Answers

Section A

1 B

Take-a-break (Pty) Ltd's assessed loss for the 2020 year of assessment will cease to be available if the company does not trade in the 2021 year of assessment. No trade was conducted from 1 April 2020 to 31 March 2021.

2 B

3 D R1,174 (9,000 x 15/115)

The deemed input is based on the lower of the amount paid or the market value.

4 B

While all the other options listed are valid stages in the dispute resolution process, the first step would be to request reasons for the assessment.

5 C R4,390,556 (5,000,000 – [(1,000,000 + 25,000) x 5,000,000/9,000,000] – 40,000)

6 A R342,000 (450,000 – 90,000 – 18,000)

Deduction for retirement fund contributions = R90,000 (less than 27·5% of remuneration and lower than R350,000)
Deduction for donations = R18,000 (max donation deduction of 5% x R360,000 (450,000 – 90,000) for employees tax)

7 A R540,000 (500,000 + 5,000 + 50% x 70,000)

8 A R96,522 ((800,000 – 60,000) x 15/115)

GoodDeal Ltd's enterprise is the sale of motor cars and so output VAT is charged on the sales and input tax can be claimed in respect of the second-hand motor car as it is stock.

It is not possible to claim the input tax in respect of entertainment.

9 D

The micro business is ring-fenced from Joan's other tax income. Joan must submit an annual return in respect of her employment income. In addition, she must submit two interim returns (by the end of the first six months of the year of assessment and the second by the end of the year of assessment) and a final return for the year of assessment (against which the interim payments will be offset) in respect of the micro business.

10 B

The transport of fare-paying passengers by road is an exempt supply, so Kholwa cannot register for value added tax (VAT).

11 C

12 A R12,900,000 [(5,000,000 + 2,000,000) x 150% + 900,000 (normal deduction for employee costs) + 50% x 3,000,000 (first year of accelerated deduction)]

Marks

13 D R21,533 [40,000 – 23,800 (interest exemption) + 0 (local dividends exempt) + 4,000 (REITs not exempt) + 3,000 – (3,000 x 25/45) (partial foreign dividend exemption)]

14 D

15 C R1,320,000 (490,000 (lower of cost and market value) + 100,000 (it does not matter that the goods are not in saleable form) + 730,000)

2 marks each **30**

Section B *Marks*

1 Jabulani – Taxable income for the 2020 year of assessment

		R	R	
	Cash salary		800,000	½
(i)	School fees paid by employer		75,000	½
(ii)	Travel allowance received (10,000 x 12)	120,000		½
	(i) Actual expenses			
	Wear and tear (380,000/7 years)	54,286		½
	Fuel	38,750		½
	Maintenance (8,000 + 9,000)	17,000		½
		110,036		
	Actual reduction would be R110,036 x 38,000/55,000 kms = R76,025			1
	(ii) Deemed expenses	**Cents**		
	Fixed cost: 112,443/55,000 = R2·044	204·4		1
	Fuel	133·5		½
	Maintenance	60·9		½
		398·8		
	Deemed reduction would be 38,000 kms x R3·988 = R151,544			1
	Use the higher deduction in (ii) above to reduce the taxable travel allowance to nil		0	½
(iii)	Subsistence allowance			
	Days away x rate provided (40 x 500)	20,000		½
	(i) Actual expense R200 x 40 = R8,000			½
	(ii) Deemed expense R435 x 40 = R17,400	(17,400)		½
	Deduction in respect of client dinner	(300)	2,300	1
	Taxable income		877,300	
				10

Tutorial notes:

1. *The school fees paid by Jabulani's employer are not exempt as his salary exceeds R600,000 and the amount paid exceeds R20,000 for grades up to grade 12.*
2. *The client dinner should not be paid from subsistence as it is not subsistence but a company expense. It is submitted that the R300 difference between the dinner expense and the amount reimbursed represents an amount which was spent on the instruction of his employer and which should therefore not be included in Jabulani's taxable income.*

2 Tech-up (Pty) Ltd

(a) The nature of the services offered by Tech-up (Pty) Ltd falls into the category of 'professional services'. For both the micro business and small business corporation regimes to apply, one of the requirements is that not more than 20% of the business income may be derived from professional services. 1

The company is also excluded from these regimes due to the fact that it would currently qualify as a personal service company as the services are rendered by connected persons. The four directors/employees are connected persons by virtue of their equal shareholdings of 25% in the company. 1

2

(b) The qualifying as pre-trade expenditure is as follows:

	R	
Rental of office space	12,500	½
Furniture (20,000/6 years x 3/12 months)	833	1
Equipment (50,000/3 years x 3/12 months)	4,167	1
High speed internet	5,000	½
Total	22,500	

Tutorial note: *The interest expense does not qualify as a pre-trade expense.*

This expenditure will be deductible from the 2020 year of assessment when trade commenced. 1

4

Marks

(c) Assessed loss for the 2020 year of assessment

	R	
Turnover	560,000	½
Pre-trade expenditure from 2019	(22,500)	½
Rental of office space	(25,000)	½
High speed internet	(19,500)	½
Salaries	(720,000)	½
Interest	(15,000)	½
Furniture wear and tear (20,000/6)	(3,333)	½
Equipment wear and tear (50,000/3)	(16,667)	½
Assessed loss	(262,000)	
		4
		10

3 Transport and Vehicle Service (Pty) Ltd (TVS)

(a) A tax invoice may only be issued for taxable goods and services. As the transportation of fare-paying customers by road is an exempt supply, no tax invoice should be issued. 1

(b) Value added tax (VAT) for January 2020

	Input VAT R	Output VAT R	
Servicing of motor vehicles (2,500,000 x 15/115)		326,087	½
Fares from taxis (exempt supply)		0	½
Spare parts from taxable supplies moved to exempt supplies (70,000 x 15/115)		9,130	1
Purchase of vehicle for use in taxi business (used for exempt supplies)	0		1
Purchase of vehicle for spare parts – deemed VAT input (30,000 x 15/115)	3,913		1
Salaries	0		½
Administration expenses (75,000 x 15/115 x (100% – 17%))	8,120		1
Rental of garage space (100,000 x 15/115 x (100% – 17%))	10,826		1
	22,859	335,217	
VAT payable		312,358	½
			7

(c) TVS would be charged a penalty for late payment of 10% of the amount due (312,358 x 10%)	31,236	1
TVS would also be charged a second penalty for non-compliance for the late filing of, most likely, R250 in line with the non-compliance penalty table	250	1
		2
		10

4 Lerato

(a) While most assets are considered to be disposed of at market value on ceasing to be resident, immoveable property located in South Africa is not subject to a deemed disposal. 1

The reason why the Plettenberg Bay home will not trigger an exit tax is that despite becoming a non-resident, immoveable property held by a non-resident remains subject to capital gains tax. The location of the asset ensures collection of the tax. 1

2

		R	R	*Marks*
(b)	**Taxable capital gain for the 2020 year of assessment**			
(i)	**Shares in African Crafts (Pty) Ltd**			
	Proceeds (4,500,000 + 500,000)	5,000,000		½
	Base cost	(51)		½
	Capital gain	4,999,949		
	Less small business exclusion	(4,999,949)		½
	Capital gain for aggregation	0		
	The small business exclusion applies because the market value of the assets of the company is less than R10 million at the date of disposal, Lerato is over 55 years of age and she holds more than 10% of the equity capital.			1½
(ii)	**Primary residence**			
	Proceeds	8,000,000		
	Base cost	(2,500,000)		
		5,500,000		
	Primary residence exclusion (applied to full gain)	(2,000,000)		½
	Capital gain for aggregation	3,500,000		
	Despite the period of rental of Lerato's home, the rental period is treated as a period of continuous use as a primary residence because: (i) Lerato lived in the property for one year before and after the rental; (ii) the rental was due to temporary absence from South Africa; and (iii) no other property was treated as a primary residence during that time.			1½
(iii)	**Furniture**			
	Proceeds	100,000		½
	Base cost	(400,000)		½
	Capital loss	(300,000)		
	This capital loss is disregarded as the furniture represents personal use assets.			½
	Total capital gains		3,500,000	½
	Less annual exclusion		(40,000)	½
	Net capital gain		3,460,000	
	Taxable capital gain (3,460,000 x 40%)		1,384,000	½
				8
				10

5 Security Fencing (Pty) Ltd

(a) The immediate cash discounts create no value added tax (VAT) consequences. The discount is provided immediately with the issue of the VAT invoice which will reflect the amount net of the discount as the VATable consideration. 1

For the settlement discounts, a credit note will have to be passed as the previously agreed and invoiced consideration has been changed through a settlement discount. 1

2

			Marks

(b) Income tax liability of Security Fencing (Pty) Ltd for the 2020 year of assessment

	R	R	
Sales	30,000,000		½
Less cash discount (3,000,000 x 7·5%)	(225,000)		½
Less settlement discounts (20,000,000 x 2·5%)	(500,000)	29,275,000	½
Doubtful debts 2019 reversal (950,000 x 25%)		237,500	½
Doubtful debts 2020 (1,000,000 x 25%)		(250,000)	½
Bad debts 2020		(150,000)	½
Opening stock		(7,200,000)	½
Purchased and manufacturing of goods (10,000,000 + 5,000,000)		(15,000,000)	½
Closing stock (5,000,000 + 6,300,000 + 3,000,000)		14,300,000	1
Stock write-off and write-back		0	½
Wages and salaries		(10,000,000)	½
Capital allowance on broken machine (1,000,000 x 20%)		(200,000)	½
Recoupment calculation:			
Selling price (limited to cost) less tax value (900,000 – (400,000 – 200,000)	700,000		1
Capital gain:			
Proceeds (900,000 (insurance) – 700,000 (recoupment))	200,000		½
Less base cost (1,000,000 (cost) – 600,000 (prior year allowances) – 200,000 (current year allowance))	(200,000)		1
Capital gain	0		
Election for replacement asset may be made			
Capital allowance on new asset (1,500,000 x 40%)		(600,000)	½
Recoupment to be recognised in 2020 (700,000 x 40%)		280,000	½
No capital gain to be recognised as outcome was nil.			
Capital allowance on other machines		(9,000,000)	½
Capital allowance on second-hand tools (50,000 x 100/115/5 years x 11/12 months)		(7,971)	1
Assessed loss brought forward		(1,000,000)	½
Taxable income		684,529	
Tax liability at 28%		191,668	½
Company does not qualify as a small business corporation due to turnover.			
The assessed capital loss of R250,000 is brought forward to 2021.			½
			13
			15

Tutorial note: *The second-hand tools were purchased from a non-VAT registered vendor and so would result in a notional input tax claim. This reduces the amount on which wear and tear allowances may be claimed.*

			Marks
6 Mandla – Normal tax liability for the 2020 year of assessment			
	R	R	
Employment:			
Salary		4,000,000	½
Employer contributions to provident fund (4,000,000 x 20%)		800,000	½
Interest free loan (2,000,000 x 8%)		160,000	1
Remuneration		4,960,000	
Rental properties:			
Prop A and Prop B			
Rental from Prop A (18,000 x 3 (as three months accrued before the tenant disappeared)	54,000		1
Rental from Prop B	180,000		½
	234,000		
Running costs of Prop A	(20,000)		½
Running costs of Prop B	(30,000)		½
Repairs to Prop A	(130,000)		½
Bad debt of Prop A (18,000 x 2)	(36,000)		½
Interest on Prop B	(150,000)		½
	(132,000)		
This is only the second year loss for Prop B and exceptional circumstances for Prop A so the loss may be utilised		(132,000)	1
Prop C			
Rental income	40,133		½
Running costs (for trade only) (45,000 x 4/12)	(15,000)		1
Deemed interest expense (i.e. the percentage of the fringe benefit used to fund the new apartment) ((160,000 x 1,220,000/2,000,000) x 4/12)	(32,533)		1
Loss	(7,400)		
Since Prop C is used less than 80% by persons not connected to Mandla, this rental (as a separate trade) is deemed a 'suspect' trade and the loss could be immediately ring-fenced. As the loss is created from notional interest, it is submitted Mandla can argue that the loss is temporary and the intention is to make a profit. On this assumption, the loss is assumed as available.		(7,400)	1½
		4,820,600	
Less retirement fund deduction:			
Actual contribution (deemed the employer contribution)	800,000		½
Limited to the lesser of:			
(i) R350,000	350,000		½
(ii) 27·5% of the greater of remuneration or taxable income before this deduction (4,960,000 x 27·5%)	1,364,000		½
(iii) Taxable income before this deduction	4,820,600	(350,000)	½
Taxable income		4,470,600	
Tax on R4,470,600 ((4,470,600 – 1,500,000) x 45% + R532,041)		1,868,811	½
Less primary rebate		(14,220)	½
Less medical contribution credit ((620 + 209 x 2) x 12)		(12,456)	1
Normal tax liability		1,842,135	
			15