Answers

Section A

1 C

Tutorial note: *The physical presence test cannot apply as Anthony has not spent more than 91 days in the Republic in each of the last five years of assessment nor has he spent in aggregate at least 915 days in the Republic.*

Anthony is not ordinarily resident in the Republic as it was always his intention to return to the United Kingdom so South Africa does not become his permanent home.

2 B

Tutorial note: *A person conducting an enterprise is only required to register as a VAT vendor if their turnover from taxable supplies made regularly and continuously exceed the registration threshold of R1 million in the previous 12-month period (or is expected to exceed R1 million in the coming 12-month period). A person whose turnover from taxable supplies exceeds R50,000 in the prior 12-month period may voluntarily register as a VAT vendor.*

3 D

(R27,600 – (R514 x 12 x 4) + R45,000) = R47,928 – (7·5% x R377,450) = R19,620 x 25% = R4,905

4 B

Tutorial note: *As James's taxable income (before setting off any assessed loss) is subject to the maximum marginal rate of tax and his gardening business has had assessed losses in the past three years of assessment, the current year loss may be ring fenced. This is subject to the 'escape clause' – if James can satisfy SARS that the gardening business has a reasonable expectation of making a profit within a reasonable period, then ring fencing will not apply.*

5 C

Tutorial note: *A provisional taxpayer is any person who earns income other than remuneration and does not fall within a class of individuals who are exempt from the payment of provisional tax. These exempt individuals include:*

– *Individuals below the age of 65 who do not carry on a business and whose taxable income does not exceed the threshold or whose taxable income from interest, foreign dividends and rental will be R20,000 or less for the tax year.*

– *Individuals 65 years of age and older (who are not directors of private companies) if their taxable income consists exclusively of remuneration, interest, foreign dividends or rent from the letting of fixed property; and is R120,000 or less.*

6 D

Tutorial note: *Transfers to a PBO give rise to neither a capital gain nor a capital loss. No capital loss is allowed on the disposal of personal use assets. Although the yacht is longer than 10 metres and thus not a personal use asset, the capital loss is still not allowed as it is a recreational asset.*

7 A

Tutorial note: *As Mining plc only moved the place of its effective management to South Africa on 1 July 2014, it only became resident from that date (in terms of the domestic law definition).*

8 D

Tutorial note: *The export of goods is zero rated (rendering them taxable supplies, albeit that the rate is 0%). Thus, registration would enable World Curios (Pty) Ltd to reclaim the VAT input on the other costs incurred and reduce its overall costs.*

Marks

9 D

Taxable income

	Rm
Profit	600,000
Capital gain (W)	0
Less: assessed loss b/f	(500,000)
Taxable income	100,000
Tax at 28%	28,000

W – Capital gains

Current year capital gains	450,000
Less: current year capital losses	(200,000)
Aggregate gains	250,000
Less: capital losses b/f	(340,000)
Assessed capital loss c/f	(90,000)

10 C

Tutorial note: *Not all persons working for a tax practitioner need themselves to register as tax practitioners, particularly any person working under the supervision of the tax practitioner. Any person who provides advice to his employer in the course of his duties also need not register. Lastly, just because a person is registered with a recognised controlling body does not oblige the person to register as a tax practitioner.*

11 A

R850,000 + (50% x R160,000) = R930,000
(R930,000 – R750,000) x 6% = R10,800 + R15,500 = R26,300

Tutorial note: *The turnover tax regime for micro businesses treats the revenue turnover and 50% of the receipts or accruals of a capital nature as forming part of the taxable turnover under the Sixth Schedule to the Income Tax Act.*

12 C

Tutorial note: *The primary residence exclusion of the entire gain where the proceeds are less than R2 million is inapplicable as Delilah utilised a portion of the property for business purposes. The R2 million capital gain exclusion for the primary residence remains available but only for that portion used exclusively as a primary residence, i.e. the gain on the trade portion 10% x (R1,900,000 – R100,000) = R180,000 must be recognised.*

13 A

Tutorial note: *The legislation provides that the return must be filed and payment made by the 25th of the month following the end of the VAT period (i.e. the month of February is the correct month). However, businesses submitting electronic returns via e-filing may file and pay by the last business day of the month following the end of the VAT period – in this case, 27 February.*

14 B

R6,900 x 100/114 = R6,053 x 100% = R6,053

Tutorial note: *Where an item has a cost of less than R7,000, a full write off may be claimed.*

15 C

Tutorial note: *Only the R1,500 is deductible as it is the only contribution for which a donation certificate has been received. The deduction also falls within the limit for such deductions which is 10% of taxable income before the deduction.*

2 marks each **30**

Section B *Marks*

1 Jessica

(a) Second provisional tax payment

	R	
Estimate of taxable income	850,000	
Tax on R850,000 R195,212 + 40% (R850,000 – R673,100)	265,972	½
Less: primary rebate (under 65)	(12,726)	½
	253,246	
Less: first provisional tax payment	(0)	½
Less: employees' tax	(255,000)	½
Second provisional payment reduced to:	0	
		2

(b) Normal tax liability

	R	
Salary (R71,200 x 12)	854,400	1
Hobby trade	245,600	½
	1,100,000	
Tax on R1,100,000 R195,212 + 40% (R1,100,000 – R673,100)	365,972	½
Less: primary rebate	(12,726)	½
	353,246	
Less: employees' tax	(255,000)	½
Normal tax liability	98,246	
		3

(c) Penalties and interest

	R	
Underestimate penalty		
Lowest acceptable estimate figure (80% of R1,100,000)	880,000	1
Tax on R880,000 R195,212 + 40% (R880,000 – R673,100)	277,972	½
Less: primary rebate	(12,726)	
	265,246	
Less: actual tax paid		
Provisional tax paid	0	½
Employees' tax	(255,000)	½
Normal tax liability based on lowest acceptable estimate	10,246	
Penalty at 20%	2,049	½
Interest		
Interest from 1 October 2015 (effective date) to 30 November 2015 (assessment date) (R98,246 + R2,049) x 8% x 2/12	1,337	2
		5
		10

Tutorial notes:

1. *As Jessica's actual taxable income is greater than R1 million, she is liable to pay an underestimate penalty as her estimate of taxable income is less than 80% of her actual taxable income. The penalty is 20% of the excess of the normal tax liability based on this lowest acceptable estimate over the actual tax (employees' and provisional) paid.*
2. *Interest is levied on the full outstanding amount (including the penalty) from the effective date of 1 October 2015 to the assessment date of 30 November 2015.*

Marks

2 Cook Ltd

Value added tax (VAT)

(a) (i) VAT invoice (full invoice) requirements

A full VAT invoice issued by Cook Ltd must display the following information:

The word 'tax invoice' in a prominent place
Cook Ltd's name and address and VAT number
The name and address of the customer (if the customer is a VAT vendor)
The unique serial number of the invoice and the date of issue
A full and proper description of the goods or services supplied
The quantity or volume of the goods or services supplied
Either:
The value of the supply (net), the amount of VAT charged and the consideration (gross) for the supply;
or
The consideration for the supply (gross) and either the amount of VAT charged or a statement that the consideration includes the VAT charged and the rate of VAT charged

½ mark per item, maximum 3

(ii) An abridged invoice may be issued in respect of supplies where the consideration is less than R5,000. 1

Differences between an abridged invoice and a 'full' VAT invoice:

The customer's details are not required. ½
The quantity or volume of the goods or services supplied is not required. ½

2

(b) VAT output arises at the time the VAT invoice is raised or when payment is received, whichever is earlier. In the case of Cook Ltd's customers who take 90 days to pay, output VAT will arise on the issue of the invoice. 1

(c) A 10% penalty and interest at the prescribed rate applies to the late payment of VAT. ½ + ½

(d) Input VAT

Pool car
No input VAT is reclaimable in respect of the company pool motor car acquired as it falls within the definition of a 'motor car' and Cook Ltd does not trade in motor vehicles. 1

Staff function
As the staff function is 'entertainment', no input VAT is reclaimable in respect of this cost. 1

Debt written off
As Cook Ltd would have been liable for output VAT at the time the invoice was raised to the customer, an offsetting input VAT reclaim will be available on the write-off of the debt of R5,600 (R45,600 x 14/114). 1

3

10

3 (a) Methods for determining the base cost of a pre-valuation date asset

Time-adjusted base cost method
This method may be used when a company has a record of the date of acquisition and the cost of an asset. The formula $B + [(P - B) \times N/(T + N)]$ is used to work out the asset's base cost. 1

Market value method
This method uses the market value of the asset on 1 October 2001. This method may be used when a company has completed the valuation (as at 1 October 2001) by 30 September 2004. 1

20% x proceeds method
This method calculates the base cost as 20% x the proceeds received less any expenditure incurred after 1 October 2001. This method would typically be used where a company has no record of pre 1 October 2001 expenditure and has not obtained a valuation as at 1 October 2001 to be able to use one of the other methods. 1

3

		R	Marks
(b)	**Cape Town Advertising (Pty) Ltd**		
	Capital gains or capital loss – Billboard		
	Billboard:		
	Proceeds (R50,000 + R75,000)	125,000	1
	Base cost:		
	To determine the value of 'P' (proceeds)		
	P = R x B/(B + A)		
	R = 125,000		½
	B = 150,000		½
	A = 20,000		½
	P = 125,000 x 150,000/170,000 = R110,294		1
	N = 2		½
	T = 13		½
	Y = B + [(P – B) x N/(T + N)]		
	= 150,000 + [(110,294 – 150,000) x 2/15] = R144,706		2
	Valuation date value	(144,706)	
	Post-valuation date expenditure	(20,000)	½
	Capital loss	(39,706)	
			7
			10

4 **Baby Goods (Pty) Ltd**

(a) Pre-trading expenditure

Expenditure incurred prior to the commencement of trade is eligible for tax deduction in the year that trade commences provided such expenses meet all the normal conditions for deductibility. Therefore, the expenses incurred by Baby Goods (Pty) Ltd in the period prior to 1 April 2014 will be eligible for tax deduction in the year of assessment ended 28 February 2015. 2

(b) Taxable income for the period 1 April 2014 to 28 February 2015

	R	R	
Sales		1,700,000	½
Cost of sales			
Purchases – pre-trade	(500,000)		½
Purchases post-1 April	(550,000)		½
Closing inventory	100,000		½
		(950,000)	
Wages		(250,000)	½
Insurance premiums – year to 1 April 2015		(70,000)	1
Rental – pre trade – March 2014		(15,000)	½
Rental – 1 April 2014 to 28 Feb 2015 (R15,000 x 11)		(165,000)	½
Leasehold improvements (R45,000/59 months x 11 months)		(8,390)	1
No further allowance for the excess of R5,000		0	½
Taxable income		241,610	6

Tutorial note: *A full deduction is available for the insurance premiums as the benefits are fully utilised within six months after the end of the year of assessment.*

Marks

(c) **Alternative lease deductions – period to 28 February 2015**

	R	Marks
Lease premium		
Pre-trading – R200,000/60 x 1 month	(3,333)	} 1½
Post 1 April – R200,000/60 months x 11 months	(36,667)	
Rental		
Pre-trading – March 2014	(10,000)	} ½
Post 1 April – R10,000 x 11	(110,000)	
	160,000	
		2
		10

5 ProBore Ltd

Taxable income for the 2015 year of assessment

		R	R	
(i)	Sales		15,280,000	½
(ii)	Deposits received – despite there being no unconditional entitlement to the deposits, the amounts have been received for the company's benefit (R130,000 + R200,000)		330,000	1
(iii)	Deposit income refunded (reversing income recognised in the prior year of assessment)		(120,000)	1
(iv)	Money received from customer sued for proceeds		189,000	1
	Legal costs (both of a revenue nature)		(85,000)	1
(v)	Out-of-court settlement re damage to customer's swimming pool (risk sufficiently linked to the nature of the business to justify its deduction as a cost in the production of income)		(90,000)	1
(vi)	Development team salaries (qualify for R&D accelerated allowance) R750,000 x 150%		(1,125,000)	1
	Prototypes used for testing R2,300,000 x 150%		(3,450,000)	1
	Salaries of security staff (not R&D expenditure, but qualifies as an expense in the production of income)		(220,000)	1
(vii)	New rig (used in a process of manufacture) – 100%		(1,500,000)	½
	Digging machine (used in a process of manufacture) – 100%		(3,000,000)	½
	Recoupment of allowances on old rig sold		560,000	½
(viii)	Office equipment not used in the process of manufacture (R150,000 – R25,000) x 50%		(62,500)	1
	Assets under R7,000 (fully claimable in year of acquisition)		(25,000)	½
	Existing office equipment (R130,000 x 30% (second year))		(39,000)	1
	Capital gains tax on old rig:			
	Proceeds less recoupment (R570,000 – R560,000)	10,000		1
	Expenditure less allowances (R560,000 – R560,000)	(0)		½
	Capital gain	10,000		
	Assessed capital loss brought forward	(55,000)		½
	Assessed capital loss carried forward	(45,000)	0	½
	Taxable income		6,642,500	
				15

Tutorial note: *As the deposit income is received in respect of future expenditure, a future expenditure allowance would be permitted in practice. As no further information was given to allow candidates to calculate this, candidates were not expected to consider this.*

Marks

6 Langi Ngcobo

Normal tax liability for the 2015 year of assessment

		R	R	
(i)	Salary R65,000 x 12 months		780,000	½
(ii)	Employer contribution to pension fund		0	½
	Own contribution to pension fund			
	Actual: 10% x R780,000			
	Limited to greater of:	78,000		½
	R1,750 or			½
	R780,000 x 7·5%		(58,500)	½
(iii)	Company car:	550,000		½
	Reduction for use granted after 12 months of ownership:			
	15% x R550,000	(82,500)		1
	Value on which the company car use is based	467,500		
	Fringe benefit for the use of the company car:			
	R467,500 x 3·25% x 12 months (maintenance plan in place)		182,325	1
(vi)	Free schooling: R20,000 x 2 children		40,000	1
(vii)	Residential accommodation: (R800,000 – R70,000) x 19% x 12/12		138,700	1½
(viii)	Foreign dividends	3,750		½
	Foreign dividend exemption R3,750 x 25/40	(2,344)	1,406	1
	Gross local dividends (R10,000 + R1,500)	11,500		½
	Local dividend exemption	(11,500)	0	½
	Local interest	11,000		½
	Local interest exemption (actual less than maximum R23,800			
	therefore interest fully exempt)	(11,000)	0	½
			1,083,931	
(v)	Retirement annuity contribution deduction			
	Actual of R30,000 limited to greater of:			
	R1,750			½
	R3,500 – R58,500 = N/A			½
	15% x (R1,083,931 – R780,000 + R58,500) = R54,365		(30,000)	1
			1,053,931	
	Tax per the tables: R195,212 + 40% (R1,053,931 – R673,100)		347,544	½
	Less: primary rebate (under 65)		(12,726)	½
(iv)	Medical scheme contribution rebate (R514 + (R172 x 2)) x 12		(10,296)	1
			324,522	
				15

Tutorial note: *All of Langi's use of the company car represents private use.*