blotts decided to award Florean with the right of use of a new and unused vehicle on 1 May 2016 which they purchased (inclusive of a maintenance plan) on 1 March 2016. The retail market value of the vehicle was R520 000 (including VAT) on 1 March 2016.

Florean's accurate and valid logbook indicates that he travelled a total of 25 000 km during the 2017 year of assessment of which 12 000 km was for business purposes.

Florean is responsible for all fuel costs, however Flourish and Blotts bears the full costs of the license, maintenance and insurance. Florean was unable to locate his receipts to prove his cost of fuel, but estimates that he incurred fuel costs of R35 000. Flourish and Blotts incurred R600 for the license, R6 500 for insurance and R2 000 for maintenance in respect of the vehicle.

3. In addition to other retirement savings Florean holds a number of passive investments. Income received in respect of these investments is reflected in his IT3(b) certificate below:

Extract from: IT3(b) Tax certificate: investment income for the 2017 year of assessment

Investor name: F Fortescue

Investor number: 290158085

Investment	Gross RSA source interest (accrued evenly)	Net local dividend declared on 28 February 2017**
Money market account	R40 000	
Shares in Richemont (JSE:CFR)		R50 000

**** Net local dividend is shown after the deduction of Dividend Withholding Taxes. The dividend was paid on 1 April 2017.**

4. Florean contributed R6 000 per month to an approved pension fund. Flourish and Blotts matches the monthly contribution of every employee. Florean’s remuneration (as defined in the Fourth Schedule to the Income Tax Act) amounted to R708 108 (assume to be correctly calculated) for the 2017 year of assessment.
5. Florean’s annual medical scheme fee contributions for the 2017 year of assessment amounted to R36 000. Flourish and Blotts did not make any contributions on Florean’s behalf. Both Florean and Muriel are recognised as dependents in terms of the rules of the medical scheme. Florean paid qualifying medical expenses of R10 000 during the 2017 year of assessment that were not recovered from the medical scheme.

REQUIRED: QUESTION 2	MARKS
<p>Calculate the normal tax payable by Florean Fortescue in respect of the 2017 year of assessment.</p> <p><i>Communication skills - presentation and layout</i></p> <p>Instructions to candidates:</p> <ul style="list-style-type: none"> • Structure your answer in the appropriate framework applicable to natural persons. • Section references to the Income Tax Act are not required. 	<p>29</p> <p>1</p>
TOTAL MARKS	(30)

QUESTION 3: COMPANIES (CORPORATE TAX)

30 Marks

Ignore Value-Added Tax for purposes of this question.

Bent Bottling Ltd (hereafter referred to as 'Bent Bottling') is an unlisted resident company that specialises in the bottling of beverages. The scope of services involves the receipt and storage of packaging and raw material with some processing for example cold stabilization, filtration and blending. Bent Bottling acquires glass bottles from various suppliers in order to meet the requirements of their clients. Empty glass bottles and filled glass bottles qualifies as trading stock. Storage and dispatch of beverages is situated at the bottling plant in the Western Cape. The following information in respect of the financial year ending 28 February 2017 is provided:

Statement of profit or loss and other comprehensive income for the year ending 28 February 2017		
	Note	R
Income	1	3 950 000
Cost of sales		(1 070 000)
- Opening stock	2	(72 000)
- Purchases	2	(1 120 000)
- Closing stock	2	122 000
<i>Expenditure:</i>		
- Employee benefit costs	3	(950 500)
- Lease payments	4	(389 000)
- Depreciation	5	(697 000)
- Legal expenditure in respect of strike	6	(69 600)
- Other trade expenditure	7	(333 750)
- Interest in respect of provisional tax payment	8	(525)
Profit before tax		439 625

Notes:

1. Income consists of income received in respect of bottling services provided. Bent Bottling also received R120 000, which is included in income, from a source outside the Republic of South Africa as result of bottling services rendered at a client's bottling plant situated in Namibia.
2. Trading stock amounting to R1 120 000 was purchased on credit during the current year and this amount will be settled during the next year of assessment (i.e. 2018). Outstanding creditors amounting to R536 000 in respect of trading stock purchased during the previous year of assessment (i.e. 2016) were paid during the current year and recognised as an expense during the previous year of assessment.
3. The employee benefit costs in respect of employees consist of the following:
 - 3.1 Net salaries and wages amounting to R565 800 paid to employees.
 - 3.2 Employees' tax amounting to R254 200 in respect of salaries and wages paid to the SARS.
 - 3.3 Bent Bottling contributed R120 000 on behalf of employees to an approved provident fund during the financial year in terms of the current conditions of employment with employees.
 - 3.4 Bent Bottling voluntarily paid the gym membership of their managing director which amounted to R10 500 during the current year of assessment.
4. Bent Bottling owns their own office building but leases a factory building in respect of which lease payments are made. In terms of the lease agreement Bent Bottling has incurred lease payments amounting to R389 000 during the current year of assessment. The bottling plant owned by Bent Bottling (see note 5.1) is installed and used in the factory building.
5. Depreciation was recognised in respect of the following assets:
 - 5.1 Bottling plant (machinery consisting of a fully automated low pressure filler with self-adhesive labeller) acquired new at R2 250 000 on 1 July 2014. In addition to the acquisition cost installation expenditure totalling R175 000 also had to be incurred during

July 2014 for the installation of the plant before it could be brought into use in its process of manufacture (as approved by the SARS).

- 5.2 Additional bottling machinery acquired new at R37 000 on 1 August 2016. The machinery was also brought into use on 1 August 2016.
 - 5.3 Office furniture acquired new at R234 000 on 1 June 2014 and used in the office building of Bent Bottling since 1 June 2014.
 - 5.4 Delivery van acquired new at R375 000 on 1 August 2014 and used exclusively for the delivery of completed goods (after bottling is completed).
 - 5.5 Advertisement board erected at a total cost of R49 000 and brought it into use from 1 December 2016 to advertise the services of Bent Bottling.
 - 5.6 Office building acquired at R1 345 000 on 1 March 2014 from another company which previously also used the office building.
 - 5.7 Lift which was installed at a cost of R345 000 in the office building of Bent Bottling. The lift was fully installed and brought into use on 1 December 2016. Due to the fact that there were previously no lifts in the office building Bent Bottling also had to pay an additional R85 000 on 1 October 2016 for supporting pillars that had to be installed to prevent the weight of the lifts causing possible damage to the structure of the office building over time. It is estimated that the supporting pillars could be utilised over the next 20 years to reinforce the structure of the office building, even if the lift are subsequently removed.
6. Employees of Bent Bottling participated in a legal strike (allowable in terms of the rules of their labour unions) during November 2016. This strike was due to wage disputes and after two weeks of negotiation Bent Bottling and their employees reached a settlement and the employees resumed work. Bent Bottling paid legal expenditure of R69 600 to legal practitioners to negotiate a reasonable increase in wages.

In addition to the legal expenditure the strike is also estimated to have resulted production losses of R92 000 suffered as result of production which had to be suspended during the strike. The R92 000 has been reliably determined with references to the loss of output due to the strike but was not recognised as an expense for accounting purposes.

7. Bent Bottling incurred the following miscellaneous trade expenditure in carrying on their trade during the 2017 year of assessment:
 - 7.1 Water and electricity in respect of offices and factory amounting to R169 000.
 - 7.2 Cleaning services in respect of offices and factory amounting to R83 000.
 - 7.3 Stationery, which was acquired and used in the offices amounting to R74 500.
 - 7.4 A penalty of R4 000 which was payable by Bent Bottling due to exceeding water restrictions as implemented by the City of Cape Town. Bent Bottling uses water in their bottling plant but has subsequently been able to reduce their water usage by introducing a water system which reuses suitable water as far as possible. The water system was installed by an external service provider at a cost of R6 800 on 1 October 2016. The R6 800 was recognised as a capital asset for accounting purposes on which depreciation was also recognised during the current year.
 - 7.5 During January 2017 the control panel of the lift (see note 5.7) broke down and had to be repaired at a cost of R3 250.

8. Bent Bottling is a provisional taxpayer and paid the following provisional tax payments during the year:
 - R50 736 as first provisional tax payment in respect of the 2017 year of assessment; and
 - R55 000 as second provisional tax payment in respect of the 2017 year of assessment.

The first provisional tax payment was only made during 5 November 2016 which resulted in interest of R525, calculated in terms of section 89*quat*, being levied and paid by Bent Bottling during the 2017 year of assessment.

9. The IT14 return of Bent Bottling reflected an assessed loss of R39 800 in respect of the 2016 year of assessment.

REQUIRED: QUESTION 3	Marks
<p>Calculate the normal tax payable by, or due to, Bent Bottling for the year of assessment ending on 28 February 2017 by starting your answer with the profit before tax of R439 625.</p> <p>Instructions to candidates:</p> <ul style="list-style-type: none"> • Clearly indicate when no adjustment with regards to any amount provided in the question is necessary and provide a brief reason for it. • Provide a brief reason if an amount paid or incurred in the question would not qualify for a deduction during the 2017 year of assessment. 	30
TOTAL MARKS	(30)

QUESTION 4: VALUE-ADDED TAX (VAT)

10 Marks

Telephone (Pty) Ltd (hereafter referred to as “Telephone”) is a registered VAT vendor who makes 97% taxable supplies. Telephone buys cell phones directly from manufacturers that is then sold locally and exported. Telephone issues an invoice to its customers on the date a sale is made.

The following transactions were incurred by the company during its two-month VAT period that ended on 31 December 2016 (**all amounts include VAT where applicable, unless specifically stated otherwise**):

Income and receipts	Note	R
Sales	1	1 568 000
Rental received	2	47 000
Indemnity payment received	3	11 400
Expenses and payments		
Purchase of cell phones (trading stock)	4	684 000
Purchase of a vehicle	5	273 600
Salaries		300 000
Bank charges		912
Interest paid on overdue bank account		1 200
Coffee purchased for employees (to be utilised at place of work)		980

Notes:

1. Credit sales of cell phones amounted to R1 568 000. This amount includes sales of R200 000 for cell phones that were delivered to a customer in Namibia.
2. Rentals received from the letting of residential properties amounted to R47 000 for the VAT period. Valid lease agreements are in place.
3. An indemnity payment of R11 400 was received from an insurance company in respect of Telephone’s accountant’s computer that was stolen from his office.
4. Cell phones (trading stock) was purchased from a registered VAT vendor.

5. The company purchased a Ford Kuga, a motor car as defined, for R273 600.

REQUIRED: QUESTION 4	Marks
<p>Calculate the Value-Added Tax (VAT) due to (or recoverable) from the SARS in respect of Telephone (Pty) Ltd's VAT period ending 31 December 2016.</p> <p>Instructions to candidates:</p> <ul style="list-style-type: none"> • Clearly indicate and provide reasons where there are no VAT consequences. • Show output tax and input tax separately. 	10
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

Write-off periods allowed in terms of Interpretation Note: No. 47 (read with Binding

General Ruling (Income Tax): No. 7 are as follows:

Asset	Write-off period
Office furniture	6 years
Delivery vehicles	4 years
Advertisement boards	10 years
Lifts	12 years
Water systems	5 years