Answers

Marks

1 Gibson Siele

(a) Chargeable income from businesses

Working 1 – capital allowances

	Plant	Vehicles	Total	
Cost	P	P	P	
Cost at 30 June 2012	1,528,630	1,766,204	3,294,834	
Additions – truck		492,500	492,500	0·5
Disposals	(895,000)		(895,000)	0·5
Cost at 30 June 2013	633,630	2,258,704	2,892,334	
Allowances				
Allowances at 30 June 2012	375,802	606,588	982,390	
Charge for the year	95,045	564,676	659,721	1
Disposals	(392,500)		(392,500)	
Allowances at 30 June 2013	78,347	1,171,264	1,249,611	
Tax value at 30 June 2013	555,283	1,087,440	1,642,723	

Working 2 – balancing charge

	P	
Cost of assets disposed	895,000	
Capital allowances granted	(392,500)	
	502,500	1
Sale proceeds	650,000	
Balancing charge	147,500	0·5

	P	P	
Net profit per accounts		4,452,951	
Add: donation to a political party	65,000		0·5
Add: loan to a friend	70,000		0·5
Add: purchase of shares in Sefalana Holdings Ltd	215,650		0·5
Add: purchase of truck	492,500		0·5
Add: salary for Gibson Siele	360,000		1
Add: balancing charge	147,500	1,350,650	0·5
Less: sales proceeds of Screen Master	2,950,000		0·5
Less: medical aid refunds	28,639		1
Less: sales proceeds of shares in KTS Pumps (Pty) Ltd	762,350		0·5
Less: refund of loan	500,000		0·5
Less: capital allowances	659,721	(4,900,710)	0·5
Chargeable income from businesses		902,891	
			10

Tutorial notes:
1. *Any kind of donation is considered not to be in the production of income.*
2. *Loans both made and received do not come into chargeable income.*

Marks

(b) Disposal gains

	P	P	
Sale of Screen Masters			
Proceeds from sale of goodwill	800,000		1
Less: cost of goodwill	(200,000)		0·5
	600,000		
25% moveable property allowance	(150,000)	450,000	1·5
None of the other items are subject to capital gains			0·5
Proceeds from sale of shares in KTS Pumps (Pty) Ltd	762,350		0·5
Less: cost price	(875,000)	(112,650)	0·5
Less: capital loss brought forward		(172,806)	1·5
Net disposal gain		164,544	
			6

(c) Taxable income for the year ended 30 June 2013

	P	
Chargeable income from businesses (from (a))	902,891	0·5
Net disposal gains (from (b))	164,544	0·5
Interest	0	1
Dividends	0	0·5
Commission	22,170	0·5
Vehicle benefit (10,000 + 15% x 120,000)	28,000	1
	1,117,605	
		4

Tutorial note: *Where interest received is subject to 10% withholding tax, then that tax is the final charge to tax.*

(d) Value added tax (VAT)

(i) The sale of Screen Master would be zero rated if it qualifies as a sale of a going concern. 0·5

To qualify as a sale of a going concern, the following conditions must be met:

(1) the sale agreement is in writing; 0·5
(2) a copy of the agreement is forwarded to the Director within 21 days of the date of supply; 1
(3) both the buyer and seller are registered for VAT; and 0·5
(4) the sale is of a going concern 0·5

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(ii) If the sale does not qualify for zero rating, then the VAT payable is:

	Value P	VAT at 12% P	
Debtors less creditors	300,000	0	0·5
Stock	1,200,000	144,000	0·5
Net book value of fixed assets	650,000	78,000	0·5
Goodwill	800,000	0	0·5
	2,950,000	222,000	
			2
			25

Marks

2 Savuti Foundries (Pty) Ltd

(a) (i) Balancing charge

	P	Marks
Cost	1,725,810	0·5
Capital allowances	(1,206,284)	0·5
	519,526	
Sales proceeds	1,975,000	0·5
	1,455,474	
Cost of new equipment – rollover relief	(1,267,250)	2
Balancing charge	188,224	0·5
		4

(ii) Taxable income for the year ended 30 September 2013

	P	P	Marks
Net profit per accounts		2,002,231	
Add: depreciation	892,052		0·5
Add: amortisation	189,735		0·5
Add: general provision for bad debts	273,891		1·5
Add: interest paid to non-residents	728,398		1
Add: provision for future environmental costs	350,000		1
Add: royalties paid to non-residents	1,093,285		1
Add: balancing charge	188,224	3,715,585	0·5
Less: capital allowances	624,892		1·5
Less: profit on the sale of equipment	234,115		0·5
Less: fair value adjustment	1,250,000		0·5
Less: interest paid to non-residents (86,430/15%)	576,200		1·5
Less: royalties paid to non-residents (28,000/15%)	186,667		1·5
Less: actual environmental costs incurred	172,863	(3,044,737)	1·5
Taxable income		2,673,079	
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Tutorial notes:

1. *A general provision for bad debts is not an allowable deduction whereas a specific provision is an allowable deduction.*
2. *The total expense relating to payments to non-residents is added back and the deduction is determined by reference to the withholding tax actually paid in the tax year. Payments to residents are not added back.*
3. *The provision for future expenses is added back whilst the actual costs incurred can be claimed. It is also acceptable for the opening balance on the provision to be deducted and the closing balance to be added back as this has the same effect.*
4. *As the full cost of the new equipment has been set off against the balancing charge (see part (a)), there is no cost on which capital allowances can be claimed. Thus no adjustment is required to the capital allowances figure given in the question of P624,892.*

(iii) SAT payments

	P	Marks
Tax on P2,673,079 (from (b)) at 22%	588,077	0·5
Quarter 1 31 December 2012	150,000	0·5
Quarter 2 31 March 2013 ((80% x 588,077)/4)	117,615	1·5
Quarter 3 30 June 2013	117,615	0·5
Quarter 4 30 September 2013	117,615	0·5
Final (balancing) payment 31 January 2014	85,232	0·5
	588,077	4

	Marks
(b) (i) Taxpayer remedies in the event of a dispute	
Objection	
The taxpayer is entitled to make an official objection against an assessment with which they disagree. The objection must be in writing, lodged with the Commissioner General within 60 days of the notice of the assessment and state the grounds of the objection.	2
Appeal	
If an objection is disallowed by the Commissioner General, the taxpayer has the right of appeal. The appeal must be lodged within 60 days of the notice of disallowance, in the first instance to the Board of Adjudicators, then to the High Court and finally to the Court of Appeal.	2
	4
(ii) Time limits on revised assessments	
The standard time limit for re-opening an assessment is four years from the end of the tax year to which it relates.	1
However, if an amount was not assessed because of: (1) a misrepresentation of material facts or a failure to disclose such facts; or (2) a failure to furnish a tax return; or (3) the filing of an incorrect tax return,	
then the period is extended to eight years from the end of the tax year.	3
In the case of fraud or willful default by a company, there is no time limit.	1
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3 Valentine Pheko

Tax on current package with Moraka Wholesalers:

	P	
Salary	520,000	0·5
Bonus	50,000	0·5
Medical aid	0	1
Pension	0	1
	570,000	
Personal pension contribution	(26,000)	1
Taxable income	544,000	
Tax thereon	113,050	0·5

Tax on proposed package from Kalahari Distributors:

	P	
Salary	420,000	0·5
Company house (200 x 250 x 8%)	4,000	1
Company car	7,500	1
School fees	25,000	0·5
Medical aid	0	0·5
	456,500	
Personal pension contribution	0	0·5
Taxable income	456,500	
Tax thereon	91,175	0·5

		Marks
Cash flow from package with Moraka Wholesalers		
	P	
Salary	520,000	0·5
Bonus	50,000	0·5
Housing	(48,000)	0·5
Car running costs	(18,000)	0·5
School fees	(25,000)	0·5
Personal pension contribution	(26,000)	1
Tax	(113,050)	0·5
Net cash flow	339,950	

Cash flow from package from Kalahari Distributors

	P	
Salary	420,000	0·5
Tax	(91,800)	0·5
Net cash flow	328,200	

Conclusion:
The offer from Kalahari Distributors will not result in a more positive cash flow than Valentine is already receiving from Moraka Wholesalers. He will also lose the benefit of the company pension scheme. 1

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4 Allowable deductions

(1)	Commissions payable to a company's salesmen are a direct cost of making sales and fully deductible.	1
(2)	A bad debt arising on a staff loan is not deductible because it is not in the production of income and also because it will not have been brought into income *(s.41(1)(h))*.	1
(3)	Any legal expense is deductible if it is incurred in respect of any claim, dispute or action at law arising in the course of the ordinary operations of carrying on a business, including protecting existing rights to assets.	1·5
(4)	All expenses wholly, exclusively and necessarily incurred by the business can be claimed as a deduction; in the case of an advertising campaign, this is irrespective of whether the campaign was successful or not.	1·5
(5)	The cost of acquiring a contract has been held to be of a capital nature and therefore not a deductible expense.	1·5
(6)	A payment in advance is deductible since the cost has now been incurred.	1·5
(7)	A contribution to a pension fund is only deductible if the pension fund has been approved by the Commissioner General. To date, no foreign pension funds have been approved.	2
(8)	Value added tax (VAT) which has been paid but for which no input credit can be claimed is specifically deductible *(s.41(1)(q))*.	1·5
(9)	The building is of a capital nature and so are any costs associated with its construction, including architect's fees.	1
(10)	Any expense which will generate exempt income, such as dividends, is not deductible.	1·5
(11)	Expenditure incurred under a warranty is deductible since it relates to the normal operations of carrying on a business.	1
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				Marks
5 Sentlhana Holdings Ltd				

(a) Disposal gains

		P	P	
Sale of immoveable property				
Original cost		850,000		0·5
Indexation	(1570·2 – 924·2/924·2 x 850,000)	594,135		1
Indexed cost		1,444,135		
Sales proceeds		1,750,000	305,865	0·5
Sale of shares				
Original cost		700,000		0·5
Net proceeds	(430,000 – 20,000)	410,000		1
Moveable property allowance		0	(290,000)	0·5
Net disposal gain			15,865	
				4

Tutorial note: *The moveable property allowance cannot be claimed because the shares were sold at a loss.*

(b) Taxable income for the year ended 31 March 2014

	P	P	
Net profit per accounts		704,745	
Add: depreciation	47,850		0·5
Add: fair value adjustment	175,000		0·5
Add: loss on the sale of shares	140,000		0·5
Add: management fees paid to a non-resident	86,500	449,350	1
Less: profit on the sale of immoveable property	812,500		0·5
Less: dividends received	37,825	(850,325)	0·5
Chargeable income		303,770	
Net disposal gain (from (a))		15,865	0·5
Taxable income		319,635	
			4

Tutorial note: *The management fees paid to the non-resident are not deductible because the withholding tax relating to these fees was not paid over before the end of the tax year.*

(c) Value added tax (VAT) for the period ended 31 March 2014

	P	
Outputs		
Sales	11,269,035	0·5
Profit on the sale of immoveable property	0	0·5
Interest received	0	0·5
Dividends received	0	0·5
Proceeds from the sale of immoveable property	1,750,000	0·5
	13,019,035	
Inputs		
Cost of sales	9,561,927	0·5
Allowable expenses	1,465,536	0·5
Depreciation	0	0·5
Fair value adjustment	0	0·5
Loss on the sale of shares	0	0·5
Management fees paid to a non-resident	0	0·5
Proceeds from the sale of shares	0	0·5
Sale costs of shares	0	0·5
	11,027,463	
Outputs exceed inputs	1,991,572	
VAT at 12%	238,989	0·5
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		15