

Exam

aat

AAT Accounting Qualification
Diploma pathway
Diploma level
Preparing Personal Taxation
Computations – South Africa (PTC-SA)
2003 Standards

Friday 20 June 2008 (morning)

Time allowed - 3 hours plus 15 minutes' reading time

Please complete the following information in BLOCK CAPITALS:

Student member number Desk number

Venue code Date

Venue name

Important:

This exam paper is in two sections. You should try to complete every task in both sections.

We recommend that you use the 15 minutes' reading time to study the exam paper fully and carefully so that you understand what to do for each task. However, you may begin to write your answers within the reading time, if you wish.

We strongly recommend that you use a pen rather than a pencil.

You may not use programmable calculators or dictionaries in the exam.

Do NOT open this paper until instructed to do so by the Supervisor.

PTC-SA

Note:

You may use this page for your workings.

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Taxation tables for personal tax – 2007/08**Tax rates:**

Taxable income	Rate of tax
R0 – R112,500	18% of each R1
R112,501 – R180,000	R20,250 plus 25% of the amount over R112,500
R180,001 – R250,000	R37,125 plus 30% of the amount over R180,000
R250,001 – R350,000	R58,125 plus 35% of the amount over R250,000
R350,001 – R450,000	R93,125 plus 38% of the amount over R350,000
R450,001 +	R131,125 plus 40% of the amount over R450,000

Rebate:

	R
Primary rebate	7,740
Secondary rebate (over 65)	4,680

Interest exemptions:

Under 65	18,000
Over 65	26,000

For each, first R3,000 of the exemption is applicable to foreign dividends and foreign interest.

Car allowance:

Maximum deemed kms	32,000
Deemed private kms	18,000

Maximum vehicle cost for actual expenses 360,000

Deemed expenditure table (see next page)

Fringe benefit (company car):

Benefit percentage	2.5%
Reduction for all private fuel paid	0.22%
Reduction for all maintenance paid	0.18%

Medical tax-free monthly contributions:

Single member	530
Member plus one dependent	1,060
Each additional dependent	320

SARS official rate 11%

Capital gains tax:

Annual exclusion	R15,000
Primary residence exclusion	R1,500,000
Inclusion rate	25%

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Travel allowance deemed expenditure table

For years of assessment commencing on or after 1 March 2006

Value of vehicle (including VAT but excluding finance charges or interest)			Fixed cost	Fuel cost	Maintenance cost
R			R p.a.	c/km	c/km
0	-	40,000	15,364	47.3	22.5
40,001	-	60,000	20,910	49.4	26.2
60,001	-	80,000	25,979	49.4	26.2
80,001	-	100,000	31,513	54.8	30.5
100,001	-	120,000	36,978	54.8	30.5
120,001	-	140,000	41,771	54.8	30.5
140,001	-	160,000	47,512	57.2	39.8
160,001	-	180,000	52,629	57.2	39.8
180,001	-	200,000	58,334	65.9	43.8
200,001	-	220,000	64,591	65.9	43.8
220,001	-	240,000	69,072	65.9	43.8
240,001	-	260,000	74,777	65.9	43.8
260,001	-	280,000	79,918	69.3	52.5
280,001	-	300,000	85,440	69.3	52.5
300,001	-	320,000	88,793	69.3	52.5
320,001	-	340,000	95,218	69.3	52.5
340,001	-	360,000	100,011	77.1	68.0
Exceeds R360,001			100,011	77.1	68.0

Reimbursement based on actual business kilometres travelled and no other compensation is paid to such employee, kilometres travelled for business does not exceed 8,000, prescribed rate is R2.46 per kilometre.

Residential fringe benefit:

B = R43,000

C = 17% or 18% or 19%

Section 10(1)(x)

Exemption is R30,000

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This exam paper is in TWO sections.

You must show competence in BOTH sections. So, try to complete EVERY task in BOTH sections.

Section 1 contains 5 tasks and Section 2 contains 7 tasks.

You should spend about 90 minutes on each section.

There is blank space for your workings on pages 2, 14 and 21-23, but you should include all workings and essential calculations in your answers.

Section 1

Data

You work in the tax department of a small firm of chartered accountants.

The following is information you have received from one of the clients, Lonwabo Sotho (57 years of age), for 2007/08.

1. Lonwabo worked for SA Micro Ltd as a manager until 31 October 2007, when he was made redundant. During 2007/08, he had a gross annual salary of R450,000.
2. In December 2007, he received a retrenchment payment of R200,000.
3. He used his retrenchment money to set up his own business. The profits from this business for the tax year 2007/08 have already been calculated at R51,890.
4. Whilst he was employed by SA Micro Ltd, Lonwabo had the use of a company flat. Lonwabo's "remuneration factor" was R425,000. The flat had cost the company R1,750,000 in 2004 and has three rooms. Lonwabo paid for all the running costs. After retrenchment, Lonwabo moved out of the flat.
5. During his time of employment with SA Micro Ltd, Lonwabo did a lot of travelling. Sometimes he used a company pool car, but never for private usage. Sometimes he used his own car (costing R315,000 originally). During 2007/08, he travelled 10,000 business kilometres in his own car (out of a total of 40,000 kms). He did not keep a record of his expenses. He received a travel allowance of R3,750 per month and has elected to use actual kms with deemed expenses to determine his reduction for tax purposes.
6. On 6 April 2007, Lonwabo took a loan from the company of R70,000. He had to pay 3% interest. On 31 October 2007, Lonwabo repaid this loan in full.
7. Lonwabo paid 8% of his salary into the company's pension scheme. The company matched his contribution on a Rand for Rand basis.
8. As Lonwabo is now self-employed, he joined a retirement annuity fund on 1 January 2008. On the first of each month, he contributes R5,000 to the fund, commencing on 1 January 2008.
9. Lonwabo received other net income of:

	R
South Africa interest	12,000
Interest earned on a UK bank account (converted to Rands)	4,500
Local (South African) dividends	1,440

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Task 1.1

Calculate the total fringe benefits and allowance inclusions in gross income for 2007/08. If an employment benefit does not result in a fringe benefit or taxable allowance, you must state why.

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Task 1.2

Calculate the taxable income from employment for Lonwabo for 2007/08. Show any applicable exemptions and deductions.

Task 1.3

Prepare the final computation of taxable income for 2007/08.

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Task 1.4

As far as possible given the information available, complete ONLY the “Travel claim against allowance” portion of the tax return extract on page 11.

Note:

As SARS have not issued the tax form for 2007/08, the previous form (2007) is being used for the purposes of this exam.

Data

You have received the following email from Lonwabo.

From: LS99@hotmail.co.za
To: AATstudent@boxmail.net
Sent: 18 June 2008
Subject: Advice

Thanks for helping me complete my tax return. It is much appreciated.

I am writing to ask for some advice and information. As you know, I invested my retrenchment money in a business, which is doing well. Using the profits from that business, I now want to invest in some furnished flats to rent out to students. However, before I go ahead, I want to know how gross income from property is taxed and whether I qualify for any allowance on the furniture I will put into those properties. I wonder if you would be so kind as to provide any guidance or help you can.

Many thanks

Lonwabo

Task 1.5

Reply to Lonwabo's email, explaining the tax implications of income from property. In particular, you need to:

- (a) outline how the gross income principle of "received or accrued" applies to the rental income**
- (b) state which allowance would be permitted for the furniture.**

You do not need to explain how property losses are treated or discuss any revenue expenses.

From: AATstudent@boxmail.net
To: LS99@hotmail.co.za
Sent: 20 June 2008
Subject: Re: Advice

This page is for the continuation of your email. You may not need all of it.

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Section 2**Data**

Another client, Rebecca Khan (56 years of age), has sent in the following information for 2007/08.

Capital transactions:

1. Rebecca bought a house on 1 January 1996 for R700,000. She lived in the house until 31 December 2004 when she moved in with her elderly parents. The house remained unoccupied until 1 January 2007 when she moved back into the house while it was up for sale. She sold it on 1 June 2007 for R2,050,000. This house is Rebecca's only property and the property was not valued on 1 October 2001.
2. Rebecca had the following transactions in shares in Princeton Ltd. The shares are not held in a trading portfolio.

		No of Shares	Cost/ proceeds R
January 2000	Purchased	1,000	9,010
August 2002	Bonus issue	1 for 4	
February 2008	Sold	1,000	21,875

The market value of the shares on 1 October 2001 was R11,150. All shares are held on a weighted average basis.

3. She had the following transactions in shares in Kingston Ltd. The shares are not held in a trading portfolio. All shares are held on a weighted average basis. Rebecca always exercises her right in terms of rights issues.

		No of Shares	Cost/ proceeds R
October 2004	Purchased	200	12,500
April 2006	Rights issue	1 for 10	R60 per share
February 2008	Sold	220	20,300

4. In December 2007, she sold an antique painting for R40,000. She had bought the painting in April 2004 for R80,500, but it had recently been damaged, hence the disappointing sale value.
5. Rebecca had a capital loss from 2006/07 of R17,300.

Other information for 2007/08:

Rebecca had employment income of R301,300.

She also had SA interest of R2,300.

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Task 2.1

Calculate the capital gain or loss, if any, made on the disposal of the house, after applying any relevant specific exclusion (that is, DO NOT apply the annual exclusion).

[illegible]

Task 2.2

Calculate the capital gain or loss, if any, made on the disposal of the shares in Princeton Ltd, before the annual exclusion but after any relevant specific exclusion.

Task 2.3

Calculate the capital gain or loss, if any, made on the disposal of the shares in Kingston Ltd, before the annual exclusion but after any relevant specific exclusion.

Task 2.4

Calculate the capital gain or loss, if any, made on the disposal of the painting, before the annual exclusion, and indicate whether any specific exclusion will apply.

Task 2.5

Calculate the taxable capital gains or assessed capital loss to carry forward for the year 2007/08.

Task 2.6

Calculate the total income tax liability for 2007/08.

Note:

You do NOT need to calculate any tax credits, for example employees' tax or provisional tax.

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Task 2.7

Rebecca is an acquaintance of Lonwabo Sotho as they do similar jobs in similar sized companies. She knows that he was retrenched recently. She is facing retrenchment herself and would like to know how much retrenchment money Lonwabo received so that she can compare this to the figure her company is offering her.

State how you should reply to Rebecca's request for this information, clearly justifying your reply.

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Diploma pathway qualification codes

Diploma (2003 standards) – 100/5925/8

Unit number (PTC) – T/103/6455

