higher education & training

Department:
Higher Education and Training
REPUBLIC OF SOUTH AFRICA

NATIONAL CERTIFICATE

INCOME TAX N6

(4010206)

25 September 2020 (X-paper)
09:00–12:00

This question paper consists of 9 pages and 1 information sheet.

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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. Start each section on a new page.
5. Use only a black or blue pen.
6. Write neatly and legibly.

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QUESTION 1

1.1 Indicate whether the following statements are TRUE or FALSE by writing only 'True' or 'False' next to the question number (1.1.1–1.1.5) in the ANSWER BOOK.

1.1.1 The income received from hiring out a farm tractor to other farmers is other income.

1.1.2 Rent income received from a farm manager who lives in a cottage on a farm is farming income.

1.1.3 Annuity paid to a former employee, aged 51, who took early retirement because his wife won the lotto is deductible.

1.1.4 Child grant and old-age grant given by the government are not exempt income.

1.1.5 When the number of dependents increases for a taxpayer that contributes towards a medical aid, the amount of medical tax credits increases.

(5 × 2) (10)

1.2 Daisy (Pty) Ltd is an accounting and tax consulting company operated from the private residence of Bright Daisy who is the sole shareholder of the company. She has converted a granny flat, located on the same stand as her private residence, into company offices. The company is a registered VAT vendor.

Discuss whether or not the expenses related to the transactions in the case study would be deductible or nondeductible by Daisy (Pty) Ltd for the 2020 year of assessment in terms of the general deduction formula (section 11(a)) and section 23 (Prohibited deductions) of the Income Tax Act.

1.2.1 R3 800 paid to the maintenance man on 15 September 2019 to replace the front door of the office that was damaged by an angry client. Fortunately, the full amount could be recovered from the company's insurance.

1.2.2 R900 paid to SARS on 31 October 2019 for administrative penalties related to the late submission of the annual income tax return for the 2018 year of assessment.

1.2.3 Monthly rental of R2 500 (including VAT) for a photocopy machine used exclusively in the business, payable on the first of each month via debit order to Happy Copiers.

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1.2.4 R64 500 paid to Room Contractors on 30 December 2019 for adding two rooms to the granny flat. The room will be rented to employees of Daisy (Pty) Ltd as from 1 January 2020. (4 × 2) (8)

[18]

QUESTION 2

Mr Jabu Dube, a provisional taxpayer, provides you with the following information:

	RAND
Estimated annual income at half year	600 000
Estimated annual income at year end	800 000
Pay as you earn at half year	50 000
Pay as you earn at year end	100 000
2019 assessed taxable income	650 000

Mr Jabu Dube is 78 years old and married out of community of property. He contributed to a medical aid and his wife contributed to a different medical aid. He wishes to postpone payment of his income taxes for as long as possible without the risk of incurring any penalties. It is also his wish to pay the least amount of provisional tax because his grandchild is getting married soon and he wants to pay for the wedding.

2.1 Determine Jabu Dube's first provisional payment (indicate the date and the form to be used). (18)

2.2 Determine his second provisional payment (indicate the date). (12)

[30]

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QUESTION 3

Petunia, aged 65, retired on 31 October 2019 after working for 28 years at a company. She is married in community of property with one minor child. Petunia belonged to a medical aid and remained a member of the aid after retirement. Her salary is R22 000 per month.

The following information is supplied to you to determine her tax liability for the year ended 29 February 2020:

	RAND
Bonus	24 000
Pension annuity	2 800 per month
Housing subsidy	4 000 per month
South African interest received on an investment	1 000
Pension lump sum	800 000
Accumulated leave pay	6 000
Gratuity	4 000
Lump sum from life policy	520 000
Gift from fellow workers	2 500
Sale of old laptop	1 500
Casino winnings	250 000
Contribution to pension fund	8 000
Contribution to provident fund	2 500
Contribution to retirement annuity fund (RAF)	3 500
Tax withheld during the year	55 691
Contribution to medical aid fund: Self	24 000
Employer	16 850
Qualifying medical expenses	10 000
Long-service award	7 500

Calculate Petunia's tax liability for the year of assessment 2019/2020. **[40]**

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QUESTION 4

Collin Ndou, a cattle famer aged 52, farms in the district of Vhembe.

He supplied you with the following information for the current year of assessment:

	RAND
Sales of livestock	760 000
Purchases of livestock	375 000
Sale of maize	305 000
Bonus from cooperative	8 000
Interest received on investment	32 000
Cost to build a new dam	380 000
Wages for building a dam	50 000
Grazing fees received	80 000
Cows donated to flood victims	2
Cows slaughtered as rations to labourers	4
Cows slaughtered for domestic use by Collin Ndou and his family	8
New dipping tanks	6 500
Medical expenses of farm workers	2 800

NOTE: The market value of all cows is R2 000 each and they cost R1 000 each. The standard value of a cow is R40.

Livestock on hand:	
28 February 2019	
Market value	375 000
Standard value	30 000
29 February 2020	
Market value	406 000
Standard value	36 840

Calculate the 2019/2020 tax due by the taxpayer. **[40]**

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QUESTION 5

Drum Rum (Pty) Ltd is not defined as a small business corporation and carries on business as a liquor manufacturer. The company operates mainly in South Africa and sells most of its liquor products on credit to liquor retailers in South Africa and neighbouring countries. The company is a registered vendor for VAT purposes and its year of assessment ends on 29 February 2020. All amounts exclude VAT unless stated otherwise.

The company has a taxable income of R6 758 631 before the following information has been taken into account:

	RAND
Export sales – cash	750 352
Dividends received – South African companies	13 750
Imported liquor ingredients used in the manufacturing process	588 535
Inventory at cost – 1 March 2019 Inventory at market value – 1 March 2019	291 250 289 750
Inventory at cost – 29 February 2020 Inventory at market value – 29 February 2020	319 760 325 753
Bad debts written off during the 2020 year of assessment	75 205
List of doubtful debts at 28 February 2019	85 725
List of doubtful debts at 29 February 2020	105 250
Personnel costs: • Incentive bonuses to all employees • Contributions to the pension fund on behalf of employees The Commissioner has approved a remuneration of R2 000 000 for the purposes of pension fund contributions.	 350 000 135 250
Legal expenses incurred: • Legal cost relating to collecting outstanding debtors • Legal cost paid on behalf of one of the company's directors regarding a private issue	 8 500 1 500
Advertising costs incurred: • Cost of advertising a vacant post in the Weekly Cape Mail • Cost of erecting a billboard close to the BR International Airport in Botswana	 4 580 35 600
Drum Rum (Pty) Ltd purchased the following capital assets: A new brewing manufacturing machine B was purchased on 31 December 2019 at a total cost of R350 000 and brought into use on the same date. Installation costs for machine B amounted to R14 375 (including VAT). A second-hand delivery vehicle was purchased on 30 June 2019 at a total cost of R125 000 to deliver the liquor products of Drum Rum (Pty) Ltd to its clients. Owing to technical problems, the delivery vehicle was only brought into use on 1 September 2019. A new manufacturing building was erected on 30 April 2015 and brought into use on 31 July 2015 at a total cost of R1 650 000. The building houses the entire liquor manufacturing process of Drum Rum (Pty) Ltd.	

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Drum Rum (Pty) Ltd received a sudden demand for one of its flagship products and was forced to look for additional manufacturing space. Bliss CC was approached and a lease agreement was signed on 1 July 2019 with a monthly rental payable of R15 000 as from 1 July 2019 for a period of five years with the option to extend the lease period for another five years. The lease agreement stipulated that Drum Rum (Pty) Ltd had to make leasehold improvements of at least R550 000 and pay a lease premium of R90 000. The lease premium was paid on 1 July 2019 and the leasehold improvements commenced on 1 August 2019 and were completed on 1 December 2019. The total cost of the leasehold improvements was R600 000 and were brought into use on 1 January 2020.	
Drum Rum (Pty) Ltd sold a technologically outdated manufacturing machine on 1 February 2020 for R15 000. It was originally bought second hand on 30 April 2017 for R100 000 and brought into use on the same day. The company has elected a section 11(o) scraping allowance.	
The following costs were incurred for patents and trademarks: • Renewal of patent J on 1 August 2019 • Purchase of a new trademark on 31 December 2019	 8 500 65 000
Drum Rum (Pty) Ltd entered into an agreement with Label Brew, the former brew master, on 31 December 2019, the date on which he resigned, and paid him an amount of R580 000 as a restraint of trade payment for a period of five years. The agreement was effective from 1 January 2020 and the R580 000 was paid on 15 January 2020, of which only R550 000 was taxable in the hands of Label Brew for the 2020 year of assessment.	
Drum Rum (Pty) Ltd donated R50 000 on 18 December 2019 to Men in Orange which is a public benefit organisation and received a section 18A income tax certificate on 31 January 2020.	
Additional information: General binding ruling no. 7 allows for the following write-off period for moveable assets: • Delivery vehicles – 4 years The company has an assessed loss brought forward from the 2019 year of assessment of R112 314. The company also paid provisional tax of R1 351 584 for the 2020 year of assessment.	

Calculate the tax liability of Drum Rum (Pty) Ltd for the year of assessment ending 29 February 2020. **[57]**

QUESTION 6

Chris Stone, 66 years old, and his wife Penny, 53 years old, are married out of community of property and are both South African residents whom earned the following investment income during the current year of assessment:

Chris:	
Taxable foreign dividends	13 000
Interest from foreign investments	15 000
Interest from local investments	30 000
Penny:	
Taxable foreign dividends	8 200
Interest from foreign investments	2 950
Interest from local investments	1 800

Calculate Chris and Penny's taxable income for the current year of assessment. **[15]**

TOTAL: 200

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INFORMATION SHEET

TAXABLE INCOME	RATES OF TAX	RAND
0 – 195 850	18% for each R1	
195 851 – 305 850	35 253 + 26% of taxable above	195 850
305 851 – 423 300	63 853 + 31% of taxable above	305 850
423 301 – 555 600	100 263 + 36% of taxable above	423 300
555 601 – 708 310	147 891 + 39% of taxable above	555 600
708 311 – 1 500 000	207 448 + 41% of taxable above	708 310
1 500 001 and above	532 041 + 45% of taxable above	1 500 000

REBATES:	
Primary	14 220
Secondary rebate (persons 65 and older)	7 794
Tertiary rebate (person 75 and older)	2 601

TAX THRESHOLDS:	
Below 65	79 000
Age 65 to 75	122 300
Age 75 and over	1 136 750

RETIREMENT FUND LUMP SUM BENEFIT OR SEVERANCE BENEFIT:		
TAXABLE INCOME	**RATE OF TAX**	**RAND**
0 – 500 000	0% of taxable income	
500 001 – 700 000	18% of taxable income above	500 000
700 001 – 1 050 000	36 000 + 27% of taxable income above	700 000
1 050 001 and above	130 500 + 36% of taxable income above	1 050 000

RATES PAYABLE FOR COMPANIES FOR THE YEAR ENDED 1 APRIL AND 31 MARCH 2020:		
TAXABLE INCOME	**RATES OF TAXES**	**RAND**
Companies	28% of taxable income	

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