Applied Skills

Taxation – South Africa (TX – ZAF)

Tuesday 4 December 2018

TX ZAF ACCA

Time allowed: 3 hours 15 minutes

This question paper is divided into two sections:

Section A – ALL 15 questions are compulsory and MUST be attempted

Section B – ALL SIX questions are compulsory and MUST be attempted

Tax rates and allowances are on pages 2–5.

Do NOT open this question paper until instructed by the supervisor.

Do NOT record any of your answers on the question paper.
This question paper must not be removed from the examination hall.

TX – ZAF

Think Ahead ACCA

The Association of Chartered Certified Accountants

SUPPLEMENTARY INSTRUCTIONS

1. Calculations and workings need only be made to the nearest R.
2. All apportionments should be made to the nearest month.
3. All workings should be shown in Section B.

TAX RATES AND ALLOWANCES

The following tax rates and allowances are to be used in answering the questions.

Year ended 28 February 2018/31 March 2018

Rebates	
Primary rebate	R13,635
Secondary rebate (over 65)	R7,479
Tertiary rebate (over 75)	R2,493
Interest exemption	
Under 65	R23,800
Over 65	R34,500

Foreign dividend exemptions

Fully exempt where 10% or more of the equity shares and voting rights are held.
Fully exempt where received by a company from a foreign company resident in the same country as the recipient.
To the extent of any controlled foreign company inclusions (net of applicable foreign tax)
To the extent that the foreign dividend is from a company listed on the JSE

To the extent that the above do not apply:
For individuals 25/45ths of the dividend is exempt
For companies 8/28ths of the dividend is exempt

Medical aid contribution tax rebate rates	
Single member	R303
Member plus one dependant	R606
Each subsequent dependant	R204

Additional medical expenses tax rebate

Persons 65 or older or persons younger than 65 if that person, his or her spouse or his or her child is a person with a disability:

((Medical contributions – (medical aid contribution tax rebate x 3)) + other qualifying medical expenses) x 33·3%

Persons younger than 65:

((Medical contributions – (medical aid contribution tax rebate x 4)) + other qualifying medical expenses) as exceeds 7·5% of taxable income x 25%

Dividends tax	20%
Companies	
Normal tax rate	28%
Official rate of interest (assumed)	8%

Rates of normal tax payable by persons (other than companies)
for the year of assessment ended 28 February 2018

Where taxable income:	
does not exceed R189,880	18% of each R1 of the taxable income
exceeds R189,880 but does not exceed R296,540	R34,178 plus 26% of the amount over R189,880
exceeds R296,540 but does not exceed R410,460	R61,910 plus 31% of the amount over R296,540
exceeds R410,460 but does not exceed R555,600	R97,225 plus 36% of the amount over R410,460
exceeds R555,600 but does not exceed R708,310	R149,475 plus 39% of the amount over R555,600
exceeds R708,310 but does not exceed R1,500,000	R209,032 plus 41% of the amount over R708,310
exceeds R1,500,000	R533,625 plus 45% of the amount over R1,500,000

Tax rates for small business corporations
for the year of assessment ended 31 March 2018

Where taxable income:	
does not exceed R75,750	Nil
exceeds R75,750 but does not exceed R365,000	7% of the amount over R75,750
exceeds R365,000 but does not exceed R550,000	R20,248 plus 21% of the amount over R365,000
exceeds R550,000	R59,098 plus 28% of the amount over R550,000

Turnover tax rates for micro businesses
for the year of assessment ended 28 February 2018

Where taxable turnover:	
does not exceed R335,000	Nil
exceeds R335,000 but does not exceed R500,000	1% of the amount over R335,000
exceeds R500,000 but does not exceed R750,000	R1,650 plus 2% of the amount over R500,000
exceeds R750,000 but does not exceed R1,000,000	R6,650 plus 3% of the amount over R750,000

Car allowance

Maximum vehicle cost for actual expenses	R595,000

Fringe benefit (company car)

Benefit percentage (where no maintenance plan exists)	3·5%
Benefit percentage (where a maintenance plan exists)	3·25%

General business reduction: Benefit value x business kms/total kms (as per logbook)
Private fuel reduction: Private fuel (R) x private kms/total kms (as per logbook)
Private maintenance reduction: Private maintenance (R) x private kms/total kms (as per logbook)

Subsistence allowances

Deemed expenditure for meals and incidental costs (per Government regulation) R397 per day (local travel)
Deemed expenditure for incidental costs only (per Government regulation) R122 per day (local travel)
Deemed expenditure for meals and incidental costs (foreign travel) – (per published tables) will be supplied in the question where relevant

Common capital allowances

New and unused manufacturing plant and equipment	40%/20%/20%/20%
Used or leased manufacturing plant and equipment	20% each year for five tax years
New or unused plant or machinery used for research and development (where it does not qualify for the research and development accelerated allowance)	50%/30%/20%
Small business corporation manufacturing plant and equipment	100%
Small business corporation (other assets) – unless wear and tear provides a greater deduction	50%/30%/20%

Wear and tear (based on Binding General Ruling 7) will be supplied in the question where relevant

Manufacturing building allowance (unless seller's rate supplied)	5%
New or unused commercial building (not a manufacturing building)	5%

- No deduction where another section of the Act applies to the building
- Where part of a building is acquired, 55% of the acquisition price is 'cost'
- Where an improvement to the building is acquired, 30% of the acquisition price of the improvement is 'cost'

Research and development (R&D) expenditure 150%

Costs related to immovable property, machinery, plant, implements, utensils or articles (excluding any prototype or pilot plant created solely for the purpose of the process of research and development) are not claimed as research and development expenditure. Financing, and administrative or compliance costs may not be claimed as research and development expenditure.

Capital gains tax

Annual exclusion (while alive)	R40,000
Annual exclusion (in year of death)	R300,000
Primary residence exclusion	R2,000,000
(where proceeds are R2 million or less, the full gain is excluded for the portion of the property used for domestic purposes as a primary residence)	
Inclusion rate (natural persons)	40%
Inclusion rate (non-natural persons)	80%

Time apportioned base cost formulae:

$$Y = B + [(P - B) \times N/(T + N)]$$

$$P = R \times B/(B + A)$$

Where deductible enhancement expenditure has been incurred after the valuation date, the time apportioned base cost formulae change to:

$$Y = B + [(P_1 - B_1) \times N/(T + N)]$$

$$P_1 = R_1 \times B_1/(A_1 + B_1)$$

Travel allowance table

for years of assessment commencing on or after 1 March 2017

Value of the vehicle (including value added tax (VAT) but excluding finance charges or interest)	Fixed cost	Fuel cost	Maintenance cost
R	R p.a.	c/km	c/km
0 – 85,000	28,492	91·2	32·9
85,001 – 170,000	50,924	101·8	41·2
170,001 – 255,000	73,427	110·6	45·4
255,001 – 340,000	93,267	118·9	49·6
340,001 – 425,000	113,179	127·2	58·2
425,001 – 510,000	134,035	146·0	68·4
510,001 – 595,000	154,879	150·9	84·9
Exceeds 595,000	154,879	150·9	84·9

Note: Where reimbursement is based on actual business kilometres travelled and no other compensation is paid to such employees and the kilometres travelled for business does not exceed 12,000, the prescribed rate is R3·55 per kilometre.

Section A – ALL 15 questions are compulsory and MUST be attempted

Please use the grid provided on page two of the Candidate Answer Booklet to record your answers to each multiple choice question. Do not write out the answers to the MCQs on the lined pages of the answer booklet.
Each question is worth 2 marks.

1 XYZ Ltd disposed of two assets during the 2018 year of assessment. Vacant land acquired for R3,000,000 was sold to Sub A (a fellow subsidiary company) for R2,500,000 (the current market value). XYZ Ltd also sold a machine for R1,000,000 to a third party. This machine had originally cost XYZ Ltd R750,000 and had a tax value at sale of R550,000.

What is the taxable capital gain/assessed capital loss for XYZ Ltd for the 2018 year of assessment?

A R500,000 assessed capital loss
B R250,000 assessed capital loss
C R84,000 taxable capital gain
D R200,000 taxable capital gain

2 **Which three of the following taxes, when combined, contribute the most to South Africa's tax revenue each year?**

A Donations tax, estate duty and personal income tax
B Personal income tax, corporate income tax and value added tax (VAT)
C VAT, customs duties and excise duties
D Corporate income tax, dividends tax and VAT

3 **Which of the following statements correctly describes the information which may be excluded from an abridged value added tax (VAT) invoice?**

A The phrases 'tax invoice', 'VAT invoice' or 'invoice'
B An individual serial number and the date upon which the VAT invoice is issued
C The name, address and, where the recipient is a registered vendor, the VAT registration number of the recipient
D The name, address and VAT registration number of the supplier

4 Kind Ltd made two cash donations during the 2018 year of assessment. The first donation was to the local amateur soccer club to boost sporting opportunities for disadvantaged players. The second donation was to a local university to assist disadvantaged students with a bursary. Kind Ltd received letters of thanks from both the soccer club and the university and also received a certificate for the donation from the university. The donations represent less than 0·5% of Kind Ltd's taxable income for the 2018 year of assessment.

Which of these donations can Kind Ltd claim as a deduction against its taxable income for the 2018 year of assessment?

A Both the donation to the soccer club and the donation to the university
B Neither the donation to the soccer club nor the donation to the university
C Only the donation to the soccer club
D Only the donation to the university

5 During the 2018 year of assessment, Cyril disposed of three assets which he held in a personal capacity. First, he disposed of his investment in a tax-free investment scheme for R40,000. The base cost of this investment was R37,500. Second, Cyril disposed of other collective investment scheme units for R50,000 which had a weighted base cost of R45,000. Finally, Cyril disposed of shares for R250,000. He had inherited these shares from his grandfather when the market value had been R100,000.

What is the taxable capital gain to be included in Cyril's taxable income for the 2018 year of assessment?

A R46,000
B R62,000
C R47,000
D R115,000

6 Bob's Trading (Pty) Ltd is a registered micro business.

For the 2018 year of assessment, Bob's Trading (Pty) Ltd had the following turnover:

(i) R900,000 from the sale of goods; and
(ii) R250,000 from the sale of business assets.

Which of the following statements is true?

A Bob's Trading (Pty) Ltd no longer qualifies as a micro business as its total receipts amount to R1,150,000, which is above the R1,000,000 threshold
B Bob's Trading (Pty) Ltd still qualifies as a micro business as its qualifying turnover is only R900,000, which is below the R1,000,000 threshold
C Bob's Trading (Pty) Ltd no longer qualifies as a micro business as its taxable turnover is R1,025,000, which is above the R1,000,000 threshold
D Bob's Trading (Pty) Ltd should voluntarily cancel the micro business registration as it will clearly make more than R1,000,000 in the next 12 months

7 On 3 March 2018, Joe filed his second provisional return for the 2018 year of assessment. He paid the amount owing on the same day. Joe's estimated taxable income on which the payment had been based was R700,000. The basic amount was R720,000. Joe's actual taxable income for the year was R900,000.

Which of the following statements correctly describes the calculation of the under-estimate penalty which the South African Revenue Service (SARS) can raise against Joe?

A 20% of the difference between the tax on the basic amount and the tax on the estimated taxable income with no reduction for any late payment penalty
B 20% of the difference between the tax on the actual taxable income and the tax on the estimated taxable income with no reduction for any late payment penalty
C 20% of the difference between the tax on the basic amount and the tax on the estimated taxable income, reduced by the late payment penalty of 10% of the tax unpaid by the due date
D 20% of the difference between the tax on the actual taxable income and the tax on the estimated taxable income, reduced by the late payment penalty of 10% of the tax unpaid by the due date.

8 Jenni, who is 35 years old, began working for Trade Ltd on 1 November 2017. She earned a cash salary of R25,000 per month.

What is the amount of employees tax which Trade Ltd had to withhold on Jenni's behalf for November 2017?

A R4,112
B R6,250
C R5,249
D R0

9 Small Ltd is a small business corporation and has a year of assessment ending 31 March each year. During the 2018 year of assessment, it acquired three new assets:

(i) Machine A was acquired for R650,000 on 1 October 2017 and was to be used in a process of manufacture;
(ii) a new printer costing R6,900 was purchased for Small Ltd's secretary on 1 December 2017; and
(iii) a new table and chairs costing R150,000 was purchased for the boardroom on 1 February 2018. In the absence of any special provision, the Commissioner of the South African Revenue Service (SARS) permits the assets to be written off over five years.

What is the maximum amount of capital allowances which may be claimed by Small Ltd for the 2018 year of assessment?

A R728,450
B R271,900
C R731,900
D R806,900

10 West Ltd is a registered value added tax (VAT) vendor. For its two-month VAT period ended 31 October 2017, West Ltd generated turnover of R5,700,000 from taxable supplies at the standard rate. The company also incurred the following expenses:

(i) purchased inventory costing R3,300,000 from VAT registered vendors and R600,000 from non-VAT registered vendors (none of which is second hand);
(ii) purchased a second hand machine from a non-VAT registered vendor at its market value of R200,000; and
(iii) spent R57,000 on a staff function supplied by a VAT registered vendor.

All figures are stated inclusive of VAT, where applicable.

What is the net value added tax (VAT) payable by West Ltd for the two-month VAT period ended 31 October 2017?

A R189,491
B R287,737
C R266,737
D R270,175

11 During the 2018 year of assessment, Op Ltd donated Machine A to its holding company. The asset had originally cost Op Ltd R100,000, and at the date of donation had a market value of R80,000 and a tax value of R35,000. Op Ltd also sold Machine B to a third party for R400,000. Machine B had cost R350,000 and had a tax value of R100,000. Machine B was replaced with a new machine at a cost of R550,000 which is used in a process of manufacture.

What amount of recoupment is to be included in Op Ltd's gross income for the 2018 year of assessment?

A R250,000
B R145,000
C R100,000
D R215,000

12 Sipho received investment certificates from his collective investment schemes indicating the following receipts (all of which have been reinvested):

(i) South African dividends of R2,000 (net of 20% withholding tax);
(ii) Foreign dividends of R3,600 (net of 10% withholding tax and no specific foreign dividend exemptions apply);
(iii) Dividends from a South African real estate investment trust (REIT) of R1,000; and
(iv) Foreign interest of R4,500 (no withholding tax).

What amount should be included in Sipho's taxable income, in respect of these items for the 2018 year of assessment?

A R6,722
B R9,100
C R7,722
D R5,500

13 Innovate Ltd engages in research and development activities. During the 2018 year of assessment, Innovate Ltd incurred the following expenses:

(i) R4,000,000 for research scientists' salaries;
(ii) R1,000,000 for a pilot plant which will not be used in production;
(iii) R30,000 in interest on a loan to fund operating costs;
(iv) R450,000 in marketing costs for developed products;
(v) R800,000 in administrative staff salaries. 90% of the salaries relate to the administration of developed products and 10% to managing current research and development.

What amount of expenditure will qualify for the incentive deduction applicable to research and development costs?

A R5,280,000
B R1,560,000
C R7,620,000
D R5,080,000

14 Goods Ltd sold a property to a third party registered value added tax (VAT) vendor. The property sale agreement was signed on 1 September 2018, a deposit was paid to the transferring attorneys for the sale on 15 September 2018, the invoice for the sale was issued on 1 October 2018 and the property was registered in the purchaser's name on 31 October 2018.

Which date is the time of supply of the property sold?

A 1 September 2018
B 15 September 2018
C 31 October 2018
D 1 October 2018

15 Joe and Sarah are partners in a business. When they started their partnership on 1 March 2018, Joe and Sarah each contributed their existing business assets (including debtors) to the partnership. They share in partnership profits and losses equally. During the 2018 year of assessment, a debt of R50,000 which Sarah had written off in the 2017 year of assessment (when she was a sole trader) was recovered by the partnership. The partnership contributes R100,000 each to a retirement annuity fund for Joe and Sarah. The partnership had a profit of R1,000,000, before taking account of the recovered debt and contributions to the retirement annuity fund.

What is Joe's taxable income for the 2018 year of assessment?

A R400,000
B R425,000
C R525,000
D R500,000

(30 marks)

Section B – ALL SIX questions are compulsory and MUST be attempted

Please write your answers to all parts of these questions on the lined pages within the Candidate Answer Booklet.

1 Healthy@Home Ltd (HH) supplies the exact ingredients and recipes for home cooking through delivery from farm to kitchen. The company has a financial year ending on 31 March each year and is a registered value added tax (VAT) vendor. The following transactions took place in the 2018 year of assessment. All transactions (unless otherwise stated) took place between VAT registered vendors and HH is in possession of all the necessary documentation. All amounts are stated inclusive of VAT, where applicable.

(1) Sales of pre-boxed meals to non-VAT registered customers in South Africa amounted to R14,000,000.

(2) An entire shipment worth R400,000 was destroyed as a result of caterpillar infested lettuce. The farm responsible for the infested lettuce compensated HH for R100,000. HH's insurance policy covered the balance of the cost of the destroyed shipment, which amounted to R300,000.

(3) Ingredients for the meals were sourced from local vendors, including brown bread, lentils and raw eggs costing R700,000 in total, as well as other processed ingredients costing a further R1,500,000. HH's packaging is specially designed and developed to keep the ingredients separate and fresh. This packaging cost the company R500,000.

(4) Delivery costs amounted to R3,000,000.

(5) Bad debts amounted to R80,000. To mitigate the risk of customers not paying for orders which have been delivered, all orders must now be pre-paid before delivery.

(6) One customer pre-paid for two years' worth of deliveries. In November 2016, these deliveries began to be returned as undeliverable. HH has tried to trace the customer but has been unsuccessful. The amount pre-paid for which deliveries could not be made to this customer amounted to R30,000.

(7) Wages paid to employees amounted to R2,000,000.

(8) HH sponsored a local cooking show to showcase its products. The sponsorship cost R600,000.

(9) Interest paid on overdraft balances amounted to R20,000.

(10) Most recipes are developed by HH employees, but some are purchased. Royalties paid to publishers for the use of certain recipes amounted to R100,000.

Required:

(a) Calculate the input value added tax (VAT) and output VAT arising from each of the transactions (1) to (10).

Note: You should format your answers in two columns labelled 'Input VAT' and 'Output VAT' and indicate by the use of zero (0) any item which does not result in either input VAT or output VAT. (7 marks)

(b) Currently, HH invoices the customer one single amount for the meal ingredients and the recipe at the standard rate. However, the company has noted that many of the ingredients it supplies are zero-rated foodstuffs.

Required:

Briefly explain whether or not Healthy@Home Ltd can reduce the output VAT on invoices raised to customers, and if so, how. (3 marks)

(10 marks)

2 Ricardo Weffe, aged 45, has been seconded to South Africa by his employer, Hold Ltd, a company based in Spain. On 1 March 2017, he started working for Hold Ltd's South African subsidiary, Sub (Pty) Ltd (Sub). Sub is responsible for all aspects of his employment package.

The following information is relevant for Ricardo for the 2018 year of assessment:

(i) Sub pays Ricardo a cash salary of R100,000 per month.

(ii) Sub pays the school fees for his three children at a total cost of R250,000 per annum.

(iii) Sub makes a contribution on Ricardo's behalf to a local medical scheme at R12,500 per month. Ricardo, his wife and his three children are dependants of the scheme.

(iv) Sub pays R35,000 per month to his pension fund based in Spain.

(v) Ricardo received a relocation allowance from Sub of R350,000 on 1 March 2018.

(vi) The flights for his family back to Spain for a one-month holiday in July, costing R75,000, were paid for by Sub.

Ricardo's secondment will last for five years, after which he will return to Spain permanently on 28 February 2022. His only absence from South Africa during his secondment will be his annual one-month holiday to Spain and business trips to other subsidiaries of the group in Africa (for approximately two months per year).

Required:

(a) Explain whether or not Ricardo Weffe will be considered to be a resident of South Africa for income tax purposes under either component of the residence test for the duration of his secondment. (5 marks)

(b) Calculate the employees tax withheld and paid to the South African Revenue Service (SARS) by Sub (Pty) Ltd in respect of Ricardo during the 2018 year of assessment.

Note: You should indicate by the use of zero (0) any items which are not taxable or not deductible. (5 marks)

(10 marks)

3 Baleka Ncube disposed of three assets during the 2018 year of assessment. Details of the transactions are as follows:

(i) Baleka bought her first holiday home (Holiday Home 1) during a property boom in a seaside town. She acquired Holiday Home 1 on 1 June 2000 for R1,500,000. Since then, the property market has declined significantly. On 1 October 2001, Holiday Home 1 was valued at only R1,200,000. In an attempt to increase the potential proceeds on a future sale of Holiday Home 1, Baleka improved the property by adding a garage at a cost of R50,000 on 1 November 2014. She accepted an offer and sold Holiday Home 1 for R900,000 on 1 July 2017.

(ii) On 1 November 2017, Baleka donated the shares she held in Ball Ltd to her husband. The base cost of these shares was R300,000 and the market value at the date of donation was R500,000.

(iii) Baleka had acquired a second holiday home (Holiday Home 2) for R850,000 on 1 September 2015. On 31 December 2017, when the market value of Holiday Home 2 was R1,200,000, she donated half of the interest in the property to her son. This resulted in a donations tax payment of R100,000.

Required:

(a) Calculate the taxable capital gain/assessed capital loss arising from the above transactions for Baleka Ncube for the 2018 year of assessment.

Note: Your answer should include a brief explanation of the valuation date value you have used for Holiday Home 1. (8 marks)

(b) Baleka has been offered a one-year secondment to her employer's subsidiary in Country T.

If Baleka accepts the secondment offer, she will rent out her primary residence for the one year which she is away. Baleka has lived in her primary residence since she bought it in May 2014. She wants to understand the implications for the primary residence exclusion should she choose to accept the secondment offer.

Required:

Briefly explain the implications for the primary residence exclusion resulting from Baleka's secondment and state any conditions which must be met to maximise the exclusion. (2 marks)

(10 marks)

4 Hardy's Hardware (Pty) Ltd, a hardware retailer, has been registered as a micro business with the South African Revenue Service (SARS) for several years. Business has improved significantly and in January 2018, it became clear that the company would exceed R1 million in taxable turnover. As a result, Hardy's Hardware (Pty) Ltd deregistered from the micro business regime and ceased to be a micro business on 31 January 2018. The company is, and will continue to be, a registered value added tax (VAT) vendor.

Hardy, the sole shareholder and director of Hardy's Hardware (Pty) Ltd, does not have any interests or shares in any other businesses. The company employs two store assistants at a total cost of R120,000 per annum. Hardy's Hardware (Pty) Ltd pays Hardy a salary of R20,000 per month.

In addition to the above, the following information is relevant for Hardy's Hardware (Pty) Ltd for the year of assessment ended 28 February 2018. All amounts are stated exclusive of VAT, where applicable:

11-month period ended 31 January 2018

(i) Receipts for the sale of hardware amounted to R950,000.
(ii) A shelving unit (used to display hardware) was sold for R40,000.
(iii) Stock on hand at 31 January 2018 was R250,000.

One-month period ended 28 February 2018

(iv) Receipts for the sale of hardware amounted to R150,000.
(v) R50,000 was received from a customer who had purchased goods on credit in January 2018.
(vi) Stock was purchased for R100,000.
(vii) Stock on hand at 28 February 2018 was R220,000.
(viii) The Commissioner for SARS has accepted that the business assets previously acquired when Hardy's Hardware (Pte) Ltd was a registered micro business have been in use for one year and that this period will be taken into account in determining any tax value of the assets. The assets had originally been acquired for R100,000 (excluding the shelving in (ii)).

Required:

(a) Calculate the tax liability of Hardy's Hardware (Pty) Ltd for the 11-month period ended 31 January 2018, under the micro business regime. (2 marks)

(b) Explain why Hardy's Hardware (Pty) Ltd would qualify as a small business corporation for the one-month period ended 28 February 2018. (3 marks)

(c) Calculate the tax liability of Hardy's Hardware (Pty) Ltd for the one-month period ended 28 February 2018, under the small business corporation regime. (5 marks)

(10 marks)

5 De-Sal Ltd (DS) is a company which produces clean water through a desalinisation process and, as a by-product, produces sea salt for sale. Desalinisation is a process which extracts salts and minerals from seawater so that it is fit for human consumption. The process also produces concentrated brine, from which the sea salt is extracted.

DS is not a small business corporation. The desalinisation process has been declared by the South African Revenue Service (SARS) as a process of manufacture.

During the year of assessment ended 31 March 2018, DS recorded the following transactions. All amounts are stated exclusive of value added tax (VAT) where applicable.

1. Sales of desalinated water made to local municipalities totalled R120,000,000. Sales of sea salt to retailers totalled R15,000,000. Operating costs in respect of DS's processing plant amounted to R50,000,000.

2. DS retains a stock of spare components for its processing plant, including membranes which are used in the desalinisation process. The company had ten membranes in stock (at a cost of R250,000 each) at the beginning of the year. During the year, DS acquired a further two membranes at a cost of R300,000 each. Due to tearing, six membranes from the plant needed to be replaced during the year. The six torn membranes were removed and destroyed.

3. A holding tank for the brine ruptured and flooded the plant. The cost of cleaning the plant was R3,000,000. The replacement holding tank cost DS a further R10,000,000, which was funded mainly by insurance proceeds received of R7,000,000. The original holding tank had cost R6,000,000 and had a tax value at 1 April 2017 (the start of its last year of tax useful life) of R1,000,000.

4. DS acquired a ship to be used as a mobile desalinisation plant. The ship is deployed to coastal areas in extreme drought to supplement water supplies until a full land-based desalinisation plant can be built. The ship cost DS R55,000,000 and was immediately deployed to Cape Town. The Commissioner for SARS has issued a Binding Private Ruling that the ship may be treated as machinery used in a process of manufacture.

   Additional costs of maintaining a crew while the ship was deployed were R5,000,000. The water produced was pumped into two temporary holding tanks. These tanks had been acquired by DS on 1 September 2017, the same date it acquired some vacant land in Cape Town. The land cost R9,000,000 and the two tanks cost R5,000,000 each. These tanks are not considered part of the process of manufacture as they merely hold the desalinated water and the Commissioner for SARS accepts a five-year useful life for them.

   The water was sold to private customers at a price of R30,000 for 15,000 litres, which is the equivalent volume of one delivery tanker. Since deployment, DS has sold 500 delivery tanker loads of this water.

5. To offset the high energy requirements for the desalinisation process, in the 2017 year of assessment, DS installed sea-based wind turbines along the length of its pipelines. These wind turbines cost a total of R6,000,000.

6. Bad debts written off amounted to R4,000,000. A further R13,000,000 is listed by DS as doubtful in its accounting provision for the year ended 31 March 2018. The list was R9,000,000 at the start of the tax year. The Commissioner for SARS permits a deduction for doubtful debts at 25% of the list value.

7. Wages and salaries paid amounted to R30,500,000.

Required:

Calculate the taxable income of De-Sal Ltd for the 2018 year of assessment.

Note: You should list all of the items referred to in the question, indicating by the use of a zero (0) any items which are not taxable or not tax deductible.

(15 marks)

6 The following information relates to Lethabo Zulu, aged 47, for the 2018 year of assessment:

Employment
Lethabo works as the senior manager of Multi Ltd, a large multinational corporation. He earns a monthly cash salary of R120,000. Multi Ltd makes a contribution equal to 20% of Lethabo's cash salary to a provident fund. The company also has a group medical aid scheme. Lethabo contributes R12,000 per month for himself, his spouse and his two minor children.

Lethabo is provided with a company car throughout the year of assessment. Of the 20,000 kms travelled during the year, only 2,000 kms were in relation to business travel. Multi Ltd bears all the running costs of the vehicle. The car had cost Multi Ltd R500,000 when it was acquired on 1 March 2016 (the same date when Lethabo was granted use of the car). The car comes with a maintenance plan.

Non-executive directorships
Lethabo serves on two boards of directors as a non-executive director. He earns total director's fees for these services of R500,000.

Primary residence
On 27 February 2018, Lethabo sold his primary residence for R6,500,000 to move closer to his children's school. This house had originally cost him R5,500,000 when he acquired it in November 2009. Costs related to the sale amounted to R245,000.

Lethabo purchased a new house on 1 July 2017 and he and his family moved in on 1 August 2017. The cost of the new house was R10,000,000.

Rental trades
Lethabo also owns two apartments for investment purposes. He rents one of these apartments to his brother. The market related rental is R15,000 per month, but Lethabo rents it to his brother for R7,000 per month. His brother pays the running costs of the apartment. Lethabo pays the building levies of R70,000 per annum and mortgage interest of R96,000 per annum.

The second apartment is rented to a third party. This apartment was unoccupied for five months of the year. Rental on this apartment was R25,000 for each of the seven months it was occupied. Building levies were R95,000 for the year and the mortgage interest was R70,000 for the year.

All prior years have yielded profits.

Other
During the year, Lethabo contributed R200,000 to a retirement annuity fund.

Lethabo filed and paid his first provisional tax return for the 2018 year of assessment on time, paying R50,000. He filed his second provisional tax return on 26 February 2018 (before signing the sale agreement for his former primary residence). His payment had been R70,000. The return was filed on time.

Required:

(a) Calculate the employees tax withheld and paid to the South African Revenue Service (SARS) by Multi Ltd in respect of Lethabo's employment for the 2018 year of assessment. (6 marks)

(b) Calculate Lethabo's tax liability for the 2018 year of assessment.

Notes:
1. Indicate clearly any items of income which are not taxable or expenses which are not deductible by the use of a zero (0).
2. Ignore any penalties and interest. (9 marks)

(15 marks)

End of Question Paper