



higher education & training

Department:
Higher Education and Training
REPUBLIC OF SOUTH AFRICA

**N660(E)(N21)H
NOVEMBER EXAMINATION
NATIONAL CERTIFICATE
INCOME TAX N6**

(4010206)

**21 November 2016 (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. Write neatly and legibly.
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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 the employee.
- 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 individual's remuneration.
- 1.6 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

WJD Construction is a small business corporation for tax purposes. After receiving their 2013/2014 tax assessment that reflects a taxable income of R 260 000 on 30 April 2014, they estimated their taxable income for 2015 at R 250 000. A provisional tax calculation by their accountant in February 2015 reflected a taxable income of R 280 000.

WJD Construction wants to minimise tax without the risk of incurring penalties or interest.

For the 2015 tax year you are required to determine the following concerning WJD Construction:

- 2.1 First provisional tax payment (indicate date of payment and form to be used)
- 2.2 Second provisional tax payment (indicate date of payment)

[20]

QUESTION 3

Dolly and Molly are partners in Molldollies and share profit/losses to the ratio 1:1. Both are over 65 years old with Dolly married in community of property and Molly single.

They supplied you with the following information to determine their tax liability for the tax year that ended 28 February 2015:

	RAND
Sales: Cash	600 000
Credit	100 000
Deposits received (included in credit sales)	50 000
Interest received on investment	30 000
Rent paid (February was only paid on 31/3/2014 – R 5 000 included)	65 000
Electricity (includes re-connection fees of R 500)	18 000
Bad debts written off: customers	12 500
staff (loans)	8 700
Provision for doubtful debts: 2014	20 000
2015	12 000
Purchases	50 000
Closing stock	20 000
Opening stock	5 000
Advertising costs: newspaper	16 000
radio	44 000
Renewal of business licence	2 000
Insurance premiums paid: Dolly	6 000
Fire and theft	2 400
Fund set aside for emergencies	30 000
Salaries: Administration staff	100 000
Dolly	150 000
Molly	120 000
Interest paid: On Dolly's loan account	20 000
Loan from the bank	25 000
Cash drawings: Dolly	5 000
Traffic fines: Molly	5 000
Medical aid contributions paid: workers	12 000
Loan from bank to finance machinery bought	500 000
Interest on loan paid: to finance stock	3 000
to pay for Molly's holiday	20 000

Continued on next page

New delivery van bought on 1/8/2014 (VAT excluded)	Note 1	150 000
Proceeds from sale of old vehicle		35 000
(On 31/8/2014 an old delivery van with an income tax value of R 30 000 on 1/3/2014 was sold. It was bought on 1/3/2012 at a cost of R 60 000. The vehicle was depreciated on cost at 25% per annum)		
Deposit paid on new machine		15 000
(A new machine that is used in the process of manufacturing was bought on 1/12/2014 at a cost of R 171 000 (VAT inclusive) under hire-purchase agreement over 24 months. The first repayments of R 6 000 per month was made on 31/12/2014).		
Replacement of all office windows with tinted glass		10 500
Donation to Buffalo College (receipt obtained)		5 000
Repayment on new machine		18 000
Provisional tax paid for 2013/2014 on behalf of: Dolly		15 000
Molly		12 000

Note 1

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

[70]**QUESTION 4**

Tip Toe Todd, aged 55, took early retirement on 31 August 2014 but sadly passed away after a short illness on 1 November 2014. He was married in community of property with two school-going children. His wife supplied you with the information below.

Determine his tax liability for the tax year ended 28 February 2015.

	RAND
Salary at R 16 000 per month	
Pension annuity at R 4 000 per month	
Bonus	16 000
Housing subsidy at R 1 300 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 his 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

Mel and Brook are under 65 years old and married in community of property. Mel is a vegetable farmer and has provided you with the information below.

Determine, from the information, Mel's tax payable for the year ended 28 February 2015.

RECEIPTS	RAND
Vegetables sold	840 000
Sale of old tractor	1 000
Loan from bank – Cash received	530 000
Rental income – Flat owned by Brook	40 000
PAYMENTS	
Improvements to farm house	25 000
Repairs to farm house	20 000
Houses built for five workers	60 000
New fence erected	200 000
Repairs to existing fence	2 000
Interest on bond to purchase farm	58 000
Interest on loan from bank	8 000
Fertilisers purchased	14 000
Seeds purchased	9 000
Wages	95 000
Medical expenses: Workers	10 500
Prevention of soil erosion	180 000
Purchase of a new tractor on 31/12/2012	275 000
Dam completed on 30/11/2014	125 000
Eradication of noxious plants	35 500
Fuel	85 000
Cash drawings: Mel	30 000
Other information:	
1. A plough was purchased the previous year	50 000
2. Closing stock: 28/2/2014 – estimated on the field	20 000
– crops in the barn	15 000

[40]

QUESTION 6

Determine the tax implications for CFW Construction arising from the following transactions for the tax year ended 28 February 2015:

- 6.1 CFW Construction entered into a lease agreement with Jade Properties on 1/9/2014 to lease a factory building for 20 years from that date. In terms of the lease agreement, CFW Construction must pay a lease premium of R 120 000 on 1/9/2014 and monthly rent of R 8 000 from that date. (5)
- 6.2 CFW Construction entered into an agreement with Sidwell for the lease of land for 15 years from 1/9/2013 and the agreement that CFW Construction would erect an administration building on the land at a cost of R 2 500 000. Building commenced on 1/2/2014 and the building was completed and brought into use on 1/2/2015 at a cost of R 3 000 000. (5)
- [10]**
- TOTAL: 200**

ADDENDUM

**RATES OF TAX PAYABLE FOR THE YEAR OF ASSESSMENT ENDING
28 FEBRUARY 2015 AND 30 JUNE 2015**

TAXABLE INCOME	RATES OF TAX	RAND
0 – 174 550	18% for each R1	
174 551 – 272 700	31 419 + 25% of the amount over	174 550
272 701 – 377 450	55 957 + 30% of the amount over	272 700
377 451 – 528 000	87 382 + 35% of the amount over	377 450
528 001 – 673 100	140 074 + 38% of the amount over	528 000
673 101 and over	195 212 + 40% of the amount over	673 100

Rebates:

Primary R 12 726

Secondary/Age (persons 65 and 75) R 7 110

Tertiary (persons 75 and older) R 2 367

RETIREMENT LUMPSUMS

TAXABLE PORTION OF LUMP SUM	RATES OF TAXES	RAND
0 – 500 000	0%	
500 001 – 630 000	18% of the amount over	500 000
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