

higher education & training

Department:
Higher Education and Training
REPUBLIC OF SOUTH AFRICA

N620(E)(N24)H
NOVEMBER EXAMINATION
NATIONAL CERTIFICATE
INCOME TAX N6

(4010206)

24 November 2014 (X-Paper)
09:00–12:00

This question paper consists of 7 pages and 1 addendum.

**DEPARTMENT OF HIGHER EDUCATION AND TRAINING
REPUBLIC OF SOUTH AFRICA
NATIONAL CERTIFICATE
INCOME TAX N6
TIME: 3 HOURS
MARKS: 200**

INSTRUCTIONS AND INFORMATION

1. Answer ALL the questions.
 2. Read ALL the questions carefully.
 3. Number the answers according to the numbering system used in this question paper.
 4. Show ALL calculations.
 5. Start each question on a NEW page.
 6. Write neatly and legibly.
-

QUESTION 1

Indicate whether the following statements are TRUE or FALSE. Choose the answer and write only 'true' or 'false' next to the question number (1.1–1.10) in the ANSWER BOOK.

- 1.1 Unemployment Insurance Fund (UIF) contributions are deducted at 1% from employees.
- 1.2 Unemployment Insurance Fund (UIF) contributions are paid over to SARS at 2% on remuneration.
- 1.3 A tax directive, IT3, is issued by SARS to instruct the employer how to deduct employees' tax from certain payments.
- 1.4 The employer must reconcile the amount of employees' tax paid over to SARS with the amounts reflected on the total IRP5 certificates issued. This bi-annual reconciliation is completed on an IRP6.
- 1.5 Skills development levies (SDL) are deductible at a rate of 1% from certain individuals' remunerations.
- 1.6 An application to register as an employer must be done on an EMP201.
- 1.7 An EMP101 return must be used when an employer's tax is paid over to SARS.
- 1.8 Cost to company for UIF payment is 2% of the wage bill.
- 1.9 The source document to determine an individual's tax liability is the IRP5.
- 1.10 The source document to determine a business entity's tax liability is the IRP6.

(10 × 1)

[10]

QUESTION 2

- 2.1 Dot Doodo, age 54, is married in community of property. She receives a salary of R65 000, a bonus of R15 000 and contributes 8% of her salary to a pension fund as well as R3 100 to a provident fund. Her only daughter, age 16, received R15 000 interest on an investment of capital given to her by her father. Dot Doodo contributes R18 000 to a medical aid fund while her employer contributes R10 000 to the fund. She also had to pay medical expenses of R6 000 out of her pocket.

Determine the maximum deductible contribution to a retirement annuity fund that she can claim.

(13)

- 2.2 Tough Tom, 45 years old, earned a salary of R175 000 per annum, which represents an increase of 8,5% over the previous year (2013). His employer provided him with a free unfurnished four-roomed house at a rental of R1 000 per month as from 1 January 2014. He is also responsible for all other costs.

Determine Tough Tom's tax liability for the tax year ended 28/2/2014.

(12)

- 2.3 Pretty Polly is given the full use of a company car, cost price R220 000 (VAT included), for 9 months. She pays for the maintenance and her employer pays for the fuel.

Determine Pretty Polly's fringe benefit that she gets for the tax year ended 28/2/2014.

(5)
[30]**QUESTION 3**

DK STEEL is a small business corporation for tax purposes. After receiving its 2012/2013 tax assessment reflecting a taxable income of R240 000 on 30 April 2013, the taxable income for 2014 is estimated at R230 000. A provisional tax calculation by the accountant in February 2014 reflected a taxable income of R260 000.

DK STEEL wants to minimise tax without the risk of incurring penalties or interest.

Determine the following for the 2014 tax year:

- 3.1 DK STEEL's first provisional tax payment (indicate the date and form to be used)

(8)

- 3.2 DK STEEL's second provisional tax payment (indicate the date)

(7)
[15]

QUESTION 4

Tip Toe Todd, age 55, retired early on 31 August 2013, but passed away on 1 November 2013 after a short illness. He was married in community of property and had two school-going children.

Determine his tax liability for the tax year ended 28/2/2014 using the information below supplied by his wife.

	RAND
Salary at R16 000 per month	
Pension annuity at R4 000 per month	
Bonus	16 000
Housing subsidy at R1 300 per month	
Interest received on investment	28 000
Lump sum from life policy	760 000
Rental income at R2 500 per month	
Pension contribution deducted at 8% per month	
Gratuity from employer	110 000
Accumulated leave pay	8 000
Lump sum from pension fund	580 000
Dividends received from public companies	5 000
Premiums paid on funeral policy	900
Contributions paid to medical aid fund: Self	35 000
Employer	15 000
(Medical contributions and cover stopped after his death)	
Medical expenses paid and not covered by the fund	4 800
Contributions to the pension fund disallowed previously	17 500

[50]

QUESTION 5

POGG and POEL are partners in POGGENPOEL POEGGIES, sharing profit and losses to the ratio of 60 : 40. Both are under 65 years with POGG being married in community of property while POEL is single.

Determine their tax liability for the tax year ended 28/2/2014 by using the information below supplied by them.

	RAND
Sales: Cash	800 000
Credit	300 000
Deposits received	150 000
Interest received on investment	38 000
Rental paid (February was only paid on 25/3/2014 – R4 500 included)	63 000
Electricity (includes reconnection fees of R1 000)	20 000
Bad debts written off: Customers	2 500
Staff	3 700
Provision for doubtful debts: 2013	30 000
2014	18 000
Purchases	80 000
Closing stock	40 000
Opening stock	15 000
Advertising costs: Newspapers	6 000
Radio	24 000
Renewal of business licence	2 000
Insurance premiums paid: Pogg	4 800
Fire and theft	4 400
Fund set aside for emergencies	10 000
Salaries: Administration staff	120 000
Pogg	130 000
Poel	100 000
Interest paid: On loan accounts - Poel	10 000
Loan from the bank	15 000
Cash drawings: Pogg	15 000
Traffic fines: Poel	1 000
Medical aid contributions paid: Workers	14 000
Loan from bank to finance machinery bought	200 000
Interest on loan paid: To finance stock	5 000
To pay for Pogg's holiday	10 000
New delivery van bought on 1/8/2013 (VAT excluded) Note 1	160 000
(On 31/8/2013 an old delivery van, with an income tax value of R30 000 on 1/3/2013, and which originally cost R60 000, was sold.	
The vehicle was depreciated on the reducing balance method at 25% per year)	
	45 000
Deposit paid on new machine	16 000
(A new machine, used in the process of manufacturing, was bought on 1/12/2013 at a cost of R141 360 (VAT inclusive) under hire-purchase agreement over 36 months.	
The first repayment of R4 000 per month was made on 31/12/2013).	

Replaced all office windows with tinted glass	13 500
Made a donation to Buffalo College (receipt obtained)	10 000
Repayment on new machine	12 000
Provisional tax paid for 2013/2014 on behalf of: Pogg	13 000
Poel	11 000

Note 1

New delivery van is depreciated at 25% per annum on cost. [70]

QUESTION 6

6.1 CFW Construction entered into a lease agreement with Jade Properties on 1/9/2013 to lease a factory building for 15 years from that date. In terms of the lease agreement CFW Construction must pay a lease premium of R120 000 on 1/9/2013 and a monthly rental of R5 000 from that date.

CFW Construction also entered into an agreement with Sad Simon for the lease of land for 15 years from 1/9/2012 and would erect an administration building on the land at a cost of R2 500 000. Building commenced on 1/2/2013 and the building was completed and brought into use on 1/2/2014 at a cost of R3 000 000.

Determine the tax implications for CWF Construction arising from these transactions for the tax year ended 28/2/2014. (10)

6.2 Farmer Stressed-out supplied you with the following information regarding the activities on his farm for the year ended 28/2/2014:

	RAND
Erection of new fences	100 000
Painting of farmhouse	10 000
Cost of irrigation system	175 000
Eradication of noxious plants	25 000
Cost of new dam	200 000
Repairs to existing fences	5 000
Wages paid for building of new dam	15 000
Prevention of soil erosion	45 000
Building of 7 houses for farm workers	120 000
Tractor bought on 15 April 2012	150 000

You are required to list and classify the above expenditure according to FARMING EXPENSES or CAPITAL DEVELOPMENTAL EXPENDITURE. Indicate the amounts next to each item. (15)
[25]

TOTAL: 200

ADDENDUM A

**RATES OF TAX PAYABLE FOR THE YEAR OF ASSESSMENT ENDING
28 FEBRUARY 2014 AND 30 JUNE 2014**

TAXABLE INCOME	RATES OF TAX	RAND
0-165 600	18% FOR EACH R1	
165 601-258 750	29 808 + 25% OF THE AMOUNT OVER	165 000
258 751-358 110	53 096 + 30% OF THE AMOUNT OVER	258 750
358 111-500 940	82 904 + 35% OF THE AMOUNT OVER	358 110
500 941-638 600	132 894 + 38% OF THE AMOUNT OVER	500 940
638 601 AND OVER	185 205 + 40% OF THE AMOUNT OVER	638 600

REBATES:

PRIMARY	R12 080
SECONDARY (Persons 65 and older)	R 6 750
TERTIARY (Persons 75 and older)	R 2 170

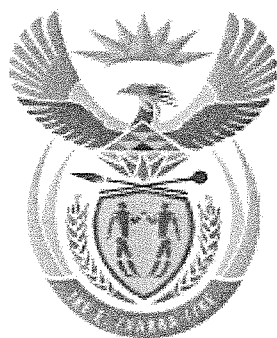
RETIREMENT FUND LUMP SUM OR SEVERANCE BENEFITS

TAXABLE PORTION OF LUMP SUM	RATES OF TAXES	RAND
0-315 000	0%	
315 001-630 000	18% OF THE AMOUNT OVER	315 000
630 001-945 000	56 700 + 27% OF THE AMOUNT OVER	630 000
945 001 AND OVER	141 750 + 36% OF THE AMOUNT OVER	945 000

SMALL BUSINESS CORPORATIONS

TAXABLE INCOME	RATES OF TAX	RAND
0-63 556	0%	
63 557-350 000	7% OF THE AMOUNT OVER	63 556
350 001 AND OVER	20 051 + 28% OF THE AMOUNT OVER	350 000

00000000



higher education & training

Department:
Higher Education and Training
REPUBLIC OF SOUTH AFRICA

MARKING GUIDELINE

NATIONAL CERTIFICATE

NOVEMBER EXAMINATION

INCOME TAX N6

24 NOVEMBER 2014

This marking guideline consists of 7 pages.

QUESTION 1

- 1.1 True
 1.2 True
 1.3 True
 1.4 False
 1.5 False
 1.6 False
 1.7 False
 1.8 False
 1.9 True
 1.10 False

(10 x 1) [10]

QUESTION 2

2.1 DOT DOODO

DETAILS		RAND	
SALARY		65 000	1
BONUS		15 000	1
INTEREST/RECEIVED (15 000÷2)		7 500	2
LESS/MIN:EXEMPTION		(7 500)	1
MEDICAL BENEFIT		10 000	2
		90 000	
LESS PROVIDENT FUND		NIL	1
		90 000	
LESS: PENSION	5 200		
1) 1750 2) 7.5% x 65 000 =	4 875	(4 875)	2
		85 125	
RAF: 1) 17 50 2) 3 500 – 4 875 = 0			
3) 15% x (90 000 – 65 000) = 3 750			2
MAX RAF DEDUCTIONS		3 750	1
			(13)

2.2

DETAILS		RAND	
SALARY		175 000	1
LAST YEAR: 2013: 175 000 x 100÷108.5 =	161 290		2
(A – B) x 17% x (2÷12)			1
(161 290 – 67111) x 17% x 2÷12 =	2 668	2 668	4
LESS/MIN: RENTAL PAID: 2 x 1000 = 2 000		(2 000)	2
TAXABLE INCOME/BELASBARE INKOMSTE		175 668	
TAX PER TABLES		32 475	
LESS REBATES		(12 080)	1
TAX LIABILITY		20 395	1
			(12)

2.3 PRETTY POLLY

DETAILS		RAND	
VAT EXCLUDED :220 000 x (100÷114) =	192 982		1
Cost x 3.5% x 9 MONTHS			1
192 982 x (3.5% – 0.18%) x 9			1
192 982 x 3.32% x 9 =		57 663	2
TAXABLE BENEFIT		57 663	
			(5)
			[30]

QUESTION 3

DETAILS	DATE	FORM	RAND	
FIRST PAYMENT	31/8/2013	IRP 6		3
BASIC AMOUNT			240 000	1
TAX PER TABLES TABELLE			12 351	2
FIRST PAYMENT: ÷ 2			6 176	2
SECOND PAYMENT	28/2/2014			2
BASIC AMOUNT			260 000	1

TAX PER TABLES TABELLE			13 751	2
LESS FIRST PAYMENT			(6 176)	1
SECOND PAYMENT			7 575	1
				[
				1
				5
]

QUESTION 4 TIP TODD AGE 55

DETAILS		RAND	
SALARY:	(16 000 x 6)	96 000	2
PENSION:	(4 000 x 2)	8 000	2
BONUS		16 000	1
HOUSING SUBSIDY:	(1300 x 8)	10 400	2
INTEREST RECEIVED:	28 000÷2:	14 000	2
LESS EXEMPTION		(14 000)	2

RENTAL INCOME: $(2\,500 \times 8) \div 2$	10 000	3
---	--------	---

DIVIDENDS RECEIVED: $5\,000 \div 2$	2 500	1
EXEMPTION	(2 500)	2
PREMIUMS FUNERAL	NIL	1
FRINGE BENEFIT MEDICAL	15 000	2
INCOME	155 400	
LESS DEDUCTIONS		
PENSION $8\% \times 96\,000 = 7\,680$		
1) 1 750 2) $7.5\% \times 96\,000 =$	7 200	
DISSALLOWED: CURRENT	(7 200)	2
	480	
	148 200	
LESS MEDICAL		
MEDICAL CREDITS: $(2 \times 242) + (2 \times 162) \times 8 = 6\,464$		3
CONTRIBUTIONS: SELF + EMPLOYER		
$35\,000 + 15\,000 = 50\,000$		2
LESS: 4 x CREDITS $(4 \times 6\,464) = (25\,856)$		2
PLUS: OWN COSTS 4 800		1
LESS/MIN: $7.5\% \times 148\,200$		2
(11 115)	(17 829)	2
	17 829	
TAXABLE INCOME	130 371	
TAX PER TABLES	23 467	
LESS REBATES: $12\,080 \times (8 \div 12)$	(8 053)	2
TAX PAYABLE	15 414	1

PLUS TAX ON LUMP SUMS	70 205	2
LIFE POLICY		1
NIL GRATUITY 110 000		1
LEAVE PAY 8 000		1
PENSION 580 000		1
LESS: CONTRIBDISSALL: CURRENT (480)		2
PREVIOUS (17 500)		2
TOTAL 680 020		
	85 619	
LESS MEDICAL CREDITS	(6 464)	2
TAX LIABILITY	79 155	1
		[50]

QUESTION 5

DETAILS	PARTSHIP	POGG	POEL	
	INC/(EXP)			
SALES CASH	800 000			1
SALES CREDIT	300 000			1
DEPOSITS REC	NIL			1
INTEREST REC	NIL	11 400	15 200	5
EXEMPTION		(11 400)	(15 200)	2

RENTAL PAID	(63 000)			1
ELECTRICITY	(19 000)			2

BAD DEBTS	(2 500) NIL			1 1
PROV BAD DEBTS				
2013: 25% x 30 000	7 500			2
2014: 25% x 18 000	(4 500)			2
PURCHASES	(80 000)			1
CLOSING STOCK	40 000			1
OPENING STOCK	(15 000)			1
ADVERTISING				
NEWSPAPERS	(6 000)			1
RADIO	(24 000)			1
BUS LICENCE	NIL			1
INS. PREMIUMS: POGG	(4 800) (4 400)	4 800		2 1
FIRE				
FUNDS EMERGENCY	NIL			1
SALARIES:				
ADMIN STAFF	(120 000)			1
PARTNERS	(230 000)	130 000	100 000	4
INTEREST PAID:				
LOAN: POEL	(10 000)		10 000	2
BANK	(15 000)			1
DRAWINGS: POGG	NIL	NIL		1
FINES: POEL	NIL		1 000	1
MEDICAL WORKERS				
WERKERS	(12 000)			2
LIMITED TO: 10% x 120 000 = 12 000				
LOAN/LENGING: MACHINE	NIL			1
INTEREST ON LOAN:				
STOCK	(5 000)			1
POGG 's HOLIDAY	NIL	10 000		1
NEW DELIVERY:				
W&T: 25% x 160 000 x (7÷12)	(23 333)			2
OLD VEHICLE:				
ITV: 1/3/2013				
30 000	(3 750)			2
W& T: 30 000 x 25% x (6÷12)				
(3 750)				2
ITV @ 31/8/2013				1
26 250	18 750			1
LESSER OF COST/ or S PRICE:				
45 000				
LESS: ITV @ 31/8/2013				
(26 250)				
RECOUPMENT 18 750				

NEW MACHINE: DEPOSIT COST: 1/12/2013: 141 360 x (100÷114) = 124 000 FINANCE CHARGES: (36 000 ÷36 x 3) 36 000 TOTAL COST: (4 000 x 36)+ 16 000 = 160 000 W& T: 40% x 124 000	NIL 3 000 (49 600)			1 2 2 2
IMPROVEMNETS	NIL			1
TAX PAID: POGG	NIL NIL	13 000	11 000	1 1
POEL				
REPAYMENTS	NIL			1
INCOME	477 367	157 800	122 000	
TRANSFER PROFITS	(477 367)	286 420	190 947	1
	NIL	444 220	312 947	
LESS: DONATIONS LIMITED TO: 10% x 444 220 44 422 BEPERK TOT 10% x 312 947 31 295		(6 000)	(4 000)	1 1
TAXABLE INCOME/BELASBARE INKOMSTE	NIL	438 220	308 947	
TAX PER TABLES TABELLE		110 943	68 155	
LESS REBATES		(12 080)	(12 080)	2
		98 863	56 075	
LESS PROV TAX PAID		(13 000)	(11 000)	2
TAX LIABILITY		85 863	45 075	
				[70]

QUESTION 6

6.1

DETAILS	RAND	
LEASE PREMIUM (120 000÷15) x (6÷12)	(4 000)	2
RENT/HUUR: (6 x 5 000)	(30 000)	2
LEASEHOLD IMPROVEMENTS 2 500 000÷163 MONTHS x 1 MONTH =	(15 337)	4
BUILDING ALLOWANCE: NOT FACTORY	NIL	1
TOTAL DEDUCTIONS ALLOWED	(49 337)	1

		(10)

6.2

DETAILS	FARMING EXPENSE	CAP. DEV EXPENSE	
ERECTION OF FENCES		100 000	1
PAINTING HOUSE	NIL	NIL	1
IRRIGATION SYSTEM		175 000	1
NOXIOUS PLANTS	25 000		1
NEW		200 000	1
REPAIRS	5 000		1
WAGES: DAM		15 000	2
SOIL EROSION	45 000		1
HOUSES WORKERS: 7 X 15 000		105 000	3
TRACTOR: APRIL 2012: 30% x 150 000	45 300		3
			(15)
			[25]

TOTAL: 200