Answers

Marks

1 Established Tree Fellers Ltd

(a) Outstanding contract fees

The definition of gross income requires the inclusion of all amounts which are received or accrued in cash or otherwise in the particular year of assessment, other than amounts of a capital nature. 1

In this case, as the R2,000,000 pertains to fees for services rendered, the amount is not of a capital nature and is received as 'cash'. ½

The issue is therefore whether or not the R2,000,000 can be considered to be 'received' or 'accrued' for the purposes of the gross income definition. For an amount to be considered 'received', the taxpayer must have ½ received the amount for its own benefit. For the amount to have 'accrued', the taxpayer must be unconditionally entitled to the amount. ½

Clearly none of the R2,000,000 has been received either for the taxpayer's own benefit or otherwise. It therefore remains to be determined whether or not the amount has 'accrued'. ½

With respect to both the R1,200,000 and the R800,000, it is submitted that the taxpayer is not yet unconditionally entitled to the amount. For the R1,200,000, the taxpayer has to provide the evidence to the ½ customer that the damage was not as a result of its work and for the R800,000, the necessary repairs still have to be completed. 1

In conclusion, the amounts totalling R2,000,000 will not be included in gross income of the 2013 year of assessment. ½

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(b) Compensation payment

For an amount to be deductible, the amount must be expenditure actually incurred, in the production of income, other than an amount of a capital nature. 1

It is clear that the amount has been paid and is therefore actually incurred. ½

Furthermore, the compensation paid to the employee's family arises effectively from the services which had been rendered by that employee and it is therefore submitted to be of a revenue nature. 1

In establishing whether or not the compensation payment is 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 1 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 ½ income. ½

While the nature of the work is dangerous, it was also stated that company safety procedures had not been followed. It is therefore submitted that this is a case of negligence and no deduction will be permitted. ½

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Tutorial note: *The ultimate conclusion does not matter as the scenario is sufficiently vague for the discussion to go either way. Marks should be awarded for reaching a conclusion which is consistent with the discussion. Furthermore, the results of this discussion have to be carried through in part (c).*

				Marks
(c)	**Income tax liability for the 2013 year of assessment**			
		R	R	
(i)	Fee income (as per conclusion in part (a))		34,000,000	1
(ii)	Compensation payment (as per conclusion in part (b)) – no deduction		0	½
(iii)	Debarking machine: Capital allowance (Year 3: 20%)		(300,000)	1
	Tutorial note: *Section 12C – Full allowance despite use for only part of the year.*			
	Recoupment of allowances:			
	Selling price	1,800,000		½
	Limited to cost price	1,500,000		½
	Less tax value R1,500,000 x 20%	(300,000)		1
	(allowances claimed 40%:2011; 20%:2012; 20%:2013 (as above))			
	Recoupment to be deferred	1,200,000		
	Capital gain or capital loss:			
	Proceeds	1,800,000		½
	Less recoupment	(1,200,000)		½
		600,000		
	Less base cost:			
	Expenditure less allowances permitted (1,500,000 – 1,200,000)	(300,000)		1
	Capital gain to be deferred	300,000		
	Allowance on replacement machine: R2,500,000 x 40%		(1,000,000)	½
	Recognised portion of recoupment of old machine: 40% x R1,200,000		480,000	1
(iv)	Motorised chain saws: Year 2: 20% x R450,000		(90,000)	½
	Graders: Year 3: R1,300,000/4 years x 5/12		(135,417)	1
	Tutorial note: *Non-manufacturing assets, wear and tear as per Binding General Ruling 7 over four years.*			
	Mobile cranes: Fully written off in prior year of assessment		0	½
(v)	Opening stock		(450,000)	1
	Closing stock (at written down value)		100,000	1
	Tutorial note: *Spare parts are included in the definition of trading stock.*			
(vi)	Rental expense			
	Current year payment (1 November 2012): R500,000 x 5/12		(208,333)	1
	Prior year payment (1 November 2011): R460,000 x 7/12		(268,333)	1
	Tutorial note: *The rental payments extend over a period of more than six months after the end of the year of assessment, so must be spread over the appropriate years on a time basis.*			
(v)	Doubtful debts			
	Current year: R900,000 x 25%		(225,000)	½
	Reversal of prior year allowance: (R1,100,000 – R14,000 (amount not previously in gross income)) x 25%		271,500	1
	Bad debts written off (allowance): R250,000 – R14,000 (not previously in income)		(236,000)	1
(viii)	Other tax deductible expenses – given		(29,350,000)	½
(ix)	Assessed revenue loss brought forward		(1,200,000)	½
	Capital gain from deferral to be recognised: 40% x R300,000	120,000		1
	Sum of current year capital gains and capital losses	120,000		
	Net capital gain	120,000		
	Taxable capital gain inclusion 66·6% x R120,000		79,920	½
	Taxable income		1,468,337	
	Tax at 28%		411,134	½
	Less provisional tax		(500,000)	½
	Refund due		88,866	
				20
				30

Marks

2 Dr Joe Jordaan

(a) Employees tax withheld and paid for the 2013 year of assessment

	R	
Cash salary R10,000 x 6	60,000	½
Commission from billings: 50% x R650,000	325,000	½
Employer contribution to the pension fund (not a fringe benefit, nor deductible as it is not incurred by the employee)	0	½
Use of own laptop (taken into account in the personal tax calculation of Dr Jordaan only)	0	½
Free services for dental work (at the cost to the employer)	5,600	½
Medical contributions paid by employer R3,500 x 6	21,000	½
Sub-total	411,600	
Contribution to retirement annuity fund:		
Actual – R2,000 x 6 = R12,000 limited to greater of:		½
R1,750; or		½
R3,500 – R0 (pension fund contributions); or		½
15% x R26,600 (21,000 + 5,600) (non-retirement funding income) = R3,990	(3,990)	1
Tutorial note: *Note that 'retirement funding employment income' includes contributions made by the employer.*		
Balance of remuneration	407,610	
Annual equivalent on 'monthly' amounts – R407,610 x 12/6	815,220	1
Add 'annual amounts':		
Software fringe benefit	5,000	1
Annual equivalent in total	820,220	
Tax on R820,220 per the tables	260,228	½
Less primary rebate (under 65)	(11,440)	½
Less medical contribution rebate: [R460 (member plus first dependant)] x 12	(5,520)	½
Tax liability for total annual equivalent	243,268	
Tax on R815,220 per the tables	258,228	
Less primary rebate (under 65)	(11,440)	
Less medical contribution rebate: [R460 (member plus first dependant)] x 12	(5,520)	
	241,268	1
Tutorial note: *Only 1 mark awarded to the above calculation. As the 'monthly' amounts annual equivalent is greater than the amount on which the highest marginal rate is levied, the tax on the annual amount will be 40% of that amount (i.e. R2,000).*		
Employees tax on 'monthly' amounts – R243,268 x 6/12	121,634	½
Add tax on annual amounts: R260,228 – R258,228	2,000	½
Employees tax withheld and paid to SARS	123,634	
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			Marks
(b) Provisional tax liability for the 2013 year of assessment			
	R	R	
Employment			
Cash salary		60,000	
Commission from billings		325,000	
Employer contribution to pension fund		0	
Free services for dental work		5,600	
Medical contributions paid by employer		21,000	
Sub-total of items as per part (a)		411,600	½
Software licence		5,000	½
Wear and tear on laptop computer (permitted for employed as well as self-employed persons) – R16,000/3 years x 8/12		(3,556)	1
Own practice			
Fee income		280,000	½
Conversion costs		0	½
Tutorial note: *The building is commercial (not manufacturing) and neither new nor unused, so no allowance is available.*			
Dental equipment: R1,000,000/5 years x 5/12 (from date trade commenced)		(83,333)	1
Interest expense: R50,000 x 30% (business portion)		(15,000)	1
Rates, water etc		(36,000)	½
Tutorial note: *Pre-trade expenditure may be claimed when the trade commences, so pre and post-trade expenses can be combined.*			
		558,711	
Contribution to retirement annuity fund:			
Actual – R12,000 plus R10,000 x 6 = R72,000 limited to greater of:			½
R1,750; or			
R3,500 – R0; or			
15% x R173,711 (558,711 –60,000 – 325,000)			
(non-retirement funding income) = R26,057		(26,057)	1
		532,654	
Less medical deduction:			
Employee contributions (actual and deemed) R3,500 x 12	42,000		1
Reduced by 4 x rebate of R5,520 (see part (a))	(22,080)		1
Qualifying contributions	19,920		
Add other qualifying medical expenses:			
Costs incurred	2,000		½
Qualifying medical costs	21,920		
Reduced by 7·5% of R532,654 (taxable income before the deduction)	(39,949)	0	½
Taxable income		532,654	
Second provisional payment: 90% of R532,654		479,389	½
Tutorial note: *Where earnings are less than R1 million and there is no basic amount, the estimate for the taxable income on which the provisional payments are made must be at least 90% of the actual taxable income.*			
Tax per the tables		126,786	½
Less primary rebate (under 65)		(11,440)	½
Less medical rebate		(5,520)	
Total normal tax		109,826	
Less employees tax (from part (a))		(119,430)	½
Second provisional payment required		0	
			12

		Marks

(c) Normal tax liability for the 2013 year of assessment

	R	
Taxable income (full amount (from part (b))	486,711	
Tax per the tables	129,349	½
Less rebate (primary only as less than 65 years of age)	(11,440)	
Less medical rebate	(5,520)	½
Total normal tax	112,389	
Less employees tax (from part (a))	(119,430)	½
Less provisional tax (from part (b))	0	½
Refund due	(7,041)	
		2
		25

3 (a) Emily Woodson

(i) Taxable capital gain on February 2013 disposal

	R	R	
Deemed proceeds (market value)		2,200,000	1
Base cost:			
Valuation date value:			
20% x (Proceeds less post-valuation date expenditure)			
20% x (R2,200,000 – R55,000 – R100,000)	409,000		1
Time apportioned base cost:			
B = R530,000	530,000		½
A = R55,000	55,000		½
R = R2,200,000 – R100,000 (selling costs)	2,100,000		1
Therefore: P = R x B/(B + A) =	1,902,564		1
N =	2		½
T =	12		½
Time apportioned base cost:			
Y = B + ((P – B) x N)/(T + N)	758,761		1
Choose time apportioned base cost		(758,761)	½
Post-valuation date expenditure: R100,000 + R55,000		(155,000)	1
Capital gain before donations tax		1,286,239	
Portion of donations tax to add to base cost:			
M = Market value of the asset	2,200,000		½
A = Base cost before donations tax R758,761 + R155,000	913,761		1
D = Donations tax payable	300,000		½
Y = (M – A) x D/M		(175,396)	1
Capital gain reduced by the increase in base cost		1,110,843	
Less annual exclusion		(30,000)	½
Aggregate and net capital gain		1,080,843	
Taxable capital gain: R1,080,843 x 33·3%		359,921	½
Tax at 40%		143,968	½
			13

(ii) Net cash flow from transaction

	R	
Total payable:		
Donations tax	300,000	½
Capital gains tax (from part (i))	143,968	½
Selling costs	100,000	½
	543,968	
Proceeds received	585,000	½
Net cash inflow	41,032	
		2

Marks

(b) Jeff Wooodson

Aggregate gains for the 2013 year of assessment

		R	
(i)	The recreational boat is not a personal use asset (> 10 metres) but as the disposal results in a capital loss (of R190,000) it will be disregarded.	0	1½
(ii)	The car is a personal use asset, so the gain or loss is disregarded.	0	1
(iii)	The coin collection is a personal use asset, so the gain or loss is disregarded.	0	1
(iv)	The gold Kruger rands are neither a personal use asset nor currency, so the capital gain is both taxable and aggregated.	20,000	1
		20,000	
	Less annual exclusion	(30,000)	½
	Aggregate capital gain or capital loss	0	
			5
			20

4 Safari (Pty) Ltd

(a) A value added tax (VAT) invoice should contain:

The words 'tax invoice' in a prominent place
The name, address and VAT registration number of the supplier
The name, address and VAT registration number (where registered) of the recipient
The individualised serial number and date of issue of the invoice
A full and proper description of the goods (indicating where applicable second-hand goods) or services supplied
The quantity or volume of the goods or services supplied
Either: the value of the supply, amount charged and the consideration;
or: where the tax fraction is applied, the consideration and either the amount of the VAT or that it includes VAT and the rate charged

½ mark per item, maximum **3**

Marks

(b) Input/output value added tax (VAT) effects

		Input R	Output R	Marks
(i)	Tours sold – 100% of the tours are a VATable supply at the standard rate: R3,000,000 x 14/114		368,421	1
(ii)	Commercial accommodation from a vendor – VAT charged: R500,000 x 14/114	61,404		1
	Residential accommodation is an exempt supply and no VAT should have been charged and so no VAT is claimable.	0		1
(iii)	First delivery vehicle: this is not an instalment sale agreement as the period is less than 12 months.			½
	As the invoices are only issued each month for the amount due that month, the VAT is only claimable as each invoice is issued/payment is made. R34,000 x 2 x 14/114	8,351		1
	Second delivery vehicle: this is an instalment sale agreement. VAT is based on the cash cost (excluding finance charges) – R560,000 x 14/114			
	The full VAT input is claimable on delivery.	68,772		1
(iv)	Despite the vehicle being a second-hand good from a non-vendor, no notional input can be claimed as the vehicle is a motor car as defined for VAT purposes and the input is therefore denied.	0		1
(v)	The party would constitute 'entertainment' and so the tax input would be denied.	0		1
(vi)	Bad debts written off result in a reversal of the output VAT – R50,000 x 14/114	6,140		1
(vii)	The rental service for the R35,000 payment made on 6 June was rendered in May and the VAT input should have been claimed in that VAT period (irrespective of payment date).	0		1
	Rentals for the use of the premises during the VAT period (i.e. June and July) – R35,000 x 2 x 14/114	8,596		½
		153,263	368,421	
				10

(c) The VAT payment due to SARS for the VAT period June to July 2013 is R215,158. 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

2

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

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5 Theoretical questions

(a) 'Practice generally prevailing' has been incorporated in the Tax Administration Act. As a result, official practices found in Binding General Rulings, Interpretation Notes, Practice Notes or written statements by a senior SARS official or the Commissioner are binding unless legislation is passed to override that practice. 1 1 1

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(b) The types of tax contained in the Income Tax Act are:

- Normal tax
- Turnover tax
- Donations tax
- Any withholding tax (dividends tax; employees tax; withholding tax on royalties; withholding tax on entertainers and sport spersons etc).

½ mark per item, maximum 2

Note to marker: *Listing multiple withholdings taxes scores a maximum of ½ mark.*

		Marks
(c)	A taxpayer who has submitted a return which is not subject to dispute or audit, must retain their records for a period of five years from the date of submission of the return.	1
(d)	Zero rated supplies are considered to be taxable supplies carrying value added tax (VAT) at the rate of 0%. Therefore, the vendor can claim VAT inputs against the nil output.	1½
	Exempt supplies are supplies on which VAT may not be charged and against which any related VAT input cannot be claimed.	1½
		3
(e)	The partnership itself should register for value added tax (VAT) as the VAT Act treats the partnership enterprise as a person.	1
		10