



**JANUARY 2020 SUPPLEMENTARY/AEGROTAT  
EXAMINATION**

**MODULE:  
INTRODUCTION TO TAXATION 201**

**PROGRAMME:  
DIPLOMA IN FINANCIAL MANAGEMENT**

DATE:	14 January 2020	TIME:	09h00-11h00
DURATION:	2 hours	MARKS:	100
EXAMINER:	T Bassa	MODERATOR:	P Salikram

**INSTRUCTIONS TO CANDIDATES:**

1. Candidates are required to answer **ALL** questions.
2. This is a closed book examination.
3. No written material may be brought into the examination room.
4. Write legibly and neatly.
5. Do **not turn over this page** until permitted by the Invigilator.

*This question paper consists of **three (3) typed pages** excluding the cover page and tax tables*

## QUESTION ONE

[24]

Bob Black is a partner at a law firm. He is 40 years old and unmarried. He has incurred a number of expenses during the 2018 year of assessment. He would like to know if they are deductible in the determination of his taxable income. These expenses are as follows:

- He is a member of the Southern Country Club. He plays golf there nearly every Wednesday afternoon. On every occasion at least one other player in his four ball is a client. He uses this club solely to play golf and incurred R10 800 in expenses during the 2018 year of assessment.
- Bob is also a member of the Fit Gym where he trains under the supervision of a personal trainer for two hours each week day (normally between five and seven in the morning). He is convinced that his fitness training program has a direct bearing on his performance at work in that he is able to work more efficiently and for longer hours as a result of his gym activities. (He also believes it enhances his appearance for his many female clients.) For the 2018 year of assessment, gym subscription costs were R4 320, while the services of the personal instructor cost R14 400.
- Bob believes that he must always look his best so as to win the confidence of his clients and to be successful in business. He purchased two suits during the 2018 year of assessment at a total cost of R19 200. He has all his suits dry cleaned at least once a month. His dry cleaning costs were R3 015 for the 2018 year of assessment. He has his hair styled regularly and he even had two facials during the 2018 year of assessment. His hair styling cost him R1 305 for the 2018 year of assessment and his two facials cost him R1 170.
- Bob subscribes to Legal Law, a journal devoted to the latest legal developments and to the South African Law Reports. The combined annual subscription that he incurred during the 2018 year of assessment was R1 620. He has both the journal and the law reports bound into permanent volumes. The binding of the books was done during February and he received the bookbinder's account for R270 on the last day of February. He settled the R270 one week later.
- Every now and then Bob is forced to see certain clients at his own home. He was furnished a consulting room in his home that he uses exclusively for this purpose. He has, on a floor-area basis, apportioned the annual costs of interest incurred on the mortgage bond, property rates and electricity. To the portion relating to the consulting room he has added the particular costs of maintaining this room. The total cost of this consulting room for the 2018 year of assessment is R12 150.

### Required

Discuss whether Bob will be entitled to a deduction, or a capital allowance, in the determination of his taxable income for the expenses incurred as detailed above.

## QUESTION TWO

[34]

Laura Lawson is ordinary resident in a northern-hemisphere country. She has been retired for a number of years. She is 69 years old.

She does not enjoy the cold northern-hemisphere winter and has therefore, each year, travelled to Cape Town where she stays in a holiday cottage from 1 October each year until 31 March the following year. She purchased this holiday cottage primarily for this purpose since she enjoys the warm weather that Cape Town experiences during that time of year. She made her first trip to Cape Town in the 2012 year of assessment when she stayed in South Africa from 1 October 2011 till 31 March 2012. She has made the same trip every year since then.

Laura's receipts and accruals for the 2018 year of assessment were as follows:

- A social security pension the equivalent of R100 000 from the country that she is a resident of.
- An annuity the equivalent of R80 000 from her former employer as a result of the 30 years employment that she had with it. None of these years were spent in South Africa.
- Rentals of R36 000. The rentals are earned from her holiday cottage in Cape Town. She lets it to tenants at a market-related rental for the six months of the year that she is not in Cape Town. For this six month period she incurred in the determination of her taxable income deductible expenditure of R15 000 in earning these rentals.
- Interest of R45 000 from a bank in South Africa. It is not from a 'tax free investment'. The interest accrues to her annually in arrears on the last day of February.
- Local dividends from listed South African companies of R17 000.

### Required

- 2.1 Determine if Laura Lawson is a resident of the republic for the 2018 year of assessment. (14)
- 2.2 Calculate her South African taxable income for the 2018 year of assessment. (20)

## QUESTION THREE

[27]

### Part A

John Doe is a resident of the republic. He has an assessed capital loss of R13 000 brought forward from the 2017 year of assessment. During the 2018 year of assessment he suffered a capital loss of R45 000 on the sale of his domestic motor car.

He made capital gains on the sale of the following capital assets:

- R80 000 from a rent-producing property;
- R7 000 from dividend yielding shares;
- R5 000 from units in a so-called real estate investment trust; and
- R20 000 from a six-metre yacht (a personal-use asset).

It must be noted that John Doe does not deal in the above assets.

**Required**

Determine John Doe's taxable capital gain for the 2018 year of assessment. (15)

**Part B**

On 1 December 2016 Dheshnie Singh, a resident of the republic, purchased a primary residence for R2 300 000. She used the granny flat portion of her primary residence as her consulting rooms. (In other words, she traded from a portion of her primary residence. The granny flat portion of this primary residence comprises 20% of the total primary residence.

She lived in this primary residence, and practiced from its granny flat, for the 14 month period from 1 December 2016 until 31 January 2018.

On 1 February 2018 she sold her primary residence for R4 000 000.

**Required**

Determine the capital gains tax consequences that result from the purchase and sale by Dheshnie Singh of her primary residence. (12)

**QUESTION FOUR****[15]**

- 4.1 Identify and explain two types of direct taxes. (8)
- 4.2 Identify and explain two types of indirect taxes. (7)

**END OF QUESTION PAPER**

## **TAXATION TABLES AND RATES**

### **INCOME TAX SMALL BUSINESS CORPORATIONS 2019**

0 – 78 150	0% of taxable income
78 151 – 365 000	7% of taxable income above 78 150
365 001 – 550 000	20 080 + 21% of taxable income above 365 000
550 001 and above	58 930 + 28% of taxable income above 550 000

### **INCOME TAX SMALL BUSINESS CORPORATIONS 2018**

0 – 75 750	0% of taxable income
75 751 – 365 000	7% of taxable income above 75 750
365 001 – 550 000	20 248 + 21% of taxable income above 365 000
550 001 and above	59 098 + 28% of taxable income above 550 000

### **TURNOVER TAX FOR MICRO BUSINESSES 2018/2019**

0 – 335 000	0% of taxable turnover
335 001 – 500 000	1% of taxable turnover above 335 000
500 001 – 750 000	1 650 + 2% of taxable turnover above 500 000
750 001 and above	6 650 + 3% of taxable turnover above 750 000

### **TAX TABLES (Individuals)**

#### **For the year ended 28 February 2019**

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

#### **For the year ended 28 February 2018**

0 – 189 880	18% of income	
189 881 – 296 540	34 178 + 26% of income above	189 880
296 541 – 410 460	59 314 + 31% of income above	296 540
410 461 – 555 600	93 135 + 36% of income above	410 460
555 601 – 708 310	149 619 + 39% of income above	555 600
708 311 – 1 500 000	209 032 + 41% of income above	708 310
1 500 001 and above	533 625 + 45% of taxable income above	1 500 000

<b>REBATES</b>	<b>2019</b>	<b>2018</b>
Primary	R14 067	R13 635
Secondary Rebate (Persons of 65 and older)	R 7 713	R 7 479
Third Rebate (>75 years)	R 2 574	R 2 493

### **EXEMPT INCOME**

Total interest exemption  
including foreign interest

Below 65	R23 800	R23 800
65 and over	R34 500	R34 500

### **CAPITAL GAINS TAX (CGT) – 2019 Year of Assessment**

Inclusion rates

- Individuals, special trusts and individual policyholder funds 33.3%
- Other taxpayers 66.6%

Exclusions

- Individuals (annual non-cumulative): R40 000
- Individuals in year of death: R300 000
- Primary residence exclusion on the disposal of a primary residence: R2million gain/loss
- Small business assets (when a person is over age 55): R1.8 million

<b>MEDICAL SCHEME CREDIT (monthly)</b>	<b>2019</b>	<b>2018</b>
Main member	R310	R303
Main member with one dependant	R620	R606
Main member with two dependants	R829	R810

Each additional dependant qualifies for a further rebate or credit of R209 (2018: R204) per month

