Tutorial letter 201/1/2019

Taxation of Individuals

TAX3702

Semester 1

Taxation Department

Self-assessment assignment 3

Solution – assignment 3

Bar code

Dear Student

Enclosed please find self-assessment assignment 3, as well as the solution to assignment 3/2019. Please work through the solution in conjunction with the assignment and your answers. This is a significant part of the learning process. It is important to understand why marks were allocated to specific parts of your solutions.

You should identify any problem areas early in the semester and make every effort to understand all aspects of the work that you have covered.

We hope that you have found the assignment and questions stimulating.

PLEASE NOTE: The schedules that are contained at the end of the assignment in this tutorial letter (assignment 3), are the schedules that will also be included in the exam paper that you will be writing during May 2019.

Kind regards

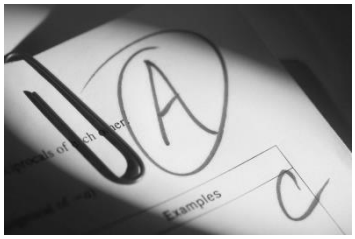
LECTURERS: TAX3702

The lecturers who are available to assist you are: Mr A Swanepoel Mr M van Dyk Mrs SC Cass Mrs C Stedall Ms R Ramfol Mrs R Moosa Mrs MSI Wentzel	 012 429 4313 012 429 4918 012 429 8992 012 429 4301 012 429 8976 012 429 2883 012 429 4876

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ANNEXURE A: SELF-ASSESSMENT ASSIGNMENT 3/2019
ANNEXURE B: SOLUTION TO ASSIGNMENT 3/2019

ANNEXURE A: SELF-ASSESSMENT ASSIGNMENT 3: FIRST SEMESTER



This is a self-assessment assignment.

These are the instructions that will also appear on your examination paper. Read them now and make sure that you understand what we require from you. We also suggest that you try to do this assignment like a proper examination, under examination conditions, to see how much you know and what you need to spend time on.

This paper consists of eight (8) pages, plus schedules (pp i – viii)

IMPORTANT INSTRUCTIONS

Assumptions:

1. **All amounts exclude VAT unless stated otherwise.**
2. **All persons mentioned are residents of the Republic unless stated otherwise.**

Regarding the answering of this paper:

1. This paper consists of five (5) questions.
2. ALL questions must be answered.
3. Each question must be commenced on a new (separate) page.
4. **All workings, where applicable, must be shown. Where an amount is subject to a limitation, clearly indicate the application of the limitation. Where any item is exempt from tax or not allowable as a deduction, this must be indicated and a brief reason provided. All amounts must be rounded to the nearest rand.**
5. Please complete the cover page of the answer book in full.
6. You are reminded that answers may **NOT** be written in pencil.
7. Proposed timetable **(try as far as possible not to deviate from this timetable):**

Question	Subject	Marks	Minutes
1	Net normal tax	30	54
2	Employees' tax	15	27
3	Fringe benefits and gross income	25	45
4	Capital gains tax	15	27
5	Estate duty	15	27
	TOTAL	**100**	**180**

QUESTION 1 (30 marks, 54 minutes)

Simon is 33 years old and married (out of community of property). The couple has a six-year-old child.

Simon is a software engineer employed by a South African company. He provides you with the following information relating to his income, benefits and deductions for the year of assessment ended 28 February 2019:

Income and benefits	**Note**	**R**
Salary		750 000
Subsistence allowance	1	3 900
Annuities	2	60 000
Use of company cell phone	3	?
Loan from employer	4	250 000
Foreign interest		2 000
Gross foreign dividends (from a unit trust)	5	4 000
Deductions		
Provident fund contributions	6	40 000
Retirement annuity fund contributions	6	190 000
Medical scheme fee contributions and expenses	7	55 000

Notes:

1. Subsistence allowance

   Simon spent six nights away from home on a business trip to Cape Town. The subsistence allowance (of R650 per night) covered meals and incidental costs. Simon kept a record of his actual expenses that amounted to R2 600 for meals, R600 for alcoholic beverages and R300 for private telephone calls.

2. Annuities

   Simon received annuities amounting to R60 000 in total during the year of assessment. The annuities were received in terms of the sale of goodwill of a small business that Simon had disposed of in a previous year of assessment.

3. Use of company cell phone

   Simon's employer gave him the right to use a company cell phone from 1 July 2018. Simon had the right to use the cell phone until the end of the 2019 year of assessment. The company purchased the phone at a cost of R6 500 on 1 March 2018. The market value of the cell phone was R5 000 at the time Simon received the right of use. Simon used the phone 60% for business purposes and 40% for private purposes.

4. Loan from employer

   Simon's employer granted him a loan on 1 January 2019 to enable him to purchase a vehicle. The loan (of R250 000) would be repayable in full at the end of a four-year period, and is subject to interest at a rate of 4% per annum.

   Assume that the South African repurchase rate (repo rate) is 6.75%.

QUESTION 1 (continued)

5. Gross foreign dividends

Foreign tax of R200 was withheld from the foreign dividends.

6. Provident fund and retirement annuity fund contributions

Simon made contributions, amounting to R40 000, to a provident fund during the 2019 year of assessment. In addition, his employer also made additional contributions, amounting to R20 000, to the provident fund, on his behalf.

Simon also made contributions, amounting to R190 000, to a retirement annuity fund.

You may assume that Simon's remuneration amounted to R785 900 (correctly calculated) for the 2019 year of assessment.

7. Medical scheme fee contributions and expenses

The medical scheme fee contributions and expenses are made up as follows:

	R
Simon's own contributions paid to the medical scheme for the year	30 000
Qualifying medical expenses not paid by or recoverable from the medical scheme	25 000

Simon's employer also contributed an amount of R12 000, in addition, to the medical scheme, on his behalf. Simon and his family are all members of the medical scheme. No member of the family has a disability as defined.

REQUIRED:	**MARKS**
Calculate Simon's net normal tax for the year of assessment ended 28 February 2019.	**30**

QUESTION 2 (15 marks, 27 minutes)

Shiyaad (65 years old and single) is an employee of a mining company. He was retrenched and his employment was terminated with effect from 1 July 2018.

Below are details of Shiyaad's total income, benefits, expenses and contributions for the four months from 1 March 2018 to 30 June 2018:

	Note	R
Income/benefits		
Salary		160 000
Long service award	1	40 000
Subsistence allowance	2	6 000
Travel allowance	3	20 000
Retrenchment package	4	1 200 000
Expenses/contributions		
Pension fund contributions	5	44 000
Medical expenses	6	19 000

Notes:

2. Long service award

Shiyaad's employer purchased a smart television on 30 June 2018, which cost R40 000, and gave it to him on the same day as Shiyaad had worked for the same employer for 35 years.

3. Subsistence allowance

Shiyaad had to travel to related mining companies one day per week, to perform safety inspections. His employer paid him a subsistence allowance for meals and refreshments. Shiyaad did not keep record of his actual expenses for meals and refreshments. During March 2018 to June 2018, he was away on inspection for 16 days (four days per month). His employer paid for his accommodation.

4. Travel allowance

Shiyaad's employer paid him a travel allowance for using his own motor vehicle to travel for business purposes. Shiyaad always kept a valid and accurate logbook and his employer is satisfied that he travels 80 percent for business purposes.

4. Retrenchment package

Shiyaad's employer shut down one of its mines during June 2018. Because of this, a number of employees had to be retrenched. On 30 June 2018, Shiyaad received R1 200 000 as a retrenchment package from his employer. He has never received any other similar payments.

5. Pension fund contributions

Shiyaad and his employer contributes to the employer's approved pension fund in equal proportions. The total contributions for the four-month period Shiyaad was employed, amounted to R44 000.

QUESTION 2 (continued)

6. Medical expenses

Shiyaad contributed R16 000 to a medical scheme during the period he was employed. During June 2018, he had to pay an extra R3 000 for prescription glasses that was not covered by the medical scheme. Shiyaad's employer was not aware that he is a member of a medical scheme.

REQUIRED:	MARKS
Calculate the employees' tax that Shiyaad's employer had to withhold from his remuneration for the month of June 2018.	**15**

QUESTION 3 (25 marks, 45 minutes)

PART A (15 marks, 27 minutes)

James Nkomo (42 years old) has the option to choose between a travel allowance or the right of use of one of the company's vehicles from 1 March 2018 for the entire 2019 year of assessment.

Details are listed below:

PACKAGE #1	PACKAGE #2
Travel allowance: Receipt of an annual travel allowance amounting to R125 000. Cost of vehicle: R500 000 (VAT inclusive) Total kilometres to be travelled: 9 600 km of which 25% will be for private purposes. A valid and accurate logbook will be kept by James. Actual expenses that will be incurred by James: Fuel: R11 300 Tyres: R2 250	**Right of use of a vehicle:** Right of use of a company-owned vehicle. The vehicle's cost was R319 200 (VAT inclusive) when it was purchased by the company on 1 September 2016. The vehicle is not subject to a maintenance plan. Monthly payment by James: R1 500 towards the use of the vehicle. Private fuel paid by James: R3 150. Total kilometres to be travelled: 9 600 km of which 25% will be for private purposes. A valid and accurate logbook will be kept by James.

REQUIRED:	MARKS
Advise James, which option will be the most tax beneficial for him.	**15**

QUESTION 3 (continued)

PART B (10 marks, 18 minutes)

Mamma Thembo owns a very successful guesthouse in Soweto (South Africa) for the past nine years. Her guesthouse often hosts overseas tour groups and is also popular with the local market. She has never considered selling her guesthouse.

In June 2018, a large listed company saw the value in Mamma Thembo's guesthouse and offered her R3 000 000 for the guesthouse.

Mamma Thembo's cousin is the chairman of the "Redevelop Soweto" committee. Mamma Thembo knows that major redevelopment plans for Soweto will be announced in the next month. These plans will significantly increase the value of her property.

Mamma Thembo declined the offer from the large listed company.

The major redevelopment plans were announced in July 2018 and during August 2018 Mamma Thembo obtained an independent valuation for her property amounting to R8 000 000. She approached the large listed company and agreed to sell her guesthouse for R8 000 000.

The sale was concluded and all monies were received by Mamma Thembo in December 2018.

REQUIRED:	**MARKS**
Discuss, with reference to the gross income definition, whether or not the monies received by Mamma Thembo in December 2018 will be included her gross income. No reference to case law is required.	**10**

QUESTION 4 (15 marks, 27 minutes)

Blessing (56 years old), a successful businessman, decided to scale down his demanding lifestyle. He sold most of his assets and moved to Coffee Bay, South Africa, where he retired.

Blessing sold the following assets:

House in Johannesburg:

In September 2018, Blessing advertised his house via a reputable estate agent. The house was sold on 30 September 2018 and Blessing received an amount of R7 200 000, after deducting 4% agent's commission.

The house was originally purchased for R3 000 000 on 1 October 1996. Blessing also had to pay R130 000 in respect of acquisition costs in addition to the purchase price.

Blessing has always made use of a home office to work from for business purposes. His home office comprised 10% of the total floor space of the house.

In 2002, Blessing had a swimming pool built for R200 000. When all his children had moved out of the home by 2014, he decided to have the swimming pool filled with soil and covered it with grass. This cost him R80 000.

Assume that the house's market value was R3 900 000 and the time-apportionment base cost, correctly calculated, was R4 100 000, on 1 October 2001.

Business:

In June 2003, Blessing purchased a Whoolees Food franchise for R4 000 000. Blessing was actively involved in the operations of the franchise. The franchise is a 'small business' as defined. Blessing sold the franchise for R8 000 000 in January 2019.

Boat:

Blessing purchased a boat of 15-meters in length for R350 000 in November 2001. The boat was used for private purposes only. He sold it to a buyer in Cape Town for R850 000 during October 2018. Blessing shared the cost of transporting the boat to Cape Town, which cost him R50 000.

REQUIRED:	**MARKS**
Calculate Blessing's taxable capital gain/(capital loss) for the 2019 year of assessment.	**15**

QUESTION 5 (15 marks, 27 minutes)

John Brown died on 1 December 2018, at the age of 75 years. John was diagnosed with a terminal illness in June 2018. He is survived by his son Jayden (who is 42 years old). Jayden is John's sole heir. John's wife, Rebecca, died two years earlier. In terms of Rebecca's estate duty return (of which a copy is kept on record by the executor of John) her estate had no estate duty liability as the net value of her estate amounted to R1 900 000. Rebecca's sister was the sole heir of her estate.

The executor of John's estate found the following:

		R
1.	The farm 'Milk and Honey', on which bona fide farming activities are conducted, at fair market value as on 1 December 2018	9 000 000
2.	John's primary residence, a house situated at Mooikloof Estate, Pretoria. An estate agent valued the property at R5 200 000 on 1 December 2018. The executor subsequently sold the house for	4 750 000
3.	John owned 100% of the shares in JB (Pty) Ltd. The company took out a domestic life insurance policy (section 3(3)(*a*) exemption not allowed) on his life that will pay out R500 000 on John's death. Upon John's death, the value of the shares was enhanced by R350 000 with the value of the policy. Independent valuation of shares in JB (Pty) Ltd	895 000
4.	John was entitled to a monthly annuity of R7 000 from the income of a property held in trust. On John's death, the right to receive the annuity was transferred to his son, Jayden.	
5.	Listed shares valued at R600 000 at the time of John's death. John donated the shares to Jayden two months ago when he realised he wouldn't live much longer. The shares were valued at R580 000 two months ago.	
6.	Proceeds of domestic Policy 1 taken out on his life by Jayden. Jayden also paid all the premiums and interest (compounded at 6%) on the policy amounting to R315 000 in total. Jayden was the only beneficiary according to the policy stipulations	1 450 000
7.	Bequest to a registered public benefit organisation	1 000 000

The estate had the following liabilities, outstanding rates and property taxes on the house in Mooikloof Estate, amounting to R12 300. Master's fees and executor's remuneration amounted to R365 300 (which you may assume to be correctly calculated).

REQUIRED:	**MARKS**
Calculate the estate duty payable by John Brown's estate.	**15**

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SCHEDULES

A. 2019 – TAX TABLES

(i) Persons (other than companies and trusts)

Taxable income	Rates of tax
Where the taxable income does not exceed R195 850	18 % of each R1 of the taxable income;
exceeds R195 850 but does not exceed R305 850	R35 253 plus 26% of the amount by which the taxable income exceeds R195 850;
exceeds R305 850 but does not exceed R423 300	R63 853 plus 31% of the amount by which the taxable income exceeds R305 850;
exceeds R423 300 but does not exceed R555 600	R100 263 plus 36% of the amount by which the taxable income exceeds R423 300;
exceeds R555 600 but does not exceed R708 310	R147 891 plus 39% of the amount by which the taxable income exceeds R555 600;
exceeds R708 310 but does not exceed R1 500 000 .	R207 448 plus 41% of the amount by which the taxable income exceeds R708 310;
exceed R1 500 000	R532 041 plus 45% of the amount by which the taxable income exceeds R1 500 000.

(ii) Tax on retirement lump sum benefits (or death)

Taxable income from benefit	Rate of Tax
R0 – R500 000.....	0 per cent of taxable income
Exceeding R500 000 but not exceeding R700 000	R0 plus 18% of taxable income exceeding R500 000
Exceeding R700 000 but not exceeding R1 050 000	R36 000 plus 27% of taxable income exceeding R700 000
Exceeding R1 050 000.....	R130 500 plus 36% of taxable income exceeding R1 050 000

(iii) Tax on retirement lump sum withdrawal benefits (pre-retirement)

Taxable income from benefit	Rate of Tax
R0 – R25 000.....	0 per cent of the taxable income
Exceeding R25 000 but not exceeding R660 000 ...	18% of taxable income exceeding R25 000
Exceeding R660 000 but not exceeding R990 000..	R114 300 plus 27% of taxable income exceeding R660 000
Exceeding R990 000.....	R203 400 plus 36% of taxable income exceeding R990 000

B. FRINGE BENEFIT TABLES

(i) Employee–owned vehicles (section 8(1))

SCALE OF VALUES

Where the value of the vehicle	Fixed cost R	Fuel cost c	Maintenance cost c
does not exceed R85 000	28 352	95,7	34,4
exceeds R 85 000 but does not exceed R170 000	50 631	106,8	43,1
exceeds R170 000 but does not exceed R255 000	72 983	116,0	47,5
exceeds R255 000 but does not exceed R340 000	92 683	124,8	51,9
exceeds R340 000 but does not exceed R425 000	112 443	133,5	60,9
exceeds R425 000 but does not exceed R510 000	133 147	153,2	71,6
exceeds R510 000 but does not exceed R595 000	153 850	158,4	88,9
exceeds R595 000	153 850	158,4	88,9

(ii) Employer owned vehicles (Paragraph 7(4) of the Seventh Schedule)

Scale of values

Value of private use **per month**, vehicle not subject to maintenance plan = 3,5% x determined value

Value of private use **per month**, vehicle subject to maintenance plan = 3.25% x determined value

(iii) Subsistence allowance as per Government Gazette No. 39724

Daily allowance for incidental cost is R128 per day.

Daily allowance for food and incidental cost is R416 per day.

C. REBATES

Persons under 65 ..... R14 067

Persons 65 and under 75 (R14 067 + R7 713) R21 780

Persons 75 and over (R14 067 + R7 713 + R2 574) R24 354

D. MEDICAL AID TAX CREDITS

Main member R310

Main member with one dependant (R310 + R310) R620

Main member with two dependants (R310 + R310 + R209) R829

Each additional dependant qualifies for a further rebate or credit of R209.

E. FORMULAE

Section 10A (purchased annuity)

Y = A/B x C

Y = the capital element to be calculated
A = the total cash price payable by the purchaser to the insurance company in terms of the annuity contract
B = the sum of all the expected returns over the term of the contract; and
C = the total receipts during the current year of assessment.

Second Schedule

Formula C

$$A = \frac{B}{C} \times D$$

A = the portion subject to tax that must be calculated
B = the total completed years of service from 1 March 1998
C = the total completed years of service that are recognised as pension funding
D = the lump sum that is payable.

F. EXTRACT FROM THE INCOME TAX ACT (ACT 58 OF 1962, AS AMENDED) – EIGHTH SCHEDULE

25. Determination of base cost of pre-valuation date assets. – The base cost of a pre-valuation date asset (other than an identical asset in respect of which paragraph 32 (3A) has been applied), is the sum of the valuation date value of that asset, as determined in terms of paragraph 26, 27 or 28 and the expenditure allowable in terms of paragraph 20 incurred on or after the valuation date in respect of that asset.

26. Valuation date value where proceeds exceed expenditure or where expenditure in respect of an asset cannot be determined. – **(1)** Where the proceeds from the disposal of a pre-valuation date asset (other than an asset contemplated in paragraph 28 or in respect of which paragraph 32 (3A) has been applied) exceed the expenditure allowable in terms of paragraph 20 incurred before, on and after the valuation date in respect of that asset, the person who disposed of that asset must, subject to subparagraph (3), adopt any of the following as the valuation date value of that asset–

(a) the market value of the asset on the valuation date as contemplated in paragraph 29;

(b) 20 per cent of the proceeds from disposal of the asset, after deducting from those proceeds an amount equal to the expenditure allowable in terms of paragraph 20 incurred on or after the valuation date; or

(c) the time-apportionment base cost of the asset as contemplated in paragraph 30.

(2) Where the expenditure incurred before valuation date in respect of a pre-valuation date asset cannot be determined by the person who disposed of that asset or the Commissioner, that person must adopt any of the following as the valuation date value of that asset–

(a) the market value of the asset on the valuation date as contemplated in paragraph 29; or

(b) 20 per cent of the proceeds from disposal of the asset, after deducting from those proceeds an amount equal to the expenditure allowable in terms of paragraph 20 incurred on or after the valuation date.

(3) Where a person has adopted the market value as the valuation date value of an asset, as contemplated in subparagraph **(1)** (a), and the proceeds from the disposal of that asset do not exceed that market value, that person must substitute as the valuation date value of that asset, those proceeds less the expenditure allowable in terms of paragraph 20 incurred on or after the valuation date in respect of that asset.

27. Valuation date value where proceeds do not exceed expenditure. – **(1)** Subject to subparagraph (2), where the proceeds from the disposal of a pre-valuation date asset do not exceed the expenditure allowable in terms of paragraph 20 incurred both before and after the valuation date in respect of that asset, the valuation date value of that asset must be determined in terms of this paragraph.

(2) This paragraph does not apply in respect of any asset contemplated in paragraph 28 or in respect of which paragraph 32 (3A) has been applied.

(3) Where a person has determined the market value of an asset on the valuation date, as contemplated in paragraph 29, or the market value of an asset has been published in terms of that paragraph, and–

(a) the expenditure allowable in terms of paragraph 20 incurred before the valuation date in respect of that asset–

(i) is equal to or exceeds the proceeds from the disposal of that asset; and
(ii) exceeds the market value of that asset on valuation date,
is the valuation date value of that asset must the higher of–

(aa) that market value; or
(bb) those proceeds less the expenditure allowable in terms of paragraph 20 incurred on or after the valuation date in respect of that asset; or

(b) the provisions of item (a) do not apply, the valuation date value of that asset must be the lower of–

(i) that market value; or
(ii) the time-apportionment base cost of that asset as contemplated in paragraph 30.

(4) Where the provisions of subparagraph (3) do not apply, the valuation date value of that asset is the time-apportionment base cost of that asset, as contemplated in paragraph 30.

G. INCOME TAX MONETARY THRESHOLDS SUBJECT TO PERIODIC LEGISLATIVE CHANGE:

Description	Reference to Income Tax Act, 1962	Monetary amount
Exemption for interest and certain dividends:		
In respect of persons 65 years or older, exemption for interest from a source within the Republic which are not otherwise exempt	Section 10(1)(*i*)(i)	R34 500
In respect of persons younger than 65 years, exemption for interest from a source within the Republic which are not otherwise exempt	Section 10(1)(*i*)(ii)	R23 800
Annual donations tax exemption:		
Exemption for donations made by individuals	Section 56(2)(*b*)	R100 000
Capital gains exclusions:		
Annual exclusion for individuals and special trusts	Paragraph 5(1) of Eighth schedule	R40 000
Exclusion on death	Paragraph 5(2) of Eighth schedule	R300 000
Exclusion for the disposal of a primary residence	Paragraph 45(1)(*a*) of Eighth Schedule	R2 million
Exclusion in respect of disposal of primary residence (based on amount of proceeds on disposal)	Paragraph 45(1)(*b*) of Eighth Schedule	R2 million
Maximum market value of all assets allowed within the small business definition on disposal when person 55 years or older	Definition of “small business” in paragraph 57(1) of Eighth Schedule	R10 million
Exclusion amount on disposal of small business when person 55 years or older	Paragraph 57(3) of Eighth schedule	R1 800 000
Retirement savings thresholds:		
Deductible retirement fund contributions: Members of retirement funds may deduct their contributions subject to certain percentage or monetary ceilings		
Monetary ceiling for total contributions to retirement funds	Proviso to section 11(*k*)(i)	R350 000

Description	Reference to Income Tax Act, 1962	Monetary amount
Deductible business expenses for individuals:		
Car allowance: Individuals receive an annual vehicle allowance to defray business travel expenses, including deemed depreciation on the vehicle.		
Ceiling on vehicle cost	Section 8(1)(*b*)(*iii*A)(*bb*)(A)	R595 000
Ceiling on debt relating to vehicle cost	Section 8(1)(*b*)(*iii*A)(*bb*)(B)	R595 000
Employment–related fringe benefits		
Exempt scholarships and bursaries: Employers can provide exempt scholarships and bursaries to employees and their relatives, subject to annual monetary ceilings.		
Annual ceiling for employees	Paragraph (*ii*)(*aa*) of the proviso to section 10(1)(*q*)	R600 000
Annual ceiling for employee relatives Annual ceiling for employee relatives with a disability	Paragraph (*ii*)(*bb*) of the proviso to section 10(1)(*q*)	R60 000 & R20 000 R90 000 & R30 000
Awards for bravery and long service:	Paragraphs (a) and (b) of the further proviso to paragraph 5(2) of Seventh Schedule	R5 000
Employee accommodation:	Paragraph 9(3)(a)(ii) of Seventh Schedule	R78 150
Exemption for *de minimus* employee loans:	Paragraph 11(4)(a) of Seventh Schedule	R3 000
Administration		
Exemptions from provisional tax:		
In the case of a natural person not carrying on a business	Paragraph 18(1)(c)(i) of Fourth Schedule	Taxable income below threshold
In the case of a natural person not carrying on a business	Paragraph 18(1)(c)(i) of Fourth Schedule	Taxable income from interest, foreign dividends and rental income does not exceed R30 000

H. DECEASED ESTATES

(i) RATE OF ESTATE DUTY

The rate of estate duty shall be 20 per cent of the dutiable amount of the estate.

Provided that where duty becomes payable upon the value of any movable or immovable property or on a value determined by reference to the value of any movable or immovable property, and duty has, upon the death of any person (hereinafter referred to as the first-dying person), who died within ten years prior to the death of the deceased, become payable upon the value of that movable or immovable property or upon a value determined by reference to the value of that movable or immovable property (or any movable or immovable property for which the Commissioner is satisfied that that movable or immovable property has been substituted), the duty attributable to the value of that movable or immovable property or, as the case may be, the value determined by reference to the value of that movable or immovable property, but not exceeding (in either case) an amount equal to the value on which duty has become payable on the death of the first-dying person, shall be reduced by a percentage according to the following scale:

if the deceased dies within two years of the death of the first-dying person	100 per cent
if the deceased dies more than two years but not more than four years after the death of the first-dying person	80 per cent
if the deceased dies more than four years but not more than six years after the death of the first-dying person	60 per cent
if the deceased dies more than six years but not more than eight years after the death of the first-dying person	40 per cent
if the deceased dies more than eight years but not more than ten years after the death of the first-dying person	20 per cent

subject to a maximum reduction equal to so much of the duty previously payable upon the death of the first-dying person as is attributable to the value of that movable or immovable property or, as the case may be, to an amount equal to the value determined by reference to the value of that movable or immovable property, and as is proved to the satisfaction of the Commissioner to have been borne by the deceased.

TABLE A

(iv) THE EXPECTATION OF LIFE AND THE PRESENT VALUE OF R1 PER ANNUM FOR LIFE CAPITALISED AT 12 PER CENT OVER THE EXPECTATION OF LIFE OF MALES AND FE-MALES OF VARIOUS AGES

Age	Expectation of life		Present value of R1 per annum for life		Age
	Male	Female	Male	Female	
0	64,75	72,36	8,237 91	8,331 05	0
1	65,37	72,74	8,328 28	8,331 14	1
2	64,50	71,87	8,327 76	8,330 91	2
3	63,57	70,93	8,327 14	8,330 64	3
4	62,63	69,98	8,326 44	8,330 33	4
5	61,69	69,02	8,325 67	8,329 99	5
6	60,74	68,06	8,324 80	8,329 61	6
7	59,78	67,09	8,323 81	8,329 81	7
8	58,81	66,11	8,322 71	8,328 69	8
9	57,83	65,14	8,321 46	8,328 15	9
10	56,85	64,15	8,320 07	8,327 53	10
11	55,86	63,16	8,318 49	8,326 84	11
12	54,87	62,18	8,316 73	8,326 08	12
13	53,90	61,19	8,314 80	8,325 22	13
14	52,93	60,21	8,312 65	8,324 27	14
15	51,98	59,23	8,310 29	8,323 20	15
16	51,04	58,26	8,307 70	8,322 03	16
17	50,12	57,29	8,304 89	8,320 71	17
18	49,21	56,33	8,301 80	8,319 26	18
19	48,31	55,37	8,298 41	8,317 64	19
20	47,42	54,41	8,294 71	8,315 84	20
21	46,53	53,45	8,290 61	8,313 83	21
22	45,65	52,50	8,286 13	8,311 61	22
23	44,77	51,54	8,281 17	8,309 12	23
24	43,88	50,58	8,275 64	8,306 33	24
25	43,00	49,63	8,269 59	8,303 26	25
26	42,10	48,67	8,262 74	8,299 81	26
27	41,20	47,71	8,255 16	8,295 95	27
28	40,30	46,76	8,246 77	8,291 71	28
29	39,39	45,81	8,237 37	8,286 97	29
30	38,48	44,86	8,226 94	8,281 70	30
31	37,57	43,91	8,215 38	8,275 83	31
32	36,66	42,96	8,202 57	8,269 30	32
33	35,75	42,02	8,188 36	8,262 10	33
34	34,84	41,07	8,172 62	8,254 00	34
35	33,94	40,13	8,155 36	8,245 09	35
36	33,05	39,19	8,136 47	8,235 17	36
37	32,16	38,26	8,115 58	8,224 26	37
38	31,28	37,32	8,092 74	8,211 99	38
39	30,41	36,40	8,067 81	8,198 66	39
40	29,54	35,48	8,040 30	8,183 86	40
41	28,69	34,57	8,010 67	8,167 62	41
42	27,85	33,67	7,978 44	8,149 83	42
43	27,02	32,77	7,943 44	8,130 12	43
44	26,20	31,89	7,905 47	8,108 81	44
45	25,38	31,01	7,863 80	8,085 27	45

TABLE A (continued)

Age	Expectation of life		Present value of R1 per annum for life		Age
	Male	Female	Male	Female	
46	24,58	30,14	7,819 24	8,059 56	46
47	23,79	29,27	7,771 09	8,031 19	47
48	23,00	28,41	7,718 43	8,000 26	48
49	22,23	27,55	7,662 36	7,966 17	49
50	21,47	26,71	7,602 01	7,929 50	50
51	20,72	25,88	7,537 13	7,889 67	51
52	19,98	25,06	7,467 48	7,846 46	52
53	19,26	24,25	7,393 87	7,799 65	53
54	18,56	23,44	7,316 31	7,748 34	54
55	17,86	22,65	7,232 34	7,693 55	55
56	17,18	21,86	7,144 14	7,633 63	56
57	16,52	21,08	7,051 78	7,568 96	57
58	15,86	20,31	6,952 25	7,499 27	58
59	15,23	19,54	6,850 04	7,423 21	59
60	14,61	18,78	6,742 06	7,341 35	60
61	14,01	18,04	6,630 10	7,254 57	61
62	13,42	17,30	6,512 32	7,160 20	62
63	12,86	16,58	6,393 01	7,060 46	63
64	12,31	15,88	6,268 22	6,955 37	64
65	11,77	15,18	6,137 89	6,841 61	65
66	11,26	14,51	6,007 26	6,723 93	66
67	10,76	13,85	5,871 65	6,598 93	67
68	10,28	13,20	5,734 03	6,466 35	68
69	9,81	12,57	5,591 82	6,328 18	69
70	9,37	11,96	5,451 65	6,184 66	70
71	8,94	11,37	5,307 75	6,036 07	71
72	8,54	10,80	6,167 44	5,882 78	72
73	8,15	10,24	5,024 37	5,722 22	73
74	7,77	9,70	4,878 76	5,557 43	74
75	7,41	9,18	4,734 90	5,388 93	75
76	7,07	8,68	4,593 54	5,217 27	76
77	6,73	8,21	4,446 63	5,046 79	77
78	6,41	7,75	4,303 09	4,870 92	78
79	6,10	7,31	4,158 98	4,693 89	79
80	5,82	6,89	4,024 40	4,516 47	80
81	5,55	6,50	3,890 51	4,343 99	81
82	5,31	6,13	3,768 02	4,173 15	82
83	5,09	5,78	3,652 76	4,004 82	83
84	4,89	5,45	3,545 46	3,839 88	84
85	4,72	5,14	3,452 32	3,679 21	85
86	4,57	4,85	3,368 64	3,523 71	86
87	4,45	4,58	3,300 66	3,374 26	87
88	4,36	4,33	3,249 07	3,231 75	88
89	4,32	4,11	3,225 97	3,102 96	89
90	4,30	3,92	3,214 38	2,989 12	90

TABLE B

PRESENT VALUE OF R1 PER ANNUM CAPITALISED AT 12 PER CENT OVER FIXED PERIODS

Years	Amount	Years	Amount	Years	Amount	Years	Amount
	R		R		R		R
1	0,892 9	26	7,895 7	51	8,307 6	76	8,331 8
2	1,690 0	27	7,942 6	52	8,310 4	77	8,332 0
3	2,401 8	28	7,984 4	53	8,312 8	78	8,332 1
4	3,037 4	29	8,021 8	54	8,315 0	79	8,332 3
5	3,604 8	30	8,055 2	55	8,317 0	80	8,332 4
6	4,111 4	31	8,085 0	56	8,318 7	81	8,332 5
7	4,563 8	32	8,111 6	57	8,320 3	82	8,332 6
8	4,967 6	33	8,135 4	58	8,321 7	83	8,332 6
9	5,328 2	34	8,156 6	59	8,322 9	84	8,332 7
10	5,650 2	35	8,175 5	60	8,324 0	85	8,332 8
11	5,937 7	36	8,192 4	61	8,325 0	86	8,332 8
12	6,194 4	37	8,207 5	62	8,325 9	87	8,332 9
13	6,423 6	38	8,221 0	63	8,326 7	88	8,333 0
14	6,628 2	39	8,233 0	64	8,327 4	89	8,333 0
15	6,810 9	40	8,243 8	65	8,328 1	90	8,333 0
16	6,974 0	41	8,253 4	66	8,328 6	91	8,333 1
17	7,119 6	42	8,261 9	67	8,329 1	92	8,333 1
18	7,249 7	43	8,269 6	68	8,329 6	93	8,333 1
19	7,365 8	44	8,276 4	69	8,330 0	94	8,333 1
20	7,469 4	45	8,282 5	70	8,330 3	95	8,333 2
21	7,562 0	46	8,288 0	71	8,330 7	96	8,333 2
22	7,644 6	47	8,292 8	72	8,331 0	97	8,333 2
23	7,718 4	48	8,297 2	73	8,331 2	98	8,333 2
24	7,784 3	49	8,301 0	74	8,331 4	99	8,333 2
25	7,843 1	50	8,304 5	75	8,331 6	100	8,333 2

ANNEXURE B: SOLUTION TO ASSIGNMENT 3

SOLUTION: QUESTION 1 (30 marks)

Calculation of net normal tax liability for the year of assessment ended 28 February 2019

	R	R	
Salary		750 000	
Subsistence allowance	3 900		
Less: Greater of deemed or actual expenditure			
Deemed expenditure: (**R416 (1)** x 6 days = R2 496			
Actual expenditure: (**R2 600 (1)** + **R600 (1)** + **R300 (1)** = R3 500			
Therefore deduct actual expenditure	(3 500)	400	
Annuities		**60 000**	**(1)**
Use of company cell phone (excluded: used mainly for business purposes)		**0**	**(1)**
Low interest rate loan: R250 000 x (**7.75%** (6.75% + 1%) **(1)** - **4%**) **(1)** x **59/365 (1)** =		1 515	
Foreign interest		**2 000**	**(1)**
Foreign dividends	4 000		
Less: Exemption (R4 000 x 25/45)	(2 222)	**1 778**	**(1)**
Provident fund benefit: (employer's contribution)		**20 000**	**(1)**
Medical scheme fringe benefit: (employer's contribution)		**12 000**	**(1)**
		847 693	
Less: Retirement fund contribution deduction:			
Provident fund contributions – Employee	40 000		
Provident fund contributions – Employer	20 000		
Retirement annuity fund contributions	190 000		
	250 000	**(1)**	
Percentage limit is the higher of:			
Taxable income: **R847 693 (1)** x 27.5% = R233 116; or			
Remuneration: **R785 900 (1)** x 27.5% = R216 123			
Deduction limited to the lesser of:			
the percentage limit (above) of R233 116 or, R350 000			
Therefore		**(233 116)**	**(1)**
TAXABLE INCOME		614 577	
Normal tax per tables (R147 891 + (39% x (R614 577 - R555 600))		**170 892**	**(1)**
Less: Primary rebate		**(14 067)**	**(1)**
Medical scheme fees tax credit [**(R310 x 2) + (R209 x 1)**]**(1)** x **12 (1)**		(9 948)	
Less: Additional qualifying medical expense tax credit:			
Medical scheme contributions and fringe benefits (R30 000 + R12 000)	**42 000**		**(1)**
Less: **4 (1)** x **R9 948 (1)**	(39 792)		
Excess contributions	2 208		
Add: Qualifying medical expenses	**25 000**		**(1)**
	27 208		
Less: 7.5% x **R614 577 (1)**	(46 093)	**(0)**	**(1)**
Foreign tax credit: **R1 778 / R614 577 (1)** x **R170 892 (1)** = R494			
Limited to the lesser of actual or formula		**(200)**	**(1)**
NET NORMAL TAX		146 677	

SOLUTION: QUESTION 2 (15 marks)

Calculation of employees' tax: June 2018	**R**	
Salary	160 000	
Subsistence allowance (*excluded from remuneration*)	0	**(1)**
Travel allowance (R20 000 x 20%) **(1)**	4 000	
Pension fund contributions by employer (R44 000 x 50%)	**22 000**	**(1)**
Remuneration	186 000	
Less: Pension fund contributions (R44 000) Limited to lesser of: - R350 000/12 x 4 = **R116 667**, **(1)** or - 27.5% x R**186 000 (1)** = R51 150	**(44 000)**	**(1)**
Balance of remuneration	142 000	
Annual equivalent R142 000 **x 12/4 months (1)**	426 000	
Tax [((R426 000 - R423 300) x 36%) + R100 263]	**101 235**	**(1)**
Less: Primary and secondary rebate (R14 067 + R7 713)	**(21 780)**	**(1)**
	79 455	
Monthly employees' tax (R79 455**/12**) **(1)**	6 621	
Annual equivalent (as above)	426 000	
Long service award (R40 000 - R5 000)	**35 000**	**(1)**
Total annual equivalent balance of remuneration	461 000	
Tax [((R461 000 - R423 300) x 36%) + R100 263]	113 835	
Less: Primary and secondary rebate (R14 067 + R7 713)	(21 780)	
	92 055	**(1)**
Less: Employees' tax on annual equivalent	**(79 455)**	**(1)**
Tax on long service award	12 600	
Employees' tax on retrenchment package (severance benefit) [R130 500 + (R1 200 000 - R1 050 000) x 36%] **(1)**	**184 500**	
Total employees' tax for June 2017 (**R6 621 + R12 600 + R184 500)**	203 721	**(1)**

Alternatively	**Annually (1)**	**Monthly**	
Salary (R160 000/4x12 months) or	480 000		
(R160 000/4 months)		40 000	
Subsistence allowance (*excluded from remuneration*)	0		**(1)**
		0	**(1)**
Travel allowance (R20 000/4x12 months x 20%) or	12 000		**(1)**
(R20 000/4 months x 20%)		1 000	**(1)**
Pension fund contributions by employer (R44 000/4 x 12 x 50%) or	**66 000**		**(1)**
(R44 000/4 months x 50%)		**5 500**	**(1)**
Remuneration	558 000	46 500	
Less: Pension fund contributions (R44 000/4 x 12 months) = R132 000 or (R44 000/4 = R11 000) Limited to lesser of: **R350 000 (1)** or R350 000/12 = **R29 167**, **(1)** or			
27.5% x **R558 000 (1)** = R153 450 or	**(132 000)**		**(1)**
27.5% x **R46 500 (1)** = R12 788		**(11 000)**	**(1)**
Balance of remuneration	426 000	35 500	
Annual equivalent R35 500 **x 12 months**		426 000	**(1)**

SOLUTION: QUESTION 3 (25 marks)

PART A (15 marks, 27 minutes)

Which option will be most tax beneficial for James Nkomo

		R		R		R
Travel allowance				125 000		
Determined value: R500 000						
Actual cost:						
Wear-and-tear (s 8)	R500 000/**7** years**(1)**	71 429				
Fuel		**11 300**	**(1)**			
Tyres		**2 250**	**(1)**			
		84 979				
Actual cost per km: R84 979/**9 600km (1)** = R8.852						
Deemed cost per kilometre						
Fixed cost: (**R133 147 (1) /9 600km (1)**)		13.869				
Fuel		1.532				
Maintenance		0.716				
Deemed cost per kilometre		16.117				
Less: Business travel expenses (**R16.117 x 7 200km**) **(1)** = R115 963				(116 042)		8 958
Use of employer motor vehicle:						
(R319 200 x **85% (1)** x **3.5% (1)** x **12 (1)**)				113 954		
Less: Reduction due to business use						
(R113 954 **x 7 200km/9 600km**) **(1)**				(85 466)		
Alt: (R113 954 x **75%**) **(1)**						
Alt: (R113 954 **x 2 400km/9 600km**) **(1) or** (R113 954 x **25%**) **(1)**				28 488		
Less: Use of vehicle (R1 500 x 12)				**(18 000)**	**(1)**	
Private fuel cost (**2 400km (1)** x **R1.248***) **(1)**				(2 995)		7 493

*Determined value: R319 200 x 85% = R271 320

Business kilometres travelled:	
Total kilometres travelled	9 600 km
Less: Private kilometres travelled (9 600km x 25%)	(2 400)km
	7 200 km

The right of use option results in the **lower taxable fringe benefit**. **(1)**

[15]

Note:

The fixed rate per km (R3.61) cannot be applied, as the allowance is fixed per year, thus the employee is not reimbursed based on actual distances travelled for business purposes.

SOLUTION: QUESTION 3 (continued)

PART B (10 marks)

For a receipt to be included in gross income, it must comply with all the requirements of the definition of "gross income" which is:

- **total amount**, in cash or otherwise
- **received by or accrued to** or in favor of
- during the **year of assessment**
- **not of a capital nature** **(Max 2)**

Or, alternatively, the receipt may be included in gross income by way of **special inclusions (1)** paragraph (*a*) to (*n*) of the gross income definition.

The requirements of **"total amount***", "***received by or accrued to***"* *and* ***"during the year of assessment"*** have been met **(1)**. The inclusion or exclusion of the money in Mamma Thembo's gross income therefore hinges on "not of a capital nature".

Mamma Thembo's **intention** will have to be considered **(1)**. Mamma Thembo had **no intention of selling the property in the past**. **(1)**

A **change in intention** has to be considered. **(1)** Furthermore, a taxpayer who simply **sells a capital asset for the best possible price** has **not necessarily changed his intention (1)** or shows that he has **embarked on a profit making scheme. (1)**
Mamma Thembo **did not change her original intention** between the initial offer and the counter offer on the sale of the property (June to August). **(1)**

It would appear that Mamma Thembo's intention is that of capital in nature therefore objective factors should also be considered.

Objective factors should also be considered: **(1)**

- manner of acquisition or disposal
- period for which the asset was held
- continuity
- occupation of the taxpayer
- no change in ownership of the asset
- nature of the asset disposed
- reason for the receipt
- legal nature of the transaction
- an operation of business in carrying out a scheme of profit making

Maximum of 2 marks for any objective factors listed

Conclusion: Based on the above discussion, the money received by Mamma Thembo would be capital in nature and thus excluded from gross income. **(1)**

[14]

Max 10

SOLUTION: QUESTION 4 (15 marks)

Par 26 applies as proceeds > market value and total cost (1)
use higher of:
TAB = R4 100 000; or
Market value = R3 900 000; or
20% rule =
(R7 500 000 - R300 000) x **20% (1)** = R1 440 000
Thus use TAB

	R	R	
Primary residence			
Proceeds (R7 200 000/96%)	**7 500 000**		**(1)**
Less: Base cost	(4 400 000)		
TAB	**(4 100 000)**		**(1)**
Swimming pool – does not exist any longer	-		**(1)**
Filling of pool – not an improvement	-		**(1)**
Estate agent's commission (R7 500 000 - R7 200 000)	**(300 000)**		**(1)**
Capital gain	3 100 000		
Portion used for business purposes (R3 100 000 **x 10% (1)**)	(310 000)	**310 000**	**(1)**
	2 790 000		
Primary residence exclusion	**(2 000 000)**	790 000	**(1)**
Capital Gain from Primary Residence		1 100 000	
Whoolees Food franchise			
Proceeds	8 000 000		
Less: Base cost	(4 000 000)		
Capital Gain	**4 000 000**		**(1)**
Small Business exemption	(**1 800 000**)	2 200 000	**(1)**
Boat			
Proceeds	850 000		
Less: Base cost	**400 000**		**(1)**
Purchase price	(350 000)		
Transportation cost	(50 000)	**450 000**	**(1)**
Total capital gain		3 750 000	
Less: Annual exclusion		**(40 000)**	**(1)**
Net capital gain		3 710 000	
Taxable capital gain **(x 40%) (1)**		1 484 000	

Max 15

Alternative primary residence exclusion calculation

	R	R	R	
		3 100 000		
Capital gain in respect of private use (R3 100 000 x **90% (1)** =	2 790 000	(2 790 000)		
Capital gain in respect of business use		310 000	**310 000**	**(1)**
Capital gain in respect of private use		2 790 000		
Primary residence exclusion		**(2 000 000)**	790 000	**(1)**
			1 100 000	

SOLUTION: QUESTION 5 (15 marks)

	R	R	
"Milk and Honey" Farm	9 000 000		
Reduced by (R9 000 000 x 30%) (or: R9 000 000 x 70%)	(2 700 000)	**6 300 000**	**(1)**
Mooikloof Estate house		**4 750 000**	**(1)**
Life insurance policy pay-out – JB (Pty) Ltd		**500 000**	**(1)**
Shares in JB (Pty) Ltd	**895 000**		**(1)**
Less: Value of policy taken into account to value shares	**(350 000)**	545 000	**(1)**
Annuity charged upon property			
(R7 000 x 12 x factor for Jayden's age next birthday)			
R7 000 x **12 (1)** x **7,94344 (1)**		667 249	
Listed shares donation to Jayden in contemplation of death, at valuation		**600 000**	**(1)**
Insurance policy taken out by Jayden	1 450 000		
Less: Premiums paid by Jayden (plus interest)	(315 000)	**1 135 000**	**(1)**
Less: Deductions			
Bequest to registered benefit organisation		**(1 000 000)**	**(1)**
Outstanding rates and taxes		**(12 300)**	**(1)**
Master's fees and executor's remuneration (given)		**(365 300)**	**(1)**
Net value of estate		13 119 649	
Less: Section 4A abatement			
(**R3 500 000 (1)** + **(R3 500 000 - R1 900 000) (1)** not used for predeceased spouse)		(5 100 000)	
Dutiable amount		8 019 649	
Total estate duty payable @ **20%**		1 603 930	**(1)**
			[15]