Answers

Section A

1 **D** R200,000 taxable capital gain

[{R1,000,000 less recoupment R200,000) – (R750,000 (cost) – R200,000 (previously claimed allowances)} = R250,000 x 80% (inclusion rate)]

The R500,000 loss on the land is disregarded as a capital loss with a connected person. Such loss may only be set off against capital gains with that same connected person.

2 **B**

3 **C**

4 **D**

5 **A** R46,000

[(R50,000 – R45,000) + (R250,000 – R100,000) – R40,000 (annual exclusion) x 40%]

The tax-free investment capital gain is to be disregarded.

6 **B**

7 **C**

8 **A** R4,112

[[{(R25,000 x 12 – R296,540) x 31% + R61,910} – R13,635]/12]

9 **C** R731,900

[R650,000 x 100% + R6,900 (less than R7,000 so better write off in terms of wear and tear allowance) + R150,000 x 50%]

The small business capital allowance rates permit 100% in first year for manufacturing assets and 50% in the first year for other assets (where wear and tear not elected).

10 **D** R270,175

[R5,700,000 x 14/114 – R3,300,000 x 14/114 – R200,000 x 14/114]

The purchase of inventory from non-VAT registered vendors carries no value added tax (VAT). The staff function is a denied input. The second hand good has a deemed input VAT.

11 **B** R145,000

[(R80,000 (market value as donated) – R35,000 (tax value)) + (R350,000 (lesser of original cost or sale price) – R100,000 (tax value) x 40% (deferred recoupment as asset replaced))]

12 **C** R7,278

[SA dividends are exempt + (R3,600/0·9 (gross of withholding) – R3,600/0·9 (gross of withholding) x 25/45 (partial exemption)) + R1,000 (REIT dividend taxable) + R4,500 (foreign interest not exempt)]

Marks

13 D R5,080,000

[R4,000,000 + R1,000,000 (permissible as pilot plant only) + 10% x R800,000]

The interest and marketing costs are not qualifying expenditure, nor are the administrative salaries unrelated to research and development activities.

14 B As the date on which a payment towards the supply was made preceded the registration in the deeds office, the payment date is the date of supply. This specific time of supply overrides the usual rule of the earlier of invoice or payment.

15 A R400,000

[R1,000,000/2 = R500,000 – R100,000 (contribution to retirement annuity fund (RAF) less than 27·5% of R500,000)]

The bad debt recovered cannot be added to Joe's taxable income as he never suffered the amount written off.

2 marks each **30**

Section B *Marks*

1 Healthy@Home Ltd (HH)

(a) Value added tax (VAT) for the 2018 year of assessment

	Input VAT R	Output VAT R	
Sales to South African non-VAT registered customers (14,000,000 x 14/114)		1,719,298	½
Compensation from farm (100,000 x 14/114)		12,281	½
Compensation from insurer (300,000 x 14/114)		36,842	½
Brown bread, lentils and raw eggs (zero rated)	0		½
Other ingredients (1,500,000 x 14/114)	184,211		½
Packaging (500,000 x 14/114)	61,404		½
Delivery costs (3,000,000 x 14/114)	368,421		½
Bad debts (80,000 x 14/114)	9,825		½
Reversal of output (30,000 x 14/114)	3,684		1
Wages (supply of services from employees not an enterprise)	0		½
Sponsorship (advertising) (600,000 x 14/114)	73,684		½
Interest (exempt supply)	0		½
Royalties paid to VAT vendors (100,000 x 14/114)	12,281		½
			7

(b) While the supply by HH is not a meal for immediate consumption or a prepared or cooked meal, the zero-rated items are supplied with standard rated items. This prevents the on-charging of the zero rate to the HH customers. 2

Even if HH could on-supply the zero rate to the customers, this would necessitate a further breakdown of the invoice which may be undesirable to the business model. 1

3

10

2 Ricardo Weffe

(a) Residence

The residence test for individuals comprises two tests: (i) the subjective test of 'ordinarily resident' and (ii) the objective test of 'physical presence'. 1

The ordinarily resident test principles ask one fundamental question, namely where is the place to which Ricardo would return after travel (despite absences of long or short duration). It seems clear that his intention is to return to Spain after the secondment, so Ricardo is not ordinarily resident. 1

The physical presence test requires all of the following to be met:

(i) In the current year of assessment, presence of more than 91 day in South Africa;
(ii) In each of the five preceding years of assessment, presence of more than 91 days in South Africa; and 1½
(iii) In aggregate over the five preceding years of assessment, a presence of more than 915 days in South Africa.

The test will be broken in year six as Ricardo returns to Spain. As it is unlikely he will be in South Africa for more than 91 days in year six, he cannot be classified as resident under this test. 1

For tax purposes, Ricardo remains a non-resident. ½

5

			Marks
(b) Employees tax			
		R	
Salary (100,000 x 12)		1,200,000	½
School fees		250,000	½
Medical scheme contribution (12,500 x 12)		150,000	½
Spanish pension fund contributions (contributions to a foreign scheme are not a fringe benefit and do not qualify for deduction)		0	1
Relocation allowance (exempt)		0	½
Family flights		75,000	½
Remuneration for the year		1,675,000	
Tax on R1,675,000 [(1,675,000 – 1,500,000 x 45%) + 533,625]		612,375	1
Less rebate		(13,635)	½
Employees tax withheld		598,740	
			5
			10

3 Baleka Ncube

(a)

	R	R	
Holiday Home 1			
The amount of proceeds received (R900,000) is less than the total expenditure (R1,550,000) before and after the valuation date (1 October 2001) and less than the market value on the valuation date (R1,200,000).			
The valuation date value is therefore the higher of the market value on 1 October 2001 or the proceeds less the post-valuation date expenditure, i.e.			1
Market value on 1 October 2001	1,200,000		
Proceeds less post 1 October 2001 expenditure (R900,000 – R50,000)	850,000		½
Proceeds		900,000	½
Less base cost:			
Valuation date value	1,200,000		½
Post 1 October 2001 expenditure	50,000	(1,250,000)	½
Capital loss		(350,000)	
Shares			
Proceeds deemed to be base cost		300,000	½
Base cost		(300,000)	½
Capital gain		0	
Holiday Home 2			
Proceeds (market value as sold to connected person but to extent of donation) (R1,200,000 x 50%)		600,000	1
Less base cost:			
Share of expenditure (R850,000 x 50%)		(425,000)	½
Donations tax added to base cost (R425,000/R600,000 x R100,000)		(70,833)	1
Capital gain		104,167	
Total capital gains		104,167	½
Less total capital losses		(350,000)	½
		(245,833)	
Loss reduced by annual exclusion		40,000	½
Assessed capital loss carried forward		(205,833)	8

Marks

(b) Temporary absences of up to five years during which the primary residence is rented may be deemed to be periods to which the primary residence exclusion will apply if:

(i) Baleka lives in the property for at least one year before and one year after the rental period; ½
(ii) She does not acquire a new primary residence during the rental period; and ½
(iii) The absence from South Africa was temporary. ½

Provided Baleka does not acquire a new primary residence during the rental period and lives in her primary residence for at least one year after returning to South Africa, her primary residence exclusion will be maximised. ½

2

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4 Hardy's Hardware (Pty) Ltd

(a) Micro business – Tax liability for the period ended 31 January 2018

	R	Marks
Sales	950,000	½
50% of capital receipt for sale of shelving (50% x 40,000)	20,000	½
Taxable turnover	970,000	
Tax on taxable turnover [(970,000 – 750,000) x 3% + 6,650]	13,250	1
		2

(b) Qualification as small business corporation

The turnover of Hardy's Hardware (Pty) Ltd is far below the maximum of R20 million (even when apportioned for the single month). 1

Hardy does not own shares or equity in another company, close corporation or co-operative. 1

The business is the sale of hardware. There is no element of a personal service. 1

3

(c) Small business corporation – Tax liability for the period ended 28 February 2018

	R	Marks
Sales	150,000	½
Amount received from customer re credit purchase (10% x 50,000)	5,000	1
Stock on hand (stock on hand at deregistration from micro business regime is deemed to be stock on hand at the start of the year)	(250,000)	½
Purchased stock	(100,000)	½
Closing stock	220,000	½
Wages for February (120,000/12)	(10,000)	½
Hardy's salary for February	(20,000)	½
Capital allowance for small business assets (year 2) (30% x 100,000)	(30,000)	1
Assessed loss for the year, so no tax liability	(35,000)	5
		10

Tutorial note: *Had the amount from the customer in respect of the credit purchase been received when it accrued in January, it would have been included in taxable turnover. Therefore 10% of the amount is included in taxable income.*

Marks

5 De-Sal Ltd

Taxable income for the 2018 year of assessment

		R	R	
1.	Sales of desalinated water		120,000,000	½
	Sales of sea salt		15,000,000	½
	Operating costs		(50,000,000)	½
2.	Opening stock of spare membranes (250,000 x 10)		(2,500,000)	½
	New spare membranes purchased (300,000 x 2)		(600,000)	½
	Closing stock of spare membranes (2,500,000 – (6 x 250,000) + 600,000)		1,600,000	1
3.	Cleaning costs (not capital in nature)		(3,000,000)	½
	Allowance for 2018 on old holding tank		(1,000,000)	½
	Recoupment on old holding tank: [(Proceeds of 7,000,000 limited to the cost of 6,000,000) less tax value (0)]	6,000,000		1
	Capital gain:			
	Proceeds	7,000,000		½
	Less recoupment	(6,000,000)		½
		1,000,000		
	Base cost:			
	Cost less allowances (6,000,000 – 6,000,000)	(0)		½
	Capital gain	1,000,000		
	Elect deferral			
	Recoupment recognised (40% x 6,000,000)		2,400,000	1
	Allowance on new holding tank (40% x 10,000,000)		(4,000,000)	½
	Taxable capital gains (80% x (1,000,000 x 40%))		320,000	1
4.	Mobile desalinisation ship (55,000,000 x 40%)		(22,000,000)	½
	Crew costs		(5,000,000)	½
	Land (no applicable capital allowances)		0	½
	Tanks for holding water (2 x 5,000,000/5 years x 7/12)		(1,166,667)	1
	Sales of water (30,000 x 500)		15,000,000	½
5.	Wind turbines (50% x 6,000,000)		(3,000,000)	½
6.	Bad debts written off		(4,000,000)	½
	Doubtful debts (25% x 13,000,000)		(3,250,000)	½
	Reversal of 2017 provision for doubtful debts (25% x 9,000,000)		2,250,000	½
7.	Wages and salaries		(30,500,000)	½
	Taxable income		26,553,333	
				15

6 Lethabo Zulu

(a) Employees tax

	R	
Salary (120,000 x 12)	1,440,000	½
Employer contribution to retirement (20% x 1,440,000)	288,000	½
Company car ((500,000 x 3·25% x 18,000/20,000 x 12) x 80%)	140,400	1
Gross remuneration	1,868,400	
Pension deduction:		
Capped at the lesser of 350,000 or 27·5% x 1,868,400 = 513,810		1
Actual contribution (employer amount)	(288,000)	½
	1,580,400	
Tax per tables ((1,580,400 – 1,500,000) x 45% + 533,625)	569,805	1
Less primary rebate	(13,635)	½
Less medical rebate ((303 x 2 + 204 x 2) x 12)	(12,168)	1
Employees tax	544,002	6

(b) Taxable income

	R	R	*Marks*
Remuneration (from above)		1,580,400	½
Add balance of travel allowance (500,000 x 3·25% x 12 x 18,000/20,000 kms – 140,400 (already included in remuneration from (a) above))		35,100	½
Non-executive director remuneration		500,000	½
Rental trade			
Rental income (7,000 x 12 + 25,000 x 7)	259,000		1
Building levies (70,000 + 95,000)	(165,000)		½
Mortgage interest (96,000 + 70,000)	(166,000)		½
Loss not limited – no prior history of losses	(72,000)	(72,000)	½
Less retirement fund deduction			
Limit capped at R350,000 (in (a)) based on employment income			
Additional contribution limited to (350,000 – 288,000)		(62,000)	½
Capital gains			
Proceeds from primary residence	6,500,000		½
Less base cost:			
Cost	(5,500,000)		½
Selling costs	(245,000)		½
Capital gain	755,000		
Less primary residence exclusion (limited to gain)	(755,000)		½
Aggregate and net capital gain	0		
Taxable income		1,981,500	
Tax on taxable income [(1,981,500 – 1,500,000) x 45% + 533,625]		750,300	½
Less rebate		(13,635)	½
Less medical rebate (from (a))		(12,168)	½
Less employees tax (from (a))		(544,002)	½
Less provisional tax (50,000 + 70,000)		(120,000)	½
Tax payable		60,495	9
			15

Tutorial notes:

1. *The primary residence exclusion was not apportioned for the period of non-occupation as the property was sold within two years of acquiring the new primary residence and the intention was to replace the old primary residence.*
2. *While the rental trade yielded a loss (mainly due to the rental to connected persons) and would therefore be classified as a 'suspect trade' for the purpose of the ring-fencing of the loss, no prior losses have been incurred and so the current year loss would not be ring-fenced.*