Answers

Section A

1 C R155,000

[(1,140,000 x 14/114 (pre-rate change)) + (115,000 x 15/115 (post-rate change))]

2 B

3 C R560,000

[450,000 + 50,000 + 60,000]

The R25,000 does not add to the base cost as the kitchen renovation in 2009 is no longer reflected in the property value at the date of disposal. Repairs are excluded from base cost.

4 A R22,667

[(310 x 12) + {((1,500 x 12) – (310 x 12 x 3) + 50,000)/3}]

5 A

6 D

7 A

8 C R4,500,000

[3,000,000 x 150%]

Only the salaries of the scientists qualifies as research and development expenditure.

9 D

10 A R744,000

[{(3,000,000 – 1,100,000) – 40,000 (annual exclusion)} x 40%]

The holiday home generates a loss which is ring-fenced as it is between connected persons (even if deemed to take place at arm's length).

11 C R130,000

[80,000 + 50,000]

The full amount is deductible since it is less than 10% of the taxable income before the donations.

12 D R84,000

[60,000 (Machine A) + 40% x 60,000 (Machine B)]

Moving costs are deducted over the remaining tax useful life of the machines in proportion to the tax allowance permitted in the year or, where fully written off, in full in that year.

13 B R75,000

[500,000 x 15%]

The valuation of supply rules provide that the input value added tax (VAT) is based on the cash price being R500,000.

Marks

14 D R112,000

[144,000 – 20,000 – 12,000]

The interest on the mortgage bond and the boundary wall expenses are disallowed as the interest is not in the production of income (used to purchase a car which is not related to the purchase or expenses of the rental property) and the boundary wall is an improvement.

15 D R283,077

[(20,000 x 12 (rental)) + (200,000/10 (lease premium)) + (300,000/(10 x 12 – 3 (months before leasehold in use)) x 9 (months in use in this year))]

2 marks each **30**

Section B *Marks*

1 Start-Up (Pty) Ltd

(a) Assessed loss for the 2019 year of assessment

	R	
Carry forward of qualifying pre-trade expenses from the 2018 year of assessment (200,000 + 300,000 + 40,000)	(540,000)	1½
Pre-trade interest expense (not allowable)	0	½
Wear and tear on furniture and fittings (650,000/6 years x 18/12 months (to include pre-trade period))	(162,500)	1½
Turnover	280,000	½
Salaries and wages	(490,000)	½
Raw materials	(250,000)	½
Production costs	(100,000)	½
Raw materials and finished goods in stock at year end	525,000	½
Bank interest	(35,000)	½
Rental of business premises	(80,000)	½
Assessed loss to carry forward	(852,500)	
		7

(b) Micro business

	R	
Qualifying turnover	280,000	½
Tax on qualifying turnover (R280,000 is less than R335,000)	0	½
		1

(c) Advantages and disadvantages of micro business registration

A key advantage of registering as a micro business is that tax is payable at low rates on turnover on a cash receipts basis. ½

The disadvantage is that most start-up businesses would actually qualify for assessed losses in the first few years (which may be carried forward and set off against future profits). ½

A further advantage is that the micro business regime is voluntary. The company can opt in later once full use has been made of the assessed losses carried forward. 1

2

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Tutorial note: *Candidates were awarded credit for any other reasonable advantages and disadvantages.*

2 Mario and Marie

(a) Rental periods

The first rental period was for two years. However, this period will be ignored (i.e. it does not impact the primary residence exclusion) as:

(i) both Mario and Marie were resident in the property as a primary residence for one year both before and after the temporary absence; ½

(ii) the absence was temporary; ½

(iii) no other residence was treated as a primary residence during that time. ½

The second rental period is also ignored as:

(i) at the time the property was put up for sale, they were resident; ½

(ii) the rental period did not exceed two years; and ½

(iii) the property was vacated as a result of acquiring a new primary residence. ½

3

(b) Mario – Taxable capital gains

(i) For the period 1 March 2018 to 31 August 2018

	R	R	Marks
Motor car:			
Proceeds	250,000		½
Less base cost	(400,000)		½
Capital loss	(150,000)		
Capital loss is disregarded as the asset is a personal use asset			1
United Kingdom home – Primary residence:			
Proceeds (5,642,500/2 (Mario's share))	2,821,250		½
Less base cost ((5,100,000)/2)	(2,550,000)		½
	271,250		
Less primary residence exclusion (up to 2,000,000/2)	(271,250)		1
Capital gain	0		
Taxable capital gain/assessed capital loss		0	

(ii) For the period 1 September 2018 to 28 February 2019

	R	R	Marks
South African family home – Primary residence:			
Proceeds (5,950,000/2)	2,975,000		½
Less base cost ((3,400,000 + 416,500 + 200,000)/2)	(2,008,250)		1½
	966,750		
Less primary residence exclusion (up to 2,000,000/2)	(966,750)		1
Capital gain	0		
Taxable capital gain/assessed capital loss		0	7
			10

3 **Bim Vergankelijk**

Income tax liability for the year of assessment 2019

	R	R	Marks
Company motor car (750,000 x 3·25% x 12)		292,500	1
School fees		250,000	½
Flights and transport (note)		0	½
		542,500	
Accommodation (lesser of):			½
(1) [(2,600,000 – 75,750) x 19% x 12/12]	479,608		1
(2) Actual rent (50,000 x 12)	600,000	479,608	½
Cash salary		2,000,000	½
Taxable income		3,022,108	
Tax on R3,022,108 [(3,022,108 – 1,500,000) x 45% + 532,041]		1,216,990	1
Less primary rebate		(14,067)	½
Less medical contribution [12 x (620 + 209 x 2)]		(12,456)	1
Additional medical credit [((300,000 – 4 x 12,456) – (7·5% x R3,022,108)) x 25%]		(5,880)	2
Tax liability		1,184,587	

The flights and transportation costs are relocation costs and are therefore fully exempt (despite being a fringe benefit). 1

10

Marks

4 Sale (Pty) Ltd

(a) Ceasing to be a vendor

All assets/goods on hand will attract value added tax (VAT) on the lower of cost and market value. 1

However, trading stock is specifically increased with the costs permitted for income tax purposes as well.

VAT would be levied at the standard rate (unless the asset was of the type for which the input was denied, such as a motor car). 1

2

(b) Sale as a going concern

If the business is sold as a going concern (which is a sale between vendors), then the consideration would simply be the agreed consideration for the necessary assets and the VAT would be levied at 0% (provided all the conditions for the disposal of a going concern are met). 1

(c) VAT for the period ended 31 December 2018

	Output VAT R	Input VAT R	
Sales of goods (2,000,000 x 15/115)	260,870		½
Salaries and wages (not an enterprise)		0	1
Bad debts (60,000 x 15/115)		7,826	½
Goods from vendors (100,000 x 15/115)		13,043	½
Staff party and close of business celebration (input denied)		0	1
Interest on bank account balance (exempt supply)	0		1
Bank changes (6,000 x 15/115)		783	½
Legal costs for sale agreement (5,000 x 15/115)		652	½
Purchase of motor car (input denied)	0		1
Sale of going concern (0% x 10 million)	0		½
	260,870	22,304	
			7
			10

5 Miguel Deal

(a) The rental trades in respect of the two properties would be grouped together and even when combined represent a so-called 'suspect trade', as less than 80% of the rental property is used by persons who are not relatives of Miguel. 1

This implies that the losses on the rental trade should immediately be ring-fenced if Miguel has taxable income (before taking into account the losses) which places him in the maximum marginal rate (now 45%). As his employment income does so, the losses should be ring-fenced. 1

However, if Miguel can demonstrate that there is a reasonable prospect of profit, the Commissioner of the South African Revenue Service (SARS) may allow the losses (unless losses are made in six out of ten years of assessment). ½

If it is assumed that the losses are temporary (as implied with reference to the drought), then the Commissioner may allow the loss. ½

3

(b) Income tax liability for the year of assessment 2019

	R	R	Marks
Cash salary		1,500,000	½
Bonus		400,000	½
Investments			
All the returns on the tax-free collective investment scheme (CIS) are exempt		0	1
Local dividends (exempt)		0	½
Foreign dividends (gross of withholding) (25,000 + 2,500)	27,500		½
Foreign dividend exemption (27,500 x 25/45)	(15,278)	12,222	1
Local interest	22,500		½
Interest exemption (up to R23,800)	(22,500)	0	½
Real estate investment trust (REIT) distributions (not exempt)		29,000	½
Rental trades			
Assuming the Commissioner permits the losses		(4,000)	1
		1,937,222	
Retirement annuity max			
Lesser of:			
(i) R350,000; or	350,000		½
(ii) Higher of 27·5% of:			
Remuneration (27·5% x 1,900,000)	522,500		½
Taxable income before capital gains (27·5% x 1,937,222)	532,736		½
		(350,000)	½
Capital gains			
Proceeds	3,000,000		½
Less base cost	(2,700,000)		½
	300,000		
Less annual exclusion	(40,000)		½
Net capital gain	260,000		
Taxable capital gain at 40%		104,000	½
Taxable income		1,691,222	
Tax on taxable income [(1,691,222 – 1,500,000) x 45% + 532,041]		618,091	1
Less primary rebate		(14,067)	½
Income tax liability (before foreign tax credits)		604,024	
			12
			15

			Marks
6 Clothes-2-U (Pty) Ltd (C2U)			
Taxable income for the 2019 year of assessment			
	R	R	
Sales		117,500,000	½
Returns		(17,625,000)	½
Discounts claimed		(1,000,000)	½
Bad debts re clothing sales		(800,000)	½
Courier charges for C2U		(7,000,000)	½
Courier charges debited to customer accounts		2,937,500	
Courier charges paid for customers		(2,937,500)	½
Bad debts re customer courier charges		(400,000)	½
Doubtful debts re customer courier charges (25% x 187,500)		(46,875)	1
Opening stock		(5,500,000)	½
Manufactured stock		(23,000,000)	½
Closing stock (7,700,000 – 4,000,000 + 40,000)		3,740,000	1
Additional discounts on sales		(200,000)	½
Server A: Recoupment (selling price lower than cost)			
(500,000 (insurance) – 0 (tax value))	500,000		½
Recoupment deferred (see below) (500,000/5 x 9/12)		75,000	1
Server B (750,000/5 x 9/12)		(112,500)	1
Fire equipment (240,000/3 x 9/12)		(60,000)	1
Design registrations		(10,000)	½
Sponsorships – advertising		(6,000,000)	½
Wages and salaries		(28,000,000)	½
Assessed loss brought forward		(1,000,000)	
Capital gains			
Proceeds – Insurance on Server A	500,000		½
Less recoupment	(500,000)		½
	0		
Less base cost:			
Cost less allowances (550,000 – 550,000)	0		½
Capital gain	0		
May elect to defer recoupment (but no gain to defer)			
Proceeds – Land	4,000,000		½
Less base cost	(3,700,000)		½
Capital gain	300,000		
Taxable capital gains (80% x 300,000)		240,000	½
Taxable income		30,800,625	
			15