

Tax Technician

Knowledge Competency Assessment

June 2015

Paper 1: Question

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	Individuals	35	Blue
2	Various – Advisory	65	Green

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 (Tippex) 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.

Question 1

35 marks

From: Unathi Darren

To: Tax Consultant

RE: Income Tax Queries

Good day,

Thank you for agreeing to assist me with my income tax calculation for the 2015 year of assessment.

I am 48 years old and married out of community of property to Steve Darren (52 years old). We have two children, Simpiwe (23 years old and working as an article clerk at PWC) and Pabi (19 years old and a full time student at Tukkies). For the past five years, I have been employed by the SABC as a presenter of 'Good Morning South Africa'. During this time I was not allowed to do any 'outside' work, meaning that I could not render any services for consideration if I did not do it through the SABC. After being a presenter on the morning show for five years, I have become quite famous and I was regularly approached by various organisations to do contractual work as a guest speaker or perform at their events. I resigned from the SABC on 30 November 2014 in order to pursue my own business interests on a full time basis. Upon my resignation I received a restraint of trade payment from the SABC which prohibits me to be a morning show presenter on any form of media in South Africa for the next three years.

Since the date of my resignation, I act independently (I am not employed by any specific organisation, I only do contract work). I am contracted for work by various organisations to be an ambassador for their brands or to perform at their events. I also had the privilege to be contracted by *Idols South Africa* as one of the judges of the twelfth series of this show. I registered as a provisional tax payer on 1 December 2014. I am not a registered VAT vendor.

I have attached the following documents for your convenience:

1. November 2014 pay slip as received from the SABC.
2. Additional income and expenses for the 2015 year of assessment.

Required

1. Please will you assist me in calculating my tax due to/from SARS?

Your response would be greatly appreciated.

Regards

Unathi Darren

Attachment 1: November 2014 pay slip as received from the SABC

Payment Advice		
Name	Unathi Darren	
Employee No.	2008069227	
ID Number	6501085281085	
Tax Reference No.	123456789	
Computation of gross salary paid for the period 1 November 2014 – 30 November 2014:		
	R	
Cash salary	116 000	
Restraint of trade payment	200 000	
Travel allowance	5 200	
Clothing allowance	6 000	
Deductions for the period 1 November 2014 – 30 November 2014		
Employees tax (on normal salary package, consistent each month)	29 000	
Employees tax withheld on restraint of trade payment	16 000	
Net Salary	R282 200	
Prepared By: Hannerie Muller	Received By: Unathi Darren	

Notes by Unathi:

- My pay slips for the months March 2014 – October 2014 look identical to the pay slip of November 2014, with the following two exceptions:
 - The restraint of trade payment which I only received in November 2014.
 - My going-away party took place at the end of October. I received a Jenna Clifford ring with a market value of R15 000 as a going-away gift. My employer purchased the ring in October 2014, specifically with the purpose to give it to me as a gift, at a cost of R14 500 (VAT excl.). The employees' tax withheld on the ring was R3 500.

Attachment 2: Additional income and expenses (in cash) for the 2015 year of assessment

Item	Note	From 1/03/2014 30/11/2014	From 1/12/2014 28/02/2015
Income from <i>Idols SA</i>	For being an <i>Idols</i> judge		R780 000
Income from other organizations	For acting as a brand ambassador and performer at events etc.		R230 000
Bursary from Monash South Africa	In order to strengthen my business skills I enrolled for a certificate in entrepreneurship in the entertainment industry. Monash awarded me with a full bursary due to the esteem I hold in the entertainment industry.		R78 000
Prize awarded by Woolworths	I entered a competition in March 2014 and won a R7 000 Woolworths voucher.	R7 000	
Purchased annuity	I purchased the annuity on 1 February 2013 for R250 000. It pays an annuity of R2 000 per month for a 15 year period.	R18 000	R6 000
Sale of primary residence	My husband purchased this residence on 25 May 2006 at a cost of R1 600 000. On 14 October 2012, my husband transferred the house into my name when the house had a market value of R2 900 000. On 15 January 2015, I sold the house for R3 500 000. Our family used this house as our primary residence until the date of sale. We are currently living in a house owned by my parents until we buy a new house. We do not pay any rent.		R3 500 000

<p>Travelling costs</p>	<p>I drive a Ford Kuga Trend which I purchased for R299 000 on 30 January 2014 (I settled the full amount in cash). While working at the SABC I received a travel allowance (from 1 March 2014 – 30 November 2014). After my resignation, I kept using the Kuga mainly for business purposes. My kilometers travelled where as follows:</p> <ul style="list-style-type: none"> • 20 123 km in total for the period 01/03/2014 – 30/11/2014 of which 4 567 km were for business purposes. • 6 783 km in total for the period 01/12/2014 – 28/02/2015 of which 3 672 km were for business purposes. <p>I did not keep record of my actual costs.</p>	<p>?</p>	<p>?</p>
<p>Beauty expenditure</p>	<p>A significant part of earning my income is to look good. This expenditure includes make-up, clothing, beauty products and beauty treatments.</p>	<p>(R37 800)</p>	<p>(R19 865)</p>
<p>iPad</p>	<p>I purchased the iPad on 1 December 2014 for R9 500 (cash) and used it 100% for business purposes. This iPad was stolen on 1 February 2015 and was not insured. I therefore had to purchase a new iPad on 1 February 2015 for R9 000 (cash).</p>		<p>(R9 500 + R9 000)</p>

Rental payments in advance	I have been contracted by a company in Sandton to perform at several of their corporate events to be held from March 2015 – May 2015. I need to provide my own sound equipment for these events. I entered into an agreement with a lessor of sound equipment to lease equipment for the three month period in which the events will be held. I paid the full rental amount of R60 000 (R20 000 per month) on 25 February 2015.	(R60 000)
RAF contributions	I contribute R800 per month to a Sanlam Retirement Annuity Fund. In previous years of assessment, current contributions of R53 000 were not deductible for tax purposes.	(R7 200) (R2 400)
Medical expenses	I belong to my husband's medical aid fund. I paid for cosmetic surgery which was not covered by my medical aid.	(R34 000)
Provisional tax payment	I have made a provisional tax payment on 28 February 2015.	(R450 000)

Additional information:

In terms of Binding General Ruling No 7, SARS allows the following write-off periods:

- Delivery vehicles: 4 years
- Computers/ Electronic office equipment: 3 years
- Passenger cars: 5 years

Question 1 Required	Marks
	Total
<p>Calculate Mrs Darren’s normal tax payable or (receivable) for her 2015 year of assessment. Provide short reasons for your answers where applicable.</p> <ul style="list-style-type: none"> • Show all calculations clearly and round calculated amounts off to the nearest Rand. • All amounts include VAT unless stated otherwise. • You can accept that the employees’ tax withheld by the SABC has been calculated correctly. • You can accept that Mrs Darren will always choose the most beneficial tax position. <p>Present your answer in the framework for calculating an individual’s tax liability</p>	35

Question 2

65 marks

(Consists of 7 unrelated parts)

2.1. Query 1

7 marks

From: Bonggi Tsulu

To: Tax Consultant

RE: Effect of death on taxes

Good day,

I am struggling to understand the principle of death taxes. Could you please clarify the following for me?

- a) What is the difference between donations tax and estate duty? When are these taxes triggered?

- b) I live in a house in Brooklyn, Pretoria. This house is my primary residence. I purchased the house on 4 December 2005 for R1 900 000. The market value of the house is currently R4 300 000. My will states that, if I die, the house will be transferred to my wife (43 years old), subject to a usufruct in favour of my mother (68 years old) until the date of my mother's death.

Could you please discuss what the estate duty consequences of this specific house would be when I die?

Regards,

Bonggi Tsulu

2.1.– Question	Marks
Required	Total
<p>Assist Bongsi Tsulu with his enquiries.</p> <p>Please support your explanations with calculations. Ignore the effect of capital gains tax in your answer.</p> <p>Part A</p> <p>Part B</p>	<p>7</p> <p>3</p> <p>4</p>

2.2. Query 2

10 marks

From: S Sun

Re: Tax matters

Good day,

I have recently inherited a small tabloid (a newspaper concentrating on sensational news) sole proprietorship, *Glasaritti* (“*Glasaritti*”) from my belated aunt. I am really excited and determined to make a big success of this business I have been entrusted with. I am planning to continue to manage the tabloid as a sole proprietor. I am currently experiencing a few pressing taxation related issues regarding the business and was relieved when a friend of mine suggested I turn to you for advice. I need to know how the following transactions will affect the company’s **taxable income**. **Please show calculations where applicable and also provide me with supporting reasons** as I would really want to get an understanding of tax related matters. Please ignore the effect of capital gains tax in your answer. The business was effectively transferred to my name on 27 July 2014, after all the legal requirements were met. *Glasaritti* is not a registered VAT vendor and has a 30 June year-end. SARS approved the printing of the tabloid as a process of manufacturing.

Debtors

I noticed that the balance sheet of *Glasaritti* on 30 June 2014 reflected a debtors amount of R25 000. After some investigation, I decided to write this amount off as I realised that these amounts will not be recoverable. I am sure, however, that I must at least get some sort of tax relief for this huge loss the business suffered?

Legal costs

During September 2014 *Glasaritti* paid legal costs of R40 000 to our legal advisors. The case revolved around a particular individual that accused *Glasaritti* of an infringement of his right to privacy. The case was settled and luckily *Glasaritti* did not have to incur any additional costs (apart from the abovementioned R40 000).

Policy

On 1 October 2014, I decided to take out a qualifying key man policy on the life of an employee that knows the business like the palm of his hand and has been employed by my aunt for over 20 years. The total premiums paid in terms of the policy for the year of assessment amounted to R40 000. Unfortunately, the particular employee had to retire as a result of severe illness, with effect from 1 February 2015. The policy paid out an amount of R500 000 on 26 February 2015.

Printing machine

Glasaritti bought a new and unused tabloid printing machine at a cost of R660 000 on 2 January 2014 and immediately started to use it as part of the operations. SARS approved printing as a process of manufacturing.

Acquisition of an administration building

Glasaritti bought the top floor of a new and unused three-storey building (part of a newly developed centre) at a cost of R750 000. The asset was transferred into the company's name with effect from 1 November 2014, and we continued our operations on the new premises from 5 November 2014.

Copyright

On 1 September 2013 *Glasaritti* entered into an agreement as part of a strategic plan to expand into the international market. The deal entailed that the copyright of *Glasaritti* in Europe was sold to a particular party for a rand equivalent of R1 200 000. The deal was closed on 25 November 2013, and the money transferred to *Glasaritt'si* bank account on 10 January 2014. *Glasaritti* was not allowed to claim any capital allowances on the copyright.

I would greatly appreciate your assistance with these matters in order for me to make a success of this inheritance entrusted to me.

S Sun

Question 2.2	Marks
Required	Total
How will transactions affect the company's taxable income? Show calculations where applicable and provide supporting reasons	10

2.3. Query 3

13 marks

From: Ashley Turner

To: Tax Consultant

Re: Provisional Tax Queries

I am the financial accountant at a small manufacturing company with a June year-end. My duties include completion of the income tax calculations for the company. I submitted both provisional tax payments for the company's 2014 year of assessment on time. I used the basic amount for the first provisional tax payment, and an estimate of the actual 2014 taxable income for the second provisional tax payment.

I received the 2012 assessment on 14 September 2012, reflecting an assessed taxable income of R234 678. I received the 2013 assessment on 1 October 2013, showing an assessed taxable income of R356 432.

On 28 June 2014, the company entered into a lease contract (non-cancellable) with Shumba (Pty) Ltd to lease an office block from them for the period 1 July 2014 to 30 June 2015 at a monthly rental amount of R25 000. Our company had significant cash flow at that time and therefore paid the full rental amount of R300 000 (R25 000 x 12) to Shumba (Pty) Ltd on 29 June 2014. In terms of the "actually incurred" principle of section 11(a) of the Income Tax Act, I deducted the full rental payment in the 2014 year of assessment tax calculation. The estimated taxable income which I submitted to SARS for the second provisional tax payment amounted to R189 543 (after deduction of the R300 000 rental amount).

SARS issued an assessment for 2014 on 30 August 2014, with an assessed taxable income of R489 543. For some reason, SARS did not allow the deduction of the R300 000 rental amount.

The company is not a small business corporation as defined by s12E(4).

Regards,

Ashley Turner

Question 2.3	Marks
Required	Total
a) Was SARS correct not to allow the deduction? Can you explain to me why the deduction of the rental costs would not be allowed.	3
b) Assuming that SARS is correct in disallowing the deduction of the rental costs, could you please calculate the final tax liability which I will have to settle with SARS for the 2014 year of assessment (including penalties if applicable)?	10

2.4. Query 4

10 marks

From: O Nthaltla
To: Tax Consultant

Re: Tax Talk in Context

Good day,

Thank you so much for agreeing to assist me with my queries. I am a retired accountant and decided to start publishing a blog on the net called “*Tax Talk in Context*”. The aim of this blog will be to comment on tax related issues, with the main focus of highlighting the underlying basic principles of the South African tax system.

I have recently attended a one day seminar where the keynote speaker was Mr Keith Engel (who is a very prominent figure in tax circles internationally). He made very interesting comments that I would like to share with you, just to check if my understanding and interpretation of taxation is correct. I will address the comments he made per heading below:

Tax Principle: “Aiming to achieve balance in the Tax System”.

A significant part of the keynote speaker’s presentation evolved around the principle that the legislator aims for our Tax System to “be in balance”. He referred a lot to the underlying “math of tax” and that a transaction in taxation should be viewed in terms of a “plus” on the one side and a “minus” on the other side. At first I was a bit confused, but he explained the “plus” and the “minus” as follows:

“View the **transaction** for tax purposes from the viewpoint of the **two different parties involved** in the transaction.” He used specific examples to explain what he means, and I found it rather insightful.

I would appreciate guidance with the following four transactions viewed from the perspectives of the involved parties. For purpose of your explanation please:

- Ignore the impact of different tax rates of the parties involved in the examples.
- Ignore the time value of money.
- Refer to the specific principles provided in the Income Tax Act to support your explanations.
- Do not refer to case law in your answer.
- Ignore the effect of VAT.
- Accept that all of the transactions took place in the 2014 year of assessment.

Question 2.4	Marks												
Required	Total												
<p data-bbox="165 927 1177 1070">Please help me to understand the “+” (inclusion in income) and the “-” (deduction from income) of the transactions for tax purposes, and if the aim of achieving balance by the legislator, is achieved.</p> <p data-bbox="165 1146 708 1182"><u>Please answer in the following format:</u></p> <p data-bbox="165 1200 304 1236">Scenario:</p> <table border="1" data-bbox="261 1249 1177 1585"> <thead> <tr> <th data-bbox="272 1256 512 1292">Parties involved</th> <th data-bbox="564 1256 667 1400">Effect on taxpayer’s taxable income</th> <th data-bbox="791 1256 1046 1346">Supporting reason from the Act?</th> </tr> </thead> <tbody> <tr> <td data-bbox="272 1422 432 1458">Taxpayer 1</td> <td data-bbox="564 1422 635 1458">? (a)</td> <td data-bbox="858 1422 912 1458">?(c)</td> </tr> <tr> <td data-bbox="272 1473 432 1509">Taxpayer 2</td> <td data-bbox="564 1473 635 1509">? (b)</td> <td data-bbox="858 1473 912 1509">?(d)</td> </tr> <tr> <td colspan="3" data-bbox="272 1529 1177 1585">“Balance” achieved by Fiscus? (e)</td> </tr> </tbody> </table> <p data-bbox="165 1641 1177 1731">Please note: Therefore, for every scenario, five aspects ((a) to (e)) have to be addressed.</p>	Parties involved	Effect on taxpayer’s taxable income	Supporting reason from the Act?	Taxpayer 1	? (a)	?(c)	Taxpayer 2	? (b)	?(d)	“Balance” achieved by Fiscus? (e)			<p data-bbox="1283 1312 1305 1348">5</p>
Parties involved	Effect on taxpayer’s taxable income	Supporting reason from the Act?											
Taxpayer 1	? (a)	?(c)											
Taxpayer 2	? (b)	?(d)											
“Balance” achieved by Fiscus? (e)													

<p>Scenario 1: Issue of credit by a commercial bank to a company</p> <p>Will “balance be achieved” by the legislator on the interest costs where a commercial bank (Taxpayer 1) issues a loan to a registered taxpaying company (Taxpayer 2) in order to expand the company’s operations. Obviously, one needs to distinguish between the “capital” received by the company as well as capital repayments made by the company, which I understand has no impact on the tax “balance” at all, as the issue as well as the repayment of the capital is capital in nature. I am concerned about the interest portion. Assume for purposes of the scenario that the company (Taxpayer 2) pays interest on the loan amounting to R100 000 for the year of assessment, to the commercial bank (Taxpayer 1).</p>	2.5
<p>Scenario 2: Lease premium paid by lessee tenant to a lessor</p> <p>Will “balance be achieved” by the legislator where, in terms of a lease contract a tenant (Taxpayer 1) paid a lease premium of R500 000 to a lessor (Taxpayer 2) at the beginning of the year of assessment for a lease period of 5 years?</p>	2.5
<p>Scenario 3: Right of use of company</p> <p>Will “balance be achieved” by the legislator in the case where an employer (Taxpayer 1), grants the right of use of a motor vehicle to an employee (Taxpayer 2) for the full year of assessment? Assume a cash equivalent calculated in terms of the Seventh Schedule of the Income Tax Act of R24 417, based on a motor vehicle with a cost price of R91 200, bought by the employer on 1 September 2011.</p>	2.5
<p>Scenario 4: Legal cost</p> <p>Will “balance be achieved” by the legislator in the case where, for example a registered taxpayer (Taxpayer 1) earning a salary, pays legal fees of R100 000 to an attorney (Taxpayer 2) in order to settle his divorce?</p>	2.5

2.5. Query 5

5 marks

From: O Nthaltla

To: Tax Consultant

Re: Tax Talk in Context

Good day,

Thank you so much for agreeing to assist me with my queries. I am a retired accountant and decided to start publishing a blog on the net called “*Tax Talk in Context*”. The aim of this blog will be to comment on tax related issues, with the main focus of stressing the underlying basic principles of the South African tax system.

I have recently attended a one day seminar where the keynote speaker was Mr Keith Engel (who is a very prominent figure in tax circles internationally). He made very interesting comments that I would like to share with you, just to check if my understanding and interpretation of taxation is correct. I will address the comments he made per heading below:

Taxation policy: Rebates vs. deductions

(2 marks)

I am well aware of the hype going on at the moment with the shift from medical deduction to rebates for purposes of calculating the tax liability for individuals. Mr Engel commented the following during his presentation: “Rebates and credits are policy driven”. What I need to know is **why** policies change all the time? And also, **who** drives these policy changes? And lastly, **how** do the changes then end up in the Income Tax Act?

Reserves

(3 marks)

The second interesting comment the keynote speaker made was: “The tax system hates reserves!” It’s quite a strong statement, and I was wondering why this is the case? Also, is the fact that “the tax system hates reserves” regulated in some or other way in terms of the Income Tax Act? I realize that the tax discipline should always be seen in context of the accounting system.

Does the accounting system also “hate reserves”?

Question 2.5	Marks
Required	Total
Address the queries of Mr Nthaltla. Refer to the mark allocation of each query to determine the length of your answer.	5

2.6. Query 6

10 marks

From: SARS Helpline

To: Tax Consultant

Re: Employees Tax and Provisional Tax registration

Good day,

I was recently appointed in a senior auditing position at SARS. I deal with compliance matters at the moment, specifically to ensure that taxpayers are, where applicable, correctly registered for provisional as well as employees' tax. I am currently experiencing difficulty with one specific scenario, where a number of taxpayers are involved. I would appreciate your help on the matter.

Crossfit Corporate (Pty) Ltd ("*Crossfit*") is in the fitness industry and provides specialized personal training services. The company has a February year-end. *Crossfit* currently has 5 instructors employed, 4 of them on a full time base. *Crossfit* is not a labour broker as defined. Details of the instructors employed at *Crossfit* are as follows:

- **Instructor Rocky & instructor Strong:** Employed on a full time base at *Crossfit*. Both instructors also run their own separate training centres after hours.
- **Instructor Sandy:** Employed on a full time base at *Crossfit*.
- **Instructor Mellow:** Employed on a 10 hour per week basis contract at *Crossfit*.

None of these instructors are connected to the shareholders of *Crossfit*. What bothers me a bit is that *Crossfit* only provided their services to one client, PKY Auditors (Pty) Ltd ("PKY"), for the full 2014 year of assessment. The instructors of *Crossfit* go to PKY's premises on a daily basis and provide the training services throughout the day to PKY's employees at the hours that are most suitable to each individual employee.

Could you please advise me on the following matters:

1. When does a taxpayer have to register as a provisional taxpayer? (1)
2. When does a taxpayer have the liability to withhold employees' tax? (1)
3. Which of the parties mentioned above are provisional taxpayers as defined? (2)
4. Does PKY Auditors have to withhold employees' tax from payments made to *Crossfit*? (3)
5. Does *Crossfit* have to withhold employees' tax from payments to their four instructors? If so, at which rates does the employees' tax have to be withheld? (3)

I really want to make sure I am not missing something.

Thanks in advance,

L Known.

Question 2.6	Marks
Required	Total
Address the queries of L. Known. Refer to the mark allocation of each query to determine the length of your answer.	10

2.7. Query 7

5 marks

You are a senior tax manager employed at Minn & Minn Consultants. One of your clients, Mr Frank Marx, of Marx Enterprises, approached you regarding an assessment he received from the South African Revenue Service (SARS).

Frank purchased a holiday beach house in Camps Bay situated on the Atlantic Seaboard for R4 500 000 during the 2013 year of assessment. Due to the increase in fuel prices coupled with the fact that his wife wanted to go to their private game farm in Thabazimbi over the weekends, he disposed of the beach house for R6 000 000 during the 2014 year of assessment. He intends to buy a new beach house in the near future which he will then use as their primary residence.

He recently received an assessment for the 2014 year of assessment and is aggrieved with it due to the fact that the Commissioner has included in his taxable income the R1 500 000 profit he has made on the sale of the beach house. He had expected the profit to be a capital gain which would then have to be set-off against a capital loss he suffered on the disposal of certain shares that he held as an investment.

Question 2.7	Marks
Required	Total
Inform Frank on the process that he should follow to object to his assessment with SARS, with reference to the Tax Administration Act.	5

Professional Communication Skills:

Question 2	Marks
Required	Total
Question 2	5

ACKNOWLEDGEMENTS

The SAIT Examination Committee would like to thank the following Universities for contributing questions to assist the Committee in drafting the Tax Technician Knowledge Competency Assessment Sample Papers 1 & 2:

- University of Pretoria (UP)