
Answers

Section B

Marks

1 Make Ltd

(a) (i) Recoupment for Machine A

	R	R	
Lower of cost (R650,000) and selling price (R880,000)		650,000	1
Less tax value at date of disposal:			
Cost	650,000		1/2
Purchased in 2015 year of assessment: Allowance (40% x R650,000)	(260,000)		1
2016 year of assessment allowance (20% x R650,000)	(130,000)	(260,000)	1/2
Recoupment		<u>390,000</u>	<u>3</u>

(ii) Spare parts

	R	
Spare parts acquired	(350,000)	1/2
Closing stock (R350,000 – R40,000)	<u>310,000</u>	1/2
Revenue expense	<u>(40,000)</u>	<u>1</u>

(iii) Recoupment for Machine D

	R	R	
Lower of cost (R800,000) and market value (R750,000)		750,000	1
Less tax value at date of disposal:			
Cost	800,000		1/2
Purchased in 2014 year of assessment: Allowance (20% x R800,000)	(160,000)		1/2
2015 year of assessment allowance (20% x R800,000)	(160,000)		1/2
2016 year of assessment allowance (20% x R800,000)	(160,000)	(320,000)	1/2
Recoupment		<u>430,000</u>	<u>3</u>

(b) Make Ltd as a small business corporation

Machine A – recoupment would be	R650,000	1/2
Machine D – recoupment would be	R750,000	1/2
Manufacturing assets for small business corporations are written off in full in the year of acquisition. This means the tax value is nil.		1
However, in the case of Machine D because the sale was to a connected person, the recoupment is based on the market value (relative to cost) instead of the selling price.		<u>1</u>
		<u>3</u>
		10

2 Teresa

(a) Fringe benefits

	R	R	
Company car			
(R430,000 less 15% for 12 months use to another person) x 3·25% x 12			
Initial value ((R430,000 – (15% x R430,000) x 3·25% x 12)	142,545		2
Less business use (12,000/18,000 km x R142,545)	(95,030)		1
Less private fuel (6,000 km (private) x R1·261)	(7,566)		1
Fringe benefit value		39,949	
Long service award			
Cost to company (as purchased as award)	12,000		½
Reduced by	(5,000)	7,000	1
Holiday rental			
Rental equivalent (R2,000 x 5 days)		10,000	½
		56,949	
			6

(b) Medical aid contribution credit

One member and one adult dependant plus two additional dependants ((R270 x 2) + (R181 x 2) x 12 months)	R10,824	1
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(c) Income tax liability for the 2016 year of assessment

	R	
Cash salary (R40,000 x 12)	480,000	½
Fringe benefits (from part (a))	56,949	½
Taxable income	536,949	
Tax on taxable income (R93,135 + (R536,949 – R393,200) x 36%)	144,885	½
Less primary rebate	(13,257)	½
Less medical contribution rebate (from part (b))	(10,824)	½
Less employees tax	(110,000)	½
Tax liability	10,804	
		3
		10

3 Prince Zulu

(a) Capital gains/(losses)

	R	
Small business equity interest		
Proceeds	2,500,000	½
Less base cost	(200,000)	½
Capital gain	2,300,000	
Small business entity exclusion – disregard lifetime maximum (none previously used)	(1,800,000)	1
Capital gain for aggregation	500,000	
Yacht		
Proceeds	2,000,000	½
Base cost	(2,200,000)	½
Capital loss	(200,000)	
Disregard capital loss as yacht longer than 10 metres and not used for trade purposes	200,000	1
Capital gain/capital loss to be aggregated	0	

	R	Marks
Donation of art collection		
Disregard any capital gain or capital loss as the donation was made to a public benefit organisation	0	1
Primary residence		
Proceeds	5,000,000	½
Base cost	(3,500,000)	½
Capital gain	<u>1,500,000</u>	
Disregard 95% of capital gain as below principal private residence exclusion of R2 million.		
5% of capital gain does not qualify for the exclusion as used for trade purposes: capital gain for aggregation (5% x R1,500,000)	<u>75,000</u>	1
		<u>7</u>
(b) Taxable capital gain for the 2016 year of assessment		
	R	
Sum of capital gains (from part (a)): (R500,000 + R75,000)	575,000	½
Less annual exclusion	<u>(30,000)</u>	½
Aggregate capital gain	545,000	
Less assessed capital loss brought forward (excluding loss with connected person)	<u>(10,000)</u>	1
Net capital gain	<u>535,000</u>	
Taxable capital gain (R535,000 x 33.3%)	R178,155	½
Assessed capital loss with connected person carried forward	R20,000	½
		<u>3</u>
		<u>10</u>

4 Leak Detect & Plumbing Ltd

(a) Value added tax (VAT) for the 2016 year of assessment

	Input VAT R	Output VAT R	
Sales (R12,000,000 x 14/114)		1,473,684	½
Insurance receipt for vehicle (no output)		0	½
Insurance receipt for stolen equipment (R50,000 x 14/114)		6,140	½
Purchase of a new motor vehicle (input denied)	0		½
Interest (exempt supply)	0		½
Fuel (zero rated)	0		½
Bad debts written off (R35,000 x 14/114)	4,298		½
Bad debts recovered (R10,000 x 14/114)		1,228	½
Year-end party (entertainment – input denied)	0		½
Wages and salaries (not an enterprise)	0		½
Taxi fares in terms of agreement with taxi company (exempt supply)	0		½
New equipment (R92,000 x 14/114)	11,298		½
Miscellaneous tools (R72,000 x 14/114)	8,842		½
Bank charges (not an exempt financial service) (R5,000 x 14/114)	614		½
Plumbing association fees (R20,000 x 14/114)	2,456		½
Sporting association fees (input denied)	0		½
			<u>8</u>

- (b) Returns filed electronically must be filed by the last business day of the month in which the return is due (i.e. of the month following the end of the VAT period).

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(c)	The penalty for late filing is 10% of the amount owing on the return.	Marks
	In addition, interest will be levied on the amount outstanding until payment is made.	$\frac{1}{2}$
		$\frac{1}{2}$
		<u>1</u>
		10

5 Joe Entrepreneur

(a) Pre-trade expenditure balance for plumbing business

	R	
Tools purchased (R75,000/5 years x 9/12 months)	11,250	1
Vehicle purchased (R170,000/4 years x 5/12 months)	17,708	1
Vehicle branding	30,000	$\frac{1}{2}$
Interest (does not qualify for accumulation with pre-trade expenses)	0	$\frac{1}{2}$
	<u>58,958</u>	
		<u>3</u>

(b) Rental trade loss for the 2016 year of assessment

The 2016 rental loss will be ring-fenced because losses have been incurred for three years out of the last five years.	1
Unless a business case can be presented to SARS that there is a reasonable prospect of taxable income within a reasonable period, and no such case has been presented.	<u>1</u>
	<u>2</u>

(c) Income tax liability for the 2016 year of assessment

	R	R	
Employment income (R70,000 x 12)		840,000	$\frac{1}{2}$
Rental trade loss (as per part (b)): ring-fenced to the rental trade		0	$\frac{1}{2}$
Plumbing trade:			
Income	55,000		$\frac{1}{2}$
Tools (R75,000/5 years + R30,000 (immediate write off of loose tools))	(45,000)		2
Vehicle (R170,000/4 years)	(42,500)		1
Interest for 2016	(15,700)		$\frac{1}{2}$
Assessed loss before pre-trade expenses	(48,200)		
Pre-trade expenses carried forward from 2015 (from part (a))	(58,958)		$\frac{1}{2}$
Plumbing trade loss available for offset (limited to the loss before the pre-trade expenses)		(48,200)	1
The pre-trade expenses may not be used to create an assessed loss available for set off against other income, but must be carried forward to the 2017 year of assessment			1
Taxable income		<u>791,800</u>	
Tax on taxable income ((R208,587 + (R791,800 – R701,300) x 41%))		245,692	$\frac{1}{2}$
Less primary rebate		(13,257)	$\frac{1}{2}$
Less employees tax withheld		(250,000)	$\frac{1}{2}$
Refund due		<u>17,565</u>	
Assessed losses carried forward:			
Ring-fenced as pre-trade expenses to the plumbing trade		R58,958	$\frac{1}{2}$
Ring-fenced loss from the rental trade		R28,000	$\frac{1}{2}$
			<u>10</u>
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6 WePack (Pty) Ltd

Taxable income for the 2016 year of assessment

	R	R	
1. Sales		50,000,000	½
2. Allowance for 2016 (Machine A) (R400,000 x 20%)		(80,000)	1
Recoupment:			
Selling price (R250,000) less tax value (R400,000 x 20% (1 year remaining))	170,000		1
Allowance on new Machine B (R550,000 x 40% (Year 1))		(220,000)	1
Capital gain/capital loss:			
Proceeds (R250,000 – R170,000)	80,000		½
Base cost (R400,000 – (R400,000 x 80%))	(80,000)		½
Capital gain	0		
Recoupment may be deferred, therefore recognise only 40% x R170,000 in 2016		68,000	1
Insurance proceeds for damage to farmer's fruit	200,000		½
Less compensation paid to farmer	(350,000)	(150,000)	½
3. Bad debts written off		(45,000)	½
Add back 2015 provision for doubtful debts (R240,000 x 25%)		60,000	1
Less 2016 provision for doubtful debts (R220,000 x 25%)		(55,000)	½
4. Office furniture (R2,400,000/6 years)		(400,000)	½
Computer equipment (R3,000,000/3 years)		(1,000,000)	½
Other machinery (R60,000,000 x 20%)		(12,000,000)	½
5. Office desk (R27,000/6 years x 3/12)		(1,125)	1
Recoupment: Market value (limited to cost) less tax value		1,125	1
Capital gain/capital loss:			
Proceeds (R30,000 – R1,125)	28,875		½
Base cost (R27,000 – R1,125))	(25,875)		½
Capital gain	3,000		
Net capital gain (R3,000 x 66.6%)		1,998	½
Taxable income		36,179,998	
Tax at 28%		10,130,399	½
Less provisional tax payments		(8,500,000)	½
Income tax liability		1,630,399	
Dividends tax on dividend <i>in specie</i> (R30,000 x 15%)		R4,500	½

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