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# Answers

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Section B

Marks

1 Alice Baker

(a) Capital gains or capital losses

|  | R                | R                  |          |
|--|------------------|--------------------|----------|
| <b>Building</b>  |                  |                    |          |
| Sale   |                  | 5,000,000          | ½        |
| Less base cost:  |                  |                    |          |
| Time apportioned base cost (TABC):                         |                  |                    |          |
| B = R2,000,000   |                  |                    | ½        |
| P = R5,000,000   |                  |                    | ½        |
| N = 2  |                  |                    | ½        |
| T = 15   |                  |                    | ½        |
| TABC = R2,000,000 + [(5,000,000 – 2,000,000) x 2/(2 + 15)] |                  | <u>(2,352,941)</u> | ½        |
| Capital gain   |                  | <u>2,647,059</u>   |          |
| <br><b>Forklift</b>  |                  |                    |          |
| Cost   | 650,000          |                    | ½        |
| Allowances over first five years of use                    | <u>(650,000)</u> |                    | ½        |
| Tax value  | <u>0</u>         |                    |          |
| Recoupment (selling price – tax value)                     |                  | 150,000            | ½        |
| Sale price   | 150,000          |                    |          |
| Less recoupment  | <u>(150,000)</u> | 0                  | ½        |
| Less base cost:  |                  |                    |          |
| Cost   | 650,000          |                    | ½        |
| Less allowances  | <u>(650,000)</u> | <u>0</u>           | ½        |
| Capital gain   |                  | <u>0</u>           |          |
|  |                  |                    | <u>6</u> |

(b) Taxable capital gain/assessed capital loss

|   | R                  |           |
|---|--------------------|-----------|
| Active business assets of small business:   |                    |           |
| Building  | 2,647,059          | ½         |
| Forklift  | <u>0</u>           | ½         |
|   | 2,647,059          |           |
| Natural person small business capital gain exclusion limited to max of R1,800,000 | <u>(1,800,000)</u> | 1         |
| Capital gains from active business assets   | 847,059            |           |
| Less annual exclusion   | <u>(40,000)</u>    | ½         |
|   | 807,059            |           |
| Less assessed capital loss brought forward  | <u>(390,000)</u>   | ½         |
| Net capital gain  | <u>417,059</u>     |           |
| Taxable capital gain (at 40% inclusion)   | 166,824            | <u>1</u>  |
|   |                    | <u>4</u>  |
|   |                    | <u>10</u> |

## 2 Furniture Design &amp; Deliver Ltd (FDD)

## (a) Value added tax (VAT) for the 2017 year of assessment

|  | Input VAT<br>R | Output VAT<br>R |          |
|--|----------------|-----------------|----------|
| Sales (R1,000,000 x 14/114)  |                | 122,807         | ½        |
| Sales of furniture (R3,500,000 x 14/114)   |                | 429,825         | ½        |
| Insurance premium paid (R60,000 x 14/114)  | 7,368          |                 | ½        |
| New machine (R150,000 x 14/114)  | 18,421         |                 | ½        |
| Subcontractors payments (R2,000,000 x 14/114)  | 245,614        |                 | ½        |
| Bad debts written off (R55,000 x 14/114)   | 6,754          |                 | ½        |
| Guest reception at conference (entertainment – input denied)<br>[Otherwise if input claimed, the answer is also acceptable if the reason<br>given is that the expense is for advertising purposes] | 0              |                 | 1        |
| Wages and salaries (not an enterprise)   | 0              |                 | 1        |
| Interest income (exempt supply)  | 0              |                 | 1        |
| Bank charges (not an exempt financial service) (R6,000 x 14/114)   | 737            |                 | ½        |
| Design association fees (R20,000 x 14/114)   | 2,456          |                 | ½        |
| Transport companies (VAT at standard rate only on local delivery)<br>(R40,000 x 14/114) (export charged at 0%)   | 4,912          |                 | 1        |
|  |                |                 | <u>8</u> |

(b) The fuel was not charged by a fuel supplying vendor and so does not qualify for zero rating. 1

FDD should request a revised tax invoice otherwise its ability to claim the VAT input is reduced. 1

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## 3 Johnson Suppliers (Pty) Ltd

## (a) Micro business – 2016 year of assessment

There will be no tax payable by Johnson Suppliers (Pty) Ltd (JS) as the company was not trading (and so there was no turnover) in the 2016 year of assessment. 1

## Micro business – 2017 year of assessment

Turnover R890,000

Tax on turnover – R6,650 + 3% x (R890,000 – R750,000) 10,850 1

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## (b) Small business corporation – 2016 year of assessment

JS was not trading in the 2016 year of assessment so there is no tax payable.

However, the pre-trade expenses incurred will be permitted as a deduction once trading commences. These include:

|  | R              |   |
|--|----------------|---|
| Commercial building allowance: 5% x R400,000                 | 20,000         | 1 |
| Interest is not permissible as a pre-trade expense deduction | 0              | 1 |
| Furniture wear and tear for use without trade R50,000 x 50%  | 25,000         | 1 |
| Inventory acquired   | 350,000        | ½ |
|  | <u>395,000</u> |   |

## Small business corporation – 2017 year of assessment

|   | R              |                  |
|---|----------------|------------------|
| Turnover  | 890,000        | ½                |
| Pre-trade expenses now deductible                 | (395,000)      | ½                |
| Commercial building allowance 5% x R400,000       | (20,000)       | ½                |
| Furniture wear and tear R50,000 x 30%             | (15,000)       | 1                |
| Inventory acquired                                | (100,000)      | ½                |
| Closing inventory                                 | 150,000        | ½                |
| Taxable income                                    | <u>510,000</u> |                  |
| Tax payable R20,300 + 21% x (R510,000 – R365,000) | 50,750         | <u>1</u>         |
|   |                | <u>8</u>         |
|   |                | <b><u>10</u></b> |

## 4 Andile Ngobo

## (a) Travel allowance

|  | R             | R               |          |
|--|---------------|-----------------|----------|
| Travel allowance R6,000 x 12 months                              |               | 72,000          | ½        |
| Reduction to allowance, greater of:                              |               |                 |          |
| <b>Actual expenses:</b>  |               |                 |          |
| Wear and tear: R350,000/7 years                                  | 50,000        |                 | ½        |
| Maintenance  | 6,000         |                 | ½        |
| All business fuel reimbursed                                     | 0             |                 | ½        |
| Total expenses   | <u>56,000</u> |                 |          |
| Reduction: R56,000 x 30,000/40,000kms                            | 42,000        |                 | 1        |
| <b>Deemed expenses:</b>  |               |                 |          |
| Fixed cost from table  | 105,822       |                 | ½        |
| Fixed cost/km in cents   | 264.5         |                 | ½        |
| Maintenance  | 54.5          |                 | ½        |
| Cents per km   | <u>319</u>    |                 |          |
| Reduction: R30,000 x R3.19                                       | 95,700        |                 | 1        |
| Maximum reduction is R95,700 limited to the allowance of R72,000 |               | <u>(72,000)</u> | ½        |
| Inclusion  |               | <u>0</u>        |          |
|  |               |                 | <u>6</u> |

## (b) Normal tax payable

|   | R               |                  |
|---|-----------------|------------------|
| Cash salary   | 560,000         | ½                |
| Inclusion of travel allowance                                 | 0               | ½                |
| Taxable income  | <u>560,000</u>  |                  |
| Tax per the tables: R147,996 plus 39% x (R560,000 – R550,100) | 151,857         | 1                |
| Rebate  | (13,500)        | ½                |
| Medical contribution rebate: (R572 + 2 x R192) x 12 months    | (11,472)        | 1                |
| Total normal tax  | 126,885         |                  |
| Less employees tax  | <u>(55,000)</u> | ½                |
| Normal tax payable  | <u>71,855</u>   | <u>4</u>         |
|   |                 | <b><u>10</u></b> |

5 Compress Health Ltd

(a) Taxable income/assessed tax loss of Compress Health Ltd

|  | R                | R                  |           |
|--|------------------|--------------------|-----------|
| Sales to health industry   |                  | 7,500,000          | ½         |
| Sales to sports industry   |                  | 5,000,000          | ½         |
| Opening stock  |                  | (3,700,000)        | ½         |
| Manufactured   |                  | (7,000,000)        | ½         |
| Closing stock:   |                  |                    |           |
| Opening stock  | 3,700,000        |                    | ½         |
| Manufactured   | 7,000,000        |                    |           |
| Sold or on order   | (9,200,000)      |                    | ½         |
| Stock on hand at site  | 1,500,000        |                    |           |
| Less closing stock held but disposed (by order):   | <u>(120,000)</u> | 1,380,000          | ½         |
| Reduced gross income as stock not delivered and order cancelled for damaged stock (R120,000 x 1.25)  |                  | (150,000)          | 1         |
| Delivery costs less credit (R1,000,000 – R15,000)  |                  | (985,000)          | 1         |
| Bad debt   |                  | (50,000)           | ½         |
| Reversal of prior year provision for doubtful debts (R150,000 x 25%)                                 |                  | 37,500             | ½         |
| Current provision for doubtful debts (R125,000 x 25%)  |                  | (31,250)           | ½         |
| Allowance on old machine: R500,000 x 20%   |                  | (100,000)          | ½         |
| Scrapping allowance on old machine: Tax value less proceeds: (R500,000 – (60% x R500,000)) – R50,000 |                  | (150,000)          | 1         |
| Capital gain/capital loss:   |                  |                    |           |
| Proceeds   | 50,000           |                    | ½         |
| Base cost:   |                  |                    |           |
| Cost less allowances: R500,000 – R300,000  |                  |                    |           |
| (allowances Yrs 1 and 2) – R150,000 (scrapping allowance)  | <u>(50,000)</u>  |                    | 1         |
| Capital gain   | <u>0</u>         |                    |           |
| No deferral as no recoupment to defer and no gain to defer   |                  |                    |           |
| Allowance on new machine: 40% x R750,000   |                  | (300,000)          | ½         |
| Sponsorship: cash payment (advertising)  |                  | (250,000)          | 1         |
| Sponsorship: stock: recoupment at cost as used for advertising (R80 x 100)                           |                  | (8,000)            | 1         |
| Wages and salaries   |                  | <u>(2,000,000)</u> | ½         |
| Taxable income/Assessed loss   |                  | <u>(806,750)</u>   | <u>13</u> |

(b) VAT must be levied when the supply is made.

The supply is the earlier of the issue of an invoice (not necessarily a VAT invoice) or payment.

As a result, 50% of the VAT output is levied when the deposit is received for an order and the remaining 50% of VAT is levied on the issue of the invoice on delivery.

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## 6 Arthur Botanist

## (a) Employees tax

|  |         |   |          |
|--|---------|---|----------|
| Salary of foreman for the year: R4,500 x 12              | R54,000 |   | ½        |
| Salary of each worker for the year: R3,500 x 12          | R42,000 |   | ½        |
| All earnings below threshold – no employees tax withheld |         | 0 | 1        |
|  |         |   | <u>2</u> |

**Tutorial note:** *With no income tax withheld, levies such as the unemployment insurance fund levy remain payable.*

## (b) Normal tax liability

|  |                |                  |   |
|--|----------------|------------------|---|
|  | R              | R                |   |
| Cash salary: R50,000 x 12  |                | 600,000          | ½ |
| Employer contribution fringe benefit: 10% x R600,000   |                | <u>60,000</u>    | ½ |
| Remuneration   |                | 660,000          |   |
| <b>Tutorial note:</b> <i>Deduction to be determined after effects from other taxable income.</i> |                |                  |   |
| Turnover from tree trimming  | 750,000        |                  | ½ |
| Turnover from compost sales  | <u>260,000</u> |                  | ½ |
| Total turnover   | 1,010,000      |                  |   |
| Wages: R4,500 x 12 + R3,500 x 12 x 3   | (180,000)      |                  | 1 |
| Service costs  | (5,000)        |                  | ½ |
| Replacement of safety equipment  | (50,000)       |                  | ½ |
| Chainsaws: R66,000/6   | (11,000)       |                  | ½ |
| Chipper R300,000/6   | (50,000)       |                  | ½ |
| Truck R250,000/4   | (62,500)       |                  | ½ |
| Fine (not deductible despite being a risk of the business as it is a disallowed deduction)       | <u>0</u>       |                  | 1 |
| Business profit  |                | <u>651,500</u>   |   |
| Taxable income sub-total   |                | 1,311,500        |   |
| Contributions to provident and retirement funds:   |                |                  |   |
| Provident fund – employer  | 60,000         |                  | ½ |
| Provident fund – employee  | 60,000         |                  |   |
| Retirement annuity fund R1,010,000 x 5%  | <u>50,500</u>  |                  | ½ |
|  | 170,500        |                  |   |
| Actual limited to lesser of:   |                | (170,500)        | ½ |
| – R350,000; or   |                |                  | ½ |
| – 27·5% x greater of:  |                |                  |   |
| Remuneration (R660,000); or  |                |                  | ½ |
| Taxable income before the deduction (R1,311,500)   |                |                  | ½ |
| Equals (27·5% x R1,311,500) = R360,663   |                |                  | ½ |
| Taxable income   |                | <u>1,141,000</u> |   |
| Tax per tables: R206,964 + 41% x (R1,141,000 – R701,300)   |                | 387,241          | 1 |
| Less primary rebate  |                | (13,500)         | ½ |
| Less medical rebate: (R572 + R192) x 12  |                | (9,168)          | 1 |
| Less provisional tax   |                | <u>(300,000)</u> | ½ |
| Tax liability  |                | <u>64,573</u>    |   |

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