Answers

Section B *Marks*

1 Jane Thrifty

(a) Travel allowance inclusion for employees tax

R6,000 x 80%	R4,800	1

Tutorial note: *As Jane did not travel more than 80% for business purposes, 80% of the travel allowance value is included in remuneration for employees tax purposes.*

(b) Subsistence allowance

	R	
Allowance: R400 x 12 x 3 nights	14,400	½
Actual expenses of R100 per night is less than the deemed allowance		½
Claim based on deemed allowance:		
R353 (given in tables) x 12 x 3	(12,708)	1
Inclusion for normal tax	1,692	
		2

(c) Travel allowance reduction maximisation

1\. Deemed expenditure

	Cents		
Fixed cost: R84,945/26,000 km x 100	326·7		1
Fuel	102·7		½
Maintenance	44·1		½
	473·5		
Reduction: 8,000 km x R4,735		R37,880	½

2\. Actual expenditure

	R		
Wear and tear: R250,000/5 years	50,000		1
Fuel	27,000		1
Maintenance	4,000		1
	81,000		
Reduction: 8,000 km x R81,000/26,000 km		R24,923	1
Maximum reduction is per option 1		R37,880	½
			7
			10

2 Rodney Rich

(a) Taxable capital gain/assessed capital loss

	R	Marks
Donations		
(1) Family home to children (R6 million – R4·5 million)	1,500,000	½
Reduced by primary residence exclusion (maximum R2 million)	(1,500,000)	1
(2) To spouse – gain rolled over	0	1
(3) Cash (not an asset for capital gains purposes)	–	½
Holiday home: (no rollover as sold and cash given to wife)		
Proceeds	4,000,000	½
Base cost:		
P = 4,000,000		½
B = 450,000		½
T = 15		½
N = 2		½
TABC = B + [(P – B) x N/(T + N)] = R867,647	(867,647)	2
Capital gain	3,132,353	
Total gains (as above)	3,132,353	
Less annual exclusion	(30,000)	½
	3,102,353	
Inclusion in taxable income (taxable capital gain) at 33·3%	R1,033,084	1
		9

(b) If the assets had all been left/donated to his wife (without any pre-sale), then rollover would have deferred the effect of the capital gains. 1

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3 Edu-on-the-Go (Pty) Ltd

(a) The donation of the stationery reflects a change in use. Therefore, a deemed taxable supply is made on the donation of the stationery. 1

As such, a tax invoice will have to be issued reflecting the value added tax (VAT) as a portion of the market value. That no consideration in the form of money will be exchanged does not remove the requirement for an invoice. 1

2

(b) Net value added tax (VAT) payable for the period April to May 2016

	R	Marks
Services supplied R40,000,000 x 14%	5,600,000	½
Vehicles acquired for R3,000,000 (input denied)	0	½
Vehicles sold back to the dealership (no output VAT chargeable) [s.8(14) of the VAT Act]	0	1
Wages and salaries	0	½
Payment for advertising space at the conference R10,000 x 14%	(1,400)	1
Donation of cash to the conference (not a supply of goods or services)	0	1
Payment for mid-year function (entertainment – input denied)	0	½
Write off of bad debts R140,000 x 14/114	(17,193)	1
Recovered debts R26,000 x 14/114	3,193	1
Donation of stationery (for which an input was previously claimed) R30,000 x 14/114	3,684	1
Net VAT payable	5,588,284	
		8
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Tutorial notes:

1. *The supply of services for which wages and salaries are paid is not included in the definition of 'enterprise' for the purposes of the VAT Act.*

Marks

2. *Despite being an educational institution, the service offered is not an educational service and therefore VAT is applicable.*

4 Custom Canoes (Pty) Ltd (CCL)

(a) (i) For a company to carry forward an assessed loss, it must trade in the year of assessment. As a result, the assessed loss may be carried forward if either side of the period of non-trading, trade is conducted in each year of assessment. 1

Should the period of non-trade span an entire year of assessment, such that no trade is conducted at any time in the year of assessment, the assessed loss will be lost. 1

2

(ii) The expenditure to investigate new technologies is of a capital nature (not being in the production of income) and is therefore not deductible in terms of the general deduction. 1

In addition, as the expenses are not part of the acquisition cost of a new machine (being purely an exploratory visit), the expenses cannot be included with the capital allowance on any new machine acquired and therefore cannot be claimed as a deduction on that basis. 1

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(b) (i) (1) Company

Should the new venture be registered as a company, James would hold a significant interest in two companies. As the second holding is not of a type permitted by the definition of a 'small business corporation', the status of CCL would change from a small business corporation to a standard company. 2

(2) Partnership

The limitation above only applies to holdings of equity in companies, co-operatives or close corporations. Therefore, registration of the venture as a partnership will not cause CCL to lose its status as a small business corporation. 1

3

(ii) (1) Company

If registered as a company, Paddle Away would not qualify for the small business corporation regime, because of James' holding in CCL (see (b) (i) above). ½

The same restriction also applies to holdings of shareholdings in a micro business registered as a company. So even though the turnover requirements are met, James' holding in CCL will prevent the registration of Paddle Away as a micro business if it is formed as a company. 1

(2) Partnership

Paddle Away cannot register as a small business corporation if formed as a partnership as the small business corporation regime is restricted to companies. ½

Paddle Away may be registered as a micro business if formed as a partnership, as the only restriction is that the partners do not hold interests in any other partnership, are natural persons and that the partnership turnover falls within the limits for micro businesses (i.e. the partnership turnover is examined for the turnover limit and not the individual partners). 1

3

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5 Jacob Skhosana

(a) An amount forms part of gross income where the recipient is unconditionally entitled to the amount or the amount is received for their own benefit. ½

While the security deposits are deposited into a separate account, it is clear that Jacob has control of that account and the interest earned on the account is received by him and accrues to him. As the amount has clearly been received for Jacob's own benefit, it should be included in gross income when received. 1

			Marks
Accordingly, the subsequent event of retaining the deposit in the event of damages when the tenant leaves will not trigger gross income as the receipt has already been recognised.			½
			2

(b) Normal tax liability for the 2016 year of assessment

	R	R	
Cash salary		750,000	½
Less pension deduction:			
Actual contribution of R75,000 limited to the greater of:			
R1,750 or			½
7·5% x R750,000		(56,250)	½
Rental trade			
Rent received	144,000		½
Security deposit from new tenant (see (a) above)	7,000		½
[**Note:** *Marks for security deposit depend on answer in (a)*]			
Repairs: R5,000 + R20,000	(25,000)		1
New kitchen (this is an improvement but as it attaches to the building no wear and tear is available – adds to base cost for CGT)	0		½
Running expenses	(40,000)	86,000	½
Investments			
Dividends received (tax levied was dividends tax and has no bearing on normal tax): R14,000 + R13,000	27,000		1
Local dividend exemption	(27,000)	0	½
Dividends from REITs (do not qualify for local dividend exemption)		2,000	1
South African interest	5,000		½
South African interest exemption (maximum R23,800)	(5,000)	0	½
Foreign interest – fully taxable		3,500	½
Taxable income		785,250	
Tax on table income [(R785,250 – R701,300) x 41% + R208,587]		243,007	½
Less primary rebate		(13,257)	½
Less medical contribution rebate: (R540 + 2 x R181) x 12 months		(10,824)	1
Additional medical expenses rebate:			
(R36,000 – 4 x R10,824) + R30,000 = R22,704			1
Reduced by 7·5% x R785,250 = R58,934			½
As amount is reduced to nil, no further rebate		0	½
Foreign tax rebate (given)		(350)	½
Tax liability		218,576	
			13
			15

Marks

6 Cold Starch Ltd

Taxable income for the 2016 year of assessment

		R	R	
(i)	Sales		14,000,000	½
(ii)	Reversal of prior year doubtful debts R250,000 x 25%		62,500	1
	Current year doubtful debts R300,000 x 25%		(75,000)	½
	Write off of bad debts		(50,000)	½
	Interest earned		7,000	½
	Interest write off		(1,000)	½
(iii)	Legal cost on debts		(50,000)	½
	Collection agencies		(4,000)	½
	Bad debt recovered (including interest)		30,000	1
(iv)	Capital allowance on boiler R100,000 x 20% (second year of allowance)		(20,000)	1
	Recoupment of prior allowances (R105,000 limited to R100,000) less tax value (R100,000 – R40,000 (prior year) – R20,000 (current year)) = R60,000			1
	Recoupment spread over the tax useful life of the replacement asset: 40% x R60,000		24,000	½
	Capital allowance on new boiler: R105,000 x 40%		(42,000)	½
	Damages awarded by boiler company (capital in nature)		0	½
	Legal costs (capital in nature)		0	½
	Amount paid to surviving spouse (can be argued as deductible if considered a reasonable risk, if not, not deductible) *[Either answer was accepted subject to an explanation being given.]*		0	1
(v)	Wages and salaries		(3,600,000)	½
	Contribution to pension and benefit funds R900,000 limited to a maximum of 20% (SARS Practice) x R3,600,000 *[The legislative maximum of 10% was also accepted.]*		(720,000)	1
(vi)	Provision for bonuses not deductible		0	½
(iv)	Capital gain on disposal of boiler			
	Proceeds (R105,000 – R60,000)	45,000		½
	Base cost (R100,000 – R60,000)	(40,000)		½
		5,000		
	Inclusion at 66·6% x R5,000		3,330	½
			9,564,830	
	Donation: R100,000 limited to 10% x R9,564,830		(100,000)	1
	Taxable income		9,464,830	
				15