

# Accountancy@UJ



**[BEL3B01; ADIA002; S3PACQ3] TAXATION 3B**

## **FINAL SUMMATIVE ASSESSMENT OPPORTUNITY 22 NOVEMBER 2017**

**TIME: 150 minutes**

**MARKS: 125**

**ASSESSORS:** Ms M. Lephoto  
Mr S. Makhaya

**INTERNAL MODERATORS:** Mr J. Olivier  
Mrs L. Barnard

**EXTERNAL MODERATOR:** Ms H. Erasmus (University of the Witwatersrand)

### **INSTRUCTIONS TO CANDIDATES**

1. This paper consists of nine (9) pages (including cover page and appendices).
2. You are reminded that answers may **NOT** be written in pencil. **NO** tippex may be used.
3. The marks shown against the requirement(s) for every question should be regarded as an indication of the expected length and depth of your answer.
4. Answer the questions by the use of:
  - Effective structure and presentation;
  - Clear explanations;
  - Logical arguments; and
  - Clear and concise language.
5. Show all calculations clearly.
6. Round all amounts to the nearest Rand, where applicable.

<b>Question</b>	<b>Marks</b>	<b>Time Allocated</b>
1	60 Marks	72 minutes
2	20 Marks	24 minutes
3	20 Marks	24 minutes
4	25 Marks	30 minutes
<b>Total</b>	<b>125 Marks</b>	<b>150 minutes</b>

## QUESTION 1

(60 MARKS)

Neville Mokoena (hereafter Neville) is a 61-year-old South African resident. He is married to Emma Mokoena, hereafter Emma (56 years old), out of community of property. They have two sons together: Katli (34 years old) and Keke (31 years old). Emma, Katli and Keke are all South African residents.

Neville worked as a teacher his entire adult life at St. Andrew's school in Welkom, Free State. St. Andrew's is a private school. He was diagnosed with liver cancer in 2015. The chemotherapy and radiation treatment took a toll on his body; in spite of this, he continued working until the day he passed away. He died on 30 September 2016.

The following information relates to Neville's employment up to 30 September 2016:

1. His monthly salary amounted to R32 000.
2. Neville contributed 8% of his salary to his pension fund. The last contribution was made on 30 September 2016.
3. His employer provided a bursary amounting to R22 000 to Neville's grandson, Lindokuhle, in respect of his grade 8 schooling at a prestigious boarding school in Welkom. Neville's annual remuneration in 2016 amounted to R398 000.
4. The pension fund that Neville was a member of, paid out a lump sum amounting to R1 200 000 (before tax) to the executor of his estate on 20 December 2016. Contributions to his pension fund not allowed as a deduction for tax purposes as at the end of the 2016 year of assessment amounted to R445 000.
5. The employees' tax already deducted from remuneration amounted to R151 060.

Other transactions:

1. On 30 May 2011, Neville turned 55 years old and retired from his retirement annuity fund (RAF). He received a lump sum amounting to R290 000 (before tax), after which the retirement annuity fund paid him R5 200 monthly. The annuity ceased upon Neville's death. The last payment was on 30 September 2016. All contributions to the retirement annuity fund were deductible in determining his taxable income in the past.
2. Dividends received from an unlisted South African company amounted to R7 300 (before withholding tax). The dividends were declared on 11 June 2016 to all shareholders who were registered on that date.
3. Neville was a member of a registered medical aid scheme to which he contributed R3 800 per month. The last contribution was on 30 September 2016. Emma is the only dependant on the medical scheme.

Neville held the following assets upon death at the values specified below:

1. An old BMW 5-series which he acquired for R282 556 on 15 May 2011. At the date of death, the car had a market value of R80 000. Neville bequeathed the car to Emma in terms of his will.
2. The house (primary residence) that he shared with Emma had a market value of R2 500 000 on 30 September 2016. The house had been acquired for R600 000 in 1986. In terms of the will, the property is bequeathed to Keke.
3. Cash in bank accounts amounting to R56 000 is bequeathed to an orphanage that is a registered public benefit organisation (PBO).
4. Neville owned shares in an unlisted company with a directors' valuation of R98 000 as at 30 September 2016. The shares were acquired for R45 600 and sold for R50 000 by the executor.
5. The executor also sold shares in a listed company for R150 000 that had a market value of R190 000 on the date of Neville's death. Neville had bought them for R50 000.
6. Sanlam paid out R150 000 to Emma in lieu of a domestic life insurance policy on Neville's life. The policy was taken out after Neville married Emma. Neville paid all the premiums. Emma has been a beneficiary since the inception of the policy.
7. Neville owned a small pig farm on the outskirts of Welkom valued at R700 000 on 30 September 2016 that he had inherited from his father who passed away 20 years ago when the market value was R300 000.

The following expenses were settled by the executor in winding up the estate:

8. Neville owed SARS an amount of tax which comprised of the normal tax calculated up to the date of his death (including the capital gains effects arising upon his death).
9. The hospital which administered his chemotherapy and radiation invoiced him for R45 000 only in January 2017. These medical expenses were not covered by the medical scheme.
10. The executor's fee is 3.5% of the gross value of the estate.

<b>YOU ARE REQUIRED TO:</b>	<b>Marks</b>
1. Calculate the <b>normal tax payable</b> by Neville Mokoena for the 2017 year of assessment.  Show all workings and provide reason(s) when special rules apply and/or when amounts should be excluded from the calculation.	<b>(45)</b>
2. Calculate the <b>estate duty liability</b> payable by the executor of the deceased estate of Neville Mokoena.	<b>(15)</b>

**QUESTION 2****(20 MARKS)**

Mapule Morake (38 years old) formed a partnership with Thandiwe Mokoena (36 years old) on 1 June 2016. Both partners are residents of the Republic for income tax purposes. Mapule does not know much about tax. She was employed until 30 April 2016 and employees' tax amounting to R9 450 per month was withheld from her salary. As at 31 August 2016 she had not registered as a provisional taxpayer. She submitted her 2016 return on 22 August 2016. The tax assessment was received on the same date and reflected taxable income of R1 300 200.

The assessment for 2015 was issued by the South African Revenue Service on 21 June 2015. The taxable income as per the assessment was R980 000. A **capital gain** of R140 000 was taken into account in determining the assessed taxable income for 2015.

Mapule is not married but she has a daughter who is 13 years old. Her daughter is the only dependant on her medical aid scheme.

<b>YOU ARE REQUIRED TO:</b>	<b>MARKS</b>
1. Discuss (with reasons) whether Mapule should have prepaid the normal tax liability as an employee or as a provisional taxpayer after 30 April 2016. In your response you must deal with  1.1 Employees' tax (4) 1.2 Provisional tax (2)	(6)
2. Calculate the first provisional tax payment that should have been paid by Mapule.  Show all workings and provide reasons for the amount used as the estimate of the taxable income.  For the purposes of this question, assume that the tax laws that are applicable for 2017 year of assessment for individuals also applied in 2015 and 2016.	(12)
3. Calculate the penalties payable by Mapule for failure to pay the first provisional tax payment by the deadline.	(2)

**QUESTION 3****(20 MARKS)**

Lerato (39 years old), Naledi (42 years old) and Phakama (38 years old) carry on a partnership business as financial consultants. They share profits and losses as follows: Lerato (50%), Naledi (30%) and Phakama (20%). They are all residents of the Republic. The statement of comprehensive income of the partnership for the financial year that ended on 28 February 2017 is as follows:

	<b>Notes</b>	<b>R</b>
<b>INCOME</b>		
Income from services rendered		4 400 000
Bad debts recovered	1	12 300
Local dividends		33 800
Interest on fixed deposit investments		15 100
		<b>4 461 200</b>
<b>EXPENDITURE</b>		
Annuities	2	103 000
Bad debts	3	42 200
Donations	4	100 000
Depreciation on office equipment	5	42 500
Interest on partners' capital accounts		60 000
Retirement contributions made by the partnership on behalf of:		
- Lerato		45 640
- Naledi		31 640
- Phakama		26 810
Salaries		
- Lerato		625 000
- Naledi		452 000
- Phakama		383 000
- Other employees		268 000
Other deductible expenses		469 800
		<b>2 649 590</b>
<b>NET PROFIT</b>		<b>1 811 610</b>

**NOTES:**

- The full debt relates to an amount that was recovered from an old debtor of Lerato from her business before the other two partners joined the partnership.
- The annuities are paid to former employees of the partnership as follows:

Annuity paid to a 16-year-old child of a former deceased employee	R42 000
Annuity paid to a former employee who resigned in order to further her studies	R61 000
<b>Total</b>	<b>R103 000</b>

3. The bad debts comprises of the following amounts:

Debtors acquired from Phakama's business when he joined the partnership	R8 000
Debtors that existed before Phakama and Naledi joined the partnership	R17 300
Current debtors of the partnership	R16 900
<b>Total</b>	<b>R42 200</b>

4. The partnership made a donation to the University of Johannesburg (a Public Benefit Organisation) towards the funding of studies for students who cannot fund their studies and who also cannot get the financial aid ("the missing middle students").

The partnership received a section 18A receipt in respect of this donation.

5. Depreciation on office equipment (jointly owned by all partners) is the same as the section 11(e) wear and tear allowances.

<b>YOU ARE REQUIRED TO:</b>	<b>MARKS</b>
Calculate the taxable income of Naledi for the year of assessment ended 28 February 2017. Provide reason(s) where amounts should not be included in the calculation and/or where special rules apply.	(20)

**QUESTION 4****(25 MARKS)**

The Gupta Family Trust was established in the 2014 year of assessment in terms of the last will and testament of Arjay Gupta (hereafter Arjay). Arjay died peacefully in his sleep at the age of 75 in March 2014. In terms of the trust deed, Kapil Gupta is the sole trustee of the trust.

In terms of his will, Arjay donated the following assets to the Gupta Family Trust:

<b>Nature of asset</b>	<b>Value of asset (R)</b>
Rental property	2 500 000

The beneficiaries of the trust are:

<b>Beneficiary name</b>	<b>Relation to founder</b>	<b>Age</b>
Angoori Gupta	Wife	76
Kapil Gupta	Eldest son	51
Atul Gupta	Youngest son	45
Rajesh Gupta	Grandson (Kapil's son)	15

Kapil donated R300 000 to the trust. The cash donation was invested in an interest-bearing investment in a South African bank.

Atul Gupta lives in India where he is ordinarily resident.

Mrs. Angoori Gupta donated shares in a company listed on the Johannesburg Stock Exchange to the Gupta Family Trust.

The trust deed further stipulates that:

- Angoori is entitled to an **annual** distribution of R100 000 from the trust.
- Kapil will not receive any remuneration for being a trustee.
- Kapil may use his discretion to distribute the rest of the trust income.

The table below details the receipts and accruals of the trust as well as the distribution thereof to the trust beneficiaries for the 2017 year of assessment:

	<b>Total</b>	<b>Rentals</b>	<b>Dividends</b>	<b>Interest</b>
Receipts and accruals	600 000	100 000	300 000	200 000
<i>Less:</i> Total distributions (made up of the amounts below)	<b>(250 000)</b>	<b>(41 670)</b>	<b>(125 000)</b>	<b>(83 333)</b>
Annuities:				
- Angoori	(100 000)	(16 667)	(50 000)	(33 333)
Lump sums:				
- Kapil	(50 000)	(8 333)	(25 000)	(16 667)
- Atul	(20 000)	(3 333)	(10 000)	(6 667)
- Rajesh	(80 000)	(13 333)	(40 000)	(26 667)
<b>Retained Income</b>	<b>350 000</b>	<b>58 333</b>	<b>175 000</b>	<b>116 667</b>

<b>YOU ARE REQUIRED TO:</b>	<b>MARKS</b>
1. Calculate the taxable income of the following taxpayers for the 2017 year of assessment:	
a) Mrs Angoori Gupta	<b>(9)</b>
b) Mr Kapil Gupta	<b>(10)</b>
c) Rajesh Gupta	<b>(3)</b>
2. Mr. Kapil Gupta is considering selling a rental property he owns to the trust at market value. The purchase price will not be paid by the trust, but credited to an interest-free loan account. Advise him of <b>all the income tax</b> consequences.	<b>(3)</b>



**APPENDIX A  
RATES OF NORMAL TAX PAYABLE BY NATURAL PERSONS FOR YEARS  
OF ASSESSMENT ENDING 28 FEBRUARY 2017**

<b>Taxable income</b>	<b>Rate of tax</b>
Not exceeding R188 000	18 per cent of taxable income
Exceeding R188 000 but not exceeding R293 600	R33 840 plus 26 per cent of amount by which taxable income exceeds R188 000
Exceeding R293 600 but not exceeding R406 400	R61 269 plus 31 per cent of amount by which taxable income exceeds R293 600
Exceeding R406 400 but not exceeding R550 100	R96 264 plus 36 per cent of amount by which taxable income exceeds R406 400
Exceeding R550 100 but not exceeding R701 300	R147 996 plus 39 per cent of amount by which taxable income exceeds R550 100
Exceeds R701 300	R206 964 plus 41 per cent of amount by which taxable income exceeds R701 300

**APPENDIX B  
RETIREMENT LUMP-SUM BENEFITS AND SEVERANCE BENEFITS**

<b>Taxable income from lump sum</b>	<b>Rate of Tax</b>
Not exceeding R500 000	0% of taxable income
Exceeding R500 000 but not exceeding R700 000	R0 + 18% of taxable income exceeding R500 000
Exceeding R700 000 but not exceeding R1 050 000	R36 000 + 27% of taxable income exceeding R700 000
Exceeding R 1 050 000	R130 500 + 36% of taxable income exceeding R1 050 000