

Tax Professional

Knowledge Competency Assessment

Sample Paper 2: Question

Instructions to Candidates

1. This competency assessment paper consists of four questions.
2. Answer each question in a separate answer book.

Question	Topic	Marks	Answer Book
1	Various – Advisory	40	Colour A
2	Farming	30	Colour B
3	Taxable Income Calculation	55	Colour C
4	Tax Administration, Estate Duty, Trusts and CGT on death	35	Colour D

Total marks: 160

Time: 4 hours plus ½hour reading time

The marks specified are an indication of the expected length and detail of your response.

3. Enter your examination number on the cover of each answer book as well as on all answer sheets.
4. Your name must not appear anywhere in the answer books.
5. Answers may not be written in pencil and correction pens (tipex) may not be used.
6. Answer the questions using effective presentation and pay particular attention to the use of concise language, clarity of explanation and logical argument. Marks will be awarded for these aspects of your response.
7. It is your responsibility to ensure that all answer books are handed in to the invigilator before leaving the examination room, as answer books handed in thereafter will not be marked.

Question 1

40 marks

Part A

30 marks

Gloria Sibande is a 36-yearold South African resident. She is unmarried and works as a biochemist at Envirocycle Limited in Germiston, South Africa. She consulted you regarding tax advice on 1 April 2013.

Enquiry 1

On 14 March 2013 whilst on her way to work, Gloria collided with Sol Delayla, due to the fact that he was texting on his mobile phone and did not notice the red traffic light. Gloria broke her leg in two places and her car was written off. Gloria’s lawyer immediately put in a third party personal injury claim against the Road Accident Fund. Her lawyer is confident that she will be successful with her claim of R370 000. She will either receive a once-off lump sum of R370 000, payable immediately, or 13 monthly payments of R30 000 each (a total of R390 000 – the additional amount being to compensate for the delayed timing of the payments). If she accepts the 13 monthly payments, there will be a contractual undertaking to pay such monthly amounts as long as she is alive, without creating a liquid or determinable debt. Should she die before the 13 payments have been made, the obligation to make any further payments will cease on the date of her death.

Question 1 Part A: Enquiry 1	Marks
Required	Total
<p>Discuss whether Gloria Sibande’s claim of R370 000 would be <i>income</i> for tax purposes in the 2014 year of assessment.</p> <p><i>Your answer should make reference to appropriate provisions of legislation and appropriate case law where applicable.</i></p>	6

Enquiry 2

A leading recruitment firm contacted Gloria whilst she was recuperating at home and advised her that an Australian firm made her a lucrative offer for a period of at least three years because she is a specialist in waste management. She accepted the offer and will start her new position on 1 June 2013. Although she will not formally emigrate and will remain ordinarily resident in South Africa for tax purposes, she has decided to sell all her assets, except for the patent and a blue-chip share portfolio (see below) on 1 April 2013. She does not plan to visit South Africa at all during her three-year tenure in Australia. She provided you with the following list of income and assets as at 1 April 2013:

- Gloria receives a monthly gross salary of R45 000 from her current employer in South Africa, which will be paid until the end of May 2013. The Australian firm will pay her the equivalent of R120 000 per month as from 1 June 2013.
- In January 2013, Gloria registered a patent, in terms of the Patents Act, 1978 (Act No. 57 of 1978), for a specific chemical treatment of toxic waste. Green Waste Limited, a South African company, obtained a license to use the process and Gloria estimates that she will receive royalty income of R350 000 on 30 June 2013 and a further amount of R350 000 on 31 December 2013, that is, a total of R700 000 for the year from Green Waste Limited. The market value of the patent on 1 April 2013 was R2.5 million. Her development costs for the patent were self-funded (she never claimed any deduction for tax purposes) and are estimated at R189 000. Gloria also paid R5 700 in January 2013 to register the patent.
- Gloria has resided in her family home since she was born on 1 September 1971. She inherited this house from her mother's estate on 13 May 2008 (her father died in 1995) when it had a market value of R2 300 000. The market value on 1 October 2001 was R1 540 000. In 2010 she repainted the house and fixed the leaking roof at an amount of R56 000. The property spans 1.98 hectares. She estimates that she can sell the property for an amount of R2 200 000 (on 1 April 2013), because of the worsening property market.

- Gloria has furniture and personal effects with a market value of R400 000 (valued by her insurance broker). She estimates the original cost of the furniture and personal effects to be R700 000.
- Gloria owns two share portfolios: an active portfolio which she trades almost every day (none of the shares in this portfolio has been held for a period in excess of three years); and a blue-chip portfolio in South African listed companies that she inherited from her mother's estate. The market value of the blue-chip portfolio was R2 300 000 on 1 October 2001 and R3 500 000 on 13 May 2008. She has not added to the blue-chip portfolio since she inherited it, except to re-invest all interest and dividends back into the portfolio. The income and values were as follows:

Shares Portfolio	Total investment income received R 1/3/2013 - 1/4/2013	Total purchase price R 1/3/2013 - 1/4/2013	Shares sold R 1/3/2013 - 1/4/2013	Value on 1/3/2013 R	Value on 1/4/2013 R
Active Portfolio	Local interest: 12 000 Foreign interest: 4 650 Local dividends: 24 322	40 000	68 000	800 300	769 000
Blue-chip portfolio	Local interest: 5 000 Local dividends: 12 000	None, but all local dividends and interest re-invested	None	5 000 000	5 010 000

- She received the following dividends and interest for the period from 2 April 2013 to 28 February 2014:

	R
Local interest on the blue-chip portfolio (all reinvested)	18 000
Local dividends on the blue-chip portfolio (all reinvested)	20 000
Foreign dividend (see below)	5 770

The foreign dividend was received from a foreign company, not listed on the South African stock exchange and not a controlled foreign company. Gloria holds 5% of the total equity shares and voting rights in the foreign company.

Question 1 Part A: Enquiry 2 Required	Marks	
	Sub-Total	Total
Calculate Gloria Sibande's estimated taxable income for the 2014 year of assessment. <i>Supply a reason if any amount is excluded from, or has no effect on the calculation of her taxable income.</i> <i>Assume that the date of disposal of all her assets is 1 April 2013.</i>	22	
<i>Format, layout and presentation</i>	2	24

Part B

10 marks

Vuyo Nkandla, a South African resident, started his own venture on 1 October 2011 buying scrap metal and converting it into household articles. Vuyo Nkandla dreamt his entire life of being self-employed and while he was helping his previous employer to set up a stand at a large home décor show, Vuyo saw a stand that was selling household articles made only from recycled items under the trade mark 'RENEWIT' and that sparked the idea for his venture.

Vuyo started his venture, trading as 'REDOIT', from his garage and built a stand next to the road at a busy intersection in Johannesburg from where he displayed his merchandise. With no formal training and experience, his wife, Martha, and mother-in-law, Alia, took turns to work at the stand on week days and Vuyo did all the sales and orders from the stand on Saturdays and Sunday mornings.

For the first six months Vuyo barely managed to cover his costs with the sales he made. During April 2013 a local television station did a series of programmes about community upliftment and Vuyo's venture was part of one of the programmes and was added to the local television station website. The publicity sparked interest in Vuyo's venture and within a period of three months he tripled his orders and sales and started showing a profit.

The owners of 'RENEWIT' also saw the TV programme and when they heard where Vuyo got the idea from, they claimed compensation of R250 000 from Vuyo for stealing their ideas. Vuyo obtained legal advice and settled the matter out of court. The legal costs amounted to R15 000 (including VAT) and he paid 'RENEWIT' an amount of R50 000 (excluding VAT). Vuyo paid R50 000 because, although 'RENEWIT' had no registered intellectual property, he admitted in public that he got his idea for 'REDOIT' from 'RENEWIT'. By paying the amount Vuyo will be able to continue his venture and Vuyo will be able to continue using the name 'REDOIT'.

Vuyo Nkandla is registered as a taxpayer, but is not liable to register as a VAT vendor.

Question 1 Part B	Marks
Required	Total
<p>Discuss in detail whether or not Vuyo Nkandla would be permitted a deduction in respect of the compensation and the legal costs.</p> <p><i>Your answer should make reference to appropriate provisions of legislation and appropriate case law where applicable.</i></p>	<p>10</p>

Question 2

30 marks

Joe Biggs, aged 45 years and a South African resident, submitted the following information to the South African Revenue Service (SARS) in support of his return of income for the 2014 year of assessment. He is a registered Value-Added-Tax (VAT) vendor and you may assume all amounts exclude VAT unless otherwise provided.

	NOTE	R
Receipts and Accruals		2 231 900
Sale of livestock		
Cows	2	1 237 500
Tollies	2	180 000
Government subsidy	3	240 000
Dividends	4	15 000
Maize sales	5	489 400
Tractor sold	6	70 000
Expenses		1 091 600
Fuel		15 800
Various farming expenditure (all tax deductible)		586 000
Fences erected	7	10 500
Cost to build a new road – completed	8	18 500
New Tractor purchased	9	155 000
Prevention of soil erosion		8 000
Repairs to maize shed		5 400
New cattle shed	10	80 000
Residential units for farm workers	10	135 000
Food for livestock		45 900
Wages		31 900

Notes:

1. The number of livestock on hand on 1 March 2013 and the market and standard values of each category were as follows:

Livestock category	Standard value (R)	Market value (R)	Opening stock: number of head
Bulls	50	15 000	5
Oxen	40	9 500	30
Cows	40	10 000	350
Tollies and heifers	20	6 000	150
Calves	5	1 500	80

2. Changes in livestock during the 2014 year of assessment were as follows:

- 40 Calves were born.
- 3 Cows and 1 Bull died.
- Joe Biggs sold 30 tollies to Mr Banks on 20 February 2014. The tollies were sold for R180 000 (30 x R6 000 each). Mr Banks had insufficient funds available and Joe Biggs agreed to accept a bill due on 1 April 2014.
- 2 Oxen were slaughtered during the year. One as part of rations for the labourers on the farm and one for Joe Biggs.
- 10 Tollies matured to become oxen and 100 heifers matured to become cows.
- 150 Cows were sold during the year. Of the 150 cows, 75 were disposed of as a direct result of the prolonged drought in the North-West province. Joe Biggs knew he had to reduce his cattle before the winter. The proceeds of the 75 cows sold at R6 500 each were R487 500. Of the R487 500, R400 000 was deposited into an account at the 'Land Bank' on 1 May 2013 and Joe Biggs agreed that the interest should be capitalised monthly. The balance of the 'Land Bank' account on 28 February 2014 was R414 000.
 - The other 75 cows were sold in January 2014 at market value.
- Donated 2 cows to an approved Public Benefit Organization (PBO) whose public benefit activity is only listed in 'Part 1' of the Ninth Schedule.
- The estimated cost of a cow and oxen is R5 000 each.

3. Joe Biggs received a subsidy from the Government during January 2014 to build a dam before January 2015. Joe Biggs only started with the construction of the dam on 15 May 2014.
4. Joe Biggs has various local investments and received only dividend income from it.
5. A total of 10 tons of maize was sold during the 2014 year of assessment to Farmers' Co-operative Limited. The statement of account received from the Farmers' Co-operative Limited reads as follows:

	R	R
Proceeds from maize		630 000
Less purchases:		
Cost of water pump	45 000	
Cost of seeds and fertilizer	56 000	
Spare parts	34 000	
Railage paid for maize	1 200	
Hail and drought insurance premium paid on the crops	2 500	
Fruit trees purchased	<u>1 900</u>	
Amount deposited into account		489 400

6. An old tractor that originally cost R65 000 was sold on 30 October 2013 for R70 000. The tractor had a 'nil' tax value.
7. Joe Biggs sub-divided grazing camps as a result of the draught and build new fences. Joe Biggs also spend an additional R2 000 on the repairs of existing fences.
8. As a result of the sub-divided grazing camps, Joe Biggs also needed to build new roads.

9. Joe Biggs disposed of his old tractor (note 6) during October 2013 and bought a new and unused tractor on 15 November 2013 for R155 000 for exclusive use on the farm. You may assume that all other capital assets have a 'nil' tax value.

10. Due to the increased level of theft on the farm, Joe Biggs decided to build a new cattle shed next to the farm house. The budgeted expenditure was calculated to be R150 000 for the new cattle shed and at 28 February 2014 the cost to date amounted to R80 000.

11. Joe Biggs spent R135 000 to convert the old cattle shed to seven self-contained residential units for the farm workers.

Additional information:

- Joe Biggs had a balance of unredeemed capital expenditure at 1 March 2013 of R250 800.
- Joe Biggs is a member of a medical scheme and he is contributing R5 000 per month to the fund. Joe Biggs, his wife and four children are all beneficiaries under his medical scheme. Joe Biggs has been a member for the entire year and paid for additional medical expenditure amounting to R58 000 out of his own pocket. Only R10 000 of the additional cost was refunded back to Joe Biggs by the medical scheme.

Question 2	Marks
Required	Total
Calculate Joe Biggs's taxable income / assessed loss for the 2014 year of assessment. Also determine the balance of farm development expenditure that may be carried forward to the 2015 year of assessment.	30

Question 3

55 marks

Vinesh Pillay, a celebrity chef, decided at the age of 54 to divorce his wife, Shanaaz, on 1 July 2013. Vinesh and Shanaaz had been married in community of property for 10 years. Vinesh was a member of HurryCurry CC, a family business in Durban, but accepted a new job offer as operational manager of SamoosaKing Ltd in Johannesburg from 1 June 2013. Vinesh and Shanaaz had each held a member’s interest of 10% in HurryCurry CC since the day they got married. HurryCurry CC is a Value-Added-Tax (VAT) vendor which makes 95% taxable supplies. Neither Vinesh nor Shanaaz are registered as VAT vendors.

Vinesh has presented cooking lessons in the evenings and over weekends as an employee of Cook Ltd over the past few years. Cook Ltd ceased its operations on 25 February 2014 and paid Vinesh a lump sum payment of R80 000 on the same day. This was the first time ever that Vinesh had received a lump sum payment.

Details of Vinesh’s other income and expenses for the year of assessment ended 28 February 2014 are shown below:

Notes:

1.1. Remuneration package at HurryCurry CC

Monthly salary	R35 000
Monthly contributions to Discovery Medial Aid Fund (on behalf of employee) – refer note 6	R 2 200
Monthly employer contributions to Alpha Retirement Annuity Fund – refer note 5	
Travel allowance – refer transport expenditure note 2	

Vinesh received an accumulated leave payment of R120 000 from HurryCurry CC on 28 May 2013 when he left the employment of the family business.

1.2. New remuneration package at SamoosaKing Ltd (from 1 June 2013)

Annual salary	R600 000
Monthly employer contribution to the employer's approved Pension Fund. (Pension fund contributions are calculated as 6% of the monthly salary)	R 3 000
Birthday month bonus December 2013	R 40 000

No monthly contribution to a medical fund is made on behalf of employees. However, SamoosaKing Ltd has a policy which allows employees to visit any medical practitioner of their choice twice each year and the company will pay 60% of the consultation fee and 80% of any prescribed medicine on behalf of the employee - refer note 6.

2. Transport expenditure

Vinesh has his own private vehicle (a Honda CRV with a cost of R538 080 including VAT but excluding finance charges, which he acquired brand new on 1 August 2012). He used this vehicle to visit nation-wide suppliers of HurryCurry CC on a regular basis. He received a travel allowance monthly from HurryCurry CC of R4.00 per business kilometre. The purchase of the vehicle was financed entirely by way of a loan granted by HurryCurry CC due to his employment, at an interest rate of 4% per annum. Although the Honda dealer was paid in full on 1 August 2012, the only capital repayment that ever occurred on the loan (apart from the interest that was settled monthly) was a payment of 10% of the purchase consideration that was paid to HurryCurry CC on 1 March 2013.

Vinesh's fuel and maintenance expenditure (which he paid and kept the accurate records of) amounted to R8 600 and R1 443 respectively for the period from 1 March 2013 to 31 May 2013. He travelled the following distances during this period (according to his log book):

1 200 km between his home and work;

1 500 km for private; and

6 900 km for business.

When Vinesh left the employment of HurryCurry CC on the last day of May 2013, the CC relieved him from the debt in respect of the outstanding loan amount. The market value of the vehicle amounted to R420 000 on 31 May 2013.

HurryCurry CC also paid Vinesh a once-off payment of R50 000 on 31 May 2013 on the condition that he will not share their unique recipe for curry-meat with any other company in South Africa for the next four years.

SamoosaKing Ltd (a VAT vendor that makes 80% taxable supplies) granted Vinesh the right of use of a Renault Megane from 1 June 2013. SamoosaKing Ltd acquired the Renault second-hand from a local non-vendor at R171 000 on 1 January 2012 and settled the full purchase consideration. The acquisition of the Renault did not include any maintenance plan. The market value on the date of acquisition amounted to R180 000. Vinesh did not keep any records of the distances travelled with the Renault. SARS' Binding General Ruling No. 7 (Interpretation Note No. 47) allows for a 3-year write-off period on vehicles.

3. "Simple Indian-Cuisine" – cookbook trade as sole proprietor

Vinesh is the author of the very popular cookbook titled: "Simple Indian-Cuisine". He wrote the book during May 2012 and earns royalties from the distribution of the book right across South Africa. Royalties during the 2014-year of assessment amounted to R120 000. His ex-wife, Shanaaz, is responsible for the marketing of

the book. Vinesh paid her a monthly salary of R15 000 for her services rendered. From their divorce settlement date (see note 4) Shanaaz remained in service of Vinesh, but from this date he only paid her a monthly salary of R5 000. The SARS queried Shanaaz on the significant decrease in her salary from the same employer. Shanaaz indicated that her ex-husband is of the opinion that this is a fairer and more reasonable salary in relation to the services that she is rendering and that the only reason why she earned a higher salary previously, was with the aim of reducing their joint tax liability.

4. Divorce settlement

4.1. In terms of the divorce order an amount of R80 000 had to be transferred from Vinesh's minimum individual reserve on behalf of his ex-wife, Shanaaz, to a Provident Fund of her choice on 1 July 2013, the divorce settlement date. An additional R20 000 had to be paid from Vinesh's minimum individual reserve as maintenance to Shanaaz. She was removed as dependant from Vinesh's Discovery Medical Fund as from the divorce settlement date.

4.2. HurryCurry CC, for consideration, acquired the couple's primary residence in Durban during June 2013, in exchange for the issue of an additional 10% member's interest to each of Vinesh and Shanaaz. HurryCurry CC will convert the house into an administrative office. The couple originally acquired the house for R900 000. The house formed part of their joint estate. The market value of the 20% member's interest amounted to R3 400 000 immediately after it was issued. The couple indicated that the market value of their house, immediately before the exchange transaction, amounted to R3 000 000. It seems as if the house is not an arm's length consideration for the member's interest.

5. Contributions to Alpha Retirement Annuity Fund

Vinesh has been a member of Alpha Retirement Annuity Fund since he started his employment at HurryCurry CC 15 years ago. In terms of the agreement with the fund, he is only allowed to retire from the fund at the age of 60. All Vinesh's contributions were paid on his behalf by HurryCurry CC. Current contributions which did not qualify for a deduction under section 11(n) up until 29 February 2012 amounted to R150 000. During the 2013 year of assessment Vinesh realised his first-ever loss from his cookbook trade which resulted in an assessed loss position before the retirement annuity fund contributions could be taken into account. Current contributions to the fund amounted to R1 000 per month during the 2013 year of assessment. The monthly contributions are annually increased by 10% on the 1st of March each year.

When Vinesh left his employment at HurryCurry CC, all his accumulated funds, namely R990 000, were withdrawn from the Alpha Retirement Annuity Fund and were paid over to SamoosaKingLtd's approved Pension Fund on 31 May 2013. No further contributions were made to the Alpha Retirement Annuity Fund from 1 June 2013 onwards.

6. Medical expenses

When Vinesh joined SamoosaKing Ltd he decided to remain as a member of the Discovery Medical Aid Fund, refer notes 1.1 and 1.2. The monthly premium amounted to R1 400 for the main member and an additional R800 for each dependant. Medical expenditure paid during the 2014 year of assessment was as follows:

- Generally available vitamin boosters at the pharmacy amounted to R400.
- Shanaaz must use prescribed chronic medicine on a monthly basis. The monthly cost amounts to R700 of which half of it could be claimed back from the medical fund.
- Vinesh visited a registered chiropractor during September 2013. The consultation fee amounted to R800 of which 40% could be claimed back from

the fund. Vinesh received prescribed pain killers for his back at a cost of R2 000. No portion of the prescription medicine could be recovered from Discovery.

Vinesh removed Shanaaz as a dependent on his medical aid fund as from the divorce settlement date – refer note 4.

7. Settlement

HurryCurry CC realised that Vinesh shared their curry-meat recipe (see note 2) with SamoosaKing Ltd during the 2014 year of assessment. The CC threatened to take Vinesh to court. Vinesh acknowledged that he did in fact share the recipe. It was decided to settle this issue outside of court and Vinesh repaid 80% of the amount received to HurryCurry CC on 20 February 2014.

8. Interest received

Vinesh invested money in two fixed deposit accounts and earned the following interest during 1 March 2013 and 1 July 2013:

Fixed deposit at FNB (a SA Bank)	R20 000
Fixed deposit at a UK Bank	R30 000

Question 3	Marks
Required	Total
<p>Calculate the normal income tax liability for Vinesh Pillay in respect of the 2014 year of assessment.</p> <p><i>Show complete calculations and round off all amounts to the nearest Rand.</i></p> <p><i>If an item has no effect on taxable income, this should be clearly indicated.</i></p> <p><i>Assume that Vinesh, Shanaaz and HurryCurry CC agreed in writing that section 42 of the Income Tax Act should not apply.</i></p> <p><i>If there is more than one option available to determine the tax effect of a specific item, all the options should be indicated and the most beneficial option, from a tax perspective must be applied.</i></p> <p><i>You are not required to refer to any section or paragraph numbers as contained in the Income Tax Act or Schedules to this Act.</i></p>	<p>55</p>

Question 4

35 marks

This question consists of two parts and are unrelated.

Part A

5 marks

You are a senior tax manager employed at Minn&Minn Consultants. One of your clients, Mr Frank Marx, of Marx Enterprises, approached you regarding an assessment he received from the South African Revenue Service (SARS).

Frank purchased a holiday beach house in Camps Bay situated on the Atlantic Seaboard for R4 500 000 during the 2013 year of assessment. Due to the increase in fuel prices coupled with the fact that his wife wanted to go to their private game farm in Thabazimbi over the weekends, he disposed of the beach house for R6 000 000 during the 2014 year of assessment. He intends to buy a new beach house in the near future which he will then use as their primary residence.

He recently received an assessment for the 2014 year of assessment and is aggrieved with it due to the fact that the Commissioner has included in his taxable income the R1 500 000 profit he has made on the sale of the beach house. He had expected the profit to be a capital gain which would then have to be set-off against a capital loss he suffered on the disposal of certain shares that he held as an investment.

Question 4 Part A Required	Marks Total
Inform Frank on the process that he should follow to object to his assessment with SARS, with reference to the Tax Administration Act.	5

Part B

30 marks

Bill Carelse, a South African resident, was a 60-year old widower when he suddenly passed away on 1 February 2014. His assets on date of death were cash in a South African bank account and a holiday property in France, which he bought in November 1991. He did not own a primary residence as he rented a fully furnished apartment.

Bill's wife Jade, to whom he was married out of community of property, passed away on 1 November 2013. The net value of Jade's estate on date of her death was R500 000.

Bill had also owned a holiday property in South Africa which he had acquired in 1992. On 1 December 2013 Bill formed a South African trust called the Carelse Family Trust and on the same day he donated this South African property to the trust. He did not make any other donations during the year. Assume that the property was transferred immediately on the date of the donation.

Bill bequeathed the French property to the Carelse Family Trust that was created in terms of his will. The only two beneficiaries of the trust were Bill's two nephews, Ben – a resident of South Africa, and Tom – a non-resident. When Bill passed away, Ben was 17 years old and Tom was 23 years. The cash in Bill's estate was used to settle all the liabilities of the estate, including amounts due to SARS. The remaining balance of R2 000 000 cash was bequeathed to his sister.

The trust deed contained the following provisions:

- Both properties must be let by the respective trusts until Ben turns 18 years on 1 February 2014. The South African property was occupied by the family in December 2013 and therefore only generated rental income from January 2014 onwards.
- On the last day of each month, Ben must receive 15% and Tom 25% of the net rentals.

Further information available:

1. Cost and value of properties – in Rand or Rand-equivalent:

	Property in France	Property in South Africa
Cost	975 000	950 000
Market value 1 October 2001	4 000 000	3 200 000
Market value 1 December 2013	6 000 000	5 450 000
Market value 1 January 2014	6 000 000	5 500 000
Market value 1 February 2014	6 500 000	6 500 000

2. Ben and Tom were both alive throughout the 2014 year of assessment.
3. Where applicable, market value on 1 October 2001 was elected as valuation date value.

4. A summary of the net income and distributions, excluding vesting of fixed property in Rand or Rand equivalent of the trust is set out below:

	Total	Rental:	Rental:
		France	RSA
	R	R	R
January 2014	75 000	40 000	35 000
		53.3%	46.7%
Distributed:			
Ben (15% x R75 000)	-11 250	-6 000	-5 250
Tom (25% x R75 000)	-18 750	-10 000	-8 750
Retained in trust (not yet vested)	45 000	24 000	21 000
February 2014	80 000	42 000	38 000
		53%	48%
Distributed:			
Ben (15% x R80 000)	-12 000	-6 300	-5 700
Tom (25% x R80 000)	-20 000	-10 500	-9 500
Retained in trust (not yet vested)	48 000	25 200	22 800
Total retained in the trust on 28 February 2014	93 000	49 200	43 800

5. No beneficiary had any other taxable receipts and accruals in the Republic.
6. Ignore any double tax agreement.
7. Assume that foreign exchange control approval has been obtained for all transactions.

Question 4 Part B Required		Marks	
		Sub-Total	Total
a	Calculate the taxable capital gain/assessed capital loss that will be included in Bill's taxable income for the 2014 year of assessment.	8	
b	Calculate the estate duty liability that arises due to Bill's death.	4	
c	Calculate the South African taxes that arise on Bill's donation made to the Carelse Family Trust.	5	
d	<p>Calculate the taxable income of the Carelse Family Trust, Ben and Tom in respect of the 2014 year of assessment.</p> <p><i>If an item has no effect on taxable income, this should be clearly indicated.</i></p> <p><i>Indicate the tax rate that will apply to each taxpayer.</i></p> <p><i>Your answer should make reference to appropriate provisions of legislation and appropriate case law where applicable.</i></p>	13	30

Acknowledgements

The SAIT Examination Committee would like to thank the following Universities for contributing questions to assist the Committee in drafting the Tax Professional Knowledge Competency Assessment Sample Papers 1 & 2:

- North West University (NWU)
- Rhodes University
- University of Pretoria (UP)
- University of South Africa (UNISA)
- University of the Free State (UFS)
- University of the Witwatersrand (WITS)