Answers

Section A

1 **B**

The purpose of tax is not to regulate the profit companies earn. Tax regimes benefit from increased corporate profits through taxation to serve other purposes, such as social benefits, etc.

2 **A** R464,930

5,000,000 – 3,000,000 = 2,000,000 to which the small business tax tables are applied.
Tax liability = 58,930 + ((2,000,000 – 550,000) x 28%) = R464,930

3 **D** R12,000 (92,000 x 15/115)

As the meals in the on-site canteen are provided free, the input value added tax (VAT) is not permitted as a deduction.

4 **C** R3,200 (((80,000 – 32,000) – 40,000) x 40%)

The cash donation does not impact capital gains tax and the painting is both a roll over and a personal use asset.

5 **C** R500,000

The expenses are capital in nature and not deductible. The subscription and refund are not gross income or deductions for Big Co Ltd. The interest is earned for the company's benefit.

6 **D** R81,000

Limit is the lesser of:

(i) R350,000; or
(ii) higher of 27·5% x remuneration (R360,000) or 27·5% x taxable income (R280,000); or
(iii) taxable income (R280,000).

Max is therefore R99,000 (being 360,000 x 27·5%), but R18,000 (360,000 x 5%) has already been used as a contribution, leaving R81,000 remaining.

7 **B**

Only where the capital gain is nil or more is roll over permitted.

The proceeds do not reduce the cost of the new asset. The replacement asset must be contracted within 12 months of the disposal. The full value of the proceeds from the disposal of the old asset must be invested in the new asset/assets for a full roll over relief to be available.

8 **C**

International transport is zero rated. Letting of residential property and road transportation within South Africa are exempt supplies.

9 **D**

The exemption amounts for 2018 cannot be offset against the 2019 salary. A second certificate cannot be issued over the same amounts without first cancelling the earlier certificate as both would then be included in the return. The employee merely adjusting the amounts in the 2018 return would result in a documentation mismatch. The certificate must be reissued after cancelling the earlier certificate.

10 **A** R1,136 ((700 x 4) – (416 x 4) (deemed expenditure for subsistence purposes))

Marks

11 C R16,000,000 (80% of actual taxable income = 20,000,000 x 80%)

12 B R20,000

Jacob's loss for the 2019 year of assessment is eliminated by the annual exclusion (which does not apply to the loss brought forward). His loss for the 2019 year of assessment of R30,000 (500,000 – 530,000) is reduced by the annual exclusion of R40,000 to nil. Therefore his capital loss carried forward to the 2020 year of assessment is just the R20,000 capital loss brought forward.

13 D R403,000 (400,000 + (50% x 6,000))

Harry's taxable turnover consists of the cash receipts of R400,000 plus 50% of the capital receipt of R6,000. The accruals are ignored.

14 A R719,767 (715,000 (650,000 + 650,000 x 10%) + (715,000 x 8% x 1/12))

The September 2019 return was due by the end of October 2019. The return was therefore late when submitted in November, resulting in a 10% penalty on the unpaid balance. Interest at the prescribed rate of 8% runs for the month of November and is charged on the total amount, including the penalty, which remains unpaid.

15 C

2 marks each **30**

Section B *Marks*

1 Joseph Buthelezi

	R	R	
Ride-on lawnmower			
Proceeds (trade-in value)	35,000		1
Less recoupment of allowances (35,000 – 0 (tax value))	(35,000)		½
	0		
Base cost:	0		
Expenditure	50,000		½
Less allowances claimed	(50,000)		½
Capital gain/(loss)		0	
Property			
Proceeds (deemed to be market value since sale to connected person)	1,200,000		1
Base cost	(1,000,000)		½
Donations tax added to base cost (((1,200,000 – 1,000,000)/1,000,000) x 40,000)	(8,000)		
Capital gain		192,000	1
Boat			
Proceeds	100,000		½
Base cost	(350,000)		½
Capital loss	(250,000)		
Capital loss disregarded (since not used for trade and greater than 10 metres in length)		0	1
Shares			
Proceeds	5,000		½
Base cost	(170,000)		½
Capital loss		(165,000)	
Total capital gains		192,000	
Total capital losses		(165,000)	
		27,000	½
Less annual exclusion		(40,000)	½
Aggregate capital loss (reduced to nil by annual exclusion)		0	½
Less assessed capital loss brought forward		(50,000)	½
Assessed capital loss carried forward		50,000	
			10

2 Malik Bouman

(a) Residence

Malik is not resident in South Africa in terms of the subjective legal test of 'ordinarily resident' as he intends to both return to the Netherlands, his country of origin, and to seek future work outside South Africa. It appears that his only tie to South Africa has been the freelance contracts. 1

It needs to be assessed whether Malik will be resident under the physical presence test. All three of the following conditions must be met:

(i) More than 91 days presence in the 2019 year of assessment. This condition is not met because Malik only spent 85 days in South Africa in the 2019 year of assessment (10 November 2018 to 2 February 2019). ½

(ii) More than 91 days presence in each of the preceding five years of assessment. This condition is met in the 2019 year of assessment. ½

(iii) More than 915 days in aggregate in the preceding five years of assessment. This condition is also met in the 2019 year of assessment. ½

As the first condition is not met, Malik is not resident under the physical presence test. ½

Malik is therefore not resident in South Africa for income tax purposes.

3

Marks

(b) Income tax liability for the 2019 year of assessment 1 March 2019 to 29 February 2020

	R	Marks
Income	500,000	½
Rental of South African accommodation – private expenses	0	½
Food and other domestic expenses – not deductible	0	½
Client entertainment expenses	(65,000)	½
Flights for work	(16,000)	½
International flight (business expense)	(37,000)	½
Interest	0	1
Taxable income	382,000	
Tax ((382,000 – 305,850) x 31% + 63,853)	87,460	1
Less rebate	(14,067)	½
	73,393	
Less medical rebate (310 x 12)	(3,720)	½
Less additional medical rebate (((100,000 – 4 x 3,720) – (7·5% x 382,000))/4)	(14,118)	1
Normal tax liability	55,555	
		7
		10

Tutorial note: *The interest is exempt from normal tax regardless of Malik's residence status as it is less than R23,800.*

3 Gym Equipment (Pty) Ltd

(a) Value added tax (VAT) for November 2019

	Input VAT R	Output VAT R	Marks
Sales of gym equipment (8,000,000 x 15/115)		1,043,478	½
Returned equipment (16,000 x 15/115)	2,087		½
Reversal of output on irrecoverable debt (70,000 x 15/115)	9,130		½
Legal costs (10,000 x 15/115)	1,304		½
Imported goods (300,000 x 1·1 x 15/115)	43,043		1
Going concern purchase (100,000 x 0%)	0		½
Second-hand goods from non-VAT vendor (150,000 x 15/115)	19,565		1
Second-hand goods from VAT vendors (150,000 x 15/115)	19,565		½
Motor car (input denied)	0		½
Truck (550,000 x 15/115)	71,739		½
Salaries and wages (not an enterprise)	0		½
Office rental (November only as December supply not yet received) (200,000 x 50% x 15/115)	13,043		1
	179,476	1,043,478	
VAT payable		864,002	½
			8

(b) The date by which the November 2019 VAT return must be filed is 31 December 2019. Payment is due on the same day. 1

A penalty of 10% is levied if payment is late. ½

Failure to submit the return on time is subject to a percentage based penalty between 0% and 200% depending on the severity of the offence. ½

2

10

Marks

4 Liquid Research Ltd

(a) The contract creates taxable income of R100,000,000 on signing as no conditions are indicated which would result in the amount not being paid. An unconditional entitlement to the contract value therefore arises. 1

However, some of the contract value pertains to future expenditure. A timing provision therefore permits the deduction of the estimated future expenditure which qualifies for deduction, limited to the amount of the income. 1

2

(b) Taxable income in respect of the contract for the 2019 year of assessment

	R	R	
Income		100,000,000	½
Billed for reimbursement		13,000,000	½
2019 expenditure:			
Scientific staff (20,000,000 x 150%)		(30,000,000)	1
Administrative staff		(8,000,000)	½
Quality control staff		(5,000,000)	½
Costs paid for reimbursement		(13,000,000)	½
Capital allowance on research equipment (50% (year 1) x 19,000,000)		(9,500,000)	1
		47,500,000	
Allowance for future expenditure:			
Scientific staff (20,000,000 x 150%)	(30,000,000)		½
Administrative staff	(8,000,000)		½
Quality control staff	(5,000,000)		½
Capital allowance on research equipment ((30% (year 2) + 20% (year 3)) x 19,000,000)	(9,500,000)		1½
	(52,500,000)		
Limited to:		(47,500,000)	½
Taxable income		0	
			8
			10

5 Robert Mashaba

(a) Employees tax

	R	R	
Periodic remuneration:			
Salary (850,000 x 4/12)		283,333	½
Employer contribution to pension fund (283,333 x 10%)		28,333	½
Medical aid contributions (3,000 x 4)		12,000	½
Interest free loan (1,000,000 x 8% x 4/12)		26,667	½
Remuneration before retirement fund deduction		350,333	
Retirement fund contribution deduction:			
Actual (10% x 283,333)	28,333		½
Limited to lesser of:			
350,000 x 4/12 = R116,667			½
27·5% x 350,333 = R96,342			½
		(28,333)	
Remuneration excluding annual amounts		322,000	

		R	Marks
Annual equivalent (322,000 x 12/4)		966,000	½
Tax on annual equivalent ((966,000 – 708,310) x 41% + 207,448)		313,101	½
Less rebate		(14,067)	½
Less medical rebate (620 x 12)		(7,440)	½
Tax liability on annual equivalent		291,594	
Tax on monthly remuneration (291,594 x 4/12)		97,198	½
Annual equivalent as above		966,000	
Plus bonus and leave pay (annual amounts)		140,000	½
Total annual equivalent		1,106,000	
Tax on total annual equivalent ((1,106,000 – 708,310) x 41% + 207,448)		370,501	½
Less tax on annual equivalent excluding annual amounts		(313,101)	
Tax on bonus		57,400	½
Total employees tax withheld (97,198 + 57,400)		154,598	½
			8

(b) Income tax liability

	R	R	
Remuneration (before retirement deductions)		350,333	½
Bonus		140,000	½
Rental property			
Rental for 12 months	60,000		½
Deemed interest expense (interest fringe benefit)	(26,667)		½
Actual interest expense	(78,500)		½
Trade loss		(45,167)	
		445,166	
Retirement deductions			
Actual (10% x 850,000)	85,000		½
Limited to the lesser of:			
(i) R350,000; or	350,000		½
(ii) Higher of 27·5% of:			
Remuneration; or [27·5% x 490,333]	134,841		½
Taxable income [27·5% x 445,166]	122,421		½
(iii) Taxable income	445,166		½
		(85,000)	
Taxable income		360,166	
Tax on taxable income ((360,166 – 305,850) x 31% + 63,853)	80,691		½
Less primary rebate	(14,067)		½
Medical rebate	(7,440)		½
		59,184	
Less employees tax withheld		(154,598)	½
Refund due		95,414	
			7
			15

				Marks
6	**No Rust (Pty) Ltd**			

Taxable income for the 2019 year of assessment

		R'000s	R'000s	
	Earnings before income tax		3,817,000	
	Adjustments:			
(1)	Returns of goods recorded in sales		(700,000)	½
	Sale of goods returned		50,000	½
(2)	Income to which the company is not entitled		(5,000)	½
(3)	Inventory		0	½
(4)	Salaries and wages		0	½
	Operating expenses		0	½
	Reversal of allowance for receivables (accounting)		700,000	½
	Reversal of tax allowance for receivables from 2018 (780,000 x 25%)		195,000	½
	Deduction of current tax allowance for receivables (700,000 x 25%)		(175,000)	½
	Reversal of provision for leave pay (not yet incurred)		195,000	½
	Legal costs pursuing bad debts		0	½
	Legal costs for shareholder loan		450	1
(5)	Reversal of all accounting depreciation		260,000	½
	Manufacturing assets acquired in 2010 (fully written off)		0	½
	Manufacturing assets acquired in 2017 (1,200,000 x 20% (year 3))		(240,000)	½
	New machinery acquired in 2019 (600,000 x 40% (year 1))		(240,000)	½
	Other assets (720,000/6)		(120,000)	½
(6)	Reverse accounting profit on sale of machinery		(77,000)	½
	No allowance in the current year (not used)			
	Recoupment of previous allowances:			
	Selling price (203,000 (book value) + 77,000 (profit))	280,000		1
	Limited to cost	250,000		½
	Less tax value	(190,000)		½
			60,000	
	Capital gains tax:			
	Proceeds	280,000		½
	Less recoupment	(60,000)		½
		220,000		
	Less base cost:	(190,000)		½
	Expenditure (given)	250,000		½
	Less allowances	(60,000)		½
	Capital gain	30,000		
	Inclusion at 80%		24,000	½
	Interest expense		0	½
	Taxable income		3,744,450	
				15