Answers

Marks

1 Harry's Car Wash and Panelbeaters (Pty) Ltd

(a) Settlement payments and repair costs

For the settlement payments and repair costs to be deductible, the amount must be expenditure actually incurred in the production of income, other than an amount of a capital nature.	1
The specific 'repairs' deduction is inapplicable as the repairs performed were not on assets used by the taxpayer in the course of its trade. The general deduction rule (as above) must therefore be followed.	1
In the case of the settlements paid and repairs completed, it is clear that the amounts have been incurred and are therefore 'actually incurred' for the purpose of the general deduction rule. The amount of R25,000 in claims is simply a provision and is not yet actually incurred with the result that such R25,000 will not be deductible in the 2014 tax year.	2
In establishing whether or not such settlement amounts and repairs conducted are in the production of income, the taxpayer will have to assess whether or not the risk of such an event was an inevitable concomitant of the business or was the result of gross negligence. If the latter is shown to be true, the amount will not be deductible. If the former is true, then the associated risk and payment linked to such risk may be considered to be in the production of income.	1 ½ ½
The settlements and repairs arise directly from the services rendered by the employees. The nature of the business requires the regular moving of customer vehicles and as such it is an inevitable risk that damage might occur. These costs are therefore submitted to be of a revenue nature and in the production of income.	2
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Marks

(b) **Income tax liability for the 2014 year of assessment**

	R	R	
Fee income		12,500,000	½
Interest income		500,000	½
Parking ticket charges		(175,000)	½
Insurance policy compensation income		1,000,000	½
Settlements and repairs to customer vehicles (70,000 + 30,000)		(100,000)	1
Recoupment of allowances on compressor:			
Insurance proceeds	370,000		½
Limited to cost price	400,000		½
Less tax value R400,000 – R400,000 x 100% (allowances claimed in year of acquisition)	(0)		1
Recoupment to be deferred	370,000		
Tutorial note: *No allowance for the compressor in the current year as it would have been fully written off in the year of acquisition.*			
Capital gain or capital loss:			
Proceeds	370,000		½
Less recoupment	(370,000)		½
	0		
Less base cost:			
Expenditure less allowances permitted (R400,000 – R400,000)	(0)		1
Capital gain to be deferred	0		
Tutorial note: *It is important to note that the deferral mechanism for the recoupment is reliant on a capital gain arising or a nil value arising on the disposal of the previous asset.*			
Allowance on replacement machine: R530,000 x 100%		(530,000)	½
Recognised portion of recoupment of old machine: 100% x R370,000		370,000	1
Tutorial note: *While deferral is chosen, the deduction is permitted in full negating any deferral.*			
Repairs to the spray booth: deductible in full (specific deduction permitted despite capital nature of expenditure) reduced by the insurance proceeds received, i.e. R380,000 less R150,000		(230,000)	1
Pressure cleaning hoses: Year 3: 20% x R140,000		(28,000)	1
Tutorial note: *For assets not used in a process of manufacture, small businesses have the option of claiming an allowance as 50:30:20 (over three years) or in terms of Binding General Ruling number 7. In this case, the accelerated allowance is better.*			
Motorised polishing tools: Year 2: 30% x R180,000		(54,000)	1
Tutorial note: *No allowance for the pressure paint spray nozzles as these would have been fully written off in the prior year.*			
Consumables purchased: (R1,900,000 + R350,000 – R450,000)		(1,800,000)	1
Opening stock		(450,000)	½
Closing stock (at written down value)		350,000	½
Marking note: *The 2 marks will also be awarded if the candidate simply uses the R1,900,000 effect but does not include the opening and closing stock figures.*			
Rental expense: Current year payment (1 June 2013): R450,000		(450,000)	1
Tutorial note: *The rental payment extends over a period of less than six months after the end of the year of assessment, so a full claim is made in the year the expense is incurred.*			
Doubtful debts: Current year: R3,000 x 25%		(750)	1
Reversal of prior year allowance: R4,000 x 25%		1,000	1
Bad debts written off		(1,000)	1
Other tax deductible expenses – given		(7,150,000)	½
Capital gain from deferral to be recognised:	0		1
Sum of current year capital gains and capital losses	300,000		
Net capital gain	300,000		
Taxable capital gain inclusion: 66·6% x R300,000		199,800	1
Taxable income		3,952,050	

	R	*Marks*
Tax: Small business corporation (SBC) rates: R59,702 + 28% x (R3,952,050 – R550,000)	1,012,276	1
Less provisional tax	(800,000)	1
Normal tax owing	212,276	
		22
		30

2 **Mrs Samantha Parker**

(a) **Employees tax withheld and paid for the 2014 year of assessment**

	R	
Cash salary R25,000 x 8	200,000	½
Employer's contribution to the pension fund	0	½
Tutorial note: *An employer's contribution to a pension fund is not a fringe benefit, nor is it deductible as it is not incurred by the employee.*		
Use of the computer and data card	0	1
Tutorial note: *The use of the computer and data card is a fringe benefit, being the right of use of an asset, but the valuation provision indicates that such use carries no value.*		
Travel allowance: less than 80% business travel (12,000 kms + 8,000 kms + 2,000 kms)/39,000 kms:		
Inclusion for employees tax therefore: 80% x R2,000 x 8	12,800	1½
Medical contributions paid by employer R3,500 x 8 (no reduction for disability)	28,000	1
Balance of remuneration excluding annual amounts	240,800	
Annual equivalent of monthly amounts: R240,800 x 12/8	361,200	1
Add annual amount: resignation bonus	50,000	1
Total balance of remuneration	411,200	
Tax on R411,200 per the tables: R82,904 + 35% (411,200 – 358,110)	101,485	½
Less primary rebate (under 65)	(12,080)	½
Less medical contribution rebate: [R646 (member plus two dependants)] x 12	(7,752)	1
Tax liability for total annual equivalent	81,653	

Tutorial note: *While the contributions to the medical aid ceased at the end of October, for employees tax calculations all effects are considered to last for the full 12 months to get the correct withholding.*

Tax on R361,200 per the tables: R82,904 + 35% (361,200 – 358,110)	83,985	½
Less primary rebate (under 65)	(12,080)	½
Less medical contribution rebate: [R646 (member plus first dependant)] x 12 months	(7,752)	½
	64,153	
Employees tax on 'monthly' amounts – R64,153 x 8/12	42,769	½
Add tax on annual amounts: R81,653 – R64,153	17,500	½
Employees tax withheld and paid to SARS	60,269	
		11

				Marks
(b) **Normal tax liability for the 2014 year of assessment**				
		R	R	
Employment				
Balance of remuneration excluding annual amounts			240,800	½
Resignation bonus			50,000	½
Less travel allowance for employees tax purposes			(12,800)	½
Other income				
Interest		32,000		½
Less interest exemption (max R23,800 for persons under 65)		(23,800)	8,200	½
Foreign dividends		7,000		½
Less general foreign dividend exemption: 25/40 x R7,000		(4,375)	2,625	½
			288,825	
Contribution to retirement annuity fund:				
Actual – R36,000				½
Limited to greater of: R1,750; or				
R3,500 – R0; or				
15% x (R288,825 – R200,000) (non-retirement funding income) = R13,324			(13,324)	1
			275,501	
Add travel allowance: R2,000 x 8 months		16,000		½
Reduced by better of actual expenditure or deemed expenditure:				
Actual expenditure:				
Wear and tear: R437,000/7 years		62,429		½
Fuel		48,000		½
Maintenance		8,000		½
		118,429		
Reduction: (12,000 + 8,000 + 2,000)/39,000 kms x R118,429		66,806		1
Therefore allowance would be reduced to nil.				
Deemed expenditure:				
Fixed cost: R118,078/39,000 kms	302·8c			
Fuel	147·7c			
	450·5			
Tutorial note: *No maintenance is added as the employee is not responsible for full maintenance.*				
Business kms: 22,000 kms x 450·5c		99,110		1
Both options reduce allowance to nil.				
Inclusion			0	½
			275,501	
Less medical deduction:				
Employee contributions (actual and deemed) R3,500 x 8		28,000		½
Reduced by 4 x 8/12 of rebate of R7,752 (see part (a))		(20,672)		1
Qualifying contributions		7,328		
Add other qualifying medical expenses:				
Additional costs incurred		2,000		½
Deduction (as a result of disabled husband)			(9,328)	½
Taxable income			266,173	
Tax per the tables: R53,096 + 30% (266,173 – 258,750)			55,323	½
Less primary rebate (under 65)			(12,080)	½
Less medical rebate: 8/12 x R7,752 (from part (a))			(5,168)	½
Total normal tax			38,075	
Less employees tax (from part (a))			(60,269)	½
Refund due			22,194	
				14
				25

Marks

3 Joe Ncgobo – Taxable capital gain on January 2014 disposal

	R	R	Marks
Proceeds		17,200,000	1
Base cost:			
Valuation date value:			
Market value on 1 October 2001 (given)	5,400,000		
20% x (Proceeds less post-valuation date qualifying expenditure) 20% x (R17,200,000 – R900,000 – R550,000 – R950,000 – R560,000)	2,848,000		3
Time apportioned base cost:			
B = R3,400,000 + R243,000 + R55,000	3,698,000		1
A = R560,000 + R950,000 + R550,000	2,060,000		1
R = R17,200,000 – R900,000 (selling costs)	16,300,000		1
Therefore: P = R x B/(B + A) =	10,468,461		1
N =	3		½
T =	13		½
Time apportioned base cost:			1
Y = B + ((P – B) x N)/(T + N)	4,967,461		
Choose market value		(5,400,000)	½
Post-valuation date expenditure: A + R900,000		(2,960,000)	1
Capital gain before primary residence exclusion		8,840,000	
Months property 100% primary residence: 2 years + 8 months	32		1
Months property 98% primary residence: 9 years + 7·5 months	115·5		1
Total months owned after 2001	147·5		
Portion of gain to be set against primary residence: R8,840,000 x 32/147·5 + R8,840,000 x 98% x 115·5/147·5		8,701,557	2
Less primary residence exclusion		(2,000,000)	1
Add business use portion of capital gain: R8,840,000 x 2% x 115·5/147·5		138,443	2
Total capital gain		6,840,000	
Capital gain		6,840,000	
Less annual exclusion		(30,000)	½
Aggregate and net capital gain		6,810,000	
Taxable capital gain: R6,810,000 x 33·3%		2,267,730	½
Tax at 40%		907,092	½
			20

Marks

4 Cheap Tours and Transport (Pty) Ltd

(a) Deregistration for value added tax (VAT)

A business may request SARS to cancel its VAT registration if the taxable supplies made in a period of 12 months falls below R1 million, or if all business activities have ceased. 2

The business is required to complete the cancellation of registration form and submit the form to the local SARS branch. 1

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(b) Input/output VAT effects of transactions

		Input VAT R	Output VAT R	
(i)	Tours sold – 100% of the tours are a VATable supply at the standard rate: R12,000,000 x 14/114		1,473,684	1
(ii)	SA transport – exempt supply	0		½
	Transport to location outside SA – zero rated	0		½
(iii)	Payments for South African lodge accommodation at the standard rate: (R3,000,000 – R1,200,000) x 14 /114	221,053		1
	Payments for non-SA accommodation (not within the Republic)	0		1
(iv)	Bad debts written off result in a reversal of the output VAT – R40,000 x 14/114	4,912		1
(v)	This bus is a motor car, so the VAT input is denied	0		1
	No input can be claimed on the SUV as the vehicle is a motor car as defined for VAT purposes and the input is therefore denied.	0		1
(vi)	The SUV for the managing director results in output VAT on the fringe benefit, being: R570,000 x 14/114 x 0·3% x 2 months		420	1
(vii)	The pool table is considered entertainment and the input is denied.	0		1
(viii)	The server operates the entire business's IT (i.e. is used for the making of both exempt and taxable supplies): R25,000 x 14/114 x 60%	1,842		1
		227,807	1,474,104	
				10

(c) The VAT payment due to SARS for the VAT period May to June 2014 is R1,246,297. ½

The VAT return must be filed by the last business day of the month following the end of the VAT period. 1

Payment (if due) must be made by the same date. ½

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Tutorial note: *Payment means that the amount must have been cleared in the SARS bank account.*

5 Theoretical questions

(a) The following are required to keep records, books of account, etc, with respect to a tax period:

A person who has submitted a return for the tax period. 1

A person who is required to submit a return but did not submit such return. 1

A person not required to submit a return, but who has received income, has a capital gain or capital loss or has engaged in an activity which is subject to tax or would be subject to tax but for the application of a threshold or exemption. 1

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		Marks
(b)	The types of assessment which may be issued are:	
	An original assessment – issued based on the return submitted by the taxpayer or other information available or obtained in respect of the taxpayer.	1½
	An additional assessment – issued if the assessment does not correctly reflect the application of the tax acts, SARS must raise an additional assessment.	1½
	A reduced assessment – if there is a dispute, settlement or judgement in favour of the taxpayer or SARS is satisfied that there is an error in the assessment.	1½
	A jeopardy assessment – is issued if SARS believes that there is an urgent need to secure the collection of the tax owing.	1½
	Marking note: *A ½ mark for identifying/naming the assessment and 1 mark for the explanation, per item.*	6
(c)	Any person who provides advice to another person in respect to the application of a tax act or who completes or assists in the completion of a return by another person.	1
		10