Applied Skills

Taxation – South Africa (TX – ZAF)

Tuesday 3 December 2019

TX ZAF ACCA EN

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 2019/31 March 2019

Rebates	
Primary rebate	R14,067
Secondary rebate (over 65)	R7,713
Tertiary rebate (over 75)	R2,574
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	R310
Member plus one dependant	R620
Each subsequent dependant	R209

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%
Value added tax (VAT) (standard rate) –	to 31 March 2018	14%
	from 1 April 2018	15%
Official rate of interest (assumed)		8%

Rates of normal tax payable by persons (other than companies)
for the year of assessment ended 28 February 2019

Where taxable income:	
does not exceed R195,850	18% of each R1 of the taxable income
exceeds R195,850 but does not exceed R305,850	R35,253 plus 26% of the amount over R195,850
exceeds R305,850 but does not exceed R423,300	R63,853 plus 31% of the amount over R305,850
exceeds R423,300 but does not exceed R555,600	R100,263 plus 36% of the amount over R423,300
exceeds R555,600 but does not exceed R708,310	R147,891 plus 39% of the amount over R555,600
exceeds R708,310 but does not exceed R1,500,000	R207,448 plus 41% of the amount over R708,310
Exceeds R1,500,000	R532,041 plus 45% of the amount over R1,500,000

Tax rates for small business corporations
for the year of assessment ended 31 March 2019

Where taxable income:	
does not exceed R78,150	Nil
exceeds R78,150 but does not exceed R365,000	7% of the amount over R78,150
exceeds R365,000 but does not exceed R550,000	R20,080 plus 21% of the amount over R365,000
exceeds R550,000	R58,930 plus 28% of the amount over R550,000

Turnover tax rates for micro businesses
for the year of assessment ended 28 February 2019

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) R416 per day (local travel)
Deemed expenditure for incidental costs only (per Government regulation) R128 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 (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)	R2,000,000
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:

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

$$P1 = R_1 \times B_1/(A_1 + B_1)$$

Travel allowance table
for years of assessment commencing on or after 1 March 2018

Value of the vehicle (including value added tax (VAT) but excluding finance charges or interest) R			Fixed cost R p.a.	Fuel cost c/km	Maintenance cost c/km
0	–	85,000	28,352	95·7	34·4
85,001	–	170,000	50,631	106·8	43·1
170,001	–	255,000	72,983	116·0	47·5
255,001	–	340,000	92,683	124·8	51·9
340,001	–	425,000	112,443	133·5	60·9
425,001	–	510,000	133,147	153·2	71·6
510,001	–	595,000	153,850	158·4	88·9
Exceeds		595,000	153,850	158·4	88·9

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 R3·61 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 Which of the following statements is NOT correct about the purpose of taxation?

A Taxation is necessary to ensure that governments can fund social grant expenditure
B Taxation is necessary to ensure that companies do not earn excessive profits
C Taxation may be used to regulate certain behaviours, for example, discourage the polluting of the atmosphere
D Taxation may be used to provide incentives or protect selected industries

2 Small (Pty) Ltd, a small business corporation, has turnover of R5,000,000; one machine acquired in the 2018 year of assessment and used in a process of manufacture costing R500,000; and other deductible expenses of R3,000,000.

What is the tax liability of Small (Pty) Ltd for the 2019 year of assessment?

A R464,930
B R422,930
C R436,930
D R532,000

3 Cement Ltd is a large cement manufacturer and a value added tax (VAT) vendor. In January 2019, it incurred the following expenses related to the consumption of food:

(1) R115,000 for free meals to staff in the on-site canteen
(2) R92,000 in respect of meals for employees while on business trips visiting clients

These expenses were charged by VAT vendors and Cement Ltd has received the necessary tax invoices. All amounts are stated inclusive of VAT.

What is the amount of input VAT Cement Ltd can claim in respect of these expenses?

A R15,000
B R0
C R27,000
D R12,000

4 During the 2019 year of assessment Catherine made three donations, two to her husband and one to her daughter as follows:

(1) Cash of R300,000 to her husband
(2) A painting valued at R500,000 to her husband. Catherine had acquired the painting from the artist for R200,000
(3) Four Krugerrands (gold coins) to her daughter. The Krugerrands are valued at R80,000 and cost R32,000 originally

What is Catherine's taxable capital gain for the 2019 year of assessment?

A R123,200
B R259,200
C R3,200
D R19,200

5 In the 2019 year of assessment, Big Co Ltd conducted an offer of shares. The offer was substantially oversubscribed. The company received R10,000,000, on which it earned interest of R500,000. Big Co Ltd issued the 500,000 shares at R10 per share proportionally to the subscribers and refunded the balance. The company incurred R45,000 in issue expenses.

What net amount will be included in Big Co Ltd's taxable income in respect of the share offer?

A R5,455,000
B R455,000
C R500,000
D R5,000,000

6 Thabo earns R360,000 per annum from his salaried employment. His employer contributes 5% of his salary to the company pension fund each year. Thabo has also started a small business. In the 2019 year of assessment, his first year of trading, he made a loss of R80,000.

What is a maximum amount Thabo can contribute to a retirement annuity fund which will qualify for tax deduction in the 2019 year of assessment?

A R332,000
B R0
C R59,000
D R81,000

7 **Which of the following statements is correct with respect to roll over relief?**

A The cost of the replacement asset is reduced by the proceeds from the sale of the old asset
B Roll over relief will only apply if the disposal of the old asset results in a capital gain
C Roll over relief only applies if a new asset is acquired within two years after the disposal of the old machine
D If the old asset is replaced with a cheaper asset, roll over relief is still available in full

8 **Which of the following supplies are zero rated for value added tax (VAT) purposes?**

(1) International flights to destinations outside South Africa
(2) Letting of residential property in South Africa
(3) Road transportation of passengers within South Africa
(4) Cruise ship routing from Cape Town (South Africa) to Port Louis (Mauritius) via Durban (South Africa)

A 1, 2, 3 and 4
B 1, 2 and 4 only
C 1 and 4 only
D 2 and 3 only

9 Refilwe was posted by her South African employer to its overseas branch and qualified for an exemption for her remuneration while overseas. She only qualified for the exemption in the 2019 year of assessment, by which time her employer had already issued her 2018 employees tax certificate which did not incorporate the exemption.

Which of the following statements is correct with respect to the manner in which Refilwe's employees tax certificate for 2018 must be handled?

A Her employer must deduct the exemption from the 2019 employees tax certificate amounts
B Her employer must issue a second employees tax certificate for 2018 showing only the exemption amounts
C Her employer must instruct Refilwe to correct the employees tax certificate in her 2018 annual tax return
D Her employer must cancel the previous 2018 employees tax certificate and issue a new certificate

10 Busisiwe is employed and spent four days away from home in June 2018 on a work trip visiting clients. Her employer paid her an allowance of R700 per day and reimbursed hotel costs on presentation of the hotel invoices.

Busisiwe only spent R1,600 over the four days for food and other incidentals. Her employer does not require her to account for the allowance spent or return any amounts not spent.

What amount will be included in Busisiwe's taxable income for the 2019 year of assessment in respect of her work trip?

A R1,136
B R2,288
C R1,200
D R624

11 Black Hole Ltd made a second provisional payment for the 2019 year of assessment. At the time of payment, its 2017 year of assessment reflected taxable income of R14,000,000 after a taxable capital gain of R1,000,000. The 2018 year of assessment had not yet been assessed. Black Hole Ltd projected a taxable income of R20,000,000 after a taxable capital gain of R500,000 for the 2018 year of assessment. This projection was found to be accurate.

What amount should Black Hole Ltd have based their second provisional tax payment on to prevent an underestimate penalty?

A R15,080,000
B R15,600,000
C R16,000,000
D R16,240,000

12 Jacob owns several properties for rental purposes. One of his properties has not been a successful investment due to its location. In January 2019, Jacob sold this property for R500,000. He had originally acquired the property for R530,000 in January 2015. The property did not qualify for any capital allowances.

Jacob has an assessed capital loss brought forward from the 2018 year of assessment of R20,000.

What is Jacob's assessed capital loss to be carried forward to the 2020 year of assessment?

A R10,000
B R20,000
C R50,000
D R4,000

13 Harry has a registered micro business. The following transactions were recorded during the 2019 year of assessment:

(1) Cash sales of R400,000
(2) One delivery was made in advance of payment of R50,000. This amount was still owing at the year end
(3) Proceeds on the sale of small machinery of R6,000

What is Harry's taxable turnover for the 2019 year of assessment?

A R453,000
B R456,000
C R406,000
D R403,000

14 Bucket Ltd filed its one-month September 2019 value added tax (VAT) return on 3 November 2019. On 30 November 2019, the company made payment in full for the VAT including penalties and interest. The September 2019 return as filed reflected a VAT amount owing of R650,000.

What is the total amount Bucket Ltd paid on 30 November 2019 in settlement of its VAT, penalties and interest for the month of September 2019?

A R719,767
B R715,000
C R719,333
D R654,333

15 Sipho's employer made donations of R4,000 to registered public benefit organisations on Sipho's behalf during the 2019 year of assessment. The employer received the necessary certificates from these organisations. Sipho's only income is an annual salary of R100,000.

Which of the following statements are correct in respect of Sipho's donations during the 2019 year of assessment?

(1) Sipho may ask his employer to take the donations into account for employees tax purposes
(2) Sipho may not deduct the donations as they must be a minimum of 10% of taxable income to qualify for deduction
(3) Sipho may deduct the donations up to 5% of remuneration for employees tax
(4) The donations do not qualify for deduction in the determination of taxable income for the 2019 year of assessment

A 2 and 4 only
B 1, 3 and 4
C 1 and 3 only
D 1, 2 and 4

(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 Joseph Buthelezi, aged 45, runs a successful small garden service and landscaping business as a sole trader. His turnover is greater than R1 million per annum. During the 2019 year of assessment, Joseph made a number of disposals of both business and personal assets. Details of these disposals are as follows:

(i) Joseph sold a ride-on lawn mower which he had used at his larger corporate clients. The mower was acquired at a cost of R50,000 in the 2016 year of assessment and was fully written off for tax purposes. On 22 September 2018, Joseph sold the mower back to the seller to upgrade to the latest model. The trade-in value was given as R35,000. The new mower cost R65,000.

(ii) Joseph sold a plot of land on which a small building stood. He had originally acquired the land to house equipment for a planned expansion of his sole trader business into a new area. However, Joseph's brother wanted to start his own landscaping service in the same area. On 31 October 2018, Joseph sold the land and building, valued at R1,200,000, to his brother for R900,000. This resulted in a donations tax payment of R40,000. Joseph had originally purchased the property for R1,000,000 in the 2014 year of assessment.

(iii) Joseph is an avid fisherman and owned an 11-metre fishing boat for use in his free time. He acquired it in the 2009 year of assessment for R350,000 and sold it on 8 December 2018 for R100,000.

(iv) Joseph sold some shares he owned in a prominent company which had been accused of corruption and was later declared insolvent. Joseph had acquired shares in this company over several years and his shares have a weighted average cost of R170,000. He sold the shares for R5,000 on 15 January 2019.

Joseph has an assessed capital loss brought forward of R50,000.

Required:

Calculate Joseph's taxable capital gain/assessed capital loss carried forward for the 2019 year of assessment.

Note: You should indicate by the use of zero (0) any amounts which are not taxable or not deductible. Full capital gains tax calculations must be shown for all disposals.

(10 marks)

2 Malik Bouman is 47 and a Netherlands national. He has been coming to South Africa on a series of freelance work contracts for a number of years.

Malik has just begun a sixth contract which will last for a period of four years. This contract requires 85 days of presence, including weekends but excluding holidays, in South Africa every six months. The contract start date was 10 November 2018 with his first 85 days of presence commencing immediately.

Until Malik started the contract on 10 November 2018, he had spent no days in South Africa in the 2019 year of assessment. On 2 February 2019 (day 85), Malik left South Africa and returned again on 1 May 2019 to start the second 85 day period of presence.

Malik's previous time in South Africa was as follows:

Year of assessment	Days of presence in South Africa
2018	355
2017	109
2016	231
2015	120
2014	101

After this contract is concluded, Malik intends to return permanently to the Netherlands and seek work in Europe.

Malik had the following income and expenses for the 2019 year of assessment:

(i) Income from the freelance contract in South Africa – R500,000

(ii) Rental expense in respect of South African accommodation – R30,000

(iii) Food and other domestic expenses – R50,000

(iv) Client entertainment expenses – R65,000

(v) Flights – within South Africa for work – R16,000

(vi) Flights – business expense of international return for the contracted periods in South Africa – R37,000

(vii) Interest received on South African bank account – R5,000

(viii) International medical aid scheme contributions (for Malik only) – R100,000 per annum

Required:

(a) Explain whether or not Malik is resident in South Africa for income tax purposes for the 2019 year of assessment.

Note: Your answer should address all of the criteria for residence. (3 marks)

(b) Calculate the South African income tax liability of Malik for the 2019 year of assessment.

Note: You should indicate by the use of zero (0) any amounts which are not taxable or not deductible. (7 marks)

(10 marks)

3 Gym Equipment (Pty) Ltd (GEPL) sells gym equipment. It is a registered value added tax (VAT) vendor and e-files its VAT returns.

The following information is relevant for the VAT period ended 30 November 2019. All amounts are stated inclusive of VAT where applicable.

(i) Gym equipment sales amounted to R8,000,000. However, two treadmills were returned by a gym due to faulty screens. These treadmills had been sold by GEPL for R16,000 in total. GEPL issued the necessary credit notes.

(ii) Joe's Gym purchased new weight equipment on credit for R70,000 in October 2018. Despite every effort by GEPL to collect the amount owing from Joe's Gym, no payment was received. Legal costs of R10,000 were incurred by GEPL to try to recover this debt.

(iii) GEPL imported inventory from the United States. The inventory cost R300,000 which was also accepted as the customs value.

(iv) GEPL acquired some second-hand equipment. Equipment worth R100,000 was acquired as part of the purchase by GEPL of a gym business as a going concern (the equipment being considered the substantive assets of the business). Other second-hand gym equipment at a cost of R150,000 was acquired from non-VAT vendors and a further R150,000 of second-hand equipment was acquired from VAT vendors.

(v) A motor car was purchased for the managing director at a cost of R350,000 and a flatbed truck was purchased for deliveries at a cost of R550,000.

(vi) Salaries and wages paid amounted to R1,450,000.

(vii) Office rental paid for November and December amounted to R200,000 in total.

Required:

(a) Calculate the VAT payable by Gym Equipment (Pty) Ltd for November 2019.

Note: You should format your answers in two columns labelled 'Input VAT' and 'Output VAT' and indicate by the use of a zero (0) any amounts for which VAT is not chargeable or not reclaimable. (8 marks)

(b) State the date(s) for submission of the November 2019 VAT return and payment of the VAT due. Explain the consequences of late payment and late submission of the November 2019 VAT return. (2 marks)

(10 marks)

4 Liquid Research Ltd (LRL) conducts testing and research related to all forms of liquids. The company has a 31 March year end.

In the 2019 year of assessment, LRL entered into a research and development contract with FIN Ltd, a financing group company of a major oil and gas group, to find more efficient ways to extract the potential gas supply at the group's Brulpadda site. As the gas supply is in deep waters which experience high seas and rough weather, the extraction mechanism must be resilient.

The contract value is R100,000,000 with payment spread over two years. In addition, certain costs incurred by LRL are reimbursed by FIN Ltd, such as exploration visits to potential drilling locations. Costs reimbursed in the 2019 year of assessment amounted to R13,000,000.

LRL's other costs in connection with the contract include the following:

– scientific staff at R20,000,000 per annum;
– research equipment at an initial investment of R19,000,000;
– administrative staff at a cost of R8,000,000 per annum; and
– quality control staff costs at R5,000,000 per annum.

Both LRL and FIN Ltd are resident in South Africa. LRL is not connected to FIN Ltd or any other customer.

Required:

(a) Explain how the R100,000,000 contract income for Liquid Research Ltd (LRL) will be treated for tax purposes and whether any tax relief is available. (2 marks)

(b) Calculate the taxable income of LRL in respect of the contract with FIN Ltd for the 2019 year of assessment. (8 marks)

(10 marks)

5 Robert Mashaba, aged 56, was employed for many years by EUC, a coal-based electricity utility company, as its chief engineer. He was paid a gross cash salary of R850,000 per annum. Robert resigned from EUC with an effective date of 30 June 2018.

EUC had been making employer contributions equivalent to 10% of Robert's cash salary to the company pension fund and a further R3,000 per month to the medical aid scheme (in which Robert is the main member and his wife a dependant). Robert contributed the equivalent of the employers contribution to the pension fund to a retirement annuity fund after retirement and also took over the medical aid contributions on his resignation.

Under the terms of EUC's employee loan scheme, Robert borrowed R1 million from the company to purchase a rental apartment on 1 March 2017. The loan was interest free. As the loan was repayable on resignation, Robert obtained mortgage funding from a bank of R1 million over the apartment. Interest on this bank loan amounted to R78,500 for the period 1 July 2018 to 28 February 2019.

Robert receives rental income from the apartment of R60,000 per annum. Since the purchase of the apartment on 1 March 2017, it has been loss making. The loss for the 2018 year of assessment was fully utilised against Robert's other income in the year.

Robert also received a bonus and annual leave payout from EUC which amounted to R140,000 and was paid on 1 July 2018.

Robert did not work for the remainder of the 2019 year of assessment.

Required:

(a) Calculate the employees tax withheld and paid to the South African Revenue Service (SARS) by EUC in respect of Robert's employment for the 2019 year of assessment. (8 marks)

(b) Calculate Robert's tax liability payable or refund due for the 2019 year of assessment. (7 marks)

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

(15 marks)

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Question 6 begins on page 16.

6 No Rust (Pty) Ltd (NRPL) is neither a micro nor small business corporation. The company runs a metal galvanising business. Metals are galvanised to prevent rust. NRPL provides a galvanising service to the construction industry in South Africa.

The following is an extract of NRPL's statement of profit or loss for the year of assessment ended 31 March 2019. All amounts are stated exclusive of value added tax (VAT) where applicable.

	Note	R'000s
Income from galvanised metal sales	1	35,000,000
Income from galvanising services	2	4,000,000
Cost of sales of metal	3	(26,000,000)
Cost of sales of services		(2,500,000)
Gross profit		10,500,000
General and administrative expenses	4	(6,400,000)
Depreciation of assets	5	(260,000)
Operating income		3,840,000
Profit on sale of manufacturing machinery	6	77,000
Interest expense	7	(100,000)
Earnings before income tax		3,817,000

All amounts stated in the following notes (1) to (8) are in R'000s.

(1) The income from galvanised metal sales are after customer discounts of R500,000. Not yet recorded are the returns of goods of R700,000 which were sold for scrap for R50,000 during the year ended 31 March 2019.

(2) Included in the income from galvanising services is an amount of R5,000 which was erroneously charged to a customer. This amount has not yet been returned to the customer.

(3) As at 1 April 2018, opening inventory and consumables amounted to R7,000,000. Inventory used during the year amounted to R24,000,000. At the year end, closing inventory including consumables amounted to R5,000,000.

(4) The general and administrative expenses comprise:

(i) Salaries and wages – R3,000,000

(ii) Operating expenses – R2,500,000

(iii) Allowance for receivables – R700,000 (prior year had been R780,000)

(iv) Provision for leave pay – R195,000

(v) R4,550 in respect of legal costs pursuing doubtful debts and R450 in respect of drawing up the shareholder loan agreement (see note 7)

(5) Of the depreciation figure, R40,000 relates to machinery which cost R400,000 and is used in the process of manufacture which was acquired in the 2010 year of assessment. R120,000 relates to machinery which cost R1,200,000 and is used in the process of manufacture which was acquired in the 2017 year of assessment. R40,000 relates to manufacturing machinery acquired in the 2019 year of assessment for R600,000 and the remaining R60,000 relates to non-manufacturing assets acquired for R720,000 on 1 April 2017 which the Commissioner allows to be written off over six years.

(6) Manufacturing machinery originally acquired for R250,000 and with an accounting book value of R203,000 was sold on 1 April 2018. The tax value of these assets at that date was R190,000. The assets were not replaced.

(7) The interest expense is for a loan from the majority shareholder used for capital expenditure purposes.

The Commissioner allows 25% of the list of doubtful debts.

Required:

Calculate the taxable income of No Rust (Pty) Ltd for the 2019 year of assessment.

Notes:

(1) Your answer should start with the earnings before income tax figure of R3,817,000.

(2) You should list all of the items referred to in notes (1) to (7), indicating by the use of zero (0) any amounts which are not taxable or not tax deductible.

(15 marks)

End of Question Paper